BUSINESS VALUATION SPECIALISTS

GULF COAST FINANCIAL

Valuation of a 100% Interest in:

XYZ Manufacturing, Inc.

Financial Stmts. Through December 31, 2004

Prepared By:

Gulf Coast Financial Corporation

Business Valuation Specialists

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BUSINESS VALUATION SPECIALISTS
GULF COAST FINANCIAL

Report Date – January 1, 2005

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

Re: Appraisal of XYZ Manufacturing, Inc.

Dear Mr. Broker:

We have been engaged to estimate the fair market value of the tangible and intangible assets of XYZ Manufacturing, Inc. 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, 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 XYZ Manufacturing, Inc. 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:

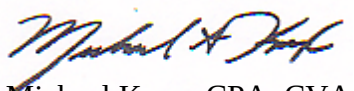
XYZ Manufacturing
Summary of Valuation Methods

	Value	Weight	Extension
Cost Approach to Value			
Tangible Asset Value (inventory & equipment)	$785,000	0%	0
Market Approach to Value			
SBA - Price to SDE	$1,958,528	20%	391,706
SBA - Goodwill to SDE	$2,180,451	10%	218,045
Comparable Transaction Method	$2,320,900	20%	464,180
Industry Method	$2,017,415	10%	201,742
Income Approach to Value			
Multiple of Discretionary Cash Flow	$1,992,709	20%	398,542
Discounted Future Cash Flow	$2,127,776	10%	212,778
Excess Earnings Method	$1,949,222	10%	194,922
Enterprise Value			
Enterprise Value		100%	$2,081,914
Estimated Stock Value			
Enterprise Value of the Business			$2,081,914
Add/(Deduct): Net Working Capital Included in Sale			$300,000
Deduct: Liabilities Included in Sale			-$500,000
Estimated Total Value Before Real Estate			$1,881,914
Add: Real Estate Included in the Sale			$1,185,000
Estimated Stock Value - All Assets & Liabilities			$3,066,914

Based on the information contained in the report that follows, it is our estimate that the enterprise value of XYZ Manufacturing, Inc. as of December 31, 2004 can be reasonably stated as $2,081,914. If net working capital, liabilities and real estate were to be included in the sale, the approximate value would be $3,066,914 (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 XYZ Manufacturing, Inc. ("XYZ Manufacturing" 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 XYZ Manufacturing 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 XYZ Manufacturing 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	$285,000
Fixed Assets	$500,000
Cash	$0
Accounts Receivable	$300,000
Other Current Assets	$0
Other Assets	$0
Real Estate	$1,185,000
Assumption of Liabilities	$500,000
Total Assets/Liabilities Included in Sale	$1,770,000
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.

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:	XYZ Manufacturing
Address:	1001 W. Tampa Street, Tampa, FL 33606
NAICS Code:	333999
Type of Business:	Industrial Manufacturing
Type of Statements Used:	Tax Returns
Type of Entity:	C Corporation
State Of Incorporation:	Florida

Financial Information

Last Full Year Revenue:	$3,799,852
Last Full Year EBITDA (adjusted):	$451,546
Adjusted Book Value (valuation date):	$785,000 (furniture, fixtures, equip. & inv.)

Description of the Business

ABZ Manufacturing, Inc. was originally founded in 1993 as a manufacturer of industrial components and machine manufacturing. The Company manufactures various metal components for other manufacturers, machine shops and OEMs. The Company has successfully grown each year since inception. The business currently employs 30 full time employees including 5 managers, 7 administrative, 2 vice presidents and 15 laborers and the President (current owner).

Market Data and Analysis

The Company's primary market is a machine part manufacturer. The geographical market is within the Continental US, however, 50% of the Company's customer base is located in Florida. The machine manufacturing industry is estimated to be over $250 billion. No one customer represents more than 5% of total sales.

Strengths

- Consistent growth throughout 10+ year history
- No customer represents more than 5% of total sales
- Revenue per employee is over $100,000
- Clean financial statements with consistent earnings history
- Below average employee turnover due to above average wage and benefits

Weaknesses / Risk Considerations

- Some reliance upon the current owner (will need to be retained after sale)
- Some dependence on local suppliers
- A consistent need for upgrading equipment / technology
- Some competition entering into the market

ECONOMIC SUMMARY

An extremely important section of a well-prepared business valuation report is a thorough and relevant economic section. First, Revenue Ruling 59-60 requires consideration of "the economic outlook in general and the condition and outlook of the specific industry in particular." Secondly, an understanding of the economic outlook is fundamental to developing reasonable expectations about the subject company's future prospects.

In any business valuation, the general economic outlook as of the appraisal date should be considered, since the national economic outlook is often the basis of how investors perceive alternative investment opportunities at any given time.

This summary provides an overview of some selected economic factors that prevailed in the 3rd quarter of 2004, as well as a discussion of the factors that are crucial over an extended period of time. Topics addressed include general economic conditions, consumer prices and inflation rates, interest rates, unemployment, consumer spending, the stock and bond markets, construction, manufacturing, and future economic outlook.

General Economic Conditions

Compared to the slow pace of the second quarter, the U.S. economy, which was helped by strong consumer spending, picked up during the third quarter of 2004. Although the economy grew at a stronger rate than in the previous quarter, the gross domestic product (GDP), which is the broadest measure of the economy's health, posted a less-than-expected third quarter figure. Although the economy was less than robust, inflationary pressures slowed sharply during the July-September quarter.

Gross Domestic Product

The U.S. Department of Commerce reported that the nation's economy increased at an annual rate of 3.7 percent in the third quarter of 2004, as indicated by the GDP, and is up from the 3.3 percent rate that was posted in the second quarter. In 2003, the economy grew by 3.0 percent, compared to an increase of 1.9 percent in 2002 and 0.8 percent in 2001. The 2003 growth rate was the fastest rate since a 3.7 percent increase in 2000. The acceleration in third quarter GDP growth reflected an increase in consumer spending, which was partly offset by the decrease in private business inventories and a slowdown in exports.

Consumer Spending

Consumer spending, which accounts for two-thirds of all economic activity in the United States, rose to a rate of 4.6 percent during the third quarter of 2004. This compares with

a 1.6 percent increase in the second quarter and a 4.1 percent increase in the first quarter of this year. The second quarter figure was the slowest growth rate since a 1.0 percent increase in the second quarter of 2001. In 2003, consumer spending rose by 3.3 percent, compared with a 3.1 percent increase in 2002 and a 2.5 percent increase in 2001. Consumer expenditures increased the third-quarter GDP by 3.23 percentage points. This compares with a GDP increase of 1.10 percentage points in the previous quarter and a 2.90 percentage point increase in the first quarter.

Government Spending

During the third quarter of 2004, government spending increased at a rate of 1.4 percent, compared with an increase of 2.2 percent during the second quarter. In 2003, government spending increased by 2.8 percent, following a 4.4 percent increase in 2002 and a 3.4 percent increase in 2001. During the third quarter, federal government spending increased by 4.6 percent, compared with a 2.7 percent increase in the previous quarter. National defense spending rose 9.3 percent during the third quarter, following a small increase of 1.9 percent in the second quarter and a 10.6 percent increase in the first quarter of this year. State and local government spending, still hampered by budget woes, decreased spending by 0.5 percent in the third quarter of 2004, after increasing by 1.9 percent in the previous quarter.

Business Investments

Business investments, which have lagged since the 2001 recession, continued to show signs of significant improvement during the third quarter of 2004. Business spending, or nonresidential fixed investment, increased at a rate of 11.7 percent during the third quarter after rising by 12.5 percent in the previous quarter. In 2003, business spending increased by 3.3 percent, compared to a decrease of 8.9 percent in 2002 and a 4.2 percent decrease in 2001. Business expenditures on equipment and software continued to increase during the third quarter at a 14.9 percent growth rate, which follows a 14.2 percent increase in the previous quarter. Business spending on structures increased slightly by 1.4 percent in the third quarter of 2004, compared to a 6.9 percent increase in the second quarter and a 7.6 percent decrease in the first quarter of this year.

Business Inventories

After increasing their inventories for the past four quarters, private businesses reversed the trend and decreased their inventories during the third quarter of 2004. The decrease in private business inventories dropped the third-quarter GDP by 0.48 percentage points after increasing the previous quarter's GDP by 0.78 percentage points. Businesses built up their inventories of unsold goods at a rate of $48.1 billion in the third quarter of 2004, following increases of $61.1 billion in the previous quarter and $40.0 billion in the first quarter. During the recession, businesses cut production sharply and discounted

merchandise to get rid of stockpiles of unsold goods, which was a key source of weakness for the economy.

Trade Deficit

While exports rose during the third quarter of 2004, the level of imports continued to hamper economic growth. Exports grew by 5.1 percent in the third quarter, following an increase of 7.3 percent in the previous two quarters. In 2003, exports increased by 1.9 percent, compared with a 2.3 percent decrease in 2002 and a 5.4 percent decrease in 2001. The U.S. dollar's weakness in recent years has helped boost exports, making U.S. goods cheaper overseas. Foreign imports increased by 7.7 percent during the third quarter of 2004 after an increase of 12.6 percent in the previous quarter. In 2003, imports increased by 4.4 percent, compared with a 3.4 percent increase in 2002 and a decrease of 2.7 percent in 2001. During the third quarter, the trade deficit increased from last quarter's annualized rate of $591.3 billion in real terms to $627.8 billion. The trade deficit decreased the third-quarter GDP by 0.62 percentage points after decreasing the previous quarter's GDP by 1.06 percentage points.

Consumer Prices and Inflation Rates

Inflationary pressures, which began to rise during the first half of this year, slowed sharply during the third quarter of 2004. According to the U.S. Department of Commerce, the price index for gross domestic purchases, which measures prices paid by U.S. residents, increased by only 1.8 percent in the third quarter. This compares with an increase of 3.5 percent in the second quarter and a 3.4 percent increase in the first quarter. The first quarter jump was the largest increase since the first quarter of 2001. Excluding food and energy prices, the price index for gross domestic purchases increased by 1.5 percent in the third quarter, compared with a 2.5 percent increase in the previous quarter.

The U.S. Department of Labor reported that the Producer Price Index for Finished Goods, which measures inflationary pressures before they reach consumers, rose by 0.1 percent in September 2004, following a 0.1 percent decline in August and a 0.1 percent increase in July. In 2003, the price for finished goods increased by 4.0 percent, compared with a 1.2 percent increase in 2002 and a 1.6 percent decrease in 2001. The costs of intermediate goods increased slightly in September by 0.1 percent after increasing by 1.0 percent in August and by 0.8 percent in July. The cost for intermediate goods rose by 3.9 percent in 2003, following a 3.2 percent increase in 2002 and a 4.0 percent decrease in 2001. Prices for crude oil declined in September by 4.2 percent, following decreases of 0.7 percent in August and 0.2 percent in July. Crude oil prices rose by 19.5 percent in 2003, compared to a 24.7 percent increase in 2002 and a 32.5 percent decrease in 2001. Prices for finished goods other than food and energy increased by 0.3 percent in September, compared to a 0.1 percent decline in August and a 0.1 percent increase in July. Energy goods prices declined 0.9 percent in September, following a 0.2 percent

increase in the previous month. Finished consumer food prices increased by 0.1 percent in September, compared with a 0.2 percent decline in August.

The Department of Labor reported that the Consumer Price Index for All Urban Consumers (CPI-U) increased by 0.2 percent in September 2004, which was 2.5 percent higher than its level one year earlier. The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) also increased by 0.2 percent in September and was 2.4 percent higher than one year ago.

Interest Rates

As expected by the markets and economists, The Federal Reserve Board (FRB) continued to raise its target for the federal funds rate by a quarter of a percent at each of its two meetings in the third quarter of 2004. The FRB started to raise the federal funds rate to 1.25 percent in the second quarter of 2004. Previously, the target rate had been stable at 1.0 percent since the June 25, 2003 meeting of the Federal Open Market Committee (FOMC). The federal funds rate is the interest rate at which a commercial bank lends immediately available funds in balances at the Federal Reserve to another commercial bank.

The FOMC met twice during the first quarter — August 10 and September 21 — and at both meetings decided to raise the federal funds rate by a quarter percent to 1.50 percent and 1.75 percent, respectively. At its August meeting, the FOMC noted the recent slowdown in output and employment growth and attributed it to the sizeable rise in energy prices. The FOMC press release, dated September 21, stated: “After moderating earlier this year partly in response to the substantial rise in energy prices, output growth appears to have regained some traction, and labor market conditions have improved modestly. Despite the rise in energy prices, inflation and inflation expectations have eased in recent months.”

The increases in the federal funds rate are expected to have an impact over other interest rates such as credit card rates, adjustable-rate mortgage rates and home equity lines of credit as well as money-market account and certificate of deposit rates.

Also during the third quarter, the Board of Governors of the Federal Reserve System voted twice to raise the discount rate by a quarter percent to 2.5 percent and then to 2.75 percent. The board increased this rate in the second quarter after having been stable at 2 percent since June 2003. The discount rate is the interest rate a commercial bank is charged to borrow funds, typically for a short period, directly from a Federal Reserve Bank. The board of directors of each Reserve Bank establishes the discount rate every 14 days, subject to the approval of the Board of Governors.

Unemployment

The unemployment rate was at 5.5 percent in the third quarter of 2004, down from 5.6 percent in the previous quarter. The number of unemployed persons was 8.074 million in the third quarter, compared with 8.205 million in the second quarter. During the third quarter, manufacturing and construction continued to add jobs, but at a slower pace, while employment continued to increase in the professional and technical service sector.

After losing 516,000 jobs in 2003, manufacturing has added 88,000 in the period of February through August of this year, with most of those gains registered from March through May. During the third quarter of 2004, manufacturing employment only increased by 10,000 jobs. Construction employment, which has seen little growth since May, added 28,000 jobs in the third quarter. The retail trade industry lost 15,000 jobs in the third quarter, while the leisure and hospitality industry gained 30,000 over the same time period. Employment in professional and technical services continued to increase during the third quarter; the industry has added 205,000 jobs since August 2003. Employment in the education and health services sector increased by 57,000 during the third quarter of 2004.

Average hourly earnings increased to $15.75 in the third quarter of 2004 from $15.63 in the previous quarter. Average weekly earnings also increased to $532.24 in the third quarter from $526.62 in the second quarter of 2004.

Consumer Spending and Confidence

Consumer spending, which accounts for two-thirds of overall economic growth, increased at a rate of 4.6 percent during the third quarter of 2004, up from a 1.6 percent increase in the second quarter and a 4.1 percent gain in the first quarter. The second quarter consumer spending rate was the slowest growth rate since a 1.0 percent increase in the second quarter of 2001. The third-quarter increase in consumer spending was "helped by strong auto sales that were boosted by incentives, as well as sales of gasoline during the summer driving season," according to *CNNMoney*.

Consumer spending on durable goods, items meant to last three or more years, jumped by 16.8 percent in the third quarter of 2004, compared with a 0.3 percent decrease in the previous quarter and a 2.2 percent increase in the first quarter. Spending on nondurable goods, such as clothing and food, increased by 3.9 percent in the third quarter, up from a 0.1 percent increase in the second quarter. Expenditures on services increased by 2.7 percent in the third quarter, the same increase as the previous quarter.

According to the U.S. Department of Commerce, retail and food service sales rose 1.4 percent in the third quarter of 2004, the same increase as the second quarter. During the third quarter, automobile sales increased by 2.1 percent, following a 0.2 percent increase in the second quarter of 2004.

During the third quarter of 2004, consumer confidence fell. The Conference Board, which surveys 5,000 households, reported that its Index of Consumer Confidence was 96.8 in September. This is down from 98.7 in August and 101.9 at the end of the second quarter, which was the highest mark since a reading of 106.3 in June 2002. Conference Board numbers above 100.0 mean a growing economy. A figure between 80.0 and 100.0 suggests slow growth, whereas a reading below 80.0 indicates a recession.

The University of Michigan's Index of Consumer Sentiment reported a reading of 94.2 in September 2004, which is down from 95.9 in August and 95.2 at the end of the second quarter. The Michigan sentiment survey is based on telephone interviews with roughly 500 Americans across the country on personal finances, business conditions, and buying conditions.

Stock and Bond Markets

After a first quarter of small losses and a second quarter of small gains, the third quarter of 2004 brought single-digit losses for the major market indexes. The indexes finished the third quarter of 2004 not very far from where they were at the end of 2003, some exhibiting small gains since the beginning of the year, like the S&P 500, or small losses, like the Dow Jones Industrial Average (DJIA). Most of the indexes turned in losses ranging from negative 2.2 percent for the Dow Jones Wilshire 5000 to negative 7.4 percent for Nasdaq Composite. An exception to this rule, Amex Composite, gained 1.8 percent. In the third quarter of 2004, the DJIA lost 3.4 percent, the S&P 500 was down 2.3 percent and the Russell 2000 was down 3.1 percent.

The performance was similar across the market with indexes accumulating most of the loss in July, increasing in the second half of August and in early September, only to lose ground again at the end of the quarter. According to *The Wall Street Journal*, this happened because "stocks hit too many headwinds." Among the "headwinds" that contributed to the fall of the market in the third quarter were increasing oil prices, warnings of lower-than-expected quarterly profits, expected increases in the short-term rates, and the availability of higher returns in the bond market. Other factors in the third quarter included elections uncertainty, as well as uncertainty regarding the war in Iraq and the dangers of terrorism, issues surrounding the Olympics, the 9/11 anniversary and disappointing employment reports. Analysts emphasize that the future performance of the market will depend largely on the general state of the economy, on future strong corporate earnings growth, and on reduction in uncertainty of future events such as the elections.

The DJIA, an index of 30 "blue-chip" U.S. stocks, started the quarter at 10,435.48 and finished it at $10,080.27 for a loss of 3.4 percent for the quarter and 3.6 percent for the year. This was the biggest quarterly loss for the DJIA since its 4.2 percent loss in the first quarter of 2003. The DJIA increased 8.7 percent in the last 12 months and 22.2 percent for the 12 months ended September 2003. The 27 percent drop in the stock price of

Merck – a component of DJIA – on September 30, contributed to the loss posted by the index in the third quarter. As of the end of the third quarter, the DJIA has jumped 38.4 percent since its five-year low of 7,286.27 on October 9, 2002, but still is 14 percent off its five-year high of 11,723 on January 14, 2000.

The Nasdaq Composite Index, consisting mainly of high-tech stocks, closed the quarter at 1,896.84, reflecting a quarterly drop of 7.4 percent and a loss of 5.3 percent since the beginning of 2004. This was the index's worst performance in the last two years since the third quarter of 2002 when it fell by 20 percent. The index was up 3.2 percent for the month of September after posting losses in July and August. Nasdaq gained 6.2 percent over the last 12 months after a gain of 52.5 percent for the 12 months ended September 2003. As of the end of the third quarter, the Nasdaq has jumped 70.3 percent since its low of 1,114.11 on October 9, 2002, but is still 62.4 percent off its five-year high of 5,048.62 on March 10, 2000.

The S&P 500, consisting of a representative sample of 500 leading companies of the U.S. economy and commonly viewed as a proxy for the market, started the third quarter at 1,140.84 and finished it at 1,114.58, for a loss of 2.3 percent for the quarter and mere gains of 0.9 percent for the month and 0.2 percent for 2004. This is the index's worst performance and the first losing quarter since the first quarter of 2003 when the index lost 3.6 percent. Over the last 12 months, the index increased by 11.9 percent and performed less favorably than during the 12 months before that when the index gained 22.2 percent. As of the end of the third quarter, the S&P 500 has gained 43.5 percent since its low of 776.8 on October 9, 2002, but is still 27 percent off its five-year high of 1,527.4 on March 23, 2000.

The Dow Jones Wilshire 5000 Index (previously known as Wilshire 5000), which consists of almost all publicly traded companies based in the United States, closed the third quarter at 10,895.5—a loss of 2.2 percent for the quarter and a gain of 0.9 percent for the year. The index was up 12.9 percent in the last 12 months after a gain of 24.1 percent for the 12 months before that. This is the index's worst performance and the first losing quarter since the first quarter of 2003, when the index lost 3.5 percent.

The Russell 2000 Index, which consists of small stock issues, closed the quarter at 572.9, reflecting a decrease of 3.1 percent for the quarter and a gain of 2.9 for the year. This is the index's worst performance and the first losing quarter since the first quarter of 2003 when the index lost 4.5 percent. The index increased 17.5 percent over the last 12 months. This compares with a gain of 34.6 percent over September 2002 – September 2003.

After a rough 2003, a first quarter that brought some relief to bond investors and a second quarter that was one of the worst in the last ten years, bond prices rose again in the third quarter of 2004, pushing yields lower. A decrease in yields signifies a jump in the price of the bonds, which in turn may be explained by increased buying and demand. The 10-

year Treasury note finished the third quarter with a yield of 4.1 percent, down from 4.6 percent at the end of the second quarter and up from 3.8 percent at the end of the first quarter. The yields were down compared to 4.3 percent at the end of 2003. 2003 was the first year since 1999 that the yield on the 10-year Treasury increased for the year, moving from 3.8 percent to 4.3 percent. According to *The Wall Street Journal*, the third quarter was unlike others in recent history: "it has been 33 years since yields have fallen so much when the Fed was beginning to raise short-term rates." According to the same source, the improvement in the bond market was due to a drop in investors' confidence in the rapid improvement of the U.S. economy and the resulting shift of funds from cash and stocks to bonds.

The 20-year bond was at 4.9 percent, down from 5.33 percent at the end of the second quarter and up from 4.77 percent at the end of the first quarter. The five-year Treasury finished the quarter at a yield of 3.4 percent, down from 3.8 percent at the end of the second quarter and up from 2.8 percent at the end of the first quarter. The 30-day T-bill was at 1.5 percent, up from 1.2 percent at the end of the second quarter and 0.96 percent at the end of the first quarter.

Construction

According to the U.S. Department of Commerce, housing starts decreased 6.0 percent to 1.898 million units in September 2004, down from 2.020 million units in August. This is a 1.2 percent decrease from the September 2003 rate of 1.922 million units. Construction of single-family homes decreased to an annual rate of 1.540 million units in September 2004, down 8.2 percent from a rate of 1.678 million units in the previous month.

Building permits, a better leading indicator of demand for new homes, increased by 1.8 percent in September 2004 to an annual rate of 2.005 million units, up from 1.969 million units in the previous month. This is a 3.2 percent increase over the September 2003 rate of 1.943 million units.

Spending on new construction remained steady in the month of September 2004 at an annual rate of $1,013.9 billion, nearly the same as the $1,014.0 billion spent in August. This is an 8.9 percent increase over the September 2003 rate of $930.8 billion. During the first nine months of this year, construction spending amounted to $741.2 billion, which is 9.4 percent above the $677.8 billion that was spent for the first three quarters of 2003. Spending on residential construction decreased by 0.2 percent in September to an annual rate of $551.6 billion, while spending on nonresidential construction increased by 0.2 percent to an annual rate of $225.8 billion over the same month. During September 2004, overall spending on private construction decreased by 0.1 percent to an annual rate of $777.5 billion.

Manufacturing

According to the Federal Reserve, industrial production, which is the total output of factories and mines in the United States, rose by 0.1 percent in September 2004 after declining by 0.1 percent in August. During the third quarter, total industrial production increased at an annual rate of 2.9 percent, compared with an increase of 4.9 percent during the previous quarter. Manufacturing decreased by 0.3 percent in September, but rose at an annual rate of 4.4 percent over the third quarter, compared with an increase of 7.2 percent in the second quarter of 2004. Capacity utilization, the percentage of production capacity manufacturers actually use, increased to 77.2 percent in September 2004, up slightly from a 77.0 percent rate at the end of the second quarter. The current capacity utilization rate of 77.2 percent is 3.9 percentage points below its 1972-2003 average rate of 81.1 percent.

New orders for goods made in U.S. factories decreased in September 2004 by 0.4 percent to $368.3 billion. This follows a 0.3 percent decrease in August. New orders for durable goods, items intended to last for three years or more, increased 0.2 percent to $195.9 billion in September. New orders for nondurable goods, such as food and clothing, decreased 1.0 percent to $172.4 billion in September.

The Institute for Supply Management reported that its monthly Manufacturing Index fell to 58.5 in September, following a 59.0 reading in August 2004. Any reading above 50.0 suggests growth, whereas one below 50.0 shows contraction. The index has been above 50.0 since May 2003.

Economic Outlook

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.

According to Consensus Economics, Inc., publisher of *Consensus Forecasts - USA*, the real GDP is expected to grow by 3.4 percent in each of the next two quarters—the fourth quarter of 2004 and the first quarter of 2005 (percentage change from previous quarter, seasonally adjusted annual rates). For 2004 and 2005, the real GDP growth rate is expected to be 4.4 percent and 3.5 percent, respectively (average percentage change on previous calendar year), as can be seen in *Exhibit 2*. In the long term, the real GDP is expected to grow by 3.2 percent for 2006-2009 and by 3.2 percent for 2010-2014 (average percentage change over previous year). The forecasts for the real GDP are lower

than previously polled and published in the April 2004 issue of the *Consensus Forecasts – USA.*

According to the survey, consumer prices will increase 2.6 percent in 2004 and 2.3 percent in 2005. In the long term, *Consensus Forecasts - USA* also predicts accelerating inflation with consumer prices expected to grow by 2.45 percent for 2006-2009 and by 2.5 percent for 2010-2014 (average percentage change over previous year). Producer prices are expected to increase 3.6 percent in 2004 and 1.8 percent in 2005.

Interest rates on three-month Treasury bills and 10-year Treasury notes will rise over the next two years, according to the forecasters of *Consensus Forecasts - USA*. According to the survey, three-month Treasury bills will rise from 2.2 percent at the end of January 2005 to 3.2 percent by the end of October 2005. The yield on 10-year Treasury notes is expected to climb to 4.6 percent by the end of January 2005 and to continue to increase to 5.1 percent by the end of October 2005. Both the three-month and the 10-year Treasury rates are expected to experience an upward trend over the next 10 years. According to the survey, the three-month Treasury rate will average 4.4 percent over 2006-2009 and 4.6 percent for 2010-2014. The 10-year Treasury bond yield is expected to average 5.7 percent for 2006-2009 and 5.9 for 2010-2014.

The forecasters polled by *The Livingston Survey* in June 2004 posted slightly more optimistic expectations about the level of corporate profits in 2004 than they did in December 2003. Conversely, the outlook for the growth rate in after-tax corporate profits in 2005 dropped from 19.4 to 13.4 percent. *The Livingston Survey* predicts that the S&P 500 index will rise steadily during 2004 and 2005. The June 18, 2004 survey estimates the index will reach 1200.0 by December 31, 2004 and forecasts levels of 1250.0 and 1291.0 for June 30 and December 31, 2005, respectively. This issue of *The Livingston Survey* reports the median value across the 26 forecasters on the survey panel.

In the third quarter, the Federal Open Market Committee raised the federal funds rate from 1.25 to 1.50 percent in August and to 1.75 percent in September. The committee summarized its view of the economy in a press release dated September 21, 2004: “The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.”

Respecting plans for future interest rate actions, the policymakers implied that although the future increase in interest rates are expected to be gradual, further increases in inflation might prompt more abrupt increases in interest rates. The same press release noted that “With underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability."

The next meetings of the FOMC are scheduled for November 10, and December 14.

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STATE ECONOMIC PROFILE

In any business valuation, the state economic outlook as of the appraisal date should be considered, since this outlook is often the basis of how investors perceive alternative investment opportunities at any given time.

This summary provides an overview of some selected economic factors that prevailed in the 3rd quarter of 2004, as well as a discussion of the factors that are crucial over an extended period of time. Topics addressed include general economic conditions, consumer prices and inflation rates, interest rates, unemployment, consumer spending, the stock and bond markets, construction, manufacturing, and future economic outlook.

State Summary

- State employment up 1.7% from year-ago level in September 2004. Improvements significant in mineral products, and car & auto parts; transportation & utilities and telecommunications still losing jobs.

- Metro-area unemployment at 6.1% in Miami; 3.7% in Tampa; 4.7% in Jacksonville; and 4.2% in Orlando in September 2004. US unemployment rate 5.4%.

- Hurricanes in late summer negatively impact FL industries including agriculture, transportation, and tourism. Repairs hampered by shortages of manpower and construction material.

- Venture capital investment increases to $50.4 million in Q2 2004, up 8.2% from year-ago levels.

- Personal income increases 1.7% from a quarter-ago in Q2 2004.

Major Industry Update

Citrus

Citrus fruit production forecasts are down. For the 2003-2004 citrus growing season, production of early-mid navel and Valencia oranges declined compared to year-ago. Early-mid orange bearing trees 32.1 million, down 11% from year-ago; navel orange bearing trees, 2.16 million, down 9%; Valencia orange trees, 41.6 million, down 11%; white seedless grapefruit trees, 3.3 million, down 11%; colored seedless grapefruit trees, 5.5 million, down 12%. Decline in citrus production is attributed to unfavorable growing conditions and increase in hurricane activity.

Tourism

The Florida tourism industry suffered huge losses due to an unprecedented 4 hurricanes hitting the state. Recent survey by Orlando-based public relations firm shows people are less likely to visit FL through 2004. More than half of state's counties were affected by hurricanes. North of Daytona Beach, hotel vacancies reach 25% as direct result of hurricane damage.

Aerospace

Due to Hurricane Frances, Kennedy Space Center shut for 11 days in September. The Center is undergoing damage assessment of 900 facilities and buildings. Vehicle Assembly Building (VAB) had substantial damage from hurricane force winds, losing 850 aluminum panels on building exterior, leaving about 20% of interior exposed to outside. Damage assessments could take months to complete and millions to repair.

Technology

Fort Lauderdale company begins journey to commercialize technology. Enviro Voraxial (R) Technology, Inc. signs with SRM International of Houston, TX, to assist in advancing Voraxial (R) technology into oil industry. New technology improves separation of oil, gas, and water mixtures pumped from off-shore platforms; will mean increased profit margins for companies in off-shore oil market.

Local Real Estate Summary

- Home prices rise 15% in Miami; 10% in Jacksonville; 13% in Tampa metro areas in Q2 2004 over year-ago levels. US average rises 9%.

- Q2 2004 estimate: Jacksonville and Tampa housing markets fair-value; Miami market overpriced.

- New housing permits rise 19.9% in FL over first 9 months of 2004 compared to year-ago. US average rises 10.9%.

LOCAL/REGIONAL ECONOMIC PROFILE

In any business valuation, the state regional or local outlook as of the appraisal date should be considered, since this outlook is often the basis of how investors perceive alternative investment opportunities at any given time.

This summary provides an overview of some selected economic factors that prevailed in the 3rd quarter of 2004, as well as a discussion of the factors that are crucial over an extended period of time. Topics addressed include general economic conditions, consumer prices and inflation rates, interest rates, unemployment, consumer spending, the stock and bond markets, construction, manufacturing, and future economic outlook.

Regional / Local Summary

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.

Per Capita Personal Income

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. The 2002 PCPI reflected an increase of 1.9 percent from 2001. The 2001-2002 state change was 1.7 percent and the national change was 1.2 percent. In 1992 the PCPI of Hillsborough was $19,041 and ranked 16th in the state. The 1992-2002 average annual growth rate of PCPI was 4.5 percent. The average annual growth rate for the state was 3.8 percent and for the nation was 4.0 percent.

Total Personal Income

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. In 1992 the TPI of Hillsborough was $16,469,214 and ranked 5th in the state. The 2002 TPI reflected an increase of 4.4 percent from 2001. The 2001-2002 state change was 3.8 percent and the national change was 2.3 percent. The 1992-2002 average annual growth rate of TPI was 6.6 percent. The average annual growth rate for the state was 5.9 percent and for the nation was 5.2 percent.

Components of Personal Income

Total personal income includes net earnings by place of residence; dividends, interest, and rent; and personal current transfer receipts received by the residents of Hillsborough. In 2002 net earnings accounted for 70.2 percent of TPI (compared with 69.0 in 1992);

dividends, interest, and rent were 16.1 percent (compared with 16.9 in 1992); and personal current transfer receipts were 13.7 percent (compared with 14.0 in 1992). From 2001 to 2002 net earnings increased 4.2 percent; dividends, interest, and rent increased 0.9 percent; and personal current transfer receipts increased 10.0 percent. From 1992 to 2002 net earnings increased on average 6.8 percent each year; dividends, interest, and rent increased on average 6.0 percent; and personal current transfer receipts increased on average 6.3 percent.

Earnings By Place of Work

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.

Note: All income estimates with the exception of PCPI are in thousands of dollars, not adjusted for inflation.

INDUSTRY PROFILE

In any business valuation, the industry outlook as of the appraisal date should be considered, since this outlook is often the basis of how investors perceive alternative investment opportunities at any given time.

This summary provides an overview of some selected economic factors that prevailed in the 3rd quarter of 2004, as well as a discussion of the factors that are crucial over an extended period of time. Topics addressed include risks, opportunities and a general overview of the industry.

Industry Update

Industrial Machinery Shipments Jump - Shipments of industrial machinery climbed recently, largely the result of manufacturing sector recovery and investment in new equipment. The value of industrial machinery manufacturers' shipments jumped 15.6 percent from year-ago levels in May 2004, according to Census Bureau. For the first 5 months of 2004, shipments totaled $144.7 billion, a 13.5 percent increase from the same previous-year period. An increase in machinery prices also aided in the improved value of shipments.

Manufacturers Raise Machinery Prices - Strong manufacturing sector demand allowed industrial machinery producers to raise prices and compensate for the high cost of raw materials, like steel. Prices of industrial machinery rose 1.9 percent from year-ago levels in May 2004, according to Bureau of Labor Statistics (BLS). For several years, industrial machinery manufacturers have raised prices annually at a steady, moderate rate, but recent spikes in raw material costs have squeezed profit margins.

Machinery Imports, Exports Grow - US manufacturers benefit from a rise in machinery exports, as an increase in imports potentially erodes some domestic market share. Exports of US-made industrial machinery jumped 22.6 percent to $34.7 billion from year-ago levels in the first 5 months of 2004, according to the FTC, and imports from foreign countries increased 19.7 percent to $37.4 billion. The largest export markets are Canada, Mexico, Japan, China, and Taiwan; most imports are purchased from Japan, Germany, Canada, and China.

Industrial Production Boosts Machinery Demand - Industrial machinery manufacturers benefit as the economy improves, consumer demand for products rises, and the manufacturing sector begins to invest in new equipment to replace aging machinery and boost production levels. Total industrial production rose 5.6 percent from year-ago levels in June 2004, according to the Federal Reserve Board; production in the industrial machinery segment jumped 10.5 percent. For example, two users of industrial machinery

that experienced increased production include fabricated metal manufacturers up 5.3 percent, and machine shops up 7.5 percent.

Industry Employment, Wages Slip - The industrial machinery sector continues to lose workers as wages improve at a slowed rate. Industry employment growth fell 1 percent from year-ago levels in May 2004, according to BLS, and wages grew 1.1 percent to an average $17.24 per hour; however, wage growth slowed from a rate of 4.2 percent in May 2003. Employment in the industrial machinery sector may grow as current productivity limits are achieved and additional workers are needed to meet increased demand for products.

Industry Overview

The manufacture of industrial machinery in the US involves about 30,000 companies with combined annual revenue of $300 billion. The industry is highly fragmented because most companies specialize in producing a particular type of machinery. Large companies include Caterpillar and Deere and divisions of GE and other large corporations, but most companies have annual sales between $10 and $500 million. Most companies operate in a relatively small field, but may produce dozens of variations and models of the same basic product.

Competitive Landscape

Demand for industrial machinery depends strongly on the health of the US economy and various sub-sectors such as the construction industry. Companies' profitability depends both on demand volume (since many costs are fixed) and efficient production. Small companies can compete effectively if they produce machinery with unique characteristics.

Products, Operations & Technology

The major subsections of the industry are farm and construction machinery, manufacturing machinery, metalworking machinery, commercial machinery, and general machinery such as engines and pumps. While some products, such as tractors or heaters, are finished products, others, like motors, are components used in further production, and some, like textile looms, are custom-designed for a particular manufacturing process.

Manufacture involves producing and assembling components. Companies either make or buy components and various types of mechanical, hydraulic, and electrical control systems. Manufacturing often involves forging, machining, and welding activities that require skilled labor. Products often have a high engineering content. Product design usually involves computer-aided design (CAD) systems, which sometimes are hooked directly into a computer-aided manufacturing (CAM) process.

Production is typically on an assembly line, except for the largest pieces of machinery, which may be assembled at a customer's site. Industrial machinery is typically complex, often consisting of thousands of moving parts. Computer controls have become an important feature of many products. Companies may produce many variations of a single product such as a motor, which limits the efficiency of assembly operations.

Sales & Marketing

Customers are industrial companies or commercial users. Sales are usually handled by an in-house sales' force complemented with manufacturers' representatives and independent dealers. Salespeople often must have extensive engineering knowledge. Large process machinery, like a painting system for car manufacture, is usually sold directly to the end-user, while farm and construction machinery and smaller items like pumps and motors are sold almost exclusively through dealers. Trade shows are an important source of new customers. Advertising may be in trade publications.

Because industrial machinery is highly technical, the availability of service and spare parts is important to generate sales and retain customers, and most manufacturers have regional or local service centers.

Technical innovation is critical in many industry segments. R&D costs are often high. Patents are used to protect unique design features.

Finance & Regulation

Big manufacturers of agricultural and construction machinery may offer financing (both for dealer inventories and customer sales), but most industrial sales are on regular credit terms.

Receivables and inventory are usually high. The capital-intensive nature of the industry means that plant and equipment are of significant size, that maintenance costs are significant, and that regular capital investment in new equipment is often required.

The nature of machinery production, since it often involves toxic materials and the burning of fuels, sometimes requires expensive measures to prevent pollution. Because of poor industry practices in the past, manufacturers often have contaminated work or waste disposal sites. Companies may have difficulty meeting state and federal pollution standards. Federal pollution regulations are administered by the EPA; workplace safety regulations by OSHA.

Regional & International Issues

The machinery production industry is heavily concentrated in the Midwest states, partly because of historical association with the farming and auto industries. The largest

producing states are Illinois, Ohio, California (aerospace industry), Michigan, Wisconsin, and Texas.

Imports are a big factor, accounting for about 25 percent of the US market. Imports totaled $78 billion in 2003, largely from technologically-advanced nations. Japan (engines, construction equipment), Germany, and Canada were the largest importers to the US. Imports from China (generally smaller items like pumps and motors) grew 125 percent from 1999 to 2003, making it the fourth largest importer.

Many companies have significant foreign sales, often funneled through joint ventures with foreign partners. US exports were $75 billion in 2003 (down from $90 billion in 2000). The largest export markets were Canada, Mexico, and Japan.

Human Resources

Manufacturing components and assembling industrial machinery require skilled labor that is accordingly well-paid. To retain skilled workers, companies provide a fairly high level of benefits, an average addition of 30 to 35 percent to payroll costs.

The safety record of the industry has improved in recent years. The annual injury rate per 100 workers was 6.2 cases in 2002, down from 9 in 1997.

Industry Risks

Raw Material Price Changes - Costs for raw materials like aluminum, copper, and plastics can fluctuate sharply from year to year. Because plastic resins are derived mainly from oil and natural gas, prices for plastic components depend on volatile oil prices. Steel prices can be sharply affected by US steel tariffs.

Export Risks - Many US manufacturers have export difficulties because of their small size relative to big Japanese and German competitors with large sales' organizations and financing arms. Sales made in local currencies are affected by currency exchange rates.
Rapid Technological Improvements Favor Big Producers - Much industrial machinery has become more complicated, largely because of the addition of computerized sensors and controls. Smaller producers can't match the R&D resources of bigger competitors in a period of rapid product change, and are more exposed to the risk that their products will become obsolete.

Environmental Risks - Because of the nature of working with metals, producers of industrial machinery can have air, water, and waste disposal problems. Older manufacturing plants often have ground contamination.

Industry Trends

Selected Industry Concentration - Although the industry in general is fragmented, some segments are highly concentrated. In the production of construction machinery, turbines, and engines, the top 4 manufacturers have more than 50 percent of the market. In many other segments, the top 4 have a 30 to 40 percent market share. Only in the manufacture of metalworking machinery is the market highly fragmented.

Globalization - US machinery manufacturers face greater competition in export markets both from makers of sophisticated machinery (from Japan and Germany) and from producers of low-cost low-technology machinery (from China and Mexico). The transfer of some US manufacturing capacity to other countries has expanded the international trade in machinery.

Machinery: More Electronic Content - Industrial applications are the largest consumers of computer chips. New versions of standard industrial machinery often feature advanced electronic applications. For example, new drive-through gas pumps automatically recognize and bill customers using a microchip tag. Machinery's greater electronic content has required that machinery designers develop new skills.

New Factory Designs Require Versatile Machinery - To be responsive to changing customer demand, more manufacturers prefer to set production factories up with machinery that can easily be reconfigured. With metalworking machinery, for example, manufacturers prefer machinery that can easily switch between different types of cutting heads.

Industry Opportunities

Greater Automation of US Manufacturing - US manufacturers continue to improve productivity by adding more machinery. From 1993 to 2003, while US manufacturing production increased 40 percent, jobs in manufacturing were cut by 13 percent. About 60 percent of industrial machinery production is used in manufacturing operations.

Rapid Technological Innovation - New technology is rapidly applied in new machinery. Digital image recognition is now used to sort and inspect fruits and vegetables. New metal alloys made from titanium and nickel were first described in scientific journals only a few years ago, but are now used to manufacture advanced medical devices. Computerized controls have made machinery much more efficient.

Improved Machinery Design Processes - CAD and manufacturing have greatly improved machinery effectiveness and lowered costs. New simulation software can provide a "virtual prototype" of the product or machine before a physical model is built, and reduce costly product design and physical testing. Rapid prototyping, a new type of manufacturing process, is used to make small machinery parts.

Strong Growth in Selected Industry Segments - Some segments of the machinery industry have grown rapidly in the past decade, despite the 2001-2002 recession. While overall US machinery production was up just 10 percent from 1993 to 2003, production of engines and turbines was up 26 percent, and production of HVAC equipment was up 40 percent.

Industry Forecast

The value of industrial machinery production is forecast to grow at an annual compounded rate of 7.6 percent between 2004 and 2007. Although machinery manufacturing is spread across a wide economic base, it's estimated to grow faster than GDP because the industry is rebounding from a severe decline in equipment spending from 2000-2002.

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.

The financial statements are shown on the following pages:

XYZ Manufacturing
Historical Balance Sheet

December:	Tax Returns 2002	Tax Returns 2003	Tax Returns 2004	3-Year Average
Assets				
Cash & Equivalents	111,258	127,841	165,740	134,946
Accounts Receivable	212,547	265,741	257,480	245,256
Inventory	215,474	310,107	298,952	274,844
Other Current Assets	5,611	5,474	10,102	7,062
Total Current Assets	544,890	709,163	732,274	662,109
Fixed Assets	1,214,149	1,358,541	1,454,100	1,342,263
Accum. Depreciation	-874,510	-998,741	-1,120,102	-997,784
Net Fixed Assets	339,639	359,800	333,998	344,479
Other Assets	0	0	0	0
Total Assets	884,529	1,068,963	1,066,272	1,006,588
Liabilities and Equity				
Accounts Payable	195,210	247,415	231,010	224,545
Short-Term Debt	112,141	100,213	109,874	107,409
Other Current Liabilities	32,141	15,475	21,458	23,025
Total Current Liabilities	339,492	363,103	362,342	354,979
Total Long-Term Debt	214,156	211,410	174,856	200,141
Other Liabilities	0	0	0	0
Total Liabilities	553,648	574,513	537,198	555,120
Owners' Equity	330,881	494,450	529,074	451,468
Liabilities & Equity	884,529	1,068,963	1,066,272	1,006,588

Notes: None.

XYZ Manufacturing
Historical Income Statement

December:	Tax Returns 2002	Tax Returns 2003	Tax Returns 2004	Projected 2005
Gross Revenue	3,521,456	3,698,745	3,799,852	3,950,000
Cost of Sales	2,285,410	2,398,980	2,598,741	2,600,000
Gross Profit	1,236,046	1,299,765	1,201,111	1,350,000
Cash Operating Exp.	823,526	844,644	698,665	800,000
EBITDA	412,520	455,121	502,446	550,000
Depreciation/Amortization	135,698	144,392	95,559	100,000
EBIT	276,822	310,729	406,887	450,000
Interest Expense	65,896	64,152	50,123	45,000
Pre-Tax Income	210,926	246,577	356,764	405,000
Taxes	71,715	83,836	121,300	137,700
Net Income	139,211	162,741	235,464	267,300

Notes: None.

XYZ Manufacturing
Adjusted Cash Flow

December:	Tax Returns 2002	Tax Returns 2003	Tax Returns 2004	Projected 2005
Revenue				
Gross Sales	$3,521,456	$3,698,745	$3,799,852	$3,950,000
Pre-Tax Profit				
Unadjusted Pre-Tax Profit	210,926	246,577	356,764	405,000
Non-Recurring Items				
Depreciation & amort.	135,698	144,392	95,559	100,000
Interest expense	65,896	64,152	50,123	45,000
Officer compensation	90,000	100,000	95,000	90,000
Excess insurance/benefits	12,500	11,200	11,600	12,000
Personal auto	12,000	12,300	11,000	12,000
Other add-backs	0	0	0	0
Other add-backs	0	0	0	0
Other add-backs	0	0	0	0
Other add-backs	0	0	0	0
Historical rent	115,000	125,000	100,000	110,000
Fair market rent	-118,500	-118,500	-118,500	-118,500
Total Add Backs	312,594	338,544	244,782	250,500
Calculation of Cash Flow				
Pre-Tax Profit +	210,926	246,577	356,764	405,000
Total Add-Backs =	312,594	338,544	244,782	250,500
Seller's Discretionary Earnings	523,520	585,121	601,546	655,500
Less Replacement Salary	-150,000	-150,000	-150,000	-150,000
EBITDA	373,520	435,121	451,546	505,500
as % of Sales	10.61%	11.76%	11.88%	12.80%
Cash Flow Weight	1	2	3	4
Weighted SDE	$612,040			
Weighted EBITDA	$462,040			
Weighted Revenue	$3,811,850			
Weighted EBIT	$350,924			

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 $150,000 annually.

Note 2 – excess insurance is related to family members that do not work with the Company.

Note 3 – personal auto will not be transferring with the sale of the business.

Note 4 – to separate business value from real estate value, we have normalized rent expense as if real estate was not included. Historical rent was normalized to $15 per square foot or approximately 10% of the estimate value of the real estate.

** 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.*

XYZ Manufacturing
Adjusted Income Statement

December:	Tax Returns 2002	Tax Returns 2003	Tax Returns 2004	Projected 2005
Gross Revenue	3,521,456	3,698,745	3,799,852	3,950,000
Cost of Sales	2,285,410	2,398,980	2,598,741	2,600,000
Gross Profit	1,236,046	1,299,765	1,201,111	1,350,000
Cash Operating Exp.	862,526	864,644	749,565	844,500
EBITDA	373,520	435,121	451,546	505,500
Depreciation/Amortization	135,698	144,392	95,559	100,000
EBIT	237,822	290,729	355,987	405,500
Interest Expense	65,896	64,152	50,123	45,000
Pre-Tax Income	171,926	226,577	305,864	360,500
Taxes @ 34%	58,455	77,036	103,994	122,570
Net Income	113,471	149,541	201,870	237,930

Notes: None.

XYZ Manufacturing
Common Size Balance Sheet

December:	Tax Returns 2002	Tax Returns 2003	Tax Returns 2004	3-Year Average
Assets				
Cash & Equivalents	12.58%	11.96%	15.54%	13.36%
Accounts Receivable	24.03%	24.86%	24.15%	24.35%
Inventory	24.36%	29.01%	28.04%	27.14%
Other Current Assets	0.63%	0.51%	0.95%	0.70%
Total Current Assets	61.60%	66.34%	68.68%	65.54%
Fixed Assets	137.27%	127.09%	136.37%	133.58%
Accum. Depreciation	-98.87%	-93.43%	-105.05%	-99.12%
Net Fixed Assets	38.40%	33.66%	31.32%	34.46%
Other Assets	0.00%	0.00%	0.00%	0.00%
Total Assets	100.00%	100.00%	100.00%	100.00%
Liabilities and Equity				
Accounts Payable	22.07%	23.15%	21.67%	22.29%
Short-Term Debt	12.68%	9.37%	10.30%	10.79%
Other Current Liabilities	3.63%	1.45%	2.01%	2.36%
Total Current Liabilities	38.38%	33.97%	33.98%	35.44%
Total Long-Term Debt	24.21%	19.78%	16.40%	20.13%
Other Liabilities	0.00%	0.00%	0.00%	0.00%
Total Liabilities	62.59%	53.74%	50.38%	55.57%
Owners' Equity	37.41%	46.26%	49.62%	44.43%
Liabilities & Equity	100.00%	100.00%	100.00%	100.00%

Notes: None.

XYZ Manufacturing
Common Size B/S vs. Peer Group

December:	3-Year Average	2-Year Average	Last Full Year	RMA Industry-Ave
Assets				
Cash & Equivalents	13.36%	13.75%	15.54%	10.10%
Accounts Receivable	24.35%	24.50%	24.15%	27.80%
Inventory	27.14%	28.52%	28.04%	26.30%
Other Current Assets	0.70%	0.73%	0.95%	3.60%
Total Current Assets	65.54%	67.51%	68.68%	67.80%
Fixed Assets	133.58%	131.73%	136.37%	
Accum. Depreciation	-99.12%	-99.24%	-105.05%	
Net Fixed Assets	34.46%	32.49%	31.32%	22.50%
Other Assets	0.00%	0.00%	0.00%	9.70%
Total Assets	100.00%	100.00%	100.00%	100.00%
Liabilities and Equity				
Accounts Payable	22.29%	22.41%	21.67%	10.30%
Short-Term Debt	10.79%	9.84%	10.30%	11.90%
Other Current Liab.	2.36%	1.73%	2.01%	13.50%
Total Current Liabilities	35.44%	33.97%	33.98%	35.70%
Total Long-Term Debt	20.13%	18.09%	16.40%	13.30%
Other Liabilities	0.00%	0.00%	0.00%	3.10%
Total Liabilities	55.57%	52.06%	50.38%	52.10%
Owners' Equity	44.43%	47.94%	49.62%	47.90%
Liabilities & Equity	100.00%	100.00%	100.00%	100.00%

Notes: None.

XYZ Manufacturing
Common Size Income Statement

December:	Tax Returns 2002	Tax Returns 2003	Tax Returns 2004	Projected 2005
Gross Revenue	100.00%	100.00%	100.00%	100.00%
Cost of Sales	64.90%	64.86%	68.39%	65.82%
Gross Profit	35.10%	35.14%	31.61%	34.18%
Cash Operating Expenses	24.49%	23.38%	19.73%	21.38%
EBITDA	10.61%	11.76%	11.88%	12.80%
Depreciation and Amortization	3.85%	3.90%	2.51%	2.53%
EBIT	6.75%	7.86%	9.37%	10.27%
Interest Expense	1.87%	1.73%	1.32%	1.14%
Pre-Tax Income	4.88%	6.13%	8.05%	9.13%
Taxes @ 34%	1.66%	2.08%	2.74%	3.10%
Net Income	3.22%	4.04%	5.31%	6.02%

Notes: None.

XYZ Manufacturing
Common Size I/S vs. Peer Group

December:	3-Year Average	2-Year Average	Last Full Year	RMA Industry-Ave
Gross Revenue	100.00%	100.00%	100.00%	100.00%
Cost of Sales	66.05%	66.62%	68.39%	69.40%
Gross Profit	33.95%	33.38%	31.61%	30.60%
Cash Operating Exp.	22.53%	21.55%	19.73%	NA
EBITDA	11.42%	11.82%	11.88%	NA
Depreciation/Amort.	3.42%	3.21%	2.51%	NA
EBIT	7.99%	8.61%	9.37%	2.80%
Interest Expense	1.64%	1.53%	1.32%	NA
Pre-Tax Income	6.35%	7.09%	8.05%	1.90%
Taxes	2.16%	2.41%	2.74%	NA
Net Income	4.19%	4.68%	5.31%	NA

Notes: None.

XYZ Manufacturing
Ratio Analysis

December:	Tax Returns 2002	Tax Returns 2003	Tax Returns 2004	3-Year Average
Liquidity / Solvency				
Current Ratio	1.61	1.95	2.02	1.86
Quick Ratio	0.95	1.08	1.17	1.07
Days A/R Outstanding	21.73	25.86	24.39	24.00
Days Accounts Payable	30.75	37.13	32.00	33.29
Days Working Capital	21.00	33.68	35.05	29.91
Days Inventory	33.94	46.54	41.41	40.63
A/R to Sales	6.04%	7.18%	6.78%	6.67%
A/P to Sales	5.54%	6.69%	6.08%	6.10%
Cost of Sales to Payables	11.71	9.70	11.25	10.88
Activity / Turnover				
Receivables Turnover	16.57	13.92	14.76	15.08
Cash Turnover	31.65	28.93	22.93	27.84
Inventory Turnover	10.61	7.74	8.69	9.01
Current Asset Turnover	6.46	5.22	5.19	5.62
Working Capital Turnover	17.14	10.69	10.27	12.70
Fixed Asset Turnover	10.37	10.28	11.38	10.68
Total Asset Turnover	3.98	3.46	3.56	3.67
Debt				
Cash Flow / Total Debt	0.76	0.94	1.04	0.92
Interest Coverage	3.61	4.53	7.10	5.08
Fixed Assets / Net Worth	1.03	0.73	0.63	0.80
Total Debt to Net Worth	0.99	0.63	0.54	0.72
Debt to Total Capital (%)	49.65%	38.66%	34.99%	41.10%

Notes: None.

XYZ Manufacturing
Ratio Analysis

December:	Tax Returns 2002	Tax Returns 2003	Tax Returns 2004	3-Year Average
Profitability				
Gross Margin	35.10%	35.14%	31.61%	33.95%
EBITDA Margin	10.61%	11.76%	11.88%	11.42%
Operating Margin	6.75%	7.86%	9.37%	7.99%
Pretax Margin	4.88%	6.13%	8.05%	6.35%
Pretax Return on Assets	19.44%	21.20%	28.69%	23.11%
Pretax Return on Equity	51.96%	45.82%	57.81%	51.87%
Working Capital (000)				
Working Capital	205,398	346,060	369,932	307,130
Debt Free Working Capital	317,539	446,273	479,806	414,539
Net Working Capital	232,811	328,433	325,422	295,555
Net Working Capital / Sales	6.61%	8.88%	8.56%	8.02%
Operating Efficiency				
Operating Expense / Gross Margi	69.78%	66.52%	62.41%	66.24%
Operating Expense / Sales	24.49%	23.38%	19.73%	22.53%
Dep. & Amort. / Sales	5.94%	6.02%	3.68%	5.21%
Capital Expenditures / Sales	NA	3.90%	2.51%	3.21%
Growth				
Sales	NA	5.03%	2.73%	3.88%
EBITDA	NA	16.49%	3.77%	10.13%
EBIT	NA	22.25%	22.45%	22.35%
Assets	NA	20.85%	-0.25%	10.30%
Liabilities	NA	3.77%	-6.50%	-1.36%
Net Worth	NA	49.43%	7.00%	28.22%

Notes: None.

XYZ Manufacturing
Ratio Analysis Vs. Peer Group

December:	3-Year Average	2-Year Average	Last Full Year	RMA Industry-Ave.	Last Year Vs. Average
Liquidity / Solvency					
Current Ratio	1.86	1.99	2.02	2.00	Favorable
Quick Ratio	1.07	1.13	1.17	1.00	Favorable
Activity / Turnover					
Sales / Receivables	15.08	14.34	14.76	6.90	Favorable
Cost of Sales / Inventory	9.01	8.21	8.69	4.80	Favorable
Cost of Sales / Payables	10.88	10.47	11.25	13.30	Unfavorable
Sales / Working Capital	12.70	10.48	10.27	6.10	Favorable
Debt					
EBIT / Interest	5.08	5.82	7.10	4.70	Favorable
Cash Flow / Total Debt	0.92	0.99	1.04	2.50	Unfavorable
Fixed Assets / Net Worth	0.80	0.68	0.63	0.40	Favorable
Debt / Net Worth	0.72	0.58	0.54	1.10	Favorable
Profitability					
Pretax Profit / Net Worth	51.87%	51.82%	57.81%	12.20%	Favorable
Pretax Profit / Assets	23.11%	24.94%	28.69%	4.90%	Favorable
Sales / Net Fixed Assets	10.68	10.83	11.38	9.50	Favorable
Sales / Total Assets	3.67	3.51	3.56	1.90	Favorable
Dep. & Amort / Sales	5.21%	4.85%	3.68%	1.90%	Favorable

Notes: None.

THE FINANCIAL CONDITION OF THE COMPANY

Overview

Performing a thorough analysis of a company's historical and adjusted financial statements is a prerequisite to performing a meaningful and thorough valuation of the business. Basic financial statements include the balance sheet, income statement, and statement of cash flows. A thorough analysis of these statements is required in any valuation of a closely held business. A complete financial analysis of the business assists our valuation analysts in many ways, including, but not limited to, the following:

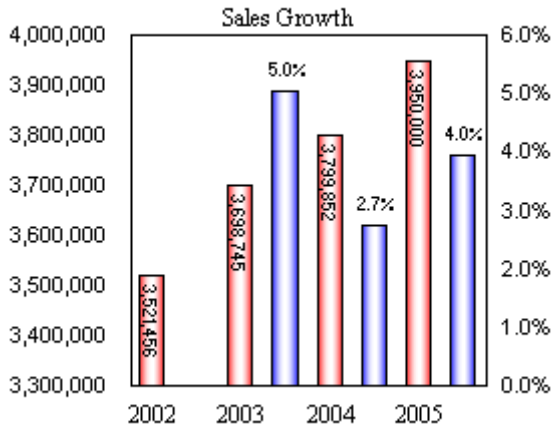
- Helps to identify strengths and weaknesses of the business, relative to itself at any one point in time;
- Helps to identify trends of the business relative to the business itself;
- Allows the valuation analyst to compare and analyze the subject company's historical performance, and provides a basis for comparing the business to other similar businesses or industry averages.

A thorough financial analysis allows our analysts to draw conclusions on key financial variables critical to the valuation of a closely held business, and it also allows them to quantifiably support those conclusions.

Common Size, Trend and Ratio Analysis

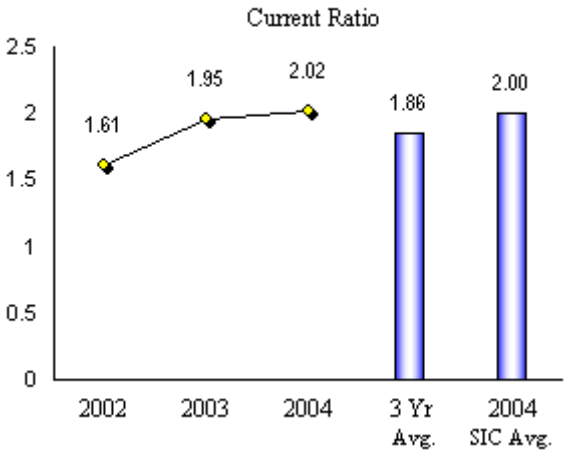
Sales Growth

The Company's sales increased from $3,698,745 in 2003 to $3,799,852 in 2004. This represents an increase of $101,107 in sales over the period. Sales are projected to increase by 3.95% in 2005 to $3,950,000. This represents an increase of $150,148 in sales over the period.



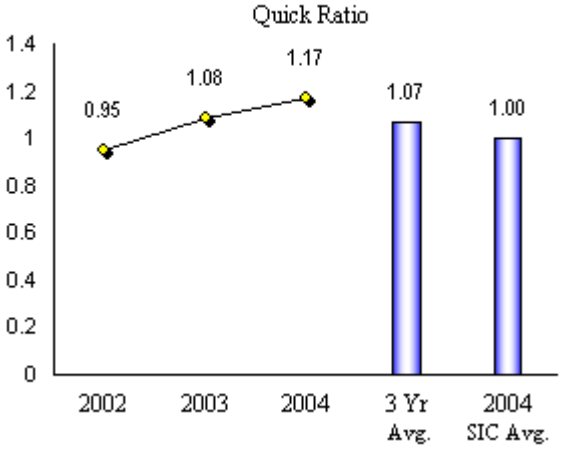
Current Ratio

The Company's current ratio increased from 1.95 in 2003 to 2.02 in 2004. The current ratio averaged 1.86 from 2002 to 2004. The current ratio in 2004 was below the industry average of 2.00.



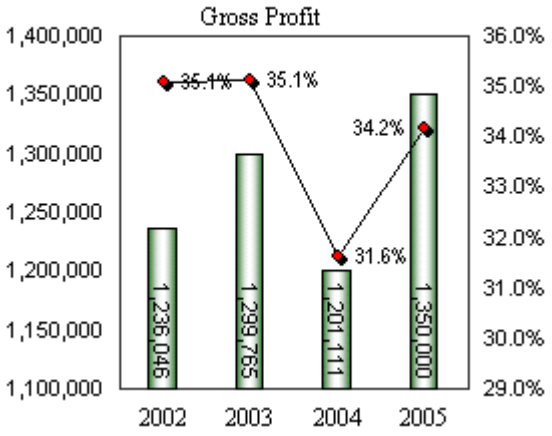
Quick Ratio

The Company's quick ratio increased from 1.08 in 2003 to 1.17 in 2004. The quick ratio averaged 1.07 from 2002 to 2004. The quick ratio in 2004 was above the industry average of 1.00.



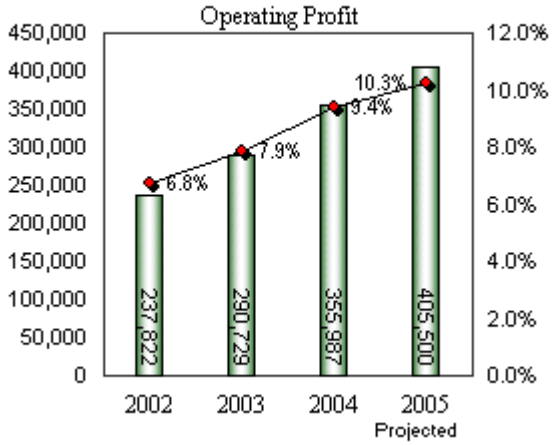
Gross Margin

The Company's gross profit margin decreased by 3.53% from 35.14% in 2003 to 31.61% in 2004. In dollar terms, gross margin decreased by $98,654 over the period. The Company's gross margin in 2004 was above the industry average of 30.60%.



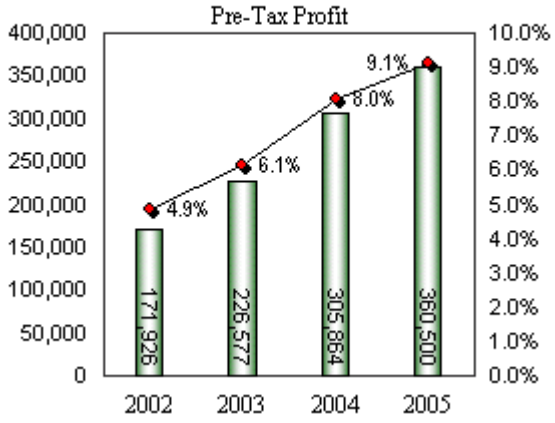
Adjusted Operating Profit

The Company's adjusted operating profit margin increased by 1.51% from 7.86% in 2003 to 9.37% in 2004. In dollar terms, adjusted operating profit increased by $65,258 over the period. The Company's adjusted operating profit margin in 2004 was above the industry average of 2.80%.



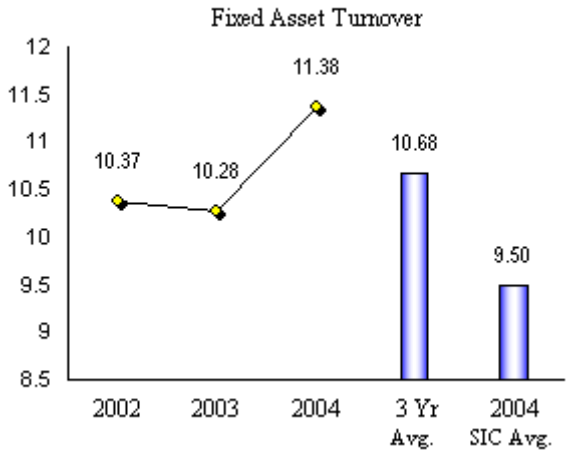
Adjusted Pre-Tax Profit

The Company's adjusted pre-tax profit margin increased by 1.92% from 6.13% in 2003 to 8.05% in 2004. In dollar terms, adjusted operating profit increased by $79,287 over the period. The Company's adjusted pre-tax profit margin in 2004 was above the industry average of 1.90%.



Efficiency (Sales to Fixed Assets)

The Company's efficiency, as measured by sales to fixed assets, increased from 10.28 in 2003 to 11.38 in 2004. The Company's efficiency averaged 10.68 from 2002 to 2004. The Company's total sales to fixed assets ratio in 2004 was above the industry average of 9.50.



XYZ Manufacturing
Projected Cash Flow

December:	Projected	Projected			
	2005	2006	2007	2008	2009
Revenues	3,950,000	4,106,081	4,268,329	4,436,989	4,612,313
Percent Increase	3.95%	3.95%	3.95%	3.95%	3.95%
Gross Profit	1,350,000	1,403,344	1,458,796	1,516,439	1,576,360
Percent of Revenues	34.18%	34.18%	34.18%	34.18%	34.18%
Cash Operating Exp.	844,500	877,870	912,558	948,617	986,101
Percent of Revenues	21.38%	21.38%	21.38%	21.38%	21.38%
EBITDA	505,500	525,474	546,238	567,822	590,259
Percent of Revenues	12.80%	12.80%	12.80%	12.80%	12.80%
Depreciation	100,000	103,951	108,059	112,329	116,767
Percent of Revenues	2.53%	2.53%	2.53%	2.53%	2.53%
Operating Income (EBIT)	405,500	421,523	438,179	455,493	473,492
Percent of Revenues	10.27%	10.27%	10.27%	10.27%	10.27%
Taxes	137,870	143,318	148,981	154,868	160,987
Tax Rate	34%	34%	34%	34%	34%
Debt Free Net Income	267,630	278,205	289,198	300,626	312,505
Determination of Cash Flow					
Debt Free Net Income	267,630	278,205	289,198	300,626	312,505
Dep. & Amort.	100,000	103,951	108,059	112,329	116,767
Capital Exp. Req.	-50,000	-51,976	-54,029	-56,164	-58,384
Working Cap. Req.	-12,039	-12,515	-13,010	-13,524	-14,058
Free Cash Flow	305,591	317,666	330,218	343,266	356,830

Notes: Projected 2005 revenues are expected to increase by 3.95% to $3,950,000. Gross profits are projected to be 34.18% of sales in 2005. Cash operating expenses are projected to be 21.38% of sales or $844,500, which calculates to EBITDA of $505,500 or 12.80% 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.

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.

A fundamental principle in valuing a business is that each determination of value must be based on the specific facts presented for the case at hand. This is reconfirmed in the Internal Revenue Service's Revenue Ruling 59-60, which states,

> "A determination of 'Fair Market Value', being a question of fact, will depend upon the circumstances in each case."

Thus, a proper valuation of a business will result from a dispassionate analysis of the firm's objective and subjective factors such as: the firm's financial condition; future income and expense risk factors; market and industry considerations; management and marketing functions; and the perceived esteem with which the business is held by its owners and others.

Fair Market Value is described in Revenue Ruling 59-60 as "the price at which the property would change hands between a willing buyer and a willing seller where the former is under no compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts." Although this concept of Fair Market Value implies an actual sale, the definition is widely accepted for business appraisals even when there is no actual sale contemplated and/or where an actual sale may be an arms-length transaction.

The concept of Fair Market Value is by no means as clear-cut as the exactness of the IRS definition would imply, or as its universal usage would indicate. The facts of each case always must dictate the firm's actual value as of the date of the valuation. The relevant facts must be uncovered through a vigorous business appraisal methodology, and then be tempered with sound judgment in arriving at Fair Market Value.

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.

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 subject company. We also excluded cash, accounts receivable, other assets and all other liabilities to arrive at an enterprise value. 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.

Debt Free Analysis

As a part of our analysis of the Company, we noted that XYZ Manufacturing has historically been somewhat lower leveraged than the average company. To minimize the impact of the difference in leverage between the Company and its peers, we used a debt-free analysis to estimate the value of the subject Company.

Non-Operating Assets & Working Capital Surplus/Deficit

All non-operating assets and/or liabilities have been added or deducted from the Company's asset value.

Total working capital as of the last full year was $369,932, which represents a working capital turnover of 10.27x. The industry average for working capital turnover is 6.10x. Working capital included in the proposed acquisition calculates to $300,000. This amount will be added / (deducted) from the enterprise value or assets value.

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 $785,000. The following assets and liabilities are included in the potential sale:

Assets/Liabilities Included in Sale

Inventory	$285,000
Fixed Assets	$500,000
Enterprise Value	$785,000
Cash	$0
Accounts Receivable	$300,000
Other Current Assets	$0
Other Assets	$0
Real Estate	$1,185,000
Assumption of Liabilities	$500,000
Total Assets/Liabilities Included in Sale	$1,770,000

As shown above, we have calculated an enterprise value (inventory and F,F&E) of $785,000. All assets and liabilities included in the sale calculate to $1,770,000. 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 333999 – Industrial Manufacturing.

Using the Internet, we performed a search for companies with NAICS 333999. 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 333999 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 Computstat. 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 3900-3999 - Manufacturing - Miscellaneous 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

	Revenue Size	Sale Price
Median	$1,340,000	$750,000
Mean	$1,693,673	$1,107,000

Transaction Multiples

	Price to SDE	Goodwill to SDE
High	5.33	3.61
Low	1.79	0.46
Median	3.20	2.28
Mean	3.19	2.24

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 XYZ Manufacturing, 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 $1,340,000. The median sale price was $750,000. 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	612,040	612,040
Selected Multiple	3.20	2.28
Indication of Value	1,958,528	1,395,451
Tangible Assets	0	785,000
Enterprise Value	$1,958,528	$2,180,451

(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 $1,958,528. This calculates to a price to revenue multiple of 0.51x, a price to EBITDA multiple of 4.24x and a price to seller discretionary earnings multiple of 3.20x.

Goodwill to Seller Discretionary Earnings

As shown above, the goodwill to seller discretionary earnings method indicates an enterprise value of $2,180,451. This calculates to a price to revenue multiple of 0.57x, a price to EBITDA multiple of 4.72x and a price to seller discretionary earnings multiple of 3.56x.

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				Median Valuation Multiples				
				MVIC Divided By:				
Type of Business	# of Transactions	Median Sales ($000's)	Median Sales Price ($000's)	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	$612,040	$350,924	$462,040	$3,811,850
Selected Multiple	3.28	8.22	7.43	0.75
Indication of Value	$2,006,879	$2,884,245	$3,432,957	$2,843,640
Weight	70%	10%	10%	10%
Total Weight				100%
Enterprise Value				$2,320,900

Comparable Private Transaction Method – Pratt Stats

As shown above, this method indicates an enterprise value of $2,320,900. This calculates to a price to revenue multiple of 0.61x, a price to EBITDA multiple of 5.02x and a price to seller discretionary earnings multiple of 3.79x.

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:

XYZ Manufacturing
Industry Rule of Thumb

Low Rule of Thumb	Multiple of Gross Sales	Multiple of EBITDA	Multiple of SDE	Average Value
Weighted Gross Revenue	3,811,850			
Weighted EBITDA		462,040		
Weighted SDE			612,040	
Selected Rule of Thumb	50%	4.00	2.00	
	1,905,925	1,848,160	1,224,080	
Add: Fixtures & Equip.	NA	NA	NA	
Add: Operating Inventory	NA	NA	NA	
Indication of Value	1,905,925	1,848,160	1,224,080	1,659,388

High Rule of Thumb	Multiple of Gross Sales	Multiple of EBITDA	Multiple of SDE	Average Value
Weighted Gross Revenue	3,811,850			
Weighted EBITDA		462,040		
Weighted SDE			612,040	
Selected Rule of Thumb	50%	6.00	4.00	
	1,905,925	2,772,240	2,448,160	
Add: Fixtures & Equip.	NA	NA	NA	
Add: Operating Inventory	NA	NA	NA	
Indication of Value	1,905,925	2,772,240	2,448,160	2,375,442

Weighted Values	Value	Weight	Extension
Low Rule of Thumb	1,659,388	50%	829,694
High Rule of Thumb	2,375,442	50%	1,187,721
Enterprise Value			$2,017,415

As shown above, we have calculated an enterprise value of $2,017,415. This calculates to a price to revenue multiple of 0.53x, a price to EBITDA multiple of 4.37x and a price to seller discretionary earnings multiple of 3.30x.

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. The capitalization rate build up is shown on the following page: **** Please note, Above Average Risk is "Riskier" and Below Average Risk is "Less Risky".***

XYZ Manufacturing
Capitalization Rate Build-Up

Direct Input Questions

	Answers	Risk Factor
How many years has the Company been in business?	11 to 15	Below Average Risk
What industry classification does the Company fall under?	Manufacturing Non Proprietary	Below Average Risk
Where is the subject Company in its business lifecycle?	Stabilization Point	Average Risk
What % does the Company's top customer represent in total sales?	Less than 5%	Low Risk
Top Supplier Risk?	Below Average	Below Average Risk
What % does the Company's top product or service rep. in sales?	Between 21% and 40%	Below Average Risk
Is the Company dependent upon its current owner?	Yes	Above Average Risk
Is the Company dependent upon another key employee?	No	Average Risk
How many direct competitors does the Company have?	Between 3 and 5	Below Average Risk
What are the market barriers to entry?	High Barriers to Entry	Below Average Risk
Is the Company dependent upon its location?	No	Below Average Risk
Does the Company have a proprietary product or service?	No	Average Risk
Is the Company's product or service price sensitive?	No	Below Average Risk
How high is employee turnover?	Below Average Turnover	Below Average Risk
Is there a union present?	No	Average Risk
Will the buyer need to have direct industry experience?	Yes	Above Average Risk
What is your overall risk rating?	Below Average Risk	Below Average Risk
Could this business be financed by the SBA (or can it be pre-qualified)?	Yes	Average Risk

Financial Variables

Stability of earnings	Below Average Risk
Profit margin trend	Below Average Risk
Earnings margins	Above Average Risk
Intangible risk	Average Risk
Relative size of the Company	Below Average Risk

R3 Score

Company Risk	Average Risk
Average Cap Rate on Discretionary Earnings	30.7%

Based on the above analysis, we have calculated a capitalization rate to seller's discretionary earnings to be approximately 30.7%. The final calculation is as follows:

Multiple of Discretionary Earnings (SDE)	
Weighted Seller Discretionary Earnings	$612,040
Multiplier (for discretionary earnings)	3.26
Enterprise Value	$1,992,709

As shown above, we have calculated an enterprise value of $1,992,709. This calculates to a price to revenue multiple of 0.52, a price to EBITDA multiple of 4.31x and a price to seller discretionary earnings multiple of 3.26x

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

×	(1 – tax rate)
=	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 XYZ Manufacturing 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		66.00%		
Total Cost of Debt			4.95%	
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		5.00%		
Total Cost of Equity			23.34%	
Total Cost of Equity				23.34%
Weighted Cost of Equity				18.67%
Weighted Average Cost of Capital				19.66%
Less: Sustainable Growth Rate				-3.95%
Capitalization Rate				15.71%

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 $1,075,095.

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 $1,052,681.

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

XYZ Manufacturing
Discounted Future Cash Flow

December:	Projected	Projected			
	2005	2006	2007	2008	2009
Free Cash Flow	305,591	317,666	330,218	343,266	356,830
Time Period	0.50	1.50	2.50	3.50	4.50
PV Factor	0.9142	0.7640	0.6384	0.5335	0.4459
Present Value (pv)	279,359	242,681	210,819	183,141	159,096

Terminal Value

Year 5F Cash Flow	356,830
(1 + sustainable growth rate)	103.95%
Year 6F Cash Flow = Cash Flow Year 5 x (1+g)	370,930
Weighted Average Cost of Capital	19.66%
Less: Long-Term Growth Rate	-3.95%
Equals: Capitalization Rate For Terminal Value	15.71%
Value of Perpetuity (Terminal Value) in Year 5F	2,361,021
Time Period	4.50
Present Value Factor	0.4459
Present Value of Perpetuity	1,052,681

Final Calculation

Sum of pv of Cash Flows	1,075,095
Plus: pv of Terminal Value	1,052,681
Enterprise Value	$2,127,776

As shown above, we have calculated an enterprise value of $2,127,776. This calculates to a price to revenue multiple of 0.56x, a price to EBITDA multiple of 4.61x and a price to Seller Discretionary Cash Flow multiple of 3.48x.

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 is 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		612,040
Adjusted Book Value (FF&E + Inventory)	785,000	
Reasonable Rate of Return on Assets	25%	
Return on Assets		196,250
Excess Earnings		415,790
SDE Capitalization Rate		31%
Add: Excess Earnings Premium		5%
Capitalization Rate for Excess Earnings		36%
Intangible Value		1,164,222
Add: Tangible Value (Adjusted Book Value)		785,000
Enterprise Value		$1,949,222

As shown above, we have calculated an enterprise value of $1,949,222. This calculates to a price to revenue multiple of 0.51x, a price to EBITDA multiple of 4.22x and a price to Seller Discretionary Earnings multiple of 3.18x.

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:

XYZ Manufacturing
Summary of Valuation Methods

	Value	Weight	Extension
Cost Approach to Value			
Tangible Asset Value (inventory & equipment)	$785,000	0%	0
Market Approach to Value			
SBA - Price to SDE	$1,958,528	20%	391,706
SBA - Goodwill to SDE	$2,180,451	10%	218,045
Comparable Transaction Method	$2,320,900	20%	464,180
Industry Method	$2,017,415	10%	201,742
Income Approach to Value			
Multiple of Discretionary Cash Flow	$1,992,709	20%	398,542
Discounted Future Cash Flow	$2,127,776	10%	212,778
Excess Earnings Method	$1,949,222	10%	194,922
Enterprise Value			
Enterprise Value		100%	$2,081,914
Estimated Stock Value			
Enterprise Value of the Business			$2,081,914
Add/(Deduct): Net Working Capital Included in Sale			$300,000
Deduct: Liabilities Included in Sale			-$500,000
Estimated Total Value Before Real Estate			$1,881,914
Add: Real Estate Included in the Sale			$1,185,000
Estimated Stock Value - All Assets & Liabilities			$3,066,914

As shown above, we calculated a low value (asset approach not included) of $1,949,222 and a high value of $2,320,900. Based on our analysis and experience in the market, we feel the appropriate value for the subject Company is $2,081,914, which calculates to be a price to revenue of 0.55x, price to EBITDA of 4.51x and price to SDE of 3.40x. The price multiples are based on weighted averages.

The Enterprise Value of $2,081,914 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 $3,066,914.

Other Market Considerations

Understanding the dynamics of the market place that drives the sale and acquisition of businesses and business ownership interests is critical in developing indications of value. The price paid for an investment does not always equal fair market value. Price and value can be influenced by the motivations of the seller and buyer, marketability of the business or business interest, terms of sale, and final costs of sale.

Motivations of the Seller and Buyer

Motivations of the seller to sell can greatly influence the final price and timing of the sale. Conversely, the buyer's motivations to buy can be influenced by strategic or synergistic reasons other than a normal required rate of return. The sale of a business is usually handled in a highly confidential manner by the principals and professionals involved due to concerns regarding the on going viability of the business. While there is generally no stigma attached to selling real estate and many other type investments, there often is stigma perceived when it becomes known that a business is for sale. Undue disclosure of a business being for sale may result in: loss of customers; suppliers changing their credit terms; banks changing their lending terms; employees concern for their jobs; and competitors using the information to their advantage. There are many legitimate reasons owners of businesses and business interests decide to sell such as retirement, ill health, time restraints, desire to make other investments, death of a principal or burn out. Premature disclosure of a sale or a seller's sudden desire to sell can influence the final sales price.

Buyers of businesses and business ownership interests do so out of the desire to: obtain immediate earnings; obtain established customers, suppliers equipment and facilities; obtain favorable returns on the investment; life style considerations and/or to enhance strategic or synergistic positions. The concept of "Fair Market Value" assumes a generic buyer motivated for reasons of investment, not a strategic, synergistic or life style buyer who may be willing to pay more due to their unique motivations to buy.

Unless otherwise indicated within this report, the value conclusions herein have not been influenced by extraordinary reasons to sell or the expectation of a special purpose buyer.

Marketability Considerations

The price and value of a business or business ownership interest can be influenced by its marketability or lack thereof. Some businesses have more "curb appeal" than others. Location and appearance can have a significant impact on whether or not the investment can be sold and the price at which it can be sold. The consideration of these factors has been addressed within this report. Their influence on value has been encompassed within the factors used to convert earnings into value or the selection of guideline transactions.

Terms of Sale

The acquisition of privately held businesses is typically done based on both equity capital and debt capital requirements. Sources of equity and debt capital will be greatly influenced by the type and size of the investment. Businesses with a lot of tangible assets will generally find more sources of capital than those with small amounts of tangible assets due to the perception of security in the event of liquidation.

Public companies and large privately held companies who chose to do an initial public offering are able to attract capital from the public market through the sale of their stock or bonds. Most small to midsize companies never have the option of going public, thus their options of attracting equity and debt capital are limited to private sources.

The price paid for a business can be greatly influenced by the terms of the sale. If the price is influenced by terms of sale, the price must be adjusted to reflect normal market terms of sale when determining fair market value. The indications of value determined within this report assume availability of equity and debt capital on normal market terms.

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	$2,320,900
Lowest Value (not including asset approach)	$1,949,222
Selected Value	$2,081,914
Goodwill (based on enterprise value)	$1,296,914

Enterprise Value Multiples

Enterprise Value to Last Full Year Revenue	0.55
Enterprise Value to Weighted Revenue	0.55
Enterprise Value to Last Full Year EBITDA	4.61
Enterprise Value to Weighted EBITDA	4.51
Enterprise Value to Last Full Year Seller Discretionary Earnings	3.46
Enterprise Value to Weighted Seller Discretionary Earnings	3.40

Enterprise Goodwill Multiples

Goodwill to SDE (last full year)	2.16
Goodwill to SDE (weighted)	2.12

* 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 $2,081,914. Price to last year's EBITDA was 4.61x. Price to weighted EBITDA was 4.51x. Price to last year's SDE was 3.46x and price to weighted average SDE was 3.40x. The range of multiples are consistent with the industry and privately held acquisition multiples.

Valuation Matrix

As shown below, most merger and acquisition experts will classify a privately held business into a few different categories. We have developed a "valuation matrix" that supports our theory about the different classifications of businesses and where most likely they will sell. In our research of the privately held sales, we have come to the following conclusion:

SDE Multiples 0.0x to 2.0x * Main Street-Type Business * Low Or No Growth * Low Barriers To Entry * Minimal Industry Consolidation * Higher Risk * Highly Dependent Upon Owner(s) NA	SDE Multiples 2.1x to 3.4x * Marketable Small Business * Slow Growth * Low To Medium Barriers To Entry * Some Industry Consolidation * Medium Risk * Somewhat Dependent Upon Owner(s) 3.40
SDE Multiples 3.5x to 4.4x * Typical Mid-Market Company * Higher Growth * Higher Barriers To Entry * Some Industry Consolidation * Lower Risk * Management In Place NA	SDE Multiples 4.5x and Beyond * Proprietary Product or Service * Attractive To Competition * Identifiable Market Opportunities * Significant Increase In Rev./Profit * Chance For Potential IPO * Professional Management In Place NA

As you can see above, we feel that every privately held business will fall into one of the four above categories. Based on our research of privately held sales, we have placed ranges of seller cash flow multiples for each category. The "Main Street" or mom and pop category is usually a smaller business, which is highly dependent upon the owner(s). These transactions are usually seller financed. The next category is slightly less dependent upon its owner(s), is stable and can attract long-term financing from the SBA. The next category of companies usually generate revenues over $10 million with stable operating profit margins. These businesses may be attractive to industry buyers and usually have management in place. The last category is most likely to attract a strategic buyer. This type of company will usually have some type of proprietary product or service with an identifiable market opportunity. Based upon its financial performance and qualities, we believe that XYZ Manufacturing falls under the category shown above.

Hypothetical Transaction

As you can see below, we have estimated what a "willing buyer" would pay for the certain assets and liabilities of the subject Company. Since most acquisitions don't involve the assumption of debt, we have deducted the long-term and short-term debt from the hypothetical transaction as shown below:

	Book Value 2004	Price Buyer Will Pay
Assets		
Cash & Equivalents	165,740	0
Accounts Receivable	257,480	0
Inventory	298,952	285,000
Other Current Assets	10,102	0
Total Current Assets	732,274	285,000
Fixed Assets	1,454,100	500,000
Accum. Depreciation	-1,120,102	0
Net Fixed Assets	333,998	500,000
Other Assets	0	0
Total Assets	1,066,272	785,000
Liabilities and Equity		
Accounts Payable	231,010	0
Short-Term Debt	109,874	0
Other Current Liab.	21,458	0
Total Current Liabilities	362,342	0
Total Long-Term Debt	174,856	0
Other Liabilities	0	0
Total Liabilities	537,198	0
Owners' Equity	529,074	0
Liabilities & Equity	1,066,272	0
Purchased Assets and Liabilities		785,000
Intangible Value		1,296,914
Total Price		2,081,914

Proof of Valuation

To test the reasonableness of my opinion of the Company's fair market value, we performed a proof of valuation analysis. This analysis includes assumptions regarding the cash down payment the terms of the purchase notes, and the business's projected cash flows. These assumptions are presented in the following exhibit:

Source of Purchase Funds	Percentage	Amount	Terms In Months	Interest	Monthly Payment
Required Cash From Buyer	20%	416,383			
3rd Party Financing	80%	1,665,531	120	7.5%	19,770
Seller Take Back Note	0%	0	0	0.0%	NA
Total	100%	2,081,914			19,770

Based on the purchase terms presented in the above exhibit, we analyzed the Company's projected cash flows to ascertain whether or not they cover the hypothetical interest and principal payments. The hypothetical post-sale cash flow was calculated as follows:

1. The projected adjusted before-tax income was reduced by interest payments on purchase notes and any payments for a covenant-not-to-compete and/or an employee contract. The result of this adjustment was termed the business's "Post-Sale Adjusted Income."

2. The Post-Sale Adjusted Income was reduced by an income tax factor of 34%.

3. All non-cash depreciation and amortization expenses were added back.

4. The principal portion of all debt instruments is deducted.

The result of the above adjustments is termed the business's Simple Cash Flow. Please note, the hypothetical post-acquisition cash flow shown on the following page will most likely be very different from the actual buyer's post-acquisition cash flow due to the asset allocation and its tax implications.

The business's annual projected hypothetical post-sale cash flows are presented in the exhibit on the following page:

December:	Projected	Projected			
	2005	2006	2007	2008	2009
EBIT	405,500	421,523	438,179	455,493	473,492
3rd Party Note Interest	-120,972	-110,562	-100,211	-89,919	-79,686
Seller Note Interest	NA	NA	NA	NA	NA
Projected Post Sale EBT	284,528	310,961	337,968	365,574	393,806
Income Taxes @ 34%	-96,740	-105,727	-114,909	-124,295	-133,894
Projected Net Income	187,788	205,234	223,059	241,279	259,912
Depreciation/Amortization	100,000	103,951	108,059	112,329	116,767
3rd Party Principle Pmt.	-116,270	-126,679	-137,030	-147,323	-157,556
Seller Note Principle Pmt.	NA	NA	NA	NA	NA
Hypothetical Post Sale CF	171,519	182,506	194,087	206,285	219,124
Return on Down Payment	41%	44%	47%	50%	53%
Return on Total Deal	8%	9%	9%	10%	11%
EBITDA Debt Coverage	2.13				
Ave. 3-Year Debt Cov.	1.77				

As you can see above, based on our "hypothetical buyer" and our assumptions, 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.

To further test the reasonableness of the value, we have calculated the expected payback period, or the number of years it will take to pay off the note if all cash flows were used. This calculation is as follows:

Cash Down Payment	$416,383	
Year	Yearly Cash Flow	Accumulated Cash Flows
Year 1	171,519	171,519
Year 2	182,506	354,025
Year 3	194,087	548,112
Year 4	206,285	754,397
Year 5	219,124	973,521

As shown above, the Company has the ability to payback its initial cash down payment before year five, which is favorable.

* 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.

What-If Scenario

Based upon the weighted average discretionary cash flow margin, the Company is currently performing below industry averages. If the Company performed at industry averages, it would be worth approximately $2,985,823 as shown below:

Value Based Upon Industry Averages

Projected SDE	655,500	Industry Ave. SDE Margin	23.8%
Projected SDE Margin	16.6%	Industry Average SDE	940,100
Projected SDE Multiplier	3.18	Value Based On Industry Ave.	2,985,823

Common Size Industry Analysis

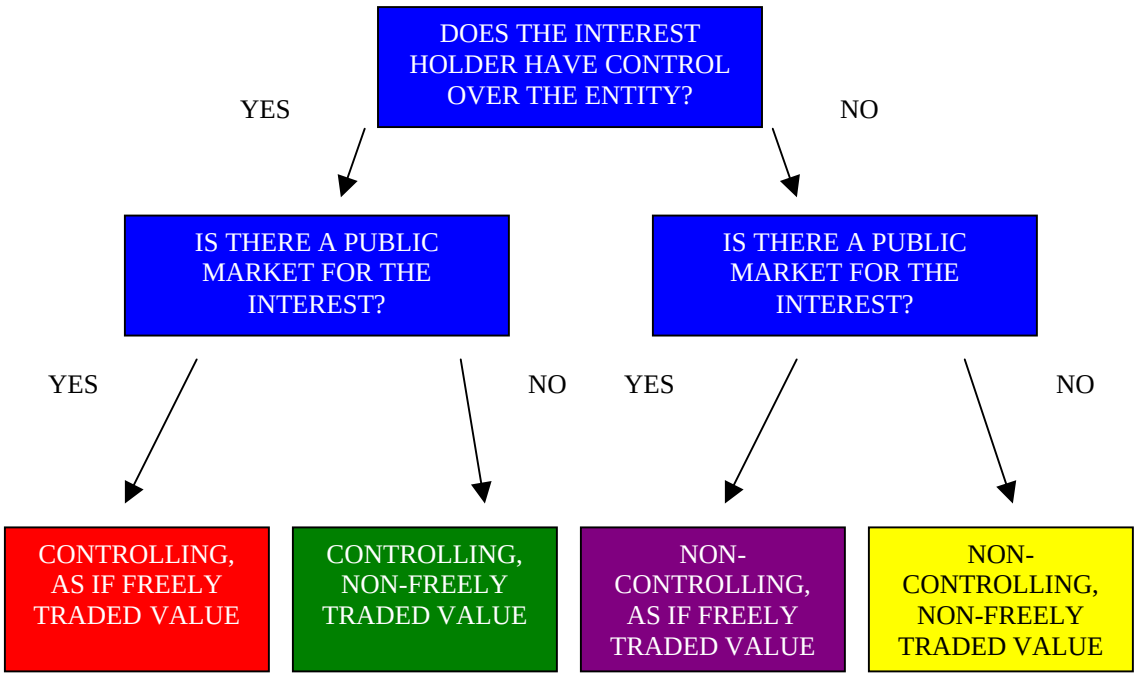
Average profitability & expense percentages for U.S. small businesses*		
Manufacturing - Machinery	$	%
Total Revenue (Sales)	$3,950,000	100.0%
Total Expenses as % of Revenue	$3,008,785	76.2%
Net Income to Owner as % of Revenue	$941,215	23.8%
Detail of Expenses (as % of Revenue)		
Cost of Goods Sold	$1,754,359	44.4%
Salaries & Wages	$341,287	8.6%
Advertising	$11,480	0.3%
Auto & Truck Expenses	$81,259	2.1%
Depreciation	$182,564	4.6%
Employee Benefits	$47,690	1.2%
Home Office Business Expenses	$3,871	0.1%
Insurance	$63,403	1.6%
Interest Expense	$45,362	1.1%
Legal & Professional Services	$13,724	0.3%
Meals & Entertainment	$4,653	0.1%
Office Expense	$19,271	0.5%
Retirement Plans	$3,484	0.1%
Rent - Equipment	$9,987	0.3%
Rent - Office & Business Property	$62,400	1.6%
Repairs	$32,899	0.8%
Supplies	$40,446	1.0%
Taxes - Business & Payroll	$103,302	2.6%
Travel	$11,786	0.3%
Utilities	$76,971	1.9%
Other Expenses	$98,587	2.5%
Total Expenses as % of Revenue	$3,008,785	76.2%

* The information above is from Bizminer and Bizstats. It is to be used solely as a guide and is not guaranteed for accuracy.

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.

Adjustments To Value



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.

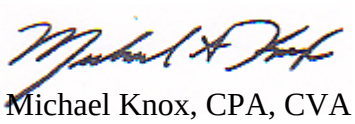
7. We have not personally inspected the assets, properties or business interests encompassed by this appraisal.

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.