

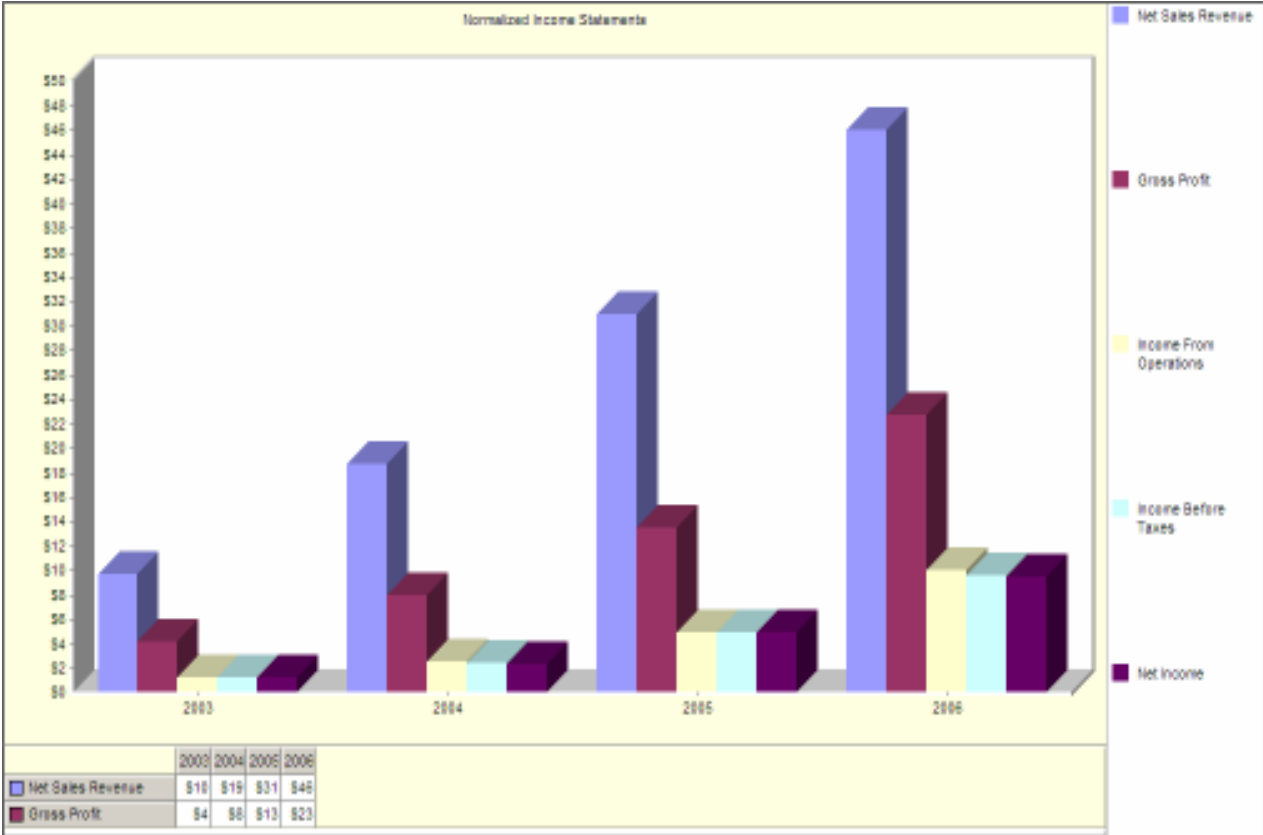
Income Statement Adjustments

	2003	2004	2005	2006
Add/(deduct) income adjustments:				
other	0	0	0	(100)
Total income adjustments	0	0	0	(100)
Add/(deduct) expense adjustments:				
samples	0	(345)	(561)	(621)
promotion	0	0	(150)	(150)
Officer/Owner's Compensation	(200)	(200)	(200)	(335)
Depreciation expense	(80)	(238)	(201)	(364)
design fees	(249)	(4)	(750)	(480)
Open G&A expense	(75)	(187)	(248)	(447)
management fee	0	(729)	0	(739)
Total expense adjustments	(604)	(1,703)	(2,110)	(3,136)
Total income & expense adjustments before tax	604	1,703	2,110	3,036
Less: Tax effect *	9	26	32	46
Total Adjustments net of Tax effect	595	1,677	2,078	2,990

Notes to Income Statement Adjustments that were prepared by the management of ABC Corporation Inc.

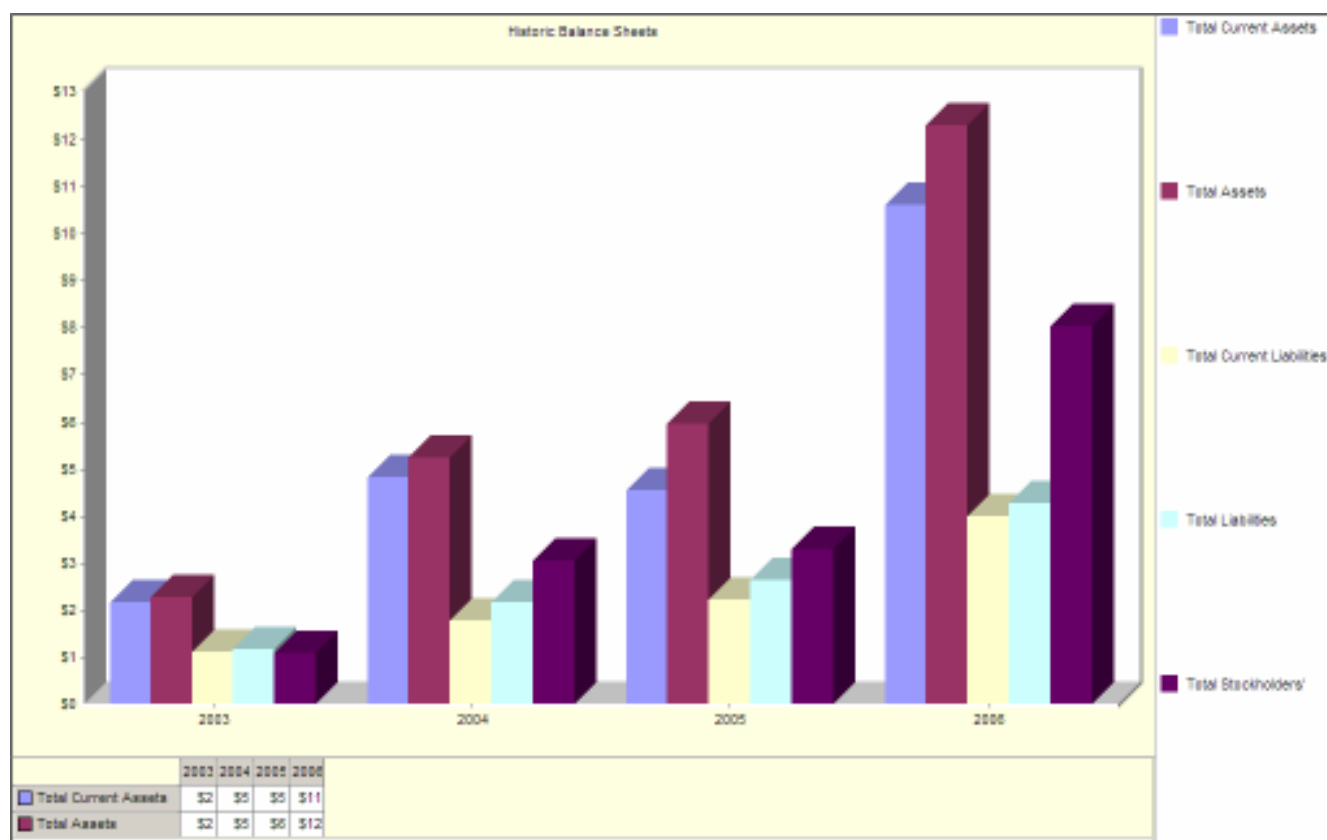
Normalized Historical Income Statements

	2003	2004	2005	2006
Net Sales Revenue	9,719	18,732	30,926	46,075
Total Cost of Goods Sold	5,534	10,734	17,433	23,344
Gross Profit	4,185	7,998	13,493	22,731
Total Selling Expenses	1,915	3,175	4,793	7,332
Total General & Administrative Expenses	1,005	2,291	3,728	5,392
Income From Operations	1,265	2,532	4,972	10,007
Total Other Revenues and Expenses	(52)	(140)	0	(381)
Income Before Taxes	1,213	2,392	4,972	9,626
Total Income Taxes	13	41	79	148
Net Income	1,200	2,351	4,893	9,478



Summary Historical Balance Sheets

	2003	2004	2005	2006
ASSETS				
Total Current Assets	2,183	4,813	4,539	10,600
Net Fixed Assets	90	426	1,419	1,701
Total Assets	2,273	5,239	5,958	12,301
LIABILITIES & STOCKHOLDERS' EQUITY				
Total Current Liabilities	1,111	1,780	2,226	4,009
Total Long-Term Debt	78	393	424	266
Total Liabilities	1,189	2,173	2,650	4,275
Stockholders' Equity:				
Common stock	12	13	13	13
Retained earnings	1,072	3,053	3,295	8,013
Total Stockholders' Equity	1,084	3,066	3,308	8,026
Total Liabilities & Stockholders' Equity	2,273	5,239	5,958	12,301



Summary Historical Statements of Cash Flows

	2003	2004	2005	2006
Net Cash Flow From Operations		(1,950)	4,873	333
Net Cash Flow From Investments		(298)	(1,591)	603
Net Cash Flow From Financing		941	(709)	834
Net Cash Flow		(1,307)	2,573	1,770
Cash at End of Year		(1,307)	2,573	1,770

Normalized Earnings and Net Cash Flow Summary

	2003	2004	2005	2006
Total income & expense adj. before tax	604	1,703	2,110	3,036
Less: Tax effect *	9	26	32	46
Net adjustments	595	1,677	2,078	2,990
Plus: Historic net income	605	674	2,815	6,488
Normalized Net income	1,200	2,351	4,893	9,478
Plus: Normalized income taxes	13	41	79	148
Normalized EBT	1,213	2,392	4,972	9,626
Plus: Normalized interest expense	70	140	0	359
Normalized EBIT	1,283	2,532	4,972	9,985
Plus: Normalized depr. & amort.	(80)	(238)	(201)	(364)
Normalized EBITDA	1,203	2,294	4,771	9,621
Historic net change in cash		(1,307)	2,573	1,770
Plus: Net adjustments + Adj. to Depr., Amort. & Div.		1,439	1,877	2,626
Normalized Net cash flow		132	4,450	4,396
Historic income from operations		829	2,862	6,871
Total operating adjustments		1,703	2,110	3,136
Normalized operating income		2,532	4,972	10,007
Plus: Normalized depr. & amort. from oper. (net of tax)		(238)	(201)	(364)
Less: Normalized fixed asset purchases		336	993	282
Less: Normalized changes in net working capital		102	641	1,815
Normalized Free cash flow		1,856	3,137	7,546

Analysis of Normalized 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.

Business Common-Size Statements

	2003	2004	2005	2006
Income Data:				
Net sales	100.00%	100.00%	100.00%	100.00%
Gross profit	43.06%	42.70%	43.63%	49.33%
Operating expenses	30.04%	29.18%	27.55%	27.62%
Operating profit	13.02%	13.52%	16.08%	21.72%
All other expenses (net)	0.54%	0.75%	0.00%	0.83%
Profit Before Tax	12.48%	12.77%	16.08%	20.89%
Assets:				
Cash & equivalents	32.25%	49.48%	20.66%	30.03%
Trade receivables (net)	0.79%	7.50%	11.43%	16.19%
Inventory	46.37%	28.40%	28.35%	39.52%
All other current assets	16.63%	6.49%	15.74%	0.43%
Total Current Assets	96.04%	91.87%	76.18%	86.17%
Fixed assets (net)	3.96%	8.13%	23.82%	13.83%
Intangibles (net)	0.00%	0.00%	0.00%	0.00%
All other noncurrent assets	0.00%	0.00%	0.00%	0.00%
Total Noncurrent Assets	3.96%	8.13%	23.82%	13.83%
Total Assets	100.00%	100.00%	100.00%	100.00%
Liabilities & Net Worth:				
Notes payable short-term	13.42%	17.75%	3.19%	9.61%
Current maturity of long-term Debt	0.00%	0.00%	0.00%	0.00%
Trade payables	35.46%	16.21%	33.65%	20.41%
Income taxes payable	0.00%	0.02%	0.52%	0.34%
All other current liabilities	0.00%	0.00%	0.00%	2.23%
Total Current Liabilities	48.88%	33.98%	37.36%	32.59%
Long-term debt	3.43%	7.50%	7.12%	2.16%
Deferred taxes	0.00%	0.00%	0.00%	0.00%
All other noncurrent liabilities	0.00%	0.00%	0.00%	0.00%
Net worth	47.69%	58.52%	55.52%	65.25%
Total Liabilities & Net Worth	100.00%	100.00%	100.00%	100.00%

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 [ABC Corporation Inc's](#) liquidity positions, coverage capacity, leverage/capitalization, operating efficiency and equity performance.

Business Financial Ratios:

	2003	2004	2005	2006
Liquidity Ratios:				
Current	1.96	2.70	2.04	2.64
Quick	0.68	1.68	0.86	1.42
Accounts receivable turnover	539.94	47.66	45.41	23.13
Days' receivable	0.67	7.55	7.93	15.56
Inventory turnover	5.25	7.21	10.32	4.80
Days' inventory	68.57	49.90	34.88	74.96
Accounts payable turnover	6.87	12.64	8.69	9.30
Days' payable	52.43	28.47	41.40	38.72
Working capital turnover	9.07	6.18	13.37	6.99
Inventory as a % of Total current assets	48.28%	30.92%	37.21%	45.86%
Total current assets as a % of Total assets	96.04%	91.87%	76.18%	86.17%
Coverage Ratios:				
Times interest earned	18.33	18.09	0.00	27.81
Current portion of long-term debt coverage	0.00	0.00	0.00	0.00
Principal & Interest coverage	18.33	-3.11	6.91	-20.47
Preferred dividend coverage	0.00	0.00	0.00	0.00
Leverage/Capitalization Ratios:				
Fixed assets to Tangible net worth	0.08	0.14	0.43	0.21
Total debt to Tangible net worth	1.10	0.71	0.80	0.53
Short-term debt to Total debt	93.44%	81.91%	84.00%	93.78%
Short-term debt to Net worth	102.49%	58.06%	67.29%	49.95%
Total debt to Total assets	52.31%	41.48%	44.48%	34.75%
Operating Ratios:				
Percent return on Tangible net worth	111.90%	78.02%	150.30%	119.94%
Percent return on Total assets	53.37%	45.66%	83.45%	78.25%
Net sales to Net fixed assets	107.99	43.97	21.79	27.09
Net sales to Total assets	4.28	3.58	5.19	3.75
Percent Depr., Amort. to Net sales	-0.82%	-1.27%	-0.65%	-0.79%
Percent Officer salaries to Net sales	-2.06%	-1.07%	2.39%	1.74%
Fixed asset turnover	115.18	46.70	22.97	28.50
Total sales to Net worth	9.56	6.49	9.85	6.04
Percent Operating cost	38.68%	39.57%	39.53%	39.10%
Percent Net profit	12.35%	12.55%	15.82%	20.57%
Revenue growth percentage		91.93%	63.80%	48.78%
Equity Ratios:				
Total net assets per share of Preferred stock	0.00	0.00	0.00	0.00
Net book value per share of Common stock	1,084.00	3,066.00	3,308.00	8,026.00
Percent dividend payout	0.00%	0.00%	0.00%	0.00%
Percent earnings retention	100.00%	100.00%	100.00%	100.00%
Dividends per Common share	0.00	0.00	0.00	0.00

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.

Valuation of ABC Corporation Inc

The objective of this valuation is to estimate the Fair Market Value of 100.00% of the common stock of ABC Corporation Inc as of December 31 2007 for the purpose as set forth in this Valuation Report.

The standard of value used in our valuation of ABC Corporation 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) 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.

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, Market, and Other approaches. Specific methods are then used to estimate the value of the total business entity under each approach. Our conclusion of 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 considered to value ABC Corporation Inc. Some of these approaches have been used while others have been discarded for the reason set out in each aspect. These approaches, described below, are the: 1) Asset Approach, 2) Income Approach, 3) Market Approach, and 4) Other.

The Asset Approach is generally considered to yield the minimum benchmark of value for an operating enterprise. The most common methods within this approach are Net Asset Value and Liquidation Value. Net Asset Value represents net equity of the business after assets and liabilities have been adjusted to their fair market values. The Liquidation Value of the business represents the present value of the estimated net proceeds from liquidating the Company's assets and paying off its liabilities. This method has not been utilized, as the business is an on going concern.

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 information obtained from Mergerstat on two deals that were consummated in 2006 were considered but limited credence has been given thereto as it is extremely difficult to obtain the actual information relative to such sales, whether such sales were for cash or on terms, or were partly cash, partly terms and may have included a stock exchange.

The Other methods consist of valuation methods that cannot be classified into one of the previously discussed approaches. The methods utilized in the Other Approach are Capitalization of Excess Earnings and Multiple of Discretionary Earnings. Commonly referred to as the "formula method," the Capitalization of Excess Earnings method determines the value of tangible and intangible assets separately and combines these component values for an indication of total entity value. Under the Multiple of Discretionary Earnings method, the entity is valued based on a multiple of "discretionary earnings," i.e., earnings available to the owner who is also a manager. Both of these methods are normally used to value small businesses and professional practices.

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

Note that all dollar values presented in this report are stated in thousands and the 000's have been omitted.

Net Asset Value

The Net Asset Value of ABC Corporation Inc is estimated to be \$8,026. 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. For reasons set out above this method has not been used.

Liquidation Value

The Liquidation Value of ABC Corporation Inc is estimated to be \$8,026. Liquidation Value is defined as the present value of the net cash remaining if all assets are sold in a *quick and orderly, piecemeal* sale and all liabilities are paid at face value with the proceeds. In our analysis, the appraised value of individual assets and liabilities has not been adjusted to reflect the value that could be obtained in a quick and orderly liquidation. No tax adjustment have estimated on the difference between the appraised value and the tax basis of assets and liabilities, as no appraisal has been done. In addition, no estimate of the liquidation costs has been considered. This method has for obvious reasons not been utilized.

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.

Build-Up Model, Risk Factors:

Risk-Free Rate	4.69%
Market Equity Risk Premium	10.00%
Size Premium	10.00%
Discount Rate	24.69%
Less: Long-term growth in Net Income	0.00%
Capitalization Rate	24.69%
Divided by: 1 + Long-term growth in Net Income	0.00%
Historic Earnings Capitalization Rate	24.69%
Historic Excess Earnings Capitalization Rate	24.69%

In developing the Discount and Capitalization Rates to apply to the benefit stream of ABC Corporation 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. 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. The Build-Up Model is normally used for small companies or if no valid comparable company data is available. No valid comparables are available.

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 ABC Corporation Inc based on the Capitalization of Earnings method is estimated to be \$26,579. In the Capitalization of Earnings method, weighted average, normalized Net Income is divided by the capitalization rate, 24.69%, 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.

Capitalization of Earnings All dollar values stated in thousands	Normalized Net Income	Weighting Factor	Weighted Earnings 2006
Fiscal Year End 2003	1,200	1.0	1,200
Fiscal Year End 2004	2,351	1.0	2,351
Fiscal Year End 2005	4,893	3.0	14,680
Fiscal Year End 2006	9,478	5.0	47,392
Sum of Weighted earnings			65,624
Divided by: Sum of weighting factors			10.0
Weighted average earnings			6,562
Divided by: Historic capitalization rate			24.69%
Total entity value			26,579

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 used management's projections of the financial statements for the first 3 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.)

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

The following section outlines the Company's projected financial performance for the years ended December 31 2007, 2008 and 2009 and represent, to the best of its knowledge and belief, the Company's estimate of its future performance and financial position.

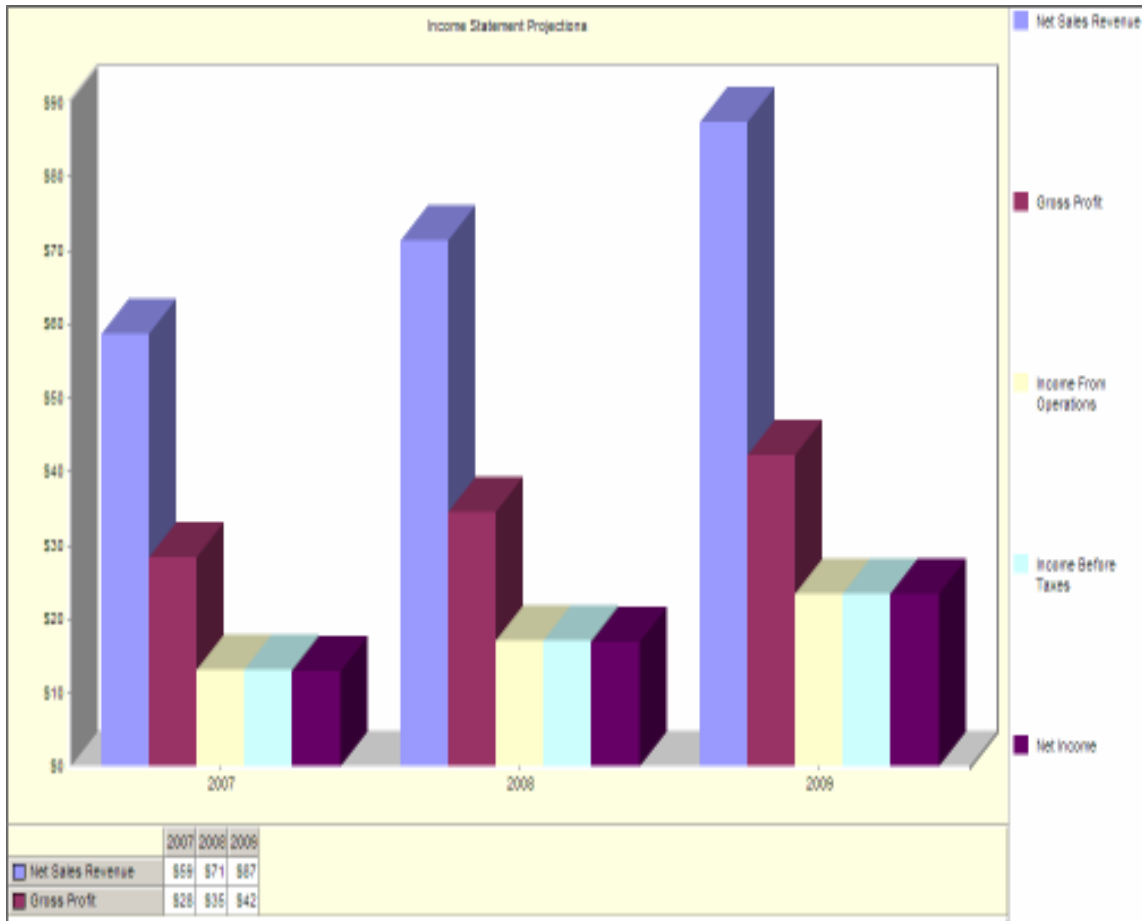
Although management believes these projections are reasonable and appropriate, neither , Keystone Corporation Inc, nor any of its representatives can warrant or provide any assurances as to the ability or likelihood of the company achieving the projected results reflected herein. Actual performance will likely be different from these estimates and projections and such differences may be material. Actual results and the timing of certain

events could differ materially from those estimated and projected in the forward-looking statements due to many risks, uncertainties and assumptions.

Note that all dollar values presented in this report are stated in thousands and the 000's have been omitted.

Projection Summary

	2007	2008	2009
Net sales revenue	58,616	71,261	87,277
Gross profit	28,482	34,519	42,138
EBITDA	13,059	17,090	23,513
EBIT	13,059	17,090	23,513
EBT	13,059	17,090	23,513
Net income	12,997	17,009	23,403
Net cash flow	1,949	9,743	15,049
Total current assets	18,398	37,480	61,020
Net fixed assets	1,571	1,571	1,571
Net other assets	0	0	0
Total assets	19,969	39,051	62,591
Total current liabilities	5,189	7,261	7,399
Total long-term debt	0	0	0
Total liabilities	5,189	7,261	7,399
Total Equity	14,780	31,790	55,192
Net working capital	13,209	30,219	53,621
Income from operations	13,059	17,090	23,513
Less: Fixed asset purchases	(130)	0	0
Less: Changes in Working capital	(5,894)	(61)	1,122
Free Cash Flow	19,083	17,151	22,391

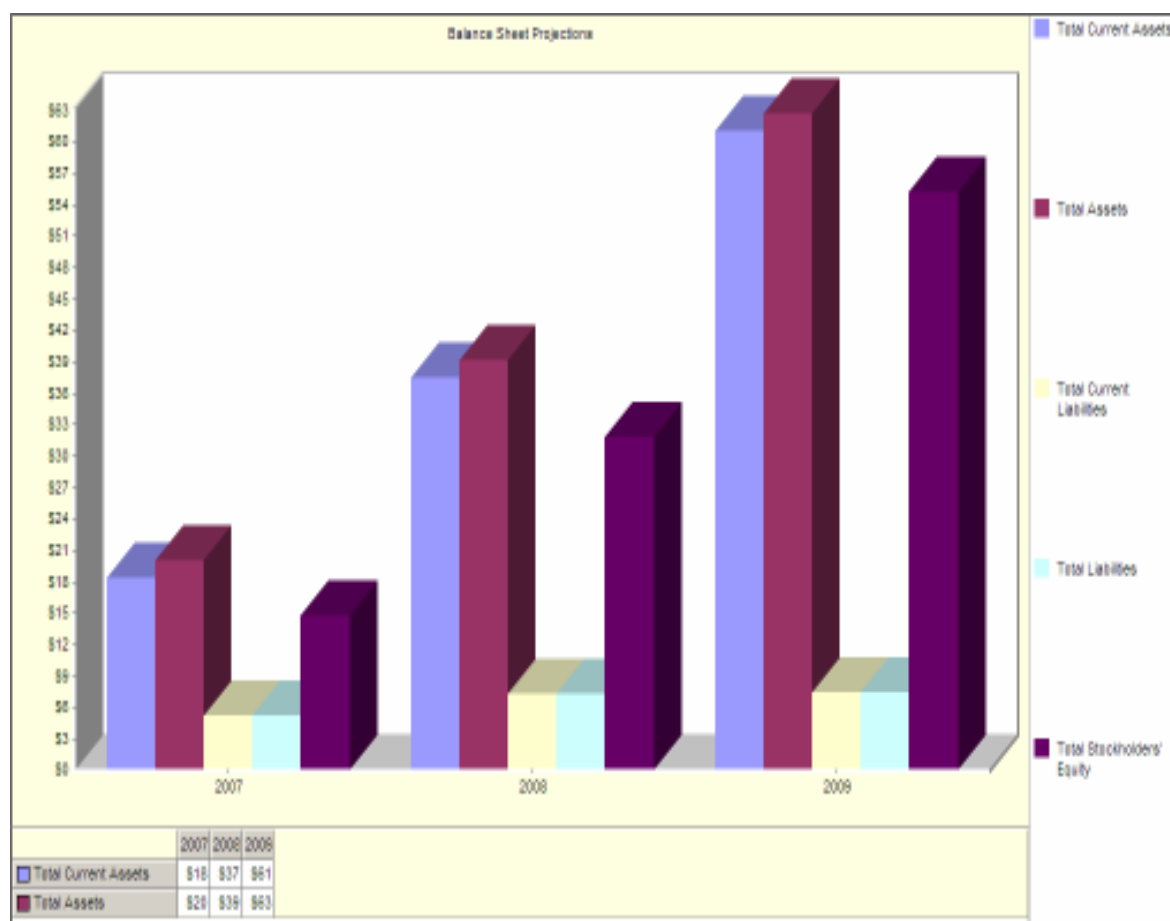


Summary Income Statement Projections

	2007	2008	2009
Net Sales Revenue	58,616	71,261	87,277
Total Cost of Goods Sold	30,134	36,742	45,139
Gross Profit	28,482	34,519	42,138
Total Selling Expenses	10,116	10,964	9,346
Total General & Administrative Expenses	5,307	6,465	9,279
Income From Operations	13,059	17,090	23,513
Total Other Revenues and Expenses	0	0	0
Income Before Taxes	13,059	17,090	23,513
Total Income Taxes	61	80	111
Net Income	12,997	17,009	23,403

Summary Balance Sheet Projections

	2007	2008	2009
ASSETS			
Total Current Assets	18,398	37,480	61,020
Net Fixed Assets	1,571	1,571	1,571
Total Assets	19,969	39,051	62,591
LIABILITIES & STOCKHOLDERS' EQUITY			
Total Current Liabilities	5,189	7,261	7,399
Total Long-Term Debt	0	0	0
Total Liabilities	5,189	7,261	7,399
Stockholders' Equity:			
Common stock	13	13	13
Retained earnings	14,767	31,777	55,179
Total Stockholders' Equity	14,780	31,790	55,192
Total Liabilities & Stockholders' Equity	19,969	39,051	62,591

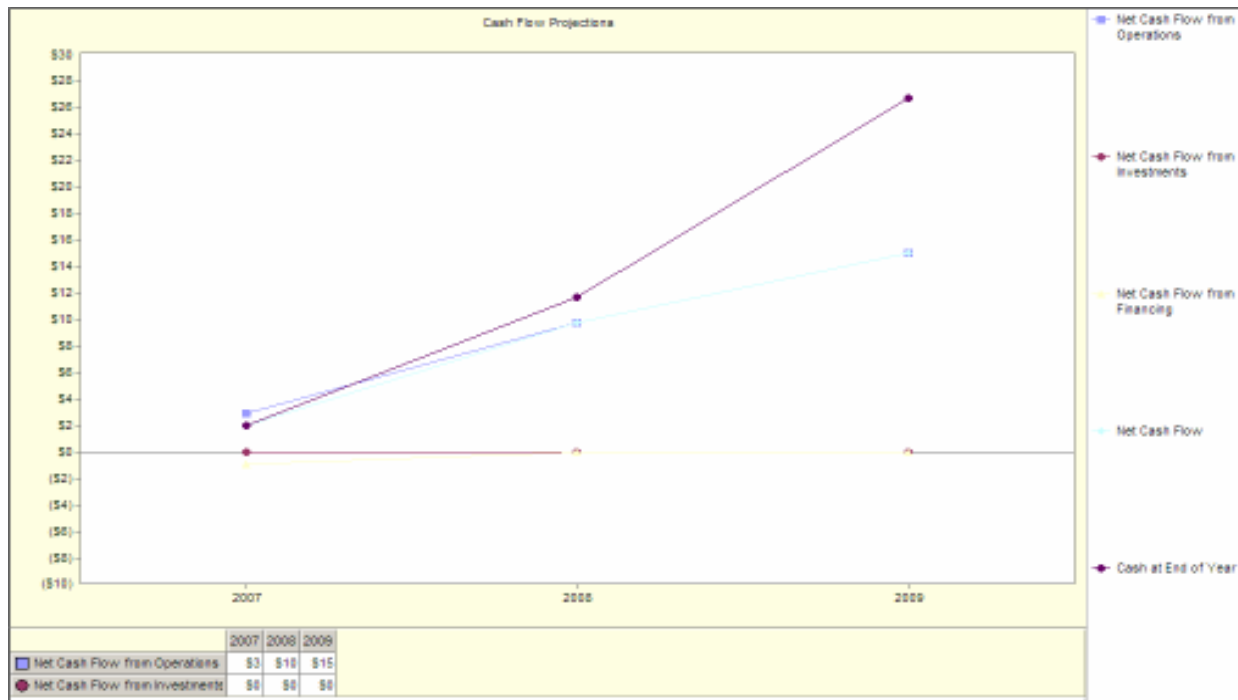


Summary Retained Earnings Projections

	2007	2008	2009
Retained earnings at beginning of period	8,994	14,767	31,777
Additions:			
Normalized net income for the Period	5,773	17,009	23,403
Deductions:			
Normalized Common Dividends	0	0	0
Retained earnings at end of period	14,767	31,777	55,179

Summary Cash Flow Projections

	2007	2008	2009
Net Cash Flow From Operations	2,899	9,743	15,049
Net Cash Flow From Investments	4	0	0
Net Cash Flow From Financing	(954)	0	0
Net Cash Flow	1,949	9,743	15,049
Cash at Beginning of Period	0	1,949	11,693
Cash at End of Period	1,949	11,693	26,741



Summary Sources & Uses of Funds Projections

	2007	2008	2009
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Total Internally Generated Cash	1,796	7,671	14,911
Total Cash from External Financing	153	2,072	138
Net Cash Flow	1,949	9,743	15,049

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. Neither Peter Louis nor Keystone Corporation Inc were involved in such projections.

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 4 historic years have grown at a compound average annual rate of 67.99%. Future Net Sales Revenues are projected to grow at an estimated, compound average annual rate of 23.73%, starting from a base amount of \$46,075 and growing to \$58,616 in the first projected year and \$87,277 in projected year 3.

Total Cost of Goods Sold over the past 4 historic years has averaged 55.32% of Net Sales Revenues for each respective year and was 50.67% of Net Sales Revenues in the most recent historic fiscal year, 2006. Total Cost of Goods Sold has been projected to be \$30,134, or 51.41% of Net Sales Revenues in the first projected year and \$45,139, or 51.72% of Net Sales Revenues in projected year 3. On average, Total Cost of Goods Sold has been projected to be 51.56% of each year's respective Net Sales Revenues.

Total Selling Expenses over the past 4 historic years have averaged 17.02% of Net Sales Revenues for each respective year and were 15.91% of Net Sales Revenues in the most recent historic fiscal year, 2006. Total Selling Expenses have been projected to be \$10,116, or 17.26% of Net Sales Revenues in the first projected year and \$9,346, or 10.71% of Net Sales Revenues in projected year 3. On average, Total Selling Expenses have been projected to be 14.45% of each year's respective Net Sales Revenues.

Total General & Administrative Expenses over the past 4 historic years have grown at a compound average annual rate of 75.06%. Total General & Administrative Expenses are projected to grow at an estimated, compound average annual rate of 19.84%, starting from a

base amount of \$5,392 and growing to \$5,307 in the first projected year and \$9,279 in projected year 3.

Dividends Assumptions

Common Stock Dividends No assumptions are made as to dividends in each projected year.

Discounted Future Earnings Value Calculations

The Total Entity Value of ABC Corporation Inc based on the Discounted Future Earnings method is estimated to be \$82,329 as shown below. In the Discounted Future Earnings method, Net Income has been projected for 3 years and each year's earnings have been discounted back to present value using an annual discount rate of 24.69% 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 3. These residual earnings are first capitalized using the capitalization rate of 24.69% and then that quantity is discounted back to present value using the discount rate of 24.69%.

Discounted Future Earnings All dollar values stated in thousands	Projected Net Income	Discount Factor	Present Value 2006
FY 2007	12,997	0.801989	10,424
FY 2008	17,009	0.643186	10,940
FY 2009	23,403	0.515828	12,072
Terminal value of Net Income	94,786	0.515828	48,893
Operating value			82,329
Total entity value			82,329

End-of-Year discount factors are based on the Discount Rate of : 24.69%
 Terminal value is based on the Capitalization Rate of : * 24.69%

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.

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 ABC Corporation 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 ABC Corporation Inc.

Search for Comparatives

The 2007 Mergerstat review was consulted and the following information was obtained:-

Percent Premium offered	See Addendum 'A'
P/E offered	See Addendum 'B'
Industry Analysis	See Addendum 'C'

Mergerstat Price to Earnings Multiple

The Total Entity Value of ABC Corporation Inc based on the Price to Earnings Multiple from the Mergerstat database is estimated to be \$545,192. In the Price to Earnings Multiple method, normalized Net Income from the most recent historic year times the Mergerstat Price to Earnings Multiple of 57.5 equals the estimate of Total Entity Value. See the Market Comparables Valuation schedule for detailed value calculations.

Capitalization of Excess Earnings

Usually, intangible assets are not reported on the balance sheet unless purchased. However, the existence of and the value for any intangible assets should be considered. A number of methodologies have been developed to estimate intangible assets of a business. One commonly used method is the excess earnings method. The excess earnings method was developed by the U.S. Treasury Department in 1920 in Appeals and Review Memorandum 34 (ARM 34). Its current version is found in Revenue Ruling 68-609. The excess earnings

method is commonly used in valuing small businesses and professional practices. The Internal Revenue Service suggests that it is to be used only when no better basis exists for separately estimating the value of the intangible assets.

The model for the excess earnings method computes the company's equity value based on the "appraised" value of tangible assets plus an additional amount for intangible assets.

A company's tangible assets should provide a current return to the owner. Since there are risks associated with owning the company's assets, the rate of return on those assets should be commensurate with the risks involved. That rate of return should be either the prevailing industry rate of return required to attract capital to that industry or an appropriate rate above the risk-free rate. Any returns produced by the company above the rate on tangible assets are considered to arise from intangible assets. Accordingly, the weighted average capitalization rate for tangible assets and intangible assets should be equivalent to the capitalization rate of the entire company.

In using the excess earnings method, a reasonable rate of return on net tangible assets was first calculated based on the cost of borrowing against those assets plus the cost of equity required to support the remaining investment in those assets, as shown in the following schedule.

	Cost	Percent of Total Capital	Weighted
Required Return on Debt	0.00%	-11.8%	0.00%
Required Return on Equity	24.69%	111.8%	<u>27.60%</u>
Rate of Return on Net Tangible Assets			<u>27.60%</u>

(See the Rate of Return on Net Tangible Assets schedule for the calculation of the required return on debt.)

Then, weighted average, normalized Net Income is compared to the reasonable rate of return. Excess earnings are defined as the difference between the weighted average earnings and the "normal" return. These excess earnings are then capitalized using the excess earnings capitalization rate of 24.69%. Therefore, capitalized excess earnings are an estimate of intangible value. This intangible value is then added to the appraised value of net tangible equity to estimate Total Entity Value. See the Income Statement Adjustments section for a listing of any adjustments made to historic earnings, the Discount and Capitalization Rates section for the excess earnings capitalization rate and the Net Asset Value schedule for the appraised value of net tangible equity.

As shown below, the Total Entity Value of ABC Corporation Inc based on the Capitalization of Excess Earnings approach is estimated to be \$25,633.

Capitalization of Excess Earnings All dollar values stated in thousands	Normalized Net Income	Weighting Factor	Weighted Earnings 2006
Fiscal Year End 2003	1,200	1.0	1,200
Fiscal Year End 2004	2,351	1.0	2,351
Fiscal Year End 2005	4,893	3.0	14,680
Fiscal Year End 2006	9,478	5.0	47,392
Sum of Weighted earnings			65,624
Divided by: Sum of weighting factors			10.0
Weighted average earnings			6,562
Net tangible assets		8,026	
Multiplied by: Rate of return on net tangible assets		27.60%	
Normal return on net tangible assets		2,215	
Weighted average earnings			6,562
Less: Normal return on net tangible assets			2,215
Excess Earnings			4,347
Divided by: Excess earnings capitalization rate			24.69%
Intangible value			17,607
Plus: Net tangible assets			8,026
Total entity value			25,633

Multiple of Discretionary Earnings

The multiple of discretionary earnings method is best suited to businesses where the salary and perquisites of an owner represent a significant portion of the total benefits generated by the business and/or the business is typically run by an owner/manager. Discretionary earnings is equal to the Company's earnings before income taxes, nonoperating income and expenses, nonrecurring income and expenses, depreciation and amortization, interest income or expense, and owners' total compensation for services that could be provided by an owner/manager. Buyers and sellers of very small closely held businesses tend to think in terms of income to replace their previous paycheck or income to support their family. They look at the total discretionary earnings to see if it is sufficient to pay all the operating expenses of the business, carry the debt structure necessary to buy and/or operate the business, and provide an adequate wage.

The total entity value of ABC Corporation Inc using the Multiple of Discretionary Earnings method is estimated to be \$59,576 as shown below.

Multiple of Discretionary Earnings All dollar values stated in thousands	Normalized EBT	Weighting Factor	Weighted Earnings 2006	
Fiscal Year End 2003	1,213	1.0	1,213	
Fiscal Year End 2004	2,392	1.0	2,392	
Fiscal Year End 2005	4,972	3.0	14,916	
Fiscal Year End 2006	9,626	5.0	48,130	
Sum of Weighted earnings			66,651	
Divided by: Sum of weighting factors			10.0	
Weighted average earnings			6,665	
Plus: Normalized owner's salary & benefits			800	
Plus: Normalized interest expense			359	
Plus: Normalized depreciation & amortization expense				(364)
Less: Normalized interest income			78	
Less: Required capital expenditures			282	
Discretionary earnings			7,100	
Multiplied by: Value multiple			7.5	
Value of operating assets			53,251	
Plus: Normalized net working capital			7,773	
Less: Interest-bearing debt			1,448	
Total entity value			59,576	

See the Valuation Multiple Development Worksheet for the factors considered in the development of the selected valuation multiple. Also see the most recent normalized balance sheet for the presentation of normalized net working capital and the Net Asset Value schedule for the presentation of interest-bearing debt.

Valuation Conclusions

Subject to the assumptions and limiting conditions presented herein, we have estimated the Fair Market Value of 100.00% of the common stock of ABC Corporation Inc as of December 31 2007 to be \$65,693.

Method	Value	Weight	Weighted Value
Net Asset Value	8,026		0
Liquidation Value	8,026	0.0	0
Capitalization of Earnings	26,579	1.0	26,579
Discounted Future Earnings	82,329	5.0	411,646
Discounted Net Cash Flow	47,033	5.0	235,164
Mergerstat Price to Earnings Multiple	545,192	0.3	136,298
Capitalization of Excess Earnings	25,633	1.0	25,633
Multiple of Discretionary Earnings	59,576	5.0	297,879
Sum of weighted values			1,133,199
Divided by: Sum of weights			17.3
Weighted average total entity value			65,693

See the respective supporting schedules for the individual value calculations.