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Prepared By

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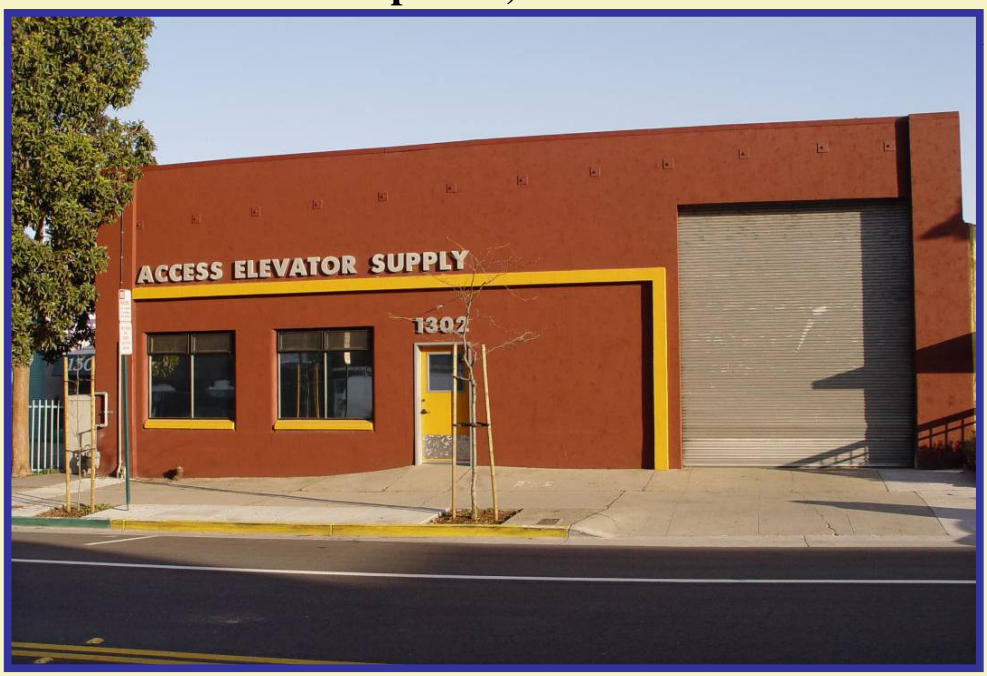
Elevator Supply, Inc.

21190 Payton Lane
Pine Grove, CA 94665

Business Valuation

April 10, 2008



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EXHIBITS

1.0 INTRODUCTION

1.1 REPORT DATE: April 10, 2008

1.2 DATE OF VALUATION: December 31, 2007

1.3 SUBJECT OF APPRAISAL

The subject of this business appraisal is Elevator Supply, Inc. located at 21190 Payton Lane, Pine Grove, CA 94665. The company, which is wholly owned by John Smith, is a California S-Corporation. The corporation has 100,000 common shares authorized. There are presently 1,000 shares outstanding, all of which are owned by Mr. Smith. The Company has not issued any other class of stock.

The Appraiser performed a site inspection on April 3, 2008. The owner, John Smith was interviewed by the Appraiser on April 3, 2008.

1.4 PURPOSE AND USE

The purpose of the appraisal is to determine the fair market value of a 100% ownership interest in the common shares of Elevator Supply, Inc. on a Controlling, Non-marketable basis. The appraisal is intended for the use of the Owner of the business to assist him in formulating an exit strategy. Any other use invalidates the conclusions of this appraisal.

Control and Marketability are two important *characteristics* of an investment that will be referred to throughout this report. Clearly, if two investments are identical in all respects except that one gives the owner a 100% controlling interest and the other a 5% minority interest, the investor will be willing to pay more for control. Marketability is defined as the ability to convert the investment into cash immediately at a known or reasonably expected price. Since interests in small, closely-held companies generally cannot be converted into cash quickly, such *interests* are referred to as non-marketable. This non-marketable *interest* must be valued in a manner that will reflect its unattractive investment *characteristics*. Throughout the chain of calculations employed in this report, different methodologies that are used will develop values that reflect different investment *characteristics*. For example, when employing the Income Approach, the value initially produced is one that is on an "*as if freely traded basis*." This is because the database used to develop that value was made up of investments in public companies traded on stock markets, which are minority owned and readily marketable. The *characteristics* of the value produced by this methodology, then, do not match the characteristics of our Subject. Thus, that calculated value must be reduced to

reflect the non-marketability of the Subject. The "as if freely traded basis" can be converted into a non-marketable basis through the application of a Discount for Lack of Marketability. After the discount is applied, the subject "interest" remains non-marketable, meaning the buyer acquires a company that cannot be readily resold. However, the buyer has received a price reduction sufficient enough to compensate him for the unattractive nature of the investment.

1.5 Premise of Value

Going Concern

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

1.6 Standard of Value

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

1.7 Assumptions and Limiting Conditions

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

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

1.7.2 The Appraiser has relied on the representations of management without independent investigation. The information was obtained in good faith, but no opinion or warranty is implied or expressed by the Appraiser.

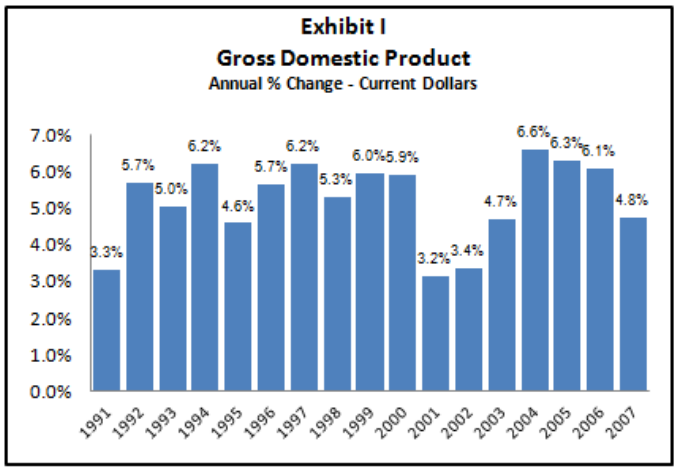
1.7.3 This report cannot be relied upon to disclose any fraud, misrepresentation, or deviations from Generally Accepted Accounting Principles.

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

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

2.0 Economic Analysis and Industry Factors

2.1 How the Economy Affects Value

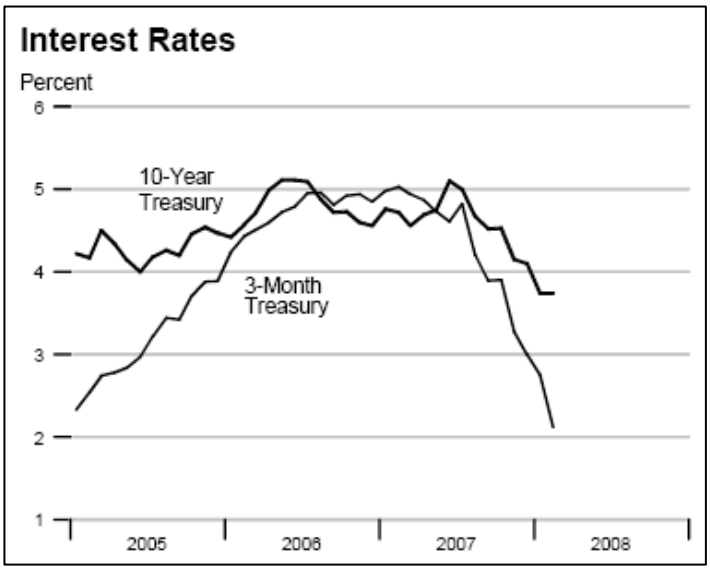


U.S. Department of Commerce -*Bureau of Economic Analysis-U.S. Economic Accounts*, *http://www.bea.gov/*

The economy has a direct effect on all businesses. The GDP (Gross Domestic Product), which is a measure of growth of the economy, is made up of three components: 1) Consumption (measured by personal disposable income); 2) Business Investments (plant and equipment and inventory); and, 3) Government Spending. Since Elevator Supply deals in electrical components used in the repair and assembly of elevators, its primary customer base is other businesses that install, repair or manufacture elevators. Thus, business investment activity is of the utmost importance. By tracking the movement of business investment in past years as well as developing projections for its growth in the future, we should be able to gain insight into Elevator Supply's growth potential.

Changes in the levels of corporate profits and interest rates are key factors in determining the level of Business Investment. Rising levels of corporate profits provide companies with cash to invest in more plant and equipment. Declining interest rates reduce financing costs which also encourages business investments in plant and equipment and inventory.

Exhibit II



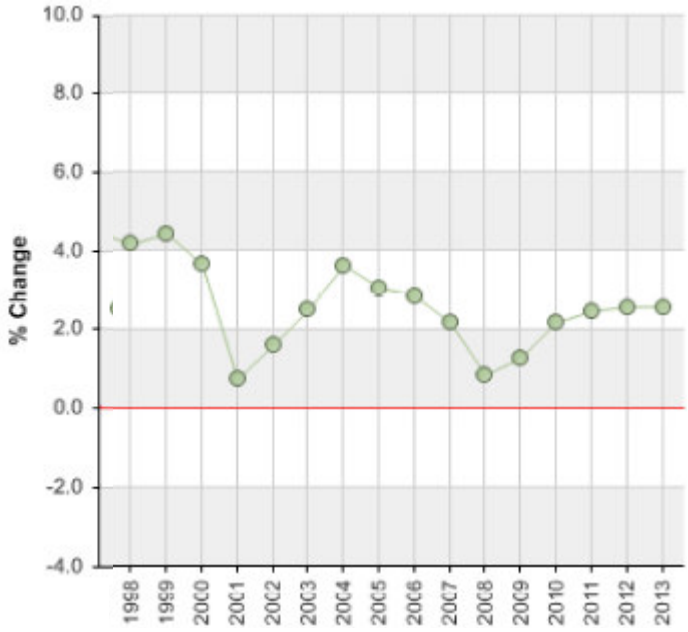
The following is an assessment of these and other economic factors and their influence on the Subject Company's operations.

2.2 CURRENT U.S. ECONOMIC OUTLOOK

By mid 2007 the U.S. economy had enjoyed six continuous years of growth. But, as the year progressed, a deepening housing slump and a breakdown in the mortgage and financing markets began to drag on the economy. The effects of the housing slump have been spilling out over a broad area of the economy. With financial institutions reporting huge losses in the subprime mortgage market, the entire financial industry has not only tightened its credit standards, but also endured large-scale employee layoffs. Consumer loans as well as business loans have become increasingly harder to obtain. The result has not only handcuffed the housing market, but also affected auto sales and is beginning to affect the Business Investments sector as well. Fourth quarter GDP increased a mere 0.6% (including inflation) from the third quarter, compared to a 1.6% quarterly gain in the third quarter.

In the latter half of 2007 the Federal Reserve Board eased its money policy considerably, and, on several occasions injected liquidity into financial markets. By the end of 2007, the date of this valuation, it was widely expected that the Federal Reserve would continue its aggressive assault on interest rates. In addition, from the numerous bills submitted in congress, one could reasonably expect that the Federal Government would provide additional fiscal stimulus to the economy. In fact, in January 2008 the Fed dropped the Federal Funds rate an unprecedented 1.25%, and Congress approved a fiscal stimulus program calling for a up to a $600 tax rebate for most taxpayers.

Exhibit III – Growth in Real GDP



IBISWorld, *Real GDP Growth in the US – Business Environment Report,* April 23, 2008 P.3

Unfortunately, whereas the market usually responds favorably to interest rate reductions, the *availability* of credit has trumped the decline. Not only have financing institutions greatly tightened their lending standards, but also, the secondary market, which buys those loans and repackages them into investment

securities, cannot find ready buyers for those securities on the stock market. As a result, if lenders cannot find markets to sell their loans, they stop making loans. Such was the case in August 2007 prompting the Federal Reserve to inject massive amounts of liquidity into the financial markets to break the gridlock.

However, as of year-end 2007, financial markets remained unstable, and expectations were that the economy was headed for a recession in the first half of 2008. It was expected that the efforts of the Federal Reserve and Congress would soften the blow, thus, making the recession mild. As such, economists were projecting that the economy would resume positive growth by the second half of 2008. The outlook for the national economy is for a decline in the first half of the year followed by modest growth in the second half. **Overall growth for GDP for 2008 is projected at .85% in real terms or 3.3% nominal (which includes inflation). That is moderately below the 2.2% (4.8% nominal) level in 2007. Growth is expected to climb slowly from 1.3% (3.5%) in 2009 to 2.6% (5.9%) by 2013.[1] Thus, the average GDP growth for the next six years is expected to be 2.1% (5.0%), which is moderately less than the fifty year average of 3.3% (7.2% nominal) per year.[2]**

Fortunately, the American consumers have continued to spend freely and their foreign counterparts are doing the same, providing support for the U.S. economy. Real Personal Consumption increased 2.9% in 2007, compared to 3.1% in 2006. The drop in interest rates also caused a decline in the U.S. dollar which, in turn, has made U.S. products cheaper in Europe, Great Britain, Canada, and Japan. U.S. exports were up 8% in 2007. This one bright note in the economy helped sustain growth throughout 2007. Without it the economy would have been sluggish.

The final dark cloud in the economic horizon is the cost of energy. The price of crude oil broke the $100 per barrel barrier for the first time in November 2007, and, in early 2008 reached $108. At $108 per barrel, oil is now at its highest level ever when adjusted for inflation. Fortunately, the U.S. economy is significantly more diversified than it was in the 1970's and 1980's; thus, oil's inflationary impact is considerably less now than it was then.

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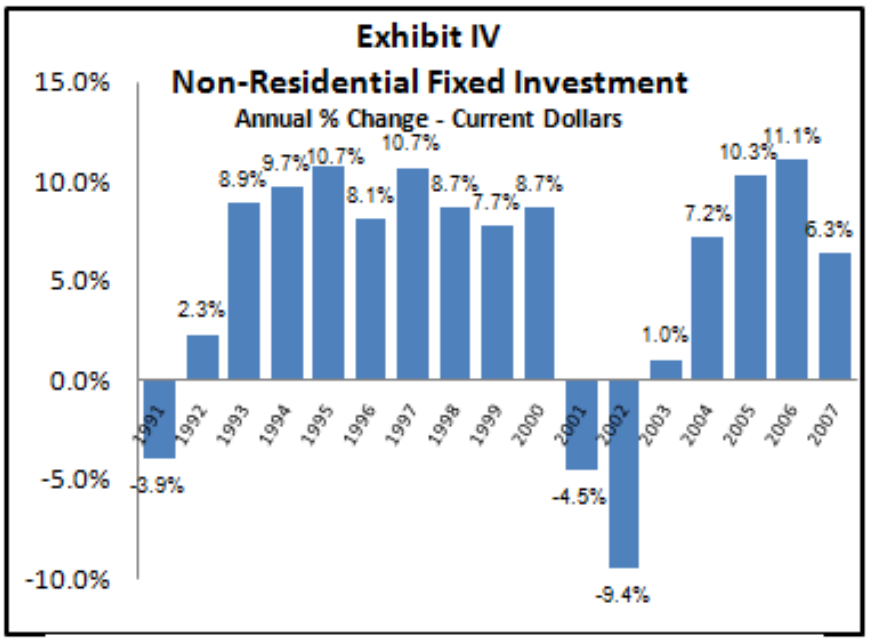
[1] IBISWorld, *Real GDP Growth in the US – Business Environment Report,* April 23, 2008, p. 3 *http:// www.ibisworkd.com/bed/default.aspx?bedid=2436*

[2] Economic Research, Federal Reserve Bank of St. Louis, Real Gross Domestic Product, 2007 http://research.stlouisfed.org/fred2/series/GDPCA/downloaddata?cid=106



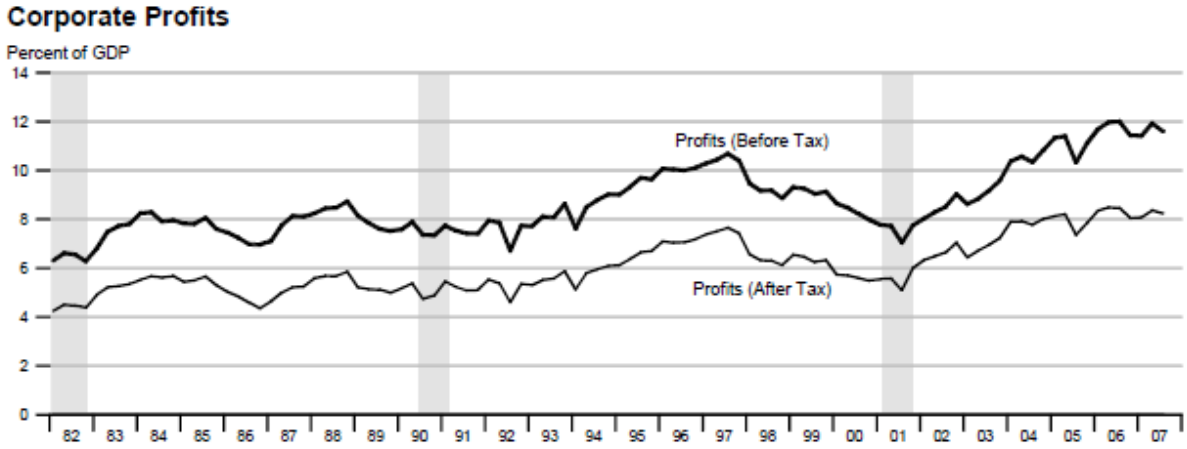
U.S. Department of Commerce -*Bureau of Economic Analysis-U.S. Economic Accounts , http://www.bea.gov/*

Regardless, the consumer has been tapped hard by the increase in fuel. The loss of disposable income will certainly have an impact on consumer spending in 2008.

Private Non-Residential Fixed Investment (PNRFI), a subgroup of overall Business Investments, is the segment of the economy that most affects Elevator Supply. This segment includes investment in non-residential structures and equipment and machinery. According to data released by the Department of Commerce, PNRFI increased by 7.2% during the fourth quarter of 2007 compared to the same period in 2006[3]. For the entire year 2007, PNRFI increased by 6.3%.

From Exhibit IV one can see that PNRFI is a moderately volatile sector of the economy. The recessions of 1991 and 2002 saw declines of 3.9% and 9.4%, respectively. The 1991 recession was followed by nine years of growth averaging 8.4% per year, while the 2001-2 recession was followed by five years of growth averaging about 7.2% a year. Average growth (including inflation) over the last 50 years has been 7.8% compared to 7.2% for overall GDP

Exhibit V



Research Division St. Louis Federal Reserve Bank, *National Economic Trends,* March 2008, p. 21

[3] U.S. Department of Commerce -*Bureau of Economic Analysis-U.S. Economic Accounts Table 1.1.5 Quarterly , http://www.bea.gov/*

The Private Non-Residential Fixed Investment segment of the economy is sensitive to interest rates and corporate profits. From Exhibit V one can see that Corporate Profits, the major driver for PNRFI, suffered substantial declines concurrent with the declines in PNRFI. From Exhibit VI one can see that short-term interest rates dropped rapidly at the onset of the 1991 and 2001 recessions. As rates continued to decline, Private Non-residential Fixed Investment rebounded in response.

Exhibit VI

Research Division St. Louis Federal Reserve Bank, *National Economic Trends,* March 2008, p. 7

Corporate Profits, which increased 4.8% in 2007, are expected to decline 2.1% in 2008 and rebound at an anemic 3.3% in 2009.[4] As such, Non-Residential Fixed Investment is expected to follow suit. Exhibit VII includes a six year projection for this sector of the economy. Minimal growth is expected in 2008 as declining interest rates are expected to soften the blow from declining Corporate Profits. Growth for the next three years is expected to be less than half the long-term average, returning to normal levels in 2011 to 2013. **The below average growth anticipated for this sector of the economy will have a significant impact on the near-term growth of the Subject Company.**

2.2.1 RISKS TO THE ECONOMY

An area of the national economy that may have a long-term impact is the present stress of the financial markets. In what might become a "knee-jerk" reaction, the Treasury and Congress are discussing ways to control future lending practices. The unfettered standards of the past ten to fifteen years have produced unprecedented economic growth. The U.S. economy has endured only one minor recession since 1991. If over-zealous policymakers try to aggressively regulate future lending practices, long-term growth may be curtailed.

Oil continues to be a long-term risk to the economy. As oil reserves continue to diminish, new emerging economies such as China are rapidly increasing their demand for it. According to Allan Greenspan, the prior Federal Reserve chairman, the current run-up in crude oil prices may be the start of a long-term trend.[5] The oil embargos suffered by the U.S.

[4] *"Governor's Budget Summary-2008-2009,"* California Department of Finance, January 10, 2008, p. 28 http://www.dof.ca.gov/budget/historical/2008-09/governors/summary/documents/BSUM.pdf

[5] *"The Age of Turbulence",* Alan Greenspan, The Penguin Press, New York, 2007, p. 437ff

in the 1970's and 1980's had devastating effects on the economy at that time. Any future reduction in the availability of oil may have a similar impact.

2.2.2 Strengths of the Economy

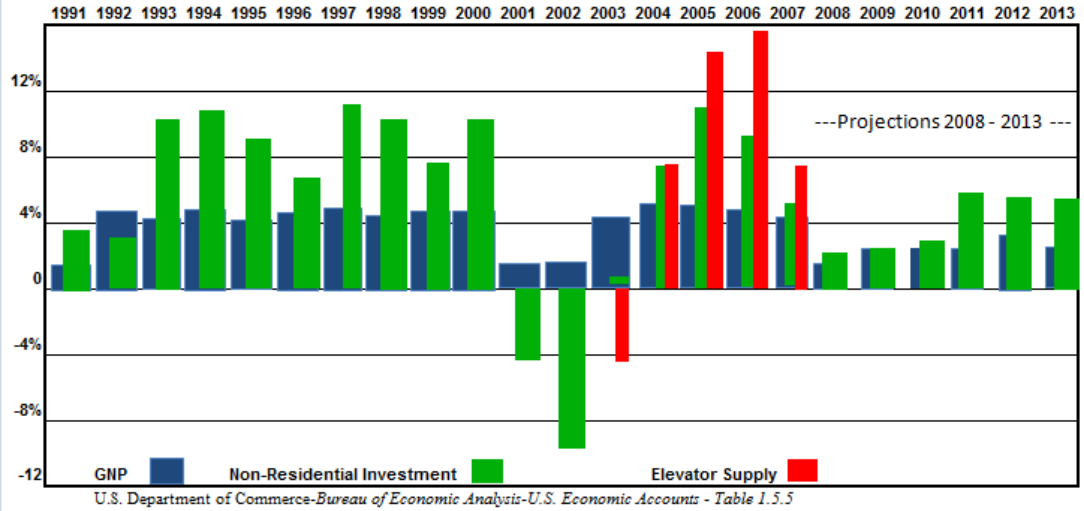
Long-term interest rates have been at historic lows for nearly ten years. The primary reason has been foreign demand for U.S. debt. U.S. trade deficits continually put billions of U.S. dollars in foreign hands. Those dollars are then used to purchase U.S. bonds. Over the last several years, China has been the major investor in U.S. debt obligations. The high demand for bonds drives up their price which results in lower interest rates.

The commercial real estate market is very dependent on a stable supply of low, long-term interest rates. Commercial real estate projects typically have a very lengthy development time. If long-term rates fluctuate radically, developers would not be able to predict their debt service costs, and therefore, would not be willing to take the risk. Low interest rates seen during the last decade have been a driving force in this area of the economy.

2.2.3 Economic Trends and Their Affect on Elevator Supply

The national economy in 2007 can be summed up as performing at below average economic growth with historically low interest rates. The low, long-term interest rates will continue to support growth in the commercial real estate market. However, the *availability* of money will be an offsetting issue during the next few years. From Exhibit VII below, the projections for Private Non-Residential Fixed Investment call for an increase of just 3.2% in 2008, 3.5% in 2009, and, 4.7% in 2010, well below the average of 7.8% seen over the last fifty years and the 5.7% average since 1991. Growth in PNRFI is then expected to climb back to an 8% to 9% range from 2011 through 2013. Thus, the overall average growth of the Private Non-Residential Fixed Investment segment of the economy for the next six years is expected to be 6.3% -- moderately higher than the 5.0% growth rate projected for the entire

Exhibit VII Revenue Growth Rates - Current Dollars
GDP vs. Fixed Investment Sector vs. Subject



U.S. Department of Commerce-*Bureau of Economic Analysis-U.S. Economic Accounts - Table 1.5.5*
Forecasts: IBIS World, *Private Fixed Investment-Non-Residential Total:D22333, April, 2008, Pg. 3*

GDP, but much less than the fifty year average of 7.8% for the sector.

The slowdown in Business Investment will be felt mostly in the development of commercial projects. Commercial projects are major users of elevators which are required to have regular inspections and rigidly enforced maintenance schedules. Thus, it is reasonable to expect that Elevator Supply's revenue growth would also slow down during the next six years. The Income Approach takes into account a company's future growth potential. The five year revenue forecast for the Subject Company (to be discussed below) will take into account the anticipated slowdown in the industry. As the slowdown in revenue growth translates to reduced or declining earnings, the Company's value will be directly affected.

2.2.4 Regional and Local Economy

Elevator Supply, Inc.'s customer base is spread throughout nearly every state in the union. Thus, the Company's market will emulate the overall national economy, and as such, the national economy will provide the best gauge for the Company's operations. Likewise, an assessment of the local economy is of no value, since it has a negligible impact on the business.

2.3 Industry Characteristics

The industry which Elevator Supply serves is defined under the Standard Industrial Classification (SIC) #5063. These firms are wholesalers of a range of electrical equipment used in commercial and industrial jobs typically performed by electrical contractors or manufacturers. The electrical equipment includes wire and wire harnesses, switches, circuit breakers and fuses, lighting equipment, and security systems.

Estimates place the total industry revenue for 2007 at $145 billion, generated by about 12,300 establishments. Total employment in the industry is 163,641.[6] The industry is very fragmented with the top four players accounting for only 13.1% of total market share. Roughly two-thirds of the firms employ less than ten people. Because of the large amount of small companies making up the industry, competition is keen. However, competition has been steady and attempts at industry consolidation by major players have been minimal.

Barriers to entry into this industry are considered low. There are no government licensing requirements or government regulations. Resource constraints that may restrict entrance are minimal, and, the level of capital investment required is fairly low. However, there are several deterrents that may discourage entrance into the marketplace: 1) a new business requires a fairly lengthy lead time to build up a profitable customer base; 2) the industry is labor intensive but only has a small available pool of technically qualified employees; 3) there is very little product differentiation, meaning that price competition is the primary customer attraction; and 4) there is a perception that the industry is moderately volatile because of its dependence on the construction industry.

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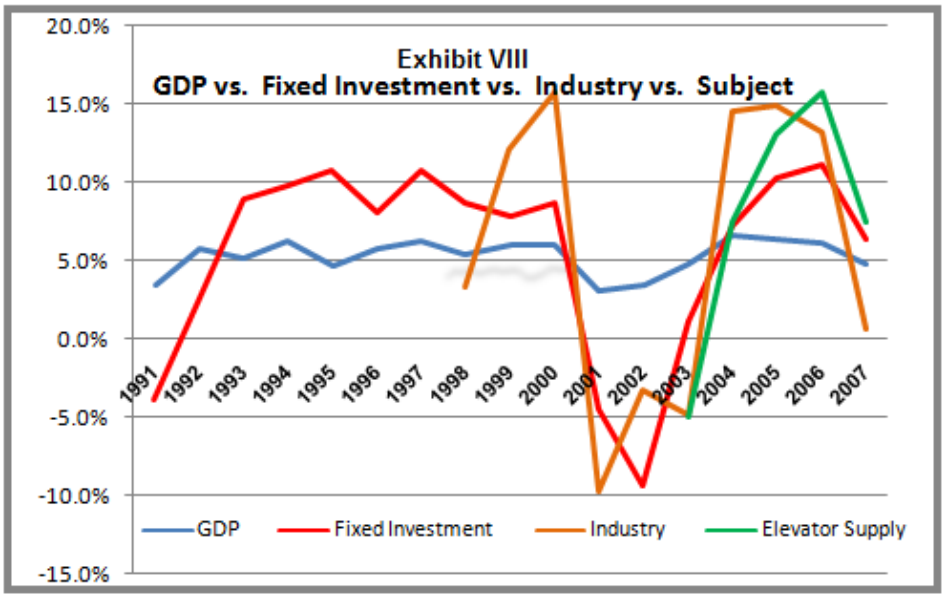
[6] IBISWorld Industry Report, *Electrical Equipment Wholesaling in the US:42161,* March 2008, p. 5

Electrical contractors are the fastest growing segment serviced by this industry, accounting for about 34% of total revenues. Industrial users of electrical equipment, mainly in the manufacturing industries, account for another 42% of revenues. Recently passed electrical codes requiring all work to be performed by certified electricians and increasing automation in the manufacturing sector have fueled strong growth for the industry.

In order to be successful in this industry, operators must be able to quickly adapt to changing technology. Electrical products are constantly evolving. Building code changes require knowing what new products must be stocked; they can also make current inventory on the shelves instantly obsolete. Inventory control, therefore, is critical. Maintaining solid links to manufacturers and suppliers is also important. Finding sources of competitively priced products enables the wholesaler to be price competitive with his downstream customers. Wholesalers with strong ties to their suppliers are often allowed to return their slow-moving or obsolete inventory at the end of each year, thus providing an element of critical inventory control. Since inventory control is so important to maximizing profits, a wholesaler must be computerized. Inventory investment must be kept to a minimum, yet stocking levels must be adequate to service customer demands quickly and competitively. Finally, because of the technical nature of much of the products sold, it is necessary for the wholesaler to have a highly trained sales staff to assist customers.

Revenue growth in the Electrical Equipment industry averaged 5.7% per year from 1998 to 2007 compared to the GDP's 5.2% average. However, as can be seen from the graph below, that growth comes with considerable volatility. Elevator Supply's revenue growth for the last five years has increased an average of 7.7% per year which is identical to the Electrical Equipment industry growth rate, and, just slightly more than the 7.2% posted by the Fixed Investment sector of the economy. Although we only have five years of comparison, it would appear that Elevator Supply tracks its industry and sector movements fairly well.



Forecasted annual revenue growth (including inflation) for the Electrical Wholesale industry for the next six years is as follows:

Industry Growth (1)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Industry Growth – Revenue	**-0.1%**	**6.2%**	**7.2%**	**7.3%**	**6.3 %**	**5.3 %**

(1) IBISWorld Industry Report, *Electrical Equipment Wholesaling in the US: 42161, March 2008, P.37(adjusted for inflation)*

The projected revenue growth for the industry is expected to average 5.4% per year over the next six years. This is somewhat higher than the 5.0% expected growth for the overall economy (from Exhibit VIII above), but less than the 6.3% growth for the Business Investment sector (from Exhibit VIII above). It should be noted that the projected growth for the GDP over the next six years is also moderately below its fifty year average of 7.2%. As such, it is reasonable to assume that the projected industry growth will be below average during this period as well. **All indicators point to stagnant growth for Elevator Supply which may translate into lower cash flow and a lower value. The above forecast for Industry Growth, therefore, is considered a reasonable measure of the near-term growth of the Subject.**

3.0 Company History and Organization

3.1 Company History

Access Electric Supply was founded in 1988 by John Smith. The company was incorporated as Elevator Supply, Inc., a California S- corporation on December 31, 1993. The company moved to its current location at 21190 Payton Lane, Pine Grove, California in 2000. It occupies about 5,000 square feet of warehouse space with 2,200 square feet of office space. The premises are owned personally by Mr. Smith which he rents to the corporation at the current fair market value for rents in that area.

The company operates as a wholesaler of electrical parts and apparatuses used in most makes and models of elevators. The company has approximately 340 customers. Its customer base is made up of 25% other electrical wholesalers, 35% elevator repair contractors, and 15% Original Equipment Manufacturers. The remaining 25% of its business comes from one company, Elevator Control and Engineering (ECE). ECE is a $125 million manufacturer of elevator control equipment located in Los Angeles, California. They are, in turn, wholly owned by Bigbucks, Inc. a $300 million conglomerate that specializes in electric motors. Mr. Smith reports that ECE frequently dictates price and policy to Elevator Supply; however, he continues to have a good relationship with them. The Company has a supply contract with ECE that typically is renewed on an annual basis. There is no expectation for any change in this relationship for the foreseeable future. However, Mr. Smith reports that the loss of this client could have a moderate impact on profits for several years.

The Company's main suppliers are: General Electric (15% of purchases), Siemens (30%), and Sprecher and Schuh (10%). The remaining inventory is purchased from numerous other vendors. These three manufacturers aggressively pursue markets for outlets to their products.

Even though these three suppliers represent over half the Company's source of supply, there is a minimal risk from vendor concentrations as these companies continually seek to increase their markets through the Company. As such, the concentration of suppliers is considered a very minimal risk to future revenue growth.

Elevator Supply ships products to nearly every state in the union and to Canada. However, California, Illinois, New York, Florida and Texas are its largest markets, primarily due to the large number of high rise buildings with elevators.

3.2 COMPETITION

Elevator Supply has a number of competitors around the country. For the most part, they are much larger companies, and in some cases, publicly traded companies. The Company's main competitors include the following: Southern Elevator and Electrical Supply, a $27 million independent company located in Pompano Beach, Florida; Unitec Company, a division of United Technologies of Hartford, Connecticut, a $54 billion public company who also owns Otis Elevator; and, Adams Elevator Equipment Company, a division of Schindler Elevator Corporation of Niles, Illinois, a $1 billion elevator manufacturer.

The major weakness for most of the larger wholesalers in this industry is that they are part of larger manufacturing conglomerates. These wholesalers supply *all* parts used in elevators, both electrical and mechanical, and, of course, their primary focus is supplying their parent companies who manufacture elevators. Elevator Supply's inventory is concentrated in just the electrical components used in all major brands of elevators. These components are most likely to have unannounced failures requiring immediate resolution.
As such Elevator Supply's depth of inventory gives it the ability to respond to these crises faster than most of its competitors.

3.3 STRENGTHS AND OPPORTUNITIES

Even though Elevator Supply is much smaller than most of its competitors, it prides itself in being able to provide rapid turnaround time for those critical parts needed to keep elevators operating. They also are willing to spend the extra time with a customer to track down hard to find parts. Approximately one fourth of their orders are shipped from their warehouse within 24 hours of the sale. In order to accomplish this feat, Elevator Supply maintains an inventory in excess of $1 million. The Company claims to be the largest stocking supplier of electrical replacement parts for elevators. It stocks brands such as GE, Siemens-ITE, ABB, Furnas, Joslyn Clark, Sprecher and Schuh, Ward Leonard, Idec, and Edison. The status of

"stocking dealer" often requires a large investment in that manufacturer's products. However, the profit margins for stocking dealers are generally much higher than those of non-stocking dealers. Even though Elevator Supply carries a very large, diverse inventory, 25% of its sales are direct shipments from the manufacturer to the customer.

The company has formed a "partnership" with Siemens, a German manufacturing conglomerate that produces elevators. Siemens is a major supplier of electrical components to Elevator Supply. The company works very closely with the Subject in setting up marketing programs and sales goals. Siemens routinely arranges sales calls with other manufacturers and industrial end users and accompanies Elevator Supply to those meetings. With Siemens representatives included in the sales calls, Elevator Supply is able to gain access to new clients that normally would not give them the time of day. As a result, Elevator Supply's sales to Original Equipment Manufacturing customers (OEM) have increased by 24% in the last two years. **The Company expects that the alliance with Siemens will enable them to significantly increase sales to this group of customers well into the future.**

The Company is also planning to regularly buy large blocks of "legacy" inventory from G.E in the future. These are items that are used to repair or replace various electrical components manufactured by G.E. in the past. G.E. wishes to deemphasize these older product lines and no longer wants to stock the repair parts. By taking over these product lines in the future, Elevator Supply will become the only source available, and, therefore will be able to earn a very high profit margin for a number of years. The Company plans to actively seek out more "legacy" type product lines in the future. Even though this will keep upward pressure on inventory levels, and increase the prospects of owning slow-moving obsolete inventory, management felt that the extraordinarily high profit margins justify the risk.

3.4 WEAKNESSES

The Company does not maintain a computerized perpetual inventory. However, management feels that they are able to track and control inventories reasonably well. Most of their vendors will allow them to return slow moving or obsolete parts at the end of each year. A credit is issued, usually for the full amount of the original price, which is then applied to the Company's next purchase. As a result, management feels that its inventory has a minimal level of obsolete inventory.

As mentioned above, Elevator Supply's customer base is highly concentrated in one company, Elevator Control and Engineering (ECE). Approximately, 25% of the Subject Company's revenues come from this one source. Although the Subject could survive the loss of this client, its sales and profits would be significantly impacted for several years. Elevator Supply is aggressively working with Siemens to develop new sources of customers to help reduce its exposure to ECE.

3.5 MANAGEMENT

Elevator Supply has just seven full time employees and one part time employee. The key employees are:

John Smith. – Owner and General Manager. He works about fifty hours per week at the business. At present, he performs all the typical general managerial duties, maintains relations with all large customers, negotiates contracts, and is involved in technical sales. Mr. Smith literally "wears all the hats" for his company.
Robert Adams – Vice-president and Sales Manager. He has been with the Company for nine years and came to them with a strong resume. He is capable of running the company in the absence of the owner. He presently is salaried at $110,000 per year. He is being groomed to become general manager.

Ed Patterson – Buyer. He has been with the company for three years. He was a career military man. He does a satisfactory job. His salary is $48,000 per year.

Mike Johnson – Inside Sales. He has been with the company for seven years. He handles sales with technical assistance from the owner. His salary is $72,000 per year.

Angela Smith – Office Manager. She has been with the company one year. She performs office bookkeeping chores including paying the bills. Her salary is $63,000 per year.

Joanie Smith – Human Resources. Mrs. Smith is the wife of the Owner. She just began working for the company in February 2007. She works about 20 hours a week and receives a fair market wage for her services.

One of the Company's major sources of profitability is that it is run "lean and mean." Only seven employees are needed to run the Company. These employees are paid well, and as such, employee turnover is minimal. The well trained long-term staff is able to develop and maintain strong relationships with customers.

The weakness in having a "lean" staff is that a single turnover can be detrimental to customer relations. Most importantly, the loss of the CEO, Mr. Smith, could have irreparable consequences for the Company. Long-term client relationships could be lost to the competition as a result. Operations would undoubtedly suffer as well.

4.0 Financial Analysis of the Company

4.1 Financial Statements

Tax returns are the primary source of information used in the analysis. John Smith, the owner, supplied tax returns for years ending 2003 through 2007. P&Ls and balance sheets for years ending 2003 through 2007 were also available. The statements are prepared on a "compilation basis" using management's information without any verification by the CPA firm. No opinion as to the accuracy of the financials is offered by the Appraiser. The Owner also provided the Appraiser with a five year projection of revenues and expenses. A site inspection was performed on April 3, 2008. The owner, John Smith was interviewed by the Appraiser on April 3, 2008.

4.1.1 SUMMARY OF HISTORICAL BALANCE SHEETS

The following are the balance sheets for Elevator Supply, Inc. for the last five years.

Exhibit IX
Elevator Supply, Inc.
Balance Sheet

	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005	Dec 31, 2004	Dec 31, 2003
Cash:	324,427	482,773	410,669	275,501	288,002
Accounts Receivable:	795,972	794,333	598,613	498,005	412,500
Inventory:	1,090,100	1,030,100	910,100	790,000	698,945
Other Current Assets:	16,194	4,013	7,342	6,495	6,049
Total Current Assets:	**2,226,693**	**2,311,219**	**1,926,724**	**1,570,001**	**1,405,496**
Fixtures & Equipment:	123,438	169,733	168,376	148,950	138,734
Tenant Improvements:	189,791	189,791	189,791	189,791	189,791
Depreciation:	(162,681)	(203,622)	(216,964)	(189,348)	(172,518)
Other Assets:	-	-	-	-	-
Investments:	-	-	-	-	-
Intangibles:	-	-	-	-	-
Total Assets:	**2,377,241**	**2,467,121**	**2,067,927**	**1,719,394**	**1,561,503**
Accruals, Other Liabilities:	16,293	3,218	5,120	4,529	4,219
Accounts Payable:	105,224	219,160	161,641	155,078	144,442
Short Term Debt:	-	-	-	-	-
Total Current Liabilities:	**121,517**	**222,378**	**166,761**	**159,607**	**148,660**
Other Long Term Liabilities:	-	-	-	-	-
Shareholder Loans:	-	-	-	-	-
Interest Bearing Debt:	90,000	100,000	125,000	75,000	-
Total Liabilities:	**211,517**	**322,378**	**291,761**	**234,607**	**148,660**
Net Worth:	**2,165,724**	**2,144,743**	**1,776,166**	**1,484,786**	**1,412,843**
Total Assets and Net Worth:	**2,377,241**	**2,467,121**	**2,067,927**	**1,719,394**	**1,561,503**

For comparison purposes each balance sheet entry above is recalculated and expressed in terms of its percentage of total assets. This format, referred to as a "common-size" presentation, makes it easier to compare the Subject Company with its industry peers. The Integra Information Database was searched for companies in SIC code 5063, Electrical Apparatus and Equipment Wholesalers. 630 companies with revenues from $5 million to $10 million were found. Their average common-size data are placed beside the corresponding year of the Subject Company. Industry data for 2007 was not available at this early date, so direct comparisons can only be made from 2003 to 2006. [7]

[7] Integra Information, *5 Year Report – For SIC Code 5063,* 3-04-08, p. 5

Exhibit X

Balance Sheet	Elevator Supply, Inc. vs. Industry Averages 2007-2003									
	2007		2006		2005		2004		2003	
	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject
Assets										
Cash/Securities	0.0%	13.6%	11.2%	19.6%	11.2%	19.9%	11.3%	16.0%	11.3%	18.4%
Accts Receivable	0.0%	33.5%	32.5%	32.2%	32.7%	28.9%	32.9%	29.0%	33.1%	26.4%
Inventory	0.0%	45.9%	32.7%	41.8%	32.9%	44.0%	33.1%	45.9%	33.3%	44.8%
Other Curr Assets	0.0%	0.7%	5.3%	0.2%	5.3%	0.4%	5.3%	0.4%	5.2%	0.4%
Total Current Assets	0.0%	93.7%	81.7%	93.7%	82.1%	93.2%	82.6%	91.3%	82.9%	90.0%
Prop, Plant, Equip	0.0%	13.2%	27.1%	14.6%	26.6%	17.3%	25.8%	19.7%	25.7%	21.0%
Less Accum Depr	0.0%	-6.8%	-15.4%	-8.3%	-15.2%	-10.5%	-14.7%	-11.0%	-15.0%	-11.0%
Intangibles	0.0%	0.0%	1.2%	0.0%	1.2%	0.0%	1.2%	0.0%	1.2%	0.0%
Investments	0.0%	0.0%	4.2%	0.0%	4.1%	0.0%	4.0%	0.0%	3.9%	0.0%
Other Assets	0.0%	0.0%	1.2%	0.0%	1.2%	0.0%	1.2%	0.0%	1.3%	0.0%
Total Assets	0.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.1%	100.0%	100.0%	100.0%
Liabilities										
Short Term Debt	0.0%	0.0%	11.3%	0.0%	11.4%	0.0%	11.7%	0.0%	11.5%	0.0%
Accts Payable	0.0%	4.4%	19.3%	8.9%	19.6%	7.8%	20.2%	9.0%	19.9%	9.3%
Other Current Liab.	0.0%	0.7%	7.5%	0.1%	7.2%	0.2%	7.1%	0.3%	6.7%	0.3%
Total Current Liab	0.0%	5.1%	38.1%	9.0%	38.2%	8.1%	39.0%	9.3%	38.1%	9.5%
Long Term Debt	0.0%	3.8%	8.4%	4.1%	8.3%	6.0%	8.3%	4.4%	8.0%	0.0%
Loans from Shrhldrs	0.0%	0.0%	4.4%	0.0%	4.4%	0.0%	4.3%	0.0%	4.2%	0.0%
Other Liabilities	0.0%	0.0%	3.3%	0.0%	3.1%	0.0%	3.0%	0.0%	2.8%	0.0%
Total Liabilities	0.0%	8.9%	54.2%	13.1%	54.0%	14.1%	54.6%	13.6%	53.1%	9.5%
Total Net Worth	0.0%	91.1%	45.8%	86.9%	46.1%	85.9%	45.4%	86.4%	47.0%	90.5%
Total Liab & Net Worth	0.0%	100.0%	100.0%	100.0%	100.1%	100.0%	100.0%	100.0%	100.1%	100.0%

4.1.1.1 Total Current Assets

Total Current Assets for Elevator Supply have grown at a compounded annual growth rate of 12.2% since 2003. Accounts Receivable has been the primary contributor to that growth, increasing an average of 17.9% per year. Inventory gained a more moderate 11.8% a year. Total Current Liabilities, on the other hand, have declined 4.9%. As a result, Elevator Supply's liquidity position has strengthened significantly during this period. At present the company's percentage of total assets concentrated in short term assets is an extraordinarily high 93.7% in 2006 and 2007. The industry, by comparison, only had 81.7% of its total assets in the current column. The largest asset on the books has been inventory, representing 45.9% of total assets in 2007 and averaging 44.1% from 2003 through 2006. The industry only averaged 33.0% during that period. Inventory will be discussed further in Section 4.2 - Industry Ratios.

4.1.1.2 Cash position

Cash position for the company decrease by 4.5% in 2004, and then rebounded by 49% in 2005 and 17.5% in 2006. Cash then declined by 32.7% in 2007. Ordinarily such a decline would be cause for concern; however, the subject carried nearly 20% of its assets in cash in 2005 and 2006 compared to the industry's 11.2%. The decline in 2007 puts Elevator Supply's cash position at 13.6% of total assets, still well ahead of the industry's four year average of 11.3%

4.1.1.3 LIABILITIES

The liability side of the balance sheet is clearly Elevator Supply's strong suit. From 2003 to 2006 Elevator Supply's Total Current Liabilities were less than 10% of its total Debt and Equity compared to the industry's 38%. Based on its percentage of total capital, the Company's interest-bearing Term Debt has also been less than half its peers during this period. In 2007 the company's long term debt declined to just $90,000, which is only 3.8% of its total capital. Elevator Supply's peer group consistently maintained an average debt in the low 8% range from 2003 to 2006, and, it is assumed that level would continue into 2007.

4.1.1.4 NET WORTH

Elevator Supply's Net Worth has increased at an annual rate of 11.3% from 2004 to 2007. Net Worth as a percentage of Total Debt and Equity has increased from 90.5% in 2003 to 91.1% in 2007. From 2003 to 2006 the industry maintained an average Net Worth of just 46.0%. Literally all the growth in Accounts Receivable and Inventory during this period has been financed by the growth in the Company's Retained Earnings.

In summary, Elevator Supply's liquidity position is well above its peers and its long-term debt position is well below its peers. The company's extraordinarily high Net Worth position has financed nearly all its growth in the last four years. **Elevator Supply's overall balance sheet is considerably stronger than its peers.**

4.1.2 SUMMARY OF HISTORICAL INCOME STATEMENT

Elevator Supply, Inc.'s Revenue and Net Profit growth for the last four years has been very bullish. The bar chart below gives a visual presentation of its recent history.

Exhibit XI Revenues 2002-2007

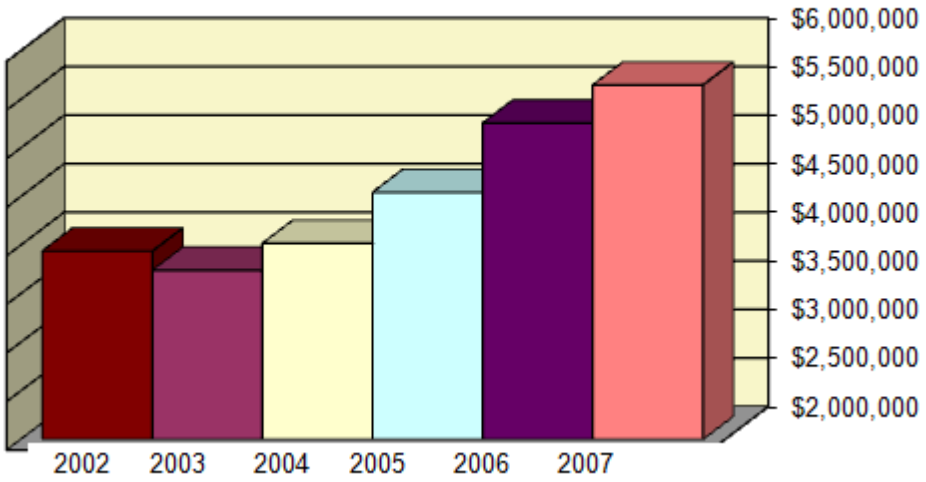


Exhibit XII Net Profit before Tax 2003-2007

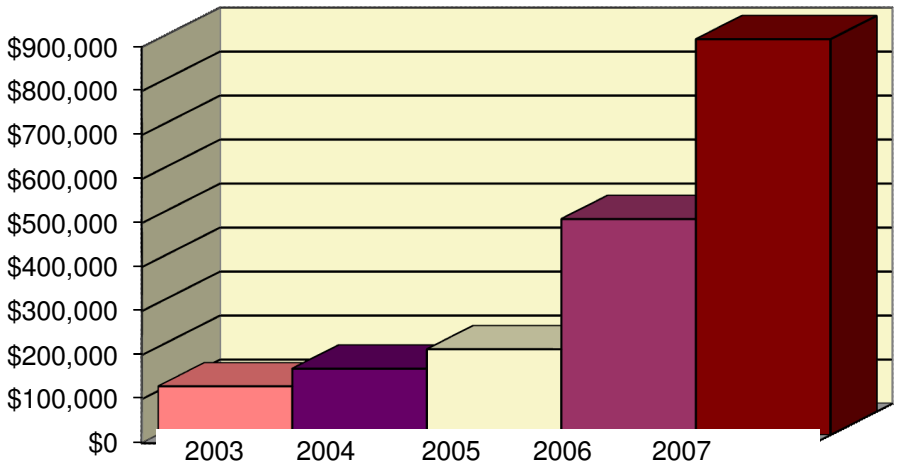


Exhibit XIII below presents the Income Statements for Elevator Supply, Inc. for the last five years.

Exhibit XIII
Elevator Supply, Inc.
Income Statement

	Dec 31, 2007	Dec 31, 2006	Dec 31, 2005	Dec 31, 2004	Dec 31, 2003
INCOME	12 Mos.	12 Mos.	12 Mos.	12 Mos.	12 Mos.
Total Sales	5,649,794	5,258,460	4,544,281	4,020,000	3,744,281
Returns and Allowances	-	-	-	-	-
	-	-	-	-	-
TOTAL INCOME	**5,649,794**	**5,258,460**	**4,544,281**	**4,020,000**	**3,744,281**
COST OF GOODS SOLD					
Begin Inventory	1,030,100	910,100	790,100	698,945	651,006
Purchases	3,213,819	3,176,404	2,749,323	2,432,129	2,265,317
Freight	100,658	202,633	156,284	138,253	128,771
End Inventory	(1,090,100)	(1,030,100)	(910,100)	(790,000)	(698,945)
TOTAL COST OF GOODS SOLD	**3,254,477**	**3,259,037**	**2,785,607**	**2,479,327**	**2,346,150**
GROSS PROFIT	**2,395,317**	**1,999,423**	**1,758,674**	**1,540,673**	**1,398,131**
	42.4%	**38.0%**	**38.7%**	**38.3%**	**37.3%**
OTHER INCOME					
Other Income	60,405	28,769	-	-	-
Bank Reconciliation Discrepancy	1,855	-	-	-	-
Warehouse Fees	3,331	14,769	11,283	-	-
TOTAL OTHER INCOME	**65,591**	**43,538**	**11,283**	**-**	**-**
EXPENSES					
Compensation of Officers	661,902	661,243	614,517	543,619	506,334
Salaries and Wages	509,875	517,905	571,582	505,638	470,958
Repairs and Maintenance	5,909	1,125	900	796	742
Bad Debts	4,629	1,501	-	-	-
Rents	87,000	91,000	77,000	68,116	63,445
Taxes and Licenses	65,003	53,851	63,461	56,139	52,289
State Income Taxes	7,719	-	-	-	-
Interest	9,000	10,000	12,500	7,500	-
Depreciation	4,866	5,079	5,103	4,514	4,205
Advertising	9,345	19,523	33,787	29,889	27,839
Employee Benefits	45,606	44,115	41,367	36,594	34,085
Accounting	2,391	-	-	-	-
Bank Service Charges	11,162	11,674	8,461	7,485	6,971
Misc, Dues and Subscriptions,	7,712	1,658	774	685	638
Insurance and Liability Insura	16,577	20,218	39,897	35,294	32,873
Travel, Meals and Entertainmen	6,730	12,736	6,743	5,965	5,556
Office Expense and Supplies	22,975	16,679	20,991	18,569	17,296
Postage and Delivery	7,636	-	-	-	-
Legal and Professional Fees, O	31,161	56,030	54,479	48,194	44,888
Shop Supplies	3,095	2,244	-	-	-
Workman's Compensation	24,162	-	-	-	-
Telephone and Utilities, Inter	16,799	25,399	23,453	20,747	19,324
TOTAL EXPENSES / Total Add-B	**1,561,254**	**1,551,980**	**1,575,015**	**1,389,745**	**1,287,441**
Net Profit Before Taxes	**899,654**	**490,981**	**194,942**	**150,928**	**110,690**

For comparison purposes each of the above Income Statements is converted to "common-size" and compared to the Subject Company's industry peers. Integra Information Database was searched for companies in SIC code 5063, Electrical Apparatus and Equipment Wholesalers. 630 companies with revenues from $5 million to $10 million were found. Industry data for 2007 was not available at this early date, so direct comparisons can only be made from 2003 to 2006.[8] However, trends from that four year period can be used to compare the company's current year to the industry averages.

Exhibit XIV

Income Statement — Elevator Supply, Inc. vs. Industry Averages 2007-2003

	2007		2006		2005		2004		2003	
	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject
Revenues		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	0.0%	57.6%	90.8%	62.0%	90.5%	61.3%	90.2%	61.7%	89.9%	62.7%
Gross Margin	0.0%	42.4%	9.2%	38.0%	9.5%	38.7%	9.8%	38.3%	10.1%	37.3%
Selling and G&A	0.0%	12.9%	4.0%	13.7%	4.1%	17.4%	4.3%	17.4%	4.4%	17.4%
Officer Compensation	0.0%	11.7%	1.0%	12.6%	1.1%	13.5%	1.1%	13.5%	1.2%	13.5%
Pension & Benefits	0.0%	0.8%	0.6%	0.8%	0.6%	0.9%	0.6%	0.9%	0.6%	0.9%
Advertising and Sales	0.0%	0.2%	0.4%	0.4%	0.4%	0.7%	0.4%	0.7%	0.4%	0.7%
Bad Debts	0.0%	0.1%	0.2%	0.0%	0.2%	0.0%	0.2%	0.0%	0.2%	0.0%
Rents Paid	0.0%	1.5%	0.4%	1.7%	0.5%	1.7%	0.5%	1.7%	0.5%	1.7%
Depreciation	0.0%	0.1%	0.5%	0.1%	0.5%	0.1%	0.5%	0.1%	0.5%	0.1%
Operating Exp	0.0%	27.3%	7.1%	29.3%	7.4%	34.4%	7.6%	34.4%	7.8%	34.4%
Operating Income	0.0%	15.1%	2.1%	8.7%	2.1%	4.3%	2.2%	3.9%	2.3%	3.0%
Interest Income	0.0%		0.0%		0.0%		0.0%		0.0%	
Interest Expense	0.0%	-0.2%	-0.4%	-0.2%	-0.4%	-0.3%	-0.5%	-0.2%	-0.5%	0.0%
Other Inc (Exp)	0.0%	1.2%	0.0%	0.8%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%
Pre-Tax Income	0.0%	16.1%	1.7%	9.3%	1.7%	4.3%	1.7%	3.8%	1.8%	3.0%
Income Tax-39.8%	0.0%	-6.4%	-0.7%	-3.7%	-0.7%	-1.7%	-0.7%	-1.5%	-0.7%	-1.2%
Net Income After Tax	0.0%	9.7%	1.0%	5.6%	1.0%	2.6%	1.0%	2.3%	1.1%	1.8%
EBITDA + Officer Comp	0.0%	28.0%	3.6%	22.2%	3.7%	18.2%	3.8%	17.6%	4.0%	16.6%

4.1.2.1 Sales Growth - From 2003 to 2006, the Integra companies had a compounded annual growth in revenues of 9.6% (unadjusted for inflation), including 11.1% in 2006. Elevator Supply grew at an 11.5% unadjusted rate from 2005 through 2007, including 15.7% in 2006. **Elevator Supply's revenue growth appears to be stronger than its peers.**

4.1.2.2 Gross Profits – The Integra Database typically includes labor in its Cost-of-Goods calculations. Therefore, the Gross Profits reported by the database companies will be considerably less than the Subject Company which classifies labor as an operating expense. For example, in 2006 the database companies only earned a 9.2% Gross Profit Margin compared to Elevator Supply's much higher 38.0%. However, Elevator Supply reported a much higher Selling and G&A expense (SG&A) of 13.7% compared to the 4.0% paid by the database companies. Regardless, if we were to shift Elevator Supply's ***extra*** 9.7% in SG&A labor into Cost-of-Goods, Elevator Supply would still have a vastly superior 28.3% Gross Profit Margin compared to the competition's 9.2%.

[8] Integra Information, *5 Year Report – For SIC Code 5063,* 3-04-08, p.3

One Source Information Services, Inc. is an on-line research source used by the Appraiser. This source uses RMA (The Robert Morris Associates, dba The Risk Management Association) for financial statement comparisons. A search of SIC code 5063 for guideline companies with revenues in the $5-10 million range found 78 companies matching those criteria. It is believed that this data source reports Cost-of-Goods-Sold in a similar fashion as the Subject. The guideline companies from this database reported an average gross profit margin of 30.3% for 2006. Elevator Supply **earned a significantly superior 38.0% Gross Profit Margin for the same period**.[9]

4.1.2.3 SALARIES AND WAGES

Neither Integra Information nor RMA break out Salaries and Wages as a separate operating expense. As such, we cannot obtain industry comparisons to the Subject Company. Elevator Supply's Salaries and Wages expense as a percentage of Revenues was 12.6% in 2003. This percentage remained stable through 2005 and then declined to 9.8% in 2006 and 9.0% in 2007. The decline in the last two years was the result of the termination of an inside sales person who was not replaced. The company has been grooming another staff member to fill his responsibilities.

4.1.2.4 RENT EXPENSE

Rent Expense is often a potential threat to a company's future cash flow. From 2003 to 2006 the guideline companies' average rent as a percentage of revenues was .5% which was considerably lower than the Subject's 1.7% average. However, the owner of the Subject Business also owns the real estate. He continually adjusts his company rent each year to the current prevailing rent for new commercial space in the area. The profits earned from the rent paid are, therefore, part of the owner's compensation. **However, Since the Company has complete control over its rent, it is not considered a risk to future profits.**

The subject of excess rents will be dealt with later in the section on normalizing the income statement (Paragraph 6.2.1.6).

4.1.2.5 CASH FLOW GENERATION – The Integra companies produced a five year average cash flow (as measured by Earnings Before Interest Taxes and Depreciation (EBITDA) plus Owner's Compensation) of 3.4% of Gross Revenues. **Elevator Supply's Cash Flow averaged 22.8% of revenues, and therefore, is substantially higher than its peers.**

4.2 INDUSTRY RATIOS

Integra Information provides industry comparisons of key financial ratios. These ratios tie the Income Statement data to the Balance Sheet data and provide us with a means to critically analyze the strengths and weaknesses of a company's operations compared to its peers. The Integra Information Database was searched for companies in SIC code 5063, Electrical

[9] One Source Information Services, Inc. *Industry Report SIC Code 5063, 2008* http://businessbrowser.onesource.com/homepage.aspx

Apparatus and Equipment Wholesalers. 630 companies with revenues from $5 million to $10 million were found. Their average financial ratio data are placed beside the corresponding year of the Subject Company. Industry data for 2007 was not available at this early date, so direct comparisons can only be made from 2003 to 2006. [10]

Exhibit XV

Financial Ratios	Elevator Supply, Inc. vs. Industry Averages 2007-2003									
	2007		2006		2005		2004		2003	
	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject
Receivables Turnover	0.00 x	7.10 x	x8.24	6.62 x	x7.81	7.59 x	x7.75	8.07 x	x7.16	9.08 x
Inventory Turnover	0.00 x	2.99 x	x7.43	3.16 x	x7.02	3.06 x	x6.95	3.14 x	x6.40	3.36 x
Accounts Pay To Total Liabilities & Worth	0.0%	4.4%	19.3%	8.9%	19.6%	7.8%	20.2%	9.0%	19.9%	9.3%
Working Capital to Assets	0.0%	88.6%	43.6%	84.7%	43.9%	85.1%	43.6%	82.0%	44.8%	80.5%
Working Capital to Sales	0.0%	37.3%	16.8%	39.7%	17.5%	38.7%	17.8%	35.1%	19.2%	33.6%
Fixed Asset Turnover	0.00 x	37.53 x	x23.23	33.73 x	x22.76	32.18 x	x23.36	26.91 x	x22.34	24.00 x
Total Invested Capital Structure:										
Total Int Bearing Debt to Total Assets	0.0%	3.8%	19.7%	4.1%	24.1%	6.0%	20.0%	4.4%	23.7%	0.0%
Net worth to Total Assets	0.0%	91.1%	45.8%	86.9%	46.1%	85.9%	45.4%	86.4%	47.0%	90.5%
Total Invested Capital to Total Assets	0.0%	94.9%	65.5%	91.0%	70.2%	91.9%	65.4%	90.7%	70.7%	90.5%
= % Debt to Total Cap		4.0%	30.1%	4.5%	34.3%	6.6%	30.6%	4.8%	33.5%	0.0%
= % Worth to Total Cap		96.0%	69.9%	95.5%	65.7%	93.4%	69.4%	95.2%	66.5%	100.0%

4.2.1 ACCOUNTS RECEIVABLE TURNOVER

The Integra companies turned their receivables an average of 7.7 times per year (47 days) from 2003 to 2006. Elevator Supply turned its receivables an average of 7.8 times (47 days) during the same period, roughly the same as its peers. However, the guideline companies have gradually been improving their turnover throughout this period (44 days in 2006), while the Subject Company's turnover has been declining. By 2007 the subject's Accounts Receivable turnover declined to 7.10 turns per year, or 51 days. The overall trend differences, however, are not significant. Elevator Supply's customer base is primarily large publicly traded companies. Although the credit risk is minimal, large companies typically are slower paying than smaller independent companies. **Therefore, Elevator Supply's Accounts Receivable experience is not judged as a risk to the company's operations.**

4.2.2 INVENTORY TURNOVER

The Integra companies turned their inventory an average of 7.22 times per year from 2003 to 2006. Elevator Supply turned its inventory an average of 3.12 times. A significant portion of the difference can be attributed to Integra's inclusion of labor in its Cost-of-Goods-Sold calculations. The higher the Cost-of-Goods-Sold, the higher the apparent Inventory Turnover will be.

[10] Integra Information, *5 Year Report – For SIC Code 5063,* 3-04-08, p. 9

However, Elevator Supply's lack of computerized inventory control accounts for a part of the substantial short fall in inventory turnover compared to its peers. However, management indicated that it intentionally maintains inventory levels substantially higher than its peers. The high level of inventory is used as a marketing tool to gain advantage over its larger competitors. The Company advertises that it stocks a huge variety of hard-to-find parts, and can ship within 24 hours. The Company has also made the decision to become a "stocking dealer" with most of its major vendors. Such a decision means having to stock a large amount of each vendor's products. However, stocking dealers receive much larger discounts from their vendors, thus, enabling them to earn higher profit margins. As shown in the discussion on Gross Profits above, Elevator Supply's labor-adjusted gross profit margin averaged about 30.5% from 2003 to 2006 compared to Integra's 9.4%. Thus, the Subject Company has made an intentional trade-off of carrying a larger amount of inventory in exchange for earning a much higher profit margin. In addition, as was stated earlier, stocking dealers are allowed to return slow moving or obsolete inventory at the end of each year to the manufacturers, thus providing them with a very important level of inventory control.

The lack of computerized inventory control is considered a risk, albeit a minor one. The need for an investment in updated computers and software will be discussed further in the section on Fixed Assets Below. **The trade-off between Inventory and Gross Profit Margins that Elevator Supply has made appear to have benefited the company's overall profitability, and therefore, is not considered a significant risk to the company's future cash flow**.

4.2.3 Accounts Payable-to-Total Liabilities and Net Worth

The Integra companies Accounts Payable averaged 19.8% of Total Debt and Equity from 2003 to 2006. Elevator Supply averaged just 8.8% during the same period, and dropped to 4.4% in 2007. The Company makes an effort to pay all suppliers promptly in order to earn discounts. **The Company is superior to its peers in this area.**

4.2.4 Working Capital

The Company maintained a level of Working Capital averaging 83.1% of total assets from 2003 to 2006. The guideline companies averaged only 44%. A significant portion of Elevator Supply's Working Capital is invested in inventory, which, as noted above, was an intentional trade off to gain higher profit margins. However, the other element contributing

to Elevator Supply's high level Working Capital investment is its cash position. The Company's cash position averaged 18.5% of total assets from 2003 to 2006 compared to the industry's level of 11.2%.

Although this cash position dropped to 13.6% in 2007, the excess portion over the industry average is considered surplus cash that is not essential to the operations of the Company. If the company maintained a level similar to the 11.2% averaged by the guideline companies, it could have reduced its cash position by approximately $55,000 in 2007. **This amount of surplus cash will be discussed further in the section on balance sheet normalizing**.

The Company is superior to its peers in its level of Working Capital. However, this investment does have its costs which will be discussed in the section on Net Free Cash Flow (Paragraph 6.3.4).

4.2.5 FIXED ASSET TURNOVER

The Company's Total Revenues as a multiple of Fixed Assets has increased rapidly from 24.0 times in 2003 to 37.5 times in 2007. The industry has steadily maintained a much lower multiple of about 23 times over the last four years. The increase is the result of both a growth in the Company's Revenues as well as a decline in its Fixed Asset investment. Clearly it appears that the Subject Company has been falling behind on its Fixed Asset investment. The common size balance sheet data in Exhibit X shows that the Company's investment in Fixed Assets as a percentage of Total Assets has been in decline over the last five years, whereas the industry has been investing more and more.

The management of the Company indicated that they have been "behind" on upgrading its computer systems, an area where most companies have been rapidly expanding. The estimate for the necessary upgrades was placed at about $75,000. This upgrade would put the Company's Fixed Asset investment on par with its peers.

At present the Company is inferior to its peers in this category, but this shortcoming is readily fixable and does not pose a long-term significant risk to future profitability. The shortfall, however, will have an impact on the Company's cash flow position over the near term. As such, it will have a negative effect on the Company's value.

The additional investment in Fixed Assets will be discussed further in the section on normalizing the balance sheet.

4.2.6 INTEREST BEARING TERM DEBT-TO-EQUITY

In 2006 the Integra companies had an Interest-bearing Term Debt-to-Equity mix of 30.1% Debt to 69.9% Equity. **Elevator Supply maintained a Debt-Equity mix of 4.5% and 95.5% during that same period, and therefore has a superior leverage position compared to its peers**.

Although Integra has not yet reported the 2007 figures for guideline companies, the average Term Debt-to-Equity for 2003 through 2006 was 32.1%, fluctuating within a narrow range from 34.3% to 30.1%. Since 2006 was at the lower range, **the industry Debt-to-Equity ratio to be used in the Income Approach will be estimated at 31% for Interest-bearing Term Debt and 69% for Equity.**

In summary, the Ratio Analysis comparing the guideline companies with the Subject gives us further proof of the Subject's superior position with respect to its peers.

5.0 VALUATION OF THE SUBJECT BUSINESS

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

EXCESS EARNINGS METHOD IS REJECTED. This approach requires a fairly high-integrity balance sheet in order to calculate the return on investment attributed to the company's assets. The company does not perform an actual physical inventory to obtain a precise value for balance sheet inventory. In addition, much of its fixtures and equipment are fully depreciated and, as such, the accountant has removed some of it from the Company's fixtures ledger. As a result, an unknown portion of the Company's fixtures are unaccounted for, and much of the rest has questionable value. Any estimate would likely be inaccurate. In addition, this method is typically not used when there are other, more reliable approaches that can be used.

ASSET APPROACH IS REJECTED. The Asset Approach is most frequently used for companies that are asset-intensive or are holding companies. These are companies that typically have low cash flow with respect to their level of assets. These companies usually have high-integrity balance sheets which are used in determining the adjusted book value of the company's assets. For the approach to be useful, an appraisal of the individual assets is recommended which is beyond the scope of this assignment. None of these characteristics fits Elevator Supply.

INCOME APPROACH IS SELECTED. The Income Approach analyzes a company's income stream from an investor's point of view. Implicit in the approach is that a buyer will look at the cash flow a company generates, apply a desired rate of return, and, thereby determine an appropriate amount to invest in the company.

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

6.0 INCOME APPROACH

One of two different methods is typically used in the Income Approach. The first is referred to as the Single Period Capitalization Method. The basic assumption underlying this method is that a single year's projected cash flow can serve as a proxy for all future cash flow. There are no expectations of unusual events or non-recurring income or expenses. These criteria do not fit the Subject Company, and therefore, this method is rejected.

The second choice of methods used in the Income Approach is referred to as the Multi-Period Discount Method. This method is used when Revenue and Cash Flow projected for the first few years have a number of anomalies that will not exist beyond that period. This second method is a more appropriate fit for the characteristics of the Subject Company In this instance, the Company is expected to sustain below average growth for the next five years, followed by a normal growth pattern. In addition, it has to play "catch-up" in its investment in new fixtures and computers over the next two years which will have a moderately negative effect on its free cash flow.

The Multi-Period-Discount Method will be broken down into the following five steps:

1) An appropriate Discount Rate and Capitalization Rate for the Appraisal Subject will be developed.

2) The Company's current P&Ls and Balance Sheet will be recast to reflect a "normalized" level of current operations.

3) This normalized level of operations will serve as a proxy for current earnings which will be used to forecast the company's Net Free Cash Flow for the next five years (referred to as the "Discrete Years") followed by developing an estimate of future cash flow from **year six into perpetuity.** This single-year forecast (referred to as the "Terminal Year") will serve as a proxy for all future cash flow from year six into perpetuity.

4) The Terminal Year estimate of Net Free Cash Flow will then be capitalized by (that is, divided by) the selected Capitalization Rate (to be discussed in Paragraph 6.1 below). The resulting value will represent the total present value of **all future** Net Free Cash Flow as of the ***beginning*** **of year six**.

5) The final step in the process is to apply the Discount Rate (to be discussed in Paragraph 6.1 below) to each of the first five Discrete Years and to the one Terminal Year to derive the present value for the total future cash flow stream. The total of the present values of the Terminal Year plus the five Discrete Years will equal the value of the investment in the Subject Company.

6.1 DISCOUNT RATE AND CAPITALIZATION RATE

The first step in the formation of the Discount Rate is the selection of the data source to be used in estimating an investor's desired Rate of Return. The database used in this analysis is from The Ibbotson Studies which employs the "Build-Up" method of risk assessment. Implied in this method is that investors look to a future "pure income stream," i.e. the return on investment that will be available to them. The Net Free Cash Flow developed for use in the Ibbotson model is net profits ***after*** **Working Capital requirements, Capital Expenditures** and ***after*** **all "entity taxes."** In short, the investor Rate of Return, or Discount Rate, to be calculated is derived from the Net Free Cash Flow that is the "take-home" or "keeper" dollars that can be distributed to the shareholder/owner without impairing the future operations of the company. These funds do not necessarily have to be distributed to the owner; they merely have to be available.

The Multi-Period Method to be used in the Income Approach employs both a Discount Rate and a Capitalization Rate. The Discount Rate, which represents the Rate of Return on the investor's equity, will be calculated in section 6.1.1 Since an investor will typically make an investment in a small business with a combination of equity and debt, the Discount Rate will be further adjusted in section 6.1.4 to reflect the weighted average cost of both debt and equity capital. The Capitalization Rate, then, is derived from this adjusted Discount Rate by deducting the estimate for the Perpetual Growth Rate of the investor's income stream (see Paragraph 6.1.3).

Thus, to begin the construction of the Income Approach we must develop a suitable Discount Rate, or Rate of Return on Equity, for a given investment. To that end we will follow the Ibbotson Studies construction. The assumption implicit in this calculation is that investors expect a certain rate of return for the given level of risk they accept. Although the typical investor does not go through a number-crunching analysis, the seventy-five year studies performed by Ibbotson suggest that investors do make their investment decisions in very predictable ways. The smaller the business, the greater the risk and the higher the rate of return on investment the investor demands. In addition, different industries bear different risk levels, and companies within a specific industry also bear different risks with respect to each other.

Therefore, in "building up" the total Rate of Return expected for an investment, we sum up the rates of return for the various risks described above that are inherent in the Subject.

Since this valuation is "as of" December 31, 2007, the Appraiser will only use research data as of that date.

6.1.1 BUILD UP CALCULATION FOR RETURN ON EQUITY

Risk Free Rate: This is the rate one could receive for an investment that is free of capital risk. In other words, the Rate of Return is guaranteed, and the return of the original investment is guaranteed. The proxy for this component is the 20 year U.S. Bond Rate as of 12/31/2007, the date of this valuation. 4.50%

Implicit in the Risk Free Rate is that the investor is also being compensated for the effects of inflation on the *return* of his capital. Investors will demand higher rates of return on U.S. bonds as they perceive that inflation is increasing. The fact that the market builds the inflation rate into the Risk Free Rate is an important characteristic for the resulting investor Return on Equity that we are developing here. As will be discussed further below, the fact that the Return on Equity takes into account inflation, our five-year forecast for the Subject's future income stream must also be matched in *current* dollars (i.e. including inflation) as will be the Subject's Perpetual Growth Rate.

http://research.stlouisfed.org/fred2/data/DGS20.txt

Equity Risk Premium: This represents the next level of risk typically associated with investing in a portfolio of large, freely-traded common stocks. The 75-year average yield *in excess* of the risk-free rate for stock market equities is 7.1%. This rate is reduced .8% to account for what is known as the "Supply Side" effect. Supply Side theory states that during the last 20 years a portion of stock market gains can be attributed to increasing price-earnings ratios (P-E). Basically, investors have been increasingly bidding up prices during this period in expectation of future earnings growth. It is unlikely that businesses can continue to supply that increased earnings growth, thus causing P-E ratios to level out. The portion of gains on equities attributed to P-E growth will, therefore, disappear. 6.30%

Ibbotson Assoc. 2008 Stocks, Bonds, Bills and Inflation Yearbook, p. 262.

Small Company Risk Premium: Over the long term, Small Cap stocks have provided higher rates of return than Large Cap stocks. A portion of the return on these equities can be explained by the general movements of the market as a whole (referred to as the "Market Beta"). However, it has been shown that the remaining portion of the return on small equities in excess of the Market Beta is a premium attributed to the small size of the company itself. The overall market was sorted by the size of the company's capitalization. The smallest decile (smallest 10%) of these companies were further broken down into an upper and lower half. Companies in the smaller half (referred to as Decile 10b, representing the smallest 5% of the stock market), earned the above premium *in excess* of the overall beta-adjusted market return. 9.73%

Ibbotson Assoc. 2008 Stocks, Bonds, Bills and Inflation Yearbook, p. 262.

Specific Industry Risk Premium: The Small Company Risk Premium only explains the Rate of Return premium earned by all companies because of their specific size. There are, however, industries within that group that show a greater return, and some that show a lower return. Ibbotson Studies, therefore, has further broken down companies by Standard Industrial Classifications (SIC) to focus on the varying rates of return that are inherent in different industries. Companies classified under SIC code 5063 (Electrical Apparatus and Equipment Wholesalers), are shown to possess a higher risk rate, and hence, a higher return than the market as a whole. 2.28%

Ibbotson Assoc. 2008 Stocks, Bonds, Bills and Inflation Yearbook, p. 51, SIC Code 5063

Specific Company Risk Premium: This is the last component of risk associated with equity investments. These risks are specific to the Appraisal Subject.

When comparing the Appraisal Subject with other potential investment opportunities, it should be noted that several of the specific premium amounts shown below are not, nor can they be, supported by academic research. The values cited should not be considered a precise measure of risk, but rather an indication of the Appraiser's judgment and experience with factors that affect value.

a) **Ultra Small Company Premium:** See Paragraph 6.1.2 below for further discussion. 3.9%

b) **Financial Leverage and Barriers to Funds:** The Company has very little long-term debt. Thus, its debt portion of total capital is well below the 31.0% average of small-sized companies found in the Integra Database. Its debt portion of total capital is also below the 65% level found in a sample of larger sized companies similar to the size Decile 10b.[11] The risk to future cash flow production from its current debt-service level is well below that of the industry. Because of its low debt levels, the Company's ability to borrow at low rates to take advantage of future growth opportunities is much greater than the industry. -1.0%

c) **Depth of Management**: Is deemed inadequate. Although it is common for small companies of this type to have a "thin" management structure, the guideline companies represented in this analysis are typically part of larger conglomerates that have ready 1.0%

[11] *"RMA report for SIC 5063",* companies with total assets from $50 million to $100 million had a mean Debt/Worth ratio of 1.9, which equals 65% debt and 35% equity.

access to trained staff and management. The Subject Company only has six full time employees. The owner controls all functions of the business. As such, the loss of the owner would be very detrimental to the company's profitability.

d) **Concentration of Customers:** Approximately 25% of the Company's sales are to one client, Elevator Control and Engineering. That company is part of a $300 million conglomerate. To a moderate extent it dictates price and policy to the Subject. 2.0%

Total Specific Company Risk Premium 5.9%

Expected Return on Equity Capital …….……. 28.7%

The above rate is the expected Rate of Return that an investor would demand on his *Equity* portion of the total investment in Elevator Supply. However, in making such an investment, the investor not only uses his equity capital, but also borrows additional debt capital. Paragraph 6.1.4 below will factor in the cost of debt to derive a weighted average return for both forms of capital used by the investor.

6.1.2 Analysis of "Ultra-Small" Company Premium

The Income Approach tries to interpret the value of a business from an *Investor's* point of view. We can research the stock market and easily calculate the rate of return that an investor could reasonably expect to earn on his investments. Then, we essentially apply that rate of return to our Subject Company's net profits to determine an appropriate selling price. For example, if I expect a 20% return on an investment, how much should I be willing to pay for a hypothetical stock that pays, say, a $1,000 dividend per year that represents all the company's available cash flow? (answer: $1,000 ÷ 20% = $5,000)

Exhibit XVI
Build Up Method
Return on Investment -Publicly Traded Companies

		A		B Expected Rate of Return	C Equivalent P/E Multiple	
I	Risk Free U.S. Bond Rate (R_f)	4.5%				
II	Overall Stock Risk Premium (R_e)	6.3%	=	10.8%	9.3	$50 Billion Company
III	Small Company Risk Premium (R_s)	9.7%	=	20.5%	4.9	Less than $100 million (Smallest Segment of Public Stocks)
IV	Subject Company Risk Premium (R_c)	?		?	?	$4 to 7.5 Million Company (Subject Company- Non-Public)

The above table, taken from the Build Up exercise in Paragraph 6.1.1 shows the average return (dividends plus capital appreciation) on the overall stock market at 10.8%, which

translates to a Price/Earnings multiple of 9.3. (1 ÷ Rate of return = Price/Earnings Multiple: 1 ÷ 10.8% = 9.3.) Thus, for every dollar of total earnings per share our hypothetical company generates, it's stock will be worth $9.30, and, conversely, for every $9.30 in share price, you would expect to earn 10.8%, or one dollar. The smallest segment of the stock market (companies typically doing less that $100 million in sales) earned an *additional* premium of 9.7% over its much larger counterparts. Their overall rate of return climbed to 20.5%, or an Earnings Multiple of 4.9 (1 ÷20.5%). (From Line III in the above table.)

Analyzing what an investor should expect to earn on a share of stock of a $50 billion company certainly involves a whole different set of criteria than someone considering the purchase of a $5,000,000 company (the approximate size of Elevator Supply). Research has proven that the smaller the company, the greater the rate of return an investor can expect. Therefore, the Income Approach attempts to make that adjustment by looking at the additional rate of return earned by the very smallest companies traded on the stock market. Unfortunately the smallest 5% of the publicly traded companies typically generated just under $100 million in sales. Empirical data for smaller companies were not available to assist the appraiser; therefore, he had to predict, estimate, prophesy, or guess what additional rate of return, would accrue to a very small, non-publicly traded company.

At issue is the need to determine if there is any *additional* Small Company Risk Premium for *Ultra-Small* companies. The Ibbotson's database only includes publicly traded companies with sales ranging from under $100 million to nearly $400 billion. Shannon Pratt recognized this issue in his book *Cost of Capital*: *Estimation and Application.*

> *Where the data leaves off seems to raise the question: Is it valid to extrapolate these results beyond the observed population to infer even higher costs of capital for smaller companies? From purely a statistician's viewpoint, the answer is no. We cannot know with certainty whether the population (of small companies) beyond the observed range would continue the trend. But most corporate finance practitioners and academicians, with whom the author has discussed this question, as well as most business brokers and mergers and acquisition intermediaries, conclude that the answer is yes.*[12]

[12] Shannon Pratt, Cost of Capital – Estimation and Application, 2002, p. 107

Mr. Pratt noted that he was currently researching Pratt's Stats database of small private company transactions for clues. The following table is an extract of that database developed by the Appraiser. Transactions were sorted by the company's total sales. The median Cash Flow Multiple earned by those companies is presented just to the right of the size grouping. The table below attempts to pick up where the Ibbotson Build-Up Model leaves off. The ***largest*** group of companies selected from the Pratt's Stats database had median sales of $62

Exhibit XVII
Ultra-Small Company Risk Premium
Pratts Stats Database

	Total Transactions	Total Sales		Price-Earnings Multiplier*
		Sales Range	Median Sales	Median
I	183	Over $25 Million	62,444,000	6.69
II	68	$15 to 25 Million	19,941,000	6.31
III	110	$7.5 to 15 Million	11,177,000	6.34
IV	110	$4 to 7.5 Million	6,376,000	5.63
V	252	$2 to 4 Million	2,680,000	5.65
VI	3091	Less than 2 Million	401,000	3.81

*** Earnings = Earnings Before Taxes (EBT) less Estimated Taxes**
Price-Earnings Multiplier = Selling Price / Earnings

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

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

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

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

million, with a quarter of them having sales in the $100 to $300 million range. Therefore, the ***smallest*** group of *publicly traded* companies in the Build Up Model (shown in Exhibit XVI) was roughly the same size as the ***largest*** private companies in the database from Exhibit XVII. Thus, the two tables overlap at this point. It should be noted that the Cash flow Multiples developed from the Pratt's Stats database are calculated somewhat differently than the Price/Earnings Multiples used in the Build Up method, and, so are not directly comparable. Regardless, we can observe the ***relative movement*** of the Pratt's Stats multiples for smaller and smaller companies, and draw some meaningful conclusions toward estimating what the Appraiser refers to as an *Ultra-Small Company Premium*.

The smaller a company gets, the smaller its earnings multiple tends to be. The overall stock market, on the average, traded at an earnings multiple of 9.3 (Line II of Exhibit XVI). The smallest segment of the stock market (decile 10b), however, earned an *additional* return on investment of 9.7% compared to the overall market and, thus, traded at an earnings multiple of 4.9 (see Line III of Exhibit XVI). In other words, as we move down in size from the average sized companies traded on the stock market to the smallest public companies, the earnings multiple drops from 9.3 to 4.9 or a 47% decline.

The data from the Exhibit XVII above clearly shows that the Cash Flow Multiples continue to decline dramatically in smaller privately-owned companies just as they did with the publicly traded companies. Private companies with sales ranging from $4 to 7.5 million yielded a Cash Flow Multiple of 5.63 (Line IV of Exhibit XVII) which was 16% less than the 6.69 multiple earned by the largest private companies (Line I of Exhibit XVII.

Armed with this information, we can now make an informed estimate of the increase in Rate of Return that an "Ultra-Small" company the size of Elevator Supply should earn. We know that the smallest *public* companies doing less than $100 million in revenues earned 20.5%, which translated to a 4.9 Price/Earnings multiple. We also know that $4 to 7.5 million private companies earn a 16% lower Cash Flow Multiple than the largest private companies. It seems reasonable to conclude that we should adjust the *Price/Earnings* multiple found in the Decile 10b public companies downward by an additional 16% when we move from a $100 million company to the size of the Subject Company ($5,150,845). If that is the case, a 16% reduction in the 4.9 Price/Earnings multiple earned by the smallest public companies would equate to a 4.10 multiple for the Subject Company. A 4.10 multiple translates to a 24.4% Rate of Return (1÷4.10). Thus, the Subject Company should generate a 24.4% Rate of Return compared to a 20.5% return for a public company doing less than $100 million in revenues. **This additional 3.9% return on investment is what the Appraiser refers to as the "Ultra-Small" Company Premium.**

6.1.3 PERPETUAL GROWTH RATE

A key element in the formation of the Capitalization Rate is the Perpetual Growth Rate or the estimate of the long-term growth rate of the Subject Company in ***perpetuity.*** It is a common error to observe a few years' growth of a company and draw conclusions of its long-term growth potential. For example, the Subject Company has recently shown annual growth rates in the 15% per year range. One might conclude that it could continue to grow at that rate. However, in order to maintain that rate *in perpetuity* means that the company would conceivably grow from $5 million to $330 million in thirty years and $5.4 billion in fifty years. The appraiser's selection of a Perpetual Growth Rate must, therefore, be reasonable, given that it is a life-time growth rate.

Additional considerations were noted in the Build Up exercise in Paragraph 6.1.1. The estimate for the Rate of Return on Equity used to develop the Capitalization rate includes gains due to inflation. Since these rates will be applied to the Subject's projected income stream to determine the value of the enterprise, we should, therefore, include inflation in the growth projections for our Subject. As such, the five year forecast of earnings for Elevator

Supply and the Perpetual Growth rate will be in *current dollars,* i.e. the *nominal growth rate* (real growth plus inflation).

The annual *nominal* growth of the GDP (Gross Domestic Product) has averaged approximately 7.2% over the last 50 years.[13] However, since 1991, this annual growth rate has slowed to 5.2%. The Non-Residential Fixed Investment sector of the economy grew 7.8% during the last 50 years, and, 5.5% since 1991. From the data shown in Exhibit VIII, the Electrical Wholesale industry grew 10% faster than the economy as a whole (5.7% vs. 5.2%) during the last ten years. We only have five years of financial data on Elevator Supply; however, during this period the Subject's growth fairly closely tracked that of the Electrical Wholesale industry and the Non-Residential Fixed Investment sector. This sector's growth, however, was far more volatile than the overall GDP, so we can expect periods of significant declines (2001, for example) and periods of substantial gains (2000 and 2004). As cited in Paragraph 2.3, expectations for the *near term* are for five years of slower than normal growth. The five year cash flow projection for the "Discrete Years" developed in Exhibit XXI below will reflect this short-term slower growth pattern.

The *long term* growth from year six to perpetuity in our model, however, should reflect normal long-term economic patterns. Since Elevator Supply's market area covers the entire United States, it is reasonable to conclude that its growth *in perpetuity* would mirror the overall Electrical Wholesale sector of the economy as well. As was noted, the GDP has grown fairly consistently at an annual growth rate of 5.2% over the last seventeen years; and, during the last decade the Electrical Wholesale sector grew 10% faster than GNP. **Thus, we can reasonably expect Elevator Supply's estimated Perpetual Growth rate to be approximately 5.7% (1.10 x 5.2%).**

6.1.4 THE DISCOUNT RATE USING WEIGHTED AVERAGE COST OF CAPITAL

As we noted at the conclusion of the Equity Build Up section above, solving for the Rate of Return on the Equity portion of an investment satisfies only half the equation. A Control owner has the ability to change the capital structure of the company at will. As such, to determine the overall return on an investment that will accrue to a Control owner we should blend the returns of both Equity Capital and Debt Capital. The Debt Capital typically used in the market for such investments is raised through interest-bearing long-term debt. Non interest-bearing current liabilities are excluded from the Debt Capital calculations, but will be accounted for in the Working Capital assessment in Paragraph 6.3.6.

Shannon Pratt suggests guidelines for determining what mix of debt and equity is appropriate for the analysis. "*If a controlling interest is to be valued and the standard of value is Fair Market Value, an argument can be made that an industry-average capital structure should be used, because a control buyer would have the power to change the* [company's existing] *capital structure and the industry average could represent the most likely result.* [Thus] *…if*

[13] Economic Research, Federal Reserve Bank of St. Louis, Real Gross Domestic Product, 2007 http://research.stlouisfed.org/fred2/series/GDPCA/downloaddata?cid=106

a controlling interest valuation is sought where it is reasonable to alter the company's capital structure, a hypothetical capital structure may be used to estimate the WACC."[14]

Therefore, the ratio of the Debt Capital and Equity Capital that will be used in this calculation is that which the marketplace expects to see in a company of a given size and industry. The Industry Ratio Analysis in Paragraph 4.2 placed the market norm for Electrical Apparatus and Equipment Wholesalers the size of the subject at 31.0% interest-bearing debt and 69.0% equity. We will use this as the *hypothetical average* debt-equity mix for Elevator Supply, thus conforming to our stated Standard of Value which assumes the Buyer and Seller are hypothetical parties.

Small businesses typically obtain interest-bearing debt through various programs offered by the Small Business Administration (SBA). Interest rates on this form of debt generally range from Prime Rate plus 1% to Prime Rate plus 2%. Therefore, in calculating the overall Weighted Average Cost of Capital, we will select the mid-range of SBA interest rates at Prime plus 1.5%. The Prime Rate as of December 31, 2007 was 6.0%.

Since interest is a deductible expense, the net cost of debt to a borrower is reduced by his tax savings. For example, if a borrower is in the 25% tax bracket, a dollar of interest will really cost him only 75¢. The one dollar tax deduction saved him 25¢ in taxes. Expressed in interest rate terms, a 10% interest rate really only costs the borrower 7.5% after taxes [10% x (1-25%)]. The Weighted Average Cost of Capital is calculated *after taxes* to be on a similar footing as the Net Free Cash Flow developed below, which was also calculated a*fter taxes*. (The subject of entity taxes will be discussed in depth in Paragraph 6.2.1.5)

The Weighted Average Cost of Capital, from the table below, is calculated at 22.1%.

Exhibit XVIII

[1] Type of Capital	Rate of Return	After 39.8% Tax Bracket	Debt- Equity Mix	Weighted Average Cost of Capital
Equity	28.7%		69.0%	19.79%
Debt	7.5%	4.5%	31.0%	2.33%
			Total Weighted Average Cost of Capital:	22.10%
			Less Perpetual Growth Rate:	-5.7%
			Capitalization Rate:	16.4%

Typical SBA loan rate at Prime Rate + 1-1/2%. Prime Rate = 6% on 12/31/2007

As mentioned in Paragraph 6.0 the Capitalization Rate is derived from the Weighted Average Cost of Capital by deducting the expected growth rate of the company in perpetuity. The Perpetual Growth Rate was estimated at 5.7% (See Paragraph 6.1.3 above). **Therefore, the Capitalization Rate to be used in the Income Approach is calculated at 16.4% (22.1%-5.7%).**

[14] "*Cost of Capital – Estimation and Applications,*" Shannon P. Pratt, John Wiley and Sons, Inc., 2002, p. 52-53

6.2 NORMALIZED HISTORICAL DATA

6.2.1 NORMALIZED INCOME STATEMENT

Once the Discount Rate and Capitalization Rate are calculated, the second step in the Income Approach calls for "normalizing" the Subject Company's Income Statement and Balance Sheet. The normalizing process takes into account two primary considerations. First, we must follow the same methodology in developing our Subject Company's income stream as was used to estimate the Discount Rate so that we are comparing "apples to apples." In this instance, the Ibbotson's construction looked at the net profits **after Working Capital requirements, Capital Expenditures and after all "entity taxes."** Second, in order to calculate the future income stream for the Company, we have to consider its ***historical*** Profit and Loss Statements. These historical statements must be "recast" to be free of various distortions, non-recurring events, and other anomalies to provide us with a solid basis from which to build the projections.

Exhibit XIX

Elevator Supply, Inc.

Normalized Income after Taxes

	Dec 31, 2007 12 Mos.	Normalized Adjustments	See Paragraph for Discussion
INCOME			
Total Sales	5,649,794		
Returns and Allowances	-		
TOTAL INCOME	5,649,794	-	6.2.1.1
GROSS PROFIT	2,395,317	(190,000)	6.2.1.2
	42.4%	39.0%	
OTHER INCOME			
Other Income	60,405	50,000	
Bank Reconciliation Discrepancy	1,855	-	
Warehouse Fees	3,331	3,331	
TOTAL OTHER INCOME	65,591	(53,331)	6.2.1.3
EXPENSES			
Compensation of Officers	661,902	536,902	6.2.1.4
Salaries and Wages	509,875		
Repairs and Maintenance	5,909		
Bad Debts	4,629		
Rents	87,000	10,000	6.2.1.6
Taxes and Licenses	65,003	21,670	6.2.1.4
State Income Taxes	7,719	7,719	6.2.1.5
Interest	9,000		
Depreciation	4,866		
Advertising	9,345		
Employee Benefits	45,606	4,000	6.2.1.4
Accounting	2,391		
Bank Service Charges	11,162		
Misc, Dues and Subscriptions,	7,712		
Insurance and Liability Insura	16,577	(3,000)	6.2.1.4
Travel, Meals and Entertainmen	6,730	6,000	6.2.1.4
Office Expense and Supplies	22,975		
Postage and Delivery	7,636		
Legal and Professional Fees, O	31,161		
Shop Supplies	3,095		
Workman's Compensation	24,162		
Telephone and Utilities, Inter	16,799		
TOTAL EXPENSES / Total Add-Ba	1,561,254	583,291	
Net Income Before Tax (per Returns)	899,654		
Total Normalized Adjustments		339,960	
Normalized Income Before Taxes		1,239,614	
Less Entity Taxes @ 39.8%		493,366	6.2.1.5
Normalized Income After Entity Taxes		746,248	

Exhibit XIX at the left shows the normalizing adjustments and the control adjustments that accrue to the majority ownership of Elevator Supply, Inc.'s current P&Ls. Discussions of these adjustments can be found in the paragraphs that are noted to the right of the item.

6.2.1.1 TOTAL INCOME

The valuation of the subject is as of December 31, 2007.

Gross Revenues for the Subject Company have increased steadily over the last four years with very few anomalies. In addition, its recent growth pattern appeared to track that of its industry. As such, the Subject Company's current year's P&Ls will be selected as the basis for calculating normalized revenues and Income. From this basis the forecasted growth rates presented in Paragraph 2.3 will be combined with various normalizing adjustments to project the future revenue and income stream from which the Subject's valuation will be calculated.

6.2.1.2 GROSS PROFITS

From 2003 to 2006 the Company's Gross Profit margin averaged 38.1%, ranging from 37.3% to 38.7%. However, 2007 saw the margin jump to 42.4%. Mr. Smith indicated that the increase observed in 2007 was the result of a shift in product mix to higher margined goods. He felt that this shift was largely transitory in nature and would return to normal levels in 2008. However, as was discussed in Paragraph 3.3 the Company plans to actively seek out more "legacy" type product lines from G.E. in the future. Although these new product lines will only represent a small percentage of total inventories, they will generate well above-average profit margins and thus, add possibly 1% to overall margins.

Management felt that after consideration of the above circumstances, the probable Gross Profit Margin would be 39.0%. If such is the case, the normalizing process would call for a deduction of $190,000 from the Gross Profits earned in 2007. This deduction will lower Elevator Supply's Gross Margin to 39.0%, which management believes is maintainable for the foreseeable future.

6.2.1.3 OTHER INCOME

The normalizing process seeks to eliminate various distortions due to non-recurring income or expenses. The company was paid a legal settlement from an employee who embezzled from the company. A total of $75,000 was received during 2006 and 2007. The $50,000 earned in 2007 was ***deducted*** from normalized cash flow as a non-recurring item.

Elevator Supply also performed certain warehousing functions for another company, earning roughly $30,000 in fees during the last three years from providing this service. The relationship was terminated in mid-2007 and will not be renewed. The $3,331 earned in 2007 is considered non-recurring and was ***deducted*** from cash flow.

6.2.1.4 COMPENSATION OF OFFICERS

The purpose of the valuation defined in the beginning of this report was to develop a *Control* value for the Subject. That process requires normalizing the Subject's income stream to reflect all the cash flow that would accrue to Control ownership. A Control owner has at his discretion the ability to keep all the cash flow his company generates whether it is by salary, perks, dividends or personal loans. The normalizing process, then, calls for adjusting out of the income stream all the ***excess*** remuneration of the Control owner. The Owner of Elevator Supply felt that a manager could be hired to replace him at a total compensation package of $125,000 per year (total compensation including employee benefits). Over the last three

years the Owner's actual compensation averaged $661,902 plus $10,000 in benefits. Thus, the Owner's compensation exceeded the fair market value for an equivalent employee/manager by an average of $536,902 plus $10,000 benefits per year. The excess wage and benefits above $125,000 earned by the Owner was added back to cash flow.

Estimated Payroll Taxes for these excess earnings is also added back to cash flow. In addition, a salaried manager would also cost the company workman's compensation insurance, whereas an owner would be exempt. The estimate of workman's compensation for a manager is $3,000 per year and is a ***deduction*** from cash flow.

The owner estimated that his health, retirement, and automobile benefits that the company paid on his behalf were $10,000 per year ($6,000 for a company car and $4,000 for health benefits). This excess earnings package is, therefore, added back to cash flow.

6.2.1.5 INCOME TAX RATE

There has been considerable discussion over the last several years as to whether normalized cash flow should be calculated before or after income taxes. Elevator Supply, Inc. is an S-corporation, and, as such, the corporation pays only minimal income tax. However, the stockholder's personal taxes absorb the company's tax burden. The companies making up the Ibbotson Study database used in this analysis are all publicly traded C-corporations that pay taxes at the corporate level. In order to make the Subject Company's Net Free Cash Flow directly comparable to these guideline C-corporations, it is necessary to "tax affect" those S-corporation profits. This is appropriate since a "hypothetical Buyer" analyzing the merits of investing in this company would consider the income taxes that must be paid regardless of whether it is at the corporate level or the personal level.

The normalizing process, therefore, will assume that cash flow is calculated after hypothetical entity taxes. The level of net income this company presently earns would put an equivalent C-corporation tax rate at 39.8% for State and Federal taxes combined. (*Note: Total Federal taxes on the above Net Income would average 34.0%. California State Taxes would average 8.84%. However, since State Taxes are a deduction on Federal Taxes, they reduce the Federal Tax burden. Therefore, the actual cost of the State Tax after the Federal Tax deduction is equal to (1 - 34.0%) x 8.84% or 5.8%, thus yielding a combined 39.8% tax rate.)*

6.2.1.6 RENTS

The Owner of the business also personally owns the real estate on which the company operates. He indicated that he raises the rent to his company each year to approximately the current prevailing rent for new buildings in the area. However, as was noted in the ratio analysis section (Paragraph 4.1.2.4), the Company's rent averages 1.7% of its gross revenues which is considerably higher than the .5% rate paid by other companies in the industry. A portion of the difference can be attributed to the fact that the business is located in the San Francisco Bay Area where rents are much higher than the rest of the country. However, a

portion of the difference can also be attributed to the Owner receiving additional compensation in the form of rent.

Long term leases on older buildings typically lag behind leases on newer buildings. If an arms-length lease were negotiated eight years ago when the building was acquired, it is reasonable to expect that rents would be at least $10,000 per year lower than what the owner charges his company. This excess rent is added back to cash flow.

6.2.2 NORMALIZED HISTORICAL BALANCE SHEET

6.2.2.1 CASH BALANCES

The company carried a bank balance of $324,000 at year end December 31, 2007. As per the industry analysis reviewed in Section 4.1.2 above, the average cash balance carried by the guideline companies was estimated at 11.3% of Total Assets. The Subject Company's cash balance averaged 17.5% during the last five years, declining to 13.6% in 2007. The surplus cash above the industry norm that the Company carried in 2007 is $55,000. This surplus cash is considered a non-operating asset that is non-essential to the business. This excess amount of cash is deducted from the normalized balance sheet of the Company in order to estimate a more realistic Working Capital requirement. The excess cash will then be added to the final value calculated by the Income Approach and Market Approach.

Exhibit XX
Elevator Supply, Inc.
Normalized Balance Sheet
December 31, 2007

Assets	12/31/2007	Adjustments	Normalized	See Paragraph for Discussion
Cash:	324,000	(55,000)	269,000	6.2.2.1
Accounts Receivable:	796,000		796,000	
Inventory:	1,090,000		1,090,000	
Other Current Assets:	16,000		16,000	
Total Current Assets:	2,226,000		2,171,000	
Fixtures & Equipment:	123,000	75,000	198,000	6.2.2.2
Tenant Improvements:	190,000		190,000	
Depreciation:	-163,000		-163,000	
Other Assets:	0		0	
Investments:	0		0	
Intangibles:	0		0	
Total Assets:	2,377,000		2,396,000	
Accruals, Other Liabilities:	16,000		16,000	
Accounts Payable:	105,000		105,000	
Short Term Debt:	0		0	
Total Current Liabilities:	121,000		121,000	
Other Long Term Liabilities:	0		0	
Shareholder Loans:	0		0	
Interest Bearing Debt:	90,000		90,000	
Total Liabilities:	212,000		211,000	
Net Worth:	2,166,000	20,000	2,186,000	
Total Assets and Net Worth:	2,377,000		2,397,000	

6.2.2.2 FIXTURES AND EQUIPMENT

The company carried $123,000 in Fixtures and Equipment and $190,000 in Tenant Improvements at year end December 31, 2007. The company's total Fixed Asset Turnover (Gross Revenues ÷ Total Fixed Assets) averaged 29.21 times from 2003 to 2006, before climbing to 37.53 in 2007. The industry average for that period was about 22.92, with 2006 rising to 23.23 (See Exhibit XV). Management indicated that the Company was "behind" on its equipment re-investment, since all the computers and software needed to be upgraded. Management estimated the total cost to be $75,000. This additional needed investment would put the Company's Fixed Asset Turnover roughly in line with industry norms. It will be assumed, then, that the normalized level of Fixtures and Equipment should be $198,000.

6.3 FORECAST OF NET FREE CASH FLOW

Exhibit XXI
Discrete Years and Terminal Year Forecast

	Dec 31, 2007		Discrete Years						Terminal Yr	See Paragraph for Discussion
INCOME	Normalized		2008	2009	2010	2011	2012		2013 to ∞	
TOTAL INCOME	5,649,794	(5)	5,644,144	5,994,081	6,425,655	6,894,728	7,260,148	(4)	7,675,429	
GROSS PROFIT	2,205,317	(5)	2,203,112	2,339,705	2,508,163	2,691,259	2,833,896	(4)	2,995,995	6.3.1
	39.0%		39.0%	39.0%	39.0%	39.0%	39.0%		39.0%	
OTHER INCOME										
TOTAL OTHER INCOME	12,260	(2)	12,248	13,007	13,944	14,961	15,754	(4)	16,656	
EXPENSES										
Compensation of Officers	125,000	(1)	128,750	132,613	136,591	140,689	144,909	(4)	153,198	6.3.2
Salaries and Wages	509,875	(3)	525,171	557,732	597,889	641,534	675,536	(4)	714,176	
Repairs and Maintenance	5,909	(3)	6,086	6,464	6,929	7,435	7,829	(4)	8,277	
Bad Debts	4,629	(2)	4,624	4,911	5,265	5,649	5,948	(4)	6,289	
Rents	77,000	(1)	79,310	81,689	84,140	86,664	89,264	(4)	94,370	
Taxes and Licenses	43,333	(2)	43,290	45,973	49,284	52,881	55,684	(4)	58,869	
State Income Taxes	0	(F)	0	0	0	0	0	(4)	0	
Interest	9,000	(2)	8,991	9,548	10,236	10,983	11,565	(4)	12,227	6.3.4
Depreciation	4,866		69,673	95,402	65,601	70,451	65,105	(4)	65,743	6.3.4
Advertising	9,345	(2)	9,336	9,914	10,628	11,404	12,009	(4)	12,695	
Employee Benefits	41,606	(3)	42,854	45,511	48,788	52,349	55,124	(4)	58,277	
Accounting	2,391	(1)	2,463	2,537	2,613	2,691	2,772	(4)	2,930	
Bank Service Charges	11,162	(1)	11,497	11,842	12,197	12,563	12,940	(4)	13,680	
Misc, Dues and Subscriptions,	7,712	(1)	7,943	8,182	8,427	8,680	8,940	(4)	9,452	
Insurance and Liability Insura	19,577	(3)	20,164	21,414	22,956	24,632	25,938	(4)	27,421	
Travel, Meals and Entertainmen	730	(2)	729	774	830	891	938	(4)	992	
Office Expense and Supplies	22,975	(2)	22,952	24,375	26,130	28,038	29,524	(4)	31,212	
Postage and Delivery	7,636	(2)	7,628	8,101	8,685	9,319	9,812	(4)	10,374	
Legal and Professional Fees,	31,161	(1)	32,096	33,059	34,050	35,072	36,124	(4)	38,190	
Shop Supplies	3,095	(2)	3,092	3,284	3,520	3,777	3,977	(4)	4,205	
Workman's Compensation	24,162	(3)	24,887	26,430	28,333	30,401	32,012	(4)	33,843	
Telephone and Utilities, Inter	16,799	(1)	17,303	17,822	18,357	18,907	19,475	(4)	20,589	
TOTAL EXPENSES/ Total Add-Backs	977,963		1,068,839	1,147,577	1,181,448	1,255,011	1,305,425		1,377,010	
Net Profit Before Taxes	1,239,614		1,146,520	1,205,135	1,340,659	1,451,210	1,544,225		1,635,641	
Less Entity Taxes @ 39.8%	493,366		456,315	479,644	533,582	577,582	614,602		650,985	6.3.3
Income After Taxes	746,248		690,205	725,491	807,077	873,628	929,624	(4)	984,656	
Plus Depreciation	4,866		69,673	95,402	65,601	70,451	65,105		65,743	6.3.4
Tax Affected Interest	5,418		5,413	5,748	6,162	6,612	6,962		7,361	6.3.4
Cash Flow	756,532		765,290	826,641	878,840	950,691	1,001,691		1,057,759	
Capital Expenditures-New FF&E	0		(37,500)	(61,532)	(29,638)	(32,214)	(25,095)		(28,519)	6.3.5
Capital Expenditures-Replenishment	0		(27,373)	(29,070)	(31,163)	(33,438)	(35,210)		(37,224)	6.3.5
Working Capital Growth	(16,335)		2,050	(126,973)	(156,594)	(170,201)	(132,591)		(150,682)	6.3.6
Net Cash Flow to Total Capital	740,197		702,468	609,066	661,444	714,839	808,795		841,334	
	Assumptions:		2008	2009	2010	2011	2012		Perpetual	
Annual Revenue Growth Rate		(5)	-0.1%	6.2%	7.2%	7.3%	5.3%	(4)	5.72%	
Growth of Inflation Sensitive Expenses		(1)	3.0%	3.0%	3.0%	3.0%	3.0%			
Growth of Revenue Sensitive Expenses		(2)	-0.1%	6.2%	7.2%	7.3%	5.3%			
Growth at the greater of Inflation or Revenue		(3)	3.0%	6.2%	7.2%	7.3%	5.3%	(4)	5.72%	
Fixed Expenses		(F)	No change from year to year							

The above exhibit is a five year projection of the Subject Company's revenues and cash flow. Management does not normally prepare such a projection. However, the Appraiser suggested guidelines for revenue growth for the next five years based on the analysis of the industry discussed in Section 2.3 Management provided guidelines for expense growth as footnoted by (1), (2), (3), and (F) below.

6.3.1 REVENUE GROWTH

The projected annual revenue growth for the five Discrete Years for the Company (as discussed in the section on economic growth, (Paragraph 2.3) is shown in footnote (5). The Terminal Year Revenues and Cash Flow will increase at the Perpetual Growth rate which is shown in footnote (4) (as per the discussion in Paragraph 6.1.3). The Gross Profit Margin was normalized at 39.0% for all years (see Paragraph 4.2).

6.3.2 EXPENSES

Management identified various company expenses which fluctuated with the growth of its revenues (items footnoted with (2)) opposed to others which typically grew at the rate of inflation (items footnoted with (1)). There were also a few expenses that typically fluctuated with revenues except in years of declining revenues when they increased by the rate of inflation. For example, insurance expense typically increases as a company's revenues and assets increase. However, in years where revenues decline, insurance still seems to increase. Those expenses were flagged with footnote (3). All expenses and revenues in the Terminal Year are increased by the Perpetual Growth rate marked with (4).

6.3.3 TAXES

As discussed in Paragraph 6.2.1.5 the projected profits will be taxed as if the Company were a C-corporation. The combined state and federal rate is estimated at 39.8%.

6.3.4 TAX AFFECTED INTEREST EXPENSE AND DEPRECIATION

Net Free Cash Flow to Total Invested Capital (NFCFi) is defined as cash flow *before* depreciation and interest. It is the cash flow available to both shareholder and debt holder. Since depreciation is a non-cash charge, 100% of this expense flows to shareholder and debt holder. Interest, however, is an actual cash outlay by the company; but, interest expense also reduces the company's income taxes. Therefore, interest expense is *tax affected*; that is, interest literally only costs the company (1 -34.0%) or 66 ¢ per dollar after taxes.

Since Depreciation is a non-cash expense that saves tax dollars, it is assumed that an owner will take the maximum deduction allowed. Recent tax code changes permit business owners to write off over $100,000 of capital expenditures each year. Therefore, it is assumed that all Capital Expenditure outlays will be immediately expensed as depreciation in the year acquired. During the first five "Discrete Years" all Capital Expenditures will be 100% depreciated plus an additional $4,800 depreciation per year for purchases made in previous years. The "Terminal Year's" depreciation expense will equal just the capital expenditures for that year.

Interest Expense for all six projected years will be adjusted for changes in the level of the company's revenues. The assumption here is that growth will be funded by a combination of debt and equity in the same proportion as existed in the normalized year.

6.3.5 CAPITAL EXPENDITURES

In completing the NFCFi it is necessary to calculate the burden that increased Working Capital and Capital Expenditures will place on cash flow. As a company continues to grow, it will need increasingly larger amounts of Working Capital and Plant and Equipment to support the higher level of output. It will also have to replace a portion of its *existing* Plant and Equipment every year.

6.3.5.1 CAPITAL EXPENDITURES – REPLENISHMENT OF EXISTING FIXTURES

One can reasonably expect to *replace* all the Company's Fixtures and Equipment every ten years or, on the average, $1/10^{th}$ of its *existing* equipment each year. Tenant Improvements, which have a longer life expectancy, would be completely replaced every twenty-five years or $1/25^{th}$ per year. The calculations for estimating the amount of *existing* Plant and Equipment that must be replaced each year is as follows: from the Company's *Normalized* P&L and Balance sheet, Fixtures and Equipment as a percentage of Total Revenues is 3.50%, and Tenant Improvements is 3.36%. Therefore, the calculation for the amount of Plant and Equipment to be replenished in 2009 is $5,644,144 x 3.50% / 10 + $5,644,144 x 3.36% / 25 = $27,373. As revenues increase each year, so will the amount of Plant and Equipment on hand. Thus, the cost of annual replenishments will increase with revenues each year as well.

6.3.5.2 CAPITAL EXPENDITURES – ACQUISITION OF NEW FIXTURES & EQUIPMENT

As the Company grows, not only will it have to replacing *existing* plant and equipment, but, it will also have to add *new* equipment to support that growth. From Elevator Supply's *Normalized* P&L and Balance Sheet we find that Total Plant and Equipment as percentage of Gross Revenues was 6.87%. This constant is multiplied by the *increase* in sales each year. For years with declining revenue (2008) it is assumed that one does not immediately sell off equipment. So, Capital Expenditures for new equipment during those declining years are zero, not a negative number.

As was discussed in Paragraph 6.2.2.2, the Company is "behind" on its equipment investment by $75,000. It is assumed that this catch-up investment will take place over the next two years. Therefore, in 2008 and 2009 Capital Expenditures for "catch-up" equipment will be estimated at $37,500 each year. Since 2009 is also a growth year for the company, new equipment to support the higher level of sales will also be purchased in addition to the "catch-up" investment. Total Capital Expenditures for 2009 are calculated as follows: $37,500 + 6.87% x ($5,994,081-$5,644,144) = $61,532. For each year following, the investment in new Plant and Equipment is calculated by multiplying the constant by the *increase* in revenues for that year.

6.3.6 WORKING CAPITAL

The growth in sales of Elevator Supply will also necessitate various other balance sheet investments. As sales increase, Cash Balances, Accounts Receivable, and Inventory (i.e. Short-Term Assets) will also increase. These necessary investments will be partially offset

by (that is, financed by) increases in Accruals, Accounts Payable, and other short term indebtedness. Short-Term Assets less Short-Term Liabilities are referred to as Working Capital. Elevator Supply's Working Capital, taken from its ***Normalized*** P&L and Balance Sheet, averaged 36.3% of Gross Revenues in 2007, or $2,050,000. For the projected years, Working Capital is expected to grow at 36.3% of the *increase* in revenues earned that year. For example, in 2009 the increase in Working Capital is estimated at ($5,994,081-$5,644,144) x 36.3% or $126,973. It should be noted that in years of a revenue *decline*, Working Capital investment also declines in direct proportion which, in turn, ***creates*** a cash flow windfall. For 2008, for example, the reduction in sales produced a reduction in Working Capital which translates into an *increase* in cash flow of $2,050.

6.4 Present Value of the Terminal Year

We now have a value calculated for the Net Free Cash Flow to Total Capital for the Terminal Year. That amount is divided by the Capitalization Rate developed in Paragraph 4.2 to give us the present value of all future cash flow from ***Year 6*** **into perpetuity.**

Net Free Cash Flow to Capital – Terminal Year	$841,334
Divided by the Cap Rate (Paragraph 4.2)	÷ 16.4%
Present Value of Total Cash Flow from Year 6 to ∞	$5,130,000

The capitalized value for the Terminal Year now gives us a ***single*** value that represents the sum of all future cash flow to be generated by the Subject Company from ***Year 6 into perpetuity.*** By coupling this value with the five "Discrete Years," the result is a total of Net Free Cash Flow values representing each of the next six years. These values represent the total of all cash flows we would receive from the Subject Company as of the ***Date of Valuation*** into perpetuity.

We now move on to our last step.

6.5 Present Value of Future Net Free Cash Flow

The concept of Present Value, the basis for this methodology, needs further explanation. Present Value theory takes into account the time value of money. If we can earn 10% interest on an investment, then a dollar today will be worth $1.10 *a year from now* [1 x (1+10%)]. However, Present Value is a little like "reverse interest." At a 10% interest rate, a dollar *received a year from now* is only worth 90.9¢ today [1 / (1 + 10%)]. Using Present Value jargon, we would say a dollar received a year from now, discounted at 10%, would be worth 90.9¢ today.

The Present Value of a dollar that will be received two years from now at a 10% discount requires a little fancier math. The formula is $1 / (1+10\%)^{n}$, where n = the number of years in the future. The calculation here is $1 / 1.10^2$ which equals 82.6¢. Three years equals $1 / 1.10^3$ or 75.1¢, and so on.

To complicate things even a little more, Present Value theory assumes that the dollar will be received at the ***end of each year*** observed. However, when we look at the income stream of a typical business, those dollars are flowing to the investor throughout the entire year -- some in the beginning, some in the middle, and some toward the end of the year. Thus, to discount an entire year's cash flow by using a full year's discount rate would understate that cash flow's present value. Therefore, to make Present Value theory a little more relevant to what happens to the businessman, we will use what is referred to as the "mid-year convention." If a full year's discount rate is determined to be 10%, we will use 5% as the average or "mid-year" discount rate for year one, 15% for year two, 25% for year three and so on. The formula is $1 / (1+ i)^{n-.5}$ where i is the Discount Rate and n is the number of years into the future that we are discounting.

That being said, the Present Value of the projected income stream for Elevator Supply, Inc. is:

Exhibit XXII
Present Value of All Future Cash Flow

Year	Net Free Cash Flow to Capital	22.1% Discount Rate Mid-Year Convention	Present Value of Cash Flow
1	702,468	0.905	635,724
2	609,066	0.741	451,431
3	661,444	0.607	401,517
4	714,839	0.497	355,389
5	808,795	0.407	329,320
Terminal Yr 6	5,130,084	0.407	2,088,834
Present Value of Cash Flow			**4,262,215**

The above exhibit represents the value of the Total Invested Capital in Elevator Supply, Inc., or in other words, the total capital invested in the company by the shareholders (equity) and debt holders (interest-bearing debt). In order to determine the value of the shareholder's equity we must make a deduction for the current level of interest bearing debt on the Company's balance sheet as of the date of valuation - December 31, 2007.

Total Invested Capital	$4,262,215
Less Interest Bearing Debt	-$90,000
Value of Shareholder Equity	$4,172,215

Two more adjustments, however, must be made to this value to arrive at the fair market value of a 100% interest in the Subject Company's shares of stock on a Controlling, Non-Marketable basis.

First, the Net Free Cash Flow that was calculated for the Subject Company was developed by making various adjustments from the perspective of a controlling ownership position.

Therefore, this appraisal method develops an indicated value that is on a Control Basis. In addition, the Discount and Capitalization Rates that were used in the appraisal method were calculated from data gleaned from the stock market. As such, the rates presuppose that the investment is in publicly traded companies that have ready access to markets. In other words, by using this appraisal method the indicated value of the investment is on a Marketable, "*as if freely traded*" basis. **Thus, the implied basis for the value that we developed above would also be Controlling and Marketable (as if freely traded -- liquid).** The Subject *Interest* of this valuation, however, is *100% Controlling* and *Non-Marketable (illiquid).* An investor, who is considering investing in either a company sold on a public stock exchange or the Subject Company with no readily available market, would certainly demand a substantial discount in order to be induced to invest in the Subject due to its non-marketable characteristic.

Since we are seeking to value the Subject Interest on a Controlling and Non-Marketable basis, the above value must, therefore, be further adjusted to reflect its unattractive investment characteristics and desirable control position. The above "*as if freely traded*" value can be converted into a Controlling, Non-Marketable basis by applying a Discount for Lack of Marketability.

Lastly, the normalized balance sheet used to develop the above capitalized value was *net* of surplus non-operating cash. The excess cash is therefore added back to obtain the total value of shareholders' current actual Equity (Net Worth).

6.6 Discounts and Premiums for Marketability and Control

6.6.1 Control Premiums and Discounts

The basis of value that we are seeking for the Subject Company is from a Control perspective. The various methodologies available to the appraiser create a value that either presumes a Control or a Minority ownership position. If the methodology used develops a value that is from a Minority owner's perspective and we desire a Control value, an increase in that calculated Minority Value is indicated. Likewise, if the value developed from the methodology is from a Control perspective and we seek a Minority ownership value, we should consider a decrease in that calculated Control Value.

There is a considerable body of evidence which shows that investors dislike a lack of control in the closely-held companies they own, and, are willing to pay a premium to gain control. For example, an investor paid $10 a share for a 20% non-controlling (minority) interest in a company. He subsequently seeks to buy the remaining 80% to gain full control, and, is willing to pay $15 per share. In this example, the investor is willing to pay a 50% premium ($5 ÷ $10) to gain control of the company. This factor is referred to as a ***Control Premium***.

On the flip-side of the issue, an investor who was considering buying 100% control of a company for $15 per share but is subsequently offered a 20% stake might only be willing to pay $10 per share for that non-controlling position. The investor was demanding a 33% discount for a non-controlling position (($15-$10) ÷ $15). This factor is referred to as a ***Discount for Lack of Control.***

As was stated in Paragraph 6.5 above, the methodology used in this report for the Income Approach developed a Control Basis of Value. As such, no further adjustment to that value is needed, since the desired basis for the Subject is also Control.

The Market Approach discussed in Paragraph 7.0 below employs the Direct Market Data Method. This method obtains transactional data from small, closely-held companies in which a 100% controlling interest was sold. As such, the resulting value will be from a Control perspective. **Therefore, no further adjustment for Control to the value developed in the Market Approach is needed, since the desired basis for the Subject is also Control**.

6.6.2 DISCOUNT FOR LACK OF MARKETABILITY

Marketability is defined as the ability to convert an investment into cash immediately at a known or reasonably expected price. The prime example of perfect marketability can be seen with stocks traded on public stock exchanges. They can be sold within seconds at a reasonably expected price for a transaction fee of as little as $7.95. The proceeds can be collected in three days. Investments in closely-held companies are a different story. There are no ready markets to trade shares of closely-held companies. As such, the length of time to consummate a sale can be lengthy, with the selling price not known until an offer is tendered, and with transaction costs as high as 6% to 15% of the selling price. Investors abhor illiquidity and demand fairly large discounts to be induced into making such an investment. Interests in small, closely-held companies, therefore, are referred to as non-marketable. The non-marketable *interest* must be valued in a manner which will reflect its unattractive investment *characteristics.*

As in the case of Control Premiums above, the methodology used to develop a given value drives the need for possible Discounts for Lack of Marketability. If the methodology used by the appraiser employs a data source of marketable type securities, the resulting calculated value will also have the presumption of marketability. If, then, we are seeking a Non-Marketable value for our subject, the calculated value must be further reduced by an appropriate Discount for Lack of Marketability.

The appraisal profession generally recognizes two different levels of marketability discounts. Clearly, the degree of difficulty of selling a minority position in a closely-held company is far greater than selling 100% control. Any business broker will tell you that there is virtually no market for the sale of minority shares of a company. The primary choice facing such an owner is to sell his shares to his other partners. If the majority partners are oppressing minority partners the last remaining choice is litigation.

The owner of a controlling interest has far more options in marketing his business. If the company is large enough, the owner can consider taking it public or, selling to an ESOP or Private Equity Groups. For smaller companies, a majority owner can contract the services of a business broker to sell his company. None of these options are available to a minority owner, as a minority owner cannot force the sale of any company assets without majority

approval. As such, many practitioners argue that there is little, if any, marketability discount for controlling interests.

However, all the options available to a majority owner still have costs involved that are significantly greater than the investor who pays E*Trade $7.95 to sell his publically traded shares. The U.S. tax court clearly has recognized such discounts for Controlling Interests. From the 1982 case of Estate of Andrews v. Commissioner: *"Even controlling shares in a nonpublic corporation suffer from lack of marketability because of the absence of a ready private placement market and the fact that flotation costs would have to be incurred if the corporation were to publically offer its stock."* Shannon Pratt concurs in his book, *Business Valuation Discounts and Premiums.* He notes that whether a buyout or public offering is sought, the owner is faced with: 1) creating accounting records satisfactory to buyers, bankers or regulatory authorities; 2) utilizing management time to facilitate the above and cure negative factors; 3) incurring legal expenses; and, 4) finding a buyer [which usually means employing the services of a broker].[15]

In order to differentiate between the marketability discounts for Control versus Non-Control interests, the discount applied to Non-Control interests is referred to as a *Discount for Lack of Marketability* and the discount applied to Control Interests is referred to as an *Illiquidity Discount*.

The methodology employed in this report's **Income Approach** uses the Ibbotson Studies database of publically traded companies to calculate the Discount Rate and Capitalization Rate. As such, the implication is that the resulting calculated value shares the same characteristics of the database, that is, **fully marketable**. We have already established that the calculated value from the Income Approach possesses Control characteristics. **As such, in order to bring us to the desired Control and Non-Marketable basis, the appropriate discount to apply to the value calculated in the Income Approach is an *Illiquidity Discount*.**

The **Market Approach** discussed in Paragraph 7.0 below employs the Direct Market Data Method. This method obtains transactional data from small, closely-held companies in which a 100% controlling interest was sold. The fact that these businesses have been sold in private placement, typically through business brokers, Non-Marketability is clearly established. **Therefore, no further adjustment for the Non-Marketable value developed in the Market Approach is needed, since the desired basis for the Subject is also Non-Marketable**.

The following considerations were taken into account to estimate the Illiquidity Discount that will be applied to the Income Approach calculated value. Three common vehicles to selling a privately-held company are a public offering using an investment banker, a direct placement with a private equity group, or a private sale using a business broker. The Subject Company is too small to use the first two resources. Thus, the remaining marketing option is enlisting the services of a business broker. A commission on a company of the size of the

[15] Shannon P. Pratt, *Business Valuation Discounts and Premium,* (New York: John Wiley & Sons, Inc. 2001), p. 173

Subject would range from 7% to 8%. Legal, accounting and escrow fees can range from 2% to 3%. **Total marketing costs and, therefore, the Illiquidity Discount are estimated at 10%.**

It should be also noted that the Illiquidity Discount does not need to factor in the amount of time necessary to sell the hypothetical interest. In a Fair Market Valuation, the time it takes to market the business has passed as of the date of the valuation. At that point in time, it is assumed that both hypothetical parties stand ready to exchange cash or equivalent for the subject interest.

6.7 Illiquidity Discount Applied to Income Approach Valuation

As was noted, the Income Approach valuation found in Paragraph 6.5 was calculated on a ***Controlling***, "***as if Freely Traded (Liquid)***" basis. By applying the above calculated Illiquidity Discount, we can convert that value to a Controlling, Non-Marketable basis.

Value of Shareholder Equity (from Paragraph 6.5)	$4,172,215	
Illiquidity Discount	x 90%	(1 -10%)
= Value adjusted for Marketability	3,754,993	

Fair Market Value – Income Approach (rounded) $3,750,000

Three Million Seven Hundred Fifty Thousand Dollars

The above value is for a 100% ownership interest in Common Stock of Elevator Supply, Inc. on a Controlling, Non-Marketable *basis.*

7.0 Market Approach

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

price that a buyer would pay *today* that is based on the *current* financial condition of the company and a buyer's *future* expectations.
The Market Approach includes a collection of methods which use actual transactional data from the marketplace. There are various methods commonly used under this approach.

7.0.1 The Guideline Public Company Method

The Guideline Public Company Method uses a database of publicly traded companies whose shares are freely traded. Because of the large size of the companies typically found in this database, its use as a comparison for small privately-held companies is often inappropriate. A search of SIC #5063 (Electrical Apparatus and Equipment Wholesalers) , the Subject's primary classification, using the database from Business Valuation Market Data[16] found no comparable companies. A search of SIC # 5065 (electronic equipment wholesalers) found three possible comparables:

Company	Gross Revenues
Telecommunications Integration	$ 24,450,000
Distributor of Electronic Parts	36,439,000
Distributor of Industrial Electronic Components	1,722,646,000

The smallest public company comparable above is roughly five times the size of the Subject Company. Research presented later in this report will show that using comparables even twice the size of the subject run the risk of overstating its value. **Therefore, the use of the Guideline Public Company Method is rejected.**

7.0.2 The Mergers and Acquisitions Transactions Method

The Mergers and Acquisitions Transactions Method involves the acquisition of businesses by other companies that are often public companies. The desired analysis of this database is to observe the prices of small privately-held companies that are acquired by large public companies. One must be careful in the selection of comparables from this database. A portion of the consideration tendered in the majority of these transactions is the acquiring company's restricted public stock. The standard of Fair Market Value is that transactions are for cash or cash equivalent. Therefore, the true transaction value where stock is the medium of exchange is often difficult to assess. In addition, buyers in this arena are often what we refer to as "strategic, or investment buyers." The synergies that exist between the acquiring and target companies are such that the acquiring company has far more to gain than just a return on investment. Strategic acquiring companies are often trying to dominate specific markets by buying up competitors, or trying to gain access to a specific market that fits with the markets they already control. These strategic transactions are often at a significant premium compared to those transactions where no specific synergy exists. Since the standard of Fair Market Value is to determine the transaction price between *any hypothetical*

[16] Public Stats- SIC 5063 and 5065, http://www.bvmarketdata.com

buyers and any hypothetical sellers, we must necessarily rule out those transactions where one specific player had a special agenda to fill; otherwise, we would have to do a different valuation for every different acquiring company.

A search using Business Valuations Market Data Mergerstats Database[17] found one company of the subject's size. Unfortunately, at least three companies are needed in order for a database to be useful. (The use of the statistical measure – *median* – requires at least three data points.) **Therefore, the Mergers and Acquisitions Transaction Method is rejected.**

7.0.3 The Direct Market Data Method

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

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

The various sources of data contain transactions ranging from a few thousand dollars to over $1 billion. The transactions are from businesses located all around the country which were consummated as recently as a few months ago to as long as twenty years ago. In addition, when searching a specific SIC group for transactions involving companies similar to the subject, we often find that these companies do not appear to be similar at all.

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

7.1 Selection of Appropriate Guideline Companies

7.1.1 Databases Selected

Three commonly used databases in the Direct Market Data Method are Pratt's Stats, BIZCOMPS 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. The IBA database does not report the amounts of inventory or fixtures and equipment that were included in each transaction and frequently, Discretionary Earnings is missing. Since there are only ten data points reported for each transaction, it is difficult to reconcile the many complexities of each sale. As such, this is the least useful database. BIZCOMPS reports the selling prices of a business *excluding* inventory. This database, however, does report the level of inventory separately, and therefore, it is a simple mathematical exercise to reconstruct the total selling price including inventory in order to be

[17] Mergerstats- SIC 5063 and 5065, searched on June 5, 2008, http://www.bvmarketdata.com

comparable to the other two databases. BIZCOMPS reports 17 data points for each transaction and claims to "police" the quality of input to its database.

BIZCOMPS and IBA state that they calculate Seller's Discretionary Earnings slightly differently. (For example, IBA does not mention adding back depreciation into Discretionary Earnings.) However, this Appraiser has completed over 250 market approach analyses and has made a point to carefully read the complete transaction reports for over 5,000 comparables from all three databases. In instances where both databases reported the same transaction, the Appraiser has found that in a high percentage of the cases the selling price, gross revenues and discretionary earnings were identical. One can attribute this to the fact that the same broker will report a transaction to both databases, and will offer only one calculation for Seller's Discretionary Earnings (SDE). Brokers will typically follow the convention recommended by the IBBA (International Business Brokers Association) for calculating SDE, a convention that BIZCOMPS expressly follows and one that IBA appears to accept by default. Therefore, both databases will be considered similar enough in their respective construction to be grouped together. Shannon Pratt draws the same conclusion in *The Market Approach to Valuing Businesses.*[18]

Pratt's Stats has over 65 data points for each transaction including a summary of the P&L and balance sheet, a description of the terms of the deal, the type of consideration tendered, and whether it is a stock sale or an asset sale. Because of the extensive information available, reconciling Seller's Discretionary Cash flow or reconciling the actual selling price of the transaction is more reliable. Pratt's Stats calculates SDE the same way as 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. For example, Transaction #19 in Exhibit XXV, Page 64 was reported in all three databases. BIZCOMPS and IBA both reported Seller's Discretionary Earnings (SDE) as $3,101,000, whereas Pratt's Stats reported $2,305,000. A closer look at the P&L summary offered by Pratt's Stats revealed that gross profits were $3,764,100 and operating expenses were $1,503,328, leaving an operating profit of $2,260,772. By adding back owner's salary, SDE is found to be $2,305,000, and the resulting SDE margin is 32.5% ($2,305,000 ÷ $7,084,600). This is an extraordinarily high margin given the fact that the median margin for the entire sample was only 9.2%. However, the SDE margin suggested by IBA and BIZCOMPS was 43.8% ($3,101,000÷ $7,084,600). Clearly, the SDE reported by these two databases was incorrect. 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.

7.1.2 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

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

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

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

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

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

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

> *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*

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

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.[20]

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

7.1.3 LOCATION

The location of a business can certainly have a significant impact on its value. For example, it is generally argued that a California business will command a higher selling price than a similar business in, say, Alabama. However, it is not so much the location itself, but rather, the earnings the company generated at ***that*** location that creates the value. Small-business owners will attempt to price their goods and services to generate a desired living wage. Since the cost-of-living in California is higher than Alabama, California businessmen will price their goods and services at a higher profit margin to achieve the necessary higher wage. Thus California businesses, on the average, may generate a higher level of cash flow. However, as was the case in paragraph 7.1.2 above, employing ratio analysis to compare companies will overcome the distortions due to location.

For example, a nursery in California doing $1,000,000 a year in revenue and $200,000 in cash flow sells for $600,000. An identical nursery in Alabama doing $1,000,000 in revenue and $100,000 in cash flow sells for only $300,000. Even though the nurseries sold for significantly different prices, they are directly comparable because their respective Cash Flow Multipliers (i.e. Price/Earnings ratio) are the same at 3.0 ($600,000 ÷ $200,000 and $300,000 ÷ $100,000). The California location sold for a higher price than the Alabama store, but both had the same Price/Earnings ratio.

We often hear comments from business owners such as, "my restaurant has the best location in town and, therefore, deserves a much higher valuation." That observation would be true if that business were more profitable than its competitor. When applying the same Cash Flow Multiple to restaurants at 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.

The search criteria used for selecting comparables from the three databases, therefore, will include all transactions regardless of their location.

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

7.1.4 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.

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

The Subject Company is classified under SIC code #5063, electrical goods wholesalers and SIC code #5065, electronic equipment wholesalers. 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 codes #5063 and #5065. The second criteria relating to the size of the guideline company (to be discussed below) called for selecting companies with revenues between $1 million and $10 million A total of eleven comparables were found in the BIZCOMPS database, twenty-eight in the Pratt's Stats database, and twenty-one in the IBA database. Specific details on all of these companies can be found in the appendix beginning on Page 79.

A further inspection of these transactions found that seven comparables were cell phone related wholesalers, seven sold high-tech computer parts or networking equipment and, two were manufacturers of electrical components. These types of companies were considered to be moderately different than the subject, and therefore, were rejected from the database.

Pratt's Stats reports both asset sale and stock sale transactions. Stock sales generally include accounts receivable, cash, and assumed liabilities, whereas, asset sales typically do not. Therefore, if the stock sale reported by Pratt's Stats does not offer details on the additional

assets or liabilities that are included in the price, the transaction cannot be compared to other asset sale transactions. Our initial selection of comparables included five stock sale transactions reported by Pratt's Stats. None could be reconciled to an equivalent asset sale price; and therefore, were rejected from the sample.

7.1.5 SIZE OF THE COMPANY

As was discussed in the Income Approach, 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 show that, with few exceptions, smaller companies earn lower Cash Flow Multiples and Gross Income Multiples than larger ones. For example, all companies in the table below generated a median Cash Flow Multiplier of 2.62, whereas, those companies with revenues under $500,000 earned only 2.17. Thus, the smallest companies earned multiples of 2.17÷2.62 or 82.8% of what the average sized companies earned when sold. Similarly, companies with revenues between $1,000,000 and $5,000,000 exhibited a median Cash Flow Multiple of 2.80 which was 6.9% higher than the average sized company.

Exhibit XXIII

Total Transactions	Total Sales		Cash Flow Multiplier				Gross Income Multiplier			
	Sales Range	Median Sales	Median	Average	Standard Deviation	Coefficient of Variation	Median	Average	Standard Deviation	Coefficient of Variation
2,236	0-500,000	242,000	2.17	2.75	1.90	69.1%	0.48	0.60	0.51	85.4%
922	500,000-1,000,000	693,000	2.52	2.96	1.92	64.7%	0.42	0.50	0.35	70.1%
1,044	1,000,000-5000,000	2,030,000	2.80	3.28	2.01	61.4%	0.45	0.57	0.59	103.5%
168	5,000,000-10,000,000	7,003,000	4.09	4.61	2.43	52.7%	0.58	0.79	0.81	102.3%
166	10,000,000-25,000,000	15,470,000	5.10	5.32	2.31	43.5%	0.68	0.93	0.91	97.5%
252	25,000,000+	64,814,000	6.21	6.04	2.36	39.0%	0.64	0.85	0.78	91.2%
Overall Totals										
4,780	All Transactions	563,000	2.62	3.23	2.17	67.2%	0.48	0.61	0.56	91.8%

Pratts Stats Database contained a total of 11,501 transactions as of March 3, 2008
The following transactions were eliminated from the above analysis to avoid potential ratio distortions:
1) Corporate Stock Sales
3) Companies with negative cash flow

The Subject Company generated Gross Revenues during the five years observed ranging roughly between $4 million to $6 million. Therefore, a "size criteria" for selecting guideline companies should be those whose revenues fall in the $1 million to $5 million range as well as the $5 million to $10 million range. Since these two brackets combine for a rather broad overall range, it may be more relevant to use the mid-points of these two brackets. Therefore, the original sample will be further filtered by selecting only those comparables in the $2.5 million to $7.5 million revenue range.

The risk in using a smaller sample of comparables is that one "outlying" comparable 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 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 larger $1 million-to-$10 million database that we selected. We will then compare this statistical analysis to the $2.5 million-to-$7.5 million database.

Standard Deviation is a statistical tool that measures the difference between the multipliers of each individual observation and the average for the entire sample. In other words, the Standard Deviation measures the degree of variability or dispersion within a sample. However, comparing the Standard Deviations of two samples, by itself, does not tell us which sample is more accurate. For that determination we use the Coefficient of Variation (CV). CV is the Standard Deviation divided by the Average. This is a measure of the *relative* variation that a sample possesses. Thus, the coefficient enables us 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.

The best way of defining CV is through an example. Sample #1 in the table below contains the Cash Flow Multipliers of six sales transactions. The median is 4.5; the average is 4.6; standard deviation is .63; and, the CV is 14% (.63 ÷ 4.6). Sample #2 also contains the Cash Flow Multipliers of six transactions. This sample also has a median of 4.5; the same as was found in Sample #1 and, its average is just slightly higher at 4.8. However, the standard deviation and CV for this second sample are a much higher 3.2 and 67%, respectively.

	Cash Flow Multipliers	
	Sample #1	Sample #2
Transaction #1	4.6	8.0
#2	4.0	2.0
#3	4.4	4.0
#4	4.7	9.0
#5	5.7	1.0
#6	4.0	5.0
Medium	4.5	4.5
Average	4.6	4.8
Stand Deviation	0.6	3.2
Coef Variation	14%	66%

We can 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 66%. Given the choice between the two samples, Sample #1 produces, by far, a better indication of where the market is.

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.*"[21] 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.*"[22]

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

The appraiser might have occasion to adjust a Market Value Multiple up or down given the presence of certain 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.*"[23]

Thus, if the growth rate of the subject or its profitability is greater than or lesser 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 range.**

Standard Deviations and Coefficients of Variation will be calculated for the sample of $1 million to $10 million companies and compared to the sample of $2.5 million to $5 million companies. Both samples will then be compared to the entire Pratt's Stats database of 11,501 transactions. If either sample produces significantly higher coefficients, we will reduce its weighting, or eliminate it altogether when reconciling all the calculated values to obtain a single value conclusion.

7.1.6 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 SDE multiples of 10.0 or greater. The median SDE Profit Margin for this group was only 4.4%, whereas, the median for the entire database was 19.3%. Since SDE is the denominator in the Cash Flow Multiples equation, the high multiples 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% compared to 67.2% for the entire database. 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.

[23] Ibid., p. 134

7.1.7 PRIOR TRANSACTIONS

The Uniform Standards of Professional Appraisal Practices (USPAP) requires that the business appraiser incorporate data from past sales of the Subject Company's stock into his analysis. [24] In addition, one must identify any buy-sell agreements or investment letter-stock restrictions.[25] The company was incorporated in 1993 with all shares being acquired by John Smith. Mr. Smith has been the sole owner of the corporation throughout its history. As such, no prior transactions of the corporation's stock have taken place. Since the company does not have multiple owners, and has no plans in that regard, there was no need for a buy-sell agreement. The owner also reported that there were no restrictions imposed on the shares of stock.

7.2 PROCEDURES USED IN THE DIRECT MARKET DATA METHOD

The following procedures will be used in the Market Approach to determine the value of the Subject Company:

7.2.1 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.

7.2.2 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

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[24] *Uniform Standards of Professional Appraisal Practices.* The Appraisal Foundation, Washington D.C. 2000 editions, Standards Rule 9-4(b)(iii), p. 64

[25] Ibid., Standards Rule 9-2, p. 63

value. For that reason the Market Approach typically includes both ratios to estimate the value of a business.

7.2.3 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. (This is the approach BIZCOMPS uses in its analysis on Page 80.) By using this methodology in the two above examples, we find that the 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 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 $652,500 (.45 x $1,450,000). When reconciling these three Market Value Multipliers to estimate the value of this hardware store, we might consider giving additional weighting to the Enterprise Valuation because this store primarily generates its revenue from the sale of Inventory.

When applying this approach to our selected comparables in Exhibit XXV on Page 63, the science becomes more compelling. Of the 19 transactions in the sample that reported an inventory value, the average Gross Revenue was $3,087,000 and the average inventory was $362,000 or, 11.7% of Gross Revenues. Inventory levels for Observations #1, 8, 11, 14, 17, 18, and 19, however, averaged 18.2% of their respective Gross Revenues. These seven observations earned a median Gross Revenue Multiplier of .39, which was 44% higher than the overall group median, and, earned a median Cash Flow Multiple of 3.09, which was 5% higher than the overall group median. The application of the overall group median Gross Revenue Multiplier and Cash Flow Multiplier would have miscalculated the value of these seven inventory-laden companies from between 5% to 44%. The median "Enterprise Value" Multiplier for the seven observations, however, was 1.62, which was the same as the overall group median. If we used the multipliers calculated by the three methodologies to predict the selling price of just those seven observations, the average predictions would be: Enterprise Value - $1,758,000, the Cash Flow Multiplier - $2,188,000, the Gross Revenue Multiplier - $1,071,000. The actual selling prices of those seven observations averaged $1,849,000,

which was very close to what Enterprise Value predicted. Thus, it is highly likely that a more accurate measure of the Subject Company's wholesale operations may be obtained through the use of the Enterprise Value methodology.

7.3 Owner's Discretionary Cash Flow

7.3.1 Selecting the Base Year of Operations

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

To circumvent this possible distortion, it is not uncommon to see Market Value Multiples applied to a subject's current year's earnings, or an average, even a weighted average, of the last several years' earnings. Raymond Miles, author of *Technical Studies of the IBA Transaction Database,* even suggests that the multiples should be applied to *projected* cash flow.[26] Gary Trugman provides us with various factors for determining the basis of Subject Company earnings to be used in the Market Approach[27].

> *1. If the company has cyclical earnings, the appraiser may want to use an arithmetic average of earnings.*
> *2. If the company is experiencing modest growth, the appraiser should consider a weighted average earnings, the latest 12 months earnings, or proforma earnings.*
> *3. Since the result of the valuation methodology is a "prophecy of the future," caution must be exercised when using a weighted average, particularly when the company is growing. The results of the weighted average will rarely, if ever, reflect "probable future earnings."*
> *4. If the company's earnings are static, it does not matter what earnings base is used as long as it is representative of the assignment at hand.*
> *5. If the company's earnings are declining, the appraiser may want to consider a weighted average earnings, the latest 12 months earnings, or proforma earnings.*

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[26] Raymond C. Miles, *Technical Studies of the IBA Transaction Database.* (Plantation, Florida: The institute of Business Appraisers, Inc., 2002), from "How to Use the IBA Market Database", p. 4.
[27] Gary R. Trugman, *Using the Market Approach to Value Small and Medium-Sized Businesses* (Orlando Florida: a paper presented at the Institute of Business Appraisers' 1996 National Conference), p. 14.

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

Our Subject Company has been shown to be a part of a very volatile industry - electrical goods wholesalers. The comparables that were selected from this industry for comparison with the Subject involved transactions that occurred over the last 8 to 10 years. Some of these transactions occurred in "up" years and others occurred in "down" years. Because of the high level of volatility in this industry, good years can be extraordinarily good and bad years can be horrifically bad. Thus, by just taking the Subject's current year's operating data and comparing it to the *average* of all the guideline companies sold over the last ten years, it is quite conceivable that we could overstate or understate the value of the subject.

Therefore, as suggested by Mr. Trugman above, the Appraiser will use an arithmetic average of the Subject's last three year's P&L's as a proxy for its base year of operations.

7.3.2 NORMALIZING REVENUES AND EXPENSES

Once the base year (or years) of earnings has been selected, the next step is to "recast" the financial statement. The "recasting" of a company's earnings attempts to present a "normalized" view of the company's operations. The recast financials should serve as a proxy for current revenues from which we may reasonably conclude that future revenues can evolve. However, the normalized view of the appraisal subject may still not be directly comparable to the guideline companies. Ratio analysis of the subject's financial data may show that it has various superior or inferior characteristics to the guideline companies. Under these circumstances an adjustment to the Market Value Multiples would also be justified. For example, it may be demonstrated that the appraisal subject is significantly more profitable than the guideline companies (Mr. Pratt uses Discretionary Cash Flow ÷ Gross Revenues as an appropriate measure of a company's profitability). In such cases, an adjustment to the Market Value Multiples (that is an increase or decrease) should be made before it is applied to the subject's normalized earnings.[28]

The earnings reported by the guideline companies in the databases being used are calculated differently than the way we calculated Net Cash Flow in the Income Approach. The earnings reported in the Direct Market Databases are recast to reflect a normalized level of earnings referred to as "Owner's Discretionary Cash Flow," or "Owner's Discretionary Earnings." In

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

order for the Subject Company's cash flow to be directly comparable to the guideline companies, its income statements must be recast in a similar manner.

"Owner's Discretionary Earnings" are calculated by *adding back* to cash flow the salary of an owner, or owners, and all his perquisites (such as health benefits, personal autos, etc.). Then, if there are multiple owners (including working spouses of owners), the fair value *replacement cost* for the lowest paid owners would be *deducted* from cash flow. Interest, depreciation and income taxes are also *added back* to cash flow. Finally, the normalizing process requires that any non-recurring or non-operating expenses be *added back* to cash flow, and any non-recurring, or non-operating income be *deducted* from cash flow.

Exhibit XXIV

Elevator Supply, Inc.

Discretionary Cash Flow

AVERAGE INCOME Years 2005-2007	3 Year Average	Adjustments	See Paragraph for Discussion
Total Sales	5,150,845	-	
Returns and Allowances	-	-	
	-	-	
TOTAL INCOME	5,150,845	-	7.3.3.1
COST OF GOODS SOLD			
Begin Inventory	910,100	-	
Purchases	3,046,515	-	
Freight	153,192	-	
End Inventory	(1,010,100)	-	
TOTAL COST OF GOODS SOLD	3,099,707	-	
GROSS PROFIT	2,051,138	(42,300)	7.3.3.2
	39.8%	39.0%	
OTHER INCOME			
Other Income	29,725	25,000	
Bank Reconciliation Discrepancy	618	-	
Warehouse Fees	9,794	9,794	
TOTAL OTHER INCOME	40,137	(34,794)	7.3.3.3
EXPENSES			
Compensation of Officers	645,887	645,887	7.3.3.4
Salaries and Wages	533,121	-	
Repairs and Maintenance	2,645	-	
Bad Debts	2,043	-	
Rents	85,000	9,700	
Taxes and Licenses	60,772	24,831	7.3.3.4
State Income Taxes	2,573	2,573	7.3.3.5
Interest	10,500	10,500	7.3.3.5
Depreciation	5,016	5,016	7.3.3.5
Advertising	20,885	-	
Employee Benefits	43,696	3,833	7.3.3.6
Accounting	797	-	
Bank Service Charges	10,432	-	
Misc, Dues and Subscriptions,	3,381	-	
Insurance and Liability Insura	25,564	-	
Travel, Meals and Entertainmen	8,736	5,167	7.3.3.6
Office Expense and Supplies	20,215	-	
Postage and Delivery	2,545	-	
Legal and Professional Fees,	47,223	-	
Shop Supplies	1,780	-	
Workman's Compensation	8,054	-	
Telephone and Utilities, Inter	21,884	-	
TOTAL EXPENSES / Total Add-Bac	1,562,750	707,507	
TOTAL NET INCOME (Per Tax Returns) =	528,526		
Total Add Backs =		630,413	7.3.3.7
TOTAL DISCRETIONARY CASH FLOW =		1,158,938	22.5%

7.3.3 Adjustments to the Income Statement

The spreadsheet in Exhibit XXIV, on the left shows the average of the last three year's tax returns of Elevator Supply. (See Exhibit XXXI, Page 73 for more detail.) Just to the right of the tax return data are the "Add-Backs" that represent the normalizing adjustments necessary to reconcile earnings to "Owner's Discretionary Cash Flow." The resulting Owner's Discretionary Earnings *after* Add-Backs is that cash flow which an owner has at his disposal for his salary and perquisites, his loan payments, and his capital expenditures.

7.3.3.1 Total Income

The valuation of the Subject is as of December 31, 2007.

Elevator Supply's revenue history is one of very strong growth from 2004 to 2007. However, as was noted in the section on Industry Characteristics (Paragraph 2.3), the subject operates in an industry whose revenues are highly volatile. The

company's decline in revenues in 2003 followed by four strong years roughly mirrored the industry's movement. In addition, industry projections are for a decline in 2008 followed by a slow rebound in 2009 through 2013. The highly cyclical nature of this industry clearly falls within the first category of companies described by Gary Trugman above. Thus, an average of the last three year's P&Ls will serve as a reasonable basis for the subject's normalized revenues and expenses when calculating Owner's Discretionary Cash Flow.

7.3.3.2 Gross Profits

As was discussed in Paragraph 6.2.1.2, the Company had what management felt was a non-recurring increase in its Gross Profit Margin in 2007. The estimated target Gross Profit Margin is 39.0%. Had this normalized level for the Gross Margin been maintained over the last three years, Gross Profits would have been lower by an average of $42,300. This amount is *deducted* from cash flow.

7.3.3.3 Other Income

The normalizing process seeks to eliminate various distortions due to non-recurring income or expenses. The company was paid a legal settlement resulting from an employee who embezzled from the company. $50,000 was received in 2007 and $25,000 in 2006. The average over the last three years was $25,000 per year which will be deducted from cash flow as non-recurring income. The company also performed wholesaling functions for another company. The service was provided for three years and ended in the beginning of 2007. The annual average was $9,994 which was ***deducted*** cash flow.

7.3.3.4 Owner's Compensation

The Company is owned by an individual who works full time at the business. His wife, who works 20 hours per week, is the only other family member who works in the business. A hypothetical buyer who acquires the company not only would earn the current owner's salary, but also would enjoy the current owner's perquisites. The Owner's salary and "perks" are, therefore, added back to Owner's Discretionary Cash Flow. In addition, the employer payroll taxes associated with the Owner's salary are also added back. These taxes can vary substantially depending on the type of entity used to acquire the company. Also, an owner can elect not to pay himself a salary and take a draw instead. Therefore, payroll taxes on an owner's salary are discretionary to a large extent, and are, therefore, added back to Owner's Discretionary Cash Flow.

The Owner's wife is currently paid the prevailing fair value for her services. The Owner estimated that a potential buyer could replace her at the current wage that she earns. Therefore, there is no need to adjust the wife's salary.

7.3.3.5 Depreciation, Interest, Taxes

Owner's Discretionary Cash Flow is calculated before depreciation, interest, and taxes. These charges are added back to Owner's Discretionary Cash Flow.

7.3.3.6 Owner's Perquisites

Included in owner's compensation are various "perks" paid for by the company. Those perquisites include a company paid vehicle, health benefits and pension benefits. The total perquisites are added back to Owner's Discretionary Cash Flow.

7.3.3.7 Discretionary Cash Flow Margin

The Subject Company's Discretionary Cash Flow Margin for the normalized year is 22.5%. This level of profitability far exceeds the median earned by the guideline companies (13.7%, see Exhibit XXVII). The Company's Cash Flow Margin is roughly half way between the median and the upper quartile margin of 29.0% earned by the guideline companies.

8.0 Reconciliation of Market Approach Multipliers

The Pratt's Stats, BIZCOMPS and IBA databases were searched for transactions in Standard

Exhibit XXV

Comparables Analysis
Revenue Range: $1 million to $10 million

Observations	Listing Price	Selling Price	Gross Revenues	Gross Rev Multiplier	Cash Flow	Cash Flow Multiplier	Inventory	Enterprise Multiplier	Cash Flow Prof Margin
1	390,000	390,000	1,666,000	0.23	312,000	1.25	215,000	0.56	18.7%
2	550,000	350,000	1,683,000	0.21	234,000	1.50	0,000	1.50	13.9%
3	375,000	260,000	1,950,000	0.13	144,000	1.81	90,000	1.18	7.4%
4	900,000	735,000	2,895,000	0.25	194,000	3.79	250,000	2.50	6.7%
5	2,000,000	1,175,000	3,005,000	0.39	463,000	2.54	300,000	1.89	15.4%
6	900,000	900,000	4,387,000	0.21	298,000	3.02	450,000	1.51	6.8%
7	2,100,000	1,775,000	5,000,000	0.36	600,000	2.96	0,000	2.96	12.0%
8	1,995,000	1,995,000	6,894,000	0.29	646,000	3.09	950,000	1.62	9.4%
9		118,000	1,047,000	0.11	12,000	10.26	168,000	-4.31	1.1%
10		230,000	1,339,000	0.17	90,000	2.56	139,000	1.01	6.7%
11	575,000	575,000	1,472,000	0.39	133,000	4.32	450,000	0.94	9.0%
12	120,000	50,000	1,990,000	0.03	98,000	0.51	25,000	0.26	4.9%
13		947,000	2,000,000	0.47	325,000	2.91	250,000	2.14	16.3%
14	575,000	575,000	2,222,000	0.26	152,000	3.78	463,000	0.74	6.8%
15		965,000	2,663,000	0.36	-35,000	-27.33	662,000	-8.58	-1.3%
16	6,000,000	5,500,000	3,312,000	1.66	1,850,000	2.97	80,000	2.93	55.8%
17	3,800,000	2,600,000	3,586,000	0.73	1,040,000	2.50	675,000	1.85	29.0%
18	2,200,000	2,037,000	4,450,000	0.46	255,000	7.98	720,000	5.16	5.7%
19	4,900,000	4,775,000	7,085,000	0.67	2,305,000	2.07	1,000,000	1.64	32.5%
20		157,000	1,106,000	0.14	71,000	2.21			6.4%
21		1,500,000	1,300,000	1.15	300,000	5.00			23.1%
22		1,100,000	1,800,000	0.61	126,000	8.73			7.0%
23		108,000	1,100,000	0.10	105,000	1.03			9.5%
24		1,450,000	1,157,000	1.25	275,000	5.27			23.8%
25		137,000	1,955,000	0.07	116,000	1.18			5.9%
26		550,000	2,386,000	0.23	169,000	3.25			7.1%
27		325,000	4,029,000	0.08	231,000	1.41			5.7%
28		1,882,000	4,578,000	0.41	42,000	44.81			0.9%
29		4,600,000	5,000,000	0.92	1,000,000	4.60			20.0%
30		3,800,000	6,777,000	0.56	20,000	190.00			0.3%
Average	1,825,000	1,579,000	2,994,000		386,000		362,000		
			Median =	0.27*	0.391	2.94*	3.088	1.62*	9.2%*
			Average =	0.44*		3.16*		1.79*	14.1%*
			Standard Deviation=	0.41*		1.96*		1.16*	10.8%*
			Coefficient of Variation =	92.6%		62.1%		64.9%	76.4%

Selling Price / Listing Price = 83.3%

Industry Classification code #5063 and #5065. The initial search found a total of 167 transactions. As discussed in section 7.1, the sample will be filtered using a number of different criteria. The initial search criteria eliminated stock sales and asset sales where liabilities were assumed. The search was further refined by selecting only those companies with sales between $1million and $10 million. The Comparables Analysis Table in Exhibit XXV below shows the operating ratios of the thirty businesses that were found with those criteria. The sample was then further refined by selecting only companies with revenues between $2.5 million and $7.5 million.

All the transactions in the databases, unless otherwise noted, are presumed to be "Asset Sales"; that is, their selling prices are comprised of **inventory, fixtures, and intangibles only**. Those companies exhibiting very high Revenue Multiples often have either real estate, accounts receivable, or other non-operating assets included in their reported selling price, and the transactional data neglected to disclose this fact. Many of the comparables with low Revenue Multiples may have reported their selling prices net of inventory, or, the buyer assumed some of the liabilities of the company, thereby reducing the price. Again, the transactional data may not have disclosed this fact. It only takes one or two comparables in a small sample with improper sales data to distort the Market Value Multiples. In order to test the predictive value of a small sample, we can compare the variability of the observations in the sample with that of the entire database. The relative variability is measured by the Coefficient of Variation (CV) -- the lower the coefficient, the higher the predictive value of the sample. The findings are as follows:

Exhibit XXVI
Coefficients of Variation of Sample vs. Total Database
(30 Observations)

Database Exhibit XXV & Exhibit XXIII	Gross Income Multiplier	Cash Flow Multiplier	Enterprise Value Multiplier
Sample – **30 Observations** Revenues from $1mm - $10mm	92.6%	62.1%	64.9%
Database – 1,044 Obs. Revenues from $1mm-$5mm	103.5%	61.4%	103.5%
Database - 168 Obs. Revenues from $5mm to $10mm	102.3%	52.7%	102.3%
Total Database - 4,780 Obs. Revenues from $.1mm to $100mm	91.8%	67.2%	91.8%

The three procedures applied to the thirty observations in the sample generally yielded lower degrees of variability than the entire database. Therefore, we can assume that this sample is a reasonably good measure of the identified market size and should have good predictive abilities. Of the three procedures used in the sample, the Gross Income Multiplier yielded the highest degree of variability, whereas, the Cash Flow Multiplier and the Enterprise Value Multiplier produced the lowest. The inference is that the Cash Flow Multiplier and Enterprise Value Multiplier are better measures of the market. As such, we should consider

weighting the values developed by the Enterprise Value Multiplier and Cash Flow Multiplier a little higher than the Gross Income Multiplier.

The sample in the table above contained thirty guideline companies that were selected from a fairly wide range of revenues -- $1 million to $10 million. Since the size of a company is a major factor in its value, we "tightened" the selections to range from $2.5 million to $7.5 million. There were fifteen comparables falling within that range. The average revenues of the companies in this smaller sample were nearly $4.5 million, which is closer in size to the Subject Company and, therefore, potentially a better indicator of value. The statistical analysis of this sample is as follows:

Exhibit XXVII

Comparables Analysis

Revenue Range: $2.5 million to $7.5 million

Observations	Listing Price	Selling Price	Gross Revenues	Gross Rev Multiplier	Cash Flow	Cash Flow Multiplier	Inventory	Enterprise Multiplier	Cash Flow Prof Margin
1	900,000	735,000	2,895,000	0.25	194,000	3.79	250,000	2.50	6.7%
2	2,000,000	1,175,000	3,005,000	0.39	463,000	2.54	300,000	1.89	15.4%
3	900,000	900,000	4,387,000	0.21	298,000	3.02	450,000	1.51	6.8%
4	2,100,000	1,775,000	5,000,000	0.36	600,000	2.96	0,000	2.96	12.0%
5	1,995,000	1,995,000	6,894,000	0.29	646,000	3.09	950,000	1.62	9.4%
6		965,000	2,663,000	0.36	-35,000	-27.33	662,000	-8.58	-1.3%
7	6,000,000	5,500,000	3,312,000	1.66	1,850,000	2.97	80,000	2.93	55.8%
8	3,800,000	2,600,000	3,586,000	0.73	1,040,000	2.50	675,000	1.85	29.0%
9	2,200,000	2,037,000	4,450,000	0.46	255,000	7.98	720,000	5.16	5.7%
10	4,900,000	4,775,000	7,085,000	0.67	3,101,000	1.54	1,000,000	1.22	43.8%
11	3,800,000	2,600,000	3,586,000	0.73	1,040,000	2.50	675,000	1.85	29.0%
12		325,000	4,029,000	0.08	231,000	1.41			5.7%
13		1,882,000	4,578,000	0.41	42,000	44.81			0.9%
14		4,600,000	5,000,000	0.92	1,000,000	4.60			20.0%
15		3,800,000	6,777,000	0.56	20,000	190.00			0.3%
Average	2,860,000	2,409,000	4,483,000		716,000		524,000		
			Median =	0.42*		2.97*		1.87*	13.7%*
Selling Price / Listing Price = 84.3%			Lower Quartile =	0.28*		2.50*		1.44*	6.8%*
			Upper Quartile =	0.73*		3.26*		2.61*	29.0%*
			Average =	0.56*		3.24*		2.35*	19.9%*
			Standard Deviation=	0.43*		1.72*		1.15*	16.4%*
			Coefficient of Variation =	76.2%		53.2%		48.8%	82.3%

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

The Risk of smaller sample sizes is that one or two outlying comparables may skew data inappropriately. As we can see from Exhibit XXVII below, when the three procedures were applied to the second more narrowly-defined sample, the Coefficients of Variation all yielded better results than the larger sample. Thus, the smaller sample, which is closer in size to the Subject Company, appears to be a better indicator of the market than the sample with thirty observations. The Market Value Multipliers calculated from this sample will, therefore, be used in the analysis, and the results from the larger database will be rejected.

Exhibit XXVIII
Coefficients of Variation of Sample vs. Total Database
(30 Observations vs. 15 Observations)

Database Exhibit XXV & Exhibit XXIII	Gross Income Multiplier	Cash Flow Multiplier	Enterprise Value Multiplier
Sample – **15 Observations** Revenues from $2.5mm to $7.5mm	76.2%	53.2%	48.8%
Sample – **30 Observations** Revenues from $1mm to $10mm	92.6%	62.1%	64.9%
Total Database –4,780Obs. Revenues from $.1mm to $100mm	91.8%	67.2%	70.2%

By employing the median values of the three Market Value Multipliers, we are effectively making the statement that the Subject Company's revenues and income stream and the risks to maintaining them into the future are roughly in line with the median of the overall market (as defined by our guideline companies). If we determine that the Subject Company is better than or worse than the average guideline companies, we must adjust the median value of the Market Multipliers up or down before we apply it to our subject.

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One of the basic quantitative assessments we can make between the Subject Company and the guideline companies is to compare their margins of profitability. With the information provided by the databases, we can calculate the Cash Flow Margin of profitability by dividing Seller's Discretionary Earnings by Gross Revenues. The Subject Company produced a Cash Flow Margin of 22.5% (See Exhibit XXIV), whereas the median value guideline companies generated was only 13.7%. Clearly the Subject Company is superior to the guideline companies in this key indicator. In fact, the subject's margin is roughly in the middle between the median and the upper quartile for the guideline companies (29.0%). Following the methodology employed by Shannon Pratt[29] an adjustment to the median Market Value Multipliers are warranted. Therefore the mid-point between the median and the upper quartile of the three Market Multipliers will be selected.

It should be noted, however, that the Coefficient of Variation for the Gross Revenue Multiple is considerably higher than the CV for the Cash Flow and Enterprise Multipliers (76.2% vs. 53.2% and 48.8%). As such, its predictability is "prone to exaggeration" from possible outliers. Therefore, when all valuations are reconciled in the final conclusion of value, the value for the Gross Revenue Multiplier will be given the least weight.

[29] Shannon Pratt, *The Market Approach to Valuing Businesses.* (New York: John Wiley & Sons, Inc, 2000), p. 180-181 and p. 134.

Exhibit XXIX
Indicated Values Using the Three Market Multipliers

Procedure	Gross Revenue Multiple	Cash Flow Multiple	Enterprise Multiple
Recast Revenues / Cash Flow	5,150,845	1,158,938	1,158,938
Median Multiplier	0.42	2.97	1.87
Adjustment Factor	37.0%	5.0%	20.0%
Adjusted Multiplier	0.58	3.11	2.24
Indicated Value	2,994,732	3,609,349	2,601,221
Inventory factor			1,090,100
			3,691,321

Further adjustments to the above Asset Sale Value must be made to arrive at the market value of the corporation's Equity or Net Worth. The typical structure of an asset sale includes inventory, fixtures and equipment, and all intangibles only, with the owner retaining cash, accounts receivable, and other assets and, paying off all liabilities. Thus, the value of the Net Worth in Elevator Supply can be reconciled by taking the Asset Sale Value above and adjusting it for the additional assets and liabilities that were ***NOT*** included in a conventional Asset Sale.

Additional Assets valued as per the "normalized" Balance Sheet for December 31, 2007:

Cash [(1)]	$269,000	
Accounts Receivable	796,000	
Other Assets	16,000	
Total Additional Assets Acquired		$1,081,000

[(1)] Normalized Cash balances

Less Liabilities as of the December 31, 2007 normalized Balance Sheet:

Accounts Payable	$105,000	
Accruals	16,000	
Term Debt	90,000	
Total Additional Liabilities Assumed		$(211,000)

Total Adjustments to Asset Sale Value **$870,000**

By adding the above adjustment to the Asset Sale prices calculated using the three Market Multipliers we will arrive at the indicated values for a 100% interest in the Common Shares (the Market Value of the Net Worth) of Elevator Supply, Inc.:

Exhibit XXX
Indicated Values of Net Worth

Procedure	Asset Sale Value	Adjustment	Total Equity Value
Gross Revenue Multiplier	2,994,732	870,000	3,864,732
Cash Flow Multiplier	3,609,349	870,000	4,479,349
Enterprise Value Multiplier	3,691,321	870,000	4,561,321

The above values are derived from databases that report Asset Sale Value for the selling price of a business. The databases also presume the transactions were for Controlling interests, and, of course, the price the Buyer offered was based on his awareness that he was buying a highly illiquid investment. **Thus, the above indicated values are for the Net Equity on a Controlling, Non-Marketable basis. Therefore, since the basis of the above indicated values match the investment characteristics of the Subject interest, no further adjustment for Control or Marketability is needed.**

9.0 RECONCILIATION OF INCOME APPROACH AND MARKET APPROACH

It is rare that the Income Approach and the Market Approach produce identical values. Each method is looking at different aspects of the company, so, it is reasonable to expect that they would produce different values as a result. Internal Revenue Ruling 59-60 requires that at least 50% of a value's weighting should be placed on income-based methodologies. According to the Uniform Standards of Professional Appraisal Practice (USPAP), "an appraiser must reconcile the indications of value resulting from the various approaches to arrive at the value conclusion." A simple average does not satisfy the standard, but rather, the appraiser must evaluate the relative merits of each procedure to form a conclusion. "The value conclusion is the result of the appraiser's judgment."[30]

The various indications of value developed by the different procedures are now weighted and the final Valuation Conclusion is calculated. The discussion of the basis for the weightings follows the exhibit below. The Surplus Cash that was initially removed from the normalized balance sheet when determining the market values will be added back here to determine the full value of the ownership interest.

[30] *Uniform Standards of Pr*ofessional Appraisal Practice. The Appraisal Foundation, Washington D.C., 2000, p. 65

Exhibit XXXI
Valuation Conclusion
100% Controlling Interest in Elevator Supply, Inc.

Valuation Method	Indicated Value	Confidence Weighting	Weighted Estimate
Asset Approach	Not Used		
Excess Earnings Method	Not Used		
Market Approach			
Guideline Public Company Method	Not Used		
Mergers and Acquisitions Method	Not Used		
Direct Market Data Method			
30 Observations Database	Not Used		
15 Observations Database			
Gross Revenue Multiplier	3,864,732	10%	386,473
Cash Flow Multiplier	4,479,349	20%	895,870
Enterprise Value Multiplier	4,561,321	20%	912,264
Income Approach			
Single Period Capitalization Method	Not Used		
Multi-Period Discount Method	3,750,000	50%	1,875,000
VALUE CONCLUSION			**4,069,607**
Plus Excess Cash			55,000
100% Interest in the Common Shares of Elevator Supply, Inc. on a Controlling, Non-Marketable Basis (Rounded)			**$ 4,125,000**

Four Million One Hundred Twenty-Five Thousand Dollars

The Excess Earnings Method, as previously mentioned, requires a high-integrity balance sheet in order to calculate the return on investment attributed to the company's assets. Since the company does not perform an actual physical inventory to obtain a precise value for balance sheet inventory, and its fixtures and equipment are either unaccountable or are old with questionable value, calculating a return on the assets may be inaccurate. Thus, the Excess Earnings Method was not used.

The Asset Approach is most frequently used for companies that are asset-intensive or are holding companies. These are companies that typically have low cash flow with respect to

their level of assets. These companies usually have high-integrity balance sheets which are used in determining the adjusted book value of the company's assets. For the approach to offer a useful level of confidence, an appraisal of the individual assets is recommended which is beyond the scope of this assignment. None of these characteristics fits Elevator Supply, thus this method was not used.

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

The Direct Market Data Method utilized in the report obtained actual sales transactions from three different databases. The first search of these databases found 30 transactions that were reasonably close to the description of the subject and were in the $1 million to $10 million range. Further filtering of the sample to include only those companies in the $2.5 million to $7.5 million yielded a database of 15 transactions. A statistical analysis showed that the 15 transactions produced a lower variability compared to the larger database and, therefore possessed better predictive abilities. The guideline companies in this sample were also closer in the size to the Subject Company. Therefore, the larger of the two databases was rejected in favor of the smaller, 15 transaction database.

Of the three procedures used in the Direct Market Data Method, the Gross Revenue Multipliers obtained from the guideline companies possessed the highest level of variability (as measured by the Coefficient of Variation). Thus, it possessed the lowest predictive value of the three procedures. As such, the Appraiser felt that it was appropriate to assign it a low weight of 10%. The Cash Flow Multiplier and the Enterprise Value Multiplier possessed a moderately lower degree of variability, and therefore, have a higher predictive quality. As such, the Appraiser felt moderately higher weightings were appropriate. A 20% weight was assigned to the Cash Flow Multiplier value, and, a 20% weight to the Enterprise Value.

The Income Approach is assigned the highest weighting as suggested by the Internal Revenue Ruling. The income producing ability of a company is by far the most important element drawing a Buyer's attention. As such, it should earn the highest weighting. The Appraiser felt it was appropriate to assign a weighting of 50%.

10.0 REASONABLENESS OF FINAL ESTIMATE OF VALUE

The following provides additional support for the above conclusion of value. "Rules of Thumb" are methods commonly used in the business brokerage industry to estimate the value of a business. Although they are not considered an accepted method of valuation, they are often used by appraisers as a "sanity check." The most common source of Rules of Thumb is provided by Tom West, editor of the *Business Reference Guide.* These rules are generally submitted by business brokers who are experts in a specific industry. As is usually the case, the rules are based on actual observations by the brokers. However, those observations are

generally based on the average transaction size. There is seldom an attempt to differentiate between the size of companies or the quality of their operations. As such, the valuation suggested by these rules can "miss the mark."

From Mr. West's reference guide, two Rules of Thumb are offered for companies in SIC classification 5063, Electrical Apparatus and Equipment Wholesalers[31]:

1) 1.5 to 2.0 SDE plus inventory
2) 50% of annual sales plus inventory

Evaluating Elevator Supply, Inc. using these factors produced the following:

Recast Seller's Discretionary Earnings (SDE)	1,158,938
x Rule	x 2.0
Enterprise Value	2,317,876
Plus Inventory	1,090,000
Indicated Value	3,407,876

Gross Revenues	5,150,845
x Rule	x 0.50
Enterprise Value	2,575,423
Plus Inventory	1,090,000
Indicated Value	3,665,423

These Indicated Values are for an Asset Sale, and therefore, should be compared to the asset sale prices developed in this report. The values developed from the three Market Value Multipliers found on Page 66 were:

Procedure	Asset Sale Value
Gross Revenue Multiplier	2,994,732
Cash Flow Multiplier	3,609,349
Enterprise Value Multiplier	3,691,321

As noted in the report, the Gross Revenue Multiplier data possessed a high degree of variability, and therefore, was given a very low weighting in favor of the Cash Flow Multiplier and the Enterprise Value Multiplier. Thus, the two preferred methods produced values that were reasonable compared to the two values suggested by Tom West's Rules of Thumb.

11.0 AFFORDABILITY PRICE TEST

The final pricing consideration focuses on a Buyer's ability to "afford" the Subject Business. If the debt service on the loans needed to purchase the business is so great that there is

[31]Tom West, Editor. *"Business Reference Guide On-Line 2008,* SIC Code 5063 April 3, 2008 https://brgonline.bbpinc.com/profile.asp?id=188&c=wholesale&p=1&toc=

insufficient cash flow to pay for it, we would have to question the indicated value for that business. Exhibit XXXII below is a cash flow analysis of a hypothetical transaction at the Fair Market Value calculated above. A transaction of this size is typically financed by an SBA loan. As such, if the Buyer seeks an SBA loan for 85% of the selling price, the loan amount of $3,510,000, at 7.5% interest for 10 years, would carry annual payments of $499,972. The projected earnings for the Subject developed in Exhibit XXI have been reworked to show Net Cash Flow after the Debt Service from a hypothetical acquisition loan. When SBA lenders analyze a loan request, they typically require the Total Cash Flow *before* Debt Service to be at least 1.25 times the proposed debt service. From the exhibit below we can see that the hypothetical transaction exceeds this minimum by a reasonable margin in each of the first six years of the loan, with the second year producing the lowest ratio of 1.4

Exhibit XXXII
Affordability Analysis

Value of Equity:	**$4,125,000**	**Loan-To-Value:**	**85%**	**Loan Amount:**		**$3,510,000**
Interest Rate:	**7.5%**	**Term of Loan:**	**10 years**	**Annual Debt Service:**		**$499,972**
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Normalized Earnings Before Taxes	1,146,520	1,205,135	1,340,659	1,451,210	1,544,225	1,635,641
Acquisition Loan Interest	(263,250)	(245,496)	(226,410)	(205,893)	(183,837)	(160,127)
Adjusted Net Earnings Before Taxes	883,270	959,639	1,114,249	1,245,317	1,360,388	1,475,514
Taxes	(351,542)	(381,936)	(443,471)	(495,636)	(541,434)	(587,254)
Net Earnings After Taxes	531,729	577,703	670,778	749,681	818,954	888,259
Less Principal on Acquisition Loan	(236,722)	(254,476)	(273,562)	(294,079)	(316,135)	(339,845)
Less Capital Exp and Working Capital	(62,823)	(217,575)	(217,396)	(235,852)	(192,896)	(216,426)
Plus Depreciation	69,673	95,402	65,601	70,451	65,105	65,743
Net Cash Flow after Debt Service	**301,857**	**201,054**	**245,422**	**290,201**	**375,028**	**397,732**
Total Cash Flow Before Debt Service	801,829	701,025	745,393	790,173	875,000	897,704
Total Acquisition Loan Debt Service	499,972	499,972	499,972	499,972	499,972	499,972
Cash Flow Coverage Ratio	**1.6**	**1.4**	**1.5**	**1.6**	**1.8**	**1.8**

Thus, from this analysis, we can see that the calculated Fair Market Value can be financed by means of a typical SBA loan. Therefore, a hypothetical Buyer can “afford” to purchase this business at that price.

Elevator Supply, Inc.
5 Year Discretionary Cash Flow
2003 to 2007

Exhibit XXXI

Elevator Supply, Inc.

S-Corporation

April 10, 2008

Prepared by C. Fred Hall III, MBA		Dec 31, 2007 12 Mos.	Add Backs Per Taxes		Dec 31, 2006 12 Mos.	Add Backs Per Taxes		Dec 31, 2005 12 Mos.	Add Backs Per P&Ls	
INCOME										
Total Sales		5,649,794	Accrual Basis		5,258,460	Accrual Basis		4,544,281	Accrual Basis	
Returns and Allowances		-			-			-		
TOTAL INCOME	e10	5,649,794	-	100.0%	5,258,460	-	100.0%	4,544,281	-	100%
COST OF GOODS SOLD										
Begin Inventory		1,030,100			910,100			790,100		
Purchases		3,213,819		56.9%	3,176,404		60.4%	2,749,323		60.5%
Freight		100,658		1.8%	202,633		3.9%	156,284		3.4%
End Inventory	e16	(1,090,100)			(1,030,100)			(910,100)		
TOTAL COST OF GOODS SOLD		3,254,477	-	57.6%	3,259,037	-	62.0%	2,785,607	-	61.3%
GROSS PROFIT		2,395,317	[1] (190,000)		1,999,423			1,758,674		
	e20	42.4%	39.0%		38.0%			38.7%		
OTHER INCOME										
Other Income	e22	60,405	50,000	1.1%	h22 28,769	25,000	0.5%		-	0.0%
Bank Reconciliation Discrepancy		1,855	-	0.0%	-	-	0.0%		-	0.0%
Warehouse Fees	e24	3,331	3,331	0.1%	14,769	14,769	0.3%	11,283	11,283	0.2%
TOTAL OTHER INCOME		65,591	(53,331)	1.2%	43,538	(39,769)	0.8%	11,283	(11,283)	0.2%
EXPENSES										
Compensation of Officers	e28	661,902	661,902	11.7%	661,243	661,243	12.6%	614,517	614,517	13.5%
Salaries and Wages	e29	509,875	-	9.0%	517,905	-	9.8%	571,582	-	12.6%
Repairs and Maintenance		5,909	-	0.1%	1,125	-	0.0%	900	-	0.0%
Bad Debts	e31	4,629	-	0.1%	1,501	-	0.0%		-	0.0%
Rents	e32	87,000	10,000	1.5%	91,000	9,700	1.7%	77,000	9,400	1.7%
Taxes and Licenses	e33	65,003	25,295	1.2%	53,851	25,276	1.0%	63,461	23,921	1.4%
State Income Taxes		7,719	7,719	0.1%		-	0.0%		-	0.0%
Interest		9,000	9,000	0.2%	10,000	10,000	0.2%	12,500	12,500	0.3%
Depreciation	e36	4,866	4,866	0.1%	5,079	5,079	0.1%	5,103	5,103	0.1%
Advertising		9,345	-	0.2%	19,523	-	0.4%	33,787	-	0.7%
Employee Benefits	e38	45,606	4,000	0.8%	44,115	4,000	0.8%	41,367	3,500	0.9%
Accounting		2,391	-	0.0%		-	0.0%		-	0.0%
Bank Service Charges		11,162	-	0.2%	11,674	-	0.2%	8,461	-	0.2%
Misc, Dues and Subscriptions, Gifts		7,712	-	0.1%	1,658	-	0.0%	774	-	0.0%
Insurance and Liability Insurance		16,577	-	0.3%	20,218	-	0.4%	39,897	-	0.9%
Travel, Meals and Entertainment Expense		6,730	6,000	0.1%	12,736	5,000	0.2%	6,743	4,500	0.1%
Office Expense and Supplies		22,975	-	0.4%	16,679	-	0.3%	20,991	-	0.5%
Postage and Delivery	e45	7,636	-	0.1%		-	0.0%		-	0.0%
Legal and Professional Fees, Outside Ser		31,161	-	0.6%	56,030	-	1.1%	54,479	-	1.2%
Shop Supplies		3,095	-	0.1%	2,244	-	0.0%		-	0.0%
Workman's Compensation	e48	24,162	-	0.4%		-	0.0%		-	0.0%
Telephone and Utilities, Internet		16,799	-	0.3%	25,399	-	0.5%	23,453	-	0.5%
TOTAL EXPENSES / Total Add-Backs		1,561,254	728,782	27.6%	1,551,980	720,298	29.5%	1,575,015	673,441	34.7%
TOTAL NET INCOME (per Tax Return) =		899,654		15.9%	490,981		9.3%	194,942		4.3%
Total Add Backs =			485,451			680,529			662,158	
TOTAL DISCRETIONARY CASH FLOW =			1,385,105	24.5%		1,171,510	22.3%		857,100	18.9%
EBITDA + Owner's Compensation =				27.3%			21.6%			17.4%
Balance Sheet										
Cash:	e55	324,427			482,773			410,669		
Accounts Receivable:	e56	795,972		7.1 x	794,333		6.6 x	598,613		7.6 x
Inventory:		1,090,100		3.0 x	1,030,100		3.2 x	910,100		3.1 x
Other Current Assets:		16,194			4,013			7,342		
Total Current Assets:	e59		2,226,693	37.3%		2,311,219	39.7%		1,926,724	38.7%
Fixtures & Equipment:		123,438	(133,170)	37.5 x	169,733	(178,977)	33.7 x	168,376	(197,185)	32.2 x
Tenant Improvements:		189,791	(29,511)		189,791	(24,645)		189,791	(19,779)	
Other Assets:		-			-			-		
Investments:		-			-			-		
Intangibles:		-			-			-		
Total Assets:			2,377,241			2,467,121			2,067,927	
Accruals, Other Liabilities:		16,293			3,218			5,120		
Accounts Payable:		105,224		30.5 x	219,160		14.5 x	161,641		17.0 x
Short Term Debt:		-			-			-		
Total Current Liabilities:			121,517			222,378			166,761	
Other Long Term Liabilities:		-			-			-		
Shareholder Loans:										
Interest Bearing Debt:		90,000			100,000			125,000		
Total Liabilities:			211,517			322,378			291,761	
Net Worth:		2,165,724			2,144,743			1,776,166		
Total Assets and Net Worth:			2,377,241			2,467,121			2,067,927	

Prepared by C. Fred Hall III, MBA	Dec 31, 2004 12 Mos.	Add Backs Per Taxes		Dec 31, 2003 12 Mos.	Add Backs Per P&Ls	
INCOME						
Total Sales	4,020,000	Accrual Basis		3,744,281	Accrual Basis	
Returns and Allowances	-			-		
TOTAL INCOME	4,020,000	-	100.0%	3,744,281	-	100%
COST OF GOODS SOLD						
Begin Inventory	698,945			651,006		
Purchases	2,432,129		60.5%	2,265,317		60.5%
Freight	138,253		3.4%	128,771		3.4%
End Inventory	(790,000)			(698,945)		
TOTAL COST OF GOODS SOLD	2,479,327	-	61.7%	2,346,150	-	62.7%
GROSS PROFIT	1,540,673			1,398,131		
	38.3%			37.3%		
OTHER INCOME						
Other Income	h22 -		0.0%	-	-	0.0%
Bank Reconciliation Discrepancy	-	-	0.0%	-	-	0.0%
Warehouse Fees	-		0.0%	-		0.0%
TOTAL OTHER INCOME	-	-	0.0%	-	-	0.0%
EXPENSES						
Compensation of Officers	543,619	543,619	13.5%	506,334	506,334	13.5%
Salaries and Wages	505,638	-	12.6%	470,958	-	12.6%
Repairs and Maintenance	796	-	0.0%	742	-	0.0%
Bad Debts	-	-	0.0%	-	-	0.0%
Rents	68,116	9,100	1.7%	63,445	8,476	1.7%
Taxes and Licenses	56,139	21,865	1.4%	52,289	20,365	1.4%
State Income Taxes	-	-	0.0%	-	-	0.0%
Interest	7,500	7,500	0.2%		-	0.0%
Depreciation	4,514	4,514	0.1%	4,205	4,205	0.1%
Advertising	29,889	-	0.7%	27,839	-	0.7%
Employee Benefits	36,594	3,000	0.9%	34,085	2,794	0.9%
Accounting	-	-	0.0%	-	-	0.0%
Bank Service Charges	7,485	-	0.2%	6,971	-	0.2%
Misc, Dues and Subscriptions, Gifts	685	-	0.0%	638	-	0.0%
Insurance and Liability Insurance	35,294	-	0.9%	32,873	-	0.9%
Travel, Meals and Entertainment Expense	5,965	4,000	0.1%	5,556	3,726	0.1%
Office Expense and Supplies	18,569	-	0.5%	17,296	-	0.5%
Postage and Delivery	-	-	0.0%	-	-	0.0%
Legal and Professional Fees, Outside Ser	48,194	-	1.2%	44,888	-	1.2%
Shop Supplies	-	-	0.0%	-	-	0.0%
Workman's Compensation	-	-	0.0%	-	-	0.0%
Telephone and Utilities, Internet	20,747	-	0.5%	19,324	-	0.5%
TOTAL EXPENSES / Total Add-Backs	1,389,745	593,598	34.6%	1,287,441	545,900	34.4%
TOTAL NET INCOME (per Tax Return) =	150,928		3.8%	110,690		3.0%
Total A		593,598			545,900	
TOTAL DISCRETIONARY CA		744,526	18.5%		656,590	17.5%
EBITDA			17.0%			16.4%
Balance Sheet						
Cash:	275,501			288,002		
Accounts Receivable:	498,005		8.1 x	412,500		9.1 x
Inventory:	790,000		3.1 x	698,945		3.4 x
Other Current Assets:	6,495			6,049		
Total Current Assets:		1,570,001	35.1%		1,405,496	33.6%
Fixtures & Equipment:	148,950	(174,435)	26.9 x	138,734	(162,471)	24.0 x
Tenant Improvements:	189,791	(14,913)		189,791	(10,047)	
Other Assets:	-			-		
Investments:	-			-		
Intangibles:	-			-		
Total Assets:		1,719,394			1,561,503	
Accruals, Other Liabilities:	4,529			4,219		
Accounts Payable:	155,078		15.7 x	144,442		15.7 x
Short Term Debt:	-			-		
Total Current Liabilities:		159,607			148,660	
Other Long Term Liabilities:	-			-		
Shareholder Loans:						
Interest Bearing Debt:	75,000					
Total Liabilities:		234,607			148,660	
Net Worth:	1,484,786			1,412,843		
Total Assets and Net Worth:		1,719,394			1,561,503	

Compass Point Capital
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Prepared By
C. Fred Hall, MBA
Business Consultant

Sold Comparables

Elevator Supply, Inc.

The following pages are write-ups for the comparables that were listed on the Comparables Analysis Exhibit on Page 62.

BIZCOMPS® Advanced Search Results

Prepared: 6/13/2008 8:23:52 AM (PST)

Search Criteria

Total transactions found meeting criteria: 11
Your search results are based upon this criteria:

1. **SIC Code ('5063', '5065')**
2. **Annual Gross Revenues ($000s) (1000 - 10000)**

Transaction Summary

Statistic	Count	Range	Mean	Median	Coefficient of Variation
Sale Date	11	2/28/1996 - 10/26/2005	N/A	N/A	N/A
Annual Gross	11	$1,666 - $7,084	$3,729	$3,005	N/A
SDE	11	144.000 - 3,101.000	591.273	298.000	N/A
Sale Price (Excludes Inventory)	11	$170 - $3,775	$997	$697	N/A
SDE To Annual Gross	11	0.059 - 0.438	0.139	0.120	0.775
Sale Price To Annual Gross	11	0.087 - 0.533	0.236	0.208	0.601
Sale Price To SDE	11	0.561 - 5.027	1.997	1.618	0.609

Transactions

No	SIC Code	Business Description	*Annual Gross*	SDE	SDE To Annual Gross	Sale Date	Sale Price	Sale Price To Annual Gross	Sale Price To SDE
1	5063	Distr-Electronics	$1,666	$312	0.187	7/14/2000	$175	0.105	0.561
2	5065	Distr-Electronic Equipt	$1,683	$234	0.139	10/31/2002	$350	0.208	1.496
3	5065	Distr-Electronic Equipt	$1,950	$144	0.074	10/2/1998	$170	0.087	1.181
4	5063	Whsle-Electrical Supplies	$2,000	$250	0.125	1/31/1997	$697	0.349	2.788
5	5063	Distr-Control Parts	$2,895	$194	0.067	12/1/1997	$335	0.116	1.727
6	5063	Distr-Electric Motors	$3,005	$463	0.154	4/30/1998	$875	0.291	1.890
7	5065	Distr-Electronics	$4,387	$298	0.068	2/28/1996	$450	0.103	1.510
8	5063	Distr-Electric Gate Operators	$4,450	$262	0.059	5/5/1998	$1,317	0.296	5.027
9	5063	Whsle-Electrical Supplies	$5,000	$600	0.120	10/26/2005	$1,775	0.355	2.958
10	5065	Whsle-Value-add Electr	$6,894	$646	0.094	10/8/2003	$1,045	0.152	1.618
11	5065	Distr-Electronic Equipt	$7,084	$3,101	0.438	3/29/2002	$3,775	0.533	1.217

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Reasons for rejecting comparables:

Cell Phone sales

Duplicates of transactions in Pratt's Stats databases

Computer Sales

Note: BizComps reports the selling price EXCLUDING the value of inventory. Therefore, inventory is added back to the selling price in order to be consistent with the pricing format used in Pratt's Stats and IBA databases.

BIZCOMPS® Transaction Report

Prepared: 6/13/2008 8:28:09 AM (PST) N/A = Not Available

Transaction Details

Business Description	Distr-Electronics
SIC	5063 Electrical Apparatus and Equipment Wiring Supplies, and Construction Materials
NAICS	42161 --No description--
Location	Central Florida
Number Of Employees	3

Transaction Data

Sale Date	7/14/2000
Days On Market	41
Ask Price (000)	$175.0
Sale Price (000) (Excludes Inventory)	$175.0
Percent Down	100.0%
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$1,666.0
Franchise Royalty	N/A
SDE	$312.0

Asset Data ($000's)

Inventory Value	$215.0
Furniture, Fixtures and Equipment	$46.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.187
Rent/Annual Gross Sales	0.029

Valuation Multiples

Sale Price/Annual Gross Sales	0.105
Sale Price/SDE	0.561

BIZCOMPS® Transaction Report Prepared: 6/13/2008 8:28:09 AM (PST) N/A – Not Available

Transaction Details

Business Description	Distr-Electronic Equipt
SIC	5065 Electronic Parts and Equipment, NEC
NAICS	42169 --No description--
Location	Florida
Number Of Employees	2

Transaction Data

Sale Date	10/31/2002
Days On Market	600
Ask Price (000)	$550.0
Sale Price (000) (Excludes Inventory)	$350.0
Percent Down	100.0%
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$1,683.0
Franchise Royalty	N/A
SDE	$234.0

Asset Data ($000's)

Inventory Value	$0.0
Furniture, Fixtures and Equipment	$10.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.139
Rent/Annual Gross Sales	N/A

Valuation Multiples

Sale Price/Annual Gross Sales	0.208
Sale Price/SDE	1.496

BIZCOMPS® Transaction Report Prepared: 6/13/2008 8:28:09 AM (PST) N/A-- Not Available

Transaction Details

Business Description	Distr-Electronic Equipt
SIC	5065 Electronic Parts and Equipment, NEC
NAICS	421690 --No description--
Location	Atlanta, GA
Number Of Employees	12

Transaction Data

Sale Date	10/2/1998
Days On Market	291
Ask Price (000)	$285.0
Sale Price (000) (Excludes Inventory)	$170.0
Percent Down	100.0%
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$1,950.0
Franchise Royalty	N/A
SDE	$144.0

Asset Data ($000's)

Inventory Value	$90.0
Furniture, Fixtures and Equipment	$98.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.074
Rent/Annual Gross Sales	0.02

Valuation Multiples

Sale Price/Annual Gross Sales	0.087
Sale Price/SDE	1.181

BIZCOMPS® Transaction Report Prepared: 6/13/2008 8:28:09 AM (PST) N/A – Not Available

Transaction Details

Business Description	Whsle-Electrical Supplies
SIC	5063 Electrical Apparatus and Equipment Wiring Supplies, and Construction Materials
NAICS	42161 --No description--
Location	Marble Falls, TX
Number Of Employees	N/A

Transaction Data

Sale Date	1/31/1997
Days On Market	150
Ask Price (000)	$750.0
Sale Price (000) (Excludes Inventory)	$697.0
Percent Down	100.0%
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$2,000.0
Franchise Royalty	N/A
SDE	$250.0

Asset Data ($000's)

Inventory Value	$250.0
Furniture, Fixtures and Equipment	$200.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.125
Rent/Annual Gross Sales	0.02

Valuation Multiples

Sale Price/Annual Gross Sales	0.349
Sale Price/SDE	2.788

BIZCOMPS® Transaction Report Prepared: 6/13/2008 8:28:09 AM (PST) N/A = Not Available

Transaction Details

Business Description	Distr-Control Parts
SIC	5063 Electrical Apparatus and Equipment Wiring Supplies, and Construction Materials
NAICS	42161 --No description--
Location	Santa Clara, CA
Number Of Employees	N/A

Transaction Data

Sale Date	12/1/1997
Days On Market	150
Ask Price (000)	$500.0
Sale Price (000) (Excludes Inventory)	$335.0
Percent Down	100.0%
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$2,895.0
Franchise Royalty	N/A
SDE	$194.0

Asset Data ($000's)

Inventory Value	$400.0
Furniture, Fixtures and Equipment	$85.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.067
Rent/Annual Gross Sales	0.036

Valuation Multiples

Sale Price/Annual Gross Sales	0.116
Sale Price/SDE	1.727

BIZCOMPS® Transaction Report

Prepared: 6/13/2008 8:28:09 AM (PST) N/A – Not Available

Transaction Details

Business Description	Distr-Electric Motors
SIC	5063 Electrical Apparatus and Equipment Wiring Supplies, and Construction Materials
NAICS	44419 Other Building Material Dealers
Location	Altamonte Springs, FL
Number Of Employees	N/A

Transaction Data

Sale Date	4/30/1998
Days On Market	587
Ask Price (000)	$1,700.0
Sale Price (000) (Excludes Inventory)	$875.0
Percent Down	100.0%
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$3,005.0
Franchise Royalty	N/A
SDE	$463.0

Asset Data ($000's)

Inventory Value	$300.0
Furniture, Fixtures and Equipment	$106.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.154
Rent/Annual Gross Sales	0.017

Valuation Multiples

Sale Price/Annual Gross Sales	0.291
Sale Price/SDE	1.890

BIZCOMPS® Transaction Report Prepared: 6/13/2008 8:28:09 AM (PST) N/A – Not Available

Transaction Details

Business Description	Distr-Electronics
SIC	5065 Electronic Parts and Equipment, NEC
NAICS	42169 ---No description---
Location	Louisiana
Number Of Employees	N/A

Transaction Data

Sale Date	2/28/1996
Days On Market	N/A
Ask Price ($000)	$450.0
Sale Price ($000) (Excludes Inventory)	$450.0
Percent Down	33.0%
Terms on Outstanding Consideration	5 Yrs @ 9%

Income Data ($000's)

Annual Gross Sales	$4,387.0
Franchise Royalty	N/A
SDE	$298.0

Asset Data ($000's)

Inventory Value	$450.0
Furniture, Fixtures and Equipment	$45.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.068
Rent/Annual Gross Sales	0.02

Valuation Multiples

Sale Price/Annual Gross Sales	0.103
Sale Price/SDE	1.510

BIZCOMPS® Transaction Report Prepared: 6/13/2008 8:28:09 AM (PST) N/A -- Not Available

Transaction Details

Business Description	Distr-Electric Gate Operators
SIC	5063 Electrical Apparatus and Equipment: Wiring Supplies, and Construction Materials
NAICS	42161 --No description--
Location	Aurora, CO
Number Of Employees	N/A

Transaction Data

Sale Date	5/5/1998
Days On Market	314
Ask Price (000)	$2,730.0
Sale Price (000) (Excludes Inventory)	$1,317.0
Percent Down	56.0%
Terms on Outstanding Consideration	3 Yrs @ 8.5%

Income Data ($000's)

Annual Gross Sales	$4,450.0
Franchise Royalty	N/A
SDE	$262.0

Asset Data ($000's)

Inventory Value	$720.0
Furniture, Fixtures and Equipment	$160.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.059
Rent/Annual Gross Sales	0.015

Valuation Multiples

Sale Price/Annual Gross Sales	0.296
Sale Price/SDE	5.027

BIZCOMPS® Transaction Report

Prepared: 6/13/2008 8:28:09 AM (PST) N/A – Not Available

Transaction Details

Business Description	Whsle-Electrical Supplies
SIC	5063 Electrical Apparatus and Equipment Wiring Supplies, and Construction Materials
NAICS	42161 --No description--
Location	Los Angeles, CA
Number Of Employees	2

Transaction Data

Sale Date	10/26/2005
Days On Market	360
Ask Price (000)	$2,100.0
Sale Price (000) (Excludes Inventory)	$1,775.0
Percent Down	100.0%
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$5,000.0
Franchise Royalty	No
SDE	$600.0

Asset Data ($000's)

Inventory Value	$0.0
Furniture, Fixtures and Equipment	N/A
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.120
Rent/Annual Gross Sales	0.01

Valuation Multiples

Sale Price/Annual Gross Sales	0.355
Sale Price/SDE	2.958

BIZCOMPS® Transaction Report Prepared: 6/13/2008 8:28:09 AM (PST) N/A – Not Available

Transaction Details

Business Description	Whsle-Value-add Electr
SIC	5065 Electronic Parts and Equipment, NEC
NAICS	42169 --No description--
Location	Northern California
Number Of Employees	15

Transaction Data

Sale Date	10/8/2003
Days On Market	999
Ask Price (000)	$1,045.0
Sale Price (000) (Excludes Inventory)	$1,045.0
Percent Down	43.0%
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$6,894.0
Franchise Royalty	No
SDE	$646.0

Asset Data ($000's)

Inventory Value	$950.0
Furniture, Fixtures and Equipment	$30.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.094
Rent/Annual Gross Sales	0.015

Valuation Multiples

Sale Price/Annual Gross Sales	0.152
Sale Price/SDE	1.618

BIZCOMPS® Transaction Report Prepared: 6/13/2008 8:28:43 AM (PST)

Transaction Details

Business Description	Distr-Electronic Equipt
SIC	5065 Electronic Parts and Equipment, NEC
NAICS	42169 --No description--
Location	Florida
Number Of Employees	14

Transaction Data

Sale Date	3/29/2002
Days On Market	287
Ask Price (000)	$3,900.0
Sale Price (000) (Excludes Inventory)	$3,775.0
Percent Down	100.0%
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$7,084.0
Franchise Royalty	N/A
SDE	$3,101.0

Asset Data ($000's)

Inventory Value	$1,000.0
Furniture, Fixtures and Equipment	$109.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.438
Rent/Annual Gross Sales	0.009

Valuation Multiples

Sale Price/Annual Gross Sales	0.533
Sale Price/SDE	1.217

N/A = Not Available

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Pratt's Stats® Advanced Search Results

Prepared: 6/13/2008 8:39:13 AM (PST)

Search Criteria

Total transactions found meeting criteria: 28
Your search results are based upon this criteria:

1. **SIC Code ('5063', '5065')**
2. **Net Sales (1000000 - 10000000)**

Transaction Summary

Statistic	Count	Range	Mean	Median	Coefficient of Variation
Sale Date	28	1/2/1996 - 1/18/2008	N/A	N/A	N/A
Net Sales	28	$1,047,037 - $7,490,319	$3,334,907	$2,932,386	N/A
Market Value of Invested Capital (MVIC)	28	$50,000 - $28,158,464	$2,977,518	$1,840,000	N/A
EBITDA	23	($9,720,000) - $2,260,772	$8,774	$109,749	N/A
EBIT	28	($10,406,000) - $2,260,772	($31,314)	$115,994	N/A
Net Income	27	($10,281,000) - $2,257,110	($88,179)	$94,341	N/A
Gross Profit Margin	28	0.03 - 0.99	0.34	0.28	N/A
Operating Profit Margin	26	-1.56 - 0.41	0.02	0.04	N/A
Net Profit Margin	27	-1.58 - 0.40	0.01	0.04	N/A
MVIC/Net Sales	28	0.03 - 4.32	0.75	0.51	1.11
MVIC/Gross Profit	28	0.11 - 127.99	6.29	1.58	3.80
MVIC/EBIT	25	1.78 - 91.39	17.95	6.97	1.43
MVIC/EBITDA	21	1.46 - 70.71	14.96	6.86	1.33
MVIC/DiscEarnings	15	0.51 - 7.98	3.61	2.97	0.56
MVIC/Book Value of Invested Capital	13	0.67 - 495.00	42.16	2.62	3.23

Transactions

No	SIC Code	Business Description	Market Value of Invested Capital	Sale Date	*Net Sales*	MVIC / Sales	MVIC / Disc Earnings	MVIC / EBITDA
1	5065	Distributor of Electronics	$118,000	12/13/1999	$1,047,037	0.11	N/A	10.24
2	5063	Distributor of Battery Production Parts	$495,000	7/1/2002	$1,056,175	0.47	4.63	70.71
3	5065	Distributes and Sells Electronic Products and Provides Computer Network Services	$2,000,000	4/2/2004	$1,075,781	1.86	N/A	18.22
4	5063	Sells Batteries and Ancilliary Electronic Products	$492,450	9/16/2004	$1,189,196	0.41	N/A	N/A
5	5063	Distribution of Electronics Equipment	$230,500	4/1/2002	$1,339,663	0.17	2.57	4.83
6	5065	Electronics Distributor	$575,000	6/1/2001	$1,472,189	0.39	N/A	N/A
7	5065	Manufacturing Automation Equipment Distributor	$1,000,000	3/2/2007	$1,848,000	0.54	2.87	3.25
8	5065	Audio and Visual Equipment	$50,000	9/30/1999	$1,989,778	0.03	0.51	1.46
9	5063	Electrical Supplies Distributor	$947,000	1/1/1997	$2,000,000	0.47	N/A	N/A
10	5063	Wholesale/Distribution - Batteries	$700,000	8/31/1999	$2,128,346	0.33	3.38	7.03
11	5063	Battery Distribution	$1,400,000	10/1/2007	$2,181,968	0.64	N/A	N/A
12	5065	Electronic Distributor	$575,000	5/30/2001	$2,222,000	0.26	3.78	20.61
13	5063	Value-Added Distribution	$610,000	10/31/2002	$2,537,569	0.24	2.00	10.75
14	5065	Distributor, Electronic Components	$964,776	9/1/1996	$2,663,128	0.36	N/A	N/A
15	5063	Fire Alarm Systems (Wholesale)	$2,002,031	12/29/2006	$3,201,643	0.63	2.26	2.76
16	5065	Distribution of Electronics	$5,500,000	1/18/2008	$3,329,314	1.65	2.97	3.17
17	5063	Wholesaler: Capacitors, Resistors, Board to Board Interconnects	$4,290,000	12/22/1997	$3,574,704	1.20	5.30	11.14
18	5063	Distribution, Home Accessory	$2,600,000	9/7/2001	$3,586,111	0.73	2.50	3.77
19	5065	Sells and Rents Computer Based Video Editing Equipment	$5,500,000	5/4/1998	$3,662,000	1.50	N/A	2.59
20	5063	Markets Electronic Anti-Theft Equipment to Vehicle Dealerships	$2,500,000	5/2/2005	$3,688,300	0.68	N/A	5.50
		Telecommunications Products and						

21	5065	Services	$2,363,492	1/5/2001	$4,139,541	0.57	7.54	64.47
22	5063	Gate Operators	$2,037,463	5/6/1998	$4,449,891	0.46	7.98	43.50
23	5063	Marketing and Distribution, Solar Electric Components	$3,600,000	9/4/1998	$5,326,330	0.68	N/A	15.96
24	5063	Designing, Manufacturing, Repairing, and Servicing Electronic, Electrical and Mechanical Equipment for the Oil Industry	$5,903,000	7/12/2005	$5,686,000	1.04	N/A	N/A
25	5065	Provides NT-Based Remote Access Systems for Telecommunications Networks	$28,158,464	5/10/1999	$6,514,000	4.32	N/A	N/A
26	5065	Wholesale Distribution of Electronics Kitting	$2,303,319	10/1/2003	$6,893,757	0.33	3.83	5.33
27	5065	Distribution of Electronics	$4,775,000	3/29/2002	$7,084,644	0.67	2.07	2.11
28	5065	Distribution, Computer Equipment	$1,680,000	1/2/1996	$7,490,319	0.22	N/A	6.86

Reasons for rejecting comparables:

Cell Phone sales

Stock Sales that couldn't be reconcilied to an Asset Sale

Computer Sales and Manufacturers

Pratt's Stats® Transaction Report

Prepared 5/31/2009 2:27:39 PM (PST)

Seller Details

Target Name:	N/A
Business Description:	Distribution of Electronics
SIC:	5065 Electronic Parts and Equipment, NEC
NAICS:	423690 Other Electronic Parts and Equipment Merchant Wholesalers
Sale Location:	GA, United States
Years in Business:	13
Number Employees:	22

Source Data

Broker Name:	N/A
Broker Firm Name:	N/A

Income Data

Data is "Latest Full Year" Reported	Yes
Data is Restated (see Notes for any explanation)	No
Income Statement Date	12/31/2006
Net Sales	$3,329,314
COGS	$17,003
Gross Profit	$3,312,311
Yearly Rent	N/A
Owner's Compensation	$117,000
Other Operating Expenses	N/A
Noncash Charges	$359,938
Total Operating Expenses	$1,939,704
Operating Profit	$1,372,607
Interest Expenses	$42,155
EBT	$1,330,452
Taxes	$0
Net Income	$1,330,452

Asset Data

Data is Latest Reported	No
Data is "Purchase Price Allocation agreed upon by Buyer and Seller"	Yes
Balance Sheet Date	1/10/2008
Cash Equivalents	N/A
Trade Receivables	$146,176
Inventory	$80,420
Other Current Assets	N/A
Total Current Assets	N/A
Fixed Assets	$2,100,000
Real Estate	N/A
Intangibles	$3,173,404
Other Noncurrent Assets	N/A
Total Assets	N/A
Long-term Liabilities	N/A
Total Liabilities	N/A
Stockholder's Equity	N/A

Transaction Data

Date Sale Initiated:	9/1/2005
Date of Sale:	1/18/2008
Asking Price:	$6,000,000
Market Value of Invested Capital*:	$5,500,000
Debt Assumed:	N/A
Employment Agreement Value:	N/A
Noncompete Value:	N/A
Amount of Down Payment:	$2,700,000
Stock or Asset Sale:	Asset
Company Type:	C Corporation
Was there an Employment/Consulting Agreement?	No
Was there an Assumed Lease in the sale?	No
Was there a Renewal Option with the Lease?	No

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

Additional Transaction Information

Was there a Note in the consideration paid? No

Was there a personal guarantee on the Note? No

Terms:

Assumed Lease (Months): N/A

Terms of Lease: N/A

Noncompete Length (Months): 60

Noncompete Description: N/A

Employment/Consulting Agreement Description:

Additional Notes:

Transaction was submitted by the GABB (5/2008). The reason for selling was relocation.

Valuation Multiples

MVIC/Net Sales	1.65
MVIC/Gross Profit	1.66
MVIC/EBITDA	3.17
MVIC/EBIT	4.01
MVIC/Discretionary Earnings	2.97
MVIC/Book Value of Invested Capital	N/A

Profitability Ratios

Net Profit Margin	0.40
Operating Profit Margin	0.41
Gross Profit Margin	0.99
Return on Assets	N/A
Return on Equity	N/A

Leverage Ratios

Fixed Charge Coverage	32.56
Long-Term Debt to Assets	N/A
Long-Term Debt to Equity	N/A

Earnings

EBITDA	$1,732,545
Discretionary Earnings	$1,849,545

Liquidity Ratios

Current Ratio	N/A
Quick Ratio	N/A

Activity Ratios

Total Asset Turnover	N/A
Fixed Asset Turnover	1.59
Inventory Turnover	41.40

N/A = Not Available

Pratt's Stats® Transaction Report

Prepared 5/31/2008 2:26:54 PM (PST)

Seller Details

Target Name:	N/A
Business Description:	Distributor, Electronic Components
SIC:	5065 Electronic Parts and Equipment, nEC
NAICS:	423690 Other Electronic Parts and Equipment Merchant Wholesalers
Sale Location:	OR, United States
Years in Business:	9
Number Employees:	14

Source Data

Broker Name:	N/A
Broker Firm Name:	Crader & Associates, Inc.

Income Data

Data is "Latest Full Year" Reported	Yes
Data is Restated (see Notes for any explanation)	No
Income Statement Date	12/31/1995
Net Sales	$2,663,128
COGS	$1,902,450
Gross Profit	$760,678
Yearly Rent	$55,437
Owner's Compensation	$105,000
Other Operating Expenses	N/A
Noncash Charges	$9,056
Total Operating Expenses	$909,960
Operating Profit	($149,282)
Interest Expenses	$52,255
EBT	($201,537)
Taxes	$0
Net Income	($201,537)

Asset Data

Data is Latest Reported	Yes
Data is "Purchase Price Allocation agreed upon by Buyer and Seller"	No
Balance Sheet Date	12/31/1995
Cash Equivalents	$18,306
Trade Receivables	$283,263
Inventory	$662,263
Other Current Assets	$4,563
Total Current Assets	$968,495
Fixed Assets	$65,944
Real Estate	N/A
Intangibles	N/A
Other Noncurrent Assets	$4,392
Total Assets	$1,038,831
Long-term Liabilities	N/A
Total Liabilities	N/A
Stockholder's Equity	N/A

Transaction Data

Date Sale Initiated:	N/A
Date of Sale:	9/1/1996
Asking Price:	N/A
Market Value of Invested Capital*:	$964,776
Debt Assumed:	$705,776
Employment Agreement Value:	N/A
Noncompete Value:	N/A
Amount of Down Payment:	$167,000
Stock or Asset Sale:	Asset
Company Type:	C Corporation
Was there an Employment/Consulting Agreement?	No
Was there an Assumed Lease in the sale?	No
Was there a Renewal Option with the Lease?	No

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

Additional Transaction Information

Was there a Note in the consideration paid? Yes

Was there a personal guarantee on the Note? No

Terms:

Consideration paid as follows: $167,000 Cash, $72,000 in the form of purchaser's common stock, and $20,000 promissory note payable in equal installments of $5,000 commencing on 9/30/96.

Assumed Lease (Months): N/A

Terms of Lease: N/A

Noncompete Length (Months): 36

Noncompete Description: CA, OR, and WA

Employment/Consulting Agreement Description:

Additional Notes:

Valuation Multiples

MVIC/Net Sales	0.36
MVIC/Gross Profit	1.27
MVIC/EBITDA	N/A
MVIC/EBIT	N/A
MVIC/Discretionary Earnings	N/A
MVIC/Book Value of Invested Capital	N/A

Profitability Ratios

Net Profit Margin	-0.08
Operating Profit Margin	-0.06
Gross Profit Margin	0.29
Return on Assets	-0.19
Return on Equity	N/A

Leverage Ratios

Fixed Charge Coverage	-2.86
Long-Term Debt to Assets	N/A
Long-Term Debt to Equity	N/A

Earnings

EBITDA	($140,226)
Discretionary Earnings	($35,226)

Liquidity Ratios

Current Ratio	N/A
Quick Ratio	N/A

Activity Ratios

Total Asset Turnover	2.56
Fixed Asset Turnover	40.38
Inventory Turnover	4.02

N/A = Not Available

Pratt's Stats® Transaction Report

Prepared 5/31/2008 2:24:55 PM (PST)

Seller Details

Target Name:	Appleton Electronics
Business Description:	Electronics Distributor
SIC:	5065 Electronic Parts and Equipment, NEC
NAICS:	423690 Other Electronic Parts and Equipment Merchant Wholesalers
Sale Location:	Appleton, WI, United States
Years in Business:	20
Number Employees:	10

Source Data

Broker Name:	Cleary, Terrence
Broker Firm Name:	Metropolitan Business Brokers

Income Data

Data is "Latest Full Year" Reported	Yes
Data is Restated (see Notes for any explanation)	No
Income Statement Date	12/31/2000
Net Sales	$1,472,189
COGS	$1,051,923
Gross Profit	$420,266
Yearly Rent	$17,000
Owner's Compensation	$125,000
Other Operating Expenses	N/A
Noncash Charges	N/A
Total Operating Expenses	$312,191
Operating Profit	$108,075
Interest Expenses	$0
EBT	$108,075
Taxes	$0
Net Income	$108,075

Asset Data

Data is Latest Reported	Yes
Data is "Purchase Price Allocation agreed upon by Buyer and Seller"	No
Balance Sheet Date	12/31/2000
Cash Equivalents	$50,000
Trade Receivables	$250,000
Inventory	$450,000
Other Current Assets	$50,000
Total Current Assets	$800,000
Fixed Assets	$0
Real Estate	$0
Intangibles	$0
Other Noncurrent Assets	$0
Total Assets	$800,000
Long-term Liabilities	N/A
Total Liabilities	N/A
Stockholder's Equity	N/A

Transaction Data

Date Sale Initiated:	3/27/2001
Date of Sale:	6/1/2001
Asking Price:	$575,000
Market Value of Invested Capital*:	$575,000
Debt Assumed:	N/A
Employment Agreement Value:	N/A
Noncompete Value:	$50,000
Amount of Down Payment:	$575,000
Stock or Asset Sale:	Asset
Company Type:	C Corporation
Was there an Employment/Consulting Agreement?	No
Was there an Assumed Lease in the sale?	Yes
Was there a Renewal Optior with the Lease?	Yes

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

Additional Transaction Information

Was there a Note in the consideration paid? No

Was there a personal guarantee on the Note? No

Terms:

Assumed Lease (Months): N/A

Terms of Lease: N/A

Noncompete Length (Months): 60

Noncompete Description: State of Wisconsin

Employment/Consulting Agreement Description:

Additional Notes:

Valuation Multiples

MVIC/Net Sales	0.39
MVIC/Gross Profit	1.37
MVIC/EBITDA	N/A
MVIC/EBIT	5.32
MVIC/Discretionary Earnings	N/A
MVIC/Book Value of Invested Capital	N/A

Profitability Ratios

Net Profit Margin	0.07
Operating Profit Margin	0.07
Gross Profit Margin	0.29
Return on Assets	0.14
Return on Equity	N/A

Leverage Ratios

Fixed Charge Coverage	N/A
Long-Term Debt to Assets	N/A
Long-Term Debt to Equity	N/A

Earnings

EBITDA	N/A
Discretionary Earnings	N/A

Liquidity Ratios

Current Ratio	N/A
Quick Ratio	N/A

Activity Ratios

Total Asset Turnover	1.84
Fixed Asset Turnover	N/A
Inventory Turnover	3.27

N/A = Not Available

Pratt's Stats® Transaction Report

Prepared 5/1/2008 2:29:21 PM (PST)

Seller Details

Target Name:	N/A
Business Description:	Distribution, Home Accessory
SIC:	5063 Electrical Apparatus and Equipment Wiring Supplies, and Construction Materials
NAICS:	423610 Electrical Apparatus and Equipment, Wiring Supplies, and Related Equipment Merchant Wholesalers
Sale Location:	Gwinnett, GA, United States
Years in Business:	33
Number Employees:	20

Source Data

Broker Name:	Pusch, Kathryne A.
Broker Firm Name:	Consultkap, Inc.

Income Data

Data is "Latest Full Year" Reported	Yes
Data is Restated (see Notes for any explanation)	No
Income Statement Date	12/31/2000
Net Sales	$3,586,111
COGS	$1,612,154
Gross Profit	$1,973,957
Yearly Rent	$144,000
Owner's Compensation	$350,702
Other Operating Expenses	$789,516
Noncash Charges	$45,646
Total Operating Expenses	$1,329,864
Operating Profit	$644,093
Interest Expenses	$0
EBT	$644,093
Taxes	N/A
Net Income	N/A

Asset Data

Data is Latest Reported	Yes
Data is "Purchase Price Allocation agreed upon by Buyer and Seller"	No
Balance Sheet Date	12/31/2000
Cash Equivalents	N/A
Trade Receivables	$0
Inventory	$675,000
Other Current Assets	N/A
Total Current Assets	N/A
Fixed Assets	$520,515
Real Estate	$0
Intangibles	N/A
Other Noncurrent Assets	$325,000
Total Assets	$1,520,515
Long-term Liabilities	N/A
Total Liabilities	N/A
Stockholder's Equity	N/A

Transaction Data

Date Sale Initiated:	12/7/2000
Date of Sale:	9/7/2001
Asking Price:	$3,800,000
Market Value of Invested Capital*:	$2,600,000
Debt Assumed:	N/A
Employment Agreement Value:	N/A
Noncompete Value:	$100
Amount of Down Payment:	$2,000,000
Stock or Asset Sale:	Asset
Company Type:	S Corporation
Was there an Employment/Consulting Agreement?	No
Was there an Assumed Lease in the sale?	No
Was there a Renewal Option with the Lease?	No

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

Additional Transaction Information

Was there a Note in the consideration paid? No

Was there a personal guarantee on the Note? No

Terms:

Consideration: $800,000 note bearing interest at 10.5% payable over 60 months.

Assumed Lease (Months): N/A

Terms of Lease: Lease expires 12/31/2005

Noncompete Length (Months): 120

Noncompete Description: N/A

Employment/Consulting Agreement Description:

Additional Notes:

Wholesale/retail distributor residential-commercial lighting fixtures. At least 85% of sales thru buildings construction for new homes, new commercial buildings, and renovations. Other non current assets includes $325,000 showroom inventory. Estimated fair value of assets acquired is $1,520,515. Business premises cover 21,000 square feet. (GABB)

Valuation Multiples

MVIC/Net Sales	0.73
MVIC/Gross Profit	1.32
MVIC/EBITDA	3.77
MVIC/EBIT	4.04
MVIC/Discretionary Earnings	2.50
MVIC/Book Value of Invested Capital	N/A

Profitability Ratios

Net Profit Margin	N/A
Operating Profit Margin	N/A
Gross Profit Margin	0.55
Return on Assets	N/A
Return on Equity	N/A

Leverage Ratios

Fixed Charge Coverage	N/A
Long-Term Debt to Assets	N/A
Long-Term Debt to Equity	N/A

Earnings

EBITDA	$689,739
Discretionary Earnings	$1,040,441

Liquidity Ratios

Current Ratio	N/A
Quick Ratio	N/A

Activity Ratios

Total Asset Turnover	2.36
Fixed Asset Turnover	6.89
Inventory Turnover	5.31

N/A = Not Available

Pratt's Stats® Transaction Report Prepared 5/31/2006 2:42:55 PM (PST)

Seller Details

Target Name:	Identity, LLC
Business Description:	Markets Electronic Anti-Theft Equipment to Vehicle Dealerships
SIC:	5063 Electrical Apparatus and Equipment Wiring Supplies, and Construction Materials
NAICS:	423610 Electrical Apparatus and Equipment, Wiring Supplies, and Related Equipment Merchant Wholesalers
Sale Location:	Rancho Cordova, CA, United States
Years in Business:	N/A Number Employees: N/A

Source Data

Public Buyer Name:	Airbee Wireless, Inc.
8-K Date:	5/5/2005
8-K/A Date:	6/29/2005
Other Filing Type:	N/A
Other Filing Date:	N/A
CIK Code:	0001297333

Income Data

Data is "Latest Full Year" Reported	Yes
Data is Restated (see Notes for any explanation)	No
Income Statement Date	12/31/2004
Net Sales	$3,688,300
COGS	$2,709,789
Gross Profit	$978,511
Yearly Rent	$18,275
Owner's Compensation	N/A
Other Operating Expenses	N/A
Noncash Charges	$1,872
Total Operating Expenses	$526,139
Operating Profit	$452,372
Interest Expenses	$126,000
EBT	$326,372
Taxes	$0
Net Income	$326,372

Asset Data

Data is Latest Reported	Yes
Data is "Purchase Price Allocation agreed upon by Buyer and Seller"	No
Balance Sheet Date	3/31/2005
Cash Equivalents	$45,527
Trade Receivables	$229,379
Inventory	$434,305
Other Current Assets	$0
Total Current Assets	$709,207
Fixed Assets	$13,303
Real Estate	$0
Intangibles	$0
Other Noncurrent Assets	$350
Total Assets	$722,860
Long-term Liabilities	$0
Total Liabilities	$275,710
Stockholder's Equity	$447,150

Transaction Data

Date Sale Initiated:	N/A
Date of Sale:	5/1/2005
Asking Price	N/A
Market Value of Invested Capital*:	$2,500,000
Debt Assumed:	N/A
Employment Agreement Value:	N/A
Noncompete Value:	N/A
Amount of Down Payment:	$2,500,000
Stock or Asset Sale:	Stock
Company Type:	LLC
Was there an Employment/Consulting Agreement?	No
Was there an Assumed Lease in the sale?	No
Was there a Renewal Option with the Lease?	No

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

Additional Transaction Information

Was there a Note in the consideration paid? No

Was there a personal guarantee on the Note? No

Terms:

Consideration: Shares of the Buyer's restricted common stock valued at $2,500,000. The Buyer also placed additional restricted shares, with a total value of $2,500,000, into escrow pursuant to an escrow agreemnt under which such shares shall only be released to the Seller upon the completion of audited financia statements and acceptance by the Buyer [in its sole discretion] and proper filings with the Securities and Exchange Commission.

Assumed Lease (Months): N/A

Terms of Lease: N/A

Noncompete Length (Months): N/A

Noncompete Description: N/A

Employment/Consulting Agreement Description:

Additional Notes:

The Company markets electronic anti-theft equipment to vehicle dealerships. The products and components are manufactured by companies with which the Company has contracts.

The Company develops the procedures for installation, and the methods of marketing and selling its products. The Company maintains a staff of technical and sales professionals, in addition to administrative, marketing, order-fulfillment and warehousing personnel. The Company maintains an extensive website to support marketing, sales and installation. Besides insuring and warranting its products, the Company provides 24/7 emergency technical support to customers, dealerships and sales agencies.

The majority of the Company's sales are made through independent agencies which specalize in selling aftermarket products to dealerships, and which are expert in the training of dealership administrative, sales and technical personnel. The Company's sales and technical advisers train the agencies and their staff. They also assist the agencies to land their initial dealership sales, and to implement Company programs in a limited number of their first dealership clients for the Company's products.

The Company also sells a percentage of its products directly to dealerships. This avenue of sales is enhanced by a contract between the Company and GMAC Risk Services, Inc., a division of General Motors. Within the context of this agreement, the Company sells to dealerships in which GMAC field staff has promoted the Company's products and programs. The sales are closed by the Company's personnel. The training of dealership staff, implementation of programs and delivery of products are accomplished primarily by Company personnel. In some instances the Company, also allows the participation of certain independent agencies which have received approval from GMAC. Upon the sales model, the Company intends to form similar relationships with additional vehicle manufacturers.

The Company is a leader in developing the types of products it markets, and is currently developing new and innovative technologies in response to specific needs and desires voiced in the marketplace.

Valuation Multiples

MVIC/Net Sales	0.68
MVIC/Gross Profit	2.55
MVIC/EBITDA	5.50
MVIC/EBIT	5.53
MVIC/Discretionary Earnings	N/A
MVIC/Book Value of Invested Capital	5.59

Profitability Ratios

Net Profit Margin	0.09
Operating Profit Margin	0.12
Gross Profit Margin	0.27
Return on Assets	0.45
Return on Equity	0.73

Leverage Ratios

Fixed Charge Coverage	3.59
Long-term Debt to Assets	0.00
Long-Term Debt to Equity	0.00

Earnings

EBITDA	$454,244
Discretionary Earnings	N/A

Liquidity Ratios

Current Ratio	2.57
Quick Ratio	1.00

Activity Ratios

Total Asset Turnover	5.10
Fixed Asset Turnover	277.26
Inventory Turnover	8.49

N/A = Not Available

IBA Comparables

SIC CODE: 5063 5065

Notice: This information is to be used only with the Direct Market Data Method or a similar method of appraising closely held businesses. It is not to be used with the Guideline Company Method.

The information below is supplied in response to your request for data to be used in applying the "Market Data Approach" to business appraisal. Because of the nature of sources from which the information is obtained, we are not able to guarantee its accuracy. Neither do we make any representation as to the applicability of the information to any specific appraisal situation.

The following is an explanation of the entries in the data table:

Business Type	Principal line of business.
SIC CODE	Principal Standard Industrial Classification number applicable to the business sold.
Annual Gross	Reported annual sales volume of business sold.
Discretionary Earnings	Reported annual earnings, excluding owner's compensation and before interest and taxes.
Owner's Comp.	Reported owner's compensation.
Sale Price	Total reported consideration; i.e. cash, liabilities assumed, etc. excluding real estate.
Price/Gross	Ratio of total consideration to reported annual gross.
Price/Earnings	Ratio of total consideration to reported annual earnings.
Yr/Mo of Sale	Year and month during which transaction was consummated.

Business Type	Annual Gross $000's	Discret. Earnings $000's	Owner's Comp. $000's	Sale Price $000's	Price/ Gross	Price/ Earnings	Geographic	Yr/Mo of Sale
SIC 5063:								
Electric Supply, distr	1106	71		157	0.14	2.21	TX	90/03
Electrical appar. & eqpmt	1300	300	114	1500	1.15	5	FL	93/09
Electrical, whsle	1800	126		1100	0.61	8.7		89/05
Whsle-Electrical Supplies	2000	250		947	0.47	3.8	TX	97/01
Distr-Electric Motors	3005	463		1175	0.39	2.5	FL	98/04
Distr-Electric Gate	4450	262		2037	0.46	7.8	CO	98/05
SIC 5065:								
Electronics-wholesale	1100	105		108	0.1	1.03	TX	94/04
Cable/Wiring Intall.	1157	275		1450	1.25	5.27	FL	00/08
Distributor Computer Parts	1227			1020	0.83		FL	05/01
Distribution|Dist-Electronics	1666	312	46	390	0.23	1.25	Pinellas - FL	00/07
Electronic Models, distr.	1955	116		137	0.07	1.18	MN	91/07
Whl communications equi	2200			2300	1.05		NJ	91/10
Dist-Electronics	2386	169		550	0.23	3.25		98/01
Low/High-Tech Products	2624	168		981	0.37	5.84	Phoenix	04/01
Telephone systms sls/svc	3300	450	350	1450	0.44	3.22	MO	90/09
Distribution|Dist-Electronics	3329		117	5850	1.76		Hall, GA	07/04
TV Prod Equipment Distr.	4029	231		325	0.08	1.41	CA	92/09
Safety Supply Dist.	4578	42		1882	0.41	44.8	FL	00/02
Electrical Parts Whsl	5000	1000	900	4600	0.92	4.6	CA	97/08
Distribution|Dist-Electronics	6777	20		3800	0.56	190.0	KS	06/08
Distribution|Dist-Electronics	7085	3102	37	4775	0.67	1.54	Brevard - FL	02/03

Reasons for rejecting comparables:

Cell Phone sales

Duplicates of transactions in Pratt's Stats and BizComps databases or IBA has missing data

Computer and High Tech Sales

RESUME OF
C. FREDERICK HALL, III
21190 Payton Lane
Pine Grove, CA 95665

EDUCATION: B. S. degree in Business Administration from UC Berkeley
MBA degree in Business Finance and Computers from San Diego State University
Completed the following IBA (Institute of Business Appraisers) course work:

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

EXPERIENCE:

Business Analyst and Commercial Loan Officer at Union Bank in the San Francisco and Los Angeles headquarters offices for four years. 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.

Purchased and operated for three years an existing hardware store in Portola Valley, CA. Annual sales increased from $150,000 to $200,000.

Relocated to Pine Grove and built a ground-up new store. Annual sales rose to $500,000 in four years.

While operating the Pine Grove store, served for four years on the Board of Directors of Bay Cities Wholesale Hardware Co., a dealer-owned co-op comprised of 350 stores in Northern California. Dealt with many union problems, a warehouse relocation from San Francisco to Manteca, CA and a complete computerization of operations including inventory control programs at the wholesale level and tailored pricing programs complete with bin tags and price labels.

Built a second ground-up store in 1988, providing a new larger location in Pine Grove, CA From 1988 to 1998 four major store expansions were completed resulting in an increase of annual sales to $5,000,000 by 2002. From 1992 to 2002 I completely automated my company at all levels, installing Triad Eagle for Windows and networking together a dozen workstations.

I personally wrote scores of computer programs that were used in daily operations including:

(1) a sophisticated “just in time” inventory control program that monitored all contractor bids and outstanding orders for building materials, while analyzing seasonally adjusted demand;

(2) a time-clock program written in Excel Visual Basic where all employees punched in and out on daily;

(3) a complete payroll program using Excel Visual Basic that downloaded the time clock program. From this downloaded data, each employee’s entire payroll file was automatically updated. Each paycheck, which was printed out using the same Excel Visual Basic program, showed the employee’s time-clock entries and withholding information as well as unused vacation time, health benefits available, and pension fund totals. All this data, as well as the payroll deductions, required no manual data entry. The program printed all quarterly an annual state and federal reporting forms as well, including W-2's;

(4) a complete accounting program that created a balance sheet, income statement, general ledger, general journal and all supporting ledgers written in Excel Visual Basic Language;

(5) an A/P and an A/R program accessible by employees so they could give customers and/or vendors up-to-the-second account status information;

(6) an end-of-day balancing program that integrated with the above A/R and general ledger programs. The clerk who closed at the end of the day weighed all the cash on a gram scale and posted the weights to the program which converted it to dollars and cents totals. The clerk could count cash ten times faster and more accurately.

2002 to present: Business Salesman and Analyst at Sunbelt Business Advisors of Sacramento and Reno. During this period, completed the course work on business appraisals offered by IBA (Institute of Business Appraisers).

Recent Clients:

Comerica Bank
Robert Porter
Sacramento, CA

Temecula Valley Bank
Gerry Boras
Sacramento, CA

CIT Financial
Matthew Christie
Sacramento, CA

Bridge Bank
Hinson Thomas
Rancho Cordova, CA

Bank of the West
Scott VanderLohe
Sacramento, CA

Northern Nevada Bank
Bryan Wallace
Reno, NV

ProSource Sales and Mkt
Gail Sievers
Sparks, NV

Wright Outdoor Center
Jim Wright
Sparks, NV

ScareCrow Lath & Plaster
Steve Crow
Reno, NV

Lake Bar & Grill
Robert Treanur
Sparks, NV

Nelson Logistics
Jeffery Ting
So. San Francisco, CA

Chase Western Cabinets
Brett Zunino
Reno, NV

North Valley Athletic Club
Scott Schofield
Chico, CA

Mueller Fitness Center
Vance Mueller
El Dorado, CA

MAACO
Art Alvi
North Highlands, CA

Consign-It
Bonnie Grisel
Rancho Cordova, CA

Liquor Cabinet
Manjeet Sandhu
Corning, CA

Lighting Unlimited
Dean Osborn
El Dorado, CA

LA Pines Building Supply
Pat Lawrence
Portland, OR

Divide Supply
Janice Hoyt
Greenwood, CA

Holiday Grocery
Jim Lumley
Marysville, CA

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

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

Doyle's Steel
Terry Henry
Modesto, CA

DEA- Bathroom Machinery
Tom Scheller
Murphys, CA

Cal Inc. Environmental Training
Mike McCalmont
Vacaville, CA

B & J Unical Gas
John Rockwood
Grass Valley, CA

Putnam HVAC
John Putnam
Rancho Cordova, CA

Tom's Ace
Chris Doyle
San Leandro, CA

Theresa's Place Restaurant
Phil Giurlani
Jackson, CA

Pine Cone Pharmacy
Paul Wesseler
Pine Grove, CA

Sierra X-Ray Services
Pete Kohler
Reno, NV

Oak's Hardware
Dave Hill
Fair Oaks, CA

Dixon Lumber
Bryan Bock
Dixon, CA

Davenport Lumber
Doug Allen
Davenport, WA.

Tender Touches Spa
Barbara Brown
Sequim, WA

Meineke Auto Care
Dave Sparks
Gladstone, OR

Foothill Ace
John Norris
Oregon House, CA

Columbia Nursery & Florist
Janet Ofstad
Columbia, CA

Twin Cities Bike and Repair
Rick Elia
Yuba City, CA

A & J Paving
Allen & Joan Ashby
Reno, NV

Ameritech Industries
Kerry Dawes
Redding, CA

Applied Control Electronics
Terrence Burke
Placerville, CA

Mark Bailey Plumbing
Lisa Bailey
Susanville, CA

Garden Valley Feed
Manuel Vieira
Garden Valley, CA

Great Shape of America
Steve Lubarsky
Los Angeles, CA

Imperial Steel & Tube
Rick Stamper
Perris, CA

Wood Rat Productions
Dennis McKee
Murrietta, CA

Hayward Ace Hardware
Andrew Lee
Hayward, CA

Rossi Building Materials
Richard Nelepovitz
Fort Bragg, CA

Thrillworks, Extreme Engineer
Jeff Wilson
Newcastle, CA

Outhouse Collection
Jeanette Skaff
Arnold, CA

Professional References:

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Pine Grove, CA
(209) 296-2220

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

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

Guy Barber, Title Officer
Alliance Title Insurance
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Director, Amador Econ. Dev. Corp.
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Karen Simons, Loan Officer
Bank of the West
(916) 563-2939

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

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

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

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

Appraiser's Certification

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

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

C. Frederick Hall III, MBA

April 10, 2008
Date

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

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