



Value Analysis of a 100% Interest in:

Main Street Liquor Store

Financial Stmts. Through December 31, 2004

Prepared By:

Gulf Coast Financial Corporation
Business Valuation Specialists

701 South Howard Ave., Suite 203
Tampa, FL 33606
www.gcfc.com



Report Date – January 1, 2005

ABC Business Brokers
Joe Broker
111 Sample Drive
Tampa, FL 33602

Re: Appraisal of Main Street Liquor Store

Dear Mr. Broker:

We have been engaged to estimate the fair market value of the tangible and intangible assets of Main Street Liquor Store as of December 31, 2004 for the purpose of listing the subject business for sale. At the client's request, we have foregone a self-contained comprehensive report and provided a restricted use limited appraisal report and provided a summary report, which is strictly advisory and should only be used for listing purposes. Please refer to the statement of limiting conditions.

The term "Fair Market Value" is defined as:

"The cash or cash equivalent price at which property would change hands between a willing buyer and a willing seller, neither being under a compulsion to buy or sell and both having reasonable knowledge of relevant facts."

The function and use of this appraisal is in conjunction with listing the business for sale. This report is not intended to be used for (1) tax purposes or any purpose regarding the IRS, (2) divorce, (3) partner dispute, or (4) any other purpose in which a self-contained comprehensive valuation is needed. This appraisal may be invalid if used for any other purpose than for listing the subject business for sale.

This report is intended for use by Main Street Liquor Store and their advisors. All others possessing this report are not intended users. The appraiser does not authorize and is not responsible for use of this report by any party other than the client or an intended user(s).

Based on the information given to us by the client, we have completed a valuation for the purposes of listing the subject business for sale. We have summarized the methods used and weighted on the following page:

**Main Street Liquors
Summary of Valuation Methods**

	<u>Value</u>	<u>Weight</u>	<u>Extension</u>
Cost Approach to Value			
Tangible Asset Value (inventory & equipment)	\$150,000	0%	0
Market Approach to Value			
SBA - Price to SDE	\$384,705	10%	38,471
SBA - Goodwill to SDE	\$394,310	10%	39,431
Comparable Transaction Method	\$246,846	10%	24,685
Industry Method	\$328,079	20%	65,616
Income Approach to Value			
Multiple of Discretionary Cash Flow	\$333,582	20%	66,716
Discounted Future Cash Flow	\$344,717	20%	68,943
Excess Earnings Method	\$341,527	10%	34,153
Enterprise Value			
Enterprise Value		100%	<u><u>\$338,014</u></u>
Estimated Stock Value			
Enterprise Value of the Business			\$338,014
Add/(Deduct): Net Working Capital Included in Sale			\$0
Deduct: Liabilities Included in Sale			<u>\$0</u>
Estimated Total Value Before Real Estate			<u>\$338,014</u>
Add: Real Estate Included in the Sale			\$0
Estimated Stock Value - All Assets & Liabilities			<u><u>\$338,014</u></u>

Based on the information contained in the report that follows, it is our estimate that the enterprise value of Main Street Liquor Store as of December 31, 2004 can be reasonably stated as \$338,014. If net working capital, liabilities and real estate were to be included in the sale, the approximate value would be \$338,014 (see page 3). The value considerations herein are contingent upon the analysis, and limiting conditions as set forth in the body of the report.

Respectfully Submitted,



Steve A. Mize, ASA
Accredited Senior Appraiser



Michael Knox, CPA, CVA
Certified Valuation Analyst

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INTRODUCTION

Purpose and Objective

Gulf Coast Financial was retained to appraise the fair market value, on a controlling, non-marketable interest basis, of the 100% interest of Main Street Liquor Store (“Main Street Liquors” or the “Company”) as of December 31, 2004.

The purpose of this appraisal is to provide an independent valuation opinion to assist the client with establishing an asking price for the potential sale of the business. This report is intended for use by Main Street Liquors and ABC Business Brokers. All others possessing this report are not intended users. The appraiser does not authorize and is not responsible for use of this report by any party other than the client or an intended user.

Definition and Premise of Value

For purposes of this appraisal, we define fair market value as the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both having reasonable knowledge of relevant facts, and with both seeking their maximum self-interests.

We have appraised the 100% interest of Main Street Liquors under the appraisal premise of value in continued use, as part of a going-concern business entity. We concluded that this appraisal premise was appropriate based upon our analysis of the highest and best use of the subject operating business.

Scope

This is a limited appraisal. USPAP defines “limited appraisal” as the act or process of developing an opinion of value resulting from invoking the Departure Rule. We have entered into an agreement to perform a service that calls for something less than, or different from, the work that would otherwise be required by the revenue ruling 59-60. This is not a self-contained comprehensive valuation report.

Departures Taken. USPAP notes the report of an appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and departures taken. We have not performed a site survey and have relied upon information given to us by the client. We have not audited, inspected or reviewed the subject Company’s financial statements. Our valuation model was developed to help list a business for sale, with some of the methods not normally used in valuation for other purposes.



Financial Statements. As mentioned above, we have relied upon the financial statements given to us by the client and the client's advisors. We have accepted these financial statements and assume they are accurate and correct.

Valuation Procedures

The appraisal included the following procedures:

- Interviews were conducted with the client and others believed to be reliable. A brief summary of the subject Company's history and operating experience is included in this report.
- Research was conducted regarding industry trends and the impact of the national, regional and local economy on the subject Company. A brief summary of this information is included in this report.
- Research was conducted on similar public and private companies. Databases such as Pratt's Stats, Mergerstat, Done Deals, Compustat and Disclosure were all used in the search for comparable companies. Our findings are summarized in this report.
- The financial records of the subject Company were analyzed and determination was made regarding the firm's liquidity, debt coverage, leverage and overall performance.
- An analysis was made of the subject Company's tangible and intangible assets with regards to the nature of the assets, their acquisition and related costs, and their market values. A recasted balance sheet has been prepared reflecting the book values and market values of the assets and liabilities. The recasted balance sheets have been included in this report.
- An analysis was made of the subject Company's historical income statements and tax returns. A spreadsheet of normalized income statements have been prepared for appraisal purposes, reflecting the future financial performance of the Company based on historical operating experience and the future outlook for the Company and its industry. The spreadsheet of normalized income statements and related footnotes are included in this report.
- The Asset Based Approach, Market Approach and Income Approach were all considered in the course of this appraisal assignment. The appraisal methods and procedures utilized to determine indications of value and the final conclusion of value are reported herein.



Valuation Methodology

Our opinion of Fair Market Value considered going-concern and net asset value premises. These premises assume that the subject Company is an on-going enterprise, with management operating in a rational manner with a goal of maximizing owner value of the underlying assets. In completing this appraisal, we have attempted to follow the standards and guidelines established by the Uniform Standards of Professional Appraisal Practice (USPAP), the American Society of Appraisers (ASA), the National Association of Certified Valuation Analysts (NACVA) and Revenue Ruling 59-60, particularly as it pertains to Section 5(b), in regard to valuation.

What is Being Valued?

We are estimating the value of the assets and liabilities that are included in the sale. Items included in our estimate of value are as follows:

Inventory	\$100,000
Fixed Assets	\$50,000
Cash	\$0
Accounts Receivable	\$0
Other Current Assets	\$0
Other Assets	\$0
Real Estate	\$0
Assumption of Liabilities	<u>\$0</u>
Total Assets/Liabilities Included in Sale	<u>\$150,000</u>
Goodwill	To Be Determined

Sources of Information

- Financial statements (Tax Returns) for subject Company for years 2002 to 2004
- Gulf Coast Financial profile (including interim statements and cash flow recast)
- Interview with the client
- U.S. Industrial Outlook – The U.S. Department of Commerce
- Selected Interest Rates – The Federal Reserve Board / Beige Book
- Regional Economy – Economy.com / Federal Reserve
- Local Economy – Economy.com / Various Local Websites
- First Research – Industry Research
- Bizstats / Pratt Stats / IBA Database – comparable transactions
- RMA statistics (Risk Management Associates)
- Ibbotsons & Associates (SBBI)
- Cost of Capital Yearbook



Limiting Conditions

The analysis and conclusions in this report are based in part on the following:

- A. As agreed upon with the client prior to the preparation of this appraisal, unless otherwise indicated, this is a Limited Appraisal because it invokes the Departure Provision of the Uniform Standards of Professional Appraisal Practice. As such, information pertinent to the valuation has not been considered and/or the full valuation process has not been applied. Depending on the type and degree of limitations, the reliability of the value conclusion provided herein may be reduced.
- B. Unless otherwise indicated, this is a Summary Appraisal Report, which is intended to comply with the reporting requirements set forth under Standard 10 of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it might not include full discussions of the date, reasoning and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning and analyses is retained in the appraiser's file. The information contained in the report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
- C. Information used in the analysis and report was obtained from sources believed to be reliable; however, the validity of this information and the conclusions therefore are not warranted by the appraiser, his agents or employees.
- D. Financial statements, operating histories and other data relating to the Company, ownership interest, or assets being appraised which were provided by management, the owners, or their representatives have been accepted by the appraiser without further verification, except as specifically set forth in the appraisal report. This report should not be considered an audit, review, or compilation as defined by the American Institute of Certified Public Accountants, but is, rather a valuation prepared for the limited purpose described herein.
- E. All opinions of value stated herein are presented as the appraiser's considered opinion based on the facts and data set forth in the appraisal report. No responsibility is assumed for changes in market conditions or for the inability of the owner to locate a purchaser at the appraised value.
- F. The appraiser's analysis assumes marketable title to all of the tangible and intangible assets being appraised herein and that they are free and clear of all encumbrances, except as fully disclosed in the financial statements and related footnotes included in the appraisal report.



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- G. No opinion of title is being rendered herein, nor does the appraiser, his agents or employees accept any responsibility for matters of a legal nature affecting the Company, ownership interest or assets being appraised.
- H. This report is not to be construed, directly or indirectly, as a recommendation to invest, divest, or to lend; it is strictly our independent opinion for the purpose described herein, based upon the information, explanations and materials provided to us and subject to the assumptions and qualifications noted herein. Potential investors and/or lenders should perform or obtain their own analysis of the Company's financial position for their particular purposes.
- I. This report is not intended for general circulation or publication, nor may it be reproduced or used for any purpose other than that specifically noted herein, without our written permission in each specific instance. We do not assume any responsibility or liability for losses incurred by the Company, the directors, shareholders or owners thereof, or to other parties, as a result of the circulation, publication, production or use of this report contrary to the provisions of this paragraph.
- J. We reserve the right to review all calculations included or referred to herein and to revise our opinion in the light of any facts, trends or changing conditions that existed at the valuation date of which we are made aware subsequent to the date hereof; however, we will not be under any obligation to do so, unless prior arrangements have been made in writing relative to such additional services.
- K. Our opinion of value does not include the recognition of a "special purchaser premium," if such were to be applicable due to the ability of a specific buyer who could utilize the tangible and intangible assets described herein in a unique or synergistic manner.
- L. The client by accepting this report, agrees that neither the appraiser nor any of his agents or employees will be required to give testimony, nor to be in attendance in court or at any government hearing with reference to the matters herein, unless prior arrangements have been made in writing relative to such additional services.
- M. This valuation was intended to help the client list the subject business for sale. It is not intended for (1) tax purposes or any purpose regarding the IRS, (2) divorce, (3) partner dispute, or (4) any other purpose in which a self-contained comprehensive valuation is needed.

EXECUTIVE SUMMARY

General Business Information

Name of Business:	Main Street Liquors
Address:	123 Beverage Lane, Tampa, FL 33609
NAICS Code:	445310
Type of Business:	Liquor Store
Type of Statements Used:	Tax Returns
Type of Entity:	S Corporation
State Of Incorporation:	Florida

Financial Information

Last Full Year Revenue:	\$598,741
Last Full Year EBITDA (adjusted):	\$69,885
Adjusted Book Value (valuation date):	\$150,000 (furniture, fixtures, equip. & inv.)

Description of the Business

The Company was originally founded over 30 years ago by the current owner. It has been a family owned business since inception. The Company operates as a full service liquor store located in Tampa, Florida. Approximately 60% of total sales relates to wine with the remaining 40% being generated by spirits and various other convenience store items. Currently there are three full time employees and 1 part time employee – all have been with the Company for at least 5 years and will stay on after the acquisition. The business is located near the USF campus in a strip mall with a strong anchor.

Strengths / Weaknesses

The Company's main strength is its name in the community. The business has been in existence for over 30 years and has many repeat customers. The primary weakness would be the threat of new competition as there are currently no liquor stores within a 5-mile radius.



ECONOMIC / REGIONAL / INDUSTRY SNAPSHOT

Economic Snapshot

The U.S. economy continued its slow recovery during the third quarter of 2004, led by a jump in consumer spending. The strong increase in consumer spending, as well as an ease in inflationary pressures over the third quarter, helped to offset the decrease in private business inventories and the slow down in exports. With slower than predicted third-quarter growth, most economists quoted in the financial press expect that the U.S. economy will maintain its moderate growth pattern for the remainder of 2004 and that overall inflation will remain under control.

Regional Snapshot

Hillsborough is one of 67 counties in Florida. It is part of the Tampa-St. Petersburg-Clearwater, FL (MSA). Its 2002 population of 1,052,336 ranked 4th in the state. In 2002 Hillsborough had a per capita personal income (PCPI) of \$29,602. This PCPI ranked 16th in the state and was 99 percent of the state average, \$29,758, and 96 percent of the national average, \$30,906.

In 2002 Hillsborough had a total personal income (TPI) of \$31,150,902. This TPI ranked 4th in the state and accounted for 6.3 percent of the state total.

Earnings of persons employed in Hillsborough increased from \$27,698,879 in 2001 to \$28,975,829 in 2002, an increase of 4.6 percent. The 2001-2002 state change was 3.8 percent and the national change was 1.5 percent. The average annual growth rate from the 1992 estimate of \$14,652,924 to the 2002 estimate was 7.1 percent. The average annual growth rate for the state was 6.2 percent and for the nation was 5.3 percent.

Industry Snapshot

Industry Forecast - Demand for beer, wine, and spirits is forecast to grow at an annual compounded rate of 2.6 percent between 2004 and 2007. Helped by a weak dollar, exports are projected to rise over the next few years but represent only a small portion of sales. Domestic demand growth is concentrated in rising restaurant and bar sales.



FINANCIAL STATEMENTS & ADJUSTMENTS

Overview

An essential step in the valuation of any company is an analysis of its financial performance over time. Analyzing a company's financial statements provides an indication of historical growth, liquidity, leverage, and profitability, all of which influence the value of a company's assets or equity. The following section of this report examines the trend of the subject Company's balance sheets, income statements, and financial ratios over the past three years. In addition, the Company's financial performance is compared to its peers in its industry group as a means of measuring the Company's relative historical performance.

The subject Company's historical income statements have been adjusted to present the business as if it had been managed to maximize profitability. Since privately owned companies tend to keep reported profits and resulting taxes as low as possible, adjusting the financial statements is an important element to understanding the true earnings capacity of the business. Our analysis of the subject Company is on an adjusted basis. A summary of the adjusted historical financial statements for the past three years is contained in the following section.

Reliability of Financial Records

We have not audited or reviewed the financial statements of the subject Company. All adjustments were provided by management and have not been verified for their accuracy. We have assumed that all financial records and adjustments are true and correct.

Financial Statements Not Shown

We have been engaged to perform something other than a comprehensive valuation and certain financial statements and ratio analysis will not be shown (per request of client). At the client's request, to minimize fees and expedite a report, we have not included balance sheets, ratio analysis or common size analysis.

The financial statements are shown on the following pages:



Main Street Liquors Historical Income Statement
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December:	<u>Tax Returns 2002</u>	<u>Tax Returns 2003</u>	<u>Tax Returns 2004</u>	<u>Projected 2005</u>
Gross Revenue	512,410	556,412	598,741	621,410
Cost of Sales	<u>375,412</u>	<u>389,554</u>	<u>436,541</u>	<u>436,541</u>
Gross Profit	136,998	166,858	162,200	184,869
Cash Operating Exp.	<u>71,586</u>	<u>92,756</u>	<u>82,315</u>	<u>93,659</u>
EBITDA	65,412	74,102	79,885	91,210
Depreciation/Amortization	<u>5,641</u>	<u>6,654</u>	<u>7,410</u>	<u>8,141</u>
EBIT	59,771	67,448	72,475	83,069
Interest Expense	<u>2,124</u>	<u>2,321</u>	<u>2,547</u>	<u>2,695</u>
Pre-Tax Income	57,647	65,127	69,928	80,374
Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Income	<u><u>57,647</u></u>	<u><u>65,127</u></u>	<u><u>69,928</u></u>	<u><u>80,374</u></u>

Notes: None.



**Main Street Liquors
Adjusted Cash Flow**

December:	Tax Returns 2002	Tax Returns 2003	Tax Returns 2004	Projected 2005
Revenue				
Gross Sales	\$512,410	\$556,412	\$598,741	\$621,410
Pre-Tax Profit				
Unadjusted Pre-Tax Profit	57,647	65,127	69,928	80,374
Non-Recurring Items				
Depreciation & amort.	5,641	6,654	7,410	8,141
Interest expense	2,124	2,321	2,547	2,695
Officer compensation	25,000	25,000	25,000	25,000
Family salaries/benefits	0	0	0	0
Officer insurance	0	0	0	0
Officer auto	0	0	0	0
Personal expenses	0	0	0	0
Other add-backs	0	0	0	0
Other add-backs	0	0	0	0
Historical rent	0	0	0	0
Fair market rent	0	0	0	0
Total Add Backs	32,765	33,975	34,957	35,836
Calculation of Cash Flow				
Pre-Tax Profit +	57,647	65,127	69,928	80,374
Total Add-Backs =	32,765	33,975	34,957	35,836
Seller's Discretionary Earnings	90,412	99,102	104,885	116,210
Less Replacement Salary	-35,000	-35,000	-35,000	-35,000
EBITDA	55,412	64,102	69,885	81,210
as % of Sales	10.81%	11.52%	11.67%	13.07%
Cash Flow Weight	0	0	1	1
Weighted SDE	\$110,548			
Weighted EBITDA	\$75,548			
Weighted Revenue	\$610,076			
Weighted EBIT	\$67,772			



NOTES TO INCOME STATEMENT ADJUSTMENTS

Adjustments

To identify financial performance if operated by a typical willing buyer interested in maximizing earnings, the appraisers inquired about any unusual or nonrecurring events as well as discretionary expenses. All nonrecurring, excess or discretionary expenses/revenue have been adjusted and can be viewed in detail below:

Note 1 – we have adjusted officer salary to \$35,000 annually.

Note 2 – there were no other adjustments given by the client.

** All adjustments have been given to Gulf Coast Financial by the client and have not been audited or reviewed for accuracy. Gulf Coast Financial is not responsible for the adjustments or the ability of the Company to meet estimated projections.*

Main Street Liquors Adjusted Income Statement
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December:	<u>Tax Returns 2002</u>	<u>Tax Returns 2003</u>	<u>Tax Returns 2004</u>	<u>Projected 2005</u>
Gross Revenue	512,410	556,412	598,741	621,410
Cost of Sales	<u>375,412</u>	<u>389,554</u>	<u>436,541</u>	<u>436,541</u>
Gross Profit	136,998	166,858	162,200	184,869
Cash Operating Exp.	<u>81,586</u>	<u>102,756</u>	<u>92,315</u>	<u>103,659</u>
EBITDA	55,412	64,102	69,885	81,210
Depreciation/Amortization	<u>5,641</u>	<u>6,654</u>	<u>7,410</u>	<u>8,141</u>
EBIT	49,771	57,448	62,475	73,069
Interest Expense	<u>2,124</u>	<u>2,321</u>	<u>2,547</u>	<u>2,695</u>
Pre-Tax Income	47,647	55,127	59,928	70,374
Taxes @ 34%	<u>16,200</u>	<u>18,743</u>	<u>20,376</u>	<u>23,927</u>
Net Income	<u><u>31,447</u></u>	<u><u>36,384</u></u>	<u><u>39,552</u></u>	<u><u>46,447</u></u>

Notes: None.



Main Street Liquors Common Size Income Statement

December:	<u>Tax Returns 2002</u>	<u>Tax Returns 2003</u>	<u>Tax Returns 2004</u>	<u>Projected 2005</u>
Gross Revenue	100.00%	100.00%	100.00%	100.00%
Cost of Sales	<u>73.26%</u>	<u>70.01%</u>	<u>72.91%</u>	<u>70.25%</u>
Gross Profit	26.74%	29.99%	27.09%	29.75%
Cash Operating Expenses	<u>15.92%</u>	<u>18.47%</u>	<u>15.42%</u>	<u>16.68%</u>
EBITDA	10.81%	11.52%	11.67%	13.07%
Depreciation and Amortization	<u>1.10%</u>	<u>1.20%</u>	<u>1.24%</u>	<u>1.31%</u>
EBIT	9.71%	10.32%	10.43%	11.76%
Interest Expense	<u>0.41%</u>	<u>0.42%</u>	<u>0.43%</u>	<u>0.43%</u>
Pre-Tax Income	9.30%	9.91%	10.01%	11.32%
Taxes @ 34%	<u>3.16%</u>	<u>3.37%</u>	<u>3.40%</u>	<u>3.85%</u>
Net Income	<u><u>6.14%</u></u>	<u><u>6.54%</u></u>	<u><u>6.61%</u></u>	<u><u>7.47%</u></u>

Notes: None.



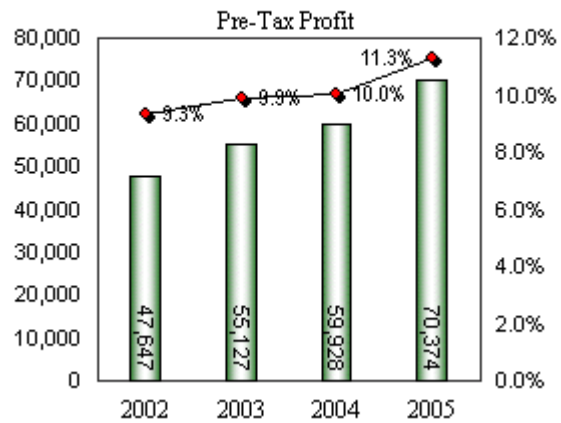
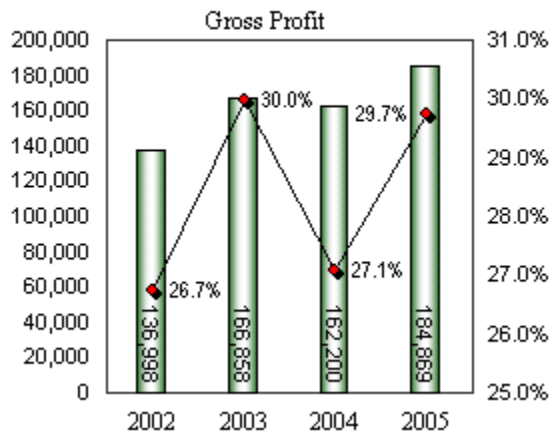
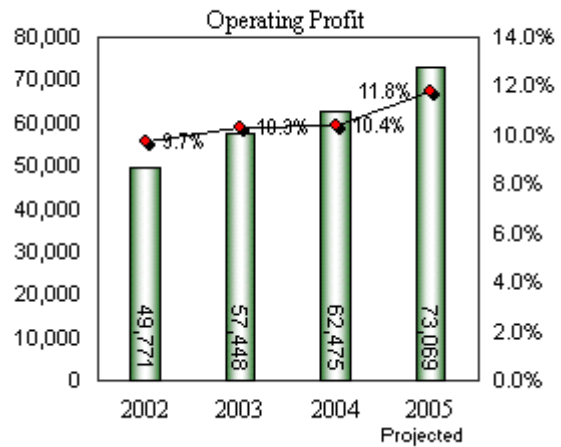
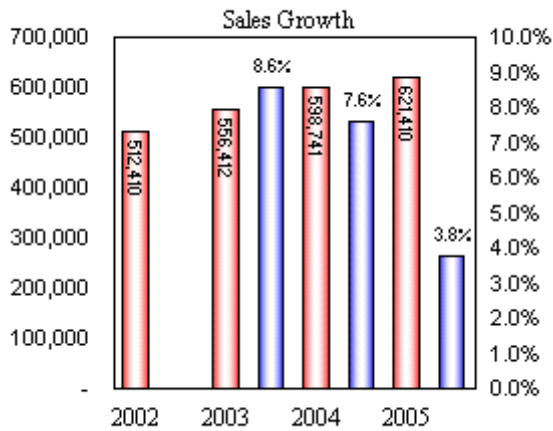
Main Street Liquors Projected Cash Flow
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December:	Projected	Projected			
	2005	2006	2007	2008	2009
Revenues	621,410	644,937	669,355	694,698	721,000
<i>Percent Increase</i>	3.79%	3.79%	3.79%	3.79%	3.79%
Gross Profit	184,869	191,868	199,133	206,672	214,497
<i>Percent of Revenues</i>	29.75%	29.75%	29.75%	29.75%	29.75%
Cash Operating Exp.	<u>103,659</u>	<u>107,584</u>	<u>111,657</u>	<u>115,884</u>	<u>120,272</u>
<i>Percent of Revenues</i>	16.68%	16.68%	16.68%	16.68%	16.68%
EBITDA	81,210	84,285	87,476	90,788	94,225
<i>Percent of Revenues</i>	13.07%	13.07%	13.07%	13.07%	13.07%
Depreciation	<u>8,141</u>	<u>8,449</u>	<u>8,769</u>	<u>9,101</u>	<u>9,446</u>
<i>Percent of Revenues</i>	1.31%	1.31%	1.31%	1.31%	1.31%
Operating Income (EBIT)	73,069	75,835	78,707	81,687	84,779
<i>Percent of Revenues</i>	11.76%	11.76%	11.76%	11.76%	11.76%
Taxes	<u>24,843</u>	<u>25,784</u>	<u>26,760</u>	<u>27,773</u>	<u>28,825</u>
<i>Tax Rate</i>	34%	34%	34%	34%	34%
Debt Free Net Income	48,226	50,051	51,946	53,913	55,954
Determination of Cash Flow					
Debt Free Net Income	48,226	50,051	51,946	53,913	55,954
Dep. & Amort.	8,141	8,449	8,769	9,101	9,446
Capital Exp. Req.	-4,071	-4,225	-4,385	-4,551	-4,723
Working Cap. Req.	<u>-2,267</u>	<u>-2,353</u>	<u>-2,442</u>	<u>-2,534</u>	<u>-2,630</u>
Free Cash Flow	<u><u>50,029</u></u>	<u><u>51,923</u></u>	<u><u>53,889</u></u>	<u><u>55,929</u></u>	<u><u>58,047</u></u>

Notes: Projected 2005 revenues are expected to increase by 3.79% to \$621,410. Gross profits are projected to be 29.75% of sales in 2005. Cash operating expenses are projected to be 16.68% of sales or \$103,659, which calculates to EBITDA of \$81,210 or 13.07% of sales. Capital expenditures are based on historical trends and/or the client's expectations. Working capital requirements are based upon historical trends and/or the client's expectations.



GRAPHIC ANALYSIS



APPRAISAL CONCEPTS

Overview

Several approaches are available for the appraisal of private business interests. In our analysis and appraisal presented in this section of the report, we will discuss:

- Our consideration and selection of the appropriate approaches and methods for valuation for the 100% interest of the subject Company.
- Application of the methods to estimate the fair market value of the majority ownership interest in the subject Company as of the valuation date.
- Analysis and selection of the appropriate discount for the relative lack of marketability of the subject common stock.

Factors Influencing Value

There are many potential factors that can influence the value of a firm, however, eight factors have been given preeminence in Revenue Ruling 59-60:

1. The nature of the business and the history of the enterprise from its inception
2. The economic outlook in general and the condition and outlook of the specific industry in particular
3. The book value of the stock and the financial condition of the business
4. The earnings capacity of the company
5. The dividend-paying capacity
6. Whether or not the enterprise has goodwill or intangible value
7. Sales of stock and the size of the block of stock to be valued
8. 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.

The foremost valuation factor to be considered for an operating company generally is its earnings capacity, whereas the value of the underlying assets, or book value, is more



likely the most important financial measure for a holding or investment company formed for the purpose of owning the stocks of other companies, real estate or natural resources.

To augment these standard valuation factors, consideration should also be given to a host of other factors, which may fit the specifics of the case at hand, such as:

- a. Purpose of the valuation and what specifically, is being valued
- b. Quality and reliability of reported earnings
- c. Potential for synergy, if the firm is being appraised for acquisition or merger
- d. Imminence of retirement and health of principals and management
- e. Gross revenue, and its relationship to net earnings
- f. Cash flow and liquidity
- g. Condition of the accounting system and other records
- h. Cost of capital, risk, and inflation in the past and into the future
- i. Restrictive agreements
- j. Prior sales or valuations of the company
- k. Recent mergers or acquisitions of comparable companies

Any one, or all, of the foregoing valuation factors potentially may contribute to the determination of Fair Market Value of the firm. It is essential, then, that all of them, and possibly others, be addressed in the valuation analysis.

Valuation Methods Used

All relevant valuation approaches and methods were considered during the course of our work. The subject business interest to be appraised is 100% of the subject Company's tangible and intangible assets. Based on the size of the block being appraised, the subject interest is a majority ownership interest. We considered methodology within the asset-based approach, market approach and income approach in estimating the value of the subject Company.

Approaches to Value

An appraisal approach is defined as a general way at determining an indication of value using one or more appraisal methods. The American Society of Appraisers has developed appraisal standards for the Asset Based Approach, Market Approach and the Income Approach, described briefly as follows:

The Asset Based Approach

The asset-based approach, sometimes referred to as the cost approach, is an asset-oriented approach rather than a market oriented approach. Each component of a business is valued separately and summed to derive the total value of the enterprise.



Using this approach, the appraiser estimates value by estimating the cost of duplicating or replacing the individual elements of the business property being appraised, item by item, asset by asset. The tangible assets of the business are valued using this approach. It cannot be used alone, however, because many businesses have intangible value as well, to which this approach cannot be applied.

The Market Approach

Since the objective of this report is to arrive at an opinion of the Market Value of the 100% interest in the Company, a logical method would be values determined and tested in the marketplace. Therefore, a fundamental method for estimating the value of the stock of a closely held business is an analysis of prices paid by investors in the private, or most often due to the availability of information, the public markets for the stock of other companies in the same or similar lines of business.

The Income Approach

The income approach is an income oriented rather than an asset or market oriented approach. This approach assumes that an investor could invest in a property with similar investment characteristics, although not necessarily the same business.

The computations using the income approach generally determine that the value of the business is equal to the expected future income of the business divided by a rate of return. This involves the principle of capitalization. In general, capitalization is merely the process of dividing the estimate of future income by the rate of return.

Because estimating the future income of a business is considered to be speculative, historical data is generally used as a starting point in several of the acceptable methods under the premise that history will repeat itself. The future cannot be ignored, however, because valuation is prophecy of the future.

Asset Sale Vs. Stock Sales

To minimize the impact of the difference in leverage between the subject Company and its peers, we used a debt-free analysis to estimate the value of the company. We are assuming a sale of the Company's assets where the seller will retain all cash, receivables, other current assets and all liabilities. Therefore, to arrive at the market value of common stock for the subject Company, the market value of cash, receivables, other current assets and liabilities must be added or subtracted from the value of the Company. For market comparison purposes, we also extracted valuation multiples based upon the above.



ASSET APPROACH TO VALUE

Highest and Best Use

Based on a review of the Company's history, financial information and tangible assets, the appraiser has determined that the highest and best use of the assembled assets is for continued use in a similar business. Therefore, it is assumed that these assets would be sold in place where is and as is for continued use in a similar business.

Adjusted Book Value (going concern)

The steps in calculating the Adjusted Book Value is as follows:

1. Adjust all tangible assets to fair market value in continued use
2. Adjust all liabilities to fair market value in continued use
3. Add control premium or minority interest discount (if applicable)
4. Deduct discount for lack of marketability (if applicable)

For the Adjusted Book Value method, all assets and liabilities were estimated at fair market value. Total tangible value (F,F&E and Inventory) indicate a value of \$150,000. The following assets and liabilities are included in the potential sale:

Assets/Liabilities Included in Sale

Inventory	\$100,000
Fixed Assets	<u>\$50,000</u>
Enterprise Value	<u>\$150,000</u>
Cash	\$0
Accounts Receivable	\$0
Other Current Assets	\$0
Other Assets	\$0
Real Estate	\$0
Assumption of Liabilities	<u>\$0</u>
Total Assets/Liabilities Included in Sale	<u>\$150,000</u>

As shown above, we have calculated an enterprise value (inventory and F,F&E) of \$150,000. All assets and liabilities included in the sale calculate to \$150,000. The values above are controlling values, since adjustments of this nature are made with the assumption that a controlling shareholder has the power to sell and/or liquidate the assets. Since the values are controlling values, a control premium is not needed. Since we are valuing a controlling interest, a minority interest discount and marketability discount will not be used.



MARKET APPROACH TO VALUE

The market approach to valuation utilizes a comparison of the interest being valued with actual trades of other similar interests. This valuation approach is appropriate to use only in situations where there have been actual trades of similar business interests.

For the market approach to valuation, we will look at a number of different methods to estimate the value of the Company including transactions of the company, guideline company method (public) and comparable private transaction method.

Selection of Guideline Companies

Since no public marketplace exists for the assets of the subject Company, an alternative to estimate the value of the Company is to analyze the prices investors are willing to pay for the publicly traded common stock of companies that are similar to the subject Company. The following section of this report describes the process of selecting companies that were considered to be similar to the subject Company.

Public Comparables

The first step in selecting guideline publicly traded companies is to identify the most appropriate Standard Industrial Classification (SIC) code. The subject Company most closely resembles companies with the NAICS code 445310 – Liquor Store.

Using the Internet, we performed a search for companies with NAICS 445310. PeerScape was the web site used to search 10,000 public companies. In addition, we searched Compustat, which has additional companies. All information in these databases is extracted from various documents that have been filed with the U.S. Securities and Exchange Commission. These databases were searched by primary NAICS code. This is, every publicly traded company with NAICS code 445310 listed as its primary or secondary NAICS in the databases was reviewed for comparability. The primary NAICS code is determined by identifying the predominant product group of products produced or handled or services rendered.

From these various databases, we obtained information on companies in the selected NAICS code, using Computat. We examined a description of each of these companies. And, after reviewing the companies' financial data and pricing information, we determined if they were, in fact, reasonable valuation guidelines for the subject Company. Through this process, we concluded that **no** companies were reasonable valuation guidelines. The companies were selected based on similarity in operations and financial size/structure to the subject Company.



Private Company Sales

Market based valuation methods can use capitalization rates and/or multiples that are extrapolated from transactions involving privately held companies to derive the fair market value for a closely-held business. The theory behind this method is that the market for privately owned businesses determines what price is an acceptable return for the earnings stream, gross revenue, equity or assets within a specific industry.

Gulf Coast Financial keeps a proprietary list of private transactions. These recently sold businesses all were financed through the Small Business Administration (SBA), thus giving a direct comparison based on long-term financing. We have also researched Pratt Stats for additional comparable transactions.

First, a search of the SIC Code range 5921 - Liquor Stores was performed. A number of comparable companies were either in the same classification or keyword category. The SBA transaction details are as follows:

Transaction Details	<u>Revenue Size</u>	<u>Sale Price</u>
Median	\$1,127,722	\$432,000
Mean	\$1,361,752	\$550,777

Transaction Multiples	<u>Price to SDE</u>	<u>Goodwill to SDE</u>
High	5.53	3.55
Low	1.56	0.00
Median	3.48	2.21
Mean	3.51	2.07

Transactions of the Company

The most important indication of the value of a business interest, as implied by our definition of fair market value, is an arm's length transaction in the stock of the company within a reasonable period of time. The courts have discussed this as follows:

In determining the value of unlisted stock, actual sales made in reasonable amounts at arm's length within a reasonable time before or after the valuation dates are the best indication of market value. As the sales are further removed from the date, however, their relevancy lessens...(Sirloin Stockade, Inc., 40 T.C.M. 928 – 1980)



For the case of Main Street Liquors, no transactions of the subject Company's stock were disclosed to the appraiser. Therefore, this method will not be considered.

Guideline Company Method

One way to determine the value of a closely held business interest is to compare it to publicly traded securities of businesses in the same or similar lines of business. This comparison can be based on a multiple of earnings, book value or some other ratio that might be appropriate, considering the facts and circumstances of the case.

The use of this method in valuing the stock of a closely held company does, however, have its shortcomings. The most important shortcoming is comparability. More often than not, publicly traded companies are much larger, better capitalized, more diversified and have better market positions than their closely-held counterparts. The second most important factor is the lack of marketability of the shares of the closely held companies. We did not feel the guideline company method was appropriate for this size of business; therefore this method was not utilized.

Comparable Private Transaction Method – SBA Transactions

Market based valuation methods can use capitalization rates and/or multiples that are extrapolated from transactions involving privately held companies to derive the fair market value for a closely-held business. The theory behind this method is that the market for privately owned businesses determines what price is an acceptable return for the earnings stream, gross revenue, equity or assets within a specific industry. The steps in calculating the Private Comparable Sales Approach – SBA Transactions were as follows:

1. Research similar sales through SBA transaction database
2. Extract valuation multiples from broad group / keyword
3. Determine the level of earnings to be capitalized
4. Multiply the earnings base by the extract valuation multiple

We have searched our proprietary database that contains information on private company sales that have been financed through the Small Business Administration. In our analysis, we extracted valuation multiples from an SIC range to broaden the search. We did not research each individual transaction for comparability; therefore we feel we cannot rely solely upon this method of value. As shown on the previous page, the median revenue size for this search was \$1,127,722. The median sale price was \$432,000. The final calculation for the Private Comparable Sales Approach is shown on the following page:



Value Calculation

	Price to SDCF	Goodwill to SDCF
Weighted Seller Discretionary Earnings	110,548	110,548
Selected Multiple	3.48	2.21
Indication of Value	384,705	244,310
Tangible Assets	0	150,000
Enterprise Value	<u>\$384,705</u>	<u>\$394,310</u>

(a) Tangible assets only include inventory and furniture, fixtures & equipment

Price to Seller Discretionary Earnings

As shown above, the price to seller discretionary earnings method indicates an enterprise value of \$384,705. This calculates to a price to revenue multiple of 0.63x, a price to EBITDA multiple of 5.09x and a price to seller discretionary earnings multiple of 3.48x.

Goodwill to Seller Discretionary Earnings

As shown above, the goodwill to seller discretionary earnings method indicates an enterprise value of \$394,310. This calculates to a price to revenue multiple of 0.65x, a price to EBITDA multiple of 5.22x and a price to seller discretionary earnings multiple of 3.57x.

Comparable Private Transaction Method – Pratt Stats

We have also searched comparable transactions in the database known as Pratt Stats. The Pratt Stats database specializes in private business transactions between \$1.0 million and \$100 million in sales. In our analysis, we extracted valuation multiples from an SIC range to broaden the search. We did not research each individual transaction for comparability; therefore we feel we cannot rely solely upon this method of value.

As shown on the following page, we have broken down all Pratt Stats transactions into 9 categories including Agriculture, Construction, Finance/Insurance/Real Estate, Manufacturing, Professional Practice, Services, Wholesale, Retail and Other. Based upon the lowest coefficient of variation, we have given the “best indicators”, which are color coordinated. The lower the coefficient of variation, the smaller the “range”, which normally indicates more accurate transaction multiples.

The transaction summary is shown on the following page:



Pratt Stats - 1/1/02 to 12/31/04

Type of Business	# of Transactions	Median Sales (\$000's)	Median Sales Price (\$000's)	Median Valuation Multiples				
				MVIC Divided By:				
				Book Value of Invested Capital	Disc. Earnings	EBIT	EBITDA	Net Sales
Agriculture	30	\$309	\$188	1.99	1.06	1.94	2.14	0.56
Construction	68	\$1,284	\$475	1.73	2.18	4.58	4.23	0.32
Finance, Ins., R/E	45	\$6,161	\$6,900	2.28	4.38	4.94	4.59	1.11
Manufacturing	380	\$3,359	\$3,723	2.48	3.28	8.22	7.43	0.75
Prof. Practice	174	\$1,278	\$795	3.10	1.29	1.39	1.37	0.63
Services	616	\$803	\$721	3.95	2.34	5.18	5.70	0.81
Wholesale	129	\$1,131	\$499	2.05	2.91	4.95	5.09	0.42
Retail	462	\$444	\$150	1.77	2.25	2.90	3.24	0.36
Other	86	\$2,848	\$3,100	2.78	1.89	3.57	3.53	0.58

* Best Indicator, 2nd Best, 3rd Best (based upon the lowest coefficient of variation)

The multiples above are updated each quarter and represent the broadest comparable transactions. We feel that a broader search helps narrow the coefficient of variation, which helps pinpoint a more accurate multiple. This method is calculated below:

	Price to SDE	Price to EBIT	Price to EBITDA	Price to Net Sales
Weighted Fundamental	\$110,548	\$67,772	\$75,548	\$610,076
Selected Multiple	2.25	2.90	3.24	0.36
Indication of Value	\$248,842	\$196,810	\$244,849	\$220,847
Weight	50%	0%	50%	0%
Total Weight				100%
Enterprise Value				<u>\$246,846</u>

Comparable Private Transaction Method – Pratt Stats

As shown above, this method indicates an enterprise value of \$246,846. This calculates to a price to revenue multiple of 0.40x, a price to EBITDA multiple of 3.27x and a price to seller discretionary earnings multiple of 2.23x.

Industry Rule of Thumb Approach

Most rule of thumb formulas are market-derived, which means that they are taken from actual market transactions. Many market-derived formulas value the entire business



exclusive of real estate; some value just the goodwill; and some provide a combined value for trade fixtures, leaseholds, goodwill, licenses and other intangible assets.

Market-derived valuation formulas for businesses or intangible assets fall into four basic categories. Some use a gross multiplier applied to the gross sales generated by the business or asset. Sales may be determined on a weekly, monthly or annual basis. Other formulas use a new multiplier applied to a monthly or annual cash flow.

Market formulas provide a form of market comparison. Using their values in conjunction with other methods may provide the user the parameters of value within a reasonable range. Most formulas are quick and uncomplicated to use. Their structure may make intuitive sense to both laymen and professionals, but values indicated by market formulas are valid only when other value criteria have been considered. Rules of thumb formulas are used mostly with small businesses and their intangible assets. Only a small number of business categories have formulas that are widely recognized within their industries.

The business valuation standards developed by the American Society of Appraisers cautions that rules of thumb may provide insight on the value of a business, business ownership interest or security. However, value indications derived from the use of rules of thumb should not be given substantial weight unless supported by other valuation methods and it can be established that knowledgeable buyers and sellers place substantial reliance on them.

The steps in calculating the Industry Rule of Thumb Approach were as follows:

1. If available, find industry rule of thumb
2. Extract valuation multiple
3. Determine the level of earnings, revenue or unit to be capitalized
4. Multiply the unit by the extract valuation multiple

For our calculation, we utilized the *Business Reference Guide* written and edited by Tom West, which shows industry rules of thumb for a number of different business industries. Our calculations are shown on the following page:

Main Street Liquors Industry Rule of Thumb

Low Rule of Thumb	<u>Multiple of Gross Sales</u>	<u>Multiple of EBITDA</u>	<u>Multiple of SDE</u>	<u>Average Value</u>
Weighted Gross Revenue	610,076			
Weighted EBITDA		75,548		
Weighted SDE			110,548	
Selected Rule of Thumb	<u>28%</u>	<u>NA</u>	<u>2.00</u>	
	170,821	NA	221,095	
Add: Fixtures & Equip.	NA	NA	NA	
Add: Operating Inventory	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	
Indication of Value	270,821	NA	321,095	295,958
High Rule of Thumb	<u>Multiple of Gross Sales</u>	<u>Multiple of EBITDA</u>	<u>Multiple of SDE</u>	<u>Average Value</u>
Weighted Gross Revenue	610,076			
Weighted EBITDA		75,548		
Weighted SDE			110,548	
Selected Rule of Thumb	<u>40%</u>	<u>NA</u>	<u>2.50</u>	
	244,030	NA	276,369	
Add: Fixtures & Equip.	NA	NA	NA	
Add: Operating Inventory	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	
Indication of Value	344,030	NA	376,369	360,199
Weighted Values	Value	Weight	Extension	
Low Rule of Thumb	295,958	50%	147,979	
High Rule of Thumb	360,199	50%	<u>180,100</u>	
Enterprise Value			<u><u>\$328,079</u></u>	

As shown above, we have calculated an enterprise value of \$328,079. This calculates to a price to revenue multiple of 0.54x, a price to EBITDA multiple of 4.34x and a price to seller discretionary earnings multiple of 2.97x.



INCOME APPROACH TO VALUE

As mentioned in the last section, the income approach is a general way of determining a value indication of a business, business ownership interest or security using one or more methods wherein a value is determined by converting anticipated benefits.

Multiple of Seller's Discretionary Earnings (SDE)

This approach assumes that an investor could invest in a property with similar investment characteristics, although not necessarily the same business.

The computations using the income approach generally determine that the value of the business is equal to the expected future income of the business divided by a rate of return. This involves the principle of capitalization. In general, capitalization is merely the process of dividing the estimate of future income by the rate of return.

Because estimating the future income of a business is considered to be speculative, historical data is generally used as a starting point in several of the acceptable methods under the premise that history will repeat itself. The future cannot be ignored, however, because valuation is prophecy of the future.

To calculate the multiple of seller's discretionary earnings method, you need an earnings base and a capitalization rate (inverse of a multiple) that reflects the level of earnings to be used. For an earnings base, weighted seller discretionary earnings (SDE) has been relied upon. Discretionary earnings is defined as "the earnings from operations calculated on an accrual accounting basis for the business operated as if it were a sole proprietorship on leased real property and after payment of all necessary or excessive perquisites of the owner/manager, interest expense and income taxes."

For the capitalization rate, a modified build-up approach was used, which weights certain characteristics of the Company and provides a risk factor. This risk factor is then calculated into a capitalization rate. This modified build-up rate is based on a proprietary "Risk-Reward Rate" or "R3". R3 was developed with the help of over 100 credit analysts, SBA underwriters and appraisers. R3 is based upon approximately 25 financial and operational variables, which are calculated into a risk rating. This risk rating then is calculated into a capitalization rate for seller discretionary earnings (the earnings base that 95% of small businesses are acquired by). The capitalization rate is accurate when comparing the subject Company to its peer group and gives an accurate value based upon what other investors are paying for similar companies with similar risk. Based on the above analysis, we have calculated a capitalization rate to seller's discretionary earnings to be approximately 33.1%. The final calculation is shown on the following page:



Multiple of Discretionary Earnings (SDE)

Weighted Seller Discretionary Earnings	\$110,548
Multiplier (for discretionary earnings)	<u>3.02</u>
Enterprise Value	<u>\$333,582</u>

As shown above, we have calculated an enterprise value of \$333,582. This calculates to a price to revenue multiple of 0.55, a price to EBITDA multiple of 4.42x and a price to seller discretionary earnings multiple of 3.02x

Discounted Future Cash Flow Method

We often use this method to value the stock of development-stage companies and to value those companies where historic earnings are not necessarily a representation of the cash flow capacity of the company being valued. It is also the most common method used for valuations in mergers and acquisitions.

The income approach addresses the earnings and dividend paying capacity as stipulated in IRS Revenue Ruling 59-60. This approach considers:

- An investor's anticipated economic benefits;
- The risks associated with the investment including the uncertainty of achieving these future economic benefits;
- The timing of the anticipated benefits;
- The expected growth in future economic benefits.

The income approach involves converting a typical investor's anticipated future economic benefits to a present indication of value. This approach includes several generally accepted methods, which are typically categorized as either capitalization methods or discounting methods. Capitalization methods involve a single benefit level representing an estimate of the investment's ability to generate sustainable future benefits, which is divided by a single conversion factor known as a capitalization rate. Discounting method involve the estimation of expected future know as a capitalization rate. Discounting methods involve the estimation of expected future benefits for multiple time periods, which are converted to an indication of value using discount rate and present value techniques.



The appraisers used the discounted cash flow method, which considers the Company's ability to generate cash flow and distribute dividends. The discounted cash flow method known as the "debt free", or "invested capital" method was employed.

Cash Flow Projections

The Company's ability to generate future economic benefits for investors (i.e. cash flow) is based on the use of tangible and intangible assets. To develop a financial projection of future cash flows, the appraisers used the previous analysis of the economy, industry, business and historical financial trends of the Company. In addition, the appraisers interviewed management advisors, who also reviewed the financial projections for reasonableness. The discounted cash flow ("invested capital") method involves developing the cash flows available to debt and equity investors as described below:

Earnings before interest & tax

×	<u>(1 – tax rate)</u>
=	Earnings available to debt & equity investors
+	Depreciation & amortization (non-cash expenses)
-	Capital expenditures
-	Increases in working capital requirements (excl. interest bearing debt)
=	Net cash flow available to investors (both debt and equity holders)

Net cash flow available to debt and equity investors was estimated on an annual basis in the short-term. The duration of the annual financial projections was based on the length of time necessary to reach stable revenue, volume growth, expense structure and capacity utilization. In the long-term, net cash flows are then estimated to increase at a stable, average annual growth rate, indefinitely. The financial projections used in the discounted cash flow method reflect a cash flow maximization strategy by a typical willing buyer. The projected income statement (financial statement section) shows the projected debt free net income and free cash flow as forecasted by management.

The Discount Rate

The discount rate is a function of current interest rates, inflation and risk. These are all factors that can, and often do, change in a non-linear manner. The components of the discount rate and capitalization rate are as follows:

1. Risk free rate of return – we used the 20-year long-term Treasury bond yield as of the valuation date of 4.80%.
2. Common stock equity risk premium – in the Ibbotson Associates' Stocks, Bonds, Bills and Inflation Yearbook, it is shown that, between 1926 and 2003, the average total returns earned on large corporate stocks has been approximately



7.20% higher than the average total annual returns for long-term U.S. Government bonds.

3. Small Stock Risk Premium – the same Ibbotson Associates' study indicates that the smallest stocks traded on the New York Stock Exchange (defined as the lower 10th decile) earned an additional 6.34% premium over the larger stocks traded on the exchange.
4. Specific Company Risk Premium – based on the Company’s historical financial performance, marketability and risk associated with its industry, we have estimated a specific company risk premium of 5.00%. This is the amount of added risk vs. a public company.

The CAPM was designed to compute a “required rate of return” or discount rate. This discount rate is the expected equity rate of return. We must also determine the weighted average cost of capital (“WACC”) or equity and debt, since we are applying the debt-free approach.

The following exhibit shows the components that make up the discount rate and capitalization rate for Main Street Liquors as of the valuation date.

Weight of Debt		20.00%	
Cost of Debt			
Long Term Interest Rate		7.50%	
Tax Rate	34.00%		
One Minus Tax Rate		<u>66.00%</u>	
Total Cost of Debt			<u>4.95%</u>
Weighted Cost of Debt			0.99%
Weight of Equity		80.00%	
Cost of Equity			
Risk-free Rate of Return (20-year treasury)		4.80%	
Common Stock Equity Risk Premium		7.20%	
Small Stock Risk Premium (10th decile)		6.34%	
Total Company Specific Premium		<u>5.00%</u>	
Total Cost of Equity			<u>23.34%</u>
Total Cost of Equity			23.34%
Weighted Cost of Equity			<u>18.67%</u>
Weighted Average Cost of Capital			<u>19.66%</u>
Less: Sustainable Growth Rate			<u>-3.79%</u>
Capitalization Rate			<u>15.88%</u>

SBBI-Ibbotson Associates, Inc., Chicago. Data Year = 2003



Present Value of Future Cash Flows

As shown on the following page, we started with the projected free cash flow and applied a mid-year conversion. This makes the estimate that the cash flows are realized throughout the year projected rather than at the end of the year. We then multiplied the present value factor (using the appropriate discount rate) by the forecasted cash flow to arrive at the present value of future cash flows. The sum of the present value of future cash flows was \$175,526.

Terminal Value

Theoretically, we must project the cash flow of the Company forever in order to arrive at a properly computed value for the Company based on the discounted future cash flow method. Since this would not be a useful exercise, it is normally acceptable to project cash flow or income for a lesser period and estimate the present value of the cash flow or income for the final year of the projection and beyond by capitalizing the final year's cash flow. The terminal value of the Company was calculated at \$169,191.

The discounted future cash flow model is shown on the following page:

Main Street Liquors Discounted Future Cash Flow
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December:	Projected	Projected			
	2005	2006	2007	2008	2009
Free Cash Flow	50,029	51,923	53,889	55,929	58,047
Time Period	0.50	1.50	2.50	3.50	4.50
PV Factor	<u>0.9142</u>	<u>0.7640</u>	<u>0.6384</u>	<u>0.5335</u>	<u>0.4459</u>
Present Value (pv)	45,735	39,667	34,404	29,840	25,881

Terminal Value

Year 5F Cash Flow	58,047
(1 + sustainable growth rate)	<u>103.79%</u>
Year 6F Cash Flow = Cash Flow Year 5 x (1+g)	60,245
Weighted Average Cost of Capital	19.66%
Less: Long-Term Growth Rate	<u>-3.79%</u>
Equals: Capitalization Rate For Terminal Value	15.88%
Value of Perpetuity (Terminal Value) in Year 5F	379,473
Time Period	4.50
Present Value Factor	<u>0.4459</u>
Present Value of Perpetuity	<u>169,191</u>

Final Calculation

Sum of pv of Cash Flows	175,526
Plus: pv of Terminal Value	<u>169,191</u>
Enterprise Value	<u><u>\$344,717</u></u>

As shown above, we have calculated an enterprise value of \$344,717. This calculates to a price to revenue multiple of 0.57x, a price to EBITDA multiple of 4.56x and a price to Seller Discretionary Cash Flow multiple of 3.12x.

Excess Earnings Method

The concept of the Excess Earnings Method is to develop a market value for a business wherein the values attributable to the tangible assets and the intangible assets are separately identified. First, a business should provide sufficient earnings to support the investment in the tangible assets necessary to operate the business. Any earnings in



excess of the amount needed to support the tangible assets must then be attributable to the intangible assets.

Intangible assets will include such items as patents, customer lists, non-compete agreement, and goodwill. Intangible assets may exist; however, if they do not generate earnings, they have little or no value to an investor. For a business should be on going and posses items such as name identity, reputation, existing customers, trained work force, and adequate facilities. Secondly, these components should produce earnings in excess of that needed for the tangible assets.

Forecasting Earnings

The level of earnings that we are utilizing for the Excess Earnings Method is discretionary earnings. This level of earnings can be used to arrive at indication of value, so long as the selected level of earnings is correctly matched with the correct Capitalization Rates. The level of earnings were developed by starting with the reported historical Pretax earnings for selected representative periods and then normalized for items such as: non-operating sources if income and expenses; abnormal nonrecurring sources of income and expenses; and owner perquisites. Furthermore, the result of these adjustments is a single period of earnings representative of the near term future for the subject Company.

Selecting the Capitalization Rate

Capitalization rates are used to convert earnings into value. The Excess Earnings Method uses two capitalization rates. One rate reflects the required rate of return on the tangible assets and the other reflects the required rate of return on the intangible assets.

For the capitalization rate, we used the risk factors from the Multiple of Discretionary Cash Flow Method. We first took the multiple and divided by 1 to arrive at a percentage. We then added an excess earnings premium because intangible assets are more risky then tangible assets. We used this “excess earnings capitalization rate” to capitalize the excess earnings.

The steps in calculating the Excess Earnings Method were as follows:

1. Prepare a statement of earnings.
2. Determine the value of tangible assets
3. Select a reasonable rate of return on the assets whose value was estimated in step two.



4. Determine the excess earnings by deducting the required rate of return on each of the tangible assets in step two and three from the calculated net earnings in step one. The remainder is considered excess to be attributable to the goodwill or other intangible assets.
5. Determine the rate of return for investment in the ownership of a closely held business. This rate will usually be comprised of the following four components:
6. Capitalize the excess earnings by a selected rate of return usually expressed as a percentage or multiple factor.
7. Determine the investment value by adding the value of the assets in step two to the value of the excess earnings.

The Excess Earnings Method is shown below:

Weighted Seller's Discretionary Earnings		110,548
Adjusted Book Value (FF&E + Inventory)	150,000	
Reasonable Rate of Return on Assets	<u>25%</u>	
Return on Assets		<u>37,500</u>
Excess Earnings		<u>73,048</u>
SDE Capitalization Rate		33%
Add: Excess Earnings Premium		<u>5%</u>
Capitalization Rate for Excess Earnings		<u>38%</u>
Intangible Value		191,527
Add: Tangible Value (Adjusted Book Value)		<u>150,000</u>
Enterprise Value		<u><u>\$341,527</u></u>

As shown above, we have calculated an enterprise value of \$341,527. This calculates to a price to revenue multiple of 0.56x, a price to EBITDA multiple of 4.52x and a price to Seller Discretionary Earnings multiple of 3.09x.



REACHING A CONCLUSION OF VALUE

The conclusion of value reached by the appraiser shall be based upon the applicable standard of value, the purpose and intended use of the valuation, and all relevant information obtained as of the appraisal date in carrying out the scope of the assignment.

The conclusion of value reached by the appraiser will be based on value indications resulting from one or more methods performed under one or more appraisal approaches.

Selection and Weighting Methods

The selection of and reliance on the appropriate methods and procedures depends on the judgment of the appraiser and not on the basis of any prescribed formula. One or more approaches may not be relevant to the particular situation. More than one method under an approach may be relevant to a particular situation.

The appraiser must use informed judgment when determining the relative weight to be accorded to indications of value reached on the basis of various methods or whether an indication of value from a single method should dominate. The appraiser's judgment may be presented either in general terms or in terms of mathematical weighting of the indicated values reflected in the conclusion. In any case, the appraiser should provide the rationale for the selection or weighting of the method or methods relied on in reaching the conclusion.

In formulating a judgment about the relative weights to be accorded to indications of value determined under each method or whether an indication of value from a single method should dominate, the appraiser should consider factors such as:

1. The applicable standard of value
2. The purpose and intended use of the valuation
3. Whether the subject is an operating company, a real estate or investment holding company, or a company with substantial non-operating or excess assets
4. Quality and reliability of data underlying the indication of value
5. Such other factors which, in the opinion of the appraiser, are appropriate for consideration

The final weighting is calculated below:

Main Street Liquors Summary of Valuation Methods

	<u>Value</u>	<u>Weight</u>	<u>Extension</u>
Cost Approach to Value			
Tangible Asset Value (inventory & equipment)	\$150,000	0%	0
Market Approach to Value			
SBA - Price to SDE	\$384,705	10%	38,471
SBA - Goodwill to SDE	\$394,310	10%	39,431
Comparable Transaction Method	\$246,846	10%	24,685
Industry Method	\$328,079	20%	65,616
Income Approach to Value			
Multiple of Discretionary Cash Flow	\$333,582	20%	66,716
Discounted Future Cash Flow	\$344,717	20%	68,943
Excess Earnings Method	\$341,527	10%	34,153
Enterprise Value			
Enterprise Value		100%	<u>\$338,014</u>
Estimated Stock Value			
Enterprise Value of the Business			\$338,014
Add/(Deduct): Net Working Capital Included in Sale			\$0
Deduct: Liabilities Included in Sale			\$0
Estimated Total Value Before Real Estate			<u>\$338,014</u>
Add: Real Estate Included in the Sale			\$0
Estimated Stock Value - All Assets & Liabilities			<u>\$338,014</u>

As shown above, we calculated a low value (asset approach not included) of \$246,846 and a high value of \$394,310. Based on our analysis and experience in the market, we feel the appropriate value for the subject Company is \$338,014, which calculates to be a price to revenue of 0.55x, price to EBITDA of 4.47x and price to SDE of 3.06x. The price multiples are based on weighted averages.

The Enterprise Value of \$338,014 includes the inventory, furniture, fixtures, equipment and goodwill. If net working capital, liabilities and real estate were to be included in the sale, the approximate value would be \$338,014.



PRICE JUSTIFICATION AND REVIEW

In this section, we are reviewing the final price and the fairness of the deal based upon a hypothetical “willing buyer” and “willing seller” transaction. This review does not take into consideration strategic acquisitions or potential “synergies” that may occur in an acquisition. The analysis in this section is based upon normal deal terms that occur in the marketplace for this size and type of business.

Enterprise Value

Highest Value	\$394,310
Lowest Value (not including asset approach)	\$246,846
Selected Value	\$338,014
Goodwill (based on enterprise value)	\$188,014

Enterprise Value Multiples

Enterprise Value to Last Full Year Revenue	0.56
Enterprise Value to Weighted Revenue	0.55
Enterprise Value to Last Full Year EBITDA	4.84
Enterprise Value to Weighted EBITDA	4.47
Enterprise Value to Last Full Year Seller Discretionary Earnings	3.22
Enterprise Value to Weighted Seller Discretionary Earnings	3.06

Enterprise Goodwill Multiples

Goodwill to SDE (last full year)	1.79
Goodwill to SDE (weighted)	1.70

* goodwill multiples do not include R/E, liabilities and working capital)

The multiples listed above are based on the enterprise value, which is the total purchase price not including debt, excess working capital or non-operating assets/liabilities. In most acquisitions, the acquirer is most likely to purchase the assets of the business and not the debt or excess assets. For review purposes, we calculated the enterprise value at \$338,014. Price to last year’s EBITDA was 4.84x. Price to weighted EBITDA was 4.47x. Price to last year’s SDE was 3.22x and price to weighted average SDE was 3.06x. The range of multiples are consistent with the industry and privately held acquisition multiples.



HYPOTHETICAL TRANSACTION

Main Street Liquors Post Sale Cash Flow
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December:	Projected	Projected			
	2005	2006	2007	2008	2009
EBIT	73,069	75,835	78,707	81,687	84,779
3rd Party Note Interest	-19,641	-17,951	-16,270	-14,599	-12,938
Seller Note Interest	NA	NA	NA	NA	NA
Projected Post Sale EBT	53,428	57,885	62,437	67,088	71,842
Income Taxes @ 34%	-18,166	-19,681	-21,228	-22,810	-24,426
Projected Net Income	35,263	38,204	41,208	44,278	47,416
Depreciation/Amortization	8,141	8,449	8,769	9,101	9,446
3rd Party Principle Pmt.	-18,877	-20,567	-22,248	-23,919	-25,580
Seller Note Principle Pmt.	NA	NA	NA	NA	NA
Hypothetical Post Sale CF	<u>24,526</u>	<u>26,086</u>	<u>27,729</u>	<u>29,460</u>	<u>31,281</u>
Return on Down Payment	36%	39%	41%	44%	46%
Return on Total Deal	7%	8%	8%	9%	9%
EBITDA Debt Coverage	2.11				
Ave. 3-Year Debt Cov.	1.64				

Source of Purchase Funds	Percentage	Amount	Terms In Months	Interest	Monthly Payment
Required Cash From Buyer	20%	67,603			
3rd Party Financing	80%	270,412	120	7.5%	3,210
Seller Take Back Note	0%	0	0	0.0%	NA
Total	<u>100%</u>	<u>338,014</u>			<u>3,210</u>

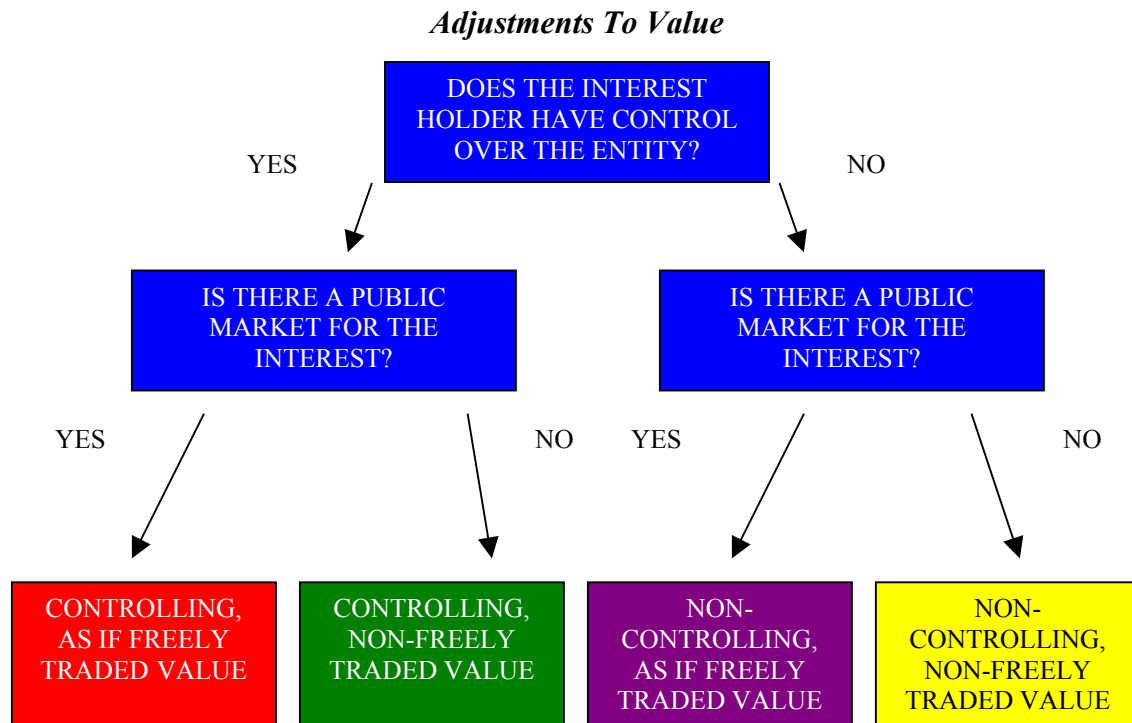
As shown above, based on the above hypothetical transaction, there is enough simple cash flow to cover the debt service and still generate a fair rate of return on the down payment and total purchase price.

* Please note, the above calculations do not include the assumption of real estate. The calculations are based on the acquisition of the business only, assuming the business is paying fair market rent for the operating facilities. There may or may not be enough cash flow to cover the business and real estate debt service if real estate was included in this transaction. As noted, this calculation has not been provided.



PREMIUMS AND DISCOUNTS

When valuing closely held business interests, there are sometimes adjustments to the values as derived from the various approaches discussed in the earlier section. Typically, this is to account for whether the interest being valued is controlling or non-controlling, and whether or not the interest is freely traded on a public market. Below, we graphically show what type of value we must deal with, depending upon the control and marketability issues. These adjustments are discussed in the next section of this report.



The subject interest's stock position in the illustration above is the GREEN BOX. It is a controlling, non-freely traded interest. We have made various adjustments for owner's compensation/benefits and marketability for the income and market approach. We are assuming that the discount rate, which is based on Ibbotson & Associates data is representative of the total returns that an investor would expect from an alternative, diversified publicly traded company investment as an equal substitute investment in a closely-held business. The values above are controlling values, since adjustments of this nature are made with the assumption that a controlling shareholder has the power to sell and/or liquidate the assets. Since the values are controlling values, a control premium is not needed. Since we are valuing a controlling interest, a minority interest discount and a marketability discount will not be used.

APPRAISER'S CERTIFICATION

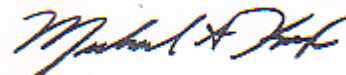
WE HEREBY CERTIFY TO THE BEST OF OUR KNOWLEDGE AND BELIEF:

1. The statements of fact contained in this report are true and correct.
2. The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, unbiased professional analysis, opinions, and conclusions.
3. We have no present or prospective interest in the subject business of this report, and we have no personal interest or bias with respect to the parties involved.
4. We have no bias with respect to the business being valued or to the parties involved with the assignment.
5. Our engagement in 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.
6. Our compensation is not contingent on an action or event resulting from the analysis, opinions, or conclusions in, or the use of, this report.
7. We have not personally inspected the assets, properties or business interests encompassed by this appraisal.
8. Our analysis, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice, as promulgated by The Appraisal Foundation.
9. No one provided significant professional assistance to the person signing the report other than the individuals who have signed the report.

Respectfully Submitted,



Steve A. Mize, ASA
Accredited Senior Appraiser



Michael Knox, CPA, CVA
Certified Valuation Analyst

FIRM PROFILE

Overview

Gulf Coast Financial is a full service valuation firm providing Intermediaries, Banks, Attorneys and their respective clients with business valuation services. The firm and its appraisers belong to the most respected appraisal associations in the country and hold the highest industry designations, making them experts in their field.

Experience

The staff of Gulf Coast Financial undertakes hundreds of assignments each year and testifies on a regular basis. Our senior valuation analysts have experience in valuing businesses in a variety of different industries including manufacturing, distribution, retail, healthcare, banking and finance, engineering and high technology. This diverse background allows us to knowledgeably undertake valuation and litigation assignments for virtually every possible business and purpose.

Appraisers and Advisors

Steve A. Mize, ASA

Managing Partner; Gulf Coast Financial Corporation. Mr. Mize holds the prestigious ESBM degree in Finance and he is an Accredited Senior Appraiser of the American Society of Appraisers in Business Valuation.. His background is in providing fairness opinions and valuations for closely held companies and their securities. He specializes in valuing growth-oriented candidates who are focusing on long-term growth, mergers, or acquisitions. His strength is in corporate/entrepreneurial finance with several years' experience in Mergers & Acquisitions, feasibility analysis, and strategic planning. Mr. Mize is experienced in litigation support and responsible for all projects requiring expert witness testimony.

Michael Knox, CPA, CVA

Michael Knox is a Certified Public Accountant in the State of Florida and has worked in public and private accounting for more than twelve years. He is a member in good standing with the American Institute of Certified Public Accountants, the Florida Institute of Certified Public Accountants. While in public accounting he performed various accounting services; SEC filings, tax preparation, tax planning, business consulting, and auditing, for individuals, corporations, estates, trusts, not for profit organizations and home owners associations. He has served as the Chief Financial Officer for Family



Finance, Inc., as the Controller for One Up Golf and Sportswear, Inc. and as a branch Controller for The Freightliner Corporation.

Darren Mize

Chief Operating Officer; Gulf Coast Financial Corporation. Mr. Mize holds a BA degree in Performance Management and has a background that includes over ten years of national marketing and sales experience. Previously, Darren held a Senior Management role with Fringe Benefits Management Company, one of the Nation's most well respected TPA/Benefit Managers in the public sector. His strength is in the development of corporate alliances and national distribution networks. Darren has extensive experience in developing strategies for small to mid-market merger and acquisition candidates and leads the division responsible for marketing a national valuation program, which provides affordable valuation services to small businesses.

Austin Webb

Valuation Analyst; Gulf Coast Financial. Mr. Webb is a Princeton Alum and currently heads up GCF's ESOP valuation division. Before working with Gulf Coast Financial, Mr. Webb worked for iStar Financial (a \$2.4 billion capital providing firm) specializing in the structure/pricing of deals (investment grade, mezzanine, equity) ranging in size from \$20 million to \$100 million. Mr. Webb worked with Bear Stearns before iStar Financial.

David Micelli

Valuation Analyst; Gulf Coast Financial. Mr. Micelli is a candidate member of the American Society of Appraisers and holds a BS degree in Finance and an AA degree in Computer Programming. His background includes over eighteen years as Secretary/Treasurer of a privately held business.

Gary G. Campbell

Vice President; Gulf Coast Financial. Gary G. Campbell joined Gulf Coast Financial in 2003. Mr. Campbell's background in financial analysis is based on 25 years of commercial lending experience in the banking industry. Having worked for Compass Bank in Birmingham, AL where he established a solid base of SBA loans, Mr. Campbell moved to New Orleans, LA and was in charge of that bank's national and regional accounts. Customers included such nationally known companies as Sears, AT&T, and ADM. Mr. Campbell also worked with numerous oil and oil field support companies in the region.

Upon leaving the Bank of New Orleans, Mr. Campbell then spent almost 20 years working in community banks as a commercial lender and President and CEO. His



experience with closely held companies, partnerships, and sole proprietorships as well as experience with managing the bank and working with other bank presidents in the industry rounded out his financial analysis with all types of businesses and financial institutions.

Bringing years of financial analysis, risk analysis, and personal experience in working with small business owners to the valuation industry, Mr. Campbell is concentrating on working with Trust Officers, Attorneys, Certified Financial Planners, and Accountants in areas of estate planning, estate distribution, and litigation support.

Lori Mitchell

Valuation Analyst; Gulf Coast Financial. President, Financial Media, Inc. Lori is a Florida State University graduate with a degree in Entrepreneurship and Small Business Management. Lori is a valuation analyst, specializing in leveraged buy-outs and mergers & acquisitions. Lori also heads up the Financial Media division of Gulf Coast Financial, which produces Selling Memorandums, Business Plans and Confidential Business Reviews.