AMADOR APPRAISALS
AND ACQUISITIONS, INC.
BUSINESS BROKERAGE AND APPRAISALS

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Smith True Value Hardware

999Main Street
Jackson, CA 95642

Business Valuation

January 18, 2012

Confidential

AMADOR APPRAISALS AND ACQUISITIONS, INC.
BUSINESS BROKERAGE AND APPRAISALS

EXECUTIVE SUMMARY

The appraisal assignment called for determining the Fair Market Value of a 100% interest in Smith True Value Hardware as of September 30, 2011 and as of December 31, 2009. The Subject is a California Proprietorship. The valuation of the 100% interest in the Subject Company is on a Controlling, Non-Marketable basis.

Smith True Value Hardware is a retail hardware store that has been in existence since 1978. The store was originally established by the Coast to Coast Corporation, a subsidiary of True Value Hardware, a national hardware wholesaler. Mr. Smith acquired the business in 1990 and converted it to a True Value Hardware store in 1997. The business was relocated to its present site in 2004. The new location was nearly double in size and sales jumped nearly 50% to $3.7 million over the next two years as a result. Since then the recession caused the real estate market to collapse in the region forcing the Company's revenues to decline an average of 2.5% per year for the next five years.

A number of different methodologies were employed to estimate the Subject's Fair Market Value. Each of the methods used developed different values for the Subject. This is a normal occurrence since each procedure focuses on different aspects of the Company's operations. Those methods that focus on the Company's cash flow are considered to be the strongest indicators of the Subject's value and, as such, are given the greatest weight in arriving at the final Conclusion of Value.

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

In my opinion, using accepted methodologies of valuation, and, subject to the assumptions and limiting conditions set forth in this report, the Fair Market Value of a Controlling 100% interest in Smith True Value Hardware on a Non-Marketable basis as of September 30, 2011 is:

Net Worth Value: $1,080,000

One Million Eighty Thousand Dollars

The above price includes all Company cash, accounts receivables, inventory, fixtures and equipment, all intangibles, and all Company liabilities as of September 30, 2011.

Appraiser's Certificate

1) *The statements of fact contained in this report are true and correct to the best of my knowledge and belief, subject to the assumptions and conditions stated.*
2) *The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, unbiased and professional analyses, opinions, and conclusions.*
3) *I have no present or prospective interest in the property that is the subject of this report, nor is my compensation dependent upon the value of this report or contingent upon producing a value that is favorable to the client.*
4) *I have no personal bias with respect to the parties involved nor have I made a full disclosure of any such bias.*
5) *This appraisal has been conducted and the report was written in conformity with the Business Appraisal Standards of the Institute of Business Appraisers.*
6) *No person except the undersigned participated materially in the preparation of this report.*

Sincerely,

C. Fred Hall, III, MBA, CBA, AVA

November 5, 2011

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EXHIBITS

1.0 INTRODUCTION

1.1 REPORT DATE: JANUARY 18, 2012

1.2 DATE OF VALUATIONS: SEPTEMBER 30, 2011 AND DECEMBER 31, 2009

1.3 SUBJECT OF APPRAISAL

The subject of this business appraisal is Smith True Value Hardware located at 999 Main Street, Jackson, CA 95642. The company, which is 100% owned by John Smith, is a California Proprietorship. No other class of stock has been issued other than the common stock owned by Mr. Smith nor have any dividends been paid on the common stock. The Owner, John Smith, was interviewed by the Appraiser on January 4, 2012. The Owner's Discretionary Cash Flow Analysis was based on statements made in that interview. A site inspection was performed by the Appraiser on January 4, 2012.

1.4 PURPOSE AND USE

The purpose of the appraisal is to determine the fair market value of a 100% ownership interest in Smith True Value Hardware on a Controlling, Non-Marketable basis. "Marketability is defined as the ability to convert the investment to cash very quickly at minimum costs and with a high degree of certainty of realizing the anticipated amount of proceeds."[1] The investment under consideration here are the shares of common stock in Smith True Value Hardware. Since ownership in small, privately held companies generally cannot be converted into cash quickly, such investments are referred to as non-marketable. In other words, the Subject interest is non-marketable and, therefore, will be valued on a non-marketable basis.

The report is intended for John Smith, who engaged the Appraiser, to be used as part of a divorce settlement.

1.5 STANDARD OF VALUE

The Standard of Fair Market Value, as defined in IRS Revenue Ruling 59-60, is "the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. Court decisions frequently state in addition that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade, and to be well informed about the property and concerning the market for such property." [2]

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[1] Shannon P. Pratt, Robert F. Reilly, and Robert P. Schweihs, Valuing a Business: The Analysis and Appraisal of Closely Held Companies, 4th edition (New York, NY: McGraw-Hill, 2000), p 26

[2] Internal Revenue Service, Revenue Ruling 59-60, (1959), Section 2, p.1
http://www.hantzmonwiebel.com/live_data/documents/ruling-59-60.pdf

Revenue Ruling 59-60 also gives us guidance as to what factors should be considered. These are summarized below:[3]

1) The nature of the business and the history of the enterprise from its inception;
2) The economic outlook in general and the condition and outlook of the specific industry in particular;
3) The book value of the stock and the financial condition of the business;
4) The earning capacity of the company;
5) The dividend-paying capacity;
6) Whether or not the enterprise has goodwill or other intangible value;
7) 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;
8) The marketability, or lack thereof, should be considered when valuing controlling interests and non-controlling interests.

As such we will give consideration to the following:

1) Under the premise of a going concern, the business will continue to operate in the future rather than be liquidated;

2) The transaction is at "arms-length" between a hypothetical buyer and seller and the buyer has an expectation of earning a fair return on his investment;

3) The hypothetical purchaser is assumed to be a financial buyer rather than a strategic buyer. Under the standard of Investment Value (as opposed to the standard of Fair Market Value), a strategic buyer is a known individual or company that has unique opportunities to gain from the acquisition. For example, by acquiring the target company the strategic buyer would be able to eliminate the competition in his market. Strategic buyers often are willing to pay a premium over the Fair Market Value because of such one-of-a-kind opportunities. As of the valuation date, there were no known strategic buyers who made any offers for the Subject Company, and as such, no potential premium under the standard of Investment Value can be determined;

4) The seller is also assumed to be hypothetical and is one who is informed about the market for such investments and the effects of the unattractive characteristics of the Subject due to its lack of control and lack of marketability;

5) The subject will be sold for cash or a cash equivalent; and,

6) The business will be held on the open market for a reasonable length of time.

[3] Ibid., p.2ff

1.6 PREMISE OF VALUE – GOING CONCERN

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

1.7 ASSUMPTIONS AND LIMITING CONDITIONS

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

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

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

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

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

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

2.0 ECONOMIC FACTORS AND COMPANY ANALYSIS

2.1 U.S. ECONOMY[4]

2.1.1 U.S. ECONOMY

Original estimates indicated that the U.S. economy grew at its fastest pace in a year in the third quarter of 2011, as consumers and businesses stepped up spending. Overall, U.S. gross

[4] Parts of the contents of the economic outlook section of this valuation report are quoted from *KeyValueData*™ *National Economic Report, September 2011*, Kevin R. Hopkins, reprinted with permission. The editor and author of the report caution that the information in the report should not be interpreted as advice for the preparation of valuations or other financial counseling. Usage and application is the sole responsibility of the appraiser.

domestic product (GDP) expanded at a 2.5% annual rate, the U.S. Commerce Department announced on October 27. However, on November 22, the U.S. Commerce Department sharply downgraded the Q3 growth rate to 2.0%. Previously, during the first quarter of 2011, the economy's growth rate—pulled down by rising food and gasoline prices and unusually harsh winter weather—slipped to an initially estimated 1.9%. Matters worsened on July 29 when on re-estimation, the first-quarter growth rate was revised sharply downward to an anemic 0.4%. The growth rate for the second quarter was equally grim, coming in at just 1.9%. Then on August 26, the second-quarter rate was revised downward as well to 1.0%. "The economy essentially came to a grinding halt in the first half of this year," according to a senior analyst at Moody's rating agency.

Exhibit I Gross Domestic Product 2001-2011

Real Change in GDP (% Change Over Previous Period)					
Year	Q1	Q2	Q3	Q4	Annual
2001	-0.5%	1.2%	-1.4%	1.6%	1.1%
2002	2.7%	2.2%	2.4%	0.2%	1.8%
2003	1.2%	3.5%	7.5%	2.7%	2.5%
2004	2.8%	2.9%	3%	3.5%	3.6%
2005	4.1%	1.7%	3.1%	2.1%	3.1%
2006	5.4%	1.4%	0.1%	3%	2.7%
2007	1.2%	3.2%	3.6%	2.1%	2.1%
2008	-0.7%	1.5%	-2.7%	-5.4%	0.4%
2009	-4.9%	(.0.7)	1.6%	5%	-2.6%
2010	3.9%	3.8%	2.5%	2.3%	3.1%
2011	0.4%	1.3%	2.5%		0.9%
Source: www.bea.gov					

Nominal GDP Annualized Changes				
Year	Q1	Q2	Q3	Q4
2001		4.4%	0.4%	3.6%
2002	3.9%	3.9%	3.8%	2.3%
2003	4.5%	4.5%	9.6%	4.7%
2004	13.5%	6.2%	6.1%	6.4%
2005	7.6%	4.5%	7.0%	5.7%
2006	8.0%	5.2%	3.0%	4.8%
2007	5.6%	5.8%	5.1%	4.5%
2008	-2.0%	4.2%	-0.6%	-8.9%
2009	-5.4%	-1.2%	2.0%	4.9%
2010	5.4%	5.3%	5.0%	3.0%
2011	3.0%	3.5%		
Source: www.bea.gov				

2.1.2 UNEMPLOYMENT PICTURE

After generating no net new jobs in August—the first time since 1945 that the government had reported a net job change of zero—the U.S. economy added 103,000 jobs in September. Then in October the job gains continued, rising by 100,000—although still well below the 125,000 monthly increase in the number of jobs needed to remain even with population growth. Federal Reserve Chairman Ben Bernanke described the job growth as "frustratingly slow." Job gains picked up slightly during November with the economy adding some 120,000 jobs.

After remaining stuck at 9.1% for three months, the U.S. unemployment rate fell to 9.0% in October, a six-month low. Then in November, the rate unexpectedly fell further, to 8.6%, the lowest level since March 2009. However, much of the decline was because 315,000 Americans left the workforce during the month. "You'd like to see the unemployment rate coming down when people are coming into the job market, not disappearing" James Glassman, senior economist at JP Morgan Chase & Co. in New York told Bloomberg Radio. Indeed, according to an analysis by the Financial Times, if the same number of Americans were seeking work today as in 2007, the current unemployment rate would be around 11.0% instead of 8.6%.

After rising throughout late summer and early fall, the U.S. underemployment rate—defined as unemployed individuals plus part-time workers who would prefer to be working full-time—decreased to 15.6% in November from 16.2% in October.

Exhibit II Unemployment Rate 2001-2011

Unemployment Rate (Rate as a %of Labor Force Members)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2001	4.2%	4.2%	4.3%	4.4%	4.3%	4.5%	4.6%	4.9%	5%	5.3%	5.5%	5.7%	4.7%
2002	5.7%	5.7%	5.7%	5.9%	5.8%	5.8%	5.8%	5.7%	5.7%	5.7%	5.9%	6%	5.8%
2003	5.8%	5.9%	5.9%	6%	6.1%	6.3%	6.2%	6.1%	6.1%	6%	5.8%	5.7%	6%
2004	5.7%	5.6%	5.9%	5.6%	5.6%	5.6%	5.5%	5.4%	5.4%	5.5%	5.4%	5.4%	5.5%
2005	5.2%	5.4%	5.2%	5.1%	5.1%	5%	5%	4.9%	5.1%	5%	5%	4.8%	5.1%
2006	4.7%	4.7%	4.7%	4.7%	4.7%	4.6%	4.7%	4.7%	4.5%	4.4%	4.5%	4.4%	4.6%
2007	4.6%	4.5%	4.4%	4.5%	4.5%	4.6%	4.7%	4.7%	4.7%	4.8%	4.7%	5%	4.6%
2008	4.9%	4.8%	5.1%	5%	5.5%	5.6%	5.8%	6.2%	6.2%	6.6%	6.8%	7.4%	5.8%
2009	7.7%	8.2%	8.6%	8.9%	9.4%	9.5%	9.4%	9.7%	9.8%	10.1%	10%	10%	9.3%
2010	9.7%	9.7%	9.7%	9.8%	9.6%	9.5%	9.5%	9.6%	9.6%	9.7%	9.8%	9.4%	9.6%
2011	9%	8.9%	8.8%	9%	9.1%	9.2%	9.1%	9.1	9.1	9.0	8.6		9%
Source: www.bls.gov													

2.1.3 Consumer Confidence and Consumer Spending

After falling in October, the Conference Board Consumer Confidence Index improved in November. The Index now stands at 56.0 (1985=100), up from 40.9 in October. The Present Situation Index increased to 38.3 from 27.1. The Expectations Index rose to 67.8 from 50.0. Said Lynn Franco, Director of The Conference Board Consumer Research Center: "Confidence has bounced back to levels last seen during the summer (59.2 in July 2011). Consumers' assessment of current conditions finally improved after six months of steady declines. Consumers' apprehension regarding the short-term outlook for business conditions, jobs, and income prospects eased considerably. Consumers appear to be entering the holiday season in better spirits, though overall readings remain historically weak."

After reaching a five-month high in November, the Thomson Reuters/University of Michigan preliminary December reading on consumer sentiment, released on December 9, climbed for a fourth straight month to 67.7 from 64.1 in November. "U.S. consumers appear to be ending the year in a better mood," said Paul Dales, an economist at Capital Economics in London. Improved confidence could lead Americans to spend more readily which would add to the recent momentum gained from strong retail sales and factory output.

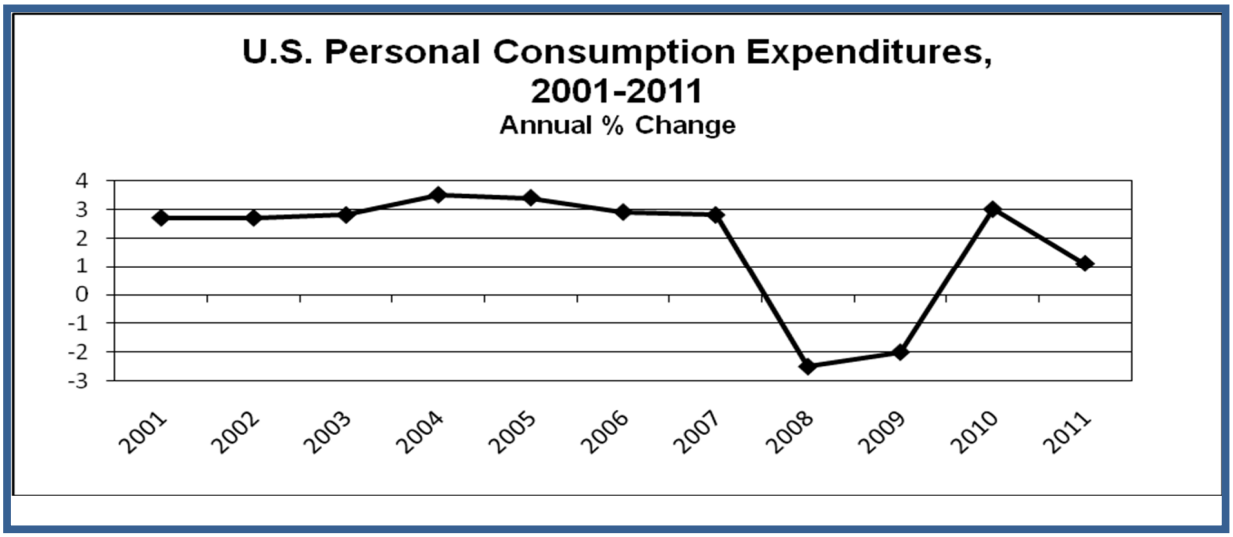
Consumer spending rose for the fourth straight month in October, albeit by only 0.1%. Previously, in September, spending had risen by a more robust 0.6%. Despite the recent upticks in consumer spending, those increases apparently have been restricted to a minority of the U.S. population. According to a November 28 CBS News poll, fully half of all Americans are concerned that they will not be able to afford to buy Christmas gifts.

Despite record-breaking Cyber Monday purchases (see below), U.S. retail sales rose in November at the slowest pace in five months, indicating that consumers were trying to live within their means despite the ongoing holiday shopping season. The 0.2% gain in retail

purchases fell short of the 0.6% median forecast of economists surveyed by Bloomberg News.

Cyber Monday—the Monday immediately following the Thanksgiving holiday—proved to be the highest-grossing online shopping day in U.S. history. Total online spending on that day was $1.25 billion according to the market research firm comScore. That figure was up 22% from the previous record which came on last year's Cyber Monday. Overall, online shopping for November (through Cyber Monday) reached a total of $15 billion, a 15% increase as compared with last year's tally according to comScore.

Exhibit III Personal Consumption Expenditures 2001- 2011



2.1.4 HOUSING

The American dream of owning a home has experienced its biggest drop since the Great Depression according to new U.S. Census Bureau figures released on October 6. Overall, the homeownership rate fell to 65.1%. Moreover, the Bureau warned, the rate may never return to its mid-decade peak of nearly 70% due to tighter credit, job losses, and reduced government support.

Sales of new U.S. single-family homes were barely changed in October, following an initially reported 5.7% gain in September—and after falling for the previous four months. Specifically, new home sales edged up by 307,000 for last month versus a revised 303,000 in September. According to MarketWatch.com, the new figures offer "little evidence of any improvement in the slump-ridden U.S. housing market."

In contrast to stagnant new home sales, U.S. existing home sales unexpectedly rose by 1.4% in October, the National Association of Realtors reported on November 21. The increase in sales was due primarily to the continuing low mortgage interest rates and rising rents that lured more prospective homebuyers into the market.

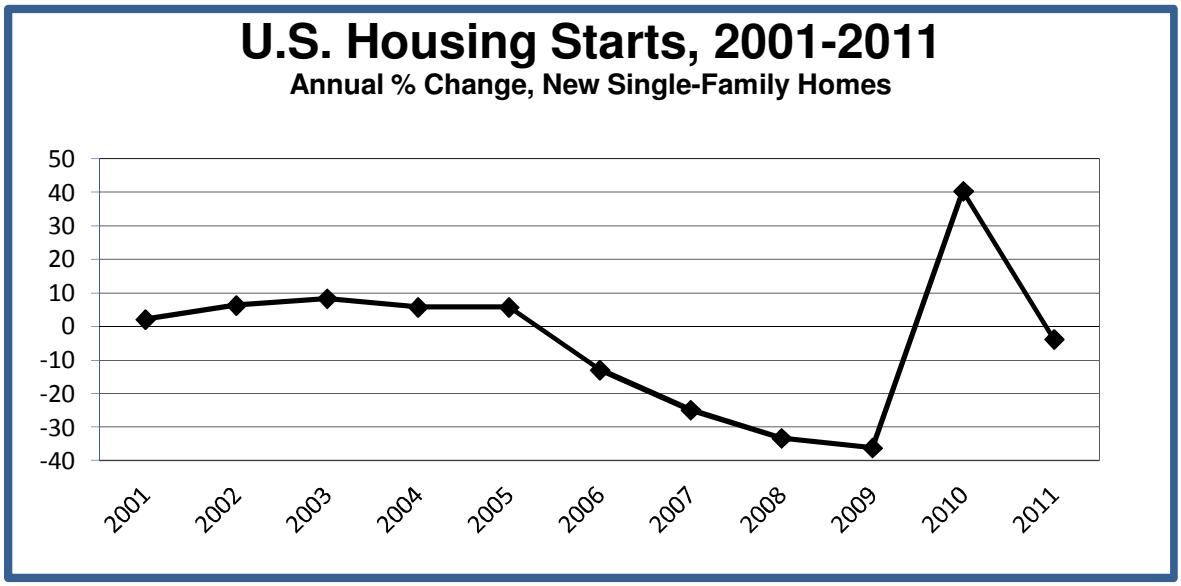
Data on sales of previously owned U.S. homes from January 2007 through October 2011 will be revised downward in coming weeks after a National Association of Realtors (NAR) benchmarking exercise revealed widespread double-counting of existing home sales. "Sales were weaker than people thought," NAR spokesperson Walter Malony told Reuters.

After a brief, four-month rebound, U.S. home prices in 20 cities dropped more than forecast in August, according to an October 25 report. The S&P/Case-Shiller index of property values in these 20 major cities declined by 3.8% from August 2010 levels. Home prices nationwide similarly fell by 2.9% during the third quarter as compared to a year earlier. As a result, home prices are lower than they have been at any point since the beginning of 2003, with all of the price gains since then having been wiped out. And matters are likely to grow worse. On October 31 Fiserv, a financial analytics company, forecast that home prices would fall another 3.6% by next June, pushing them to a new low of 25% below their early-2006 peak.

Foreclosure filings fell by 14% on a month-over-month basis in November after rising by 7% in October according to foreclosure analyst RealtyTrac. November's decline was partly the result of a holiday eviction moratorium by mortgage giants Fannie Mae and Freddie Mac. Previously, for the third quarter as a whole, foreclosure filings were up by only 1% on a quarter-over-quarter basis, and were down by 34% from the third quarter of 2010. RealtyTrac said that the U.S. housing market must digest more than 14 million foreclosed, delinquent, and "underwater" homes before the foreclosure crisis subsides.

Housing Starts is a gauge of contractor activity that directly relates to Ace Hardware's market. Housing Starts rebounded in 2010 from historical lows the preceding year. However, various government incentive programs, such as the first-time homebuyer tax credits initiated in 2008, helped fuel demand. Once the incentives expired in mid 2010, housing starts began to drift lower throughout 2011.

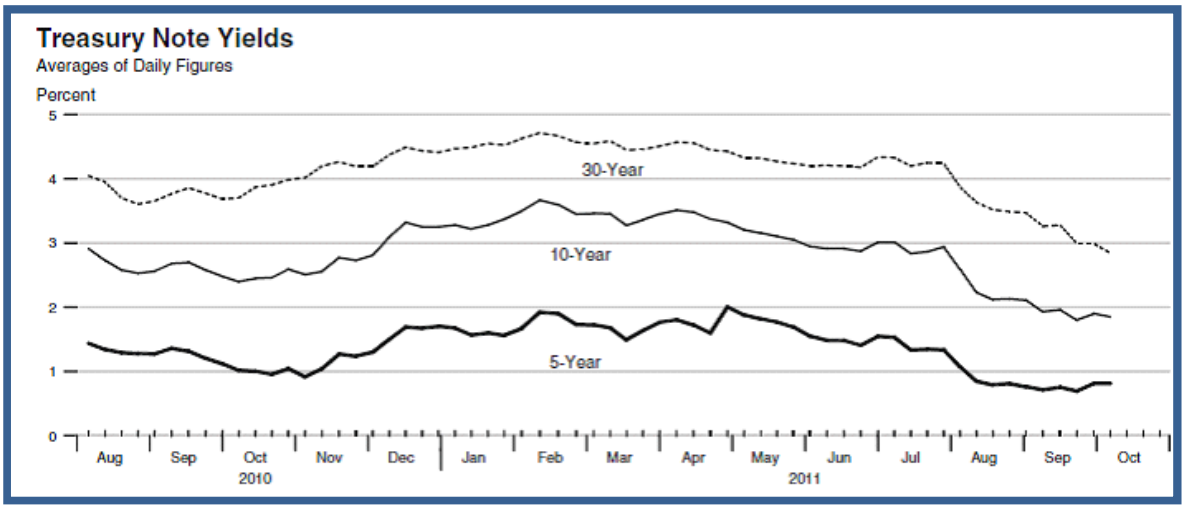
Exhibit IV Housing Starts 2001 - 2011



2.1.5 INTEREST RATES

The Federal Open Market Committee began what has been referred to as the "Quantitative Easing" policy in late 2010. The Fed embarked on an ambitious program of purchasing $600 billion in U.S. Treasury notes to drive down interest rates. The program expired in June 2011 with interest rates hovering at historic lows. The general market expected the program to be extended; however, such was not the case. The Fed's balance sheet was already too bloated with Treasury obligations. In August the FOMC suggested that it might pursue "Operation Twist." This program would have the Fed sell its short-term Treasuries and buy back long-term treasuries. This would keep the Fed's balance sheet at the same level. However, it would have the effect of driving long-term interest rates down. Lower long-term rates would benefit the beleaguered housing market by providing lower mortgage rates. Since June 2011, 10-year Treasury rates have fallen from approximately 3% to less than 2% in September.

Exhibit V Interest Rates



The Federal Reserve chairman, Ben Bernanke, also announced in mid 2011 that the Fed intended to keep interest rates low well into 2013. That announcement took any speculation off the table that interest rates might rise shortly.

2.1.6 ECONOMIC OUTLOOK

The 35 participants in The Livingston Survey (the "Survey") released their latest predictions in December 2011. The participants, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year, project real GDP to grow at an annual rate of 2.5% for the second half of 2011, which is 0.7% lower than their initial forecast in June. The group forecasts growth to continue slowing during the first half of 2012 to 2.1% but then modestly rebounding by the second half of 2012 to 2.5%.

The Survey also noted that forecasts for the unemployment rate have been revised downward from the previous Survey. In June they expected the unemployment rate to be about 8.6% by

December 2011, down from their previous estimate of 9.2%. However, in December they revised their forecast to 9.0% at year end. (As we saw above, their first guess was the correct one). They initially expected unemployment to decrease to 8.3% by June 2012 but the current forecast revised that number upward to 8.9%.

The forecasters in the Survey have held their predictions for consumer price inflation (CPI). They expect CPI inflation to be 3.2% in 2011 and 2.2% in 2012. The Survey expects CPI inflation to average 2.4% over the next 10 years, slightly lower than the forecast of 2.5% estimated in the prior Survey. The Survey expects producer price inflation (PPI) to be 6.1% in 2011 but only 2.3% in 2012.

Housing starts are predicted to rise from an annual rate of 630,000 in December 2011 to 666,000 by June 2012. By December 2012 they are expected to climb again to 723,000. The annual rate for 2013 is predicted to be a healthier 885,000 units. That is nearly 47% higher than 2011 but still well below peak level 2,100,000 in 2005 and below the 1,000,000 units that are needed each year just to house the population growth in the U.S.

2.1.7 INDUSTRY OUTLOOK[5]

The Home Improvement industry, which is comprised of 23,000 home centers and hardware stores, is highly concentrated. Two enterprises, Home Depot and Lowe's, represent 73% of the industry's $145 billion in revenues. When adding the industry's three largest franchises, Ace Hardware, Do It Best, and True Value, approximately 90% of the industry revenues are from these five sources. Home centers are differentiated from hardware stores in that they also sell building materials such as lumber, plywood, roofing, and flooring products as well as general hardware. A typical home center's sales consist of up to 40% building materials and the remainder hardware. Approximately 85% of the industry's revenues are generated by just over 4,000 home centers and only 15% comes from the 19,000 hardware stores.

The industry's revenues have declined nearly 20% from its peak of $183 billion in 2007 to $149 billion in 2009. However, the industry consolidation over the last decade coupled with the current recession has also reduced the number of home improvement enterprises from 5,219 in 2007 to 4,116 in 2009. Thus, the average revenue decline for existing enterprises that have survived the recession is not quite so dramatic.

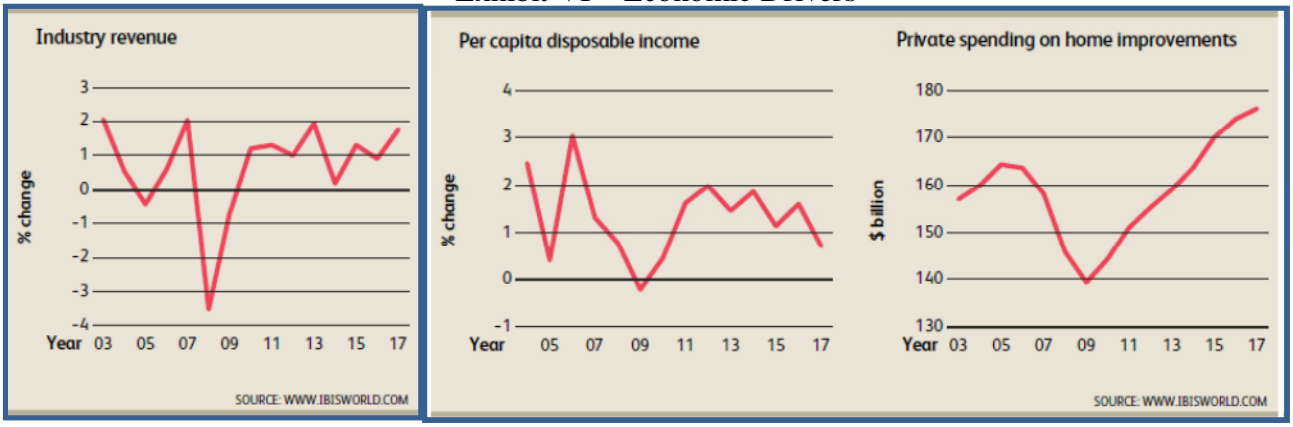
The big boxes were not immune to the current slide. Home Depot's domestic revenues declined nearly 30% from its peak of $81 billion in 2006-7 to $59 billion in 2009-10 (Year end is in February). During the last decade, Home Depot employed a multi-prong marketing approach by entering into various "professional builder" supply markets and home décor markets. The recession forced the company to retrench to its core retail operations by selling off or closing a number of stores and subsidiaries such as HD Supply, Yardbirds, EXPO, THD Design, and HD Bath Business. A moderate portion of the company's decline was the result of the sale or closure of these unprofitable subsidiaries.

[5] Industry facts taken from IBISWorld, "Industry Report-44413-Hardware Stores in the U.S.," July 2011, and IBISWorld, "Industry Report-44411-Home Improvement Stores in the U.S.," December 2010.

Lowe's was more fortunate in that its total revenues were nearly flat over the same period, declining just 2% in 2009-10 to $47 billion. However, its ability to maintain revenue levels in recent years was the result of new store openings. Thus, whereas the number of stores has increased from 1,534 to 1,710 in the last three years, revenues per store have decreased by more than 15%. The combination of increased operating burden due to new store openings coupled with the decline in revenue per store hit the company's bottom line harder, with Net Income declining from $3.1 billion in 2007 to $1.7 billion this year.

Several economic drivers affect growth in the home improvement industry. Disposable per capita income is one of the main determinants of growth. As disposable income increases, the consumer's ability to buy new houses or fix up existing ones also increases. The drivers for growth in disposable income are the unemployment rate and general economic growth. As unemployment declines and economic growth improves, household incomes increase.

Exhibit VI Economic Drivers



Interest rates are also a primary determinant to industry growth. As we saw in the previous section, 30-year mortgage rates have declined to historic lows over the last few years. This has enabled consumers to leverage their home improvement purchases by tapping their homes for low-cost mortgage loans. Although 30-year rates are expected to climb somewhat in 2012 and beyond, they will still be at the low range observed over the last decade. Thus, with disposable income projected to gradually increase over the next five years and with interest rates remaining low, spending on home improvements is expected to increase moderately.

As a direct result, industry revenues are expected to increase as well, although at a slower rate than overall economic activity. The housing market is expected to continue to be weak in coming years which will act as a drag on the home improvement market. Over the next five years, IBIS World projects that industry revenues will increase at an annual rate of 3.0% from $147 billion in 2011 to $168 billion in 2015.[6] Industry consolidation is expected to continue during this period which will put additional pressure on smaller players to compete through product pricing.

[6] IBISWorld, *"Industry Report 44411"*,December 2010, p. 9

From 2004 to 2007, the three years prior to the recession, total revenues for the hardware store segment of the home improvement industry were unchanged at $21 billion per year. The housing boom in the late 1990's and early 2000's began shifting customer preferences more toward the big boxes for their home improvement expenditures rather than hardware stores because they also sold building materials as well as hardware. Thus, big-box home improvement stores pose a major threat to hardware stores. However, hardware stores have shifted to being the destination for quick and small every-day hardware needs. Those stores that have followed this marketing shift have fared reasonably well. As such, they have not been affected nearly as much during the recent recession.

In 2008, at the depth of the recession, home improvement store revenues declined by 12.8% whereas, hardware store revenues only declined by 3.5%. By 2010 as the economy crawled out of the recession, the three major hardware coops, Ace Hardware, Do It Best, and True Value, continued to show minimal growth similar to before the recession. Ace's total revenues in 2010 increased by 2.1%, Do It best's 2010-11 year increased 1.3%, and True Value decreased 1.1%. IBISworld projects revenues for the hardware store segment of the home improvement industry to grow by 1.1% per year through 2016.[7]

2.1.8 Local Demographics

Smith True Value Hardware is located in the city of Jackson in Amador County, California. The nearest large cities are Reno, Nevada, which is 75 miles south, and Redding, California which is 110 miles west.

The four-county region in the northeastern sector of California is very rural and minimally populated. From 1990 to 2000 the annual population growth rate in the region was slightly higher than the State of California and the nation (1.6% vs. 1.4% vs. 1.3%). However, a significant portion of that growth was the result of the California minimum security prison in Jackson being expanded to medium security around 1987. In 1995 a second facility for medium and high security prisoners was opened. The expansions brought in hundreds of new families where one or both parents were prison staff and thousands of inmates who are also included in population counts. By 2010 there were over 1,100 prison staff and 11,000 prisoners in the various facilities at Jackson. Thus, when excluding prisoners the population growth of Amador County and Jackson has been minimal over the last ten years. From 2007 to 2009 the four-county region only saw an average of 0.2% annual growth rate compared to 0.8% for the State. Jackson's population declined at a 1.5% rate per year during the same period.

The median household income for the four-county region declined 0.8% per year from 2007 to 2009 and rose 3.8% per year from 2000 to 2009 which was in line with the whole State of California, but worse than the overall country (-0.5%). The region's unemployment rate is also considerably higher than the state and the nation. The average rate for the region was 13.2% in September 2011 compared to the state at 12.1% and the nation as a whole at 9.1%. As bad as that rate was, it was a considerable improvement over the previous year when it

[7] IBISWorld, "Industry Report-44413-Hardware Stores in the U.S.," July 2011, p.5

averaged 14.2% for the region. Median housing prices from 2007 to 2009 also collapsed in the region at a similar rate as the state (28.1% vs. 27.8%) which was considerably worse than the nation as a whole (-4.7%).

The region as a whole can be characterized as in a moderate level of economic stress. The Jackson market has fared just slightly better due to the population's high percentage of high-income prison staff. However, Jackson's declining population due to high unemployment has had a dampening effect on the local economy.

Exhibit VII Demographics

		U.S.	California	Lassen County	Shasta County	Modoc County	Plumas County	Susanville
Population	1990	248,710,000	29,800,000	27,598	147,036	9,678	19,793	7,279
	2000	281,421,000	33,900,000	33,828	163,256	9,449	20,824	17,536
	2007	304,059,000	36,400,000	34,406	178,539	9,500	20,793	17,664
	2009	307,006,000	36,960,000	34,675	180,316	9,600	20,363	17,119
	Gain '07 to '09	0.5% per yr	0.8% per yr	0.4% per yr	0.5% per yr	0.5% per yr	-1.0% per yr	-1.5% per yr
	Gain '00 to '07	1.1% per yr	1.1% per yr	0.2% per yr	1.3% per yr	0.1% per yr	0.0% per yr	0.1% per yr
	Gain '90 to '09	0.8% per yr	0.8% per yr	0.9% per yr	0.8% per yr	0.0% per yr	0.1% per yr	4.5% per yr
Median Household Income	1990	$30,000	$35,800	$26,764	$25,581	$22,029	$24,299	$25,011
	2000	$41,994	$47,500	$36,310	$34,335	$27,522	$36,351	$35,675
	2007	$50,700	$60,000	$46,581	$43,988	$33,000	$44,281	$42,000
	2009	$50,200	$58,900	$48,575	$42,675	$34,150	$42,836	$42,667
	Gain '07 to '09	-0.5% per yr	-0.9% per yr	2.1% per yr	-1.5% per yr	1.7% per yr	-1.6% per yr	0.8% per yr
	Gain '00 to '07	3.0% per yr	3.8% per yr	4.0% per yr	4.0% per yr	2.8% per yr	3.1% per yr	2.5% per yr
	Gain '90 to '00	4.0% per yr	3.3% per yr	3.6% per yr	3.4% per yr	2.5% per yr	5.0% per yr	4.3% per yr
Median Housing Prices	1990	78,500	194,300	69,300	91,000	48,100	89,700	69,300
	2000	119,600	211,500	106,700	120,800	69,100	137,900	103,800
	2007	194,300	532,300	235,000	263,000	140,000	271,000	210,000
	2009	185,200	384,200	192,000	180,000	125,000	204,000	156,000
	Gain '07 to '09	-4.7%	-27.8%	-18.3%	-31.6%	-10.7%	-24.7%	-25.7%
	Gain '00 to '07	62.5%	151.7%	120.2%	117.7%	102.6%	96.5%	102.3%
	Gain '90 to '00	52.4%	8.9%	54.0%	32.7%	43.7%	53.7%	49.8%
Unemploy-ment	Sep 10	9.6%	12.4%	12.5%	15.0%	12.1%	13.1%	14.2%
	Sep 11	+ 9.1%	+ 12.1%	+ 12.1%	+ 13.3%	+ 12.7%	+ 13.0%	+ 15.5%
	Change	-0.5%	-0.3%	-0.4%	-1.7%	+ 0.6%	-0.1%	+ 1.3%

The effects of population growth and income growth on the value of a business will be discussed further in Section 5.3.3 below.

2.1.9 Implications for the Subject

The crash in the residential real estate market, high unemployment, and stagnating population growth translate into fewer consumer disposable dollars that can be spent in the

stores of the small rural community of Jackson. Just as important, the real estate collapse has also created far less incentive for one to invest additional capital in his home. The one remaining support system for the Jackson community is the large base of high-paid state employees working in the prison system. However, for many of those who have no desire to work in the prisons, the only choice for employment opportunities is to leave the community.

3.0 COMPANY HISTORY AND ORGANIZATION

3.1 COMPANY HISTORY

The predecessor to Smith True Value Hardware was founded in 1978 and was located on Jackson's Main Street a few blocks from its current location. Main Street, which is also State Highway 88, is the primary thoroughfare running east and west through the town linking Jackson with Sutter Creek . The store originally was owned and operated by the Coast to Coast corporation, a regional hardware wholesaler that became a subsidiary of True Value Hardware Corporation. The store operated as a company–owned store until 1990 when it was purchased by John Smith. In 1997 Mr. Smith terminated the store's affiliation with the Coast to Coast and became a member of the True Value Hardware Corporation. By 2004 the store had outgrown the original 10,000 square foot facility and relocated to its present location at 999 Main Street. The new location is approximately 19,600 square feet, of which 17,500 square feet is retail floor space and 2,100 is warehouse.

The premises are in a large neighborhood shopping center anchored by a Safeway grocery store and a Rite-Aid pharmacy. There are seven other smaller tenancies, including a Starbucks, Golden-1 Credit Union, and a Subway sandwich store. The center is neat in appearance, well maintained, and has ample parking. A large Ace Hardware sign is prominently displayed above the store and is clearly visible from the Main Street thoroughfare. Mr. Smith reports that the store's revenues increased by over 50% to $3.7 million within two years of the relocation.

The Company presently operates under the franchise of True Value Hardware Corporation. True Value Hardware Corporation is a $2.8 billion dealer-owned cooperative comprised of over 5,000 independently owned retail hardware stores. It is the largest wholesale hardware cooperative in the industry. The company acts as a wholesale distributor of hardware, paint, and garden supplies, but also provides extensive retail support and branding to its dealers. It operates in all 50 states as well as 60 other countries around the world. True Value Hardware Corporation is a little less structured than a conventional franchisor in that its dealers are given a fairly wide latitude in operating their stores. As a result, True Value Hardware stores come in all shapes and sizes. Nearly one-fourth are also building material dealers and many also specialize in farm supplies, industrial hardware, and auto parts.

Approximately 70% of the Company's revenues are generated by homeowners, 25% are from contractors, and 5% are from the prisons and casinos. Roughly 75% of those customers live within a 15-mile radius of the store. No one customer represents more than 2-3% of total sales. The store's largest customer is the local Indian casino which has been operating for over ten years. The casino, which has expanded throughout its history, is a benevolent

neighbor in that it tries to spend most of its dollars with the local merchants. Mr. Smith indicated that the casino currently spends from $2,000 to $5,000 per month in the store and receives a 10% discount.

Smith's gross revenues have declined at a 2.8% annual rate since 2006. Mr. Smith points out that the majority of the decline has come from its contactor customer base. With the collapse of the real estate market in the region, far fewer houses are being built. Although contractors typically go to home centers and lumberyards for their supplies, Smith's is the only dealer within 25 miles with a complete line of tools, hardware, and builder's hardware. As such its percentage of contractor business is much higher than a typical urban hardware store.

Mr. Smith also reports that houseware sales have declined in the last few years as have sporting good sales. However, plumbing, electrical and paint sales have been improving. The Company presently generates 19% of its sales in paint, 15% in tools, 25% in plumbing, 12% in electrical, 6% in housewares, 14% in lawn and garden, and 8% in builder's hardware and supplies.

Although the state prison system is potentially a large source of revenue, Smith's has chosen not to do too much business with it. The state typically pays its vendors very slowly and its budget problems over the years have only compounded the problem. The California prison system is currently under federal receivership. The state is under mandate to improve prisoner health services and reduce its overcrowded prison population. The prison population in the Jackson facilities is more than 50% above capacity. Mr. Smith reports that the mandate to reduce the number of inmates there has moved very slowly. A hiring freeze has been in force for two years and the staff levels have declined slightly by attrition. With staff levels down and inmate populations remaining the same, most of the staff must now put in overtime. At present it appears as if the overpopulation problem will be partially resolved by transferring many of the low-security inmates to the local county jail facilities. In other words, the overall prison population in the area will remain the same in coming years and the staff levels will be reduced at the state prison and increased at the county jail system.

3.2 COMPETITION

Because of the very rural and remote characteristics of community, there is minimal direct competition to the Subject. The nearest full-service hardware store is a True Value Store 25 miles west in Westwood. However, there are two smaller lumberyards in Jackson that sell hardware as well. Jones Lumber is less than one mile south of the Subject. Mr. Smith reports that since it has changed ownership a few years ago, the company has increased its inventory and expanded operations. It still only carries a fraction of hardware that Smith's does. The lumberyard also closes at noon on Saturdays and is closed on Sundays. Smith's store hours are Monday through Saturday 8 am to 6 pm, and Sundays from 9 am to 5 pm.

Meeks Lumber is part of a small three-store chain in Northern California. Its Jackson location is almost next door to Jones Lumber. Although it specializes in purchasing mill-seconds, factory overruns, and surplus inventory, it does carry a short line of general lumber and building materials. The store has a small amount of builder's hardware and tools and

therefore does not represent a significant threat to Smith Ace. Payless also closes at noon on Saturdays and is closed on Sundays.

The nearest Home Depot or Lowe's to Smith Ace is 40 miles away in Sacramento, California. Although one would think that the distance would eliminate Home Depot as a competitor, Mr. Smith reports being in the store on a number of occasions and seeing many of his Jackson customers. It is common in rural communities for the local citizenry to travel great distances for basic supplies. Shopping trips to the big cities are more of an excuse to dine out, go to movies, and shop at the major retailers that are not available locally.

Walmart, which is located adjacent to Smith Ace, is a major competitor. It has a full line hardware and paint department and an extensive outdoor nursery. The service levels for these departments in Walmart are typically quite low. As such, anyone needing information on how to install a faucet or what chainsaw to buy will typically go to stores such as Smith. Mr. Smith indicated that it maintains a high-level of staff on the sales floor to provide excellent service for its customers. Walmart has been at this location for over ten years, so its effect on the local market has been fully dissipated.

3.3 MANAGEMENT AND STAFF

General Manager – Jim Johnson 38, has worked for 1-1/2 years at Smith's. Previously he was a hardware staff person for many years at an Idaho hardware store. He moved to the Jackson area and worked at Payless Lumber for one year before coming to Smith Ace. He earns $48,000 plus a bonus of $3,000.

Assistant Manager – Brandy Smith, 32, has worked at Smith Ace for about 1-1/2 years. He earns $15 per hour.

There are several department heads. They are salaried in the $10 to $11 per hour range. Many have been here 15+ years and are well cross-trained.

The sales-floor staff generally earns from $9 to $10 per hour.

4.0 FINANCIAL ANALYSIS OF THE COMPANY

4.1 FINANCIAL STATEMENTS

Tax returns are the primary source of information used in the analysis. John Smith supplied tax returns for years ending 2007 through 2010. P&Ls and Balance Sheets for the interim period ending September 30, 2011 and for years ending 2007 through 2010 were also supplied. The statements are prepared on a "compilation basis" using management's information without any verification by the CPA firm. No opinion as to the accuracy of the financials is offered by the Appraiser. The Owner, John Smith, was interviewed by the Appraiser on January 4, 2012. The Owner's Discretionary Cash Flow Analysis was based on statements made in that interview. A site inspection was performed by the Appraiser on January 4, 2012.

4.1.1 SUMMARY OF HISTORICAL BALANCE SHEETS

The balance sheets for Smith True Value Hardware for the last five accounting periods are as follows.

Exhibit VIII Balance Sheet

Accrual Basis	Sep 30, 2011	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007
Cash	110,601	123,875	118,212	174,744	66,034
Accounts Receivable	74,353	80,470	97,675	86,406	81,521
Inventory	784,681	709,760	705,115	705,853	681,800
Total Current Assets	969,635	914,105	921,002	967,003	829,355
Fixtures & Equipment	315,415	315,415	315,415	273,590	267,510
Depreciation	(254,390)	(238,145)	(214,823)	(207,066)	(177,875)
Tenant Improvement	131	131	131	131	131
Depreciation	-	1,995			
Intangibles	1,994	1,995	1,994	1,994	1,994
Ace Stock and Notes	-	-	-	-	-
Total Assets	1,032,785	993,501	1,023,719	1,035,652	921,115
Accruals	28,987	26,828	93,269	31,177	101,009
Accounts Payable	136,292	119,133	136,939	205,018	209,386
Plumas Bank Line of Credit	90,000	60,000	-	-	-
Total Current Liabilities	312,103	262,785	287,032	293,338	367,538
Due to Previous Owners	-	-	-	-	-
Total Liabilities	378,561	372,102	453,250	374,466	507,926
Net Worth	654,224	621,399	570,469	661,186	413,189
Total Liabilities + Net Worth	1,032,785	993,501	1,023,719	1,035,652	921,115

IB Debt = Interest Bearing Debt

For comparison purposes, each balance sheet entry above is recalculated and expressed in terms of its percentage of total assets. This format, referred to as a "common-size" presentation, makes it easier to compare the Subject Company to its industry peers. Industry comparison data is shown to the left of the Subject's data. The Industry Data was taken from Bizminer[8] under SIC code #5251, in the subcategory of Hardware Stores. There were 411 companies in this group with sales ranging from $2.5 million to $4.99 million.

[8] Bizminer, 5 year report - SIC Code 5251, searched at www.bizminer.com, on January 4, 2012

Exhibit IX Common Size Balance Sheet

COMMON SIZED BALANCE SHEET	Smith True Value Hardware											
	2011		2010		2009		2008		2007		2006	
	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject
Assets												
@ Cash/Securities	14.1%	10.7%	14.2%	12.5%	17.0%	11.5%	11.3%	16.9%	11.9%	7.2%	13.3%	
% Accounts Receivable	10.4%	7.2%	10.4%	8.1%	13.7%	9.5%	14.0%	8.3%	14.3%	8.9%	14.3%	
$ Inventory/WIP	42.5%	76.0%	42.6%	71.4%	41.7%	68.9%	42.9%	68.2%	41.4%	74.0%	41.4%	
* Other Curr Assets	2.6%	0.0%	2.7%	0.0%	2.1%	0.0%	2.8%	0.0%	2.5%	0.0%	2.0%	
Total Current Assets	69.6%	93.9%	69.9%	92.0%	74.6%	90.0%	71.0%	93.4%	70.1%	90.0%	71.1%	
+ Prop, Plant, Equip - NET	14.1%	5.9%	14.0%	7.8%	17.2%	9.8%	19.6%	6.4%	20.0%	9.7%	19.9%	
^ Other Assets	16.3%	0.2%	16.1%	0.2%	8.2%	0.2%	9.4%	0.2%	9.9%	0.2%	9.1%	
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Liabilities												
& Accounts Payables	8.4%	13.2%	5.0%	12.0%	12.9%	13.4%	10.7%	19.8%	11.0%	22.7%	12.1%	
? Short Term IB Debt	5.4%	14.2%	3.7%	11.8%	4.6%	5.6%	9.2%	5.5%	5.3%	6.2%	6.1%	
# Other Current Liabilities	9.0%	2.8%	5.7%	2.7%	3.9%	9.1%	4.5%	3.0%	4.2%	11.0%	3.4%	
Total Current Liab	22.8%	30.2%	14.4%	26.5%	21.4%	28.0%	24.4%	28.3%	20.5%	39.9%	21.7%	
- Other Liabilities		0.0%		0.0%		0.0%		0.0%		0.0%		
< Long Term IB Debt	24.0%	6.4%	34.9%	11.0%	26.2%	16.2%	26.7%	7.8%	26.1%	15.2%	22.4%	
Total Liabilities	46.8%	36.7%	49.3%	37.5%	47.6%	44.3%	51.1%	36.2%	46.6%	55.1%	44.1%	
Total Net Worth	53.2%	63.3%	50.7%	62.5%	52.4%	55.7%	48.9%	63.8%	53.4%	44.9%	55.9%	
Total Liab & Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

4.1.1.1 CASH BALANCES

Ace Hardware's average cash balance from 2007 to 2011 was 11.8% of total assets compared to the guideline company average of 13.7%. Over the long-term, the Subject's level of cash has been just below the level of the guideline companies. However, Cash balances decreased to 10.7% of total assets in 2011 which was moderately lower than guideline companies' average of 14.1%. Since Smith Ace is a member of the Ace Hardware buying group, it must pay its bills every two weeks as opposed to the typical 30-day terms with conventional wholesalers. Since it has to pay its accounts payable more frequently, available cash balances are reduced; but then, each payment is only a half monthly total as a result. Thus, the Company can operate satisfactorily with lower levels of cash.

4.1.1.2 ACCOUNTS RECEIVABLE

The Subject's accounts receivable balances averaged 8.4% of total assets from 2007 to 2011 compared to the guideline company average of 12.6%. Half the Company's receivables are to contractors and much of the rest are to other businesses and organizations. Smith asks most of its retail customers to pay by credit card. As a result, overall receivables are quite low compared to the industry. Although this gives the Subject a considerable cash flow advantage over its peers, it is not without its costs. Approximately 60% of the subject's sales are on credit cards which cost nearly $59,000 in bankcard fees per year.

4.1.1.3 INVENTORY

Smith True Value Hardware's inventory levels averaged 71.7% of total assets from 2007 to 2011 which is considerably higher than the guideline company average of 42.2%. Mr. Smith indicated that he intentionally keeps his inventory levels high because it sends a strong marketing message to his customers that the store has the inventory level and customer service that no one else has. Receivables and inventory combined accounted for 80.1% of

the Subject's total assets compared to 54.8% for the industry. Thus, from a total working capital perspective, the Subject has a moderate disadvantage compared to the industry for this asset.

4.1.1.4 FIXTURES AND EQUIPMENT (FF&E)

The Subject purged its fixtures ledger of all fixtures and equipment that were acquired prior to its move to its present location in 2004. One truck, which was acquired in 2000, is the only pre-2004 asset still on the books. As such, the Subject's five year average for total FF&E as a percentage of total assets appears considerably lower than its peers - 7.9% vs. 17.0%. No complete listing of fixtures and equipment was available. Therefore, this measure of the Subject's financial performance is probably not reliable.

4.1.1.5 ACCOUNTS PAYABLE

Accounts Payables balances for the Subject were 13.2% of total debt and equity compared to the guideline company five-year average of 9.6%. Approximately 80% of the outstanding payables are to Ace Hardware Corporation. The Company is required to pay its Ace Hardware payables every two weeks which keeps its currently due balances lower than if Ace were a typical net 30-day vendor. However, Ace Hardware has extensive datings programs that it offers its dealers as an inducement to buy pre-season goods. As result, Smith Ace will typically have large amounts of payables at year-end for Christmas goods that were purchased much earlier in the year and are not payable until January of the following year.

Mr. Smith reports that all payables are current. Thus, Smith's large amount of payables compared to the guideline companies does not appear to be a concern.

4.1.1.6 TERM DEBT

The Subject's total short-term and long-term debt equals 20.0% of total debt and equity compared to 33.2% carried by its peers. The Subject's total liabilities were 41.9% and equity was 58.1% of its total debt and equity whereas, the peer group was 48.3% debt and only 51.7% equity. As such, the company maintains a somewhat lower leverage position than the industry does.

Analysis: The Subject's balance sheet appears to be moderately stronger that the industry's. Its high-level investment in accounts receivable and inventory combined is partially offset by (that is, financed by) a higher level of interest-free accounts payable. The Company's low level of debt compared to the industry gives it a cash flow advantage over its peers. Thus, the Company is in a better position to take advantage of future growth opportunities that may arise.

4.1.2 Summary of Historical Income Statements

Smith True Value Hardware's revenue and net profit growth for the last five accounting periods has been gradually declining. The collapse of the real estate market has had a long-term effect on its revenue stream. The bar charts below give a visual presentation of its recent history.

Exhibit X Revenue Bar Chart - 2007 to 2011

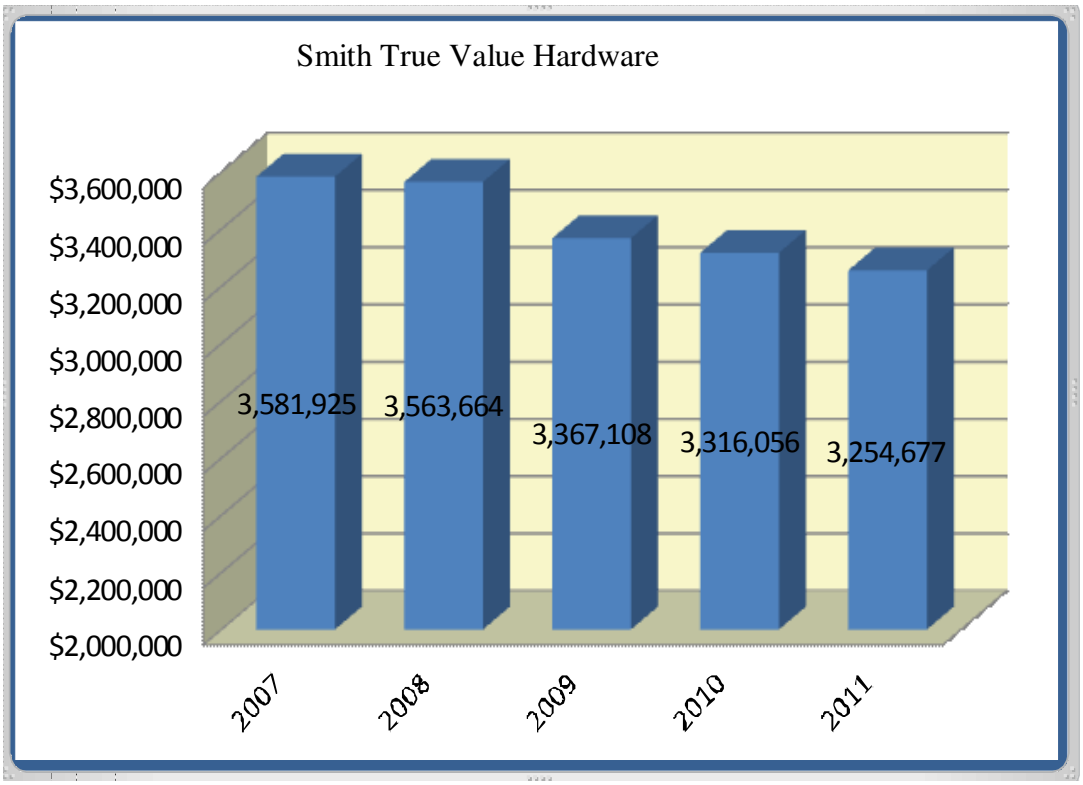
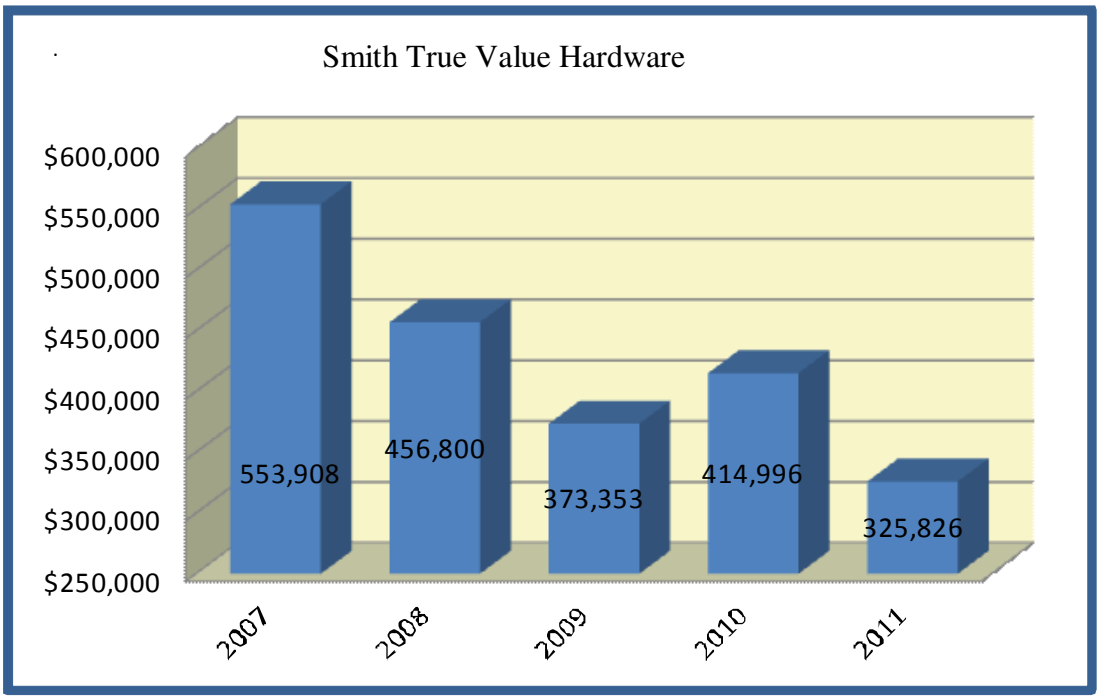


Exhibit XI Net Income before Taxes - 2007 to 2011



The Income Statements for Smith True Value Hardware for the last five accounting periods are as follows: (Detailed information on these P&Ls can be found on Exhibit XXXIV Page

Exhibit XII Income Statement - 2007 to 2011

	Sep 30, 2011	Dec 31, 2010	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007
INCOME	12 Mos.	12 Mos.	12 Mos.	12 Mos.	12 Mos.
Gross Revenues	3,254,677	3,316,056	3,367,108	3,563,664	3,581,925
Less Returns and Allowances	-	-	-	-	-
TOTAL INCOME	3,254,677	3,316,056	3,367,108	3,563,664	3,581,925
COST OF GOODS SOLD					
Beginning Inventory	-	705,115	705,853	681,800	628,272
Purchases	1,937,632	1,937,982	1,999,244	2,135,760	2,062,551
Freight In	53,753	50,371	49,458	57,442	51,279
Shrinkage	(38,096)	12,692	3,593	10,267	4,465
Ending Inventory	-	(709,760)	(705,115)	(705,853)	(681,800)
TOTAL COST OF GOODS SOLD	1,953,289	1,996,400	2,053,033	2,179,416	2,064,767
GROSS PROFIT	1,301,388	1,319,656	1,314,075	1,384,248	1,517,158
	40.0%	39.8%	39.0%	38.8%	42.4%
OTHER INCOME					
Patronage Dividend	51,304	51,304	44,391	43,393	60,573
Other Income	15,351	18,004	10,421	1,263	1,619
TOTAL OTHER INCOME	66,655	69,308	54,812	44,656	62,192
EXPENSES					
Compensation to Owners	45,000	45,000	45,000	45,000	45,000
Salaries and Wages	320,085	308,889	294,111	310,638	296,733
Repairs and Maintenance	52,669	55,238	54,058	45,452	47,092
Rents	143,712	138,722	131,736	136,250	131,736
Bad Debts	2,191	166	5,491	1,437	(198)
Payroll Taxes	39,063	33,461	28,580	32,788	36,760
Property Tax	986	1,159	1,417	1,434	1,464
Other Taxes and Licenses	3,795	4,806	4,389	4,634	4,820
Misc., Dues, Subscriptions, Gifts	14,551	5,017	5,785	4,759	3,195
Advertising	104,871	95,849	106,787	97,031	91,131
Donations	13,165	16,594	13,441	16,266	13,815
Pension, Profit Sharing	50,000	20,205	18,255	31,178	22,500
Employee Benefits	25,287	31,958	33,797	18,056	9,301
Depreciation and Amortization	22,071	11,659	34,831	19,528	16,021
Insurance-Liability	11,689	11,945	11,804	12,864	3,754
Insurance-Workman's Comp	13,509	12,900	15,964	8,125	13,344
Bank Charges	59,623	59,247	56,949	57,613	55,403
Office Expense, Postage and Delivery	16,559	20,851	24,289	20,178	27,655
Accounting, Professional, Payroll Service	11,579	14,727	12,667	12,493	16,549
Meals and Entertainment	12,201	9,318	15,617	11,523	10,676
Car and Truck Expenses	15,509	13,107	14,134	12,359	16,551
Supplies	14,448	16,669	20,018	22,709	20,019
Interest Expense	10,045	8,529	7,210	9,463	104,415
Utilities, Telephone, Internet Expense	39,609	37,952	39,204	40,326	37,706
TOTAL EXPENSES	1,042,217	973,968	995,534	972,104	1,025,442
Net Profit Before Taxes	325,826	414,996	373,353	456,800	553,908

74.)
For comparison purposes each income statement entry above is recalculated and expressed in terms of its percentage of total assets. This format, referred to as a "common-size" presentation, makes it easier to compare the Subject Company to its industry peers. Industry comparison data is shown to the left of the Subject's data. The Industry Data was taken from Bizminer[9] under SIC code #5251, Building materials, Garden Supply, and Hardware Stores. There were 411 companies whose revenues ranged from $2.5 million to $4.99 million that were in the sub-category, Hardware Stores.

Exhibit XIII Common Size Income Statement

Smith True Value Hardware

COMMON SIZED INCOME STATEMENT	2011		2010		2009		2008		2007		2006	
	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Cost of Goods Sold	59.9%	60.0%	63.0%	60.2%	66.9%	61.0%	64.8%	61.2%	65.6%	57.6%	64.9%	
Gross Margin	40.1%	40.0%	37.0%	39.8%	33.1%	39.0%	35.2%	38.8%	34.4%	42.4%	35.1%	
Other Income	1.3%	2.0%	1.3%	2.1%	1.3%	1.6%	0.4%	1.3%	2.4%	1.7%	1.4%	
Expenses												
@ Officer/Manager Salaries	3.1%	1.4%	3.2%	1.4%	3.6%	1.3%	3.1%	1.3%	3.0%	1.3%	2.9%	
# Salary and Wages	11.6%	9.8%	12.1%	9.3%	11.9%	8.7%	12.9%	8.7%	12.6%	8.3%	13.2%	
$ Rent	3.8%	4.4%	3.5%	4.2%	2.9%	3.9%	2.7%	3.8%	2.8%	3.7%	2.6%	
% Taxes, Payroll Taxes	2.2%	1.7%	2.2%	1.7%	2.3%	1.6%	2.2%	1.5%	2.3%	1.8%	2.3%	
^ Advertising	1.3%	3.2%	1.2%	2.9%	1.2%	3.2%	1.1%	2.7%	1.2%	2.5%	1.2%	
& Benefits/ Pension	1.2%	1.5%	1.3%	0.6%	1.4%	0.5%	1.5%	0.9%	1.3%	0.6%	1.3%	
* Repairs	0.8%	0.0%	0.7%	0.0%	0.7%	0.0%	0.6%	0.0%	0.6%	0.0%	0.7%	
+ Bad Debts	0.7%	0.1%	0.6%	0.0%	0.4%	0.2%	0.7%	0.0%	0.2%	0.0%	0.2%	
< Other SG&A	6.7%	6.9%	6.8%	6.8%	6.1%	7.0%	6.4%	5.8%	6.3%	5.4%	6.4%	
>Interest	0.8%	2.1%	0.7%	2.0%	0.8%	1.9%	1.0%	1.9%	0.8%	4.5%	0.7%	
? Depreciation	2.0%	0.7%	1.8%	0.4%	1.2%	1.0%	1.6%	0.5%	1.5%	0.4%	1.8%	
Net Income Before Tax	7.3%	10.1%	4.1%	12.7%	1.8%	11.2%	1.8%	12.9%	4.1%	15.6%	3.2%	
' Income Taxes	0.0%	0.1%	1.2%	0.1%	0.3%	0.1%	0.3%	0.1%	1.1%	0.1%	0.7%	
Net Income After Tax	7.3%	10.0%	3.0%	12.5%	1.5%	11.1%	1.5%	12.8%	3.0%	15.5%	2.4%	
EBITDA + Officer Compensati	13.1%	14.3%	9.9%	16.4%	7.4%	15.5%	7.4%	16.6%	9.3%	21.8%	8.6%	

4.1.2.1 REVENUES

The revenues of the 411 BizMiner companies representing the peer group increased by a 2.9% compounded annual growth rate (CAGR) from 2007 to 2010. The best year was 2010 in which sales increased 14.8% over the previous year. Cash flow (EBITDA) increased at an annual rate of 18.9% from 2007 to 2010. The worst year was 2009 which declined 38.0%.

Industry Growth	2007	2008	2009	2010	2011	CAGR
Industry Growth - Revenue	0.6%	-2.3%	-0.1%	14.8%	2.9%	2.9%
Industry Growth - EBITDA	-6.0%	-2.1%	-38.0%	149.1%	18.9%	18.9%

The Subject Company's Revenues decreased at an annual rate of 2.4% from 2007 to 2011. Revenues for 2011 showed a loss of 1.9% over 2010 which was inferior to the industry's 2.9% increase. Thus, its overall revenue growth appears to be inferior to its peers.

The Subject's cash flow decreased at an annual rate of 14.9% from 2007 to 2011. The industry increased 18.9% during the same period. The Subject's cash flow for 2011 showed

[9] Bizminer, 5 year report - SIC Code 5251, searched at www.bizminer.com, on November 6, 2011

a loss of 17% over 2010, whereas the industry's cash flow increased 18.9%. The Subject's cash flow growth is, therefore, inferior to the Industry's.

4.1.2.2 GROSS PROFIT MARGINS

Industry Gross Profit Margins have ranged between 33.1% and 40.1% and averaged 35.9% from 2007 to 2011. Ace Hardware's Gross Profit Margin ranged between 38.8% and 42.4% and averaged 40.0% during the same period.

A reason for the some of the difference in gross margins between the Subject and the BizMiner database is that it is common for BizMiner data to include some labor in Cost of Goods Sold. As such, Gross Margins are not always directly comparable between the Subject and the industry.

A more accurate comparison of operations would be to look at the Gross Profit margin ***after*** all labor costs. The result is a Net Margin after Labor regardless of whether labor was expensed or included in Cost of Goods Sold.

Ace Hardware	2011	2010	2009	2008	2007
Gross Margin	40.0%	39.8%	39.0%	38.8%	42.4%
Labor Costs	9.8%	9.3%	8.7%	8.7%	8.3%
Net Margin after Labor	30.2%	30.5%	30.3%	30.1%	34.1%
Industry	**2011**	**2010**	**2009**	**2008**	**2007**
Gross Margin	40.1%	37.0%	33.1%	35.2%	34.4%
Labor Costs	11.6%	12.1%	11.9%	12.9%	12.6%
Net Margin after Labor	28.5%	24.8%	21.2%	22.3%	21.7%

Ace Hardware enjoyed a moderate Net-Margin-after-Labor premium over the industry from 2007 to 2011. Ace Hardware's Net Margin after Labor averaged 31.0% during this period compared to the industry's 23.7%. The gap closed significantly in 2011 with the Subject's margin dipping to 30.2% and the industry rising to 28.5%. Regardless, Ace Hardware still outperforms the industry in its ability to generate cash flow.

4.1.2.3 RENT

The Industry rent for the last five years averaged 3.1% of revenues. Ace Hardware averaged 4.0% during the same period. Thus rent, which can produce a significant risk to a company's future cash flow, does not appear to be a factor with Ace Hardware.

Analysis: As we saw in the prior section on revenue and cash flow growth, the Subject's growth is lagging behind the industry over the last five years. However, it terms of the Subject's ability to generate cash flow, it is modestly superior. By comparison, Ace Hardware's cash flow as a percentage of gross revenues (as measured by EBITDA plus owner's salary) averaged 16.9% from 2007 to 2011 whereas the industry only averaged

9.4%. Thus, for every $1,000 increase in revenues, Ace Hardware' puts $169 on the bottom line and the industry only puts $94.

The overall analysis of the Subject's Balance Sheet and Income Statement suggests that it is somewhat superior to the peer group.

4.2 INDUSTRY RATIOS

The BizMiner database for SIC code #5251, Building Materials, Garden Supply, and Hardware Stores, had 411 companies in the subgroup, Hardware Stores, whose revenues were between $2.5 million to $4.99 million. The financial ratio analysis of this group is presented below with the corresponding ratios of the Subject.

Exhibit XIV Peer Group Ratio Analysis

Smith True Value Hardware

FINANCIAL RATIOS	2011		2010		2009		2008		2007	
	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject
Receivables Turnover (Times)	26.3 x	43.8 x	25.3 x	41.2 x	20.8 x	34.5 x	19.8 x	41.2 x	18.9 x	43.9 x
(Days)	14 Days	8 Days	14 Days	9 Days	18 Days	11 Days	18 Days	9 Days	19 Days	8 Days
Inventory Turnover (Times)	3.8 x	2.5 x	3.9 x	2.8 x	4.6 x	2.9 x	4.2 x	3.1 x	4.3 x	3.0 x
(Days)	95 Days	147 Days	94 Days	130 Days	80 Days	125 Days	87 Days	118 Days	85 Days	121 Days
Payables Turnover (Times)	19.4 x	14.2 x	33.4 x	16.3 x	14.8 x	14.6 x	16.8 x	10.4 x	16.2 x	9.9 x
(Days)	19 Days	26 Days	11 Days	22 Days	25 Days	25 Days	22 Days	35 Days	23 Days	37 Days
Revenue ÷ Fixed Asset-Net	19.3 x	53.2 x	18.8 x	42.8 x	16.6 x	33.4 x	14.2 x	53.5 x	13.5 x	39.9 x
Revenue ÷ Fixed Asset-Gross	4.9 x	10.3 x	6.7 x	10.5 x	5.5 x	10.7 x	5.4 x	13.0 x	5.4 x	13.4 x
Working Capital Turnover	5.8 x	4.9 x	4.7 x	5.1 x	5.4 x	5.3 x	6.0 x	5.3 x	5.4 x	7.8 x
Working Capital to Assets	46.8%	63.7%	55.5%	65.6%	53.2%	61.9%	46.6%	65.0%	49.6%	50.1%
Total Asset Turnover	2.7	3.2 x	2.6	3.3 x	2.9	3.3 x	2.8	3.4 x	2.7	3.9 x
Working Capital to Sales	17.2%	20.2%	21.1%	19.6%	18.6%	18.8%	16.8%	18.9%	18.4%	12.9%
Debt to Equity Ratio	0.9 x	0.6 x	1.0 x	0.6 x	0.9 x	0.8 x	1.0 x	0.6 x	0.9 x	1.2 x
TOTAL INVESTED CAPITAL STRUCTURE										
Total Int Bearing Debt to Total Invested Capital	35.6%	24.6%	43.2%	26.7%	37.0%	28.1%	42.3%	17.3%	37.1%	32.3%
Net worth to Total Invested Capital	64.4%	75.4%	56.8%	73.3%	63.0%	71.9%	57.7%	82.7%	62.9%	67.7%
Total Invested Capital to Total Assets	82.6%	84.0%	89.3%	85.3%	83.2%	77.5%	84.8%	77.2%	84.8%	66.3%

4.2.1 WORKING CAPITAL

The Subject's Accounts Receivable turnover is moderately faster than that of the industry. Its five-year average turnover was 40.9 times (9 days) compared to the peer group's 22.2 times (17 days). Thus, receivables put a minimal amount of burden on the Subject's working capital. The Company's inventory turnover is a different story. It averaged 128 days (2.9 times per year) over the last five years compared to the industry's 88 days (4.2 times per year). Inventory's high-level burden on working capital far offsets the advantage gained from the low level of receivables.

The Subject's Accounts Payable helps make up for much of inventory's burden on working capital. As noted in the balance sheet analysis, the Company carries a moderately high level

of payables due to Ace Hardware Corporation's datings program. Over the last five years, Ace Hardware turned its payables in an average of 29 days compared to the industry's 20 days. Thus, the combination of levels of assets and liabilities, the Company's total working capital (short-term assets minus short-term liabilities) is not too far out of line with the industry. The industry average working capital turnover for the last five years was 5.47 times compared to the Subject's 5.68 times. The higher the ratio, the harder a company needs to work its assets. In other words the Subject is trying to generate $5.68 in revenue for each dollar invested in working capital. However, as we can see, there is little difference between the working capital ratios of the Subject versus the industry.

4.2.2 TOTAL DEBT TO EQUITY

The Subject's debt-to-equity ratio is 0.75 times compared to the industry's 0.94 times ratio. Thus, the Ace Hardware's overall capital structure is superior to the industry.

Analysis: The Subject's only weakness in its balance sheet is its level of inventory. However, its superior receivables and payables turnover offset this potential drain on its working capital. Ace Hardware's high gross profit margins are modestly above industry standards giving it the opportunity to generate cash flow quickly with just slight increases in revenues. Overall the Subject's financial condition is superior to its peer group.

5.0 VALUATION OF THE SUBJECT BUSINESS

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

ASSET APPROACH IS REJECTED. The Asset Approach is most frequently used for companies that are asset-intensive or are holding companies. These are companies that typically have low cash flow with respect to their level of assets. The Adjusted Book Value Method is commonly used in the Asset Approach to value the ***tangible*** assets of the Subject Company.

EXCESS EARNINGS METHOD IS REJECTED. This approach is a sub-category to the Asset Approach. It is also referred to as the Formula Approach. The method is used to calculate the intangible value of a company which is then added to the Adjusted Book Value to obtain the total value of the business. It requires a fairly high-integrity balance sheet in order to calculate the return on investment attributed to the company's assets. Most small, privately held companies do not have accurate inventories on their balance sheets. In addition, much of their FF&E are fully depreciated or have been expensed rather than capitalized. As such the accountant typically does not include them on the company's balance sheet. As a result an unknown portion of the company's fixtures are unaccounted for and much of the rest has questionable value. Any estimate would likely be inaccurate. Revenue Ruling 68-609 states that "The Formula Approach should not be used if there is better evidence available from which the value of intangibles can be determined."[10] The Appraiser believes that the Market and Income Approaches provide better evidence of the appraisal value.

[10] U.S. Internal Revenue Service, Revenue Ruling 68-609, (1968), p.1, http://www.aticg.com/Documents/Revenue/RevRule68-609.pdf

LIQUIDATION VALUE IS REJECTED. The Uniform Standards of Professional Appraisal Practice (USPAP) requires that the Appraiser consider the liquidation value of a business.[11] The Subject Company is an on-going concern with a high level of cash flow. Thus, its on-going concern value would clearly be greater than its liquidation value.

INCOME APPROACH IS REJECTED. The Income Approach bases the value of the operating assets of a company on its ability to generate cash. Implicit in the approach is that a buyer will look at the cash flow a company generates, apply a desired rate of return, and thereby determine an appropriate amount to invest in the company. The two most important elements in the Income Approach then are the Subject Company's net cash flow and the investor's desired rate of return.

Most small companies with revenues less than $2 to $5 million typically only earn enough money to compensate the owner for his labor. Retail and wholesale grocery stores typically generate higher revenue levels at very low margins compared to retail and wholesale companies in other industries. Thus grocery related companies in the $5 to $15 million range frequently only earn enough to compensate the owner for his labor. As a result the remaining portion of total net cash flow that represents the return on one's investment is minimal or even a negative (the owner makes a substandard living wage). Thus this methodology would produce an unrealistically low or a negative value.

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

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

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

[11] Uniform Standards of Professional Appraisal Practice, The Appraisal Foundation, Washington D.C. 2010-2011 Edition, Standards Rule 9-3, http://www.uspap.org/USPAP/stds/sr9_3.htm

However, when we examine the transactions involving small, privately held companies, we see that as companies continue to get smaller and smaller, their earnings multiples will continue to decline. Clearly investors of small privately held businesses are demanding even greater rates of return than the stock market offers as is reflected in the lower cash flow multipliers they are willing to accept.

From Exhibit XV below we can see that earnings multipliers[12] gradually decline from the largest privately held companies in the $25 million to $100 million sales range (roughly the same size as the smallest publicly traded companies) to companies with revenues between $1 million to $5 million. Thus the rates of return garnered for these investments become increasingly higher than the stock market would provide. Depending on the type of

Exhibit XV Multipliers by Size of Company

Ultra-Small Company Risk Premium
Pratts Stats Database

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

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

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

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

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

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

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

Following the linear relationship between the company's size and its rate of return means that when we get down to the smallest privately held companies, the P/E ratio is so low that it suggests that an appropriate rate of return that an investor would demand from such an

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

investment is in the range of 35-50% per year. Even though this rate of return is beyond comprehension, we still must apply it to a small company's net free cash flow after all expenses. As we noted above, that often is approximately $0 for most small companies (owner's salary consumes all the excess cash flow); that means that the value of a small company using the Income Approach would often be $0 ($0 ÷ 50% = $0). Nothing makes sense.

In the interest of containing the costs of the valuation, Mr. Smith has agreed to eliminate the Income Approach.

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

6.0 MARKET APPROACH

As discussed in the Revenue Ruling 59-60, the valuation process should be a "forward looking" process.[13] That is, we are trying to look into the future potential of a company to determine its value today. The Market Approach, however, looks at actual transactions that are often years old and the financial data associated with the transaction obviously predates the sale. On the surface then, the Market Approach would appear to be looking backward in time.

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

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

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[13] U.S. Internal Revenue Service, Revenue Ruling 59-60, (1959), Section 3, p.2, http://www.hantzmonwiebel.com/live_data/documents/ruling-59-60.pdf,

6.0.1 THE GUIDELINE PUBLIC COMPANY METHOD

The Guideline Public Company Method uses a database of publicly traded companies whose shares are freely traded. The method involves observing the stock prices and various ratios such as the Price/Earnings Ratio or Price/Book Value ratio of smaller publicly held companies in the same industry as the subject to determine appropriate pricing of the subject.

To apply this method properly, the selected guideline companies should be in the same industry and of similar size and relevancy to the subject. Relevancy is an important consideration; otherwise we might consider comparing the local hardware store to Home Depot. Raymond Miles, past director of the Institute of Business Appraisers, suggests that public companies are just not relevant at all when compared to privately held companies due to the significant differences in the size of the investor's investment, the liquidity and overall risk of the investment, and the involvement of the investor in managing the company.

> "Indeed it is possible to make detailed comparisons of each potential guideline company's financial characteristics with the business being appraised. However, public companies in general fall short in meeting the relevance requirement for guidelines to value small closely held businesses."[14]

As we will see throughout this report the size of a guideline company is an important factor in valuation. The appropriate parameters for the selection process in the Guideline Public Company Method have been advanced by Mr. Paul Hyde.[15]

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

Analysis: The Appraiser agrees with Mr. Hyde's position that the Guideline Public Company Method should not be used with companies that have revenues less than $5 million dollars.

6.0.2 THE MERGERS AND ACQUISITIONS TRANSACTIONS METHOD

The Mergers and Acquisitions Transactions Method involves the acquisition of businesses by other companies that are often public companies. The desired analysis of this database is to observe the prices of small privately held companies that are acquired by large public companies. Buyers in this arena are often what we refer to as "strategic, or investment buyers." The synergies that exist between the acquiring and target companies are such that

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

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

the acquiring company has far more to gain than just a return on investment. Strategic acquiring companies are often trying to dominate specific markets by buying up competitors, or trying to gain access to a specific market that fits with the markets they already control. These strategic transactions are often at a significant premium compared to those transactions where no specific synergy exists. Since the Standard of Fair Market Value followed in this report is to determine the transaction price between *any hypothetical buyers and any hypothetical sellers,* we must necessarily rule out those transactions where one specific player had a special agenda to fill; otherwise, we would have to do a different valuation for every different acquiring company.

Analysis: A search using Business Valuations Market Data Mergerstats Database[16] found three companies. The smallest earned $122 million in revenues and, therefore is not a suitable comparison to the Subject. Therefore, the Mergers and Acquisitions Transaction Method is rejected.

6.0.3 THE DIRECT MARKET DATA METHOD

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

Analysis: Therefore, the Direct Market Data Method will be the selected method used in the Market Approach.

The various sources of data contain transactions ranging from a few thousand dollars to over one billion dollars. The transactions are from businesses located all around the country which were consummated as recently as a few months ago to as long as twenty years ago. In addition, when searching a specific SIC group for transactions involving companies similar to the subject, we often find that these companies do not appear to be similar at all.

The selection of appropriate comparables (also referred to as "guideline or peer group companies") from these databases will be made after careful consideration of the following:

6.1 OWNER'S DISCRETIONARY CASH FLOW

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

[16] Mergerstats- SIC #5251, searched on http://www.bvmarketdata.com/defaulttextonly.asp?f=CPS%20Intro, January 4, 2012

6.1.1 SELECTING THE BASE YEAR OF OPERATIONS

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

To circumvent this possible distortion, it is not uncommon to see Market Value Multipliers applied to a subject's earnings for the current year or an average, even a weighted average of the last several years' earnings. Raymond Miles, author of *Technical Studies of the IBA Transaction Database*, even suggests that the multipliers should be applied to *projected* cash flow.[17] The Appraiser rejects this approach. The Market Value Multipliers obtained from the guideline companies were based on the selling price and the financial data that *was available at the time of the sale.* The guideline multipliers were not calculated on future earnings. However, as was noted earlier, the buyer tendered his price for a particular guideline company based on its recent financial data and his expectations of the future. Thus, the multipliers calculated from transactional data have an implied projected cash flow already built into the equation.

Gary Trugman provides us with various factors for determining the basis of Subject Company earnings to be used in the Market Approach.[18]

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

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

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

5. If the company's earnings are declining, the appraiser may want to consider a weighted average earnings, the latest 12 months earnings, or proforma earnings.

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

The valuations are as of December 31, 2009 and September 30, 2011.

Analysis: The Subject Company is part of the retail hardware industry. The industry's total revenues over the last ten years have been relatively flat. Annual growth has been in the 1% range including modest declines in 2008 and 2009 during the recession. The Subject's revenues increased rapidly after 2004 due to its relocation to a larger facility. However, revenues peaked in 2006 and have declined slightly each year since. The positive effect of a new location and the negative effect of the recession have largely dissipated. Sales for 2009 through 2011 were nearly flat. Thus, the recent accounting period through September 2011 and the year-ending 2009 should each serve as reasonable proxies for the base year of operations for the two valuations.

Spreadsheets for the last five periods can be found on Page 74.

6.1.2 RECASTING SELLER'S DISCRETIONARY EARNINGS

Once the base year (or years) of earnings has been selected, the next step is to "recast" the financial statement. The "recasting" of a company's earnings serves two purposes. First, since the databases we use for comparables are a collection of all forms of business entities, we need to strip away the differences in accounting methods used by those different entity types. For example, sole proprietorships (SP) report earnings on the Schedule C of the owner's personal tax return. There is no owner's salary expense in an SP; the "bottom line" represents his total income and payroll taxes for that income appears on his 1040. However, corporations and partnerships include a deduction for an owner's salary expense including payroll taxes. Thus the bottom line for these entities is net of the owner's salary and payroll taxes. Health benefits are a deduction in corporations but not in SP's (benefits appear on the owner's 1040). Donations are a deduction in C-corporations but not in S-corporations (donations appear on the owner's K-1). Accelerated depreciation (IRC Section 179) and gains or losses from the sale of assets do not appear on an S-corporation tax return (they are on the owner's K-1) but do on a C-corporation and on an SP. State income taxes do not appear on an SP but do on a Corporation. SPs by definition have one owner, whereas corporations and partnerships may have multiple owners all with salaries that are expensed, thereby reducing the bottom line. Finally, since interest expense can vary greatly between similar companies, making direct comparisons of earnings can be difficult. Thus, it is also common practice to remove interest expense from the recast financials.

In order to develop some measure of earnings for all these different entities that are directly comparable to each other, the databases have removed all those accounting differences from their income statements. Accordingly, each entity's reported "earnings" is net of taxes, depreciation, health benefits, donations, capital gains, interest expense, and most importantly, net of just *one owner's salary*.

If a company has multiple owners (including working spouses of owners), the salary of the one owner who would most likely be replaced by a hypothetical buyer is added back to discretionary earnings (SDE). It is also assumed that the hypothetical buyer would have to replace all the other owners with hired employees. As a result, if the replacement cost for those hired employees is less than the compensation paid to those other owners, the difference is also added back to SDE. Conversely, if the replacement cost for those hired employees is more than the compensation paid to those other owners, the difference is deducted from SDE.

In developing SDE interest, depreciation, and income taxes are also *added back* to cash flow. After applying all the appropriate adjustments, then we can directly compare the recast discretionary earnings of corporations to sole proprietorships etc. The resulting Seller's Discretionary Earnings (SDE) is the total cash flow a hypothetical owner has at his disposal for his salary and perquisites, his loan payments, and his capital expenditures. (*The terms "Seller's Discretionary Earnings" and "Cash Flow" are used interchangeably in the following Market Approach discussion*.)

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

Exhibit XVI Seller's Discretionary Earnings - September

Current Year INCOME	Sep 30, 2011 12 Mos.	Add Backs	See Para.
Gross Revenues	3,254,677	-	
Less Returns and Allowances	-	-	
TOTAL INCOME	3,254,677	-	6.1.3.1
		-	
COST OF GOODS SOLD			
Beginning Inventory	-	-	
Purchases	1,937,632	-	
Freight In	53,753	-	
Shrinkage	(38,096)	-	
Ending Inventory	-	-	
TOTAL COST OF GOODS SOLD	1,953,289	-	
GROSS PROFIT	1,301,388		
	40.0%		
OTHER INCOME			
Patronage Dividend	51,304	-	
Other Income	15,351	15,351	6.1.3.2
TOTAL OTHER INCOME	66,655	(15,351)	
EXPENSES			
Compensation to Owners	45,000	20,000	6.1.3.3
Salaries and Wages	320,085	-	
Repairs and Maintenance	52,669	-	
Rents	143,712	-	
Bad Debts	2,191	-	
Payroll Taxes	39,063	1,800	6.1.3.3
Property Tax	986	-	
Other Taxes and Licenses	3,795	-	
Misc., Dues, Subscriptions, Gifts	14,551	-	
Advertising	104,871	-	
Donations	13,165	-	
Pension, Profit Sharing	50,000	-	
Employee Benefits	25,287	-	
Depreciation and Amortization	22,071	22,071	6.1.3.4
Insurance-Liability	11,689	-	
Insurance-Workman's Comp	13,509	-	
Bank Charges	59,623	-	
Office Expense, Postage and Delivery	16,559	-	
Accounting, Professional, Payroll	11,579	-	
Meals and Entertainment	12,201	-	
Car and Truck Expenses	15,509	-	
Supplies	14,448	-	
Interest	10,045	10,045	6.1.3.4
Utilities, Telephone, Internet	39,609	-	
TOTAL EXPENSES / Total Add-Backs	1,042,217	53,916	
TOTAL NET INCOME (Per Tax Returns) =	325,826		
Total Add Backs =		38,565	6.1.3.5
TOTAL DISCRETIONARY CASH FLOW =		364,391	11.2%

6.1.3 Adjustments to the Income Statement - September 30, 2011

6.1.3.1 Year of Observation

As discussed in Paragraph 6.1.1 above, the spreadsheet in Exhibit XVI shows the P&L's for the trailing twelve months through September 30, 2011 for Smith True Value Hardware. (See Page 74, Exhibit XXXV for more detail.) Just to the right of the P&L data are the "add-backs" that represent the normalizing adjustments necessary to reconcile earnings to Seller's Discretionary Earnings.

The first valuation of the Subject is based on the financials of September 30, 2011.

6.1.3.2 Other Income

Other Income is from gains on the sale of assets. These gains are generally the result of depreciation which is added back to cash flow. As such gains are deducted from cash flow. Also, as we noted earlier in the report, the gain on sale of assets are removed from the P&Ls of sole proprietorships so that earnings can be directly comparable with s-corporations that are included in the comparables databases.

6.1.3.3 Compensation to Owners

Since the Subject is a sole proprietorship, Mr. Smith is not paid a salary. Mr. Smith does receive profit sharing and health

benefits. However, these expenses appear on his personal 1040 tax return not the Schedule C Business P&L. Since these expenses were not posted to the P&L in the first place, they cannot be added back to cash flow.

Mrs. Smith, however, does draw a $45,000 salary. Mrs. Smith manages accounts receivable and accounts payable and does price changes. She averages about 20 hours a week. Mr. Smith speculates that she could be replaced cost of $25,000 by a regular salaried employee. The $20,000 excess salary is added back to cash flow as is the $1,800 in payroll taxes associated with that salary.

6.1.3.4 DEPRECIATION, INTEREST, AND TAXES

Seller's Discretionary Earnings (SDE) is calculated before income taxes, depreciation, and interest expense

6.1.3.5 CASH FLOW Profit Margin

The Subject Company's Discretionary Cash Flow Profit Margin (SDE%) for the normalized year is 11.2%. This margin of profitability is between the mid and upper range earned by the guideline companies (11.7%, see Exhibit XXVIII). *As we shall see in the discussion below on Market Value Multipliers, a company's Cash Flow Profit Margin (SDE%) is a major driver in determining its Fair Market Value.*

6.2.2 TIMING OF THE SALE

The transactions used for business valuations are often several years old. Most of us exposed to real estate appraisals on private residences have been told that proximity to the subject house and timing of the comparable's sale are critical to the valuation. Business valuations, however, are not calculated by looking at the actual selling price of the comparables. Instead, the subject company's financial ratios are compared with the ratios of the comparable businesses. As noted below, such financial ratios have a tendency to be fairly consistent over time.

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

The following research was discussed in the book by Gary Trugman, Understanding Business Valuation:[19]

> "Raymond C. Miles, C.B.A., A.S.A., executive director of the Institute of Business Appraisers, published a paper entitled, "In Defense of Stale Comparables," in which Miles examined the almost 10,000 entries in the database, and demonstrated that most industries are unaffected by the date of the transaction when smaller businesses are involved. Miles performed a study that examined the multiples across various industries and time periods to see if, in fact, the multiples changed. The conclusion reached was that the multiples do not appear time-sensitive, since inflation affects not only the sales prices, but also the gross and net earnings of the business. Therefore, this information can be used to provide actual market data."

More recently, similar results were cited by Jack Sanders, the creator of BIZCOMPS database.[20]

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

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

6.2.3 LOCATION

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

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

[20] Jack Sanders, "*BIZCOMPS User Guide,"* (Las Vegas, NV, 2004), p. 7

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

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

Exhibit XVIII Market Value Multiples by Different States

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

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

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

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

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

From Exhibit XVIII we can see that the population growth and growth in household income for California are about at the median level of other states. The research would then suggest that California businesses should also sell at Gross Revenue and Cash Flow Multiples that are near the median values found in other states, and in fact, the data bears this out. Both the Gross Revenue Multiples and Cash Flow Multiples of companies sold in California were exactly equal to the median values found in all major states.

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

6.2.4 SIMILARITY OF COMPARABLES: THE PRINCIPLE OF SUBSTITUTION

"The theory of the Market Approach to valuation is the economic principle of substitution: One would not pay more than one would have to pay for an equally desirable alternative."[21] The operative words "equally desirable or similar" often create debate. A business owner is quick to point out the many unique characteristics of his company that make it distinctive in the marketplace and, therefore, should add to its value. The owner's customers will make those same distinctions, which is why they patronize the owner's business. A buyer, however, typically does not make those distinctions. For the most part, a buyer of a small

[21] Shannon P.Pratt, The Market Approach to Valuing Businesses, (New, York, John Wiley & Sons, Inc.), p.xxxiv

business is buying a job, a job that must support the lifestyle to which he is accustomed. We have actually seen a buyer submit an offer on a grocery store, but then subsequently buy an X-ray equipment servicing business instead. The reason he did not buy the grocery store was not because it did not have eight-foot high gondolas, or was not affiliated with the right franchisor, but rather, the X-ray equipment company simply just made more money. Clearly, a buyer's search criteria are just not detail oriented.

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

Analysis: The search for comparables will begin by searching for transactions by Standard Industrial Classification (SIC) groupings. This is a table of business classifications produced by the U.S. Department of Labor's OSHA division in which all similar businesses are grouped into one of more than 2,000 separate categories.[22]

6.2.5 Size of the Company

The size of a company, in terms of its gross revenues, has a direct bearing on its value.

The Pratt's Stats database of over 11,500 transactions was sorted by company size. The results below show that, with few exceptions, smaller companies earn lower Cash Flow Multipliers (also referred to as SDE Multipliers in the report) and Gross Revenue Multiples than larger ones. For example, all companies in the table below generated a median SDE Multiplier of 2.50, whereas, those companies with revenues under $500,000 earned only 2.11. Thus the smallest companies earned multiples of 2.11÷2.50 or 84.4% of what the average sized companies earned when sold. Similarly, companies with revenues between $1,000,000 and $2,000,000 exhibited a median SDE Multiplier of 2.77 which was 10.8% higher than the average sized company.

Exhibit XIX Cash Flow Multipliers by Size of Company

Total Transactions	Total Sales		Cash Flow Multiplier				Gross Income Multiplier			
	Sales Range	Median Sales	Median	Average	Standard Deviation	Coefficient of Variation	Median	Average	Standard Deviation	Coefficient of Variation
3,595	$0-$500,000	241,197	2.11	2.66	1.85	69.5%	0.34	0.61	0.49	80.3%
1,387	$500,000-$1,000,000	693,701	2.51	2.51	1.86	63.3%	0.29	0.51	0.35	68.2%
897	$1,000,001-$2,000,000	1,375,624	2.77	2.77	1.91	59.4%	0.26	0.53	0.44	82.9%
545	$2,000,001-$5,000,000	3,097,922	2.96	2.96	2.17	62.7%	0.22	0.59	0.68	114.5%
143	$5,000,001-$8,000,000	6,305,046	3.95	3.95	2.40	54.6%	0.26	0.74	0.83	112.0%
242	$8,000,001-$25,000,000	13,856,490	4.87	4.87	2.34	45.6%	0.37	0.89	0.85	94.7%
284	$25,000,001+	65,588,925	6.28	6.28	2.42	40.0%	0.34	0.86	0.79	92.3%
Overall Totals										
7,144	All Transactions	772,200	2.50	3.10	2.10	67.7%	0.48	0.60	0.53	87.4%

Pratts Stats Database contained a total of 13,998 transactions as of August 10, 2009
The following transactions were eliminated from the above analysis to avoid potential ratio distortions:
1) Corporate Stock Sales
2) Assets Sales where liabilities were assumed.
3) Companies with negative cash flow
4) Companies with Cash Flow Multipliers over 10.0

The Subject Company generated Gross Revenues during the three years observed ranging from $3,254,677 to $3,581,925.

Analysis: The size criteria used to select guideline companies were those businesses whose revenues fell roughly in the $1,500,000 to $5,000,000 range. Often it is difficult to find enough comparables within a given revenue range similar to the Subject. Therefore, in order to get a sample of reasonable size, it may be necessary to select somewhat larger or smaller guideline companies. In this case it is important that the average revenue size of the whole sample be fairly close to the subject's revenue history.

6.2.6 Other Filtering Criteria

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

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

Analysis: Companies with SDE Multipliers that are negative or greater than ten will be rejected from the analysis.

6.2.7 Selection of Appropriate Comparable Data

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

The Subject Company is classified under SIC Codes #5251, Building Materials, Garden Supply, and Hardware Stores. Companies listed under these classifications may not be identical to the subject; however, they may possess many similar characteristics. From a

buyer's perspective, then, most of the companies within this group would be equally desirable choices.

The search criteria used for selecting comparables from the databases, therefore, began by searching SIC Codes #5251. A total of 23 comparables were found in the Pratt's Stats database, 54 were found in the BIZCOMPS database, 60 were found in the IBA database, and 14 were found in the BizBuySell database. The selection was further filtered to include just those companies whose revenues were between $1,500,000 to $5,000,000, with the transactions occurring after 2000 and whose description of operations was similar to the Subject (i.e. Building Materials, Garden Supply, and Hardware Stores). A total of three comparables were found in the Pratt's Stats database, eight were found in the BizComps database, and seven were found in the BizBuySell database.

Specific details on all of these companies can be found in the appendix beginning on Page 83.

6.2.8 Identifying Outliers in the Selected Sample of Comparables

6.2.8.1 Coefficient of Variation

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

Standard deviation is a statistical tool that measures the spread between the multipliers of each individual comparable and the corresponding average for the entire sample of comparables. In other words, the standard deviation measures the degree of variability or dispersion within a sample. However, when comparing our small selection of comparables to the entire Pratt's Stats database, the standard deviations of the two samples, by itself, does not tell us which sample is more accurate. For that determination we use the coefficient of variation (CV). CV equals the standard deviation of the sample divided by its average. The degree of dispersion within the sample is measured as a percentage of that sample's average. For example, if a sample's average Cash Flow Multiplier was 5.0 and its standard deviation was 1.5, statistically speaking, approximately 16% of all comparables would have a multiplier above 6.5 (5.0 + 1.5), and 16% would have a multiplier below 3.5 (5.0 – 1.5). The CV would indicate that the remaining 68% of the observations has a multiplier that is within plus or minus 30% of the average (1.5 ÷ 5.0). Thus the coefficient gives us a tool that

measures how tightly packed around the average that the majority of (.i.e. 68%) the comparables in a sample are. A sample where the majority of the comparables are within plus or minus 20% of the average is a much more meaningful sample that one in which the majority is within plus or minus 40% of the average. If one sample has a much lower CV than the second, we can assume that the second sample has one or two outlying observations that may be distorting its overall average and, thereby, giving us a false read of the market.

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

Exhibit XX Example Coefficient of Variation

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

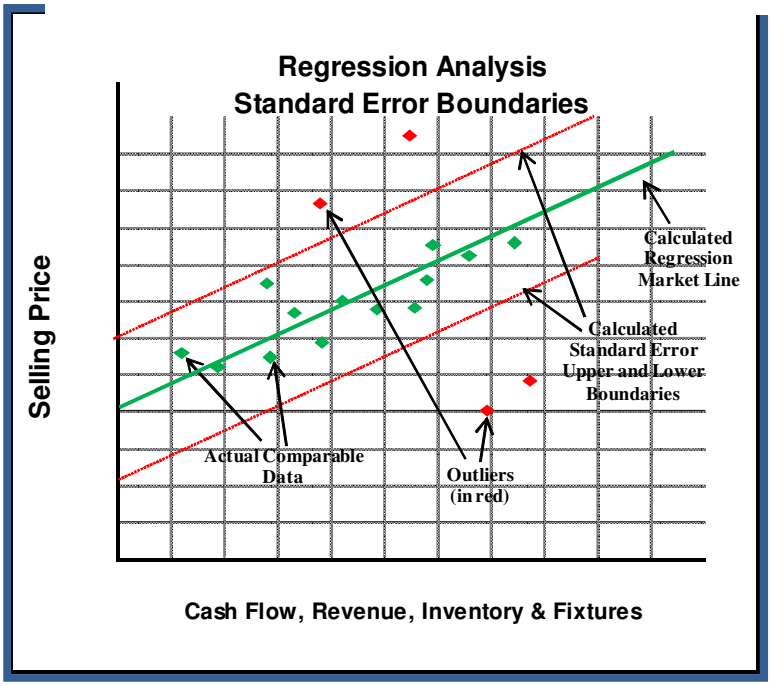
As noted by Shannon Pratt, "All else being equal, multiples [derived from a sample database] exhibiting low Coefficients of Variation tend to more accurately reflect market consensus with respect to value."[23] Mr. Pratt also notes, "When Market Value Multiples among companies are tightly clustered, this suggests that these are the multiples that the market pays most attention to in pricing companies … in that industry."[24]

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

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

6.2.8.2 REGRESSION ANALYSIS

Exhibit XXI Outliers Identified by Standard Error



The next phase in the process of selecting a suitable sample of comparables is to attempt to identify individual observations within that sample that might be so far out of alignment with the rest of the sample that it is distorting our view of where the market is.

Regression analysis is a statistical tool that we will use that compares various key characteristics of each guideline company (gross revenues, SDE, inventory, FF&E, and SDE%) with its selling price. If each of these key characteristics is plotted on a graph, the regression calculation produces a line that will be the "best fit" between those points versus the selling prices. The regression line, referred to as the Market Line, therefore, is the measurement representing the closest relationship between these key variables and the selling prices of all the observed companies in the sample.

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

The example in Exhibit XXI graphed the points of 17 comparables on a chart (13 green and 4 red). The regression analysis calculated a Market Line (in green) that is the closest fit to all those points. The regression also calculated a standard error which indicates theoretical boundaries (in red) in which approximately 16% of all companies should fall above the upper boundary line and 16% should fall below the lower boundary line. Four observations (in red) fell outside these boundaries and, therefore, are not considered representative of the market. The observations that fall outside the standard error boundaries will be considered outliers.

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

6.3 PROCEDURES USED IN THE DIRECT MARKET DATA METHOD

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

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

6.3.1 GROSS REVENUE MULTIPLIER – (Selling Price ÷ Gross Revenues)

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

6.3.2 CASH FLOW MULTIPLIER – (Selling Price ÷ Discretionary Earnings)

This method is the ratio of a company's selling price divided by its Discretionary Earnings (SDE). It should be noted that the database sources used in the Direct Market Data Method calculate earnings differently than the way we calculated Net Cash Flow in the Income Approach. SDE is calculated by removing all owner's salaries and perquisites (such as health benefits, personal autos, etc.) from expenses. Interest, depreciation, income taxes, any one-time expense or income, and any non-operating expense or income are also removed from the income statement. The resulting Seller's Discretionary Earnings is that cash flow which the owner has at his disposal for his salary and perquisites, his loan payments, and his capital expenditures. (The terms "Seller's Discretionary Earnings" and "Cash Flow" are used interchangeably in the following Market Approach discussion.)

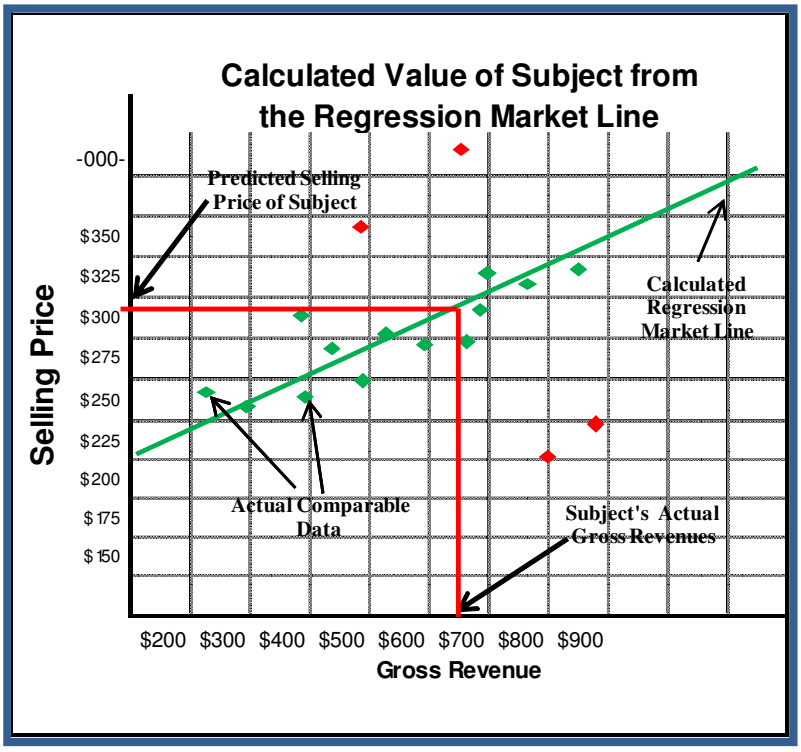
However, the same problem with the Gross Revenue Multiplier exists with the Cash Flow Multiplier. That is, the ratio only focuses on one aspect of the company's operations, its discretionary earnings. Therefore, if used by itself, this ratio may produce a misread of the company's value. For that reason the Market Approach typically includes both ratios to estimate the value of a business.

6.3.3 ENTERPRISE VALUE + INVENTORY – (Selling Price – Inventory ÷ Cash Flow)

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

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

Exhibit XXII Example Regression Analysis



6.3.4 FOUR REGRESSION CALCULATIONS TO BE USED

We have discussed above how regression analysis helped us identify outliers within our initial sample of comparables. The resulting smaller sample has now been statistically cleaned up and, therefore, should give us a more accurate read of the market. As was also noted, the regression analysis calculates a formula from which a line can be graphed that best represents that specific market. By plotting our Subject's actual variables on the chart, the Market Line will then enable us to

determine the probable value of the Subject Company.

Our Market Approach will employ four different regression calculations. The first is referred to as a Multiple Variable Regression Analysis. This statistical tool simultaneously compares four key variables of each comparable (gross revenues, SDE, inventory, and FF&E) with its respective selling price. The regression produces a formula, then, from which we can input our subject's four actual variables and calculate its probable selling price. For demonstration purposes a simplified regression analysis is graphed in Exhibit XXII above. The values for the selling price and the gross revenues of 17 comparables were plotted on the chart and a regression line was then calculated. The subject company's gross revenues of $700,000 is then located on the horizontal X-axis. By moving vertically from that point to the regression Market Line we can then identify the probable selling price of $300,000 from the vertical Y-axis on the left side of the chart.

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

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

6.3.5 DISCRETIONARY EARNINGS PROFIT MARGIN (SDE%) – (SDE ÷ Revenues)

IRS Ruling 59-60 instructs business appraisers to give considerable weighting to a company's profitability when determining its value.[25] As such we observe the subject's cash flow growth over the previous several years and identify all the drivers that created that growth. We also look at the subject's local market and how it will affect its operations and consider the prospects for its continued growth in the future. We then compared the subject's balance sheet and P&L ratios to a database of thousands of similar companies to determine the subject's relative strength compared to its peer group. *The question is, then, once we have determined that our subject is better than its peer group, what is the market willing to pay for that?*

When trying to make a direct comparison of the subject to companies that have recently sold, the available databases of sold comparables do not provide us with much financial

[25] Internal Revenue Service, Revenue Ruling 59-60, 1959, http://www.hantzmonwiebel.com/live_data/documents/ruling-59-60.pdf, section 5, p.5

information. The only effective tool available is to compare each company's discretionary earnings profit margins (SDE%). This simple ratio, discretionary earnings divided by gross revenues, gives us the means to directly compare the relative performance of companies in terms of their profitability and how it affects the selling price of the business. Generally speaking, when comparing companies of similar size and SIC classification, those which have higher SDE% tend to be the more dominant players within their markets. They can command higher prices for their products and services, and they control expenses more efficiently than their competition.

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

6.3.5.1 SIZE OF COMPANY VS. ITS DISCRETIONARY EARNINGS PROFIT MARGIN (SDE%)

Exhibit XXIII Discretionary Earnings Profit Margin by Size of Company

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

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

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

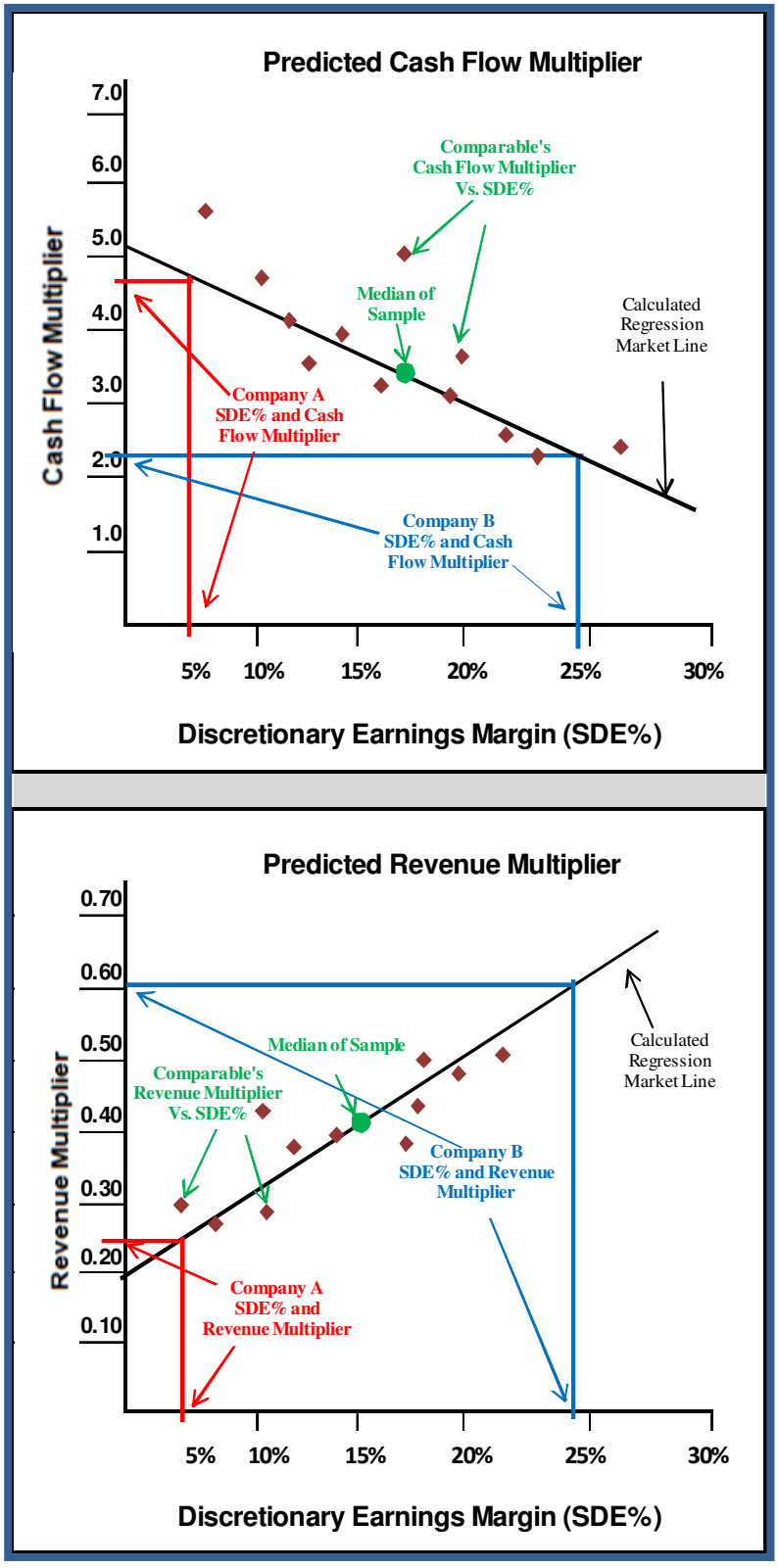
Pratts Stats Database of 13998 transactions, 8/10/09.

First, from Exhibit XXIII we can see that *the larger the company is, the lower its SDE%.* This appears to be a direct contradiction to what we observed in the previous section above, i.e., the larger the company the higher its Cash Flow Multiplier. This apparent anomaly can be explained as follows:

In smaller companies under $500,000 in revenue, the owner typically manages all facets of the entire business by himself. He is the salesman, marketing manager, HR manager, and bookkeeper. All the profits flow to the owner to compensate him for all these jobs. As we see from Exhibit XXIII, companies that size generate cash flow at an average of 24.7% of every dollar of revenue. For a $500,000 company, then, that would translate to $123,500 in Discretionary Earnings. From Exhibit XIX we saw that a $500,000 company would sell for 2.11 times its earnings, which in our example would be $260,585.

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

Exhibit XXIV Predicting Multipliers Using SDE%



Thus the $2 million company in the above example produced higher levels of gross revenues and discretionary earnings yet earned a lower SDE%. The importance of this peculiarity is that in using SDE% to predict the value of a business, it becomes increasingly essential to select a sample of comparables that are as close in revenue size to the subject as possible, and that are from similar SIC classifications. Otherwise, we might look at the 24.7% SDE% of a $500,000 company and draw the false conclusion that it deserves better Market Value Multipliers than the $2 million which only produced an SDE% of 15.6%.

6.3.5.2 The Level of a Company's SDE% vs. its Cash Flow Multiplier

A second oddity that one must be aware of when comparing the companies of similar size and SIC classification is that: *the higher their SDE%, the lower their Cash Flow Multipliers tend to be.* This seemingly contradicts everything we know about Market Approach science. We just presumed that highly profitable companies that enjoyed higher profit margins would also earn higher Cash Flow Multipliers than their underperforming counter-parts. This is not the case!

From Exhibit XIX we observed that larger companies generally earned higher Cash Flow Multipliers and Revenue Multipliers. Clearly, the

size of a company is a major driver to the size of its Cash Flow Multiplier. However, if we look at companies within a narrow range of revenues we can see that there is a considerable range in their respective multipliers. For example, companies with revenues in the $1 million to $2 million range earned a median 2.77 Cash Flow Multiplier which, on the average, was considerably higher than the 2.11 multiplier earned by $500,000 companies. Yet, when we look at the *range of multipliers* for the $1 to $2 million group we find that the lower quartile only earned a 1.86 multiplier whereas, the upper quartile earned 4.07. *This range of multipliers within a specific size grouping can largely be explained by the level of a company's SDE%.*

A statistical analysis of the Pratt's Stats database clearly shows this relationship.
A regression analysis was initially performed on the entire Pratt's Stats database of 11,500 sold transactions comparing a company's SDE% with its corresponding Cash Flow Multiplier.[26] The R-Squared of the regression was only .18. Since this factor is low (0 means no correlation and 1.0 means perfect correlation), one could not conclude that SDE% is a good indicator of a company's Cash Flow Multiplier. However, when we filter the Pratt's Stats database further by including only companies near the same revenue level as the subject and that are in a similar SIC Code, the resulting regression produces an R-Squared significantly higher, usually from .40 to .70 or more. *In other words, when we select a small sample of companies that have a similar revenue level and SIC Code as the subject, the subject's SDE% becomes a reasonably good predictor of its potential Cash Flow Multiplier.*

However, from the upper graph in Exhibit XXIV we note that the regression Market Line is in *a downward slope*. This means that as a company's SDE% increases, we move to the right on the horizontal X-axis. However, the regression Market Line shows that we will also be moving downward on the vertical Y-axis, indicating a decreasing Cash Flow Multiplier. Thus for a given level of revenue, those companies that are more profitable and therefore, have a higher SDE%, will generally earn a lower Cash Flow Multiplier.

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

[26] The database was first filtered by removing all transactions where Cash Flow Multipliers were greater than 10 or less than 0, and all corporate stock transfers. There were 4,811 transactions in this filtered sample.

Appraisers often use the median Cash Flow Multiplier for the whole sample of comparables to value a business. In the above example, the median was 3.5. If we merely used the median Cash Flow Multiplier to estimate Company A and B's probable selling prices, we would have priced A at $84,000 (3.5 x $24,000) and B at $437,500 (3.5 x $125,000). We would have been way low on the first valuation and way high on the second. However, by using the regression formula and subject's SDE% to calculate its Cash Flow Multiplier, we would have determined that the company with a low SDE% would have earned a high Cash Flow Multiplier (4.6), which yielded a lower price of $110,000, and the company with the high SDE% would have earned a low Cash Flow Multiplier (2.4), which still yielded a higher price of $300,000. Thus by using regression analysis the resulting predicted values of the two companies would be much more accurate.

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

By applying the data from the example above to the graph in the bottom half of Exhibit XXIV, we see that Company A only had a SDE% of 4.8% and, as a result, the regression equation predicted a weak Revenue Multiplier of .22. Company B, however, had a strong SDE% of 25% and, accordingly, earned an equally strong Revenue Multiplier of .60.

Again, if we only decided to use the sample's median Revenue Multiplier of 0.40, the calculated value for both companies would have been the same - $200,000 (.40 x $500,000). Simple logic would tell us that both companies are not worth the same; even thought they both generated $500,000 in revenues, the second company earned five times as much cash flow! *The Regression properly accounts for the difference in a company's profitability when calculating the Gross Revenue Multiplier, whereas, the median of the sample does not.*

From all the above statistical testing we can conclude that comparables within narrow revenue range and in the same SIC classification behave in similar and predictable ways, a point appraisers have always contended. By using Regression Analysis we employ that similarity by using a company's SDE% to predict its Revenue Multiplier, Cash Flow Multiplier, and Enterprise Multiplier.

7.0 Reconciliation of Market Approach Multipliers

7.1 Building the Sample to be Used in the Analysis

The Pratt's Stats, BIZCOMPS, and IBA databases were searched for transactions in Standard Industry Classification code #5251. The Comparables Analysis Table in Exhibit XXV below

shows the operating ratios of 18 businesses that were selected by using the filtering criteria discussed in Section 5.2 above.

Exhibit XXV Comparables Analysis

Observations	Listing Price	Selling Price	Gross Revenues	Revenue Multiplier	Cash Flow	SDE%	Cash Flow Multiplier	Inventory	Enterprise Multiplier	Fixtures & Equip
1	483,000	483,000	1,993,000	0.24	73,000	3.7%	6.62	381,000	1.40	102,000
2	350,000	295,000	1,652,000	0.18	67,000	4.1%	4.40	220,000	1.12	55,000
3	945,000	820,000	2,500,000	0.33	120,000	4.8%	6.83	600,000	1.83	120,000
4	500,000	500,000	2,412,000	0.21	169,000	7.0%	2.96	350,000	0.89	150,000
5	525,000	512,000	1,900,000	0.27	150,000	7.9%	3.41	400,000	0.75	90,000
6	1,649,000	1,649,000	3,515,000	0.47	307,000	8.7%	5.37	958,000	2.25	588,000
7	1,300,000	875,000	2,747,000	0.32	241,000	8.8%	3.63	460,000	1.72	50,000
8	1,097,000	875,000	1,755,000	0.50	158,000	9.0%	5.52	649,000	1.43	40,000
9	350,000	305,000	2,269,000	0.13	208,000	9.1%	1.47	125,000	0.87	226,000
10	990,000	990,000	2,825,000	0.35	281,000	10.0%	3.52	550,000	1.56	350,000
11	878,000	878,000	1,869,000	0.47	221,000	11.8%	3.97	512,000	1.66	50,000
12	1,500,000	1,149,000	2,239,000	0.51	285,000	12.7%	4.04	549,000	2.11	138,000
13	589,000	589,000	1,873,000	0.31	267,000	14.3%	2.21	350,000	0.90	50,000
14	1,625,000	1,374,000	2,846,000	0.48	417,000	14.7%	3.29	650,000	1.73	417,000
15	925,000	825,000	1,620,000	0.51	240,000	14.8%	3.44	300,000	2.19	421,000
16	795,000	812,000	1,657,000	0.49	294,000	17.7%	2.76	237,000	1.96	259,000
17	1,078,000	1,055,000	2,049,000	0.51	369,000	18.0%	2.86	265,000	2.14	50,000
18	950,000	850,000	1,585,000	0.54	297,000	18.7%	2.86	450,000	1.35	100,000
19										
20										
21										
22										
23										
24										
Avg:	918,000	824,000	2,184,000		231,000			445,000		181,000
	Selling Price / Listing Price = 91.3%			Gross Rev Range		CF Margin Range	Cash Flow Range		Enterprise Range	
		Median =		0.41		9.5%	3.48*		1.61*	
		Average =		0.38		10.9%	3.84*		1.55*	
		Standard Deviation =		0.13		4.73%	1.44*		0.49*	
		Coefficient of Variation =		35.2%		43.5%	37.4%		31.8%	

* Companies with Cash Flow Multiples that are negative or greater than 10 are ignored in this calculation.

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

takes one or two comparables in a small sample with improper sales data to distort the Market Value Multiples.

In order to test the predictive value of a small sample, we can compare the variability of the observations in the sample with that of the entire database. The relative variability is measured by the Coefficient of Variation (CV) -- the lower the coefficient, the higher the predictive value of the sample. The findings are as follows:

Exhibit XXVI Coefficients of Variation of Sample vs. Total Database

(18 Observations)

Database Exhibit XIX & Exhibit XXV	Gross Income Multiplier	Cash Flow Multiplier	Enterprise Value Multiplier
Sample –18 Observations	35.2%	37.4%	31.8%
Total Database -7,144 Obs. Pratt's Stats-Any State	87.4%	67.7%	57.6%

The three procedures applied to the 18 observations in the sample yielded significantly lower degrees of variability than the entire Pratt's Stats database. Therefore, we can assume that this sample is a reasonably good measure of the identified market size and should have good predictive abilities. To further test the predictive abilities of this sample of guideline companies, a regression analysis was done.

7.2 REGRESSION TEST

The regression test takes the four main variables describing each guideline company's operations (inventory, SDE, FF&E, and gross revenues) and plots them against the company's selling price. From this test we can statistically identify those comparables that are "outliers," that is, those companies whose selling prices are well above or below what the rest of the market earned.

The 18 comparables from Exhibit XXV above were regressed at a 95% confidence level, and, the results are shown in the Exhibit XXVII below.

The test yielded an R Squared factor of 0.92. A factor of zero (0.0) means that the sample had no predictive characteristics at all, whereas, a 1.0 indicates perfect predictability. A .50 factor suggests modest predictability. The test also produces a Standard Error, which is a statistical measurement similar to the Standard Deviation. That is, 16% of the predicted values will exceed the actual selling price of the company by the Standard Error, and, 16% will be less.

In the sample of comparables shown below, three such comparables were found to have calculated values that deviated from the actual selling price by more than, or less than, the Standard Error. These guideline companies are considered 'outliers' and were removed from

the sample. One company sold for $589,000, whereas, the regression predicted a much higher $768,577. A second company sold for $1,055,000 with the regression predicting a much lower $865,137. A third sold for $850,000 with a prediction of $963,855.

Exhibit XXVII Regression Analysis

Obversations	Actual Values For Comparables: Gross Revenues	Cash Flow	Inventory	Fixtures		Actual Sold Price	Calculated Values: Predicted Price	$ Difference	% Difference
1	1,993,000	73,000	381,000	102,000	1	**483,000**	**428,419**	54,581	-11.3%
2	1,652,000	67,000	220,000	55,000	2	**295,000**	**232,395**	62,605	-21.2%
3	2,500,000	120,000	600,000	120,000	3	**820,000**	**760,615**	59,385	-7.2%
4	2,412,000	169,000	350,000	150,000	4	**500,000**	**577,087**	(77,087)	15.4%
5	1,900,000	150,000	400,000	90,000	5	**512,000**	**603,065**	(91,065)	17.8%
6	3,515,000	307,000	958,000	588,000	6	**1,649,000**	**1,605,368**	43,632	-2.6%
7	2,747,000	241,000	460,000	50,000	7	**875,000**	**813,945**	61,055	-7.0%
8	1,754,787	158,475	649,000	40,325	8	**875,000**	**902,910**	(27,910)	3.2%
9	2,269,286	207,512	125,000	226,430	9	**305,000**	**413,377**	(108,377)	35.5%
10	2,825,074	281,240	550,000	350,000	10	**990,000**	**1,057,008**	(67,008)	6.8%
11	1,869,000	221,000	512,000	50,000	11	**878,000**	**865,579**	12,421	-1.4%
12	2,239,231	284,596	549,156	138,258	12	**1,149,156**	**1,039,324**	109,832	-9.6%
13	1,873,000	267,000	350,000	50,000	13	**589,000**	**768,577**	(179,577)	30.5%
14	2,845,917	417,180	650,000	416,700	14	**1,373,726**	**1,454,016**	(80,290)	5.8%
15	1,620,000	240,000	300,001	421,000	15	**825,000**	**743,279**	81,721	-9.9%
16	1,657,000	294,000	237,000	259,000	16	**812,000**	**741,927**	70,073	-8.6%
17	2,048,964	369,000	265,000	50,000	17	**1,055,000**	**865,137**	189,863	-18.0%
18	1,584,540	296,900	450,000	100,000	18	**850,000**	**963,855**	(113,855)	13.4%
19					19				
20					20				
21					21				
22					22				
23					23				
24					24				

= Outliers

Actual Data Billington Ace Hardware		Regression Coefficients	Calculated Price
Total Sales	$3,254,677	x (0.0352) =	-114,422
Total Cash Flow	$364,391	x 1.9723 =	718,680
Total Inventory	$784,681	x 1.1579 =	908,617
Total Fixtures	$315,415	x 0.2074 =	65,426
		Regression Intercept Value =	-107,826
Price Predicted by Regression Market Line =			**1,470,475**
Upper 16% (one Std Error) =		+ $110,529	1,581,004
Lower 16% (one Std Error) =		- $110,529	1,359,946

R Square = 0.92
Standard Error = $110,529
CV = 13.4%

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

Regression Formula:

Sales x -0.0352 + Cash Flow x 1.9723 + Inventory x 1.1579 + Fixtures x 0.2074 + ($107,826) = Calculated Price

These three outlying comparables were removed from the sample and the remaining sample of fifteen comparables was regressed a second time. The results are shown in the two tables below. The refined Regression Analysis produced an R Squared of 0.97 which is a significant improvement over the original sample of 18 indicating that it is a superior measure of the market. The Regression Equation that was constructed is shown at the bottom of the table. The actual values for the Subject's four variables of Inventory, FF&E, Cash Flow, and Revenues were input into this equation to solve for the Subject's estimated selling price. The mid-range predicted value was $1,452,791; the upper range was $1,535,345; and, the lower range was $1,370,237.

Exhibit XXVIII Refined Regression Analysis

Obversations	Actual Values For Comparables						Calculated Values		
	Gross Revenues	Cash Flow	Inventory	Fixtures		Actual Sold Price	Predicted Price	$ Difference	% Difference
1	1,993,000	73,000	381,000	102,000	1	**483,000**	**447,146**	35,854	-7.4%
2	1,652,000	67,000	220,000	55,000	2	**295,000**	**248,513**	46,487	-15.8%
3	2,500,000	120,000	600,000	120,000	3	**820,000**	**774,617**	45,383	-5.5%
4	2,412,000	169,000	350,000	150,000	4	**500,000**	**561,204**	(61,204)	12.2%
5	1,900,000	150,000	400,000	90,000	5	**512,000**	**622,500**	(110,500)	21.6%
6	3,515,000	307,000	958,000	588,000	6	**1,649,000**	**1,613,780**	35,220	-2.1%
7	2,747,000	241,000	460,000	50,000	7	**875,000**	**781,131**	93,869	-10.7%
8	1,754,787	158,475	649,000	40,325	8	**875,000**	**959,928**	(84,928)	9.7%
9	2,269,286	207,512	125,000	226,430	9	**305,000**	**377,391**	(72,391)	23.7%
10	2,825,074	281,240	550,000	350,000	10	**990,000**	**1,043,269**	(53,269)	5.4%
11	1,869,000	221,000	512,000	50,000	11	**878,000**	**893,184**	(15,184)	1.7%
12	2,239,231	284,596	549,156	138,258	12	**1,149,156**	**1,048,915**	100,241	-8.7%
13	2,845,917	417,180	650,000	416,700	13	**1,373,726**	**1,443,735**	(70,009)	5.1%
14	1,620,000	240,000	300,001	421,000	14	**825,000**	**775,651**	49,349	-6.0%
15	1,657,000	294,000	237,000	259,000	15	**812,000**	**750,918**	61,082	-7.5%
16					16				
17					17				
18					18				
19					19				
20					20				

Applied Regression Coefficients			
Actual Data Billington Ace Hardware		Regression Coefficients	Calculated Price
Total Sales	$3,254,677	x (0.0943) =	-307,003
Total Cash Flow	$364,391	x 1.8861 =	687,264
Total Inventory	$784,681	x 1.2876 =	1,010,364
Total Fixtures	$315,415	x 0.2591 =	81,716
Regression Intercept Value =			-19,549
Price Predicted by Regression Market Line =			**1,452,791**
Upper 16% (one Std Error) =		+ $82,554	1,535,345
Lower 16% (one Std Error) =		- $82,554	1,370,237

R Square = 0.97
Standard Error = $82,554
CV = 10.0%

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

Regression Formula:

Sales x -0.0943 + Cash Flow x 1.8861 + Inventory x 1.2876 + Fixtures x 0.2591 + ($19,549) = Calculated Price

Exhibit XXIX Refined Comparables Analysis

Observations	Listing Price	Selling Price	Gross Revenues	Revenue Multiplier	Cash Flow	SDE%	Cash Flow Multiplier	Inventory	Enterprise Multiplier	Fixtures
1	483,000	483,000	1,993,000	0.24	73,000	3.7%	6.62	381,000	1.40	102,000
2	350,000	295,000	1,652,000	0.18	67,000	4.1%	4.40	220,000	1.12	55,000
3	945,000	820,000	2,500,000	0.33	120,000	4.8%	6.83	600,000	1.83	120,000
4	500,000	500,000	2,412,000	0.21	169,000	7.0%	2.96	350,000	0.89	150,000
5	525,000	512,000	1,900,000	0.27	150,000	7.9%	3.41	400,000	0.75	90,000
6	1,649,000	1,649,000	3,515,000	0.47	307,000	8.7%	5.37	958,000	2.25	588,000
7	1,300,000	875,000	2,747,000	0.32	241,000	8.8%	3.63	460,000	1.72	50,000
8	1,097,000	875,000	1,755,000	0.50	158,000	9.0%	5.52	649,000	1.43	40,000
9	350,000	305,000	2,269,000	0.13	208,000	9.1%	1.47	125,000	0.87	226,000
10	990,000	990,000	2,825,000	0.35	281,000	10.0%	3.52	550,000	1.56	350,000
11	878,000	878,000	1,869,000	0.47	221,000	11.8%	3.97	512,000	1.66	50,000
12	1,500,000	1,149,000	2,239,000	0.51	285,000	12.7%	4.04	549,000	2.11	138,000
13	1,625,000	1,374,000	2,846,000	0.48	417,000	14.7%	3.29	650,000	1.73	417,000
14	925,000	825,000	1,620,000	0.51	240,000	14.8%	3.44	300,000	2.19	421,000
15	795,000	812,000	1,657,000	0.49	294,000	17.7%	2.76	237,000	1.96	259,000
16										
17										
18										
19										
20										
Avg:	927,000	823,000	2,253,000		215,000			463,000		204,000
	Selling Price / Listing Price = 90.4%			Gross Rev		CF Margin Range	Cash Flow Range		Enterprise Range	
		Lower Quartile =		0.26		7.5%	3.35		1.26	
		Median =		0.35		9.0%	3.63		1.66	
		Upper Quartile =		0.49		12.3%	4.89		1.89	
		Lower 16% =		0.23		5.6%	2.63		1.08	
		Average =		0.36		9.7%	4.08		1.56	
		Upper 16% =		0.50		13.7%	5.54		2.05	
		Coefficient of Variation =		36.9%		42.4%	35.7%		31.0%	

The last point of analysis for the sample of 15 observations is the comparison of the Coefficients of Variation for each of the calculated Market Value Multiples with the CV's for the original sample of 18, as well as the entire Pratt's Stats database. Those statistics are compiled in Exhibit XXIX below. The three of the four Market Value Methods in the second more narrowly defined sample of 15 observations produced lower (superior) Coefficients of Variation. The smaller sample also produced a higher (superior) R Squared factor. Thus, the smaller sample appears to be a better indicator of the market than the sample with 18 observations. The Market Value Multipliers calculated from this sample will, therefore, be used in the analysis, and, the results from the larger database will be rejected.

Exhibit XXX Coefficients of Variation of Samples vs. Total Database

(18 Observations vs. 15 Observations)

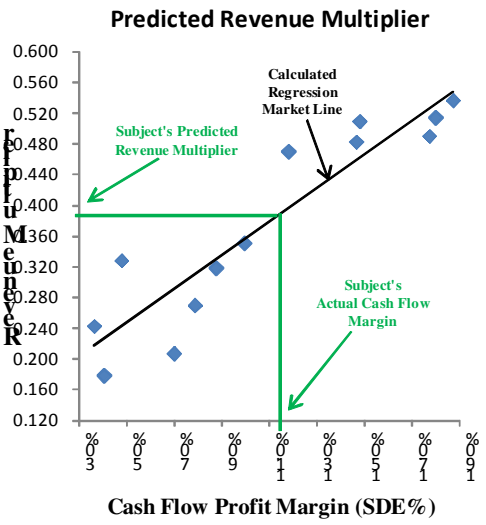
Database, Exhibit XIX, Exhibit XXV, & Exhibit XXIX	Gross Income Multiplier	Cash Flow Multiplier	Enterprise Value Multiplier	Regression Analysis
Sample –15 observations	36.9%	35.7%	31.0%	10.0%
Sample –18 Observations	35.2%	37.4%	31.8%	13.4%
Total Database–7,144 Obs. Pratt's Stats	87.4%	67.7%	58.9%	

7.3 CALCULATING THE THREE MARKET MULTIPLIERS

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

Below are the details of that analysis:

Exhibit XXXI Calculation of the Three Market Value Multipliers



Observation	Actual Values For Comparables	
	SDE%	Revenue Multiple
1	3.7%	0.242
2	4.1%	0.179
3	4.8%	0.328
4	7.0%	0.207
5	7.9%	0.269
7	8.8%	0.319
10	10.0%	0.350
11	11.8%	0.470
14	14.7%	0.483
15	14.8%	0.509
16	17.7%	0.490
17	18.0%	0.515
18	18.7%	0.536

Predicted Range For Subject's Revenue Multiplier

Regression Formula for Revenue Multiplier =

Subject's SDE% x 2.188 + 0.138

Standard Error Range = +/- 0.051 (Deviation from Mid-Point by top & bottom 16% of Comparables)

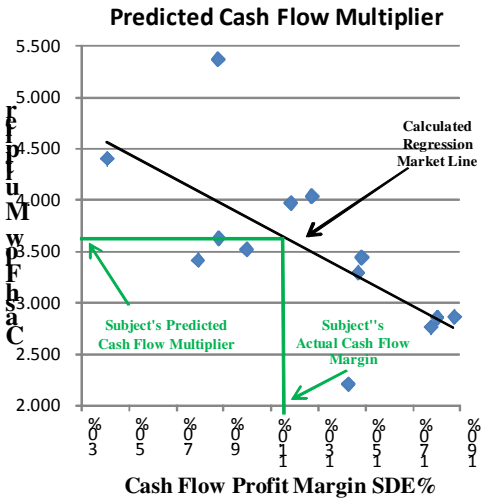
Average = 0.377 R Square = 0.85

CV = 13.6%

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

Actual Data Billington Ace Hardware		Regression Coefficient		Calculated Multiplier
Cash Flow Margin	= 11.2%	x 2.188	=	0.245
Regression Intercept Value =				0.138
Predicted Revenue Multiplier =				**0.383**

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



Observation	Actual Values For Comparables	
	SDE%	Cash Flow Multiple
2	4.1%	4.403
5	7.9%	3.413
6	8.7%	5.371
7	8.8%	3.631
10	10.0%	3.520
11	11.8%	3.973
12	12.7%	4.038
13	14.3%	2.206
14	14.7%	3.293
15	14.8%	3.438
16	17.7%	2.762
17	18.0%	2.859
18	18.7%	2.863

Predicted Range For Subject's Cash Flow Multiplier

Regression Formula for Revenue Multiplier =

Subject's SDE% x -12.321 + 5.058

Standard Error Range = +/- 0.627 (Deviation from Mid-Point by top & bottom 16% of Comparables)

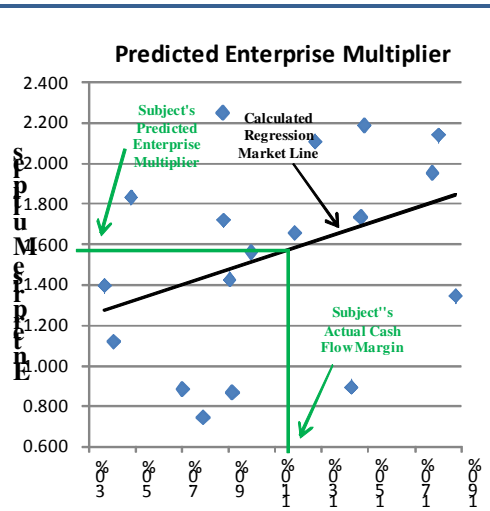
Average = 3.521 R Square = 0.45

CV = 17.8%

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

Actual Data Billington Ace Hardware		Regression Coefficient		Calculated Multiplier
Cash Flow Margin	= 11.2%	x -12.32	=	-1.379
Regression Intercept Value =				5.058
Predicted Cash Flow Multiplier =				**3.679**

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



Observation	Actual Values For Comparables	
	SDE%	Enterprise Multiple
1	3.7%	1.397
2	4.1%	1.119
3	4.8%	1.833
4	7.0%	0.888
5	7.9%	0.747
6	8.7%	2.251
7	8.8%	1.722
8	9.0%	1.426
9	9.1%	0.867
10	10.0%	1.565
11	11.8%	1.656
12	12.7%	2.108
13	14.3%	0.895
14	14.7%	1.735
15	14.8%	2.187
16	17.7%	1.956
17	18.0%	2.141
18	18.7%	1.347

Predicted Range For Subject's Enterprise Multiplier

Regression Formula for Revenue Multiplier =

Subject's SDE% x 3.764 + 1.137

Standard Error Range = +/- 0.473 (Deviation from Mid-Point by top & bottom 16% of Comparables)

Average = 1.547 R Square = 0.13

CV = 30.6%

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

Actual Data Billington Ace Hardware		Regression Coefficient		Calculated Multiplier
Cash Flow Margin	= 11.2%	x 3.764	=	0.421
Regression Intercept Value =				1.137
Predicted Enterprise Multiplier =				**1.558**

The predicted multipliers calculated by inputting the Subject's SDE% of 11.2% into the above regression formulas are summarized as follows:

Revenue Multiplier:
Subject's SDE% x 2.188 + 0.138 = 0.383

Cash Flow Multiplier:
Subject's SDE% x -12.321 + 5.058 = 3.679

Enterprise Multiplier:
Subject's SDE% x 3.764 + 1.137 = 1.558

7.4 APPLYING THE MARKET VALUE MULTIPLIERS – VALUATION AS OF SEPTEMBER 30, 2011

We have now calculated the Market Value Multipliers based on the three procedures above plus the regression formula from the multiple regression analysis in Exhibit XXVIII. These four methods will produce values that represent the market's expectations given the level of the Subject's SDE%. However, the calculated values represent the "closest fit" of the observations found in the market place at the Subject's current level of profitability.

According to Shannon Pratt, "Simply applying the chosen measure of central tendency of a group of guideline company multiples more often than not fails to capture differences in the characteristics between our subject company and the guideline companies as a group. … a company with an above average return on sales [a reference to SDE% or similar profit margin measure] would usually be accorded an above average price/sales or MVIC/sales multiples. …Keep in mind that the two factors that influence the selection of multiples of operating variables the most are the growth prospects of the subject company relative to the guideline companies and the risk of the subject company relative to the guideline companies." To that end Mr. Pratt suggests, one might adjust an observed multiple upward or downward by a percentage, or, even place it in the upper or lower quartile of the sample's range.[27]

Thus, if we have reason to believe that the Subject's profitability will change at a greater rate than its peer group in the future, we should consider adjusting the calculated multipliers up or down before we apply them to our Subject. For example, if we believe the Subject might double its SDE% in the coming years, while the rest of its peers only increase by 50%, we have justification for increasing the calculated multipliers. However, if we expect the Subject to improve its profitability at a similar rate as its peers, then even though the Subject's profitability is higher, it is still at the same level of profitability *relative* to its peers and its position on the calculated Market Line will be the same. If such is the case, no adjustment to the multipliers is warranted.

[27] Shannon Pratt, The Market Approach to Valuing Businesses. (New York: John Wiley & Sons, Inc, 2000), p.134

In that light, we should consider such things as: will the Subject's market grow more rapidly than that of its peers? Are there any major changes expected in the Subject's current mode of operations that may significantly change its profitability in the future?

The Subject's SDE%, which was used to calculate its Market Value Multipliers, was in the between the mid and upper range exhibited by comparables group. We must then consider whether the Subject's financial condition or market strength might change this level of profitability, thus giving reason to adjust its multipliers up or down.

In the financial statement analysis we determined that the Company's revenue and cash flow growth over the last five years were inferior to its peer group. In addition, we found that the region's demographics revealed a local economy in distress. Unemployment rates were higher than the state and national levels. Population growth was below state and national levels and housing prices had collapsed slightly more than the state and significantly more than the nation. Thus, the Subject's current SDE% which put it between the mid and upper range exhibited by the comparables, will clearly not be viewed in that light by potential buyers. Accordingly, a downward adjustment to the Subject's Market Value Multipliers is warranted. Therefore, the selected Market Value Multipliers for the Subject will be set between the lower and mid range of values.

The selected Market Value Multiples for September 30, 2011 are as follows:

Exhibit XXXII Market Value Multiples Applied to Subject - September 30, 2011

Range of Market Value Multiples at Different Levels of Profitability - 2011					
SDE% Range		Gross Revenue	Cash Flow	Enterprise Value	Regression
Lowest 16% of Comps have SDE% of 5.6%	=	0.26	4.37	1.35	1,370,238
Mid Range of Comps have SDE% of 9.7%	=	0.35	3.87	1.50	1,452,791
Highest 16% of Comps have SDE% of 13.7%	=	0.44	3.36	1.65	1,535,345

Subject's SDE% = 11.2%	Revenue Multiplier	Cash Flow Multiplier	Enterprise Multiplier	Multi-Variable Regression	
Subject's Operation =	$3,254,677	364,391	364,391		*The selected Market Value Multiples are between the lower and mid range of the Regression Market Line*
Multiplier at Subject's Level of Profitability =	x 0.30	x 4.12	x 1.42	1,411,514	
			518,660		
Inventory =			+ 784,681		
Indicated Value =	990,921	1,501,530	1,303,341	1,411,514	

7.4.1 ADJUSTMENTS TO ASSET SALE VALUES - September 30, 2011

Further adjustments to the above Asset Sale Values must be made to arrive at the market value of the Corporation's Equity or Net Worth. The value of the net worth of Smith True Value Hardware can be reconciled by taking the Asset Sale Values above and adjusting them for the additional assets and liabilities that were *not* included in a conventional Asset Sale.

Additional Assets valued as per the Balance Sheet for September 30, 2011:

Cash	$110,601	
Accounts Receivable	74,353	
Intangibles *	0	
Total Additional Assets Acquired		$184,954

*The Asset Sale Values already include the market value of all Company intangibles. Therefore, intangibles on the balance sheet have already been accounted for.

Less Liabilities as of the Balance Sheet for September 30, 2011:

Accounts Payable	$136,292	
Accruals	28,987	
Plumas Bank LOC	90,000	
Currently Due Long-Term Debt	56,824	
Long Term Debt	66,458	
Total Additional Liabilities Assumed		$(378,561)

Total Adjustments to Asset Sale Value (rounded) ($ 194,000)

By adding the above adjustment to the Asset Sale prices calculated using the Market Multipliers, we will arrive at the Indicated Values for a 100% interest in the Common Shares (the Market Value of the Net Worth) of Smith True Value Hardware on a Controlling, Non-Marketable basis:

Indicated Values of Net Worth - September 30, 2011

Procedure	Gross Revenue Multiplier	Cash Flow Multiplier	Enterprise Multiplier	Regression Analysis
Asset Sale Value	$ 990,921	1,501,530	1,303,341	1,411,514
Adjustment	($ 194,000)	($ 194,000)	($ 194,000)	($ 194,000)
Total Equity Value	796,921	1,307,530	1,109,341	1,217,514

7.4.2 RECONCILIATION OF ALL METHODOLOGIES

It is rare that the various approaches used would produce similar values. Each method is looking at different aspects of the company, so, it is reasonable to expect that they would produce different values as a result. Internal Revenue Ruling 59-60 requires that at least 50% of a value's weighting should be placed on income-based methodologies. According to the

Uniform Standards of Professional Appraisal Practice (USPAP), "an appraiser must reconcile the indications of value resulting from the various approaches to arrive at the value conclusion." A simple average does not satisfy the standard, but rather, the appraiser must evaluate the relative merits of each procedure to form a conclusion. "The value conclusion is the result of the appraiser's judgment."[28]

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

Exhibit XXXIII Valuation Conclusion - September 30, 2011

100% Controlling Interest in Smith True Value Hardware

Valuation Method	Indicated Value	Confidence Weighting	Weighted Estimate
Adjusted Book Value Method	Not Used	-0-	-0-
Market Approach			
Guideline Public Company Method	Not Used		
Mergers and Acquisitions Method	Not Used		
Prior Transactions	N/A	-0-	-0-
Buy-Sell Agreement	N/A	-0-	-0-
Direct Market Data Method			
18 Observations Database	Not Used		
15 Observations Database			
Gross Revenue Multiplier (R^2 = 85.5%)	$796,921	36%	$286,892
Cash Flow Multiplier (R^2 = 45.4%)	$1,307,530	19%	$248,431
Enterprise Value Multiplier (R^2 = 13.1%)	$1,109,341	5%	$55,467
Regression Analysis (R^2 = 96.6%)	$1,217,514	40%	$487,006
Income Approach			
Single Period Capitalization Method	Not Used		
Multi-Period Discount Method	Not Used		
VALUE CONCLUSION (Rounded)			$1,080,000

100% Interest in the Common Shares of Smith True Value Hardware = $1,080,000

One Million Eighty Thousand Dollars

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

The above value is for a 100% Interest in Net Worth of Smith True Value Hardware on a Controlling, Non-Marketable *Basis (Rounded*) as of September 30, 2011. The above value includes inventory at $784,681.

SUMMARY

The Adjusted Book Value approach is commonly used in divorce valuations because of its simplicity. However, to provide a high level of confidence, the Discrete Valuation of individual assets requires that the company have a high-integrity balance sheet, thus allowing individual tangible assets to be precisely valued. The process also requires all intangibles to be identified and valued separately. Since the Subject's balance sheet does not meet that high-integrity standard, the Collective Revaluation version of the Adjusted Book Value method was used. Groups of assets are valued at their depreciated replacement cost and all intangibles are collectively valued using the Excess Earnings method. *USPAP recommends that this approach only be used when no better means of valuing a business is appropriate. Since the Income and Market Approaches used in this report produced reliable valuations, this methodology is given a zero weighting.*

The Guideline Public Company Method uses a database of large publicly traded companies. A search of the database only found a few companies similar to the subject. However, they were all substantially larger than the subject and, therefore, could not be used. A similar problem exists with the Mergers and Acquisition Method. All potential guideline companies in the database, with the exception of one, were substantially larger than the Subject and, therefore, were not good comparables. Hence, these methods could not be used

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

In accordance with the IRS Revenue Ruling 59-60, the Appraiser must assign high weightings to those methodologies that are based on the Subject's cash flow. Since all the Market Approach methodologies were calculated based on the Subject's Cash Flow Profit Margin (SDE%), they all meet this test. The weightings will, therefore, be based on the R Squared factor that each of the four Regressions exhibited. The higher the R Squared the more highly predictable the method is. Thus, the weightings will be distributed between the four Market Approach methodologies as follows: The Multiple Variable Regression Analysis generated the highest R Squared Factor of 97% and, therefore, was given a weighting of 40%. The Revenue Multiplier generated an R Squared Factor of 85% and, therefore was given a weighting of 36%. The Cash Flow Multiplier generated an R Squared

Factor of 45% and, therefore was given a weighting of 19%. The Enterprise Multiplier generated the lowest R Squared Factor of 13% and, therefore was only weighted 5%.

8.0 AFFORDABILITY PRICE TEST

The final pricing consideration focuses on a hypothetical buyer's ability to "afford" the Subject Business. If the debt service on the loans needed to purchase the business is so great that there is insufficient cash flow to pay for it, we would have to question the indicated value for that business. Exhibit XXXVI below is a cash flow analysis of a hypothetical transaction at the fair market value calculated above.

Transactions of small privately held companies are frequently funded by SBA bank loans. SBA banks generally determine a company's ability to pay for the debt service on a proposed acquisition loan by calculating its Cash Flow Coverage Ratio based on the earnings generated by the company. A ratio of minimum of 1.25 is considered the acceptable level for Retail Hardware Stores. In other words, a company's cash flow before debt service must be at least 1.25 times the proposed debt service.

Therefore, if the Buyer seeks an SBA loan for 85.0% of the $1,080,000 selling price, the loan amount of $918,000, at 6.0% interest for 10 years, would carry annual payments of $122,300. The average level of cash flow for the Subject earned over the last three years (see Exhibit XXXVII) has been reworked to show the net cash flow before and after proposed debt service from a hypothetical acquisition loan.[(1)]

From the exhibit below the Cash Flow Coverage Ratio of 1.31 suggests that the hypothetical transaction generates adequate cash flow to pay its proposed debt service. As such the company is affordable to a typical financial buyer who is seeking a business opportunity as a source of employment.

Exhibit XXXVI Affordability Table

Stock Sale Price	**$1,080,000**	**Loan to Value Ratio:**	**85.0%**	
Interest Rate:	**6.0%**	**Loan Amount:**	**$918,000**	
Term of Loan:	**10 years**	**Total Debt Service:**	**$122,300**	
Working Capital is Included in a	**Stock Sale**	**Working Cap Debt Service:**	**$0**	
3 Year Average SDE Less Depreciation		**387,194**	**(1)**	
Owner's Salary, Perks & Payroll Taxes		**($160,000)**		
Interest on New Loans		**($55,080)**		
Adjusted Net Earnings Before Taxes		**$172,114**		
Average State and Federal Taxes at 26.2%		**($39,931)**		
Net Earnings After Taxes		**$132,184**		
Less Principal on Acquisition Loan		**($67,220)**		
Less Capital Exp & Working Capital Growth		**($49,939)**	**(2)**	
3 year Average Depreciation		**22,854**		
Net Cash Flow after Debt Service		**$37,878**		
Total Cash Flow Before Debt Service		**$160,178**		
Total Acquisition Loan Debt Service		**$122,300**		
Cash Flow Coverage Ratio		**1.31**		

Average Working Capital for last 3 Years=	**$648,000**		
Long Term Annual Growth Rate =	**3.0%**		
Working Capital Increase =			**$19,440**
Fixures & Equipment for Current Year =	**315,415**		
Estimated Remaining Life =	**15 Years**		
Annual Replenishment =		**$21,028**	
Long Term Annual Growth Rate =	**3.0%**	**$9,462**	**$30,490**
Tenant Improvements =	**131**		
Estimated Life =	**25**		
Annual Replenishment =		**$5**	
Long Term Annual Growth Rate =	**3.0%**	**$4**	**$9**
Total Capital Expenditures and Working Capital Growth =			**$49,939** **(2)**

(1) Average SDE for the last three years of $410,048 less Average depreciation of $22,854 is $387,194 in net SDE. A hypothetical owner's salary of $125,000 plus payroll taxes, and perks of $25,000 equals $160,000 which is subtracted from net SDE. Interest of $55,080 on the proposed loan is also subtracted from net SDE to obtain net earnings before taxes of $172,114.

Prepared By

C. Fred Hall, III, MBA, CBA, AVA

Smith True Value Hardware

January 18, 2012

Exhibit XXXVII Discretionary Cash Flow Analysis

Smith True Value Hardware
a California Proprietorship
January 18, 2012

Prepared by C. Fred Hall III, MBA, CBA, AVA

		Accrual Basis			Accrual			Accrual		
		Sep 30, 2011	Add Backs		Dec 31, 2010	Add Backs		Dec 31, 2009	Add Backs	
INCOME	(d6 History)	12 Mos.	Per P&Ls		12 Mos.	Per Taxes		12 Mos.	Per Taxes	
Gross Revenues		3,254,677			3,316,056			3,367,108		
Less Returns and Allowances		-			-			-		
TOTAL INCOME	(e9)	3,254,677	-	100.0%	3,316,056	-	100.0%	3,367,108	-	100.0%
			-			-			-	
COST OF GOODS SOLD										
Beginning Inventory		-		0.0%	705,115		21.3%	705,853		21.0%
Purchases	(e13)	1,937,632		59.5%	1,937,982		58.4%	1,999,244		59.4%
Freight In		53,753		1.7%	50,371		1.5%	49,458		1.5%
Shrinkage	(e15)	(38,096)		-1.2%	12,692		0.4%	3,593		0.1%
Ending Inventory	(e17)	-	-	0.0%	(709,760)	-	-21.4%	(705,115)	-	-20.9%
TOTAL COST OF GOODS SOLD		1,953,289	-	60.0%	1,996,400	-	60.2%	2,053,033	-	61.0%
GROSS PROFIT		1,301,388			1,319,656			1,314,075		
	(e20)	40.0%			39.8%			39.0%		
OTHER INCOME (EXPENSE)										
Patronage Dividend	(e22)	51,304		1.6%	51,304		1.5%	44,391		1.3%
Other Income	(e23)	15,351	15,351	0.5%	18,004	18,004	0.0%	10,421	10,421	0.3%
TOTAL OTHER INCOME		66,655	(15,351)	2.0%	69,308	(18,004)	2.1%	54,812	(10,421)	1.6%

Income Statement Key: @ Officer Salary # Wages & Salaries $ Rent % Taxes & Licenses ^ Advertising & Benefits/Pension
* Repairs + Bad Debts < Other SG&A > Interest ? Depreciation ' Income Taxes

	EXPENSES										
@	Compensation to Owners	(e27)	45,000	20,000	1.4%	45,000	20,000	1.4%	45,000	20,000	1.3%
#	Salaries and Wages	(e28)	320,085		9.8%	308,889		9.3%	294,111		8.7%
<	Repairs and Maintenance	(e29)	52,669		1.6%	55,238		1.7%	54,058		1.6%
$	Rents	(e30)	143,712		4.4%	138,722		4.2%	131,736		3.9%
+	Bad Debts		2,191		0.1%	166		0.0%	5,491		0.2%
%	Payroll Taxes	(e34)	39,063	1,800	1.2%	33,461	1,800	1.0%	28,580	1,800	0.8%
%	Property Tax		986		0.0%	1,159		0.0%	1,417		0.0%
'	Other Taxes and Licenses		3,795		0.1%	4,806		0.14%	4,389		0.1%
<	Misc., Dues, Subscriptions, Gifts		14,551		0.4%	5,017		0.15%	5,785		0.2%
^	Advertising	(e36)	104,871		3.2%	95,849		2.9%	106,787		3.2%
<	Donations	(e37)	13,165		0.4%	16,594		0.5%	13,441		0.4%
&	Pension, Profit Sharing	(e38)	50,000		1.5%	20,205		0.6%	18,255		0.5%
<	Employee Benefits	(e39)	25,287		0.8%	(h39) 31,958		1.0%	33,797		1.0%
?	Depreciation and Amortization		22,071	22,071	0.7%	11,659	11,659	0.4%	34,831	34,831	1.0%
<	Insurance-Liability		11,689		0.4%	11,945		0.4%	11,804		0.4%
<	Insurance-Workman's Comp	(e42)	13,509		0.4%	12,900		0.4%	15,964		0.5%
>	Bank Charges	(e43)	59,623		1.8%	59,247		1.8%	56,949		1.7%
%	Office Expense, Postage and Delivery		16,559		0.5%	20,851		0.6%	24,289		0.7%
<	Accounting, Professional, Payroll Service		11,579		0.4%	14,727		0.4%	12,667		0.4%
<	Meals and Entertainment	(e46)	12,201		0.4%	9,318		0.3%	15,617		0.5%
<	Car and Truck Expenses	(e47)	15,509		0.5%	13,107		0.4%	14,134		0.4%
<	Supplies		14,448		0.4%	16,669		0.5%	20,018		0.6%
>	Interest		10,045	10,045	0.3%	8,529	8,529	0.3%	7,210	7,210	0.2%
<	Utilities, Telephone, Internet Expense		39,609	-	1.2%	37,952	-	1.1%	39,204	-	1.2%
	TOTAL EXPENSES / Total Add-Backs		1,042,217	53,916	32.0%	973,968	41,988	29.4%	995,534	63,841	29.6%
	TOTAL NET INCOME (per Tax Return) =		325,826		10.0%	414,996		12.5%	373,353		11.1%
	Total Add Backs =			38,565			23,984			53,420	
	Owner's Discretionary Cash Flow =			364,391	11.2%		438,980	13.2%		426,773	12.7%

Balance Sheet		Accrual								
@	Cash		110,601			123,875			118,212		
%	Accounts Receivable	(e58)	74,353		8 Days	80,470		9 Days	97,675		11 Days
$	Inventory	(e59)	784,681		147 Days	709,760		130 Days	705,115		125 Days
*	Other Current Assets		-			-			-		
	Total Current Assets			969,635			914,105			921,002	
+	Fixtures & Equipment	(e62)	315,415	(254,390)		315,415	(238,145)		315,415	(214,823)	
+	Tenant Improvement		131			131			131		
^	Intangibles	(e64)	24,929	(22,935)		24,929	(22,934)		24,929	(22,935)	
^	Ace Stock and Notes	(e65)				-			-		
	Total Assets			1,032,785			993,501			1,023,719	
#	Accruals		28,987			26,828			93,269		
&	Accounts Payable	(e68)	136,292		26 Days	119,133		22 Days	136,939		25 Days
?	Plumas Bank Line of Credit		90,000			60,000					
?	Current Portion Notes Payable		56,824			56,824			56,824		
	Total Current Liabilities			312,103			262,785			287,032	
-	Due to Previous Owners										
-	Due to Shareholder										
<	Long Term IB Debt	(e74)	66,458			(h74) 109,317			(k74) 166,218		
	Total Liabilities			378,561			372,102			453,250	
	Net Worth		654,224			621,399			570,469		
	Total Liabilities + Net Worth			1,032,785			993,501			1,023,719	

N-IB = Non-Interest Bearing IB = Interest Bearing Balance Sheet Key: @ Cash % Accounts Receivable $ Inventory * Other Current Assets ^ Other Long-Term Assets + Fixed Assets &

Prepared by C. Fred Hall III, MBA, CBA, AVA		Accrual Dec 31, 2008 12 Mos.	Add Backs Per Taxes		Accrual Dec 31, 2007 12 Mos.	Add Backs Per Taxes	
INCOME (d6) History							
Gross Revenues		3,563,664			3,581,925		
Less Returns and Allowances		-			-		
TOTAL INCOME		3,563,664	-	100%	3,581,925	-	100.0%
			-			-	
COST OF GOODS SOLD							
Beginning Inventory		681,800		19.1%	628,272		17.5%
Purchases		2,135,760		59.9%	2,062,551		57.6%
Freight In		57,442		1.6%	51,279		1.4%
Shrinkage		10,267		0.3%	4,465		0.1%
Ending Inventory		(705,853)	-	-19.8%	(681,800)	-	-19.0%
TOTAL COST OF GOODS SOLD		2,179,416	-	61.2%	2,064,767	-	57.6%
GROSS PROFIT		1,384,248			1,517,158		
		38.8%			42.4%		
OTHER INCOME (EXPENSE)							
Patronage Dividend		43,393		1.2%	60,573		1.7%
Other Income	(n25)	1,263	1,263	0.0%	(n25) 1,619	1,619	0.0%
TOTAL OTHER INCOME		44,656	(1,263)	1.3%	62,192	(1,619)	1.7%
Income Statement Key: @ Officer Sa * Repairs							
EXPENSES							
@ Compensation to Owners	(n29)	45,000	20,000	1.3%	(q29) 45,000	20,000	1.3%
# Salaries and Wages		310,638		8.7%	296,733		8.3%
< Repairs and Maintenance		45,452		1.3%	47,092		1.3%
$ Rents		136,250		3.8%	131,736		3.7%
+ Bad Debts		1,437		0.0%	(198)		0.0%
% Payroll Taxes		32,788	1,800	0.9%	36,760	1,800	1.0%
% Property Tax		1,434		0.0%	1,464		0.0%
' Other Taxes and Licenses		4,634		0.1%	4,820		0.1%
< Misc., Dues, Subscriptions, Gifts		4,759		0.1%	3,195		0.1%
^ Advertising		97,031		2.7%	91,131		2.5%
< Donations		16,266		0.5%	13,815		0.4%
& Pension, Profit Sharing		31,178		0.9%	22,500		0.6%
< Employee Benefits		18,056		0.5%	9,301		0.3%
? Depreciation and Amortization		19,528	19,528	0.5%	16,021	16,021	0.4%
< Insurance-Liability		12,864		0.4%	3,754		0.1%
< Insurance-Workman's Comp		8,125		0.2%	13,344		0.4%
> Bank Charges		57,613		1.6%	55,403		1.5%
% Office Expense, Postage and Delivery		20,178		0.6%	27,655		0.8%
< Accounting, Professional, Payroll Service		12,493		0.4%	16,549		0.5%
< Meals and Entertainment		11,523		0.3%	10,676		0.3%
< Car and Truck Expenses		12,359		0.3%	16,551		0.5%
< Supplies		22,709		0.6%	20,019		0.6%
> Interest		9,463	9,463	0.3%	(q49) 104,415	104,415	2.9%
< Utilities, Telephone, Internet Expense		40,326	-	1.1%	37,706	-	1.1%
TOTAL EXPENSES / Total Add-Backs		972,104	50,791	27.3%	1,025,442	142,236	28.6%
TOTAL NET INCOME (per Tax Return) =		456,800		12.8%	553,908		15.5%
Total Add Backs =			49,528			140,617	
Owner's Discretionary Cash Flow =			506,328	14.2%		694,525	19.4%

Balance Sheet							
@ Cash		174,744			66,034		
% Accounts Receivable		86,406		9 Days	81,521		8 Days
$ Inventory		705,853		118 Days	681,800		121 Days
* Other Current Assets		-			-		
Total Current Assets			967,003			829,355	
+ Fixtures & Equipment		273,590	(207,066)		267,510	(177,875)	
+ Tenant Improvement		131			131		
^ Intangibles		24,929	(22,935)		24,929	(22,935)	
^ Ace Stock and Notes		-			-		
Total Assets		-	1,035,652		-	921,115	
# Accruals		31,177			101,009		
& Accounts Payable		205,018		35 Days	209,386		37 Days
? Plumas Bank Line of Credit							
? Current Portion Notes Payable		57,143			57,143		
Total Current Liabilities			293,338			367,538	
- Due to Previous Owners							
- Due to Shareholder							
< Long Term IB Debt	(n74)	81,128			140,388		
Total Liabilities			374,466			507,926	
Net Worth		661,186			413,189		
Total Liabilities + Net Worth			1,035,652			921,115	

N-IB = Non-Interest Bearing IB = Interest Bearing Balance S

NOTES REMOVED FOR CONFIDENTIALITY REASONS

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Smith True Value Hardware

999Main Street
Jackson, CA 95642

DEMOGRAPHICS

Census 1990-2009 Demographic Profile

US Census Fact Finder, 2009

California

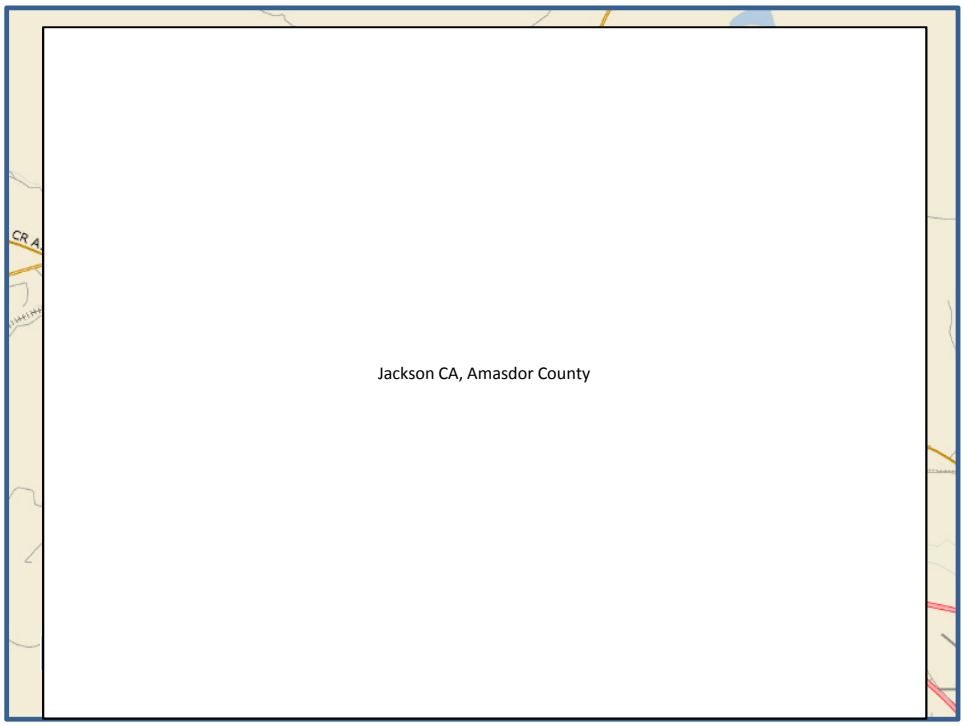
			California	% of U.S. Population	United States	Increase from 2007-2009	
						California	United States
Population							
	Total Population	2007	36,400,000	12.0%	304,059,000	###########	+ 0.5% per year
		2009	36,960,000	12.0%	307,006,000		
Economic Characteristics							
	Median Household Income	2007	60,000	120.0%	50,007		
		2009	58,900	117.3%	50,200		
Housing Characteristics							
	Median Value (dollars)	2007	532,300	274.0%	194,300		
		2009	384,200	207.5%	185,200		
Unemployment Rate		Sep 10	12.4%	129.2%	9.6%		
		Sep 11	12.1%	133.0%	9.1%		

California

		2000	California	% of U.S. Population	United States	Increase from 2000-2007	
						California	United States
Population	Total Population		33,900,000	12.0%	281,421,000	###########	+ 1.0% per year
Economic	Median Household Income		47,500	113.1%	41,994		
Housing	Median Value (dollars)		211,500	176.8%	119,600		

California

		1990	California	% of U.S. Population	United States	Increase from 1990-2007	
						California	United States
Population	Total Population		29,800,000	12.0%	248,710,000		
Economic	Median Household Income		35,800	119.3%	30,000	###########	+ 1.2% per year
Housing	Median Value (dollars)		194,300	247.5%	78,500		



	Amador County				Amador	California
General Characteristics	1990	2000	2007	2009	2000-2007	2000-2007
Total Population	27,598	33,828	34,406	34,675	+ 0.2%	0.9%
Economic Characteristics					Amador vs CA	CA 2007
Median Household Income	26,764	36,310	46,581	48,575	-22.4%	60,000
Housing Characteristics						
Median Value (dollars)	69,300	106,700	235,000	192,000	-55.9%	532,300
			Amador Sep 10	Amador Sep 11	CA Sep 10	CA Sep 11
Unemployment Rate	Sep 10 / Sep 11		12.5%	12.1%	12.4%	12.1%

	Calaveras County				Calaveras	California
General Characteristics	1990	2000	2007	2009	2000-2007	2000-2007
Total Population	147,036	163,256	178,539	180,316	+ 1.3%	0.9%
Economic Characteristics					Calaveras vs CA	CA 2007
Median Household Incon	25,581	34,335	43,988	42,675	-26.7%	60,000
Housing Characteristics						
Median Value (dollars)	91,000	120,800	263,000	180,000	-50.6%	532,300
			Calaveras Sep 10	Calaveras Sep 11	CA Sep 10	CA Sep 11
Unemployment Rate	Sep 10 / Sep 11		15.0%	13.3%	11.8%	12.3%

Demographics
Smith True Value Hardware

General Characteristics	Tuolomne County 1990	2000	2007	2009	Tuolomne 2000-2007	California 2000-2007
Total Population	9,678	9,449	9,500	9,600	+ 0.1%	0.9%
Economic Characteristics					Tuolomne vs CA	CA 2007
Median Household Income	22,029	27,522	33,000	34,150	-45.0%	60,000
Housing Characteristics						
Median Value (dollars)	48,100	69,100	140,000	125,000	-73.7%	532,300
			Tuolomne Sep 10	Tuolomne Sep 11	CA Sep 10	CA Sep 11
Unemployment Rate	Sep 10 / Sep 11		12.1%	12.7%	12.4%	12.1%

General Characteristics	Placer County 1990	2000	2007	2009	Placer 2000-2007	California 2000-2007
Total Population	19,793	20,824	20,793	20,363	0.0%	0.9%
Economic Characteristics					Placer vs CA	CA 2007
Median Household Income	24,299	36,351	44,281	42,836	-26.2%	60,000
Housing Characteristics						
Median Value (dollars)	89,700	137,900	271,000	204,000	-49.1%	532,300
			Placer Sep 10	Sep 11	CA Sep 10	CA Sep 11
Unemployment Rate	Sep 10 / Sep 11		13.1%	13.0%	12.4%	12.1%

General Characteristics	Jackson 1990	2000	2007	2009	Jackson 2000-2007	California 2000-2007
Total Population	7,279	17,536	17,664	17,119	+ 0.1%	0.9%
Economic Characteristics					Jackson vs CA	CA 2007
Median Household Income	25,011	35,675	42,000	42,667	-30.0%	60,000
Housing Characteristics						
Median Value (dollars)	69,300	103,800	210,000	156,000	-60.5%	532,300
			Jackson Sep 10	Jackson Sep 11	CA Sep 10	CA Sep 11
Unemployment Rate	Sep 10 / Sep 11		14.2%	15.5%	12.4%	12.1%

		U.S.	California	Amador County	Calaveras County	Tuolomne County	Placer County	Jackson
Population	1990	248,710,000	29,800,000	27,598	147,036	9,678	19,793	7,279
	2000	281,421,000	33,900,000	33,828	163,256	9,449	20,824	17,536
	2007	304,059,000	36,400,000	34,406	178,539	9,500	20,793	17,664
	2009	307,006,000	36,960,000	34,675	180,316	9,600	20,363	17,119
	Gain '07 to '09	0.5% per yr	0.8% per yr	0.4% per yr	0.5% per yr	0.5% per yr	-1.0% per yr	-1.5% per yr
	Gain '00 to '07	1.1% per yr	1.1% per yr	0.2% per yr	1.3% per yr	0.1% per yr	0.0% per yr	0.1% per yr
	Gain '90 to '09	0.8% per yr	0.8% per yr	0.9% per yr	0.8% per yr	0.0% per yr	0.1% per yr	4.5% per yr
Median Household Income	1990	$30,000	$35,800	$26,764	$25,581	$22,029	$24,299	$25,011
	2000	$41,994	$47,500	$36,310	$34,335	$27,522	$36,351	$35,675
	2007	$50,700	$60,000	$46,581	$43,988	$33,000	$44,281	$42,000
	2009	$50,200	$58,900	$48,575	$42,675	$34,150	$42,836	$42,667
	Gain '07 to '09	-0.5% per yr	-0.9% per yr	2.1% per yr	-1.5% per yr	1.7% per yr	-1.6% per yr	0.8% per yr
	Gain '00 to '07	3.0% per yr	3.8% per yr	4.0% per yr	4.0% per yr	2.8% per yr	3.1% per yr	2.5% per yr
	Gain '90 to '00	4.0% per yr	3.3% per yr	3.6% per yr	3.4% per yr	2.5% per yr	5.0% per yr	4.3% per yr
Median Housing Prices	1990	78,500	194,300	69,300	91,000	48,100	89,700	69,300
	2000	119,600	211,500	106,700	120,800	69,100	137,900	103,800
	2007	194,300	532,300	235,000	263,000	140,000	271,000	210,000
	2009	185,200	384,200	192,000	180,000	125,000	204,000	156,000
	Gain '07 to '09	-4.7%	-27.8%	-18.3%	-31.6%	-10.7%	-24.7%	-25.7%
	Gain '00 to '07	62.5%	151.7%	120.2%	117.7%	102.6%	96.5%	102.3%
	Gain '90 to '00	52.4%	8.9%	54.0%	32.7%	43.7%	53.7%	49.8%
Unemployment	Sep 10	9.6%	12.4%	12.5%	15.0%	12.1%	13.1%	14.2%
	Sep 11	+ 9.1%	+ 12.1%	+ 12.1%	+ 13.3%	+ 12.7%	+ 13.0%	+ 15.5%
	Change	-0.5%	-0.3%	-0.4%	-1.7%	+ 0.6%	-0.1%	+ 1.3%

Comparable Listing Analysis

Please read the Appendix B following this comparables listing for detailed information on how the various databases present their information. In order to make the transactional data from each database directly comparable to each other, the following adjustments were made:

I. PRATTS STATS DATABASE

Selling Price:

Sample Stock Sale to Asset Sale Price**	
Market Value of Invested Capital*	$850,000
Plus Employment Agreement Value	$50,000
Less any acquired Cash	($30,000)
Less acquired Accounts Receivable	($220,000)
Less Other Cur, Non-Cur Assets acquired	($5,000)
Less interest-bearing Debt Assumed	($50,000)
Plus Total Liabilities Assumed	$125,000
Adjusted Asset Sale Price	$720,000

** Asset Data field must indicate "Asset Data = **Allocation** or NOTES field lists actual allocation breakout.

Sample Asset Sale Price	
Market Value of Invested Capital*	$850,000
Plus Employment Agreement Value	$50,000
Adjusted Asset Sale Price	$900,000

* MVIC (Market Value of Invested Capital) equals Total Consideration paid (in the form of cash, notes, or stocks), plus any *assumed interest-bearing debt* less any value allocated to Earnouts and Employment Agreements

Seller's Discretionary Earnings (SDE):

Pratt's Stats usually calculates SDE similarly to Bizcomps and IBA databases. However, they typically obtain more data from submitting brokers and therefore their calculated value for SDE may differ. However, in most cases, Pratt's Stats' transactional data when applied to following formula yields the same or nearly the same value as Bizcomps and IBA.

Sample SDE Calculation	
Owner's Compensation	$75,000
Non-Cash Charges	$22,000
Operating Profit	$57,000
Cash Flow (SDE)	$154,000

II. BIZCOMPS DATABASE

Selling Price:

BIZCOMPS Database separates Inventory value from the Selling Price and Listing Price. To make BIZCOMPS' Selling Price and Listing Prices comparable to Pratt's Stats and IBA adjusted data, inventory must be added to the BIZCOMP selling price.

Sample Selling Price Calculation	
BIZCOMP Sale Price	$350,000
Inventory	$175,000
Adjusted Asset Sale Price	$525,000

(= Inventory, Fixed Assets, and Goodwill)

Sample Listing Price Calculation	
BIZCOMP Ask Price	$420,000
Inventory	$175,000
Adjusted Listing Price	$595,000

(= Inventory, Fixed Assets, and Goodwill)

III. IBA DATABASE

Selling Price:

The IBA Database includes the Real Estate Value in the Selling Price of a Transaction. *To make IBA's Selling Price comparable to Pratt's Stats and BIZCOMPS databases, any Real Estate Value was subtracted from the Selling Price.*

Sample Selling Price Calculation	
Sale Price	$950,000
Real Estate	($500,000)
Adjusted Asset Sale Price	$450,000

(= Inventory, Fixed Assets, and Goodwill)

Transaction Details — Comp # 1

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Retail Hardware Store

NOTES:

Source: **Bizcomps**
Transaction Type: Asset Sale
Location: Wisconsin
Number of Employees: 0

No Additional Comments were Submitted

Transaction Data

Date of Sale	1/31/2002
Days on the Market	0
Asking Price	$483,000
Adjusted Asset Sale Price	$483,000
Percent Down Payment	0%
Terms of Deal:	

No Terms were Submitted

Adjusted Asset Sale Price:

Sale Price	$102,000
Inventory	$381,000
Adjusted Asset Sale Price	$483,000

Income Data

Annual Gross Sales	$1,993,000
Cash Flow (SDE)	$73,000

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$381,000
Furniture Fixtures, and Equipment	$102,000
Intangibles	$0

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	$0
Total Liabilities	$0
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	3.66%
Rent/Annual Sales	4.2%

Valuation Multiples

Revenue Multiplier	0.24
Cash Flow Multiplier	6.62
Enterprise Multiplier	1.40

Transaction Details — Comp # 2

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Downtown Hardware Store

NOTES:

Source: **Pratts Stats**
Transaction Type: Asset Sale
Location:
Number of Employees: 15

No Additional Comments were Submitted

Transaction Data

Date of Sale	6/30/2003
Days on the Market	No
Asking Price	$350,000
Sale Price	$295,000
Percent Down Payment	100%
Terms of Deal:	

No Terms were Submitted

Income Data

Annual Gross Sales	$1,652,000
SDE Calculation	
Owner's Compensation	$50,000
Non-Cash Charges	$46,000
Operating Profit	($29,000)
Cash Flow (SDE)	$67,000

Asset Data is **Allocation**

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$220,000
Furniture Fixtures, and Equipment	$55,000
Intangibles	$20,000

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	N/A
Total Liabilities Assumed	N/A
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	4.06%
Rent/Annual Sales	1.5%

Valuation Multiples

Revenue Multiplier	0.18
Cash Flow Multiplier	4.40
Enterprise Multiplier	1.12

Transaction Details Comp # 3

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Retail-Hardware Store

NOTES:

Source: **Bizcomps**
Transaction Type: Asset Sale
Location: CN-Nova Scotia
Number of Employees: 0

No Additional Comments were Submitted

Transaction Data

Date of Sale	2/28/2000
Days on the Market	160
Asking Price	$945,000
Adjusted Asset Sale Price	$820,000
Percent Down Payment	23%
Terms of Deal:	

20 Yrs @ 8%

Adjusted Asset Sale Price:

Sale Price	$220,000
Inventory	$600,000
Adjusted Asset Sale Price	$820,000

Income Data

Annual Gross Sales	$2,500,000
Cash Flow (SDE)	$120,000

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$600,000
Furniture Fixtures, and Equipment	$120,000
Intangibles	$0

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	$0
Total Liabilities	$0
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	4.8%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.33
Cash Flow Multiplier	6.83
Enterprise Multiplier	1.83

Transaction Details Comp # 4

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Retail Hardware Store

NOTES:

Source: **Bizcomps**
Transaction Type: Asset Sale
Location: Illinois
Number of Employees: 0

No Additional Comments were Submitted

Transaction Data

Date of Sale	3/31/2006
Days on the Market	0
Asking Price	$500,000
Adjusted Asset Sale Price	$500,000
Percent Down Payment	0%
Terms of Deal:	

No Terms were Submitted

Adjusted Asset Sale Price:

Sale Price	$150,000
Inventory	$350,000
Adjusted Asset Sale Price	$500,000

Income Data

Annual Gross Sales	$2,412,000
Cash Flow (SDE)	$169,000

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$350,000
Furniture Fixtures, and Equipment	$150,000
Intangibles	$0

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	$0
Total Liabilities	$0
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	7.01%
Rent/Annual Sales	6.7%

Valuation Multiples

Revenue Multiplier	0.21
Cash Flow Multiplier	2.96
Enterprise Multiplier	0.89

Transaction Details — Comp # 5

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Retail Hardware

NOTES:

Source: **BizBuySell**
Transaction Type: Asset Sale
Location: KS
Number of Employees:

No Additional Comments were Submitted

Transaction Data

Date of Sale	5/9/2011
Days on the Market	0
Asking Price	$525,000
Sale Price	$512,000
Percent Down Payment	0%

Terms of Deal:

No Terms were Submitted

Income Data

Annual Gross Sales	$1,900,000
Cash Flow (SDE)	$150,000

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$400,000
Furniture Fixtures, and Equipment	$90,000
Intangibles	$0

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	$0
Total Liabilities	$0
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	7.89%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.27
Cash Flow Multiplier	3.41
Enterprise Multiplier	0.75

Transaction Details — Comp # 6

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Retail Hardware Store

NOTES:

Source: **Bizcomps**
Transaction Type: Asset Sale
Location: Montana
Number of Employees: 0

No Additional Comments were Submitted

Transaction Data

Date of Sale	2/28/2006
Days on the Market	0
Asking Price	$1,649,000
Adjusted Asset Sale Price	$1,649,000
Percent Down Payment	0%

Terms of Deal:

No Terms were Submitted

Adjusted Asset Sale Price:

Sale Price	$691,000
Inventory	$958,000
Adjusted Asset Sale Price	$1,649,000

Income Data

Annual Gross Sales	$3,515,000
Cash Flow (SDE)	$307,000

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$958,000
Furniture Fixtures, and Equipment	$588,000
Intangibles	$0

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	$0
Total Liabilities	$0
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	8.73%
Rent/Annual Sales	3.0%

Valuation Multiples

Revenue Multiplier	0.47
Cash Flow Multiplier	5.37
Enterprise Multiplier	2.25

Transaction Details — Comp # 7

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Retail-Hardware Store

NOTES:

Source: **Bizcomps**
Transaction Type: Asset Sale
Location: Florida
Number of Employees: 7

No Additional Comments were Submitted

Transaction Data

Date of Sale	11/30/2005
Days on the Market	57
Asking Price	$1,300,000
Adjusted Asset Sale Price	$875,000
Percent Down Payment	100%

Terms of Deal:

No Terms were Submitted

Adjusted Asset Sale Price:

Sale Price	$415,000
Inventory	$460,000
Adjusted Asset Sale Price	$875,000

Income Data

Annual Gross Sales	$2,747,000
Cash Flow (SDE)	$241,000

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$460,000
Furniture Fixtures, and Equipment	$50,000
Intangibles	$0

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	$0
Total Liabilities	$0
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	8.77%
Rent/Annual Sales	3.0%

Valuation Multiples

Revenue Multiplier	0.32
Cash Flow Multiplier	3.63
Enterprise Multiplier	1.72

Transaction Details — Comp # 8

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Successful Hardware Store

NOTES:

Source: **BizBuySell**
Transaction Type: Asset Sale
Location: MO
Number of Employees:

No Additional Comments were Submitted

Transaction Data

Date of Sale	10/7/2010
Days on the Market	0
Asking Price	$1,097,000
Sale Price	$875,000
Percent Down Payment	0%

Terms of Deal:

No Terms were Submitted

Income Data

Annual Gross Sales	$1,754,787
Cash Flow (SDE)	$158,475

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$649,000
Furniture Fixtures, and Equipment	$40,325
Intangibles	$0

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	$0
Total Liabilities	$0
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	9.03%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.50
Cash Flow Multiplier	5.52
Enterprise Multiplier	1.43

Transaction Details Comp # 9

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Retail Sales and Service, Hardware NOTES:

Source: **BizBuySell**
Transaction Type: Asset Sale
Location: IA
Number of Employees:

No Additional Comments were Submitted

Transaction Data

Date of Sale	4/9/2007
Days on the Market	0
Asking Price	$350,000
Sale Price	$305,000
Percent Down Payment	0%

Terms of Deal:

No Terms were Submitted

Income Data		Asset Data		Liability Data	
Annual Gross Sales	$2,269,286	Cash	$0	Assumed Int-Bear Debt	$0
Cash Flow (SDE)	$207,512	Accounts Receivable	$0	L-T Liabilities	$0
		Other Current & Non-Current Assets	$0	Total Liabilities	$0
		Inventory	$125,000		
		Furniture Fixtures, and Equipment	$226,430		
		Intangibles	$0	Value of Real Estate	$0

Operating Ratios		Valuation Multiples	
Cash Flow Margin (SDE%):	9.14%	Revenue Multiplier	0.13
Rent/Annual Sales	0.0%	Cash Flow Multiplier	1.47
		Enterprise Multiplier	0.87

Transaction Details Comp # 10

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Full Service Garden Center NOTES:

Source: **BizBuySell**
Transaction Type: Asset Sale
Location: OR
Number of Employees:

No Additional Comments were Submitted

Transaction Data

Date of Sale	9/17/2007
Days on the Market	0
Asking Price	$990,000
Sale Price	$990,000
Percent Down Payment	0%

Terms of Deal:

No Terms were Submitted

Income Data		Asset Data		Liability Data	
Annual Gross Sales	$2,825,074	Cash	$0	Assumed Int-Bear Debt	$0
Cash Flow (SDE)	$281,240	Accounts Receivable	$0	L-T Liabilities	$0
		Other Current & Non-Current Assets	$0	Total Liabilities	$0
		Inventory	$550,000		
		Furniture Fixtures, and Equipment	$350,000		
		Intangibles	$0	Value of Real Estate	$0

Operating Ratios		Valuation Multiples	
Cash Flow Margin (SDE%):	9.96%	Revenue Multiplier	0.35
Rent/Annual Sales	0.0%	Cash Flow Multiplier	3.52
		Enterprise Multiplier	1.56

Transaction Details Comp # 11

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Whsle/Retail-Light Fixtures

NOTES:

Source: **Bizcomps**
Transaction Type: Asset Sale
Location: Colorado
Number of Employees: 0

No Additional Comments were Submitted

Transaction Data

Date of Sale	1/1/2000
Days on the Market	905
Asking Price	$878,000
Adjusted Asset Sale Price	$878,000
Percent Down Payment	98%
Terms of Deal:	

6 Mos @ 0%

Adjusted Asset Sale Price:

Sale Price	$366,000
Inventory	$512,000
Adjusted Asset Sale Price	$878,000

Income Data

Annual Gross Sales	$1,869,000
Cash Flow (SDE)	$221,000

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$512,000
Furniture Fixtures, and Equipment	$50,000
Intangibles	$0

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	$0
Total Liabilities	$0
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	11.82%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.47
Cash Flow Multiplier	3.97
Enterprise Multiplier	1.66

Transaction Details Comp # 12

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Retail Hardware - Franchise

NOTES:

Source: **Pratts Stats**
Transaction Type: Asset Sale
Location: CA
Number of Employees: 0

The Income Statement is a recast full-year profit and loss statement. EBT includes other income of $43,341.

Transaction Data

Date of Sale	8/1/2002
Days on the Market	No
Asking Price	$1,500,000
Adjusted Asset Sale Price	$1,149,156
Percent Down Payment	100%
Terms of Deal:	

Consideration: $1,172,760 in cash.

Adjusted Asset Sale Price:

Market Value of Invested Capital	$1,149,156
Plus Employment Agreement Value	N/A
Adjusted Asset Sale Price	$1,149,156

Income Data

Annual Gross Sales	$2,239,231
SDE Calculation	
Owner's Compensation	N/A
Non-Cash Charges	$4,843
Operating Profit	$279,753
Cash Flow (SDE)	$284,596

Asset Data is **Allocation**

Cash	$4,900
Accounts Receivable	$18,704
Other Current & Non-Current Assets	$8,520
Inventory	$549,156
Furniture Fixtures, and Equipment	$138,258
Intangibles	$453,222

Liability Data

Assumed Int-Bear Debt	N/A
L-T Liabilities	N/A
Total Liabilities Assumed	N/A
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	12.71%
Rent/Annual Sales	5.3%

Valuation Multiples

Revenue Multiplier	0.51
Cash Flow Multiplier	4.04
Enterprise Multiplier	2.11

Transaction Details Comp # 13

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Retail-Hardware Store

NOTES:

Source: **Bizcomps**
Transaction Type: Asset Sale
Location: Georgia
Number of Employees: 14

No Additional Comments were Submitted

Transaction Data

Date of Sale	6/28/2007
Days on the Market	601
Asking Price	$589,000
Adjusted Asset Sale Price	$589,000
Percent Down Payment	100%

Terms of Deal:

No Terms were Submitted

Adjusted Asset Sale Price:

Sale Price	$239,000
Inventory	$350,000
Adjusted Asset Sale Price	$589,000

Income Data

Annual Gross Sales	$1,873,000
Cash Flow (SDE)	$267,000

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$350,000
Furniture Fixtures, and Equipment	$50,000
Intangibles	$0

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	$0
Total Liabilities	$0
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	14.26%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.31
Cash Flow Multiplier	2.21
Enterprise Multiplier	0.90

Transaction Details Comp # 14

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Hardware, Farm and Ranch Supply

NOTES:

Source: **BizBuySell**
Transaction Type: Asset Sale
Location: TX
Number of Employees:

No Additional Comments were Submitted

Transaction Data

Date of Sale	1/7/2008
Days on the Market	0
Asking Price	$1,625,000
Sale Price	$1,373,726
Percent Down Payment	0%

Terms of Deal:

No Terms were Submitted

Income Data

Annual Gross Sales	$2,845,917
Cash Flow (SDE)	$417,180

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$650,000
Furniture Fixtures, and Equipment	$416,700
Intangibles	$0

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	$0
Total Liabilities	$0
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	14.66%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.48
Cash Flow Multiplier	3.29
Enterprise Multiplier	1.73

Transaction Details — Comp # 15

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores

Business Description: New Ace Hardware Store

NOTES:

Source: **BizBuySell**
Transaction Type: Asset Sale
Location: CA
Number of Employees:

No Additional Comments were Submitted

Transaction Data

Date of Sale	11/15/2007
Days on the Market	0
Asking Price	$925,000
Sale Price	$825,000
Percent Down Payment	0%

Terms of Deal:

No Terms were Submitted

Income Data

Annual Gross Sales	$1,620,000
Cash Flow (SDE)	$240,000

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$300,001
Furniture Fixtures, and Equipment	$421,000
Intangibles	$0

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	$0
Total Liabilities	$0
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	14.81%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.51
Cash Flow Multiplier	3.44
Enterprise Multiplier	2.19

Transaction Details — Comp # 16

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores

Business Description: Retail-Hardware Store

NOTES:

Source: **Bizcomps**
Transaction Type: Asset Sale
Location: Colorado Springs, CO
Number of Employees: 12

No Additional Comments were Submitted

Transaction Data

Date of Sale	6/15/2007
Days on the Market	384
Asking Price	$795,000
Adjusted Asset Sale Price	$812,000
Percent Down Payment	0%

Terms of Deal:

15 Yrs @ 8.5%

Adjusted Asset Sale Price:

Sale Price	$575,000
Inventory	$237,000
Adjusted Asset Sale Price	$812,000

Income Data

Annual Gross Sales	$1,657,000
Cash Flow (SDE)	$294,000

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$237,000
Furniture Fixtures, and Equipment	$259,000
Intangibles	$0

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	$0
Total Liabilities	$0
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	17.74%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.49
Cash Flow Multiplier	2.76
Enterprise Multiplier	1.96

Transaction Details — Comp # 17

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Ace Hardware

NOTES:

Source: **BizBuySell**
Transaction Type: Asset Sale
Location: GA
Number of Employees:

No Additional Comments were Submitted

Transaction Data

Date of Sale	6/12/2006
Days on the Market	0
Asking Price	$1,078,000
Sale Price	$1,055,000
Percent Down Payment	0%

Terms of Deal:

No Terms were Submitted

Income Data		Asset Data		Liability Data	
Annual Gross Sales	$2,048,964	Cash	$0	Assumed Int-Bear Debt	$0
Cash Flow (SDE)	$369,000	Accounts Receivable	$0	L-T Liabilities	$0
		Other Current & Non-Current Assets	$0	Total Liabilities	$0
		Inventory	$265,000		
		Furniture Fixtures, and Equipment	$50,000		
		Intangibles	$0	Value of Real Estate	$0

Operating Ratios		Valuation Multiples	
Cash Flow Margin (SDE%):	18.01%	Revenue Multiplier	0.51
Rent/Annual Sales	0.0%	Cash Flow Multiplier	2.86
		Enterprise Multiplier	2.14

Transaction Details — Comp # 18

SIC Code: 5251 Building Materials, Garden Supply, and Hardware Stores
Business Description: Hardware Store

NOTES:

Source: **Pratts Stats**
Transaction Type: Asset Sale
Location: TN
Number of Employees: 8

Seller to transition & train for a period of 3 months full time.

Transaction Data

Date of Sale	7/21/2007
Days on the Market	No
Asking Price	$950,000
Sale Price	$850,000
Percent Down Payment	100%

Terms of Deal:

Cash deal. Bank financing.

Income Data		Asset Data		Liability Data	
Annual Gross Sales	$1,584,540	Cash	$0	Assumed Int-Bear Debt	$0
SDE Calculation		Accounts Receivable	$0	L-T Liabilities	$0
Owner's Compensation	$120,000	Other Current & Non-Current Assets	$0	Total Liabilities	$0
Non-Cash Charges	$8,372	Inventory	$450,000		
Operating Profit	$168,528	Furniture Fixtures, and Equipment	$100,000		
Cash Flow (SDE)	$296,900	Intangibles	$300,000	Value of Real Estate	$0

Operating Ratios		Valuation Multiples	
Cash Flow Margin (SDE%):	18.74%	Revenue Multiplier	0.54
Rent/Annual Sales	3.0%	Cash Flow Multiplier	2.86
		Enterprise Multiplier	1.35

APPENDIX B

Analysis of Transactional Databases

The Appraiser uses three databases to obtain transactional data: Bizcomps, Pratt's Stats, and the Institute of Business Appraisers (IBA) Database.[1] Each database assembles transactional data somewhat differently than the others. Therefore, it is necessary to make various adjustments to the data points in each to make them reasonably comparable to each other. The appropriate adjustments were developed from information presented in: ValuSource's and IBA's on-line help screens for the IBA database; the Business Valuation Resources on-line help screens and procedural manuals for the Pratt's Stats and Bizcomps databases; Nancy Fannon's book on how to use the databases[2] or, more importantly, from direct observations by the Appraiser.

1.0 Selling Price (Asset Sale)

The sales of most small businesses are structured in a manner whereby the buyer acquires the inventory, Fixtures and Equipment (FF&E), and intangibles and the seller keeps the cash and receivables and pays off the company debt. This structure is commonly referred to an Asset Sale. Since an Asset Sale is the most common form of transaction in the sale of a small business, it is desirable to reconstruct all the transactions that we will use in our analysis to reflect the selling price for just those three assets. As a result, the selling prices of all the selected transactions will be directly comparable to each other.

As we shall see below, all three databases generally report sufficient transactional data in which a selling price can be reconciled for the total value of the inventory, FF&E, and intangibles that were transferred. *In order to calculate a selling price for each database that will align with each other, we will make appropriate adjustments in the reported selling prices to equal the total value of those three assets.* It is fairly common to find insufficient data to make an accurate reconciliation in which case, some guesswork may be necessary. However, appraisers must use their best judgment to determine if the lack of data precludes obtaining a good estimate of an Asset Sale selling price. If so, they must reject that comparable.

Pratt's Stats

As noted in Nancy Fannon's book,[3] Pratt's Stats indicates that, "Price is generally considered to be the dollar value consideration [note: consideration can be in the form of cash, notes, and/or securities[4]] paid for the business sold including interest-bearing debt. Therefore, the only price reported by the Pratt's Stats database is an invested capital price (which the

[1] Bizcomps® and Pratt's Stats® data are obtained from Business Valuation Resources website - www.bvmarketdata.com, and IBA data is obtained from ValuSource website - www.vswebapp.com. or the Institute of Business Appraisers (IBA) website – www.go-iba.org.
[2] Nancy Fannon & Heidi Walker, "The Comprehensive Guide to the Use and Application of the Transaction Databases," 2009 Edition, Business Valuation Resources, LLC
[3] Ibid., p.2-3
[4] Pratt's Stats FAQs, "Definitions: What is the Legend for Pratt's Stats Income Data," from the Business Valuation Resources website, http://www.bvmarketdata.com. p.3

database refers to as MVIC or Market Value of Invested Capital)." Ms. Fannon also notes that Pratt's Stats FAQs (Frequently Asked Questions) indicated that an Asset Sale typically does not include assumed interest-bearing liabilities and generally, but not always, does not include cash, receivables, prepaid expenses, or real estate.[5] In most cases when an Asset Sale also included cash or receivables, it was noted in the Additional Transaction Information in the transaction report. However, if the submitting broker neglected to mention it, the reported selling price may not be correct. The Appraiser has found instances of this error, but they are fairly uncommon.

Thus with the data available, a typical Asset Sale reported in Pratt's Stats can usually be reconstructed to produce the total value allocated to inventory, FF&E, and intangibles. However, appraisers must read the notes appended to each transaction to confirm what other assets may have been transferred. It is not uncommon that accurate information was not provided by the submitting brokers; thus appraisers must use their judgment as to whether the comparable should or should not be used.

The selling price allocation reported in each transaction may indicate that a portion of the price included covenant-not-to-compete value, consulting agreement value, or earn-out value.[6] Pratt's Stats deducts the portion of the selling price allocated to consulting agreements and earn-outs in its MVIC calculation.[7] As we shall see later Bizcomps and IBA only exclude earn-out value from their reported selling prices.

Suggested Adjustment: Thus in order to reconcile Pratt's Stats' MVIC to obtain the value of inventory, FF&E, and intangibles that will generally align with Bizcomps and IBA values, we must deduct from MVIC any cash, receivables, or non-operating assets that may have been included in the selling price and add back any value allocated to consulting agreements.

Actual observations by the Appraiser find this reconciliation is usually comparable to the other databases' adjusted values. However, one must carefully review that data. If the available information is insufficient to produce a reasonable estimate of the selling price for the three target assets, the comparable should be rejected.

<u>Bizcomps</u>

"The Bizcomps transactions are all Asset Sales or have been converted to Asset Sales. As such the price includes FF&E and goodwill or the intangible value. … Bizcomps maintains that their sales prices exclude inventory … [and] non-compete and consulting agreements are included."[8]

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[5] Pratt's Stats FAQs, "Definitions: What is the Legend for Pratt's Stats Income Data," from the Business Valuation Resources website, http://www.bvmarketdata.com. p.2-5.

[6] Earn-outs are that portion of the selling price of a business that are conditional payments. These are payments that a seller will only receive if the buyer achieves certain sales or profitabilty goals in the future. Since they are amounts that cannot be determined as of the sale date, they are generally excluded from the reported selling price of the business.

[7] Ibid., p.2-3f.

[8] Ibid., p.3-3f.

Suggested Adjustment: Thus in order to reconcile Bizcomps' selling price that will generally align with Pratt's Stats and IBA's adjusted selling price for inventory, FF&E, and intangibles, we must add inventory to Bizcomps' reported selling price.

IBA

Raymond Miles reports that the IBA database generally excludes cash, accounts receivable, real estate, and "other assets" (such as deposits and prepaids) from the selling price, and generally includes inventory, FF&E, intangibles and covenant-not-to-compete.[9] The Market Analysis Tutorial screen on the IBA website also indicates that the selling price includes consulting agreement value.[10]

Although IBA claims that it excludes real estate value from the selling price, the analysis below found that of the 42 transactions in which real estate was also transferred, 27 transactions had the real estate value added to the selling price. In most cases the inclusion of real estate caused the selling price to appear extraordinarily high with respect to the company's revenue, in which case subtracting the real estate value produced a much more reasonable result. Therefore in transactions involving real estate, appraisers must look at the data and adjust the selling price if it appears necessary. If unsure, the transaction should be excluded from the analysis. However, as shown in Paragraph 4.1 below, over 95% of the time IBA's adjusted selling price and Bizcomp's adjusted selling price were the same.

Suggested Adjustment: Therefore, other than a possible adjustment for real estate, there are no additional adjustments necessary to reconcile IBA's selling price to align with Pratt's Stats and Bizcomps adjusted values for inventory, FF&E, and intangibles.

2.0 Revenue

Suggested Adjustment: As will be demonstrated below, all three databases appear to report revenues in the same manner, so no additional adjustments are needed.

3.0 Seller's Discretionary Earnings (SDE)

Pratt's Stats

"Pratt's Stats calculations of EBIT (Earnings before Interest and Taxes), and EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization) also exclude other income and expenses and interest income or tax benefits. Discretionary Earnings (SDE), then, is equal to adjusted EBITDA plus Owner's Compensation."[11] Owner's Compensation is the

[9] Raymond C. Miles, "How to Use the IBA Market Data Base", Part XXVIII, 1999 p.2. (Excerpt obtained by request from Dave Miles of ValuSource)
[10] Market Analysis Tutorial #3 on IBA website, "IBA Transactional Database Fundamentals," http://go-iba.org/market-data/tutorials/index.html, 2009, p.1
[11] Nancy Fannon & Heidi Walker, "The Comprehensive Guide to the Use and Application of the Transaction Databases," 2009 Edition, Business Valuation Resources, LLC, p.2-8

wage paid to one owner.[12] Three data fields from the Pratt's Stats transaction report typically will add up to Discretionary Earnings (SDE). Those data fields are Owner's Compensation, Operating Profit (EBIT), and Noncash Charges (Operating Profit plus Noncash Charges equals EBITDA). In nearly 75% of the transactions in the research discussed below, this calculation matched the SDE calculations of IBA and Bizcomps. Of the remaining 25% where the SDE's differed, over half were due to errors in processing the data by one or the other databases. Less than 10% of all the transactions had discrepancies that were due to either minor calculation errors or procedural differences, but it could not be determined from the data which type of discrepancy it was. In other words, the number of differences in SDE found among the databases that were procedural in nature were fairly small. Regardless, in our research below, the discrepancies resulted in the Pratt's Stats SDE value averaging 98.2% of the IBA and Bizcomps value. In other words, the discrepancies do not appear significant enough or frequent enough to adversely skew the results of our analysis.

A portion of the discrepancies among the databases in SDE calculations probably can be attributed to the fact that Pratt's Stats requires significantly more data input from the reporting brokers than IBA or Bizcomps. As a result, the Pratt's Stats analysts can sometimes spot calculation errors that were made in the submitted data. Thus many of the discrepancies are not from procedural differences, but rather computational errors by the other databases. Since all three databases are exposed to poor data reporting by submitting brokers, it is important that appraisers carefully review each transaction to determine if it is reasonable. However, in the event that a selected sample of comparables has duplicate transactions with different values for selling price, revenues, or SDE, the data from Pratt's Stats will be used in the analysis. If in the appraiser's judgment the transactional data does not appear reliable, it should be excluded from the sample of comparables selected.

Suggested Adjustment: Thus to reconcile Seller's Discretionary Earnings from Pratt's Stats data in a manner that will generally align with IBA and Bizcomps values, we must combine owner's compensation, operating profits, and noncash charges.

Bizcomps

Bizcomps defines SDE as net Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) plus owner's compensation and any non-business or non-recurring expenses. If there is more than one owner, a hypothetical salary for the lowest paid partner will be deducted from cash flow.[13] Bizcomps points out that this is the convention used by Certified Business Intermediaries (CBI) with the International Business Brokers Association (IBBA). The Bizcomps data is submitted almost exclusively by this group.[14] The description is fairly similar to the Pratt's Stats construction with the exception that Pratt's Stats cited that other income is also deducted from earnings when calculating SDE. Bizcomps does not have a data field for other income so no adjustment is possible. As

[12] Pratt's Stats FAQs, "Definitions: What is the Legend for Pratt's Stats Income Data," from the Business Valuation Resources website, http://www.bvmarketdata.com. p.2
[13] Jack Sanders, "Bizcomps 2011 User Guide," Business Valuation Resources, 2011. P.16
[14] Ibid., p.7

pointed out in the research below, the procedural differences occur infrequently and are generally small.

Suggested Adjustment: No adjustments to Bizcomps' SDE are needed to make it align with Pratt's Stats' adjusted SDE.

IBA

If one excludes discrepancies caused by obvious computation errors, Bizcomps and IBA presented the same value for SDE 98% of the time.

Suggested Adjustment: No further adjustments to SDE are needed to make IBA and Bizcomps values align with Pratt's Stats value.

4.0 Stock Sales

IBA

Although all transactions reported in the IBA database are supposed to be assets sales,[15] there are a few transactions that are listed as Stock Sales. Of the 880 IBA transactions in the research below, only three were listed as Stock Sales. None of those were duplicates of transactions in the other databases so it is not known how IBA presents transactional data on Stock Sales. None of the help screen information on the ValuSource or IBA websites or conversations on the subject with Dave Miles of ValuSource offered any clarification.

Suggested Adjustment: Any transaction that is listed as a Stock Sale in the IBA database should usually be excluded from the transactional analysis.

Bizcomps

As noted above, all Bizcomps transactions that were Stock Sales have been converted to an equivalent Asset Sale value. We are not told which transactions were Stock Sales. However, as noted above, the selling price listed by Bizcomps is always the total value for FF&E and intangibles only. Thus it is presumed that all Stock Sale prices have been converted to this value.

Suggested Adjustment: By adding inventory to the listed selling price we will be converting any Stock Sale price to the value of the inventory, FF&E, and intangibles which will generally align with adjusted selling prices from the Pratt's Stats and IBA databases discussed above.

[15] Raymond C. Miles, "How to Use the IBA Market Data Base," Part XXVIII, 1999 p.2. (Excerpt obtained by request from Dave Miles of ValuSource.)

Pratt's Stats

Pratt's Stats reports both Asset Sales and Stock Sales and generally provides a significant amount of data describing each transaction. Pratt's Stats assumes that what is typically transferred in a Stock Sale is the "entire legal entity of the company, [including] all assets and liabilities unless otherwise specified in the purchase agreement [with the exception of] excess or non-operating assets that have been liquidated and/or transferred prior to the sale or at the point of sale."[16] However, unless a specific allocation of the selling price is noted in the Additional Information section of the Transaction Report, or the Asset Data field is marked "Data is a Purchase Price Allocation," it is generally difficult to determine what assets and liabilities were actually transferred. As such an accurate Asset Sale reconciliation may not be possible. Thus if specific allocation information is not available or the critical data fields for assets and liabilities contain N/A entries, that comparable should probably be rejected.

As noted above, the selling price listed by Pratt's Stats (MVIC) is equal to total consideration paid (cash, notes, and/or securities) plus any interest-bearing debt assumed, less amounts for earn-outs and employment/consulting agreements. To make the Pratt's Stats selling price align with those of IBA and Bizcomps, we added back the consulting agreement value. However, since the entire corporate balance sheet may have been transferred in a sale, a number of adjustments must be made to reconcile MVIC to an equivalent Asset Sale price that we defined in Paragraph 1.0 above.

The first step in the reconciliation process is to determine what, if any, liabilities were assumed in the transaction. If the Debt Assumed field in the Transaction Report is labeled N/A, Pratt's Stats was not able to definitively determine if any interest-bearing debt was assumed. If no other information is available, it may be necessary to reject this comparable. However, if the Debt Assumed field has either a zero or a dollar amount, the information describing the business sale clearly identified the level of interest-bearing debt assumed.[17] It is also necessary to identify all the non-interest bearing debt that was also assumed. This information is generally only made available when a specific allocation of the purchase agreement is itemized in the Additional Information section. However, if zeros are found in the data fields for Liabilities Assumed, Long-Term Liabilities, and Total Liabilities, then Pratt's Stats determined that no liabilities were assumed in the transaction. In other words, if specific allocation information is not available in the Additional Information section or the Asset Data field is not marked "Data is a Purchase Price Allocation", it will be difficult to make an accurate Asset Sale reconciliation and the comparable should be rejected.

It is necessary to identify all liabilities assumed (both interest bearing and non-interest bearing debt) because total consideration plus total debt assumed equals the total debt and equity used to make the purchase. From basic accounting we know that total debt and equity also equals total assets. Once we have established what the total asset value of the

[16] Pratt's Stats FAQs, "Definitions: What is Typically Assumed to Be Transferred in a Stock Sale," from the Business Valuation Resources website, http://www.bvmarketdata.com. p.9

[17] Nancy Fannon & Heidi Walker, "The Comprehensive Guide to the Use and Application of the Transaction Databases," 2009 Edition, Business Valuation Resources, LLC, p.2-3

transferred business is, it is a simple task to subtract the value of all the assets acquired except for inventory, FF&E, and intangibles. The resulting value will be an equivalent Asset Sale value (inventory, FF&E, and intangibles) that will generally align with the selling prices in IBA and Bizcomps.

Suggested Adjustments: The following is the formula that will be used to reconcile a Stock Sale value to an equivalent Asset Sale value. An actual sample transaction from Pratt's Stats follows the formula. Again, this reconciliation generally can only be done accurately when the Transaction Report includes a selling price allocation in the Additional Information section or the Asset Date field is marked "Data is a Purchase Price Allocation."

MVIC (Cash, Stock, Notes, IB debt Assumed)	*14,021,000
Plus Additional Non-Interest Bearing Debt	625,000
Plus Employment/consulting Agreement	-0-
Less Cash	(0)
Less Accounts Receivable	(856,000)
Less Other Assets (prepaids & for-sale assets)	(1,572,000)
Asset Sale Value Equivalent	$12,218,000

*Note: Pratt's Stats incorrectly added up Total Consideration. It should have been $13,994,000. That would have made the Asset Sale Value equal to $12,191,000 which is the actual total for inventory, FF&E, and goodwill.

Pratt's Stats® Transaction Report

Prepared: 8/16/2011 10:58:41 AM (PST)

Seller Details

Target Name:	Accurel Systems International Corporation
Business Description:	Commercial Laboratory the Provides Advanced Technology Services to Users and Manufacturers of Semiconductors
SIC:	8734 Testing Laboratories
NAICS:	541380 Testing Laboratories
Sale Location:	Sunnyvale, CA, United States
Years in Business:	16
Number Employees:	N/A

Source Data

Public Buyer Name:	IMPLANT SCIENCES CORP
8-K Date:	3/11/2005
8-K/A Date:	4/13/2005
Other Filing Type:	N/A
Other Filing Date:	N/A
CIK Code:	0001068874

Income Data

Data is "Latest Full Year" Reported	Yes
Data is Restated (see Notes for any explanation)	No
Income Statement Date	12/31/2004
Net Sales	$8,151,567
COGS	$5,870,011
Gross Profit	$2,281,556
Yearly Rent	N/A
Owner's Compensation	N/A
Other Operating Expenses	N/A
Noncash Charges	$1,427,287
Total Operating Expenses	$1,677,951
Operating Profit	$603,605
Interest Expenses	$253,015
EBT	$502,634
Taxes	$11,218
Net Income	$491,416

Asset Data

Data is Latest Reported	Yes
Data is "Purchase Price Allocation agreed upon by Buyer and Seller"	No
Balance Sheet Date	12/31/2004
Cash Equivalents	$373,697
Trade Receivables	$856,637
Inventory	$0
Other Current Assets	$88,639
Total Current Assets	$1,318,973
Fixed Assets	$4,163,861
Real Estate	$0
Intangibles	$190,898
Other Noncurrent Assets	$87,678
Total Assets	$5,761,410
Long-term Liabilities	$2,062,908
Total Liabilities	$3,402,658
Stockholder's Equity	$2,358,752

Transaction Data

Date Sale Initiated:	N/A
Date of Sale:	3/9/2005
Days to Sell:	N/A
Asking Price:	N/A
Market Value of Invested Capital*:	$14,021,000
Debt Assumed:	$2,694,000
Employment Agreement Value:	N/A
Noncompete Value:	N/A
Amount of Down Payment:	$9,650,000
Stock or Asset Sale:	Stock
Company Type:	S Corporation
Was there an Employment/Consulting Agreement?	No
Was there an Assumed Lease in the sale?	Yes
Was there a Renewal Option with the Lease?	No

*Includes noncompete value and interest-bearing debt; excludes real estate, employment/consulting agreement values, and all contingent payments.

Additional Transaction Information

Was there a Note in the consideration paid? Yes

Was there a personal guarantee on the Note? No

Terms:

Consideration: 418,194 shares of the Buyer's common stock with a fair value of $3,650,000 based upon a fair value per share of $8.728, $6,000,000 in cash, and $1,650,000 in shareholder notes. In addition, the Buyer assumed debt and capital leases of $2,694,000. The Buyer incurred direct acquisiton costs in the amount of $1,100,000; these costs are not included in the Selling Price.

Assumed Lease (Months): N/A

Terms of Lease: Future minimum lease payments total $3,152,000 beyond 12/31/2009

Noncompete Length (Months): N/A

Noncompete Description: N/A

Employment/Consulting Agreement Description:

Additional Notes:

EBT includes Gain on sale of fixed assets of $125,907 and Miscellaneous income of $26,137.

Purchase Price Allocation: Accounts receivable $856,000, Prepaid expenses and other assets $172,000, Property, plant and equipment $4,719,000, Goodwill and other intangibles $8,572,000, Assets held for sale $1,400,000, Other liabilities ($625,000), Debt and capital leases ($2,694,000), Total $12,400,000.

Accurel is a commercial laboratory specializing in Failure Analysis Microscopy, Transmission Electron Microscopy and Focused Ion Beam Circuit Repair Services.

5.0 Applying the Adjustments to Actual Data

To test the accuracy of the above-suggested adjustments, the Appraiser downloaded all the transactions from SIC classifications 7501 through 7599 from all three databases. There were a total of 489 transactions from the Pratt's Stats database, 668 from Bizcomps, and 881 from IBA. The data from each source was then adjusted using the suggested methods above. From the total 2,020 transactions there were 148 duplications between IBA and Bizcomps, 43 between IBA and Pratt's Stats, and 71 between Bizcomps and Pratt's Stats. It is from these duplications that we can see readily see if the suggested adjustments accounted for all differences between their respective presentations of data.

As the Appraiser noted in the Market Approach discussion, business brokers generally submit the same transactional data to all three databases and generally do not change any of the submitted data to conform to any database's procedural differences. Thus even though the manuals or on-line help screens of the respective databases indicate that there are a number of differences in the manner in which they calculate revenues, selling price, and SDE, in actual practice those differences are minimal.

5.1 IBA vs. Bizcomps

Selling Price

Of the 148 duplications, both IBA and Bizcomps reported the same selling price in all but 16 transactions. Of those 16, four IBA transactions had real estate included in the selling price. It was not obvious from the IBA data that it was. If it were not for the duplication in Bizcomps, we never would have known that real estate was included in those four IBA selling prices.

Four IBA transactions listed the selling price significantly less than SDE which was probably the result of data processing errors. Those four duplicates found in Bizcomps had selling prices considerably higher than SDE. The IBA selling prices, however, were so unrealistically low that we would have rejected those comparables even if we did not have Bizcomps for comparison.

After rejecting eight of the 16 transactions due to obvious errors, the remaining eight differences in reported selling prices were from either minor processing errors or perhaps procedural differences in the way each database calculated revenue. There was no way one could determine from the data which of the two types of discrepancies occurred. Thus after rejecting obvious data collection errors, at least 95% of the time IBA and Bizcomps calculated the selling price exactly the same way.

As was noted above, the IBA database claims that it deducts real estate value from the selling price. The Appraiser found 42 transactions out of the 148 where real estate was involved. In 27 of those transactions the real estate price was included in the total transaction price. Only 15 transactions deducted the real estate value as suggested in IBA's procedural manual. In almost every situation (except the four described above) the selling prices of those

comparables including real estate were so high with respect to their revenues that one could reasonably conclude that the real estate value should be deducted from the selling price. Again appraisers should use their judgment in reviewing the data and reject any comparable that is subject to doubt.

Revenue

All 148 revenue calculations were the same between the two databases; therefore, no adjustment is required for revenue.

SDE

Of 148 duplications there were only eight discrepancies in reported SDE. In three of those transactions IBA had the same value in the revenue and SDE data fields. Two transactions had real estate included which often leads to data processing errors. Thus after rejecting the obvious errors, the remaining three differences in reported selling prices were from either minor data processing errors or possibly procedural differences in the way each database calculated SDE. Regardless, 98% of the time IBA and Bizcomps reported the same value for SDE.

Even though IBA does not mention adding back depreciation to SDE[18] whereas Bizcomps does, in practice IBA clearly appears to calculate SDE in the same way Bizcomps does.

5.2 IBA vs. Pratt's Stats

Selling Price

After making the suggested adjustments, all 43 duplications calculated selling prices the same way. Thus there were no other procedural differences in the way each calculated selling price.

Revenue

There were just three discrepancies in the listed revenue amounts out of 43 duplications between the two databases. All three discrepancies arose because IBA used the most current P&L data available, whereas Pratt's Stats used the P&Ls that were available when the sale began. Thus there were no other procedural differences in the way each calculated revenue.

SDE

After making the suggested adjustments for SDE noted in Paragraph 3.0, 21 discrepancies were found in the calculations for SDE out of the 43 duplications. Four differences were due to Pratt's Stats adding owner's compensation to operating profits of a sole proprietorship,

[18] Market Analysis Tutorial #3 on IBA website, "IBA Transactional Database Fundamentals," http://go-iba.org/market-data/tutorials/index.html, 2009, p.1

which consequently double counted SDE (in a sole proprietorship operating profits are the owner's compensation; there is no separate owner's salary). Three errors arose because IBA used the most current P&L data available, whereas Pratt's Stats used the P&Ls that were available when the sale began. Seven other discrepancies were very obvious data processing errors. Only three of the discrepancies occurred because of procedural differences. Those were the result of IBA's stated policy of not adding back depreciation to SDE. Even though IBA states that it calculates SDE without adding back depreciation, only three instances in a combined 191 duplications between Pratt's Stats and Bizcomps proved that to be true. Thus IBA appears to calculate SDE the same way as the other two databases in over 98% of the time.

5.3 Bizcomps vs. Pratt's Stats

Selling Price

There were a total of 71 duplications between the Bizcomps and Pratt's Stats samples. Of that total only seven discrepancies appeared between their respective selling prices. Three of those transactions indicated that real estate was also sold. The selling prices reported by Bizcomps were so high with respect to revenues that one could conclude that real estate value was inadvertently added to the selling price. The cause for the remaining four discrepancies could not be determined by the data. However, those four discrepancies represent only 5% of the total duplicate transactions with Pratt's Stats' selling prices averaging just 7% higher than Bizcomps'. Thus the selling prices reported in these two databases appear to be reasonably similar after making the adjustments suggested in Paragraph 1.0.

Revenue

There were only a total of four discrepancies in the reported revenue of the 71 duplications between Bizcomps and Pratt's Stats. There was insufficient data to determine the cause of the discrepancies, but Pratt's Stats reported revenue averaged only 1% higher than Bizcomps' revenue. Thus revenues reported in these two databases appear to be reasonably similar after making the suggested adjustments.

SDE

As was the case in the duplications between IBA and Pratt's Stats above, the greatest number of discrepancies appeared in the SDE calculations. It is believed that most of the discrepancies occur as a result of the different reporting forms used by the databases. Since the wording for the various data points on each form is different, it is easy for brokers to be confused and enter incorrect information. Of the 71 duplications between Bizcomps and Pratt's Stats, there were 33 discrepancies. Of that total 16 were obvious data entry errors, not procedural differences. Typical errors were: 1) double counting owner's income when determining SDE of a sole proprietorship; 2) operating losses were not included in SDE calculations; 3) owner's salary was not added back to SDE; 4) depreciation was not added

back to SDE; 5) different P&L years were used by the different databases; and 6) real estate was also involved.

Of the remaining 17 discrepancies, one was found to be a procedural difference where Pratt's Stats deducted other income from SDE and Bizcomps did not. Sixteen discrepancies had insufficient data to determine whether the difference was due to simple data processing errors or procedural differences. Regardless, where discrepancies were not explainable Pratt's Stats SDE averaged only 1.4% less than the SDE reported by Bizcomps.

Summary

As we have seen above, transactions with real estate have a high percentage of selling price calculation errors. SDE calculations are also frequently done incorrectly. Many brokers do not understand how to properly calculate SDE when an owner of the business also owns the real estate. Brokers often add back the interest expense from the real estate mortgage to arrive at SDE for the business. Thus the calculated SDE will not have any occupancy costs making the company appear far more profitable than a company that pays rent. As a result, appraisers should use their judgment in selecting a transaction from any database that involves real estate. When there is any doubt, the comparable should be rejected.

Appraisers should also consider rejecting any comparable where the selling price or SDE appears to be extraordinarily high or low with respect to its revenue, or where data points are missing. Transactions with missing SDE or inventory (for companies that obviously should have inventory) give appraisers fewer critical data points to evaluate overall credibility of the transactional data. Liquor store sales, for example, are frequently reported with no inventory. Buyers and sellers typically enter into side agreements to pay for the inventory outside of escrow. As a result, even though a moderate level of inventory passed to the buyer, the transaction does not reflect it. The actual selling price of that business will appear very low compared to a similar store that sold with inventory included in the sale price.

Stock transactions are also highly prone to calculation errors by the submitting brokers. For example, corporations are frequently sold with receivables or other assets or liabilities included. The broker may report the selling price with receivables, but neglect to indicate that they were included in the selling price. The selling price may also have been reduced by the amount of liabilities assumed by the buyer. The broker may report the reduced price but neglect to mention that there were assumed liabilities in the transaction. As a result, the selling price of transactions sold as Stock Sales are often misinterpreted by brokers. Thus as mentioned in Paragraph 4.0, unless a specific selling price allocation is provided with the transactional data, appraisers probably should not attempt to reconcile the value to an equivalent Asset Sale price.

Resume of
C. Frederick Hall, III, MBA, CBA, AVA
10300 Argonaut Drive
Jackson, CA 95642
209-256-1371

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

Completed the following course work with the IBA and received the CBA certification

8001 A & B	Appraisal Skills Workshop	64 Hours
1060	Appraisal Writing	16 Hours
	Annual CPE Appraisal Workshops	65 Hours
		145 Hours

Completed Requirements for AVA certification (Accredited Valuation Analyst) with the National Association of Certified Valuation Analysts (NACVA)

Experience:

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

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

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

1978 to 2002 - Built a ground up retail hardware and lumber company in Pine Grove, California. The company went through four major expansions during this period. By 2002 the store grew to $5,000,000 in annual revenues and 30 employees. From 1987 to 2002 I completely automated the company at all levels and networked together a dozen workstations. I personally wrote scores of computer programs that involved every aspect of the operations, including inventory control, general ledger bookkeeping, accounts receivable, accounts payable control, and a complex payroll program.

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

2005 to 2009 - Managing partner of Compass Point Capital, specializing in mergers and acquisitions of smaller mid-sized companies ranging in revenues from $5 to $25 million.

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

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

C. FREDERICK HALL, III, MBA, AIBA
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Jackson, CA 95642

Recent Clients:

Bank of the West
Scott VanderLohe
Sacramento, CA

ScareCrow Lath & Plaster
Steve Crow
Reno, NV

North Valley Athletic Club
Scott Schofield
Chico, CA

Liquor Cabinet
Manjeet Sandhu
Corning, CA

Holiday Grocery
Jim Lumley
Marysville, CA

DEA- Bathroom Machinery
Tom Scheller
Murphys, CA

Tom's Ace
Chris Doyle
San Leandro, CA

Oak's Hardware
Dave Hill
Fair Oaks, CA

Meineke Auto Care
Dave Sparks
Gladstone, OR

A & J Paving
Allen & Joan Ashby
Reno, NV

Garden Valley Feed
Manuel Vieira
Garden Valley, CA

Hayward Ace Hardware
Andrew Lee
Hayward, CA

Cameron Ace Hardware
Barry Pino
Cameron Park, CA

Mark Bailey Plumbing
Lisa Bailey
Susanville, CA

Capital Towing
Carson City, NV

Cypress Systems
Robert Crocitto
Reno, NV

Northern Nevada Bank
Bryan Wallace
Reno, NV

Lake Bar & Grill
Robert Treanur
Sparks, NV

Mueller Fitness Center
Vance Mueller
El Dorado, CA

Lighting Unlimited
Dean Osborn
El Dorado, CA

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

Cal Inc. Environmental Training
Mike McCalmont
Vacaville, CA

Teresa's Place Restaurant
Phil Giurlani
Jackson, CA

Dixon Lumber
Bryan Bock
Dixon, CA

Foothill Ace
John Norris
Oregon House, CA

Tony Don Michael MD
Bakersfield, CA

Great Shape of America
Steve Lubarsky
Los Angeles, CA

Rossi Building Materials
Richard Nelepovitz
Fort Bragg, CA

Divide Supply
Jerry Hoyt
Greenwood, CA

Big O Tires
Scott Davis
Sparks, NV

Carpets of America
Ray Crandell
Sparks, NV

Dangermond & Assoc. Engineering
Peter Dangermond
Sacramento, CA

ProSource Sales and Mkt
Gail Sievers
Sparks, NV

Nelson Logistics
Jeffery Ting
So.San Francisco, CA

MAACO
Art Alvi
North Highlands, CA

LA Pines Building Supply
Pat Lawrence
Portland, OR

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

B & J Unical Gas
John Rockwood
Grass Valley, CA

Pine Cone Pharmacy
Paul Wesseler
Pine Grove, CA

Davenport Lumber
Doug Allen
Davenport, WA

Columbia Nursery & Florist
Janet Ofstad
Columbia, CA

Applied Control Electronics
Terrence Burke
Placerville, CA

Imperial Steel & Tube
Rick Stamper
Perris, CA

Thrillworks Extreme Eng.
Jeff Wilson
Newcastle, CA

Ameritech Propeller
Kerry Dawes
Redding, CA

Bill-Rite Mgmt Services
Lorrie Bosick
Newcastle, CA

Chamois Car Wash
Mark Gambardella
Danville, CA

Empire Stores
Kim Deol
San Leandro, CA

Wright Outdoor Center
Jim Wright
Sparks, NV

Chase Western Cabinets
Brett Zunino
Reno, NV

Consign-It
Bonnie Grisel
Rancho Cordova, CA

Kidz Love Soccer
Chris Trevisan
Cupertino, CA

Doyle's Steel
Terry Henry
Modesto, CA

Putnam HVAC
John Putnam
Rancho Cordova, CA

Sierra X-Ray Services
Pete Kohler
Reno, NV

Tender Touches Spa
Barbara Brown
Sequim, WA

Twin Cities Bike and Repair
Rick Elia
Yuba City, CA

Mark Bailey Plumbing
Lisa Bailey
Susanville, CA

Wood Rat Productions
Dennis McKee
Murrietta, CA

Outhouse Collection
Jeanette Skaff
Arnold, CA

Auction City Flea Market
Emil Magovac
Sacramento, CA.

California Movers Express
Michael Szura
Hayward, CA

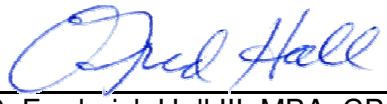
Claypool's Market
Fred Claypool
Pine Grove, CA

Great Shape of America
Steve Lubarksy
Los Angeles, CA

Appraiser's Certification

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

1. The statements of fact contained in this report are true and correct to the best of my knowledge and belief, subject to the assumptions and conditions stated.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, unbiased, and professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report, nor is my compensation dependent upon the value of this report or contingent upon producing a value that is favorable to the client.
4. I have no personal bias with respect to the parties involved or have made a full disclosure of any such bias.
5. This appraisal has been conducted and the report was written in conformity with the Business Appraisal Standards of the Institute of Business Appraisers.
6. No person except the undersigned participated materially in the preparation of this report.



C. Frederick Hall III, MBA, CBA, AVA

January 18, 2012
Date

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

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