AMADOR APPRAISALS
AND ACQUISITIONS, INC.
BUSINESS BROKERAGE AND APPRAISALS

Prepared For
John Smith

Extreme Rafting

P.O. Box 999

Klamath Falls Oregon

Business Valuation

October 15, 2014

October 15, 2014

John Smith
Extreme Rafting
P.O. Box 999
Klamath Falls Oregon

Dear Mr. Smith:

The appraisal assignment called for determining the Fair Market Value of your Company, Extreme Rafting as of December 31, 2013. The valuation is for a 100% controlling interest in the Net Worth of the Subject Company on a non-marketable basis.

The Market Approach was employed in the valuation using four different methods that produce a value referred to the Subject's Asset Sale 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 produced the highest regression R Squared factor are considered the strongest indicators of the Subject's value and, as such, are given the greatest weight in arriving at the final Conclusion of Value.

The value produced by these four methodologies (shown on Page 3) is referred to as an **Asset Sale Value** which is the most common format for a sale of a small business. The value 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. The calculated Asset Sale Value is:

Asset Sale Value (Rounded): $580,000

The Fair Market Value of the Net Worth of Extreme Rafting can then be reconciled by taking the Asset Sale Value of $580,000 and adjusting it for the remaining assets and liabilities that are not included in a conventional Asset Sale.

In my opinion, using the accepted methodologies of valuation, and subject to the limiting conditions set forth in this report, the Fair Market Value of a 100% interest in the Net Worth of Extreme Rafting as of December 31, 2013 is :

Suggested Listing Price: $660,000

<u>Reconciliation of Asset Sale Value to Net Worth Value:</u>

(See notes to the Balance Sheet on Page 7 for additional information on the assets and liabilities below.)

Additional Assets as per Balance Sheet for December 31, 2013:

Cash	$301,475	
Prepaids, Deposits	0	
Total Additional Assets		301,475

Additional Liabilities as per Balance Sheet for December 31, 2013:

Accruals	$8,425	
Accounts Payable	0	
Line of Credit	0	
Long-Term Debt	0	
Total Additional Liabilities		(8,425)

Total Net Adjustments | | **293,050**

Asset Sale Value (From Page 3) | | 580,000

Total Value of Net Worth (Rounded) <u>**$870,000**</u>

Eight Hundred Seventy Thousand Dollars

The above value is the Fair Market Value of a 100% interest the Subject's Net Worth as of December 31, 2013.

If the value of the above assets or liabilities change as of the day of transfer of ownership, the resulting increase or decrease in the Total Net Adjustments must be added to or subtracted from the Total Value of Net Worth above.

The statistical analysis of the comparables used in this report can be found on Page 3. A summary table of the comparables can be found on Page 4 with a detailed write up of each one beginning on Page 30.

VALUATION ANALYSIS
EXHIBIT IX

Company Data

Date of This Report:	October 15, 2014
Prepared For:	John Smith
Company Name:	Extreme Rafting
Address:	P.O. Box 999
City, State:	Klamath Falls Oregon
SIC Code:	799* 794* 7999

Financial Data

Average of Four Years Thru

Date of Valuation / Financial Statement Date:	December 31, 2013	
Annual Revenues =	$826,822	**SDE%**
Cash Flow (SDE%) =	$187,180	22.6%
Current Inventory =	$72,184	
Current Fixtures =	$225,000 Mkt Value	
Shares Authorized/Outstanding =	- - -	

Statistical Analysis of Sold Comparables
(See EXHIBIT X on Page)

Extreme Rafting's SDE % is 22.6%

The Subject is in the Lower Range of SDE%.

			Revenue Mult Range	Cash Flow Mult Range	Enterprise Mult Range
The Lowest 16% of Companies have SDE% of Less Than	12.7%	=	0.55	3.54	3.11
The Mid Range of Companies have SDE% of	31.6%	=	0.69	2.74	2.45
The Highest 16% of Companies have SDE% of More Than	50.4%	=	0.83	1.65	1.80

(1) REVENUE MULTIPLIER:

Regression Formula: SDE% x 0.734 + 0.459 = 0.63   R Sq. = 0.64

Multiplier		Revenue		Predicted Value		Weight		
0.63	x	$826,822	=	$521,000	x	22.8%	=	$118,788

(2) CASH FLOW MULTIPLIER:

Regression Formula: SDE% x -4.194 + 4.07 = 3.12   R Sq. = 0.75

Multiplier		Cash Flow		Predicted Value		Weight		
3.12	x	$187,180	=	$584,000	x	26.7%	=	$155,928

(3) ENTERPRISE MULTIPLIER:

Regression Formula: SDE% x -3.465 + 3.548 = 2.76   R Sq. = 0.47

Multiplier	Cash Flow		Inventory		Predicted Value		Weight		
2.76	x $187,180	+	$72,184	=	$588,800	x	16.8%	=	$98,918

(4) FOUR VARIABLE REGRESSION ANALYSIS:

	Revenues		Cash Flow		Inventory		Fixtures	

Regression Formula: 0.417 x $826,822 + -0.219 x $187,180 + 0.789 x $72,184 + 0.832 x $225,000 + $68,419 =

R Sq. = 0.95

	Predicted Value		Weight		
=	$615,933	x	33.8%	=	$208,186

Suggested Listing Price	$660,000	Asset Sale Price Including Inventory (rounded)	=	$580,000
		Probable Range of Selling Prices	=	$550,000 to $600,000

Predicted Revenue Multiplier
Predicted Multiplier = 0.63   Subject's SDE%= 22.6%
y = 0.73x + 0.46
R² = 0.64

Predicted Cash Flow Multiplier
Predicted Multiplier = 3.12 Subject's SDE%= 22.6%
y = -4.19x + 4.07
R² = 0.75

Predicted Enterprise Multiplier
Predicted Multiplier = 2.76 Subject's SDE%= 22.6%
y = -3.46x + 3.55
R² = 0.47

Observation	Listing Price (a)	Selling Price (b)	Gross Revenues (c)	Cash Flow (SDE) (d)	Inventory (e)	Fixtures (f)	SDE% d ÷ c	Revenue Multiplier b ÷ c	Cash Flow Multiplier b ÷ d	Enterprise Multiplier (b - e) ÷ d
			Sold Comparables Analysis **EXHIBIT X**					See Page 30 for Detailed Write-up of Comparables		
1	281,000	281,000	685,000	45,000	1,000	60,000	6.6%	0.41	6.24	6.22
2	630,000	625,000	1,068,000	168,000	52,000	1,000	15.7%	0.59	3.73	3.42
3	800,000	690,000	1,240,000	213,000	161,000	34,000	17.2%	0.56	3.25	2.49
4	835,000	635,000	883,000	172,000	0	350,000	19.5%	0.72	3.69	3.69
5	295,000	295,000	664,000	192,000	3,000	282,000	28.9%	0.44	1.54	1.52
6	795,000	770,000	554,000	167,000		500,000	30.1%	1.39	4.62	4.62
7	650,000	575,000	782,000	240,000	0	236,000	30.7%	0.74	2.40	2.40
8	554,000	345,000	599,000	195,000	0	285,000	32.6%	0.58	1.77	1.77
9		1,600,000	659,000	234,000	50,000	1,500,000	35.5%	2.43	6.84	6.62
10	650,000	587,000	539,000	198,000	2,000	313,000	36.7%	1.09	2.96	2.95
11	800,000	750,000	785,000	298,000	10,000	650,000	38.0%	0.96	2.52	2.48
12	350,000	350,000	500,000	200,000	150,000	20,000	40.0%	0.70	1.75	1.00
13	349,000	349,000	499,000	209,000		150,000	41.9%	0.70	1.67	1.67
14	180,000	150,000	350,000	150,000	40,000	20,000	42.9%	0.43	1.00	0.73
15	425,000	425,000	388,000	200,000	10,000	150,000	51.5%	1.10	2.13	2.08
16	980,000	500,000	517,000	380,000	0	400,000	73.5%	0.97	1.32	1.32
17										
18										
19										
20										
21										
22										
23										
24										
25										
Average	572,000	558,000	669,000	204,000	48,000	309,000	SDE % Range	Revenue Mult Range	Cash Flow Mult Range	Enterprise Mult Range

= Outliers	Selling Price ÷ Listing Price = 88.5%				
The Lowest 16% of Companies have SDE% of Less Than	18.1%*	=	0.73	3.92	3.72
The Mid Range of Companies have SDE% of	34.0%*	=	0.86	2.95	2.80
The Highest 16% of Companies have SDE% of More Than	49.5%*	=	0.99	2.01	1.90

* Companies with earnings that are negative or near zero, will have Cash Flow Multiples that are negative or extraordinarily high, causing data to be skewed inappropriately. Therefore, Companies with Cash Flow Multiples that are negative or greater than Bizcomps are ignored in this calculation.

Rejected Comparables (highlighted in Red above):

A Four Variable Regession Analysis was done to identify the comparables that were considered "outliers." These outlier comparables had actual selling prices that were too far above or below the prices predicted by the regression to be considered reasonable.

	Predicted Price	Selling Price	Revenue	Cash Flow	Inventory	FF&E	SDE%	Rev Mult	Cash Fl Mult	Enterpr Mult
#5	505,000	295,000	664,000	192,000	3,000	282,000	28.9%	0.44	1.54	1.52
#8	496,000	345,000	599,000	195,000	0,000	285,000	32.6%	0.58	1.77	1.77

	Accrual Basis				Accrual Basis				Accrual Basis				Accrual Basis		
	Dec 31, 2013	Add Backs			Dec 31, 2012	Add Backs			Dec 31, 2011	Add Backs			Dec 31, 2010	Add Backs	
INCOME (d6) Recasting the P&Ls	12 Mos.	Per P&Ls			12 Mos.	Per P&Ls			12 Mos.	P&Ls			12 Mos.	Per P&Ls	
Rental Income	877,983		100.0%		681,655				928,223				819,427		
	-	-	0.0%		-	-	0.0%		-	-	0.0%		-	-	0.0%
TOTAL INCOME	(e9) 877,983	-	100.0%		681,655	-	100.0%		928,223	-	100.0%		819,427	-	100.0%
		-				-				-					
COST OF GOODS SOLD															
Purchases, Food	69,170	-	7.9%		69,218		10.2%	(k12)	70,338		7.6%		68,529		8.4%
Freight, Supplies	717	-			382		0.1%		692		0.1%		1,105		0.1%
Labor	171,586	-			148,861		21.8%	(k14)	181,485		19.6%		177,033		21.6%
Outside Services	17,780	-			13,804		2.0%		18,730		2.0%		26,674		3.3%
User Fees	109,512	-			83,226		12.2%	(k16)	109,196		11.8%		85,226		10.4%
Payroll Taxes, Workman's Comp	48,783	-			44,953		6.6%	(k17)	66,836		7.2%		43,281		5.3%
Refunds	1,131	-	0.1%		2,782	-	0.4%		3,491	-	0.4%		(16,336)	-	2.0%
TOTAL COST OF GOODS SOLD	418,679	-	47.7%		363,226	-	53.3%		450,768	-	48.6%		418,184	-	51.0%
GROSS PROFIT	459,304				318,429				477,455				401,243		
	52.3%				46.7%				51.4%				49.0%		
OTHER INCOME (EXPENSE)															
Gain on Sale of Assets	-	-	0.0%				0.0%		550	550	0.1%		2,620	2,620	0.3%
Interest	170	-	0.0%		249		0.0%				0.0%		791	791	0.1%
	-	-	0.0%		-		0.0%		-	-	0.0%		-		0.0%
TOTAL OTHER INCOME	170	-	0.0%		249	-	0.0%		550	(550)	0.1%		3,411	(3,411)	0.4%
EXPENSES															
Officers Salary	(e30) 58,800	58,800	6.7%		56,400	56,400	8.3%	(k30)	160,200	160,200	17.3%		121,400	121,400	14.8%
Office Salaries	50,025	9,000	5.7%		39,000	9,000	5.7%		53,130	9,000	5.7%		41,000	9,000	5.0%
Payroll Taxes	4,740	6,102	0.5%		2,696	5,886	0.4%	(k32)	2,679	15,228	0.3%		7,954	11,736	1.0%
Advertising and Promotion	48,309	-	5.5%		57,815		8.5%	(k33)	51,200		5.5%		42,054		
Auto and Bus Expenses	(e34) 58,497	8,500	6.7%		47,243	8,500	6.9%	(k34)	65,504	8,500	7.1%		62,475	8,500	7.6%
Bad Debt	-	-	0.0%		154		0.0%				0.0%		1,022		0.1%
Computer and Internet Expenses	597	-	0.1%		1,449		0.2%		2,793		0.3%		80		0.0%
Equipment Rental	354	-	0.0%		89		0.0%		544		0.1%		1,238		0.2%
Insurance	13,622	-	1.6%		13,622		2.0%		13,321		1.4%		12,939		1.6%
Legal and Accounting	14,358	-	1.6%		11,474		1.7%		11,210		1.2%		9,675		1.2%
Office Supplies, Postage	7,596	-	0.9%		11,632		1.7%		3,905		0.4%		9,811		1.2%
Rent	(e41) 13,200	(1,200)	1.5%		14,400		2.1%		17,914		1.9%		13,200		1.6%
Repairs and Maintenance	1,456	-	0.2%		1,906		0.3%		1,173		0.1%		507		0.1%
Taxes and Licenses	4,288	-	0.5%		3,124		0.5%		3,299		0.4%		1,104		0.1%
Bank Charges	24,060	-	2.7%		18,256		2.7%		25,250		2.7%		24,285		3.0%
Depreciation	7,286	7,286	0.8%		6,529	6,529	1.0%	(k45)	29,798	29,798	3.2%		17,006	17,006	2.1%
Employee Benefits	(e46) 15,712	15,500	1.8%		17,026	15,500	2.5%	(k46)	17,702	14,656	1.9%		23,087	14,600	2.8%
State and Federal Taxes	(e47) 1,027	1,027	0.1%		1,017	1,017	0.1%	(k47)			0.0%				0.0%
Interest	111	111	0.0%		202	202	0.0%	(k48)	202	202	0.0%		343	343	0.0%
Travel and Entertainment	767	-	0.1%		1,542		0.2%		2,470		0.3%		1,241		0.2%
Telephone	8,168	-	0.9%		8,051		1.2%		7,929		0.9%		7,361		0.9%
Utilities	5,341	-	0.6%		4,526	-	0.7%		6,771	-	0.7%		5,218		0.6%
TOTAL EXPENSES / Total Add-Backs	338,314	105,126	38.5%		318,153	103,034	46.7%		476,994	237,584	51.4%		403,000	182,585	49.2%
TOTAL NET INCOME (per Tax Return) =	121,160		13.8%		525		0.1%		1,011		0.1%		1,654		0.2%
Total Add Backs =		105,126				103,034				237,034				179,174	
Owner's Discretionary Cash Flow =		226,286	25.8%			103,559	15.2%			238,045	25.6%			180,828	22.1%

BALANCE SHEET

	Dec 31, 2013	Adjusted			Dec 31, 2012	Adjusted			Dec 31, 2011	Adjusted			Dec 31, 2010	Adjusted	
Accrual Basis Cash	301,475				49,269				46,546				44,578		
Accounts Receivable															
Inventory	72,184		5.8x 63 days		51,218		7.1x 51 days		59,327		7.6x 48 days		62,585		
Misc Loans															
Prepaids, Deposits	-				-				-				-	-	
Total Current Assets / Total Adjusted	373,659	373,659			100,487	100,487			105,873	105,873			107,163	107,163	
Fixtures & Equipment	(e64) 340,574				340,574				333,294				311,474		
Depreciation	(336,139)				(333,758)				(330,232)				(302,567)		
Tenant Improvements	3,124				3,124				3,124				3,124		
Depreciation															
Deposits (Whitewater Companies)	83,954				84,721				86,255				88,731		
Amortization	-	-			-	-			-	-			-	-	
Total Assets / Total Adjusted Assets	465,172	465,172			195,148	195,148			198,314	198,314			207,925	207,925	
Accruals	8,425				884				1,578				2,361		
Accounts Payable															
Credit Card Debt														2,996	
Line of Credit	-	-			-	-			2,997	-			8,877	-	
Total Current Liabilities / Total Adjusted	8,425	8,425			884	884			4,575	4,575			14,234	14,234	
Long-Term Debt															
Loans From Stockholder	-	-			-	-			-	-			-	-	
Total Liabilities / Total Adjusted Liabilities	8,425	8,425			884	884			4,575	4,575			14,234	14,234	
Net Worth / Adjusted Net Worth	456,747	456,747			194,264	194,264			193,739	193,739			193,691	193,691	
Total Liabilities+Net Worth / Adjusted Total	465,172	465,172			195,148	195,148			198,314	198,314			207,925	207,925	

INCOME d6 Recasting the P&Ls	Dec 31, 2009 12 Mos. Accrual Basis	Add Backs Per P&Ls	%	Sep 30, 2013 6 Mos. Accrual Basis	Add Backs Per P&Ls	%	Sep 30, 2012 6 Mos. Accrual Basis	Add Backs Per P&Ls	%
Rental Income	784,547			848,068			651,740		100.0%
	-	-	0.0%	-	-	0.0%	-	-	0.0%
TOTAL INCOME	784,547	-	100.0%	848,068	-	100.0%	651,740	-	100.0%
		-			-			-	
COST OF GOODS SOLD									
Purchases, Food	46,474		5.9%	41,626		4.9%	41,674		6.4%
Freight, Supplies	20			717		0.1%	382		
Labor	160,469		20.5%	169,878		20.0%	147,153		
Outside Services	20,353		2.6%	14,353		1.7%	10,377		
User Fees	84,970		10.8%	99,469		11.7%	73,183		
Payroll Taxes, Workman's Comp	39,051		5.0%	39,700		4.7%	35,870		
Refunds	7,809	-	1.0%	456	-	0.1%	(2,107)	-	0.3%
TOTAL COST OF GOODS SOLD	359,146	-	45.8%	366,199	-	43.2%	310,746	-	47.7%
GROSS PROFIT	425,401			481,869			340,994		
	54.2%			56.8%			52.3%		
OTHER INCOME (EXPENSE)									
Gain on Sale of Assets			0.0%			0.0%			0.0%
Interest	1,418		0.2%	91		0.0%	170		0.0%
	-	-	0.0%	-	-	0.0%	-	-	0.0%
TOTAL OTHER INCOME	1,418	-	0.2%	91	-	0.0%	170	-	0.0%
EXPENSES									
Officers Salary q30	135,000	135,000	17.2%	32,400	32,400	3.8%	30,000	30,000	4.6%
Office Salaries	42,050	6,000	5.4%	36,025	4,500	4.2%	25,000	4,500	3.8%
Payroll Taxes	11,000	12,690	1.4%	2,479	3,321	0.3%	435	3,105	0.1%
Advertising and Promotion	46,357			35,044		4.1%	44,550		6.8%
Auto and Bus Expenses	50,011	8,500	6.4%	51,967	4,250	6.1%	40,713	4,250	6.2%
Bad Debt			0.0%			0.0%	154		0.0%
Computer and Internet Expenses				337		0.0%	1,189		0.2%
Equipment Rental	77			265		0.0%			0.0%
Insurance	13,641					0.0%			0.0%
Legal and Accounting	9,475			5,959		0.7%	3,075		0.5%
Office Supplies, Postage	10,306			2,103		0.2%	6,139		0.9%
Rent	15,600		2.0%	6,000	(1,200)	0.7%	7,200		1.1%
Repairs and Maintenance			0.0%	1,426		0.2%	1,876		0.3%
Taxes and Licenses	1,690		0.2%	2,525		0.3%	1,361		
Bank Charges	20,603		2.6%	21,795		2.6%	15,991		2.5%
Depreciation	34,914	34,914	4.5%	3,147	3,147	0.4%	2,390	2,390	0.4%
Employee Benefits	19,240	14,600	2.5%	7,797	7,300	0.9%	9,111	7,300	1.4%
State and Federal Taxes			0.0%	1,027	1,027	0.1%	1,017	1,017	0.2%
Interest	302		0.0%			0.0%	91	91	0.0%
Travel and Entertainment	272		0.0%	216		0.0%	991		0.2%
Telephone	8,963		1.1%	4,610		0.5%	4,493		0.7%
Utilities	6,519		0.8%	4,358	-	0.5%	3,543	-	0.5%
TOTAL EXPENSES / Total Add-Backs	426,020	211,704	54.3%	219,480	54,745	25.9%	199,319	52,653	30.6%
TOTAL NET INCOME (per Tax Return) =	799		0.1%	262,480		31.0%	141,845		21.8%
Total Add Backs =		211,704			54,745			52,653	
Owner's Discretionary Cash Flow =		212,503	27.1%		317,225	37.4%		194,498	29.8%

BALANCE SHEET	Dec 31, 2009	Adjusted		Sep 30, 2013	Adjusted		Sep 30, 2012	Adjusted	
Accrual Basis Cash				301,475			194,959		
Accounts Receivable									
Inventory				72,184		5.1x 72 days	59,328		
Misc Loans									
Prepaids, Deposits	-	-		-	-		-	-	
Total Current Assets / Total Adjusted	0	0		373,659	373,659		254,287	254,287	
Fixtures & Equipment				340,574			331,824		
Depreciation				(336,139)			(330,386)		
Tenant Improvements				3,124			3,124		
Depreciation									
Deposits (Whitewater Companies)				83,954			85,487		
Amortization	-	-		-	-		-	-	
Total Assets / Total Adjusted Assets	-	0		465,172	465,172		344,336	344,336	
Accruals				8,425			6,494		
Accounts Payable									
Credit Card Debt									
Line of Credit	-	-		-	-		2,258	-	
Total Current Liabilities / Total Adjusted	-	-		8,425	8,425		8,752	8,752	
Long-Term Debt									
Loans From Stockholder	-	-		-	-		-	-	
Total Liabilities / Total Adjusted Liabilities	-	0		8,425	8,425		8,752	8,752	
Net Worth / Adjusted Net Worth	0	0		456,747	456,747		335,584	335,584	
Total Liabilities+Net Worth / Adjusted Total	-	0		465,172	465,172		344,336	344,336	

Cell: D6
Comment: Recasting the Financial Statements

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.

If the present owner is an absentee owner, the salary of the general manager is added back to SDE along with the owner's salary. The assumption here is that a hypothetical buyer will be an operating owner / manager, thereby replacing both the manager and the owner. In doing so he will earn the manager's salary and the owner's salary.

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.

Cell: E7
Comment: History
NOTE: ALL NAMES AND PLACES IN THIS REPORT ARE FICTITIOUS

Extreme Rafting (ER) was founded in 1979 by John Smith and has been owned and managed by Mr. Smith and his wife for the last 30 years.

The company operates recreational rafting excursions on five major rivers in the eastern mountain regions of Oregon The Klamath River, which has three forks, the North, Middle, and South Fork, are the most popular venues. These three rivers flow through Klamath Counties and empty into Crater Lake. The Company also operates on the Snake River in Lake County and Pawnee River in Mountain County. Various county, state, and federal agencies, as well as private interests control the permits and usage by rafting companies for these rivers. The North Fork and Middle Fork of the Klamath river are controlled by Oregon State Parks and Recreation Department. Snake River is controlled by the Federal Bureau of Land Management (BLM) and the Pawnee River is controlled by Mountain County. The South Fork of the Klamath River, 's largest operation, is controlled by Klamath County and several private landowners. The private landowners typically charge ER rent or usage fees to allow ER guests to use their facilities for day picnics or overnight camping while on rafting trips.

Permits and usage agreements from the various agencies and private interests must be re-applied for each year. Competition for the number of trips a rafting company will be allowed each week is fairly intense. The various agencies typically restrict the number of rafts that will be allowed each day on a given river during the rafting season. Each rafting company has a designated maximum limit of use based on their River Permits which are fixed. However, Middle Fork Klamath River is based on the historical use each season and an allocation is awarded the following season. The Middle Fork regulatory agency (Oregon Parks and Recreation Department), for example, looks at the prior six years of operation. South Fork is the exception where allocations are not locked in by a company's historical usage. Thus, if a company has a slow year, it may reduce its usage allocation for several years into the future. Usage restrictions typically affect Saturday and Sunday trip allocations, since those are the busiest days on the rivers. Thus, for one company to increase its allocation on weekends it must take it away from other rafting companies. Usage restrictions for Monday through Fridays are minimal. Consequently, if a rafting company wishes to increase its annual allocation of usage granted by the various agencies, increasing one's business on Monday through Friday is the easiest and quickest way to do it. The South Fork operation, ER's most profitable, is restricted to 113 trips per day on weekends and 80 trips on weekdays. Weekends are frequently sold out as are midweek days during July and August. Thus, it is difficult to increase business on the weekends since it is operating at its maximum capacity already. If weekday business were increased this year, then for the following year, the company would be granted higher usage limits on both weekends and weekdays.

The rafting season is from April 1 through October 15 each year. ER charges up to $120 for half day trips and $200 for all day trips during the weekends. Three day trips cost up to $500. The rafting crews prepare picnic lunches or dinners at various stopping points along the rivers and overnight camping is provided at number of public or private facilities that operate on the river shores. The level of rafting business is affected by the amount of snow and rainfall during the prior winter season. During seasons of low snow and rainfall, the water agencies that control the river flows from the dams may operate at a reduced schedule releases for sufficient water for rafting. Such was the

case for the 2012 rafting season. Competition from other rafting companies will also affect the level of one's business. There are over 25 rafting companies that operate on the river systems throughout Oregpn. ER is probably the largest company. Weekend rafting is by far the most profitable days of operation. If a rafting company wishes to increase the number of trips it is allocated, it might consider promoting Monday through Friday trips at a loss, since those days are not restricted to usage. Then, for the following season the regulatory agency will grant that company more trips per week because of its increased business on Monday through Fridays. This will allow such companies more trips on the lucrative weekends which literally reduce the number of trips allocated to the other competing companies. Such was the case for the 2012 rafting season. A few competitors advertised weekday trips at half price on the Groupon.com website. The advertising significantly increased their weekday business. However, since Groupon.com keeps 25% of the trip fee for its commission, those rafting companies netted only 37% of their usual fee for the weekday trips that were sold. The companies that promoted rafting trips on Groupon.com lost heavily on the trips sold. However, those companies will now earn higher allocations from the agencies for the following year which will be sold at the full price.

Cell: E9
Comment: Revenues - 2013

For companies operating in recreational regions of the Oregon foothills, the effect of annual weather patterns on revenues is a way of life. From ski resorts, camp grounds and cabin rentals to restaurants and sporting equipment rentals, profits rise and fall with the snow and rain. ER is totally dependent on water flows which can come from rainfall or snowfall. Some of the rivers in the northern areas that ER operates on are dependent primarily on the spring snowpack. These rivers have no dams to hold water, hence, melting snow provides water for just a few short months in the late spring and early summer. Dry years are often cold years; thus, there may be below normal rainfall but ample snowpack. These rivers might enjoy a profitable spring business whereas at the same time other rivers that depend on rain are doing poorly. The Klamath Rivers that are ER's main markets have dams that hold water during the spring snow melt and release it later in the summer, providing for a much longer rafting seasons. However, when snow and rain is light in any year, the season can be much shorter. Such was the situation in the Spring of 2012.

The Spring of 2012 was a significant drought year for Oregon and Spring of 2013 was only slightly better. For 2012 the lack of rain and snowpack affected all rivers, driving business for ER down 20% for its fiscal 2013. The decline in business prompted intense competition as rafting companies tried to buy as much business as they could just to keep their crews busy. Thus, not only did ER's revenues decline in fiscal 2013 (Spring of 2012), but so did profit margins. For Spring 2013, snow and rain was slightly improved. However, there was a deferred level of demand from the slow prior year that rafting companies benefited from even though the current year's weather condition was also not good. Rafting companies that pursued predatory price cutting practices in the prior year let up in Spring 2013. Thus, for ER's September 2013 period revenues and profit margins returned to normal levels.

Cell: K12
Comment: Food Purchase - 2012

This expense is for the food that is served the patrons while on rafting trips.

Cell: K14
Comment: Labor - 2012

All ER staff are seasonal and part time. About 75% of the crew returns each year.

Labor - $24,098. Includes two staff who prepare food for trips plus two maintenance people who clean trucks.

Bus Drivers -$36,736. Includes six part time drivers who earn $35 for a 1/4 day shift to $100 for full day.

River Guides - $120,651. Includes 14 full time (during the season only) and 24 part time guides. Each raft has a guide. They earn $80 to $125 per day.

Cell: K16
Comment: User fees -2012

These are fees charged by the county, state, and federal agencies and the private landowners. The largest fees are to a private camping operation on the South fork. The company charges $7 per person per day. Total fees to this one source was $45,000 in 2011-12.

Cell: K17
Comment: Workman's Comp Insurance - 2012

The Company has only had minor claims on its workman's compensation insurance over the last three years. Mr. Smith believes his MOD factor might be at or less than 100%.

Cell: K24
Comment: Gains on Sale of Assets are considered non-recurring income that is deducted from cash flow.

Cell: E30
Comment: Officer Salary - 2013

Both wife and husband work full time at the business. Mrs. Smith was paid $41,000 in 2013 which is included in Office Salaries. Mr. Smith estimated that it would cost $32,000 base pay to replace her. Mr. Smith's salary of $58,800 is added back. Mrs. Smith's excess salary of $9,000 is added back to Office Salaries.

The payroll taxes associated with the payroll add back is also added back.

Cell: K30
Comment: Officer Salary - 2012

Both wife and husband work full time at the business. Mrs. Smith was paid $41,000 which is included in Office Salaries. Mr. Smith estimated that it would cost $32,000 base pay to replace her. Thus, we would add back to cash flow one owner's salary of $160,200 and add back Mrs. Smith's excess salary of $9,000 to replace her.

The payroll taxes associated with the payroll add back is also added back.

Cell: Q30
Comment: Officer Salary - 2010

Both wife and husband work full time at the business. Mrs. Smith was paid $38,000 which is

included in Office Salaries. Mr. Smith estimated that it would cost $32,000 base pay to replace her. Thus, we would add back to cash flow one owner's salary of $135,000 and add back Mrs. Smith's excess salary of $6,000 to replace her.

The payroll taxes associated with the payroll add back is also added back.

Cell: K32
Comment: Payroll Taxes - 2012

Payroll Taxes on the owner's salary are also added back to cash flow.

Cell: K33
Comment: Advertising and Promotion - 2012

ER advertises through its Website. Advertising costs include site optimizing and Google ad clicks. The Company maintains a mailing list of all prior customers which it uses for direct mail advertising. ER also puts brochures in all the hotels and tourist places advertising its services.
In the past it has advertised at the
Magic Kingdom in Vallejo.

Cell: E34
Comment: Auto and Bus Expenses - 2013
Mr. Smith charges the company approximately $5,000 for his personal auto expenses. This is considered part of his compensation and is added back to cash flow.
Mrs. Smith receives approximately $3,500 in paid auto benefits. A hypothetical replacement for her would not receive any auto benefits.

Therefore, total auto add back is $8,500.

Cell: K34
Comment: Auto and Bus Expenses - 2012

Mr. Smith charges the company approximately $5,000 for his personal auto expenses. This is considered part of his compensation and is added back to cash flow.

Mrs. Smith receives approximately $3,500 in paid auto benefits. A hypothetical replacement for her would not receive any auto benefits.

Therefore, total auto add back is $8,500.

Cell: E41
Comment: Rent-2013

Mr. Smith and his partner own the property which includes the company office, an small building that is used as a commissary for the rafting operation, and two dwelling units. Total rent generated from the premises is $36,000, including the rent that ER pays.

Mr. Smith estimates that the current $1,200 monthly rent that Smith pays is what a buyer could expect to pay for the premises. The normalized rent, then, is $14,400 per year. Therefore, $1,200 is DEDUCTED from cash flow to reflect this hypothetical cost to a buyer.

Cell: E45

Comment: Depreciation and Interest Expense are added back to cash flow.

Cell: K45
Comment: Depreciation and Interest Expense are added back to cash flow.

Cell: E46
Comment: Employee Benefits - 2013
Includes company dinners for employees and health insurance for the Smiths.

Mr. Smith received approximately $10,000 in health benefits, Mrs. Smith received approximately $9,000 in benefits. However, a hypothetical replacement for Mrs. Smith would receive benefits costing $3,500. Therefore, the $5,500 excess portion of Mrs. Smith's benefits are added back along with Mr. Smith $10,000 benefits.

Total add back is $15,500

Cell: K46
Comment: Employee Benefits - 2012

Includes company dinners for employees and health insurance for the Smiths.

No employees receive health insurance benefits. They are mostly part time seasonal employees.

Mr. Smith received $9,656 in health benefits which is considered part of his compensation. The benefits are added back to cash flow.

Mrs. Smith received approximately $8,000 in health benefits. However, a hypothetical replacement for her would receive approximately $3,000 in benefits. The $5,000 excess benefit plus Mr. Smith's $9,656 benefits are added back to cash flow.

Cell: E47
Comment: Income Tax Expense is added back to cash flow.

Cell: K47
Comment: Income Tax Expense is added back to cash flow.

Cell: K48
Comment: Depreciation and Interest Expense are added back to cash flow.

Cell: E64
Comment: Fixtures and Equipment - 2013

ER added a newer van for $9,000 and five new rafts costing $16,500 in 2012-13.

1.1 Databases Selected

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

BIZCOMPS and IBA state that they calculate Seller's Discretionary Earnings slightly differently. (For example, IBA does not mention adding back depreciation into Discretionary Earnings.) However, this Appraiser has completed over 250 market approach analyses and has made a point of carefully reading the complete transaction reports for over 5,000 comparables from these databases. In instances where both databases reported the same transaction, the Appraiser has found that in a high percentage of the cases the selling price, gross revenues, and discretionary earnings were identical. One can attribute this to the fact that the same broker will report a transaction to all three databases, and will offer only one calculation for Seller's Discretionary Earnings (SDE). Brokers will typically follow the convention recommended by the IBBA (International Business Brokers Association) for calculating SDE, a convention that BIZCOMPS expressly follows and one that IBA appears to accept by default. Therefore, both databases will be considered similar enough in their respective construction to be grouped together. Shannon Pratt draws the same conclusion in The Market Approach to Valuing Businesses.[1]

> *"One may combine the data from the three databases into a single table.*
> *[However,] the analyst must be aware of and make certain adjustments to reflect*
> *that the three databases do not define the underlying financial variables in exactly*

Pratt's Stats collects 69 data points for each transaction including a summary of the P&L and balance sheet, a description of the terms of the deal, the type of consideration tendered, and whether it is a stock sale or an asset sale. Because of the extensive information available, reconciling Seller's Discretionary Cash flow or reconciling the actual selling price of the transaction is more reliable. Pratt's Stats calculates SDE similarly to BIZCOMPS and IBA; however, it is not uncommon to find discrepancies among all three. Careful analysis of all three databases will help avoid selecting incorrect transactional data. The greater detail offered by the Pratt's Stats database can help reduce errors in selecting the transactional data. Therefore, if there are any discrepancies arising among duplicate transactions reported by the three databases, the Pratt's Stats data will generally be used in the analysis.

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[1] Shannon Pratt, *The Market Approach to Valuing Businesses*, (John Wiley and Sons, Inc., 2001), p. 68

1.2   Timing of the Sale

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

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 expect to be invested for years. Therefore, when comparing businesses that sold several years ago, the effects of recessions or bull markets on the cash flow multiples of the business are somewhat minimalized. Again, by using financial-ratio comparisons, the relationship between selling price and gross sales or selling price and cash flow tends to be fairly stable over time. The time element that is so critical in real estate appraisals is not nearly as significant a factor in business appraisals.

The following research was discussed in the book by Gary Trugman, *Understanding Business Valuation*:[1]

> *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.

> *Recently, the author [Jack Sanders] compared current study data with the data over ten years old. First the Gross Sales to Sales Price ratio was compared. In the current National Database that ratio was available in 6.748 out of 6,851 transactions. The arithmetic mean of this ratio was .46, while the median was .38. A similar analysis of 879 transactions out of 954 transactions older than ten years was made. The arithmetic mean was .44 and the median was .37. The same analysis was made of the Seller's Discretionary Earnings (SDE) to Sale Price ratio. The arithmetic mean for the current study was 1.95 while the median was 1.8. In the over 10 year-old data, the arithmetic mean was 2.0 and the median was 1.8.[3]*

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(2) 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

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.

1.3   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.

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-Square of 0.30. The value, although not compelling, suggests that there is a modest tendency for high-growth areas to produce higher Gross Revenues Multiples than low-growth areas. (An R-Square of 1.0 means a perfect correlation between variables, whereas 0.0 means no correlation at all.) The table 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.

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

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

higher population growth *and* a higher growth in household income may produce transactions with higher Market Value Multiples

Exhibit I Market Value Multipliers by State

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.

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 I 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.

The search criteria used for selecting comparables from the various databases, therefore, will include all transactions regardless of their location . However, an adjustment to the Gross Revenue Multiple will be made if the community 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.

1.4   Similarity of Comparables: the Principle of Substitution

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

As we 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.

1.5   Size of the Company

The size of a company, in terms of its Gross Revenues, has a direct bearing on its value. The Pratt's Stats Database of over 11,500 transactions was sorted by size of company. The results below show that, with few exceptions, smaller companies earn lower Cash Flow Multiples and Gross Income Multiples than larger ones.

Exhibit II   Cash Flow Multipliers by Size of Company

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

* 25% of all Transaction will fall BELOW the Lower Quartile values.

  50% of all transactions will fall BETWEEN the Upper and Lower Quartile values.

** 25% of all transactions will fall ABOVE the Upper Quartile values.

Pratts Stats Database contained a total of 13,991 transactions on 8-10-09

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

1) Corporate Stock Sales   3) Companies with negative cash flow

2) Assets Sales where liabilities were as   4) Companies with Cash Flow Multipliers over 10.0

For example, all companies in the table above generated a Median Cash Flow 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 Cash Flow Multiple of 2.77 which was 10.8% higher than the average sized company.

The Subject Company generates Gross Revenues in the $800,000 range. Accordingly, the "size criteria" used to select Guideline Companies were those businesses whose revenues fell roughly in the $300,000 to $2,000,000 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.

1.6   Other Filtering Criteria

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

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

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

1.7   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 Code 799*, 794*, 7999: . 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 three databases, therefore, began by searching SIC Code #799*, 794*, 7999. A total of 400 comparables were found in the Pratt's Stats database, and, 349 were found in the BIZCOMPS database. The selection was further filtered to include just those companies whose revenues were between $300,000 and $2,000,000 with the transactions occurring after 2001 and whose description of operations was similar to the Subject (i.e. Outdoor Sports and Entertainment). A total of 10 comparables were found in the Pratt's Stats database, and 7 were found in the BIZCOMPS database.

Specific details on all of these companies can be found on Page 21.

1.8   Identifying Outliers in the Selected Sample of Comparables

1.8.1   Coefficient of Variation

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

Standard Deviation is a statistical tool that measures the spread between the multipliers of each individual comparable and the corresponding average for the entire sample of comparables.   In other words, the Standard Deviation measures the degree of variability or dispersion within a sample. However, when comparing our small selection of comparables to the entire Pratt's Stats database, the Standard Deviations of the two samples, by itself, does not tell us which sample is more accurate. For that determination we use the Coefficient of Variation (CV). CV equals the Standard Deviation of the sample divided by its Average. The *degree of dispersion* within the sample is measured as a percentage of that sample's average. Thus, if a sample's average Cash Flow Multiplier were 5.0 and the standard

Exhibit III   Example Coefficient of Variation

	Cash Flow Multiplers	
	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%

deviation is 1.5, statistically the majority of all comparables would have a Multiplier that fell between 3.5 and 6.5 (5.0 + or – 1.5). The CV would indicate that the majority of comparables would lie within 30% of the average (1.5 ÷ 5.0). Thus, the coefficient gives us a tool to compare different samples in terms of their respective variability. If one sample has a much lower CV than the second, we can assume that the second sample has one or two outlying observations that may be distorting its overall average and, thereby, giving us a false read of the market.

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

As noted by Shannon Pratt in his Market Approach to Valuing Businesses, "All else being equal, multiples [derived from a sample database] exhibiting low Coefficients of Variation tend to more accurately reflect market consensus with respect to value."[4] 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." [5]

The appraiser might have occasion to adjust a Market Value Multiple up or down given the presence of other extenuating circumstances. Since the median value for a particular multiple describes where the general market is, there may be circumstances where the appraisal subject does not "fit the mold." According to Pratt, "Keep in mind that the two factors that influence the selection of multiples of operating variables the most are the growth prospects of the Subject Company relative to the Guideline Companies and the risk of the Subject Company relative to the Guideline Companies."[6]

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

Three different Market Value Multipliers will be used in this report. Standard Deviations and Coefficients of Variation will be calculated for each sample which will then be compared to the entire Pratt's Stats database of 11,501 transactions. If either sample produces significantly higher

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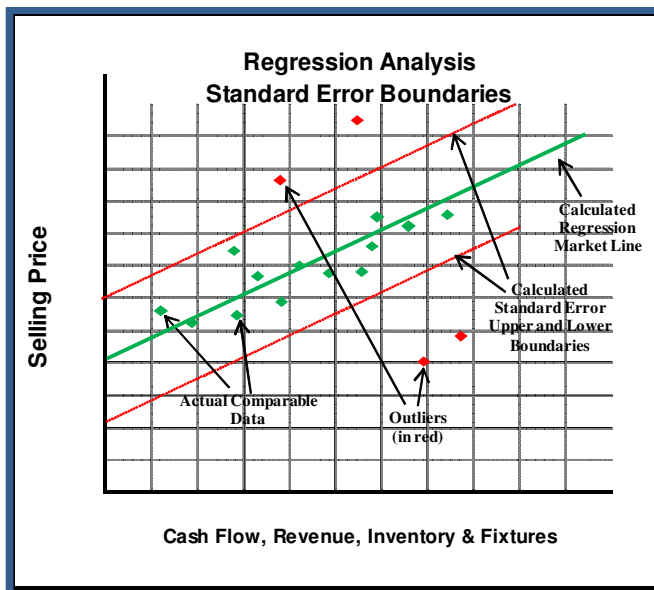
[5] Ibid., p. 134

[6] Ibid., p.134

coefficients we will reduce its weighting, or eliminate it altogether when reconciling all the calculated values to obtain a single value conclusion.

1.8.2   Regression Analysis

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

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

Exhibit IV   Outliers Identified by Standard Error

Regression Analysis
Standard Error Boundaries

Selling Price

Calculated Regression Market Line

Calculated Standard Error Upper and Lower Boundaries

Actual Comparable Data

Outliers (in red)

Cash Flow, Revenue, Inventory & Fixtures

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

The example in Exhibit IV graphed the points of 17 comparables on a chart (13 green and 4 red). The regression analysis calculated a line (in green) that is the closest fit to all those points. The regression also calculated a Standard Error which indicates theoretical boundaries (in red) in which approximately 16% of all companies should fall above the upper boundary line and 16% should fall below the lower boundary line. 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 7.2.8.1 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.

2.0   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:

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

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

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

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

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

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

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

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

Exhibit V   Example Regression Analysis

Calculated Value of Subject from the Regression Market Line

2.4 Four Regression Calculations to Be Used
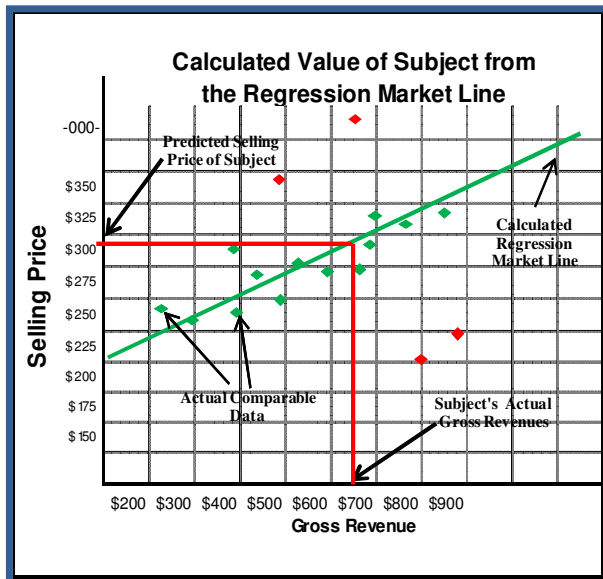
We have discussed above how Regression Analysis helped us identify Outliers within our initial sample of comparables. The resulting smaller sample has now been "sanitized" and, therefore, should give us a more accurate read of the market. As was also noted, the Regression Analysis calculates a formula from which a line can be graphed that best represents that specific market. By plotting our Subject's actual variables on the chart, the Market Line will then enable us to determine the probable value of the Subject Company.

Our Market Approach will employ four different

Regression calculations. The first is referred to as a "*Multiple Variable Regression Analysis*." This statistical tool simultaneously compares four key variables of each comparable (Gross Revenues, Cash Flow, Inventory, and Fixtures) with its respective selling price. The regression produces a formula, then, in which we can input our subject's four actual variables and calculate its probable selling price. For demonstration purposes a simplified Regression Analysis is graphed in Exhibit V. The values for the Selling Price and the Gross Revenues of 17 comparables were plotted on the chart and a regression line was then calculated. The subject company's Gross Revenues of $700,000 is then located on the horizontal X-Axis. By moving vertically from that point to the Regression Line we can then identify the probable selling price of $300,000 from the vertical Y-Axis on the left side of the chart.

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

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

Exhibit VI   Cash Flow Profit Margin by Size of Company

Total Transactions	Sales Range	Median Cash Flow Profit Margin (SDE%)
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.

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

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

When trying to make a direct comparison of the Subject to companies that have recently sold, the available databases of sold comparables do not provide us with much financial information. The only effective tool available is to compare each company's Cash Flow Profit Margins (SDE %). This simple ratio, Discretionary Earnings divided by Gross Revenues, gives us the means to directly compare the relative performance of companies in terms of their profitability and how it affects the selling price of the business. Generally speaking, when comparing companies of similar size and SIC classification, those which have higher SDE % tend to be the more dominant players within their markets. They can command higher prices for their products and services, and, they control expenses more efficiently than their competition.

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

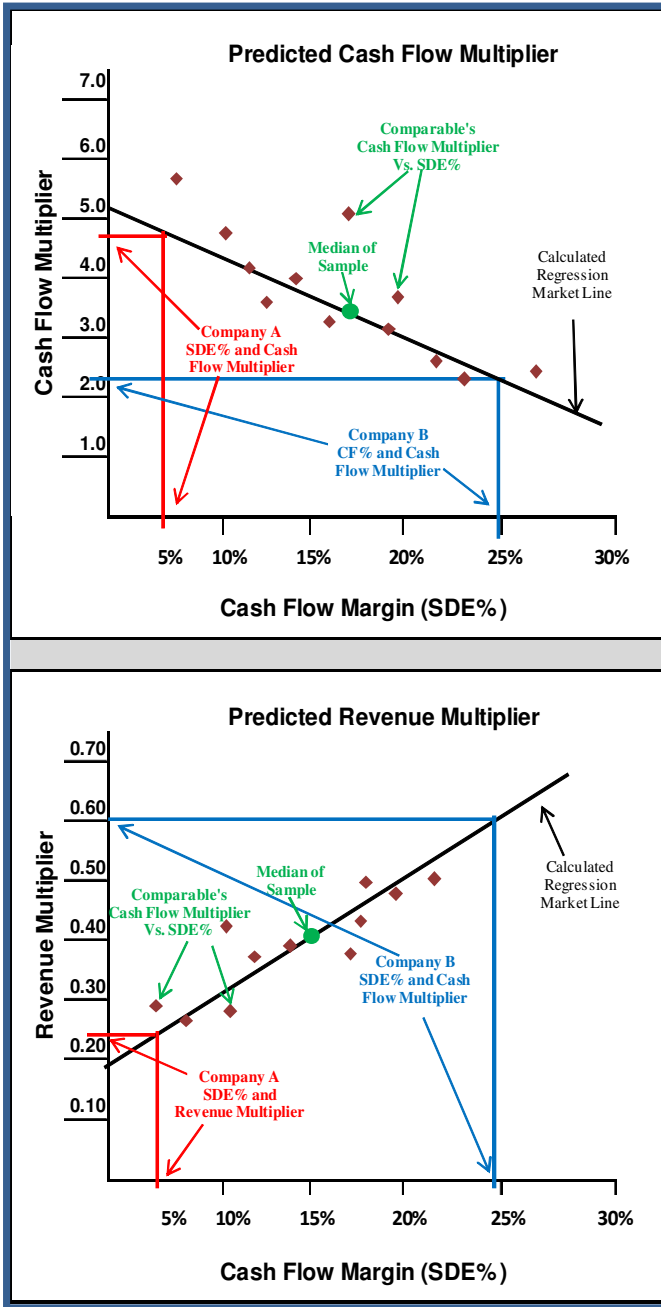2.5.1 Size of a Company vs. its Cash Flow Profit Margin (SDE %)

First, from Exhibit VI 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 "wears all the hats." He is the salesman, marketing manager, HR manager, and bookkeeper. All the profits flow to the owner to compensate him for all these jobs. As we see from Exhibit II, 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 ($500,000 x 24.7%). From Exhibit II we saw that a $500,000 company would sell for 2.11 times its earnings, which in our example would be $260,585 ($123,500 x 2.11).

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

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

Exhibit VII   Predicting Multipliers Using SDE%

2.5.2 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 Cash Flow Profit Margins (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 Multiples than their underperforming counterparts. This is not the case!

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

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

A regression analysis was performed on the entire Pratt's Stats database of 11,500 sold transactions comparing each company's SDE % with its corresponding Cash Flow Multiplier.[7]

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

The R Squared of the regression was only .18. Since this factor is low (0 means no correlation and 1.0 means perfect correlation), one could not conclude that SDE % is a good indicator of a company's Cash Flow Multiplier. However, when we filter the Pratt's Stats Database further by including only companies near the same revenue level as the Subject and that are in similar SIC Classification, the resulting regression produces an R Squared significantly higher, usually from .40 to .70 or more. *In other words, when we select a small sample of companies that have a similar revenue level and SIC Classification as the Subject, the Subject's SDE % becomes a reasonably good predictor of its potential Cash Flow Multiplier*. However, from the upper graph in Exhibit VII we note that the regression 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 earn a lower Cash Flow Multiplier.*

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

Appraisers typically use the Median Cash Flow Multiplier for the whole sample of comparables to value a business. In the above example, the Median was 3.5. If we merely used the Median Multiplier to estimate Company A and B's probable selling prices we would have priced A at $84,000 (3.5 x $24,000) and B at $437,500 (3.5 x $125,000). We would have been way low on the first valuation and way high on the second. However, by using the regression formula and Subject's SDE % to calculate its Cash Flow Multiplier, we would have determined that the company with a low SDE % would have had a high multiplier (4.6), and the company with the high SDE % would have had a low Multiplier (2.4). 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 Multiplier. 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 VII we can see that companies with a higher SDE % also earn higher Revenue Multipliers. Multiplier. In addition, Revenue Multipliers follow a more logical pattern. From the graph at the bottom half of Exhibit VII we can see that companies with a higher SDE % also earn higher Revenue Multipliers.

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

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

Exhibit VIII   Sold Comparables Analysis

Sold Comparables Analysis
May 2, 2011

	Listing Price (a)	Selling Price (b)	Gross Revenues (c)	Cash Flow (SDE) (d)	Inventory (e)	Fixtures (f)	SDE% d ÷ c	Revenue Multiplier b ÷ c	Cash Flow Multiplier b ÷ d	Enterprise Multiplier (b - e) ÷ d
1	275,000	235,000	744,000	43,000	50,000	65,000	5.8%	0.32	5.43	4.27
2	585,000	250,000	1,035,000	105,000	252,000	10,000	10.1%	0.24	2.39	-0.02
3	250,000	200,000	641,000	73,000	10,000	35,000	11.4%	0.31	2.74	2.60
4	350,000	350,000	823,000	106,000	20,000	36,000	12.9%	0.43	3.30	3.11
5	400,000	280,000	766,000	108,000	25,000	100,000	14.1%	0.37	2.59	2.36
6	195,000	170,000	602,000	95,000	5,000	125,000	15.8%	0.28	1.79	1.74
7	300,000	250,000	648,000	118,000		58,000	18.2%	0.39	2.12	2.12
8	375,000	375,000	650,000	139,000	8,000	55,000	21.4%	0.58	2.70	2.64
9	250,000	250,000	640,000	140,000	68,000	35,000	21.9%	0.39	1.79	1.30
10	250,000	225,000	650,000	170,000	5,000	35,000	26.2%	0.35	1.32	1.29
11	450,000	400,000	750,000	230,000	20,000	35,000	30.7%	0.53	1.74	1.65
12	450,000	400,000	730,000	225,000	5,000	35,000	30.8%	0.55	1.78	1.76
13	425,000	425,000	800,000	250,000		125,000	31.3%	0.53	1.70	1.70
14	425,000	425,000	800,000	250,000		125,000	31.3%	0.53	1.70	1.70
15	335,000	335,000	646,000	203,000	143,000	110,000	31.4%	0.52	1.65	0.95
16	700,000	665,000	1,087,000	392,000	130,000	75,000	36.1%	0.61	1.70	1.36
17										
18										
19										
20										
21										
22										
23										
24										
25										
Average	376,000	327,000	751,000	165,000	57,000	66,000	SDE % Range	Revenue Mult Range	Cash Flow Mult Range	Enterprise Mult Range

The above sample of typical auto repair companies illustrates what we have been discussing. The sample was sorted by each company's SDE% from the lowest to the highest. As you can see, when the SDE% is lower the Revenue Multipliers also tend to be lower, whereas, the Cash Flow Multipliers tend to be higher.

3.0 Building the Sample to be Used in the Analysis

The Pratt's Stats, BIZCOMPS, databases were searched for transactions in same Standard Industry Classification code. The Comparables Analysis Table in the EXHIBIT X on Page 4 shows the operating ratios of all the businesses that were selected by using the filtering criteria discussed above..

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

A Multiple Regression Analysis was performed on the sample to pinpoint those outliers. The outliers were, then, removed leaving a smaller, more accurate sample. A second Multiple Regression was run on the second sample which calculated the value of the Subject Company (See Formula #4 in Exhibit IX on Page 2) based on its gross revenues, cash flow (SDE), inventory, and fixtures and equipment. Formulas #1 to #3 calculate the Revenue Multiplier, Cash Flow Multiplier, and the Enterprise Multiplier based on the Subject's SDE%. Each of these three multipliers is then applied to the Subject's revenues and cash flow to calculate values for the business.

When all four methodologies produce their respective values for the Company, each value is weighted by the size of its R Squared factor. Thus, the methodology with the highest R Squared will be given the highest weighting when determining the final value for the Subject.

The final value is an Asset Sale value which includes the Subject's Inventory, Fixtures and Equipment, and its Goodwill

Extreme Rafting

Sold
Comparables

In order to make the various transactional data from each database directly comparable to each other, the following adjustments were made:

I. PRATTS STATS DATABASE

Selling Price:

Bizcomps and IBA report all transactions as Asset Sales, i.e. the value for inventory, fixtures and equipment, and goodwill only. Pratt's Stats, however, includes corporate Stock Sales in their list of transactions. Typically Stock Sales also include cash, accounts receivable, and some assumed liabilities. To make the selling price of a Stock Sale directly comparable to the selling price of an Asset Sale, we must make certain adjustments to the Stock Sale price. Pratts defines the selling price of a sold company as MVIC (Market Value of Invested Capital) which takes the total consideration paid (in cash, stock, or notes) plus assumed Interest-bearing debt and deducts any value allocated to earnouts and employment agreements. To convert Pratts Stat's Stock Sale price to be equivalent to Bizcomp's adjusted Asset Sale price described below, we must add to MVIC all other assumed non-interest bearing debt plus any value allocated to employment agreements and deduct any cash, accounts receivable, and all other assets except inventory, fixed assets and goodwill that might have been included in the sale. *Thus, the resulting Asset Sale price, then, for both databases will be equal to the total consideration plus all assumed liabilities paid for the inventory, fixed assets, and goodwill of a company.*

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 indicates 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 Plus any *assumed interest-bearing debt* less any value allocated to Earnouts and Employment Agreements

Seller's Discretionary Earnings (SDE):

Pratts 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, the vast majority of the time, Pratts 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 Pratts Stats and IBA databases, Inventory must be added back to the BIZCOMP selling price.

Sample Selling Price Calculation		**Sample Listing Price Calculation**	
BIZCOMP Sale Price	$350,000	BIZCOMP Ask Price	$420,000
Inventory	$175,000	Inventory	$175,000
Adjusted Asset Sale Price	$525,000	Adjusted Listing Price	$595,000
(= Inventory, Fixed Assets, and Goodwill)		(= 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 Pratts 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: 7993 Amusement and recreational services - . Amusement Arcades

Business Description: Amusement Games

NOTES:

Source: **Bizcomps**
Transaction Type: asset Sale
Location: Florida
Number of Employees: 4

No Additional Comments were Submitted

Transaction Data

		Adjusted Asset Sale Price:	
Date of Sale	6/17/2010	Sale Price	$280,000
Days on the Market	1	Inventory	$1,000
Asking Price	$281,000	Adjusted Asset Sale Price	$281,000
Adjusted Asset Sale Price	$281,000		
Percent Down Payment	64%		
Franchise Royalty			
Terms of Deal	3 Yrs @ 5%		

Income Data

Annual Gross Sales	$685,000
Cash Flow (SDE)	$45,000

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$1,000
Furniture Fixtures, and Equipment	$60,000
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%):	6.57%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.41
Cash Flow Multiplier	6.24
Enterprise Multiplier	6.22

Transaction Details — Comp # 2

SIC Code: 7999 Amusement and recreational services

Business Description: Paintball Equipment Retail and Outdoor Pla NOTES:

Source: **Pratts Stats**
Transaction Type: Asset Sale
Location: AZ
Number of Employees: 5

Purchase Price Allocation: $114,410 fixed assets, $210,000 inventory, $25,000 training, $50,000 non-compete, $200,590 goodwill.

Transaction Data

		Adjusted Asset Sale Price:	
Date of Sale	4/30/2003	Market Value of Invested Capital	$600,000
Days on the Market	IBBA, M&A Source	Plus Employment Agreement Value	$25,000
Asking Price	$630,000	Adjusted Asset Sale Price	$625,000
Adjusted Asset Sale Price	$625,000		
Percent Down Payment	52%		
Franchise Royalty			
Terms of Deal	Consideration: $300,000 in cash and a $300,000 promissory note at 7% interest over 180 months with monthly payments of $2,696 (the training agreement with a value of $25,000 has not been included in the selling price).		

Income Data

Annual Gross Sales	$1,067,698
SDE Calculation	
Owner's Compensation	$35,500
Non-Cash Charges	$796
Operating Profit	$131,225
	$167,521

Asset Data

Cash	$32,776
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$52,475
Furniture Fixtures, and Equipment	$1,394
Intangibles	$0

Liability Data

Assumed Int-Bear Debt	$0
L-T Liabilities	$0
Total Liabilities	$86,445
Value of Real Estate	$0

Operating Ratios

Cash Flow Margin (SDE%):	15.69%
Rent/Annual Sales	39.4%

Valuation Multiples

Revenue Multiplier	0.59
Cash Flow Multiplier	3.73
Enterprise Multiplier	3.42

Transaction Details Comp # 3

SIC Code: 7999 Amusement and recreational services

Business Description: Shooting Range and Gun Shop NOTES:

Source: **Pratts Stats**

Transaction Type: Asset Sale

Location: GA

Number of Employees: 7

No Additional Comments were Submitted

Transaction Data

Adjusted Asset Sale Price:

Date of Sale	6/14/2006		Market Value of Invested Capital	$690,000
Days on the Market	IBBA, GABB		Plus Employment Agreement Value	N/A
Asking Price	$800,000		Adjusted Asset Sale Price	$690,000
Adjusted Asset Sale Price	$690,000			
Percent Down Payment	58%			
Franchise Royalty	38079			

Terms of Deal

Consideration: $290,000 note at 7% interest over 7 years with a 5-year balloon.

Income Data / Asset Data / Liability Data

Income Data		Asset Data		Liability Data	
Annual Gross Sales	$1,239,631	Cash	$65,347	Assumed Int-Bear Debt	$0
SDE Calculation		Accounts Receivable	$0	L-T Liabilities	N/A
Owner's Compensation	$0	Other Current & Non-Current Assets	$0	Total Liabilities	N/A
Non-Cash Charges	$16,881	Inventory	$161,049		
Operating Profit	$195,748	Furniture Fixtures, and Equipment	$33,987		
	$212,629	Intangibles	$38,079	Value of Real Estate	$0

Operating Ratios / Valuation Multiples

Operating Ratios		Valuation Multiples	
Cash Flow Margin (SDE%):	17.15%	Revenue Multiplier	0.56
Rent/Annual Sales	40.7%	Cash Flow Multiplier	3.25
		Enterprise Multiplier	2.49

Transaction Details Comp # 4

SIC Code: 7996 Amusement and recreational services - Amusement Parks

Business Description: An Amusement Park Operated Seasonally at th NOTES:

Source: **Pratts Stats**

Transaction Type: Asset Sale

Location: NY

Number of Employees: 0

The income statement shown is a pro forma based upon normalizing income statements for the prior three years. The total purchase price was $4 Million, which included $1.5 Million for the amusement park, and including the land and building at the park. The real estate value of the park is allocated at $1,000,000. Other excess land and buildings were purchased for $2.4 Million.

Transaction Data

Date of Sale	11/2/2006
Days on the Market	Other
Asking Price	$835,000
Sale Price	$635,000
Percent Down Payment	100%
Franchise Royalty	285000

Terms of Deal

No Terms were Submitted

Income Data / Asset Data / Liability Data

Income Data		Asset Data		Liability Data	
Annual Gross Sales	$883,289	Cash	$0	Assumed Int-Bear Debt	$0
SDE Calculation		Accounts Receivable	$0	L-T Liabilities	N/A
Owner's Compensation	$0	Other Current & Non-Current Assets	$0	Total Liabilities	N/A
Non-Cash Charges	$0	Inventory	$0		
Operating Profit	$171,864	Furniture Fixtures, and Equipment	$350,000		
	$171,864	Intangibles	$285,000	Value of Real Estate	$0

Operating Ratios / Valuation Multiples

Operating Ratios		Valuation Multiples	
Cash Flow Margin (SDE%):	19.46%	Revenue Multiplier	0.72
Rent/Annual Sales	74.0%	Cash Flow Multiplier	3.69
		Enterprise Multiplier	3.69

Transaction Details   Comp # 5

SIC Code: 7999   Amusement and recreational services

Business Description: Indoor Soccer Facility   NOTES:

Source: **Bizcomps**

Transaction Type: asset Sale

Location: Ohio

Number of Employees: 12

No Additional Comments were Submitted

Transaction Data

		Adjusted Asset Sale Price:	
Date of Sale	1/17/2007	Sale Price	$292,000
Days on the Market	202	Inventory	$3,000
Asking Price	$295,000	Adjusted Asset Sale Price	$295,000
Adjusted Asset Sale Price	$295,000		
Percent Down Payment	100%		
Franchise Royalty			
Terms of Deal	No Terms were Submitted		

Income Data

Annual Gross Sales	$664,000
Cash Flow (SDE)	$192,000

Asset Data

Cash	$0
Accounts Receivable	$0
Other Current & Non-Current Assets	$0
Inventory	$3,000
Furniture Fixtures, and Equipment	$282,000
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%):	28.92%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.44
Cash Flow Multiplier	1.54
Enterprise Multiplier	1.52

Transaction Details   Comp # 6

SIC Code: 7999   Amusement and recreational services

Business Description: Recreational Watercraft Rental Business   NOTES:

Source: **Pratts Stats**

Transaction Type: Asset Sale

Location: GA

Number of Employees: 10

This transaction was submitted by a Georgia Association of Business Brokers (GABB) member. Rental services include wave runners, deck boats, runabouts, fishing boats, and pontoon boats. A full line of water toy accessories such as tubes, skis, kneeboards, and wake boards are also available for rental.

Transaction Data

Date of Sale	12/14/2011
Days on the Market	GABB
Asking Price	$795,000
Sale Price	$770,000
Percent Down Payment	86%
Franchise Royalty	270000
Terms of Deal	No Terms were Submitted

Income Data

Annual Gross Sales	$553,865
SDE Calculation	
Owner's Compensation	$34,000
Non-Cash Charges	$60,080
Operating Profit	$72,646
	$166,726

Asset Data = **Allocation**

Cash	N/A
Accounts Receivable	N/A
Other Current & Non-Current Assets	N/A
Inventory	$0
Furniture Fixtures, and Equipment	$500,000
Intangibles	$270,000

Liability Data

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

Operating Ratios

Cash Flow Margin (SDE%):	30.1%
Rent/Annual Sales	86.3%

Valuation Multiples

Revenue Multiplier	1.39
Cash Flow Multiplier	4.62
Enterprise Multiplier	4.62

Transaction Details   Comp # 7

SIC Code: 7996   Amusement and recreational services - Amusement Parks

Business Description: Amusement Park   NOTES:

Source: **Pratts Stats**

Transaction Type: Asset Sale

Location: CO

Number of Employees: 32

No Additional Comments were Submitted

Transaction Data

		Adjusted Asset Sale Price:	
Date of Sale	10/31/2008	Market Value of Invested Capital	$575,000
Days on the Market	Other	Plus Employment Agreement Value	N/A
Asking Price	$650,000	Adjusted Asset Sale Price	$575,000
Adjusted Asset Sale Price	$575,000		
Percent Down Payment	2%		
Franchise Royalty	6891		

Terms of Deal   Seller Note: 72 Months, 8%, No Payments in first 12 months, SBA loan for 65% of purchase price.

Income Data		Asset Data		Liability Data	
Annual Gross Sales	$781,622	Cash	$88,528	Assumed Int-Bear Debt	N/A
SDE Calculation		Accounts Receivable	$0	L-T Liabilities	$219,551
Owner's Compensation	$72,702	Other Current & Non-Current Assets	$19,045	Total Liabilities	$767,802
Non-Cash Charges	$69,617	Inventory	$0		
Operating Profit	$97,249	Furniture Fixtures, and Equipment	$236,059		
	$239,568	Intangibles	$6,891	Value of Real Estate	$0

Operating Ratios		Valuation Multiples	
Cash Flow Margin (SDE%):	30.65%	Revenue Multiplier	0.74
Rent/Annual Sales	92.0%	Cash Flow Multiplier	2.40
		Enterprise Multiplier	2.40

Transaction Details   Comp # 8

SIC Code: 7993   Amusement and recreational services - .   Amusement Arcades

Business Description: Amusement Games   NOTES:

Source: **Bizcomps**

Transaction Type: asset Sale

Location: Phoenix, AZ

Number of Employees: 0

No Additional Comments were Submitted

Transaction Data

		Adjusted Asset Sale Price:	
Date of Sale	6/30/2006	Sale Price	$345,000
Days on the Market	0	Inventory	$0
Asking Price	$554,000	Adjusted Asset Sale Price	$345,000
Adjusted Asset Sale Price	$345,000		
Percent Down Payment	29%		
Franchise Royalty			

Terms of Deal   No Terms were Submitted

Income Data		Asset Data		Liability Data	
Annual Gross Sales	$599,000	Cash	$0	Assumed Int-Bear Debt	$0
Cash Flow (SDE)	$195,000	Accounts Receivable	$0	L-T Liabilities	$0
		Other Current & Non-Current Assets	$0	Total Liabilities	$0
		Inventory	$0		
		Furniture Fixtures, and Equipment	$285,000		
		Intangibles	$0	Value of Real Estate	$0

Operating Ratios		Valuation Multiples	
Cash Flow Margin (SDE%):	32.55%	Revenue Multiplier	0.58
Rent/Annual Sales	0.0%	Cash Flow Multiplier	1.77
		Enterprise Multiplier	1.77

Transaction Details   Comp # 9

SIC Code: 7999   Amusement and recreational services

Business Description: Houseboat Rental   NOTES:

Source: **Bizcomps**

Transaction Type: asset Sale

Location: Redding, CA

Number of Employees: 11

No Additional Comments were Submitted

Transaction Data   Adjusted Asset Sale Price:

Date of Sale	9/20/2003	Sale Price	$1,550,000
Days on the Market	410	Inventory	$50,000
Asking Price	$0	Adjusted Asset Sale Price	$1,600,000
Adjusted Asset Sale Price	$1,600,000		
Percent Down Payment	25%		
Franchise Royalty			
Terms of Deal	No Terms were Submitted		

Income Data		**Asset Data**		**Liability Data**	
Annual Gross Sales	$659,000	Cash	$0	Assumed Int-Bear Debt	$0
Cash Flow (SDE)	$234,000	Accounts Receivable	$0	L-T Liabilities	$0
		Other Current & Non-Current Assets	$0	Total Liabilities	$0
		Inventory	$50,000		
		Furniture Fixtures, and Equipment	$1,500,000		
		Intangibles	$0	Value of Real Estate	$0

Operating Ratios		**Valuation Multiples**	
Cash Flow Margin (SDE%):	35.51%	Revenue Multiplier	2.43
Rent/Annual Sales	4.0%	Cash Flow Multiplier	6.84
		Enterprise Multiplier	6.62

Transaction Details   Comp # 10

SIC Code: 7999   Amusement and recreational services

Business Description: Amusement Rides   NOTES:

Source: **Bizcomps**

Transaction Type: asset Sale

Location: Florida

Number of Employees: 11

No Additional Comments were Submitted

Transaction Data   Adjusted Asset Sale Price:

Date of Sale	10/18/2006	Sale Price	$585,000
Days on the Market	524	Inventory	$2,000
Asking Price	$650,000	Adjusted Asset Sale Price	$587,000
Adjusted Asset Sale Price	$587,000		
Percent Down Payment	23%		
Franchise Royalty			
Terms of Deal	10 Yrs @ 8%		

Income Data		**Asset Data**		**Liability Data**	
Annual Gross Sales	$539,000	Cash	$0	Assumed Int-Bear Debt	$0
Cash Flow (SDE)	$198,000	Accounts Receivable	$0	L-T Liabilities	$0
		Other Current & Non-Current Assets	$0	Total Liabilities	$0
		Inventory	$2,000		
		Furniture Fixtures, and Equipment	$313,000		
		Intangibles	$0	Value of Real Estate	$0

Operating Ratios		**Valuation Multiples**	
Cash Flow Margin (SDE%):	36.73%	Revenue Multiplier	1.09
Rent/Annual Sales	22.0%	Cash Flow Multiplier	2.96
		Enterprise Multiplier	2.95

Transaction Details   Comp # 11

SIC Code: 7999   Amusement and recreational services

Business Description: Amusement Park

NOTES:

Source: **Bizcomps**

Transaction Type: asset Sale

Location: Manitoba

Number of Employees: 34

No Additional Comments were Submitted

Transaction Data

Adjusted Asset Sale Price:

Date of Sale	3/16/2010	Sale Price $740,000
Days on the Market	246	Inventory $10,000
Asking Price	$800,000	Adjusted Asset Sale Price $750,000
Adjusted Asset Sale Price	$750,000	
Percent Down Payment	83%	
Franchise Royalty		
Terms of Deal	3 Yrs	

Income Data

		Asset Data		Liability Data	
Annual Gross Sales	$785,000	Cash	$0	Assumed Int-Bear Debt	$0
Cash Flow (SDE)	$298,000	Accounts Receivable	$0	L-T Liabilities	$0
		Other Current & Non-Current Assets	$0	Total Liabilities	$0
		Inventory	$10,000		
		Furniture Fixtures, and Equipment	$650,000		
		Intangibles	$0	Value of Real Estate	$0

Operating Ratios

Valuation Multiples

Cash Flow Margin (SDE%):	37.96%	Revenue Multiplier	0.96
Rent/Annual Sales	0.0%	Cash Flow Multiplier	2.52
		Enterprise Multiplier	2.48

Transaction Details   Comp # 12

SIC Code: 7999   Amusement and recreational services

Business Description: Scooter Rentals

NOTES:

Source: **Pratts Stats**

Transaction Type: Asset Sale

Location: FL

Number of Employees: 3

This transaction was submitted by a member of the Business Brokers of Florida (BBF).

Transaction Data

Date of Sale	5/10/2013
Days on the Market	BBF
Asking Price	$350,000
Sale Price	$350,000
Percent Down Payment	86%
Franchise Royalty	180000
Terms of Deal	Consideration: Cash payment in the amount of $300,000 and the remainder of the purchase price in the form of a promissory note payable over 60 months at 5% interest.

Income Data

		Asset Data = **Allocation**		Liability Data	
Annual Gross Sales	$500,000	Cash	N/A	Assumed Int-Bear Debt	$0
SDE Calculation		Accounts Receivable	$0	L-T Liabilities	N/A
Owner's Compensation	$0	Other Current & Non-Current Assets	N/A	Total Liabilities Assumed	N/A
Non-Cash Charges	$0	Inventory	$150,000		
Operating Profit	$200,000	Furniture Fixtures, and Equipment	$20,000		
	$200,000	Intangibles	$180,000	Value of Real Estate	$0

Operating Ratios

Valuation Multiples

Cash Flow Margin (SDE%):	40%	Revenue Multiplier	0.70
Rent/Annual Sales	100.0%	Cash Flow Multiplier	1.75
		Enterprise Multiplier	1.00

Transaction Details   Comp # 13

SIC Code: 7999   Amusement and recreational services

Business Description: Jet Ski Rentals   NOTES:

Source: **Pratts Stats**

Transaction Type: Asset Sale

Location: FL

Number of Employees: 3

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

Transaction Data

		Adjusted Asset Sale Price:	
Date of Sale	5/1/2007	Market Value of Invested Capital	$349,000
Days on the Market	BBF	Plus Employment Agreement Value	N/A
Asking Price	$349,000	Adjusted Asset Sale Price	$349,000
Adjusted Asset Sale Price	$349,000		
Percent Down Payment	100%		
Franchise Royalty	199000		

Terms of Deal   No Terms were Submitted

Income Data / Asset Data = **Allocation** / Liability Data

Income Data		Asset Data = **Allocation**		Liability Data	
Annual Gross Sales	$499,000	Cash	N/A	Assumed Int-Bear Debt	$0
SDE Calculation		Accounts Receivable	N/A	L-T Liabilities	N/A
Owner's Compensation	$0	Other Current & Non-Current Assets	N/A	Total Liabilities Assumed	N/A
Non-Cash Charges	$0	Inventory	$0		
Operating Profit	$209,000	Furniture Fixtures, and Equipment	$150,000		
	$209,000	Intangibles	$199,000	Value of Real Estate	N/A

Operating Ratios / Valuation Multiples

Operating Ratios		Valuation Multiples	
Cash Flow Margin (SDE%):	41.88%	Revenue Multiplier	0.70
Rent/Annual Sales	92.0%	Cash Flow Multiplier	1.67
		Enterprise Multiplier	1.67

Transaction Details   Comp # 14

SIC Code: 7999   Amusement and recreational services

Business Description: Scooter Rentals   NOTES:

Source: **Pratts Stats**

Transaction Type: Asset Sale

Location: FL

Number of Employees: 2

This transaction was submitted by a member of the Business Brokers of Florida (BBF).

Transaction Data

Date of Sale	5/10/2013
Days on the Market	BBF
Asking Price	$180,000
Sale Price	$150,000
Percent Down Payment	100%
Franchise Royalty	90000

Terms of Deal   Consideration: Cash consideration in the amount of $150,000.

Income Data / Asset Data = **Allocation** / Liability Data

Income Data		Asset Data = **Allocation**		Liability Data	
Annual Gross Sales	$350,000	Cash	N/A	Assumed Int-Bear Debt	$0
SDE Calculation		Accounts Receivable	$0	L-T Liabilities	N/A
Owner's Compensation	$0	Other Current & Non-Current Assets	N/A	Total Liabilities Assumed	N/A
Non-Cash Charges	$0	Inventory	$40,000		
Operating Profit	$150,000	Furniture Fixtures, and Equipment	$20,000		
	$150,000	Intangibles	$90,000	Value of Real Estate	$0

Operating Ratios / Valuation Multiples

Operating Ratios		Valuation Multiples	
Cash Flow Margin (SDE%):	42.86%	Revenue Multiplier	0.43
Rent/Annual Sales	100.0%	Cash Flow Multiplier	1.00
		Enterprise Multiplier	0.73

Transaction Details　　　Comp # 15

SIC Code:　　　　7999　Amusement and recreational services

Business Description: Parasailing　　　　　　　　　　NOTES:

Source:　　　**Bizcomps**

Transaction Type: asset Sale

Location:　　Florida

Number of Employees: 9

No Additional Comments were Submitted

Transaction Data

Adjusted Asset Sale Price:

Date of Sale	2/23/2008	Sale Price　$415,000
Days on the Market	34	Inventory　$10,000
Asking Price	$425,000	Adjusted Asset Sale Price　$425,000
Adjusted Asset Sale Price	$425,000	
Percent Down Payment	76%	
Franchise Royalty		
Terms of Deal		

No Terms were Submitted

Income Data

		Asset Data		Liability Data	
Annual Gross Sales	$388,000	Cash	$0	Assumed Int-Bear Debt	$0
Cash Flow (SDE)	$200,000	Accounts Receivable	$0	L-T Liabilities	$0
		Other Current & Non-Current Assets	$0	Total Liabilities	$0
		Inventory	$10,000		
		Furniture Fixtures, and Equipment	$150,000		
		Intangibles	$0	Value of Real Estate	$0

Operating Ratios

	Valuation Multiples	
Cash Flow Margin (SDE%):　51.55%	Revenue Multiplier	1.10
Rent/Annual Sales　　4.6%	Cash Flow Multiplier	2.13
	Enterprise Multiplier	2.08

Transaction Details　　　Comp # 16

SIC Code:　　　　7999　Amusement and recreational services

Business Description: Two Masted Top Sail Schooner for Charter　　NOTES:

Source:　　　**Bizcomps**

Transaction Type: asset Sale

Location:　　Florida

Number of Employees: 5

No Additional Comments were Submitted

Transaction Data

Adjusted Asset Sale Price:

Date of Sale	4/17/2009	Sale Price　$500,000
Days on the Market	0	Inventory　$0
Asking Price	$980,000	Adjusted Asset Sale Price　$500,000
Adjusted Asset Sale Price	$500,000	
Percent Down Payment	20%	
Franchise Royalty		
Terms of Deal		

5 Yrs @ 7%

Income Data

		Asset Data		Liability Data	
Annual Gross Sales	$517,000	Cash	$0	Assumed Int-Bear Debt	$0
Cash Flow (SDE)	$380,000	Accounts Receivable	$0	L-T Liabilities	$0
		Other Current & Non-Current Assets	$0	Total Liabilities	$0
		Inventory	$0		
		Furniture Fixtures, and Equipment	$400,000		
		Intangibles	$0	Value of Real Estate	$0

Operating Ratios

	Valuation Multiples	
Cash Flow Margin (SDE%):　73.5%	Revenue Multiplier	0.97
Rent/Annual Sales　　2.4%	Cash Flow Multiplier	1.32
	Enterprise Multiplier	1.32

Resume of
C. Frederick Hall, III, MBA, CBA, CVA
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 designation of CBA
                      (Certified Business Appraiser)

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

                      Completed Requirements for CVA certification (Certified 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 CBA.

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 400 companies. During this time I regularly presented lectures on business valuation techniques to a number of professional organizations in Northern California. I presented classes on valuations, accounting, and taxes at the Annual Murphy Business and Financial Convention in Florida. Attendees included brokers, bankers, and accountants.

I have written approximately 50 appraisals involving marriage dissolutions and partnership breakups which often required presenting and defending the findings to both parties and their attorneys. Approximately 50 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, Five Star Bank, First Community Bank, and Cornerstone Community Bank.

C. Frederick Hall, III, MBA, CBA, CVA

10300 Argonaut Drive
Jackson, CA 95642

Recent Clients:

Bank of the West Scott VanderLohe Sacramento, CA	Northern Nevada Bank Bryan Wallace Reno, NV	ProSource Sales and Mkt Gail Sievers Sparks, NV	Wright Outdoor Center Jim Wright Sparks, NV
ScareCrow Lath & Plaster Steve Crow Reno, NV	Lake Bar & Grill Robert Treanur Sparks, NV	Nelson Logistics Jeffery Ting So.San Francisco, CA	Chase Western Cabinets Brett Zunino Reno, NV
North Valley Athletic Club Scott Schofield Chico, CA	Mueller Fitness Center Vance Mueller El Dorado, CA	MAACO Art Alvi North Highlands, CA	Consign-It Bonnie Grisel Rancho Cordova, CA
Liquor Cabinet Manjeet Sandhu Corning, CA	Lighting Unlimited Dean Osborn El Dorado, CA	LA Pines Building Supply Pat Lawrence Portland, OR	Kidz Love Soccer Chris Trevisan Cupertino, CA
Holiday Grocery Jim Lumley Marysville, CA	Golden Years Retirement Jace Schmitz, Coldwell Banker Port Angeles, WA	GHH, Inc. Environ.Eng. Gary Hall Auburn, CA	Doyle's Steel Terry Henry Modesto, CA
DEA- Bathroom Machinery Tom Scheller Murphys, CA	Cal Inc. Environmental Training Mike McCalmont Vacaville, CA	B & J Unical Gas John Rockwood Grass Valley, CA	Putnam HVAC John Putnam Rancho Cordova, CA
Tom's Ace Chris Doyle San Leandro, CA	Teresa's Place Restaurant Phil Giurlani Jackson, CA	Pine Cone Pharmacy Paul Wesseler Pine Grove, CA	Sierra X-Ray Services Pete Kohler Reno, NV
Oak's Hardware Dave Hill Fair Oaks, CA	Dixon Lumber Bryan Bock Dixon, CA	Davenport Lumber Doug Allen Davenport, WA	Tender Touches Spa Barbara Brown Sequim, WA
Meineke Auto Care Dave Sparks Gladstone, OR	Foothill Ace John Norris Oregon House, CA	Columbia Nursery & Florist Janet Ofstad Columbia, CA	Twin Cities Bike and Repair Rick Elia Yuba City, CA
A & J Paving Allen & Joan Ashby Reno, NV	Tony Don Michael MD Bakersfield, CA	Applied Control Electronics Terrence Burke Placerville, CA	Mark Bailey Plumbing Lisa Bailey Susanville, CA
Garden Valley Feed Manuel Vieira Garden Valley, CA	Great Shape of America Steve Lubarsky Los Angeles, CA	Imperial Steel & Tube Rick Stamper Perris, CA	Wood Rat Productions Dennis McKee Murrietta, CA
Hayward Ace Hardware Andrew Lee Hayward, CA	Rossi Building Materials Richard Nelepovitz Fort Bragg, CA	Thrillworks Extreme Eng. Jeff Wilson Newcastle, CA	Outhouse Collection Jeanette Skaff Arnold, CA
Cameron Ace Hardware Barry Pino Cameron Park, CA	Divide Supply Jerry Hoyt Greenwood, CA	Ameritech Propeller Kerry Dawes Redding, CA	Auction City Flea Market Emil Magovac Sacramento, CA.
Mark Bailey Plumbing Lisa Bailey Susanville, CA	Big O Tires Scott Davis Sparks, NV	Bill-Rite Mgmt Services Lorrie Bosick Newcastle, CA	California Movers Express Michael Szura Hayward, CA
Capital Towing Carson City, NV	Carpets of America Ray Crandell Sparks, NV	Chamois Car Wash Mark Gambardella Danville, CA	Claypool's Market Fred Claypool Pine Grove, CA
Cypress Systems Robert Crocitto Reno, NV	Dangermond & Assoc. Engineering Peter Dangermond Sacramento, CA	Empire Stores Kim Deol San Leandro, 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 is a Calculation Valuation only and is not prepared in conformity with USPAP, the Uniform Standards of Professional Appraisal Practice. This Report is not to be used as an exhibit or supporting document in any legal action.

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

_____   October 15, 2014
C. Frederick Hall III, MBA, CBA, CVA   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.