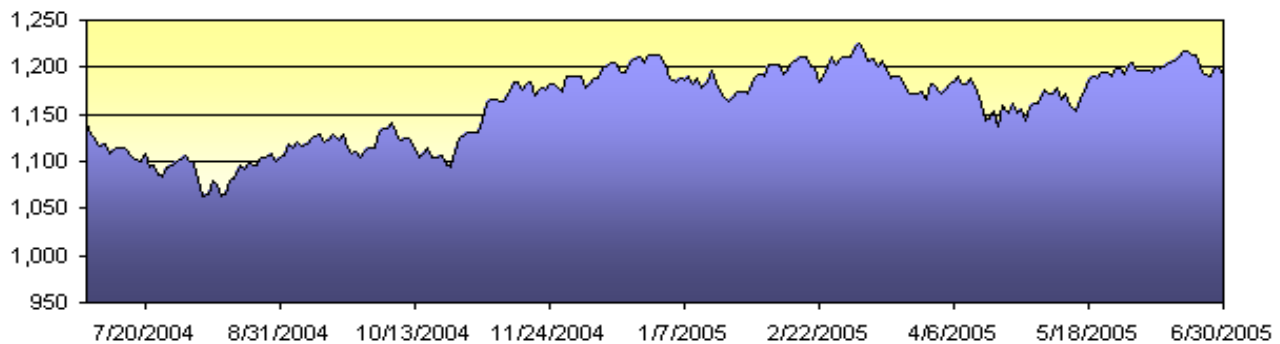


Value Quarterly is VALUE Incorporated's quarterly market review. VALUE Incorporated provides consulting services focused on the valuation of businesses, securities, intellectual property and assets for transaction, reporting and litigation purposes.

The second quarter of 2005 was marked by an active Federal Reserve, which raised its target for the Federal Funds rate by 25 basis-points for the ninth straight meeting on June 30, to 3.25%. August Fed Funds futures traded at 3.60%, predicting another increase of 25 basis points at the August 9 FOMC meeting. Consumer Confidence rose in April and May, aided by a stronger stock market, which gave back some of its gains the last week of the quarter. New durable goods orders increased in May primarily due to a large aircraft order received by Boeing. The S&P 500 Aerospace and Defense Index showed 4.2% growth, outpaced by the S&P 500 Real Estate Index, which increased 12.1% for the quarter.

**S&P 500**

<u>Year Ended 6/30/05</u>		<u>Quarter Ended 6/30/05</u>		<u>As of 6/30/05</u>	
12-Mo. Low:	1,063.2	3-Mo. Low:	1,063.2	Current Level	1,191.3
12-Mo. High:	1,225.3	3-Mo. High:	1,217.0	30-Day Avg.	1,199.9
12-Mo. Δ:	5.5%	3-Mo. Δ:	0.9%	200-Day Avg.	1,175.2



<u>As of 6/30/04</u>		<u>As of 3/31/05</u>		<u>As of 6/30/05</u>	
Price to Earnings	20.39	Price to Earnings	19.27	Price to Earnings	19.49
Price to Book	2.95	Price to Book	2.83	Price to Book	2.82
Price to Sales	1.53	Price to Sales	1.46	Price to Sales	1.46
Dividend Yield	1.6%	Dividend Yield	2.0%	Dividend Yield	2.1%

**U.S. Stock Market Indices**

	<u>Current</u>	<u>30-Day Avg.</u>	<u>200-Day Avg.</u>	<u>Quarterly Δ:</u>	<u>12-Month Δ:</u>
S&P Barra Value Index	619.6	618.3	604.3	2.0%	8.8%
S&P Barra Growth Index	567.7	577.3	566.6	-0.2%	0.1%
Dow Jones Industrial Avg	10,275.0	10,490.2	10,445.4	-2.2%	-1.5%
Russell 1000 Index	645.9	649.1	631.5	1.6%	6.0%
Russell 2000 Index	639.7	627.4	613.2	4.0%	8.1%
CBOE SPX Volatility Index	12.0	12.1	13.3	-14.1%	-16.0%

## U.S. Stock Market Sectors

	Current	30-Day Avg.	200-Day Avg.	Quarterly Δ:	12-Month Δ:
S&P 500 Aerospace & Defense	292.1	291.6	273.0	4.2%	14.8%
S&P 500 Airlines Index	136.7	141.1	146.5	-2.4%	-19.1%
S&P 500 Automobiles Index	124.1	123.7	140.4	-3.3%	-28.2%
S&P 500 Chemicals Index	219.1	226.3	225.7	-9.3%	8.5%
S&P 500 Computers & Peri.	361.4	367.9	373.5	-6.0%	3.3%
S&P 500 Div. Financials Index	582.7	578.9	581.1	1.9%	3.3%
S&P 500 Energy Index	343.0	336.1	308.6	1.5%	36.8%
S&P 500 Food/Staples Retail	185.1	184.6	185.6	0.6%	-0.3%
S&P 500 Health Care Index	359.9	363.4	346.4	3.7%	1.5%
S&P 500 Insurance Index	320.0	312.7	309.2	7.1%	-1.0%
S&P 500 Real Estate Index	126.9	125.9	116.4	12.1%	25.5%
S&P 500 Software Index	462.6	468.8	469.7	2.7%	0.4%
S&P 500 Semiconductor & Equip.	374.4	382.0	351.0	7.2%	-8.4%

## Macro-Economic Indicators

	Money Supply (M2)	New Orders (Durables)	Housing Starts	Consumer Confidence	Personal Income	GDP (Chain Wtd.)	CPI-U
<i>Announced:</i>	6/20/2005	5/31/2005	5/31/2005	6/30/2005	5/31/2005	3/31/2005	5/31/2005
<i>Quarterly Δ:</i>	0.4%	5.5%	-9.8%	2.7%	1.4%	0.9%	1.5%
<i>12-Month Δ:</i>	3.3%	10.8%	1.8%	2.9%	6.7%	3.7%	2.4%

### Interest Rates (June 30, 2005)

	1-Year	5-Year	10-Year	20-Year	30-Year
US Treasury	3.52%	3.76%	4.00%	4.24%	4.15%
AA Corporate	3.75%	4.16%	4.57%	4.95%	4.92%
A Corporate	4.01%	4.37%	4.77%	5.26%	5.28%
B Corporate	5.97%	7.14%	7.27%	7.41%	7.44%

### Interest Rates (March 31, 2005)

	1-Year	5-Year	10-Year	20-Year	30-Year
US Treasury	3.48%	4.28%	4.55%	4.83%	4.72%
AA Corporate	3.70%	4.63%	5.06%	5.49%	5.48%
A Corporate	3.95%	4.80%	5.29%	5.76%	5.73%
B Corporate	5.33%	7.16%	7.24%	7.56%	7.57%

### Federal Reserve Watch

Current Rate (Overnight)	3.38%
Current Target (6/30/05)	3.25%
Next Meeting	8/9/2005
Fed Funds Futures (Aug.)	3.60%

### US Dollar LIBOR Rates

	6/30/2005	3/31/2005
7-Day	3.32%	2.84%
1-Month	3.34%	2.87%
3-Month	3.52%	3.12%
6-Month	3.71%	3.40%

## Currency & Commodity Spot Prices

	Current (\$)	Quarterly Δ:	12-Month Δ:
Euro Spot	\$ 1.21	-6.6%	-0.7%
Japanese Yen Spot	110.92	3.5%	2.0%
Gold Spot \$/oz	435.50	1.7%	10.5%
Silver Spot \$/oz	7.05	-0.8%	22.2%
Bloomberg West Texas Intermediate	56.50	2.0%	52.5%
USDA Cattle	80.37	-15.0%	-8.7%

## Top Quarterly Merger and Acquisition Announcements

Date	Target	Acquiror	Offer (\$MMs)
6/30/05	MBNA Corp.	Bank of America Corp.	\$ 35,366.0
6/22/05	Unocal Corp.	CNOOC Ltd.	19,438.9
6/20/05	Cablevision Systems	private investor	17,468.0
5/ 9/05	Cinergy Corp.	Duke Energy Corp.	13,696.2
5/24/05	Pacificorp	Berkshire Hathaway Inc.	9,402.3
4/25/05	Premcor Inc.	Valero Energy Corp.	7,800.9
6/ 6/05	Providian Financial Corp.	Washington Mutual Inc.	5,626.8
5/ 2/05	Neiman Marcus Group Inc.	investor group	5,044.3
6/ 6/05	Catellus Development Corp.	Prologis	4,729.6
5/ 4/05	Renal Care Group Inc.	Fresenius Medical Care	3,914.4
5/ 4/05	Spectrasite Inc.	American Tower Corp.	3,666.7
6/ 8/05	Vivendi Universal Entertainment	General Electric Co.	3,361.1
6/14/05	Wyndham International	Blackstone Group	3,175.9
4/18/05	Macromedia Inc.	Adobe Systems Inc.	3,151.3
6/ 2/05	Storage Technology Corp.	Sun Microsystems Inc.	2,931.5

Source: Bloomberg LP

## What is the Right Multiple for My Business?

by David N. Fuller, CFA, ASA  
President & Founder of VALUE Incorporated

If you ask CEOs or business owners what their business is worth, you'll typically get a response that includes the concept of a valuation multiple. The multiple may be based on a financial statistic such as revenue or earnings, an operating statistic such as units sold, or even a customer statistic such as the number of subscribers. My general view is that multiples should be used as a way of referring to value, rather than a means of determining value. Use of a more specific and tailored methodology, such as a discounted cash flow analysis, may result in a more accurate valuation and allow better consideration of the business's unique characteristics. However, when good comparables are available, multiples can be used to accurately indicate value. Multiples are also handy shorthand when discussing the relative price of an acquisition of a similar firm or the value inherent in your own company. Determining the multiple to apply is the difficult part.

One of the most commonly-used multiples is based on Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). Multiples of EBITDA typically provide an indication of Enterprise Value (EV). EV is the company's total capital, including both debt and equity. This is an important distinction, because it means that the resulting value must be reduced by debt to arrive the company's equity value. EBITDA multiples vary by industry and are dependent on a number of factors. For many small to mid-market firms, 4x to 7x is a reasonable range to begin from. To calculate equity value, multiply the company's EBITDA by the multiple, then add cash and subtract debt.

All other factors remaining equal, bigger companies fetch higher multiples. We recently reviewed thousands of transactions in our databases and found that median EBITDA multiples were 6.6x for \$1 to \$5 million deals, 7.6x for \$5 to \$10 million deals, 9.1x between \$10 million and \$50 million, and 10.6x between \$50 million and \$100 million.

Knowing what typical multiples are in your industry and the implied value of your business based on these multiples will help you better manage the value of your firm. As a final word of caution, even two businesses in the same industry may have very different EBITDA multiples. Averages should never be used for important decisions, except in conjunction with a comprehensive valuation analysis.

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