

# VALUATION OF THE COMMON STOCK OF

A & I Sauces, LLC, 624 West Church St. Galion, Ohio

**Valuation Date:** May 30, 2008 | **Report Dated:** July 21, 2008



# OPINION LETTER

July 21, 2008

Angela Lehart  
A & I Sauces, LLC  
624 West Church St  
Galion, OH 44833

Dear Angela Lehart,

The enclosed valuation report has been developed for the exclusive and confidential use of Angela Lehart. The report has been prepared by Frihet Holdings, LLC dated July 21, 2008 and was made by and/or under the direct supervision of the undersigned. The purpose of the valuation is to render an opinion as to the fair value of the common stock interest, as of May 30, 2008.

In preparing our business valuation report, we have relied upon historical financial information provided to us by management and derived from A & I Sauces' tax returns. This financial information has not been audited, reviewed, or compiled by us and accordingly we do not express an opinion or any form of assurance on this financial information.

Our report is based on historical and prospective financial information provided to us by management and other third parties. Users of this valuation report should be aware that business valuations are based on future earnings potential that may or may not materialize. Therefore, the actual results achieved during the projection period will vary from the projections used in this valuation, and the variations may be material. The accompanying report discusses all assumptions and limiting conditions that apply to this opinion of value and are integral to the understanding of the opinion.

Based upon our study and analytical review procedures, we have concluded that a reasonable estimate of the fair value of a 100% common stock interest of A & I Sauces, LLC as of May 30, 2008 is \$773,900.

This engagement was not contingent upon developing or reporting predetermined results. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, nor the occurrence of a subsequent event directly related to the intended use of this appraisal. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*. No one provided significant business appraisal assistance to the person signing this certification.

Sincerely yours,

Kathleen Buell  
Financial Analyst  
Frihet Holdings, LLC

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# EXECUTIVE SUMMARY

|                           |                              |
|---------------------------|------------------------------|
| Governing Standard:       | USPAP                        |
| Purpose:                  | To Valuate A & I Sauces, LLC |
| Standard of Value:        | Fair Value                   |
| Premise of Value:         | Value as a Going Concern     |
| Client Name:              | Angela Lehart                |
| Business Name:            | A & I Sauces, LLC            |
| Type of Entity:           | Corporation                  |
| Business Interest Valued: | 100%                         |
| Valuation Date:           | May 30, 2008                 |
| Report Date:              | July 21, 2008                |
| Appraiser Name:           | Kathleen Buell               |
| Appraiser Firm:           | Frihet Holdings, LLC         |
| Conclusion of Value:      | \$773,900                    |

# INTRODUCTION

## Specifics

Frihet Holdings, LLC has been retained by Angela Lehart to estimate the fair value of A & I Sauces, LLC. A & I Sauces, LLC is a corporation located at 624 West Church St. in Galion, Ohio. Furthermore, an interest of 100% is being valued as of May 30, 2008.

The appraisal will be used by Angela Lehart for the sole purpose of valuating A & I Sauces, LLC. The distribution of this report is restricted to Angela Lehart, legal and tax professionals advising Angela Lehart and any regulatory agencies whereby reporting is required. Any other use of this report is unauthorized and the information included in the report should not be relied upon.

## Definitions

Appendix F has a glossary of terms that is applicable to this engagement.

## Standard of Value

The standard of value for this report is fair value.

## Premise of Value

This report is prepared using the premise that the subject company is a going concern. This means that it is presumed that in the future the assemblage of assets, resources and income producing items will continue in use to produce income and cash flow. The subject company is a going concern business enterprise.

# SOURCES OF INFORMATION

The primary sources of information were research on the industry, company and analysis of the financial statements. Please see Appendix D for a complete listing.

# APPROACH

Business valuation theory promulgates three basic approaches to value.

**Asset Based Approach:** A general way of determining a value indication of a business's assets and/or equity using one or more methods based directly on the value of the assets of the business less liabilities.

**Income Approach:** A general way of determining a value indication of a business's assets and/or equity using one or more methods wherein a value is determined by converting anticipated benefits.

**Market Approach:** A general way of determining a value indication of a business's assets and/or equity using one or more methods that compares the subject to similar investments that have been sold.

The various methods of valuation that appraisers use in practice are typically considered as subdivisions of these broad approaches. Valuation methods under the Market and Income approaches generally contain common characteristics such as measures of benefit streams, discount rates and/or capitalization rates and multiples.

## Assumptions

This valuation report has been prepared in accordance with the *Uniform Standards of Professional Appraisal Practice*. In accordance with these standards, a Statement of Contingent and Limiting Conditions is provided as Appendix B and a Statement of Appraiser Qualifications is included in Appendix C.

## Scope Limitation

The scope of this valuation engagement report was limited. We were engaged to perform a valuation for A & I Sauces, LLC with the intent of ascertaining an opinion of value. However, we were limited to the information that was provided as of May 30, 2008 as no balance sheets were provided. If more information were available to us, matters may have come to our attention that could have a material impact on the opinion of value contained in this report.

Accordingly, our level of assurance on the estimate of value is reduced. This report is not intended to serve as a basis for expert testimony in a court of law or other governmental agency without further analysis and resulting documentation.

# COMPANY

## History

A & I Sauces, creator of Hillbillie Salsa, is a small Ohio based company which manufactures food products for distribution. It has been making food products for more than three years. Its product is a little different than most companies. It gives the salsa a little sweetness followed by a nice little burn. Currently, the salsa is sold at Kroger, Meijer, Value City and many small local stores around Ohio and the East coast.

## Products

Hillbillie Salsa is a sweet salsa with a bit of a punch. It distinguishes itself from other salsas currently on the market. Preliminary sales have proven that the market exists for this product. Interest is growing from both customers and selling points.

Bandito BBQ Sauce, marinara sauce and Hillbillie Hobo Pepper Butter are in different phases of development as well as no sugar added versions of the regular salsas. With financial help these salsas can be on the market by the third quarter of 2008. Preliminary sampling for these products indicates that all these products will enjoy similar success as they receive the necessary approval of government agencies.

## Sales Records

A & I Sauces has already found buyers for its products. It has classified them into 4 categories: immediate markets, ready markets, near term markets and approved markets. Immediate markets are those that will order the day that production is started. Sam's Club, Jungle Jims and Kehe Foods are immediate markets. Ready markets are those businesses that will take up to a month to get the product on shelves. Kroger stores are a ready market. Approved markets are those businesses that have already approved the product but have no definite time line for getting the product on the shelf. DPI Specialty Foods, which services 5,600 stores, is an approved market.

## Management

**Angela Lehart**, Chief Executive Officer, has learned food trade regulations, marketing techniques, distribution practices and marketing mechanism necessary to increase sales. She increased sales by 150 percent the first year to develop additional product distribution points, increased sales 500 percent in 2 years, assisted in product innovation and led participation in community food trade shows.

**Jeff Lehart**, Chief Operations Officer, is in charge of product concept development and formulation, as well as overseeing production and distribution of food products. Before becoming the COO at A & I Sauces, Jeff worked at General Motors. There he worked on various presses such as IHI, Komatsu and Danly equipment using hydraulics, pneumatics and gear driven machinery as well as maintaining equipment.

**Mary Ortega**, Chief Financial Officer, directs and oversees all the financial activities of the corporation including preparation of reports. She also supervises customer service and is Project Manager for fund raising customers, promotion, sales material and delivery. She has had successful fund raising sales results in schools with sports teams. From 2002 to 2008 Mary was an administrative assistant to the District Maintenance Supervisor of Huber Heights City Schools. There she maintained records for the District Maintenance Department, processed payroll, received, assigned and distributed work orders to maintenance staff, ordered parts, pulled purchase orders, paid invoices, kept department inventory and scheduled training meetings. She also maintained parochial school auxiliary funds accounts, ordered books, supplies, kept inventory and distributed supplies and gave clerical support to auxiliary staff.

**Dr. Rick McCartney**, Chief Operations Officer, previously was the Development Coordinator for Home Care Matters Home Health and Hospice (2000-2008) where he searched for and wrote grants to support day-to-day operations as well as developed new programs; Senior Pastor for Galion First Church of the Nazarene (2000-2008) where he had oversight of total operations, support staff, volunteers, administration of budgets and financial matters, teaching and training volunteers, communication throughout the organization, forming strategic plans, setting goals, and developing and implementing strategies for the organization; Operations Manger for McRose Communications (2000-2008) where he was in charge of coordination and scheduling of contracts with Fortune 500 Companies and oversight of day-to-day operations and quality assurance.

**Dr. Michael Mack**, Director of Planning, previously was the senior past for the pastor 9 years at Faith UMC. While there he led in the creation of a new congregation through the merger of two smaller congregations; cast vision and led the congregation toward construction of a new facility and strategic relocation (to break ground in July 2008); provided organizational leadership in two capital funds campaigns over the past five years netting 8 times the annual operating budget of the church; negotiated building site acquisition, provided staff oversight and leadership, and general organization oversight, leadership, management and administration.

## Expectations

The company has established income goals of \$1,700,000 in 2008 and \$3,200,000 in 2009. A net profit of 15 percent by end of year two is anticipated. One of the main goals of the company is to become established in business practices that will prepare it to withstand the test of time. It is committed to building the business so that it does not rely upon its founders, to produce a consistent, predictable product and to grow at a pace that is fitting to the market.

Future plans include the addition of 4 new products that will hit the market in 2008. A & I Sauces is also coming out with a revolutionary way of packaging the salsa in a reusable pouch that will stand by itself on the shelf. A cannery is planned for no later than 2010 that will allow A & I to produce its own products as well as co-package products for other companies as well.

A & I Sauces wants to take the company public which would give it access to more funds plus give the investors a quicker turnaround for profit. This strategy could also make it viable for a possible buyout from bigger companies like Kraft, Frito Lay or Sara Lee.

# INDUSTRY OUTLOOK

Cans as food containers have many advantages. They are hermetically sealed which protects their contents from contamination as well as prevents fluctuations in moisture exposure to light. In addition, they can be filled, sealed and cased quickly. Retailers like cans as they can be displayed easily and attractively.

According to the U.S. Census Bureau, the canned specialties industry has about 140 establishments that employ more than 19,000 people. More than \$8 billion worth of shipments are shipped annually. Canned soups and stews make up nearly half of that figure, followed by baby foods and canned ethnic foods. U.S. manufacturers are increasingly looking to international markets for growth, with China considered to be the best venue.

Soup led the canned specialties sector in sales, with condensed soup as the best-selling canned food item on the shelf. The fastest growing segment of this sector was ethnic foods. In the 1990s the ethnic foods market grew an average of 9.4 percent annually. Much of this was due to discounted and private label products and new products geared toward niche markets. Mexican specialties and so other soul food were the top sellers. Their growth spurred on the growth of such companies as Goya Foods, Glory Foods and Garcia Canning Co.

In general, Americans spend 10 percent of their disposable income on food. Salsas, sauces and spices currently dominate the condiment food category. Since 1991 salsa has replaced ketchup in the number of dollar sales and the salsa industry has reached \$621.6 million in sales—up 2.6 percent. Mexican sauces have surpassed \$764 million in sales and barbecue sauce has reached \$325 million in sales.

# COMPANY PROFIT AND LOSS

### Historic Profit and Loss Statements

|                        | Year<br>Ending<br>December 31,<br>2007 | Year<br>Ending<br>December 31,<br>2006 | Year<br>Ending<br>December 31,<br>2005 | Year<br>Ending<br>December 31,<br>2004 |
|------------------------|--|--|--|--|
| Revenue                | 20,343                                 | 11,166                                 | 4,419                                  | 2,659                                  |
| Cost of Goods Sold     | 0                                      | 0                                      | 0                                      | 4,199                                  |
| Gross Profit           | 20,343                                 | 11,166                                 | 4,419                                  | -1,540                                 |
| Operating Expenses     | 9,954                                  | 33,732                                 | 11,087                                 | 13,616                                 |
| Operating Profit       | 10,389                                 | -22,566                                | -6,668                                 | -15,156                                |
| Other Income/(Expense) | -717                                   | -56,818                                | -1,066                                 | -535                                   |
| Income Before Taxes    | 9,672                                  | -79,384                                | -7,734                                 | -15,691                                |
| Income Taxes           | 0                                      | 0                                      | 0                                      | 0                                      |
| Net Income             | 9,672                                  | -79,384                                | -7,734                                 | -15,691                                |

# ESTIMATE OF VALUE

# Determination of Fair Value

## Discounted Future Cash Flow

The discounted future cash flow method was applied and the fair value of A & I Sauces, LLC as of May 30, 2008 was \$1,564,000. This income method is an appropriate method to use because the method focuses on the present value of the forecasted future benefits that would accrue to the hypothetical owner of the company that vary greatly in the short run and are still estimable in the long run. This method requires an explicit forecast of the future benefit streams over a reasonably foreseeable short term and an estimate of a long term benefit stream that is stable and sustainable, i.e. not varying from period to period and determined to continue into the future without compromise. An appropriate discount rate and an estimate of long term growth beyond the forecast period allow discrete present values to be calculated and summed for all the benefit streams to determine the entity value.

## **Estimate of the Ongoing Benefit Stream**

The analysis presented below represents the ongoing economic benefit stream. It depicts the calculation of the invested capital after tax earnings benefit stream using the assumptions described above. The forecast is for 2 years.

**Calculation of the Ongoing Economic Benefit Stream**

|   | <b>Projected<br/>Year 2008</b> | <b>Projected<br/>Year 2009</b> |
|---|--------------------------------|--------------------------------|
| Projected<br>Pretax Earnings                                    | 69,451                         | 315,237                        |
| Interest Expense<br>Available for Dividend - Net Free Cash Flow | <u>0</u>                       | <u>0</u>                       |
|   | <u>69,451</u>                  | <u>315,237</u>                 |

## Discount Rate

The discount rate represents the risk an investor is willing to accept for the potential reward an investment in the subject company will return. Different rates apply to different types of businesses. It is also known as the return that an investor requires by generating the investment. This risk is not calculated in a vacuum or a sterile environment but rather it is calculated based on the factors that can be contrasted against investing in other vehicles that are available and in the specific environment as of the valuation date.

The buildup method layers different risk estimates to build up a discount rate. The appropriate discount rate components for the company are the risk free rate, equity risk premium, size premium and company specific premium.

## Risk Free Rate

The risk free rate measures the rate of return an investor can earn without taking any additional risk. Examples of risk free returns are the United States Treasury bonds. As of the valuation date, May 30, 2008, this yield was 4.74%. The rate applied to the buildup was 4.74%.

## Equity Risk Premium

The equity risk premium represents the risk an investor takes on for investing in large public companies. This risk is measured by taking the returns over the last 78 years and subtracting the risk free return over the last 81 years (average annual returns for large capitalization stocks minus average annual returns for long term government bonds). This information is published by Morningstar. As of May 30, 2008, the equity risk premium was 7.10%. The rate applied to A & I Sauces, LLC was 7.10%.

## Small Capitalization Equity Risk Premium

Empirical evidence shows that the risk reward principle (the greater the risk the greater the reward) holds true in the size or capitalization of the company. The size premium represents average annual returns for small capitalization stocks minus average annual returns for large capitalization stocks. Based on *Stocks, Bonds, Bills, and Inflation Yearbook*, a publication of Morningstar, the small stock risk premium averaged 9.68% from 1926 to 2006. The rate applied to A & I Sauces, LLC was 9.68%.

## Industry Risk Premium

Based upon the industry of the subject company as reported in *Stocks, Bonds, Bills, and Inflation Yearbook*, a publication of Morningstar, the industry risk premium was calculated as -3.74%. The rate applied to A & I Sauces, LLC was invested capital after tax earnings.

## Discount Rate Calculation

The schedule below shows how the discount rate was calculated. The discount rate chosen for A & I Sauces, LLC is 17.78%.

|                                  |               |
|----------------------------------|---------------|
| Risk-Free Rate of Return         | 4.74%         |
| Equity Risk Premium              | 7.10%         |
| Small Stock Risk Premium         | 9.68%         |
| Plus/Minus Industry Risk Premium | -3.74%        |
| Selected Rate                    | <u>17.78%</u> |

## Terminal Growth Rate and Benefit Stream

One of the key elements to the discounted future cash flow method is that an estimate of a long term benefit stream that is stable and sustainable can be determined. Put another way, this benefit stream is continuing into the future without change. In the short term, the benefit stream can vary wildly due to circumstances in the fact pattern. However, at the end of the reasonably foreseeable future a terminal benefit stream must be estimated.

We used an estimate of 0.00% terminal compound annual growth. The cash flow in the second period of the discrete forecast was \$315,237. Applying the growth rate of 0.00%, we estimate the continuing stream should be \$315,237.

The stream is then discounted to present value and summed with the discrete present values in determining the fair value of A & I Sauces, LLC.

## Indicated Value

To calculate the fair value of A & I Sauces, LLC, discrete short term benefit streams are listed and the present value at May 30, 2008 is calculated. The terminal benefit stream is then present valued. The sum of all these indicates an initial fair value.

## Indicated Value Calculation

The following schedule presents the indicated value using the discounted future cash flow method. As calculated, the indicated fair value of the \$1,564,304 is which has been rounded to \$1,564,000.

| <u>Forecast<br/>Period</u>      | <u>EBITDA<br/>Cash Flow</u> | <u>P.V. Using<br/>17.78%<br/>Discount Rate</u> | <u>Discounted<br/>Cash Flow</u> |
|---------------------------------|-----------------------------|--|---------------------------------|
| 2008                            | 69,451                      | 0.84904  | 58,967                          |
| 2009                            | 315,237                     | 0.72087  | 227,245                         |
| Present Value of Terminal Value |                             |  | <u>1,278,093</u>                |
| Indicated Enterprise Value      |                             |  | <u>1,564,304</u>                |
| SELECTED ENTERPRISE VALUE       |                             |  | <u><u>1,564,000</u></u>         |

## Market Data Method – BIZCOMPS

Guideline companies are companies that provide a reasonable basis for comparison to the relevant investment characteristics of a company being valued. Guideline companies are most often publicly traded companies, although they may be private, in the same or similar business as the subject of this valuation. Guideline companies are used as a basis to develop valuation conclusions with respect to a subject company under the presumption that a similar market exists for the subject company as exists for the guideline companies.

Ideal guideline companies should be in the same business as the company being valued. However, if there is insufficient transaction evidence in the same business, it may be necessary to consider companies with an underlying similarity of relevant investment characteristics such as markets, products, growth, cyclical variability and other salient factors.

The guideline company method uses a group of public companies and/or privately held companies selected for their ability to provide valuation guidelines for the analyst. The most commonly used version of the guideline company method develops a ratio, such as the price/revenue ratio, with which to capitalize the base.

We searched the Bizcomps database for transactions involving privately held guideline companies. The Bizcomps database is a study of small business sales whereby relevant pricing information is collected from business brokers and transaction intermediaries on individual sales of small businesses.

We researched Bizcomps transactions by first identifying the industry in which A & I Sauces, LLC operates and, using the Standard Industrial Classification Code (SIC Codes) for the industry, we performed a search for a group of companies in a similar line of business as that of the subject company. We screened this group further through the use of key words and phrases that are unique to and describe the subject company's product or operations. We also considered other possible companies mentioned by management or discovered in other research. In the end, further analysis of the remaining companies in terms of operating, financial, geographical, industry, and/or market characteristics to insure that the guideline companies are reasonable for inclusion in the guideline company group.

Given these parameters, we found 3 transactions that meet the criteria for being included as guideline companies. The P/R ratios averaged 2.38 and the median was 2.10. The selected P/R ratio was 2.10. The P/SDE ratios averaged 0.44 and the median was 0.44. The selected P/SDE ratio was 0.44.

## **Estimate of Revenue**

The analysis presented below represents the calculation of the revenue base.

**Calculation of the Revenue Base**

|                                   | Year<br>Ending<br>December 31,<br>2007 | Year<br>Ending<br>December<br>31, 2006 | Year<br>Ending<br>December<br>31, 2005 | Year<br>Ending<br>December<br>31, 2004 |
|-----------------------------------|--|--|--|--|
| Historic Revenue                  | 20,343                                 | 11,166                                 | 4,419                                  | 2,659                                  |
| Additional Adjustment             | 20,343                                 | 11,166                                 | 4,419                                  | 2,659                                  |
| Total                             | <u>4</u>                               | <u>3</u>                               | <u>2</u>                               | <u>1</u>                               |
| Weight On Revenue Ongoing Revenue | 12,637                                 |  |  |  |
| SELECTED ONGOING REVENUE BASE     | <u>12,600</u>                          |  |  |  |

The weighting above was performed because the current year is the most important and each of the preceding years decline in importance as it becomes further from the present.

The Revenue was calculated as \$12,637 and the selected assets were rounded as \$12,600.

### **Estimate of Sellers' Discretionary Earnings**

The analysis presented below represents the calculation of the SDE base.

**Calculation of the Sellers' Discretionary Earnings Base**

|   | Year<br>Ending<br>December<br><b>31, 2007</b> | Year<br>Ending<br>December<br><b>31, 2006</b> | Year<br>Ending<br>December<br><b>31, 2005</b> | Year<br>Ending<br>December<br><b>31, 2004</b> |
|---|---|---|---|---|
| Historic Debt Free Pretax Income        | 9,672   | -71,893                                       | -7,734  | -15,691                                       |
| Officers' Compensation                  | 0   | 0   | 0   | 0   |
| Depreciation/Amortization               | 5,200   | 0   | 226   | 6,175   |
| Additional Adjustment                   |   |   |   |   |
| Seller's Discretionary Earnings         | <u>14,872</u>                                 | <u>-71,893</u>                                | <u>-7,508</u>                                 | <u>-9,516</u>                                 |
| Weight on SDE                           | 4   | 3   | 2   | 1   |
| Ongoing Seller's Discretionary Earnings | <u>-18,072</u>                                |   |   |   |
| SELECTED ONGOING SDE BASE               | <u>-18,100</u>                                |   |   |   |

The weighting above was performed because the current year is the most important and each of the preceding years decline in importance as it becomes further from the present.

The SDE was calculated as \$-18,072 and the selected SDE was rounded as \$-18,100.

### Indicated Value Calculation

Each of the multiples were weighted. The following schedule presents the conclusions of value using the BIZCOMPS data ratio methods. As calculated, the indicated fair value of the \$-16,205 is which has been rounded to \$-16,200.

|                            | <u>Revenue<br/>Multiple</u> | <u>SDE<br/>Multiple</u> |
|----------------------------|-----------------------------|-------------------------|
| Base                       | 12,600                      | -18,100                 |
| Multiple                   | 0.44                        | 2.10                    |
| Subtotal                   | <u>5,600</u>                | <u>-38,010</u>          |
| Cash Free                  | 0                           | 0                       |
| Debt Free                  | 0                           | 0                       |
| Net Operating Assets       | 0                           | 0                       |
| Subtotal                   | <u>5,600</u>                | <u>-38,010</u>          |
| Weight                     | <u>1</u>                    | 1                       |
| Ongoing Value              | <u>-16,205</u>              |                         |
| Adjustment                 |                             |                         |
| Subtotal                   | <u>-16,205</u>              |                         |
| Indicated Enterprise Value | <u>-16,205</u>              |                         |
| SELECTED ENTERPRISE VALUE  | <u>-16,200</u>              |                         |

# CONCLUSION OF VALUE

In the schedule below, we have assigned weights to the values indicated by the various valuation methods. The weights are intended to reflect our opinion of the relative importance or reliability of the methods when determining fair value

Weights are assigned as follows:

| Valuation Indication by Method                     | Indicated Value       | Weight |
|--|-----------------------|--------|
| Discounted Cash Flow Method - Detailed Projections | 1,564,000             | 1      |
| Market Data Method - Bizcomps                      | <u>-16,200</u>        | 1      |
| Calculated Conclusion of Enterprise Value          | <u><u>773,900</u></u> |        |
| SELECTED CONCLUSION OF ENTERPRISE VALUE            | <u><u>773,900</u></u> |        |

# OPINION

Therefore, based upon the facts and circumstances of the valuation and subject to the limitations in both conditions and scope listed in this report, our opinion of the resultant fair value of A & I Sauces, LLC on a fair value basis as of May 30, 2008 is:

\$ 773,900

# APPENDIX A: VALUATION CERTIFICATION AND SIGNATURE OF THE ANALYST

We certify to the best of our knowledge:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no personal interest with respect to the parties involved.
4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. Our analyses, opinion, and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
8. We have not made a personal inspection of the property that is the subject of this report.
9. No one provided significant personal property appraisal assistance to the person signing this certification.

Signature of the Analyst:

Ms. Kathleen Buell  
Financial Analyst  
Frihet Holdings, LLC

## APPENDIX B: LIMITING CONDITIONS

Preparation of this report involved the review of substantial documentation with respect to the company and the industry. Information reviewed relative to the company and industry are summarized in Appendix D.

In all cases, we have relied upon the referenced information without independent verification. This report is, therefore, dependent upon the information provided. A material change in critical information relied upon in this report would be cause for a reassessment to determine the effect, if any, upon our conclusion.

Users of this business valuation report should be aware that business valuations are based on future earnings potential that may or may not materialize. Therefore, the actual results achieved during the projection period will vary from the projections utilized in this valuation, and the variations may be material.

Some assumptions invariably will not materialize, and unanticipated events and circumstances may occur. Therefore, the actual performance in any areas forecasted/projected will vary from the forecast/projection, and the variations may be material. Frihet Holdings, LLC will not express any form of assurance on the likelihood of achieving the forecast/projection or on the reasonableness of the used assumptions. Any such forecast/projection is presented as part of the appraisal and is not intended to be used separately.

The value premise(s) cited in this report are fundamental to the value opinions rendered herein, and we reserve the right to reconsider such premise(s) should subsequent or additional information be discovered, although no such obligation exists.

We have relied upon the representations of the owners, management and other third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities except as specifically stated to the contrary in this report. We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances, or that A & I Sauces, LLC has good title to all assets.

The estimate of value included in this report assumes that A & I Sauces, LLC will maintain the character and integrity of the company through any sale, reorganization or reduction of any owner's/manager's participation in the existing activities of the company.

Since neither A & I Sauces, LLC management nor advisors have advised us otherwise, we assume that there is full compliance with all applicable federal, state, and local laws and regulations unless the lack of compliance is stated, defined, and considered in the appraisal report.

Public information, purchased private information and industry statistical information are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information, and have accepted the information without further verification.

This report and its related calculations were prepared using various software applications potentially including Microsoft Word and Microsoft Excel, Pro, and/or various Internet-related software, third-party data (as indicated) and information.

We assume no responsibility for the legal description or matters including legal or title considerations. Title to the subject assets, properties, or business interests is assumed to be good and marketable as represented by owners, management and advisors of A & I Sauces, LLC unless otherwise stated.

We assume no hidden or unapparent conditions regarding the subject assets, properties or business interests.

Unless otherwise stated in this report, we did not observe, and we have no knowledge of, the existence of hazardous materials with regard to the subject assets, properties, or business interests. However, we are not qualified to detect such substances. We assume no responsibility for such conditions or for any expertise required to discover them.

No opinion, counsel or interpretation is intended in matters that require legal or other appropriate professional advice. It is assumed that such opinions, counsel or interpretations have been or will be obtained from the appropriate professional sources.

The analyses, opinions, and conclusions presented in this report apply to this engagement only and may not be used out of the context presented herein. This report is valid only for the effective date(s) specified and only for the purpose(s) specified herein.

Although we have exerted considerable diligence and applied our best efforts in constructing this document, immaterial anomalies, if any, may arise. Even so, we are confident that our overall conclusion would still fall within a materially consistent conclusion.

While the client has not informed Frihet Holdings, LLC of any intent to do so, any third parties to whom this report is shown may be assured that this report, while performed in the employ of the client, was materially prepared on a non-advocacy basis. Any third persons, however, are cautioned that Frihet Holdings, LLC has no duty to you and, therefore, no warranty is expressed or implied. Nothing in this report is intended to replace your independent sole judgment, due diligence, or decision to seek professional legal, accounting, or valuation counsel.

This report has been prepared solely for the use of the party or parties named and specifically for the purposes set out therein. In accordance with normal practice, we hereby disclaim liability to any other person. Any other person should not rely upon the information and conclusions reached nor should any statement in this report be used for any other purpose without written consent from A & I Sauces, LLC.

The statements and opinions given in this report are given in good faith and in the belief that such statements are not false or misleading. In preparing this report we have relied upon information believed to be reliable and accurate provided by the owners, management and advisors of A & I Sauces, LLC and other sources. We have no reason to believe that any material facts have been withheld from us, nor do we warrant that our investigation has revealed all of the matters in which an audit or more extensive examination might disclose.

This valuation reflects facts and conditions existing at the date of this valuation. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

Frihet Holdings, LLC does not purport to be a guarantor of value. Valuation of closely held companies is an imprecise science, with value being a question of fact, and reasonable people can differ in their estimates of value. Frihet Holdings, LLC, however, performed conceptually sound and commonly accepted methods and procedures of valuation in determining the estimate of value included in this report. Frihet Holdings, LLC is not liable for any use, reliance, financial applications, report distribution or other utilization of any kind, by any party not having written authorization from Frihet Holdings, LLC.

The appraised estimate of fair value in this report is based on the definition applied throughout such report. An actual transaction in the shares may be completed at a value higher, lower or equal to the value rendered herein. We make no guarantee of any kind with regard to the likely or ultimate amount that may result in any future transaction.

The opinion(s) offered in this report do not constitute an offer to buy or sell the shares.

The valuation analyst, by reason of performing this valuation and preparing this report, is not to be required to give expert testimony nor to be in attendance in court or at any government, professional

or regulatory hearing, including IRS matters with reference to the matters contained herein, unless prior written arrangements have been made with Frihet Holdings, LLC regarding such additional engagement as to the timing, fee arrangements, and nature of the services required.

None of the partners or employees of Frihet Holdings, LLC have any present or contemplated future interest in the property being valued, 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 analysis, opinions, or conclusions in, or the use of, this report.

Possession of this report does not carry with it the right of publication. It may not be used for any purpose by any person other than the client to whom it is addressed without our written consent and, in any event, only with proper written qualifications and only in its entirety.

Neither all nor any part of the contents of this report shall be disseminated to the public through advertising, public relations, news, sales, or other media without our prior written consent and approval.

Liability of Frihet Holdings, LLC and its partners and employees for errors and omissions, if any, in this work will be limited to the amount of its compensation for the work performed in this assignment.

This report is further subject to any other contingencies, assumptions, and limiting conditions that may be set out elsewhere within this report.

## APPENDIX C: QUALIFICATIONS OF APPRAISER

The appraiser, Kathleen Buell, is a certified business appraiser working with Frihet Holdings, LLC. Ms. Buell possesses a highly motivated, driven personality that is results oriented. She graduated Cum Laude with a degree in accounting from Andrews University, which is one of the top 25 universities in the nation. With 5 years of Business Valuation experience, she has extensive experience in a number of accounting areas, working in both independent and team-oriented settings.

With further experience in forensic accounting and litigation, Ms. Buell is a professional dedicated to providing any company with the most detailed and supportive Valuation services available.

## APPENDIX D: SOURCES OF INFORMATION

-Analysis of the unaudited statements

-Relevant company documents

Business Plan

-Research of the industry outlook

“Canned Specilaties.” *Answers.com*. Accessed 14 Jul. 2008.

<http://www.answers.com/topic/canned-specialties?cat=biz-fin>

Rob Eder (2002, November). Consumables: What's hot--Mexican food. *Drug Store News*, 24(16), 39. Retrieved July 21, 2008, from Research Library database. (Document ID: 255263591).

-Analysis of the current and future earnings capacity of A & I Sauces, LLC

This information was accepted without further verification. See Appendix B for a complete list of the assumptions and limitations to which this valuation report is subject to.

# APPENDIX E: MARKETABILITY DISCOUNT

Marketability relates to the liquidity of an investment relative to a comparable and actively traded alternative. In essence, impairment of liquidity increases an investor's expected rate of return. As a result, the market clearing price of a nonmarketable security is discounted relative to the price of its marketable counterpart. The discount for lack of marketability is stated as a percentage of a marketable value.

The valuation of share of stock in closely held corporations typically warrants a discount for lack of marketability. Many factors affect the liquidity of an investment. Among them are the following:

1. Number of shareholders;
2. Size of the block of stock being valued;
3. Restrictions on its sale by agreement or law;
4. The absence of registration; and,
5. The anticipated dividend flow attributable to the investment.

When attempting to quantify these factors that influence liquidity into an appropriate discount for lack of marketability, it is necessary to consider the following factors:

**1. The holding period.** Without an active market, an investor must hold for an uncertain length of time until a liquidity event occurs. In general, longer holding periods without liquidity imply higher discounts for lack of marketability. An investor should reasonably characterize exit timing along a probability distribution. Although subjective, the relative probabilities of exit dates are reasonably related to the following:

- a. Historical ownership policies (insiders, outsiders, family, investors, etc.);
- b. Buy/sell or other shareholder agreements;
- c. Management/ownership succession (age, health, competence, emerging liquidity needs);
- d. Business plans and likely exit strategies of the controlling owner(s); and,
- e. Emerging attractiveness for equity offering or acquisition.

**2. Required holding period return.** To overcome the unattractiveness of the lack of liquidity, an investor in such securities expects a premium return in excess of that provided by liquid alternatives. Investment features that impair marketability will exact higher expected rates of return which imply higher discounts for lack of marketability. Unattractive features of a lack of liquid security could include the following:

- a. Absence, inadequacy of or inability to pay dividends;
- b. Subjective uncertainties related to the duration of the expected holding period and to achieving a favorable exit date valuation;
- c. Restrictive shareholder agreements; and,
- d. Various other features that increase uncertainty of cash flows.

**3. Growth in underlying value during the holding period.** If an investment is appreciating, that growth will provide a portion of the realized return during the holding period. Growth and marketability discounts are negatively correlated. As expected capital appreciation increases, discounts for lack of marketability decrease. Growth potential should be evaluated in the context of management's business plan, historical growth, and external factors such as emerging industry conditions and market valuations.

**4. Expected cash flow distributions during the holding period.** Holding period returns are also provided by interim cash flows (in addition to capital appreciation). As with growth, holding period cash distributions and discounts for lack of marketability are negatively correlated. Holding period cash flows (dividends, etc.) should be evaluated in the context of historical dividend policy, ability to distribute and the cash needs implied by the business plan.

## Empirical Studies

Guidance as to the proper level of the discount can also be found in examining studies which have approached the question from several different perspectives.

One approach is to analyze the differences in prices between publicly traded securities and those of restricted stocks of the same companies. Since a “lettered” stock is identical to the traded stock in all respects except marketability, the difference in price highlights the marketability discount. Among the more prominent studies are the following:

1. “Discounts Involved in Purchases of Common Stock,” in US 92nd Congress, 1st Session, House, Institutional Investor Study Report of the Securities and Exchange Commission (Washington, DC: US Government Printing Office, March 10, 1971, 5:2444-2456, Document No. 92-64, Part 5);
2. A study of closed end investment funds (Milton Gelman, “An Economist-Financial Analyst’s Approach to Valuing Stock of A Closely Held Company,” *Journal of Taxation* (June 1972), p. 354);
3. A study of prices paid for restricted stocks (Robert E. Maroney, “Most Courts Overvalue Closely Held Stocks,” *Taxes*, March 1973, pp. 144-54);
4. A study of prices paid for restricted stocks (J. Michael Maher, “Discounts for Lack of Marketability for Closely Held Business Interests,” *Taxes*, September 1976, pp. 562-71; and,
5. A more recent study of restricted stocks (William L. Silber, “Discounts on Restricted Stock: The Impact of Illiquidity on Stock Prices,” *Financial Analysts Journal*, July/August 1991, pp. 62-64.)

All of these studies identified median or average discounts in the range of 30-40% for prices of non-marketable stocks in comparison to marketable shares which were otherwise deemed to be comparable. The SEC Institutional Investor study reflected a mean discount of 25.8% while the remainder had average discounts in the range of 33-35%.

A second approach is to analyze the relationship between the prices of companies whose shares were initially offered to the public (IPO) and the prices at which their shares traded privately within a five month period immediately preceding the public offering. A series of studies conducted by John D. Emory at Robert W. Baird & Co., Inc. indicate median and mean lack of marketability discounts of 40% to 45% (see Emory, John D., “The Value of Marketability as Illustrated in Initial Public Offerings of Common Stock, February 1992 through July 1993,” *Business Valuation Review*, December 1993, pp. 3-5).

The objective of the Emory studies is to relate the prices at which private transactions took place before an IPO and the price at which the stock was subsequently offered to the public, in order to objectively gauge the value of marketability. The majority of the companies in the survey reflected discounts exceeding 30%. The highest discounts indicated in the sample were 82% and 94%.

The implication of the studies is clear: presumably arm’s length transactions taking place within a short time of the actual IPO’s occur at substantial discounts to the ultimate public offering price. These studies support both the validity and magnitude of marketability discounts in general, and particularly for companies that are not public offering candidates and for which the prospects for shareholder liquidity may be remote.

## Court Decisions

Further guidance for marketability discounts can be found in various court decisions. These decisions provide insight into the discounts allowed in various circumstances. We look at evidence from court decisions, not to cite as direct evidence in the instant case, but to review how courts have previously interpreted the objective evidence presented. In addition, we look to court cases for general guidance concerning the nature of evidence deemed acceptable in previous decisions.

A survey performed by Thomas Solberg (Thomas A. Solberg, “Valuing Restricted Securities: What Factors Do the Courts and the Service Look For,” *Journal of Taxation*, September 1979, pp. 150-54) of fifteen cases indicated a mean discount of 37.4%. A similar study by Phillip Moore (Phillip W. Moore, “Valuation Revisited,” *Trusts & Estates*, February 1987, pp. 40-52), which analyzed fourteen cases by the U.S. Tax Court from 1969 through 1982, indicated wide variations in the decisions but with a trend toward allowing higher discounts.

In “Estate of Berg” (61 TCM 1991-279), the Tax Court relied upon an expert’s analysis of specific factors that influenced the magnitude of a minority interest discount (20%) and a marketability discount (10%). The expert’s specificity appeared to be persuasive to the court. Other experts in the Berg case were admonished by the court for presenting discount analyses that were “exceedingly general and lacking in specific analysis of the subject interest.”

In “Estate of Jung” (101 TIC. No.28), the Tax Court allowed a 35% discount for lack of marketability for a 21% interest in Jung Corp., a manufacturer and distributor of elastic textile goods. Jung’s revenues (\$68 million) and profits (\$3.1 million) had been growing for several years, a dividend was being paid, and there was a reasonable knowledge that the company could be an attractive acquisition candidate. Of particular note is that the court relied upon several of the empirical studies cited above.

The various studies indicate that a marketability discount in the range of 35%-40% is near the mean. The court cases are increasingly referring to objective data, but the courts are asking for data and analysis that relate to the specific cases in question, not mere averages. It is important to note that the actual range of discounts can be very wide with the top end of the range at 70% or more, depending on the features and circumstances of the subject company.

# APPENDIX F: GLOSSARY

This Glossary was developed jointly by representatives of the American Institute of CPAs, the American Society of Appraisers, the Canadian Institute of Business Valuers, the Institute of Business Appraisers, and the National Association of Certified Valuation Analysts.

**Adjusted Book Value** - the value that results after one or more asset(s) or liability amounts are added, deleted, or changed from their respective financial statement amounts.

**Appraisal** - See Valuation.

**Appraisal Approach** - See Valuation Approach.

**Appraisal Date** - See Valuation Date.

**Appraisal Method** - See Valuation Method.

**Appraisal Procedure** - See Valuation Procedure.

**Asset (Asset-Based) Approach** - a general way of determining a value indication of a business, business ownership interest, or security by using one or more methods based on the value of the assets of that business net of liabilities.

**Benefit Stream** - any level of income, cash flow, or earnings generated by an asset, group of assets, or business enterprise. When the term is used, it should be supplemented by a definition of exactly what it means in the given valuation context.

**Beta** - a measure of systematic risk of a security; the tendency of a security's returns to correlate with swings in the broad market.

**Blockage Discount** - an amount or percentage deducted from the current market price of a publicly traded security to reflect the decrease in the per share value of a block of those securities that is of a size that could not be sold in a reasonable period of time given normal trading volume.

**Business** - see Business Enterprise.

**Business Enterprise** - a commercial, industrial, service, or investment entity, or a combination thereof, pursuing an economic activity.

**Business Valuation** - the act or process of determining the value of a business enterprise or ownership interest therein.

**Capital Asset Pricing Model (CAPM)** - a model in which the cost of capital for any security or portfolio of securities equals a risk free rate plus a risk premium that is proportionate to the systematic risk of the security or portfolio.

**Capitalization** - a conversion of a single period stream of benefits into value.

**Capitalization Factor** - any multiple or divisor used to convert anticipated benefits into value.

**Capitalization Rate** - any divisor (usually expressed as a percentage) used to convert anticipated benefits into value.

**Capital Structure** - the composition of the invested capital of a business enterprise; the mix of debt and equity financing.

**Cash Flow** - cash that is generated over a period of time by an asset, group of assets, or business enterprise. It may be used in a general sense to encompass various levels of specifically defined cash flows. When the term is used, it should be supplemented by a qualifier (for example, "discretionary" or "operating") and a definition of exactly what it means in the given valuation context.

**Control** - the power to direct the management and policies of a business enterprise.

**Control Premium** - an amount (expressed in either dollar or percentage form) by which the pro rata value (calculated, in proportion value) of a controlling interest exceeds the pro rata value of a noncontrolling interest in a business enterprise, that reflects the power of control.

**Cost Approach** - a general way of estimating a value indication of an individual asset by quantifying the amount of money that would be required to replace the future service capability of that asset.

**Cost of Capital** - the expected rate of return (discount rate) that the market requires in order to attract funds to a particular investment.

**Discount** - a reduction in value or the act of reducing value.

**Discount for Lack of Control** - an amount or percentage deducted from the pro rata share of value of one hundred percent (100%) of an equity interest in a business to reflect the absence of some or all of the powers of control.

**Discount for Lack of Marketability** - an amount or percentage deducted from the value of an ownership interest to reflect the relative absence of marketability.

**Discount Rate** - a rate of return (cost of capital) used to convert a monetary sum, payable or receivable in the future, into present value.

**Economic Life** - the period of time over which property may generate economic benefits.

**Effective Date** - See Valuation Date.

**Enterprise** - See Business Enterprise.

**Equity Net Cash Flows** - those cash flows available to pay out to equity holders (in the form of dividends) after funding operations of the business enterprise, making necessary capital investments, and reflecting increases or decreases in debt financing.

**Equity Risk Premium** - a rate of return in addition to a risk free rate to compensate for investing in equity instruments because they have a higher degree of probable risk than risk free instruments (a component of the cost of equity capital or equity discount rate).

**Excess Earnings** - that amount of anticipated benefits that exceeds a fair rate of return on the value of a selected asset base (often net tangible assets) used to generate those anticipated benefits.

**Excess Earnings Method** - a specific way of determining a value indication of a business, business ownership interest, or security determined as the sum of the value of the assets obtained by capitalizing excess earnings and the value of the selected asset base. Also frequently used to value intangible assets. See Excess Earnings.

**Fair Market Value** - the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts. {NOTE: In Canada, the term "price" should be replaced with the term "highest price".}

**Forced Liquidation Value** - liquidation value at which the asset or assets are sold as quickly as possible, such as at an auction.

**Going Concern** - an ongoing operating business enterprise.

**Going Concern Value** - the value of a business enterprise that is expected to continue to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place.

**Goodwill** - that intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified.

**Goodwill Value** - the value attributable to goodwill.

**Income (Income-Based) Approach** - a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods that convert anticipated benefits into a present single amount.

**Intangible Assets** - nonphysical assets (such as franchises, trademarks, patents, copyrights, goodwill, equities, mineral rights, securities and contracts as distinguished from physical assets) that grant rights, privileges, and have economic benefits for the owner.

**Invested Capital** - the sum of equity and debt in a business enterprise. Debt is typically long term liabilities or the sum of short term interest bearing debt and long term liabilities. When the term is used, it should be supplemented by a definition of exactly what it means in the given valuation context.

**Invested Capital Net Cash Flows** - those cash flows available to pay out to equity holders (in the form of dividends) and debt investors (in the form of principal and interest) after funding operations of the business enterprise and making necessary capital investments.

**Investment Risk** - the degree of uncertainty as to the realization of expected returns.

**Investment Value** - the value to a particular investor based on individual investment requirements and expectations. {NOTE: In Canada, the term used is “Value to the Owner.”}

**Key Person Discount** - an amount or percentage deducted from the value of an ownership interest to reflect the reduction in value resulting from the actual or potential loss of a key person in a business enterprise.

**Levered Beta** - the beta reflecting a capital structure that includes debt.

**Liquidity** - the ability to quickly convert property to cash or pay a liability.

**Liquidation Value** - the net amount that can be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either “orderly” or “forced”.

**Majority Control** - the degree of control provided by a majority position.

**Majority Interest** - an ownership interest greater than fifty percent (50%) of the voting interest in a business enterprise.

**Market (Market-Based) Approach** - a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

**Marketability** - the ability to quickly convert property to cash at minimal cost.

**Marketability Discount** - See Discount for Lack of Marketability.

**Minority Discount** - a discount for lack of control applicable to a minority interest.

**Minority Interest** - an ownership interest less than fifty percent (50%) of the voting interest in a business enterprise.

**Net Book Value** - with respect to a business enterprise, the difference between total assets (net of accumulated depreciation, depletion, and amortization) and total liabilities of a business enterprise as they appear on the balance sheet (synonymous with Shareholder’s Equity); with respect to an intangible asset, the capitalized cost of an intangible asset less accumulated amortization as it appears on the accounting books of the business enterprise.

**Net Cash Flow** - a form of cash flow. When the term is used, it should be supplemented by a qualifier (for example, “Equity” or “Invested Capital”) and a definition of exactly what it means in the given valuation context.

**Net Tangible Asset Value** - the value of the business enterprise’s tangible assets (excluding excess assets and nonoperating assets) minus the value of its liabilities. {NOTE: In Canada, tangible assets also include identifiable intangible assets.}

**Nonoperating Assets** - assets not necessary to ongoing operations of the business enterprise. {NOTE: In Canada, the term used is “Redundant Assets.”}

**Orderly Liquidation Value** - liquidation value at which the asset or assets are sold over a reasonable period of time to maximize proceeds received.

**Premise of Value** - an assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation; e.g. going concern, liquidation.

**Portfolio Discount** - an amount or percentage that may be deducted from the value of a business enterprise to reflect the fact that it owns dissimilar operations or assets that may not fit well together.

**Rate of Return** - an amount of income (loss) and/or change in value realized or anticipated on an investment, expressed as a percentage of that investment.

**Redundant Assets** - {NOTE: In Canada, see “Nonoperating Assets.”}

**Report Date** - the date conclusions are transmitted to the client.

**Replacement Cost New** - the current cost of a similar new property having the nearest equivalent utility to the property being valued.

**Reproduction Cost New** - the current cost of an identical new property.

**Residual Value** - the prospective value as of the end of the discrete projection period in a discounted benefit streams model.

**Risk Free Rate** - the rate of return available in the market on an investment free of default risk.

**Risk Premium** - a rate of return in addition to a risk free rate to compensate the investor for accepting risk.

**Rule of Thumb** - a mathematical relationship between or among variables based on experience, observation, hearsay, or a combination of these, usually applicable to a specific industry.

**Special Interest Purchasers** - acquirers who believe they can enjoy post-acquisition economies of scale, synergy, or strategic advantages by combining the acquired business interest with their own.

**Standard of Value** - the identification of the type of value being utilized in a specific engagement; e.g. fair market value, fair value, investment value.

**Sustaining Capital Reinvestment** - the periodic capital outlay required to maintain operations at existing levels, net of the tax shield available from such outlays.

**Systematic Risk** - the risk that is common to all risky securities and cannot be eliminated through diversification. When using the capital asset pricing model, systematic risk is measured by beta.

**Terminal Value** - See Residual Value.

**Unlevered Beta** - the beta reflecting a capital structure without debt.

**The Risk Management Association** – Formerly know as Robert Morris Associates.

**Unsystematic Risk** - the portion of total risk specific to an individual security that can be avoided through diversification.

**Valuation** - the act or process of determining the value of a business, business ownership interest, security, or intangible asset.

**Valuation Approach** - a general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more valuation methods.

**Valuation Date** - the specific point in time as of which the valuator's opinion of value applies (also referred to as "Effective Date" or "Appraisal Date").

**Valuation Method** - within approaches, a specific way to determine value.

**Valuation Procedure** - the act, manner, and technique of performing the steps of an appraisal method.

**Valuation Ratio** - a fraction in which a value or price serves as the numerator and financial, operating, or physical data serve as the denominator.

**Value to the Owner** - {NOTE: In Canada, see Investment Value.}

**Weighted Average Cost of Capital (WACC)** - the cost of capital (discount rate) determined by the weighted average at market value of the cost of all financing sources in the business enterprise's capital structure.

# EXHIBITS

| Business Type       | Date     | SIC  | Area | (000's)<br>Revenue | (000's)<br>Discr. Earn. | (000's)<br>Sales Price | (000's)<br>FF&E   | (000's)<br>Price W/O FFE | P/SDE             | P/R  | W/O FFE<br>P/SDE | W/O FFE<br>P/R |
|---------------------|----------|------|------|--------------------|-------------------------|------------------------|-------------------|--------------------------|-------------------|------|------------------|----------------|
| Mfg-Mexican Sauces  | 02/28/98 | 2032 | W    | 2200               | 600                     | 1,760                  | 499.9             | 1260                     | 2.93              | 0.80 | 2.10             | 0.57           |
| Mfg-Food Processing | 12/31/03 | 2035 | W    | 18000              | 1920                    | 7,996                  | -3.68             | 8000                     | 4.17              | 0.44 | 4.17             | 0.44           |
| Mfg-Specialty Food  | 11/30/00 | 2047 | W    | 77                 | 26                      | 23                     | 0.0165            | 23                       | 0.89              | 0.30 | 0.88             | 0.30           |
|                     |          |      |      |                    |                         |                        | Calculated Mean   |                          | Calculated Mean   |      | 2.38             | 0.44           |
|                     |          |      |      |                    |                         |                        | Calculated Median |                          | Calculated Median |      | 2.10             | 0.44           |
|                     |          |      |      |                    |                         |                        | SELECTED MEDIAN   |                          | SELECTED MEDIAN   |      | 2.10             | 0.44           |