

# Proposal for the Acquisition of Sample Industries, Inc.

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## How This Report Was Generated

This report is a sample of the type of comprehensive acquisition proposal that you can quickly create with MoneySoft's **Buy-Out Plan**<sup>®</sup> and **Financial Report Builder**<sup>™</sup> enhancement. Buy-Out Plan was used to analyze the target company, determine purchase price and terms, and structure a workable financing plan. The Financial Report Builder was then used to automatically create and format the acquisition proposal as a Microsoft Word document!

If this were a "live case," descriptive text would be added about the company, its markets, management and staffing, capabilities and operations, developing trends, and future prospects of the company. In addition, the rationale for assumptions, potential synergies, changes to be made after the sale, capabilities of the buyer, and a discussion of the strengths, weaknesses, opportunities and threats (risks) involved in the proposed transaction could also be included in the presentation.

## An Overview of the Scenario

In this sample case, the buyer is an investment group that has adopted a vertical build-and-hold strategy. The target company is profitable, stable, fits well into the buyer's strategic portfolio and offers much needed productive capacity. The Sellers are asking for \$18,000,000 based upon an asset sale. The Buyer estimates that the Enterprise Value of the company is approximately \$16,245,656 and has offered \$16,000,000. The target's assets will be acquired by a newly formed entity that the buyer will control ("NewCo").

This is a friendly transaction. Most of the management of the seller will be retained and have an opportunity acquire an equity stake in NewCo. The acquisition will be funded with the buyer's stock, senior secured debt, a convertible mezzanine strip, and some seller carryback. After the acquisition, the buyer intends to use the target's available capacity to manufacture product currently produced by third-party vendors. In addition, the buyer intends to upgrade equipment and install procedures that will improve collections and reduce inventory levels. This Buy-Out Plan report pulls the deal together and provides a thorough bottom-line analysis of the proposed deal.

The names and numbers used in this sample report are fictitious. Any similarity to the names or information of actual companies is strictly coincidental.

### A note about the colors used in this sample report:

As you review this sample report, you will notice that there are values inserted directly into narrative paragraphs. All of these value insertions take on the text color of the surrounding text in the paragraph, i.e., black. You will also notice that some of the text is blue, dark red and magenta. The significance of each of these colors is as follows:

- Blue is used whenever the Report Builder creates a table that has a fixed width.
- Tables with variable widths (dependent upon the number of years/periods selected) are indicated in dark red.
- Non-printable comments are indicated in magenta.

## — Table of Contents —

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⇒ **\*SPECIAL COMMENT\*:** To update the Table of Contents, click anywhere in the following table and then press the [F9] function key.

EXECUTIVE SUMMARY	1
ASSUMPTIONS AND LIMITING CONDITIONS	4
EXTERNAL SOURCES OF INFORMATION	5
INTERNAL SOURCES OF INFORMATION	5
COMPANY BACKGROUND	5
Company Identification	5
Nature and History of the Company	5
Stock Classes and Ownership	5
Management Team	6
Product and Service Information	6
Market Data and Analysis/Competition	6
Governmental or Regulatory Environment	6
Key Customers and Suppliers	6
Marketing Strategy	6
Business Risks	6
Current Operations	7
Company Expectations	7
Other Observations	7
NATIONAL ECONOMIC AND INDUSTRY CONDITIONS	8
General Economic Conditions and Outlook	8
Industry Conditions and Outlook	8
HISTORICAL AND NORMALIZED FINANCIAL STATEMENTS	9
Summary Historical Income Statements	9
Income Statement Adjustments	9
Normalized Historical Income Statements	10
Summary Historical Balance Sheets	10
Balance Sheet Adjustments	11
Normalized Historical Balance Sheets	11
Summary Historical Statements of Cash Flows	12
Normalized Earnings and Net Cash Flow Summary	13
Normalized Interim Financial Statements	14
ANALYSIS OF HISTORIC FINANCIAL STATEMENTS	16
Business Common-Size Financial Statements	16
Business vs. Industry Common-Size Financial Statements	17
Business Financial Ratio Analysis	19
Business vs. Industry Financial Ratio Comparison	21
VALUATION OF SAMPLE INDUSTRIES, INC.	22
Overview of Valuation Approaches and Methods	23
Preferred Stock Valuation	24

Net Asset Value	24
Discount & Capitalization Rate Estimates	25
Capitalization of Earnings	26
Discounted Future Earnings	27
Projection Summary	27
Summary Income Statement Projections	28
Summary Balance Sheet Projections	28
Summary Retained Earnings Projections	29
Summary Cash Flow Projections	29
Summary Sources & Uses of Funds Projections	29
Overview of Projection Assumptions	29
Revenue & Expense Assumptions	30
Fixed Asset Depreciation Assumptions	30
Disposals of Existing Fixed Assets	31
Fixed Asset Purchases	31
Existing Notes Receivable Assumptions	31
Amortization of Intangible Assets	31
Existing Notes Payable Assumptions	31
Fixed Asset Purchase Financing Assumptions	32
Dividends Assumptions	32
Discounted Future Earnings Value Calculations	33
Discounted Net Cash Flow Value Calculations	34
Comparative Company Method	35
Search for Comparatives	35
Price to Earnings Multiple	36
Price to Revenue Multiple	36
Price to Gross Cash Flow Multiple	36
Valuation Summary	37
PROPOSED PURCHASE PRICE & TRANSACTION STRUCTURE	38
Price Premiums/Discounts	38
Key Pricing Multiples	39
Transaction Costs	40
Allocation of Purchase Price & Total Purchase Cost	40
Funding Requirements & Structure	42
PROPOSED ACQUISITION FUNDING	43
Proposed Term-Debt Funding	43
Proposed Equity Funding	44
POST-ACQUISITION PROJECTIONS	45
Post-Acquisition Projection Summary	46
Summary Post-Acquisition Income Statement Projections	46
Summary Post-Acquisition Balance Sheet Projections	47
Summary Post-Acquisition Retained Earnings Projections	47
Summary Post-Acquisition Cash Flow Projections	48
Summary Post-Acquisition Sources & Uses of Funds Projections	48
Overview of Post-Acquisition Projection Assumptions	49
Revenue & Expense Assumptions	49
Fixed Asset Depreciation Assumptions	50
Fixed Asset Purchases	50

Amortization of Intangible Assets	50
Existing Notes Payable Assumptions	50
New Funding Notes Payable Assumptions	51
Fixed Asset Purchase Financing Assumptions	51
Equity Funding	51
Dividends Assumptions	52
REVIEW OF POST-ACQUISITION FINANCIAL PERFORMANCE	53
Loan Compliance	53
Post-Acquisition Business Ratios	53
Post-Acquisition Common-Size Statements	55
RETURN ON INVESTMENT	56
Return on Total Invested Capital	56
Return on Total Invested Equity Capital	57
Projected Valuation	58
Internal Rate of Return	58
Per Share Analysis	59

# Executive Summary

This executive summary and the attached management report describe the proposed acquisition of the assets of Sample Industries, Inc. (hereafter called the "Company"). The Company is a C-Corporation and is organized under the laws of California. It is primarily engaged in the business of Sporting Industries manufactured and operates under the trade name of Sample's Sporting Equipment.

For the year ended 2008, the Company reported a pretax profit, (EBT), of \$1,738,672 on sales revenues of \$31,541,420. At the end of fiscal year 2008, the Company had total assets of \$15,522,587, total liabilities of \$7,839,480, and net equity of \$7,683,107. With certain adjustments made to reflect the fair market value of assets, the Company's normalized net equity is estimated to be \$7,610,107.

For internal purposes only, the total common equity value of the Company has been estimated at \$9,485,714. The proposed purchase price for the Company is \$16,000,000, with \$5,250,000 to be paid to the seller in cash at closing. Transaction and closing fees of \$335,000 have been estimated, resulting in a Total Purchase Cost of \$16,335,000 for the Company.

Under the proposed transaction structure, the funds required to complete the transaction would be \$11,893,637, calculated as follows.

<b>Estimated Total Purchase Cost</b>	<b>\$16,335,000</b>
Less: Interest-Bearing Assumed Liabilities	3,991,363
Less Seller Financed Portion of:	
Covenant-Not-To-Compete	250,000
Employment Contract	150,000
Management Contract	25,000
Operating Lease Contract	25,000
<b>Balance of Purchase Cost to be Funded</b>	<b><u><u>\$11,893,637</u></u></b>

In order to fund the purchase and fund future working capital requirements, the following funding structure is proposed, with financing terms as set forth in the attached management report.

<b>Balance of Purchase Cost to be Funded</b>	<b>\$11,893,637</b>
Term-Debt Funding	10,308,637
Equity Funding (all sources)	1,900,000
Discretionary Amount Overfunded	315,000

The returns on Total Invested Capital (TIC) have been measured as follows:

Total Present Value of Free Cash Flow Available to TIC	51,303,779
Less: Total Invested Capital	16,450,000
<b>Net Present Value</b>	<b>34,853,779</b>

**Profitability Index** **3.12**

<b>Internal Rate of Return (IRR) on Total Invested Capital</b>	<b>27.56%</b>
Total Invested Capital Hurdle Rate	10.00%
Spread (Difference)	17.56%

**Payback Period (Years)** **4.13**

The returns on Total Invested Equity Capital have been measured as follows:

Total Present Value of Free Cash Flow Available to Equity	13,240,993
Less: Total Invested Equity Capital	1,900,000
<b>Net Present Value</b>	<b>11,340,993</b>

**Profitability Index** **6.97**

<b>Internal Rate of Return (IRR) on Total Invested Equity</b>	<b>88.90%</b>
Equity Hurdle Rate	17.34%
Spread (Difference)	71.56%

**Payback Period (Years)** **0.70**

The Internal Rate of Return (IRR) on invested equity has been estimated for each equity participant and is summarized as follows.

<b>Initial Common Equity Investors</b>	<b>Investment</b>	<b>Exit Year</b>	<b>Target IRR</b>	<b>Shares at Closing</b>	<b>% Ownership at Closing</b>	<b>Calculated IRR</b>
Investor Name #1	250,000	5	60.00%	4,000,000	40.00%	85.38%
Investor Name #2	1,000,000	5	25.00%	3,500,000	35.00%	36.79%
Investor Name #3	400,000	3	30.00%	2,500,000	25.00%	81.24%
Other common equity	0	0	0.00%	0	0.00%	0.00%

  

<b>Convertibles &amp; Warrants</b>	<b>Investment</b>	<b>Exit Year</b>	<b>Target IRR</b>	<b>Converted Shares</b>	<b>% Ownership at Exit</b>	<b>Calculated IRR</b>
Mezzanine	415,000	5	0.00%	139,862	1.38%	14.03%

A detailed management report is attached describing the Company, its operations, financial performance, and profit potential. The report also includes a discussion on value, pricing, transaction costs, and details on the proposed financing of the purchase. Finally, projections regarding the outlook for the company after the acquisition have been prepared along with an analysis of potential returns to investors.

For additional information contact:

**COMMENT: On the lines above, enter all appropriate contact information. Please note that this comment will not print.**

# Assumptions and Limiting Conditions

This analysis is subject to the following assumptions and limiting conditions:

1. Information, estimates, and opinions contained in this report are obtained from sources considered to be reliable. However, we assume no liability for such sources.
2. The Company and its representatives warranted to us that the information they supplied was complete and accurate to the best of their knowledge and that the financial statement information reflects the Company's results of operations and financial condition in accordance with generally accepted accounting principles, unless otherwise noted. Information supplied by management has been accepted as correct without further verification, (and we express no opinion on that information).
3. Possession of this report, or a copy thereof, does not carry with it the right of publication of all or part of it, nor may it be used for any purpose by anyone but the client without the previous written consent of the client or us and, in any event, only with proper attribution.
4. We are not required to give testimony in court, or be in attendance during any hearings or depositions, with reference to the company being valued, unless previous arrangements have been made.
5. The various estimates of value presented in this report apply to this valuation only and may not be used out of the context presented herein. This valuation is valid only for the purpose or purposes specified herein.
6. (This valuation assumes that the Company will continue to operate as a going concern, and that the character of its present business will remain intact.)
7. The valuation contemplates facts and conditions existing as of the valuation date. Events and conditions occurring after that date have not been considered, and we have no obligation to update our report for such events and conditions.
8. We have assumed that there is full compliance with all applicable federal, state, and local regulations and laws unless otherwise specified in this report.
9. This report was prepared under the direction of John Smith, CPA. Neither the professionals who worked on this engagement nor ACME Valuation Services, LLP have any present or contemplated future interest in Sample Industries, Inc., any personal interest with respect to the parties involved, or any other interest that might prevent us from performing an unbiased valuation. Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.

**COMMENT: Modify the above list as necessary to reflect the actual assumptions and limiting conditions relevant to the specific valuation engagement. Please note that these comments will not print.**

## External Sources of Information

To aid us in our analysis of the Company, we consulted a number of publicly available sources of information. Numerous financial publications and databases were consulted including *Business Statistics*, Standard & Poor's *Industry Surveys*, Ibbotson Associates' *Stocks, Bonds, Bills and Inflation 200X Yearbook*, *Mergerstat Review*, *U.S. Financial Data*, Standard & Poor's *Register of Corporations, Directors, and Executives*, Disclosure, Inc. on-line database, and *Value Line Investment Survey*.

**COMMENT: Add to or delete from this listing of sources of external information as necessary. Please note that this comment will not print.**

## Internal Sources of Information

To aid us in our analysis of the Company, we interviewed the following personnel:

**COMMENT: Add names, titles, and positions of all personnel interviewed. Following that list, if the Company's facility(ies) were visited as part of this engagement, provide details of the facility visit. Finally, provide details of the financial, tax, and other information provided by the Company, although the source of financial statements may be explained later in this report. Please note that this comment will not print.**

## Company Background

### Company Identification

Sample Industries, Inc. is a C-Corporation organized under the laws of California and located at 123 Main Street, Suite 2252, San Diego, CA, 92126. The Company can be categorized under the Standard Industrial Classification (SIC) Code of 3949 and North American Industry Classification System (NAICS) Code of 33992.

**COMMENT: In addition to the linked information above, enter any additional identification information that you feel is appropriate for purposes of this report. Please note that this comment will not print.**

### Nature and History of the Company

Established in 1989, the Company is primarily engaged in the business of Sporting Industries manufactured and operates under the trade name of Sample's Sporting Equipment.

**COMMENT: In addition to the linked information above, explain the history of the company since its inception and describe the nature of the company's current activities. Please note that this comment will not print.**

### Stock Classes and Ownership

**COMMENT: Describe all classes of stock including both common and preferred and discuss any special rights or restrictions associated with each class. Summarize the total number of shares authorized, issued**

and outstanding for each class. List each major shareholder, amount and class of stock they own, and their relationship to other major shareholders, if any. Please note that this comment will not print.

## Management Team

**COMMENT:** Provide an overview of the background and qualifications of key personnel. Also include an overview of other staff, if applicable. Please note that this comment will not print.

## Product and Service Information

**COMMENT:** Provide a description of the company's products and/or services. Please note that this comment will not print.

## Market Data and Analysis/Competition

**COMMENT:** Provide an overview of the market(s) in which the company competes, including details of key competitors. Please note that this comment will not print.

## Governmental or Regulatory Environment

**COMMENT:** Provide an overview of the governmental or regulatory environment in which the company operates. Please note that this comment will not print.

## Key Customers and Suppliers

**COMMENT:** Provide an overview of the company's key customers and suppliers, if applicable. Please note that this comment will not print.

## Marketing Strategy

**COMMENT:** Describe the company's current marketing plan and strategy. Please note that this comment will not print.

## Business Risks

**COMMENT:** Provide an overview of the key business risks faced by the company. Please note that this comment will not print.

## Current Operations

**COMMENT:** Describe the company's facilities, capabilities, and its methods of providing products and/or services. Please note that this comment will not print.

## Company Expectations

**COMMENT:** Provide a description of the Company's future expectations with respect to growth, profitability and financial position. Please note that this comment will not print.

## Other Observations

**COMMENT:** Describe any other observations not explained in the previous sections. Please note that this comment will not print.

# National Economic and Industry Conditions

## General Economic Conditions and Outlook

**COMMENT:** Discuss or insert the distributed national, regional, and/or local economic conditions at the Valuation Date and their future economic outlook as applicable to the subject company. Identify all sources of information referenced in your discussion. If national, regional, and/or local conditions do not affect the subject company, explain why. Please note that this comment will not print.

## Industry Conditions and Outlook

**COMMENT:** Discuss the economic conditions at the Valuation Date and the future economic outlook for the industry in which the subject company operates. Identify all sources of information referenced in your discussion. Please note that this comment will not print.

# Historical and Normalized Financial Statements

## Summary Historical Income Statements

	2004	2005	2006	2007	2008
<b>Net Sales Revenue</b>	<b>25,302,860</b>	<b>26,494,580</b>	<b>28,043,400</b>	<b>29,219,270</b>	<b>31,541,420</b>
Total Cost of Goods Sold	20,165,679	21,681,757	22,263,336	22,943,789	23,870,297
<b>Gross Profit</b>	<b>5,137,181</b>	<b>4,812,823</b>	<b>5,780,064</b>	<b>6,275,481</b>	<b>7,671,123</b>
Total Selling Expenses	749,750	813,180	917,500	997,500	1,316,990
Total General & Administrative Expenses	3,037,730	2,486,432	3,319,075	3,616,368	4,129,399
<b>Income From Operations</b>	<b>1,349,701</b>	<b>1,513,211</b>	<b>1,543,489</b>	<b>1,661,613</b>	<b>2,224,734</b>
Total Other Revenues and Expenses	(623,774)	(613,150)	(563,153)	(533,769)	(486,062)
<b>Income Before Taxes</b>	<b>725,927</b>	<b>900,061</b>	<b>980,336</b>	<b>1,127,844</b>	<b>1,738,672</b>
Total Income Taxes	283,111	351,024	382,331	439,859	678,082
<b>Net Income</b>	<b>442,816</b>	<b>549,037</b>	<b>598,005</b>	<b>687,985</b>	<b>1,060,590</b>

**COMMENT:** On the lines below, identify and describe any significant issues with respect to the historic income statements. Please note that this comment will not print.

## Income Statement Adjustments

	2004	2005	2006	2007	2008
<b>Add/(deduct) income adjustments:</b>					
Nonoperating income	(20,000)	(30,000)	(40,000)	(50,000)	(60,000)
<b>Total income adjustments</b>	<b>(20,000)</b>	<b>(30,000)</b>	<b>(40,000)</b>	<b>(50,000)</b>	<b>(60,000)</b>
<b>Add/(deduct) expense adjustments:</b>					
Officer/Owner's Compensation	(50,000)	(75,000)	(100,000)	(125,000)	(150,000)
Travel & Entertainment	(5,000)	(5,000)	(10,000)	(15,000)	(20,000)
Less: Nonoperating expense	(10,000)	(20,000)	(30,000)	(40,000)	(50,000)
<b>Total expense adjustments</b>	<b>(65,000)</b>	<b>(100,000)</b>	<b>(140,000)</b>	<b>(180,000)</b>	<b>(220,000)</b>
Total income & expense adjustments before tax	45,000	70,000	100,000	130,000	160,000
Less: Tax effect *	17,550	27,300	39,001	50,701	62,401
<b>Total Adjustments net of Tax effect</b>	<b>27,450</b>	<b>42,700</b>	<b>61,000</b>	<b>79,299</b>	<b>97,599</b>

## Normalized Historical Income Statements

	2004	2005	2006	2007	2008
<b>Net Sales Revenue</b>	<b>25,302,860</b>	<b>26,494,580</b>	<b>28,043,400</b>	<b>29,219,270</b>	<b>31,541,420</b>
Total Cost of Goods Sold	20,165,679	21,681,757	22,263,336	22,943,789	23,870,297
<b>Gross Profit</b>	<b>5,137,181</b>	<b>4,812,823</b>	<b>5,780,064</b>	<b>6,275,481</b>	<b>7,671,123</b>
Total Selling Expenses	749,750	813,180	917,500	997,500	1,316,990
Total General & Administrative Expenses	2,982,730	2,406,432	3,209,075	3,476,368	3,959,399
<b>Income From Operations</b>	<b>1,404,701</b>	<b>1,593,211</b>	<b>1,653,489</b>	<b>1,801,613</b>	<b>2,394,734</b>
Total Other Revenues and Expenses	(633,774)	(623,150)	(573,153)	(543,769)	(496,062)
<b>Income Before Taxes</b>	<b>770,927</b>	<b>970,061</b>	<b>1,080,336</b>	<b>1,257,844</b>	<b>1,898,672</b>
Total Income Taxes	300,661	378,324	421,332	490,560	740,483
<b>Net Income</b>	<b>470,266</b>	<b>591,737</b>	<b>659,005</b>	<b>767,284</b>	<b>1,158,189</b>

## Summary Historical Balance Sheets

	2004	2005	2006	2007	2008
<b>ASSETS</b>					
Total Current Assets	4,956,423	5,427,189	6,388,104	7,147,785	7,509,604
Net Fixed Assets	5,142,852	4,962,042	4,634,661	5,534,900	5,363,423
Total Long-Term Investments	3,904,180	3,583,210	3,672,670	2,204,390	1,651,210
Net Intangible Assets	245,670	236,340	227,010	217,680	208,350
Total Other Noncurrent Assets	550,000	710,000	770,000	780,000	790,000
<b>Total Assets</b>	<b>14,799,125</b>	<b>14,918,781</b>	<b>15,692,445</b>	<b>15,884,755</b>	<b>15,522,587</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>					
Total Current Liabilities	2,475,964	2,643,420	2,804,881	3,236,123	3,101,758
Total Long-Term Debt	6,177,995	5,908,225	5,976,625	5,458,061	4,710,722
Total Other Long-Term Liabilities	27,000	27,000	27,000	27,000	27,000
<b>Total Liabilities</b>	<b>8,680,959</b>	<b>8,578,645</b>	<b>8,808,506</b>	<b>8,721,184</b>	<b>7,839,480</b>
<b>Stockholders' Equity:</b>					
Preferred stock	800,000	800,000	850,000	850,000	850,000
Common stock	2,780,000	2,780,000	3,000,000	3,000,000	3,000,000
Retained earnings	2,538,166	2,760,136	3,033,939	3,313,571	3,833,107
<b>Total Stockholders' Equity</b>	<b>6,118,166</b>	<b>6,340,136</b>	<b>6,883,939</b>	<b>7,163,571</b>	<b>7,683,107</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>14,799,125</b>	<b>14,918,781</b>	<b>15,692,445</b>	<b>15,884,755</b>	<b>15,522,587</b>

**COMMENT:** On the lines below, identify and describe any significant issues with respect to the historic balance sheets. Please note that this comment will not print.

## Balance Sheet Adjustments

	2004	2005	2006	2007	2008
Nonoperating assets	60,000	70,000	80,000	90,000	100,000
Normalization adjustment	(60,000)	(70,000)	(80,000)	(90,000)	(100,000)
Adjusted balance	0	0	0	0	0
Nonoperating liabilities	27,000	27,000	27,000	27,000	27,000
Normalization adjustment	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)
Adjusted balance	0	0	0	0	0
<b>Net Adjustments:</b>					
Asset Adjustments	(60,000)	(70,000)	(80,000)	(90,000)	(100,000)
Less: Liability Adjustments	(27,000)	(27,000)	(27,000)	(27,000)	(27,000)
Less: Common & Preferred Stock Adjustments	0	0	0	0	0
<b>Retained Earnings Adjustment</b>	<b>(33,000)</b>	<b>(43,000)</b>	<b>(53,000)</b>	<b>(63,000)</b>	<b>(73,000)</b>

## Normalized Historical Balance Sheets

	2004	2005	2006	2007	2008
<b>ASSETS</b>					
Total Current Assets	4,956,423	5,427,189	6,388,104	7,147,785	7,509,604
Net Fixed Assets	5,142,852	4,962,042	4,634,661	5,534,900	5,363,423
Total Long-Term Investments	3,904,180	3,583,210	3,672,670	2,204,390	1,651,210
Net Intangible Assets	245,670	236,340	227,010	217,680	208,350
Total Other Noncurrent Assets	490,000	640,000	690,000	690,000	690,000
<b>Total Assets</b>	<b>14,739,125</b>	<b>14,848,781</b>	<b>15,612,445</b>	<b>15,794,755</b>	<b>15,422,587</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>					
Total Current Liabilities	2,475,964	2,643,420	2,804,881	3,236,123	3,101,758
Total Long-Term Debt	6,177,995	5,908,225	5,976,625	5,458,061	4,710,722
Total Other Long-Term Liabilities	0	0	0	0	0
<b>Total Liabilities</b>	<b>8,653,959</b>	<b>8,551,645</b>	<b>8,781,506</b>	<b>8,694,184</b>	<b>7,812,480</b>
<b>Stockholders' Equity:</b>					
Preferred stock	800,000	800,000	850,000	850,000	850,000
Common stock	2,780,000	2,780,000	3,000,000	3,000,000	3,000,000
Retained earnings	2,505,166	2,717,136	2,980,939	3,250,571	3,760,107
<b>Total Stockholders' Equity</b>	<b>6,085,166</b>	<b>6,297,136</b>	<b>6,830,939</b>	<b>7,100,571</b>	<b>7,610,107</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>14,739,125</b>	<b>14,848,781</b>	<b>15,612,445</b>	<b>15,794,755</b>	<b>15,422,587</b>

## Summary Historical Statements of Cash Flows

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Net Cash Flow From Operations	981,516	862,646	1,430,146	1,600,486
Net Cash Flow From Investments	(633,999)	(1,046,000)	(740,000)	(406,999)
Net Cash Flow From Financing	(438,081)	189,579	(686,075)	(1,184,348)
<b>Net Cash Flow</b>	<b>(90,564)</b>	<b>6,225</b>	<b>4,071</b>	<b>9,139</b>
Cash at Beginning of Year	313,943	223,379	229,604	233,675
<b>Cash at End of Year</b>	<b>223,379</b>	<b>229,604</b>	<b>233,675</b>	<b>242,814</b>

**COMMENT:** On the lines below, identify and describe any significant issues with respect to the historic statements of cash flows. Please note that this comment will not print.

## Normalized Earnings and Net Cash Flow Summary

	2004	2005	2006	2007	2008
Total income & expense adjustments before tax	45,000	70,000	100,000	130,000	160,000
Less: Tax effect *	17,550	27,300	39,001	50,701	62,401
Less: Adjustment to Historic Tax	0	0	0	0	0
Plus: adjustments to net of tax items	0	0	0	0	0
<b>Net adjustments</b>	<b>27,450</b>	<b>42,700</b>	<b>61,000</b>	<b>79,299</b>	<b>97,599</b>
Plus: Historic net income	442,816	549,037	598,005	687,985	1,060,590
<b>Normalized Net income</b>	<b>470,266</b>	<b>591,737</b>	<b>659,005</b>	<b>767,284</b>	<b>1,158,189</b>
Plus: Normalized income taxes	300,661	378,324	421,332	490,560	740,483
<b>Normalized EBT</b>	<b>770,927</b>	<b>970,061</b>	<b>1,080,336</b>	<b>1,257,844</b>	<b>1,898,672</b>
Plus: Normalized interest expense	678,434	674,560	656,923	648,429	603,982
<b>Normalized EBIT</b>	<b>1,449,361</b>	<b>1,644,621</b>	<b>1,737,259</b>	<b>1,906,273</b>	<b>2,502,654</b>
Plus: Normalized depr. & amort.	973,569	1,120,139	1,266,711	1,289,091	1,110,806
<b>Normalized EBITDA</b>	<b>2,422,930</b>	<b>2,764,760</b>	<b>3,003,970</b>	<b>3,195,364</b>	<b>3,613,460</b>
Historic net change in cash		(90,564)	6,225	4,071	9,139
Plus: Net adjustments + Adj. to Depr., Amort. & Div.		42,700	61,000	79,299	97,599
<b>Normalized Net cash flow</b>		<b>(47,864)</b>	<b>67,225</b>	<b>83,370</b>	<b>106,738</b>
Historic income from operations	1,513,211	1,543,489	1,661,613	2,224,734	
Total operating adjustments	80,000	110,000	140,000	170,000	
Normalized operating income	1,593,211	1,653,489	1,801,613	2,394,734	
Less: Tax based on selected tax rate	541,692	562,186	612,548	814,210	
Plus: Normalized depr. & amort. from oper. (net of tax)	739,292	836,029	850,800	733,132	
Less: Normalized fixed asset purchases	929,999	930,000	2,180,000	929,999	
Less: Normalized changes in net working capital **	539,080	953,640	548,660	572,830	
<b>Normalized Free cash flow</b>		<b>321,732</b>	<b>43,692</b>	<b>(688,795)</b>	<b>810,827</b>
Normalized Net income	591,737	659,005	767,284	1,158,189	
Plus: Normalized depreciation & amortization	1,120,139	1,266,711	1,289,091	1,110,806	
Less: Normalized fixed asset purchases	929,999	930,000	2,180,000	929,999	
Less: Normalized changes in net working capital **	539,080	953,640	548,660	572,830	
Plus: Changes in short-term notes payable	0	0	0	0	
Plus: Changes in current long-term notes payable	145,206	160,411	224,292	85,785	
Plus: Changes in long-term notes payable	(269,770)	68,400	(518,564)	(747,339)	
Less: Preferred Dividends	80,000	85,000	85,000	85,000	
<b>Free Cash Flow available to Equity</b>		<b>38,233</b>	<b>185,887</b>	<b>(1,051,557)</b>	<b>19,612</b>

## Normalized Interim Financial Statements

Interim Financial Statements for 6 months dated Jun 2009 were available and included in this analysis. These statements along with any adjustments are summarized below:

### Interim Income Statement & Adjustments

	<b>Interim Jun 2009</b>	<b>Normalization Adjustments</b>	<b>Normalized Jun 2009</b>
<b>Net Sales Revenue</b>	<b>18,924,689</b>	<b>0</b>	<b>18,924,689</b>
Total Cost of Goods Sold	13,731,824	(1,445,051)	12,286,773
Total Selling Expenses	867,197	0	867,197
Total General & Administrative Expenses	2,446,541	0	2,446,541
<b>Income From Operations</b>	<b>1,879,127</b>	<b>1,445,051</b>	<b>3,324,178</b>
Total Other Revenues and Expenses	(184,800)	0	(184,800)
<b>Income Before Taxes</b>	<b>1,694,327</b>	<b>1,445,051</b>	<b>3,139,378</b>
Total Income Taxes	275,592	0	275,592
<b>Net Income</b>	<b>1,418,735</b>	<b>1,445,051</b>	<b>2,863,786</b>

**COMMENT: On the lines below, identify and describe any significant issues with respect to the interim income statements and any related normalization adjustments. Please note that this comment will not print.**

## Interim Balance Sheet & Adjustments

	<b>Interim Jun 2009</b>	<b>Normalization Adjustments</b>	<b>Normalized Jun 2009</b>
<b>ASSETS</b>			
Total Current Assets	9,122,730	0	9,122,730
Net Fixed Assets	4,554,828	0	4,554,828
Total Long-Term Investments	1,640,341	0	1,640,341
Net Intangible Assets	203,666	0	203,666
Total Other Noncurrent Assets	790,000	0	790,000
<b>Total Assets</b>	<b>16,311,565</b>	<b>0</b>	<b>16,311,565</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>			
Total Current Liabilities	3,030,134	0	3,030,134
Total Long-Term Debt	4,129,141	0	4,129,141
Total Other Long-Term Liabilities	50,000	0	50,000
<b>Total Liabilities</b>	<b>7,209,275</b>	<b>0</b>	<b>7,209,275</b>
<b>Stockholders' Equity:</b>			
Preferred stock	850,000	0	850,000
Common stock	3,000,000	0	3,000,000
Retained earnings	5,252,290	0	5,252,290
<b>Total Stockholders' Equity</b>	<b>9,102,290</b>	<b>0</b>	<b>9,102,290</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>16,311,565</b>	<b>0</b>	<b>16,311,565</b>

**COMMENT: On the lines below, identify and describe any significant issues with respect to the interim balance sheets and any related normalization adjustments. Please note that this comment will not print.**

# Analysis of Historic Financial Statements

## Business Common-Size Financial Statements

This analysis includes a review of the Company's common-size income statement and balance sheet percentages on a normalized basis. In order to portray the relative size of financial statement items for comparison over time, each line item in the common-size income statements is expressed as a percentage of total revenue and each line item in the common-size balance sheets is expressed as a percentage of total assets. A summary of the normalized common-size income statements and balance sheets is presented below.

### Normalized Business Common-Size Statements

	2004	2005	2006	2007	2008
<b>Income Data:</b>					
<b>Net sales</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Gross profit	20.30%	18.17%	20.61%	21.48%	24.32%
Operating expenses	14.75%	12.15%	14.71%	15.31%	16.73%
Operating profit	5.55%	6.01%	5.90%	6.17%	7.59%
All other expenses (net)	2.50%	2.35%	2.04%	1.86%	1.57%
<b>Profit Before Tax</b>	<b>3.05%</b>	<b>3.66%</b>	<b>3.85%</b>	<b>4.30%</b>	<b>6.02%</b>
<b>Assets:</b>					
Cash & equivalents	5.55%	5.98%	10.06%	12.81%	14.70%
Trade receivables (net)	13.60%	13.65%	12.73%	14.06%	14.82%
Inventory	13.57%	15.96%	17.20%	17.51%	18.25%
All other current assets	0.91%	0.95%	0.93%	0.88%	0.92%
<b>Total Current Assets</b>	<b>33.63%</b>	<b>36.55%</b>	<b>40.92%</b>	<b>45.25%</b>	<b>48.69%</b>
Fixed assets (net)	34.89%	33.42%	29.69%	35.04%	34.78%
Intangibles (net)	1.67%	1.59%	1.45%	1.38%	1.35%
All other noncurrent assets	29.81%	28.44%	27.94%	18.33%	15.18%
<b>Total Noncurrent Assets</b>	<b>66.37%</b>	<b>63.45%</b>	<b>59.08%</b>	<b>54.75%</b>	<b>51.31%</b>
<b>Total Assets</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Liabilities &amp; Net Worth:</b>					
Notes payable short-term	0.00%	0.00%	0.00%	0.00%	0.00%
Current maturity of long-term Debt	3.60%	4.55%	5.35%	6.71%	7.43%
Trade payables	8.37%	8.36%	7.87%	8.42%	8.39%
Income taxes payable	2.20%	2.26%	2.14%	2.47%	1.74%
All other current liabilities	2.63%	2.64%	2.60%	2.89%	2.55%
<b>Total Current Liabilities</b>	<b>16.80%</b>	<b>17.80%</b>	<b>17.97%</b>	<b>20.49%</b>	<b>20.11%</b>
Long-term debt	41.92%	39.79%	38.28%	34.56%	30.54%
Deferred taxes	0.00%	0.00%	0.00%	0.00%	0.00%
All other noncurrent liabilities	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Net worth</b>	<b>41.29%</b>	<b>42.41%</b>	<b>43.75%</b>	<b>44.96%</b>	<b>49.34%</b>
<b>Total Liabilities &amp; Net Worth</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**COMMENT: On the lines below, identify and describe any significant trends or issues related to the Company's normalized common-size financial statements. Please note that this comment will not print.**

## **Business vs. Industry Common-Size Financial Statements**

Sample Industries, Inc.'s normalized common-size financial statements from the most recent historic year have been compared to composite, industry common-size financial statements from the Sporting Goods Stores industry. To compare the business and industry statements and measure the differences quantitatively, a variance from industry and 5 year average variance from industry have been calculated for each line item.

The source for the industry data used in both the common-size statement and financial ratio comparisons is RMA Annual Statement Studies using Code number 451110. The industry data is categorized by Sales size of \$25MM && over. The date of this industry information is 2008 with 19 different companies contained in the sample.

Although industry statistics are a useful source of general analytical data, there can be significant variation in the reporting practices and operational methods of companies within a given industry. Therefore, industry statistics as used throughout this report should not be regarded as absolute norms or standards.

**RMA - Normalized Business vs. Industry  
Common-Size Statements, Current Year**

	<b>Business 2008</b>	<b>Industry 2008</b>	<b>Variance</b>	<b>5 Yr Average Variance</b>
<b>Income Data:</b>				
Net sales	100.0000%	100.0%		
Gross profit	24.3208%	41.0%	-40.68%	-48.84%
Operating expenses	16.7284%	37.0%	-54.79%	-60.18%
Operating profit	7.5923%	4.0%	89.81%	56.10%
All other expenses (net)	1.5727%	1.0%	57.27%	106.69%
<b>Profit Before Tax</b>	<b>6.0196%</b>	<b>3.0%</b>		
<b>Assets:</b>				
Cash & equivalents	14.6981%	4.9%	199.96%	100.41%
Trade receivables (net)	14.8185%	2.0%	640.92%	588.59%
Inventory	18.2525%	56.8%	-67.87%	-70.96%
All other current	0.9233%	1.2%	-23.06%	-23.41%
<b>Total Current Assets</b>	<b>48.6922%</b>	<b>64.9%</b>		
Fixed assets (net)	34.7764%	21.7%	60.26%	54.67%
Intangibles (net)	1.3509%	8.4%	-83.92%	-82.28%
All other noncurrent	15.1804%	5.1%	197.65%	369.43%
<b>Total Noncurrent Assets</b>	<b>51.3078%</b>	<b>35.2%</b>		
<b>Total Assets</b>	<b>100.0000%</b>	<b>100.1%</b>		
<b>Liabilities:</b>				
Notes payable short-term	0.0000%	9.4%	-100.00%	-100.00%
Current maturity of long-term Debt	7.4297%	1.1%	575.43%	402.54%
Trade payables	8.3942%	22.1%	-62.02%	-62.53%
Income taxes payable	1.7371%	0.5%	247.41%	332.37%
<b>All other current liabilities</b>	<b>2.5508%</b>	<b>8.4%</b>	<b>-69.63%</b>	<b>-68.30%</b>
<b>Total Current Liabilities</b>	<b>20.1118%</b>	<b>41.5%</b>		
Long-term debt	30.5443%	14.8%	106.38%	150.12%
Deferred taxes	0.0000%	0.1%	-100.00%	-100.00%
All other noncurrent liabilities	0.0000%	7.7%	-100.00%	-100.00%
<b>Net worth</b>	<b>49.3439%</b>	<b>35.8%</b>	<b>37.83%</b>	<b>23.88%</b>
<b>Total Liabilities &amp; Net Worth</b>	<b>100.0000%</b>	<b>99.9%</b>		

**COMMENT: On the lines below, identify and describe any significant variance of the business as compared to the industry common-size financial statements. Please note that this comment will not print.**

## Business Financial Ratio Analysis

As part of the valuation, various financial ratios have been calculated from each year's normalized financial statements as presented in this report. These ratios measure Sample Industries, Inc.'s liquidity position, coverage capacity, leverage/capitalization, operating efficiency and equity performance.

### Normalized Business Financial Ratios:

	2004	2005	2006	2007	2008
<b>Liquidity Ratios:</b>					
Current	2.00	2.05	2.28	2.21	2.42
Quick	1.14	1.10	1.27	1.31	1.47
Accounts receivable turnover	12.62	13.07	14.11	13.16	13.80
Days' receivable	28.52	27.55	25.51	27.36	26.08
Inventory turnover	10.08	9.15	8.29	8.30	8.48
Days' inventory	35.70	39.35	43.42	43.38	42.45
Accounts payable turnover	16.35	17.47	18.12	17.26	18.44
Days' payable	22.01	20.60	19.86	20.86	19.52
Working capital turnover	10.20	9.52	7.83	7.47	7.16
Inventory as a % of Total current assets	40.35%	43.67%	42.03%	38.68%	37.49%
Total current assets as a % of Total assets	33.63%	36.55%	40.92%	45.25%	48.69%
<b>Coverage Ratios:</b>					
Times interest earned	2.14	2.44	2.64	2.94	4.14
Current portion of long-term debt coverage	2.72	2.53	2.30	1.94	1.98
Principal & Interest coverage	2.14	1.87	6.16	1.69	1.48
Preferred dividend coverage	5.88	7.40	7.75	9.03	13.63
<b>Leverage/Capitalization Ratios:</b>					
Fixed assets to Tangible net worth	0.88	0.82	0.70	0.80	0.72
Total debt to Tangible net worth	1.48	1.41	1.33	1.26	1.06
Short-term debt to Total debt	28.61%	30.91%	31.94%	37.22%	39.70%
Short-term debt to Net worth	40.69%	41.98%	41.06%	45.58%	40.76%
Total debt to Total assets	58.71%	57.59%	56.25%	55.04%	50.66%
<b>Operating Ratios:</b>					
Percent return on Tangible net worth	13.20%	16.01%	16.36%	18.27%	25.65%
Percent return on Total assets	5.23%	6.53%	6.92%	7.96%	12.31%
Net sales to Net fixed assets	4.92	5.34	6.05	5.28	5.88
Net sales to Total assets	1.72	1.78	1.80	1.85	2.05
Percent Depr., Amort. to Net sales	3.85%	4.23%	4.52%	4.41%	3.52%
Percent Officer salaries to Net sales	1.19%	1.23%	1.25%	1.28%	1.27%
Fixed asset turnover	5.00	5.45	6.14	5.36	6.03
Total sales to Net worth	4.23	4.29	4.16	4.18	4.25
Percent Operating cost	47.83%	47.51%	47.55%	47.16%	46.30%
Percent Net profit	1.86%	2.23%	2.35%	2.63%	3.67%
Revenue growth percentage		5.01%	5.26%	4.40%	8.89%
<b>Equity Ratios:</b>					
Total net assets per share of Preferred stock	5.84	6.06	6.60	6.88	7.40
Net book value per share of Common stock	0.63	0.66	0.72	0.75	0.82
Percent earnings payout	58.28%	48.28%	41.67%	47.39%	42.50%
Percent earnings retention	41.72%	51.72%	58.33%	52.61%	57.50%
Dividends per Common share	0.03	0.03	0.03	0.04	0.06

**Financial Ratios Notes and Discussion of Trends:**

1. Liquidity ratios measure the short-term ability of a company to meet its maturing obligations.
2. Coverage ratios measure the degree of protection for long-term creditors and investors and the margin by which certain obligations of a company can be met.
3. Leverage/capitalization ratios measure the amount of a company's operations that are financed from debt versus financed from equity.
4. Operating ratios measure the efficiency and productivity of a company using the resources that are available and the returns on sales and investments.
5. Equity ratios measure the performance of assets and earnings in relation to common and preferred equity.

**COMMENT: For each group of ratios listed above, identify the importance of any individual ratios and discuss any significant trends over time. Please note that this comment will not print.**

## Business vs. Industry Financial Ratio Comparison

Sample Industries, Inc.'s financial ratios calculated from the most recent, normalized financial statements have been compared to composite, industry financial ratios using the same source of industry data as presented in the Business vs. Industry Common-Size Financial Statement Comparison. To compare the business and industry ratios and measure the differences quantitatively, a variance from industry and 5 year average variance from industry have been calculated for each ratio.

Again, it should be noted that although industry statistics are a useful source of general analytical data, there can be significant variations in the reporting practices and operational methods of companies within a given industry. Therefore, industry statistics as used throughout this report should not be regarded as absolute norms or standards.

### RMA - Normalized Business vs. Industry Ratios, Current Year

	Business 2008	Industry 2008	Variance	5 Yr Average Variance
<b>Liquidity Ratios:</b>				
Current ratio	2.4211	1.6	51.32%	37.03%
Quick ratio	1.4676	0.1	1367.62%	1158.07%
Accounts receivable turnover	13.8013	99.8	-86.17%	-86.62%
Inventory turnover	8.4797	2.3	268.68%	285.22%
Accounts payable turnover	18.4384	6.4	188.10%	173.89%
Working capital turnover	7.1557	9.9	-27.72%	-14.81%
<b>Coverage Ratios:</b>				
Times interest earned	4.1436	4.5	-7.92%	-36.43%
Current portion of long-term debt coverage ratio	1.9802	0.0	0.00%	0.00%
<b>Leverage/Capitalization Ratios:</b>				
Fixed assets to Tangible net worth	0.7246	0.8	-9.42%	-1.75%
Total debt to Tangible net worth	1.0555	1.8	-41.36%	-27.32%
<b>Operating Ratios:</b>				
Percent return on Tangible net worth	25.6516%	24.7%	3.85%	-27.54%
Percent return on Total assets	12.3110%	4.7%	161.94%	65.78%
Net sales to Net fixed assets	5.8808	11.8	-50.16%	-53.44%
Net sales to Total assets	2.0451	2.3	-11.08%	-20.07%
Percent Depr., Amort. to Net sales	3.5217%	1.4%	151.55%	193.23%
Percent Officer salaries to Net sales	1.2682%	0.0%	0.00%	0.00%

**COMMENT: On the lines below, identify and describe any significant variance of the business as compared to industry ratios. Please note that this comment will not print.**

# Valuation of Sample Industries, Inc.

The objective of this valuation is to estimate the Fair Market Value of 100.00% of the common stock of Sample Industries, Inc. as of August 17, 2008 for the purpose as set forth in this Valuation Report.

The standard of value used in our valuation of Sample Industries, Inc. is *Fair Market Value*. Fair Market Value is the price, in terms of cash or equivalent, that a buyer could reasonably be expected to pay, and a seller could reasonably be expected to accept, if the business were exposed for sale on the open market for a reasonable period of time, with both buyer and seller being in possession of the pertinent facts and neither being under any compulsion to act.

There is a large number of factors to consider when estimating the common stock value of any business entity. These factors vary for each valuation depending on the unique circumstances of the business enterprise and general economic conditions that exist at the effective date of the valuation. However, fundamental guidelines of the factors to consider in any valuation have been established. The most commonly used valuation guidelines are derived from the Internal Revenue Service's Revenue Ruling 59-60. Revenue Ruling 59-60 states that in the valuation of the stock of closely held businesses, the following factors, although not all inclusive, are fundamental and require careful consideration in each case:

- a) The nature of the business and the history of the enterprise from its inception.
- b) The economic outlook in general and the condition and outlook of the specific industry in particular.
- c) The book value of the stock and the financial condition of the business.
- d) The earning capacity of the company.
- e) The dividend-paying capacity.
- f) Whether or not the enterprise has goodwill or other intangible value.
- g) Sales of the stock and the size of the block of stock to be valued.
- h) The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.

Based on circumstances unique to Sample Industries, Inc. as of August 17, 2008, additional factors have been considered.

**COMMENT: Identify and describe all additional factors considered significant in relation to the subject company at the date of the valuation. Please note that this comment will not print.**

In addition to providing general valuation guidelines, Revenue Ruling 59-60 outlines other considerations and techniques for valuing the stock of closely held businesses. The techniques are commonly divided into general approaches, i.e., the Asset, Income, and Market approaches. Specific methods are then used to estimate the value of the total business entity under each approach. In the Valuation Summary, the Fair Market Value is determined based on the results of these methods and the specific circumstances surrounding the interest being valued.

## Overview of Valuation Approaches and Methods

As previously specified, various approaches have been used to value Sample Industries, Inc.. These approaches, described below, are the: 1) Asset Approach, 2) Income Approach, and 3) Market Approach.

The Asset Approach is generally considered to yield the minimum benchmark of value for an operating enterprise. Net Asset Value represents net equity of the business after assets and liabilities have been adjusted to their fair market values.

The Income Approach serves to estimate value by considering the income (benefits) generated by the asset over a period of time. This approach is based on the fundamental valuation principle that the value of a business is equal to the present worth of the future benefits of ownership. The term income does not necessarily refer to income in the accounting sense but to future benefits accruing to the owner. The most common methods under this approach are Capitalization of Earnings and Discounted Future Earnings. Under the Capitalization of Earnings method, normalized historic earnings are capitalized at a rate that reflects the risk inherent in the expected future growth in those earnings. The Discounted Future Earnings method discounts projected future earnings back to present value at a rate that reflects the risk inherent in the projected earnings.

The Market Approach compares the subject company to the prices of similar companies operating in the same industry that are either publicly traded or, if privately-owned, have been sold recently. A common problem for privately owned businesses is a lack of publicly available comparable data.

The methods utilized under each approach are presented and discussed in the following sections.

**COMMENT: The following sections discuss all of the valuation methods available in the program and their respective results. You are encouraged to modify these sections for each different valuation engagement as follows:**

- \* **Discuss the selection process used to accept and reject the individual valuation methods and identify your selection criteria.**
- \* **Delete the discussions of and calculations for methods that were not considered. However, you should include an explanation of why each method was rejected.**
- \* **Discuss any methods that were considered but not used in the valuation conclusions and explain why the methods were not accepted.**
- \* **Elaborate on the methods that were used in the valuation conclusions, explain why they were accepted and discuss the relative weight or emphasis place on each method in the valuation conclusions.**
- \* **If any past transactions in the subject company's stock have been identified, discuss why they were either accepted or rejected in the valuation conclusions.**

**Please note that this comment will not print.**

## Preferred Stock Valuation

The value of Sample Industries, Inc.'s preferred stock based on market yields for comparable preferred stocks is estimated to be \$1,214,286. In the preferred stock valuation, Sample Industries, Inc.'s preferred dividends are divided by the market yield on comparable preferred stocks to determine Total Entity Value as shown below.

	<b>Book 2008</b>	<b>Market</b>
Per Share Analysis:		
Preferred stock dividends	85,000	85,000
Preferred stock shares	1,000,000	1,000,000
Dividends per share	0.09	0.09
Valuation Analysis:		
Preferred stock dividends	85,000	85,000
Yield on preferred stock	10.00%	7.00%
Preferred stock value	850,000	1,214,286
<b>Selected fair market value of preferred stock</b>		<b>1,214,286</b>

## Net Asset Value

The Net Asset Value of Sample Industries, Inc. is estimated to be \$11,812,715. The Net Asset Value method assumes that the value of a business will be realized by the hypothetical sale of its net assets as part of a going concern. In our analysis, assets and liabilities from the most recent historic, unadjusted balance sheet have been adjusted to their individual tax bases. Assets and liabilities were further adjusted to their individual appraised values. A tax adjustment in the amount of \$2,686,969 was then estimated based on the difference between the appraised value and the tax basis of assets and liabilities using an effective tax rate of 39.00%. The net result is the total entity value.

# Discount & Capitalization Rate Estimates

For purposes of this analysis, various risk rates applicable to historic and projected earnings have been estimated. Generally stated, these risk-adjusted rates reflect the expected rate of return attainable on alternative investment opportunities with comparable risk.

First, a Discount Rate applicable to the Discounted Future Earnings valuation method has been calculated. This Discount Rate is then converted into a Capitalization Rate for use in the Capitalization of Earnings valuation method. These calculations are summarized in the table below.

<b>Build-Up Model, Risk Factors:</b>	
Risk-Free Rate	5.00%
Market Equity Risk Premium	20.00%
Size Premium	7.00%
<b>Discount Rate</b>	<b>32.00%</b>
Less: Long-term growth in Net Income	19.62%
<b>Capitalization Rate</b>	<b>12.38%</b>
Divided by: 1 + Long-term growth in Net Income	119.62%
<b>Historic Earnings Capitalization Rate</b>	<b>10.35%</b>

In developing the Discount and Capitalization Rates to apply to the benefit stream of Sample Industries, Inc., the Build-Up Model was used. The Build-Up Model is based on a combination of risk factors including a Risk-Free Rate, a Market Equity Risk Premium, a Size Premium and other identifiable risk factors specific to the subject company. When added together, these risk factors provide an indication of the Discount Rate for the subject company. This Discount Rate represents the total return, in terms of cash flows and appreciation in value, that an investor would require in order to make an equity investment in the subject company.

**COMMENT: Provide an explanation of each of the risk factors identified in the Build-Up Method and document the source of the data. The Long-Term U.S. Treasury Bond yield to maturity prevailing on the date of (or within the week of) the effective date of the valuation is commonly used to represent the Risk-Free Rate. The Market Equity Risk Premium is the return in excess of the Risk-Free Rate that an average equity investor would require. The Size Premium is generally used if the subject company is significantly smaller than the companies used in the formulation of the Market Equity Risk Premium. Document all other incremental risk factors identified in the development of the discount rate. Please note that the Build-Up Model is normally used for small companies or if no valid comparable company data is available. If no valid comparable company data is available, that fact should be disclosed here. Please note that this comment will not print.**

## Capitalization of Earnings

The Capitalization of Earnings method arrives at an estimate of value by dividing current normalized operations, which are weighted and averaged to approximate future earnings expectations, by a capitalization rate. As shown below, The Total Entity Value of Sample Industries, Inc. based on the Capitalization of Earnings method is estimated to be \$8,045,627. In the Capitalization of Earnings method, weighted average, normalized Net Income is divided by the capitalization rate, 10.35%, to determine Total Entity Value. See the Income Statement Adjustments section for a listing of any adjustments made to historic earnings and the Discount & Capitalization Rates section for the capitalization rate calculations.

<b>Capitalization of Earnings</b>	<b>Normalized Net Income</b>	<b>Weighting Factor</b>	<b>Weighted Earnings</b>
Fiscal Year End 2004	470,266	1.0	470,266
Fiscal Year End 2005	591,737	2.0	1,183,473
Fiscal Year End 2006	659,005	3.0	1,977,014
Fiscal Year End 2007	767,284	4.0	3,069,137
Fiscal Year End 2008	1,158,189	5.0	5,790,946
Sum of Weighted earnings			12,490,836
Divided by: Sum of weighting factors			15.0
<b>Weighted average earnings</b>			<b>832,722</b>
Divided by: Historic capitalization rate			10.35%
<b>Operating value</b>			<b>8,045,627</b>
Plus: Net nonoperating assets			0
<b>Total entity value</b>			<b>8,045,627</b>

Net nonoperating assets in the amount of \$0 has been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

## Discounted Future Earnings

The underlying premise for this valuation method is the basic valuation principle that an investment in a business is worth the present value of all the future benefits it will produce for its owner(s), with each expected future benefit discounted back to present value at a discount rate that reflects the risk (degree of uncertainty) that those benefits may not be realized. Therefore, the application of this method requires a determination of the present value of an expected future income stream that the business generates for that owner.

To determine the expected future income stream, we assisted management in preparing [-or- we used management's] projections of the financial statements for the first 5 years after the valuation date. An overall summary of the projections is presented below, followed by the individual statements in condensed format. (See the Projection Assumptions and Projection schedules for complete details.)

**COMMENT: As discussed in Section 505 of PPC's Guide to Business Valuations, the financial statements may be forecasts or projections as defined by the AICPA. Thus, the term "projection" may need to be replaced with the term "forecast" depending on the assumptions used in preparing the financial statements. Please note that this comment will not print.**

### Projection Summary

	2009	2010	2011	2012	2013
Net sales revenue	33,029,158	34,605,870	36,277,151	38,049,272	39,928,935
Gross profit	8,921,223	9,276,423	10,282,872	10,957,502	11,558,319
EBITDA	4,649,424	5,122,209	5,223,911	5,510,538	5,840,379
EBIT	3,769,674	3,730,359	4,601,100	5,028,229	5,395,213
EBT	3,461,724	3,177,605	4,184,912	4,793,352	5,294,254
Net income	2,170,501	1,992,358	2,623,940	3,005,431	3,319,497
Annualized Net cash flow	785,844	1,217,803	831,972	1,049,672	953,235
Total current assets	8,736,181	9,844,101	10,309,081	10,792,439	12,267,809
Net fixed assets	3,937,245	2,954,728	2,666,965	2,156,846	1,721,012
Net other assets	2,492,913	2,435,195	2,376,085	2,315,253	2,305,919
Total assets	15,166,339	15,234,025	15,352,131	15,264,537	16,294,741
Total current liabilities	4,179,008	4,516,599	4,700,536	3,876,354	3,691,281
Total long-term debt	3,748,577	2,567,492	1,274,691	593,563	234,092
Total liabilities	7,927,585	7,084,091	5,975,227	4,469,918	3,925,373
Total Equity	7,238,755	8,149,934	9,376,904	10,794,619	12,369,368
Net working capital	4,557,173	5,327,503	5,608,546	6,916,084	8,576,528
Federal Income tax before NOL adjustment	1,118,137	1,026,366	1,351,727	1,548,253	1,710,044
Plus: NOL tax adjustment	0	0	0	0	0
Federal Income Tax Expense	1,118,137	1,026,366	1,351,727	1,548,253	1,710,044
Income from operations	3,628,687	3,603,197	4,539,380	4,972,492	5,291,031
Less: Tax based on selected tax rate	1,233,753	1,225,087	1,543,389	1,690,647	1,798,951
Plus: Depr. & Amort. from operations	879,750	1,391,850	622,811	482,310	445,167
Less: Annualized Fixed asset purchases	257,500	400,000	400,000	0	0
Less: Annualized Change in Net Working capital	113,082	398,470	(50,798)	(47,723)	(68,110)
Free Cash Flow	2,904,101	2,971,490	3,269,600	3,811,877	4,005,357

## Summary Income Statement Projections

	2009	2010	2011	2012	2013
<b>Net Sales Revenue</b>	<b>33,029,158</b>	<b>34,605,870</b>	<b>36,277,151</b>	<b>38,049,272</b>	<b>39,928,935</b>
Total Cost of Goods Sold	24,107,936	25,329,448	25,994,279	27,091,770	28,370,616
<b>Gross Profit</b>	<b>8,921,223</b>	<b>9,276,423</b>	<b>10,282,872</b>	<b>10,957,502</b>	<b>11,558,319</b>
Total Selling Expenses	1,486,312	1,557,264	1,632,472	1,712,217	1,796,802
Total General & Administrative Expenses	3,806,224	4,115,961	4,111,020	4,272,793	4,470,485
<b>Income From Operations</b>	<b>3,628,687</b>	<b>3,603,197</b>	<b>4,539,380</b>	<b>4,972,492</b>	<b>5,291,031</b>
Total Other Revenues and Expenses	(166,962)	(425,592)	(354,468)	(179,141)	3,223
<b>Income Before Taxes</b>	<b>3,461,724</b>	<b>3,177,605</b>	<b>4,184,912</b>	<b>4,793,352</b>	<b>5,294,254</b>
Total Income Taxes	1,291,223	1,185,247	1,560,972	1,787,920	1,974,757
<b>Net Income</b>	<b>2,170,501</b>	<b>1,992,358</b>	<b>2,623,940</b>	<b>3,005,431</b>	<b>3,319,497</b>

## Summary Balance Sheet Projections

	2009	2010	2011	2012	2013
<b>ASSETS</b>					
Total Current Assets	8,736,181	9,844,101	10,309,081	10,792,439	12,267,809
Net Fixed Assets	3,937,245	2,954,728	2,666,965	2,156,846	1,721,012
Total Long-Term Investments	1,628,914	1,604,279	1,577,064	1,547,000	1,547,000
Net Intangible Assets	199,000	189,666	180,333	171,000	161,666
Total Other Noncurrent Assets	665,000	641,250	618,688	597,253	597,253
<b>Total Assets</b>	<b>15,166,339</b>	<b>15,234,025</b>	<b>15,352,131</b>	<b>15,264,537</b>	<b>16,294,741</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>					
Total Current Liabilities	4,179,008	4,516,599	4,700,536	3,876,354	3,691,281
Total Long-Term Debt	3,748,577	2,567,492	1,274,691	593,563	234,092
Total Other Long-Term Liabilities	0	0	0	0	0
<b>Total Liabilities</b>	<b>7,927,585</b>	<b>7,084,091</b>	<b>5,975,227</b>	<b>4,469,918</b>	<b>3,925,373</b>
<b>Stockholders' Equity:</b>					
Preferred stock	850,000	850,000	850,000	850,000	850,000
Common stock	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Retained earnings	3,388,755	4,299,934	5,526,904	6,944,619	8,519,368
<b>Total Stockholders' Equity</b>	<b>7,238,755</b>	<b>8,149,934</b>	<b>9,376,904</b>	<b>10,794,619</b>	<b>12,369,368</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>15,166,339</b>	<b>15,234,025</b>	<b>15,352,131</b>	<b>15,264,537</b>	<b>16,294,741</b>

## Summary Retained Earnings Projections

	2009	2010	2011	2012	2013
<b>Retained Earnings Beginning of Period</b>	<b>5,252,290</b>	<b>3,388,755</b>	<b>4,299,934</b>	<b>5,526,904</b>	<b>6,944,619</b>
<b>Additions:</b>					
Normalized net income for the year	(693,285)	1,992,358	2,623,940	3,005,431	3,319,497
<b>Deductions:</b>					
Normalized preferred dividends	85,000	85,000	85,000	85,000	85,000
Normalized Common dividends	1,085,251	996,179	1,311,970	1,502,716	1,659,749
<b>Retained Earnings End of Period</b>	<b>3,388,755</b>	<b>4,299,934</b>	<b>5,526,904</b>	<b>6,944,619</b>	<b>8,519,368</b>

## Summary Cash Flow Projections

	2009	2010	2011	2012	2013
Net Cash Flow From Operations	1,753,960	3,648,411	3,752,781	4,195,469	3,310,047
Net Cash Flow From Investments	(207,500)	(400,000)	(361,000)	39,000	39,000
Net Cash Flow From Financing	(1,409,689)	(2,030,608)	(2,559,809)	(3,184,797)	(2,395,812)
<b>Net Cash Flow</b>	<b>136,771</b>	<b>1,217,803</b>	<b>831,972</b>	<b>1,049,672</b>	<b>953,235</b>
Cash at Beginning of Period	891,887	1,028,658	2,246,461	3,078,434	4,128,106
<b>Cash at End of Period</b>	<b>1,028,658</b>	<b>2,246,461</b>	<b>3,078,434</b>	<b>4,128,106</b>	<b>5,081,341</b>

## Summary Sources & Uses of Funds Projections

	2009	2010	2011	2012	2013
Total Internally Generated Cash	(610,256)	2,074,785	1,955,129	2,570,131	1,513,844
Total Cash from External Financing	747,028	(856,982)	(1,123,156)	(1,520,459)	(560,609)
<b>Net Cash Flow</b>	<b>136,771</b>	<b>1,217,803</b>	<b>831,972</b>	<b>1,049,672</b>	<b>953,235</b>

## Overview of Projection Assumptions

In preparing the preceding financial statement projections, management made various assumptions about expected future revenues, expenses, assets, liabilities and equity. These assumptions were made after gathering and analyzing data that affects the future economic outlook of the Company. This data was derived from sources such as the normalized financial statements, publicly available information and other economic materials.

This section of the report provides a broad overview of the Projection Assumptions and has been prepared to emphasize items considered significant to the overall understanding of the projections.

## Revenue & Expense Assumptions

**Net Sales Revenues** over the past 5 historic years have grown at a compound average annual rate of 5.66%. Future Net Sales Revenues are projected to grow at an estimated, compound average annual rate of 4.83%, starting from a base amount of \$31,541,420 and growing to \$33,029,158 in the first projected year and \$39,928,935 in projected year 5.

**Total Cost of Goods Sold** over the past 5 historic years has averaged 79.02% of Net Sales Revenues for each respective year and was 75.68% of Net Sales Revenues in the most recent historic fiscal year, 2008. Total Cost of Goods Sold has been projected to be \$24,107,936, or 72.99% of Net Sales Revenues in the first projected year and \$28,370,616, or 71.05% of Net Sales Revenues in projected year 5. On average, Total Cost of Goods Sold has been projected to be 72.02% of each year's respective Net Sales Revenues.

**Total Selling Expenses** over the past 5 historic years have averaged 3.38% of Net Sales Revenues for each respective year and were 4.18% of Net Sales Revenues in the most recent historic fiscal year, 2008. Total Selling Expenses have been projected to be \$1,486,312, or 4.50% of Net Sales Revenues in the first projected year and \$1,796,802, or 4.50% of Net Sales Revenues in projected year 5. On average, Total Selling Expenses have been projected to be 4.50% of each year's respective Net Sales Revenues.

**Total General & Administrative Expenses** over the past 5 historic years have grown at a compound average annual rate of 7.34%. Total General & Administrative Expenses are projected to grow at an estimated, compound average annual rate of 0.87%, starting from a base amount of \$4,281,558 and growing to \$3,806,224 in the first projected year and \$4,470,485 in projected year 5.

**Cash Equivalents** have been projected using the Manual Input method. Annual interest income is projected to be earned at the rate of 5.0% of the projected account balance in each projected year.

## Fixed Asset Depreciation Assumptions

**Depreciation Expense and Accumulated Depreciation** on fixed assets have been estimated over the term of the projected financial statements.

Projected depreciation on existing fixed assets and any fixed asset purchases is based on the terms presented in the following table.

<b>Fixed Asset Accounts</b>	<b>Book Value</b>	<b>Original Life (years)</b>	<b>Salvage (% of Cost)</b>	<b>Depreciation Method</b>
Plant	1,373,810	15	0.0%	Straight Line
Equipment	1,069,124	7	0.0%	Straight Line
Vehicle	638,464	5	0.0%	Straight Line
Furniture & Fixtures	473,430	7	0.0%	Straight Line
Land	1,000,000	0	0.0%	Straight Line

## Disposals of Existing Fixed Assets

**Fixed Asset Disposals** and any related **Gain / (Loss) on Sale of Fixed Assets** have been estimated for existing fixed assets over the term of the projected financial statements. The projected Fixed Asset Disposal assumptions are presented in the following table.

<b>Fixed Asset Accounts</b>	<b>Aggregate Disposals</b>	<b>Aggregate Proceeds</b>	<b>Start Year</b>	<b>Spread Over</b>	<b>Average Age of Disposals</b>
Equipment	20.0%	15.0%	3	3	2

## Fixed Asset Purchases

After estimating projected depreciation on existing fixed assets and estimating disposals of existing fixed assets, it has been assumed that the Company would be required to purchase new fixed assets in order to provide the capacity to support projected sales revenues. Therefore, in an attempt to maintain a minimum Fixed Asset Turnover Ratio of approximately 0.00 in each projected year, the following fixed asset purchases are assumed to be made.

Please note that all Fixed Asset Purchases are assumed to be depreciated based on the terms specified in the Fixed Asset Depreciation Assumptions table.

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Plant	200,000	200,000	200,000	0	0
Equipment	50,000	100,000	100,000	0	0
Vehicle	0	0	0	0	0
Furniture & Fixtures	7,500	100,000	100,000	0	0
Land	0	0	0	0	0
<b>Total Fixed Asset Purchases</b>	<b>257,500</b>	<b>400,000</b>	<b>400,000</b>	<b>0</b>	<b>0</b>

## Existing Notes Receivable Assumptions

Note receivable in the amount of \$114,558 with an interest rate of 10.0% has 54 monthly installment payments remaining. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

## Amortization of Intangible Assets

**Goodwill** is assumed to be amortized to **Amortization Expense** over a period of 30 projected years.

**Intangibles** are assumed to be amortized to **Amortization Expense** over a period of 15 projected years.

## Existing Notes Payable Assumptions

Payable to ABC bank in the amount of \$2,974,214 with an interest rate of 12.0% has 42 monthly installment payments remaining. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Payable to ACME bank in the amount of \$921,087 with an interest rate of 12.0% has 78 monthly installment

payments remaining. The installments consist of equal principal payments with monthly interest charged on the outstanding balance.

Payable to First National in the amount of \$1,017,149 with an interest rate of 10.0% has 54 monthly installment payments remaining. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Payable to Main Street bank in the amount of \$114,558 with an interest rate of 10.0% has 54 monthly installment payments remaining. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Payable to Main Street bank in the amount of \$280,964 with an interest rate of 10.0% has 30 monthly installment payments remaining. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

### **Fixed Asset Purchase Financing Assumptions**

In projected year 1, 100.0% of total fixed asset purchases (\$257,500) would be financed. A new loan in the amount of \$257,500 would be added in that year. This loan would have an interest rate of 10.0% and would be repaid in 60 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

In projected year 2, 100.0% of total fixed asset purchases (\$400,000) would be financed. A new loan in the amount of \$400,000 would be added in that year. This loan would have an interest rate of 12.0% and would be repaid in 60 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

In projected year 3, 100.0% of total fixed asset purchases (\$400,000) would be financed. A new loan in the amount of \$400,000 would be added in that year. This loan would have an interest rate of 7.5% and would be repaid in 60 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

### **Dividends Assumptions**

**Preferred Stock Dividends** are assumed to be paid at the rate of 10.0% of the preferred stock balance in each projected year.

**Common Stock Dividends** are assumed to be paid at the rate of 50.0% of net income in each projected year.

## Discounted Future Earnings Value Calculations

The Total Entity Value of Sample Industries, Inc. based on the Discounted Future Earnings method is estimated to be \$13,750,504 as shown below. In the Discounted Future Earnings method, Net Income has been projected for 5 years and each year's earnings have been discounted back to present value using an annual discount rate of 32.00% and end-of-year discounting calculations.

Because it is assumed that the business will continue as a going concern beyond the term of the projections, a terminal value (also referred to as residual value) has been calculated based on Net Income from projected year 5. These residual earnings are first capitalized using the capitalization rate of 12.38% and then that quantity is discounted back to present value using the discount rate of 32.00%.

<b>Discounted Future Earnings</b>	<b>Projected Net Income</b>	<b>Discount Factor</b>	<b>Present Value</b>
FY 2009	2,170,501	0.757576	1,644,320
FY 2010	1,992,358	0.573921	1,143,456
FY 2011	2,623,940	0.434789	1,140,860
FY 2012	3,005,431	0.329385	989,944
FY 2013	3,319,497	0.249534	828,327
Terminal value of Net Income **	32,074,173	0.249534	8,003,597
<b>Operating value</b>			<b>13,750,504</b>
Plus: Net nonoperating assets			0
<b>Total entity value</b>			<b>13,750,504</b>

End-of-Year discount factors are based on the Discount Rate of: 32.00%  
Terminal value is based on the Capitalization Rate of: \* 12.38%

The sum of the individual present values, including the present value of the terminal value, equals the estimate of Total Entity Value. See the Discount and Capitalization Rates section for the discount rate calculations.

Net nonoperating assets of \$0 has been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

## Discounted Net Cash Flow Value Calculations

The Total Entity Value of Sample Industries, Inc. based on the Discounted Net Cash Flow method is estimated to be \$4,537,935 as shown below. In the Discounted Future Earnings method, Net Cash Flow has been projected for 5 years and each year's earnings have been discounted back to present value using an annual discount rate of 32.00% and end-of-year discounting calculations.

Because it is assumed that the business will continue as a going concern beyond the term of the projections, a terminal value (also referred to as residual value) has been calculated based on Net Cash Flow from projected year 5. These residual earnings are first capitalized using the capitalization rate of 12.38% and then that quantity is discounted back to present value using the discount rate of 32.00%.

<b>Discounted Net Cash Flows</b>	<b>Projected Net Cash Flow</b>	<b>Discount Factor</b>	<b>Present Value</b>
FY 2009	785,844	0.757576	595,337
FY 2010	1,217,803	0.573921	698,923
FY 2011	831,972	0.434789	361,732
FY 2012	1,049,672	0.329385	345,746
FY 2013	953,235	0.249534	237,865
Terminal value of Net Cash Flow **	9,210,499	0.249534	2,298,333
<b>Operating value</b>			<b>4,537,935</b>
Plus: Net nonoperating assets			0
<b>Total entity value</b>			<b>4,537,935</b>

End-of-Year discount factors are based on the Discount Rate of: 32.00%  
Terminal value is based on the Capitalization Rate of: \* 12.38%

The sum of the individual present values, including the present value of the terminal value, equals the estimate of Total Entity Value. See the Discount and Capitalization Rates section for the discount rate calculations.

Net nonoperating assets of \$0 has been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

## Comparative Company Method

The notion behind the comparative company method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence as to values at which investors are willing to buy and sell interests in companies in that industry.

In applying the comparative company valuation method, the consultant usually computes a value multiple for each comparative company. The appropriate multiple is then determined and adjusted for the unique aspects of the company being valued. This multiple is then applied to the company being valued to arrive at an estimate of value for the appropriate ownership interest. A value multiple represents a ratio that uses a comparative company's stock price as the numerator and a measure of the comparative company's operating results (or financial position) as the denominator. Value multiples are usually computed on a per share basis, but can also be determined by dividing a company's total common stock market value by its total annual earnings or other measure. The most well known value multiple is price/earnings (P/E) whereby a company's stock price is divided by its earnings per share. The process of computing the value multiples normally consists of the following procedures:

1. Determination of the appropriate stock price for each comparative company. This represents the numerator of the multiple.
2. Determination of the measure of operating results (earnings, gross cash flow, etc.) for the appropriate time period or financial position as of the valuation date. This represents the denominator of the multiple.

The application of this method depends on the selection of publicly traded comparative companies that are similar enough to Sample Industries, Inc. so as to provide a meaningful comparison. The following is a discussion of the search for comparative publicly traded companies as it applies to Sample Industries, Inc..

## Search for Comparatives

**COMMENT: Describe the methods and sources used in searching for comparative companies and the results of the search. Please note that this comment will not print.**

	P/E	P/R	P/GCF	P/D	P/BV	P/NAV	BETA
Comparable Companies:							
Company name #1	10.20	0.60	7.20	0.00	0.00	0.00	0.00
Company name #2	7.70	0.70	6.80	0.00	0.00	0.00	0.00
Company name #3	8.40	1.20	7.90	0.00	0.00	0.00	0.00
Average	8.77	0.83	7.30	0.00	0.00	0.00	0.00
Median	8.40	0.70	7.20	0.00	0.00	0.00	0.00
Standard Deviation	1.05	0.26	0.45	0.00	0.00	0.00	0.00
Coefficient of variation	1.11	0.07	0.21	0.00	0.00	0.00	0.00
Selected	8.80	0.80	7.30	0.00	0.00	0.00	0.00

## Price to Earnings Multiple

The Total Entity Value of Sample Industries, Inc. based on the Price to Earnings Multiple method is estimated to be \$10,192,065. In the Price to Earnings Multiple method, normalized Net Income from the most recent historic year times the Price to Earnings Multiple of 8.8 equals the estimate of Total Entity Value. See the Comparable Values schedule for detailed value calculations.

Net nonoperating assets in the amount of \$0 has been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

## Price to Revenue Multiple

The Total Entity Value of Sample Industries, Inc. based on the Price to Revenue Multiple method is estimated to be \$25,233,136. In the Price to Revenue Multiple method, normalized Net Revenue from the most recent historic year times the Price to Revenue Multiple of 0.8 equals the estimate of Total Entity Value. See the Comparable Values schedule for detailed value calculations.

Net nonoperating assets in the amount of \$0 has been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

## Price to Gross Cash Flow Multiple

The Total Entity Value of Sample Industries, Inc. based on the Price to Gross Cash Flow Multiple method is estimated to be \$16,563,665. In the Price to Gross Cash Flow Multiple method, normalized Gross Cash Flow (i.e., adjusted net income plus depreciation and amortization) from the most recent historic year times the Price to Gross Cash Flow Multiple of 7.3 equals the estimate of Total Entity Value. See the Comparable Values schedule for detailed value calculations.

Net nonoperating assets in the amount of \$0 has been added in the determination of Total Entity Value under this method because net nonoperating assets do not contribute to the earnings capacity of the business. See the Net Asset Value schedule for the presentation of net nonoperating assets.

## Valuation Summary

Subject to the assumptions and limiting conditions presented herein, we have estimated the Fair Market Value of 100.00% of the common stock of Sample Industries, Inc. as of August 17, 2008 to be \$.

Method	Value	Weight	Weighted Value
Net Asset Value	11,812,715	0.0	0
Capitalization of Earnings	8,045,627	1.0	8,045,627
Discounted Future Earnings	13,750,504	1.0	13,750,504
Discounted Net Cash Flow	4,537,935	0.0	0
Price to Earnings Multiple	10,192,065	1.0	10,192,065
Price to Revenue Multiple	25,233,136	0.0	0
Price to Gross Cash Flow Multiple	16,563,665	0.0	0
Sum of weighted values			31,988,196
Divided by: Sum of weights			3.0
<b>Weighted average total entity value</b>			<b>10,662,732</b>
Selected total entity value			10,700,000
<b>Less: Fair market value of preferred stock</b>			<b>1,214,286</b>
<b>Fair market value of common equity</b>			<b>9,485,714</b>

See the respective supporting schedules for the individual value calculations.

**COMMENT: If a Control Premium or a Minority Discount and/or a Marketability Discount have been included in your valuation, on the lines below explain how the amount of the discount was determined. Also, document your assumptions on the valuation of any Preferred Stock. Please note that this comment will not print.**

## Proposed Purchase Price & Transaction Structure

The proposed purchase price is \$16,000,000 for the assets of Sample Industries, Inc.. For purposes of this analysis, it is assumed that the assets will be owned and the business operated as a separate, standalone entity. It is further assumed that purchased assets will have new base values derived by allocating the proposed purchase price to the purchased assets.

### Price Premiums/Discounts

In an effort to determine an appropriate purchase price for Sample Industries, Inc., the proposed price has been compared to the asking price and to various measures of value as presented in the following table.

<b>Purchase Price Premiums (Discounts)</b>	<b>Proposed (a)</b>	<b>Asking (b)</b>	<b>Spread (b-a)</b>	<b>Percent of Asking (a/b)</b>
Purchase Price	16,000,000	18,000,000	2,000,000	88.89%
Premium over Fair market value of common equity Percent Premium / (Discount)	6,514,286 68.67%	8,514,286 89.76%		
Premium over Enterprise Value Percent Premium / (Discount)	(245,656) -1.51%	1,754,344 10.80%		
Fair market value of common equity	9,485,714			
Plus: Total Interest-Bearing Debt	7,812,480			
Plus: Fair market value of preferred stock	1,214,286			
Market Value of Invested Capital (MVIC)	18,512,480			
Less: Cash & Equivalents	2,266,824			
Enterprise Value	16,245,656			

## Key Pricing Multiples

To benchmark the various measures of price and value, they are presented here as multiples of key amounts from the historic and projected financial statements. The multiples are calculated for the last full historic year, the historic average and the first projected year for each respective financial statement category.

### Key Multiples

<b>Proposed Price</b>	<b>Year End</b>	<b>Multiple</b>	<b>Average</b>	<b>Multiple</b>	<b>Projected Yr 1</b>	<b>Multiple</b>
Net Cash Flow	106,738	149.90	52,367	305.53	785,844	20.36
Free Cash Flow	810,827	19.73	121,864	131.29	2,904,101	5.51
Net Income	1,158,189	13.81	729,296	21.94	2,170,501	7.37
EBT	1,898,672	8.43	1,195,568	13.38	3,461,724	4.62
EBIT	2,502,654	6.39	1,848,034	8.66	3,769,674	4.24
EBITDA	3,613,460	4.43	3,000,097	5.33	4,649,424	3.44
Total Revenue	31,541,420	0.51	28,824,668	0.56	33,029,158	0.48
Historic Book Value	7,683,107	2.08	7,017,688	2.28		
Normalized Book Value	7,610,107	2.10	6,959,688	2.30		
Net Asset Value	11,812,715	1.35				

<b>Asking Price</b>	<b>Year End</b>	<b>Multiple</b>	<b>Average</b>	<b>Multiple</b>	<b>Projected Yr 1</b>	<b>Multiple</b>
Net Cash Flow	106,738	168.64	52,367	343.73	785,844	22.91
Free Cash Flow	810,827	22.20	121,864	147.71	2,904,101	6.20
Net Income	1,158,189	15.54	729,296	24.68	2,170,501	8.29
EBT	1,898,672	9.48	1,195,568	15.06	3,461,724	5.20
EBIT	2,502,654	7.19	1,848,034	9.74	3,769,674	4.77
EBITDA	3,613,460	4.98	3,000,097	6.00	4,649,424	3.87
Total Revenue	31,541,420	0.57	28,824,668	0.62	33,029,158	0.54
Historic Book Value	7,683,107	2.34	7,017,688	2.56		
Normalized Book Value	7,610,107	2.37	6,959,688	2.59		
Net Asset Value	11,812,715	1.52				

<b>Fair market value of common equity</b>	<b>Year End</b>	<b>Multiple</b>	<b>Average</b>	<b>Multiple</b>	<b>Projected Yr 1</b>	<b>Multiple</b>
Net Cash Flow	106,738	88.87	52,367	181.14	785,844	12.07
Free Cash Flow	810,827	11.70	121,864	77.84	2,904,101	3.27
Net Income	1,158,189	8.19	729,296	13.01	2,170,501	4.37
EBT	1,898,672	5.00	1,195,568	7.93	3,461,724	2.74
EBIT	2,502,654	3.79	1,848,034	5.13	3,769,674	2.52
EBITDA	3,613,460	2.63	3,000,097	3.16	4,649,424	2.04
Total Revenue	31,541,420	0.30	28,824,668	0.33	33,029,158	0.29
Historic Book Value	7,683,107	1.23	7,017,688	1.35		
Normalized Book Value	7,610,107	1.25	6,959,688	1.36		
Net Asset Value	11,812,715	0.80				

<b>Market Value of Invested Capital (MVIC)</b>	<b>Year End</b>	<b>Multiple</b>	<b>Average</b>	<b>Multiple</b>	<b>Projected Yr 1</b>	<b>Multiple</b>
Net Cash Flow	106,738	173.44	52,367	353.51	785,844	22.91
Free Cash Flow	810,827	22.83	121,864	151.91	2,904,101	6.20
Net Income	1,158,189	15.98	729,296	25.38	2,170,501	8.29
EBT	1,898,672	9.75	1,195,568	15.48	3,461,724	5.20
EBIT	2,502,654	7.40	1,848,034	10.02	3,769,674	4.77
EBITDA	3,613,460	5.12	3,000,097	6.17	4,649,424	3.87
Total Revenue	31,541,420	0.59	28,824,668	0.64	33,029,158	0.54
Historic Book Value	7,683,107	2.41	7,017,688	2.64		
Normalized Book Value	7,610,107	2.43	6,959,688	2.66		
Net Asset Value	11,812,715	1.57				

<b>Enterprise Value</b>	<b>Year End</b>	<b>Multiple</b>	<b>Average</b>	<b>Multiple</b>	<b>Projected Yr 1</b>	<b>Multiple</b>
Net Cash Flow	106,738	152.20	52,367	310.23	785,844	20.67
Free Cash Flow	810,827	20.04	121,864	133.31	2,904,101	5.59
Net Income	1,158,189	14.03	729,296	22.28	2,170,501	7.48
EBT	1,898,672	8.56	1,195,568	13.59	3,461,724	4.69
EBIT	2,502,654	6.49	1,848,034	8.79	3,769,674	4.31
EBITDA	3,613,460	4.50	3,000,097	5.42	4,649,424	3.49
Total Revenue	31,541,420	0.52	28,824,668	0.56	33,029,158	0.49
Historic Book Value	7,683,107	2.11	7,017,688	2.31		
Normalized Book Value	7,610,107	2.13	6,959,688	2.33		
Net Asset Value	11,812,715	1.38				

## Transaction Costs

In order to complete the acquisition, various transaction costs would be incurred. The total of these transaction costs is estimated to be \$335,000 and would be due upon closing. The amount of the transaction costs has been estimated and presented in the following table.

### Fixed Transaction Costs:

Legal	100,000
Accounting	50,000
Other #1	25,000
<b>Total Fixed Transaction Costs</b>	<b>\$175,000</b>

<b>Variable Transaction Costs</b>	<b>Percent of Price</b>	<b>Dollar Amount</b>
Brokerage	1.00%	160,000
<b>Total Variable Transaction Costs</b>		<b>\$160,000</b>

All variable transaction costs are estimated based on the Proposed Purchase Price of \$.

Total transaction cost will be amortized in the post-acquisition projections over a period of 15 years.

## Allocation of Purchase Price & Total Purchase Cost

IRS regulations require that the Buyer and Seller agree in advance regarding specific allocation of the purchase price among the various items being purchased. The proposed purchase price of \$16,000,000 has therefore been allocated to specific items as presented in the Totals column of the following table. Transaction costs are then added to determine Total Purchase Cost.

<b>Summary of Required Funding</b>	<b>Cash, Stock &amp; Outside Debt</b>	<b>Seller Financing</b>	<b>Assumed Liabilities</b>	<b>Totals</b>
Tangible & Intangible assets	5,000,000	6,308,637	3,991,363	15,300,000
Covenant-not-to-compete	250,000	250,000		500,000
Employment contract	0	150,000		150,000
Management contract	0	25,000		25,000
Operating lease contract	0	25,000		25,000
<b>Total Consideration to Seller</b>	<b>5,250,000</b>	<b>6,758,637</b>		<b>16,000,000</b>
Transaction costs	335,000			335,000
<b>Total Purchase Cost</b>	<b>5,585,000</b>	<b>6,758,637</b>	<b>3,991,363</b>	<b>16,335,000</b>

In order to purchase the tangible assets of Sample Industries, Inc., \$15,200,000 would be paid to the seller with \$5,000,000 due at closing, \$3,991,363 in assumed liabilities and the remaining portion, \$6,208,637, financed by the seller.

A Covenant-Not-To-Compete would be created with the seller in the amount of \$500,000, with \$250,000 due at closing and the remaining portion, \$250,000, financed by the seller. Payments on the financed portion would be made to the seller in the amount of \$10,417 every Quarter for a period of 72 months subsequent to the acquisition. In addition, the entire amount of the covenant would be capitalized and amortized to expense over a period of 15 years.

An Employment Contract would be created with the seller in the amount of \$150,000. The amount due at closing would be \$0. The remaining portion, \$150,000, would be paid to the seller in the amount of \$6,250 each Month for a period of 24 months subsequent to the acquisition.

A Management Contract would be created with the seller in the amount of \$25,000. The amount due at closing would be \$0. The remaining portion, , would be paid to the seller in the amount of \$2,083 each Month for a period of 12 months subsequent to the acquisition.

An Operating Lease Contract would be created with the seller in the amount of \$25,000. The amount due at closing would be \$0. The remaining portion, \$25,000, would be paid to the seller in the amount of \$1,042 each Month for a period of 24 months subsequent to the acquisition.

Purchase Goodwill would be created in the amount of \$100,000, with \$0 due at closing and the remaining portion, \$100,000, financed by the seller. In addition, the entire amount of purchase goodwill would be capitalized and amortized to expense over a period of 15 years. The total amount of Goodwill created as result of the proposed transaction is estimated as the portion of the Proposed Purchase Price that has not been allocated to specific assets, covenants and employment, management and/or operating lease contracts.

## Funding Requirements & Structure

The following table summarizes the Estimated Total Purchase Cost that would be incurred by the buyer under the proposed terms of the transaction.

Proposed Purchase Price	\$16,000,000
Estimated Total Transaction Costs	335,000
Estimated Total Purchase Cost	\$16,335,000

Based on the amount of the Estimated Total Purchase Cost and any additional discretionary funding required at closing, the structure of the funding would be as follows:

<b>Total purchase cost</b>	<b>16,335,000</b>
Deduct:	
Interest-bearing liabilities assumed	3,991,363
Non interest-bearing liabilities assumed	0
Seller financed Covenant-not-to-compete	250,000
Deferred Employment contract	150,000
Deferred Management contract	25,000
Deferred Operating lease contract	25,000
<b>Balance of Purchase Cost to be Funded</b>	<b>\$11,893,637</b>
Additional discretionary funding at closing	315,000
<b>Total Purchase &amp; Discretionary Funding Required</b>	<b>12,208,637</b>
Less: Seller debt financing	6,308,637
<b>Balance to be funded after seller financing</b>	<b>5,900,000</b>
Less: Value of buyer stock & cash offered	750,000
<b>Remaining Cash Required at Closing</b>	<b>5,150,000</b>
Cash funded with outside debt	4,000,000
Cash funded with preferred equity	250,000
Cash funded with common equity	900,000

The seller financed portion of any Covenant-Not-To-Compete and Employment, Management and/or Operating Lease Contracts are deducted here because no additional debt and/or equity would be required at closing to fund the purchase of these items. The seller would be paid for these items from the future cash flows generated by the Company subsequent to the acquisition.

## Proposed Acquisition Funding

The balance of the purchase cost to be funded (after any deferred contract or covenant payments have been deducted) and any additional discretionary funding required at closing as would be structured as follows:

<b>Balance of Purchase Cost to be Funded</b>	<b>\$11,893,637</b>
Term-Debt Funding	10,308,637
Equity Funding	1,900,000
<b>Discretionary Amount Overfunded</b>	<b>\$315,000</b>

## Proposed Term-Debt Funding

Funding Note A to seller in the original amount of \$4,000,000 with an interest rate of 6.5% would be repaid in 72 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Funding Note B to seller in the original amount of \$3,893,637 with an interest rate of 7.5% would be repaid in 84 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Senior Secured in the original amount of \$2,000,000 with an interest rate of 8.8% would be repaid in 84 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Mezzanine in the original amount of \$415,000 with an interest rate of 11.5% would be repaid in 60 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

At the creditor's option, the principal balance of this loan could be converted into Sample Industries, Inc.'s common stock at a rate of \$0.50 per share. For purposes of this analysis, it is assumed that the unpaid loan principal would be converted to common stock in projected month 48 subsequent to proposed acquisition.

## Proposed Equity Funding

As a portion of the acquisition funding, cash and other contributions will be made and new common stock will be issued in the amount of \$900,000 with \$0 in new additional paid-in capital.

As a portion of the acquisition funding, cash and other contributions will be made and new preferred stock will be issued in the amount of \$250,000 with \$0 in new additional paid-in capital.

As a portion of the acquisition funding, buyer stock will be offered and new common stock will be issued in the amount of \$750,000 with \$0 in new additional paid-in capital.

# Post-Acquisition Projections

In order to estimate Sample Industries, Inc.'s future performance under the direction of new ownership and management and to estimate the returns to investors subsequent to the proposed acquisition, a comprehensive 5 year projection of the financial statements has been prepared. The projections incorporate all assumptions related to the proposed transaction including the assumed financial performance under new ownership and management, estimated transaction costs, purchase price funding and any contingency and/or contract payments to the seller.

These projections were prepared primarily to:

1. Determine earnings capacity subsequent to acquisition,
2. Estimate future capital and fixed asset requirements,
3. Analyze the ability to service acquisition-related obligations, and
4. Estimate the anticipated returns to investors.

For the most part, the Post-Acquisition Projections include the same projection options as the Pre-Acquisition Projections. The differences between the Post-Acquisition and Pre-Acquisition Projections are as follows:

The post-acquisition income statement projection is based upon the buyer's outlook for revenues and expenses. The economic impact of changes to be implemented by the buyer is included. In addition, depreciation, interest and amortization are based upon the purchase price and funding structure of the proposed transaction. Transaction costs (both fixed and variable) and terms of acquisition contracts (covenant-not-to-compete, employment, management, and lease, if any) are considered in the post-acquisition income statement projection.

The post-acquisition balance sheet projection is based upon the allocated purchase price, the amount of any assumed liabilities and the funding structure for the proposed transaction. The asset values and liability balances in the Balance Sheet at Closing schedule will differ from the Company's most recent historic balance sheet.

The reader should take notice that the projected financial statements and related attachments are for planning and internal discussion purposes only, and that the same limitations and restrictions set forth in the Pre-Acquisition Projections are also applicable for the Post-Acquisition projections.

The post-acquisition projected financial statements consist of income statements, balance sheets, statements of retained earnings, statements of cash flows and sources and uses of funds statements. An overall summary of the projections is presented below followed by the individual statements in condensed format. Please note that these projected financial statements and related attachments are for planning and internal discussion purposes only. See the Post-Acquisition Assumptions and Projection schedules for complete details.

## Post-Acquisition Projection Summary

	2008	2009	2010	2011	2012	2013
Net sales revenue	15,926,268	38,629,427	42,691,463	46,102,385	49,811,488	
Gross profit	3,290,070	12,774,568	13,305,448	14,516,053	16,015,864	
EBITDA	852,381	6,909,982	6,884,283	7,610,511	8,555,841	
EBIT	258,124	5,701,467	5,649,102	6,375,330	7,320,660	
EBT	(354,947)	4,621,890	4,774,799	5,772,118	6,954,921	
Net income	(354,947)	3,174,717	3,175,242	3,838,459	4,625,023	
Net cash flow	2,721,373	(348,115)	981,165	1,651,024	3,258,043	
Total current assets	5,710,193	8,594,014	10,290,945	12,452,812	16,244,731	
Net fixed assets	9,297,243	8,551,062	7,778,214	6,605,367	5,432,519	
Net other assets	900,500	838,167	775,833	713,500	651,167	
Total assets	15,907,936	17,983,243	18,844,993	19,771,679	22,328,416	
Total current liabilities	3,089,330	4,502,318	5,039,875	4,440,453	3,999,286	
Total long-term debt	11,273,553	8,761,156	5,910,107	3,597,756	1,900,708	
Total liabilities	14,362,883	13,263,474	10,949,982	8,038,209	5,899,993	
Total equity	1,545,053	4,719,769	7,895,011	11,733,470	16,428,423	
Net working capital	2,620,863	4,091,696	5,251,070	8,012,359	12,245,445	
Federal income tax before NOL adjustment		0	1,317,239	1,360,818	1,645,054	1,982,153
Plus: NOL tax adjustment		0	(101,160)	0	0	0
Federal Income tax expense		0	1,216,079	1,360,818	1,645,054	1,982,153
Income from operations	258,124	5,701,467	5,649,102	6,375,330	7,320,660	
Less: Tax based on selected tax rate	87,762	1,938,499	1,920,695	2,167,612	2,489,024	
Plus: Depr. & Amort. from operations	594,257	1,208,514	1,235,181	1,235,181	1,235,181	
Less: Fixed asset purchases	257,000	400,000	400,000	0	0	
Less: Changes in Net Working capital **	(3,689,418)	2,183,672	520,537	347,805	359,741	
Free Cash Flow	4,197,037	2,387,811	4,043,051	5,095,094	5,707,076	

## Summary Post-Acquisition Income Statement Projections

	2009	2010	2011	2012	2013
<b>Net Sales Revenue</b>	<b>15,926,268</b>	<b>38,629,427</b>	<b>42,691,463</b>	<b>46,102,385</b>	<b>49,811,488</b>
Total Cost of Goods Sold	12,636,198	25,854,858	29,386,015	31,586,332	33,795,623
<b>Gross Profit</b>	<b>3,290,070</b>	<b>12,774,568</b>	<b>13,305,448</b>	<b>14,516,053</b>	<b>16,015,864</b>
Total Selling Expenses	664,125	1,610,847	1,780,234	1,922,469	2,077,139
Total General & Administrative Expenses	2,367,821	5,462,254	5,876,112	6,218,253	6,618,065
<b>Income From Operations</b>	<b>258,124</b>	<b>5,701,467</b>	<b>5,649,102</b>	<b>6,375,330</b>	<b>7,320,660</b>
Total Other Revenues and Expenses	(613,071)	(1,079,578)	(874,302)	(603,212)	(365,739)
<b>Income Before Taxes</b>	<b>(354,947)</b>	<b>4,621,890</b>	<b>4,774,799</b>	<b>5,772,118</b>	<b>6,954,921</b>
Total Income Taxes	0	1,447,173	1,599,558	1,933,660	2,329,899
<b>Net Income</b>	<b>(354,947)</b>	<b>3,174,717</b>	<b>3,175,242</b>	<b>3,838,459</b>	<b>4,625,023</b>

## Summary Post-Acquisition Balance Sheet Projections

	2009	2010	2011	2012	2013
<b>ASSETS</b>					
Total Current Assets	5,710,193	8,594,014	10,290,945	12,452,812	16,244,731
Net Fixed Assets	9,297,243	8,551,062	7,778,214	6,605,367	5,432,519
Net Intangible Assets	900,500	838,167	775,833	713,500	651,167
<b>Total Assets</b>	<b>15,907,936</b>	<b>17,983,243</b>	<b>18,844,993</b>	<b>19,771,679</b>	<b>22,328,416</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>					
Long-Term Debt:					
Total Long-Term Debt	11,273,553	8,761,156	5,910,107	3,597,756	1,900,708
<b>Total Liabilities</b>	<b>14,362,883</b>	<b>13,263,474</b>	<b>10,949,982</b>	<b>8,038,209</b>	<b>5,899,993</b>
<b>Stockholders' Equity:</b>					
Preferred stock	250,000	250,000	250,000	250,000	250,000
Common stock	1,650,000	1,650,000	1,650,000	1,650,000	1,650,000
Retained earnings	(354,947)	2,819,769	5,995,011	9,833,470	14,458,492
Converted debt	0	0	0	0	69,931
<b>Total Stockholders' Equity</b>	<b>1,545,053</b>	<b>4,719,769</b>	<b>7,895,011</b>	<b>11,733,470</b>	<b>16,428,423</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>15,907,936</b>	<b>17,983,243</b>	<b>18,844,993</b>	<b>19,771,679</b>	<b>22,328,416</b>

## Summary Post-Acquisition Retained Earnings Projections

	2009	2010	2011	2012	2013
<b>Retained Earnings Beginning of Period</b>	<b>0</b>	<b>(354,947)</b>	<b>2,819,769</b>	<b>5,995,011</b>	<b>9,833,470</b>
<b>Additions:</b>					
Net income for the year	(354,947)	3,174,717	3,175,242	3,838,459	4,625,023
<b>Deductions:</b>					
Preferred dividends	0	0	0	0	0
Common dividends	0	0	0	0	0
<b>Retained Earnings End of Period</b>	<b>(354,947)</b>	<b>2,819,769</b>	<b>5,995,011</b>	<b>9,833,470</b>	<b>14,458,492</b>

## Summary Post-Acquisition Cash Flow Projections

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Net Cash Flow From Operations	3,928,727	2,199,559	3,889,886	4,725,835	5,500,463
Net Cash Flow From Investments	(257,000)	(400,000)	(400,000)	(0)	(0)
Net Cash Flow From Financing	(950,354)	(2,147,674)	(2,508,720)	(3,074,811)	(2,242,420)
<b>Net Cash Flow</b>	<b>2,721,373</b>	<b>(348,115)</b>	<b>981,165</b>	<b>1,651,024</b>	<b>3,258,043</b>
Cash at Beginning of Year	315,000	3,036,373	2,688,258	3,669,423	5,320,448
<b>Cash at End of Year</b>	<b>3,036,373</b>	<b>2,688,258</b>	<b>3,669,423</b>	<b>5,320,448</b>	<b>8,578,490</b>

## Summary Post-Acquisition Sources & Uses of Funds Projections

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Total Internally Generated Cash	3,006,751	865,729	3,323,342	4,585,987	5,348,390
Total Cash from External Financing	(285,377)	(1,213,844)	(2,342,177)	(2,934,963)	(2,090,347)
Net Cash Flow	2,721,373	(348,115)	981,165	1,651,024	3,258,043

## Overview of Post-Acquisition Projection Assumptions

In preparing the preceding financial statement projections, various assumptions have been made with respect to expected future revenues, expenses, assets, liabilities and equity after the proposed acquisition and under the direction of Sample Industries, Inc.'s new ownership and management. The projection assumptions have been made after gathering and analyzing data that affects the future economic outlook of the Company. This data was derived from sources such as the normalized financial statements, publicly available information and other economic materials.

This section of the report provides a broad overview of the Post-Acquisition Projection Assumptions and has been prepared to emphasize items considered significant to the overall understanding of the projections.

### Revenue & Expense Assumptions

**Net Sales Revenues** over the past 5 historic years have grown at a compound average annual rate of 5.66%. Future Net Sales Revenues under new ownership are projected to grow at an estimated, compound average annual rate of 9.57%, starting from a base amount of \$31,541,420 and growing to \$15,926,268 in the first projected year and \$49,811,488 in projected year 5.

**Total Cost of Goods Sold** over the past 5 historic years has averaged 79.02% of Net Sales Revenues for each respective year and was 75.68% of Net Sales Revenues in the most recent historic fiscal year, 2008. Total Cost of Goods Sold has been projected to be \$12,636,198, or 79.34% of Net Sales Revenues in the first projected year and \$33,795,623, or 67.85% of Net Sales Revenues in projected year 5. On average, Total Cost of Goods Sold has been projected to be 70.3% of each year's respective Net Sales Revenues.

**Total Selling Expenses** over the past 5 historic years have averaged 3.38% of Net Sales Revenues for each respective year and were 4.18% of Net Sales Revenues in the most recent historic fiscal year, 2008. Total Selling Expenses have been projected to be \$664,125, or 4.17% of Net Sales Revenues in the first projected year and \$2,077,139, or 4.2% of Net Sales Revenues in projected year 5. On average, Total Selling Expenses have been projected to be 4.17% of each year's respective Net Sales Revenues.

**Total General & Administrative Expenses** over the past 5 historic years have grown at a compound average annual rate of 7.34%. Total General & Administrative Expenses under new ownership are projected to grow at an estimated, compound average annual rate of 1.29%, starting from a base amount of \$6,206,612 and growing to \$2,367,821 in the first projected year and \$6,618,065 in projected year 5.

**Cash Equivalents** have been projected using the Manual Input method. Annual interest income is projected to be earned at the rate of 0.0% of the projected account balance in each projected year.

## Fixed Asset Depreciation Assumptions

Depreciation Expense and Accumulated Depreciation on fixed assets have been estimated over the term of the projected financial statements.

Projected depreciation on existing fixed assets and any fixed asset purchases is based on the terms presented in the following table.

Fixed Asset Accounts	Allocation at Market	Original Life (years)	Salvage (% of Cost )	Depreciation Method
Plant	4,000,000	15	0.0%	Straight Line
Equipment	2,000,000	7	0.0%	Straight Line
Vehicle	2,000,000	5	0.0%	Straight Line
Furniture & Fixtures	1,500,000	10	0.0%	Straight Line
Land	100,000	0	0.0%	Straight Line

## Fixed Asset Purchases

After estimating projected depreciation on existing fixed assets and estimating disposals of existing fixed assets, it has been assumed that the Company would be required to purchase new fixed assets in order to provide the capacity to support projected sales revenues. Therefore, in an attempt to maintain a minimum Fixed Asset Turnover Ratio of approximately 0.00 in each projected year, the following fixed asset purchases are assumed to be made.

Please note that all Fixed Asset Purchases are assumed to be depreciated based on the terms specified in the Fixed Asset Depreciation Assumptions table.

	2009	2010	2011	2012	2013
Plant	257,000	400,000	400,000	0	0
Total Fixed Asset Purchases	257,000	400,000	400,000	0	0

## Amortization of Intangible Assets

Goodwill is assumed to be amortized to Amortization Expense over a period of 15 projected years.

All other Intangibles are assumed to be amortized to Amortization Expense over a period of 15 projected years.

## Existing Notes Payable Assumptions

Payable to ABC bank in the amount of \$2,974,214 with an interest rate of 12.0% has 42 monthly installment payments remaining. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Payable to First National in the amount of \$1,017,149 with an interest rate of 10.0% has 54 monthly installment payments remaining. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

## **New Funding Notes Payable Assumptions**

Funding Note A to seller in the original amount of \$4,000,000 with an interest rate of 6.5% would be repaid in 72 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Funding Note B to seller in the original amount of \$3,893,637 with an interest rate of 7.5% would be repaid in 84 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Senior Secured in the original amount of \$2,000,000 with an interest rate of 8.8% would be repaid in 84 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

Mezzanine in the original amount of \$415,000 with an interest rate of 11.5% would be repaid in 60 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

At the creditor's option, the principal balance of this loan could be converted into Sample Industries, Inc.'s common stock at a rate of \$0.50 per share. For purposes of this analysis, it is assumed that the unpaid loan principal would be converted to common stock in projected month 48 subsequent to proposed acquisition.

## **Fixed Asset Purchase Financing Assumptions**

In projected year 1, 70.0% of total fixed asset purchases (\$257,000) would be financed. A new loan in the amount of \$179,900 would be added in that year. This loan would have an interest rate of 10.0% and would be repaid in 60 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

In projected year 2, 70.0% of total fixed asset purchases (\$400,000) would be financed. A new loan in the amount of \$280,000 would be added in that year. This loan would have an interest rate of 10.0% and would be repaid in 48 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

In projected year 3, 80.0% of total fixed asset purchases (\$400,000) would be financed. A new loan in the amount of \$320,000 would be added in that year. This loan would have an interest rate of 10.0% and would be repaid in 36 monthly installments. The installments consist of equal payments where the principal and interest portions of the payment vary with each installment.

## **Equity Funding**

As a portion of the acquisition funding, cash and other contributions will be made and new common stock will be issued in the amount of \$900,000 with \$0 in new additional paid-in capital.

As a portion of the acquisition funding, cash and other contributions will be made and new preferred stock will be issued in the amount of \$250,000 with \$0 in new additional paid-in capital.

As a portion of the acquisition funding, buyer stock will be offered and new common stock will be issued in the amount of \$750,000 with \$0 in new additional paid-in capital.

## **Dividends Assumptions**

**Preferred Stock Dividends** are assumed to be paid at the rate of 0.0% of the preferred stock balance in each projected year.

**Common Stock Dividends** are assumed to be paid at the rate of 0.0% of net income in each projected year.

# Review of Post-Acquisition Financial Performance

The results of the Post-Acquisition Projections have been analyzed and reviewed. The objective of this review is to analyze the financial performance and position of the Company during the term of the projections.

## Loan Compliance

In the Loan Compliance analysis, selected ratios that are indicators of the Company's ability to meet its obligations have been calculated for each year subsequent to the acquisition. A minimum performance level (frequently imposed as an affirmative covenant by a lender) for each ratio has been established and any anticipated defaults have been noted. See the Loan Compliance schedule for complete details.

## Post-Acquisition Business Ratios

The Post-Acquisition Business Ratios contain a review of the Company's key business ratios. Ratios were calculated for each projected year of the Company's Post-Acquisition projected financial statements. These ratios measure Sample Industries, Inc.'s liquidity positions, coverage capacity, leverage/capitalization, operating efficiency and equity performance. The listed ratios fall into the following five categories:

1. Liquidity ratios measure the short-term ability of a company to meet its maturing obligations.
2. Coverage ratios measure the degree of protection for long-term creditors and investors and the margin by which certain obligations of a company can be met.
3. Leverage/capitalization ratios measure the amount of a company's operations that are financed from debt versus financed from equity.
4. Operating ratios measure the efficiency and productivity of a company using the resources that are available and the returns on sales and investments.
5. Equity ratios measure the performance of assets and earnings in relation to common and preferred equity.

## Post-Acquisition Business Ratios

	2009	2010	2011	2012	2013
<b>Liquidity Ratios:</b>					
Current ratio	1.85	1.91	2.04	2.80	4.06
Quick ratio	1.37	1.23	1.35	1.97	3.07
Accounts receivable turnover	13.57	13.57	13.57	13.57	13.57
Days' receivable	26.53	26.53	26.53	26.53	26.53
Inventory turnover	8.48	8.48	8.48	8.48	8.48
Days' inventory	42.45	42.45	42.45	42.45	42.45
Accounts payable turnover	19.35	16.32	16.79	16.71	16.55
Days' payable	18.60	22.05	21.44	21.54	21.75
Working capital turnover	6.08	9.44	8.13	5.75	4.07
Inventory as a % of Total current assets	26.10%	35.48%	33.67%	29.91%	24.53%
Total current assets as a % of Total assets	35.90%	47.79%	54.61%	62.98%	72.75%
<b>Coverage Ratios:</b>					
Times interest earned	0.42	5.28	6.46	10.57	20.02
Current portion of long-term debt coverage	0.10	1.63	1.45	2.23	3.54
EBIT to Principal	0.27	2.65	2.25	2.07	3.17
EBIT to (Principal + Interest)	0.17	1.77	1.67	1.73	2.73
<b>Leverage/Capitalization Ratios:</b>					
Fixed assets to Tangible net worth	14.42	2.20	1.09	0.60	0.34
Total debt to Tangible net worth	22.28	3.42	1.54	0.73	0.37
Short-term debt to Total debt	21.51%	33.95%	46.03%	55.24%	67.78%
Short-term debt to Net worth	199.95%	95.39%	63.84%	37.84%	24.34%
Total debt to Total assets	90.29%	73.75%	58.11%	40.66%	26.42%
<b>Operating Ratios:</b>					
Percent return on Tangible net worth	-55.07%	119.07%	67.07%	52.38%	44.08%
Percent return on Total assets	-2.23%	25.70%	25.34%	29.19%	31.15%
Net sales to Net fixed assets	1.71	4.52	5.49	6.98	9.17
Net sales to Total assets	1.00	2.15	2.27	2.33	2.23
Percent Depr., Amort. to Net sales	3.73%	3.13%	2.89%	2.68%	2.48%
Percent Officer salaries to Net sales	0.55%	0.55%	0.55%	0.56%	0.57%
Total sales to Net worth	10.46	8.31	5.49	3.99	3.08
Revenue growth percentage		142.55%	10.52%	7.99%	8.05%

## Post-Acquisition Common-Size Statements

This analysis includes a review of the Company's common-size income statement and balance sheet percentages subsequent to the acquisition. In order to portray the relative size of financial statement items for comparison over time, each line item in the common-size income statements is expressed as a percentage of total revenue and each line item in the common-size balance sheets is expressed as a percentage of total assets as presented below.

### Post-Acquisition Common-Size Statements

	2009	2010	2011	2012	2013
<b>Income Data:</b>					
Net sales	100.00%	100.00%	100.00%	100.00%	100.00%
Gross profit	20.66%	33.07%	31.17%	31.49%	32.15%
Operating expenses	19.04%	18.31%	17.93%	17.66%	17.46%
Operating profit	1.62%	14.76%	13.23%	13.83%	14.70%
All other expenses (net)	-3.85%	-2.79%	-2.05%	-1.31%	-0.73%
<b>Profit Before Tax</b>	<b>-2.23%</b>	<b>11.96%</b>	<b>11.18%</b>	<b>12.52%</b>	<b>13.96%</b>
<b>Assets:</b>					
Cash & equivalents	19.09%	14.95%	19.47%	26.91%	38.42%
Trade receivables (net)	7.38%	15.83%	16.70%	17.18%	16.44%
Inventory	9.37%	16.95%	18.39%	18.84%	17.85%
All other current assets	0.06%	0.06%	0.05%	0.05%	0.04%
<b>Total Current Assets</b>	<b>35.90%</b>	<b>47.79%</b>	<b>54.61%</b>	<b>62.98%</b>	<b>72.75%</b>
Fixed assets (net)	58.44%	47.55%	41.27%	33.41%	24.33%
Intangibles (net)	5.66%	4.66%	4.12%	3.61%	2.92%
All other noncurrent assets	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Total Noncurrent Assets</b>	<b>64.10%</b>	<b>52.21%</b>	<b>45.39%</b>	<b>37.02%</b>	<b>27.25%</b>
<b>Total Assets</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Liabilities:</b>					
Notes payable short-term	0.00%	0.00%	0.00%	0.00%	0.00%
Current maturity of long-term Debt	14.62%	14.96%	16.10%	11.48%	7.41%
Trade payables	4.10%	8.81%	9.29%	9.56%	9.15%
Income taxes payable	0.00%	0.00%	0.00%	0.00%	0.00%
All other current liabilities	0.69%	1.27%	1.36%	1.41%	1.35%
<b>Total Current Liabilities</b>	<b>19.42%</b>	<b>25.04%</b>	<b>26.74%</b>	<b>22.46%</b>	<b>17.91%</b>
Long-term debt	70.87%	48.72%	31.36%	18.20%	8.51%
Deferred taxes	0.00%	0.00%	0.00%	0.00%	0.00%
All other noncurrent liabilities	0.00%	0.00%	0.00%	0.00%	0.00%
Net worth	9.71%	26.25%	41.89%	59.34%	73.58%
<b>Total Liabilities &amp; Net Worth</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

## Return on Investment

In this final section of the evaluation, the Return on Total Invested Capital, Return on Total Invested Equity Capital and the returns to the individual equity participants have been estimated.

### Return on Total Invested Capital

Free Cash Flow Available to Total Invested Capital is the projected earnings base used to calculate the returns on Total Invested Capital (TIC), i.e., debt capital plus equity capital. It represents the amount of cash flows that are available to both equity holders and to service debt.

<b>Sum of Present Values of Adjusted Free Cash Flows</b>	<b>a</b>	<b>15,851,507</b>
Terminal Adjusted Free Cash Flow available to TIC * (1+Growth Rate)		5,707,076
Divided by: TIC Capitalization Rate		10.00%
Terminal Value of Free Cash Flow Available to TIC		57,088,269
Terminal Value Discount Factor for Free Cash Flows		0.621008
<b>Present Value of Terminal Free Cash Flow Available to TIC</b>	<b>b</b>	<b>35,452,272</b>
<b>Analysis of Returns on Total Invested Capital</b>		
Total Present Value of Free Cash Flow Available to TIC (a+b)		51,303,779
Less: Total Invested Capital		16,450,000
<b>Net Present Value</b>		<b>34,853,779</b>
<b>Profitability Index</b>		<b>3.12</b>
<b>Internal Rate of Return (IRR) **</b>		<b>27.56%</b>
Total Invested Capital Hurdle Rate		10.00%
Spread (Difference)		17.56%
<b>Payback Period (Years)</b>		<b>4.13</b>

See the Return on Total Invested Capital schedule for the calculation of Free Cash Flow and the related present values. See the Hurdle Rate & Return on Investment schedule for the calculation of the Hurdle Rate and Total Invested Capital.

## Return on Total Invested Equity Capital

Free Cash Flow Available to Equity is the projected earnings base used to calculate the returns on Total Invested Equity Capital. It represents the amount of cash flows that are available to equity holders after paying both interest and principal on debt.

<b>Sum of Present Values of Free Cash Flow Available to Equity a</b>	<b>4,977,523</b>
Terminal Free Cash Flow Available to Equity * ( 1 + Growth Rate)	3,188,112
Divided by: Free Cash Flow Capitalization Rate	17.34%
Terminal Value of Free Cash Flow Available to Equity	18,383,651
Terminal Value Discount Factor for Free Cash Flows	0.449501
<b>Present Value of Terminal Free Cash Flow Available to Equity b</b>	<b>8,263,469</b>
<b>Analysis of Returns on Equity</b>	
Total Present Value of Free Cash Flow Available to Equity (a+b)	13,240,993
Less: Total Invested Equity Capital	1,900,000
<b>Net Present Value</b>	<b>11,340,993</b>
<b>Profitability Index</b>	<b>6.97</b>
<b>Internal Rate of Return (IRR) **</b>	<b>88.90%</b>
Equity Hurdle Rate	17.34%
Spread (Difference)	71.56%
<b>Payback Period (Years)</b>	<b>0.70</b>

See the Return on Equity Investment schedule for the calculation of Free Cash Flow and the related present values. See the Hurdle Rate & Return on Investment schedule for the calculation of the Hurdle Rate and Total Invested Equity Capital.

## Projected Valuation

The Projected Valuation is an estimate of the value of the Company for each year of the post-acquisition projections. The resultant values are used in the estimates of cash flows to investors (and therefore returns to investors) and represent the amount of cash an investor would receive when exiting the investment based on the proportional ownership interest in the exit year. In this analysis, a multiple is applied to projected Net Income in order to arrive at an estimate of value for that year. The projected values are summarized in the following table.

Year	Projected Earnings	Multiple	Interest-Bearing Debt	Excess Cash	Projected Value
FY 2009	(354,947)	3.0	13,370,479	3,036,373	(1,064,842)
FY 2010	3,174,717	3.0	11,264,472	2,688,258	9,524,151
FY 2011	3,175,242	3.0	8,797,418	3,669,423	9,525,725
FY 2012	3,838,459	3.0	5,764,274	5,320,448	11,515,376
FY 2013	4,625,023	3.0	3,493,590	8,578,490	13,875,068

Interest-Bearing Debt displayed in the table above is shown for reference purposes only and has not been deducted in the projected value calculations.

Please note that Excess Cash displayed in the table above is shown for reference purposes only and has not been added in the projected value calculations.

## Internal Rate of Return

The Internal Rate of Return (IRR) Analysis attempts to estimate the returns to equity participants on a net present value basis using the initial investment amount and the cash inflows to each equity participant over the term of the investment. IRR is defined as the discount rate that makes the net present value of cash outflows and cash inflows equal to zero. It is assumed that each equity participant will receive dividends over the term of the investment and that each equity participant's ownership interest will be liquidated at the projected value in the stated "exit year."

Initial Common Equity Investors	Investment	Exit Year	Target IRR	Shares at Closing	% Ownership at Closing	Calculated IRR
Investor Name #1	250,000	5	60.00%	4,000,000	40.00%	85.38%
Investor Name #2	1,000,000	5	25.00%	3,500,000	35.00%	36.79%
Investor Name #3	400,000	3	30.00%	2,500,000	25.00%	81.24%
Other common equity	0	0	0.00%	0	0.00%	0.00%

  

Convertibles & Warrants	Investment	Exit Year	Target IRR	Converted Shares	% Ownership at Exit	Calculated IRR
Mezzanine	415,000	5	0.00%	139,862	1.38%	14.03%

Please see the Cash Flows to Equity Participants and Equity Participant Summary schedules for complete details on the timing of the cash flows to each equity participant.

## Per Share Analysis

In the Per Share Analysis, various measures of projected, per-share performance on common stock have been estimated as summarized in the following table. Please note the differences in calculations for Base period versus the calculation for the projected periods. The calculations are described in the notes directly after this table.

<b>Year</b>	<b>Projected Value</b>	<b>Common Shares</b>	<b>Price Per Share</b>	<b>Book Value Per Share</b>	<b>Common Dividends Per Share</b>	<b>Simple Earnings Per Share</b>
Base FY 2008	12,008,637	10,000,000	1.20	0.19	0.05	0.17
FY 2009	(1,064,842)	10,000,000	(0.11)	0.15	0.00	(0.04)
FY 2010	9,524,151	10,000,000	0.95	0.47	0.00	0.32
FY 2011	9,525,725	10,000,000	0.95	0.79	0.00	0.32
FY 2012	11,515,376	10,000,000	1.15	1.17	0.00	0.38
FY 2013	13,875,068	10,139,862	1.37	1.62	0.00	0.46

Price per Share for each period is calculated as Projected Value divided by Common Shares.

Book Value per Share for the Base period is calculated as Total Equity from the Balance Sheet at Closing divided by Common Shares. For subsequent projected periods, it is calculated as projected Total Equity from the post-acquisition balance sheets divided by Common Shares.

Common Dividends per Share for the Base period is calculated as common dividends from the most recent historic statement of retained earnings divided by common shares. For subsequent projected periods, it is calculated as projected common dividends from the post-acquisition statements of retained earnings divided by Common Shares.

Simple Earnings per Share for the Base period is calculated as after-tax net income less any preferred dividends from the most recent historic income statement and statement of retained earnings, respectively, divided by Common Shares. For subsequent projected periods, it is calculated as projected after-tax net income less any preferred dividends from the post-acquisition projected income statements and statements of retained earnings, respectively, divided by Common Shares.