AFFORDABLE BUSINESS VALUATIONS

BROKER OR BANKER CALCULATION VALUATION

The following sample is a Calculation Valuation that produces a Most Probable Selling Price and a Probable Range of Selling Prices. The model is designed to give a broker and his client or a Banker a good solid estimate for the value of the business. It is NOT USPAP compliant. Valuation is an Asset Sale price. Stock Sale prices cannot be calculated.

The following data must be supplied by the Broker or Banker:

1. **Company Name (e.g. – ABC Foods)**
2. **4 Digit SIC Code (e.g. – 5411)**
3. **Description of operations (e.g. convenience grocery store, no gas)**
4. **Gross Revenues for recent 12 month period**
5. **Sellers Discretionary Earnings for recent 12 month period**
6. **Inventory on hand (if any)**
7. **Fixtures and Equipment (balance sheet amount before depreciation)**
8. **Accumulated depreciation on Fixtures and Equipment**

You may have your Company name and logo and your name inserted on the cover page.

PRICING (minimum 2 per month average)

2-3 valuations per month (25 per year)	**-**	**$75 each, billed monthly by Paypal invoice.**
4-5 valuations per month (50 per year)	**-**	**$60 each billed monthly by Paypal invoice**
6-7 valuations per month (75 per year)	**-**	**$50 each billed monthly by Paypal invoice.**
8+ valuations per month (100 per year)	**-**	**$40 each billed monthly by Paypal invoice**

You may request pictures or other marketing data to be appended at the end of a report for an extra $10 charge.

You may request valuations to be updated with current financial information for $20 each.

C. Fred Hall, Broker

Jackson Electrical

BROKER'S OPINION OF VALUE

February 1, 2011

Amador Appraisals
and Acquisitions, Inc.
Business Brokerage and Appraisals

February 1, 2011

C. Fred Hall, Broker
Jackson Electrical Contractors
10300 Argonaut Drive
Jackson, CA 95642

Dear Mr. Hall:

The appraisal assignment called for determining the Fair Market Value of your client's company, Jackson Electrical Contractors as of February 1, 2011. The valuation is for a 100% controlling interest in the Company as if sold on an Asset Sale Basis.

The Market Approach was employed in the valuation in which four different methods were used to estimate the Subject's value. Each of the methods used developed different values for the Subject. This is a normal occurrence since each procedure focuses on different aspects of the Company's operations. Those methods that produced the highest regression R Squared factor are considered the strongest indicators of the Subject's value and, as such, are given the greatest weight in arriving at the final Conclusion of Value.

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

In my opinion, using the accepted methodologies of valuation, and subject to the limiting conditions set forth in this report, the Fair Market Value of Jackson Electrical Contractors on an Asset Sale basis as of February 1, 2011 is :

Fair Market Value: $128,000

One Hundred Twenty-Eight Thousand Dollars

The above value includes the value of the Company's Inventory. Inventory as of the date of this valuation was estimated at $22,000. The Fair Market Value is, therefore, restated at $106,000 plus inventory of $22,000.

Suggested Listing Price: $140,000

One Hundred Forty Thousand Dollars

Appraiser's Certificate

1) The statements of fact contained in this report are true and correct to the best of my knowledge and belief, subject to the assumptions and conditions stated.

2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, unbiased and professional analyses, opinions, and conclusions.

3) I have no present or prospective interest in the property that is the subject of this report, nor is my compensation dependent upon the value of this report or contingent upon producing a value that is favorable to the client.

4) I have no personal bias with respect to the parties involved nor have I made a full disclosure of any such bias.

5) This appraisal is a Calculation Valuation only and is not prepared in conformity with the Business Appraisal Standards of the Institute of Business Appraisers.

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

Sincerely,

C. Fred Hall III, MBA, AIBA

February 1, 2011

Sold Comparables Analysis

Jackson Electrical Contractors

	Listing Price (a)	Selling Price (b)	Gross Revenues (c)	Cash Flow (SDE) (d)	Inventory (e)	Fixtures (f)	SDE% d ÷ c	Revenue Multiplier b ÷ c	Cash Flow Multiplier b ÷ d	Enterprise Multiplier (b - e) ÷ d
1	200,000	150,000	441,000	21,000	50,000	3,000	4.8%	0.34	7.14	4.76
2	125,000	90,000	296,000	23,000	22,000	16,000	7.9%	0.30	3.87	2.92
3	35,000	30,000	204,000	18,000	3,000	20,000	9.0%	0.15	1.64	1.48
4	50,000	50,000	122,000	27,000	24,000	32,000	22.4%	0.41	1.83	0.95
5	100,000	95,000	300,000	76,000	33,000	50,000	25.3%	0.32	1.25	0.82
6	150,000	130,000	296,000	87,000	10,000	20,000	29.4%	0.44	1.49	1.38
7	175,000	110,000	248,000	83,000	28,000	82,000	33.6%	0.44	1.32	0.99
8	415,000	375,000	492,000	171,000	25,000	15,000	34.8%	0.76	2.19	2.05
9	475,000	375,000	460,000	162,000	50,000	45,000	35.2%	0.81	2.32	2.01
10	66,000	56,000	124,000	48,000	1,000	12,000	38.7%	0.45	1.17	1.15
11	171,000	166,000	226,000	94,000	57,000	15,000	41.6%	0.73	1.77	1.16
12	240,000	240,000	313,000	132,000	5,000	25,000	42.2%	0.77	1.82	1.78
13	125,000	90,000	154,000	80,000	15,000	18,000	51.9%	0.58	1.13	0.94
14	425,000	405,000	450,000	250,000	30,000	70,000	55.6%	0.90	1.62	1.50
15	125,000	110,000	163,000	91,000	5,000	5,000	55.6%	0.68	1.21	1.16
16										
17										
18										
19										
20										
21										
22										
23										
24										
25										
Average	192,000	165,000	286,000	91,000	24,000	29,000	SDE % Range	Revenue Mult Range	Cash Flow Mult Range	Enterprise Mult Range

Selling Price / Listing Price = 85.6%

The Lowest 16% of Companies have SDE% of Less Than	16.1%*	=	0.36*	3.09*	2.25*
The Mid Range of Companies have SDE% of	34.8%*	=	0.56*	1.98*	1.59*
The Highest 16% of Companies have SDE% of More Than	48.9%*	=	0.72*	1.14*	1.09*

Financial Data

Date of Valuation:	February 1, 2011
	C. Fred Hall, Broker
Company Name:	Jackson Electrical Contractors
Address:	10300 Argonaut Drive
City, State:	Jackson, CA 95642
Annual Revenues =	$230,000
Cash Flow (SDE%) =	$74,500 (SDE% = 32.4%)
Current Inventory =	$22,000
Current Fixtures =	$40,000

Jackson Electrical Contractors's SDE % is 32.4% — The Subject is in the Middle Range of SDE%.

** Multiplier Formulas using Subject's SDE% of 32.4% (= 0.324)

(1) Revenue Multiplier Using Subject's SDE% = 0.324 x 1.08 + 0.188 = 0.54

0.54 x $230,000 = $124,000 — Weight = 26.9%

(2) Cash Flow Multiplier Using Subject's SDE% = 0.324 x -5.949 + 4.053 = 2.13

2.13 x $74,500 = $158,700 — Weight = 17.2%

(3) Enterprise Multiplier Using Subject's SDE% = 0.324 x -3.547 + 2.822 = 1.67

1.67 x $74,500 + $22,000 = $146,400 — Weight = 14.1%

(4) Formula for Multiple Regression Value =

0.376 x $230,000 + 1.381 x $74,500 + 0.628 x $22,000 + -0.703 x $40,000 + ($63,148)

= $111,913 — Weight = 41.8%

Suggested Listing Price $140,000

Most Probable Selling Price (rounded) = $128,000

Most Probable Range of Selling Prices = $118,000 to $153,000

* Companies with earnings that are negative or near zero, will have Cash Flow Multiples that are negative or extraordinarily high, causing data to be skewed inappropriately. Therefore, Companies with Cash Flow Multiples that are negative or greater than 8 are ignored in this calculation.

** A Regression Analysis was used to create a formula showing the linear relationship between the SDE% and the Revenue, Cash Flow and Enterprise Multiples of the above Comparables. The Subject's SDE% is then plugged into each formula to calculate the Subject's Multipliers.

1.0 DATABASES SELECTED

The most commonly used databases in the Direct Market Data Method are Pratt's Stats, BIZCOMPS, BizBuySell, and the Institute of Business Appraisers (IBA) databases. For the most part, the data from these sources is obtained from business brokers who represented the buyer or the seller in the transaction. 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, we simply add inventory to the BIZCOMPS' reported selling price in order to be comparable to the other two databases. BIZCOMPS reports 17 data points for each transaction and claims to "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.*[1]

Pratt's Stats has over 60 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. The greater detail offered by the Pratt's Stats database can help reduce errors in selecting the transactional data. Therefore, if there are any discrepancies arising among duplicate transactions reported by the three databases, the Pratt's Stats data will generally be used in the analysis.

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

1.1 Timing of the Sale

The transactions used for business valuations are often several years old. Most of us exposed to real estate appraisals on private residences have been told that proximity to the subject house and timing of the comparable's sale are critical to the valuation. Business valuations, however, are not derived by looking at the actual selling price of the comparables. Instead, the Subject Company's financial ratios are compared with the ratios of the comparable businesses. Such financial ratios have a tendency to be fairly consistent over time. 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 fairly 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:[2]

> *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*

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

was made. The arithmetic mean was .44 and the median was .37. The same analysis was made of the Seller's Discretionary Earnings (SDE) to Sale Price ratio. The arithmetic mean for the current study was 1.95 while the median was 1.8. In the over 10 year-old data, the arithmetic mean was 2.0 and the median was 1.8.[3]

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

1.2 Location

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

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

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

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

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[3] Jack Sanders, *BIZCOMPS User Guide*, Las Vegas, NV, 2004, p. 7

Exhibit I Market Value Multiples by Different States

State	Median Revenue	Median Cash Flow Margin	Median Cash Flow Multiple	Median Rev Multiple	Population Growth	Income Growth	# of Sales
CA	600,000	18.2%	2.33	0.40	7.9%	28.8%	911
UT	354,000	21.0%	2.17	0.49	4.0%	23.5%	95
TX	580,000	19.9%	2.08	0.40	14.6%	22.9%	335
OH	703,000	13.6%	2.22	0.31	1.0%	17.3%	58
WA	465,000	14.1%	2.49	0.36	1.7%	25.0%	58
AZ	535,000	22.2%	2.34	0.50	23.5%	26.1%	436
CO	703,000	18.0%	2.42	0.43	13.0%	19.9%	472
ID	577,000	16.0%	2.57	0.39	9.8%	26.0%	150
GA	742,000	18.8%	2.34	0.43	16.7%	19.1%	424
PA	497,000	18.8%	2.31	0.42	1.2%	25.3%	44
MA	650,000	17.4%	2.33	0.37	1.5%	28.1%	139
FL	596,000	21.7%	2.01	0.42	14.2%	17.2%	2617
MN	500,000	12.6%	3.57	0.49	5.7%	22.7%	124
NC	695,000	15.8%	2.46	0.36	3.3%	20.2%	81
IA	538,000	17.2%	2.25	0.33	2.0%	23.1%	43
	Median	18.0%	2.33	0.40			2,237
	Average	17.7%	2.39	0.41	* 7.0% * 24.2%		
Standard Deviation		2.9%	0.358	0.056	(* Total US Growth Rates)		
Coefficient of Variation		0.163	0.150	0.138			

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

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

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

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

Revenue Multiples and Cash Flow Multiples of companies sold California were exactly equal to the median values found in all major states.

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

1.3 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.

1.4 Size of the Company

The size of a company, in terms of its Gross Revenues, has a direct bearing on its value.

The Pratt's Stats Database of over 11,500 transactions was sorted by size of company. The results below show that, with few exceptions, smaller companies earn lower Cash Flow Multiples and Gross Income Multiples than larger ones. 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 II Cash Flow Multipliers by Size of Company

Total Transactions	Total Sales		Cash Flow Multiplier				Gross Income Multiplier			
	Sales Range	Median Sales	Median	Average	Standard	Coefficient of	Median	Average	Standard	Coefficient of
2236	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%
1044	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										
4780	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 June 3, 2008
The following transactions were eliminated from the above analysis to avoid potential ratio distortions:
1) Corporate Stock Sales
2) Assets Sales where liabilities were assumed.
3) Companies with negative cash flow
4) Companies with Cash Flow Multipliers over 10.0

The Subject Company generated Gross Revenues during the five years observed which peaked at $1,438,318. Accordingly, the "size criteria" used to select guideline companies were those businesses whose revenues fell roughly in the range. Often it is difficult to find enough comparables within a given revenue range similar to the Subject. Therefore, in order to get a sample of reasonable size, it may be necessary to select somewhat larger or smaller guideline companies. In this case, it is important that the average revenue size of the whole sample be fairly close to the Subject's revenue history.

1.5 Other Filtering Criteria

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

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

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

1.6 Selection of Appropriate Comparable Data

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

The Subject Company is classified under SIC code #5251, Hardware Stores. Companies listed under these classifications may not be identical to the subject; however, they may possess many similar characteristics. From a buyer's perspective, then, most of the companies within this group would be equally desirable choices.

The search criteria used for selecting comparables from the four databases, therefore, began by searching SIC codes #5251. A total of 24 comparables were found in the Pratt's Stats database, 56 were found in the BIZCOMPS database, 155 were found in the BizBuySell database, and, 12 were found in the IBA database. The selection was further filtered to include just those companies whose revenues were between $1 million to $2.5 million, with the transactions occurring after 2000 and whose description of operations was similar to the Subject (i.e. Hardware Stores). A total of five comparables were found in the Pratt's Stats database, ten were found in the BIZCOMPS database, eight were found in the BizBuySell database, and, zero were found in the IBA database.

Specific details on all of these companies can be found in the appendix beginning on Page 63.

2.0 Identifying Outliers in the Selected Sample of Comparables

2.1 Coefficient of Variation

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

Exhibit III Example Coefficient of Variation

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

that reason, standard deviation and coefficient of variation tests will be run on the sample which will then be compared to the entire Pratt's Stats database of 11,500 companies.

Standard Deviation is a statistical tool that measures the 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, when comparing our small selection of comparables to the entire Pratt's Stats database, the Standard Deviations of the two samples, by itself, does not tell us which sample is more accurate. For that determination we use the Coefficient of Variation (CV). CV is the Standard Deviation of the sample divided by its Average. This is a measure of the *relative* variation that a sample possesses. Thus, the coefficient gives us a tool to compare different samples in terms of their respective variability. If one sample has a much lower CV than the second, we can assume that the second sample has one or two outlying observations that may be distorting its overall average and, thereby, giving us a false read of the market.

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

As noted by Shannon Pratt in his Market Approach to Valuing Businesses, "All else being equal, multiples [derived from a sample database] exhibiting low Coefficients of Variation tend to more accurately reflect market consensus with respect to value."[4] Mr. Pratt also notes, "When Market Value Multiples among companies are tightly clustered, this suggests that these are the multiples that the market pays most attention to in pricing companies … in that industry."[5]

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

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[4] Shannon Pratt, *The Market Approach to Valuing Businesses*, (John Wiley and Sons, Inc., 2001), p. 212
[5] Ibid., p. 133
[6] Ibid., p. 134

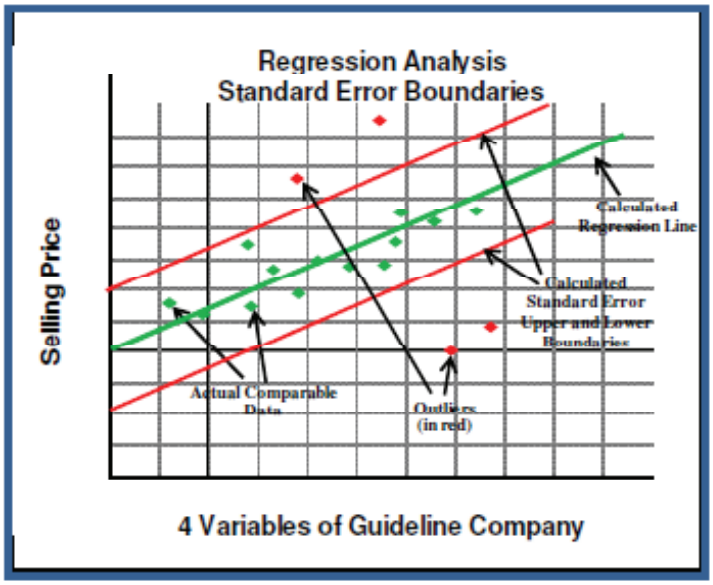
Thus, if the growth rate of the subject or its profitability is greater than or less than the guideline companies as a whole, there would be justification to move the observed multiple upward or downward by a percentage, or, even go to the upper or lower quartile of the sample's range.

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

2.2 Regression Analysis

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

Exhibit IV Outliers Identified by Standard Error



Regression Analysis is a statistical tool that will look at how four key characteristics of each guideline company (Gross Revenues, Cash Flow, Inventory, and Fixtures) interact to predict its selling price. If all the points representing Revenues, Cash Flow, Inventory, and Fixtures for all the selected comparables are plotted on a graph, the regression calculation produces a line that seems to "best fit" all those points. The regression line, therefore, is the measurement representing the closest relationship between these four variables and the selling price of all the observed companies in the sample.

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

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

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

2.3 Procedures Used in the Direct Market Data Method

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

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

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

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

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

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

However, the same problem with the Gross Revenue Multiplier exists with the Cash Flow Multiplier. That is, the ratio only focuses on one aspect of the company's operations, its Cash

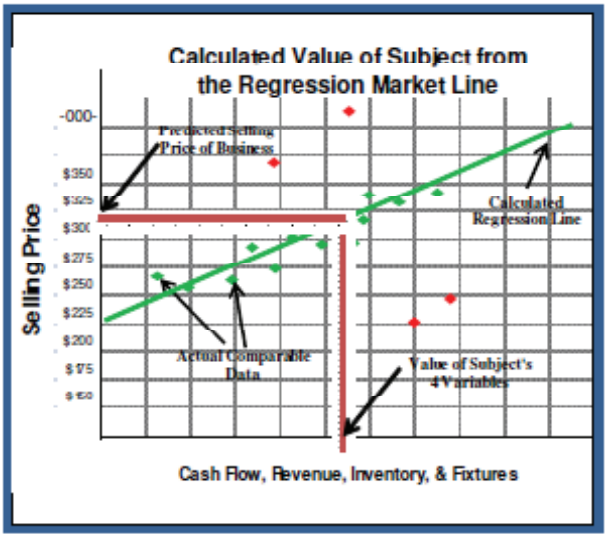
Flow. Therefore, if used by itself, this ratio may produce a misread of the company's value. For that reason the Market Approach typically includes both ratios to estimate the value of a business.

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

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

The "Enterprise Value + Inventory" methodology deducts the volatile Inventory component from the selling price of the business. The difference is then divided by the company's Discretionary Cash Flow. The resulting ratio can be used to determine what is referred to as the "Enterprise Value" of the business; that is, the value of a business *excluding* its Inventory. By using this methodology in the two above examples, we find that Enterprise Value for both businesses was 1.60 [Store 1 = ($400,000 - 200,000) ÷ $125,000; Store #2 = ($600,000 - 400,000) ÷ $125,000]. We can then use this ratio to estimate the value of a third hardware store which generated, say, $1,450,000 in Gross Revenues, $200,000 in Cash Flow, and had $375,000 in Inventory. Store #3's Enterprise Value is $320,000 ($200,000 x 1.60); its total value 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.

Exhibit V Example Regression Analysis



2.3.4 Regression Analysis

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

Our Market Approach will employ four

different Regression calculations. The first is referred to as a "Multiple Variable Regression Analysis. This statistical tool looks at how four variables (gross revenues, cash flow, inventory, and fixtures) interact to indicate the Fair Market Value of a business. For demonstration purposes a simplified Regression Analysis is graphed in Exhibit XVI. The values for the Selling Price and the four variables of the 17 comparables were plotted on the chart and a regression line was then calculated. The value of the subject company's four variables is then located on the Regression Line and from that point we can identify the selling price from the vertical Y-Axis on the left side of the chart.

The remaining three Regression calculations will compare the Cash Flow Profit Margins of the comparables against their Cash Flow Multipliers, Revenue Multipliers, and Enterprise Multipliers. These three tests are discussed in greater detail below.

2.3.5 Cash Flow Profit Margin – (Discretionary Earnings ÷ Revenues)

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

Exhibit VI Cash Flow Profit Margin by Size of Company

Total Transactions	Sales Range	Median Cash Flow Profit Margin
2235	$0-$500,000	23.4%
921	$500,000-$1,000,000	18.1%
626	$1,000,000-$2,000,000	15.9%
410	$2,000,000-$5,000,000	15.5%
120	$5,000,001-$8,000,000	13.2%
213	$8,000,001-$25,000,000	14.8%
252	$25,000,001+	11.2%
Overall Totals		
4811	All Transactions	19.3%

Pratts Stats Database of 11,501 transactions, 5/30/08.

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

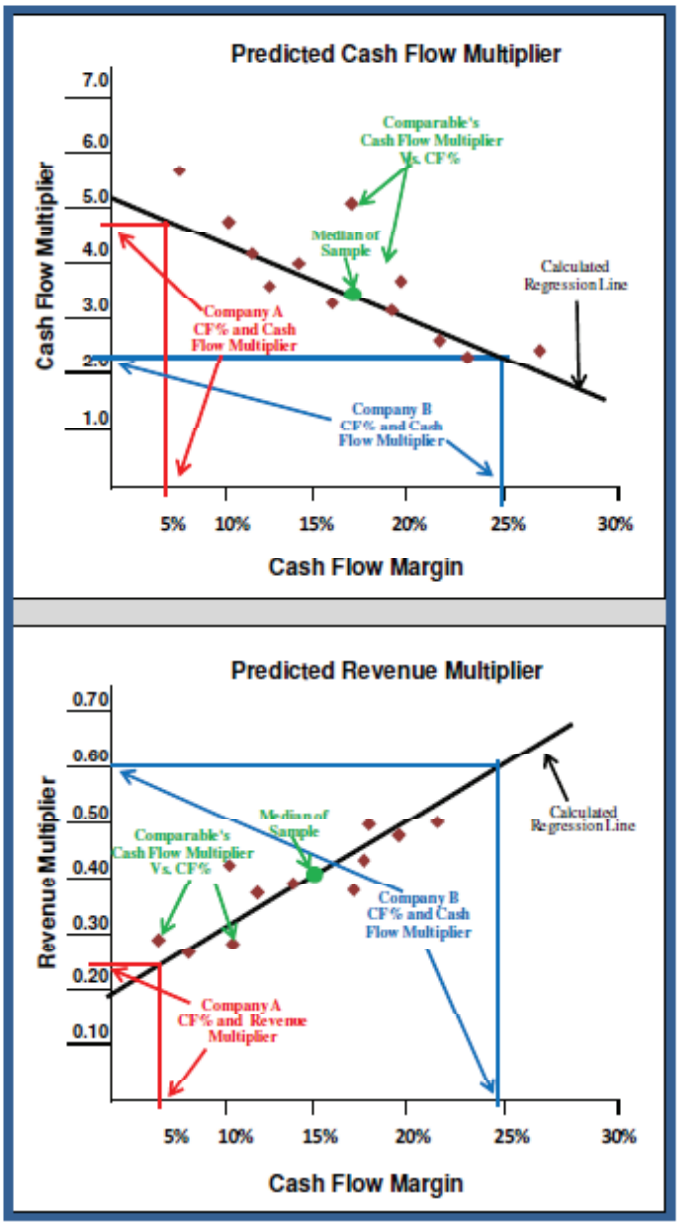
1) Corporate Stock Sales
2) Assets Sales where liabilities were assumed.
3) Companies with negative cash flow
4) Companies with Cash Flow Multipliers over 10.0

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

Since this one measure of a company's profitability will be used extensively in the following Market Approach, it is important to understand all the subtleties behind it. First, from Exhibit XVI we can see that ***THE LARGER THE COMPANY IS, THE LOWER ITS CF%.*** This appears to be a direct contradiction to what we

observed in the previous section above, i.e., the ***larger*** the company the ***higher*** its Cash Flow Multiplier. This apparent anomaly can be explained as follows:

Exhibit VII Predicting Multipliers Using CF%



In smaller companies under $500,000 in revenue, the owner typically "wears all the hats." He is the salesman, marketing manager, HR manager, and bookkeeper. All the profits flow to the owner to compensate him for all these jobs. As we see from Exhibit XIX, companies that size generate cash flow at an average of 23.4% of every dollar of Revenue. For a $500,000 company, then, that would translate to $117,000 in Discretionary Earnings. From Exhibit XV we see that a $500,000 company would sell for 2.17 times its earnings, or $254,000.

For a company to grow to $2 million, however, the owner must now hire a bookkeeper, and HR manager and possibly a CFO. The company is now too big to do everything himself. On the average, a $2 million company earns $318,000 in Discretionary Earnings ($2 million x 15.9% (from Exhibit XVI)), meaning that the ***additional*** $1.5 million in sales added $201,000 in earnings, or a 13.4% CF% ($201,000 ÷ $1,500,000). **However, even though that added revenue comes at a much lower CF%, it is still putting more money in the owner's pocket.** Not only did his salary increase, but also he is now starting to earn a return on the investment he made in his company. Whereas the market typically places the value of a company at roughly $2 for every dollar that flows to an owner's salary, it is willing to pay $4 to $8 for each additional dollar that represents a return of investment. So, if our $2 million company paid the owner a $150,000 salary, and the remaining $168,000 represented return on investment, the market would price the business at approximately 2 x $150,000 + 4 x $168,000, or $972,000. The resulting Cash Flow Multiplier would be 3.05 ($972,000 / $318,000).

Thus, this larger company produced a *lower* CF%, yet earned a *higher* Cash Flow Multiple than the smaller company. The importance of this peculiarity is that in using CF% to predict the value of a business, it becomes increasingly important to select a sample of comparables that are as close in revenue size to the Subject as possible, and that are from similar SIC classifications.

A second oddity that one must be aware of when comparing the companies of similar size and SIC classification is that: ***THE LOWER THEIR CASH FLOW PROFIT MARGINS (CF%), THE HIGHER THEIR CASH FLOW MULTIPLIERS TEND TO BE.*** This seemingly contradicts everything we know about Market Approach science! We have always assumed that highly profitable companies always earned higher Cash Flow Multiples than their underperforming counterparts. However, a statistical analysis of the Pratt's Stats database shows that this is not the case.

A regression analysis was performed on the Pratt's Stats database of 11,500 sold transactions comparing a company's CF% with its corresponding Cash Flow Multiplier[7]. The R square of the regression was only .18. Since this factor is low (0 means no correlation and 1.0 means perfect correlation), one could not conclude that CF% is a good indicator of a company's Cash Flow Multiplier. However, when we filter that sample further to only include companies near the same revenue level as the Subject and that are in similar SIC Classification, the resulting regression produces an R square significantly higher, usually from .40 to .70 or more. In other words, when we select a small sample of companies that have a similar revenue level and SIC Classification as the Subject, the Subject's CF% is a reasonably good indicator of its potential Cash Flow Multiplier. However, from Exhibit XX we note that the regression line in the upper graph is in **a downward slope**. In other words, the ***higher*** a company's CF% the ***lower*** its Cash Flow Multiplier.

This oddity is easily explained by the example shown in the upper half of Exhibit XX. Company A, with revenues of $500,000 and Cash Flow of $24,000, sold for $110,000. Company B, also with $500,000 in revenues, but with $125,000 in cash flow, sold for $300,000. As we would expect, Company B sold for more money because it had higher earnings. However, Company B only produced a Cash Flow Multiplier of 2.4 ($300,000 ÷ 125,000), but had a high CF% of 25% ($125,000 ÷ $500,000). On the other hand, the underperforming Company A earned a Cash Flow Multiplier of 4.6 ($110,000 ÷ $24,000) but only had a CF% of 4.8% ($24,000 ÷ $500,000). Company A's high Cash Flow Multiplier was not a function of a high selling price, but rather the function of a very low level of Cash Flow, the denominator of the equation.

Appraisers typically use the Median Cash Flow Multiplier for the whole sample of comparables to value a business. In the above example, the Median was 3.5. If we merely used the Median Multiplier to estimate Company A and B's probable selling prices we would have priced A at $84,000 (3.5 x $24,000) and B at $437,500 (3.5 x $125,000). We would have been way low on the first valuation and way high on the second. However, by using the regression formula and Subject's CF% to calculate its Cash Flow Multiplier, we would have determined that the

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

company with a low CF% would have had a high multiplier, and the company with the high CF% would have had a low Multiplier.

When regressing the CF% against the **Revenue Multipliers** of a sample, the resulting R square factor is even more compelling than we found in the Cash Flow Multiplier. The factor typically rises as high as.80, indicating that there is a very strong correlation between a company's CF% and its Revenue Multiplier. In addition, Revenue Multipliers follow a more logical pattern. From the graph at the bottom half of Exhibit XX we can see that **companies with higher CF% also earn higher Revenue Multipliers.**

From the example above, Company A only had a CF% of 4.8% and, as a result, the Regression Equation predicted a weak Revenue Multiplier of .22. Company B, however, had a strong CF% of 25% and, accordingly, earned an equally strong Revenue Multiplier of .60. Again, if we only decided to use the sample's Median Revenue Multiplier of 0.40, the calculated value for both companies would be $200,000 (.40 x $500,000). Simple logic would tell us that both companies are not worth the same; the second company makes five times as much cash flow! **The Regression properly accounts for the difference in a company's profitability, whereas, the Median of the sample does not.**

Exhibit VIII Sample of Comparables Sorted by SDE%

	Listing Price (a)	Selling Price (b)	Gross Revenues (c)	Cash Flow (SDE) (d)	Inventory (e)	SDE% d ÷ c	Revenue Multiplier b ÷ c	Cash Flow Multiplier d ÷ b
1	400,000	215,000	536,000	50,000		9.3%	0.40	4.30
2	390,000	390,000	834,000	79,000	5,000	9.5%	0.47	4.95
3	295,000	285,000	548,000	54,000	30,000	9.8%	0.52	5.29
4		200,000	530,000	56,000	2,000	10.6%	0.38	3.55
5	400,000	350,000	883,000	97,000	102,000	11.0%	0.40	3.60
6	151,000	205,000	505,000	80,000	5,000	15.8%	0.41	2.56
7	450,000	400,000	824,000	129,000	3,000	15.6%	0.49	3.11
8	160,000	155,000	712,000	118,000	12,000	16.6%	0.22	1.31
9	323,000	323,000	800,000	135,000	3,000	16.9%	0.40	2.39
10	520,000	325,000	800,000	160,000	20,000	20.0%	0.41	2.03
11	395,000	360,000	736,000	153,000	20,000	20.8%	0.49	2.35
12	260,000	210,000	846,000	177,000		20.9%	0.25	1.19
13	385,000	385,000	800,000	200,000	10,000	25.0%	0.48	1.93
14	265,000	200,000	550,000	145,000	14,000	26.4%	0.36	1.36
15	333,000	273,000	517,000	137,000	150,000	26.5%	0.53	1.99
16	550,000	440,000	733,000	195,000		26.7%	0.60	2.25
17	898,000	425,000	774,000	222,000	33,000	28.7%	0.55	1.91
18	408,000	388,000	536,000	167,000	8,000	31.2%	0.72	2.32
19	550,000	525,000	667,000	225,000	25,000	33.7%	0.79	2.33
20	225,000	325,000	623,000	245,000		39.3%	0.52	1.33
21	750,000	500,000	633,000	258,000	40,000	40.8%	0.79	1.94

The above sample of typical cabinet shops illustrates what we have been discussing. The sample was sorted by each company's SDE% from lowest to highest. As we can see the Revenue Multipliers have a tendency to be lower for those companies with a lower SDE%. However, the companies with a lower SDE% have a tendency to have higher Cash Flow Multiples.

Thus, Regression Analysis gives us a far better tool to project the Subject's probable Revenue Multiplier and Cash Flow Multiplier by taking into account its level of profitability.

Prepared By
C. Fred Hall, MBA
Business Consultant

Sold
Comparables

Jackson Electrical Contractors

February 1, 2011

The following pages are write-ups for the comparables that were listed
On Page One of this report.

Transaction Details — Comp # 1

Source:	Pratts Stats
Business Description	Home Theater Sales and Installation - Audio Video
SIC	1731 Special trade contractors - Electrical Work
Location	CA
Number of Employees	3

0

Transaction Data

Date of Sale	6/2/2008
Days on the Market	160
Asking Price	$200,000
Equivalent Asset Sale Price	$150,000
Percent Down Payment	66%
Terms of Deal	

Income Data

Annual Gross Sales	$441,000
Franchise Royalty	0
Cash Flow (SDE)	$50,000

Asset Data

Inventory	$0
Furniture Fixtures, and Equipment	$7,143
Value of Real Estate	$0

Operating Ratios

Cash Flow Profits Margin (SDE%)	11.3%
Rent/Annual Sales	2.0%

Valuation Multiples

Revenue Multiplier	0.34
Cash Flow Multiplier	3.00
Enterprise Multiplier	3.00

Transaction Details — Comp # 2

Source:	Pratts Stats
Business Description	Electrical Contractor
SIC	1731 Special trade contractors - Electrical Work
Location	AZ
Number of Employees	0

The reason for selling was relocation. Purchase Price Allocation: $50,000 goodwill, $30,000 non-compete, $6,000 customer list, $2,500 telephone numbers, $1,500 tools.

Transaction Data

Date of Sale	11/29/2004
Days on the Market	0
Asking Price	$137,500
Equivalent Asset Sale Price	$90,000
Percent Down Payment	0%
Terms of Deal	

Income Data

Annual Gross Sales	$295,502
Franchise Royalty	0
Cash Flow (SDE)	$22,000

Asset Data

Inventory	$0
Furniture Fixtures, and Equipment	$3,868
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	7.4%
Rent/Annual Sales	0.4%

Valuation Multiples

Revenue Multiplier	0.30
Cash Flow Multiplier	4.09
Enterprise Multiplier	4.09

Transaction Details	**Comp # 3**	
Source:	Pratts Stats	
Business Description	Commercial and Residential Electrical Services	
SIC	1731	Special trade contractors - Electrical Work
Location	OR	
Number of Employees	2	0

Transaction Data	
Date of Sale	6/1/2006
Days on the Market	0
Asking Price	$35,000
Equivalent Asset Sale Price	$30,000
Percent Down Payment	100%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$203,559	Inventory	$0
Franchise Royalty	0	Furniture Fixtures, and Equipment	$1,642
Cash Flow (SDE)	$3,000	Value of Real Estate	$0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	1.5%	Revenue Multiplier	0.15
Rent/Annual Sales	1.1%	Cash Flow Multiplier	10.00
		Enterprise Multiplier	10.00

Transaction Details	**Comp # 4**	
Source:	Pratts Stats	
Business Description	Telephone System Installation and Repair Company (Run from Seller's Home)	
SIC	1731	Special trade contractors - Electrical Work
Location	CA	
Number of Employees	0	0

Transaction Data	
Date of Sale	4/23/2004
Days on the Market	0
Asking Price	$50,000
Equivalent Asset Sale Price	$50,000
Percent Down Payment	100%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$122,272	Inventory	$0
Franchise Royalty	0	Furniture Fixtures, and Equipment	$1,828
Cash Flow (SDE)	$24,000	Value of Real Estate	0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	19.6%	Revenue Multiplier	0.41
Rent/Annual Sales	0.0%	Cash Flow Multiplier	2.08
		Enterprise Multiplier	2.08

Transaction Details	**Comp # 5**	
Source:	Bizcomps	
Business Description	Contr-Electrical	
SIC	1731	Special trade contractors - Electrical Work
Location	Florida	
Number of Employees	3	

Transaction Data	
Date of Sale	10/31/2003
Days on the Market	530
Asking Price	$100,000
Equivalent Asset Sale Price	$95,000
Percent Down Payment	74%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$300,000	Inventory	$0
Franchise Royalty	0	Furniture Fixtures, and Equipment	$1,250
Cash Flow (SDE)	$33,000	Value of Real Estate	$0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	11.0%	Revenue Multiplier	0.32
Rent/Annual Sales	1.0%	Cash Flow Multiplier	2.88
		Enterprise Multiplier	2.88

Transaction Details	**Comp # 6**	
Source:	Bizcomps	
Business Description	Contr-Electrical	
SIC	1731	Special trade contractors - Electrical Work
Location	Florida	
Number of Employees	3	

Transaction Data	
Date of Sale	10/31/2009
Days on the Market	92
Asking Price	$165,000
Equivalent Asset Sale Price	$130,000
Percent Down Payment	50%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$296,000	Inventory	$0
Franchise Royalty	No	Furniture Fixtures, and Equipment	$1,494
Cash Flow (SDE)	$10,000	Value of Real Estate	0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	3.4%	Revenue Multiplier	0.44
Rent/Annual Sales	0.0%	Cash Flow Multiplier	13.00
		Enterprise Multiplier	13.00

Transaction Details — Comp # 7

Source:	Pratts Stats
Business Description	Electrical Service
SIC	1731 Special trade contractors - Electrical Work
Location	CA
Number of Employees	0

The seller was forced to sell due to health issues. The business was closed on May 15, 2007 and the phone was suspended.

Transaction Data

Date of Sale	8/24/2007
Days on the Market	134
Asking Price	$175,000
Equivalent Asset Sale Price	$110,000
Percent Down Payment	100%
Terms of Deal	

Income Data

Annual Gross Sales	$247,625
Franchise Royalty	0
Cash Flow (SDE)	$28,000

Asset Data

Inventory	$0
Furniture Fixtures, and Equipment	$1,322
Value of Real Estate	$0

Operating Ratios

Cash Flow Profits Margin (SDE%)	11.3%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.44
Cash Flow Multiplier	3.93
Enterprise Multiplier	3.93

Transaction Details — Comp # 8

Source:	Bizcomps
Business Description	Telephone Systems
SIC	1731 Special trade contractors - Electrical Work
Location	Florida
Number of Employees	6

Transaction Data

Date of Sale	8/31/2006
Days on the Market	999
Asking Price	$415,000
Equivalent Asset Sale Price	$375,000
Percent Down Payment	23%
Terms of Deal	

Income Data

Annual Gross Sales	$492,000
Franchise Royalty	No
Cash Flow (SDE)	$25,000

Asset Data

Inventory	$0
Furniture Fixtures, and Equipment	$2,193
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	5.1%
Rent/Annual Sales	3.7%

Valuation Multiples

Revenue Multiplier	0.76
Cash Flow Multiplier	15.00
Enterprise Multiplier	15.00

Transaction Details	**Comp # 9**	
Source:	Pratts Stats	
Business Description	Telecommunications - New Systems, Cabling and Maintenance	
SIC	1731	Special trade contractors - Electrical Work
Location	AL	
Number of Employees	5	0

Transaction Data	
Date of Sale	12/20/2007
Days on the Market	69
Asking Price	$475,000
Equivalent Asset Sale Price	$375,000
Percent Down Payment	100%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$460,157	Inventory	$0
Franchise Royalty	0	Furniture Fixtures, and Equipment	$2,315
Cash Flow (SDE)	$50,000	Value of Real Estate	$0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	10.9%	Revenue Multiplier	0.81
Rent/Annual Sales	4.8%	Cash Flow Multiplier	7.50
		Enterprise Multiplier	7.50

Transaction Details	**Comp # 10**	
Source:	Bizcomps	
Business Description	Contr-Electrical	
SIC	1731	Special trade contractors - Electrical Work
Location	Florida	
Number of Employees	1	

Transaction Data	
Date of Sale	8/13/2001
	240
Asking Price	$66,000
Equivalent Asset Sale Price	$56,000
Percent Down Payment	100%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$124,000	Inventory	$0
Franchise Royalty	0	Furniture Fixtures, and Equipment	$1,167
Cash Flow (SDE)	$1,000	Value of Real Estate	0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	0.8%	Revenue Multiplier	0.45
Rent/Annual Sales	0.0%	Cash Flow Multiplier	56.00
		Enterprise Multiplier	56.00

Transaction Details	**Comp # 11**	
Source:	Bizcomps	
Business Description	Contr-Electrical	
SIC	1731	Special trade contractors - Electrical Work
Location	Florida	
Number of Employees	3	

Transaction Data	
Date of Sale	1/13/2006
Days on the Market	126
Asking Price	$171,000
Equivalent Asset Sale Price	$166,000
Percent Down Payment	100%
Terms of Deal	

Income Data		**Asset Data**	
Annual Gross Sales	$226,000	Inventory	$0
Franchise Royalty	No	Furniture Fixtures, and Equipment	$1,766
Cash Flow (SDE)	$57,000	Value of Real Estate	$0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	25.2%	Revenue Multiplier	0.73
Rent/Annual Sales	0.0%	Cash Flow Multiplier	2.91
		Enterprise Multiplier	2.91

Transaction Details	**Comp # 12**	
Source:	Bizcomps	
Business Description	Contr-Lightning Protection	
SIC	1731	Special trade contractors - Electrical Work
Location	Florida	
Number of Employees	3	

Transaction Data	
Date of Sale	8/30/2007
Days on the Market	138
Asking Price	$240,000
Equivalent Asset Sale Price	$240,000
Percent Down Payment	88%
Terms of Deal	0

Income Data		**Asset Data**	
Annual Gross Sales	$313,000	Inventory	$0
Franchise Royalty	No	Furniture Fixtures, and Equipment	$1,818
Cash Flow (SDE)	$5,000	Value of Real Estate	0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	1.6%	Revenue Multiplier	0.77
Rent/Annual Sales	0.0%	Cash Flow Multiplier	48.00
		Enterprise Multiplier	48.00

Transaction Details	**Comp # 13**	
Source:	Bizcomps	
Business Description	Service-Telco Systems	
SIC	1731	Special trade contractors - Electrical Work
Location	Bakersfield, CA	
Number of Employees	1	

Transaction Data	
Date of Sale	12/30/2004
Days on the Market	174
Asking Price	$125,000
Equivalent Asset Sale Price	$90,000
Percent Down Payment	100%
Terms of Deal	0

Income Data		**Asset Data**	
Annual Gross Sales	$154,000	Inventory	$0
Franchise Royalty	0	Furniture Fixtures, and Equipment	$1,125
Cash Flow (SDE)	$15,000	Value of Real Estate	$0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	9.7%	Revenue Multiplier	0.58
Rent/Annual Sales	0.0%	Cash Flow Multiplier	6.00
		Enterprise Multiplier	6.00

Transaction Details	**Comp # 14**	
Source:	Bizcomps	
Business Description	Contr-Electrical	
SIC	1731	Special trade contractors - Electrical Work
Location	Phoenix, AZ	
Number of Employees	0	

Transaction Data	
Date of Sale	6/30/1998
Days on the Market	157
Asking Price	$425,000
Equivalent Asset Sale Price	$405,000
Percent Down Payment	100%
Terms of Deal	0

Income Data		**Asset Data**	
Annual Gross Sales	$450,000	Inventory	$0
Franchise Royalty	0	Furniture Fixtures, and Equipment	$1,620
Cash Flow (SDE)	$30,000	Value of Real Estate	0

Operating Ratios		**Valuation Multiples**	
Cash Flow Profits Margin (SDE%)	6.7%	Revenue Multiplier	0.90
Rent/Annual Sales	0.0%	Cash Flow Multiplier	13.50
		Enterprise Multiplier	13.50

Transaction Details	Comp # 15	
Source:	Pratts Stats	
Business Description	Installs Home Theater and Satellite Systems	
SIC	1731	Special trade contractors - Electrical Work
Location	CO	
Number of Employees	0	0

Transaction Data	
Date of Sale	8/1/2003
Days on the Market	0
Asking Price	$125,000
Equivalent Asset Sale Price	$110,000
Percent Down Payment	0%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$162,777	Inventory	$0
Franchise Royalty	0	Furniture Fixtures, and Equipment	$1,215
Cash Flow (SDE)	$5,000	Value of Real Estate	$0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	3.1%	Revenue Multiplier	0.68
Rent/Annual Sales	0.0%	Cash Flow Multiplier	22.00
		Enterprise Multiplier	22.00

Transaction Details	Comp # 16	
Source:	0	
Business Description		
SIC	0	#N/A
Location	0	
Number of Employees	0	

Transaction Data	
Date of Sale	1/0/1900
Days on the Market	0
Asking Price	$0
Equivalent Asset Sale Price	$0
Percent Down Payment	0%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$0	Inventory	$0
Franchise Royalty	0	Furniture Fixtures, and Equipment	#VALUE!
Cash Flow (SDE)	$0	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	#DIV/0!	Revenue Multiplier	#DIV/0!
Rent/Annual Sales	0.0%	Cash Flow Multiplier	#DIV/0!
		Enterprise Multiplier	#DIV/0!