ABC CORP.
PRICING ANALYSIS

Prepared by
Becker & Beggs, Ltd
February 7, 2011

This report is confidential and was prepared for the exclusive use of the shareholders of ABC Corp.

February 7, 2011

Ron Smith
ABC Corp.
7890 Main Street
Hamilton, OH 45105

Mr. Smith,

We have completed our analysis of ABC Corp. In summary, if you sell the business in the first quarter of this year, we estimate **you will be able to sell certain of the company's assets for about $1,300,000**. Liquidating the remaining retained assets and paying off the liabilities will net you an additional $370,000 for **total proceeds of nearly $1,670,000** before income taxes and transaction expenses.

Organization - ABC Corp., Inc. is an Ohio corporation founded in 1985. It has elected S - corporation status for federal income tax purposes. Of the issued shares, 70% are owned by you and the remainder by your wife.

The Business - The Company is an industrial distributor, selling pumps, valves, measuring devices and fittings to original equipment manufacturers ("OEM's) who account for 40% of sales and to the replacement market (60%). The Company covers parts of Ohio, Indiana, and Kentucky, generally within a 150 mile radius of Hamilton.

Sales are handled by you, four commissioned outside salesmen and one inside salesman. One vendor accounts for 38% of the Company's volume.

Facilities - ABC Corp. leases its plant and office from an affiliate, Smith Real Estate Holdings. The 13,650 SF building on 1.8 acres is more than adequate for current needs and the near future and is readily expandable. Annual rent of $56,645 ($4.15/SF triple net) is in line with market rents.

Pricing Assumptions - This analysis is made with the following assumptions:

- The buyer will operate ABC Corp. at the present location, leasing the property for a minimum of seven years, on the same terms as the present lease.

- You will be involved on a full time or near full time basis following the sale for at least six months. To the extent that you want to continue employment beyond the minimum transition period, then that

requirement can be included in the terms of sale presented to prospective purchasers.

- The contemplated transaction is assumed to be a sale of assets rather than a sale of stock. The vast majority of acquisitions of companies in this price range are asset sales, not stock sales, because buyers (1) don't want exposure to undisclosed and latent liabilities, and (2) want and need the higher depreciation and amortization deductions resulting from the stepped-up tax basis to reduce income taxes and increase cash flow, particularly in the early years when debt service is high.

Prospective Buyers - There are several buyer categories that are potential purchasers of the company:

1. Trade Buyers - Regional pump, valve, and fittings distributors representing the same manufacturers as ABC and whose territories are adjacent to ABC.

2. Other Tri-State Industrial goods distributors carrying unrelated lines.

3. Individual buyers - Individuals with either industrial distribution or pump manufacturing experience.

4. Private Equity Groups ("PEG's") - For the vast majority of the some 1,500 PEG's in the country, ABC Corp. is too small for them to purchase as a stand-alone investment. We have, however, identified four PEG's with existing investments in industrial pump distributors. The advantage of dealing with this group is they have the capital to make 40% or greater equity contributions. They are also committed to growing their portfolio companies both internally and by acquisition.

The analysis that follows applies primarily to the nos.1-3 buyers and because we believe the bulk of the interest will come from this group, we feel this price and structure <u>is the most probable outcome</u>.

Qualification - This report is not intended to be a formal valuation or adhere to valuation standards established by various professional organizations or the Internal Revenue Service. It does represents our opinion as business brokers, operating in the marketplace daily and routinely representing sellers and buyers of closely-held companies similar to ABC Corp., of what a real world transaction will look like.

PRICING

The three commonly accepted approaches to pricing a business are:

- The Income Approach using either Discounted Cash Flow or Capitalization of Earnings methods
- The Market Comparables Approach
- The Asset Value Approach

Each approach was considered and then given relative weights in the final analysis.

INCOME APPROACH USING DISCOUNTED CASH FLOW

This approach to determine a selling price assumes the buyer has to rely on the cash flow and purchased assets of the acquired company to finance the transaction. It entails these steps:

- Begin by recasting the historic income statement, then, from the recast earnings select a single figure as a predictable, base-line, and finally project a stream of future earnings.
- Analyze the assets to be sold and liabilities assumed and estimate their market and collateral values.
- Estimate the amount and form of third party and seller debt that the transaction will support given the projected earnings, the collateral, and current lender underwriting guidelines.
- Calculate the future cash flows after debt service and their present value using a risk-adjusted, target rate of return to arrive at the buyer equity, and add that figure to the assumed debt to arrive at a sale price.

Recasting Earnings - On pages A-1 and A-2 following are the Company's Income & Expense for 2007 - 2010 summarized below (000's omitted).

Year Ended 12/31 -	2007	2008	2009	2010
Sales	$4,963	$4,655	$4,798	$4,957
Net Income-per books	85	(32)	44	157
Adjusted EBIT	$189	$114	$188	$280

Sales - The Company's sales were fairly consistent through the period given the recession for capital goods that began in the 3rd quarter of 2007.

Adjusting Income and Expenses - Owners of closely held businesses have a limited number of stakeholders to satisfy when it comes to financial reporting. Rarely does this audience extend beyond the shareholders and the company's lenders. Consequently, ownership often characterizes expenses in a manner that minimizes earnings and income taxes.

Some expenses were adjusted to show the Company's true cash-generating capacity. Your salary and generous perks and your wife's salary were added back and then offset with market salaries for a new owner and a part-time bookkeeper. Depreciation was eliminated and replaced by an estimated capital expenditures outlay. Interest income was eliminated because a buyer will not have the large cash balances the Company presently enjoys.

Selecting a Stabilized, Adjusted Earnings - Having identified the Adjusted Earnings Before Interest and Taxes ("EBIT") for the past four years, the next step is to select *a single figure that is both representative of the past and is highly likely to continue in the future*. The buyer will borrow a large part of the purchase price payable over five or more years and both the buyer and the lender must be highly confident that the future earnings will cover debt service.

Typically, when a business shows steady, upward or downward trends in earnings and the trend is driven by consistent and repeatable circumstances, buyers tend to predicate their offer on the latest period. When a business shows erratic or uneven earnings, buyers often average the historic numbers to arrive at a representative figure of the past and the future. A weighted average is often favored over an arithmetic average because it emphasizes the most recent periods and conditions. A three-year weighted average, for example, weighs the most recent year at 50%, the previous year at 33.3%, and the oldest year at 16.7%

In ABC's case there is a fairly strong 2007 performance, an understandable slump in 2008 as the recession was underway, and improving numbers the last two years. The 2008 figures were eliminated from our consideration as an extraordinary event leaving several choices for a stabilized EBIT:

- A two-year average for 2009 and 2010 - $234K
- A two-year weighted average for 2009 and 2010 - $249K
- A three-year average for 2007, 2009, and 2010 - 219K
- A three-year weighted average for 2007, 2009, and 2010 - $234K, or
- The most recent year - $280K

We believe in the Company's case that prospective purchasers will initially focus on 2010's results. However, because the 2010 Adjusted EBIT at 5.6% of sales is higher than even 2007's 3.8% of sales (in a "normal" year), prospective buyers will likely modify their expectations and be more comfortable with some type of average. Accordingly we selected $249K, the two-year weighted average, as the base-line adjusted EBIT upon which to build the projections. The economy is gradually improving and most businessmen and economic forecasters feel that over the next two to three years industrial demand is likely to increase gradually and there is greater upside than downside.

ABC CORP

Period	YE 12/31/2007		YE 12/31/2008		YE 12/31/2009		YE 12/31/2010	
	$	%	$	%	$	%	$	%

SCHEDULE A - INCOME AND EXPENSE

	$	%	$	%	$	%	$	%
SALES	4,963,257	100.0	4,655,222	100.0	4,798,453	100.0	4,956,783	100.0
COST OF SALES	3,697,626	74.5	3,486,761	74.9	3,603,638	75.1	3,712,630	74.9
GROSS PROFIT	1,265,631	25.5	1,168,461	25.1	1,194,815	24.9	1,244,153	25.1
OPERATING EXPENSES								
Salesmen's salaries	562,819	11.3	535,461	11.5	521,004	10.9	474,667	9.6
Office & admin salaries	225,888	4.6	243,837	5.2	283,620	5.9	225,034	4.5
Payroll taxes	49,652	1.0	54,619	1.2	54,706	1.1	53,791	1.1
Vehicle & travel expense	56,002	1.1	79,662	1.7	64,332	1.3	57,346	1.2
Telephone	13,563	0.3	14,082	0.3	13,766	0.3	15,907	0.3
Depreciation/amortization	26,988	0.5	39,667	0.9	17,948	0.4	26,734	0.5
Insurance	21,750	0.4	19,086	0.4	15,010	0.3	18,390	0.4
Rent	51,747	1.0	53,299	1.1	54,898	1.1	56,545	1.1
Entertainment	42,232	0.9	44,119	0.9	43,816	0.9	52,301	1.1
Advertising	4,955	0.1	3,781	0.1	4,279	0.1	8,777	0.2
Computer expense	14,307	0.3	17,068	0.4	21,077	0.4	18,469	0.4
Utilities	8,165	0.2	8,193	0.2	8,399	0.2	8,165	0.2
Sales & service expense	22,734	0.5	23,843	0.5	13,874	0.3	17,643	0.4
Office expense	22,183	0.4	24,688	0.5	22,109	0.5	22,834	0.5
Repairs & maint.	16,491	0.3	12,007	0.3	12,560	0.3	9,006	0.2
Profit sharing	39,792	0.8	33,691	0.7	24,864	0.5	21,549	0.4
Legal & accounting	12,864	0.3	12,789	0.3	16,444	0.3	11,726	0.2
Emp. Welfare & education	26,938	0.5	24,981	0.5	19,716	0.4	21,109	0.4
Miscellaneous	9,444	0.2	1,302	0.0	22	0.0	7,660	0.2
Taxes	11,683	0.2	11,607	0.2	9,903	0.2	2,267	0.0
Total Operating Expenses	1,240,197	25.0	1,257,782	27.0	1,222,347	25.5	1,129,920	22.8
OPERATING INCOME	25,434	0.5	(89,321)	(1.9)	(27,532)	(0.6)	114,233	2.3
OTHER INCOME								
Interest income	8,531	0.2	7,955	0.2	3,111	0.1	1,899	0.0
Discounts earned	50,692	1.0	49,303	1.1	68,762	1.4	40,567	0.8
	59,223	1.2	57,258	1.2	71,873	1.5	42,466	0.9
NET INCOME	84,657	1.7	(32,063)	(0.7)	44,341	0.9	156,699	3.2

ABC CORP

Period	YE 12/31/2007		YE 12/31/2008		YE 12/31/2009		YE 12/31/2010	
	$	%	$	%	$	%	$	%

SCHEDULE A - INCOME AND EXPENSE

	$	%	$	%	$	%	$	%
NET INCOME	84,657	1.7	(32,063)	(0.7)	44,341	0.9	156,699	3.2
ADJUSTMENTS TO BOOK INCOME								
Additions								
Owner's W-2 income (1)	186,321	3.8	202,547	4.4	238,900	5.0	200,400	4.0
Owner's wife's W-2 income (2)	5,391	0.1	5,681	0.1	8,562	0.2	7,800	0.2
Owner's perks (3)	39,000	0.8	55,000	1.2	35,000	0.7	48,000	1.0
Depreciation (4)	26,988	0.5	39,667	0.9	17,948	0.4	26,734	0.5
Deductions								
Market salary - owner (1)	(114,393)	(2.3)	(117,824)	(2.5)	(121,359)	(2.5)	(125,000)	(2.5)
Market salary - PT bookkeeper (2)	(16,473)	(0.3)	(16,967)	(0.4)	(17,476)	(0.4)	(18,000)	(0.4)
Required capital expenditures (4)	(13,727)	(0.3)	(14,139)	(0.3)	(14,563)	(0.3)	(15,000)	(0.3)
Interest Income (5)	(8,531)	(0.2)	(7,955)	(0.2)	(3,111)	(0.1)	(1,899)	(0.0)
Net Adjustments	104,577	2.1	146,010	3.1	143,901	3.0	123,035	2.5
ADJUSTED EARNINGS BEFORE INTEREST & TAXES (EBIT)	**189,233**	**3.8**	**113,946**	**2.4**	**188,242**	**3.9**	**279,734**	**5.6**

Averages

2 year average (2009-10)	**233,988**	3 year average (2007,09 & 10)	**219,070**
2 year weighted average (2009-10)	**249,236**	3 year wghtd. avge. (2007,09, & 10)	**234,112**

Notes to Adjustments:

(1) The owner's salary is replaced by a market salary for that position
(2) The wife who does the bookkeeping is replaced by a part time bookkeeper
(3) Owner's estimate of personal expenses unessential to business operations (primarily travel, life insurance, & profit-sharing)
(4) Depreciation expense is replaced by an estimated annual capital expenditure expense
(5) Interest income is eliminated because the new owner will not have the excess cash balances that the present owner does.

SELLER'S DISCRETIONARY EARNINGS (SDE)

Seller's Discretionary Earnings is an alternative method of expressing earnings for closely-held business - calculated here as net income + owner's salaries and benefits + depreciation - wife/bookkeeper adjustment - interest income.

	$	%	$	%	$	%	$	%
SDE	**317,353**	**6.4**	**245,910**	**5.3**	**324,164**	**6.8**	**419,734**	**8.5**

Valuing and Allocating Assets and Liabilities - The Company's balance sheet as of 12.31.2010 follows on Schedule B. Each line item was given an estimated going-concern Market Value.

From your description of the Company's MIS system and inventory policies, we believe that ABC doesn't have any obsolete or slow-turning inventory that would cause buyers to discount its book value.

For the fixed assets, the Market Value is our estimate of the cost of acquiring like, used equipment, furniture and vehicles plus the cost and time of acquiring, delivering and installing them at ABC's location. This going-concern value is not their liquidation value.

In this sale scenario, the buyer purchases $405,517 in assets (inventory, fixed assets except one car, and all of the intangible assets) and the company retains the remaining $789,237 in assets (cash, receivables, vehicles, and life insurance) and all of the liabilities. Not requiring the buyer to purchase the receivables avoids the parties having to negotiate their value (you take the collection risk in either event) and makes the purchase price appear lower.

In this scenario the business is sold with some working capital (current assets less current liabilities) included in the form of the inventory valued at $326,502. An analysis of your 2009 and 2010 quarter-ending balance sheets showed ABC having an average working capital of $350,000 in those eight periods. That liquidity enabled the Company to take the prompt-pay discounts available from suppliers shown under Discounts Earned on Schedule A-1.

The value and allocation analysis accomplishes two objectives. First, it identifies the Company's Asset Value Approach price of $405,517. Second, it establishes the assets the buyer will use for collateral to finance the purchase.

ABC CORP

SCHEDULE B - VALUING AND ALLOCATING ASSETS AND LIABILITIES AS OF 12.31.10

	VALUE			ALLOCATION		
	BOOK VALUE	MARKET VALUE		SELL / ASSIGN	RETAIN	TOTAL
ASSETS:						
Cash/Investments	137,548	137,548		-	137,548	137,548
Accounts Receivable	496,027	496,027		-	496,027	496,027
Note Receivable - other	14,000	14,000		-	14,000	14,000
Inventory	326,502	326,502		326,502	-	326,502
Prepaid Expenses	10,491	10,491		-	10,491	10,491
Vehicles & Equipment	138,540	83,124	A	43,124	40,000	83,124
Office Furn & Equipment	92,852	30,920	B	30,920	-	30,920
Leasehold improvements	6,628	4,971	C	4,971	-	4,971
Accumulated Depreciation	(202,158)	-		-	-	-
Cash Surr Value Life Ins	86,671	86,671		-	86,671	86,671
Goodwill	4,970	-		-	-	-
Deposits	4,500	4,500		-	4,500	4,500
TOTAL ASSETS	1,116,571	1,194,754		405,517	789,237	1,194,754
LIABILITIES:						
Trade Payables	275,818	275,818		-	275,818	275,818
Accrued Expenses	123,618	123,618		-	123,618	123,618
Bank debt	13,851	13,851		-	13,851	13,851
TOTAL LIABILITIES	413,287	413,287		-	413,287	413,287
EQUITY	703,284	**781,467**		405,517	375,950	**781,467**

A - Estimated in-place value at %age of Cost 60%
B - Estimated in-place value at %age of Cost 33%
C - Estimated in-place value at %age of Cost 75%

Debt Structure - Our practice in pricing businesses based on income is to begin with the party who usually has the most dollars in the deal - the lender(s) - determine their current lending guidelines, and work around their parameters to arrive at a price. Without a lender (short of the seller financing the entire transaction) there is no sale.

The underlying assumption is the buyer needs to use the acquired business's assets and cash flow to raise the debt. In some circumstances the buyer has unused lines of credit they can draw on to finance all or part of the purchase but that is not our base assumption. In other words, the deal has to stand on its own financial merits to be viable.

Schedule C following combines the Adjusted EBIT and the assets sold to arrive at an income-based price. The spreadsheet starts with the probable debt available from third party lenders plus the financing you, the seller, provide. The seven-year analysis has the debt service subtracted from the projected EBIT and what is left, the buyer's pre-tax profit, is discounted back to today's value. That discounted amount is the buyer's equity and combined with the debt, totals the purchase price.

A typical buyer capitalization profile in transactions like yours is 20-30% buyer equity, 50-70% bank debt, and 10-20% seller financing. In ABC's case, on Schedule C line 1, we assume the buyer would qualify for a $650,000 SBA loan repaid over seven years. At 7%, payments are $9,810 monthly or $117,723 annually.

The $650,000 advance is more than twice the estimated collateral liquidation value but supportable under SBA guidelines because of the Company's healthy Adjusted EBIT the past two years, averaging $234,000 or two times annual debt service.

Seller Financing - Buyers and lenders like to see sellers participate in the financing because it sends a message of their confidence in the transaction and leads to more deals being closed. In Schedule C line 5 we assume you carry a $150,000 note payable interest only for two years and the principal amortized over the next five years.

In the EQUITY section, the Adjusted EBIT is projected to grow 3% annually and Company is sold at the end of Year Seven for 4.3 times the then Adjusted EBIT. Subtracted from the earnings is $50,000 in the first year and $15,000 the second year (C - line 10) for your part-time involvement in transitioning the accounts. Also deducted are the loan payments on the two notes.

Calculating Equity - The resulting Cash Flow After Debt Service (C - 13) totaling $2.354 million can be distributed to the shareholder(s) and represents the buyer's projected pre-tax return on their cash equity. By discounting or present-valuing this

seven year stream to today's value using a selected discount rate quantifies the equity the buyer is willing to invest in the transaction.

Selecting an equity rate for a given business is more subjective than selecting a debt rate because it is a function of the perceived risk. The equity portion of the purchase price is unsecured by tangible assets since they are pledged to the primary lender. If the buyer defaults on the secured debt and the lender liquidates the collateral to repay its loan, none of the collateral's value will accrue to benefit the purchaser. The equity is truly risk capital, only secured by and paid out of that portion of the actual cash flow that is not allocated to debt service. In short, the question is, "How confident is the buyer of the base-line adjusted EBIT continuing in the future?"

A minimum rate of return typically required for equity capital has historically been 20%. A study of publicly held, small-cap stocks in the period 1966 through 1986 revealed that the average rate of return for these issues was about 19%. Considering that an investor in these stocks had liquidity not available to the owner of a closely held business, the 20% floor is reasonable. The maximum equity rate for an established company with special risk attributes is 35 to 40%. Above that level, the market is dealing with high-risk, venture capital situations.

If, after considering and weighting these factors, the business is considered to have a higher than average risk, then the required rate of return for equity capital will be above 30% and if the risk is seen to be lower than average, the rate will be in the 20% - 30% range.

We selected a 30% target rate of return because we believe purchasing ABC with the described level of debt represents a median risk to the buyer. The positive factors that mitigate the risk described later on page 13 outweigh the negatives listed, some of which can be managed or controlled.

A 30% discount rate of the projected future cash flows results in a present value today of $558,787 (C - 15). In other words, an investor seeking a 30% compound rate of return on their money would put up $558,787 today for the possibility of receiving $2.354 million over seven years.

Additional Working Capital - Not all of the calculated equity can be used towards the purchase price because the new entity requires additional working capital. Earlier it was determined that ABC averaged $350,000 in working capital and about $325,000 was to be transferred to the buyer in the form of inventory, a $25,000 shortfall. However, the new entity will have an additional $125,000 in current liabilities that ABC doesn't have in the form of annual loan payments. Taken together, the buyer needs about $150,000 in cash in the business to be properly capitalized and have the liquidity to be able to take the trade discounts contributing more than 20% of

Adjusted EBIT the past two years. This leaves $408,787 (C - 17 & 18) of the buyer's equity to apply to the Purchase Price and when combined with the two loans **results in a purchase price of $1,208,787** (C- 22**)**.

After liquidating the retained assets and liabilities, you net $1,584,737 before transaction expenses and income taxes.

Price Multiples - The calculated purchase price is 4.3 times Adjusted EBIT, a market multiple within the range of typical transactions.

The purchase price is 3.0 times market value of the assets meaning there is nearly twice as much goodwill ($803K) as tangible assets ($406K), an amount that some trade buyers may consider excessive.

ABC CORP

SCHEDULE C - PRICE BASED ON INCOME USING DISCOUNTED CASH FLOW

DEBT

A - THIRD PARTY FINANCING

	COLLATERAL	MARKET VALUE	LIQUIDAT-ED VALUE	ADVANCE (% of MKT)	ADVANCE $	TERM (MOS)	RATE (%)	MONTHLY PAYMENT
1	All assets - SBA loan	405,517	270,074	160%	650,000	84	7.00%	9,810
2								
3	TOTAL	405,517	270,074		650,000			9,810

B - SELLER FINANCING

	COLLATERAL	MARKET VALUE	LIQUIDAT-ED VALUE	ADVANCE (% of MKT)	ADVANCE $	TERM (MOS)	RATE (%)	MONTHLY PAYMENT
5	None				150,000	24	6.0%	750
6						60	6.0%	2,900

EQUITY

A - PROJECTED CASH FLOW BEFORE AND AFTER DEBT SERVICE

	YEAR	1	2	3	4	5	6	7	TOTAL
7	Adjusted EBIT*	256,713	264,415	272,347	280,518	288,933	297,601	306,529	1,967,056
8	Sell for Multiple of EBIT**	-	-	-	-	-	-	1,318,075	1,318,075
9	Return working capital	-	-	-	-	-	-	150,000	150,000
10	(Smith Consulting Payments)	(50,000)	(15,000)	-	-	-	-	-	(65,000)
11	(Debt Service-Term Loan)	(117,723)	(117,723)	(117,723)	(117,723)	(117,723)	(117,723)	(117,723)	(824,060)
12	(Debt Service-Seller Note)	(9,000)	(9,000)	(34,799)	(34,799)	(34,799)	(34,799)	(34,799)	(191,995)
13	**Cash Flow After Debt Service**	**79,990**	**122,692**	**119,825**	**127,996**	**136,411**	**145,079**	**1,622,083**	**2,354,076**

* Growth Rate 3.0% Sale Multiple 4.3 X

B-EQUITY CALCULATION

14	Buyer's Target, Pre-Tax Rate of Return on Equity	30%
15	Present Value of Projected Cash Flows, After Debt Service, Discounted at Target Rate	**558,787**
16	(Initial Cash Required For Working Capital)	(150,000)
17	Purchase Price Equity	408,787

TOTAL VALUE

18	Buyer Purchase Equity	33.8%	408,787
19	Buyer-3rd Party Financing	53.8%	650,000
20	Buyer Assumed Liabilities	0.0%	-
21	Seller Financing	12.4%	150,000
22	**Total Purchase Price**		**1,208,787**
23	Seller Retained Assets		789,237
24	Retained liabilities		(413,287)
25	**Net to Seller**		**1,584,737**

Purchase Price as a Multiple of -

Adjusted EBIT	4.3 X
Market Value of Assets Purchased	3.0 X
Book Value of Assets Purchased	3.3 X

MARKET COMPARABLES APPROACH TO PRICING

Using comparable, real world transactions is a valuable pricing technique. However, there is limited accurate, published data concerning the sales of closely-held businesses. Unlike residential and commercial real estate sales where nearly all transactions are recorded by public agencies and properties share certain things in common such as square footage, construction material, location, age, etc., making comparisons easier, few business sales are recorded and for those that are, it is difficult for an outsider to ascertain the true cash flow of the business and the assets and liabilities and their value included in the sale.

Data was collected from Pratt's Stats, a database containing over 16,650 private and closely held business sales from 1990 to the present and ranging in deal price from under $100 thousand to $16.6 billion. A search of companies sold in SIC codes 5084 (industrial machinery and equipment) turned up nine companies with revenues ranging from $2.4 million to $10.3 million. The sales took place from 1997 to 2009, are widely dispersed geographically, and occurred under varying national economic conditions. Because of the sparse sample and lack of direct comparables (only two of the subject companies sell pumps), this pricing approach was given only moderate weighting.

The summary report follows this page.

In the sample, the median selling price was .546 times sales and 3.67 times Seller's Discretionary Earnings (an alternative method of expressing profitability for small companies that basically adds the owner's compensation and perks to Adjusted EBIT - see bottom of Schedule A-2). Applying those ratios to ABC's figures results in the following prices using the Comparables Approach:

PRATT'S STATS RATIO	ABC	Factor	Price	Round to-
Price based on sales	$4,904,006	.546 X	$2,677,587	**$2,675,000**
Price based on discretionary earnings	$387,877	3.67 X	$1,424,284	**$1,425,000**

For sales and discretionary earnings the weighted average for 2009 and 2010 were used as in the earlier income approach.

In general, price to earnings ratios are substantially more relevant than price to sales ratios because it is only from earnings that the owner can make loan payments and make distributions.

Pratt's Stats® Advanced Search Results

Prepared: 4/28/2011 6:41:45 AM (PST)

Search Criteria

Total transactions found meeting criteria: 9
Your search results are based upon this criteria:

Transaction Summary

Statistic	Count	Range	Mean	Median	Coefficient of Variation
Sale Date	9	6/30/1997 - 11/3/2009	N/A	N/A	N/A
Net Sales	9	$2,474,758 - $10,229,057	$5,158,982	$4,505,206	N/A
Market Value of Invested Capital (MVIC)	9	$1,100,000 - $12,450,000	$4,109,593	$2,539,350	N/A
EBITDA	6	$46,257 - $3,000,000	$1,053,795	$694,561	N/A
EBIT	9	$44,482 - $2,500,000	$721,247	$421,000	N/A
Net Income	9	$40,237 - $2,425,000	$679,655	$401,920	N/A
Gross Profit Margin	9	0.210 - 1.000	0.426	0.421	N/A
Operating Profit Margin	9	0.018 - 0.307	0.132	0.105	N/A
Net Profit Margin	9	0.013 - 0.304	0.121	0.092	N/A
MVIC/Net Sales	9	0.248 - 2.763	0.828	0.546	0.928
MVIC/Gross Profit	9	0.817 - 6.570	2.092	1.673	0.848
MVIC/EBIT	9	3.008 - 30.349	10.152	5.064	1.016
MVIC/EBITDA	6	2.985 - 29.185	8.942	4.675	1.134
MVIC/DiscEarnings	4	2.752 - 5.032	3.782	3.672	0.250
MVIC/Book Value of Invested Capital	4	1.725 - 5.361	3.238	2.933	0.548

Transactions

No	SIC Code	Business Description	Market Value of Invested Capital	Sale Date	*Net Sales*	MVIC / Sales	MVIC / Disc Earnings	MVIC / EBITDA
1	5084	Cutting Tool Distributor in the Manufacturing Industry	$1,350,000	9/20/2007	$2,474,758	0.546	5.032	29.185
2	5084	Distribution of Industrial Supplies	$1,100,000	11/26/2007	$2,885,138	0.381	N/A	N/A
3	5084	Pump and pumping equipment wholesale	$2,650,000	11/3/2009	$3,050,808	0.869	3.813	4.921
4	5084	Forklift Trucks Sales & Service	$2,138,089	6/30/1997	$3,237,544	0.660	3.530	4.429
5	5084	Aircraft Engine and Parts Overhaul Facility	$12,450,000	11/19/1998	$4,505,206	2.763	N/A	8.863
6	5084	Distributor of Fire and Safety Protection Equipment	$2,132,000	2/15/2000	$4,576,000	0.466	N/A	N/A
7	5084	Sells and Services Commercial Air Compressors, Air Dryers, and Parts	$2,826,900	4/10/2002	$6,272,329	0.451	N/A	N/A
8	5084	Distributor of Safety Equipment, Oilfield Equipment, Rental of Equipment, and Related Training Services	$9,800,000	10/19/2007	$9,200,000	1.065	N/A	3.267
9	5084	Hydraulic Components such as Cylinders, Valves, and Pumps	$2,539,350	2/2/2006	$10,229,057	0.248	2.752	2.985

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CONCLUSION

The three pricing approaches resulted in these amounts:

- Income Approach - $1,208,787
- Asset Value Approach - $406,517
- Market Comparables Approach (based on sales) - $2,677,587
- Market Comparables Approach (based on earnings) - $1,424,284

Each approach was weighed for their applicability to your company. In our broker experience, typically for a firm with average or above average profit like ABC, the Income Approach carries the highest weight, the Asset Value Approach the least weight, and the Comparables Approach somewhere in between, assuming they are true comparables and there is an adequate and representative sampling.

On the following spreadsheet each of the three Approaches were weighed. The Asset Value Approach was given no value because the other two approaches were from 3 to 6.6 times greater, a disparity so large as to render the Asset Approach irrelevant. Within the Comparables Approach, the price based on sales was weighed at 15% and on earnings, 85%. The weighted Comparables price of $1,612,280 was given only a 20% value because of the limited sample size and lack of comparability. The Income Approach was assigned the remainder, or 80%.

The resulting Weighted Selling Price is $1,289,485, **rounded to $1,300,000**.

After liquidating the retained assets and liabilities, **ABC's shareholders should net about $1,670,000,** before transaction expenses and income taxes.

Individual Buyer Constraints - Few individuals who would otherwise be qualified to purchase and successfully manage ABC have the $600,000 or so in equity required for a $1.3 million purchase price. These individuals are likely a middle level manager for a manufacturer or a top salesman or sales manager of another similar distributor and typically have between $200,000 and $400,000 of equity. For them to participate requires either (1) more financing on your part which raises the risk for all of the parties, (2) you having an equity interest in the new venture and getting paid the full purchase price through distributions, or (3) the buyer having to bring in partners which is usually cumbersome.

ABC CORP

SUMMARY - WEIGHING THE THREE PRICING APPROACHES

				Weight Within Approach			Weight Between Approaches	
				Raw Value	%	Wghtd Value	%	Wghtd Value
1 - PRICE BASED ON ASSET VALUES - SCHEDULE B				405,517	100%	405,517	0%	-
2 - PRICE BASED ON INCOME - SCHEDULE C				1,208,787	100%	1,208,787	80%	967,029
3 - PRICE BASED ON COMPARABLES								
Pratt's Stats (9 transactions)			Factor					
Multiple of Sales*	4,904,006	X	0.55	2,677,587	15%	401,638		
Multiple of Earnings (SDE)*	387,877	X	3.67	1,424,284	85%	1,210,642		
					100%	1,612,280	20%	322,456
* 2009-2010 weighted average								
						WEIGHTED SELLING PRICE	100%	**1,289,485**
						Retained Assets		789,237
						Retained Liabilities		(413,287)
						Net Proceeds Before Income Taxes and Transaction Expenses		**1,665,435**

SELLING PRICE RATIOS

Adjusted 2010 EBIT	4.6 X
Market Value of Assets Purchased	3.2 X
Book Value of Assets Purchased	3.5 X

POSITIVE ATTRIBUTES AFFECTING PRICE AND SALABILITY -

- Reasonably consistent sales and earnings.
- 27 years in business.
- Top two lines represented have been in business for decades or more.
- The product lines have on-going demand in the for-seeable future.
- Continued need for local stocking distributors of these lines.
- Receivable collections and inventory turns better than industry norms.

CHALLENGES -

- One customer, an OEM who you are individually responsible for, accounted for 22 and 26% of sales the past two years. *Recommendation* - Over the next two years, gradually integrate one of your salespeople into the account, diminishing your importance.

- The one key vendor accounting for 38% of sales will likely want to have a say as to who buys the business. *Recommendation* - Discuss your plans now with their decision-makers and get their buy-in and input beforehand.

- Your mortgage lender made the loan on your property conditional on ABC being the tenant. *Recommendation* - Discuss with the lender now whether they will waive this proviso. Given that the loan balance is less than 40% of the property's appraised value and your continuing personal guarantee, the waiver should be forthcoming.

- None of your salespeople have employment or non-compete agreements and it is the customer relationships that the buyer is purchasing. *Recommendation* - Discuss your exit plans with your salespeople beforehand, assuring them that buyers want to acquire the organization even more than they want to purchase the assets. Prepare them for the likelihood that the buyer will want them to sign employment and non-compete agreements. Consider paying them a bonus if they sign the agreements and stay with the new owner for a set period.

Jim Beggs

QUALIFICATIONS

Becker & Beggs, Ltd. are business brokers and evaluators of closely-held, small and mid-sized businesses. They concentrate on representing companies worth between $500,000 and $20,000,000. The two principals, James D. Beggs and Walter M. Becker have a combined thirty-three years' experience in the field.

James D. Beggs - After an early career in sales and marketing for Alcoa and Burlington Industries, Mr. Beggs focused on business lending. From the early 70's through 1992, he was involved in secured lending, financing small and mid-sized firms in this region. During that period he developed an expertise in tax leveraged leasing and direct ownership investments. In 1992, he formed Van Gaard & Company, concentrating on business brokerage and valuations.

Walter M. Becker, CPA, CDP, - With over 35 years in various consulting, planning, financial, and general management positions, Mr. Becker's background includes nearly every type of business. Prior to founding Prime Strategies in 1983, a business brokerage and consulting firm, he was CFO of Central Bancorporation in Cincinnati and Central Fidelity Bank in Virginia, and was President of a computer services and data entry processing firm. Previously, he managed the business consulting department of Ernst & Young in Baltimore. He has been in business brokerage in Cincinnati for fourteen years.