Business Valuation Report Writer

Sample Report

ValuSource

VALUATION OF THE COMMON STOCK OF:

«Child's Clothing Store»

«12345 Street Name»

Valuation Date: «December 31, 2006»

Report Dated: «March 15, 2007»

OPINION LETTER

«March 15, 2007»

«Mr. Attorney»
«1234 Street Address»
«New York, NY 100001»

Dear «Mr. Attorney»,

The enclosed valuation report has been developed for the exclusive and confidential use of «Mr. Attorney». The report has been prepared by «Joe Appraiser CPA» dated «March 15, 2007» and was made by and/or under the direct supervision of the undersigned. The purpose of the valuation is to render an opinion as to the fair market value of the «common stock interest», as of «December 31, 2006».

In preparing «my» business valuation report, «I» have relied upon historical financial information provided to «me» by management and derived from [enter the appropriate source of the information, such as tax return, audit report issued by another auditor, etc.]. This financial information has not been audited, reviewed, or compiled by «me» and accordingly «I» do not express an opinion or any form of assurance on this financial information.

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

Based upon «my» study and analytical review procedures, «I» have concluded that a reasonable estimate of the fair market value of a «80%» «common stock interest» of «Child's Clothing Store» as of «December 31, 2006» is $«285,900».

This engagement was not contingent upon developing or reporting predetermined results. «My» compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the

cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal. «My» analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice.* No one provided significant business appraisal assistance to the person signing this certification.

HELPER TEXT

If there are exceptions to the last sentence in the preceding paragraph, then delete the sentence, and list each entity and the significant business appraisal assistance that they provided.

Sincerely yours,

«Joe Appraiser»
«Joe Appraiser CPA»

HELPER TEXT

You may want to include the title of the appraiser.

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EXECUTIVE SUMMARY

Governing Standard:	Revenue Ruling 59-60
Purpose:	Estate or Gift Tax
Standard of Value:	Fair Market Value
Premise of Value:	«value as a going concern»
Client Name:	«Mr. Attorney»
Business Name:	«Child's Clothing Store»
Type of Entity:	«corporation»
Business Interest Valued:	«80%»
Valuation Date:	«December 31, 2006»
Report Date:	«March 15, 2007»
Appraiser Name:	«Joe Appraiser»
Appraiser Firm:	«Joe Appraiser CPA»
Conclusion of Value:	$«357,400»

INTRODUCTION

Specifics

«Joe Appraiser CPA» has been retained by «Mr. Attorney» to estimate the fair market value of «Child's Clothing Store». «Child's Clothing Store» is a «corporation» located at «12345 Street Name» in «CO». Furthermore, an interest of «80%» is being valued as of «December 31, 2006».

The appraisal will be used by «Mr. Attorney» for the sole purpose of the settlement of the [estate / gift tax]. The distribution of this report is restricted to the «Mr. Attorney», legal and tax professionals advising «Mr. Attorney» and any regulatory agencies whereby reporting is required. Any other use of this report is unauthorized and the information included in the report should not be relied upon.

Definitions

Appendix F has a glossary of terms that is applicable to this engagement. In addition to those definitions the following are pertinent:

Standard of Value

Revenue Ruling 59-60 defines fair market value as:

> The amount at which property would change hands between a willing seller and a willing buyer when neither is under compulsion and when both have reasonable knowledge of the relevant facts.

In addition, the hypothetical seller and the hypothetical buyer must be in a pool that has the ability to exercise the right.

Premise of Value

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

SOURCES OF INFORMATION

The primary sources of information were research on the economy, industry and company, analysis of financial statement and interviews with key people. Please see Appendix D for a complete listing.

APPROACH

Revenue Ruling 59-60 states:

> .01 It is advisable to emphasize that in the valuation of the stock of closely held corporations or the stock of corporations where market quotations are either lacking or too scarce to be recognized, all available financial data, as well as all relevant factors affecting the fair market value, should be considered. The following factors, although not all- inclusive are fundamental and require careful analysis in each case:
>
> > (a) The nature of the business and the history of the enterprise from its inception.
> >
> > (b) The economic outlook in general and the condition and outlook of the specific industry in particular.
> >
> > (c) The book value of the stock and the financial condition of the business.
> >
> > (d) The earning capacity of the company.
> >
> > (e) The dividend-paying capacity.
> >
> > (f) Whether or not the enterprise has goodwill or other intangible value.
> >
> > (g) Sales of the stock and the size of the block of stock to be valued.
> >
> > (h) The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.

«My» approach gives careful consideration to all these factors.

There are three basic approaches to value.

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

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

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

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

Assumptions

There are several key assumptions that this report relies on.

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

Scope Limitation

The scope of this valuation engagement report was limited. «I was» engaged to perform a valuation for «Child's Clothing Store» with the intent of ascertaining an opinion of value. However, «I was» limited to the information that was provided as of «December 31, 2006» regarding [The author must list the deficiency in the data relied on to develop a value. If there are no scope limitations then this section should be changed to reflect that as well.]. If more information were available to «me», matters may have come to «my» attention that could have a material impact on the opinion of value contained in this report.

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

COMPANY

History

Nature of the Business

Products or Services

Operating and Investment Assets

Capital Structure

Sales Records and Management

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APPRAISAL OF ECONOMIC CONDITIONS

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General Overview

Specific Areas – Consumer Spending

Specific Areas – Real Estate and Construction

Specific Areas – Inflation

Summary

Industry Outlook

General Overview

Specific Areas – Consumer Spending

Specific Areas – Real Estate and Construction

Specific Areas – Inflation

Summary

COMPANY BALANCE SHEETS

Summary Balance Sheets

	Year Ended December 31, 2002	Year Ended December 31, 2003	Year Ended December 31, 2004	Year Ended December 31, 2005	Year Ended December 31, 2006
ASSETS					
Cash	229,000	356,000	465,000	387,000	549,000
Accounts Receivable	40,000	50,000	66,000	55,000	140,000
Inventory	270,000	373,000	440,000	490,000	840,000
Other Current Assets	40,000	38,000	52,000	75,000	80,000
Total Current Assets	579,000	817,000	1,023,000	1,007,000	1,609,000
Fixed Assets	886,000	979,000	1,031,000	1,349,000	1,338,000
Net Intangible	0	0	95,000	85,000	75,000
Other Non-Current	85,000	90,000	70,000	159,000	73,000
Total Assets	1,550,000	1,886,000	2,219,000	2,600,000	3,095,000
LIABILITIES & EQUITY					
Accounts Payable	45,000	55,000	60,000	75,000	74,000
Short Term Notes Payable	25,000	25,000	18,000	27,000	33,000
Current Portion of LT Debt	12,000	14,000	16,000	26,000	28,000
Other Current Liabilities	44,000	45,000	57,000	77,000	74,000
Total Current Liabilities	126,000	139,000	151,000	205,000	209,000
Long Term Debt	750,000	980,000	1,110,000	1,200,000	1,370,000
Other Non-Current Liabilities	59,000	62,000	53,000	70,000	71,000
Total Liabilities	935,000	1,181,000	1,314,000	1,475,000	1,650,000
Total Equity	615,000	705,000	905,000	1,125,000	1,445,000
Total Liabilities & Equity	1,550,000	1,886,000	2,219,000	2,600,000	3,095,000

RMA Peer Comparisons

For purposes of comparison with industry financial measures available from non-public company sources, «I» reviewed the A*nnual Statement Studies*, published by The Risk Management Association (RMA). RMA compiled average percentage income statement and balance sheets and key financial ratios of companies classified under Standard Industrial Classification (SIC) # «5461». «I» believe the RMA data provide limited comparative perspective and strict comparisons should be made with caution.

The following liquidity ratios are compared to the subject company.

Based On Historical Statements	RMA 2002 Child's 2002	RMA 2003 Child's 2003	RMA 2004 Child's 2004	RMA 2005 Child's 2005	RMA 2006 Child's 2006
LIQUIDITY RATIOS:					
Upper Current Ratio	2.60	3.00	3.00	3.30	3.80
Median Current Ratio	1.80	1.70	1.70	1.70	1.80
Lower Current Ratio	1.40	1.30	1.30	1.30	1.30
Subject Current Ratio	4.60	5.88	6.77	4.91	7.70
Upper Quick (Acid-Test) Ratio	1.80	1.90	1.70	1.80	2.00
Median Quick (Acid-Test) Ratio	0.90	0.80	0.80	0.90	1.00
Lower Quick (Acid-Test) Ratio	0.40	0.40	0.50	0.50	0.50
Subject Quick (Acid-Test) Ratio	2.13	2.92	3.52	2.16	3.30
Upper Revenues/Receivable	16.60	18.50	16.40	24.10	17.00
Median Revenues/Receivable	9.60	8.50	8.20	10.10	8.80
Lower Revenues/Receivable	7.10	5.90	6.20	6.80	5.80
Subject Revenues/Receivable	52.50	58.70	60.15	94.44	42.61
Upper Days' Receivables	22	20	22	15	21
Median Days' Receivables	38	43	45	36	41
Lower Days' Receivables	51	62	59	54	63
Subject Days' Receivables	7	6	6	4	9
Upper Cost of Sales to Inventory	13.00	11.20	9.90	9.20	12.90
Median Cost of Sales to Inventory	5.00	5.50	4.90	4.40	5.20
Lower Cost of Sales to Inventory	2.90	2.70	2.90	2.60	2.60
Subject Cost of Sales to Inventory	2.22	2.35	2.50	3.16	2.24
Upper Days' Inventory	28	33	37	40	28
Median Days' Inventory	73	66	74	83	70
Lower Days' Inventory	126	135	126	140	140
Subject Days' Inventory	164	156	146	115	163
Upper Cost of Sales to Payables	40.50	22.80	32.70	40.80	60.10
Median Cost of Sales to Payables	20.10	11.90	15.70	14.50	16.30
Lower Cost of Sales to Payables	8.90	6.20	8.40	7.10	8.50
Subject Cost of Sales to Payables	13.33	15.91	18.33	20.67	25.41
Upper Days' Payables	9	16	11	9	6
Median Days' Payables	18	31	23	25	22
Lower Days' Payables	41	59	43	51	43
Subject days' Payables	27	23	20	18	14
Upper Sales to Working Capital	4.60	4.60	3.80	3.90	4.10
Median Sales to Working Capital	7.30	8.10	7.20	7.70	7.80
Lower Sales to Working Capital	13.50	13.80	19.80	17.20	17.40
Subject Sales to Working Capital	4.64	4.33	4.55	6.48	4.26

»

The following coverage and leverage ratios are compared to the subject Company.

Based On Historical Statements	RMA 2002 Child's 2002	RMA 2003 Child's 2003	RMA 2004 Child's 2004	RMA 2005 Child's 2005	RMA 2006 Child's 2006	Min	Max	Mean	Median
COVERAGE RATIOS:									
Upper Times Interest Earned	6.30	8.10	9.50	21.30	16.90	6.30	21.30	12.42	9.50
Median Times Interest Earned	2.30	3.00	3.60	5.50	2.90	2.30	5.50	3.46	3.00
Lower Times Interest Earned	1.60	1.50	1.30	1.80	1.20	1.20	1.80	1.48	1.50
Subject Times Interest Earned	N/A	-0.23	-0.08	-0.56	-1.41	-1.41	-0.08	-0.57	-0.39
Upper Net Profit + Depr.,Dep.,Amort./Cur.Mat.L/T/D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Median Net Profit + Depr.,Dep.,Amort./Cur.Mat.L/T/D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lower Net Profit + Depr.,Dep.,Amort./Cur.Mat.L/T/D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subject Net Profit + Depr.,Dep.,Amort./Cur.Mat.L/T/D	13.58	17.14	15.31	15.23	18.39	13.58	18.39	15.93	15.31
LEVERAGE RATIOS:									
Upper Fixed Assets/Tangible Worth	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Median Fixed Assets/Tangible Worth	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Lower Fixed Assets/Tangible Worth	0.20	0.20	0.30	0.20	0.20	0.20	0.30	0.22	0.20
Subject Fixed Assets/Tangible Worth	1.44	1.39	1.27	1.30	0.98	0.98	1.44	1.28	1.30
Upper Debt-to-Tangible Net Worth	0.90	0.50	0.50	0.40	0.40	0.40	0.90	0.54	0.50
Median Debt-to-Tangible Net Worth	1.20	1.40	1.40	1.20	1.30	1.20	1.40	1.30	1.30
Lower Debt-to-Tangible Net Worth	2.30	3.10	3.20	2.70	2.60	2.30	3.20	2.78	2.70
Subject Debt-to-Tangible Net Worth	1.52	1.68	1.62	1.42	1.20	1.20	1.68	1.49	1.52
RMA Debt-to-Equity	1.23	1.29	1.21	1.06	1.10	1.06	1.29	1.18	1.21
Subject Debt-to-Equity	1.52	1.68	1.45	1.31	1.14	1.14	1.68	1.42	1.45

The following operating ratios are compared to the subject company.

Based On Historical Statements	RMA 2002 Child's 2002	RMA 2003 Child's 2003	RMA 2004 Child's 2004	RMA 2005 Child's 2005	RMA 2006 Child's 2006
OPERATING RATIOS:					
RMA Gross Profit Margin	33.70%	29.80%	31.40%	35.10%	32.20%
Subject Gross Profit Margin	71.43%	70.19%	72.29%	70.16%	68.49%
Upper EBT/Tangible Worth	31.80%	29.00%	36.90%	47.20%	32.90%
Median EBT/Tangible Worth	9.80%	12.50%	14.00%	14.70%	18.00%
Lower EBT/Tangible Worth	4.10%	3.10%	3.70%	4.60%	2.00%
Subject EBT/Tangible Worth	26.67%	33.05%	27.90%	37.50%	38.76%
Upper EBT/Total Assets	20.40%	15.00%	12.50%	20.80%	15.00%
Median EBT/Total Assets	5.00%	4.80%	5.80%	7.30%	5.10%
Lower EBT/Total Assets	1.80%	1.20%	0.90%	2.60%	0.50%
Subject EBT/Total Assets	3.29%	3.13%	2.97%	5.38%	6.01%
Upper Fixed Asset Turnover	210.20	243.20	276.80	304.00	281.70
Median Fixed Asset Turnover	116.20	123.60	98.20	132.00	94.50
Lower Fixed Asset Turnover	50.80	35.40	32.10	32.30	30.80
Subject Fixed Asset Turnover	2.37	3.00	3.85	3.85	4.46
Upper Total Asset Turnover	4.00	3.40	3.50	3.70	3.70
Median Total Asset Turnover	2.60	2.50	2.50	2.40	2.60
Lower Total Asset Turnover	2.20	1.90	1.80	1.90	1.80
Subject Total Asset Turnover	1.35	1.56	1.79	2.00	1.93
EXPENSE TO REVENUE RATIOS:					
Upper % Deprtn., Depltn., Amort./Revenue	0.20%	0.20%	0.20%	0.10%	0.20%
Median % Deprtn., Depltn., Amort./Revenue	0.30%	0.30%	0.40%	0.40%	0.30%
Lower % Deprtn., Depltn., Amort./Revenue	0.70%	0.70%	0.70%	0.60%	0.70%
Subject % Deprtn., Depltn., Amort./Revenue	2.38%	2.25%	2.14%	2.81%	2.85%
Upper % Officer's &/or Owner's Compensation/Revenue	1.40%	2.20%	2.20%	1.50%	1.70%
Median % Officer's &/or Owner's Compensation/Revenue	2.00%	3.40%	4.60%	2.80%	2.70%
Lower % Officer's &/or Owner's Compensation/Revenue	5.20%	5.70%	6.70%	4.90%	6.30%
Subject % Officer's &/or Owner's Compensation/Revenue	11.81%	13.12%	13.40%	16.44%	18.79%

IRS Peer Comparisons

For purposes of comparison with industry financial measures available from non-public company sources, «I» reviewed the *IRS Corporate Records*, published by the Internal Revenue Service (IRS). The IRS compiled average percentage income statements and balance sheets and key financial ratios of companies classified under the industry code # «5461». The selected IRS group includes [number of companies] companies. «I» believe the IRS data provides limited comparative perspective and strict comparisons should be made with caution.

The following liquidity ratios were compared to the subject company.

«

Based On Historical Statements	IRS 2000 Child's 2002	IRS 2001 Child's 2003	IRS 2002 Child's 2004	IRS 2003 Child's 2005	IRS 2004 Child's 2006
LIQUIDITY RATIOS:					
IRS Current Ratio	1.93	1.81	1.90	1.61	1.56
Subject Current Ratio	4.60	5.88	6.77	4.91	7.70
IRS Quick Ratio	0.64	0.69	0.67	0.63	0.65
Subject Quick Ratio	2.13	2.92	3.52	2.16	3.30
IRS Revenue/Accounts Receivable (Net)	16.00	12.88	12.69	10.61	8.21
Subject Revenue/Accounts Receivable (Net	5.20	7.91	8.16	5.03	7.42
IRS Collection Period (days)	23.00	28.00	29.00	34.00	44.00
Subject Collection Period (days)	70	46	45	73	49
IRS Inventory Turnover	3.33	3.36	2.94	2.94	2.88
Subject Inventory Turnover	2.22	2.35	2.50	3.16	2.24
IRS Days' Inventory	110.00	109.00	124.00	124.00	127.00
Subject Days' Inventory Turnover	164	156	146	115	163
IRS COGS / Payables	8.46	6.63	6.99	6.12	5.57
Subject COGS / Payables	13.33	15.91	18.33	20.67	25.41
IRS Days' Payables	43.00	55.00	52.00	60.00	66.00
Subject Days' Payables	27	23	20	18	14
IRS Revenue/Working Capital	6.20	6.86	5.78	7.38	7.20
Subject Revenue/Working Capital	4.64	4.33	4.55	6.48	4.26

»

The following coverage, leverage and operating ratios were compared to the subject company.

«

Based On Historical Statements	IRS 2000 Child's 2002	IRS 2001 Child's 2003	IRS 2002 Child's 2004	IRS 2003 Child's 2005	IRS 2004 Child's 2006
COVERAGE RATIOS:					
IRS Times Interest Earned	8.33	8.52	5.24	5.40	4.44
Subject Times Interest Earned	1.85	2.23	2.08	2.56	3.41
IRS Net Profit + Depr.,Dep.,Amort./Cur.Mat.L/T/D	0.00	0.00	0.00	0.00	0.00
Subject Net Profit + Depr.,Dep.,Amort./Cur.Mat.L/T/D	13.58	17.14	15.31	15.23	18.39
LEVERAGE RATIOS:					
IRS Fixed Assets/Tangible Worth	0.56	0.64	0.54	0.60	0.59
Subject Fixed Assets/Tangible Worth	1.44	1.39	1.27	1.30	0.98
IRS Debt-to-Tangible Net Worth	1.40	1.72	1.66	1.79	1.81
Subject Debt-to-Tangible Net Worth	1.52	1.68	1.45	1.31	1.14
OPERATING RATIOS:					
IRS Gross Profit Margin	40.90%	41.30%	42.20%	44.00%	44.10%
Subject Gross Profit Margin	71.43%	70.19%	72.29%	70.16%	68.49%
IRS EBT/Tangible Worth	70.00%	80.10%	29.00%	32.00%	26.70%
Subject EBT/Tangible Worth	26.67%	33.05%	27.90%	37.50%	38.76%
IRS EBT/Total Assets	28.20%	28.30%	10.50%	10.90%	9.20%
Subject EBT/Total Assets	10.58%	12.35%	10.18%	15.00%	17.16%
IRS Fixed Asset Turnover	7.37	7.51	8.29	8.09	7.63
Subject Fixed Asset Turnover	2.37	3.00	3.85	3.85	4.46
IRS Total Asset Turnover	1.67	1.70	1.62	1.65	1.56
Subject Total Asset Turnover	1.35	1.56	1.79	2.00	1.93
Expense to Revenue Ratios:					
IRS % Deprtn., Depltn., Amort./Revenue	2.10%	2.10%	2.00%	2.10%	2.20%
Subject % Deprtn., Depltn., Amort./Revenue	2.38%	2.25%	2.14%	2.81%	2.85%
IRS % Officer's &/or Owner's Compensation/Revenue	1.50%	1.40%	1.90%	2.00%	1.90%
Subject % Officer's &/or Owner's Compensation/Revenue	11.81%	13.12%	13.40%	16.44%	18.79%

»

Other Peer Comparisons

The following liquidity ratios were compared to the subject company.

Based On Historical Statements	Source 2002 Child's 2002	Source 2003 Child's 2003	Source 2004 Child's 2004	Source 2005 Child's 2005	Source 2006 Child's 2006
LIQUIDITY RATIOS:					
Source Current Ratio					
Subject Current Ratio	4.60	5.88	6.77	4.91	7.70
Source Quick Ratio					
Subject Quick Ratio	2.13	2.92	3.52	2.16	3.30
Source Revenue/Accounts Receivable (Net)					
Subject Revenue/Accounts Receivable (Net)	5.20	7.91	8.16	5.03	7.42
Source Collection Period (days)					
Subject Collection Period (days)	70	46	45	73	49
Source Inventory Turnover					
Subject Inventory Turnover	2.22	2.35	2.50	3.16	2.24
Source Days' Inventory					
Subject Days' Inventory Turnover	164	156	146	115	163
Source COGS / Payables					
Subject COGS / Payables	13.33	15.91	18.33	20.67	25.41
Source Days' Payables					
Subject Days' Payables	27	23	20	18	14
Source Revenue/Working Capital					
Subject Revenue/Working Capital	4.64	4.33	4.55	6.48	4.26

»

The following coverage, leverage and operating ratios were compared to the subject company.

«

Based On Historical Statements	Source 2002 Child's 2002	Source 2003 Child's 2003	Source 2004 Child's 2004	Source 2005 Child's 2005	Source 2006 Child's 2006
COVERAGE RATIOS:					
Source Times Interest Earned					
Subject Times Interest Earned	1.85	2.23	2.08	2.56	3.41
Source Net Profit + Depr.,Dep.,Amort./Cur.Mat.L/T/D					
Subject Net Profit + Depr.,Dep.,Amort./Cur.Mat.L/T/D	13.58	17.14	15.31	15.23	18.39
LEVERAGE RATIOS:					
Source Fixed Assets/Tangible Worth					
Subject Fixed Assets/Tangible Worth	1.44	1.39	1.27	1.30	0.98
Source Debt-to-Tangible Net Worth					
Subject Debt-to-Tangible Net Worth	1.52	1.68	1.45	1.31	1.14
OPERATING RATIOS:					
Source Gross Profit Margin					
Subject Gross Profit Margin	71.43%	70.19%	72.29%	70.16%	68.49%
Source EBT/Tangible Worth					
Subject EBT/Tangible Worth	26.67%	33.05%	27.90%	37.50%	38.76%
Source EBT/Total Assets					
Subject EBT/Total Assets	3.29%	3.13%	2.97%	5.38%	6.01%
Source Fixed Asset Turnover					
Subject Fixed Asset Turnover	2.37	3.00	3.85	3.85	4.46
Source Total Asset Turnover					
Subject Total Asset Turnover	1.35	1.56	1.79	2.00	1.93
Expense to Revenue Ratios:					
Source % Deprtn., Depltn., Amort./Revenue					
Subject % Deprtn., Depltn., Amort./Revenue	2.38%	2.25%	2.14%	2.81%	2.85%
Source % Officer's &/or Owner's Compensation/Revenue					
Subject % Officer's &/or Owner's Compensation/Revenue	11.81%	13.12%	13.40%	16.44%	18.79%

»

COMPANY PROFIT AND LOSS

The summary profit and loss statements from your Pro project follow. Feel free to delete them if they are not suitable for this report.

Summary Profit and Loss Statements

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Revenue	2,100,000	2,935,000	3,970,000	5,194,000	5,966,000
Cost of Goods Sold	600,000	875,000	1,100,000	1,550,000	1,880,000
Gross Profit	1,500,000	2,060,000	2,870,000	3,644,000	4,086,000
Operating Expenses	1,136,000	1,673,000	2,447,000	2,990,000	3,319,000
Operating Profit	364,000	387,000	423,000	654,000	767,000
Other Income/(Expense)	-200,000	-154,000	-197,000	-264,000	-236,000
Income Before Taxes	164,000	233,000	226,000	390,000	531,000
Income Taxes	51,000	59,000	66,000	140,000	186,000
Net Income	113,000	174,000	160,000	250,000	345,000

NORMALIZATION ADJUSTMENTS

Normalization adjustments are required to adjust the historical financial statements so that they are representative of a normal condition as of the valuation date.

Balance Sheet Adjustments

Book Value (Going Concern)

The Company's reported book value at the date of valuation was $«589,000». Listed below, «I» have identified adjustments that are required to restate shareholders' equity and reflect the net asset value of the Company.

Liquidation Value

The Company's reported liquidation value at the date of the valuation was $«-18,000». Listed below, «I» have identified adjustments that are required to restate shareholders' equity and reflect the liquidation asset value of the Company.

Income Statement Adjustments

The Company's reported profit and loss statement was adjusted for one time charges and abnormalities as listed below.

ESTIMATE OF VALUE

Methodologies Considered But Rejected

While there are many methods that can be used to determine the fair market value of a company, the fact pattern in the specific case of «Child's Clothing Store» dictates that certain methodologies are inappropriate. The following lists those methods and the reasons why they are not used.

Dividend Paying Capacity

Revenue Ruling 59-60 states:

> (e) Primary consideration should be given to the dividend-paying capacity of the company rather than to dividends actually paid in the past. Recognition must be given to the necessity of retaining a reasonable portion of profits in a company to meet competition. Dividend-paying capacity is a factor that must be considered in an appraisal, but dividends actually paid in the past may not have any relation to dividend-paying capacity. Specifically, the dividends paid by a closely held family company may be measured by the income needs of the stockholders or by their desire to avoid taxes on dividend receipts, instead of by the ability of the company to pay dividends. Where an actual or effective controlling interest in a corporation is to be valued, the dividend factor is not a material element, since the payment of such dividends is discretionary with the controlling stockholders. The individual or group in control can substitute salaries and bonuses for dividends, thus reducing net income and understating the dividend-paying capacity of the company. It follows, therefore, that dividends are less reliable criteria of fair market value than other applicable factors.

Book Value Method

The book value method is an accounting based value that is calculated by subtracting the book value of total liabilities from the book value of total assets. This method takes as fact that the underlying assets are the driving factor in the valuation of the company and that the fair market value is approximated by the book value.

The book value methodology was rejected for determining the value of «Child's Clothing Store» because «my» review indicates that the value of the enterprise is driven by the ability of the collection of assets in place to generate a benefit stream that is more important in terms of valuation than the value in the underlying assets themselves. In other words, the value of the individual assets and their associated liabilities are less important than the manner in which management has utilized them.

Additionally, «my» review indicates that the fair market value of the underlying assets less the fair market value of the liabilities is different than the book value of the assets. This is primarily due to the fact that the accounting standards do not allow the recognition of appreciation in value.

Market Approach Methods

The market approach develops a value using the principle of substitution. This simply means that if one thing is similar to another and could be used (our case invested in) for the other, then they must be equal. Furthermore, the price of two like and similar items should approximate one another. For the market approach to be used, there must be a sufficient number of comparable companies to make comparisons, or, alternatively, the industry composition must be such that meaningful comparisons can be made. «My» search of the various transaction databases under the enterprise's SIC (NAICS) «5461», «Childrens Clothing» did not provide an adequate number of companies with which to compare the enterprise. The companies found showed such a wide variance of data that a meaningful comparison with the enterprise could not be made. Similarly, «my» search of comparable public companies did not provide meaningful data with which to draw a conclusion. This method was rejected in the valuation of «Child's Clothing Store» because «I» did not satisfy «myself» as to the ability to substitute the comparable company(s)for «Child's Clothing Store».

Determination of Fair Market Value

Book Value Method

The book value of «Child's Clothing Store» as of «December 31, 2006» was $«589,000». The book value method is an accounting based value that is calculated by subtracting the book value of total liabilities from the book value of total assets. This method takes as fact that the underlying assets are the driving factor in the valuation of the company and that the «fair market value» is approximated by the book value.

«My» review indicates that the value of the enterprise is driven by the collection of the assets' ability to generate a benefit stream that is not more important in terms of valuation than the value of the underlying assets themselves. In other words, the value of the individual assets and their associated liabilities are more important than the manner in which management has utilized them.

Additionally, «my» review indicates that the «fair market value» of the underlying assets less the «fair market value» of the liabilities approximates the book value of the assets.

Adjusted Book Value Method – Going Concern

The adjusted value of «Child's Clothing Store» as of «December 31, 2006» was $«344,000». The adjusted book value - going concern method develops a valuation

indication by adjusting the reported book values of a subject company's assets to their actual or estimated «fair market value»s and subtracting its liabilities (adjusted to «fair market value», if appropriate). The specific adjustments were described in the analysis of the balance sheet. The indicated value should not be interpreted as an estimate of liquidation value. Neither an orderly nor a forced liquidation is contemplated.

Application of Built In Gains Adjustment

HELPER TEXT

The schedule in Pro where the data is being mapped from is the Built In Gain schedule.

In addition to «fair market value» adjustments, a built in gain or trapped in gain tax adjustment is necessary to reflect the income tax liability incurred for changes in the value from the historical cost to the fair market value. The fair market values of the assets are assumed to be $«1,400,000». «A holding period of 8 and an appreciation rate of 3.00% are assumed to arrive at an appreciated value of 1,773,478. The book value at this point in the future is assumed to be 1,200,000 for a trapped in gain of 573,478. This amount is then brought back to the present value of 91,393 using a discount rate of 30.00%.». The appropriate tax rate was assumed to be «34.00%» and when applied to the difference, results in the adjustment amount of $«31,074» for built in gains.

Application of Minority Interest Discount

HELPER TEXT

The asset methods have the adjusted book value under a going concern assumption. The data is being mapped to those schedules.

A minority interest discount is a reduction in the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

HELPER TEXT

Explain the reasons for the discount and how the discount was calculated.

Application of Lack of Marketability Discount

HELPER TEXT

The asset methods have the adjusted book value under a going concern assumption. The data is being mapped to those schedules.

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for illiquidity because

Appendix E contains further information on the lack of a marketability discount.

Indicated Value Calculation

As determined below, the «fair market value» indicated by using the Adjusted Book Value as a Going Concern method was $«343,942» and was rounded to $«344,000».

	Year Ended December 31, 2006
Adjusted Equity	875,000
Tax Effect of Built In Gain	-31,074
Less Minority Interest Discount	37.30%
Subtotal	529,142
Less Marketability Discount	35.00%
Indicated Value	343,942

« »

Adjusted Book Value Method – Liquidation Value

The adjusted book value in an orderly liquidation of «Child's Clothing Store» as of «December 31, 2006» was $«1,400,000». The adjusted book value - liquidation method develops a valuation indication by adjusting the reported book values of a subject company's assets to their actual or estimated price as if they were sold in a piecemeal and orderly fashion. It is assumed that the assets are given an adequate level of exposure in their normal secondary market. This premise does not contemplate any contributory value from the company's intangible assets. The specific adjustments were described in the analysis of the balance sheet.

Application of Built In Gains Adjustment

In addition to fair market value adjustments, a built in gain or trapped in gain tax adjustment is necessary to reflect the income tax liability incurred for changes in the value from the historical cost to the fair market value. The fair market values of the assets were assumed to be $«1,400,000». «A holding period of 8 and an appreciation rate of 3.00% are assumed to arrive at an appreciated value of 1,773,478. The book value at this point in the future is assumed to be 1,200,000 for a trapped in gain of 573,478. This amount is then brought back to the present value of 91,393 using a discount rate of 30.00%.». The appropriate tax rate was assumed to be «34.00%» and when applied to the difference results in the adjustment amount of $«31,074» for built in gains.

Application of Minority Interest Discount

A minority interest discount is a reduction to the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

Application of Lack of Marketability Discount Applied

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for illiquidity because

Appendix E contains further information on the lack of a marketability discount.

Indicated Value Calculation

As determined below, the fair market value indicated by using the Adjusted Book Value – Liquidation Method was $«-18,370» and was rounded to $«-18,000».

	Year Ended December 31, 2006
Adjusted Equity	-14,000
Tax Effect of Built In Gain	-31,074
Less Minority Interest Discount	37.30%
Subtotal	-28,261
Less Marketability Discount	35.00%
Indicated Value	-18,370
SELECTED LIQUIDATION VALUE	-18,000

« »

Capitalization of «Cash Flow» Method

Capitalization of «cash flow» requires an estimate of an ongoing benefit stream and a capitalization «multiple». The capitalization «multiple» represents the required rate of return minus the sustainable growth rate. Capitalization of «cash flow» effectively determines the present value of the Company's ongoing economic benefit stream growing perpetually at a fixed rate and discounted at the required rate of return. The present value is representative of the amount a willing buyer and a willing seller would exchange for the business.

Estimate of Ongoing Benefit Stream

The analysis presented below represents the calculation of the ongoing economic benefit stream. It depicts the calculation of the «after tax cash flow» benefit stream.

Calculation of the Ongoing Economic Benefit Stream

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Earning Power Based on Net of Debt After Tax Cash Flow					
Adjusted Pretax Income	184,000	275,000	269,000	434,000	586,000
Add Depreciation/Amortization and Other Non-Cash Expenses	50,000	66,000	85,000	146,000	170,000
Total	234,000	341,000	354,000	580,000	756,000
Weight	1	2	3	4	5
Ongoing Earning Power					538,533
Less Ongoing Depreciation/Amortization					124,733
Taxable Base					413,800
Less Estimated State Income Taxes - Effective Rate:					10.00%
Before Federal Taxes					372,420
Less Federal Taxes					126,623
« Subtotal					245,797

»

The weighting above was performed because <mark>list the reasons</mark>.

Taxes

Taxes were calculated as $«41,380» for the state and $«126,623» for federal. The ongoing benefit stream was reduced by these outflows.

Cash Flow

A cash flow stream needs to define the changes in working capital, capital expenditures and long term debt. The ongoing increase/decrease in working capital is $«-25,000». The ongoing increase/decrease in capital expenditures is $«-50,000». The change in long term debt amounts to $«-54,000».

Capitalization «Rate»

Capitalization Rates

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

The buildup method layers different risk estimates to build up a discount rate. The appropriate discount rate components for the Company are the risk free rate, equity risk premium, size premium and company specific premium. Subtracting sustainable growth from the discount rate develops the capitalization rate.

Risk Free Rate

The risk free rate measures the rate of return an investor can earn without taking any additional risk. Examples of risk free returns are United States Treasury bonds. As of the valuation date «December 31, 2006», this yield was «5.00%». The rate applied to the buildup was «5.00%».

Equity Risk Premium

The equity risk premium represents the risk an investor accepts for investing in large public companies. This risk is measured by taking the returns of public companies over the last 80 years and subtracting the risk free return over the last 80 years (average annual returns for large capitalization stocks minus average annual returns for long term government bonds). This information is published by Morningstar. As of «December 31, 2006», the equity risk premium was «6.00%». The rate applied to «Child's Clothing Store»was «6.00%».

Size Risk Premium

Empirical evidence shows that the risk reward principle (the greater the risk the greater the reward) holds true in the size or capitalization of the company. The size premium represents average annual returns for small capitalization stocks minus average annual returns for large capitalization stocks. Based on *Stocks, Bonds, Bills, and Inflation Yearbook*, a publication of Morningstar, the small stock risk premium averaged «7.00%» from 1926 to 2006. The rate applied to «Child's Clothing Store» was «7.00%».

Industry Risk Premium

Based upon the industry of the subject company as reported in *Stocks, Bonds, Bills, and Inflation Yearbook*, a publication of Morningstar, the industry risk premium was calculated as «4.50%». The rate applied to «Child's Clothing Store» was «4.50%».

Specific Company Risk Premium

Based upon Company specific factors - cyclical risk, risks of competitive encroachment, size and various operating concentrations (key executive dependency, customer concentration, for example) - the summation requires an additional risk premium of «7.50%».

Expected Sustainable Growth Rate

We estimate «4.00%» long term compound annual growth. This «cash flow» growth estimate is based upon «my» assessment of the Company's prospects for sustained growth in relationship to the estimate of ongoing «cash flow» power developed above.

Rate to Factor Conversion

The capitalization rate developed using the buildup method is «26.00%». The reciprocal of this measure (1/«26.00%») provides a capitalization multiple of «4».

Calculation of the «Rate»

The schedule below shows how the «multiple» was calculated

«

BUILDUP CAPITALIZATION RATE

Risk-Free Rate of Return	5.00%	
Equity Risk Premium	6.00%	
Small Stock Risk Premium	7.00%	
Plus/Minus Industry Risk Premium	4.50%	
Company Specific Premium	7.50%	
Net Cash Flow Discount Rate	30.00%	
Discount Rate		30.00%
Sustainable Growth		4.00%
Capitalization Rate To Apply To Next Year Stream		26.00%
Selected Rate		26.00%

»

Indicated Value

To calculate an indicated value for «Child's Clothing Store», the first step is to use the «after tax cash flow» benefit steam and «multiply» it by the «multiple». «In order to match the appropriate period to the rate, the rate is divided by one plus the growth rate.»

The next step is to apply adjustments to value for «Child's Clothing Store».

Application of Minority Interest Discount

A minority interest discount is a reduction to the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

Application of Marketability Discount

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Application of Excess or Non-Operating Assets

Excess or Non-operating assets represent the value of resources the company has control of but are not required to operate the business. Examples are excess cash on hand, real estate or other securities not used in the production of goods or services. In «my»

judgment, excess and non-operating assets that need to be added back and are a part of the business's value total $«18,000».

Indicated Value Calculation

The following schedule presents the indicated value using the capitalization of earnings method. As calculated, the indicated «fair market value» is $«411,693» which has been rounded to $«412,000».

Net of Debt After Tax Cash Flow	241,500
Sustainable Growth Rate	4.00%
Net of Debt After Tax Cash Flow	251,160
Capitalization Rate	26.00%
Subtotal	966,000
Minority Interest Discount	37.30%
Subtotal	605,682
Marketability Discount	35.00%
Subtotal	393,693
Excess/Non-Operating Assets	18,000
Indicated Equity Value	411,693
« SELECTED EQUITY VALUE	412,000 »

Discounted Multi-Growth Model

The discounted future «cash flow» method was applied and the resulting «fair market value» of «Child's Clothing Store» as of «December 31, 2006» was $«507,000». This income method is the most appropriate method to use. The method focuses on the present value of the forecasted future benefits. These would accrue to the hypothetical owner of the company. They vary greatly in the short run and are still estimable in the long run. This method requires an explicit forecast of the future benefit streams over a reasonably foreseeable short term and an estimate of a long term benefit stream that is stable and sustainable, i.e. not varying from period to period. In addition, the benefit stream is determined to continue into the future without compromise. An appropriate discount rate and an estimate of long term growth beyond the forecast period allow discrete present

values to be calculated and summed for all the benefit streams and determine the entity value.

Estimate of Ongoing Benefit Stream

The analysis presented below represents the ongoing economic benefit stream. It depicts the calculation of the «after tax cash flow» benefit stream.

Calculation of the Ongoing Economic Benefit Stream

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Earning Power Based on Net of Debt After Tax Cash Flow					
Adjusted Pretax Income	184,000	275,000	269,000	434,000	586,000
Add Depreciation/Amortization and Other Non-Cash Expenses	50,000	66,000	85,000	146,000	170,000
Total	234,000	341,000	354,000	580,000	756,000
Weight	1	2	3	4	5
Ongoing Earning Power	538,533				
Less Ongoing Depreciation/Amortization	124,733				
Taxable Base	413,800				
Less Estimated State Income Taxes - Effective Rate:	10.00%				
Before Federal Taxes	372,420				
Less Federal Taxes	126,623				
Subtotal	245,797				

The weighting above was performed because <mark>list the reasons</mark>.

Taxes were calculated as $«41,380» for the state and $«126,623» for the federal. The benefit stream was reduced by these outflows.

A cash flow stream needs to define the changes in working capital, capital expenditures and long term debt. The ongoing change in working capital is $«-25,000». The ongoing change in capital expenditures is $«-50,000». The change in long term debt amounts to $«-54,000».

Benefit Stream Forecast Assumptions

Certain assumptions must be made in this model. Primarily, what is the reasonably foreseeable short term? The benefit stream should have different characteristics than the sustainable long term benefit stream. The fact set for «Child's Clothing Store» as of «December 31, 2006» dictates that the reasonable foreseeable short term is «10» years because

The method of forecast was «manual percentage growth». This method was chosen because

Given these assumptions, the benefit stream was forecasted «10» years using the «manual percentage growth». The next step is to determine a discount rate.

Discount Rate

dividend yields in terms of the selling prices of corporate shares listed on the major exchanges of the country. Wide variations will be found even for companies in the same industry. Moreover, the ratio will fluctuate from year to year depending upon economic conditions. Thus, no standard tables of capitalization rates applicable to closely held corporations can be formulated. Among the more important factors to be taken into consideration in deciding upon a capitalization rate in a particular case are: (1) the nature of the business; (2) the risk involved; and (3) the stability or irregularity of earnings.

These items are mapped from Pro's Discount Rate Schedule.

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

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

Risk Free Rate

The risk free rate measures the rate of return an investor can earn without taking any additional risk. Examples of risk free returns are the United States Treasury bonds. As of the valuation date, «December 31, 2006», this yield was «5.00%». The rate applied to the buildup was «5.00%».

Equity Risk Premium

The equity risk premium represents the risk an investor takes on for investing in large public companies. This risk is measured by taking the returns over the last 78 years and subtracting the risk free return over the last 78 years (average annual returns for large capitalization stocks minus average annual returns for long term government bonds). The information is published by Morningstar. As of «December 31, 2006», the equity risk premium was «6.00%». The rate applied to «Child's Clothing Store» was «6.00%».

Beta

The beta is a measure of volatility. Beta is the systemic risk of a security which cannot be eliminated through diversification. It is the risk that all stocks face. Beta measures the relative volatility of returns on a specific stock compared to the returns on an underlying index of stocks, typically the S&P500 or the NYSE Composite Index. Greater volatility means greater variability of returns which means greater risk. «I» applied a beta of «0.00». The source of the beta used is [enter the source of the beta]. By multiplying the common stock equity premium by the above beta, a beta-adjusted common stock equity premium of «0.00%» is derived. The rate applied to «Child's Clothing Store» was «0.00%».

Small Capitalization Equity Risk Premium

HELPER TEXT

These items are mapped from Pro's Discount Rate Schedule.

Empirical evidence shows that the risk reward principle (the greater the risk the greater the reward) holds true in the size or capitalization of the company. The size premium represents average annual returns for small capitalization stocks minus average annual returns for large capitalization stocks. Based on *Stocks, Bonds, Bills, and Inflation Yearbook*, a publication of Morningstar, the small stock risk premium averaged «7.00%» from 1926 to 2006. The rate applied to «Child's Clothing Store» was «7.00%».

Specific Company Risk Premium

HELPER TEXT

These items are mapped from Pro's Discount Rate Schedule.

Based upon Company specific factors - cyclical risk, risks of competitive encroachment, size and various operating concentrations (key executive dependency, customer concentration, for example) - the summation requires an additional risk premium of «7.50%».

HELPER TEXT

Explain the specific risks of the subject company.

Discount Rate Calculation

The schedule below shows how the discount rate was calculated. The discount rate selected for «Child's Clothing Store» is «30.00%».

Risk-Free Rate of Return	5.00%
Equity Risk Premium	6.00%
Small Stock Risk Premium	7.00%
Plus/Minus Industry Risk Premium	4.50%
Company Specific Premium	7.50%
Net Cash Flow Discount Rate	30.00%
Discount Rate	30.00%
Selected Rate	30.00%

Terminal Growth Rate and Benefit Stream

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

«I» estimate «4.00%» long term compound annual growth. This «cash flow» growth estimate is based upon «my» assessment of the company's prospects for sustained growth in relationship to the estimate of ongoing «cash flow» power developed above.

The «cash flow» in the «tenth» period of the discrete forecast was $«536,147». Applying the growth rate of «4.00%», «I» estimate the continuing stream should be $«515,526».

The stream is then discounted to present value and summed with the discrete present values in determining the «fair market value» of «Child's Clothing Store».

Indicated Value

To calculate the «fair market value» of «Child's Clothing Store», the first step is to list the discrete short term benefit streams and present value them to «December 31, 2006». The terminal benefit stream is then present valued. The sum of all these indicate an initial «fair market value».

Application of Minority Interest Discount

A minority interest discount is a reduction to the initially indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management and setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

Application of Marketability Discount

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Application of Excess or Non-Operating Assets

Excess or Non-operating assets represent the value of resources the company has control of but are not required to operate the business. Examples are excess cash on hand, real estate or other securities. In «my» judgment, excess and non-operating assets that need to be added back and are part of the value total «18,000».

Indicated Value Calculation

The following schedule presents the indicated value using the discounted future «cash flow» method. As calculated, the indicated «fair market value» of «Child's Clothing Store» is $«507,046» which has been rounded to $«507,000».

Forecast Period	After Tax Cash Flow	Growth Rate	P.V. Using 30.00% Discount Rate	Discounted Cash Flow
	241,500			
2007	265,650	10.00%	0.76923	204,346
2008	292,215	10.00%	0.59172	172,908
2009	321,437	10.00%	0.45517	146,307
2010	353,580	10.00%	0.35013	123,798
2011	385,402	9.00%	0.26933	103,800
2012	416,235	8.00%	0.20718	86,234
2013	445,371	7.00%	0.15937	70,977
2014	472,093	6.00%	0.12259	57,874
2015	495,698	5.00%	0.09430	46,744
2016	515,526	4.00%	0.07254	37,395
Present Value of Terminal Value				149,581
Subtotal				1,199,965
Minority Interest Discount				37.30%
Subtotal				752,378
Marketability Discount				35.00%
Subtotal				489,046
Excess/Non-Operating Assets				18,000
Indicated Equity Value				507,046
SELECTED EQUITY VALUE				507,000

«   »

Discounted Future «Future Earnings» Summary

The discounted future «Cash Flow» method was applied and the «fair market value» of «Child's Clothing Store» as of «December 31, 2006» was «2,271,000». This income method is the most appropriate method to use because the method focuses on the present value of the forecasted future benefits that would accrue to the hypothetical owner of the company. They vary greatly in the short run, but are still estimable in the long run. This method requires an explicit forecast of the future benefit streams over a reasonably foreseeable short term and an estimate of a long term benefit stream that is stable and sustainable (i.e. not varying from period to period and determined to continue into the future without compromise). An appropriate discount rate and an estimate of long term growth beyond the forecast period allow discrete present values to be calculated and summed for all of the benefit streams to determine the entity's value.

Key Assumptions in Forecast

The basic forecast assumptions are developed within the context of the Company's historical experience during the past «10» years. The assumptions are summarized below:

Insert assumptions range

Growth or Inflation Rate	6.00%
Yearly Investment in Capital Expenditures	25,000
Yearly Investment in Intangibles	15,000
LTD Financing Acquired Each Year	-54,000

«   »

Estimate of Ongoing Benefit Stream

The analysis presented below represents the calculation of the ongoing economic benefit stream. It depicts the calculation of the «after tax cash flow» benefit stream.

Calculation of the Ongoing Economic Benefit Stream

	Year 1 2007	Year 2 2008	Year 3 2009	Year 4 2010	Year 5 2011	Year 6 2012	Year 7 2013	Year 8 2014	Year 9 2015	Year 10 2016
Earning Power Based on Net of Debt After Tax Cash Flow										
Adjusted Pretax Income	562,860	596,632	632,429	670,375	710,598	753,234	798,428	846,333	897,113	950,940
Add Depreciation/Amortization and Other Non-Cash Expenses	190,800	202,248	214,383	227,246	240,881	255,333	270,653	286,893	304,106	322,353
Less Taxes	197,160	208,990	221,529	234,821	248,910	263,845	279,675	296,456	314,243	333,098
Changes in Working Capital	462,279	495,653	531,030	568,529	608,279	650,413	695,076	742,418	792,601	845,794
Changes in Capital Expenditures	-25,000	-25,000	-25,000	-25,000	-25,000	-25,000	-25,000	-25,000	-25,000	-25,000
Changes in Intangible Assets	-15,000	-15,000	-15,000	-15,000	-15,000	-15,000	-15,000	-15,000	-15,000	-15,000
Changes in Long Term Debt	-54,000	-54,000	-54,000	-54,000	-54,000	-54,000	-54,000	-54,000	-54,000	-54,000
Total Earning Power Based on Net of Debt After Tax Cash Flow	924,779	991,543	1,062,313	1,137,330	1,216,847	1,301,136	1,390,482	1,485,188	1,585,577	1,691,989

Discount Rate

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

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

Risk Free Rate

The risk free rate measures the rate of return an investor can earn without taking any additional risk. Examples of risk free returns are United States Treasury bonds. As of the valuation date, «December 31, 2006», this yield was «5.00%». The rate applied to the buildup was «5.00%».

Equity Risk Premium

The equity risk premium represents the risk an investor takes on for investing in large public companies. This risk is measured by taking the returns over the last 78 years and subtracting the risk free return over the last 78 years (average annual returns for large capitalization stocks minus average annual returns for long term government bonds). This information is published by Morningstar. As of «December 31, 2006», the equity risk premium was «6.00%». The rate applied to «Child's Clothing Store»was «6.00%».

Beta

The beta is a measure of volatility. Beta is the systemic risk of a security which cannot be eliminated through diversification. It is the risk that all stocks face. Beta measures the relative volatility of returns on a specific stock compared to the returns on an underlying index of stocks, typically the S&P500 or the NYSE Composite Index. Greater volatility means greater variability of returns which means greater risk.

«I» apply a beta of «0.00». The source of the beta used is [enter the source of the beta] By multiplying the common stock equity premium by the above beta, a beta-adjusted common stock equity premium of «0.00%» is derived. The rate applied to «Child's Clothing Store» was «0.00%».

Small Capitalization Equity Risk Premium

Empirical evidence shows that the risk reward principle (the greater the risk the greater the reward) holds true in the size or capitalization of the company. The size premium represents average annual returns for small capitalization stocks minus average annual returns for large capitalization stocks. Based on *Stocks, Bonds, Bills, and Inflation Yearbook*, a publication of Morningstar, the small stock risk premium averaged «7.00%» from 1926 to 2006. The rate applied to «Child's Clothing Store» was «7.00%».

Specific Company Risk Premium

Based upon Company specific factors - cyclical risk, risks of competitive encroachment, size and various operating concentrations (key executive dependency, customer concentration, for example) - the summation requires an additional risk premium of «7.50%».

Discount Rate Calculation

The schedule below shows how the discount rate was calculated. The discount rate chosen for «Child's Clothing Store» is «30.00%».

Risk-Free Rate of Return	5.00%	
Equity Risk Premium	6.00%	
Small Stock Risk Premium	7.00%	
Plus/Minus Industry Risk Premium	4.50%	
Company Specific Premium	7.50%	
Net Cash Flow Discount Rate	30.00%	
Discount Rate		30.00%
Selected Rate		30.00%

Terminal Growth Rate and Benefit Stream

> **HELPER TEXT**
>
> The Indicated Value Schedule has a subschedule for terminal growth. These items are mapped from the Terminal Growth subschedule.

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

We estimate «4.00%» terminal compound annual growth. This «Cash Flow» growth estimate is based upon «my» assessment of the Company's prospects for sustained growth in relationship to the estimate of ongoing «Cash Flow» power developed above.

The «cash flow» in the «tenth» period of the discrete forecast was «1,759,669». Applying the growth rate of «4.00%», «I» estimate the continuing stream should be $«1,691,989».

> **HELPER TEXT**
>
> If the midyear convention is used in the project, an explanation is needed here. The following paragraph contains some suggested text.
>
> In the normal discounting process it is assumed that the benefit stream is available to the hypothetical buyer at the end of the period. This is not always the case since sales and expenses occur over the course of a period. The benefit stream is then available during the period and not only at the end. To implement this logic, a midyear convention is used in calculating the present value of the final benefit stream.

The stream is then discounted to present value and summed with the discrete present values in determining the «fair market value» of «Child's Clothing Store».

Indicated Value

> **HELPER TEXT**
>
> These items are mapped from Pro's Indicated Value Schedule.

To calculate the «fair market value» of «Child's Clothing Store», the discrete short term benefit streams are listed and their present value at «December 31, 2006» is calculated. The terminal benefit stream is determined and the present value calculated. The sum of all these indicates an initial «fair market value».

Application of Minority Interest Discount

A minority interest discount is a reduction to the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management and setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

Application of Marketability Discount

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Excess or Non-Operating Assets

Excess or Non-operating assets represent the value of resources the company has control of but are not required to operate the business. Examples are excess cash on hand, real estate or other securities. In «my» judgment, excess and non-operating assets that need to be added back and are part of the entity's value total «18,000».

Indicated Value Calculation

The following schedule presents the indicated value using the discounted future «cash flow» method. As calculated, the indicated «fair market value» is $«1,625,365» is which has been rounded to $«1,625,000».

Forecast Period	After Tax Cash Flow	Growth Rate	P.V. Using 30.00% Discount Rate	Discounted Cash Flow
2007	924,779	7.22%	0.76923	711,368
2008	991,543	7.22%	0.59172	586,712
2009	1,062,313	7.14%	0.45517	483,529
2010	1,137,330	7.06%	0.35013	398,211
2011	1,216,847	6.99%	0.26933	327,732
2012	1,301,136	6.93%	0.20718	269,564
2013	1,390,482	6.87%	0.15937	221,596
2014	1,485,188	6.81%	0.12259	182,068
2015	1,585,577	6.76%	0.09430	149,519
2016	1,691,989	6.71%	0.07254	122,734
Present Value of Terminal Value				490,935
Subtotal				3,943,969
Minority Interest Discount				37.30%
Subtotal				2,472,869
Marketability Discount				35.00%
Subtotal				1,607,365
Excess/Non-Operating Assets				18,000
Indicated Equity Value				1,625,365
SELECTED EQUITY VALUE				1,625,000

Discounted Future «Future Earnings» Detail

HELPER TEXT

The income methods have the Detailed Discounted Cash Flows method with several schedules and sub-schedules in it. The data is being mapped from these schedules. To have this method appear as considered and used, enter a 1 for its status on the Conclusions of Value schedule in Pro.

The discounted future «future earnings» method was applied and the «fair market value» of «Child's Clothing Store» as of «December 31, 2006» was «2,271,000». This income method is the most appropriate method to use because the method focuses on the present value of the forecasted future benefits that would accrue to the hypothetical owner of the company that vary greatly in the short run and are still estimable in the long run. This method requires an explicit forecast of the future benefit streams over a reasonably foreseeable short term and an estimate of a long term benefit stream that is stable and sustainable, i.e. not varying from period to period and determined to continue into the future without compromise. An appropriate discount rate and an estimate of long term

growth beyond the forecast period allow discrete present values to be calculated and summed for all the benefit streams to determine the entity value.

Key Assumptions in Forecast

The basic forecast assumptions are developed within the context of the Company's historical experience during the past «5» years. The assumptions are summarized below:

Sales Growth Assumptions

Gross Profit Margin Assumptions

Operating Expenses Assumptions

Officers' Compensation Assumptions

Other Income and Expense Assumptions

Depreciation and Amortization Assumptions

Depreciation and amortization is a function of the company's adjusted balance of fixed assets and intangible assets along with projected acquisitions.

Interest Expense Assumptions

Interest expense is a function of the amount of the company's interest-bearing debt and the terms therein.

Income Tax Rate(s) Assumptions

Working Capital Assumptions

Capital Expenditures Assumptions

Long-Term Debt Assumptions

The change in the long-term debt is the net of additional borrowings and the reduction of outstanding debt. The assumptions for new debt are

Estimate of the Ongoing Benefit Stream

The analysis presented below represents the ongoing economic benefit stream. It depicts the calculation of the «invested capital EBITDA earnings» benefit stream using the assumptions described above. The forecast is for «10» years.

Calculation of the Ongoing Economic Benefit Stream

HELPER TEXT

The assumptions schedule has an option to choose which benefit stream should be used. The range is chosen based on that schedule option.

Projected

	Projected Year 2007	Projected Year 2008	Projected Year 2009	Projected Year 2010	Projected Year 2011	Projected Year 2012	Projected Year 2013	Projected Year 2014	Projected Year 2015	Projected Year 2016
Pretax Earnings	1,120,439	1,375,814	1,648,782	1,967,380	2,323,604	2,721,487	3,165,481	3,660,493	4,211,931	4,825,758
Income Taxes	-277,881	-340,069	-406,569	-484,118	-570,807	-667,613	-775,617	-896,010	-1,030,104	-1,179,347
Depreciation and Amortization	143,800	143,800	193,800	193,800	193,800	193,800	193,800	193,800	193,800	193,800
Common Stock Dividend Adjustment	0	0	0	0	0	0	0	0	0	0
Other Non-Cash Items	0	0	0	0	0	0	0	0	0	0
Decrease / (Increase) in Working Capital	39,712	-82,373	-90,726	-99,917	-110,029	-121,155	-133,396	-146,864	-161,681	-179,679
Decrease / (Increase) in Investments	656,000	0	-500,000	0	0	0	0	0	0	0
Decrease / (Increase) in Other Assets	0	0	0	0	0	0	0	0	0	0
(Decrease) / Increase in Other Liabilities	10,450	10,973	11,521	12,097	12,702	13,337	14,004	14,704	15,439	16,211
(Decrease) / Increase in Long Term Debt	-19,200	-83,117	160,058	-112,815	-125,266	-139,123	-154,551	-171,732	-190,872	-439,698
Less Preferred Stock Dividends	0	0	0	0	0	0	0	0	0	0
Net Cash Flow	1,673,320	1,025,028	1,016,866	1,476,427	1,724,003	2,000,733	2,309,721	2,654,392	3,038,514	3,237,046
Plus Beginning Cash Balance	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Preliminary Cash Available	1,723,320	1,075,028	1,066,866	1,526,427	1,774,003	2,050,733	2,359,721	2,704,392	3,088,514	3,287,046
Less Minimum Required Cash Balance	-50,000	-50,000	-50,000	-50,000	-50,000	-50,000	-50,000	-50,000	-50,000	-50,000
Available for Dividend - Net Free Cash Flow	1,673,320	1,025,028	1,016,866	1,476,427	1,724,003	2,000,733	2,309,721	2,654,392	3,038,514	3,237,046

Discount Rate

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

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

Risk Free Rate

The risk free rate measures the rate of return an investor can earn without taking any additional risk. Examples of risk free returns are the United States Treasury bonds. As of the valuation date, «December 31, 2006», this yield was «5.00%». The rate applied to the buildup was «5.00%».

Equity Risk Premium

The equity risk premium represents the risk an investor takes on for investing in large public companies. This risk is measured by taking the returns over the last 78 years and subtracting the risk free return over the last 81 years (average annual returns for large capitalization stocks minus average annual returns for long term government bonds). This information is published by Morningstar. As of «December 31, 2006», the equity risk premium was «6.00%». The rate applied to «Child's Clothing Store»was «6.00%».

Beta

The beta is a measure of volatility. Beta is the systemic risk of a security which cannot be eliminated through diversification. It is the risk that all stocks face. Beta measures the relative volatility of returns on a specific stock compared to the returns on an underlying index of stocks, typically the S&P500 or the NYSE Composite Index. Greater volatility means greater variability of returns which means greater risk.

«I» applied a beta of «1.00». The source of the beta used is [enter the source of the beta] By multiplying the common stock equity premium by the above beta, a beta-adjusted common stock equity premium of «6.00%» is derived. The rate applied to «Child's Clothing Store» was «6.00%».

Small Capitalization Equity Risk Premium

Empirical evidence shows that the risk reward principle (the greater the risk the greater the reward) holds true in the size or capitalization of the company. The size premium represents average annual returns for small capitalization stocks minus average annual returns for large capitalization stocks. Based on *Stocks, Bonds, Bills, and Inflation Yearbook*, a publication of Morningstar, the small stock risk premium averaged «13.00%» from 1926 to 2006. The rate applied to «Child's Clothing Store» was «13.00%».

Industry Risk Premium

Based upon the industry of the subject company as reported in *Stocks, Bonds, Bills, and Inflation Yearbook*, a publication of Morningstar, the industry risk premium was calculated as «4.50%». The rate applied to «Child's Clothing Store» was «invested capital EBITDA earnings».

Specific Company Risk Premium

Based upon Company specific factors - cyclical risk, risks of competitive encroachment, size and various operating concentrations (key executive dependency, customer

concentration, for example) - the summation requires an additional risk premium of «7.50%».

Cash Flow to Earnings Conversion Adjustment

Because the Morningstar data is based on cash flows, the foregoing factors total to a cash flow discount rate. Because the benefit stream being capitalized is not cash flow based, an additional adjustment is required to convert the discount rate to an earnings based discount rate. An additional «0.00%» is added to the summation to account for the estimated difference between the Company's cash flows and earnings.

Tax Conversion Adjustment

Because the Morningstar data is based on after tax to the entity benefit streams, the foregoing factors total to an after tax discount rate. Because the benefit stream being capitalized is not on an after tax basis, an additional «0.00%» is added to the summation to account for the estimated tax difference.

EBIT Conversion Adjustment

Because the benefit stream is not synchronized with an earnings before interest and taxes base, an additional «0.00%» is added to the summation to account for the estimated difference between the Company's EBIT base and rate calculated.

Discount Rate Calculation

The schedule below shows how the discount rate was calculated. The discount rate chosen for «Child's Clothing Store» is «31.50%».

BUILDUP CAPITALIZATION RATE

Risk-Free Rate of Return		5.00%
Equity Risk Premium	6.00%	
X Company Beta	1	
Beta Adjusted Common Stock Premium	6.00%	
Risk Adjustment For Size	13.00%	
Equity Risk Premium		19.00%
Company Specific Premium		7.50%
Net Cash Flow Discount Rate		31.50%
Discount Rate		31.50%
Selected Rate		31.50%

Terminal Growth Rate and Benefit Stream

HELPER TEXT

The Indicated Value Schedule has a subschedule for terminal growth. These items are mapped from the Terminal Growth subschedule.

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

We estimate «4.00%» terminal compound annual growth. This «future earnings» growth estimate is based upon «my» assessment of the Company's prospects for sustained growth in relationship to the estimate of ongoing «future earnings» power developed above.

The «future earnings» in the «tenth» period of the discrete forecast was «0». Applying the growth rate of «4.00%», «I» estimate the continuing stream should be $«3,237,046».

HELPER TEXT

If the midyear convention is used in the project, an explanation is needed here. The following paragraph contains some suggested text.

In the normal discounting process it is assumed that the benefit stream is available to the hypothetical buyer at the end of the period. This is not always the case since sales and expenses occur over the course of a period. The benefit stream is then available during the period and not only at the end. To implement this logic, a midyear convention is used in calculating the present value of the final benefit stream.

The stream is then discounted to present value and summed with the discrete present values in determining the «fair market value» of «Child's Clothing Store».

Midyear Convention

In the normal discounting process it is assumed that the benefit stream is available to the hypothetical buyer at the end of the period. This is not always the case since sales occur over the course of a period and expenses occur over the course of a period. The benefit stream is then available during the period and not only at the end. To implement this logic, a midyear convention is used. The midyear convention calculates the present value of a benefit stream using arithmetic that presumes half is available before the midyear and half is available after the midyear. «I» have applied the midyear convention because

Indicated Value

To calculate the «fair market value» of «Child's Clothing Store», discrete short term benefit streams are listed and the present value at «December 31, 2006» is calculated. The terminal benefit stream is then present valued. The sum of all these indicates an initial «fair market value».

Application of Marketability Discount

In «my» opinion, a discount of «37.30%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Indicated Value Calculation

The following schedule presents the indicated value using the discounted future «future earnings» method. As calculated, the indicated «fair market value» of the $«2,270,794» is which has been rounded to $«2,271,000».

Forecast Period	After Tax Cash Flow	P.V. Using 31.50% Discount Rate	Discounted Cash Flow
2007	1,673,320	0.76046	1,272,487
2008	1,025,028	0.57829	592,767
2009	1,016,866	0.43977	447,184
2010	1,476,427	0.33442	493,752
2011	1,724,003	0.25431	438,439
2012	2,000,733	0.19340	386,932
2013	2,309,721	0.14707	339,687
2014	2,654,392	0.11184	296,865
2015	3,038,514	0.08505	258,422
2016	3,237,046	0.06468	209,359
Present Value of Terminal Value			791,757
Subtotal			5,527,651
Minority Interest Discount			37.30%
Subtotal			3,465,837
Marketability Discount			35.00%
Subtotal			2,252,794
Excess/Non-Operating Assets			18,000
Indicated Equity Value			2,270,794
SELECTED EQUITY VALUE			2,271,000

« »

Capitalization of Excess Earnings

The capitalization of excess earnings method develops a value by blending pieces of the asset approach and the income approach. During Prohibition in the 1920's, this method was introduced to estimate the intangible value of breweries and distilleries lost as a result of enacting Prohibition laws. The US Treasury Department, in Appeals and Review Memorandum 34, established the methodology. Its current version is found in Revenue Ruling 68-609. This method may appear simple, but it is easy to misuse.

The primary methodology adds the present value of the excess portion of a benefit stream over the normal benefit stream provided by the assemblage of the assets to the «fair market value» of those assets generating the benefit stream. Capitalization of excess earnings requires estimates of the adjusted net asset value, ongoing benefit stream, normal benefit stream return and a capitalization «future earnings».

Estimate of the Benefit Stream

The analysis presented below represents the ongoing economic benefit stream. It depicts the calculation of the «after tax cash flow» benefit stream.

Calculation of the Ongoing Economic Benefit Stream

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Earning Power Based on Net of Debt After Tax Cash Flow					
Adjusted Pretax Income	184,000	275,000	269,000	434,000	586,000
Add Depreciation/Amortization and Other Non-Cash Expenses	50,000	66,000	85,000	146,000	170,000
Additional Adjustment	5,000,000			5,000,000	5,000,000
Total	5,234,000	341,000	354,000	5,580,000	5,756,000
Weight	1	2	3	4	5

Ongoing Earning Power	3,871,867
Less Ongoing Depreciation/Amortization	124,733
Taxable Base	3,747,133
Less Estimated State Income Taxes - Effective Rate:	10.00%
Before Federal Taxes	3,372,420
Less Federal Taxes	1,146,623
Subtotal	2,225,797

The weighting above was performed because

Taxes were calculated as $«374,713» for the state and $«1,146,623» for federal. The economic benefit stream was reduced by these outflows.

A cash flow stream needs to define the changes in working capital, capital expenditures and long term debt. The ongoing increase/decrease in working capital is $«-25,000». The ongoing increase/decrease in capital expenditures is $«-50,000». The change in long term debt amounts to $«-54,000».

Return on Adjusted Net «Assets» Value

The estimate of net «assets» value is developed below, where required adjustments are applied to reported «assets». The specific adjustments in this analysis were made because of these reasons

«

	December 31, 2006
Historic Assets	3,095,000
Tax Affect of Built In Gain	-31,074
Adjusted Operating Assets	3,063,926
Reasonable Rate of Return on Operating Equity	34.48%
Calculated Return on Operating Equity	1,056,569
SELECTED RETURN ON OPERATING EQUITY	1,056,600

	Historic Market Value	Loan Percent	Loan Amount
Cash	549,000	100.00%	549,000
Accounts Receivable	140,000	75.00%	105,000
Inventory	840,000	75.00%	630,000
Other Current	80,000	0.00%	0
Net Fixed Assets	1,609,000	50.00%	804,500
Other Non-Current	1,338,000	0.00%	0
Non-Operating Assets	75,000	0.00%	0
Tangible Debt Capacity	4,631,000		2,088,500
Existing Debt			1,398,000
Remaining Borrowing Capacity		33.06%	690,500
Market Borrowing Rate--Prime		9.00%	
Add 0 Points to the Prime Lending Rate		1.00%	
			10.00%
1 - Normalized Effective Tax Rate	100.00% -	33.00%	67.00%
Required Rate of Return on Debt Capital	6.70% x	33.06%	2.22%
Required Rate of Return on Equity Capital	33.00% x	97.78%	32.27%

Low range of the earnings discount rate for the company being valued.

Reasonable Rate of Return on Net Tangible Assets	34.48%
Selected Reasonable Rate of Return on Net Tangible Assets	34.48%

»

A return of «34.48%» on net «assets» has been estimated to be appropriate for «Child's Clothing Store». This estimate was made for the following reasons

A return on «assets» of «34.48%» multiplied against net adjusted «assets» results in a calculated return of $«1,056,569». This amount has been rounded to $«1,056,600».

Capitalization «Multiple»

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

The buildup method layers different risk estimates to build up a discount rate. The appropriate discount rate components for the Company are the risk free rate, equity risk premium, size premium and company specific premium. Subtracting sustainable growth from the discount rate develops the capitalization rate.

Risk Free Rate

The risk free rate measures the rate of return an investor can earn without taking any additional risk. Examples of risk free returns are the United States Treasury bonds. As of the valuation date «December 31, 2006», this yield was «5.00%». The rate applied to the buildup was «5.00%».

Equity Risk Premium

The equity risk premium represents the risk an investor takes on for investing in large public companies. This risk is measured by taking the returns of public companies over

the last 78 years and subtracting the risk free return over the last 81 years(average annual returns for large capitalization stocks minus average annual returns for long term government bonds). This information is published by Morningstar. As of «December 31, 2006», the equity risk premium was «6.00%». The rate applied to «Child's Clothing Store»was «6.00%».

Small Capitalization Equity Risk Premium

Empirical evidence shows that the risk reward principle (the greater the risk the greater the reward) holds true in the size or capitalization of the company. The size premium represents average annual returns for small capitalization stocks minus average annual returns for large capitalization stocks. Based on *Stocks, Bonds, Bills, and Inflation Yearbook*, a publication of Morningstar, the small stock risk premium averaged «0.00%» from 1926 to 2006. The rate applied to «Child's Clothing Store» was «0.00%».

Industry Risk Premium

Based upon the industry of the subject company as reported in *Stocks, Bonds, Bills, and Inflation Yearbook*, a publication of Morningstar, the industry risk premium was calculated as «4.50%». The rate applied to «Child's Clothing Store» was «4.50%».

Specific Company Risk Premium

Based upon Company specific factors - cyclical risk, risks of competitive encroachment, size and various operating concentrations (key executive dependency, customer concentration, for example) - the summation requires an additional risk premium of «17.50%».

Expected Sustainable Growth Rate

We estimate «4.00%» long term compound annual growth. This «cash flow» growth estimate is based upon «my» assessment of the Company's prospects for sustained growth in relationship to the estimate of ongoing «multiple» power developed above.

Rate to Factor Conversion

The capitalization rate developed using the buildup method is «36.00%». The reciprocal of this measure (1/«36.00%») provides a capitalization multiple of «2.888889».

Capitalization «Multiple» Calculation

The schedule below shows how the «multiple» was calculated.

«

BUILDUP CAPITALIZATION RATE

Risk-Free Rate of Return	5.00%	
Equity Risk Premium	6.00%	
Small Stock Risk Premium	7.00%	
Plus/Minus Industry Risk Premium	4.50%	
Company Specific Premium	17.50%	
Net Cash Flow Discount Rate	40.00%	
Discount Rate		40.00%
Sustainable Growth		4.00%
Capitalization Rate To Apply To Next Year Stream		36.00%
Selected Rate		36.00%

»

Indicated Value

To calculate an indicated value for «Child's Clothing Store», the first step is to use the «after tax cash flow» benefit steam and subtract the normal returns on «assets». «In order to match the appropriate period to the rate the benefit stream must be multiplied by the growth rate.». This difference represents the excess earnings and is «divided» by the «multiple» and represents the intangible value. The present value of ongoing benefit stream is then added to the adjusted «assets».

Application of Minority Interest Discount

A minority interest discount is a reduction to the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management's salaries, etc. In «my» opinion, a minority interest discount of «60.80%» is appropriate because

Application of Marketability Discount

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Application of Excess or Non-Operating Assets

Excess or Non-operating assets represent the value of resources the company has control of but are not required to operate the business. Examples are excess cash on hand, real estate or other securities. In «my» judgment, excess and non-operating assets that need to be added back and are part of the entity's value total $«18,000».

Indicated Value Calculation

The following schedule presents the indicated value using the capitalization of excess «cash flow» method. As calculated, the indicated «fair market value» of the «Child's Clothing Store» is $«1,686,072»which has been rounded to $«1,686,072».

Net of Debt After Tax Cash Flow	2,221,500	
Sustainable Growth Rate	4.00%	
Net of Debt After Tax Cash Flow		2,310,360
SELECTED RETURN ON OPERATING ASSETS		1,056,600
Excess Earnings		1,253,760
Capitalization Rate		36.00%
Intangible Value		3,482,667
Adjusted Operating Assets		3,063,926
Subtotal		6,546,593
Minority Interest Discount		60.80%
Subtotal		2,566,264
Marketability Discount		35.00%
Subtotal		1,668,072
Excess/Non-Operating Assets		18,000
Indicated Equity Value		1,686,072
« SELECTED EQUITY VALUE		1,686,000 »

Subject Company Transactions

There were «2» transactions involving the Company's stock. The transaction prices ranged from $«75.00» to $«87.00» per share of stock. Based on the price paid per share of stock and the number of shares of stock outstanding at the time of the transactions, the implied value of the Company ranged from $«130,500» to $«150,000».

Application of Minority Interest Discount

A minority interest discount is a reduction to the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

Indicated Value Calculation

The following schedule presents the conclusions of value using the capitalization of earnings method. As calculated, the indicated «fair market value» of the «Child's Clothing Store» is $«57,159»which has been rounded to $«57,000».

Transaction Number	# 1	# 2
Date of Transaction	11/30/2004	10/31/1999
Transaction Price Per Share	87.00	75.00
Total Shares Outstanding	1,500	2,000
Implied Value	130,500	150,000
Weight Applied	1	1
Weighted Average	140,250	
Control Premium	37.30%	
Subtotal	87,937	

«   »

Market Data Method – BIZCOMPS

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

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

The guideline company method uses a group of public companies and/or privately held companies selected for their ability to provide valuation guidelines for the analyst. The

most commonly used version of the guideline company method develops a ratio, such as the price/revenue ratio, with which to capitalize the base.

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

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

HELPER TEXT

Expand on how the Bizcomps database was scanned. In the following paragraph, insert the required number.

Given these parameters, «I» found [insert the number of transactions in the grouping] transactions that meet the criteria for being included as guideline companies. The P/R ratios averaged «2.41» and the median was «1.15». The selected P/R ratio was «1.15». The P/SDE ratios averaged «0.19» and the median was «0.21». The selected P/SDE ratio was «0.21».

Estimate of Revenue

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

Calculation of the Revenue Base

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Revenue	2,100,000	2,935,000	3,970,000	5,194,000	5,966,000
Weight On Revenue	1	2	3	4	5
Ongoing Revenue					4,699,067
SELECTED ONGOING REVENUE BASE					4,699,100

The weighting above was performed because

The Revenue was calculated as $«4,699,067» and the selected assets was rounded as $«4,699,100».

Estimate of Sellers' Discretionary Earnings

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

Calculation of the Sellers' Discretionary Earnings Base

Historic	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Debt Free Pretax Income	-28,000	43,000	16,000	140,000	311,000
Officers' Compensation	248,000	385,000	532,000	854,000	1,121,000
Depreciation/Amortization	50,000	66,000	90,000	156,000	180,000
Seller's Discretionary Earnings	270,000	494,000	638,000	1,150,000	1,612,000
Weight on SDE	1	2	3	4	5
Ongoing Seller's Discretionary Earnings					1,055,467
SELECTED ONGOING SDE BASE					1,055,500

The weighting above was performed because

The SDE was calculated as $«1,055,467» and the selected SDE was rounded as $«1,055,500».

Application of Minority Interest Discount

A minority interest discount is a reduction to the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

Application of Marketability Discount

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Application of Excess or Non-Operating Assets

Excess or Non-operating assets represent the value of resources the company has control of but are not required to operate the business. Examples are excess cash on hand, real

estate or other securities. In «my» judgment, excess and non-operating assets that need to be added back and are part of the entity's value total $«18,000».

Indicated Value Calculation

Each of the multiples were weighted. The following schedule presents the conclusions of value using the BIZCOMPS data ratio methods. As calculated, the indicated «fair market value» of the «1,049,104» is which has been rounded to «1,049,100».

	Revenue Multiple	SDE Multiple
Base	4,699,100	1,055,500
Multiple	0.21	1.15
Subtotal	988,129	1,217,885
Net Operating Assets	1,427,000	1,427,000
Subtotal	2,415,129	2,644,885
Weight	1	1
Ongoing Value	2,530,007	
Minority Interest Discount	37.30%	
Subtotal	1,586,314	
Marketability Discount	35.00%	
Operating Value	1,031,104	
« Excess/Non-Operating Assets	18,000	»

Market Data Method – Pratts Stats

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

presumption that a similar market exists for the subject company as exists for the guideline companies.

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

The guideline company method uses a group of public companies and/or privately held companies selected for their ability to provide valuation guidelines for the analyst. The most commonly used version of the guideline company method develops a price/earnings ratio with which to capitalize net income. By convention, analysts express the relationship between the market price of a stock and its historical book value in the form of a ratio of the market price of book value, i.e., price/book (P/B) ratio. If the public company group is sufficiently homogeneous with respect to the companies selected, their recent performances, and the public market's reaction to their performances, analysts typically calculate some form of average P/B ratio as representative of the group.

In addition to searching for publicly traded guideline companies, «I» searched the Pratts Stats database for transactions involving privately held and publicly traded guideline companies. The Pratts Stats database is a study of transactions involving publicly traded and privately held businesses. «I» researched guideline companies by first identifying the industry in which «Child's Clothing Store» operates and, using the Standard Industrial Classification Code (SIC Codes) for the industry, «I» performed a search for a group of companies in a similar line of business as that of the subject company. «I» screened this group further through the use of key words and phrases that are unique to and describe the subject Company's product or operations and to eliminate those companies whose stock is very thinly traded. «I» also considered other possible companies mentioned by management or discovered in other research. In the end, further analysis of the remaining companies in terms of operating, financial, geographical, industry, and/or market characteristics to insure that the guideline companies are reasonable for inclusion in the guideline company group. The search parameters used in determining whether or not a particular transaction in the Pratts Stats database was comparable to the subject Company were ………………

The selected P/E ratio was «7.00». The selected P/R ratio was «0.80». The selected P/Cash Flow ratio was «3.00».

Estimate of Net Earnings

The analysis presented below represents the calculation of the Net Earnings.

Calculation of the Historical Book Value

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic					
Pretax Income	164,000	233,000	226,000	390,000	531,000
Weight	1	2	3	4	5
Ongoing Earning Power					368,200
Taxable Base					368,200
Less Estimated State Income Taxes - Effective Rate:					10.00%
Before Federal Taxes					331,380
Less Federal Taxes					112,488
Calculated Ongoing Additional Adjustment					218,892
SELECTED ONGOING ADDITIONAL ADJUSTMENT					218,900

The weighting above was performed because

The earnings base was calculated as $«218,892» and the selected earnings base was rounded as $«218,900».

Estimate of Revenue

The analysis presented below represents the calculation of the revenue.

Calculation of the Historical Book Value

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Net Sales	2,100,000	2,935,000	3,970,000	5,194,000	5,966,000
Weight On Net Sales	1	2	3	4	5
Ongoing Net Sales					4,699,067
SELECTED ONGOING NET SALES BASE					4,699,100

The weighting above was performed because

The revenue base was calculated as $«4,699,100» and the selected book value was rounded as $«376,133».

Estimate of Cash Flow

The analysis presented below represents the calculation of the cash flow base.

Calculation of the Historical Book Value

Historic	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
After Tax Income	113,000	174,000	160,000	250,000	345,000
Depreciation and Amortization	50,000	66,000	90,000	156,000	180,000
Other Non-Cash Expenses	0	0	0	0	0
Gross Cash Flow	163,000	240,000	250,000	406,000	525,000
Weight On Gross Cash Flow Base	1	2	3	4	5
Ongoing Cash Flow Base					376,133
SELECTED ONGOING CASH FLOW BASE					376,100

The weighting above was performed because

The book value was calculated as $«376,133» and the selected book value was rounded as $«376,100».

Application of Minority Interest Discount

A minority interest discount is a reduction to the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

Application of Marketability Discount

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Application of Excess or Non-Operating Assets

Excess or Non-operating assets represent the value of resources the company has control of but are not required to operate the business. Examples are excess cash on hand, real estate or other securities. In «my» judgment, excess and non-operating assets that need to be added back and are part of the entity's value total $«18,000».

Indicated Value Calculation

Each of the market Pratts Stats ratios were weighted. The following schedule presents the conclusions of value using the market data Pratts Stats ratio method. As calculated, the indicated «fair market value» of the $«890,141» is which has been rounded to $«890,100».

Indicated Value Calculation

	Net Sales Multiple	Gross Cash Flow Multiple	Net Income Multiple
Base	4,699,100	376,100	218,900
Multiple	0.80x	3.00x	7.00x
Subtotal	3,759,280	1,128,300	1,532,300
Weight	1	1	1
Ongoing Value	2,139,960		
Minority Interest Discount	37.30%		
Subtotal	1,341,755		
Marketability Discount	35.00%		
Operating Value	872,141		
Excess/Non-Operating Assets	18,000		

Market Data Method – IBA

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

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

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

«I» searched the IBA database for transactions involving privately held guideline companies. The IBA database is a study of small business sales whereby relevant pricing information is collected from business brokers and transaction intermediaries on individual sales of small businesses. The search parameters used in determining whether or not a particular transaction in the IBA database was comparable to the subject Company were

Given these parameters, «I» found [insert the number of transactions in the grouping] transactions that meet the criteria for being included as guideline companies. The selected P/R ratio was «0.25». The selected P/SDE ratio was «1.10».

Estimate of Revenue

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

Calculation of the Revenue Base

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Revenue	2,100,000	2,935,000	3,970,000	5,194,000	5,966,000
Weight On Revenue	1	2	3	4	5
Ongoing Revenue					4,699,067
SELECTED ONGOING REVENUE BASE					4,699,100

The weighting above was performed because

The Revenue was calculated as $«4,699,067» and the selected assets was rounded as $«4,699,100».

Estimate of Sellers' Discretionary Earnings

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

Calculation of the Earnings Base

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic					
Debt Free Pretax Income	-28,000	43,000	16,000	140,000	311,000
Officers' Compensation	248,000	385,000	532,000	854,000	1,121,000
Seller's Discretionary Earnings	220,000	428,000	548,000	994,000	1,432,000
Weight on SDE	1	2	3	4	5
Ongoing Seller's Discretionary Earnings					923,733
SELECTED ONGOING SDE BASE					923,700

The weighting above was performed because

The SDE was calculated as $«923,733» and the selected SDE was rounded as $«923,700».

Application of Marketability Discount

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Application of Excess or Non-Operating Assets

Excess or Non-operating assets represent the value of resources the company has control of but are not required to operate the business. Examples are excess cash on hand, real estate or other securities. In «my» judgment, excess and non-operating assets that need to be added back and are part of the entity's value total $«18,000».

Indicated Value Calculation

Each of the multiples were weighted. The following schedule presents the conclusions of value using the IBA data ratio methods. As calculated, the indicated «fair market value» of the «500,711» is which has been rounded to «500,700».

	SDE Multiple	Revenue Multiple
Base	923,700	4,699,100
Multiple	1.10	0.25
Subtotal	1,016,070	1,174,775
Net Operating Assets	89,000	89,000
Subtotal	1,105,070	1,263,775
Weight	1	1
Ongoing Value	1,184,423	
Minority Interest Discount	37.30%	
Subtotal	742,633	
Marketability Discount	35.00%	
Operating Value	482,711	
Excess/Non-Operating Assets	18,000	

Market Data Method – Mid-Market Comps

HELPER TEXT

The market approaches Market Data have the schedules that pertain to this method. To have the Market Data Method – Mid-Market Comps appear as considered and used, enter a 1 for its status on the Conclusions of Value schedule in Pro.

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

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

The guideline company method uses a group of public companies and/or privately held companies selected for their ability to provide valuation guidelines for the analyst. The most commonly used version of the guideline company method develops a price/earnings ratio with which to capitalize net income. By convention, analysts express the relationship between the market price of a stock and its historical book value in the form of a ratio of the market price of book value, i.e., price/book (P/B) ratio. If the public company group is sufficiently homogeneous with respect to the companies selected, their

recent performances, and the public market's reaction to their performances, analysts typically calculate some form of average P/B ratio as representative of the group.

In addition to searching for publicly traded guideline companies, «I» searched the Midmarket Comps database for transactions involving privately held and publicly traded guideline companies. The Midmarket Comps database is a study of transactions involving publicly traded and privately held businesses with annual sales between $1million and $100 million. The study is compiled by World M&A Network. «I» researched guideline companies by first identifying the industry in which «Child's Clothing Store» operates and, using the Standard Industrial Classification Code (SIC Codes) for the industry, «I» performed a search for a group of companies in a similar line of business as that of the subject company. «I» screened this group further through the use of key words and phrases that are unique to and describe the subject Company's product or operations and to eliminate those companies whose stock is very thinly traded. «I» also considered other possible companies mentioned by management or discovered in other research. In the end, further analysis of the remaining companies in terms of operating, financial, geographical, industry, and/or market characteristics to insure that the guideline companies are reasonable for inclusion in the guideline company group. The search parameters used in determining whether or not a particular transaction in the Midmarket database was comparable to the subject Company were

SIC Code	Date	(000's) Price	(000's) Revenue	(000's) Earnings	(000's) Assets	(000's) S.H. Equity	Price to Earnings	Price to Revenue	Price to Assets	Price to Book
2813	12/30/95	6,000	4,000	1,000	1,000		4.62	1.40	4.29	
5661	05/08/98	100,000	299,000	9,000	132,000	56,000	10.75	0.33	0.76	1.79
5661	03/07/00	64,000	469,000	-44,000	163,000			0.14	0.39	
						Calculated Mean	7.69	0.62	1.81	1.79
						Calculated Median	7.69	0.33	0.76	1.79
						SELECTED MEDIAN	7.69	0.33	0.76	1.79

« »

The P/E ratios averaged «7.69» and the median was «7.69». The selected P/E ratio was «7.69». The P/R ratios averaged «0.62» and the median was «0.33». The selected P/R ratio was «0.33». The P/A ratios averaged «1.81» and the median was «0.76». The selected P/A ratio was «0.76». The P/B ratios averaged «1.79» and the median was «1.79». The selected P/B ratio was «1.79».

Estimate of Net Earnings
The analysis presented below represents the calculation of the Net Earnings.

Calculation of the Historical Book Value

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic					
Pretax Income	164,000	233,000	226,000	390,000	531,000
Weight	1	2	3	4	5
Ongoing Earning Power					368,200
Taxable Base					368,200
Less Estimated State Income Taxes - Effective Rate:					10.00%
Before Federal Taxes					331,380
Less Federal Taxes					112,488
Calculated Ongoing Additional Adjustment					218,892
SELECTED ONGOING ADDITIONAL ADJUSTMENT					218,900

The weighting above was performed because

The book value was calculated as $«218,892» and the selected book value was rounded as $«218,900».

Estimate of Revenue

The analysis presented below represents the calculation of the revenue.

Calculation of the Historical Book Value

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Revenue	2,100,000	2,935,000	3,970,000	5,194,000	5,966,000
Weight On Revenue	1	2	3	4	5
Ongoing Revenue					4,699,067
SELECTED ONGOING REVENUE BASE					4,699,100

The weighting above was performed because

The book value was calculated as $«4,699,067» and the selected book value was rounded as $«4,699,100».

Estimate of Assets

The analysis presented below represents the calculation of the assets.

Calculation of the Historical Book Value

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Assets	1,550,000	1,886,000	2,219,000	2,600,000	3,095,000
Weight On Asset Base	1	2	3	4	5
Ongoing Asset Base					2,523,600
SELECTED ONGOING ASSET BASE					2,523,600

The weighting above was performed because

The book value was calculated as $«2,523,600» and the selected book value was rounded as $«2,523,600».

Estimate of Book Value

The analysis presented below represents the calculation of the book value.

Calculation of the Historical Book Value

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Book Value	615,000	705,000	905,000	1,125,000	1,445,000
Weight On Book Value	1	2	3	4	5
Ongoing Book Value					1,097,667
SELECTED ONGOING BOOK VALUE BASE					1,097,700

The weighting above was performed because

The book value was calculated as $«1,097,667» and the selected book value was rounded as $«1,097,700».

Application of Minority Interest Discount

A minority interest discount is a reduction to the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

Application of Marketability Discount

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Application of Excess or Non-Operating Assets

Excess or Non-operating assets represent the value of resources the company has control of but are not required to operate the business. Examples are excess cash on hand, real estate or other securities. In «my» judgment, excess and non-operating assets that need to be added back and are part of the entity's value total $«18,000».

Indicated Value Calculation

Each of the market Mid-Market Comps ratios were weighted. The following schedule presents the conclusions of value using the market data Mid-Market Comps ratio method. As calculated, the indicated «fair market value» of the $«743,008» is which has been rounded to $«743,000».

Indicated Value Calculation

	Earnings Multiple	Revenue Multiple	Asset Multiple	Book Value Multiple
Base	218,900	4,699,100	2,523,600	1,097,700
Multiple	7.69x	0.33x	0.76x	1.79x
Subtotal	1,682,247	1,550,703	1,917,936	1,964,883
Weight	1	1	1	1
Ongoing Value	1,778,942			
Minority Interest Discount	37.30%			
Subtotal	1,115,397			
Marketability Discount	35.00%			
Operating Value	725,008			
Excess/Non-Operating Assets	18,000			

Market Data Method – Public Guideline/Merged and Acquired

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

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

The guideline company method uses a group of public companies and/or privately held companies selected for their ability to provide valuation guidelines for the analyst. The most commonly used version of the guideline company method develops a price/earnings ratio with which to capitalize net income. By convention, analysts express the relationship between the market price of a stock and its historical book value in the form of a ratio of the market price of book value, i.e., price/book (P/B) ratio. If the public company group is sufficiently homogeneous with respect to the companies selected, their recent performances, and the public market's reaction to their performances, analysts typically calculate some form of average P/B ratio as representative of the group.

«I» searched for publicly traded guideline companies, for transactions involving publicly traded guideline companies and merged and acquired companies. «I» researched guideline companies by first identifying the industry in which «Child's Clothing Store» operates and, using the Standard Industrial Classification Code (SIC Codes) for the industry, «I» performed a search for a group of companies in a similar line of business as that of the subject company. «I» screened this group further through the use of key words and phrases that are unique to and describe the subject Company's product or operations and to eliminate those companies whose stock is very thinly traded. «I» also considered other possible companies mentioned by management or discovered in other research. In the end, further analysis of the remaining companies in terms of operating, financial, geographical, industry, and/or market characteristics to insure that the guideline companies are reasonable for inclusion in the guideline company group. The search

parameters used in determining whether or not a particular transaction was comparable to the subject Company were ……..

The selected P/R ratio was «0.20». The selected P/E ratio was «7.00». The selected P/A ratio was «0.50». The selected P/B ratio was «0.25». The selected P/Cash Flow ratio was «4.00».

Estimate of Revenue

The analysis presented below represents the calculation of the revenue.

Calculation of the Historical Book Value

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Revenue	2,100,000	2,935,000	3,970,000	5,194,000	5,966,000
Weight On Revenue	1	2	3	4	5
Ongoing Revenue					4,699,067
SELECTED ONGOING REVENUE BASE					4,699,100

The weighting above was performed because

The revenue base value was calculated as $«4,699,067» and the selected book value was rounded as $«4,699,100».

Estimate of Net Earnings

The analysis presented below represents the calculation of the Net Earnings.

Calculation of the Historical Book Value

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic					
Pretax Income	164,000	233,000	226,000	390,000	531,000
Weight	1	2	3	4	5
Ongoing Earning Power					368,200

Taxable Base	368,200
Less Estimated State Income Taxes - Effective Rate:	10.00%
Before Federal Taxes	331,380
Less Federal Taxes	112,488
Calculated Ongoing Additional Adjustment	218,892
SELECTED ONGOING ADDITIONAL ADJUSTMENT	218,900

The weighting above was performed because

The earnings base was calculated as $«218,892» and the selected book value was rounded as $«218,900».

Estimate of Assets

The analysis presented below represents the calculation of the assets.

Calculation of the Historical Book Value

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Assets	1,550,000	1,886,000	2,219,000	2,600,000	3,095,000
Weight On Asset Base	1	2	3	4	5
Ongoing Asset Base					2,523,600
SELECTED ONGOING ASSET BASE					2,523,600

The weighting above was performed because

The asset base was calculated as $«2,523,600» and the selected asset base was rounded as $«2,523,600».

Estimate of Book Value

The analysis presented below represents the calculation of the book value.

Calculation of the Historical Book Value

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Book Value	615,000	705,000	905,000	1,125,000	1,445,000
Weight On Book Value	1	2	3	4	5
Ongoing Book Value					1,097,667
SELECTED ONGOING BOOK VALUE BASE					1,097,700

The weighting above was performed because

The book value was calculated as $«1,097,667» and the selected book value was rounded as $«1,097,700».

Estimate of Cash Flow

The analysis presented below represents the calculation of the cash flow base.

Calculation of the Historical Book Value

Historic	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
After Tax Income	113,000	174,000	160,000	250,000	345,000
Depreciation and Amortization	50,000	66,000	90,000	156,000	180,000
Other Non-Cash Expenses	0	0	0	0	0
Total	163,000	240,000	250,000	406,000	525,000
Weight On Cash Flow Base	1	2	3	4	5
Ongoing Cash Flow Base					376,133
SELECTED ONGOING CASH FLOW BASE					376,100

»

«

The weighting above was performed because

The cash flow base was calculated as $«376,133» and the selected cash flow base was rounded as $«376,100».

Application of Minority Interest Discount

A minority interest discount is a reduction to the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

Application of Marketability Discount

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Application of Excess or Non-Operating Assets

Excess or Non-operating assets represent the value of resources the company has control of but are not required to operate the business. Examples are excess cash on hand, real estate or other securities. In «my» judgment, excess and non-operating assets that need to be added back and are part of the entity's value total $«18,000».

Indicated Value Calculation

Each of the market Public and MnA ratios were weighted. The following schedule presents the conclusions of value using the market data Public and MnA ratio method. As calculated, the indicated «fair market value» of the $«392,453» is which has been rounded to $«392,500».

Indicated Value Calculation

	Revenue Multiple	Earnings Multiple	Asset Multiple	Book Value Multiple	Cash Flow Multiple	EBITDA Multiple
Base	4,699,100	218,900	2,523,600	1,097,700	376,100	0
Multiple	0.20x	7.00x	0.50x	0.25x	4.00x	8.00x
Subtotal	939,820	1,532,300	1,261,800	274,425	1,504,400	0
Weight	1	1	1	1	1	1
Ongoing Value	918,791					
Minority Interest Discount	37.30%					
Subtotal	576,082					
Marketability Discount	35.00%					
Operating Value	374,453					
Excess/Non-Operating Assets	18,000					
Indicated Equity Value	392,453					
SELECTED EQUITY VALUE	392,500					

Market Data Method – Private Company

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

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

This guideline company method uses a group privately held companies selected for their ability to provide valuation guidelines for the analyst. The most commonly used version of the guideline company method develops a price/earnings ratio with which to capitalize net income. If the public company group is sufficiently homogeneous with respect to the companies selected, their recent performances, and the public market's reaction to their performances, analysts typically calculate some form of average ratio as representative of the group.

«I» searched for privately held guideline companies, for transactions. «I» researched guideline companies by first identifying the industry in which «Child's Clothing Store» operates and, using the Standard Industrial Classification Code (SIC Codes) for the industry, «I» performed a search for a group of companies in a similar line of business as that of the subject company. «I» screened this group further through the use of key words and phrases that are unique to and describe the subject Company's product or operations and to eliminate those companies whose stock is very thinly traded. «I» also considered other possible companies mentioned by management or discovered in other research. In the end, further analysis of the remaining companies in terms of operating, financial, geographical, industry, and/or market characteristics to insure that the guideline companies are reasonable for inclusion in the guideline company group. The search parameters used in determining whether or not a particular transaction was comparable to the subject Company were ……..

The selected P/R ratio was «0.24». The selected P/E ratio was «7.00». The selected P/A ratio was «0.40». The selected P/B ratio was «0.20». The selected P/Cash Flow ratio was «5.00».

Estimate of Revenue

The analysis presented below represents the calculation of the revenue.

Calculation of the Historical Book Value

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Revenue	2,100,000	2,935,000	3,970,000	5,194,000	5,966,000
Weight On Revenue	1	2	3	4	5
Ongoing Revenue					4,699,067
SELECTED ONGOING REVENUE BASE					4,699,100

The weighting above was performed because

The revenue base value was calculated as $«4,699,067» and the selected book value was rounded as $«4,699,100».

Estimate of Net Earnings

The analysis presented below represents the calculation of the Net Earnings.

Calculation of the Net Earnings

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic					
Pretax Income	164,000	233,000	226,000	390,000	531,000
Weight	1	2	3	4	5
Ongoing Earning Power					368,200
Taxable Base					368,200
Less Estimated State Income Taxes - Effective Rate:					10.00%
Before Federal Taxes					331,380
Less Federal Taxes					112,488
Calculated Ongoing Additional Adjustment					218,892
SELECTED ONGOING ADDITIONAL ADJUSTMENT					218,900

The weighting above was performed because

The earnings base was calculated as $«218,892» and the selected book value was rounded as $«218,900».

Estimate of Assets

The analysis presented below represents the calculation of the assets.

Calculation of the Asset Base

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Assets	1,550,000	1,886,000	2,219,000	2,600,000	3,095,000
Weight On Asset Base	1	2	3	4	5
Ongoing Asset Base					2,523,600
SELECTED ONGOING ASSET BASE					2,523,600

The weighting above was performed because

The asset base was calculated as $«2,523,600» and the selected asset base was rounded as $«2,523,600».

Estimate of Book Value

The analysis presented below represents the calculation of the book value.

Calculation of the Historical Book Value

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Book Value	615,000	705,000	905,000	1,125,000	1,445,000
Weight On Book Value	1	2	3	4	5
Ongoing Book Value					1,097,667
SELECTED ONGOING BOOK VALUE BASE					1,097,700

The weighting above was performed because

The book value was calculated as $«1,097,667» and the selected book value was rounded as $«1,097,700».

Estimate of Cash Flow

The analysis presented below represents the calculation of the cash flow base.

Calculation of the Cash Flow

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic					
After Tax Income	113,000	174,000	160,000	250,000	345,000
Depreciation and Amortization	50,000	66,000	90,000	156,000	180,000
Other Non-Cash Expenses	0	0	0	0	0
Total	163,000	240,000	250,000	406,000	525,000
Weight On Cash Flow Base	1	2	3	4	5
Ongoing Cash Flow Base					376,133
SELECTED ONGOING CASH FLOW BASE					376,100

The weighting above was performed because

The cash flow base was calculated as $«376,133» and the selected cash flow base was rounded as $«376,100».

Application of Minority Interest Discount

A minority interest discount is a reduction to the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

Application of Marketability Discount

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Application of Excess or Non-Operating Assets

Excess or Non-operating assets represent the value of resources the company has control of but are not required to operate the business. Examples are excess cash on hand, real estate or other securities. In «my» judgment, excess and non-operating assets that need to be added back and are part of the entity's value total $«18,000».

Indicated Value Calculation

Each of the market Private Company ratios were weighted. The following schedule presents the conclusions of value using the market data Private Company ratio method. As calculated, the indicated «fair market value» of the $«583,478» is which has been rounded to $«583,500».

Indicated Value Calculation

	Revenue Multiple	Earnings Multiple	Asset Multiple	Book Value Multiple	CashFlow Multiple
Base	4,699,100	218,900	2,523,600	1,097,700	376,100
Multiple	0.24x	7.00x	0.40x	0.20x	5.00x
Subtotal	1,127,784	1,532,300	1,009,440	219,540	1,880,500
Weight	1	1	1	0	1

Ongoing Value	1,387,506
Minority Interest Discount	37.30%
Subtotal	869,966
Marketability Discount	35.00%
Operating Value	565,478
Excess/Non-Operating Assets	18,000

Market Data Method – Analyst

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

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

The guideline company method uses a group of public companies and/or privately held companies selected for their ability to provide valuation guidelines for the analyst. The most commonly used version of the guideline company method develops a price/earnings ratio with which to capitalize net income. By convention, analysts express the relationship between the market price of a stock and its historical book value in the form of a ratio of the market price of book value, i.e., price/book (P/B) ratio. If the public company group is sufficiently homogeneous with respect to the companies selected, their recent performances, and the public market's reaction to their performances, analysts typically calculate some form of average P/B ratio as representative of the group.

«I» searched for publicly traded guideline companies, for transactions involving publicly traded guideline companies and merged and acquired companies. «I» researched guideline companies by first identifying the industry in which «Child's Clothing Store» operates and, using the Standard Industrial Classification Code (SIC Codes) for the industry, «I» performed a search for a group of companies in a similar line of business as that of the subject company. «I» screened this group further through the use of key words and phrases that are unique to and describe the subject Company's product or operations and to eliminate those companies whose stock is very thinly traded. «I» also considered other possible companies mentioned by management or discovered in other research. In the end, further analysis of the remaining companies in terms of operating, financial, geographical, industry, and/or market characteristics to insure that the guideline

companies are reasonable for inclusion in the guideline company group. The search parameters used in determining whether or not a particular transaction was comparable to the subject Company were ……..

The selected P/R ratio was «0.15». The selected P/E ratio was «8.24». The selected P/A ratio was «0.42». The selected P/B ratio was «0.26». The selected P/Cash Flow ratio was «9.00». The selected P/EBIT ratio was «5.00». The selected P/EBITDA ratio was «8.00».

Adjustment to the Base Capitalization Factors (Fundamental Adjustment)

In «my» opinion, there are certain *fundamental differences* between the Company and the public companies in the group. The necessity for and appropriateness of fundamental adjustments is often overlooked by valuation analysts. A discussion in a book about valuing banks (Valuing Financial Institutions by Z. Christopher Mercer), which is equally applicable to the valuation of other companies, makes the point quite clearly:

As with the valuation of other commercial enterprises using public comparable groups, it is necessary to make *fundamental adjustments* to market derived base capitalization rates in order to make a proper appraisal of the subject bank.

Fundamental adjustments are often necessary when valuing private businesses in relationship to groups of publicly traded guideline companies. These adjustments are necessary to account for basic differences between the valuation subject and the selected group of guideline companies. Fundamental adjustments can give negative (discounts) or positive (premiums) in relationship to the base guideline company multiples.

Several factors give rise to the need for fundamental adjustments, including:

1. *Size*. Public guideline companies are generally larger than the private companies most appraisers value;

2. *Growth*. Compared to public guideline companies, privately held companies' growth opportunities are relatively limited by their capital structure;

3. *Access to Capital Markets*. The ability to access the public capital markets to facilitate future growth is an often overlooked difference between public and private companies. Even for private companies of sufficient size and earning power to be attractive as public candidates, the markets typically discount their share prices in relationship to similar, existing public companies in the form of an IPO discount;

4. *Financial/Operating Strength*. Public companies tend to be better capitalized, have broader management and more depth of management;

5. *Key executive dependency.* Often, a privately held company's success is dependent upon a few (or one) key executives as opposed to the management depth of a typical public company.

Based upon the above factors, it is «my» opinion that a fundamental discount of approximately «48.55%» should be applied to the base net earnings capitalization factor calculated using publicly traded guideline companies.

The magnitude of this fundamental discount is confirmed by an analysis using the Capital Asset Pricing Model. The CAPM derives an estimated base capitalization multiple (P/E) of «48.55%». The base P/E multiple of the guideline company group, when substituted into the CAPM model, suggests an expectation for future growth of «5.00%». «I» consider the long term internal growth potential for the Company to be about «5.00%» per year. The analysis clearly affirms the appropriateness of the fundamental discount developed above.

After applying a fundamental discount of «48.55%» to the base guideline company P/E of «8.24», «I» develop an adjusted guideline company capitalization factor of «4.24».

Estimate of Revenue

The analysis presented below represents the calculation of the revenue.

Calculation of the Revenue Base

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Revenue	2,100,000	2,935,000	3,970,000	5,194,000	5,966,000
Weight On Revenue	1	2	3	4	5
Ongoing Revenue					4,699,067
SELECTED ONGOING REVENUE BASE					4,699,100

The weighting above was performed because

The revenue base value was calculated as $«4,699,067» and the selected book value was rounded as $«4,699,100».

Estimate of Net Earnings

The analysis presented below represents the calculation of the Net Earnings.

Calculation of the Earnings Base

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic					
Pretax Income	164,000	233,000	226,000	390,000	531,000
Weight	1	2	3	4	5
Ongoing Earning Power					368,200

Taxable Base	368,200
Less Estimated State Income Taxes - Effective Rate:	10.00%
Before Federal Taxes	331,380
Less Federal Taxes	112,488
Calculated Ongoing Additional Adjustment	218,892
SELECTED ONGOING ADDITIONAL ADJUSTMENT	218,900

The weighting above was performed because

The earnings base was calculated as \$«218,892» and the selected book value was rounded as \$«218,900».

Estimate of Assets

The analysis presented below represents the calculation of the assets.

Calculation of the Asset Base

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Assets	1,550,000	1,886,000	2,219,000	2,600,000	3,095,000
Weight On Asset Base	1	2	3	4	5
Ongoing Asset Base					2,523,600
SELECTED ONGOING ASSET BASE					2,523,600

The weighting above was performed because

The asset base was calculated as $«2,523,600» and the selected asset base was rounded as $«2,523,600».

Estimate of Book Value

The analysis presented below represents the calculation of the book value.

Calculation of the Book Value Base

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Book Value	615,000	705,000	905,000	1,125,000	1,445,000
Weight On Book Value	1	2	3	4	5
Ongoing Book Value					1,097,667
SELECTED ONGOING BOOK VALUE BASE					1,097,700

The weighting above was performed because

The book value was calculated as $«1,097,667» and the selected book value was rounded as $«1,097,700».

Estimate of Cash Flow

The analysis presented below represents the calculation of the cash flow base.

Calculation of the Cash Flow Base

Historic	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
After Tax Income	113,000	174,000	160,000	250,000	345,000
Depreciation and Amortization	50,000	66,000	90,000	156,000	180,000
Other Non-Cash Expenses	0	0	0	0	0
Total	163,000	240,000	250,000	406,000	525,000
Weight On Cash Flow Base	1	2	3	4	5
Ongoing Cash Flow Base					376,133
SELECTED ONGOING CASH FLOW BASE					376,100

The weighting above was performed because

The cash flow base was calculated as $«376,133» and the selected cash flow base was rounded as $«376,100».

Estimate of Earnings Before Interest and Taxes Base

The analysis presented below represents the calculation of the ongoing economic benefit stream. It depicts the calculation of the earnings before interest and taxes benefit stream.

Calculation of the Earnings Before Interest and Taxes Base

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic					
PreTax Income	164,000	233,000	226,000	390,000	531,000
Interest	-192,000	-190,000	-210,000	-250,000	-220,000
Total	-28,000	43,000	16,000	140,000	311,000
Weight On Revenue					1
Ongoing EBIT Base					311,000
SELECTED ONGOING EBIT BASE					311,000

The weighting above was performed because

The ongoing EBIT was calculated as «311,000» and the selected EBIT was rounded as «311,000».

Estimate of EBITDA Base

The analysis presented below represents the calculation of the ongoing economic benefit stream. It depicts the calculation of the earnings before interest, taxes, depreciation and amortization (EBITDA) benefit stream.

Calculation of EBITDA Base

Historic	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
PreTax Income	164,000	233,000	226,000	390,000	531,000
Interest	-192,000	-190,000	-210,000	-250,000	-220,000
Depreciation and Amortization	50,000	66,000	90,000	156,000	180,000
Total	164,000	233,000	226,000	390,000	531,000
Weight On Revenue	1	2	3	4	5
Ongoing EBITDA Base					368,200
SELECTED ONGOING EBITDA BASE					368,200

The weighting above was performed because

The ongoing EBITDA was calculated as \$«368,200» and the selected EBITDA was rounded as \$«368,200».

Application of Minority Interest Discount

A minority interest discount is a reduction to the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

Application of Marketability Discount

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Application of Excess or Non-Operating Assets

Excess or Non-operating assets represent the value of resources the company has control of but are not required to operate the business. Examples are excess cash on hand, real estate or other securities. In «my» judgment, excess and non-operating assets that need to be added back and are part of the entity's value total $«18,000».

<div style="background-color: yellow;">

HELPER TEXT

Explain why the assets are not required in the day to day activities of the business and how the total value of those assets was determined.

</div>

Indicated Value Calculation

<div style="background-color: yellow;">

HELPER TEXT

In the following paragraph, if only one ratio was used, delete the first sentence. If more than one ratio was used, you must explain how they were weighted.

</div>

Each of the market Analyst ratios were weighted. The following schedule presents the conclusions of value using the market data Analyst ratio method. As calculated, the indicated «fair market value» of the $«689,655» is which has been rounded to $«689,700».

Indicated Value Calculation

	Revenue Multiple	Earnings Multiple	Assets Multiple	Book Value Multiple	CashFlow Multiple	EBIT Multiple	EBITDA Multiple
Base	4,699,100	218,900	2,523,600	1,097,700	376,100	311,000	368,200
Multiple	0.15x	8.24x	0.42x	0.26x	5.00x	8.00x	9.00x
Subtotal	704,865	1,803,736	1,059,912	285,402	1,880,500	2,488,000	3,313,800
Weight	1	1	1	1	1	1	1

Ongoing Value	1,648,031
Minority Interest Discount	37.30%
Subtotal	1,033,315
Marketability Discount	35.00%
Operating Value	671,655
Excess/Non-Operating Assets	18,000
Indicated Equity Value	689,655
SELECTED EQUITY VALUE	689,700

Industry Data Method – Mergerstat

Using multiples derived from compilations of industry pricing statistics a market approach may be used to estimate the «fair market value» of a company when the company can be shown to be representative of the market. By convention, analysts express the relationship between the market price of a stock and its historical earnings in the form of a ratio of the market price of earnings for the most recent twelve months, i.e., price/earnings (P/E) ratio. Using the industry pricing statistic against the company's earnings the «fair market value» can be estimated.

The company is representative of the industry in these ways.

One source of industry pricing ratios used in the analysis comes from *Mergerstat Review* (published by Houlihan, Howard, Lokey and Zukin). For over 30 years, Mergerstat has compiled statistics on publicly announced mergers, acquisitions and divestures. The P/E ratio is based on the sellers last 12 months of earnings or the latest financial statement if it was a private company. The industry from which the P/E was taken is «Retail» and the P/E ratio from Mergerstat Review is «22.30».

Estimate of Earnings Base

The analysis presented below represents the calculation of the ongoing economic benefit stream. It depicts the calculation of the earnings or net income after tax benefit stream.

Calculation of the Earnings or Net Income After Tax Base

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic					
Pretax Income	164,000	233,000	226,000	390,000	531,000
Total	164,000	233,000	226,000	390,000	531,000
Weight	1	2	3	4	5
Ongoing Earning Power					368,200
Taxable Base					368,200
Less Estimated State Income Taxes - Effective Rate:					10.00%
Before Federal Taxes					331,380
Less Federal Taxes					112,488
Calculated Ongoing Additional Adjustment					218,892
SELECTED ONGOING ADDITIONAL ADJUSTMENT					218,900

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The weighting above was performed because

The ongoing earnings was calculated as $«218,892» and the selected earnings was rounded as $«218,900».

Application of Minority Interest Discount

A minority interest discount is a reduction to the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

Application of Marketability Discount

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Application of Excess or Non-Operating Assets

Excess or Non-operating assets represent the value of resources the company has control of but are not required to operate the business. Examples are excess cash on hand, real estate or other securities. In «my» judgment, excess and non-operating assets that need to be added back and are part of the entity's value total $«18000».

Indicated Value Calculation

Each of the industry P/E were weighted. The following schedule presents the conclusions of value using the industry data P/E ratio method. As calculated, the indicated «fair market value» of the $«2,007,443» is which has been rounded to $«2,007,400».

	Earnings Multiple
Base	218,900
Multiple	22.30
Subtotal	4,881,470
Minority Interest Discount	37.30%
Subtotal	3,060,682
Marketability Discount	35.00%
Operating Value	1,989,443
Excess/Non-Operating Assets	18,000
Indicated Equity Value	2,007,443
SELECTED EQUITY VALUE	2,007,400

«   »

Industry Data Method – Analyst

Using multiples derived from compilations of Industry Analyst statistics a market approach may be used to estimate the «fair market value» of a company when the company can be shown to be representative of the market. By convention, analysts express the relationship between the market price of a stock and its historical revenues in the form of a ratio of the market price of revenues for the most recent twelve months, i.e.,

price/revenues (P/R) ratio. Using the Industry Analyst pricing statistic against the company's earnings the «fair market value» can be estimated.

The company is representative of the industry in these ways.

The mean P/R ratio was «0.23». The median P/R ratio was «0.22». The selected P/R ratio was «0.22». The mean P/E ratio was «7.73». The median P/E ratio was «7.82». The selected P/E ratio was «7.82». The mean P/B ratio was «0.31». The median P/B ratio was «0.25». The selected P/B ratio was «0.25». The mean P/Cash Flow ratio was «8.25». The median P/Cash Flow ratio was «8.25». The selected P/Cash Flow ratio was «8.80».

Estimate of Revenue

The analysis presented below represents the calculation of the revenue.

Calculation of the Revenue Base

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Revenue	2,100,000	2,935,000	3,970,000	5,194,000	5,966,000
Weight On Revenue	1	2	3	4	5
Ongoing Revenue					4,699,067
SELECTED ONGOING REVENUE BASE					4,699,100

The weighting above was performed because

The revenue base value was calculated as $«4,699,067» and the selected book value was rounded as $«4,699,100».

Estimate of Net Earnings

The analysis presented below represents the calculation of the Net Earnings.

Calculation of the Net Earnings Base

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic					
Pretax Income	164,000	233,000	226,000	390,000	531,000
Weight	1	2	3	4	5
Ongoing Earning Power					368,200
Taxable Base					368,200
Less Estimated State Income Taxes - Effective Rate:					10.00%
Before Federal Taxes					331,380
Less Federal Taxes					112,488
Calculated Ongoing Additional Adjustment					218,892
SELECTED ONGOING ADDITIONAL ADJUSTMENT					218,900

The weighting above was performed because

The earnings base was calculated as $«218,892» and the selected book value was rounded as $«218,900».

Estimate of Book Value

The analysis presented below represents the calculation of the book value.

Calculation of the Book Value

	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
Historic Book Value	615,000	705,000	905,000	1,125,000	1,445,000
Weight On Book Value	1	2	3	4	5
Ongoing Book Value Base					1,097,667
SELECTED BOOK VALUE BASE					1,097,700

The weighting above was performed because

The book value was calculated as $«1,097,667» and the selected book value was rounded as $«1,097,700».

Estimate of Cash Flow

The analysis presented below represents the calculation of the cash flow base.

Calculation of the Cash Flow Base

Historic	Year Ending December 31, 2002	Year Ending December 31, 2003	Year Ending December 31, 2004	Year Ending December 31, 2005	Year Ending December 31, 2006
After Tax Income	113,000	174,000	160,000	250,000	345,000
Depreciation and Amortization	50,000	66,000	90,000	156,000	180,000
Other Non-Cash Expenses	0	0	0	0	0
Total	163,000	240,000	250,000	406,000	525,000
Weight On Cash Flow Base	1	2	3	4	5
Ongoing Cash Flow Base					376,133
SELECTED ONGOING CASH FLOW BASE					376,100

The weighting above was performed because

The cash flow base was calculated as $«376,133» and the selected cash flow base was rounded as $«376,100».

Application of Minority Interest Discount

A minority interest discount is a reduction to the initial indicated value due to a lack of control prerogatives such as declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management's salaries, etc. In «my» opinion, a minority interest discount of «37.30%» is appropriate because

Application of Marketability Discount

In «my» opinion, a discount of «35.00%» is required for lack of marketability. The discount reflects an expectation for the lack of a secondary market in which to negotiate a quick sale.

Appendix E contains further information on the lack of a marketability discount.

Application of Excess or Non-Operating Assets

Excess or Non-operating assets represent the value of resources the company has control of but are not required to operate the business. Examples are excess cash on hand, real estate or other securities. In «my» judgment, excess and non-operating assets that need to be added back and are part of the entity's value total $«18000».

Indicated Value Calculation

Each of the industry P/R were weighted. The following schedule presents the conclusions of value using the industry data P/R ratio method. As calculated, the indicated «fair market value» of the $«660,524» is which has been rounded to $«660,500».

«

	Revenue Multiple	Earnings Multiple	Book Value Multiple	Cash Flow Multiple
Base	4,699,100	218,900	1,097,700	376,100
Multiple	0.22x	7.82x	0.25x	8.80x
Subtotal	1,010,307	1,711,798	274,425	3,309,680
Weight	1	1	1	1
Ongoing Value	1,576,552			
Minority Interest Discount	37.30%			
Subtotal	988,498			
Marketability Discount	35.00%			
Operating Value	642,524			
Excess/Non-Operating Assets	18,000			
Indicated Equity Value	660,524			
SELECTED EQUITY VALUE	660,500			

»

CONCLUSION OF VALUE

Revenue Ruling 59-60 states:

> Because valuations cannot be made on the basis of a prescribed formula, there is no means whereby the various applicable factors in a particular case can be assigned mathematical weights in deriving the fair market value. For this reason, no useful purpose is served by taking an average of several factors (for example, book value, capitalized earnings and capitalized dividends) and basing the valuation on the result. Such a process excludes active consideration of other pertinent factors, and the end result cannot be supported by a realistic application of the significant facts in the case except by mere chance.

Because of this, the method selected to value «Child's Clothing Store» was «book value method».

Indicated Fair Market Value

As calculated in the following schedule, the indicated fair market value of the $«357,387» is which has been rounded to $«357,400».

«

Valuation Indication by Method	Indicated Value	Weight
Book Value Method	589,000	1
Adjusted Book Value Method - Going Concern	344,000	1
Adjusted Book Value Method - Liquidation	-18,000	1
Capitalization of Earnings Method	412,000	1
Multi-Stage Growth	507,000	1
Discounted Cash Flow Method - Summary Projections	1,625,000	1
Discounted Cash Flow Method - Detailed Projections	2,271,000	1
Capitalization of Excess Earnings Method	1,686,000	1
Market Data Method - Bizcomps	1,049,100	1
Market Data Method - IBA	500,700	1
Industry Data Method - Mergerstat Industry PE	2,007,400	1
Market Data Method - MMC	743,000	1
Market Data Method - Pratts Stats	890,100	1
Market Data Method - Merged, Acquired and Guideline Data	392,500	1
Market Data Method - Private Company Data	583,500	1
Market Data Method - Analyst Data	689,700	1
Subject Company Transactions Method	57,000	1
Industry Data Method - Analyst Data	660,500	1
Calculated Conclusion of Equity Value	357,387	
SELECTED CONCLUSION OF EQUITY VALUE	357,400	

»

OPINION

Therefore, based upon the facts and circumstances of the valuation and subject to the limitations in both conditions and scope listed in this report, «my» opinion of the resultant fair market value of «Child's Clothing Store» on a [enter the basis] as of «December 31, 2006» is:.

$ «357,400»

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APPENDIX A: VALUATION CERTIFICATION AND SIGNATURE OF THE ANALYST

«I» certify to the best of «my» knowledge:

1. The statements of fact contained in this report are true and correct.

2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are «my» personal, impartial, and unbiased professional analyses, opinions, and conclusions.

3. «I» have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved.

4. «I» have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

5. «My» engagement in this assignment was not contingent upon developing or reporting predetermined results.

6. «My» compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

7. «My» analyses, opinion,, and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.

8. «I» have (have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs this certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection the appraised property.)

9. No one provided significant personal property appraisal assistance to the person signing this certification. (If there are exceptions, the name of each individual providing significant personal property appraisal assistance must be stated.)

Signature of the Analyst:

Mr/Ms. «Joe Appraiser»

Title

«Joe Appraiser CPA»

APPENDIX B: LIMITING CONDITIONS

Preparation of this report involved the review of substantial documentation with respect to the Company, the industry and the national economy. Information reviewed relative to the Company is summarized in Appendix C. Sources of information related to the industry and the national economy are cited specifically at appropriate sections of the report.

In conjunction with the preparation of this report, «Joe Appraiser» of «Joe Appraiser CPA» visited with management of «Child's Clothing Store». This visit, together with other conversations with management, provided important perspective to «my» understanding of the information reviewed and analyzed in the preparation of this valuation opinion.

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

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

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

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

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

The estimate of value included in this report assumes that «Child's Clothing Store» will maintain the character and integrity of the company through any sale, reorganization or reduction of any owner's/manager's participation in the existing activities of the company.

Since neither «Child's Clothing Store» management nor advisors have advised «me» otherwise, «I» assume that there is full compliance with all applicable federal, state, and local laws and regulations unless the lack of compliance is stated, defined, and considered in the appraisal report.

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

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

«I» assume no responsibility for the legal description or matters including legal or title considerations. Title to the subject assets, properties, or business interests is assumed to be good and marketable as represented by owners, management and advisors of «Child's Clothing Store» unless otherwise stated.

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

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

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

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

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

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

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

The statements and opinions given in this report are given in good faith and in the belief that such statements are not false or misleading. In preparing this report «I» have relied upon information believed to be reliable and accurate provided by the owners, management and advisors of «Child's Clothing Store» and other sources. «I» have no reason to believe that any material facts have been withheld from «me», nor do «I» warrant that «my» investigation has revealed all of the matters in which an audit or more extensive examination might disclose.

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

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

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

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

The valuation analyst, by reason of performing this valuation and preparing this report, is not to be required to give expert testimony nor to be in attendance in court or at any government, professional or regulatory hearing, including IRS matters with reference to the matters contained herein, unless prior written arrangements have been made with «Joe Appraiser CPA» regarding such additional engagement as to the timing, fee arrangements, and nature of the services required.

None of the partners or employees of «Joe Appraiser CPA» have any present or contemplated future interest in the property being valued, any personal interest with respect to the parties involved, or any other interest that might prevent «me» from performing an unbiased valuation. «I was» compensation is not contingent on an action or event resulting from the analysis, opinions, or conclusions in, or the use of, this report.

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

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

Liability of «Joe Appraiser CPA» and its partners and employees for errors and omissions, if any, in this work will be limited to the amount of its compensation for the work performed in this assignment.

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

APPENDIX C: QUALIFICATIONS OF APPRAISER

APPENDIX D: SOURCES OF INFORMATION

HELPER TEXT

The paragraphs below give an example of the types of sources of information that need to be disclosed.

The following list is an example of the sources of information:

-Onsite visit to Colorado Springs, Co

-Interviews with the following persons

President

Chief Financial Officer

Sales Lead

Family Members

-Analysis of the «unaudited statements» statements

-Relevant company documents

Contracts

Life insurance policy

Valuation reports dated

-Research of the overall economic conditions

   -NER

   -Other sources

-Research of the industry outlook

   -List sources

-Analysis of the current and future earnings capacity of <<Company Name>>

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

APPENDIX E: MARKETABILITY DISCOUNT

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

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

1. Number of shareholders;

2. Size of the block of stock being valued;

3. Restrictions on its sale by agreement or law;

4. The absence of registration; and,

5. The anticipated dividend flow attributable to the investment.

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

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

a. Historical ownership policies (insiders, outsiders, family, investors, etc.);

b. Buy/sell or other shareholder agreements;

c. Management/ownership succession (age, health, competence, emerging liquidity needs);

d. Business plans and likely exit strategies of the controlling owner(s); and,

e. Emerging attractiveness for equity offering or acquisition.

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

a. Absence, inadequacy of or inability to pay dividends;

b. Subjective uncertainties related to the duration of the expected holding period and to achieving a favorable exit date valuation;

c. Restrictive shareholder agreements; and,

d. Various other features that increase uncertainty of cash flows.

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

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

Empirical Studies

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

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

1. "Discounts Involved in Purchases of Common Stock," in US 92nd Congress, 1st Session, House, Institutional Investor Study Report of the Securities and Exchange Commission (Washington, DC: US Government Printing Office, March 10, 1971, 5:2444-2456, Document No. 92-64, Part 5);

2. A study of closed end investment funds (Milton Gelman, "An Economist-Financial Analyst's Approach to Valuing Stock of A Closely Held Company," Journal of Taxation (June 1972), p. 354);

3. A study of prices paid for restricted stocks (Robert E. Maroney, "Most Courts Overvalue Closely Held Stocks," Taxes, March 1973, pp. 144-54);

4. A study of prices paid for restricted stocks (J. Michael Maher, "Discounts for Lack of Marketability for Closely Held Business Interests," Taxes, September 1976, pp. 562-71; and,

5. A more recent study of restricted stocks (William L. Silber, "Discounts on Restricted Stock: The Impact of Illiquidity on Stock Prices," Financial Analysts Journal, July/August 1991, pp. 62-64.)

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

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

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

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

Court Decisions

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

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

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

discount analyses that were "exceedingly general and lacking in specific analysis of the subject interest."

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

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

APPENDIX F: GLOSSARY

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

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

Appraisal - See Valuation.

Appraisal Approach - See Valuation Approach.

Appraisal Date - See Valuation Date.

Appraisal Method - See Valuation Method.

Appraisal Procedure - See Valuation Procedure.

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

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

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

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

Business - see Business Enterprise.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Effective Date - See Valuation Date.

Enterprise - See Business Enterprise.

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

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

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

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

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

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

Going Concern - an ongoing operating business enterprise.

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

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

Goodwill Value - the value attributable to goodwill.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Marketability Discount - See Discount for Lack of Marketability.

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

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

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

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

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

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

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

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

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

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

Redundant Assets - {NOTE: In Canada, see "Nonoperating Assets."}

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

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

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

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

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

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

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

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

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

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

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

Terminal Value - See Residual Value.

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

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

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

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

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

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

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

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

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

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

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

EXHIBITS