Valuation of

900 Shares of Voting Common Stock,

on a Not-Freely Marketable, Controlling Interest Basis of

JOE JACKSON & ASSOCIATES, INC., D.B.A. HEARTH ENTERPRISES

As of December 26, 2005

Report Date

May 29, 2007

Strictly Confidential
Restricted Distribution

Street side view of corporate facilities Joe Jackson & Associates, Somewhere, California in the County of Sunshine.

VALUATION SERVICES PROVIDED BY

VAL U. DUDE, INC.

Secure Correspondence: U.S. Post Office Box 123 | Somewhere, CA 99999

Valuation of
JOE JACKSON & ASSOCIATES, INC., D.B.A. HEARTH ENTERPRISES
AS OF DECEMBER 26, 2005

OPINION OF ESTIMATED VALUE

Based on our analysis and in consideration of all the relevant factors, using generally accepted valuation theory and methodology, and subject to the Statement of Facts, Assumptions and Limiting Conditions incorporated in and made an integral part of the accompanying appraisal report, our opinion of the estimated fair market value of 900 shares of voting common stock, representing 100% of the issued and outstanding common stock of Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises, a California S corporation, on a not-freely marketable, controlling interest basis, as of December 26, 2005, for the Purpose of estate tax compliance upon the demise of Mrs. Lindsay Jackson, the Decedent, is:

$ - 0 - (Zero)

APPRAISER'S CERTIFICATION

1. The statements of fact contained in this appraisal report are true and correct to the best of my knowledge and belief.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions set forth in the attached report herein, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. Neither I nor any employee or associate of Provident Valuation Professionals, Inc. have any present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
4. I have no personal bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
7. I have made a personal inspection of the Subject Company.
8. My analyses, opinions and conclusions were developed, and the accompanying appraisal report was prepared, in conformity with the Business Appraisal Standards of the Institute of Business Appraisers (IBA), the professional standards of the National Association of Certified Valuation Analysts (NACVA) and the Uniform Standards of Professional Appraisal Practice (USPAP), in effect as of date this report, May 29, 2007.
9. No one provided significant professional assistance to me.
10. My analysis, opinions and conclusions were developed, and this report has been prepared in conformity with the applicable Internal Revenue Service Valuation Guidelines in effect at the report date.

Authorized reports will be signed in blue ink by Val U. Dude and will be blind embossed upon such signature with the corporate seal of Val U. Dude, Inc. Reports not so signed and blind embossed are void and invalid.

____ Dated May 29, 2007
Val U. Dude, Accredited Valuation Analyst

This appraisal report is valid only as presented in its entirety and exclusively for the Purpose and Valuation Date specified in the accompanying appraisal report, and as specified in our opinion of estimated value. No portion of the accompanying appraisal report, including this Opinion and Certification, shall be detached, copied or otherwise segregated from the complete bound report for any reason, or for any other Purpose or Valuation Date, and are void and invalid if so used.

VALUATION OF 900 SHARES OF VOTING COMMON STOCK,
ON A NOT-FREELY MARKETABLE, CONTROLLING INTEREST BASIS OF
JOE JACKSON & ASSOCIATES, INC., D.B.A. HEARTH ENTERPRISES
AS OF DECEMBER 26, 2005

SUMMARY OF REPORT SPECIFICATIONS

Assignment	
Client Name	Jackson Family Trust Dated 5-15-1978
Engagement Officer	Messrs. Paul J. Brown and Frank L. East
Ownership	Jackson Family Trust Dated 5-15-1978
Subject Interest	900 Shares of Voting Common Stock
Percentage of Ownership Valued	100% (One Hundred Percent)
Level of Value	Controlling Interest
Valuation (Effective) Date	December 26, 2005
Purpose of Appraisal	Estate Tax Return Compliance
Definition (Standard) of Value	Fair Market Value
Subject Company	
Subject Company Name	Joe Jackson & Associates, Inc. D.B.A. Hearth Enterprises
Company Location	12345 Main Street, Somewhere, California 90000
Type of Entity	S Corporation
Incorporated or Organized	State of California, on April 23, 1954
Business Mix Level	Pure Play
Principal Activity SIC Code	5074
SIC Description	Plumbing and Heating Equipment and Supplies (Hydronics)
Report	
Valuation Date	December 26, 2005
Report Date	May 29, 2007
Scope of Appraisal	Full Appraisal (Unrestricted as to Scope)
Level of Report	Written Formal Appraisal Report (Long Form)
Distribution of Report	Restricted to Recipients Listed in Section 1
Professional Standards	NACVA, IBA, USPAP
Valuator	
Valuator	Val U. Dude
Valuator's Qualifications	Curriculum Vitae Presented in Accompanying Report
Valuator's Credential	Accredited Valuation Analyst (AVA)
Credential Conferred by	National Association of Certified Valuation Analysts (NACVA)

NARRATIVE SUMMARY

Overview. Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises is a gas plumbing parts wholesaler of primarily wood-burning gas fireplace log lighters and related valves and flanges, located in the city of Somewhere, in the Southern California county of Sunshine. The Company has elected to be taxes is a federal and California S corporation. All of the voting stock of one class is owned by The Jackson Family Trust Dated 5-15-1978.

Analysis. The Company's financial statements show a five-year trend of slightly declining sales volume and slightly declining gross margin until the most recent year, when margins dropped more sharply and slight profits from prior years reverted to a substantial loss. Throughout the five-year historical period under our review, we learned the Company's operating expenses had been subsidized through unpaid facility rent, owing to the building being owned by the Subject Company's shareholder. This and other adjustments for other subsidies and non-recurring events were incorporated in our normalization adjustments, which were included in our development of the normalized financial statements, which reflect that the Company had been essentially at break-even or unprofitable for the five years under our review. The historical income statements adjusted for normalization purposes are shown in Exhibit 5-9 in the accompanying report.

Moreover, the Company was insolvent on the Valuation Date. The balance sheet adjusted for normalization purposes is shown in Exhibit 5-3 in the accompanying report.

Additionally, the Company has been plagued by a gradually and irreversibly declining market demand for its principal product line, foreshadowing greater challenges to maintaining future sales volume and further potential stress on gross margins. It has also experienced losses and restitution of an embezzlement during the same five-year period under our review, which are both included in the historical income statements summarized below. The Company was severely concentrated and price-constrained by its major dominant customers, and did not arrange for a cost-effective alternative for the sole source of its principal and most profitable product line, gas log lighters. It has introduced a line of barbeque accessories, the sales and profitability of which have been insignificant, and for which successful future prospects are in question.

Further, management believes that inventory, as shown on the CPA-issued financial statements and the CPA-prepared income tax returns, has been overstated substantially, which has been adjusted to fair market value, along with fixed assets, for purposes of estimating our opinion of value using the Adjusted Book Value Method under the Asset Approach adopting the premise of an orderly liquidation. More information about our value conclusion is presented in the accompanying report.

We were mindful of the disparity between the results of operations as reported, shown below in Exhibit A, and the results of operations resulting from our normalization adjustments shown in Exhibit 5-9 of the accompanying report. The Company's results of operations as reported, shown below in Exhibit A, include both subsidies and non-recurring items, which introduce distortions not entirely reflective of arms-length transactions and not entirely predictive of future earning power. Beyond our analysis of the fiscal years ended September 30, we analyzed the financial results as of the trailing year ended December 31, 2005, the nearest month end date to the Valuation Date of December 26, 2005. Shown below in Exhibit A is a summary of the Subject Company's historical performance for the five periods under our review:

Exhibit A
Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises

Historical Income Statements, as Reported

	For the Years Ending September 30,				Trailing Year December 31,
	2002	**2003**	**2004**	**2005**	**2005 (TY)**
Revenue	$ 2,328,242	$ 2,086,307	$ 2,187,982	$ 2,143,049	$ 2,010,875
Cost of revenue	1,328,678	1,068,883	1,126,371	1,179,528	1,346,358
Gross profit	999,564	1,017,424	1,061,611	963,521	664,517
Operating expense	839,991	783,200	897,359	1,042,550	989,535
Operating income (loss)	159,573	234,224	164,252	(79,029)	(325,018)
Other income (expense), net	(84,463)	(135,684)	(159,179)	(80,786)	237,212
Income (loss) before income taxes	75,110	98,540	5,073	(159,815)	(87,806)
Income tax expense (benefit)	800	1,526	800	800	800
Net income (loss)	$ 74,310	$ 97,014	$ 4,273	$ (160,615)	$ (88,606)

Appraisal Report in its Entirety for a Specific Purpose and Date. This appraisal report is valid only as presented in its entirety and exclusively for the Purpose and Valuation Date specified herein, and as specified in our opinion of estimated value. No portion of the accompanying appraisal report, including this Executive Summary, shall be detached, copied or otherwise segregated from the complete bound report for any reason, nor for any other Purpose or Valuation Date, and shall be invalid if so used.

Valuation of

JOE JACKSON & ASSOCIATES, INC., D.B.A. HEARTH ENTERPRISES

AS OF DECEMBER 26, 2005

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VALUATION OF
900 SHARES OF VOTING COMMON STOCK,
ON A NOT-FREELY MARKETABLE, CONTROLLING INTEREST BASIS OF

JOE JACKSON & ASSOCIATES, INC., D.B.A. HEARTH ENTERPRISES

AS OF DECEMBER 26, 2005

Introduction

1. INTRODUCTION

1.1 Summary Description of the Appraisal Assignment [USPAP 10-2 (a)(i), (iii), (iv) and (v)]

The Jackson Family Trust Dated 5-15-1978 ("Client") has retained Val U. Dude, Inc.("Firm"), pursuant to an engagement letter of May 10, 2006 ("Agreement"), as authorized by both of its trustees ("Trustee"), Mr. Paul J. Brown, and Mr. Frank L. East to provide an opinion of the estimated fair market value of 900 shares of voting common stock, representing 100% of the issued and outstanding common stock ("Assignment") of Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises ("Subject Interest"), a federal and California S corporation ("Company," "Subject Company"), on a not-freely marketable, controlling interest basis ("Level of Value") as of December 26, 2005 ("Valuation Date") for the purpose of estate tax compliance ("Purpose") represented to us as coincident with the demise of Mrs. Lindsay Jackson ("Decedent").

The Subject Company conducts its operations from its office and warehouse facilities at 12345 Main, Somewhere, California, 90000, which is in the county of Sunshine. More information about the facility is presented in this report in the section devoted to company analysis.

1.2 Objective of the Appraisal Report [USPAP 10-1 (b)]

Our fundamental objective is to inform the reader in a simple and straightforward manner about our research, analysis and line of reasoning leading to our opinion of estimated value. We assume the reader is not necessarily familiar with business valuation matters, who, nonetheless, expects to be informed in a clear and concise way about the process we used in fulfillment of our Assignment to reach our opinion of estimated value described above.

1.2.1 Copyright Protection and Restricted Distribution of this Appraisal Report [USPAP 9-2 (a)]

This report is the work product of Val U. Dude, Inc., and is protected by copyright with all rights reserved. Accordingly, neither this report in its entirety, nor any element or component thereof, may be published, disseminated, distributed, copied or duplicated by any means or in any manner by anyone to any other person or entity without the express written consent of Val U. Dude, Inc., unless so ordered by a court of competent jurisdiction.

Distribution of this report is restricted exclusively to those parties listed below in Exhibit 1-1 as authorized by the Client pursuant to the terms of our Agreement, and related other correspondence.

Exhibit 1-1 Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises			
Authorized Distribution of Appraisal Report			
Individual's Name	Position	Company Name	No. of Copies
Paul J. Brown	Trustee	The Jackson Family Trust Dated 5-15-1978	1
Mr. Scott H. Hansen	CPA	Solomon, Lyons & Baker, LLP	1
Ms. Louise Jackson	Chief Operating Officer	Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises	1
Ms. Mary Williams	Attorney at Law	Franklin & Franklin, Attorneys at Law	1
Ms. Diane A. Cameron	Attorney at Law	Faust, Faust & Speedy, LLP	1
Mr. Frank L. East	Trustee	The Jackson Family Trust Dated 5-15-1978	1
Ms. Jennifer Lane	Attorney at Law	Bruce McVeigh LLP	1
Mr. Scott H. Hansen	CPA	Internal Revenue Service, Attachment to Form 706	1
		Total Number of Copies Authorized for Distribution	8

Source: Authorized engagement letter between Firm and Client dated May 10, 2006 and subsequent authorizations

1.2.2 Compliance with Professional Standards of Appraisal Organizations for Development and Reporting for Appraisal Reports [USPAP 9 and 10]

This report was prepared according to the professional standards in effect at the report date, May 29, 2007, of the following nationally-recognized appraisal organizations:

- Business Appraisal Standards of the Institute of Business Appraisers in effect as of January 15, 2001,
- Professional Standards of the National Association of Certified Valuation Analysts in effect as of May 31, 2002, and
- Appraisal Foundation, 2006 Uniform Standards for Professional Appraisal Practice (2006 USPAP) in effect as of July 1, 2006.

The appraiser is a member in good standing of the Institute of Business Appraisers and the National Association of Certified Valuation Analysts (NACVA) and holds an AVA accreditation from NACVA. Inasmuch as the appraiser is not a member of the American Society of Appraisers (ASA), the appraiser is not obligated to conform to USPAP. However, notwithstanding the ASA's non-binding pronouncement to the contrary, we have complied with USPAP voluntarily. USPAP standards are cited in the section headings to which our report complies. The significance of membership in professional associations includes, among other things, the requirement that the member conform to the association's professional standards.

1.2.2.1 The Appraisal Assignment Defined by Professional Standards [USPAP 10-2]

This written report is defined as a *Formal Written Appraisal Report* in conformity with §5.1 of the Business Appraisal Standards of the Institute of Business Appraisers; is defined as a *Conclusion of Value* in conformity with §4.3 of the Professional Standards of the National Association of Certified Valuation Analysts; and is defined as an *Appraisal Report* in conformity with the 2006 Uniform Standards of Professional Appraisal Practice (USPAP), Standards Rule 10-2. For purposes of identification from now on, we shall use the term *appraisal report*.

1.2.3 Conformity of the Appraiser with Internal Revenue Service Qualification Requirements [USPAP Supplemental Standards Rule]

1.2.3.1 Conformity with Transitional Guidance Provided by Internal Revenue Service Notice 2006-96 Regarding Appraisal Requirements for Noncash Charitable Contributions

The Internal Revenue Service has previously used definitions and requirements for charitable contribution valuations to apply equally to ESOP, estate and gift tax valuations. Although this appraisal report is not for purposes of a charitable contribution, and we find no direct reference in the *Transitional Guidance* relating to appraisals for other than charitable contributions, nonetheless, we do satisfy the new requirements in that we are qualified by virtue of our background, experience, education and membership in professional associations to make appraisals of the type of property being valued, and by virtue of having fulfilled the additional requirements effective February 17, 2007.[1]

1.2.3.2 Conformity with Internal Revenue Service Business Valuation Guidelines

Although not rising to the level of professional standards, the Internal Revenue Service has issued an updated *Guideline* published in the Internal Revenue Manual to provide guidance to IRS personnel in their performance of reviewing appraisal reports for IRS purposes effective July 1, 2006.[2] We are in conformity with the applicable provisions of the Guidelines in our development and reporting of this appraisal report and have so attested in our certification herein. Our certification preceding this report and made a part thereof attests to our compliance to the above requirements.

1.3 Summary of the Scope of Work Used to Develop the Appraisal [USPAP 10-2 (a)(viii)]

Our opinion of estimated value and the scope of this Assignment is subject to the Statement of Facts, Assumptions and Limiting Conditions set forth herein, and based upon, among other factors, the following:

- Client and any other intended users
- Intended use of the appraiser's opinions and conclusions
- Type and definition of value
- Effective date of the appraiser's opinions and conclusions
- Subject of the assignment and its relevant characteristics, and
- Assignment conditions[3]

With the exception noted below, no information has been otherwise restricted or withheld by us. The scope of this assignment has not been otherwise restricted or limited by the Client, nor, to the best of our knowledge and belief, has any information or documentation been withheld or limited by the Client, management or other sources from whom we requested information or documentation other than what we have disclosed herein.

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[1] Guidance Regarding Appraisal Requirements for Noncash Charitable Contributions, Part III - Administrative, Procedural, and Miscellaneous, Notice 2006-96, (Internal Revenue Service)

[2] IRS Business Valuation Guidelines, IRM §4.48.4, Engineering Program, Business Valuation Guidelines, (Internal Revenue Service: July 1, 2006)

[3] Uniform Standards of Professional Appraisal Practice (USPAP),Advisory Opinion 28 (AO 28), (Washington, D.C.: The Appraisal Foundation, 2006)

Determining the scope of work is an ongoing process in an assignment. Information or conditions discovered during an assignment might cause the appraiser to reconsider the scope of work.[4] For purposes of preparing this appraisal report, taking into consideration our assignment, we have determined and performed the scope of work necessary, including research and analysis of the economic, industry and company-specific factors which we determined was reasonable, appropriate and relevant in the development and reporting of our opinion of estimated value.

Our judgment was used to avoid overreaching as far as the degree of statistical analysis we used in our development process. We were guided, in part, by our opinion of the approximate level of sophistication we would ordinarily expect from a hypothetical investor of this Subject Interest when conducting his or her due diligence.

We were also guided by the circumstances and developmental conclusions as they began to emerge, especially with respect to the relevance of lengthy economic studies, industry studies and the application of the Market Approach, as well as the full development of the Income Approach, when it became increasingly clear that Subject Interest was neither profitable nor solvent, and by wide margins, nor was the Subject Interest likely to become profitable or solvent within the range of time afforded by the available resources and borrowing power of the Subject Interest to sustain losses while a suitable successful strategy was developed, implemented and seen to be successful to recover losses and reach sustainable profitability, positive cash flow and solvency.

Finally, we were guided by the emerging and conclusive unfavorable trends of diminishing market demand for the Company's principal and most profitable product line, and by the pricing constraints management permitted the Company to be encumbered by through acceptance of a sole supplier for its principal product line and an overly influential major customer, who objected to the Company's attempts to increase prices to at least maintain parity with the effects of inflationary pressures.

These factors, considered individually and collectively, contributed to our assessment that the Company's challenges were significant while the Company's alternatives were virtually absent, based on our general discussion with Company management during our initial management conference. Accordingly, besides the Company being in an unprofitable and insolvent position, and likely to continue for some time, we came to the conclusion that the recovery of these financial difficulties would have to be resolved over an extended duration, and the chances of recovery were uncertain, given the limits of financial resources and management initiatives to create and carry out a fundamental change commensurate with the severity of the financial distress.

We believe that the type and extent of our research and analysis, taking into consideration our assessment of the relevance of certain analyses and procedures, as set forth above, provides a suitable

[4] Ibid.

basis to produce credible assignment results, which are both reasonable and appropriate for the completion of this assignment and for the support of our opinion of estimated value.

1.3.1 Requirement to Assess Restrictions and Limitations Imposed Upon the Appraiser and to Determine the Possible Resulting Implications on the Value Conclusion Imposed Therefrom [USPAP Scope of Work Rule]

The Scope of Work Rule imposed by USPAP standards, to which this appraisal conforms, requires that we assess the degree to which our development, analysis or research was limited or restricted by any parties. USPAP states in the Scope of Work Rule:

> An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the assignment results are not credible in the context of the intended use.[5]

USPAP *Comments* on the above are as follows:

> If relevant information is not available because of assignment conditions that limit research opportunities (such as conditions that place limitations on inspection or information gathering), an appraiser must withdraw from the assignment unless the appraiser can:
>
> - modify the assignment conditions to expand the scope of work to include gathering the information, or
> - use an extraordinary assumption about such information, if credible assignment results can be developed.[6]

Our inclusion of these matters set forth below has been disclosed exclusively to establish that we considered these occurrences and assessed whether or not the degree of obstruction or interference rose to the level constituting a basis for employing a USPAP remedy listed above.

1.3.1.1 Assessment of Obstructions Imposed by the Accounting Firm of the Subject Company

Although we encountered initial obstruction to our information requests from two partners of the Subject Company's accounting firm, ultimately they were persuaded by the Client and the Client's counsel to cooperate with us. In the end, these matters, taken individually and collectively, did not rise to a degree of restriction to constitute cause for employing the remedies required by USPAP set forth above.

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[5] *Scope of Work Rule,* USPAP 2006, Appraisal Foundation, Washington, D.C.

[6] Ibid., *Comment*

1.3.1.2 Assessment of Obstructions Imposed by Management of the Subject Company

We encountered obstruction to our information requests from management and staff of the Subject Company, which alternatively took the forms of delay, then by receiving overwhelming documentation, then, finally, refusal to respond to our follow up questions unless we agreed to restrictive deadline conditions for the completion of our developmental and reporting work. We declined to accept the restrictions imposed on our development and reporting work in exchange for lifting the restrictions Company management imposed on our data gathering follow up work.

Although some clarity and corroboration we sought from management and staff would have been helpful and comforting, we came to realize that the information we had already obtained clearly and convincingly converged toward an irrefutable conclusion, such that, despite the follow up responses, our opinion of estimated value of the Subject Company would not be affected. Therefore, we regarded the defiance of Company management to provide follow up access as irrelevant to the development of our value conclusion.

Those matters to which our follow up was barred by Company management are disclosed in the report section to which they pertain. Ultimately, these matters, taken individually and collectively, did not rise to a degree of restriction to constitute cause for employing the remedies required by USPAP set forth above.

1.3.1.3 Conclusion Regarding Potential Impact of Restrictions on Credibility of Assignment Results

In summary, we concluded that the assignment conditions disclosed above did not limit the scope of work to such a degree that the assignment results would not be credible in the context of the intended use. Accordingly, no further action with respect to the above matters was warranted.

1.3.2 Subject of the Appraisal [USPAP 10-2 (a)(i), (iii), (iv) and (v)]

The Jackson Family Trust Dated 5-15-1978 ("Client") has retained Val U. Dude, Inc.("Firm"), pursuant to an engagement letter of May 10, 2006 ("Agreement"), as authorized by both of its trustees ("Trustee"), Mr. Paul J. Brown, and Mr. Frank L. East to provide an opinion of the estimated fair market value of 900 shares of voting common stock, representing 100% of the issued and outstanding common stock ("Assignment") of Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises ("Subject Interest"), a federal and California S corporation ("Company," "Subject Company"), on a not-freely marketable, controlling interest basis ("Level of Value") as of December 26, 2005 ("Valuation Date") for the purpose of estate tax compliance ("Purpose").

1.3.3 Definition of Value, Premise of Value and Level of Value [USPAP 10-2 (a)(vi)]

1.3.3.1 Definition of Value

The definition of value applied to the Subject Interest is ***fair market value.***

1.3.3.1.1 Fair Market Value as Defined by Rev. Rul. 59-60

The fair market value standard is defined in Revenue Ruling 59-60 as:

> ... the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of the relevant facts.[7]

In addition, Rev. Rul. 59-60 continues,

> Court decisions frequently state in addition that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about the property and concerning the market for such property.[8]

Further, Rev. Rul. 59-60 adds,

> A determination of fair market value, being a question of fact, will depend on the circumstances in each case. ...valuation is not an exact science. A sound valuation will be based upon all the relevant facts, but the elements of common sense, informed judgment and reasonableness must enter into the process of weighing those facts and determining their aggregate influence.[9]

1.3.3.1.2 Fair Market Value as Defined by Treasury Regulations

Treasury regulations have been issued to define *fair market value* for purposes of both estate tax planning (gifting) and estate valuation (after death) as follows:

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[7] Rev. Rul. 59-60, Internal Revenue Service, 1959-1 C.B. 237, Section 2.02, citing §§ 20.2031-1(b) of the Estate Tax Regulations and 25.2512.1 of the Gift Tax Regulations, which define fair market value.

[8] Ibid.

[9] Ibid., SEC. 2. BACKGROUND AND DEFINITIONS, paragraph .02.

> The fair market value (of the property being valued) is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts.[10]

1.3.3.1.3 How the Definition of Value is Being Applied to this Appraisal [USPAP 10-2 (a)(vi)]

The definition provided by the Treasury Regulations above has been used as the definition of value in our appraisal, although the definitions established by the Treasury Regulations and Rev. Rul. 59-60 are virtually identical.

Although Rev. Rul. 59-60 does not speak to other attributes of the hypothetical buyer and hypothetical seller explicitly, nonetheless, it is the role of the appraiser to estimate the value of the Subject Interest to simulate a transaction that would most likely culminate between a hypothetical buyer and a hypothetical seller. The following attributes are commonly accepted for hypothetical buyers and sellers:

> ...the willing buyer and the willing seller are hypothetical persons dealing at arms' length, rather than any particular buyer or seller. In other words, a price would not be considered representative of fair market value if influenced by special motivations not characteristic of a typical buyer or seller.[11]

Accordingly, to bring full effect to this simulation, we incorporated the following additional attributes of the hypothetical buyer and seller:

- The hypothetical buyer and seller are profit motivated, well informed and acting in their own best interests.
- The hypothetical buyer would exclude any related parties, subsidiaries, parent companies, shareholders, creditors, competitors or customers who can pay a price artificially higher or lower not contemplated by an independent, arms-length hypothetical financial investor.
- The hypothetical buyer is a financial buyer who will not be purchasing the Subject Interest for any perceived special synergies or strategic benefits.

[10] Treasury Regulation 25.2512-1 and Treasury Regulation 20.2031-1(b)

[11] Shannon P. Pratt, Robert F. Reilly, Robert P. Schweihs, Valuing a Business, 4th ed. (New York: McGraw Hill, 2000) 29

- The Subject Interest will be sold for cash in U.S. dollars or with financial terms comparable thereto.[12]

- The Subject Interest will be held for sale on the market for a reasonable period of time.

- The Subject Company will continue to operate as a going concern and not be liquidated.[13]

- The price represents the normal consideration for the property sold, unaffected by special or creative financing, or sales concessions granted by anyone associated with the sale.[14]

- The hypothetical seller is presumed to be knowledgeable about the relevant facts, including market influence on value, the investment implications of the Company's risk profile, its value drivers, control characteristics, and marketability implications on value.

1.3.3.2 Premise of Value [USPAP 10-2 (a)(vi)] [USPAP 9-2(c)]

The determination of the valuation *premise* is key to the application of valuation Approaches and Methods used to appraise the equity interest in a company. The premise of value addresses the question, Under what set of hypothetical or actual circumstances is a transaction regarding the Subject Interest most applicable?[15] Again, we employed the *Glossary* to provide our definition:

> **Premise of Value** – An assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation; e.g., going concern, liquidation.[16]

The two most common premises are *going concern* and *as if in liquidation*. For purposes of our appraisal, we adopted the definitions from the *International Glossary of Business Valuation Terms*, the full version of which is included in herein.

> **Going Concern Value** – the value of a business enterprise that is expected to continue to operate into the future. The intangible elements of Going Concern Value result from factors such as having a trained workforce, an operational plant, and the necessary licenses, systems, and procedures in place.

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[12] Gary R. Trugman, Understanding Business Valuation, 2nd Edition (American Institute of Certified Public Accountants, New York: 2002) 58

[13] We ultimately determined the appropriate premise of value to be orderly liquidation, which was not predetermined by either Company management or the Client.

[14] Pratt, 29

[15] Pratt, 28

[16] Ibid.

> **Liquidation Value** – the net amount that can be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either "orderly"or "forced."[17]

Most authoritative sources confer on the enterprise only three choices of valuation premises: *going concern* or *liquidation*, which is either *forced* or *orderly*. Management represents that the Subject Company will not be liquidated. Again, the *Glossary* provides the following definition of *going concern*:

> Going Concern - An ongoing operating business enterprise[18]

Dr. Shannon Pratt, a recognized authority on generally accepted business valuation theory and methodology, defines *value as a going concern*, as follows:

> Value as a Going Concern – Value in continued use, as a mass assemblage of income producing assets, as a going-concern business enterprise.[19]

A valuation course workbook published by the National Association of Certified Valuation Analysts provides further corroboration:

> Going concern value is the intangible value of an enterprise that has the necessary work force, systems, procedures, operating assets, and organizational structure in place. In other words, an entity has value simply from being a viable operating entity.
>
> ... Generally, "going concern value" means the total value of an entity *as an ongoing operating entity*.[20]

Adopting the presumption that the hypothetical seller is reasonably prudent and profit motivated when valuing a controlling interest, the professional standards set forth by the Uniform Standards of Professional Appraisal Practice and the Institute of Business Appraisers requires the appraiser to consider and accept the higher of the two values, reflecting the realistic expectation of such a

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[17] International Glossary of Business Valuation Terms

[18] Ibid.

[19] Pratt, 33 (Emphasis Added)

[20] Robert L. Green, CPA, CVA, Business Valuations: Fundamentals, Techniques and Theory, National Association of Certified Valuation Analysts, (Salt Lake City, 1995) Chapter Two - 5. (emphasis added)

seller.[21, 22] We have incorporated this consideration in our contemplation of optimum value and our selection of the premise of value.

The selection of the highest value is not without its considerable intuitive appeal. The idea of valuing an asset at its "highest and best use" is a well established concept, originating from the appraisal of real property, where its application to valuation is an explicit requirement.[23]

Our consideration is also based on the prerequisite that the Subject Interest is valued on a controlling interest basis, which affords the owner of the Subject Interest the authority to liquidate the Company. Otherwise, the liquidation premise would be inapplicable if liquidation could not be carried out.

Moreover, our assessment of future earning power, considering our assessment of future profitability and a discussion with management, foreshadows a continuing future pattern of losses, insolvency and negative cash flow accompanied by little or no financing ability from outside sources of credit.

Lastly, Company management provided us an income forecast for the fiscal year ended September 30, 2007, not for the fiscal year ended in 2006 as we would have preferred, which, nonetheless, predicted a minor profit without the normalization adjustments we employed in the historical review period. Were the actual realistic expenses incorporated, as we did in our normalization procedures for the four-year historic review period, the forecasts would have shown a continuation of the losses experienced historically.

The Company's forecast for fiscal year ended September 30, 2007, nearly two years after the Valuation Date, predicted continued losses after we considered basic normalizing adjustments.

1.3.3.2.1 Conclusion Regarding Premise of Value

We believe it is unreasonable and inappropriate to regard the Subject Company as a going concern as of the Valuation Date and for the foreseeable future. Accordingly, in collective consideration of our financial analysis, Company analysis and discussion with management, we have concluded that the most appropriate premise of value for the Subject Interest is *orderly liquidation.* More analysis is presented in the sections that follow in this report.

[21] Business Appraisal Standards, §5.3(j)(ix), (Institute of Business Appraisers, Inc.: January 15, 2001)

[22] 2006 USPAP, Standards Rule 9-3

[23] Trugman, 39

1.3.3.3 Level of Value

The level of value refers to the characteristics of ownership expressed on either a *controlling interest* basis, or a *minority interest* basis. Inasmuch as we valued 100% of the Company's issued and outstanding voting common stock, the level of value of the Subject Interest was *controlling interest***.** See the *Glossary* herein for definitions of these terms.

1.3.4 Date of Valuation [USPAP 10-2 (a)(vii)]

The valuation date (also known as "effective date" and "appraisal date") of this appraisal is **December 26, 2005** ("Valuation Date") which was selected by the Client. Accordingly, this appraisal report is void and invalid for any other Valuation Date.

Our opinion of estimated value reflects facts and conditions existing or reasonably foreseeable at the Valuation Date. Subsequent events have not been considered. We have no responsibility to update this report for events and circumstances occurring after the Valuation Date, December 26, 2005.

1.3.5 Date of the Appraisal Report [USPAP 10-2 (a)(vii)]

The date of this appraisal report, corresponding to the date this report was signed by the appraiser and presented to the Client, is **May 29, 2007** ("Report Date").

1.4 Exclusive Nature, Purpose and Use of the Appraisal Report [USPAP 10-2 (a)(ii)]

We have prepared this appraisal report pursuant to our Agreement for the purpose of estate tax compliance ("Purpose"). Our opinion of estimated of value is valid exclusively for the Purpose set forth herein. Accordingly, this appraisal report is void and invalid for any other Purpose.

1.5 Statement of Facts, Assumptions, Extraordinary Assumptions, Hypothetical Conditions and Limiting Conditions Used in this Report [USPAP 10-1 (c)]

Some appraisal professionals prefer to format their report by placing the Statement of Facts, Assumptions and Limiting Conditions in the appendix. We prefer to present it in the body of the report to avoid the implication that its relevance may be mistakenly regarded as incidental to the development of our conclusion by its placement in the Appendix. Just the opposite is true. These factors are critical in understanding the basis of our thought processes, judgment and decision criteria in developing our opinion of estimated value, and the report within the context and conditions to which our opinion is subject.

1.5.1 Statement of Facts, Assumptions and Limiting Conditions Used in this Report

The development of an opinion of estimated value in a business valuation report requires reliance upon various facts, assumptions and limiting conditions that usually have a significant impact on the opinion of estimated value. Accordingly, our opinion of estimated value is subject to the following facts, assumptions and limiting conditions, which are an integral part of this report, the inclusion of which have been approved in substantial meaning and form, if not verbatim, by the Client, pursuant to the terms of our Agreement and its subsequent amendments, addendums and reinstatement:

General Assumptions and Conditions

1. Val U. Dude, Inc. does not purport to be a guarantor of value, and assumes no responsibility for changes in market conditions, legal or regulatory matters, or for the owner to find a purchaser at the price indicated by our opinion of estimated value. An actual transaction for the sale of the Subject Interest may be consummated at a higher or lower price than our opinion of estimated of value. Although valuation of a closely-held company is an imprecise and partially subjective undertaking, and reasonable people can differ in their opinions of estimated value, we have used generally accepted valuation theory, methodologies and procedures in arriving at our opinion of estimated value.

2. Unless otherwise stated in this report, we did not observe, and we have no knowledge of, the existence of hazardous materials regarding the subject assets, properties, or business interests. We are not qualified to detect or discover these materials, and, accordingly, we assume no responsibility for the possible existence of these materials. No duty arises for us to gain the expertise for their possible detection or disclosure.

3. This appraisal assignment cannot be relied upon to prevent, detect, disclose or correct any errors, omissions, irregularities or illegal acts, including, but not limited to, fraud, embezzlement, defalcations or departures from Generally Accepted Accounting Principles (GAAP) by any individual, entity, organization or agency. This understanding has been confirmed by the Client pursuant to the terms of our Agreement and its subsequent amendments, addendums and reinstatement.

4. All facts and data presented in this report are true and correct to the best of our knowledge and belief. We have not knowingly withheld or omitted anything from our report affecting our opinion of estimated value.

5. We assume that the management of the Subject Company shall be competent and diligent. This engagement does not opine on the effectiveness of management, nor does our engagement extend to opining on the ability or effectiveness of marketing or other management or ownership functions upon which actual results may depend.

6. We are not licensed attorneys. This appraisal report is not a legal or tax opinion and should not be relied upon as such. Its purpose is to opine on an estimate of value at the Valuation Date without reference to any legal or tax claims, conditions or specific attributes, except where expressly noted in this report. No opinion is intended to be expressed for matters that require legal or specialized expertise, investigation, or knowledge beyond that which is customarily employed by valuation analysts.

7. We have no knowledge of the existence of any issues related to actual or pending litigation, regulatory compliance, limitations in the corporation's articles, bylaws, minutes or agreements, pending or in place among the parties or involving any third parties, except for that which is disclosed herein. We have no knowledge of any noncompliance with any federal, state or local regulations and laws regarding the Subject Company. We are not qualified to detect such noncompliance issues. Accordingly, we do not opine upon nor assume any responsibility for such conditions, should they exist, nor for any expertise required for their discovery or disclosure.

8. We, by reason of this opinion, and under the terms of our Agreement and its subsequent amendments, addendums and reinstatement, are not required to give testimony, or to be present in any court, conference, proceeding, hearing or inquiry concerning the Subject Interest being valued unless previous arrangements have been made.

9. This valuation reflects facts and conditions existing or reasonably foreseeable at the Valuation Date. Subsequent events have not been considered. Accordingly, we have no responsibility to update this report for events or circumstances occurring after the Valuation Date, December 26, 2005.

10. As of the Valuation Date, management and others knowledgeable about Company plans represent that the Company will not be otherwise sold or liquidated.

11. Regarding the Company's assets, we assume (i) the subject assets, properties, or business interests are valued free and clear of any or all liens, restrictions or encumbrances unless otherwise stated; (ii) there are no hidden or unapparent conditions regarding the subject assets, properties, or business interests; (iii) no responsibility for the legal description or matters including legal or title considerations; (iv) title to the subject assets, properties, or business interests is good and marketable unless otherwise stated; (v) no restrictions are imposed by any governmental body or agency on the presence or operation of any of the underlying assets that would affect the value of the Subject Interest other than as indicated in this report.

12. We assume Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises is in full compliance with all applicable federal, state, and local regulations and laws; has all required licenses, certificates of occupancy, consents, or legislative or administrative authority from all

applicable local, state, or federal government, or private entity or organization, or can be obtained or reviewed for any use on which the opinion contained in this report is based. Val U. Dude, Inc., and the appraiser, assume no liability for the economic, legislative, governmental or regulatory compliance factors that may affect the opinion of estimated value in this report.

Reliance on Information

13. This appraisal report is prepared with the inclusion of and reliance upon information (i) provided by the Client, who warranted to us through the terms of our Agreement and its subsequent amendments, addendums and reinstatement that all the information they provided was complete and accurate to the best of their knowledge, and (ii) provided by other sources and by research that have been accepted as correct without independent verification. We express no opinion on the accuracy or completeness of such information, and no warranty, opinion or assurances regarding the reliability of the underlying information used for this appraisal is expressed or implied by virtue of its inclusion or upon its reliance in this appraisal report.

Appraiser's Independence

14. We are independent with respect to Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises Neither the appraiser nor Val U. Dude, Inc. have any present or contemplated future interest in Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises, any personal interests with respect to the parties involved, or any other interest that might prevent us from performing an unbiased valuation.

15. The fees for this valuation are based upon the normal billing structure of Val U. Dude, Inc., and are in no way contingent upon an action or event resulting from the analysis, opinion, or conclusions in, or the use of, this appraisal report.

Restrictions

16. This appraisal report is valid only as presented in its entirety and exclusively for the Purpose and Valuation Date specified herein. Its use for any other Purpose is invalid for which Val U. Dude, Inc. assumes no liability. Reports which are unsigned or do not carry an original signature of the appraiser in blue ink, over which is impressed a blind embossed corporate seal of Val U. Dude, Inc., are also invalid. No portion of the accompanying appraisal report, including the Appraiser's Certification or the Executive Summary, shall be detached, copied or otherwise segregated from the complete bound report for any reason, or for any other Purpose or Valuation Date, and shall be invalid if so used.

17. This report is protected by copyright, and shall not be used by any individual, firm, organization, agency or enterprise, including the Client, by any manner and means, in whole or in part, for any other purpose other than the Purpose so indicated herein, exclusively by the Client, subject to the restrictions set forth for its authorized distribution, without the express written consent of Val U. Dude, Inc.

18. Possession of this report does not carry with it the right of publication of all or part of it, nor conveyed by any method or means to any third parties without the express written consent of Val U. Dude, Inc.

1.5.2 Statement of Extraordinary Assumptions Used in this Report [USPAP 10-1(c)]

There were no extraordinary assumptions used in this report within the meaning of USPAP Standard 10-1 (c).

1.5.3 Statement of Hypothetical Conditions Used in this Report [USPAP 10-1(c)]

There were no hypothetical conditions used in this report within the meaning of USPAP Standard 10-1 (c).

1.6 Valuation Factors Considered in this Appraisal [USPAP 10-2 (a)(viii)]

The Internal Revenue Service ("IRS") provides general guidance on the valuation of closely-held companies as well as valuation dates for estate and gift tax purposes. We have set forth the provisions promulgated by the Internal Revenue Service with our assessment of their relevance to this Assignment in the subsections below.

1.6.1 Specific Factors in the Valuation of Closely-Held Stock Required by the Internal Revenue Service Under Revenue Ruling 59-60

Rev. Rul. 59-60 has become broadly recognized and accepted by the valuation profession as the seminal defining pronouncement which applies "to the valuation of corporation stocks on which market quotations are either unavailable or are of such scarcity that they do not reflect the fair market value."[24] We have considered and carefully analyzed each of the eight valuation factors required by Internal Revenue Service Revenue Ruling 59-60, all available financial data, as well as all relevant factors affecting value in our appraisal of the Subject Interest.[25]

[24] Rev. Rul. 59-60, SECTION 1. PURPOSE.

[25] Ibid., SECTION 4. FACTORS TO CONSIDER., Paragraph .01.

Although the eight factors of Rev. Rul. 59-60 are addressed in greater depth as they apply to the Subject Interest in the sections which follow in this appraisal report, for purposes of summarization, shown in Exhibit 1-2 below are the eight factors and our ultimate determination of their applicability to our valuation of the Subject Interest:

Exhibit 1-2 Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises		
Relevance of Rev. Rul. 59-60		
Rev. Rul. 59-60 Section	Description of Factor	Relevancy
(a)	The nature of the business and the history of the enterprise from its inception.	Yes
(b)	The economic outlook in general and the condition and outlook of the specific industry in particular.	None
(c)	The book value of the stock and financial condition of the business.	Yes
(d)	The earning capacity of the company.	None
(e)	The dividend-paying capacity.	None
(f)	Whether or not the enterprise has goodwill or other intangible value.	Superceded. See Rev. Rul. 95-193
(g)	Sales of the stock and the size of the block of stock to be valued.	None
(h)	The market price of stocks of the corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.	None

1.6.2 Specific Factors in the Valuation of Closely-Held Stock Required by Subsequent Internal Revenue Service Revenue Rulings

We also considered subsequent Internal Revenue Service pronouncements and their applicability to our Assignment, and have included our assessment of their ultimate relevance below in Exhibit 1-3:[26]

Exhibit 1-3 Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises		
Relevance of Additional Revenue Rulings		
Revenue Ruling	Subject of Publication	Relevancy
Rev. Rul. 65-192	**Income and Other Taxes** - Expands Rev. Rul. 59-60 to include income and other taxes; discredits ARM 34 and ARM 68 in valuation of business interests, unless intent is to value intangibles; superceded by Rev. Rul. 68-609	Superceded by Rev. Rul. 68-609
Rev. Rul. 65-193	**Intangible Assets** - deletes the final §4.02(f) of Rev. Rul. 59-60 dealing with the valuation of intangibles	None
Rev. Proc. 66-49	**Donated Property** - To be used for appraisals of donated property; defines content of a formal appraisal report and factors to consider in arriving at fair market value of property	None
Rev. Rul. 68-609	**Excess Earnings Method** - discusses "formula method" for determining fair market value of intangible assets of a business. Supercedes ARM 34. Theory in Revenue Ruling 59-60 applies to income and other taxes as well as to estate and gift taxes, and to business interests of any type, including partnerships and proprietorships, and to intangible assets for all tax purposes.	None
Rev Proc. 77-12	**Inventory Valuation** - originally issued for valuation of merchandise inventory for purchase price allocation, now provides reasonable guidance for appraisal for merchandise inventory for business valuations	Limited.

[26] Trugman, 65-68

Exhibit 1-3 Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises		
Relevance of Additional Revenue Rulings		
Revenue Ruling	Subject of Publication	Relevancy
Rev. Rul. 77-287	**Discount for Lack of Marketability** - recognizes the relevance of restricted stock studies in determining discounts for lack of marketability	None
Rev. Rul. 83-120	**Preferred Stock** - discusses valuing preferred stock	None
Rev. Rul. 85-75	**Acceptability of Estate Tax Values for Depreciation Basis** - IRS not bound to accept values for estate tax purposes to determine depreciation deductions or income taxes on capital gains	None
Rev. Rul. 93-12	**Discount for Lack of Control** - allows the application of minority interest discounts to partial interest transfers even when a family owns overall control of a closely-held business. Supercedes and reverses Rev. Rul. 81-253, which disallowed such discounts, but was overturned by case law.	None

1.6.3 Specific Factors in the Valuation of Closely-Held Stock Required by Chapter 14 of the Internal Revenue Code

We also considered the four sections under Chapter 14 of the Internal Revenue Code and their relevance to our Assignment. These sections relate to issues with respect to the transfer of interests in partnerships and closely-held corporations, which are not relevant to our Assignment. Our summary of their relevance is shown below in Exhibit 1-4

Exhibit 1-4 Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises		
Relevance of IRC Chapter 14		
Chapter Section Number	Summary of Subjects Addressed in Section	Relevance
2701	Allocation of profit and loss, distributions	None
2702	Retained life, annuity and unitrust interests transferred via trusts for lifetime gift tax purposes	None.
2703	Formation, purpose, capital contributions, transfer restrictions, dissolutions	None
2704	Term, management, transfer restrictions, dissolutions	None.

1.6.4 Specific Factors in the Valuation of Closely-Held Stock Required by Section 2031 of the Internal Revenue Code

We also considered section 2031 of the Internal Revenue Code and its relevance to our Assignment. Our summary of their relevance is shown below in Exhibit 1-5

Exhibit 1-5 Joe Jackson & Associates, Inc., D.B.A. Hearth Enterprises		
Relevance of IRC Section 2031		
Chapter Section Number	Summary of Subjects Addressed in Section	Relevancy
2031(a)	Valuation dates for estate taxes	Yes, under the direction of the Client
2031(b)	Suggests consideration of the publicly-traded guideline company method	None