

Business Valuation



Sample Company LLC

as of

December XX, 2010



Business Valuations & Strategies PC
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Conclusion of Value

December XX, 2011

Susan Sample, Executrix
Estate of Samuel Sample
123 Anywhere Road
Anytown, PA 12345

Re: Sample Company LLC (“the Company”)

We have performed a valuation engagement, as that term is defined in the Statement on Standards for Valuation Services (SSVS) of the American Institute of Certified Public Accountants, of **a 100% equity interest in Sample Company LLC (“the Company”), excluding real estate, as of December XX, 2010**. This valuation was performed solely to assist in determining the value of the Company for estate and inheritance tax purposes; the resulting estimate of value should not be used for any other purpose or by any other party for any purpose. This valuation engagement was conducted in accordance with the SSVS. The estimate of value that results from a valuation engagement is expressed as a conclusion of value.

The standard of value used in this valuation is *Fair Market Value*. Fair market value is the price, 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.

The Company is valued as a stand-alone business entity (presuming its current status of capital, management, and employees), and under the premise that it is an ongoing operating business enterprise and is expected to continue to operate into the future. Although our valuation is intended to estimate fair market value, we assume no responsibility for the inability of a seller or buyer to obtain a sale or purchase contract at that price.

Based on our analysis, as described in this valuation report, the estimate of value of **a 100% equity interest in Sample Company LLC (excluding real estate) as of December XX, 2010:**

\$ 888,000

This conclusion is subject to the Statement of Assumptions and Limiting Conditions found in Exhibit E1. We have no obligation to update this report or our conclusion of value for information that comes to our attention after the date of this report.

David E. Coffman CPA/ABV/CFF, CVA
President & CEO
Business Valuations & Strategies PC

Valuation Summary

Date of valuation: December XX, 2010

Date of report: December XX, 2011

Company: Sample Company LLC

Ownership interest valued: 100% equity interest (excluding real estate)

Purpose of valuation: Estate and inheritance tax

Standard of value: Fair market value

Premise of value: Going concern

Type of report: Detailed

Scope limitations: None

Significant assumptions and limitations: See Exhibit E1

Valuation methods considered: Private company transactions, capitalization of cash flow, adjusted net assets, and excess earnings

Selected valuation method: Adjusted net assets

Valuation conclusion: \$ 888,000

Analysis of the Company

Description and History of Business

The Company was founded in 19XX by Samuel Sample as a used car dealership. The Company acquired 61 acres of adjacent land and started an auto salvage business.

Operations

The Company salvages used vehicles for parts and scrap, and also sells used vehicles. The Company buys used vehicles primarily from the nearby locations of a national used vehicle clearing house, Copart. Copart contracts with a number of insurance companies to sell vehicles that have been “totaled” in accidents. The Company transports the vehicles to its site using its own trucks. Upon arrival, each vehicle is evaluated to determine if it has greater value in parts or as scrap. Scrapped vehicles are crushed on site and sold to scrap dealers that make regular pickups. Vehicles retained for parts are stored on site. Used parts are removed from the vehicles as orders are received. The Company also buys used vehicles from several local car dealers for resale.

Management

Samuel Sample is responsible for overall management. John Doe is COO and manages the daily operations. He has worked for the Company for over 30 years.

Workforce

In addition to the COO, the Company employs approximately 12 people including: an office manager, several vehicle dismantlers, several truck drivers, a mechanic, a sales person, and a delivery person.

Sales & Marketing

The Company’s primary market area is a 10 to 15 mile radius of the Company. It sells used parts to local auto repair shops and walk-in customers. It sells used vehicles locally. It spends little on advertising and relies primarily on existing relationships and its well established reputation.

Facilities & Location

The Company operates from approximately 66 acres of land in Any Township, northern Anywhere County. The buildings contain about 2,700 square feet of office, parts counter, garage, and storage space. The real estate is owned by Samuel Sample. The value of the real estate has been excluded from the total entity value of the Company for valuation purposes.

Ownership and Previous Sales of Stock

The equity of the Company is held 100% by Samuel Sample. There have been no transfers of the Company’s equity since its formation.

Entity Type

The Company operates as a limited liability company (LLC) and is taxed as a sole proprietorship. Most small, closely-held companies are sold as asset sales. Asset sales are where the primary operating assets (inventory, fixed assets, and intangible assets) are sold by the company to the buyer. The buyer is free to choose the type of business entity for the new company. Under these circumstances, the existing entity type of a company has no value to the buyer. Upon the sale, an LLC receives the proceeds of the sale and is taxed as a sole proprietorship. Since a hypothetical buyer would not buy the LLC, as an entity, the Company’s status as a LLC was considered to have no value.

Financial Analysis

This analysis includes an evaluation of the Company's common-size financial information from the 2010, 2009 & 2008 compiled financial statements. We assumed that the financial condition and earning capacity of the Company as of December 31, 2010 reasonably reflected the status of these factors as of December XX, 2010.

In order to portray the relative size of financial statement items for comparison over time, each line item in the common-size financial statements is expressed as a percentage of total assets or total revenue. The historical and common-size financial statements are summarized in Exhibits F1 through F3.

Our analysis also includes an evaluation of commonly used financial ratios. These ratios fall within the following categories:

- Liquidity ratios measure the ability to meet short-term obligations,
- Leverage ratios (borrowing) measure reliance on debt and overall vulnerability to business downturns,
- Activity or operating ratios (assets) measure how effectively assets are used to produce revenue, and
- Profitability ratios measure overall performance.

The Company's common-size financial statements and ratios have been compared to composite, industry common-size financial statements and ratios from the Motor Vehicle Parts (Used) Merchant Wholesalers industry (NAICS 42314). The ratio comparisons are presented in Exhibit F4. Each section of the ratio analysis (Liquidity, Profits & Profit Margin, etc.) contains a numerical score/grade, which is a rough measure of overall performance in the area. Each grade represents a score from 1 to 100, with 1 being the lowest score and 100 being the highest. Generally, a score above 50 would be a "good" score and a score below 50 would be a "poor" score. The scores are derived by evaluating the company's trends, either positive or negative, over time and by comparing the company to industry averages for different metrics.

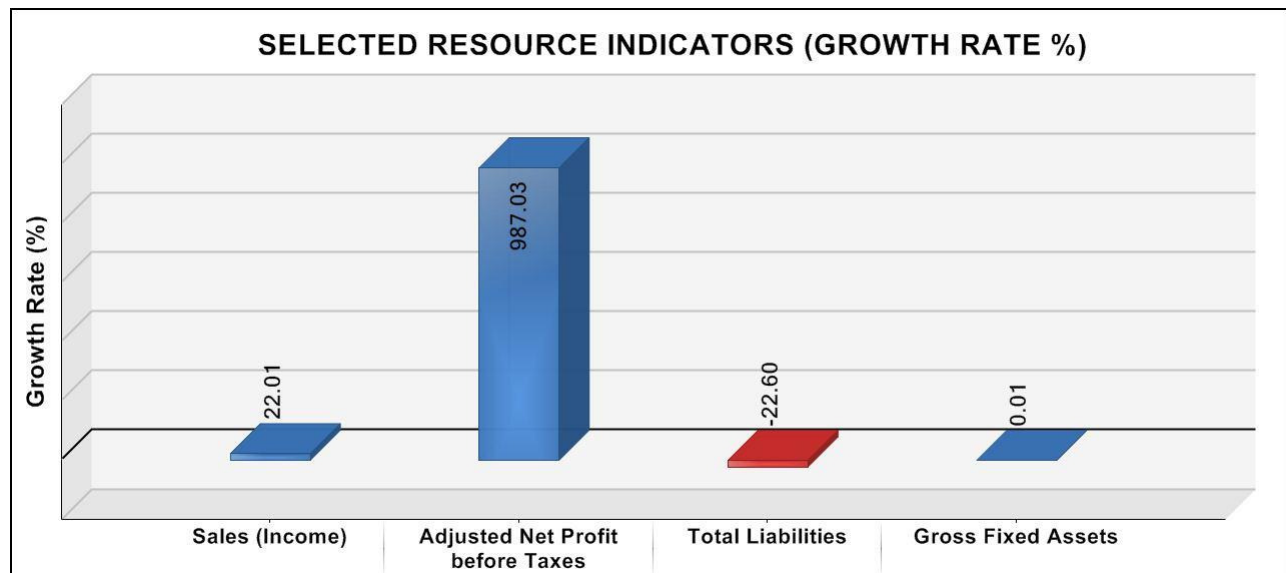
Although industry statistics are a useful source of general analytical data, there can be significant variation in the reporting practices and operational methods of companies within a given industry. Therefore, industry statistics as used throughout this report should not be regarded as absolute norms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

SALES

A measure of how sales are growing and whether the sales are satisfactory for the company.

86 OUT OF 100

The company's sales have risen significantly this period, even relative to the sales growth of other similar companies. Even better, the company has increased sales without changing its fixed asset base very much. The company has simply found a way to increase sales without making long-term capital expenditures. If the company can continue to increase sales over the long run, it should be able to improve profitability if expenses are managed correctly. **The challenge now is to determine what factor is responsible for the sales increase and to leverage it.** For example, asset levels did not need to change much to drive in higher sales. Managers should determine which resources are helping to achieve company objectives (such as increased sales or profitability) and then employ those resources in the right way.



PROFITS & PROFIT MARGIN

A measure of whether the trends in profit are favorable for the company.

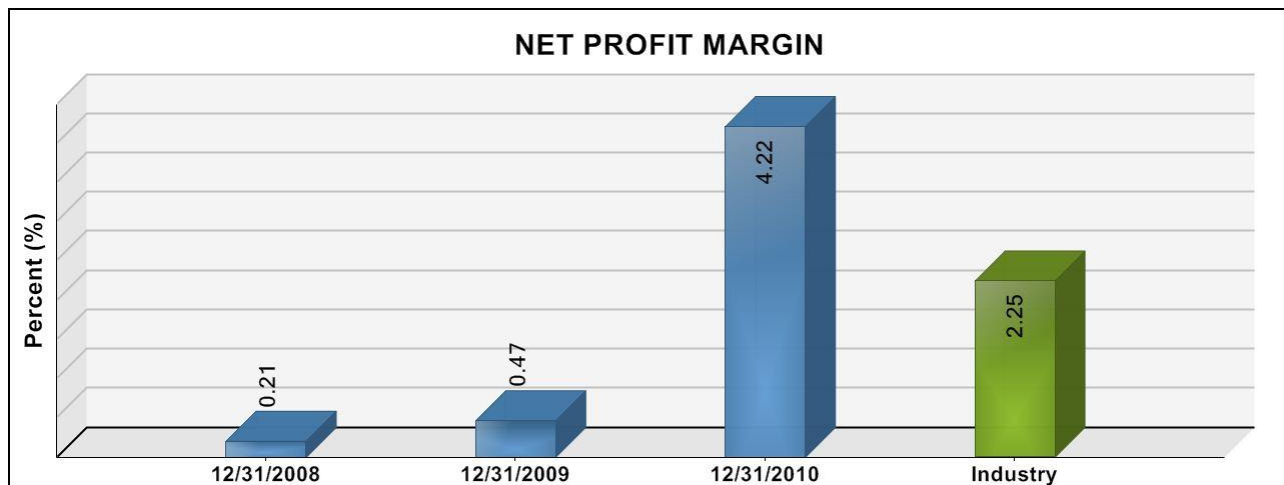
89 OUT OF 100

A stronger net profit margin and higher sales have combined to improve this company's overall net profitability position significantly this period. Specifically, net profit margins have improved by 790.91% while sales have increased by 22.01%. The company is generating significantly more revenue than last period and managing it better by improving net margins -- an excellent combination. It looks like the company is pushing itself nicely within its "relevant range" -- the company's operating range for its current cost structure. This situation could also imply that the company may be able to push sales and profits higher concurrently in the future, which is not always easy to achieve.

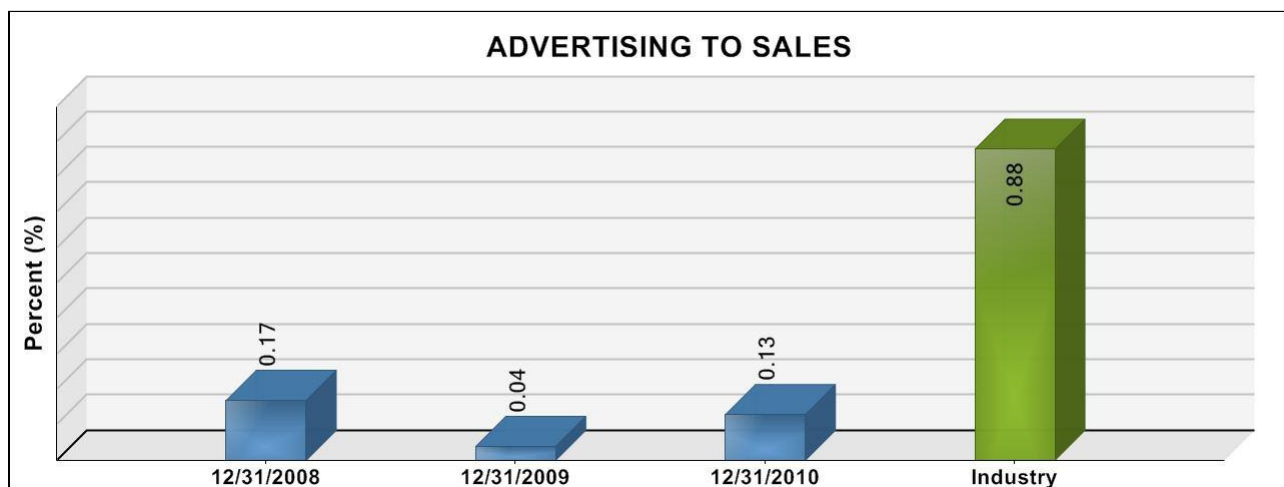
Overall net profitability here is excellent. This means that the net profit margin is good even compared to what similar companies are earning. This puts the challenge on managers to make sure that they are moving money back into the company to improve future profitability. As long as net margins don't slide too much, it is important to invest in the company to take advantage of this excellent strategic position. Managers should also make sure to put money aside to pay taxes on the extra earnings.



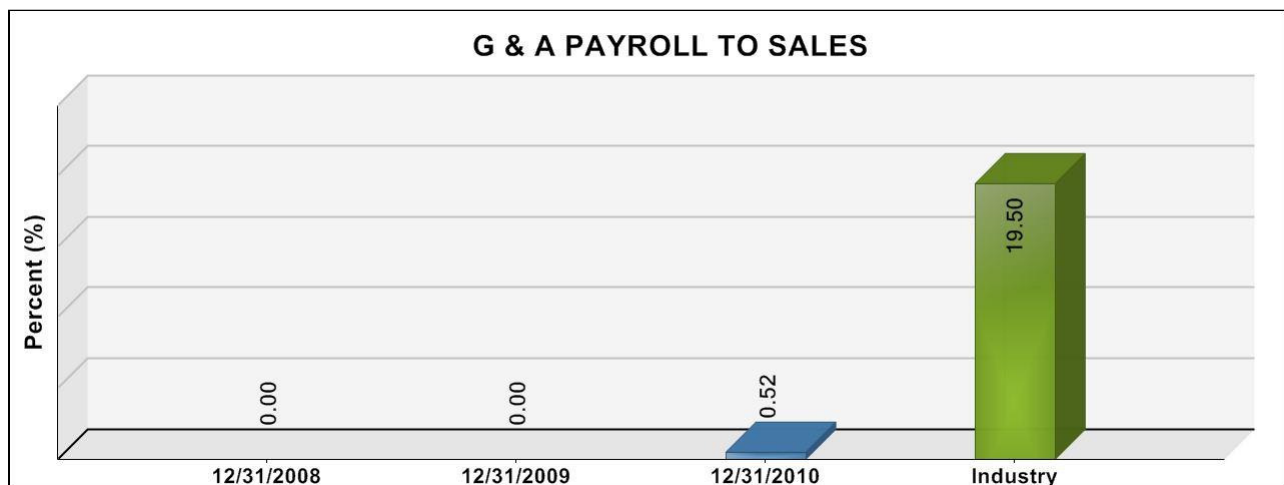
This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better (the company is more efficient).



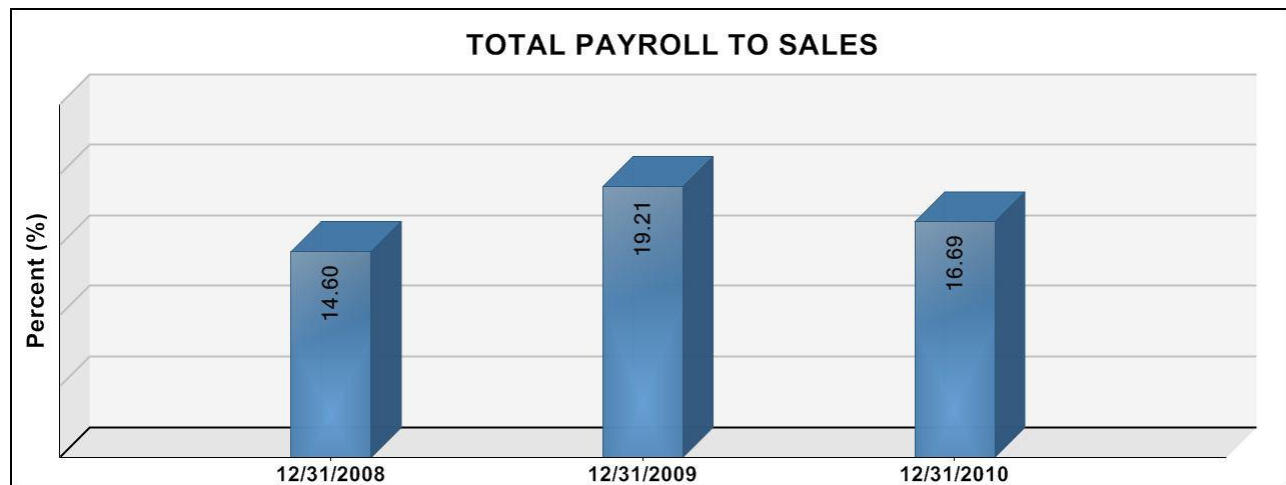
This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts. The higher the better.



This metric shows advertising expense for the company as a percentage of sales.



This metric shows G & A payroll expense for the company as a percentage of sales.



This metric shows total payroll expense for the company as a percentage of sales.

LIQUIDITY

A measure of the company's ability to meet obligations as they come due.

92 OUT OF 100

Operating Cash Flow Results

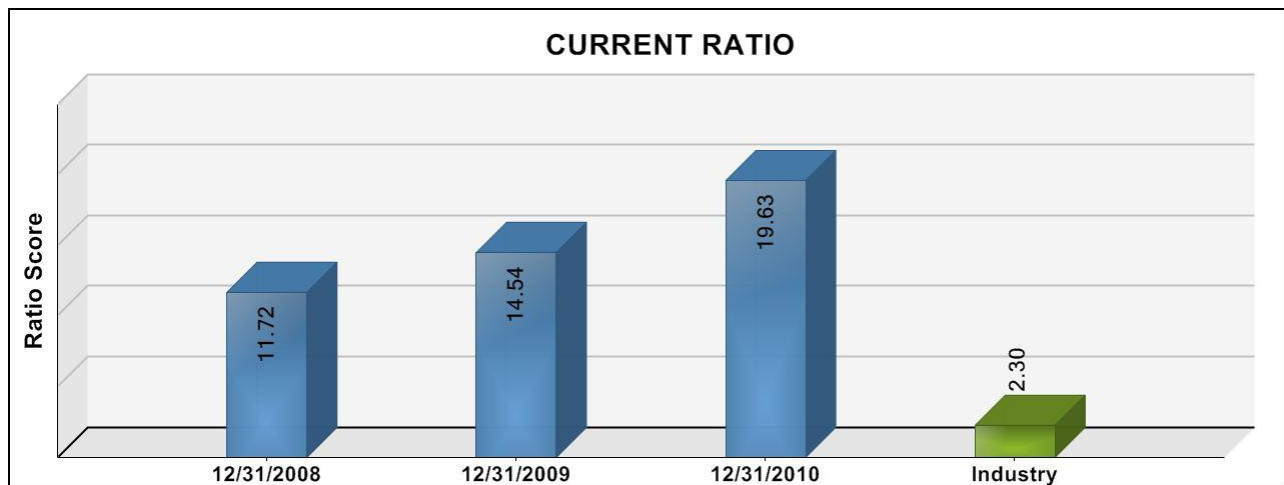
Conditions in this area are strong, currently. The company is generating solid, positive cash flow from operations. It is particularly nice to see this in combination with the overall liquidity results, which are also very good (this will be discussed in more depth below). Ultimately, cash flow drives long-run liquidity for almost every business, so it is good to see a strong relationship between cash flow and profits.

General Liquidity Conditions

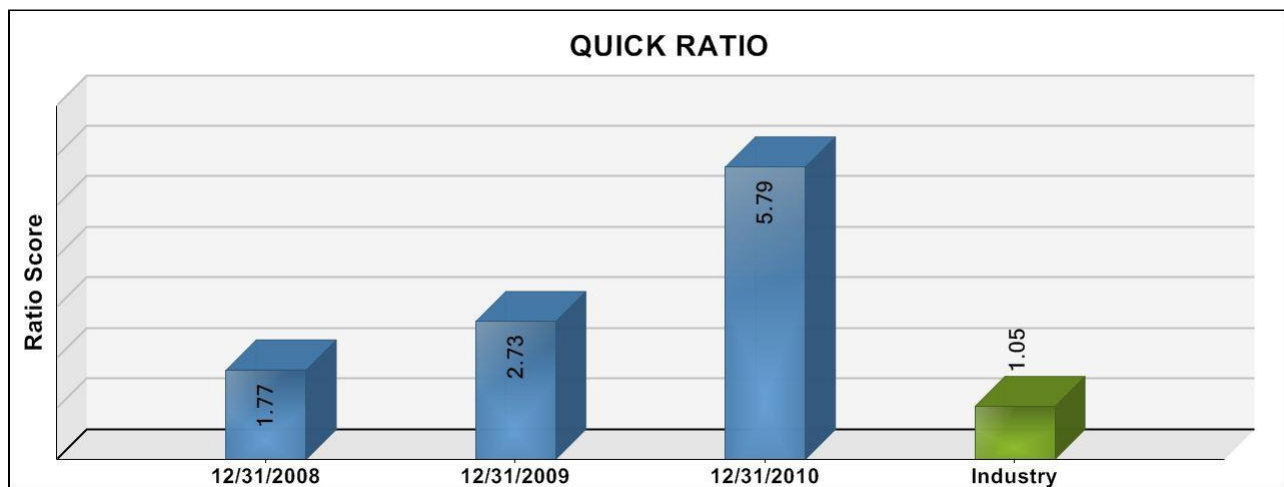
This company has had outstanding liquidity results, and has received the highest possible score in this area. What exactly does this mean? Net income and net profit margins are up, and all areas of liquidity look strong at this specific time. Even better, all liquidity indicators have risen from last period, as depicted in the graph area of the report. For example, notice in the graphs that the company's current and quick ratios are strong **and** have risen by 35.04% and 111.62%, respectively. This indicates that both the scope and composition of the liquidity base are sound (as of this **particular** time). Basically, the company is doing well, even when compared to the competition. When the company's profitability results are examined in a subsequent section of this report, the benefits that a strong liquidity position can yield will be even more fully emphasized. If the company can maintain its strong position over time, management may be able to invest in the expense items that can help propel future profits. **Present** liquidity should help propel **future** net profitability.

Before concluding the liquidity section, some analysis of liquidity days ratios should be made. It is positive to see that the accounts receivable days ratio is low, even relative to competitors. Often, this means that the company is collecting accounts receivables quickly. However, the company's inventory days ratio is high, indicating that the company is taking a relatively long time to convert inventory to sales, which would not have a positive effect on the cash account. Over time, we would typically want the inventory days ratio to float downwards, even though the company's overall liquidity, as measured by the current ratio, is good.

LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



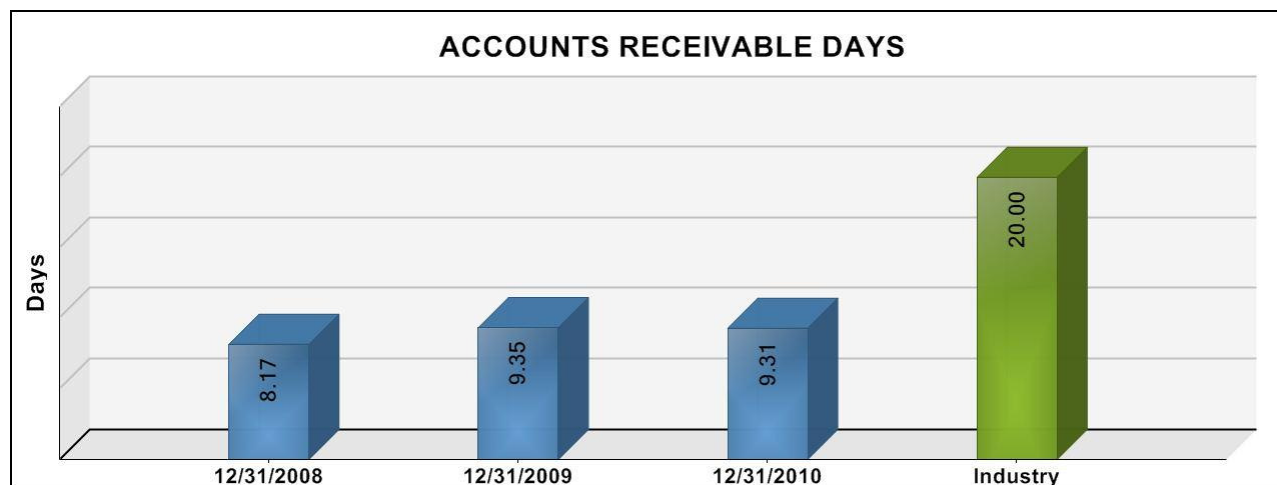
Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.



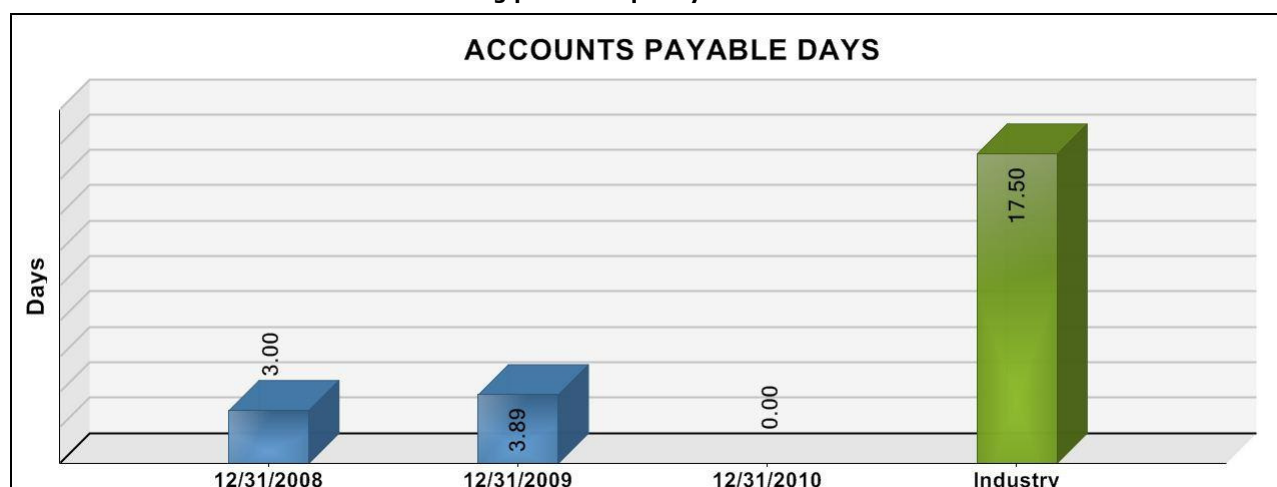
This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.



This metric shows how much inventory (in days) is on hand. It indicates how quickly a company can respond to market and/or product changes. Not all companies have inventory for this metric. The lower the better.



This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.



This ratio shows the average number of days that lapse between the purchase of material and labor, and payment for them. It is a rough measure of how timely a company is in meeting payment obligations. Lower is normally better.

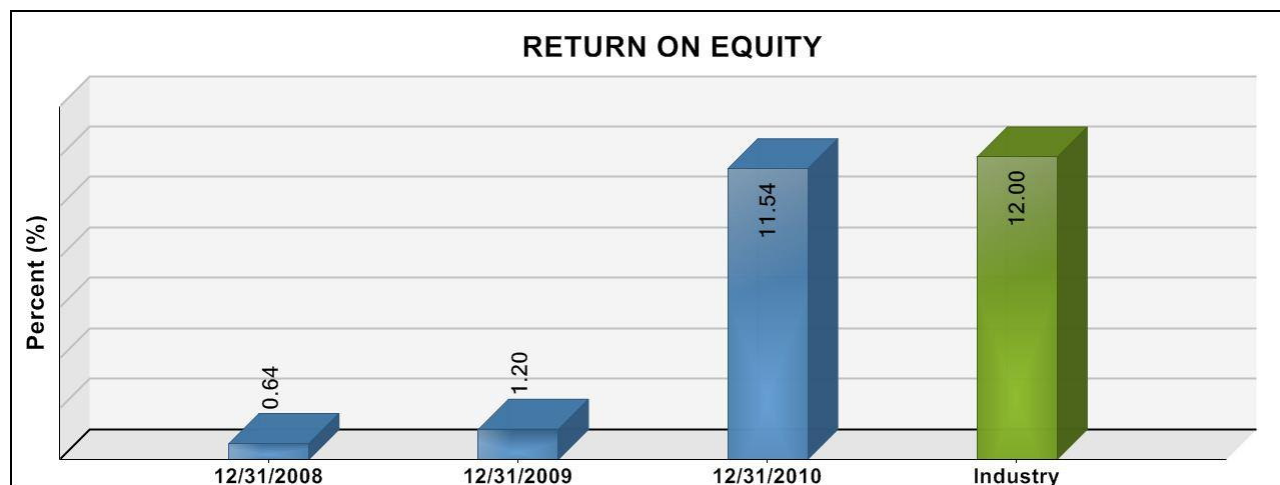
ASSETS

A measure of how effectively the company is utilizing its gross fixed assets.

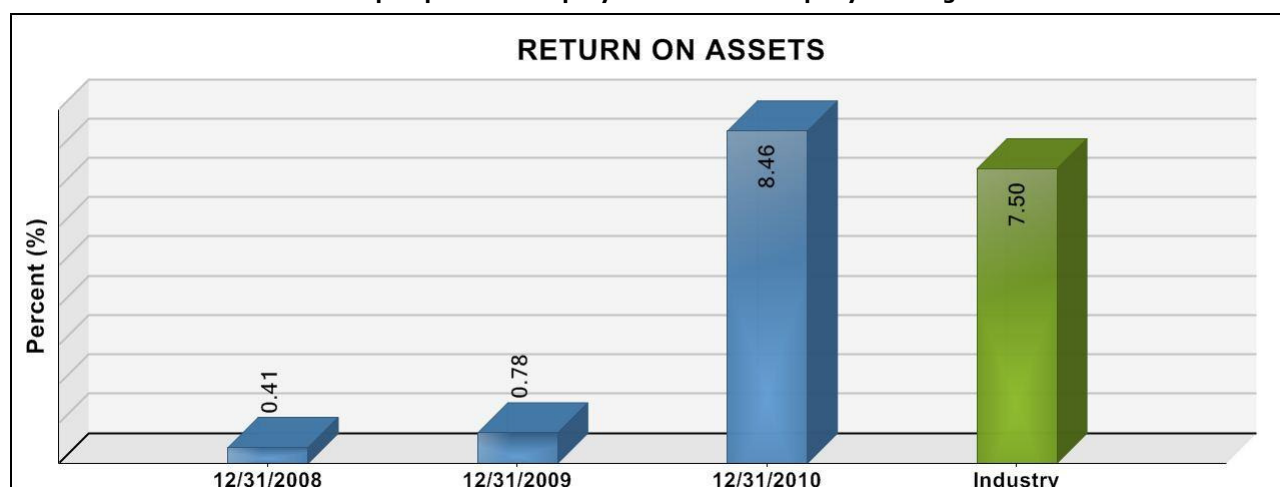
70 OUT OF 100

This period, profitability improved significantly but fixed asset levels stayed relatively flat. This means: 1) profitability was able to improve without adding assets, and 2) the company **may** not need additional assets to continue to improve profitability at this specific time. In other words, the company may be able to grow profitability a bit more with the level of assets currently in place. This should also continue to help improve net margins, which also improved this period. An improvement in net margins is an indication of improved efficiency as the company has a relatively stable asset base.

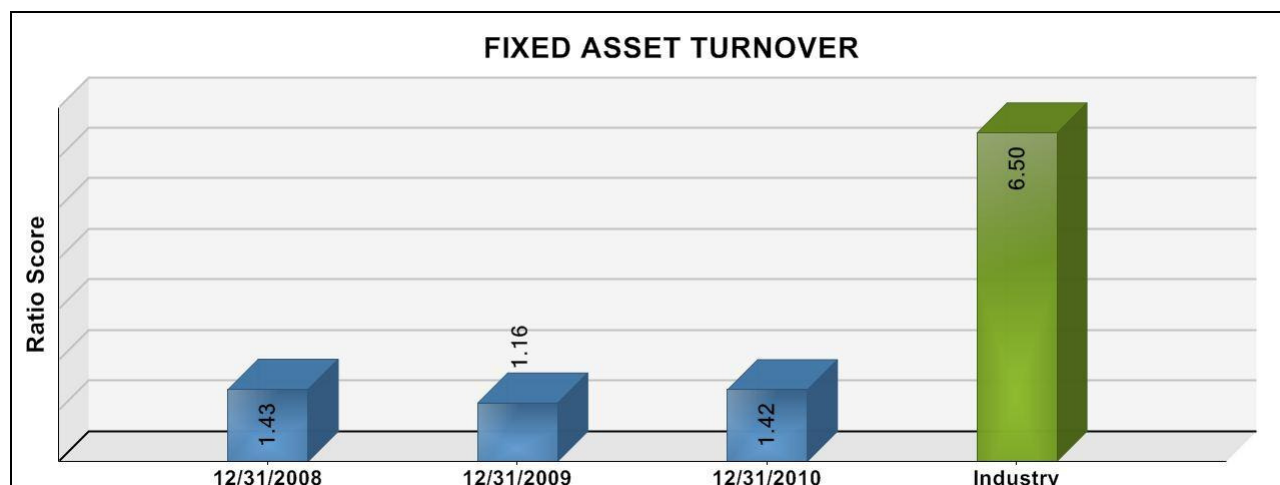
The company seems to be generating adequate returns on its assets and equity. However, it did a fairly poor job generating sales relative to its fixed asset base for this period. It may be important to improve this area, in order to sustain adequate returns on its asset base.



This measure shows how much profit is being returned on the shareholders' equity each year. It is a vital statistic from the perspective of equity holders in a company. The higher the better.



This calculation measures the company's ability to use its assets to create profits. Basically, ROA indicates how many cents of profit each dollar of asset is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher the better.



This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize this metric when looking at companies that do not possess or require significant gross fixed assets. The higher the more effective the company's investments in Net Property, Plant, and Equipment are.

BORROWING

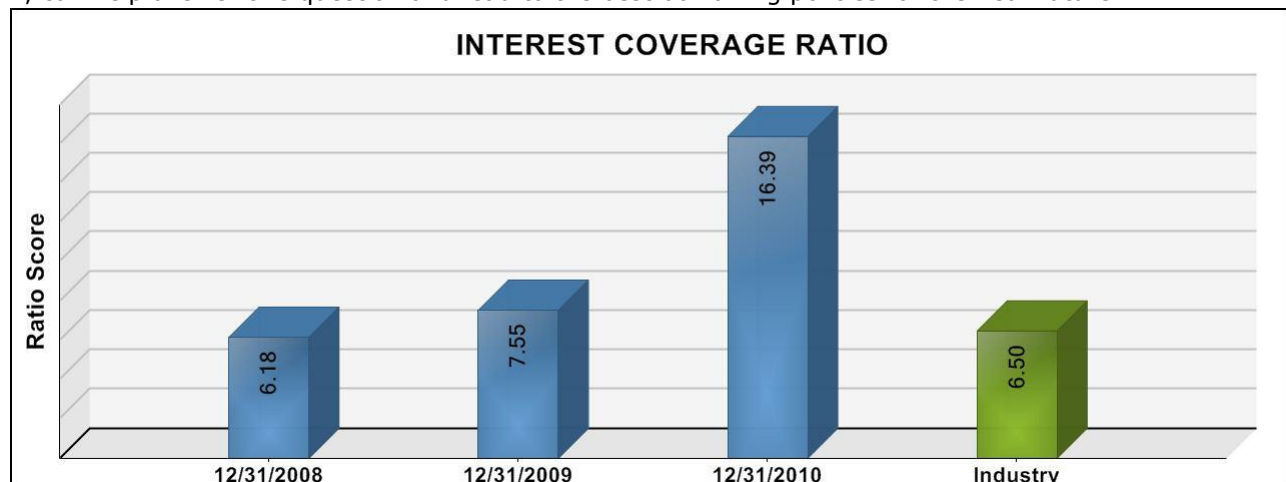
A measure of how responsibly the company is borrowing and how effectively it is managing debt.

89 OUT OF 100

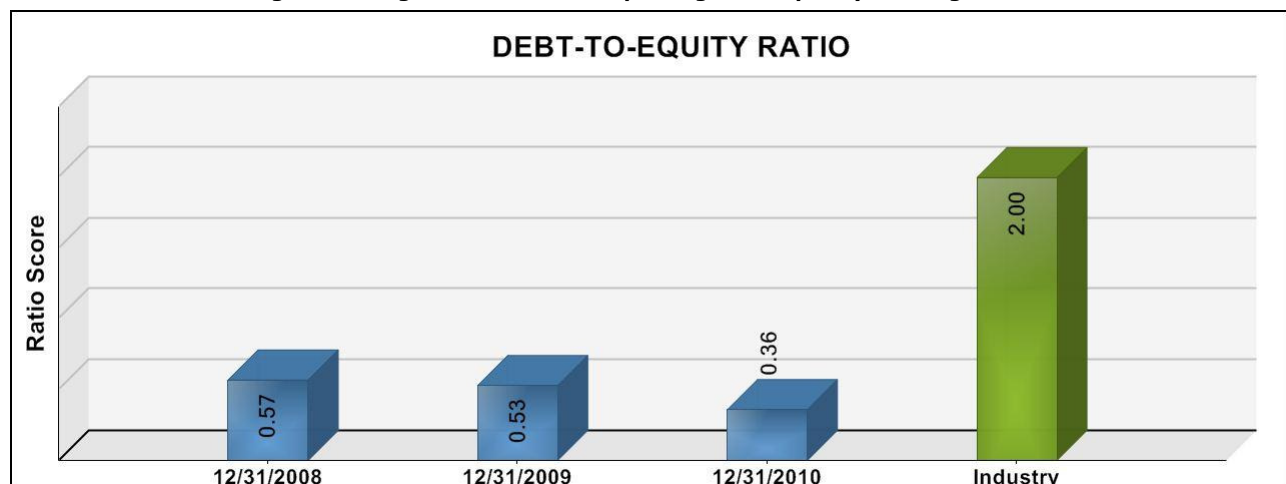
Net profitability improved by 987.03% while debt was lowered. In other words, a reduction in total debt coincided with improved profitability, at least for this period. Not only this, but the net profit margins and overall liquidity actually improved. This is a very good situation -- profitability was able to expand without additional debt. This dynamic should help long-term profitability, especially if it can be continued over multiple periods.

The overall trend in this area seems to be positive. The company has a relatively low level of debt as compared to its equity, and has demonstrated the ability to generate adequate earnings (before interest and non-cash expenses) to cover its interest obligations. Since the company seems to be able to cover its current debt obligations and is not highly levered, it may be able to borrow effectively to help foster future growth. Of course, this must be carefully evaluated by the company's management.

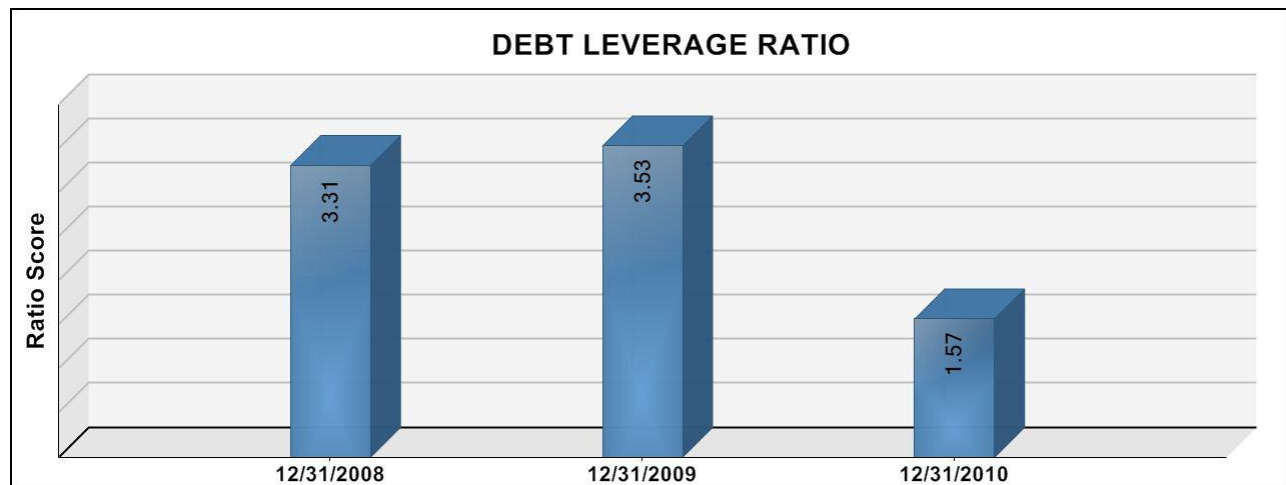
Capacity planning is a challenge here. This involves simply thinking out into the future: how long can profitability improve without increasing borrowing? Analyzing the relationship between investments in resources (such as assets) and profitability improvement, as well as effectively forecasting sales and cash flow, can help answer this question and lead to the best borrowing policies for the near future.



This ratio measures a company's ability to service debt payments from operating cash flow (EBITDA). An increasing ratio is a good indicator of improving credit quality. The higher the better.



This Balance Sheet leverage ratio indicates the composition of a company's total capitalization -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return benefits of financial leverage.



This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).

Summary

The results of the financial analysis are summarized below. Generally, a score above 50 is considered a "good" score and a score below 50 is a "poor" score.

<u>Category</u>	<u>Score</u>
Earning Capacity	
Sales	86
Profits & Profit Margins	89
Financial Condition	
Liquidity	92
Assets	70
Borrowing	89

Sales and profits were up in 2010 so the Company scored well in the earning capacity categories. It also scored well in all the financial condition categories because it is very liquid and has minimal debt. Overall, the Company has excellent earning capacity and a strong balance sheet.

The results of the financial analysis influence the valuation conclusion in several ways. The discount and capitalization rates used in several methods are adjusted for the results of the financial analysis within the specific company risks component. The Company's earning capacity directly impacts income-based methods. The Company's financial condition directly affects asset-based methods.

Dividend Paying Capacity

Dividend paying capacity can be important when valuing a company if data from comparable public companies is available or if minority interests are being valued. The dividend paying capacity of a company often represents the company's net cash flow that is not needed for future growth. Dividends actually paid in the past may have no relation to a company's dividend paying capacity because payment of dividends is discretionary.

Small, closely held companies typically do not pay dividends for a number of reasons. Stockholders/employees frequently withdraw excess cash flow in the form of salaries and bonuses, avoiding the double taxation of dividends. Many small businesses are undercapitalized with limited borrowing capacity so they need to retain more cash to fund operations and growth.

For these reasons dividend-paying capacity is a less reliable factor when valuing a controlling interest in a small, closely held company. Therefore, in this case, dividend-paying capacity was not taken into consideration.

Industry & Competitive Environment

Used Auto Parts

There are two major segments of the automobile parts industry - original equipment (OE) and aftermarket. The aftermarket segment consists of replacement parts and accessories. The used or recycled parts industry is a sub-segment of the aftermarket, replacement parts industry. Most of the available industry data covers the aftermarket segment as a whole.

The size of the U.S. automotive aftermarket parts market was estimated to be \$73 billion annually from 2008 to 2010. Factors that influence the aftermarket sector include the : number of vehicles reaching the prime aftermarket age (about 8 years); cost of fuel; amount of delayed maintenance; and ability to keep used cars in use. The percentage of vehicles between 6 to 10 years has increased due to the increased durability of new vehicles, and fewer new car sales due to poor economic conditions. Due to high gas prices and the poor economy, people are driving less. Fewer miles driven means less wear, leading to less required maintenance. The poor economy also means more drivers are delaying vehicle maintenance. High gas prices also provide an incentive for drivers to buy newer, more fuel efficient cars. The positive growth trends for the aftermarket parts industry are being offset by the negative ones, leading to flat or slow growth. These flat or slow growth conditions are expected to continue in the near-term.

The Internet combined with inexpensive, fast shipping has transformed the used parts industry from many local/regional markets into one national/international market. In the used parts market the availability of specific parts when they are needed is critical to capturing sales. The sale will go to the dealer that has the part at the lowest price. If a used part is not available then buying a new replacement part is often the only other alternative. In this type of market, small companies with good inventory control and technology skills can compete in national/international markets. Many small, independent salvage yards still operate within a local/regional market by primarily serving small auto repair shops that still rely on nearby salvage yards for used parts.

There are a number of used auto parts dealers, and many used car dealers in Any County and the Blank area. Due to the nature of the industry it is very difficult to open a new salvage yard, so it is very unlikely that any new competitors will enter the Company's market area.

Used Autos

The market for used cars is highly localized and depends on acquiring the right inventory for the market. The Internet has regionalized the market and made location and visibility less important. Dealers often sell used cars to compliment other similar lines of business like new car sales or auto repair. Acquiring the right inventory at the right price is the key to a successful dealership.

Company

The Company's revenue dipped in 2009 due to the severe recession, but rebounded in 2010. The Company should be able to resume slow to modest growth as the economy improves. The long-term trends in the used parts industry indicate a stable to slow growth scenario for some time. The sales of used cars fluctuate with the local market.

The industry and competitive environment directly impacts the operations of the Company in many ways such as: rate of sales growth, available cash flow, and specific company risk factors. These elements are already incorporated into the valuation methods used in this engagement, so no specific adjustment for the industry and competitive environment is necessary.

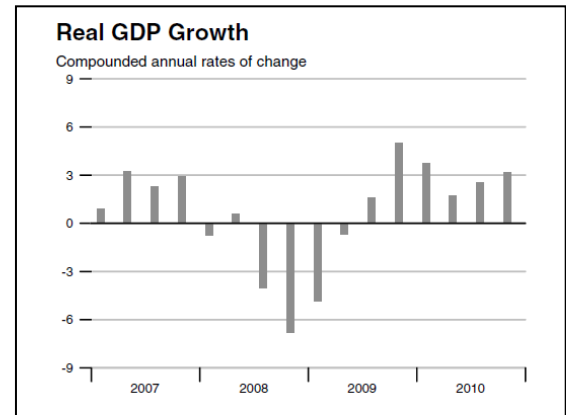
Economic Environment

We analyzed the following indicators to assess the economic environment as of the 4th quarter of 2010.

Overall

Growth

- Indicator – Change in Gross Domestic Product (GDP) which measures the total economic output of the U.S.
- Source – Bureau of Economic Analysis
- Current – GDP growth was 3.2% in the fourth quarter and 2.6% in the third quarter of 2010.
- Forecast – GDP growth is expected to range between 3.0% and 4.0% in 2011.



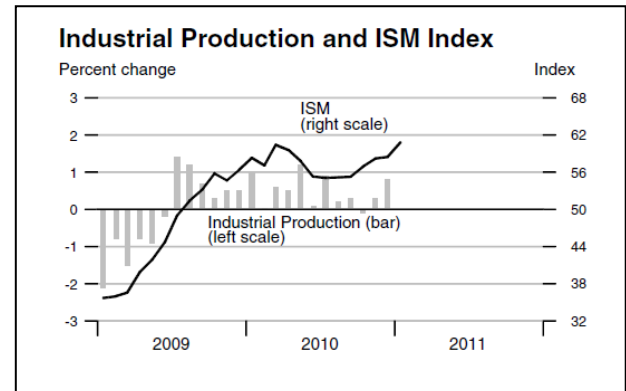
Leading

- Indicator – Leading Index is a composite of 10 forward-looking economic indicators.
- Source – The Conference Board
- Current – The index increased for the fourth consecutive month in December 2010 to 112.4.
- Trend – The index is indicating modest economic growth through 2011.

Manufacturing

Industrial Production

- Indicator – Industrial production index
- Source – Federal Reserve
- Current – The index rose to 94.9 in December 2010. Overall production rose 5.9% from December 2009.
- Trend – Industrial production is expected to continue improving in 2011.



ISM Survey

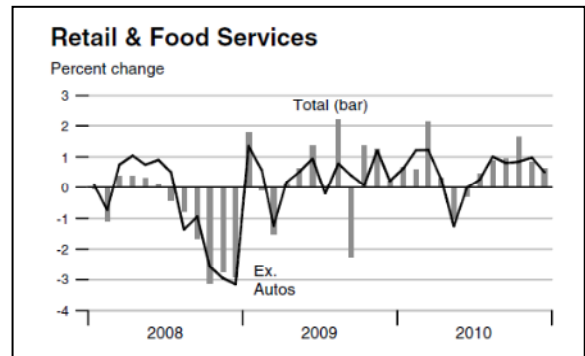
- Indicator – Survey of Manufacturing Activity
- Source – Institute of Supply Management (ISM)
- Current – The index rose for the fifth consecutive month to 58.5 in December 2010. A score of 50 or more indicates growth in manufacturing activity. A score in excess of 41.2 percent, over a period of time, generally indicates an expansion of the overall economy. Whether the score is rising or falling is also important.
- Trend – The index is expected to continue rising modestly in 2011.

Services

- Indicator – Survey of Non- Manufacturing Activity
- Source – Institute of Supply Management (ISM)
- Current – The index rose for the fourth consecutive month to 57.1 in December 2010. A score of 50 or more indicates growth. Whether the score is rising or falling is also important.
- Trend – The index is expected to continue rising modestly in 2011.

Retail

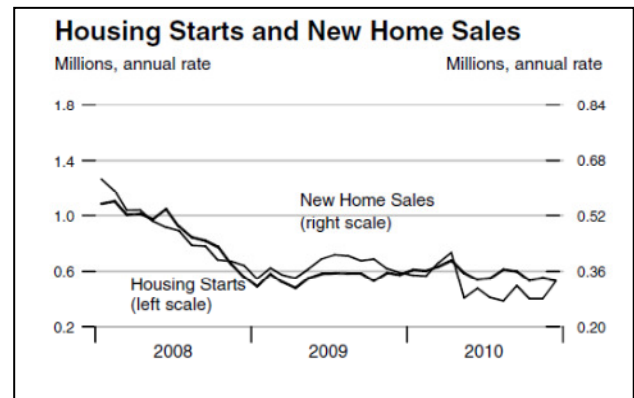
- Indicator – Advance monthly sales for retail and food services
- Source – Census Bureau
- Current – Retail sales for all of 2010 were up 6.6% from 2009.
- Trend – Retail sales are expected to improve slowly through most of 2011.



Housing

Real Estate

- Indicator – New home sales
- Source – Census Bureau
- Current – Home sales were down 7.6% in December 2010 from the same period last year.
- Trend – Home sales are expected to remain flat through most of 2011.



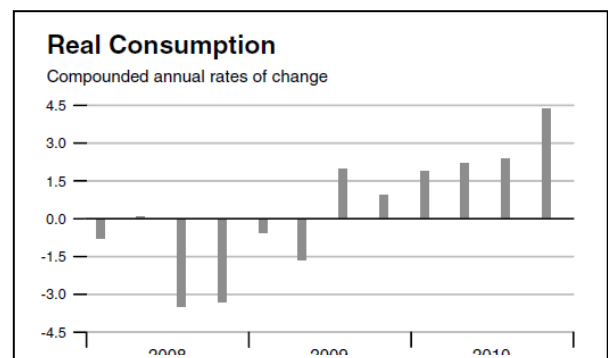
Construction

- Indicator – Housing starts
- Source – Census Bureau
- Current – Housing starts were down 8.2% in December 2010 from the same period last year.
- Trend – Housing starts are expected to remain flat through most of 2011.

Consumer

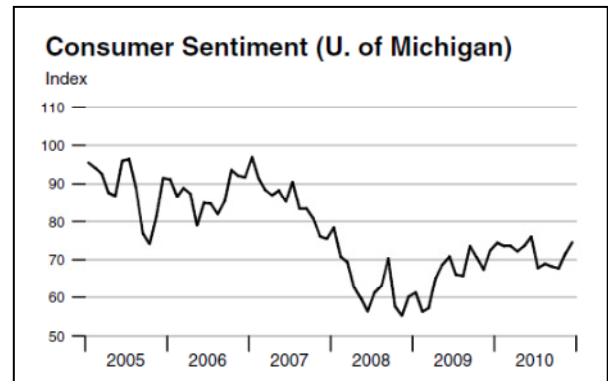
Spending

- Indicator – Personal consumption expenditures (PCE)
- Source – Bureau of Economic Analysis
- Current – Consumer spending rose 3.5% in 2010.
- Trend – Consumer spending is expected rise modestly through most of 2011.



Confidence

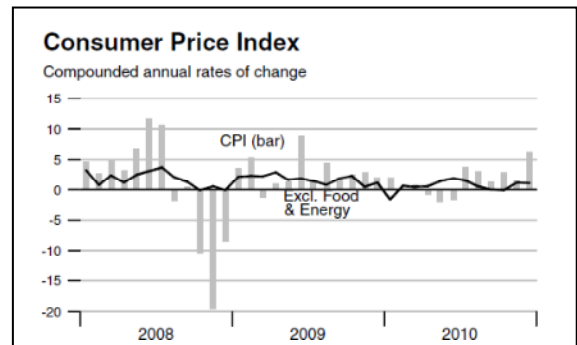
- Indicator – Consumer sentiment
- Source – University of Michigan
- Current – The index rose 6.5 points during the fourth quarter to 74.2 as of January 1, 2011.
- Trend – Consumer confidence is expected to remain stable until the job market improves significantly.



Prices/Inflation

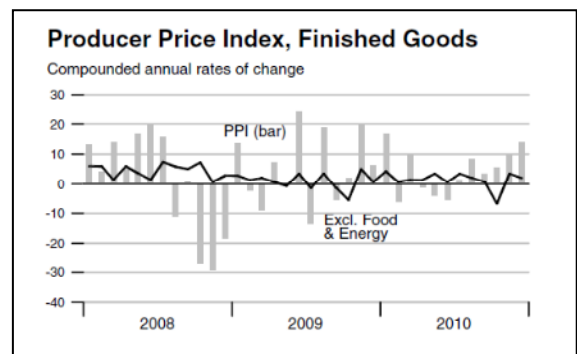
Consumer

- Indicator – Consumer price index (CPI)
- Source – Bureau of Labor Statistics
- Current – The index rose at a 1.5% rate for the twelve months ended December 2010.
- Trend – Consumer prices are expected to increase modestly through 2011. Recent significant increases in oil, food & other commodities prices could threaten price stability.



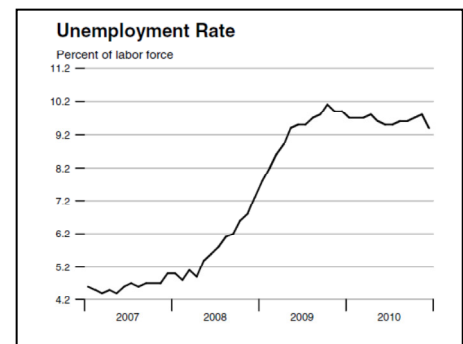
Producer

- Indicator – Producer price index (PPI)
- Source – Bureau of Labor Statistics
- Current – The index rose 4.1% during the twelve months ended December 2010.
- Trend – Producer prices are expected to increase modestly through 2011. Recent significant increases in oil, food & other commodities prices could threaten price stability.



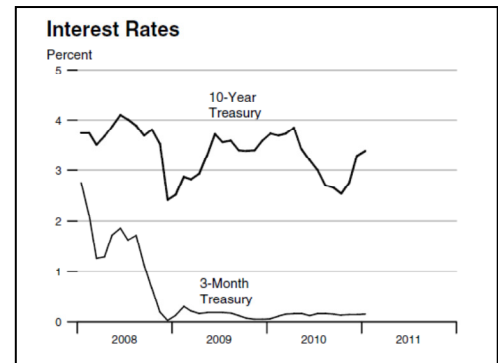
Employment

- Indicator – Unemployment rate
- Source – Bureau of Labor Statistics
- Current – The unemployment rate fell slightly from 9.6% in September to 9.4% in December 2010.
- Trend – The unemployment rate is expected to decline very slowly through 2011.



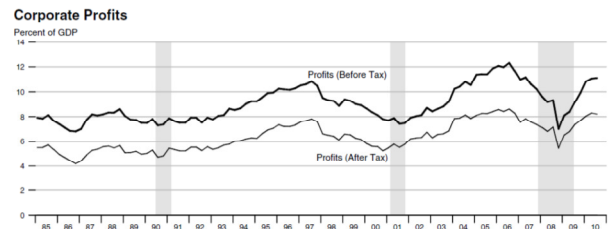
Interest Rates

- Indicator – Short-term rates are strongly influenced by the Federal Reserve, while long-term rates are more market-based.
- Source – Wall Street Journal
- Current – Short term rates are stable at near zero. Long term rates are increasing.
- Trend – Short-term rates are expected to remain low as long as inflation remains low. Long-term rates are expected to continue increasing modestly then stabilize later in 2011.



Corporate Profits

- Indicator – Corporate profits
- Source – Bureau of Economic Analysis
- Current – Corporate profits rose 26.4% in the third quarter of 2010 when compared to the same period last year.
- Trend – Corporate profits are expected to continue improving, but at a slower rate, due to cost cutting and delayed rehiring.



Pennsylvania & Regional

The amount and availability of regional and state level economic data is limited. The data that is available suggests that the conditions within Pennsylvania are closely related to national economic conditions. The unemployment rate for Pennsylvania was 8.5% in December 2010 down from 9.0% in September. The unemployment rates for the Blank areas for December 2010 were down slightly from the previous quarter, and remain below the state and national rates.

Summary

The economy is showing continued signs of recovery but the housing market is healing very slowly and businesses appear reluctant to being hiring again. Consumer spending, one of the main drivers of the economy, will remain sluggish until consumers regain some confidence through an improving job market, which is not expected until 2012.

The economic environment directly impacts the operations of the Company in many ways such as: rate of sales growth, available cash flow, and risk factors. These elements are already incorporated into the valuation methods used in this engagement, so no specific adjustment for the economic environment is necessary.

Valuation Approaches & Methods

Hypothetical Sale

The valuation approaches and methods used in this report are based on the hypothetical sale of the Company 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.

The vast majority of small, privately-held companies are sold on an asset-sale basis. Virtually all sales to third parties are asset sales. A typical asset sale includes the operating assets of a business – inventory; furniture, fixtures and equipment (FF&E); and all intangible assets (goodwill). Real estate may also be included if it is owned by the company. These assets are sold free and clear of all debt, so the proceeds from the sale of assets are used to satisfy any outstanding debts connected to the assets. Then the business entity winds up its affairs by collecting any receivables, liquidating or transferring any assets that were not included in the sale, paying any payables, and satisfying any other obligations. Any remaining cash or other assets are distributed to the owners generally on a pro-rata basis.

The capital stock of a corporation or interest in a partnership may also be sold to transfer ownership (stock sale). Stock sales are more common when a business (or fractional interest) is sold to a related party. In a 100% stock sale, all of the assets and liabilities within the corporation are included in the sale. Because it occurs outside the business entity, the sale generally has no impact on the accounting records of the business entity.

Hypothetical Buyer

There are two basic types of buyers of small businesses. The most common type is an owner-operator. An owner-operator is an individual (or small group of individuals) who intends to personally operate the business on a daily basis. The earnings of the business are expected to: 1) pay the owner-operator reasonable compensation for the services he/she provides to the business, and 2) generate business profits that will be used to service debt, reinvest in the business (buy equipment, etc.) , and provide a return on the investment required to acquire the business. This type of buyer typically will continue to operate the business, more or less, in its current form and is most interested in the cash flow (before owner's compensation) the business is currently generating. Owner-operators often do not have previous experience owning a business and/or in the industry, and will require some training during a transition period. Due partly to their lack of business experience owner-operators often focus on their personal compensation rather business profits. Several surveys have shown that business owners are generally willing to make less money because they value the intangible benefits of owning their own business.

The second type of buyer is an absentee owner. An absentee owner can be an individual, group of individuals or another company that intends to hire managers to run the daily operations. This type of buyer may also be called an investor or a strategic buyer. The earnings of the business are expected to: 1) pay reasonable compensation to the manager(s), and 2) generate business profits that will be used to service debt, reinvest in the business (buy equipment, etc.) , and provide a return on the investment required to acquire the business.

Because this type of buyer often has previous business experience in the industry, they may intend to operate the business differently. Therefore they are more interested in the sales and gross margins that the business generates. They will estimate operating expenses based on their own experience and any planned changes to the operations. This type of buyer is most concerned about earning a return on their investment. An absentee owner must hire managers in the job market at competitive rates. Generally, only businesses that generate enough earnings (currently or projected) to cover a manager's compensation, and still produce adequate net profits is attractive to absentee owners.

Buyers can also be categorized by their relationship to the seller. Most small businesses are sold to unrelated third parties. Unrelated third parties typically act through intermediaries like business brokers or attorneys. This type of buyer looks for businesses for sale based on their own personal criteria including: type of business, location, price range, cash flow, etc. They usually need to provide a down payment of at least 15% and require bank or seller financing to complete the transaction. If commercial financing is used, the buyer will have to show that the business will generate enough earnings to meet projected operating expenses (including compensation for the active owners), and cover the new debt service plus a cushion of at least 25%. Emotions are a major factor in the buying process, but the earnings of the business have to justify the purchase price, especially when commercial financing is involved. First-timers often have difficulty making the decision to buy based on the many uncertainties connected to owning and operating a business. The buyer's ability to secure financing and deal with the uncertainty are critical factors in completing the sale.

Individuals who have an existing relationship with the business such as a family member of an owner or key employee are the next most common type of business buyer. Related buyers often have minimal financial resources and rely heavily on seller financing or incremental purchases. Sales to related parties are generally not considered to be arms-length transactions and the buyer may not be well-informed about business and financial matters, so determining an objective, fair and reasonable price is a critical factor. Since the seller is likely to have a continuing stake in the business, the ability of the buyer to successfully operate the business is a major concern of the seller.

Hypothetical Seller

As with buyers, there are two basic types of sellers (owners) of small businesses. By far the most common type is an owner-operator who personally operates the business on a daily basis. This type of seller is driven primarily by personal factors. The reason for selling and the timing of the sale are based on the owner(s) personal situation. This type of seller often attempts to set a price for the business at a level that meets their personal requirements, often seeking to satisfy their debts and fund their retirement. Owner-operators end up selling their businesses at fair and reasonable prices because they have little choice. If they hold fast to unrealistic ideas of value, they will be forced to either continue operating the business, or close it down.

Absentee owners generally seek to achieve a specific return on investment. A major portion of the expected return is the sale of the business. This type of seller typically monitors the value of the business using industry multiples or some other in-house method. The business is offered for sale when the seller expects the proceeds to meet their required rate of return. This type of seller is likely to withdraw the business from the market if the required return cannot be obtained, and continue operating it. An investor may also seek to sell when the performance of the business is no longer meeting their expectations.

Fractional Interests

Small businesses are difficult to sell in their entirety, and virtually impossible to sell on a piecemeal basis. Few buyers are willing to buy a partial interest, even if it is a controlling one, in a small business. They want 100% control. Therefore, partial interests in small businesses are typically sold as part of a sale of the entire business, and the owners split the proceeds on a pro-rata basis.

Fractional interests may also be sold or transferred to a related party. Transfers of fractional interests are often part of a gifting program to gradually shift ownership to family members. Fractional interests may also be used to sell a business gradually over time to family members or key employees. This method allows the seller to maintain control while the buyer earns ownership and control one step at a time. Fractional interests may also be sold to the company or other owners as a result of the death, disability, retirement, etc. of the owner.

Summary

A small, used auto parts and used car dealership is most likely to be sold as an asset sale to either: 1) a key employee; 2) another owner-operator; or 3) a strategic buyer in the same industry. The most likely type of seller would be an owner-operator. The valuation methods used in this report are designed to produce the value of the total entity.

Market Based Methods

A fundamental method for estimating the value of an ownership interest in a closely held business is an analysis of prices paid by investors in the private or the public markets for ownership interests in other companies in the same or similar lines of business.

Guideline Public Company Method

The premise of this method is that prices of publicly traded stocks in the same or a similar industry provide objective evidence as to the values at which investors are willing to buy and sell interests in companies in that industry. The application of this method depends on the selection of guideline publicly traded companies that are similar enough to the Company to provide a meaningful comparison.

Large, publicly traded companies have many stockholders who elect a board of directors. The board hires the corporate officers who then hire key management. In many small, privately held companies all of these groups consist of the same people. In our opinion, this lack of separation between ownership and management is an important issue to consider. It makes comparing public to private companies inappropriate in many cases. Once the separation issue is addressed, then other factors like: product lines, sales volume, employment levels, territory of operations, market share, etc. should be considered.

For any public companies in this industry the sales volume, position within the supply chain, employment levels, and territories of operations are not comparable to the Company. Therefore, we did not consider this method.

Guideline Private Company Transactions Methods

This method is based on analyzing sales of interests in privately held businesses in the same industry. Since these transactions are at arm's length, they provide objective evidence as to the values at which investors are willing to buy and sell interests in companies in that industry. The application of this method depends on the selection of sales transactions of privately held companies that are similar enough to the Company to provide a meaningful comparison.

The BizComps database contains data from over 10,000 transactions, each, involving the sale of privately owned businesses in the U.S. This data is not publicly reported so it is obtained from business brokers and transaction intermediaries. These sources are considered to be reliable. The amount of data available for each transaction is very limited making it difficult to determine comparability.

Database transactions are structured as or converted to asset sales. The Sale Price contains only 2 components – furniture, fixtures and equipment (FF&E) and goodwill. Therefore the results from these methods must be adjusted for: current assets, real estate, intangible assets (other than goodwill), current liabilities and long-term debt.

We searched the database using the following criteria: 1) NAICS Code 44131, 2) annual sales between \$500,000 and \$2.5 million, and 3) keywords: wholesale & distributor. This search produced 5 matches. The search results are summarized in Exhibit V1. Due to the limited number of matches, we did not find this data to be strong enough to support its use in a primary valuation method.

The Percentage of Annual Revenue method applies the average Sale Price to Annual Revenue ratio to the Company's most recent annual sales. This method ignores differences in gross margins and operating expenses (profitability). Therefore, this method often produces the highest or top-line value of a business.

The Percentage of Annual Revenue method produced a total entity value of \$911,455 and is presented in detail in Exhibit V1. Because this method does not consider profitability, a primary driver of business value, and is based on a limited amount of comparable data, it was not selected.

The Multiple of Seller's Discretionary Earnings (SDE) method applies the Sale Price to SDE ratio to the Company's most recent annual SDE. SDE is equal to a company's earnings before: income taxes, non-recurring income and expenses, depreciation and amortization, interest income or expense, non-operating (discretionary) items, and owners' total compensation for services (including payroll taxes and benefits). The calculation of the Company's SDE is presented in detail in Exhibit F5 – Adjustments to Earnings.

This method is best suited to valuing a controlling interest in a business where the salary and perquisites of an owner represent a significant portion of the total benefits generated by the business and/or an owner/operator typically runs the business. Buyers and sellers of small businesses tend to think in terms of their potential personal compensation rather than business profits. They look at the total discretionary earnings to see if it is sufficient to carry the debt structure necessary to buy and/or operate the business, and provide them with adequate compensation.

The Multiple of SDE method produced a total entity value of \$664,279 and is presented in detail in Exhibit V1. Because this method produced a value less than the adjusted net assets method, that is often considered the base value of a company, and is based on a limited amount of comparable data, it was not selected.

Income Based Methods

The income approach serves to estimate value by considering the income (benefits) generated by an asset (business) 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. Cash flow is commonly used to reflect the benefits of ownership. It is considered a more pure form of earnings and management has direct control of how it is used.

The Company's cash flows are utilized to meet the specific priorities of the owner(s). These priorities may contradict the commonly held theory that management's main objective is to build shareholder value. Some benefits are non-monetary in nature like: controlling your own destiny, being your own boss, and building a legacy. Due to the difficulty of quantifying any non-monetary benefits, they have not been considered in this valuation.

Income-based methods produce results that value the entire company including fixed assets. They do not account for the differing levels of fixed assets that may be required to produce the earnings. For this reason, income-based methods often undervalue fixed asset intensive businesses, and may not be appropriate in these cases.

Discounting & Capitalizing

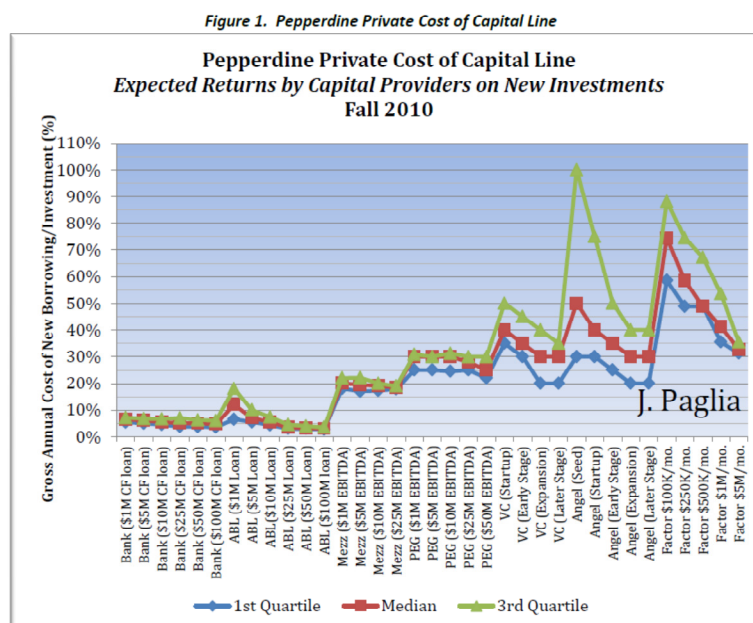
Converting the anticipated future benefits of ownership into value is the core of business valuation. The conversion process involves either the discounting or capitalizing of some form of future benefits (economic income).

Discounting is a procedure that converts a series or stream of expected future benefits to a present value using a discount rate. The discount rate is the compounded total rate of return assumed necessary to adequately compensate the investors (owners) for all of the risks associated with owning the investment (business). This required total rate of return is also referred to as the cost of capital. The expected future benefits consist of two components – income & appreciation or depreciation. Income is the benefits received while holding the investment (owning the business). The amount received upon liquidation will be either more (appreciation) or less (depreciation) than the original investment.

Capitalizing is a procedure that converts a single economic benefit into value. The single economic benefit can be for one period or the average of multiple periods. It can be based on historical, current or expected future results. The capitalization rate is the total rate of return assumed necessary to adequately compensate the investors (owners) for all of the risks associated with owning the investment (business). Since only a single benefit is being converted, the total rate of return is not compounded for growth. That is the difference between a discount rate and a capitalization rate. Deducting a long-term sustainable growth rate from a discount rate converts it to a capitalization rate.

The cost of equity capital is not directly observable in the marketplace so it must be estimated. The Pepperdine private cost of capital survey (PCOC) is the first comprehensive and simultaneous investigation of the behavior of the major private capital market segments. The survey deployed in October/November 2009, specifically examined the behavior of senior lenders, asset-based lenders, mezzanine funds, private equity groups, venture capital firms, and privately-held businesses. The Pepperdine PCOC survey investigated, for each private capital market segment, the important benchmarks that must be met in order to qualify for capital, how much capital is typically accessible, what the required returns are for extending capital in today's economic environment, and outlooks on demand for various capital types, interest rates, and the economy in general.

The Fall 2010 findings indicate that required returns on new investments vary significantly by capital type and risk assumed. This relationship is depicted in the Pepperdine Private Cost of Capital Market Line, which appears below.



Private equity groups typically invest in large, non-public companies with earnings of \$1 million or greater. They typically hold their investments for a period of 3 to 7 years with the intent of exiting through an initial public offering, sale, merger or recapitalization. Private equity groups tend to focus on mature businesses, often contributing both equity and debt in amounts ranging from \$2 million to \$10 million. According to the survey, the required rate of return for the private equity groups investing in companies with earnings of \$1 million ranged from 25% to 30.8%. The difference in rates is due primarily to the structure of the investment and the risks associated with the specific company.

Venture capital funds generally invest in startup firms with products still in the development stage and little if any revenue. These companies have exceptional growth potential where both the risk of loss and the potential for profit are considerable. These funds typically hold their investments for a period of 5 to 10 years with the intent of exiting through an initial public offering, sale, or merger. According to the survey, the median required rate of return for venture capital firms investing in startups was 40.0%.

The risk level associated with owning a small business is generally assumed to be higher than a large, mature private company, and lower than that of a startup company. Therefore, the required rate of return for a small business should range from 25% to 40%. To estimate the cost of equity for a specific company we start with the required rate of return for private equity groups and add a specific company risk factor.

Specific Company Risk

The risks of owning and operating this business are primarily influenced by factors within the Company and the industry in which it operates. Risk premiums were determined by analyzing a number of factors within four categories – market & customer base, financial performance, operations & management, location & facilities, and macro conditions. This analysis is summarized below and presented in detail in Exhibit V2.

Summary

The calculation of the capitalization rate is summarized below and presented in Exhibit V2.

	Capitalization (%)
Required rate of return – private equity	25.0
Specific company risk	4.4
Total	29.4

Discounted Future Benefits

This method converts a stream of future benefits to their present value using a discount rate. This method requires specific estimates of future benefits over a specified period of time until a stable level of benefits is reached. The discount rate should reflect the time value of money, inflation, and the risks associated with ownership of the specific business interest being valued.

Small, owner/operated businesses are driven by criteria set by the owner(s). This business purpose often contains both business and personal objectives. When the business is sold or transferred the business purpose will change to fit the objectives of the new owner(s). Larger businesses that have management teams (that do not consist exclusively of owners) are driven by the business objectives set by management and approved by the owners. Under these circumstances the business purpose is more objective and likely to remain in place despite a change in ownership.

To determine fair market value, the estimates of future benefits (cash flow projections) must be based on the objectives of a hypothetical (most likely) buyer. For owner/operated businesses, these objectives would be highly subjective and difficult to determine. Therefore, this method is most appropriate for larger businesses with independent management teams. Because both ownership and management would change due to a hypothetical sale, this method was not considered.

Capitalization of Benefits

This method converts benefits from a single period into a value using a capitalization rate. This single period benefit represents what the company can be expected to do in the future base on historical earnings. The capitalization rate should reflect the risks associated with ownership of the specific business interest. Capitalized earnings represent the value of the company's assets used in its operations. The value of any assets not used or necessary for operations must be added to capitalized earnings to arrive at the value of the total entity.

Cash flow (direct equity) is capitalized to calculate the value of the total entity (net assets). Cash flow (debt-free) is capitalized to calculate the value of total assets. Valuation methods using a capitalization rate are generally more appropriate when: a company's operations are not expected to undergo substantial change; no specific and credible specific estimates of future benefits are available; and/or both ownership and management would change due to a hypothetical sale.

Normalization Adjustments

Financial statements are based on accounting standards and tax returns are based on federal tax laws that may not reflect economic reality. In a closely held company the stockholders, directors, officers, and key employees tend to be the same people (related parties). Transactions between the Company and its related parties are not at arm's-length and must be evaluated for reasonableness. Transactions that are unusual or not expected to recur on a regular basis distort a company's earnings. As described below, adjustments were made to compensate for these items. These adjustments make the Company's financial information more comparable to other companies in the industry and more reflective of economic reality. These adjustments to earnings are presented in Exhibit F5.

Owner's compensation

As a sole proprietor, Samuel Sample did not draw a salary. Compensation for owner-operators is typically based on the cash flow available from the business and the personal income requirements of the owner. We allocated 50% of the Company's seller's discretionary earnings (SDE) to owner's compensation for valuation purposes.

Non-operating income and expenses

We found no significant non-operating or non-recurring items

Summary

The capitalization of benefits method produced a value of \$(100,014) and is presented in detail in Exhibit V3. This method was not selected because the Company had negative average cash flow and it produced a negative value.

Asset Based Methods

No balance sheet data was available for December XX, 2010. Due to the short period of time and the nature of the business, we assumed that the December 31, 2010 balance sheet data provided a reasonable estimate of the Company's assets and liabilities as of December XX, 2010.

In the asset-based approach, primary emphasis is placed on the fair market value of the assets and liabilities of a business. As a result, this approach uses various methods that consider the value of individual assets and liabilities including intangible assets. Estimating the value of individual intangible assets using the asset-based approach is difficult, highly theoretical, and often produces unrealistic values. Therefore, this approach is most appropriate when a company has little or no intangible assets. This situation is often due to companies that are under performing the industry, unprofitable, or have volatile earnings histories.

Book Value

The most well known method using this approach relies on reported balance sheet assets and liabilities generally termed as book value. It should be recognized that book value is comprised of assets and liabilities reported in accordance with various accounting conventions that may or may not accurately reflect fair market value. The Company's book value as of December 31, 2010 was \$621,080 and is presented in Exhibit V4.

Adjusted Net Assets

Another asset-based method is the adjusted net assets method. This method adjusts the book value of individual assets and liabilities, where necessary, to their fair market value. The adjustments made in this case are described below. The excess of the adjusted assets over the adjusted liabilities is called the adjusted net assets. This method is often used as the base value of a business. The Company's adjusted net assets as of December XX, 2010 were \$887,624 and are described in detail in Exhibit V4.

Market Value Adjustments

Cash

The cash balances were adjusted to bank balances as of December XX, 2010.

Trade receivables

The trade receivables were adjusted to reflect only the balances of accounts with due dates after June 30, 2010.

Real estate

We removed the value of the real estate because it was excluded from the value of the business.

Vehicles & Equipment

We adjusted the value of the vehicles and equipment to 50% of their original cost to reflect the age and condition of the vehicles and equipment, and the market for similar types of used equipment.

Summary

Since the Company has an established history of generating minimal income or losses, we selected the adjusted net assets method as the most appropriate one. The adjusted net assets value was also used as a component of the Excess Earnings Method as described below.

Other Methods

Excess Earnings

Usually, intangible assets are not reported on the balance sheet unless purchased. One commonly used method to determine the existence and the estimated value of intangible assets is called 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 excess earnings method is a hybrid of income and asset based approaches.

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. In this case, the tangible assets of the Company are valued at the Adjusted Net Asset Value, which is assumed to be a reasonable estimate of their "appraised" value. 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. Typically, that rate is the prevailing industry rate of return on assets (pre-tax income/total assets). Any returns produced by the company above the rate on tangible assets are considered to arise from intangible assets. These "excess earnings" are capitalized to estimate the value of the intangible assets.

The capitalization rate used in the excess earnings method is derived from the capitalization rate used in the capitalization of benefits method by adjusting the rate for the different earnings base (pre-tax income vs. cash flow). The excess earnings capitalization rate equals pre-tax earnings divided by cash flow, then multiplied by the capitalized earnings method capitalization method.

Summary

The excess earnings method produced a value of \$887,624 and is presented in detail in Exhibit V5. Because the Company did not generate any excess earnings, this method was not selected.

Industry Rules of Thumb

Some industries have formulas or rules of thumb about how businesses in their industry are valued. Most rules of thumb are market-driven because they are based on actual sales of businesses within a specific industry. We use the rules of thumb published in the Business Reference Guide from Business Brokerage Press.

Rules of thumb reportedly come from industry experts and business intermediaries, but there is no credible evidence to support the source and quality of the data used. Also, the rules do not give adequate consideration to the unique factors that affect the value of a specific business.

Rules of thumb generally come in two formats. The most commonly used formula is a percentage of most recent annual sales. The other common formula uses a multiple of sellers' discretionary earnings (SDE). SDE is described in the Guideline Private Company Transactions Method section.

Due to the limitations of the data available, we only use industry rules of thumb formulas when no better data is available. Industry data is presented in Exhibit V6 for information purposes only.

Valuation Adjustments

Lack of Marketability Discount

Marketability deals with the liquidity of an ownership interest -- how quickly and easily it can be converted to cash (sold). Ownership interests in closely held companies are typically not readily marketable when compared to stocks of publicly held companies. Therefore, a share of stock in a privately held company is usually worth less than a comparable publicly held stock. If the value of a closely held interest is determined using guideline public company data, that value must be discounted for the lack of marketability. Capitalization rates derived from public company data can be adjusted to reflect lack of marketability through the use of specific company risk factors, making the application of a separate discount unnecessary. In this case, a discount for lack of marketability is not applicable because the guideline public company method was not used, and the capitalization rate was adjusted for specific company risk factors.

Control Premium and Minority Interest Discount

Having control of a company involves the ability to: appoint management, set management compensation, determine strategy and policies, acquire or sell assets, acquire other companies, liquidate or recapitalize the company, buy or sell treasury stock, declare and pay dividends, and amend articles of incorporation and bylaws.

Non-controlling or minority interests are worth less than a controlling interest because they do not have these abilities. In companies where there are separate non-controlling interests and a controlling interest, the value of the entity is not allocated proportionately based on ownership interest percentages. For example, a 51 percent controlling interest in a company valued at \$100,000 is worth more than \$51,000 ($\$100,000 \times 51\%$). Conversely, a 49 percent minority interest in the same company is worth less than \$49,000 ($\$100,000 \times 49\%$).

In privately held companies, control of the company's earnings or cash flow is the main concern of the owners. Controlling owners can allocate more cash flow to themselves through compensation and other discretionary spending. In cases where cash flow is allocated to the owners based on adequate and reasonable compensation for their services and proportionately based on their ownership percentage, there is little benefit to controlling owner.

Small businesses are difficult to sell in their entirety, and virtually impossible to sell on a piecemeal basis. Few buyers are willing to buy a partial interest, even if it is a controlling one, in a small business. They want 100% control. Therefore, partial interests in small businesses are typically sold either as part of a sale of the entire business and the owners split the proceeds on a pro-rata basis, or to the other owners based on the interest's pro-rata share of value.

In this case, a control premium or minority interest discount is not applicable because the subject interest is a 100% equity interest in the Company as a single block.

Summary & Conclusions

The objective of this valuation is to estimate the value of a **100% equity interest in Sample Company LLC (excluding real estate) as of December XX, 2010**, for the purpose stated. In reaching our conclusion, we considered the approaches and methods discussed in this report. For the reasons described in that section, we found the adjusted net assets method to be the most appropriate one.

Adjusted net assets (total entity) \$ 887,624

Conclusion of Value (Rounded): \$ 888,000

Engagement Exhibits

- E1 – Statement of Assumptions and Limiting Conditions
- E2 – Sources of Information
- E3 – Certifications and Representations of David E. Coffman
- E4 – Professional Qualifications of David E. Coffman

E1 – Statement of Assumptions and Limiting Conditions

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

1. The conclusion of value arrived at herein is valid only for the stated purpose as of the date of the valuation.
2. Tax returns, financial statements and other related information provided by the Company or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. We have not audited, reviewed, or compiled the financial information provided to me and accordingly, we express no audit opinion or any other of assurance on this information.
3. Public information, and industry and statistical information have been obtained from sources considered to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.
4. The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.
5. This report and the conclusion of value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore the report and conclusion of value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The conclusion of value represents our considered opinion based on information furnished to me by the Company and other sources.
6. Neither all nor any part of the contents of this report (especially the conclusion of value, the identity of any valuation specialist(s), or the firm with which such valuation specialists are connected or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without our prior written consent and approval.
7. Future services regarding the subject matter of this report, including, but not limited to testimony or attendance in court, shall not be required of me unless previous arrangements have been made in writing.
8. We have not made a specific compliance survey or analysis of the subject property to determine whether it is subject to, or in compliance with the American Disabilities Act, and this valuation does not consider the effect, if any, of noncompliance.
9. No change of any item in this report shall be made by anyone other than us, and we shall have no responsibility for any such unauthorized change.
10. Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future Federal, state, or local legislation, including any environmental or ecological matters or interpretations thereof.
11. We interviewed John Doe (COO) who is familiar with the operations of the Company.
12. Except as noted, we have relied on 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 the entity has good title to all assets.
13. This valuation reflects facts and conditions existing at the valuation date. Subsequent events have not been considered, and I have no obligation to update our report for such events and conditions.

14. David E. Coffman prepared this report. He has no present or contemplated future interest in the Company, no personal interest with respect to the parties involved, nor any other interest that might prevent us from performing an unbiased valuation. Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or use of, this report.

E2 – Sources of Information

The following sources of information were used in performing the valuation engagement.

Site visit & interview

- We visited the Company's facilities on December XX, 2011 and interviewed John Doe, the COO

Financial & Tax Information:

- Compiled financial statements for 2010, 2009 & 2008
- A/R aging report as of 12/31/2010
- Used car inventory report as of 10/31/2011
- Insured vehicle list as of 12/2010
- Tax asset detail as of 12/31/2010
- Letter from First National Bank of Anywhere with bank and loan account balances as of 12/XX/2010

Industry Data

- Sageworks Industry Data
- "On the Road: U.S. Automobile Parts Industry Annual Assessment", International Trade Association 2011
- "Aftermarket Business Leaders More Confident About Future", Automobile Aftermarket Industry Association, 3/1/2011
- "Size of the U.S. automotive aftermarket parts market from 2000 to 2010", statista.com
- Various information from used auto parts websites: seekautoparts.com, partshotlines.com, junkyarddog.com, usedpartx.com, getusedparts.com, unedapart.com, car-part.com & part-spot.com

Market Data

- BIZCOMPS

Appraisals

- Real estate appraisal of 123 Anywhere Road by Bert Appraiser as of 8/15/2011
- Real estate appraisal of 61 acres of land on Anytown Road by Bert Appraiser as of 8/15/2011

Economic –Demographic Data

- Bureau of Economic Analysis
- Bureau of Labor Statistics
- Census Bureau
- Institute for Supply Management
- National Economic Trends – Federal Reserve of St. Louis

Rate of Return Data

- The Pepperdine private cost of capital survey (PCOC), Fall 2010

E3 – Certifications and Representations of David E. Coffman

I certify that to the best of my knowledge and belief:

1. The analyses, opinions, and conclusion of value included in the valuation report are subject to the reported scope limitations, and the assumptions and limiting conditions specified in Exhibit E1, and they are the personal analyses, opinions, and conclusion of value of the valuation analyst.
2. The economic and industry data included in the valuation report have been obtained from various printed or electronic reference sources that the valuation analyst believes to be reliable. The valuation analyst has not performed any corroborating procedures to substantiate that data.
3. The valuation engagement was performed in accordance with the American Institute of Certified Public Accountants Statement on Standards for Valuation Services, the Professional Standards of the National Association of Certified Valuation Analysts, and the Uniform Standards of Professional Appraisal Practice.
4. The parties to which the information and use of the valuation report is restricted are identified; the valuation report is not intended to be and should not be used by anyone other than such parties.
5. The analyst's compensation is fee-based and is not contingent on the outcome of the valuation.
6. I am in compliance with the American Institute of Certified Public Accountants Accredited in Business Valuation (ABV) and National Association of Certified Valuation Analysts (CVA) re-certification requirements.
7. I do not have any direct or indirect, present or contemplated future interest in the Company.
8. Disclosure of the contents of this report is subject to the requirements of the National Association of Certified Valuation Analysts, and other professional organizations of which I am a member, related to review by their duly authorized representatives.

David E. Coffman

E4 – Professional Qualifications of David E. Coffman

Academic and Professional Credentials

- Certified Public Accountant (CPA) since 1978. Licensed in PA and NJ.
- Certified Valuation Analyst (CVA) since 1997.
- Accredited in Business Valuation (ABV) since 2001.
- Certified in Financial Forensics (CFF) since 2008.
- Bachelor of Science, Business Administration, Bloomsburg University, May 1976.

Position and Experience

- President & CEO of Business Valuations & Strategies PC, Harrisburg, PA. Founded in 1997.
- President & CEO of NJ Business Valuations PC, Seaside Park, NJ. Founded in July 2008.
- Specializing exclusively in small business valuation since 1997.
- Has valued hundreds of small businesses.
- Over 30 years of experience advising, owning and operating small businesses.

Professional Affiliations

- American Institute of Certified Public Accountants
- Pennsylvania Institute of Certified Public Accountants, past president of the North and South Central Chapters
- New Jersey Society of Certified Public Accountants
- National Association of Certified Valuation Analysts

Financial Exhibits

Historical Financial Data:

F1 – Balance Sheets – Historical & Common-size

F2 – Income Statements – Historical & Common-size

F3 – Cash Flow Statements – Comparative

F4 – Ratio Analysis

F5 – Adjustments to Earnings

Sample Company LLC

Balance Sheets - Historical & Common-Size

	12/31/2010		12/31/2009		12/31/2008	
	\$	%	\$	%	\$	%
Assets						
Current assets						
Cash	171,221	20.2%	94,751	11.2%	63,607	7.5%
Trade receivables	43,335	5.1%	35,668	4.2%	38,126	4.5%
Inventory	493,293	58.2%	539,741	64.0%	540,381	63.4%
Prepaid expenses	19,955	2.4%	23,119	2.7%	29,849	3.5%
Total current assets	727,804	85.9%	693,279	82.1%	671,963	78.9%
Property & equipment - net	119,302	14.1%	149,854	17.8%	180,009	21.1%
Other assets	0	0.0%	0	0.0%	0	0.0%
Total assets	847,106	100.0%	843,133	99.9%	851,972	100.0%
Liabilities						
Current liabilities						
Accounts payable	0	0.0%	11,373	1.3%	11,061	1.3%
Notes payable - short-term	34,854	4.1%	34,854	4.1%	44,890	5.3%
Sales tax payable	380	0.0%	182	0.0%	158	0.0%
Payroll withholdings & taxes payable	1,839	0.2%	1,279	0.2%	1,238	0.1%
Total current liabilities	37,073	4.3%	47,688	5.6%	57,347	6.7%
Long-term liabilities	188,953	22.3%	244,345	29.0%	252,162	29.6%
Total liabilities	226,026	26.6%	292,033	34.6%	309,509	36.3%
Equity						
Beginning	551,100	65.1%	542,463	64.3%	542,462	63.7%
Net income (loss)	71,646	8.5%	6,591	0.8%	3,496	0.4%
Adjust to tax return	0	0.0%	0	0.0%	0	0.0%
Contributions (withdrawals)	(1,666)	-0.2%	2,046	0.2%	(3,495)	-0.4%
Total	621,080	73.4%	551,100	65.3%	542,463	63.7%
Total liabilities & equity	847,106	100.0%	843,133	99.9%	851,972	100.0%

Sample Company LLC

Income Statements - Historical & Common-Size

	2010		2009		2008	
	\$	%	\$	%	\$	%
Sales	1,699,436	100.0%	1,392,829	100.0%	1,703,786	100.0%
Cost of sales:						
Direct labor	274,667	16.2%	267,600	19.2%	248,791	14.6%
Payroll taxes	38,513	2.3%	32,093	2.3%	26,200	1.5%
Purchases	883,763	52.0%	717,446	51.5%	1,023,102	60.0%
Recondition & parts	97,535	5.7%	45,361	3.3%	42,837	2.5%
Other	7,105	0.4%	4,219	0.3%	4,039	0.2%
Total	1,301,583	76.6%	1,066,719	76.6%	1,344,969	78.8%
Gross profit	397,853	23.4%	326,110	23.4%	358,817	21.2%
Operating expenses						
Depreciation	63,864	3.8%	65,192	4.7%	74,795	4.4%
Bad debts	0	0.0%	0	0.0%	5,500	0.0%
Officer's compensation	0	0.0%	0	0.0%	0	0.0%
Other salaries & wages	8,895	0.5%	0	0.0%	0	0.0%
Repairs & maintenance	16,716	1.0%	10,072	0.7%	13,547	0.8%
Supplies	13,404	0.8%	5,699	0.4%	5,921	0.3%
Payroll & other taxes	844	0.0%	154	0.0%	245	0.0%
Property taxes	23,800	1.4%	22,453	1.6%	21,184	1.2%
Licenses & permits	524	0.0%	511	0.0%	180	0.0%
Interest expense	8,806	0.5%	10,951	0.8%	15,110	0.9%
Advertising	2,214	0.1%	500	0.0%	2,850	0.2%
Employee benefits	64,584	3.8%	81,523	5.9%	79,455	4.7%
Uniforms	3,093	0.2%	2,499	0.2%	2,823	0.2%
Gas & oil	24,914	1.5%	38,732	2.8%	43,069	2.5%
Dues & subscriptions	488	0.0%	867	0.1%	252	0.0%
Insurance	45,248	2.7%	36,159	2.6%	36,463	2.1%
Telephone & cable	8,236	0.5%	8,505	0.6%	10,721	0.6%
Miscellaneous expenses	1,002	0.1%	886	0.1%	1,964	0.1%
Professional fees	5,455	0.3%	6,075	0.4%	5,335	0.3%
Utilities	16,892	1.0%	18,819	1.4%	32,953	1.9%
Office & computer expenses	17,228	1.0%	9,922	0.7%	2,954	0.2%
Travel & entertainment	0	0.0%	0	0.0%	0	0.0%
Vehicle expenses	0	0.0%	0	0.0%	0	0.0%
Total operating expenses	326,207	19.2%	319,519	23.0%	355,321	20.4%
Net income	71,646	4.2%	6,591	0.4%	3,496	0.8%

Sample Company LLC

Cash Flow Statements - Comparative Historical

	2010	2009	2008
Net income	71,646	6,591	3,496
Non-cash items			
Depreciation - regular	63,864	65,192	74,795
Add (deduct) change in:			
Trade receivables	(7,667)	2,458	0
Inventory	46,448	640	(95,673)
Prepaid expenses	3,164	6,730	0
Accounts payable	(11,373)	312	0
Sales tax payable	198	24	0
Payroll withholdings & taxes payable	560	41	0
Capital expenditures - net	(33,312)	(35,037)	0
Debt proceeds (repayments)	(55,392)	(17,853)	(17,838)
Net cash flow to equity	78,136	29,098	(35,220)

INDUSTRY SCORECARD

Financial Indicator	Current Period	Industry Range	Distance from Industry
Current Ratio = Total Current Assets / Total Current Liabilities Explanation: Generally, this metric measures the overall liquidity position of a company. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.	19.63	1.60 to 3.00	+554.33%
Quick Ratio = (Cash + Accounts Receivable) / Total Current Liabilities Explanation: This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.	5.79	0.70 to 1.40	+313.57%
Inventory Days = (Inventory / COGS) * 365 Explanation: This metric shows how much inventory (in days) is on hand. It indicates how quickly a company can respond to market and/or product changes. Not all companies have inventory for this metric. The lower the better.	138.33 Days	40.00 to 75.00 Days	-84.44%
Accounts Receivable Days = (Accounts Receivable / Sales) * 365 Explanation: This number reflects the average length of time between credit sales and payment receipts. It is crucial to maintaining positive liquidity. The lower the better.	9.31 Days	10.00 to 30.00 Days	+6.90%
Accounts Payable Days = (Accounts Payable / COGS) * 365 Explanation: This ratio shows the average number of days that lapse between the purchase of material and labor, and payment for them. It is a rough measure of how timely a company is in meeting payment obligations. Lower is normally better.	0.00 Days	5.00 to 30.00 Days	N/A
Gross Profit Margin = Gross Profit / Sales Explanation: This number indicates the percentage of sales revenue that is not paid out in direct costs (costs of sales). It is an important statistic that can be used in business planning because it indicates how many cents of gross profit can be generated by each dollar of future sales. Higher is normally better (the company is more efficient).	23.41%	35.00% to 50.00%	-33.11%
Net Profit Margin = Adjusted Net Profit before Taxes / Sales Explanation: This is an important metric. In fact, over time, it is one of the more important barometers that we look at. It measures how many cents of profit the company is generating for every dollar it sells. Track it carefully against industry competitors. This is a very important number in preparing forecasts. The higher the better.	4.22%	0.50% to 4.00%	+5.50%
Advertising to Sales = Advertising / Sales Explanation: This metric shows advertising expense for the company as a percentage of sales.	0.13%	0.25% to 1.50%	+48.00%
G & A Payroll to Sales = G & A Payroll Expense / Sales Explanation: This metric shows G & A payroll expense for the company as a percentage of sales.	0.52%	14.00% to 25.00%	+96.29%

INDUSTRY SCORECARD

Financial Indicator	Current Period	Industry Range	Distance from Industry
Total Payroll to Sales = (Direct Labor + G & A Payroll Expense) / Sales Explanation: This metric shows total payroll expense for the company as a percentage of sales.	16.69%	N/A	N/A
Interest Coverage Ratio = EBITDA / Interest Expense Explanation: This ratio measures a company's ability to service debt payments from operating cash flow (EBITDA). An increasing ratio is a good indicator of improving credit quality. The higher the better.	16.39	3.00 to 10.00	+63.90%
Debt-to-Equity Ratio = Total Liabilities / Total Equity Explanation: This Balance Sheet leverage ratio indicates the composition of a company's total capitalization -- the balance between money or assets owed versus the money or assets owned. Generally, creditors prefer a lower ratio to decrease financial risk while investors prefer a higher ratio to realize the return benefits of financial leverage.	0.36	1.00 to 3.00	+64.00%
Debt Leverage Ratio = Total Liabilities / EBITDA Explanation: This ratio measures a company's ability to repay debt obligations from annualized operating cash flow (EBITDA).	1.57	N/A	N/A
Return on Equity = Net Income / Total Equity Explanation: This measure shows how much profit is being returned on the shareholders' equity each year. It is a vital statistic from the perspective of equity holders in a company. The higher the better.	11.54%	6.00% to 18.00%	0.00%
Return on Assets = Net Income / Total Assets Explanation: This calculation measures the company's ability to use its assets to create profits. Basically, ROA indicates how many cents of profit each dollar of asset is producing per year. It is quite important since managers can only be evaluated by looking at how they use the assets available to them. The higher the better.	8.46%	5.00% to 10.00%	0.00%
Fixed Asset Turnover = Sales / Gross Fixed Assets Explanation: This asset management ratio shows the multiple of annualized sales that each dollar of gross fixed assets is producing. This indicator measures how well fixed assets are "throwing off" sales and is very important to businesses that require significant investments in such assets. Readers should not emphasize this metric when looking at companies that do not possess or require significant gross fixed assets. The higher the more effective the company's investments in Net Property, Plant, and Equipment are.	1.42	3.00 to 10.00	-52.67%

NOTE: Exceptions are sometimes applied when calculating the Financial Indicators. Generally, this occurs when the inputs used to calculate the ratios are zero and/or negative.

Sample Company LLC
Adjustments to Earnings

Adjusted Pre-Tax Earnings

	2010	2009	2008
Net income	71,646	6,591	3,496
Adjust owner's compensation to 50% of SDE	(72,158)	(41,367)	(46,701)
Non-recurring items	0	0	0
Non-operating (discretionary) items	0	0	0
Adjusted pre-tax earnings	(512)	(34,776)	(43,205)

Adjusted Cash Flow

	2010	2009	2008
Cash flow to equity	78,136	29,098	(35,220)
Adjust owner's compensation to 50% of SDE	(72,158)	(41,367)	(46,701)
Non-recurring items	0	0	0
Non-operating (discretionary) items	0	0	0
Adjusted cash flow	5,978	(12,269)	(81,921)

Seller's Discretionary Earnings

	2010	2009	2008
Net income	71,646	6,591	3,496
Depreciation	63,864	65,192	74,795
Interest expense	8,806	10,951	15,110
Non-recurring items	0	0	0
Non-operating (discretionary) items	0	0	0
Sellers' discretionary earnings (SDE)	144,316	82,734	93,401

Valuation Exhibits

V1 – Private Company Transactions

Search Summary

Percentage of Annual Revenue

Multiple of Seller's Discretionary Earnings

V2 – Capitalization Rate

V3 – Capitalization of Benefits (Cash Flow)

V4 – Adjusted Net Assets

V5 – Excess Earnings

V6 – Industry Data

Sample Company LLC

Private Company Transactions

BizComps

NAICS 44131 - Auto parts & accessories stores

Additional search criteria:

Annual sales between \$500,000 & \$2.5 million

Keywords: wholesale, distributor

Search results

Number of transactions	5
Averages:	
Annual revenue (AR)	1,412,400
Seller's discretionary earnings/cash flow	229,000
Sales price (SP)	416,800
Ratios:	
SP to AR	0.30
SP to SDE	1.82

Percentage of Annual Revenue

	2010
Sales	1,699,436
Sales Price to Annual Revenue Ratio	0.30
Value of FF&E and Goodwill	509,831
Add (deduct):	
Current assets	627,650
Total liabilities	(226,026)
Value of Total Entity	911,455

Multiple of SDE

	2010
SDE	144,316
Sales Price to SDE Ratio	1.82
Value of FF&E and Goodwill	262,655
Add (deduct):	
Current assets	627,650
Total liabilities	(226,026)
Value of Total Entity	664,279

Sample Company LLC
Capitalization Rate

Specific Company Risk Premium

	Risk factor*	Weight	Weighted risk	Notes
Market & Customer Base				
Market & industry trends	5	1	5	Recovering
Sales & marketing strategy	5	1	5	Existing customers, reputation
Number & concentration of customers	5	1	5	Good but regional
Ability of customer to switch	4	1	4	Based on parts availability
Customer retention/relations	4	1	4	Well-established
Reliance on relationships with key people	4	1	4	Not significant
Ease of getting new customers	5	1	5	Based on parts availability
Competition	5	1	5	Moderate
Selling proposition	4	1	4	Existing customers, reputation
Ability to expand	5	1	5	Limited
Years in business	4	1	4	Well-established
Total	50	11	50	
Weighted average			4.5	
Financial Performance				
Liquidity	3	1	3	Very good
Efficient use of assets	4	1	4	Good
Efficient use of debt	3	1	3	Very good
Sales trend	3	1	3	Very good
Profit trend	3	1	3	Very good
Total	16	5	16	
Weighted average			3.2	
Operations & Management				
Quality & availability of information	5	1	5	Average
Operating systems & procedures	5	1	5	OK
Reliance on key people	5	1	5	Moderate
Management capabilities	5	1	5	OK
Staff turnover	3	1	3	Not significant
Working conditions	5	1	5	OK
Ability to hire new staff	5	1	5	Average
Supplier relations	4	1	4	Good
Environmental impact	6	1	6	Some image problems
Total	43	9	43	
Weighted average			4.8	
Location & Facilities				
Equipment condition	5	1	5	OK
Building condition	5	1	5	OK
Available capacity	5	1	5	OK
Geographic location	5	1	5	OK
Total	20	4	20	
Weighted average			5.0	
Macro				
Economic conditions & outlook	6	1	6	Uncertain
Regulatory environment	6	1	6	Stable but vulnerable
Exposure to liability	5	1	5	Moderate
Total	17	3	17	
Weighted average			5.7	
Total	129	29	129	
Weighted average			4.4	

* Risk factor

2 = very low, 3 = low, 4 = below average, 5 = average, 6 = above average, 7 = high, 8 = very high

Summary

Required rate of return - private equity**	25.0%
Specific company risk premium	4.4%
Capitalization rate	29.4%

** The Pepperdine private cost of capital survey, Fall 2010

Sample Company LLC

Capitalization of Benefits (Cash Flow) Method

Adjusted Cash Flow to Equity

2010	5,978
2009	(12,269)
2008	(81,921)
Total	<u>(88,212)</u>
Average	<u>(29,404)</u>

Capitalization Rate

÷ 29.4%

Value of operating assets

= (100,014)

Add:

Non-operating assets

0

Value of Total Entity

(100,014)

Sample Company LLC

Adjusted Net Assets

12/XX/2010

	Book value		Market value adjustments	Fair market value
Assets				
Current assets				
Cash	171,221	a	(74,989)	96,232
Trade receivables	43,335	b	(25,165)	18,170
Inventory	493,293			493,293
Prepaid expenses	19,955			19,955
Total current assets	727,804		(100,154)	627,650
Property & equipment - net				
Building & improvements	47,883	c	(47,883)	0
Equipment	24,156	d	336,844	361,000
Vehicles	47,263	e	77,737	125,000
Office	0			0
Total property & equipment	119,302		366,698	486,000
Other assets	0			0
Total assets	847,106		266,544	1,113,650
Liabilities				
Current liabilities				
Accounts payable	0			0
Notes payable - short-term	34,854			34,854
Sales tax payable	380			380
Payroll withholdings & taxes payable	1,839			1,839
Total current liabilities	37,073		0	37,073
Long-term liabilities	188,953			188,953
Total liabilities	226,026		0	226,026
Net assets	621,080		266,544	887,624

Notes

a - Adjust cash to balances per bank as of 12/XX/2010

b - Adjust A/R to balances with due dates after 6/30/2010

c - Remove real estate excluded from business value

d - Adjust equipment to 50% of original cost of \$722,034, rounded

e - Adjust vehicles to 50% of original cost of \$249,109, rounded

Sample Company LLC

Excess Earnings Method

Components

Total Assets

	Total	Real Estate	Adjusted
2010	847,106	47,883	799,223
2009	843,133	53,533	789,600
2008	851,972	59,183	792,789
Total	2,542,211	160,599	2,381,612
Average			793,871

Industry Return on Assets

Sageworks, NAICS 42314

Sales \$1 > \$10 million, all years

5.90%

Adjusted Pre-Tax Earnings

2010	(512)
2009	(34,776)
2008	(43,205)
Total	(78,493)
Average	(26,164)

Capitalization Rate Conversion

Capitalization rate - Cash flow	29.4%
Cash flow	÷ (29,404)
Pre-tax earnings	x (26,164)
Capitalization rate - Excess earnings rate	= 26.2%

Calculation

Total assets	793,871
Industry return	x 5.9%
Expected earnings	= 46,838
Pre-tax earnings	(26,164)
Excess earnings (pre-tax less expected)	(73,002)
Capitalization rate	÷ 26.2%
Value of intangible assets	= 0
Plus: Value of tangible net assets	+ 887,624
Value of Total Entity	= 887,624

V6 – Industry Data

Auto/Wrecking/Recyclers/Dismantlers/Scrap/Salvage Yards (Auto parts -- used & rebuilt)

SIC: 5013 - **NAICS:** 441310

Number of Businesses / Units: 14,500

This industry comprises one or more of the following: (1) establishments known as automotive supply stores primarily engaged in retailing new, used, and/or rebuilt automotive parts and accessories; (2) automotive supply stores that are primarily engaged in both retailing automotive parts and accessories and repairing automobiles; and (3) establishments primarily engaged in retailing and installing automotive accessories.

General Information

"A common problem has always been inventory valuation of salvage cars on the property with no particular value as collision parts. Generally some nominal value, like \$50, had been used. With the changes in the manner of construction of newer cars to more plastics (which is a disposal expense) and more galvanized metals (a lower-value scrap), this number is \$0; or perhaps a negative number if they have been only selectively picked for the removal of high value parts.

"Scrappage—the difference between sales and the growth of the vehicle population was an estimated 14.6 million units in 2009, up by almost 1 million units from 2008. NADA Industry Analysis estimates that the average vehicle on the road, a higher measure than median, was 10.2 years old in 2009"
Source: National Automobile Dealers Association, NADA Data 2010

"Automotive recycling currently ranks among the largest industries in the U.S., with more than \$3.7 billion in annual sales."

"Curbstoning has been talked about a lot the past few years. Curbstoning according to the website stopcurbstoning.com is: 'the repeated, unlicensed *flipping* of used cars for profit.' This applies to the salvage industry also. Many of you are familiar with how curbstoning affects used car sales. You see cars bought at auction, sold in the paper and websites like Craigslist by people posing as dealers. These curbstoners hurt the industry: they don't have the overhead of legitimate dealers with store fronts, they don't collect sales taxes, and they don't maintain a paper trail of the cars they sell. Prices are bought down because these curbstoners sell cars with a short profit. This is very similar to the way curbstoning affects the salvage industry.

"Today most of the cars that salvage yards purchase for their inventory come from salvage auctions. More and more of these auctions are letting the public bid on the salvage cars. The auctions are doing this because of the perceived notion that with the public bidding, the returns to the insurance companies will be higher. The problems arising from letting the public purchase these salvage cars are many, including: taxes from the sales of the parts is not collected, waste products such as fluids and freons are not properly collected, and the paper trail of what happens to these salvage vehicles is not maintained.

"Today's salvage yards are very different from the junk yards of the past. Today most salvage yards have computerized inventories. Every car that comes to the yard is inventoried and cataloged into the system. Most of these yards are linked by online sites such as Carpart.com where 125 million recycled parts can be found. When parts are sold by these computerized yards the customer gets an invoice with the VIN number of the vehicle the part was removed on, and if the part is sold to a retail customer sales tax is collected. When curbstoners sell used parts, they don't really know if the parts will work in your application, no invoice is given, and no taxes are collected. If you have a problem with these parts, the curbstoners do not maintain a store front, so there is no ability to return or exchange parts."

Source: "Curbstoning and the Salvage Industry, www.stopcurbstoning.com, May 28, 2010"

Seller Financing

- "Seller financing, if more than a nominal sale price is desired, is very long term: 15–40 years, with a very minimal down payment, which may not be even enough to cover the commission, and a sharing/offset of future liabilities for past activities."

Pricing Tips

"But in the scrap business the capital is your metal in the yard, and that's a commodity, which means the value can change. Indeed, the scrap business is a commodity founded on other commodities—the price of steel, the cost of shipping, and the relative values of currencies—which makes scrap especially sensitive to changes in the national and global economy."

Source: "American Scrap" by John Seabrook, *The New Yorker*, January 14, 2008

Benchmarks

Statistics (Used Car Parts Wholesaling)

Number of Establishments	4,761
Average Profit Margin	3.0%
Revenue per Employee	\$175,800
Average Number of Employees	7
Average Wages per Employee	\$33,730

Source: IBISWorld, March 2011

Market Segment	Share
Do-it-yourself customers	47%
Auto parts retail chains	30%
Independent auto parts dealers	14%
Automotive mechanics	9%

Source: IBISWorld, March 2011

Products and Services Segmentation (2011)

General auto recycling	55%
Parts remanufacturing	35%
Specialized motor vehicle dismantling and parts sales	10%

Source: IBISWorld, March 2011

Industry Costs

Profit	3.0%
Rent	5.0%
Utilities	3.0%
Depreciation	0%
Other	9.0%
Wages	20.0%
Purchases	60.0%

Source: IBISWorld, March 2011

"In 2006, two of every three tons of steel made in the U.S. came from recycled steel.

"In 2001, the price of steel scrap was around seventy-five dollars a ton; last year, it reached almost three hundred dollars a ton. Copper has risen even more dramatically: in 2006, it briefly hit the unheard-of price of four dollars a pound."

Source: "American Scrap" by John Seabrook, *The New Yorker*, January 14, 2008

Industry Trend

"Global demand for metal is turning what was considered backyard trash just a few years ago into a valuable cash commodity. The proof can be seen in the long lines of customers and mountains of metals at scrap yards throughout Maine.

"'The trend has been absolutely crazy,' said Peter McAvoy of Smorgen Steel Recycling, which operates the Industrial Metal Recycling facility where Kimball was hauling his truck on Saturday. 'The commodities have just taken off with the growth in China and India.'"

Source: "Scrap Metal Businesses Booming," by Kevin Miller, *Bangor Daily News*, July 21, 2008

Additional Resources

Associations

- [Automotive Recyclers Association of New York](#)

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