Part I

Business Appraisal

Chapter 1

Valuation of a Manufacturing Facility

REPORT INTRODUCTORY MATTER

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Report Description

Purpose: C-Corp to S-Corp Conversion
Use: Federal Tax Status

Usefulness of Report

Provided basis for allocation of value for tax purposes as well as information for owners' preliminary estate planning

Lessons from Litigation

- Financial analysis of historic performance
- Development of market and income approaches to value an operating company

I. INTRODUCTION

A. Purpose

The purpose of this appraisal is to determine the Fair Market Value of a 100 percent interest (1,000 shares of common stock) in Building Co. for S-Corporation conversion purposes as of December 31, 1999. This report is intended for use only by our client and those intended users applying our appraisal in accordance with its intended use, and is subject to the attached Statement of General Assumptions and Limiting Conditions.

B. Definition of Fair Market Value

For this appraisal, we have used the definition of Fair Market Value as follows: "*The amount at which property would change hands between a willing seller and a willing buyer when neither is acting under compulsion and both have reasonable knowledge of the relevant facts*" (American Society of Appraisers, *Business Valuation Standards*). It is also generally assumed that Fair Market Value represents a transaction between hypothetical persons dealing at arm's length, with both having the ability as well as the willingness to buy or to sell. It is further assumed that both parties are well informed about the property and the market for such property.

C. Premises of Value

The premise used for Building Co. is value as a going concern. Under this premise, it is assumed the subject assets are sold as a mass assemblage of assets and as part of an income-producing, going-concern business enterprise. This premise of value contemplates the mutually synergistic relationships (i.e., the value enhancement) of a company's tangible assets to its intangible assets and vice versa.

D. Summary of Final Estimate of Fair Market Value

The estimated Fair Market Value of a 100 percent controlling interest in the common stock of Building Co. as of December 31, 1999, is as follows:

$132,000,000
or
$132,000 per share based on 1,000 shares issued and outstanding

Readers are urged to read the "Statement of General Assumptions and Limiting Conditions" section of this report for important conditions, restrictions, and assumptions. Additionally, numerous assumptions are included throughout this report. Therefore, readers should read the entire report in order to attain an understanding of the value estimate contained herein.

E. Summary Description of the Business

Building Co. is headquartered in a small Iowa town and has been in operation since before World War II. Initially a manufacturer of water tanks used in farm and ranch operations, by the early 1980s the company had expanded into making metal components for buildings. In 1986 Building Co. added a full line of engineered prefabricated steel buildings to its product lines. Building Co.'s first branch location was established in a small town in 1989. Ten additional branches throughout Iowa have been opened as of the appraisal date. Three of these branches (Des Moines, Independence, and Dubuque) are manufacturing and sales branches; the remaining are sales branches. At the appraisal date, two additional sales branches were planned, including a location in Ohio.

Operations of Building Co.

As mentioned earlier, Building Co. manufactures and resells engineered and prefabricated frames, components, and accessories used for construction of metal buildings and a variety of other applications, such as residential roofing.

Customers. Building Co. has a well-diversified customer base. As a result, it does not depend on any significant buyers. This in turn lowers its business risk. The prefabricated metal building industry is price-sensitive, although customers seek product and service quality. Due to competition by national and local manufacturers, Building Co.'s strategy is to provide its customers with low-priced, good-quality products on a regional basis. Its products and services are designed to effectively satisfy project owner and end user needs for metal construction material. Building Co. adds value to its material through a variety of services to support its customers' execution of their projects.

Work Force. Building Co.'s key management team comprises twelve people. Bill, President and Chief Executive Officer, and Joe, Chief Financial Officer, have been with Building Co. since its acquisition in 1984. Both Bill and Joe have excellent experience and are key to the success of Building Co. According to management, Building Co.'s remaining core management is understaffed, and it has weak employee development programs. This could put pressure on operations in the long run. The company's total employment is approximately 361.

Competition and Generic Strategy. Building Co. has both local and national competitors. According to management, there are nineteen privately held competitors and three publicly traded competitors.

A profitable and growing industry attracts new competition. Due to new entrants to the market, existing companies typically pursue a certain competitive strategy, such as cost leadership, product differentiation, or focus on services. Building Co.'s generic strategy incorporates all three, in that it is based upon lowest total cost and good quality and service. It attempts to accomplish this while maintaining price proximity and product parity with its competition. Building Co.'s marketing and distribution strategy is to target the end user of its products.

Barriers to Entry. The threat of entry into an industry depends on entry barriers coupled with the existing competitors' reaction. There are several factors that may act as entry barriers to the end-user segment of the prefabricated metal building industry. These factors include the following: (1) it is capital- and service-intensive, (2) establishing relationships within the end-user market can be time-consuming because existing firms have brand identification and customer loyalties that stem from past advertising, customer service, product differences, or simply being first into the market, (3) proprietary products, (4) demanding engineering and manufacturing technology and processes, and (5) learning or experience curve. Given these considerations, the prospects for significant new competitors to Building Co.'s business are moderately low.

Supplies. Building Co. purchases its supplies from a wide variety of vendors. However, major suppliers comprise nine global companies. In the last five years domestic steel consumption has remained steady. Due to oversupply across multiple vendors, Building Co.'s vendors could probably be replaced if necessary. As a result, the suppliers have little ability to influence the company's operations.

Regulations. Building Co. is in compliance with EPA regulations, and management indicated that currently there is no environmental off-balance-sheet liability and/or contingency.

Locations. Building Co. has eleven locations with two additional outlets planned. Three of these locations are involved in both manufacturing and sales operations. The rest provide sales and service. All are currently located in Iowa.

Key Man. As already noted, Bill and Joe are both key to Building Co.'s success.

Exhibit 1.1 Shareholders and Distribution of Stock

Shareholder	Number of Shares
Bill	400
Don	400
Joe	200

Stock Ownership of the Company

Currently, Building Co. has 1,000 shares of voting common stock issued and outstanding. Exhibit 1.1 is a list of shareholders and the distribution of its stock:

There have been prior year redemptions of common shares from the estate of a deceased shareholder. An independent appraisal of value was not prepared on this transaction.

Perceived Strengths of the Company

- Top-level management has experience and an understanding of the prefabricated metal building industry.
- Building Co. has proven branch expansion models that will help management expand its operations to new regions.
- Building Co. especially pursues customer focus and reaches end users of its products productively, without invoking high distribution costs. Building Co. does not use dealers or distributors. It markets, sells, and distributes directly to its products' end users.
- Building Co.'s organizational structure allows it to change and respond to competition effectively by maintaining price and product proximity.
- Building Co. has established customer relationships and maintains a high name recognition.
- Building Co. is not dependent upon any concentration of customers for its success.

Perceived Weaknesses of the Company

- Building Co.'s core management team is understaffed.
- Building Co.'s operations are especially dependent upon key men.

- The market for its product lines is price-sensitive. However, Building Co. has significant competitive differentiation opportunities through its service package to support its customers' use of its products.
- It has been difficult to locate and retain qualified managers at Building Co.
- Quality assurance processes in Building Co. are weak.
- There is a definite regional geographic dependency for Building Co.'s products.

II. ANALYSIS

A. Economic Outlook

To set the state for this valuation, we considered the following information on the performance of both the U.S. and Iowa economies at the end of 1999.

National Economic Summary

Economic growth, as measured by growth in GDP, accelerated to 5.8 percent in the fourth quarter of 1999, after registering a revised 5.7 percent annualized rate in the third quarter. Annual growth in GDP for 1999 was 4.0 percent. Stock markets finished the year at record levels. Both the Dow and S&P 500 experienced double-digit growth for the fifth straight year, while the NASDAQ posted an 85.6 percent gain in 1999. Bond prices have generally declined throughout the year but showed particular weakness on rising yields late in the fourth quarter. Fourth-quarter inflation reflected a seasonally adjusted annualized rate of 2.2 percent, representing a decrease from the third-quarter rate of 4.2 percent. The rate of inflation for 1999 was 2.7 percent, higher than the 1.6 percent rate of 1998. After leaving interest rates unchanged at its October 5 meeting, the Federal Reserve's Open Market Committee raised interest rates by a quarter of a percentage point at its November 16 meeting. No change was made at the December 21 meeting. Economic growth is expected to moderate somewhat from recent levels, but should remain historically favorable, with GDP growing at 3 percent to 4 percent. Inflation is expected to remain relatively mild at below 3 percent, but increasing fuel prices are posing a significant threat to future price stability.

Implications for Building Co.

All businesses are not affected by aggregate economy the same way. In general, demand for goods and services that people do not regard as daily necessities is more elastic than the demand for daily necessities. The businesses providing products that people do not regard as daily necessities are affected by changes in economic conditions more than businesses providing goods or services that people regard as daily necessities. As a result, the buyers' discretion would determine how much broad economic influences affect the enterprise.

There is a positive correlation between the strength of the economy and the demand for both Building Co.'s products and services. For example, strong economic growth has a positive effect on the level of disposable income of both businesses and individuals. This effect increases the rate of construction and building and therefore increases demand for Building Co.'s nonessential items. This relationship between the strength of the aggregate economy and the demand for nonessential items is straightforward. With a strong, growing economy more people will make decisions to construct metal buildings, perhaps to expand their own businesses.

State Economic Summary

The Iowa manufacturing sector has performed well this decade. It added over 16,000 manufacturing jobs thus far in the 1990s. While several Iowa manufacturers continue to be impacted by reduced government procurement, the state's manufacturing sector overall has recovered from the large-scale downsizing of the early 1990s, which had more far-reaching consequences on the economies of several Western and Northeastern states. Substantial employment increases in industrial machinery, electronics, and fabricated metals have more than offset declines in the state's transportation equipment industry, which is dominated by farm-related manufacturing. Led by investment in the fertilizer industry, new capital expenditures (i.e., investments in new machinery and new facilities or major facility improvements) in manufacturing have surged from \$8.9 billion in 1990 to \$13.2 billion in 1996. The capital-intensive fertilizer industry accounted for one-third of new capital investment in Iowa manufacturing in 1996. Electronics products also recorded relatively high levels of capital investment throughout the 1990s.

B. Industry Outlook

There are two subsets constituting the overall metal building industry: the metal building component industry and the building systems industry. Both subsets combined result in an industry generating \$6 to \$7 billion in annual sales. Building Co. is well positioned in each industry segment. Approximately 70 percent and 30 percent of its sales are generated by the components and building systems, respectively.

To gain insight into the condition and outlook for the overall industry, we studied information provided by the Metal Building Manufacturing Association (MBNA) and the International Iron and Steel Institute (IISI).

Prefabricated Metal Building Systems Industry

Metal buildings are found everywhere—the largest market is industrial, which constitutes a little more than 41 percent of metal building construction. These buildings include production, distribution, warehouse, and utility buildings for manufacturing firms and are designed to withstand the rigors of industrial operations.

Commercial facilities, such as stores, motels, hospitals, and office complexes constitute the second largest market for metal buildings, about 38 percent. These facilities are not only aesthetically pleasing, but built to last for an extremely long service life, for they may have multiple owners during their in-service lifetime.

Private and public community centers and buildings, such as schools, libraries, and churches, have also turned to the metal construction industry for unique, distinctive structures that offer maximum protection and stability, as well as striking design elements.

Metal roofing systems have become a strong choice not only for metal buildings, but for others as well, due to their superior life-cycle costs when compared to modified bitumen, spray-applied, and adhesive-based rubber roofing systems.

C. Analysis of Operations

Before applying various valuation techniques, it is appropriate to present a general view of Building Co.'s operating performance. The analyses in this section have been developed using the unadjusted audited and internal financial statements provided by management (see Exhibits 1.6 and 1.7 on pages 33–35). Also shown in selected tables is information on industry performance as published by Risk Management Associates.

Analysis of Operations of Building Co.

Selected operating performance data for Building Co. for the years ended December 31, 1995 through 1999, is shown in Exhibit 1.2.

DuPont Analysis

Net Profit Margin. The net income to sales ratio (net profit margin) measures a company's ability to generate net income per dollar of revenue. Total revenues for Building Co. increased at a compound annual growth rate (CAGR) of 10.1 percent, or from $71.3 million in 1995 to $104.9 million in 1999. This positive

Exhibit 1.2 Operating Performance Data for Building Co.

BUILDING CO.					
KEY FINANCIAL RATIOS					
LIQUIDITY	12/31/95	12/31/96	12/31/97	12/31/98	12/31/99
Current Ratio	4.74	5.92	5.16	5.44	4.89
Quick Ratio	1.26	2.59	2.64	2.39	2.94
Working Capital	$19,856,401	$23,341,859	$25,687,168	$28,856,877	$34,337,741
Sales/Working Capital	3.59	3.16	3.26	3.20	3.06
ACTIVITY					
Asset Turnover (Sales/TA)	2.15	1.90	1.86	1.72	1.57
Inventory Turnover (COS/Inv)	2.73	3.29	3.97	3.31	4.17
Net F/A Turnover (Sales/NFA)	8.92	6.84	6.35	5.04	4.42
Gross F/A Turnover (Sales/GFA)	4.90	4.00	3.74	3.13	2.82
% Officers', Owners Comp./Sales	0.00%	0.00%	0.00%	0.00%	0.00%
A/R Turnover (Sales/Rec.)	27.77	28.91	29.90	32.51	30.35
A/P Turnover (COS/Payables)	19.18	23.42	19.29	18.60	18.07
Days A/R Outstanding	13	13	12	11	12
Days A/P Outstanding	19	16	19	20	20
LEVERAGE					
Total Liabilities/Assets	16.95%	13.20%	14.70%	13.22%	14.38%
Long-Term Debt/Equity	0.00%	0.00%	0.00%	0.00%	0.00%
Interest-Bearing Debt/Equity	0.00%	0.00%	0.00%	0.00%	0.00%
Interest-Bearing Debt/Assets	0.00%	0.00%	0.00%	0.00%	0.00%
Total Assets/Equity	1.20	1.15	1.17	1.15	1.17
Total Liabilities/Equity	0.20	0.15	0.17	0.15	0.17

(continued)

Exhibit 1.2 *Continued*

PERFORMANCE					
Pretax Profit Margin	13.29%	13.60%	11.86%	14.22%	16.24%
Net Profit Margin	8.41%	8.68%	7.58%	9.05%	10.20%
Operating Inc./Total Assets	26.93%	24.91%	20.24%	22.58%	24.13%
Return on Equity	21.77%	18.97%	16.51%	17.92%	18.68%
Pretax ROE (PBT/Net Worth)	34.40%	29.73%	25.84%	28.16%	29.75%
Pretax Inc./Total Assets	28.57%	25.80%	22.04%	24.44%	25.47%
YEAR-TO-YEAR GROWTH					
Net Sales	NA	3.44%	13.53%	10.17%	13.73%
Cost of Sales	NA	1.77%	16.50%	9.41%	6.44%
Operating Expenses	NA	4.68%	14.30%	1.86%	25.39%
Net Income – Common	NA	6.76%	-0.86%	31.49%	28.22%
Accounts Receivable	NA	-0.63%	9.78%	1.30%	21.83%
Inventory	NA	-15.54%	-3.46%	31.44%	-15.65%
Fixed Assets at Cost	NA	26.85%	21.30%	31.47%	26.61%
Net Fixed Assets	NA	34.82%	22.33%	38.85%	29.56%
Total Assets	NA	17.22%	15.87%	19.13%	24.65%
Equity	NA	22.51%	13.88%	21.19%	22.97%
Equity per Share	NA	22.51%	13.88%	21.19%	22.97%

trend was driven by a combination of the following factors: (1) an increase in the number of sales locations and (2) an increase in the dollar sales of existing sales locations.

Net income increased from a low of $5.9 million in 1995 to $10.7 million in 1999. The CAGR of net income over this time frame is 15.6 percent.

Net profit margins increased from 8.4 percent to 10.2 percent from 1995 to 1999, respectively. The factors that drove this increase include cost controls due to increases in productivity and increases in economies of scale gained through expanding Building Co.'s operations to other locations. In addition, Building Co.'s interest income increased from $545,916 in 1995 to $1,106,589 in 1999 primarily as a result of its high cash reserves invested in temporary investments. The higher net profit margin in 1999 had a positive effect on Building Co.'s return on assets (ROA) and return on equity (ROE).

Asset Utilization. The sales to total asset ratio (asset utilization) measures the efficiency with which a company utilizes its assets to generate revenues. Total assets increased at a CAGR of 19.2 percent, or from $33.2 million in 1995 to $66.9 million in 1999. The positive trend is primarily driven by the following two factors: (1) Building Co. has expanded its operations to new locations, and (2) it has invested in inventory and other assets to support revenue growth. These investments have a positive effect on Building Co.'s ability to support long-term revenue growth.

Over the 1995 to 1999 period, Building Co.'s asset utilization ratio decreased from a high of 2.15 for the twelve-month period ending December 31, 1995, to a low of 1.57 for the twelve-month period ending December 31, 1999. This decrease in asset utilization ratio suggests that Building Co.'s assets increased at a faster rate than the rate of increase in sales. However, among other factors, the significant increase in cash had a negative effect on asset utilization, especially in the most recent years. The decrease in Building Co.'s asset utilization ratio in 1999 had a negative impact on the company's ROA and ROE. These two measures of return limit sustainable growth rates in two cases: (1) internally generated funds are fully invested, and (2) leverage is constant. In Building Co.'s case, profits are not being fully reinvested in operations as earned. However, these accumulated cash reserves are available for investment to sustain growth.

Leverage Ratio. The total asset to owners' equity ratio is a measure of financial leverage. It indicates the percentage of a company's assets that is financed through non-equity alternatives ranging from trade payables to formal interest-bearing debt. This is accomplished through the following relationship:

$$\frac{\text{Total Assets}}{\text{Owners' Equity}} = \frac{\text{Owners' Equity + Total Debt}}{\text{Owners' Equity}}$$

A total asset to owners' equity ratio in excess of one indicates that a company is financing a percentage of its total assets through the use of debt. As a company finances a higher percentage of its assets through the use of various forms of debt, the total asset to owners' equity ratio will increase. Building Co.'s owners' equity increased from $27.5 million to $57.3 million, or a CAGR of 20.1 percent, over the 1995 to 1999 period. As mentioned previously, total assets increased at a CAGR of 19.2 percent, or from $33.2 million in 1995 to $66.9 million in 1999. Its total asset/equity ratio has varied only slightly over recent years, ranging from 1.15 to 1.17.

Building Co.'s leverage ratio (total liabilities/total assets) declined from 16.95 percent in 1995 to 14.38 percent in 1999, indicating that the percentage of total debt in its capital structure declined. This also indicates that a higher percentage of assets was being financed through the use of equity. This reduces financial risk; however, the lower leverage ratio has a potentially negative effect on Building Co.'s ROE. Lower leverage may also impact its sustainable rate of growth if the company cannot fund all its operating investment opportunities with equity, either through profits or capital infusions. At least for now, Building Co. does not face this limitation.

Size and Growth. Over the 1995 to 1999 period, there has been a positive trend in Building Co.'s total assets, revenues, net income, and owners' equity.

Building Co.'s total assets increased at a CAGR of 19.2 percent, or from $33.2 million in 1995 to $66.9 million in 1999. The growth rate of total assets ranged between 15.87 percent for the twelve-month period ending December 31, 1997, to 24.65 percent for the twelve-month period ending December 31, 1999. Its owners' equity also increased from $27.5 million to $57.3 million, or a CAGR of 20.1 percent, over the 1995 to 1999 period. The growth rate of owners' equity ranged between 13.88 percent for the twelve-month period ending December 31, 1997, to 22.97 percent for the twelve-month period ending December 31, 1999.

Total revenues increased at a compound annual growth rate (CAGR) of 10.1 percent, or from $71.3 million in 1995 to $104.9 million in 1999. The growth rate in revenues ranged from 3.44 percent for the twelve-month period ending December 31, 1996, to 13.73 percent for the twelve-month period ending December 31, 1999.

Net income increased from a low of $5.9 million in 1995 to $10.7 million in 1999. The compound annual growth rate of net income over the 1995 to 1999 period is 15.6 percent. The growth rate in net income ranged from negative 0.86 percent for 1997 to 31.49 percent for 1998. The decrease in growth of net income in 1997 can be attributed to an increase in cost of sales due to fluctuations in steel prices.

Liquidity. Over the 1995 to 1999 period, Building Co.'s current ratio ranged between a low of 4.74 in 1995 to a high of 5.44 in 1998. The quick ratio increased from the period low of 1.26 in 1995 to a high of 2.94 in 1999. During the 1995 to 1999 period, the level of working capital ranged from $19.9 million in 1995 to $34.3 million in 1999. The increase in working capital over the 1995 to 1999 period reflects the increase in cash reserves to a level greater than required for current operations.

The increase in cash reserves had a positive effect on the current ratio and working capital over the 1995 to 1999 period. Building Co.'s inventory is not included in the quick ratio, making it a more conservative measure of liquidity.

Profitability. Over the 1995 to 1999 period, Building Co.'s operating profit margin ranged from a low of 10.9 percent in 1997 to a high of 15.4 percent in 1999. These fluctuations were caused by changes in gross profit margins and operating expenses from year to year. Specific factors include variations in cost of materials and fixed overhead expenses related to increases in the number of sales locations.

Turnover. Building Co.'s sales to working capital ratio has ranged between a high of 3.59 in 1995 and a low of 3.06 in 1999. The decrease in the ratio does not indicate more working capital required to generate a dollar of revenue in 1999, but an accumulation of cash excess for operating investment requirements.

The sales to gross fixed asset ratio ranged between 4.90 in 1995 to 2.82 in 1999, indicating that Building Co. required more fixed assets to generate a dollar of revenue in 1999. This asset utilization performance is related to the need to satisfy investment requirements for adding new locations before the new locations could have an effect on Building Co.'s sales growth rate.

Book Value

As of December 31, 1999, Building Co.'s book value is $57,276,399, or approximately $57,276 per share. This is based on 1,000 shares of common stock issued and outstanding.

III. VALUATION

A. Description of Valuation Procedure and Approaches

There are many factors to consider when valuing a company. In valuing the stock of a closely held corporation, *Revenue Ruling 59–60* recites eight "fundamental" factors to consider. These factors are:

1. The nature of the business and 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 earning capacity of the company
5. The dividend-paying capacity
6. Whether or not the enterprise has goodwill or other intangible value
7. Sales of the stock and the size of the block of stock to be valued
8. The market price of the stocks of corporations engaged in the same or a similar line of business, having their stock actively traded in a free and open market, either on an exchange or over the counter

The Lack of Control and Marketability are other factors to consider when valuing the stock of a closely held corporation, both of which may warrant an adjustment. Additionally, lack of management succession, overreliance on a particular individual, or the personal nature of a particular business may also warrant an adjustment.

We considered the Asset-Based, Market, and Income Approaches to value. *Revenue Ruling 59–60* states that earnings when evident should be accorded the most weight in valuing operating companies. We ultimately selected the use of the Income and Market Approaches for Building Co. We also determined that there had been no recent third-party transactions in any stock.

B. Valuation Approaches and Methods Employed

Valuation of Building Co.

We considered the following valuation approaches and methods in our appraisal of Building Co. The premise of value used to guide us in the appraisal process is that of a going concern.

Income Approach—Discounted Net Cash Flow Method. This method, along with the related capitalization of net income method, is frequently applied in the context of mergers and acquisitions. A knowledgeable investor believes a company is worth the present value of its future net cash flows. When future net cash flows are expected to fluctuate, the discounted net cash flow method is preferred to the capitalized net income method. The discounted net cash flow method may also serve a wide variety of valuation purposes, including the estimation of both controlling and minority interests. In this report, we considered the net cash flow available to a controlling interest. Net cash flow available to equity considers the following: net income, noncash items, changes in working capital, changes in capital expenditures, and changes in debt, adjusted as necessary in this case for control decisions on the use of funds.

The discounted net cash flow method requires a forecast of net cash flow over the economic life of the subject company. This is accomplished by forecasting net cash flow over a realistic period, then deriving a terminal value through the capitalization of net cash flow beyond this period. When determining a realistic period in which to forecast net cash flow, we considered three factors: (1) as we extend the projection period, the financial data loses reliability, which in turn reduces the marginal benefit of projecting an additional year; (2) in order to determine the future net cash flow of a company, its net cash flows should be considered over at least one operating cycle; and (3) additional years should be projected until growth equals the expected long-term rate. After considering these factors, a reasonable period to forecast Building Co.'s net cash flow seems to be six years, including the terminal year. In other words, we prepared a forecast from the year 2000 through 2005 to account for a reasonable cycle and provide a terminal period (see Exhibits 1.6–1.8 on pages 33–36). Part of this forecast was derived from management's projections.

The forecast has the following assumptions:

- Annual revenue growth for the 2000 to 2005 period follows:

12/31/00	12/31/01	12/31/02	12/31 /03	12/31/04	12/31/05
14.0%	14.0%	12.0%	11.0%	10.0%	4.0%

  The annual growth rate of revenues remained at 4 percent beyond the terminal period. This growth rate was applied to approximate Building Co.'s long-term sustainable growth rate. The sustainable growth rate is the maximum growth rate in assets a company can sustain without issuing new equity. The maximum, sustainable growth rate is equal to the company's return on equity if no dividends are paid (ROE $\times$ (1 – D/E)).
- Depreciation is assumed at 6.5 percent of the gross depreciable assets for each forecasted year.
- We assumed that the change in accumulated depreciation equals the annual depreciation expense in that year.
- Building Co.'s capital structure is not changed during the forecast period.
- We assumed that cost of sales and gross profit margin will remain constant at 66 percent and 34 percent, respectively, during the forecast period.
- We assumed that operating expenses will remain at 17 percent during the forecast period.
- We assumed the following operating profit margin for the 2000 to 2005 period:

12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05
15.5%	15.5%	15.6%	15.6%	15.6%	15.6%

- We assumed that Building Co.'s Accounts Receivable Days Outstanding, Accounts Payable Days Outstanding, and Inventory Turnover will remain constant at 12 days, 19 days, and 3$\times$, respectively, over the 2000 to 2005 period.
- For the purpose of determining cash flow, working capital is defined as current assets less current liabilities minus current interest-bearing debt and short-term interest-bearing debt. The short-term interest-bearing debt and current interest-bearing liabilities are included in financing activities (with other interest-bearing debt).
- During our analysis we have identified excess cash reserves. The excess cash invested in the temporary investments accounts does not contribute to operations. We assumed that this excess cash is not an operating asset and removed it from the financials. As a result, for valuation purposes, this amount was added back to Building Co.'s final operating Fair Market Value.
- We assumed that Building Co.'s adjusted cash balance will remain constant as a percentage of sales at 6 percent. This rate was based on industry levels. The 6 percent cash as a percentage of sales approximates a working capital/sales ratio of 30 percent. This ratio is derived from guideline public companies (discussed in following sections).

- We applied a similar adjustment to historic and projected interest income. Because of the reduction in excess cash, interest income was reduced to a level that would be earned on the remaining cash in the company. For this purpose, we assumed that the remaining cash balance in a money market account will earn 4.5 percent.
- On Building Co.'s 1999 financial statement, we adjusted management compensation according to an industry officer compensation average. Using our findings from proxy statements of guideline companies, we calculated the average management compensation as 0.63 percent of sales. This adjustment affected the historical income statement and related ratios. As a result, we factored this salary adjustment into our operating expense forecast.
- We assumed that Building Co. will continue to expand into new regions and spend capital to establish and support new facilities. Therefore, annual capital expenditures on gross depreciable assets were expected to be $5 million during the forecast period.

The adjustments made to historic income statements used to prepare our forecast are shown in Exhibit 1.8. on page 36.

We are unaware of any material nonrecurring items or other GAAP-type issues. As mentioned above, this report considers the net cash flow available to a controlling interest.

The next step in the valuation is the determination of a discount rate. We began by assuming that stock market returns are after corporate taxes but before personal taxes and are applied to net income calculated in the same way. These assumptions are consistent with the *Stocks, Bonds, Bills, and Inflation (SBBI) 1999 Yearbook,* by Roger G. Ibbotson and Rex A. Sinquefield, published by Ibbotson Associates, as well as *Valuing a Business,* third edition, by Shannon P. Pratt, Robert F. Reilly, and Robert P. Schweihs, published by Irwin.

A firm's cost of capital or discount rate has three conceptual meanings. On the asset side of the balance sheet, it represents the discount rate used to reduce future earnings to present value. On the liability side, it is the economic cost of attracting and retaining capital in a competitive environment whereby investors carefully analyze and compare all return-generating opportunities. To the investor, it is the opportunity cost of an investment or the expected return that would be earned on the next-best investment with the same inherent risk.

In developing the discount rate applicable to net cash flow, we considered several widely accepted approaches, including the Weighted Average Cost of Capital (WACC), the Arbitrage Pricing Theory (APT), and the Capital Asset Pricing Model (CAPM). For various reasons, including Building Co.'s lack of leverage and the identification of similar public companies, we elected to use the CAPM model build-up method as the most appropriate approach.

The CAPM model utilizes the following formula:

	Risk-free rate of return
+	Equity Risk Premium × Median Comparative Company Beta[1]
+	Size Premium[2]
±	Company-Specific Risk Premium
=	Discount Rate Applicable to Net Cash Flow Available to Equity

The CAPM model may be adapted to measure the long-term cost of equity by using the expected return on a long-term government bond as the risk-free rate, instead of the usual three-month Treasury bill rate. Using a long-term cost of equity is more appropriate when discounting net cash flow over a long investment horizon. It should be noted that *SBBI* data uses the twenty-year Treasury Bond as a proxy to determine the market premium. Because of this, we also used a twenty-year Treasury Bond yield published in Shannon Pratt's *Business Valuation Update,* December 1999 edition. Dr. Pratt reported the twenty-year spot rate at 6.37 percent.

In the *Stocks, Bonds, Bills, and Inflation (SBBI) 1999 Yearbook,* Ibbotson and Sinquefield concluded that the equity risk premium for large company stock total returns minus long-term government bond income returns is 8.0 percent. This considers the arithmetic mean return for the 1926 to 1998 period.

Once the equity risk premium has been determined, the next step in the CAPM model is to determine beta. To approximate Building Co.'s beta, we determined the mean of the following comparative companies:

	Beta
Blue Manufacturing Company	0.43
Universal Buildings	1.38
My Buildings	0.36
Mean	0.72

The equity risk premium is then multiplied by the mean comparative company beta. The resulting number, or 5.8 percent, reflects the comparative company average equity risk premium.

The next step is to determine the size premium. A good starting point for determining a size premium is the Ibbotson *Yearbook.* The 1999 edition of the *Yearbook* indicates that an expected low-capitalization equity size premium of 1.72 percent is appropriate for the CAPM model. This size premium is based on observations during the 1926 to 1998 period.

The company-specific risk premium is a subjective estimate of the nonsystematic risk facing a company, and reflects the unique risk factors associated with an investment in it. To determine the specific risk premium, we considered the following factors:

The Industry: Building Co. operates within a fast growing industry. It is competing with both local and regional, as well as national manufacturers. Companies within the industry include micro-cap to large-cap businesses. As indicated previously, Building Co. has some economies of scale within its end-user market. This gives it a competitive advantage. It has differentiated its products and services according to service and quality, while maintaining price proximity and product parity with its competition.

There are certain factors that may act as barriers to entry within the prefabricated metal building industry. These factors include the following: (1) it is capital- and service-intensive; (2) establishing relationships within the end-user market can be time-consuming; and (3) the size of the individual end-user market is relatively small. Nevertheless, in a competitive market, new competition is free to enter and exit when profit margins become attractive.

Building Co. does not rely on a key customer or customer group for its success. Also, as mentioned previously, it is not dependent upon any one outside supplier for its success. As a result, Building Co.'s customers and suppliers have relatively little influence over the operations, other than the locations of its branches for local customer availability.

Overall, relative to the selected guideline company universe, the industry factors do not add any risk to Building Co.'s specific risk premium.

The Diversification of Operations: Relative to the selected guideline company universe, Building Co.'s sales are geographically concentrated within Iowa. We believe this lack of diversification adds 0.5 percent to Building Co.'s risk premium.

Financial Risk: As of December 31, 1999, Building Co. financed a smaller percentage of its assets through the use of ordinary trade credit and current liabilities, versus December 31, 1998, indicating that its financial risk declined during this period. It does not have interest-bearing debt in its capital structure. In addition, almost all liquidity, performance, and turnover ratios are higher than those of the selected guideline company universe. As a result, Building Co.'s comparative financial risk has a positive effect on the specific risk premium and should be reduced by 1.5 percent.

On the basis of the available information, we believe that a negative 1 percent company-specific risk premium is appropriate. The subsequent calculation of the CAPM required rate of return on Building Co. is:

CAPITAL ASSET PRICING MODEL

Rf = Long-Term Risk-Free Rate	6.37%
Rs = Company-Specific Risk	–1.00%
B = Systematic Risk (Beta)	0.72
Rm – Rf = Long-Term Market Return over Risk-Free	8.00%
Rz = Size Premia	1.72%

$$\text{CAPM} = \text{Re} = \text{Rf} + \text{B}\,(\text{Rm} - \text{Rf}) + \text{Rs} + \text{Rz} = \quad 12.88\%$$

Within the Income Approach, a capitalization rate is derived from the discount rate, that is the discount rate minus the annually compounded expected rate of growth, in perpetuity, of the variable being capitalized. To determine the terminal value, we capitalized year 2005 net cash flow, using the assumed long-term rate of growth of 4.0 percent and the required rate of return of 12.88 percent.

Discount Rate Applicable to Net Cash Flow Available to Equity	12.88%
– Assumed Long-Term Growth Rate	4.00%
= Capitalization Rate	8.88%

The next step converts the expected net cash flow to a value by dividing it by a capitalization rate. This terminal value is as of December 31, 2005.

Net Cash Flow (2005)	$ 15,851,800
Capitalization Rate	8.88%
Terminal Value	$178,511,261

The final step is to bring the terminal value back to present value, using the aforementioned discount rate.

The discounted net cash flow calculation is presented in Exhibit 1.10 on page 37. The estimate of value before the consideration of valuation adjustments (i.e., a discount for Marketability and the addition of non-operating assets), based upon the discounted net cash flow method for a 100 percent controlling interest of 1,000 shares of Building Co.'s common stock as of December 31, 1999, is approximately $127,354,500.

Asset-Based Approach. This approach is based on the principle of substitution. *Revenue Ruling 59–60* indicates that earnings should be accorded the most weight in valuing operating companies. However, *Revenue Ruling 59–60* also indicates that asset values are most appropriate when estimating the liquidation value of a business or appraising an investment in a holding company. It is also appropriate when appraising companies that are tangible asset heavy, when appraising a controlling interest, and when appraising a company that is generating insufficient income. As of December 31, 1999, Building Co.'s book value for a 100 percent interest of 1,000 shares of common stock was $57,276,399, or approximately $57,276 per share. This value was given consideration in our appraisal because it is one of the eight factors in *Revenue Ruling 59–60.* However, the Asset-Based Approach was rejected because of the nature of Building Co.'s operations and its earnings performance. In other words, Building Co.'s value is not in an assemblage of assets, but rather in the earnings it generates from their employment.

Market Approach—The Guideline Company Method. This method is based on the economic principle of competition and equilibrium. It is a common technique used to estimate the value of a subject company. The basic premise is that if the stock of the subject company were publicly traded, the relation of its market value to earnings, assets, and so on, would be very similar to that of comparable companies. *Revenue Ruling 59–60* states that next to actual trades of a subject company's stock, the price at which companies engaged in the same or similar line of business are selling in a free and open market is the best measure of value. Comparability is a function of many areas, including, but not limited to, product mix, size and quality of the company, capital structure, profitability, geographic territory, and distribution channels.

In order to compare Building Co. to its publicly traded counterparts, we first searched various databases for public companies classified under SIC #3448—Prefabricated Metal Building and Components. Although no publicly traded company was completely identical, our research in the above SIC code revealed three that were similar enough for comparison purposes. A brief description of these guideline companies follows:

Blue Manufacturing Co. (BUM), traded on the New York Stock Exchange (NYSE), symbol (BUM), is a maker of preengineered buildings and components for nonresidential construction worldwide. The company produces preengineered and custom-designed steel- and wood-frame buildings. BUM's buildings range from office buildings to schools and account for about 60 percent of its sales. In addition to buildings, BUM provides architectural products such as windows, skylights, and storefronts. It also offers real estate development and construction management services. BUM sells its products through independent dealers and through strategic alliances with other corporations.

Universal Buildings (UB), traded on the New York Stock Exchange (NYSE), symbol (UB), makes metal building systems and building components such as overhead doors, roofs, and trim, which it designs for industrial and low-rise commercial uses. Its engineered building systems products include the brands Z&X Building Systems and Zero Steel Building. Its brands of metal building components include Roof & Door and Strong Systems. UB also provides metal coating and paint products. The company operates about forty manufacturing and distribution facilities in seventeen states in the U.S. and also in Mexico.

My Buildings (MB), traded on the NASDAQ, symbol (MB), constructs modular, mobile buildings for U.S. utility companies, schools, the military, and others. MB designs and manufactures the buildings at its factories and transports them to customers. Depending on customer specs, finished units can include wiring, plumbing, and climate control features. MB's Sections division sells to clients who sell or rent the units to end users; the Energy division sells directly to end users in the telecom and utility industries. The company's Side Services subsidiary provides site preparation, installation, and maintenance services.

In our appraisal, *Marketguide.com, Hoovers.com,* and SEC 10-K filings were used to obtain information for the selected guideline companies.

In developing and applying the Guideline Company Method, we utilized the following valuation multiples.

- Market Value of Invested Capital (Debt and Equity) as of December 31, 1999, to Revenues for the trailing twelve months (MVIC/Revenues). This valuation multiple reflects the relationship between market values and the level of revenues, and was applied to Building Co.'s revenues for the twelve-month period ending December 31, 1999. MVIC/Revenues multiple is preferred over Equity/Sales multiple because the sales are attributable to the resources provided by the entire capital structure. Equity/Sales can give a distorted picture if there are substantial differences in the capital structures of the guideline and subject companies, which was true in this situation.
- Market Value of Invested Capital as of December 31, 1999, to Earnings Before Depreciation, Amortization, Interest, and Taxes (EBITDA) for the trailing twelve months (MVIC/EBITDA). EBITDA multiples are usually favored to eliminate differences in depreciation policies and establish a measurement of cash flows for which investors are willing to pay.
- Market Value of Invested Capital as of December 31, 1999, to Earnings Before Interest and Taxes (EBIT) for the trailing twelve months (MVIC/EBIT). EBIT multiples are good where differences in accounting for noncash charges are not significant.

As indicated in the Income Approach, during our analysis we identified the impact of excess cash on Building Co.'s 1999 income statement, which does not contribute to its operating performance. Since we assume that the guideline companies represent industry standard operating conditions and therefore do not have excess cash in their capital structures, we adjusted Building Co.'s balance sheet and income statement. After the removal of excess cash and related interest income, Building Co.'s 1999 financial ratios were restated and became more comparable to guideline company ratios. As before, this cash will be added to our operating Fair Market Value result. Similarly, we've adjusted officers' compensation and used the results for calculations of values.

We are unaware of any other material nonrecurring items or other GAAP-type issues. Therefore, there were no further adjustments made to Building Co.'s assets or earnings in 1999. As mentioned previously, this report considers the cash flows available to a controlling interest.

The selected data by category for the guideline companies as well as Building Co. is shown below:

PROFITABILITY	Pretax Return on Equity	Return on Equity
Blue Manufacturing Company	20.14%	16.66%
Universal Buildings	31.94%	18.73%
My Buildings	25.38%	15.11%
Mean	25.82%	16.83%
Median	25.38%	16.66%
Building Co. (adjusted)	32.42%	21.08%

Building Co.'s profitability is above that of the guideline company universe, given adjusted pretax profit margin and ROE. Pretax profit margin is a measure of the amount of pretax income generated per dollar of revenue, and ROE reflects a combined effect of profitability, turnover, and leverage. Overall, Building Co.'s profitability is above that of the guideline company universe.

TURNOVER	Sales/Total Assets
Blue Manufacturing Company	2.40
Universal Buildings	1.09
My Buildings	2.00
Mean	1.83
Median	2.00
Building Co. (adjusted)	2.05

Building Co.'s sales/asset ratio (asset utilization ratio) is also above that of the selected guideline company universe. This indicates that it has utilized its assets more efficiently to generate revenue than the selected guideline companies. This has a positive effect on ROA, ROE, and long-term sustainable growth rate relative to that of the public companies.

LEVERAGE	Total Assets/Equity	Long-Term Debt/Equity
Blue Manufacturing Company	2.54	35.71%
Universal Buildings	3.09	143.20%
My Buildings	1.77	77.30%
Mean	2.47	85.40%
Median	2.54	77.30%
Building Co. (adjusted)	1.23	0.0%

Building Co.'s leverage ratio (total assets to equity) is below that of the selected companies. This indicates that Building Co. finances a lower percentage of its assets through the use of any type of debt, relative to that of the guideline company universe. The leverage ratio of the public companies is very high, whereas Building Co. does not have long-term debt in its capital structure. This ratio demonstrates that Building Co.'s financial risk is well below that of its publicly traded peers.

GROWTH (1999)	Total Assets	Revenues
Blue Manufacturing Company	3.05%	1.14%
Universal Buildings	3.89%	NMF
My Buildings	7.54%	19.93%
Mean	4.82%	10.54%
Median	3.89%	10.54%
Building Co. (adjusted)	14.22%	13.73%

Building Co.'s growth rate is much higher than that of the selected guideline company median in both total assets and revenues. However, one company

(MB) had a higher revenue growth rate. Generally, Building Co. is still in a high-growth phase overall, compared with the guideline companies.

SIZE	Total Assets (millions)	Revenues (millions)
Blue Manufacturing Co.	$405.9	$973.2
Universal Buildings	$855.5	$936.6
My Buildings	$ 32.8	$ 65.6
Mean	$431.4	$658.5
Median	$405.9	$936.6
Building Co. (adjusted)	$ 51.2	$104.9

With regard to total assets and revenues, in absolute dollar terms, Building Co.'s total assets and revenues size is still smaller than two of the guideline companies and bigger than one of them (MB). These show that Building Co.'s size is within the guideline companies' range. This has a neutral effect on its valuation multiple. It also suggests that Building Co.'s operating risk is similar to that of the guideline companies.

LIQUIDITY	Current Ratio	Quick Ratio
Blue Manufacturing Co.	1.55	1.21
Universal Buildings	1.39	0.85
My Buildings	2.27	1.60
Mean	1.73	1.22
Median	1.55	1.21
Building Co. (adjusted)	2.52	1.15

On the basis of the current ratio, Building Co.'s liquidity is above that of the guideline companies, even after adjustments. This indicates that its financial risk is below that of the selected guideline companies. On the basis of the adjusted quick ratio, Building Co.'s liquidity is within range of the guideline company universe. This indicates that Building Co. has invested some of its current assets in inventories at a slightly higher level than the guideline companies.

Adjustments were made for the differences in the fundamentals of the guideline company universe relative to Building Co. To increase comparability of valuation multiples derived from public markets, we adjusted these multiples on the basis of the following factors: profitability, turnover, leverage, growth, size, and liquidity. A summary of this analysis follows:

- **Profitability:** Building Co.'s profitability is above that of the guideline company universe. This has a positive effect on its valuation multiples.
- **Turnover:** Building Co.'s sales/asset ratio is above that of the guideline company universe, signaling that it has utilized its assets more efficiently to generate revenue. This has a positive effect on its valuation multiples versus those of the guideline company universe.
- **Leverage:** Building Co.'s leverage ratio is below that of the selected guideline company universe. Moreover, it does not have any long-term debt in its capital structure. As a result, its financial risk is well below that of the selected guideline companies. This has a positive effect on its valuation multiples versus those of the guideline company universe.

- **Growth:** Given its total assets, Building Co.'s growth rate is above that of the guideline company universe, and its growth rate in revenues is within range. Overall, this has a positive effect on Building Co.'s valuation multiples relative to those of the public companies.
- **Size:** With regard to total assets and revenues, Building Co. fits well within the guideline company universe. This suggests it does not have higher operating risks relative to them. This would not affect its valuation multiples.
- **Liquidity:** On the basis of the current ratio, Building Co.'s liquidity is superior to that of the public's. Its quick ratio is also reasonable. This indicates that the company's financial risk is below that of the selected guideline company universe, indicating higher valuation multiples as appropriate.

In addition to the above factors, consideration was given to the following items relative to the selected public companies: (1) the depth of Building Co.'s management team, (2) the reliance on key members of management, (3) geographic concentration of Building Co.'s customer base, and (4) the threat of existing and larger manufacturers entering Building Co.'s niche market. After considering the available information, we decided to select the high multiples (MVIC-to-Revenues, MVIC-to-EBITDA, and MVIC-to-EBIT) within the guideline company universe because of Building Co.'s superior profitability, liquidity, and financial condition. Furthermore, selected multiples were then adjusted upward by 20 percent, or to 0.99×, 6.47×, and 7.05× respectively, in order to reflect Building Co.'s superiority in fundamentals, return, and overall risk versus those of the guideline companies. These factors more than offset any perceived weaknesses.

Applying the company's revenues ($104,931,280), adjusted EBITDA ($20,848,800), and adjusted EBIT ($18,783,800) for the twelve-month period ending December 31, 1999, to the valuation multiples of 0.99×, 6.47×, and 7.05× respectively, results in an estimate of a 100 percent controlling interest in Building Co.'s common stock (1,000 shares of voting common stock) of $130,740,900 as of December 31, 1999, before any valuation adjustment related to discount for Marketability and the addition of non-operating cash. The Guideline Company Method is presented in Exhibit 1.11 on page 38.

Market Approach—Guideline Transaction Method. This method is also based on the economic principle of competition and equilibrium. Like the Guideline Company Method, it is a common technique to impute the value for a controlling interest in a subject company. This method is similar to the Guideline Company Method; however, it considers data on transfers of controlling interests. As mentioned previously, *Revenue Ruling 59–60* states that, next to actual trades of a subject company's stock, the price at which companies engaged in the same or similar line of business are selling in a free and open market is the best measure of value. Comparability is a function of many areas, including, but not limited to, product mix, size and quality of the company, capital structure, profitability, geographic territory, and distribution channels.

In our appraisal we considered two actual transactions involving prefabricated metal building manufacturers in 1996 and 1998. The buyer's and seller's names, sale date, sale price, and the company's revenue and Price/Assets, Price/Book Value, and Price/Revenue multiples are shown in Exhibit 1.12.

We considered the high multiples within the range of acquired companies' purchase multiples because we believed Building Co.'s performance would justify this selection. These selected multiples of Price/Assets, Price/Book and Price/Revenue are 1.52×, 2.50×, and 0.57×, respectively. We also increased these multiples upward by 30 percent, or to 1.98×, 3.25×, and 0.744×, respectively. This adjustment was based on the same reasons cited above in the Guideline Company discussion along with the relative ages of the transactions and the assumption that Building Co. is financially superior and is larger than the acquired companies.

After applying these selected multiples to Building Co.'s adjusted assets, adjusted book value, and revenue for the twelve-month period ending December 31, 1999, we estimated a value of $130,467,500 for 100 percent of Building Co.'s common stock of 1,000 shares of common stock issued and outstanding as of December 31, 1999, again before considering any valuation adjustments (see Exhibit 1.12 on page 38).

C. Correlation of Valuation Results

To estimate the Fair Market Value of a 100 percent controlling interest in Building Co. as of December 31, 1999, we considered the Asset-Based, Income, and Market Approaches to value along with specific methods under each. Before arriving at a final conclusion, we must consider if any premiums or discounts are applicable.

Adjustment for Level of Control

We did not apply a premium for control to the estimated values based upon both the Income and Market Approaches. This is because the prerogatives of control explicit in the above 100 percent interest are inherent in these valuation techniques, methods, and approaches. To the extent the public market is efficient, the required rate of return, capitalization rate, or market multiples derived from the public market are appropriate for either a controlling or a minority interest. As stated in Shannon Pratt, et. al., *Valuing a Business,* third edition, "most if not all, of the difference between a control value and a minority value in a discounted economic income model results from differences in the projected economic income (the numerator) and not from differences in the discount rate." In addition, there is no empirical evidence that the rate of return differs for minority and controlling shareholders. Therefore, if the normalized benefit stream reflects the adjustments for the prerogatives of control, it is usually unnecessary to consider a premium for control. Such is the case for Building Co.

Adjustment for Lack of Marketability

Definition of Lack of Marketability. Lack of Marketability has been defined by various organizations and individuals in different ways. These are summarized as follows:

- **The American Society of Appraisers:** An amount or percentage deducted from an equity interest to reflect lack of marketability.
- **The IRS *Valuation Guide for Income, Estate and Gift Taxes:*** Lack of marketability is defined as the absence of a ready or existing market for the sale or purchase of the securities being valued.
- **Shannon Pratt:** The ability to convert the property to cash quickly, with minimum transaction and administrative costs in so doing, and with a high degree of certainty of realizing the expected amount of net proceeds.

The ownership represents a controlling interest in a private company that does not benefit from an active market for its stock. Discounts for Lack of Marketability should usually be applied to any ownership interest that cannot be easily sold in a timely manner such as by phoning a stockbroker and receiving the cash within three business days. Such discounts are therefore applicable to most investments in stock that is not listed on an organized exchange or traded in an active over-the-counter market.

The Internal Revenue Service as well as traders in nonpublic securities have long recognized that ownership in a closely held entity is far less attractive to investors than shares in a similar entity whose ownership interests have ready access to the general public. A marketability adjustment reflects the degree of liquidity and the speed with which it can be converted to cash at the owner's discretion. Typically, this is at an arm's-length value between a willing buyer and willing seller, without undue pressure to trade. Empirical evidence suggests that investors are willing to pay a premium for liquidity.

Specific Issues for Selected Factors

Size of Block. Controlling interests and minority interests in closely held companies are affected by marketability in distinct ways. While both are subject to marketability considerations, the appropriate discount for lack of marketability for a large percent of ownership is likely to be less than that of a 5.0 percent minority interest, for example. The interest under consideration is 100 percent of the outstanding shares and should be easier to sell than a noncontrolling interest in a publicly traded company. This fact decreases the lack of marketability discount for the 100 percent controlling interest relative to that of a noncontrolling interest in this privately held company, but increases it relative to a minority interest in a publicly traded company.

Payment of Dividends. This factor tends to have a large impact on the appropriate discount, with higher distribution payouts linked to lower discounts for marketability. This makes intuitive sense, as total returns to an investor come from dividends plus appreciation of principal, and dividends are not affected by the illiquidity of the underlying holding. Building Co. is a C-Corporation; however, there is no stated dividend policy. This tends to increase the discount for Lack of Marketability in a noncontrolling interest versus the same interest in a publicly traded entity, because a higher percentage of total return is dependent upon appreciation in the value of the company's stock. However, dividend payouts do not affect marketability in a 100 percent controlling interest, because such an interest has the ability to change or set dividend policies in its favor.

Restrictions on Marketability. Restrictions on transferability can increase marketability discounts, while put rights or other contractual obligations can reduce them substantially. We are unaware of any restriction relating to the transferability of the subject stock.

Size of the Subject Entity. The size of the entity is inversely related to the size of the marketability discount. This may be credited to the ability of larger companies to continue to survive in the long run through economic downturns. The estimated value of Building Co.'s operations equity based upon the Income Approach is approximately $127.4 million before the addition of excess cash. This size is within that of the guideline company universe and thus does not indicate greater volatility and risk versus a large publicly traded company. This fact has neutral impact on the marketability discount of Building Co.

Creditworthiness of the Firm. There is a negative correlation between the size of the marketability discount and the creditworthiness of a firm. Also, in the case of operating companies, the liquidity/creditworthiness of the firm increases with the ability/probability of the firm to redeem its shares. We are unaware of any factors that are negatively affecting the creditworthiness of Building Co. This has a positive effect on its marketability.

Prospects of Future Public Offering. The likelihood of a future public offering would decrease the illiquidity discount, while the lack of any future offering may increase the discount for lack of marketability. Given the NASDAQ listing requirements detailed in *Business Valuation Review,* December 1998, Building Co. could meet many of the requirements to successfully launch an IPO. This possibility could lower its discount.

We reviewed a wide variety of studies compiled over a thirty-year period on appropriate levels of Lack of Marketability discounts and decided to apply a 10 percent discount to the value estimate for Building Co. based upon the Income and Market Approaches.

Exhibit 1.3 Discounted Net Cash Flow Method

Size of Interest	Number of Shares	Estimate before Adjustments	Adjustment for Control	Adjustment for Lack of Marketability	Adding Back Non-operating Assets—Cash	Estimate after Adjustments	Estimate per Share
100%	1000	$127,354,500	$0	$12,735,450	$15,726,042	$130,345,100	$130,345

Exhibit 1.4 Market Approach Calculation

Size of Interest	Number of Shares	Estimate before Adjustments	Adjustment for Control	Adjustment for Lack of Marketability	Adding Back Non-operating Assets—Cash	Estimate after Adjustments	Estimate per Share
100%	1000	$130,740,900	$0	$13,074,090	$15,726,042	$133,392,800	$133,393

Valuation Results

Income Approach—Discounted Net Cash Flow Method. The discounted net cash flow method represents the Fair Market Value of a company's tangible and intangible assets. This method reflects management's forecast and an internally developed discount rate and capitalization rate that considers both systematic risk and the company's unique or unsystematic risk. Differences in the above factors versus those applied in the guideline company method and/or the guideline transaction method will cause deviation among the estimates of Fair Market Value. After considering a 10 percent discount for the Lack of Marketability and adding back the excess cash that does not contribute to the operations of Building Co., the Fair Market Value, based on the discounted net cash flow method, of a 100 percent controlling interest in Building Co.'s common stock as of December 31, 1999, is $130,345,100, or approximately $130,345 per share. The calculation is shown in Exhibit 1.3.

Market Approach—Guideline Company Method. The guideline company method represents the Fair Market Value of a company's tangible and intangible assets. This method utilizes a valuation multiple or capitalization rate derived from the group of publicly traded guideline companies. The valuation multiple was adjusted to be more representative of Building Co.'s underlying fundamentals and is ultimately driven by the expectations of the market. Based on market expectations, the guideline company method reflects a higher rate of

Exhibit 1.5 Market Approach—Guideline Transaction Method

Size of Interest	Number of Shares	Estimate before Adjustments	Adjustment for Control	Adjustment for Lack of Marketability	Adding Back Non-operating Assets—Cash	Estimate after Adjustments	Estimate per Share
100%	1000	$130,467,500	$0	$13,046,750	$15,726,000	$133,146,800	$133,147

growth and/or a lower level of risk than the discounted net cash flow method. After considering a 10 percent discount for the Lack of Marketability and again adding back the excess cash that does not contribute to operations, the Fair Market Value, under this method, of a 100 percent controlling interest in Building Co.'s common stock as of December 31, 1999, is $133,392,800, or approximately $133,393 per share, based on 1,000 shares of common stock issued and outstanding. The calculation is shown in Exhibit 1.4.

Market Approach—Guideline Transaction Method. The guideline transaction method represents the Fair Market Value of a company's tangible and intangible assets. This method utilizes a valuation multiple or capitalization rate derived from control transactions involving a group of guideline companies. Based on market expectations, the merger and acquisition method reflects a higher rate of growth and/or a lower level of risk than the discounted net cash flow method. After considering a 10 percent discount for the Lack of Marketability, the Fair Market Value, based on this method, of a 100 percent controlling interest in Building Co.'s common stock as of December 31, 1999, is $133,146,800, or approximately $133,147 per share, based on 1,000 shares of voting common stock issued and outstanding. The calculation is shown in Exhibit 1.5.

Concluded Value of Building Co.

As discussed previously, the discounted net cash flow method uses modified management's expectations and a market-derived discount and capitalization rate. Both the guideline company method and guideline transaction method reflect the market's expectations of risk and return through valuation multiples.

Also, as discussed previously in our appraisal, the industry in which Building Co. operates is still growing. The growth prospects are incorporated in the public multiples. This explains the difference in the estimates of Fair Market Value based upon the discounted net cash flow method and those of the guideline company and guideline transaction methods. All three are valid and should be considered. On the basis of the value indications mentioned above, we estimated that the value of 100 percent controlling interest in Building Co. as of December 31, 1999, is approximately $132,000,000.

Certification

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

1. The statements of fact contained in this report as provided by indicated sources are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, unbiased, professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
4. Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
5. Our analyses, opinions, and conclusions were developed, and this summary report has been prepared, in conformity with *The Uniform Standards of Professional Appraisal Practice.* Any departure from these standards is solely related to the level of disclosure herein.
6. No one provided significant professional assistance to the persons signing this report.

Respectfully submitted,
HILL SCHWARTZ SPILKER KELLER, LLC

James M. (Mike) Hill
FASA/Business Valuation

Gerald A. Keller
ASA/Business Valuation

JMH:GAK:RB/slm

Date:________________________
Attachment: Exhibits 1.6 to 1.12

Notes

1. The source of this terminology is the March 1998 *Guide to Business Valuations* from Practitioners Publishing Company. *The Guide to Business Valuations* also defines this term as the comparative company average equity risk premium.
2. The size premium that we have applied is from the Ibbotson and Associates *Stocks, Bonds, Bills, and Inflation 1999 Yearbook* (expected micro-capitalization equity size premium—capitalized below $261 million).

Exhibit 1.6 Building Co. Historical Balance Sheets

Assets	12/31/1995	12/31/1996	12/31/1997	12/31/1998	12/31/1999	12/31/1996	12/31/1997	12/31/1998	12/31/1999	12/31/2000	% 12/31/1995	% 12/31/1996	% 12/31/1997	% 12/31/1998	% 12/31/1999	RMA 3448
Cash & Equivalents	$ 4,126,200	$9,739,197	$ 13,513,385	$ 12,668,022	$ 22,465,774	$ 0	$ 0	$ 0	$ 0	$ 0	12.4%	25.0%	30.0%	23.6%	33.6%	8.3%
Accounts Receivable	2,567,660	2,551,642	2,801,121	2,837,672	3,457,227						7.7%	6.6%	6.2%	5.3%	5.2%	36.8%
Inventory	17,640,883	14,899,203	14,384,379	15,906,768	15,947,421						53.2%	38.3%	31.9%	29.6%	23.8%	20.5%
Prepaid Exp. & Other	826,569	655,707	1,157,012	938,505	1,298,823						2.5%	2.3%	2.6%	1.7%	1.9%	5.9%
Total Current Assets	25,163,512	28,065,749	31,855,897	35,350,966	43,169,245	0	0	0	0	0	75.9%	72.2%	70.7%	65.9%	64.5%	71.5%
Property & Equip.	14,550,545	18,456,656	22,387,523	29,432,085	37,263,758	0	0	0	0	0	43.9%	47.5%	49.7%	54.8%	55.7%	
Accumulated Deprec.	6,554,758	7,676,913	9,201,186	11,122,671	13,541,709						19.8%	19.7%	20.4%	20.7%	20.2%	
Net Fixed Assets	7,995,787	10,779,743	13,186,337	16,309,414	23,722,049	0	0	0	0	0	24.1%	27.7%	29.3%	34.1%	35.5%	23.7%
Other Assets	8,934	15,134	9,432	10,258	7,075	0	0	0	0	0	0.1%	0.1%	0.0%	0.0%	0.0%	3.8%
TOTAL ASSETS	$ 33,168,233	########	$ 45,051,666	$ 53,670,638	$ 66,898,369	$ 0	$ 0	$ 0	$ 0	$ 0	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities																
Notes Payable	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%	0.0%	0.0%	0.0%	0.0%	12.0%
Accounts Payable	2,513,893	2,095,438	2,964,466	3,363,917	3,684,033						7.6%	5.4%	6.6%	6.3%	5.5%	16.0%
Dividends Payable											0.0%	0.0%	0.0%	0.0%	0.0%	NA
Income Taxes Payable	306,159	315,028	306,454	419,826	574,572						0.9%	0.8%	0.7%	0.8%	0.9%	0.6%
Accrued Exp. & Other	2,487,059	2,333,424	2,897,769	2,710,346	4,572,899						7.5%	6.0%	6.4%	5.0%	6.8%	10.9%
Total Current Liab.	5,307,111	4,743,890	6,168,729	6,494,089	8,831,504	0	0	0	0	0	16.0%	12.2%	13.7%	12.1%	13.2%	39.5%
Long-Term Debt	0	0	0	0	0	0	0	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%	21.4%
Deferred Income Taxes	314,850	389,432	452,054	600,400	790,466						0.9%	1.0%	1.0%	1.1%	1.2%	0.1%
Other Liabilities											0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Total Liabilities	5,621,961	5,133,322	6,620,783	7,094,489	9,621,970	0	0	0	0	0	16.9%	13.2%	14.7%	13.2%	14.4%	51.1%
Shareholders' Equity																
Common Stock	1,000	1,000	1,000	1,000	1,000						0.0%	0.0%	0.0%	0.0%	0.0%	
Paid-In Capital	1,000	1,000	1,000	1,000	1,000						0.0%	0.0%	0.0%	0.0%	0.0%	
Retained Earnings	27,544,272	33,745,304	38,128,885	46,574,149	57,274,399						83.0%	86.8%	85.3%	86.8%	85.6%	
Treasury Stock											0.0%	0.0%	0.0%	0.0%	0.0%	
Total Equity	27,546,272	33,747,304	38,130,885	46,576,149	57,276,399	0	0	0	0	0	83.1%	86.8%	85.4%	86.8%	85.6%	48.9%
TOTAL LIAB. & EQUITY	$ 33,168,233	########	$ 45,051,666	$ 53,670,638	$66,898,369	$ 0	$ 0	$ 0	$ 0	$ 0	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Common Shares	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000						
Book Value Per Share	27,546.27	33,747.30	38,430.88	46,576.15	57,276.40	0.00	0.00	0.00	0.00	0.00						

Numbers in parentheses refer to supplemental detail schedules.

Source of Information Audited Financial Statements
Internal Financial Statements

Exhibit 1.7 Building Co. Historical Income Statements

	12/31/1995	12/31/1996	12/31/1997	12/31/1998	12/31/1999	% 12/31/1995	% 12/31/1996	% 12/31/1997	% 12/31/1998	% 12/31/1999	RMA 3448
Sales	$ 71,313,953	$73,768,801	$ 83,748,520	$ 92,263,205	$ 104,931,280	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales	48,221,260	49,072,664	57,171,700	62,554,059	66,580,188	67.6%	66.5%	68.3%	67.8%	63.5%	75.3%
Gross Profit	23,092,693	24,696,137	26,576,820	29,709,146	38,351,092	32.4%	33.5%	31.7%	32.2%	36.5%	24.7%
Op Exp (excl Officer Comp)	13,181,609	13,798,389	15,771,119	16,064,936	20,143,150	18.5%	18.7%	18.8%	17.4%	19.2%	
Officers' Compensation	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%	
Operating Expenses	13,181,609	13,798,389	15,771,119	16,064,936	20,143,150	18.5%	18.7%	18.8%	17.4%	19.2%	16.2%
Depreciation & Amort.	977,269	1,211,072	1,685,494	1,524,083	2,064,959	1.4%	1.6%	2.0%	1.7%	2.0%	NA
Operating Inc/(Loss)	8,933,815	9,686,676	9,120,207	12,120,127	16,142,933	12.5%	13.1%	10.9%	13.1%	15.4%	8.5%
Other Income/(Expense)											
Interest Income	545,916	346,399	810,571	1,006,705	1,106,589	0.8%	0.5%	1.0%	1.1%	1.1%	
Interest Expense	(3,306)	(203)	-	(10,871)	(212,000)	0.0%	0.0%	0.0%	0.0%	-0.2%	
Ex. Items/Disc Oper.						0.0%	0.0%	0.0%	0.0%	0.0%	
Other						0.0%	0.0%	0.0%	0.0%	0.0%	
Total Other Income/(Expense)	542,610	346,196	810,671	995,834	894,589	0.8%	0.5%	1.0%	1.1%	0.9%	-1.6%
Pretax Income/(Loss)	9,476,425	10,032,872	9,930,878	13,115,961	17,037,522	13.3%	13.6%	11.9%	14.2%	16.2%	6.9%
Income Tax Expense/(Benefit)	3,479,969	3,631,042	3,584,108	4,770,695	6,337,268	4.9%	4.9%	4.3%	5.2%	6.0%	
Net Income/(Loss)	$ 5,996,456	$ 6,401,830	$ 6,346,770	$ 8,345,266	$ 10,700,254	8.4%	8.7%	7.6%	9.0%	10.2%	
Preferred Dividends						0.0%	0.0%	0.0%	0.0%	0.0%	
Net Income/(Loss) Available to Common	$ 5,996,456	$ 6,401,830	$ 6,346,770	$ 8,345,266	$ 10,700,254	8.4%	8.7%	7.6%	9.0%	10.2%	

Effective Tax Rate	36.72%	36.19%	36.09%	36.37%	37.20%
Gross Cash Flow	$ 6,973,725	$ 7,612,902	$ 8,032,264	$ 9,869,349	$ 12,765,253
Cash Flow Per Share	$6,973.73	$7,612.90	$8,032.26	$9,869.35	$12,765.25
EPS - Common	$5,996.46	$6,401.83	$6,346.77	$8,345.27	$10,700.25
EPS - Pretax Inc.	$9,476.43	$10,032.87	$9,930.88	$13,115.96	$17,037.52
Common Stock Dividends	$ 230,000	$ 101,000	$ 1,560,904	$ 200,000	$ 0
Common Shares	1,000	1,000	1,000	1,000	1,000
Div Per Common Share	$230.00	$101.00	$1,560.90	$200.00	$0.00
Dividend Payout Ratio	3.84%	1.58%	24.59%	2.40%	0.00%

Numbers in parentheses refer to supplemental detail schedules.

Source of Information Audited Financial Statements
Internal Financial Statements

Exhibit 1.8 Building Co. Forecasted Income Statements

	Adj./Annual. 12/31/1999	Future Period 1	Future Period 3	Future Period 3	Future Period 4	Future Period 5	Future Period 6
Sales	$ 124,931,280	$ 119,621,700	$ 136,368,700	$ 152,732,900	$ 169,533,500	$ 186,486,900	$ 193,946,400
Cost of Sales	66,580,188	78,950,300	90,003,300	100,803,700	111,892,100	123,081,400	128,004,600
Gross Profit	58,351,092	40,671,400	46,365,400	51,929,200	57,641,400	63,405,500	65,941,800
Operating Expenses	17,805,603	20,335,700	23,182,700	25,964,900	28,820,700	31,702,800	32,970,900
Depreciation & Amort.	2,064,999	1,784,200	1,993,200	2,168,600	2,371,400	2,542,200	2,702,000
Operating Inc/(Loss)	18,480,490	18,551,500	21,189,500	23,776,000	26,449,300	29,160,500	30,268,900
Other Income/(Expense):							
Interest Income	303,288	218,900	218,900	218,900	218,900	218,900	218,900
Interest Expense	(212,000)	-	-	-	-	-	-
Other	-						
Total Other Income/(Expense)	91,288	218,900	218,900	218,900	218,900	218,900	218,900
Pretax Income/(Loss)	18,571,778	18,770,400	21,408,400	23,994,900	26,668,200	29,379,400	30,487,800
Income Tax Expense/(Benefit)	6,500,122	6,569,600	7,492,900	8,398,200	9,333,900	10,282,800	10,670,700
Net Income/(Loss)	12,071,656	12,200,800	13,915,500	15,596,700	17,334,300	19,096,600	19,817,100
Effective Tax Rate	35.2%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%

	% Adjusted 12/31/1999	% Future Period 1	% Future Period 2	% Future Period 3	% Future Period 4	% Future Period 5	% Future Period 6	RMA 3448
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales	53.5%	66.0%	66.0%	66.0%	66.0%	66.0%	66.0%	75.3%
Gross Profit	46.5%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	24.7%
Operating Expenses	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	16.2%
Depreciation & Amort.	2.0%	1.5%	1.5%	1.4%	1.4%	1.4%	1.4%	NA
Operating Inc/(Loss)	17.6%	15.5%	15.5%	15.6%	15.6%	15.6%	15.6%	8.5%
Other Income/(Expense):								
Interest Income	0.3%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	
Interest Expense	-0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Total Other Income/(Expense)	0.1%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	-1.6%
Pretax Income/(Loss)	17.7%	15.7%	15.7%	15.7%	15.7%	15.8%	15.7%	6.9%
Income Tax Expense/(Benefit)	6.2%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	
Net Income/(Loss)	11.5%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	

Exhibit 1.9 Building Co. Normalized Pretax Income

	12/31/95	12/31/96	12/31/97	12/31/98	12/31/99
Reported Pretax Income	$ 9,476,425	$ 10,032,872	$9,930,878	$ 13,115,961	$ 17,037,522
Months in Period	12	12	12	12	12
Annualized Pretax Income	9,476,425	10,032,872	9,930,878	13,115,961	17,037,522
Adjustments for:					
OPERATING EXPENSES					
Compensation–Officers					2,337,557
INTEREST INCOME	(490,185)	(214,920)	(628,240)	(835,687)	(803,301)
NORMALIZED PRETAX INCOME	8,986,240	9,817,952	9,302,638	12,280,274	18,571,778
Operating Exp. Adjustment (excl. Officers Comp Adj.)	0	0	0	0	0
Total Operating Exp. Adjustment	0	0	0	0	2,337,557

Exhibit 1.10 Building Co. Net Cash Flow (NCF) Value Detail

	Future Period 1	Future Period 2	Future Period 3	Future Period 4	Future Period 5	Terminal Period 6	Total Value
Net Income	$ 12,200,800	$ 13,915,500	$ 15,596,700	$ 17,334,300	$ 19,096,600	$ 19,817,100	
Depreciation & Amort.	1,784,200	1,993,200	2,188,600	2,371,400	2,542,200	2,702,000	
(Inc)/Dec Adj. W.C.	(4,277,601)	(3,743,200)	(3,657,800)	(3,755,200)	(3,789,500)	(1,667,300)	
(Inc)/Dec Gross F.A.	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)	
Inc/(Dec) in Debt	-	-	-	-	-	-	
Net Cash Flow	4,707,399	7,165,500	9,127,500	10,950,500	12,849,300	15,851,300	
Discount Rate	12.88%	12.88%	12.88%	12.88%	12.88%	12.88%	
Terminal Growth Rate							4.00%
Present Value	$ 4,170,392	$ 5,623,907	$ 6,346,573	$ 6,745,548	$ 7,012,269	$ 97,455,823	$ 127,354,513

Exhibit 1.11 Building Co. Comparable Company Market Approach Value Summary

COMPANY	Stock Exchange	Fiscal Year End	Market Price 12/31/99	Trailing 12 Months Earnings	Trailing 12 Months Revenues	Invested Capital Multiples: Inv. Cap./ Revenues	Inv. Cap./ EBDIT	Inv. Cap./ EBIT
Blue Manufacturing Co.	NYSE	12/31/99	22.3	25.8	975.2	0.22	3.81	5.88
Universal Buildings	NYSE	12/31/99	18.5	46.9	936.6	0.83	5.39	4.66
My Buildings	NASDAQ	7/3/99	4.9	2.5	65.6	0.34	3.82	4.69
High						0.83	5.39	5.88
Low						0.22	3.81	4.66
Mean						0.46	4.34	5.08
Median						0.34	3.82	4.69
Standard Deviation						0.32	0.91	0.69
Selected Multiple						0.83	5.39	5.88
Less: Subject Company Risk Premium (Discount)						20.00%	20.00%	20.00%
Adjusted Multiple						0.99	6.47	7.05
Building Co.'s Figures ($000's) Adjusted as Appropriate						104,931.3	20,848.8	18,783.8
Invested Capital Value ($000's)						104,329.0	134,919.3	132,431.8
Less: Interest-Bearing Debt						0.0	0.0	0.0
Less: Preferred Stock (Market Value)						0.0	0.0	0.0
Common Equity Value ($000's)						104,329.0	134,919.3	132,431.8
Selected Weighting					100.00%	10.00%	45.00%	45.00%
Weighted Value						10,432.9	60,713.7	59,594.3
Concluded Value ($000's)			130,740.9					

Exhibit 1.12 Building Co. Control M&A Transactions Market Approach Value Summary

BUYER	SELLER	Sale Date	% Interest Sold	Sale Price	Trailing 12 Months Earnings	Trailing 12 Months Revenues	Equity Multiples: Price/ Assets	Price/ Book Value	Price/ Revenue
My Buildings	Your Buildings	1/1/98	100.00%	3,000,000	1,200,000	10,500,000	0.57	2.50	0.11
Universal Buildings	Messed Up Buildings	4/1/96	100.00%	21,000,000	5,200,000	37,000,000	1.52	1.78	0.57
High							1.52	2.50	0.57
Low							0.57	1.78	0.11
Mean							1.04	2.14	0.34
Median							1.04	2.14	0.34
Standard Deviation							0.68	0.51	0.32
Selected Multiple							1.52	2.50	0.57
Less: Subject Company Risk Premium (Discount)							30.00%	30.00%	30.00%
Adjusted Multiple							1.98	3.25	0.74
Building Co.'s Figures ($000's)	Adjusted as Required for Excess Cash						51,172.3	41,550.4	104,931.3
Invested Capital Value ($000's)									
Less: Interest-Bearing Debt									
Less: Preferred Stock (Market Value)									
Common Equity Value ($000's)							101,232.2	135,038.7	77,422.3
Selected Weighting						100.00%	5.00%	90.00%	5.00%
Weighted Value							5,061.5	121,534.8	3,871.1
Concluded Value ($000's)				130,467.5					