Amador Appraisals and Acquisitions, Inc.
Business Brokerage and Appraisals

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Prepared By

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Cinema Theater Supply

10300 Argonaut Drive
Jackson, CA 95642

Business Valuation

December 31, 2010

Confidential

Amador Appraisals and Acquisitions, Inc.
Business Brokerage and Appraisals

10//2010

Mr. John Smith
Cinema Theater Supply
10300 Argonaut Drive
Jackson, CA 95642

Dear Mr. Smith:

The appraisal assignment called for determining the Fair Market Value of your company, Cinema Theater Supply, a California S-Corporation as of July 31, 2010. 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 focus on the Company's Cash Flow 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 Cinema Theater Supply on an *ASSET SALE BASIS* as of July 31, 2010 is:

$600,000

(Six Hundred Thousand Dollars)

The above value includes the value of the Company's Inventory. Inventory as of July 31, 2010 was estimated at $205,713. The Fair Market Value is, therefore, restated at $394,287 plus inventory of $205,713.

From research of similar businesses currently listed, an appropriate listing price was developed by using the same methodologies that were used to calculate the Fair Market Value.

The Suggested Listing Price is:

$650,000

(Six Hundred Fifty Thousand Dollars)

It should be noted that Affordability Test performed at the end of the report indicated that the proposed selling price will require that a potential buyer have very low personal income requirements. As such, potential transactions with most Buyers will not be acceptable under SBA financing guidelines. Thus, Seller Financing will be required to facilitate those transactions.

Appraiser's Certificate

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

Sincerely,

C. Fred Hall III, MBA, AIBA

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EXHIBITS

1.0 INTRODUCTION

1.1 REPORT DATE: 10//2010

1.2 DATE OF VALUATION: JULY 31, 2010

1.3 SUBJECT OF APPRAISAL

The subject of this business appraisal is Cinema Theater Supply, located at 10300 Argonaut Drive, Jackson, CA 95642. The Company is a California S-Corporation which is solely owned by John Smith A site inspection was not performed. The Owner, John Smith, was interviewed by the Appraiser on August 26, 2010. The Owner's Discretionary Cash Flow Analysis was based on statements made in that interview.

1.4 PURPOSE AND USE

The purpose of the appraisal is to determine the Fair Market Value of a Non-Marketable ownership interest in Cinema Theater Supply on a Marketability, Accrual Basis as if the Company were sold in an Asset Sale format. Listings currently posted on the internet of companies similar to the Subject will also be researched to determine an appropriate Listing Price. 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***, however, will be valued in a manner which will reflect its unattractive investment characteristics. In other words, the Subject interest is Non-Marketable and, therefore, must be valued on a ***Non-Marketable basis***.

The methodology that will be employed in the Market Approach uses databases of sold transactions of small, closely-held companies in which a 100% Controlling interest was sold. In addition, unlike public companies whose shares can be traded within seconds on a national stock exchange, these transactions might take place over many months. The selling price of these companies was not known at the outset, and, the marketing costs of the transactions were substantial compared to a typical stock broker fee. In other words the transactions were non-marketable which fits the characteristics of the Subject Interest.

The appraisal is intended for the sole use of the owners in determining the market value of the Company to develop a recapitalization strategy. Any other use invalidates the conclusions of this appraisal.

1.5 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.

1.6 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.

1.7 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 limiting conditions affecting this valuation.

1.7.1 In order to provide a cost effective appraisal report, at the client's request, we have eliminated portions of the report that the client would be familiar with, for example: a detailed analysis of the economy and its effects on the Subject Company, as well as a discussion of the Company's operations.

The Scope of Work was further reduced based on the client's request to forego a certified appraisal of the subject's fixed assets. Values used for subject's fixed assets were based on the client's estimates or industry standard depreciation rates.

The scope of work reduction described above does not lessen the status of the appraisal report.

1.7.2 The Appraiser does not purport to be a guarantor of value. The valuation of closely held companies is an imprecise science and reasonable people can differ in their opinion of value. However, the formulas and valuation methodologies used in this report were developed by and are accepted by the business brokerage and business valuation communities. The application of these methods in the analysis reported herein along with years of experience in evaluating such businesses in the Appraiser's opinion provides a reasonable basis for determining business value.

1.7.3 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.

1.7.4 Interviews with principals of the Subject will be conducted by the Appraiser using the Appraiser's questionnaires. The Appraiser has relied on the representations of management

without independent investigation. The information was obtained in good faith, but no opinion or warranty is implied or expressed by the Appraiser.

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

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

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

2.0 COMPANY OPERATIONS

2.1 COMPANY HISTORY

Cinema Theater Supply (Cinema) was founded in 1999 by the current owner, John Smith. The company was originally located in Upland, California, but moved to Jackson in 2004. The location of the business has no bearing on its success. It could be easily relocated anywhere as its lease is currently month-to-month.

The Company is engaged in the wholesale distribution of electronic parts and accessories used in cinema theater film projectors, sound systems, and screen materials. It also purchases old projector systems from companies that are upgrading to new systems and resells the refurbished parts. Roughly 1/3 of its sales are from new electronic parts and accessories, 1/3 are from the sale of used parts, and, 1/3 are from wiring harnesses and electrical components that have been assembled to fit the special needs of its customers. The assembled products involve both new and used parts.

Cinema distributes its products worldwide. Its larger market areas are in Asia, Mexico, Europe, South America, and Australia. The Company recently set up a "store" on Ebay with roughly $600,000 in inventory (resale value). The Ebay store generated nearly $60,000 in sales in 2009, its first year of business. The average transaction is about $300. The relationship is also becoming a significant source for acquiring new clientele for its non-Ebay products. Cinema also has its own website. However, the site does not have shopping cart capabilities at this time. The bulk of the Company's orders come in by telephone or email.

Cinema has about 40 regular customers. Typically none of them represent more than 10% of its business. However, on occasion, a single customer may place a large order. Such orders in the past have been more than $100,000. When receiving large custom assembly orders Cinema requires deposits of up to 50% of the transaction. As of August 2010, the Company has a backlog of orders of $319,000. Sales for the year are on track to exceed 2009 levels. In addition to its Ebay Store, Cinema's marketing efforts include the annual Cinema Theater Industry show in Las Vegas. The show gives the Company the opportunity to connect with its existing national and international customers as well as develop new relationships.

Cinema acquires a portion of its used equipment directly from customers who are upgrading their systems. The Company acquires much of its used equipment from two or three installation contractors who install new theater systems and sell the old systems back to Cinema. During the last three years, the industry shift from traditional film projector systems to digital projection has produced a large increase of used systems being resold, thus driving down prices that Cinema has to pay. No one supplier to Cinema represents a large source of its goods. Both new and used parts and accessories can be obtained from a number of different vendors.

Cinema's biggest competitor is Cinema Equipment located in Miami, Florida. The company is larger than Cinema. One of its strengths is that it has a Spanish speaking sales force which gives it the ability to service the South American market better. However, Cinema Equipment often comes to Cinema to purchase hard to find parts. According to Mr. Smith, the company has a bad reputation in the industry for selling inferior merchandise.

Because of the newness of the Digital Cinema Initiative, Cinema has not entered that market yet. Barco is the largest company in this industry and controls most of market. Since the life expectancy of digital equipment is much shorter than traditional film projection systems, it is expected that within a few years used digital equipment will become available on the market, at which time Cinema will start buying and reselling it. Most theater owners, however, don't want to go full digital as the cost is prohibitively high. Multi-screen owners are typically leaving several of their screens in the old film format. As a result, these owners are more inclined to repair their film systems with used equipment offered by Cinema.

2.2 DEMOGRAPHICS

Cinema is located in the city of Jackson, California about 50 miles east of Los Angeles, California. The County of Amador, in which Cinema resides, enjoyed above average population growth from 2000 to 2007 compared to the State as a whole (4.7% vs. 1.2%). However, 75% of that growth came from the low-income Hispanic community. As a result the annual growth in Household Income was below average during that period (1.8% vs. 3.3%). Unemployment in the region is moderately higher than the State of California and significantly higher than the U.S. (14.5%, 12.3%, and 9.5%, respectively). As a result, economic growth in the region will be suppressed for the foreseeable future.
Cinema, however, derives most of its business from all over the U.S., Europe, Asia, and South America. In terms of potential growth of its market, the company shares the same market as the rest of its competitors. Thus, any changes in the market will affect all players fairly equally. However, because of the sheer size of its market, even a fractional percent increase in market share can translate into millions of dollars in sales for the Subject. Thus, the fact that Cinema is in a declining industry is somewhat mitigated by the fact that in the future it can focus on different countries where digital conversions are minimal or non-existent.

Section 5.1.3 below will discuss the effect of growth in population and income on the selling prices of business.

EXHIBIT I DEMOGRAPHICS

Most Current Information available		U.S.	California	Amador County	Jackson City
Population	1990	248,710,000	29,760,000	1,170,000	226,500
	2000	281,421,000	33,871,000	1,545,000	255,100
	2007	304,059,000	36,756,000	2,055,000	301,500
	Gain '00 to '07	1.1% per yr	1.2% per yr	4.7% per yr	2.6% per yr
	Gain '90 to '07	1.3% per yr	1.4% per yr	4.4% per yr	1.9% per yr
Median Household Income	2000	$41,994	$47,493	$42,900	$41,600
	2007	$50,007	$58,361	$48,400	$47,300
	'00 to '07	2.7% per yr	3.3% per yr	1.8% per yr	2.0% per yr
Median Housing Costs	2000	119,600	211,500	146,500	138,500
	2007	181,800	513,200	380,600	397,500
	2010	169,000	255,000	200,000	200,000
	Gain '00 to '07	52.0%	142.6%	159.8%	187.0%
	Loss '07 to '10	-7.0%	-50.3%	-47.5%	-49.7%
Unemployment	Jun-09	9.5%	11.6%	13.7%	13.6%
	Jun-10	9.5%	12.3%	14.5%	14.4%
	Change	0.0%	6.0%	5.8%	5.9%

3.0 FINANCIAL STATEMENTS OF THE COMPANY

Tax returns are the primary source of information used in the analysis. John Smith provided tax returns for years ending 2007 through 2009. P&Ls for the interim period ending July 31, 2010 and, for years ending 2007 through 2009 were also provided. The most recent Balance Sheet is as of July 31, 2010. The statements are prepared on a "compilation basis" using management's information without any verification by the CPA firm. No opinion as to the accuracy of the financials is offered by the Appraiser. The Owner, John Smith, was interviewed by the Appraiser on August 26, 2010. The Owner's Discretionary Cash Flow Analysis was based on statements made in that interview.

3.1 SUMMARY OF HISTORICAL BALANCE SHEETS

Balance Sheets for the last four years for Cinema Theater Supply were available for this analysis. A detailed discussion can be found on Notes to the Financial Statements on the Page 54.

EXHIBIT II BALANCE SHEET

Accrual Basis	Nov 30, 2010	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007
Cash	(21,145)	38,899	(2,641)	2,215
Accounts Receivable	178,897	96,385	78,652	49,177
Inventory	205,713	179,177	298,612	350,725
Other Current Assets	-	-	-	-
Total Current Assets	363,465	314,461	374,623	402,117
Fixtures & Equipment	68,949	14,984	22,915	28,477
Leasehold Improvements	2,350	2,350	2,350	2,350
Other Assets, Intangibles	10,552	6,490	6,696	7,377
Total Assets	445,316	338,285	406,584	440,321
Accruals	36,110	58,057	-	-
Accounts Payable	140,556	79,665	84,361	103,341
Other Liabilities, Cust Deposits	24,230	-	43,327	78,148
Short Term IB Loans	46,442	12,332	31,801	62,000
Total Current Liabilities	247,338	150,054	159,489	243,489
Loans from Shareholders	190,530	188,831	178,386	174,262
Long Term IB Debt	33,818	-	52,471	32,854
Total Liabilities	471,686	338,885	390,346	450,605
Net Worth	(26,370)	(600)	16,238	(10,284)
Total Liabilities + Net Worth	445,316	338,285	406,584	440,321

IB Debt = Interest Bearing Debt

3.2 SUMMARY OF HISTORICAL INCOME STATEMENT

Cinemas Revenues during the last five accounting periods have fluctuated moderately with the peak year occurring in 2007. Cash Flow for the four periods has also shown a steady decline. The bar charts below give a visual presentation of its recent history.

EXHIBIT III REVENUE BAR CHART - 2006 TO 2009

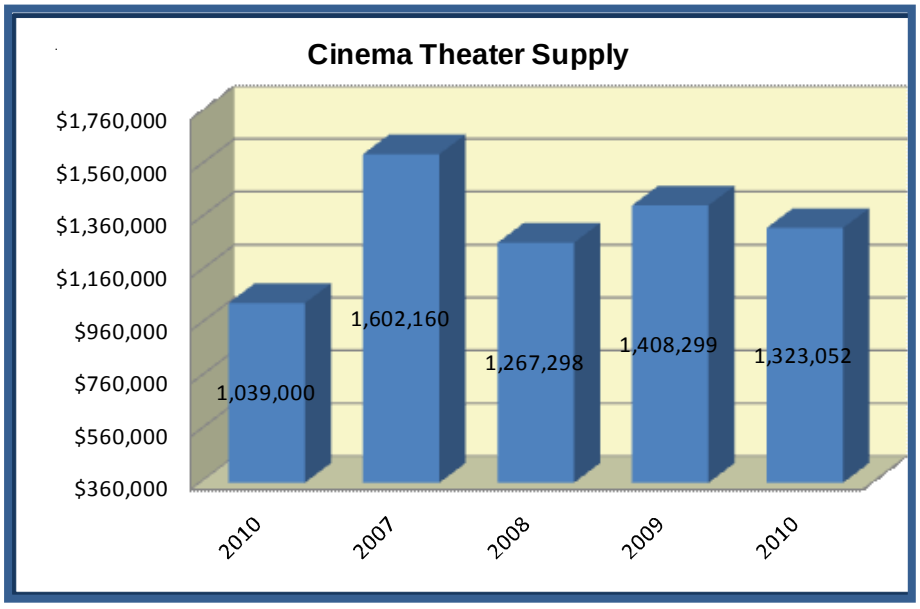
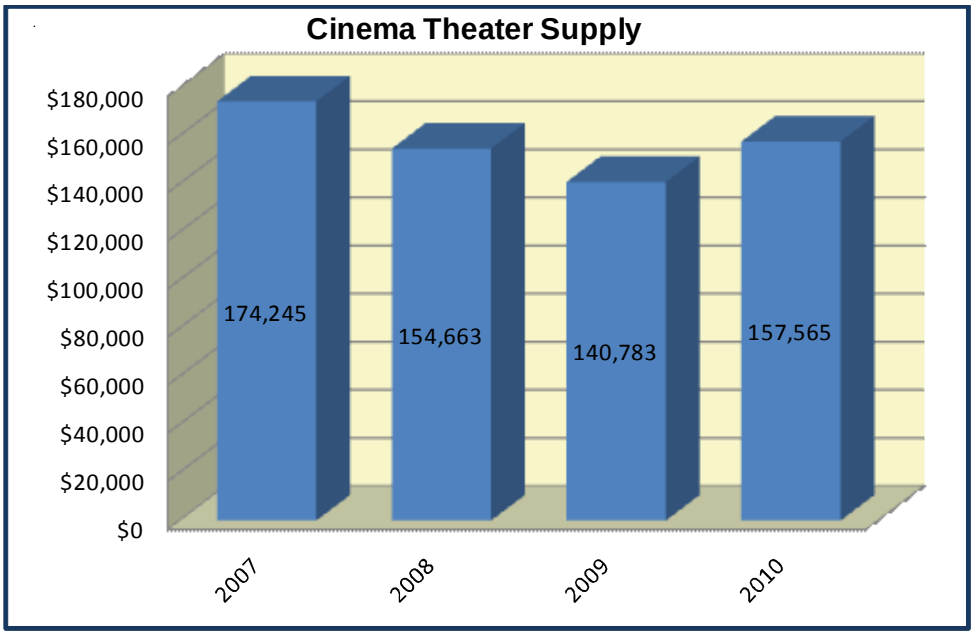


EXHIBIT IV CASH FLOW BAR CHART - 2007 TO 2009



The Income Statements for Cinema Theater Supply for the last three accounting periods are shown in Exhibit V below.

The spreadsheet in Exhibit XXIV on Page 53 also provides greater detail of the expenses and revenues.

EXHIBIT V INCOME STATEMENT - 2007 TO 2009

	Nov 30, 2010 11 Mos.	Dec 31, 2009 12 Mos.	Dec 31, 2008 12 Mos.	Dec 31, 2007 12 Mos.
INCOME				
Total Revenues	1,323,052	1,408,914	1,267,298	1,602,160
Less Returns	-	(615)	-	-
TOTAL INCOME	1,323,052	1,408,299	1,267,298	1,602,160
Accounts Payable Write-off	107,500	-	9,812	20,310
Discounts Earned	282	-	-	293
TOTAL OTHER INCOME	107,782	-	9,812	20,603
EXPENSES				
Compensation to Officers	-	24,500	12,890	12,553
Labor, Contract Labor	247,334	304,296	285,914	322,773
Payroll Taxes	27,748	31,395	26,020	30,315
Repairs and Maintenance	6,680	1,542	3,654	2,838
Bad Debts	2,267	1,074	1,621	515
Rents	55,220	60,996	65,564	60,944
Taxes and Licenses	1,076	1,896	1,372	1,540
Interest	10,882	26,266	26,388	42,245
Depreciation and Amortization	-	3,056	5,229	2,382
Advertising	15,418	8,848	4,942	9,761
Pension	-	10,910	8,587	20,205
Employee Benefits	6,102	11,930	11,479	11,418
Meals and Entertainment, Trave	18,318	16,967	14,897	13,538
Accounting	-	4,020	2,830	3,442
Legal and Professional	17,693	16,950	15,385	6,839
Auto and Truck Expense	15,752	18,397	23,786	27,030
Auto Insurance	1,709	1,526	1,519	1,436
Bank Charges	634	2,259	1,391	2,383
Misc., Dues, Janitorial, Secur	6,243	5,795	5,411	6,044
Insurance	10,089	7,377	7,629	6,820
Workman's Comp Insurance	5,547	2,070	506	14,190
Office Expense, Postage	5,647	6,453	5,441	6,099
Outside Labor	24,200	35,726	15,423	35,054
EBay Expenses	5,548	3,665	1,560	-
Computer Supplies	986	1,099	227	878
Pension Administration	475	875	475	-
Sales Expense	-	1,351	-	-
Web Design	4,917	5,100	-	1,300
Delivery and Freight	327	-	-	797
Donations	100	-	-	-
Utilities	13,345	13,740	13,046	12,643
TOTAL EXPENSES	504,257	630,079	563,186	655,982
Net Profit Before Taxes	205,069	1,421	39,267	55,827

4.0 VALUATION OF THE SUBJECT BUSINESS

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

INCOME APPROACH IS REJECTED. The Income Approach analyzes a company's income stream from an investor's point of view. Implicit in the Income Approach is that a buyer will look at a company's Net Cash Flow after deducting all expenses and capital requirements, apply a desired rate of return, and, thereby calculate an appropriate level of investment. The two most important elements in the Income Approach, then, are the Subject Company's Net Cash Flow and the investor's desired rate of return.

Most small companies with revenues less than $1 to $5 million typically only earn enough money to compensate the owner for his labor. As a result, the remaining portion of Total Net Cash Flow that represents the return on one's investment is minimal or even a negative (the owner makes a substandard living wage). Thus, this methodology would produce an unrealistically low or a negative value.

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

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

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

However, when we examine the transactions involving small, privately-held companies, we see that as companies continue to get smaller and smaller, their Earnings Multiples will continue to decline.[1] Clearly, investors of small privately held businesses are demanding

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

even greater rates of return than the stock market offers as is reflected in the lower Cash Flow Multipliers they are willing to accept.

From Exhibit VI we can see that Earnings Multipliers gradually decline from privately-held companies in the $25 million to $100 million sales range (roughly the same size as the smallest publicly traded companies) to companies with revenues between $2 million to $5 million. Thus, the rates of return garnered for these investments become increasingly higher than the stock market would provide. Depending on the type of company, the Multipliers begin to fall rapidly in the mid $1million to $5 million range and crash under $1 million. In other words, the smaller the company, the lower its Cash Flow Multiplier and, therefore, the higher the resulting rate of return.

EXHIBIT VI MULTIPLIERS BY SIZE OF COMPANY

Ultra-Small Company Risk Premium
Pratts Stats Database

	Total Transactions	Total Sales		Price-Earnings Multiplier*
		Sales Range	Median Sales	Median
I	183	Over $25 Million	62,444,000	6.69
II	130	$10 to 25 Million	15,703,000	6.92
III	114	$5 to 10 Million	7,079,000	5.86
IV	294	$2 to 5 Million	2,800,000	5.45
V	491	$1 to 2 Million	1,349,000	5.39
VI	746	$.5 to 1 Million	674,000	4.39
VII	1833	$0 to .5 Million	250,000	3.28

*** 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.

Following the linear relationship between the company's size and its rate of return means that when we get down to the smallest privately-held companies, the P/E ratio is so low that it suggests that an appropriate rate of return that an investor would demand from such an investment is in the range of 35-50% per year. Even though this rate of return is beyond comprehension, we still must apply it to a small company's Net Free Cash Flow after all expenses. As we saw from above, that often is approximately $0 for most small companies (owner's salary eats up all the excess cash flow); that means that the value of a small company, using the Income Approach, would often be $0 ($0 ÷ 50% = $0). Nothing makes sense.

Thus, the Income Approach, when applied to small businesses can produce wildly exaggerated results. The Income Approach is constructed using the premise that all buyers

are investors. There is no consideration for the fact that there are other reasons why people buy small businesses (i.e. a paycheck).

EXCESS EARNINGS METHOD IS REJECTED. This approach requires a high-integrity balance sheet in order to calculate the return on investment attributed to all the company's assets. The Fixtures Ledger used to prepare the Company's P&Ls and Tax Returns is compiled primarily for tax purposes and, therefore, does not include all of the Company's assets. As a matter of practice, most companies do not capitalize any asset purchases less than $2,500. Those assets are being used by the company but are not reflected on the Balance Sheet. As such, this approach would be impractical to apply. 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. It is also used for new companies whose operating assets have been recently acquired and, therefore, bear little or no depreciation. Since LIT is a seasoned company with a moderate level of assets, some are new and some are quite old, thus the Asset Approach will not be used.

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.

5.0 MARKET APPROACH

The valuation process should be a "forward looking" process. That is, we are trying to look into the future potential of a company to determine its value today. The Market Approach, however, looks at actual transactions that are often years old, and, the financial data associated with the transaction obviously ***predates*** the sale. On the surface, then, the Market Approach would appear to be looking 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 comparing the selling price of the business to its historical data, the resulting financial ratios describing that event clearly reflect the ***future*** long-term expectations of the buyer based on his knowledge of the ***current*** financial condition of the company. Thus, in theory, by applying those same financial ratios to our Subject Company's recent financial data, we would be calculating a price that a buyer would pay ***today*** that is based on the ***current*** financial condition of the company and a buyer's ***future*** expectations.

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

5.0.1 THE GUIDELINE PUBLIC COMPANY METHOD

The Guideline Public Company Method uses a database of publicly traded companies whose shares are Freely-Traded. The method involves observing the stock prices of smaller publicly held companies in the same industry as the subject to determine appropriate pricing multiples to apply to the subject's revenues and income stream. 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 Codes #3621, 3625, 3641, 3648, 3669, 3679 and 3699 (Electrical Industrial Supply), the Subject's primary classification, using Business Valuation Market Data's Public Stats™ database[2] found 36 companies, only two were close in size to the Subject. Therefore, there are insufficient comparables for a proper analysis.

Therefore, the use of the Guideline Public Company Method is rejected.

5.0.2 THE MERGERS AND ACQUISITIONS TRANSACTIONS METHOD

The Mergers and Acquisitions Transactions Method involves the acquisition of businesses by other companies that are often public companies. The desired analysis of this database is to observe the prices of small privately-held companies that are acquired by large public companies. Buyers in this arena are often what we refer to as "strategic, or investment buyers." The synergies that exist between the acquiring and target companies are such that 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 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[3] found 79 companies. Most had revenues greater than $50 million. Only one was the size of the Subject. Thus, the comparables are not good comparisons to the Subject. Therefore, the Mergers and Acquisitions Transaction Method is rejected.

5.0.3 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

[2] Public Stats- SIC 36xx, searched on http://www.bvmarketdata.com, 8/18/10
[3] Mergerstats- SIC 36xx, searched on http://www.bvmarketdata.com, 8/18/10

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

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

5.1 Owner's Discretionary Cash Flow

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

5.1.1 Selecting the Base Year of Operations

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

To circumvent this possible distortion, it is not uncommon to see Market Value 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.[4] Gary Trugman provides us with various factors for determining the basis of Subject Company earnings to be used in the Market Approach[5].

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.*

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 increase the price of the business. Buyers absolutely refuse to pay for value that may have been present two or three years ago.

The valuation is as of November 31, 2010.

The Company revenues have increased gradually from 2006 to 2010 with 2007 representing a spike that was moderately higher than the other years. The Owner reports that several large jobs were completed that one year that were non-recurring. Revenues for the most current 11 month period ending November 31, 2010 is running less than 3% below 2009, but nearly 8% above 2008. The owner reports the order backlogs have increased significantly in 2010 and expects the full year 2010 to meet or exceed 2009. Since the preceding two years were during the Great Recession, 2009 should be considered a solid base year of operations. Therefore, the current twelve month period as of December 31, 2009 should adequately serve as a reasonable proxy for the basis of future revenue growth of the Company.

Spreadsheets for all four periods can be found on Page 53.

[4] 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

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

5.1.2 RECASTING OWNER'S DISCRETIONARY EARNINGS

Once the base year (or years) of earnings has been selected, the next step is to "recast" the financial statement. The "recasting" of a company's earnings 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. The earnings reported in the Direct Market Databases are also recast to reflect a normalized level of earnings referred to as Owner's Discretionary Cash Flow, or Seller's Discretionary Earnings (SDE).

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 (that is an increase or decrease) would also be warranted. 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 (SDE%) as an appropriate measure of a company's profitability). In such cases, an adjustment to the Market Value Multiples should be made before it is applied to the subject's normalized earnings.[6]

In order to make the Subject Company's P&Ls directly comparable to the guideline companies, the recasting process makes the basic assumption that all companies have but one full-time managing owner. If a company has multiple owners (including working spouses of owners), the salary of the one owner who would most likely be replaced by a hypothetical buyer is added back to Cash Flow. It is also assumed that the hypothetical buyer would have to replace all the other owners with hired employees. As a result, if the ***replacement cost*** for those hired employees is ***less*** than the compensation paid to those other owners, the difference is also ***added back*** to Cash Flow (SDE). Conversely, if the replacement cost for those hired employees is ***more*** than the compensation paid to those other owners, the difference is ***deducted*** from SDE.

In developing SDE, Interest, Depreciation and Income Taxes are also ***added back*** to cash flow. In addition, 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. The resulting Owner's Discretionary Cash Flow ***after*** Add-Backs is the total Cash Flow a hypothetical owner has at his disposal for his salary and perquisites, his loan payments, and his capital expenditures.

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

EXHIBIT VII SELLER'S DISCRETIONARY EARNINGS

Last Year	Dec 31, 2009 12 Mos.	Add Backs	See Para.#
Total Revenues	1,408,914	-	
Less Returns	(615)	-	
TOTAL INCOME	1,408,299	-	5.1.3.1
		-	
COST OF GOODS SOLD			
Begin Inventory	298,612	-	
Purchases	575,377	-	
Freight and Delivery	72,210	-	
Commissions	2,172	-	
Supplies and Tools	7,605	-	
End Inventory	(179,177)	-	
TOTAL COST OF GOODS SOLD	776,799	-	
GROSS PROFIT	631,500		
	44.8%		
OTHER INCOME			
Accounts Payable Write-off	-	-	
Discounts Earned	-	-	
TOTAL OTHER INCOME	-	-	
EXPENSES			
Compensation to Officers	24,500	24,500	5.1.3.2
Labor, Contract Labor	304,296	45,000	5.1.3.2
Payroll Taxes	31,395	6,255	5.1.3.2
Repairs and Maintenance	1,542	-	
Bad Debts	1,074	-	
Rents	60,996	-	
Taxes and Licenses	1,896	-	
Interest	26,266	26,266	5.1.3.3
Depreciation and Amortization	3,056	3,056	5.1.3.3
Advertising	8,848	-	5.1.3.4
Pension	10,910	3,285	5.1.3.2
Employee Benefits	11,930	7,200	5.1.3.2
Meals and Entertainment, Travel	16,967	8,484	5.1.3.2
Accounting	4,020	-	
Legal and Professional	16,950	-	
Auto and Truck Expense	18,397	9,199	5.1.3.2
Auto Insurance	1,526	1,018	
Bank Charges	2,259	-	
Misc., Dues, Janitorial, Secur	5,795	-	
Insurance	7,377	-	5.1.3.2
Workman's Comp Insurance	2,070	-	5.1.3.2
Office Expense, Postage	6,453	-	
Outside Labor	35,726	-	
EBay Expenses	3,665	-	
Computer Supplies	1,099	-	
Pension Administration	875	-	
Sales Expense	1,351	-	
Web Design	5,100	5,100	5.1.3.4
Delivery and Freight	-	-	
Donations	-	-	5.1.3.3
Utilities	13,740	-	
TOTAL EXPENSES / Total Add-Backs	630,079	139,362	
TOTAL NET INCOME (Per Tax Returns) =	1,421		
Total Add Backs =		139,362	5.1.3.5
TOTAL DISCRETIONARY CASH FLOW =		140,783	10.0%

5.1.3 ADJUSTMENTS TO THE INCOME STATEMENT

The spreadsheet in Exhibit VII shows the P&Ls for twelve months ending December 31, 2009 for Cinema Theater Supply. (See Exhibit XXV, Page 53 for more detail.) Just to the right of the P&L data are the "Add-Backs" that represent the normalizing adjustments necessary to reconcile earnings to "Owner's Discretionary Earnings."

5.1.3.1 BASE YEAR OF EARNINGS

The valuation of the Subject is as of. As noted above, the year-end P&Ls for December 31, 2009 will serve as the base year of operations.

5.1.3.2 COMPENSATION TO OFFICERS

The Company is run by a husband and wife partnership, both of whom work full time. Mr. Smith works approximately 30 to 40 hours a week and manages all facets of the operation. His $24,500 compensation is added back to Discretionary Cash Flow. Mrs. Smith earned $85,000 during 2010. She is responsible for Accounts Receivable, company financial planning, and human resources. It is estimated that it would cost $40,000 per year in salary and benefits to replace her with a paid employee. Her excess earnings of $45,000 are added back to Cash Flow as are the $6,255 in employer payroll taxes paid on both owners' salaries. Unlike an owner, a paid employee would also require Workman's Compensation insurance. Thus, a ***deduction*** of $ to Cash Flow

represents this additional expense to the Company.

Business owners also enjoy various perquisites that represent part of their salaries as well. The Subject Company paid $3,285 for the Owner's Pension Benefits, $7,200 for Medicare Insurance, $8,484 for personal Travel Expenses that were not essential for the continued growth of the Company, $8,484 for Company paid Automobile Expenses, and $ for personal Life Insurance. These perks are added back to SDE.

5.1.3.3 Depreciation, Interest, and Taxes

Owner's Discretionary Cash Flow is calculated before Income Taxes, Depreciation, Interest Expense, and Donations.

5.1.3.4 Non-Recurring Expenses

The Company "rebranded" its image in 2009 and, as a result, ordered $10,000 in new catalogs, marketing material, stationary and business cards. The order represented over three years of expected demand. Thus, two thirds of the order represents future usage and is added back to the current year's Cash Flow. The Company also had an Ebay store website created. The $5,100 cost is non-recurring and is added back to Cash Flow.

5.1.3.5 Seller' Discretionary Earnings Profit Margin (SDE%)

The Subject Company's Discretionary Cash Flow Profit Margin (SDE%) for the normalized year is 10.0%. This margin of profitability earned is at the lower range earned by the guideline companies (8.5%, see Exhibit XVII**). As we shall see in the discussion below on Market Value Multipliers, a company's Cash Flow Profit Margin (SDE%) is a major driver in determining its Fair Market Value.**

5.2 Selection of Appropriate Guideline Companies

Once the recasting of the Subject's P&Ls is complete, we can now define our Subject in terms of its Discretionary Earnings, Gross Revenues, Inventory, and Fixtures and Equipment. These four variables can now be directly compared to a sample of selected comparables.

5.2.1 Databases Selected

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

two databases. BIZCOMPS reports 17 data points for each transaction and claims to "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 of carefully reading the complete transaction reports for over 5,000 comparables from these databases. In instances where both databases reported the same transaction, the Appraiser has found that in a high percentage of the cases the selling price, gross revenues and discretionary earnings were identical. One can attribute this to the fact that the same broker will report a transaction to 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.*[7]

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 similarly to BIZCOMPS and IBA; however, it is not uncommon to find discrepancies among all three. Careful analysis of all three databases will help avoid selecting incorrect transactional data. The greater detail offered by the Pratt's Stats database can help reduce errors in selecting the transactional data. Therefore, if there are any discrepancies arising among duplicate transactions reported by the three databases, the Pratt's Stats data will generally be used in the analysis.

5.2.2 TIMING OF THE SALE

The transactions used for business valuations are often several years old. Most of us exposed to real estate appraisals on private residences have been told that proximity to the subject house and timing of the comparable's sale are critical to the valuation. Business valuations, however, are not 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

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

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 hours, 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:[8]

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

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

> *Recently, the author [Jack Sanders] compared current study data with the data over ten years old. First the Gross Sales to Sales Price ratio was compared. In the current National Database that ratio was available in 6.748 out of 6,851 transactions. The arithmetic mean of this ratio was .46, while the median was .38. A similar analysis of 879 transactions out of 954 transactions older than ten years was made. The arithmetic mean was .44 and the median was .37. The same analysis was made of the Seller's Discretionary Earnings (SDE) to Sale Price ratio. The arithmetic mean for the current study was 1.95 while the median was 1.8. In the over 10 year-old data, the arithmetic mean was 2.0 and the median was 1.8.*[9]

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[8] 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
[9] Jack Sanders, *BIZCOMPS User Guide,* Las Vegas, NV, 2004, p. 7

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.

5.2.3 LOCATION

The location of a business can certainly have a significant impact on its value. For example, we often hear comments from business owners such as, "my restaurant has the best location in town and, therefore, deserves a much higher valuation." That observation would be true if that business were more profitable than its competitor. When applying the *same* Cash Flow 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.

EXHIBIT VIII MARKET VALUE MULTIPLES BY DIFFERENT STATES

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

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

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.

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 and revenue 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 VIII 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.

5.2.4 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.

5.2.5 SIZE OF THE COMPANY

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

The Pratt's Stats Database of over 11,500 transactions was sorted by 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 2.50, whereas, those companies

EXHIBIT IX CASH FLOW MULTIPLIERS BY SIZE OF COMPANY

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

* 25% of all Transaction will fall BELOW the Lower Quartile values.
50% of all transactions will fall BETWEEN the Upper and Lower Quartile values.
** 25% of all transactions will fall ABOVE the Upper Quartile values.

Pratts Stats Database contained a total of 13,991 transactions on 8-10-09
The following transactions were eliminated from the above analysis to avoid potential ratio distortions:
1) Corporate Stock Sales
2) Assets Sales where liabilities were as
3) Companies with negative cash flow
4) Companies with Cash Flow Multipliers over 10.0

with revenues under $500,000 earned only 2.11. Thus, the smallest companies earned multiples of 2.11÷2.50 or 84.4% of what the average sized companies earned when sold. Similarly, companies with revenues between $1,000,000 and $2,000,000 exhibited a median Cash Flow Multiple of 2.77 which was 10.8% higher than the average sized company.

The Subject Company generated Gross Revenues during the five years observed ranged from $1,267,298 to $1,602,160. Accordingly, the "size criteria" used to select guideline companies were those businesses whose revenues fell roughly in the $.7 million to $2 million 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.

5.2.6 Other Filtering Criteria

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

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

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

5.2.7 Selection of Appropriate Comparable Data

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

The Subject Company is classified under SIC Codes #3621, 3625, 3641, 3648, 3669, 3679 and 3699, Electrical Industrial Supply. 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 #3621, 3625, 3641, 3648, 3669, 3679 and 3699. A total of 76 comparables were found in the Pratt's Stats database, and, 32 were found in the BIZCOMPS database. The selection was further filtered to include just those companies whose revenues were between $.7 million to $2 million, with the transactions occurring after 1996 and whose description of operations was similar to the Subject (i.e. Electrical Industrial Supply). A total of ten comparables were found in the Pratt's Stats database, and, ten were found in the BIZCOMPS database.

Specific details on all of these companies can be found in the appendix beginning on Page 61.

5.2.8 Identifying Outliers in the Selected Sample of Comparables

5.2.8.1 Coefficient of Variation

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

Standard Deviation is a statistical tool that measures the difference between the multipliers of each individual comparable 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 equals the Standard Deviation of the sample divided by its Average. The degree of dispersion within the sample is measured as a percentage of that sample's average. Thus, if a sample's average Cash Flow Multiplier were 5.0 and the Standard Deviation is 1.5, statistically the majority of all comparables would have a Multiplier that fell between 3.5 and 6.5 (5.0 + or – 1.5). The CV would indicate that the majority of comparables would lie

within 30% of the average (1.5 ÷ 5.0). Thus, the coefficient gives us a tool to compare different samples in terms of their respective variability. If one sample has a much lower CV than the second, we can assume that the second sample has one or two outlying observations that may be distorting its overall average and, thereby, giving us a false read of the market.

EXHIBIT X 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%

The best way of defining CV is through an example. Sample #1 in Exhibit X 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."[10] 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."[11]

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.*"[12]

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[10] Shannon Pratt, *The Market Approach to Valuing Businesses*, (John Wiley and Sons, Inc., 2001), p. 212
[11] Ibid., p. 133
[12] 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.

5.2.8.2 REGRESSION ANALYSIS

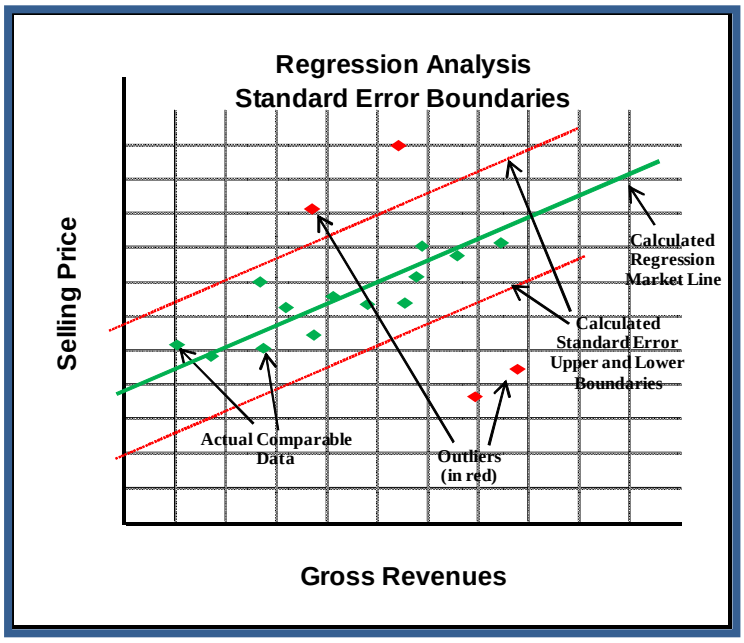
We have now completed round one of the process of selecting a suitable sample of comparables. The second step is the try to identify if there are ***individual observations*** within that sample that might be so far out of alignment with the rest of the sample that it is distorting our view of where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

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 what is referred to as Standard Error lines. The Standard Error is a statistical measurement similar to Standard Deviation in that it calculates the upper and lower boundaries between which most of the comparables should theoretically fall. Those comparables that fall outside these boundaries are companies whose selling prices were so far above or below the rest of the market that the transactional data must be considered flawed. These "Outliers," as they are referred to, will be removed from the database.

The example in Exhibit XI 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."

EXHIBIT XI EXAMPLE OF STANDARD ERROR BOUNDARIES



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.

5.3 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:

5.3.1 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.

5.3.2 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.

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

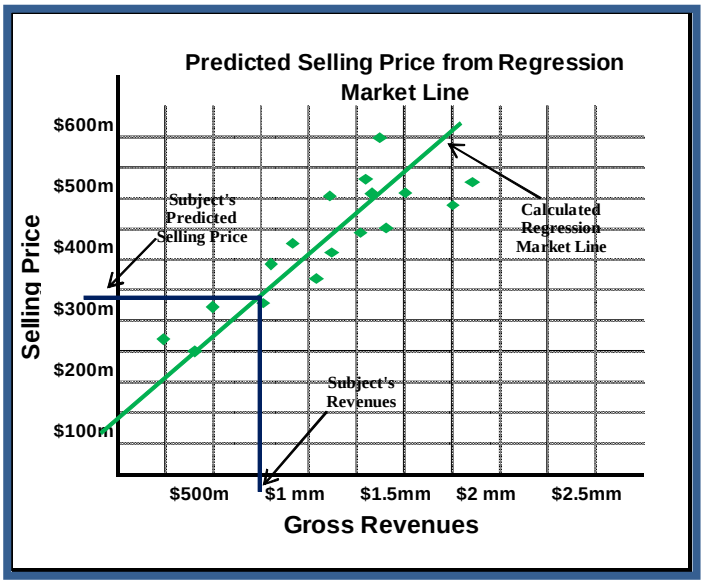
Under certain circumstances, however, using the above two methodologies can still produce inaccurate results when valuing businesses that derive the bulk of their revenues from the sale of inventory. For example: it was determined that the average hardware store sells for .45 times its Gross Revenue 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.

5.3.4 FOUR REGRESSION CALCULATIONS TO BE USED

We have discussed above how Regression Analysis helped us identify Outliers within our initial sample of comparables. The resulting smaller sample has now been "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.

EXHIBIT XII REGRESSION MARKET LINE



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 XII. The values for the Selling Price and the Gross Revenues of 17 comparables were plotted on the chart and a regression line was then calculated. The value of the subject company's Revenues is then located on the horizontal X-Axis. By moving vertically from that point to the Regression Line we can then identify the selling price from the vertical Y-Axis on the left side of the chart.

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

5.3.5 CASH FLOW PROFIT MARGIN (SDE%) – (DISCRETIONARY EARNINGS ÷ REVENUES)

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

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

command higher prices for their products and services, and, they control expenses more efficiently than their competition.

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

5.3.5.1 SIZE OF A COMPANY VS. ITS CASH FLOW PROFIT MARGIN (SDE%)

First, from Exhibit XIII we can see that ***THE LARGER THE COMPANY IS, THE LOWER ITS SDE%.*** This appears to be a direct contradiction to what we observed in the previous section above, i.e., the ***larger*** the company the ***highe***r its Cash Flow Multiplier. This apparent anomaly can be explained as follows:

EXHIBIT XIII COMPANY SIZE VS. SDE%

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

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

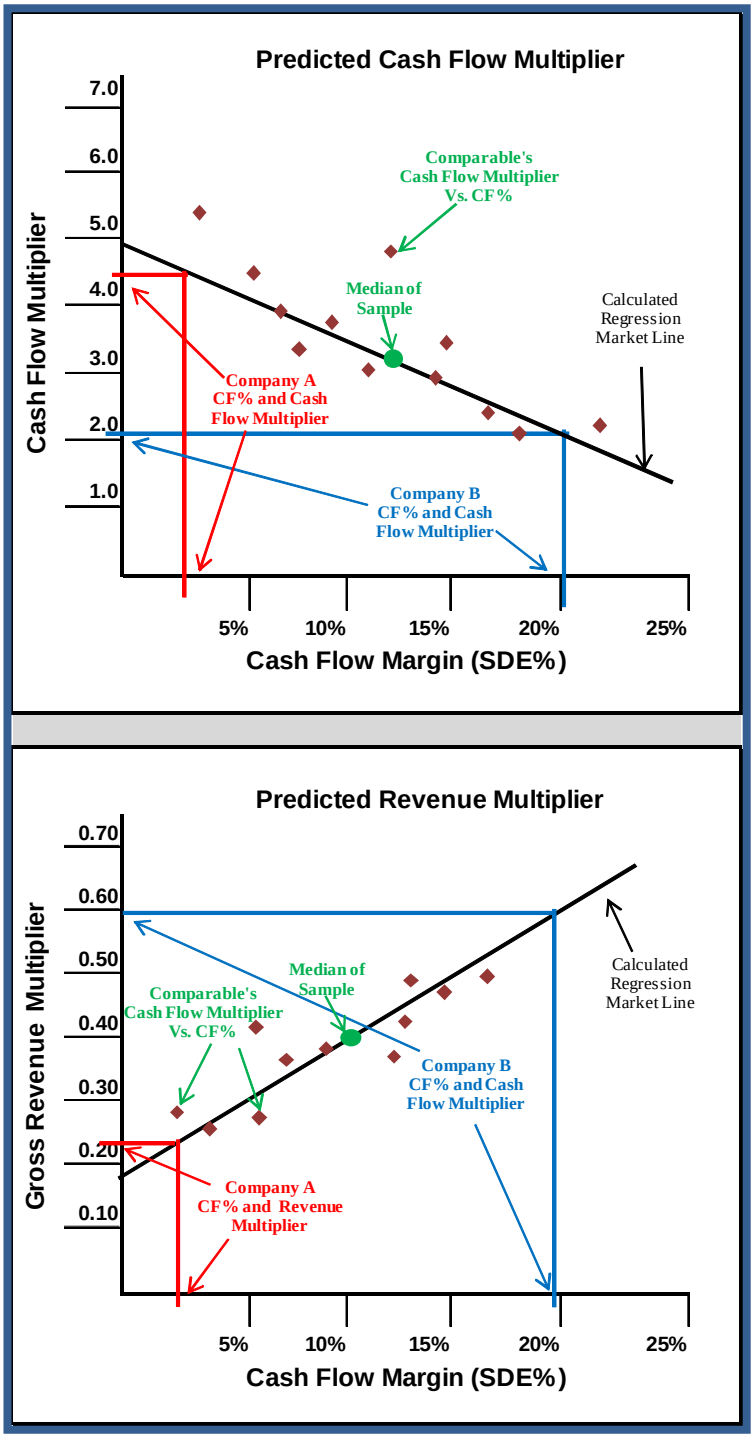
1) Corporate Stock Sales
2) Assets Sales where liabilities were assumed.
3) Companies with negative cash flow
4) Companies with Cash Flow Multipliers over 10.0

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

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 XIII, companies that size generate cash flow at an average of 24.7% of every dollar of Revenue. For a $500,000 company, then, that would translate to $123,500 in Discretionary Earnings. From Exhibit IX we saw that a $500,000 company would sell for 2.11 times its earnings, or $260,585.

For this company to grow to $2 million, however, the owner must now hire a bookkeeper, and HR manager and possibly a CFO. The company is now too big for the owner to do everything himself. A $2 million company typically earns $312,000 in Discretionary Earnings ($2 million x 15.6% (from Exhibit IX)). Thus, when a company grows from $500,000 to $2 million, the ***additional*** $1.5 million in sales adds $188,500 in earnings, or a 12.6% SDE% ($188,500 ÷ $1,500,000). **However, even though that added revenue comes at a much lower SDE%, 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).

EXHIBIT XIV COMPANY SDE% VS. CASH FLOW MULTIPLIER



Thus, this larger company produced a *lower* SDE%, yet earned a *higher* Cash Flow Multiple than the smaller company. The importance of this peculiarity is that in using SDE% 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. Otherwise, we might look at the 24.7% SDE% of a $500,000 company and draw the false conclusion that it deserves better Market Value Multipliers than the $2 million which only produced an SDE% of 15.6%.

5.3.5.2 THE LEVEL OF A COMPANY'S SDE% VS. ITS CASH FLOW MULTIPLIER

A second oddity that one must be aware of when comparing the companies of similar size and SIC classification is that: ***THE LOWER THEIR CASH FLOW PROFIT MARGINS (SDE%), THE HIGHER THEIR CASH FLOW MULTIPLIERS TEND TO BE.*** This seemingly contradicts everything we know about Market Approach science! We have always presumed that companies that enjoyed higher profit margins always earned higher Cash Flow Multiples than their underperforming counterparts. This is not the case!

From Exhibit IX we observed that larger companies generally earned higher Cash Flow and Revenue Multipliers. However, if we look at companies **within a narrow range of Sales** we can see that there is a considerable range of Multipliers. For example, companies with revenues in the $1 million to $2 million range earned a median 2.77 Cash Flow Multiplier which, on the average, was considerably higher than the 2.11 earned by $500,000 companies. Yet, when we look at the **range of multipliers** for the $1 to $2 million group we

find that the lower quartile only earned a 1.86 multiplier whereas, the upper quartile earned 4.07. **This range of multipliers *WITHIN A SPECIFIC SIZE GROUPING* can largely be explained by the level of a company's SDE%.**

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

A regression analysis was performed on the Pratt's Stats database of 11,500 sold transactions comparing a company's SDE% with its corresponding Cash Flow Multiplier[13]. 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 SDE% 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 SDE% becomes a reasonably good predictor of its potential Cash Flow Multiplier.** However, from Exhibit XIV we note that the regression line in the upper graph is in **a downward slope**. In other words, as a company's SDE% increases, we move to the right on the horizontal X-Axis. However, the Regression Market Line shows that we will also be moving downward on the vertical Y-Axis, indicating a decreasing Cash Flow Multiplier.

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

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

[13] 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.

When regressing the SDE% against the **Revenue Multipliers** of a sample of comparables, 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 or more, indicating that there is a very strong correlation between a company's SDE% and its Revenue Multiplier. In addition, Revenue Multipliers follow a more logical pattern. From the graph at the bottom half of Exhibit XIX we can see that **companies with a *HIGHER* SDE% also earn *HIGHER* Revenue Multipliers.**

From the example above, Company A only had a SDE% of 4.8% and, as a result, the Regression Equation predicted a weak Revenue Multiplier of .22. Company B, however, had a strong SDE% of 25% and, accordingly, earned an equally strong Revenue Multiplier of .60. Again, if we only decided to use the sample's Median Revenue Multiplier of 0.40, **the calculated value for both companies would have been the same** - $200,000 (.40 x $500,000). Simple logic would tell us that both companies are not worth the same; the second company 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**.

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

6.0 Reconciliation of Market Approach Multipliers

6.1 Building the Sample to be Used in the Analysis

The Pratt's Stats, BIZCOMPS, BizBuySell, and IBA databases were searched for transactions in Standard Industry Classification Codes #3621, 3625, 3641, 3648, 3669, 3679 and 3699. The Comparables Analysis Table in Exhibit XV below shows the operating ratios of 21 businesses that were selected by using the filtering criteria discussed in Section 5.2 above.

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

EXHIBIT XV COMPARABLES ANALYSIS

Obversations	Listing Price	Selling Price	Gross Revenues	Revenue Multiplier	Cash Flow	SDE%	Cash Flow Multiplier	Inventory	Enterprise Multiplier	Fixtures & Equip
1	695,000	540,000	746,000	0.72	29,000	3.9%	18.62*	120,000	14.48	400,000
2	550,000	375,000	1,796,000	0.21	88,000	4.9%	4.25	200,000	1.98	75,000
3	400,000	400,000	1,945,000	0.21	96,000	4.9%	4.17	95,000	3.18	86,000
4	400,000	412,000	1,945,000	0.21	96,000	4.9%	4.29	164,000	2.58	83,000
5	525,000	700,000	1,339,000	0.52	99,000	7.4%	7.07*	10,000	6.97	150,000
6	0,000	1,194,000	1,650,000	0.72	127,000	7.7%	9.37*	13,000	9.27	36,000
7	1,200,000	696,000	2,000,000	0.35	174,000	8.7%	3.99	180,000	2.96	101,000
8	1,500,000	1,450,000	1,959,000	0.74	174,000	8.9%	8.32*	100,000	7.75	141,000
9	750,000	645,000	1,090,000	0.59	110,000	10.1%	5.84	145,000	4.52	105,000
10	319,000	300,000	777,000	0.39	93,000	12.0%	3.23	50,000	2.69	43,000
11	0,000	607,000	1,085,000	0.56	175,000	16.2%	3.46	186,000	2.40	124,000
12	650,000	566,000	1,244,000	0.45	240,000	19.3%	2.36	335,000	0.96	122,000
13	750,000	785,000	914,000	0.86	193,000	21.1%	4.07	75,000	3.68	103,000
14	575,000	425,000	827,000	0.51	177,000	21.4%	2.40	30,000	2.23	50,000
15	705,000	600,000	992,000	0.60	249,000	25.1%	2.41	66,000	2.14	50,000
16	1,250,000	1,100,000	1,437,000	0.77	366,000	25.5%	3.01	340,000	2.08	135,000
17	750,000	785,000	914,000	0.86	237,000	25.9%	3.31	75,000	3.00	103,000
18	1,500,000	1,150,000	1,320,000	0.87	349,000	26.5%	3.29	75,000	3.08	525,000
19	700,000	500,000	1,030,000	0.49	360,000	35.0%	1.39	300,000	0.56	50,000
20	850,000	850,000	742,000	1.15	325,000	43.8%	2.62	25,000	2.54	50,000
21	1,500,000	1,100,000	750,000	1.47	350,000	46.7%	3.14	350,000	2.14	400,000
Avg:	741,000	704,000	1,262,000	▼	196,000	▼	▼	140,000	▼	140,000
	Selling Price / Listing Price = 88.5%			Gross Rev Range		SDE% Range	Cash Flow Range		Enterprise Range	
		Median =		0.59		16.2%	3.29*		2.54*	
		Average =		0.63		18.1%	3.37*		2.51*	
		Standard Deviation =		0.31		12.7%	1.02*		0.93*	
		Coefficient of Variation =		49.3%		70.3%	30.5%		36.8%	

* Companies with Cash Flow Multiples that are negative or greater than 7 are ignored in this calculation.

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 XVI COEFFICIENTS OF VARIATION OF SAMPLES VS. TOTAL DATABASE

(21 Observations)

Database Exhibit IX & Exhibit XV	Gross Income Multiplier	Cash Flow Multiplier	Enterprise Value Multiplier
Sample –21 Observations	49.3%	30.5%	36.8%
Total Database -7,144 Obs. Pratt's Stats-Any State	87.4%	67.7%	81.9%

The three procedures applied to the 21 observations in the sample yielded significantly lower degrees of variability than the entire Pratt's Stats database. Therefore, we can assume that this sample is a reasonably good measure of the identified market size and should have good predictive abilities. To further test the predictive abilities of this sample of guideline companies, a regression analysis was done.

6.2 REGRESSION TEST

The Multiple Variable Regression Test takes the four main variables describing each guideline company's operations (Inventory, Cash Flow, Fixtures and Equipment, and Total Revenues) and plots them against the company's selling price. From this test we can statistically identify those comparables that are "outliers," that is, those companies whose selling prices are well above or below what the rest of the market earned.

The 21 comparables from Exhibit XV above were regressed at a 95% confidence level, and, the results are shown in the Exhibit XVII below.

EXHIBIT XVII REGRESSION ANALYSIS

Obversations	Actual Values For Comparables: Gross Revenues	Cash Flow	Inventory	Fixtures	Actual Sold Price	Calculated Values: Predicted Price	$ Difference	% Difference
1	746,000	29,000	120,000	400,000	540,000	502,699	37,301	-6.9%
2	1,796,199	88,317	200,000	75,000	375,000	551,051	(176,051)	46.9%
3	1,945,000	96,000	95,000	86,000	400,000	720,587	(320,587)	80.1%
4	1,945,000	96,000	164,000	83,000	412,000	650,064	(238,064)	57.8%
5	1,339,000	99,000	10,000	150,000	700,000	695,198	4,802	-0.7%
6	1,650,305	127,334	13,325	36,408	1,193,600	735,290	458,310	-38.4%
7	1,999,636	174,395	180,000	100,800	695,580	815,951	(120,371)	17.3%
8	1,958,996	174,294	100,000	141,000	1,450,000	917,998	532,002	-36.7%
9	1,090,024	110,499	145,000	105,000	645,000	475,319	169,681	-26.3%
10	777,000	93,000	50,000	43,000	300,000	393,264	(93,264)	31.1%
11	1,085,244	175,479	186,000	123,602	607,425	574,779	32,646	-5.4%
12	1,244,000	240,000	335,000	122,000	566,000	595,491	(29,491)	5.2%
13	914,000	193,000	75,000	103,000	785,000	651,681	133,319	-17.0%
14	827,000	177,000	30,000	50,000	425,000	594,681	(169,681)	39.9%
15	992,000	249,000	66,000	50,000	600,000	744,154	(144,154)	24.0%
16	1,437,000	366,000	340,000	135,000	1,100,000	898,524	201,476	-18.3%
17	914,090	236,860	75,000	103,000	785,000	736,078	48,922	-6.2%
18	1,320,278	349,392	75,000	525,000	1,150,000	1,433,429	(283,429)	24.6%
19	1,030,000	360,000	300,000	50,000	500,000	738,040	(238,040)	47.6%
20	742,000	325,000	25,000	50,000	850,000	860,398	(10,398)	1.2%
21	750,000	350,000	350,000	400,000	1,100,000	894,929	205,071	-18.6%
22								
23								
24								

= Outliers

Actual Data Cinema Theater Supply		Regression Coefficients	Calculated Price
Total Sales	$1,408,299	x 0.2812 =	396,068
Total Cash Flow	$140,783	x 1.9237 =	270,818
Total Inventory	$205,713	x (0.9843) =	-202,483
Total Net Fixtures	$68,949	x 0.8688 =	59,904
Regression Intercept Value =			7,697
Price Predicted by Regression Market Line =			**532,004**
16% (one Std Error) Predicted Price =		+ $253,517	785,521
16% (one Std Error) Predicted Price =		- $253,517	278,487

R Square = 0.48
Standard Error = $253,517
CV Ratio = 35.1%

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

Regression Formula:

Sales x 0.2812 + Cash Flow x 1.9237 + Inventory x -0.9843 + Fixtures x 0.8688 + $7,697 = Calculated Price

The test yielded an R Square factor of 0.48. A factor of zero (0.0) means that the sample had no predictive characteristics at all, whereas, a 1.0 indicates perfect predictability. A .50 factor suggests modest predictability. The test also produced a Standard Error of $253,517, which is a statistical measurement similar to the Standard Deviation. That is, 16% of the

predicted values will exceed the *actual selling price* of the company by the Standard Error, and, 16% will be less.

In the sample of comparables shown below, six such comparables were found to have calculated values that deviated from the actual selling price by more than, or less than, the Standard Error. These guideline companies are considered 'outliers' and were removed from the sample. One company sold for $540,000, whereas, the regression predicted a much lower $502,699. A second company sold for $400,000 with the regression predicting a much higher $720,587. A third sold for $1,193,600 with a prediction of $735,290. A fourth sold for $1,450,000 with a prediction of $917,998. The fifth company sold for $1,150,000 with a prediction of $1,433,429.

These six outlying comparables (marked in red) were removed from the sample and the remaining sample of fifteen comparables was regressed a second time. The results are shown in the two tables below. The refined Regression Analysis produced an R Square of 0.77 which is a significant improvement over the original sample of 21 indicating that it is a superior measure of the market. The Regression Equation that was constructed is shown at the bottom of the table. The actual values for the Subject's four variables of Inventory, Fixtures and Equipment, Cash Flow, and Revenues were input into this equation to solve for the Subject's estimated selling price. The mid-range predicted value was $436,888; the upper range was $574,056; and, the lower range was $299,720.

EXHIBIT XVIII REFINED REGRESSION ANALYSIS

Obversations	Actual Values For Comparables: Gross Revenues	Cash Flow	Inventory	Fixtures	Actual Sold Price		Calculated Values: Predicted Price	$ Difference	% Difference
1	1,796,199	88,317	200,000	75,000	1	**375,000**	**424,120**	(49,120)	13.1%
2	1,945,000	96,000	164,000	83,000	2	**412,000**	**520,008**	(108,008)	26.2%
3	1,999,636	174,395	180,000	100,800	3	**695,580**	**702,401**	(6,821)	1.0%
4	1,090,024	110,499	145,000	105,000	4	**645,000**	**448,861**	196,139	-30.4%
5	777,000	93,000	50,000	43,000	5	**300,000**	**335,348**	(35,348)	11.8%
6	1,085,244	175,479	186,000	123,602	6	**607,425**	**569,161**	38,264	-6.3%
7	1,244,000	240,000	335,000	122,000	7	**566,000**	**568,818**	(2,818)	0.5%
8	914,000	193,000	75,000	103,000	8	**785,000**	**647,187**	137,813	-17.6%
9	827,000	177,000	30,000	50,000	9	**425,000**	**544,642**	(119,642)	28.2%
10	992,000	249,000	66,000	50,000	10	**600,000**	**680,518**	(80,518)	13.4%
11	1,437,000	366,000	340,000	135,000	11	**1,100,000**	**873,514**	226,486	-20.6%
12	914,090	236,860	75,000	103,000	12	**785,000**	**733,741**	51,259	-6.5%
13	1,030,000	360,000	300,000	50,000	13	**500,000**	**663,955**	(163,955)	32.8%
14	742,000	325,000	25,000	50,000	14	**850,000**	**825,782**	24,218	-2.8%
15	750,000	350,000	350,000	400,000	15	**1,100,000**	**1,207,948**	(107,948)	9.8%
16					16				
17					17				
18					18				
19					19				
20					20				

Applied Regression Coefficients

Actual Data Cinema Theater Supply		Regression Coefficients	Calculated Price
Total Sales	$1,408,299	x 0.1889 =	265,991
Total Cash Flow	$140,783	x 1.9730 =	277,767
Total Inventory	$205,713	x (1.0374) =	-213,402
Total Net Fixtures	$68,949	x 1.9099 =	131,688
Regression Intercept Value =			-25,156
Price Predicted by Regression Market Line =			**436,888**
16% (one Std Error) Predicted Price =		+ $137,168	574,056
16% (one Std Error) Predicted Price =		- $137,168	299,720

R Square = 0.77

Standard Error = $137,168

CV Ratio = 21.1%

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

Regression Formula:

Sales x 0.1889 + Cash Flow x 1.973 + Inventory x -1.0374 + Fixtures x 1.9099 +

EXHIBIT XIX REFINED SOLD COMPARABLES ANALYSIS

Obversations	Listing Price	Selling Price	Gross Revenues	Revenue Multiplier	Cash Flow	SDE%	Cash Flow Multiplier	Inventory	Enterprise Multiplier	Fixtures & Equip
1	550,000	375,000	1,796,000	0.21	88,000	4.9%	4.25	200,000	1.98	75,000
2	400,000	412,000	1,945,000	0.21	96,000	4.9%	4.29	164,000	2.58	83,000
3	1,200,000	696,000	2,000,000	0.35	174,000	8.7%	3.99	180,000	2.96	101,000
4	750,000	645,000	1,090,000	0.59	110,000	10.1%	5.84	145,000	4.52	105,000
5	319,000	300,000	777,000	0.39	93,000	12.0%	3.23	50,000	2.69	43,000
6	0,000	607,000	1,085,000	0.56	175,000	16.2%	3.46	186,000	2.40	124,000
7	650,000	566,000	1,244,000	0.45	240,000	19.3%	2.36	335,000	0.96	122,000
8	750,000	785,000	914,000	0.86	193,000	21.1%	4.07	75,000	3.68	103,000
9	575,000	425,000	827,000	0.51	177,000	21.4%	2.40	30,000	2.23	50,000
10	705,000	600,000	992,000	0.60	249,000	25.1%	2.41	66,000	2.14	50,000
11	1,250,000	1,100,000	1,437,000	0.77	366,000	25.5%	3.01	340,000	2.08	135,000
12	750,000	785,000	914,000	0.86	237,000	25.9%	3.31	75,000	3.00	103,000
13	700,000	500,000	1,030,000	0.49	360,000	35.0%	1.39	300,000	0.56	50,000
14	850,000	850,000	742,000	1.15	325,000	43.8%	2.62	25,000	2.54	50,000
15	1,500,000	1,100,000	750,000	1.47	350,000	46.7%	3.14	350,000	2.14	400,000
16										
17										
18										
19										
20										
Avg:	730,000	653,000	1,170,000		216,000			168,000		106,000
	Selling Price / Listing Price = 85.5%			Gross Rev Range		SDE% Range	Cash Flow Range		Enterprise Range	
		Median =		0.56*		21.1%*	3.23*		2.40*	
		Average =		0.63*		21.4%*	3.32*		2.43*	
		Standard Deviation =		0.34*		12.9%*	1.07*		0.96*	
		Coefficient of Variation =		54.5%		60.3%	32.4%		39.4%	

*** Companies with Cash Flow Multiples that are negative or greater than 7 are ignored in this calculation.**

Rejected Comparables - Value calculated by the Regression was well above or below actual selling price:

	Calculated Value	Actual Selling Price	Sales	Revenue Multiplier	Cash Flow	Cash Flow Margin	Cash Flow Multiple	Inventory	Cash Flow - Inv Mult.	FF&E
1	503,000	540,000	746,000	0.72	29,000	3.9%	18.62*	120,000	14.48	400,000
2	721,000	400,000	1,945,000	0.21	96,000	4.9%	4.17	95,000	3.18	86,000
3	735,000	1,194,000	1,650,000	0.72	127,000	7.7%	9.37*	13,000	9.27	36,000
4	918,000	1,450,000	1,959,000	0.74	174,000	8.9%	8.32*	100,000	7.75	141,000
5	1,433,000	1,150,000	1,320,000	0.87	349,000	26.5%	3.29	75,000	3.08	525,000

The last point of analysis for the sample of 15 observations is the comparison of the Coefficients of Variation for each of the calculated Market Value Multiples with the CV's for the original sample of 21, as well as the entire Pratt's Stats database. Those statistics are compiled in Exhibit XX below. The three Market Value Multipliers in the second more narrowly-defined sample of 15 observations all produced lower (superior) Coefficients of Variation. The smaller sample also produced a higher (superior) R Square factor. Thus, the smaller sample appears to be a better indicator of the market than the sample with 21 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 XX COEFFICIENTS OF VARIATION OF SAMPLES VS. TOTAL DATABASE

(21 Observations vs. 15 Observations)

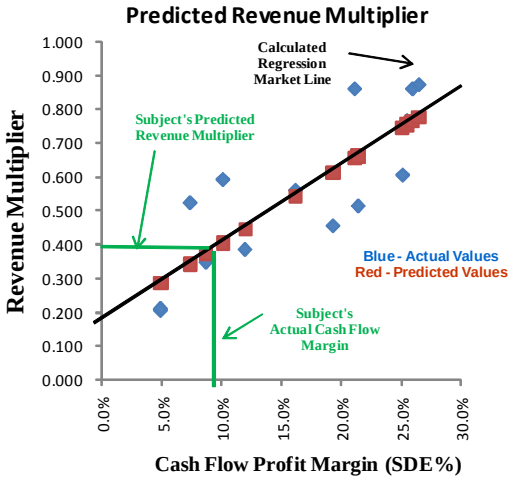
Database Exhibit IX, Exhibit XVII & Exhibit XIX	Gross Income Multiplier	Cash Flow Multiplier	Enterprise Value Multiplier	Regression Analysis
Sample –15 observations	54.5%	32.4%	39.4%	21.1%
Sample –21 Observations	49.3%	30.5%	36.8%	35.1%
Total Database–7,144 Obs. Pratt's Stats	92.3%	40.0%	82.4%	

6.3 CALCULATING THE THREE MARKET MULTIPLIERS

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

Below are the details of that analysis:

EXHIBIT XXI MARKET VALUE MULTIPLIERS PREDICTED BY REGRESSION ANALYSIS



Observation	Actual Values For Comparables: SDE%	Actual Values For Comparables: Revenue Multiple	Calculated Values Using: Predicted Multiple
2	4.9%	0.209	0.285
3	4.9%	0.206	0.286
4	4.9%	0.212	0.286
5	7.4%	0.523	0.342
7	8.7%	0.348	0.372
9	10.1%	0.592	0.404
10	12.0%	0.386	0.446
11	16.2%	0.560	0.542
12	19.3%	0.455	0.613
13	21.1%	0.859	0.655
14	21.4%	0.514	0.662
15	25.1%	0.605	0.746
16	25.5%	0.765	0.754
17	25.9%	0.859	0.765
18	26.5%	0.871	0.777
20	43.8%	1.146	1.173

Predicted Range For Subject's Revenue Multiplier

Regression Formula for Revenue Multiplier =

Subject's SDE% x 1.935 + 0.198

Standard Error Range = +/- 0.126 (Deviation from Mid-Point by top & bottom 16% of Comparables)

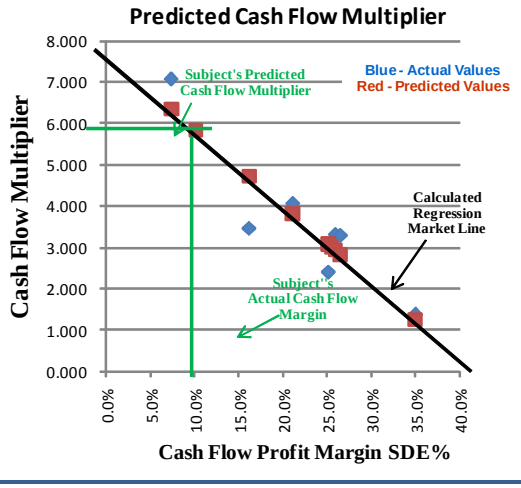
Average = 0.569 CV Ratio = 22.2%

R Square = 0.81

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

Actual Data Cinema Theater Supply	Regression Coefficient	Calculated Multiplier
Cash Flow Margin = 10.00% x	1.9345 =	0.193
Regression Intercept Value =		0.198
Predicted Revenue Multiplier =		0.391

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



Observation	Actual Values For Comparables: SDE%	Actual Values For Comparables: Cash Flow	Calculated Values Using: Predicted Multiple
5	7.4%	7.071	6.353
9	10.1%	5.837	5.846
11	16.2%	3.462	4.730
13	21.1%	4.067	3.816
15	25.1%	2.410	3.079
16	25.5%	3.005	3.010
17	25.9%	3.314	2.929
18	26.5%	3.291	2.827
19	35.0%	1.389	1.257

Predicted Range For Subject's Cash Flow Multiplier

Regression Formula for Revenue Multiplier =

Subject's SDE% x -18.493 + 7.721

Standard Error Range = +/- 0.657 (Deviation from Mid-Point by top & bottom 16% of Comparables)

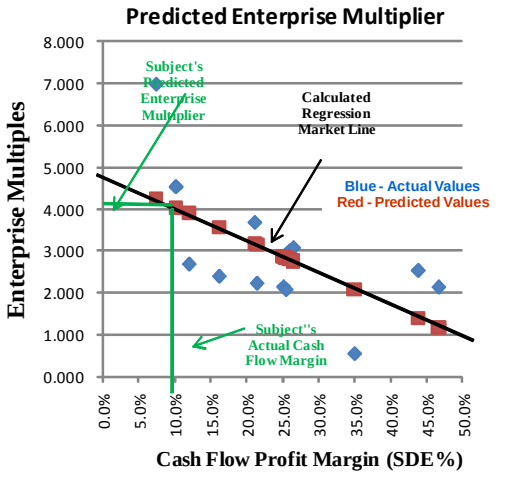
Average = 3.761 CV Ratio = 17.5%

R Square = 0.87

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

Actual Data Cinema Theater Supply	Regression Coefficient	Calculated Multiplier
Cash Flow Margin = 10.00% x	-18.49 =	-1.849
Regression Intercept Value =		7.721
Predicted Revenue Multiplier =		5.872

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



Observation	Actual Values For Comparables: SDE%	Actual Values For Comparables: Enterprise Multiple	Calculated Values Using: Predicted Multiple
5	7.4%	6.970	4.258
9	10.1%	4.525	4.042
10	12.0%	2.688	3.898
11	16.2%	2.402	3.568
13	21.1%	3.679	3.179
14	21.4%	2.232	3.157
15	25.1%	2.145	2.866
16	25.5%	2.077	2.837
17	25.9%	2.998	2.802
18	26.5%	3.077	2.759
19	35.0%	0.556	2.092
20	43.8%	2.538	1.396
21	46.7%	2.143	1.171

Predicted Range For Subject's Enterprise Multiplier

Regression Formula for Revenue Multiplier =

Subject's SDE% x -16.218 + 6.269

Standard Error Range = +/- 1.180 (Deviation from Mid-Point by top & bottom 16% of Comparables)

Average = 2.925 CV Ratio = 40.3%

R Square = 0.38

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

Actual Data Cinema Theater Supply	Regression Coefficient	Calculated Multiplier
Cash Flow Margin = 10.00% x	-16.22 =	-1.621
Regression Intercept Value =		6.269
Predicted Revenue Multiplier =		4.648

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

The regression formulas and the predicted Multipliers from above are summarized as follows:

Revenue Multiplier:
Subject's SDE% x 1.935 + 0.198

Cash Flow Multiplier:
Subject's SDE% x -18.493 + 7.721

Enterprise Multiplier:
SUBJECT'S SDE% X -16.218 + 6.269

6.4 APPLYING THE MARKET VALUE MULTIPLIERS

We have now calculated the Market Value Multipliers based on the three procedures above. These values represent the Market's expectations given the level of the Subject's Cash Flow Profitability. However, the values represent the "closest fit" of the observations found in the market place at the Subject's **current level of profitability**. If we have reason to believe that the Subject's profitability will change at **a greater rate than its peer group in the future**, we should consider adjusting the calculated Multipliers up or down before we apply them to our Subject. For example, if we believe the Subject's SDE% will increase by ten percentage points in the coming years, while the rest of its peers remain the same, we have justification for increasing the calculated Multipliers for the Subject. However, if we expect the Subject to improve its profitability at a similar rate as its peers, then, as it is said, "a rising tide raises all boats." Even though the Subject's profitability is higher, it is still at the same level of profitability ***relative*** to its peers and its position on the calculated Market Line will be the same. If such is the case, no adjustment to the Multipliers is warranted.

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

We observed the financial strength of the Subject and found its Gross Revenues have generally increased in recent years, whereas its Cash Flow has declined. Hence, the Subject's SDE% has been below industry levels (as defined by our sample of comparables). The Company has moved aggressively into internet marketing by setting up an Ebay website. However, it is believed that the increase in business and profitability from this source will be offset by the fact that the Subject serves a market that is in a moderate decline. The film equipment industry is being replaced by digital equipment. The company expects to undertake digital equipment sales when used equipment appears on the market in the next few years. However, the outcome of such a move is considered speculative at this time. Thus, since no significant change in the company's level of profitability is expected, no adjustment to the Market Value Multipliers is considered warranted for this factor.

From the demographics analysis we determined that the Subject's market represents the entire globe. As such, its growth will fall in line with the entire industry. No adjustment to the Market Value Multipliers is considered warranted for this factor.

Thus, all factors considered, no adjustment to the Market Value Multipliers is considered warranted. Accordingly, the selected Market Values are as follows:

EXHIBIT XXII CALCULATED VALUES FROM THE FOUR METHODOLOGIES

Range of Market Value Multiples at Different Levels of Profitability					
SDE% Range		Gross Revenue	Cash Flow	Enterprise Value	Regression
Lowest 16% of Comps have SDE% of 8.5% =		0.36	6.15	4.89	299,720
Mid Range of Comps have SDE% of 21.4% =		0.61	3.77	2.80	436,888
Highest 16% of Comps have SDE% of 34.3% =		0.86	1.39	2.80	574,056
Subject's SDE% = 10%	Revenue Multiplier	Cash Flow Multiplier	Enterprise Multiplier	Regression	
Subject's Operation =	$1,408,299	140,783	140,783		*The selected Market Value Multiples are at the lower range of the Regression Market Line*
Multiplier at Subject's Level of Profitability =	x 0.39	x 5.87	x 4.65	315,837	
			654,359		
Inventory =			+ 205,713		
Indicated Value =	550,645	826,677	860,072	315,837	

The above multipliers were derived from databases that report Asset Sale Values for the selling price of a business. The databases also involved transactions that were for the 100% Controlling Interest of the business. In addition, since all the transactions involved privately-owned companies not traded on stock markets, they are Non-Marketable by definition. Therefore, the above indicated values are for an Asset Sale transaction on a Controlling, Non-Marketable basis. Asset Sales include all Inventory, Fixtures and Equipment, and all intangibles *ONLY (Intangibles can take the form of Goodwill, Menus, Liquor License, Covenant not to Compete, Intellectual Properties, etc.)*. The transactions exclude all liabilities (which are paid by the Seller of the business) and assets such as Cash, Accounts Receivable, and Prepaid Expenses.

7.0 RECONCILIATION OF ALL METHODOLOGIES

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

evaluate the relative merits of each procedure to form a conclusion. "The value conclusion is the result of the appraiser's judgment."[14]

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

EXHIBIT XXIII VALUATION CONCLUSION

100% Controlling Interest in

Valuation Method	Indicated Value	Confidence Weighting	Weighted Estimate
Adjusted Book Value Method	Not Used		
Excess Earnings Method	Not Used		
Market Approach			
Guideline Public Company Method	Not Used		
Mergers and Acquisitions Method	Not Used		
Prior Transactions	None		
Direct Market Data Method			
21 Observations Sample Database	Not Used		
15 Observations Sample Database			
Gross Revenue Multiplier	$550,645	28.0%	$154,181
Cash Flow Multiplier	826,677	32.7%	270,323
Enterprise Value Multiplier	860,072	10.1%	86,867
Multiple Variable Regression Analysis	315,837	29.1%	91,909
Income Approach			
Single Period Capitalization Method	Not Used		
Multi-Period Discount Method	Not Used		
ASSET SALE VALUE (Rounded)			**$600,000**

Six Hundred Thousand Dollars

The above value is for a Non-Marketable Interest in Cinema Theater Supply on a Controlling, Non-Marketable Basis. The assets being valued are those offered in a conventional Asset Sale which includes Inventory, Fixtures and Equipment and all

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

Intangibles only. The Seller retains all Cash and Accounts Receivable and pays off all liabilities. Inventory will also be adjusted at the close of escrow. Inventory as of July 31, 2010 was estimated at $205,713. The Fair Market Value is, therefore, restated at $394,287 plus inventory of $205,713 to be adjusted at the close of escrow. If Inventory increases above $205,713, the selling price will increase accordingly; and likewise, if Inventory decreases, the selling price will also decrease.

Summary of Asset Sale Conclusions

The Adjusted Book Value approach and Excess Earnings method are commonly used in divorce valuations because of their simplicity. However, to provide a high level of confidence, the Discrete Valuation of individual assets requires that the company have a high-integrity balance sheet, thus allowing individual tangible assets to be precisely valued. The process also requires all intangibles to be identified and valued separately. Since the Subject's balance sheet does not meet that high-integrity standard, the Adjusted Book Value Approach and the Excess Earnings Method were not used.

The Guideline Public Company Method uses a database of large publicly-traded companies. A search of the database found no companies similar to the Subject. A similar problem exists with the Mergers and Acquisition Method. No guideline companies similar in size to the Subject were found. Hence, these methods could not be used.

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

In accordance with the guidelines set forth by Internal Revenue Ruling 59-60, the Appraiser must assign high weighting to those methodologies based on cash flow. Since all the methodologies were calculated based on the Subjects Cash Flow Profit Margin (SDE%), they all meet this test. The weightings will, therefore, be based on the Coefficient of Variations (CV) that each method exhibited. The lower the CV the more highly predictable the method is. The Cash Flow Multiplier generated the lowest CV ratio of 17% and, therefore, was given a weighting of 33%. The Multiple Variable Regression Analysis generated a CV ratio of 21% and, therefore was given a weighting of 29%. The Gross Revenue Multiplier generated a CV ratio of 22% and, therefore was given a weighting of 28%. The Enterprise Multiplier generated the highest CV ratio of 40% and, therefore was only weighted 10%.

8.0 SUGGESTED LISTING PRICE

8.1 SUGGESTED LISTING PRICE BASED ON PAST SALES

The analysis of **Sold Comparables** shown in Exhibit XV revealed that the average firm sold for 88.5% of its listing price. Knowing this, the $600,000 **Fair Market Value** calculated in Exhibit XXIII above from actual ***Sold Data*** would suggest that the Subject Company should be listed for approximately $$680,000 ($600,000÷ 88.5%). In other words, if the company were listed for $ $680,000 and subsequently sold for 88.5% of its asking price, the indicated Fair Market Value of $600,000 would be realized.

8.2 CURRENT LISTING TRENDS

Data from businesses **currently listed** in the marketplace can often give us an indication of current trends in the market place. From ***current listings*** we can observe the Revenue and Cash Flow levels of those companies and calculate the range of multipliers of their respective ***asking prices*** in the same manner as we did in developing the Fair Market Value from ***Sold Data*** above. Exhibit XXIV below shows the data from nine current listings.

Two comparables were found to be "outliers." The remaining seven ***Listing Comparables*** were regressed in the same manner as we did with the ***Sold Comparables*** to predict the Revenue, Cash Flow, and Enterprise Multipliers which, in turn, will predict the ***Suggested Listing Price*** of the Subject. The table below shows the Suggested Listing values for each of the four methods. The four methods are then reconciled to arrive at a single Suggested Listing Price.

EXHIBIT XXIV LISTING COMPARABLES ANALYSIS

Refined Listing Comparables Analysis

	Listing Price	Gross Revenues	Revenue Multiplier	Cash Flow	SDE%	Cash Flow Multiplier	Inventory	Enterprise Multiplier	Fixtures & Equip
1	670,000	1,562,000	0.43	107,000	6.9%	6.26	270,000	3.74	
2	700,000	1,976,000	0.35	140,000	7.1%	5.00	300,000	2.86	75,000
3	250,000	931,000	0.27	75,000	8.1%	3.33	49,000	2.68	160,000
4	800,000	1,700,000	0.47	200,000	11.8%	4.00	125,000	3.38	250,000
5	750,000	1,400,000	0.54	180,000	12.9%	4.17	250,000	2.78	25,000
6	320,000	511,000	0.63	121,000	23.7%	2.64	180,000	1.16	
7	700,000	1,600,000	0.44	90,000	5.6%	7.78*	400,000	3.33	5,000
Average:	599,000	1,383,000		130,000			225,000		103,000
			Gross Rev Range		SDE% Range	Cash Flow Range		Enterprise Range	
		Median =	0.44		8.1%	4.08*		2.82*	
		Average =	0.45		10.8%	4.23*		2.76*	
		Standard Deviation =	0.12		6.3%	1.27*		0.89*	
		Coefficient of Variation =	26.1%		57.7%	30.0%		32.0%	

* Companies with Cash Flow Multiples that are negative or greater than 7 are ignored in this calculation.

Rejected Comparables - Value calculated by the Regression was well above or below actual listing price:

Calculated Value	Actual Listing	Sales	Revenue Multiplier	Cash Flow	Cash Flow	Cash Flow	Inventory	Cash Flow-Inv Mult.	FF&E
1,089,000	1,400,000	1,971,000	0.71	95,000	4.8%	14.74	600,000	8.42	75,000
1,037,000	795,000	1,700,000	0.47	100,000	5.9%	7.95	600,000	1.95	100,000

EXHIBIT XXV LISTING MULTIPLIERS

Range of Market Value Multiples at Different Levels of Profitability					
SDE% Range		Gross Revenue	Cash Flow	Enterprise Value	Regression
Lowest 16% of Comps have SDE% of 4.6% =		0.40	6.97	3.57	429,738
Mid Range of Comps have SDE% of 10.8% =		0.48	5.32	2.85	507,322
Highest 16% of Comps have SDE% of 17.1% =		0.55	3.67	2.85	584,907
Subject's SDE% = 10%	Revenue Multiplier	Cash Flow Multiplier	Enterprise Multiplier	Regression	
Subject's Operation =	$1,408,299	140,783	140,783		*The selected Market Value Multiples are at the mid range of the Regression Market Line*
Multiplier at Subject's Level of Profitability =	x 0.47	x 5.54	x 2.94	496,796	
			414,465		
Inventory =			205,713		
Indicated Value =	659,084	780,219	620,178	496,796	

EXHIBIT XXVI LISTING PRICE RECONCILIATION

Valuation Method	Indicated Value	Confidence Weighting	Weighted Estimate
7 Observations Sample Database			
Gross Revenue Multiplier	659,084	35.9%	236,611
Cash Flow Multiplier	780,219	18.8%	146,681
Enterprise Value Multiplier	620,178	26.1%	161,866
Regression Analysis	496,796	19.2%	95,385

Suggested Listing Price based on *Current Listings* (rounded) **$640,000**

The above ***Listing Data*** produced a Suggested Listing Price that is somewhat higher than the Suggested Listing Price produced by actual sold transactions ($640,000 vs.$680,000). **A reasonable Suggested Listing Price would be:**

$650,000

(Six Hundred Fifty Thousand Dollars)

9.0 AFFORDABILITY 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 insufficient cash flow to pay for it, we would have to question the indicated value for that business. Exhibit XXVI 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 75.0% of the selling price, the loan amount of $450,000 at 5.5% interest for 10 years, would carry annual payments of $58,604**.**

The projected Cash Flow for the Subject developed in Exhibit XXVI has been reworked to show Net Cash Flow after proposed 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 in the range of 1.1 to 1.5 times the proposed debt service. From the exhibit below we can see that a hypothetical transaction can be structured to exceed this minimum. However, it will require a buyer with low income requirements. **As such, most proposed transactions will not be financeable with SBA, thus, requiring Seller Financing.**

EXHIBIT XXVII AFFORDABILITY TABLE

Asset Sale Price	**$600,000**	**Loan to Value Ratio:**	**75%**
Interest Rate:	**5.5%**	**Loan Amount:**	**$450,000**
Term of Loan:	**10 years**	**Total Debt Service:**	**$58,604**
Working Capital	**$0**	**Working Cap Debt Service:**	**$0**
Last Year SDE before Depr.		**137,727**	
Owner's Salary, Perks & Payroll Taxes		**($54,500)**	
Interest on New Loans		**($24,750)**	
Adjusted Net Earnings Before Taxes		**$58,477**	
Average State and Federal Taxes at 19.3%		**($11,286)**	
Net Earnings After Taxes		**$47,191**	
Less Principal on Acquisition Loan		**($33,854)**	
Current Year Depreciation		**3,056**	
Net Cash Flow after Debt Service		**$16,393**	
Total Cash Flow Before Debt Service		**$74,997**	
Total Acquisition Loan Debt Service		**$58,604**	
Cash Flow Coverage Ratio		**1.28**	

Average of Last Three Year's Working Capital =	**$165,223**		
Growth Rate of Revenues =	**3%**		
Working Capital Increase =		**$4,957**	
Fixures & Equipment =	**130,933**		
Estimated Life =	**20 Years**		
Annual Replenishment =		**$6,547**	
Tenant Improvements =	**2,350**		
Estimated Life =	**30**		
Annual Replenishment =		**$78**	
Total Capital Expenditures and Working Capital Growth =		**$11,582**	*

Amador Appraisals and Acquisitions, Inc.
Business Brokerage and Appraisals

Prepared by
C. Fred Hall, III, MBA, AIBA

Cinema Theater Supply

July 31, 2010

EXHIBIT XXV LISTING MULTIPLIERS

Cinema Theater Supply
S-Corporation
December 31, 2010

2006 = $1,039,000

Prepared by C. Fred Hall III, MBA

	Trailing Twelve Month Accrual Basis			Accrual Basis			Accrual Basis			Accrual Basis		
	Dec 31, 2010	Add Backs		Dec 31, 2009	Add Backs		Dec 31, 2008	Add Backs		Dec 31, 2007	Add Backs	
INCOME	11 Mos.	Per P&Ls		12 Mos.	Per Taxes		12 Mos.	Per Taxes		12 Mos.	Per Taxes	
Total Revenues	1,323,052			1,408,914			1,267,298			1,602,160		
Less Returns	-			(615)			-			-		
TOTAL INCOME (e9)	1,323,052	-	100.0%	1,408,299	-	100.0%	1,267,298	-	100.0%	1,602,160	-	100%
		-			-			-			-	
COST OF GOODS SOLD												
Begin Inventory				298,612		21.2%	350,725		27.7%	384,069		24.0%
Purchases (e13)	640,902		48.4%	575,377		40.9%	531,059		41.9%	761,806		47.5%
Freight and Delivery	66,986		5.1%	72,210		5.1%	77,349		6.1%	62,463		3.9%
Commissions	6,760		0.5%	2,172		0.2%	5,486		0.4%	41,222		2.6%
Supplies and Tools	6,860		0.5%	7,605		0.5%	8,650		0.7%	12,119		0.8%
End Inventory	-			(179,177)		12.7%	(298,612)		23.6%	(350,725)		21.9%
TOTAL COST OF GOODS SOLD	721,508	-	54.5%	776,799	-	55.2%	674,657	-	53.2%	910,954	-	56.9%
GROSS PROFIT	601,544			631,500			592,641			691,206		
	45.5%			44.8%			46.8%			43.1%		
OTHER INCOME (EXPENSE)												
Accounts Payable Write-off	107,500	107,500	8.1%				9,812	9,812	0.8%	20,310	20,310	1.3%
Discounts Earned	282	-	0.0%	-			-	-		293		0.0%
TOTAL OTHER INCOME	107,782	(107,500)	8.1%	-	-		9,812	(9,812)	0.8%	20,603	(20,310)	1.3%
EXPENSES												
Compensation to Officers				24,500	24,500	1.7%	12,890	12,890	1.0%	12,553	12,553	0.8%
Labor, Contract Labor (e29)	247,334	13,077	18.7%	304,296	45,000	21.6%	285,914	45,000	22.6%	322,773	45,000	20.1%
Payroll Taxes	27,748	1,177	2.1%	31,395	6,255	2.2%	26,020	5,210	2.1%	30,315	5,180	1.9%
Repairs and Maintenance	6,680		0.5%	1,542		0.1%	3,654		0.3%	2,838		0.2%
Bad Debts	2,267		0.2%	1,074		0.1%	1,621		0.1%	515		0.0%
Rents (e33)	55,220		4.2%	60,996		4.3%	65,564		5.2%	60,944		3.8%
Taxes and Licenses	1,076		0.1%	1,896		0.1%	1,372		0.1%	1,540		0.1%
Interest	10,882	10,882	0.8%	26,266	26,266	1.9%	26,388	26,388	2.1%	42,245	42,245	2.6%
Depreciation and Amortization		-		3,056	3,056	0.2%	5,229	5,229	0.4%	2,382	2,382	0.1%
Advertising (e37)	15,418	6,000	1.2%	8,848		0.6%	4,942		0.4%	9,761		0.6%
Pension (e38)				10,910	3,285	0.8%	8,587	2,937	0.7%	20,205	2,927	1.3%
Employee Benefits (e39)	6,102	3,300	0.5%	11,930	7,200	0.8%	11,479	7,200	0.9%	11,418	7,200	0.7%
Meals and Entertainment, Travel (e40)	18,318	9,159	1.4%	16,967	8,484	1.2%	14,897	7,449	1.2%	13,538	6,769	0.8%
Accounting				4,020		0.3%	2,830		0.2%	3,442		0.2%
Legal and Professional (e42)	17,693		1.3%	16,950		1.2%	15,385		1.2%	6,839		0.4%
Auto and Truck Expense (e43)	15,752	7,876	1.2%	18,397	9,199	1.3%	23,786	11,893	1.9%	27,030	13,515	1.7%
Auto Insurance (e44)	1,709	1,140	0.1%	1,526	1,018	0.1%	1,519	1,013	0.1%	1,436	958	0.1%
Bank Charges	634		0.0%	2,259		0.2%	1,391		0.1%	2,383		0.1%
Misc., Dues, Janitorial, Security, Restock	6,243		0.5%	5,795		0.4%	5,411		0.4%	6,044		0.4%
Insurance (e47)	10,089	3,041	0.8%	7,377		0.5%	7,629		0.6%	6,820		0.4%
Workman's Comp Insurance (e48)	5,547	(673)	0.4%	2,070		0.1%	506		0.0%	14,190		0.9%
Office Expense, Postage	5,647		0.4%	6,453		0.5%	5,441		0.4%	6,099		0.4%
Outside Labor (e50)	24,200		1.8%	35,726		2.5%	15,423		1.2%	35,054		2.2%
EBay Expenses	5,548		0.4%	3,665		0.3%	1,560		0.1%			
Computer Supplies	986		0.1%	1,099		0.1%	227		0.0%	878		0.1%
Pension Administration	475		0.0%	875		0.1%	475		0.0%			
Sales Expense				1,351		0.1%						
Web Design (e55)	4,917	4,917	0.4%	5,100	5,100	0.4%				1,300		0.1%
Delivery and Freight	327		0.0%							797		0.0%
Donations	100	100	0.0%									
Utilities	13,345	-	1.0%	13,740	-	1.0%	13,046	-	1.0%	12,643	-	0.8%
TOTAL EXPENSES / Total Add-Backs	504,257	59,996	38.1%	630,079	139,362	44.7%	563,186	125,208	44.4%	655,982	138,728	40.9%
TOTAL NET INCOME (per Tax Return) =	205,069		15.5%	1,421		0.1%	39,267		3.1%	55,827		3.5%
Total Add Backs =		(47,504)			139,362			115,396			118,418	
Owner's Discretionary Cash Flow =		157,565	11.9%		140,783	10.0%		154,663	12.2%		174,245	10.9%

Balance Sheet (Accrual Basis, Per P&LS)													
Cash		(21,145)			38,899			(2,641)			2,215		
Accounts Receivable	(e66)	178,897		45 Days	96,385		25 Days	78,652		23 Days	49,177		11 Days
Inventory	(e67)	205,713		96 Days	179,177		84 Days	298,612		162 Days	350,725		141 Days
Other Current Assets		-			-			-			-		
Total Current Assets			363,465	9.6%		314,461	11.7%		374,623	17.0%		402,117	9.9%
Fixtures & Equipment	(e70)	130,933	(61,984)		76,968	(61,984)		76,967	(54,052)		75,895	(47,418)	
Leasehold Improvements		2,350			2,350			2,350			2,350		
Other Assets, Intangibles		10,552			8,554	(2,064)		8,554	(1,858)		9,029	(1,652)	
Total Assets			445,316			338,285			406,584			440,321	
Accruals	(e74)	36,110			58,057								
Accounts Payable	(e75)	140,556		65 Days	79,665		38 Days	84,361		46 Days	103,341		42 Days
Other Liabilities, Cust Deposits	(e76)	24,230						(k76) 43,327			(n76) 78,148		
Short Term IB Loans		46,442			12,332			31,801			62,000		
Total Current Liabilities			247,338			150,054			159,489			243,489	
Loans from Shareholders		190,530			188,831			178,386			174,262		
Long Term IB Debt	(e80)	33,818			-			52,471			32,854		
Total Liabilities			471,686			338,885			390,346			450,605	
Net Worth		(26,370)			(600)			16,238			(10,284)		
Total Liabilities + Net Worth			445,316			338,285			406,584			440,321	

N-IB = Non-Interest Bearing IB = Interest Bearing

Cell: E9
Comment: History:

Cinema Theater Supply (Cinema) was founded in 1999 by the current owner, John Smith. The company was originally located in Upland CA but moved to Jackson in 2004. The location of the business has no bearing on its success. It could be easily relocated anywhere as its lease is currently month-to-month.

The Company is engaged in the wholesale distribution of electronic parts and accessories used in cinema theater film projectors, sound systems, and screen materials. In addition, it regularly performs custom assembly work on projectors and sound systems for Walt Disney Imagineering, Euro Disney, and Disney International. It also purchases old projector systems from companies that are upgrading to new systems and resells the refurbished parts. Roughly 1/3 of its sales are from new electronic parts and accessories, 1/3 are from the sale of used parts, and, 1/3 are from wiring harnesses and electrical components that have been assembled to fit the special needs of its customers. The assembled products involve both new and used parts.

Cinema distributes its products worldwide. Its larger market areas are in Asia, Mexico, Europe, South America, and Australia. The Company recently set up a "store" on Ebay with roughly $600,000 in inventory (resale value). The Ebay store generated nearly $60,000 in sales in 2009, its first year of business. The average transaction is about $300. The relationship is also becoming a significant source for acquiring new clientele for its non-Ebay products. Cinema also has its own website. However, the site does not have shopping cart capabilities at this time. The bulk of the Company's orders come in by telephone or email.

Cinema has about 40 regular customers. Typically none of them represent more than 10% of its business. However, on occasion, a single customer may place a large order. Such orders in the past have been more than $100,000. When receiving large custom assembly orders LIT requires deposits of up to 50% of the transaction. As of August 2010, the Company has a backlog of orders of $319,000. Sales for the year are on track to exceed 2009 levels. In addition to its Ebay Store, Cinema's marketing efforts include the annual Cinema Theater Industry show in Las Vegas. The show gives the Company the opportunity to connect with its existing national and international customers as well as develop new relationships.

Cinema acquires a portion of its used equipment directly from customers who are upgrading their systems. The Company acquires much of its used equipment from two or three installation contractors who install new theater systems and sell the old systems back to Cinema. The industry shift from traditional film projector systems to digital projection has produced a large influx of used systems, thus driving down prices that Cinema has to pay. No one supplier to Cinema represents a large source of its goods. Both new and used parts and accessories can be obtained from a number of different vendors.

Cinema's biggest competitor is Cinema Equipment located in Miami, Florida. The company is larger that Cinema. One of its strengths is that it has a Spanish speaking sales force which gives it the ability to better service the South America market. However, Cinema Equipment often comes to Cinema to purchase hard to find parts. According to Mr. Smith, the company has a bad reputation in the industry for selling junk.

Because of the newness of the Digital Cinema Initiative, Cinema has not entered that market yet. Barco is the largest company in this industry and controls most of the market. Since the life expectancy for digital equipment is much shorter than traditional film projection systems, it is expected that within a few years used digital equipment will become available, at which time Cinema will start buying and reselling it. Most theater owners, however, don't want to go full digital as the cost is prohibitively expensive. Multi-screen owners are typically leaving several of their screens in the old film format. As a result, these owners are more inclined to repair their film systems with used equipment offered by Cinema.

Sales for 2010 are expected to be slightly higher than 2009. The Company currently has a backlog of orders of $375,000.

Cell: E13
Comment: Cost of Goods Sold:

Purchases of used equipment are not computerized. Cineman can produce invoices for the bulk purchase of used items, but the individual components are not individually priced. When used items are sold, Quickbooks uses the equivalent cost of a new item. At the end of the year, ending inventory is adjusted based on the Company's tax returns. At present, it is believed that inventory in the warehouse is

significanty undervalued compared to the book amount.

Cinema has more than 20-30 vendors. No one vendor accounts for more than 20% of its total purchases. The larger vendors are mostly machine and sheet metal shops who produce the chassis for the components that Cinema assembles. There are great many machine shops that can perform the work that Cinema uses them for. Most of the vendor terms are Net 30 days. However, on jobs that Cinema does not expect payment for 45 days or more, the vendors will often allow longer terms.

Cell: E29
Comment: COGS Labor-2010

Cinema presently has seven full time employees. The project manager, who has worked at Cinema since its inception, receives a salary of $60,000. Five of the other full time staff are all technicians, who receive about $30,000 per year. A shipping clerk earns $20,000 per year. Full time employees qualify for full pension benefits after one year of employment. There are two part-time employees. One earns $10 per hour. The second, a bookkeeper, earns $18 per hour.

The technicians are all trained on the job. Replacements are not difficult to find or train.

The project manager is capable of running the business for a month in the absence of the owner.

John Smith works 30 to 40 hours per week. Much of that time is spent at his home. His salary is $24,500 per year which is paid at year end.

His wife, Mary, works about 40 hours a week. Her duties involve Accounts Receivable invoicing, general finances, and handling human resource issues. She receives an $85,000 annual salaryin 2009. Ms. Smith estimated a replacement for her would cost about $40,000 per year. Thus, $45,000 of her salary represents excess earnings that are added back to Cash Flow. Payroll Taxes on that salary are also added back. However, an employee salary will incur workman's compensation insurance charges. Those charges are DEDUCTED from Cash Flow below.

For 9 months of 2010 Mrs. Smith earned $43,077. Her replacement would have earned $30,000. Thus, the excess earnings of $13,077 are added back for 2010 plus payroll taxes and workman's comp.

Cell: E33
Comment: Rent- 2010

Cinema originally had a lease with a term of five years. The Company is presently on a month-to-month lease.

Monthly rent is $5,072 with no CAM charges.
The warehouse/ office building is approximately 15,000 square feet.

The rent increase in 2008 was due to renting some vacant space next door to them to store a large amount of used equipment they had just acquired.

Cell: E37
Comment: Advertising - 2010

Because of the new Ebay program and the new supplier relationship with THX approved Erpar Speakers, Cinema invested nearly $10,000 in new catalogs, stationery, business cards and signage to "rebrand" the Company..

It is estimated that all the supplies for the new identity rebranding will last three years. Therefore, 2/3 of the current year's outlay are for products that will be used over the next two years. Thus, $6,000 is added back to cash flow this year.

Cell: E38
Comment: Pension - 2010

The Company pays 3% of the Smith's salary for pension berefits.

Cell: E39
Comment: Employee Benefits - 2010
The Company pays Mr. Smith's Medicare Supplemental Insurance of $300 per month in 2010. In prior years the Company paid $600 per month for conventional health insurance.

Cell: E40
Comment: Meals and Entertainment - 2010
Mrs. Smith estimated that approximately 50% of Travel, Meals and Entertainment were personal and, therefore, were not essential for success of the company.

Cell: E42
Comment: Professional Fees - 2010
Engineering Consulting - $10,560
Cinema employs a part time consulting engineer whose income is reported on form 1099.

Cell: E43
Comment: Auto and Truck Expense-2010
The Company has one delivery truck and two automobiles that are used personally by the Niccum's. 50% of total auto expenses are considered personal and are added back to cash flow.

Cell: E44
Comment: Auto Insurance - 2010
2/3 is for personal auto.

Cell: E47
Comment: Insurance - 2010
Officer Life Insurance - $3041

Cell: E48
Comment: Workman's Comp - 2010
There have been no claims in last 3 years.

The Company's Workman's Comp MOD Factor = 89%

Cell: E50
Comment: Outside Services - 2010
Cinema occasionally hires Temps to do basic assembly work on custom jobs. The Company had one large job in 2009 that required several Temps for a lengthy time.

Cell: E55
Comment: Web Design 2010, 2009
Cinema began setting up a Web store on EBay in 2009. The expenses are non-recurring and are added back to Cash Flow.
Non recurring - yes

Cell: E66
Comment: Accounts Receivable - 2010
Cinema bills its customers when it ships the finished goods. Terms are generally net 30 days.

At present there are a very small amount of Receivables that are in the 90 day+ column. The increase in A/R seen in July 2010 was due to a large job that had just been completed.

Cell: E67

Comment: Inventory - 2010

Inventory on the books is estimated. Cinema does not have a good database of cost of inventory.

Actual inventory is much higher than on the books. However, one reason for the decline in inventory is that used goods are now cheaper than in 2007 and 2008 because digital screens are causing a surplus of used inventory on the market.

Cell: E70
Comment: Fixtures and Equipment - 2010
Approximately $60,000 of equipment is for two vehicles used by the Smith's, one of which was acquired in 2010.

Cell: F73
Comment: Balance Sheet - 2010
Internal Balance Sheet did not balance.

Cell: E74
Comment: Accruals - 2010
Pensions Payable - $32,435

Cell: E75
Comment: Accounts Payable - 2010
There are reportedly no payables that are past due as of July 31, 2010.

The large increase was due to a large job that was completed in July. (The same job that caused an increase in A/R.)

Cell: E76
Comment: Other Liabilities - 2010
Customer Deposits - $24,231
Advanced payments for orders

Cell: K76
Comment: Accruals - 2008
Pension Payable = $27,847

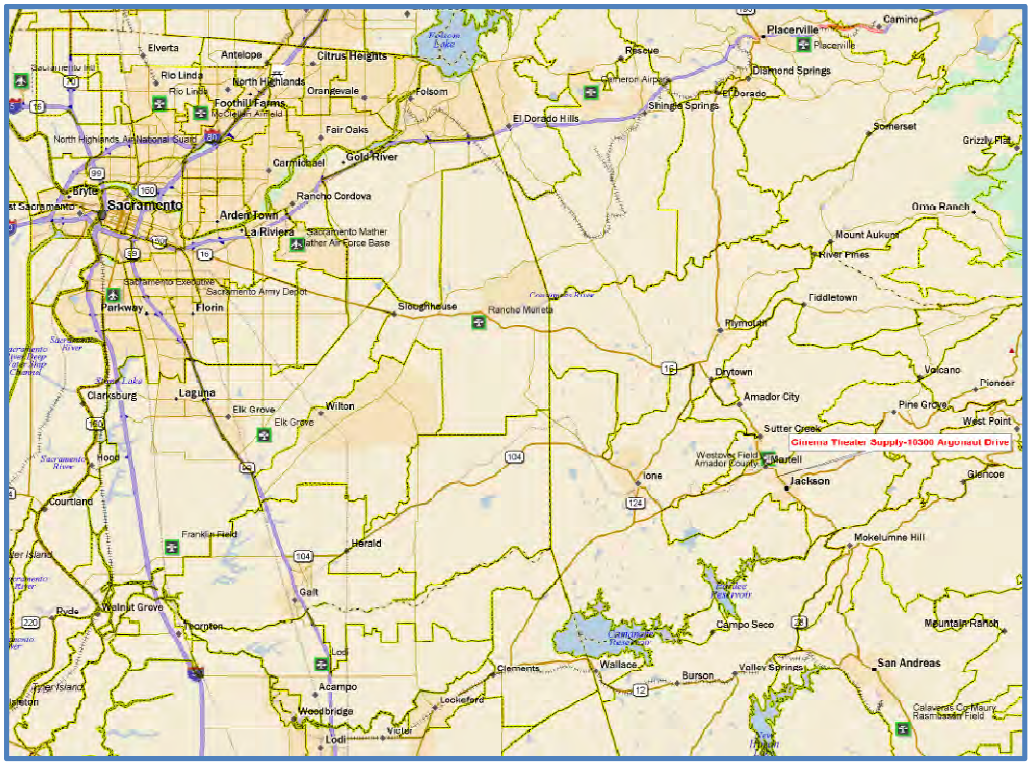
Cell: N76
Comment: Accruals - 2007
Pension Payable = $35,482

Cell: E80
Comment: Long Term Debt - 2010
Auto Loan - 433,818

Cinema Theater Supply

10300 Argonaut Drive
Jackson, CA 95642

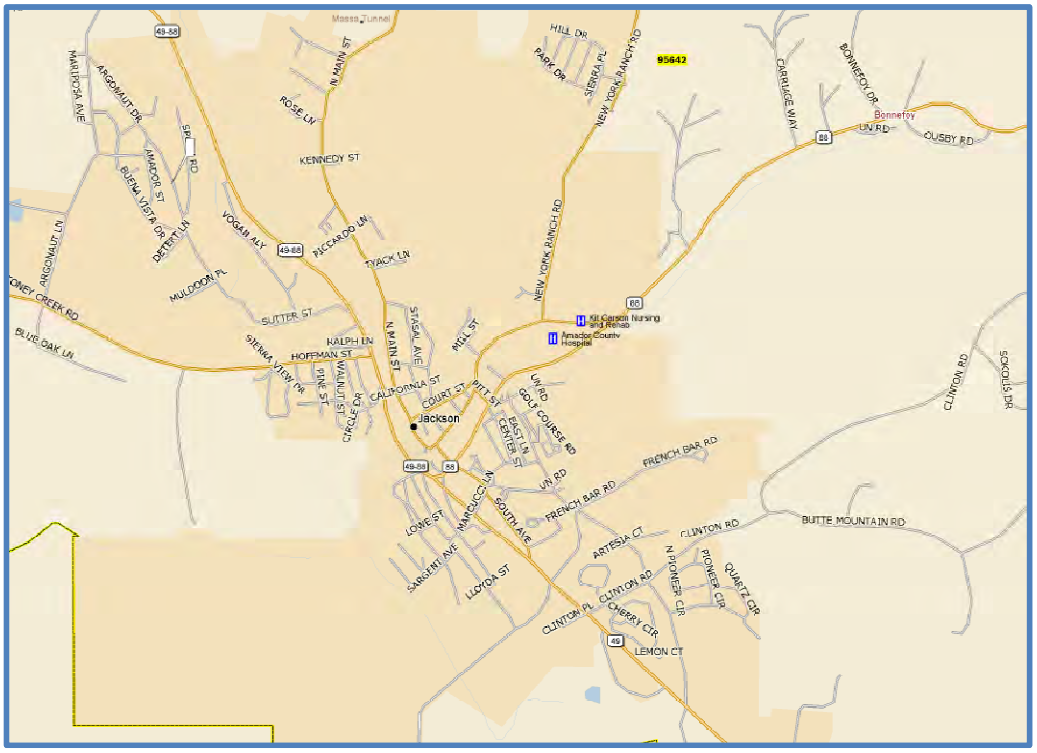
DEMOGRAPHICS

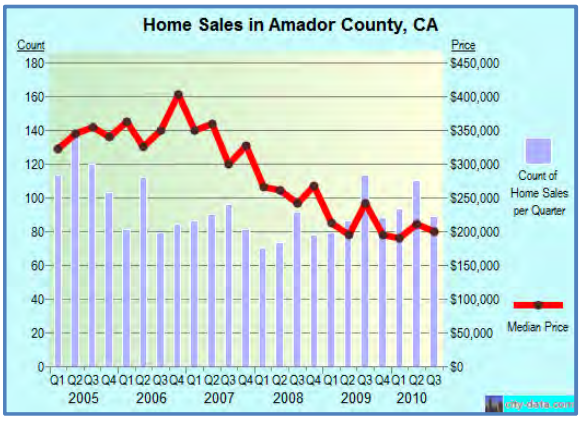


Census 1990-2007 Demographic Profile

US Census Fact Finder, 2009

California			**California**	**% of U.S. Population**	**United States**		
General Characteristics							
Total Population	**2008**		36,756,000	12.1%	304,059,000		
Economic Characteristics							
Median Household Income	**2005-7**		58,361	116.7%	50,007		
Median Family Income			66,420	110.0%	60,374		
Housing Characteristics							
Median Value (dollars)			513,200	282.3%	181,800		
Unemployment June 2010			12.3%	129.5%	9.5%		
						Increase from 2000-2008	
California		**2000**	**California**	**% of U.S. Population**	**United States**	**California**	**United States**
General Characteristics							
Total Population			33,871,000	12.0%	281,421,000	+ 1.1% per year	+ 1.0% per year
Economic Characteristics							
Median Household Income			47,493	113.1%	41,994		
Median Family Income			53,025	106.0%	50,046		
Housing Characteristics							
Median Value (dollars)			211,500	176.8%	119,600		
Unemployment June 2009			11.6%	128.9%	9.0%		
						Increase from 1990-2008	
California		**1990**	**California**	**% of U.S. Population**	**United States**	**California**	**United States**
General Characteristics							
Total Population			29,760,000	12.0%	248,710,000	+ 1.3% per year	+ 1.2% per year





Amador County

General Characteristics	1990	2000	2008	Amador 2000-2007	Calif 2000-2007
Total Population	1,170,000	1,545,000	2,055,000	+ 4.7%	1.1%
Economic Characteristics				Amador vs CA	CA 2007
Median Household Income		42,900	58,100	-0.4%	58,361
Median Family Income		48,400	65,100	-2.0%	66,420
Housing Characteristics					
Median Value (dollars)		146,500	380,600	-25.8%	513,200
Unemployment Rate June 2009/2010		13.7%	14.5%	+ 17.9%	12.3%

Jackson City

General Characteristics	1990	2000	2007	Jackson 2000-2007	Calif 2000-2007
Total Population	226,500	255,100	301,500	+ 2.6%	1.1%
Economic Characteristics				Jackson vs CA	CA 2007
Median Household Income		41,600	56,800	-2.7%	58,361
Median Family Income		47,300	62,800	-5.5%	66,420
Housing Characteristics					
Median Value (dollars)		138,500	397,500	-22.5%	513,200
Unemployment Rate June 2009/2010		13.6%	14.4%	+ 17.1%	12.3%

San Joaquin County

General Characteristics	1990	2000	2007	San Joaquin 2000-2007	Calif 2000-2007
Total Population	480,600	563,500	667,500	+ 2.6%	1.1%
Economic Characteristics				San Joaquin vs	CA 2007
Median Household Income		41,300	54,700	-6.3%	58,361
Median Family Income		46,900	62,000	-6.7%	66,420
Housing Characteristics					
Median Value (dollars)		142,400	379,900	-26.0%	513,200
% of Owner-occupied Housing		60.4%	61.6%	+ 400.8%	12.3%

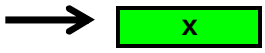
Prepared By
C. Fred Hall, MBA
Business Consultant

Sold
Comparables

Cinema Theater Supply

December 31, 2010

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



Transaction Details Comp # 1

Source:	Bizcomps
Business Description	Mfg-Electronic Products
SIC	3625 Electrical and electronic equipment - Relays and Industrial
Location	Minnesota
Number of Employees	0

Transaction Data

Date of Sale	10/28/2004
Days on the Market	244
Asking Price	$695,000
Selling Price	$540,000
Percent Down Payment	0%
Terms of Deal	

Income Data

Annual Gross Sales	$746,000
Franchise Royalty	No
Cash Flow (SDE)	$29,000

Asset Data

Inventory	$120,000
Furniture Fixtures, and Equipment	$400,000
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	3.9%
Rent/Annual Sales	0.0%

Valuation Multiples

Revenue Multiplier	0.72
Cash Flow Multiplier	18.62
Enterprise Multiplier	14.48

Transaction Details Comp # 2

Source:	Pratts Stats
Business Description	Sales and Service of Large Phone Systems and Nurse Calling Systems
SIC	3669 Electrical and electronic equipment - Communications Equipme
Location	OH
Number of Employees	13

Transaction Data

Date of Sale	11/2/1998
Days on the Market	77
Asking Price	$605,000
Selling Price	$412,500
Percent Down Payment	83%
Terms of Deal	

Income Data

Annual Gross Sales	$1,975,819
Franchise Royalty	0
Cash Flow (SDE)	$97,149

Asset Data

Inventory	$220,000
Furniture Fixtures, and Equipment	$82,500
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	4.9%
Rent/Annual Sales	1.7%

Valuation Multiples

Revenue Multiplier	0.21
Cash Flow Multiplier	4.25
Enterprise Multiplier	1.98

Transaction Details Comp # 3

Source:	Bizcomps
Business Description	Mfg-Electronics
SIC	3672 Electrical and electronic equipment - Printed Circuit Boards
Location	Utah
Number of Employees	0

Transaction Data

Date of Sale	4/30/1996
Days on the Market	164
Asking Price	$480,000
Selling Price	$480,000
Percent Down Payment	100%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$2,334,000	Inventory	$114,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$103,200
Cash Flow (SDE)	$115,200	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	4.9%	Revenue Multiplier	0.21
Rent/Annual Sales	1.4%	Cash Flow Multiplier	4.17
		Enterprise Multiplier	3.18

Transaction Details Comp # 4

Source:	Bizcomps
Business Description	Mfg-Components
SIC	3699 Electrical and electronic equipment - . Electronic Teachin
Location	Rocky Mtns, CO
Number of Employees	0

Transaction Data

Date of Sale	4/30/1996
Days on the Market	112
Asking Price	$520,000
Selling Price	$535,600
Percent Down Payment	51%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$2,528,500	Inventory	$213,200
Franchise Royalty	0	Furniture Fixtures, and Equipment	$107,900
Cash Flow (SDE)	$124,800	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	4.9%	Revenue Multiplier	0.21
Rent/Annual Sales	3.4%	Cash Flow Multiplier	4.29
		Enterprise Multiplier	2.58

Transaction Details Comp # 5

Source:	Bizcomps
Business Description	Mfg-Cust Automation Equip
SIC	3625 Electrical and electronic equipment - Relays and Industrial
Location	Denver, CO
Number of Employees	0

Transaction Data

Date of Sale	4/30/1999
Days on the Market	410
Asking Price	$735,000
Selling Price	$980,000
Percent Down Payment	19%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$1,874,600	Inventory	$14,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$210,000
Cash Flow (SDE)	$138,600	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	7.4%	Revenue Multiplier	0.52
Rent/Annual Sales	2.7%	Cash Flow Multiplier	7.07
		Enterprise Multiplier	6.97

Transaction Details Comp # 6

Source:	Pratts Stats
Business Description	Sales, Installation and Maintenance of Telephone Interconnect Equipment
SIC	3661 Electrical and electronic equipment - . Telephone and Tele
Location	CO
Number of Employees	0

Transaction Data

Date of Sale	10/29/1999
Days on the Market	0
Asking Price	$0
Selling Price	$1,838,144
Percent Down Payment	69%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$2,541,470	Inventory	$20,521
Franchise Royalty	0	Furniture Fixtures, and Equipment	$56,068
Cash Flow (SDE)	$196,094	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	7.7%	Revenue Multiplier	0.72
Rent/Annual Sales	0.0%	Cash Flow Multiplier	9.37
		Enterprise Multiplier	9.27

Transaction Details Comp # 7

Source:	Pratts Stats
Business Description	Contract Manufacturing and Assembly
SIC	3641 Electrical and electronic equipment - Electric Lamp Bulbs an
Location	ME
Number of Employees	55

Transaction Data

Date of Sale	2/18/2005
Days on the Market	141
Asking Price	$1,920,000
Selling Price	$1,112,928
Percent Down Payment	13%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$3,199,418	Inventory	$288,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$161,280
Cash Flow (SDE)	$279,032	Value of Real Estate	300000

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	8.7%	Revenue Multiplier	0.35
Rent/Annual Sales	0.0%	Cash Flow Multiplier	3.99
		Enterprise Multiplier	2.96

Transaction Details Comp # 8

Source:	Pratts Stats
Business Description	Sales and Service of Power Protection and Related Equipment
SIC	3692 Electrical and electronic equipment - Primary Batteries, Dry
Location	0
Number of Employees	6

Transaction Data

Date of Sale	7/29/2005
Days on the Market	115
Asking Price	$2,550,000
Selling Price	$2,465,000
Percent Down Payment	31%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$3,330,293	Inventory	$170,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$239,700
Cash Flow (SDE)	$296,300	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	8.9%	Revenue Multiplier	0.74
Rent/Annual Sales	1.5%	Cash Flow Multiplier	8.32
		Enterprise Multiplier	7.75

Transaction Details Comp # 9

Source:	Pratts Stats
Business Description	Architectural Lighting and Controls Manufacturing
SIC	3648 Electrical and electronic equipment - Lighting Equipment, NE
Location	0
Number of Employees	10

Transaction Data

Date of Sale	2/8/2001
Days on the Market	162
Asking Price	$1,350,000
Selling Price	$1,161,000
Percent Down Payment	85%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$1,962,043	Inventory	$261,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$189,000
Cash Flow (SDE)	$198,898	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	10.1%	Revenue Multiplier	0.59
Rent/Annual Sales	2.1%	Cash Flow Multiplier	5.84
		Enterprise Multiplier	4.52

Transaction Details Comp # 10

Source:	Bizcomps
Business Description	Mfg-Assembly Shop
SIC	3672 Electrical and electronic equipment - Printed Circuit Boards
Location	0
Number of Employees	5

Transaction Data

Date of Sale	5/3/2005
Days on the Market	307
Asking Price	$606,100
Selling Price	$570,000
Percent Down Payment	100%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$1,476,300	Inventory	$95,000
Franchise Royalty	No	Furniture Fixtures, and Equipment	$81,700
Cash Flow (SDE)	$176,700	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	12.0%	Revenue Multiplier	0.39
Rent/Annual Sales	3.5%	Cash Flow Multiplier	3.23
		Enterprise Multiplier	2.69

Transaction Details	Comp # 11	
Source:	Pratts Stats	
Business Description	Manufactures Electronic Components	
SIC	3677	Electrical and electronic equipment - Electronic Coils, Tran
Location	0	
Number of Employees	20	

Transaction Data	
Date of Sale	12/1/2002
Days on the Market	69
Asking Price	$0
Selling Price	$1,214,850
Percent Down Payment	0%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$2,170,488	Inventory	$372,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$247,204
Cash Flow (SDE)	$350,958	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	16.2%	Revenue Multiplier	0.56
Rent/Annual Sales	5.5%	Cash Flow Multiplier	3.46
		Enterprise Multiplier	2.40

Transaction Details	Comp # 12	
Source:	Pratts Stats	
Business Description	Manufacturer of Security Seals	
SIC	3669	Electrical and electronic equipment - Communications Equipme
Location	0	
Number of Employees	10	

Transaction Data	
Date of Sale	9/30/2006
Days on the Market	213
Asking Price	$1,365,000
Selling Price	$1,188,600
Percent Down Payment	100%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$2,612,400	Inventory	$703,500
Franchise Royalty	0	Furniture Fixtures, and Equipment	$256,200
Cash Flow (SDE)	$504,000	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	19.3%	Revenue Multiplier	0.45
Rent/Annual Sales	4.2%	Cash Flow Multiplier	2.36
		Enterprise Multiplier	0.96

Transaction Details Comp # 13

Source:	Bizcomps
Business Description	Mfg-Electro Assembly
SIC	3672 Electrical and electronic equipment - Printed Circuit Boards
Location	0
Number of Employees	8

Transaction Data

Date of Sale	11/22/2004
Days on the Market	180
Asking Price	$1,650,000
Selling Price	$1,727,000
Percent Down Payment	10%
Terms of Deal	

Income Data

Annual Gross Sales	$2,010,800
Franchise Royalty	0
Cash Flow (SDE)	$424,600

Asset Data

Inventory	$165,000
Furniture Fixtures, and Equipment	$226,600
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	21.1%
Rent/Annual Sales	5.0%

Valuation Multiples

Revenue Multiplier	0.86
Cash Flow Multiplier	4.07
Enterprise Multiplier	3.68

Transaction Details Comp # 14

Source:	Bizcomps
Business Description	Mfg-Assembly Shop
SIC	3672 Electrical and electronic equipment - Printed Circuit Boards
Location	0
Number of Employees	12

Transaction Data

Date of Sale	8/5/2002
Days on the Market	250
Asking Price	$1,322,500
Selling Price	$977,500
Percent Down Payment	71%
Terms of Deal	

Income Data

Annual Gross Sales	$1,902,100
Franchise Royalty	0
Cash Flow (SDE)	$407,100

Asset Data

Inventory	$69,000
Furniture Fixtures, and Equipment	$115,000
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	21.4%
Rent/Annual Sales	2.9%

Valuation Multiples

Revenue Multiplier	0.51
Cash Flow Multiplier	2.40
Enterprise Multiplier	2.23

Transaction Details Comp # 15

Source:	Bizcomps
Business Description	Mfg-Industrial Machinery
SIC	3639 Electrical and electronic equipment - . Household Sewing M
Location	0
Number of Employees	10

Transaction Data

Date of Sale	4/28/2006
Days on the Market	149
Asking Price	$1,692,000
Selling Price	$1,440,000
Percent Down Payment	77%
Terms of Deal	

Income Data

Annual Gross Sales	$2,380,800
Franchise Royalty	No
Cash Flow (SDE)	$597,600

Asset Data

Inventory	$158,400
Furniture Fixtures, and Equipment	$120,000
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	25.1%
Rent/Annual Sales	5.9%

Valuation Multiples

Revenue Multiplier	0.60
Cash Flow Multiplier	2.41
Enterprise Multiplier	2.14

Transaction Details Comp # 16

Source:	Pratts Stats
Business Description	Manufacturer of Hand Crafted Electro-Mechanical Device
SIC	3639 Electrical and electronic equipment - . Household Sewing M
Location	0
Number of Employees	14

Transaction Data

Date of Sale	7/25/2007
Days on the Market	201
Asking Price	$3,125,000
Selling Price	$2,750,000
Percent Down Payment	111%
Terms of Deal	

Income Data

Annual Gross Sales	$3,592,500
Franchise Royalty	0
Cash Flow (SDE)	$915,000

Asset Data

Inventory	$850,000
Furniture Fixtures, and Equipment	$337,500
Value of Real Estate	0

Operating Ratios

Cash Flow Profits Margin (SDE%)	25.5%
Rent/Annual Sales	5.0%

Valuation Multiples

Revenue Multiplier	0.77
Cash Flow Multiplier	3.01
Enterprise Multiplier	2.08

Transaction Details Comp # 17

Source:	Pratts Stats
Business Description	Electronic Assembly
SIC	3699 Electrical and electronic equipment - . Electronic Teachin
Location	MA
Number of Employees	8

Transaction Data

Date of Sale	11/22/2004
Days on the Market	82
Asking Price	$1,950,000
Selling Price	$2,041,000
Percent Down Payment	10%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$2,376,634	Inventory	$195,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$267,800
Cash Flow (SDE)	$615,836	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	25.9%	Revenue Multiplier	0.86
Rent/Annual Sales	2.7%	Cash Flow Multiplier	3.31
		Enterprise Multiplier	3.00

Transaction Details Comp # 18

Source:	Pratts Stats
Business Description	Contract Manufacturer
SIC	3679 Electrical and electronic equipment - . Antennas
Location	TX
Number of Employees	9

Transaction Data

Date of Sale	9/19/2006
Days on the Market	288
Asking Price	$4,050,000
Selling Price	$3,105,000
Percent Down Payment	23%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$3,564,751	Inventory	$202,500
Franchise Royalty	0	Furniture Fixtures, and Equipment	$1,417,500
Cash Flow (SDE)	$943,358	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	26.5%	Revenue Multiplier	0.87
Rent/Annual Sales	3.9%	Cash Flow Multiplier	3.29
		Enterprise Multiplier	3.08

Transaction Details Comp # 19

Source:	Bizcomps
Business Description	Mfg-Measuring Devices
SIC	3629 Electrical and electronic equipment - Electrical Industrial
Location	Rocky Mountains
Number of Employees	7

Transaction Data

Date of Sale	7/31/2000
Days on the Market	90
Asking Price	$1,960,000
Selling Price	$1,400,000
Percent Down Payment	30%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$2,884,000	Inventory	$840,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$140,000
Cash Flow (SDE)	$1,008,000	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	35.0%	Revenue Multiplier	0.49
Rent/Annual Sales	3.0%	Cash Flow Multiplier	1.39
		Enterprise Multiplier	0.56

Transaction Details Comp # 20

Source:	Bizcomps
Business Description	Mfr-Motors/Generators
SIC	3621 Electrical and electronic equipment - Motors and Generators
Location	Florida
Number of Employees	5

Transaction Data

Date of Sale	7/2/2003
Days on the Market	330
Asking Price	$2,465,000
Selling Price	$2,465,000
Percent Down Payment	100%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$2,151,800	Inventory	$72,500
Franchise Royalty	0	Furniture Fixtures, and Equipment	$145,000
Cash Flow (SDE)	$942,500	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	43.8%	Revenue Multiplier	1.15
Rent/Annual Sales	0.0%	Cash Flow Multiplier	2.62
		Enterprise Multiplier	2.54

Transaction Details	Comp # 21	
Source:	Bizcomps	
Business Description	Mfg-Power Plant Products	
SIC	3699	Electrical and electronic equipment - . Electronic Teachin
Location	Southwest	
Number of Employees	5	

Transaction Data	
Date of Sale	3/31/2001
Days on the Market	210
Asking Price	$4,500,000
Selling Price	$3,300,000
Percent Down Payment	65%
Terms of Deal	

Income Data		Asset Data	
Annual Gross Sales	$2,250,000	Inventory	$1,050,000
Franchise Royalty	0	Furniture Fixtures, and Equipment	$1,200,000
Cash Flow (SDE)	$1,050,000	Value of Real Estate	0

Operating Ratios		Valuation Multiples	
Cash Flow Profits Margin (SDE%)	46.7%	Revenue Multiplier	1.47
Rent/Annual Sales	0.0%	Cash Flow Multiplier	3.14
		Enterprise Multiplier	2.14

Transaction Details	Comp # 22	
Source:	0	
Business Description	0	
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
Selling 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	$0
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!

Prepared By
C. Fred Hall, MBA
Business Consultant

Exhibit XXVIII

List Comparables

Cinema Theater Supply

The following pages are write-ups for the comparables that were listed on #N/A

Electric Motor Repair and Distributor

GA

Durable Goods

Asking Price ?	$290,000	Inventory ?	$49,336 *
Gross Income ?	$931,367	Real Estate ?	
Cash Flow ?	$74,603	Year Established	1969
FF&E ?	$160,000	Employees	10ft; 1pt

* included in the asking price

** not included in the asking price

The business is a distributor and a repair facility for numerous lines of electric motors and gear reducers. Business is over 30 years old. Company has almost $1MM in annual sales from a staff with an average tenure of 10 years. The company's customers are industrial or manufacturing industries (and some municipalities). Perfect buyer has either some knowledge of motor repair, contacts in the industrial/manufacturing industries, or has excellent sales skills and the ability to run a small business. Financials are annualized from actual data through March 31, 2010. Company year ends Aug 31st.

Reason Selling: Retirement

Business listed by
Matt Slippey
404-486-0350

AD # 528454

Electrical and Lighting Wholesale Supply

Cincinnati, OH

Durable Goods | Bldlng Mat., Hardware, Garden

Asking Price ?	$800,000	Inventory ?	$600,000 **
Gross Income ?	$1,971,000	Real Estate ?	
Cash Flow ?	$95,000	Year Established	1990
FF&E ?	$75,000	Employees	6

* included in the asking price

** not included in the asking price

Business listed by
Marina
513-241-3700

Contact the Seller
To inquire about this business for sale, click the button below

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This well established company is a full-line wholesale distributor of electric parts and lighting supplies primarily serving Southwest Ohio, Northern Kentucky and Southeast Indiana. The company offers a broad line of products (over 3000 active SKU s) that range from fuses to generators, and electrical boxes to smoke detectors. Its suppliers include many of the major manufacturers in the industry in lighting, switch gear, wire and all other required product lines. While the company has struggled during the current economic conditions, it has adjusted by shifting its focus from new construction to customers in maintenance and repair, along with municipalities and education. INVESTMENT HIGHLIGHTS: Computerized systems in place for accounting and inventory / sales tracking. Expense reduction has improved current operating results For another company in its industry or related industry a great opportunity for expansion of customers, territories and/or cross selling of products along with potential cost savings on overhead duplication and improved volume pricing New customer expected to help grow sales in 2010 by 10-20% Excellent facility and location Lease or purchase available Perfect for Dayton company wishing to expand into Cincinnati REASON FOR SALE: The owner believes that it may be two years before the economy (construction) turns around. Rather than struggle for another two years, he believes a sale to another company would be beneficial to both the buyer and his desire to be removed from the struggle.

Facilities: The facility has retail space of 1520 sq. ft., office space of 1680 sq. ft. and warehouse space of 6400 sq. ft. Presented with a lease/rent factor but real estate can be purchased.

Competition: Standard competition. Well located in a growing area of Cincinnati, Ohio.

Growth/Expansion: Expansion into Dayton.

Support/Training: Extended training available

Reason Selling: Financial

AD # 5135[illegible]4

B2B Industrial Electric Motors and Pumps

Pierce County, WA

Durable Goods | Miscellaneous Repair Services

Asking Price	$800,000	Inventory	$125,000 *
Gross Income	$1,700,000	Real Estate	$1,400,000 **
Cash Flow	$200,000	Year Established	1960
FF&E	$250,000	Employees	11

* included in the asking price

** not included in the asking price

Business listed by
Eric Breidenbach
425-649-1186

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Great business for sale

View Larger Photo of Business

There is a broad range of commercial applications for electric motors and pumps and proper repair and maintenance is essential. The Company has a long history of excellence and enjoys the resulting strong customer loyalty. There is good depth in the organization and owners will facilitate a smooth transition to a new owner. This is a great niche opportunity with lots of expansion possibilities. The revenue and cash flow have been depressed from the recession and are rebounding to the pre-recession annual level of approximately $2,100,000 and $300,000 respectively.

Facilities: The Seller owns the 15,000 square foot building that is dedicated to the business. It houses all business functions and is in a well located industrial area in the South Puget Sound area. The Buyer has the option to lease or purchase the facility and could lease with a purchase option.

Competition: The business serves a broad range of industries and is the dominant competitor in its operating area. It is highly regarded for its service quality and responsiveness and enjoys very strong customer loyalty. There are relatively few competitors.

Growth/Expansion: The company could market more aggressively and could expand its product and service offerings. This would be an ideal add-on for a geographic or product and service expansion.

Support/Training: Seller wil train and transition for 60 days at no cost and will consider a longer period at additional cost.

Reason Selling: Retirement

AD # 499008

Import and wholesale of HVAC,Electric equipment, plumbing parts and

Ronkonkoma, NY

Durable Goods

Asking Price	$300,000	Inventory	$ 400,000 **
Gross Income	$1,600,000	Real Estate	
Cash Flow	$90,000	Year Established	1987
FF&E	$5,000	Employees	3

* included in the asking price

** not included in the asking price

View Larger Photo of Business

The company imports from Japan and China parts such as Filter Bases,Pumps,Whips,Contractors,Capacitors,Transoferms and other Appliance Parts and Electric Parts.These parts are used by Manufacturers in the HVAC ,Plumbing,Electric and Appliance Industries.Owner is willing to help the new buyer in an effort to grow the business.Seller is very knowledgeable and lost the ability to sell due to illness

Reason Selling: Health Reasons.

Business listed by
Valdi Friedman
212-473-5000

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AD # 436584

Wholesale and Distribution-for Repair and lt. Manufactures.

S.E. Michigan, MI

Durable Goods | Business Services (B2B)

Asking Price	$400,000	Inventory	$300,000 **
Gross Income	$1,976,000	Real Estate	$450,000 **
Cash Flow	$140,000	Year Established	1972
FF&E	$75,000	Employees	18

* included in the asking price

** not included in the asking price

Business listed by
A.John Rohwine CCIM
734-930-0011

This 35-year-old distribution company is available for the first time on the market. It sells electrical parts to repair shops and manufacturers of automotive, trucking, recreational, trailers and industrial users. NO OEM AUTOMOTIVE SALES. Since 1973, the company has offered Quality, Pricing and Service to customers around the globe with same day shipping, experienced sales force and a top-of-the line assortment of products to fit every type of electrical repair and production requirements. There are over 14,000 line items available via catalog or internet. The marketing is predominately on the road sales team, in house customer service and a rapidly growing internet sale4s department. The management has a well organized full complement of staff members which will provide a new owner an effortless transition after closing. Additionally, if desired, the existing management will continue to operate the company after closing for an indefinite time. The company s recent sales volume has maintained a respectful level even through the vulnerable economical swings. This is due to the company s in house and outside sales staff s excellent performances in the past years. Also, the recently launched internet marketing sector has had a continuous increase of sales. The company has a 12,400 s/f building located in the geographical triangle of Detroit-Saginaw-Grand Rapids. The building has been recently repainted and just completed new roofing.

Facilities: Facilities: 12,400 s/f Industrial building situated on two acres, fenced, truck docks, very well maintained.

Competition: The company has several competitors but for 37 years has maintained the sales level. The competitors have all settled into their own market areas or product dominance for each customer serviced.

Growth/Expansion: The current management believes their sales team needs to expand into additional geographical areas. The newly created internet shopping cart on their WEB site is also another growth area. The sales team assemblage is the most difficult. Growth is hindered by the ability to search out and train a sales staff. This is recruitment by the company is difficult for the current management.

Support/Training: Management Training and Support: The Seller and the entire management team will remain on staff for an indefinite period time.

Reason Selling: The seller is preparing or an orderly exit for his retirement.

AD # 427171

Wholesale Distributor of HVAC Equipment

Deer Park, NY

Durable Goods

Asking Price ?	$500,000	Inventory ?	$250,000 **
Gross Income ?	$1,400,000	Real Estate ?	
Cash Flow ?	$180,000	Year Established	1988
FF&E ?	$25,000	Employees	5

* included in the asking price

** not included in the asking price

Business well established for over 20 years. Premier wholesale distributor of high demand, quality heating and air conditioning equipment including but not limited to: air filters, air quality products, electrical products, heating & AC components and controls, installation supplies, motors, pumps, pneumatic building controls, refrigeration and AC products, tools and instruments. Very good customer base. Online ordering system available. Building size 11,200 sq ft.

Facilities: Building Size 11,200 sq ft

Reason Selling: Other Interests

AD # 391632

Business listed by
Valdi Friedman
212-588-9977

Contact the Seller

To inquire about this business for sale, click the button below

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Distributor of Specialty Cables

Central Mass., MA

Durable Goods | Nondurable Goods

Asking Price	$400,000	Inventory	$270,000 **
Gross Income	$1,561,570	Real Estate	
Cash Flow	$107,470	Year Established	1989
FF&E *	N/A	Employees	3

* included in the asking price

** not included in the asking price

Business listed by
Ron Kirwood
508-753-1400

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Established in 1989, this Company supplies bulk electronic, electrical and communications products to the military/aerospace and defense marketplaces. Products include RF coaxial, microwave and military wire and cable items. Capabilities include striping, twisting, etching, kitting, spooling, dyeing, printing, termination, cut N strip and bar coding of the various products. Company has been frequently commended for its competitive pricing and its service and product qualities.

Facilities: 6,500 sq. ft. leased facility

Support/Training: Seller agrees to aid in a smooth transition.

Reason Selling: Seller moving on to a new challange.

AD # 381859

B-to-B LIghting Products, with Inventory Included

Houston, TX

Durable Goods | Home Furniture & Furnishings

Asking Price ?	$320,000	Inventory ?	$179,700 *
Gross Income ?	$510,663	Real Estate ?	
Cash Flow ?	$120,577	Year Established	1995
FF&E ?	Stbd	Employees	4 Full/1 Part

* included in the asking price

** not included in the asking price

Well established lighting business with over 1,000 customers most of whom are small independent businesses and many of whom were regular customers before the present owners purchased the business in 1999. Excellent central location. Facilities are well maintained and secured. Sale price includes the inventory valued at $179,700. Owners wish to retire. For more information, contact Ken Teusink today at 281-440-5153.

Facilities: 7,000 sq. ft. building

Support/Training: Seller will provide training

Reason Selling: Retirement

AD # 536744

Business listed by
Ken Teusink
281.440.5153

Contact the Seller

To inquire about this business for sale, click the button below

Contact the Seller

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Distributor of Industrial Electronic Components

West Michigan, MI

Durable Goods | Nondurable Goods

Asking Price	$795,000	Inventory	$tbd *
Gross Income	$1,700,000	Real Estate	$820,000 **
Cash Flow	$100,000	Year Established	1992
FF&E	$tbd	Employees	9 Full/1 Part

* included in the asking price

** not included in the asking price

It has been a great 17 year run, but illness necessitates that the founder/owner of this successful West Michigan wholesale distributor of industrial electronic components sell his business. With nine full time employees, including two who have been with the company since the first day, the business operates out of an attractive and conveniently located 16,000 square foot facility built expressly for this business eight years ago. Value added light assembly is done on premises utilizing 2-3 employees. The company has an 18 month old fully integrated software system that has its own server and eight users. This distributor of switches, connectors, wires, lamps, resistors, fuses, circuit breakers, cables, etc. represents 30 respected manufacturers in an area encompassing US-127 west to Lake Michigan, and from the Indiana state line north to Traverse City. No single manufacturer accounts for more than 20% of revenues. Similarly, there is no customer concentration with the largest customer accounting for less than 10% of revenues. While margins on various lines and products range from 20% to 40%, the overall margin is very attractive, exceeding 30%. Revenues of this wholesale distributor are running at $1.7 million, down from the $2.3 million recorded the past several years. The cash flow (EBITDA + seller s salary) has a three year weighted average of $100,000. The business is attractively priced at $795,000. That price includes $600,000 of inventory and an estimated value in place of $100,000 of furniture, fixtures, and assembly equipment. Meaningful seller paper is available for an enthusiastic, qualified, but undercapitalized buyer. In addition, the real estate is available separately for $820,000 under favorable terms.

Facilities: 16,000 sq. ft. building; available for lease or purchase

Support/Training: Seller will provide training

Reason Selling: Health Concerns

Business listed by
Ken George
616-285 6121

RESUME OF
C. FREDERICK HALL, III, MBA, AIBA

21190 PAYTON LANE
PINE GROVE, CA 95665
209-256-1371

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

Completed the following course work with the IBA and received the designation of **AIBA (Accredited by the Institute of Business Appraisers)**

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

EXPERIENCE:

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

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

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

1978 to 2002 – Built from the ground up a Retail Hardware and Lumber Company in Pine Grove, California. The company went through four major expansions during this period. The store grew to $5,000,000 revenues with 30 employees. From 1992 to 2002 I completely automated the company at all levels and networked together a dozen workstations. I personally wrote scores of computer programs that involved every aspect of the operations, including inventory control, general ledger bookkeeping, accounts receivable and accounts payable control, and a complete payroll program.

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

2005 to Present – Managing partner of Compass Point Capital, specializing in mergers and acquisitions of smaller mid-size companies ranging in revenues from $5mm to $25mm.

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

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

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
(916) 787-1717

Johanna Benker, CPA
Vacaville, CA
(707) 446-4455

Ron Mittlebrunn
Director, Amador Econ. Dev. Corp.
(209) 223-0351

Tom Propp, CPA
Sacramento, CA
(916) 929-1006

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, AIBA

December 31, 2010
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.


Cinema Theater Supply


Warehouse


Cinema Team

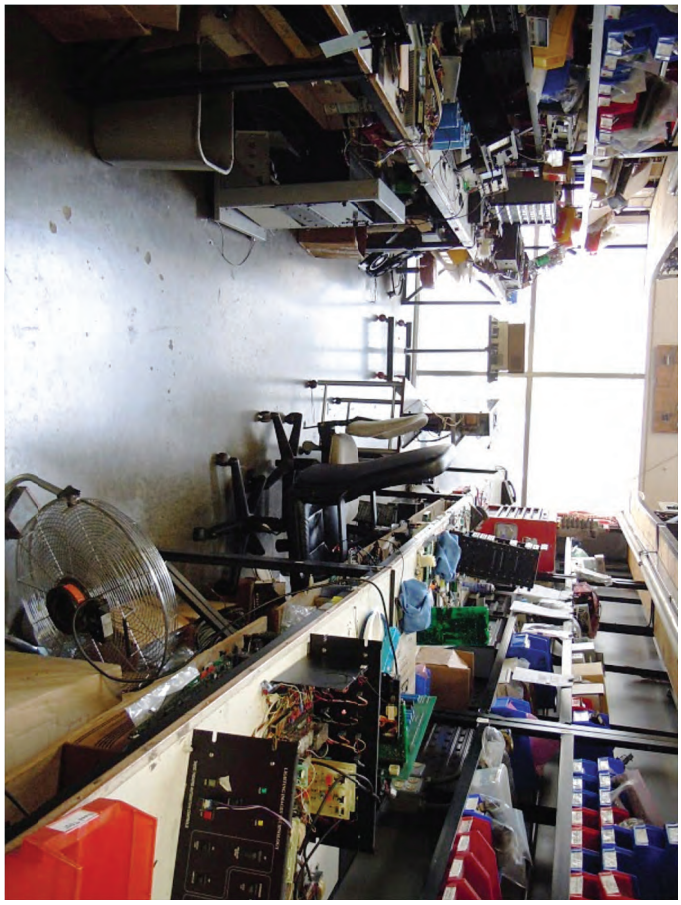

Warehouse

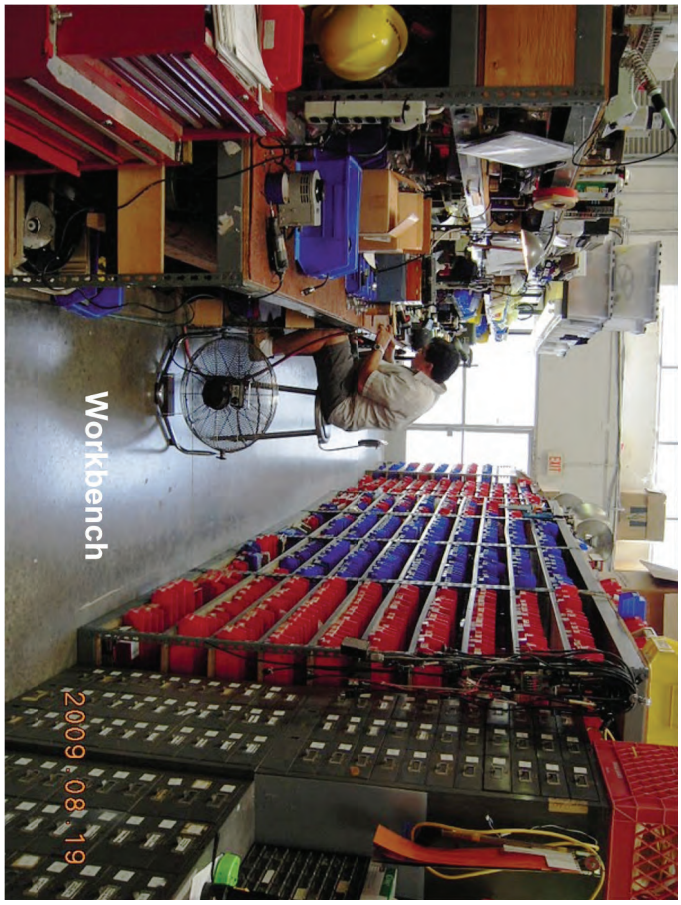

Warehouse


Parts Department


Warehouse


Parts Department




Workbench
2009.08.19


Custom Project


Repair Work Area


Custom Project


Refurbish Work

Las Vegas Show Booth

Las Vegas Show Booth

Las Vegas Show Booth