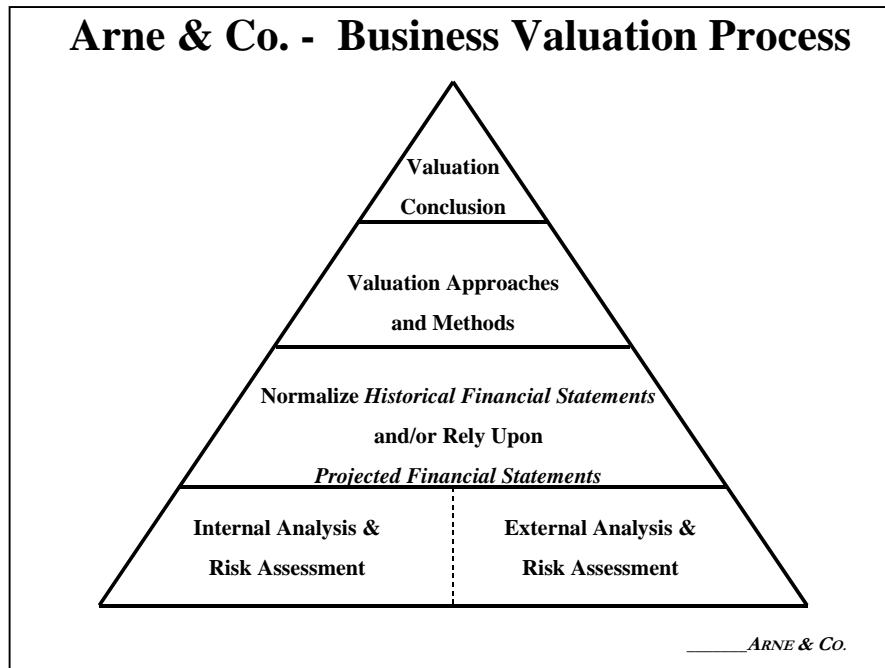


## Arne & Co. - Business Valuation Process



### Internal Analysis and Risk Assessment

Arne & Co. focuses on the business itself, by reviewing its background and history, the depth of management, how diversified are its products and services, performing a historical financial trend analysis, determine its financial condition, identifying prior ownership sales, and its overall strengths, weaknesses and opportunities.

### External Analysis and Risk Assessment

Here the emphasis is analyzing factors “external” to the business by looking at economic and industry conditions, competitive forces, regulatory influences and locating possible guideline companies to be used in the market valuation approach.

### Historical Financial Statement Adjustments and Projected Financial Statements

Historical income statements are “normalized” by adjusting for discretionary items (e.g. owner/family salaries and perks), removing non-operating and nonrecurring income and expenses, and considering possible unrecorded items. Balance sheet items are adjusted to their fair market values, and non-operating and unrecorded items are identified. Projected financial statements are considered, predicated upon sufficient relevant data.

### Valuation Approaches and Methods

There are three valuation approaches (with associated methods): (1) Income Approach: capitalization of earnings method, discounted cash flow (DCF) method, excess earnings method; (2) Market Approach: merger and acquisition method, guideline public company method, sales of subject company stock; (3) Asset-Based Approach: adjusted book value method, liquidation value method.

### Valuation Conclusion

All valuation calculations are reconciled in arriving at a final “valuation conclusion”. For *minority interests*, *minority* and *marketability discounts* are also considered.