



Confidential Memorandum

As of Current Date

3/31/2004

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NOTIFICATION

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ABC Supplies Inc., also referred to as "Client Company," has elected not to audit financial statements, appraisals of tangible assets or real property. In addition, management has elected to omit substantially all of the informative disclosures ordinarily included in financial statements prepared on an income tax basis of accounting, market value presentation and valuation reports. If the omitted disclosures were included, they might influence the user's conclusions about the company's financial condition. Accordingly, the documents contained in this Confidential Memorandum are not designed for those who are not informed about such matters.

The financial records, equipment list, and operating reports received from management and included in this package are assumed to be accurate. While reasonable tests are applied and unusual results queried, the prospective purchaser should verify accuracy of these numbers. Unless stated otherwise, the financial summaries prepared by **The Johnson Group** reflect only regrouping of those prepared by management. By accepting this Confidential Memorandum, the recipient acknowledges the responsibility to perform a due diligence review and make its own evaluation and judgment prior to any acquisitions of or mergers with the Client Company.

Unless stated otherwise, the underlying assets have not been appraised. The cost data provided in the financial statements, before depreciation is deducted, may be used as an approximate replacement cost but should be reviewed in due diligence process. If a value is included on the asset list, that value is the presumed fair market value of an equivalent asset. Additionally, the list was prepared at a point in time. The ordinary course of business will cause items to be added and disposed of, so any enclosed list of assets should be viewed as an approximation of the total assets of the business.

Inventory is assumed to be at cost. Management's estimate of value is accepted unless reasons exist to use another value, which will be noted.

Real estate values, building leases, rental agreements, equipment leases and other commitments of the company are management's estimate and are assumed to be at market rates unless otherwise noted.

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EXECUTIVE SUMMARY

ABC Supplies is a mature strong company. They have been in business for a long time and have a very loyal customer base. They consistently provide the lowest cost and highest quality for plumbing supplies and tools to plumbing companies. Plumbers drive in from all over south central Texas to purchase their supplies and tools. The company has a very strong cash flow, and has experienced a steady and sure growth for over 40 years. There is tremendous opportunity for an aggressive buyer to build on this stable business.

BUSINESS OVERVIEW

COMPANY DETAILS

This section provides the detailed information about the business.

Business Essentials

Name: ABC Supplies Inc.
Tax ID #: 75-154678
Address: 456 Any Street Drive
City, State Zip: Middletown, Texas 75080
Phone: 405-123-4567
Fax: 405-235-4789
Website Address: www.abcsupplies.com

Owner Information

Name: Mr. John Smith
Title: President/Owner
Home Phone: 405-987-5254
Email Address: jsmith@abcsupplies.com

Primary Contact

Name: Mr. John Smith
Title: President/Owner
Home Phone: 405-987-5254

Business Data

Company's Legal Entity: ABC Supplies Inc.
Company's dba: None
If the company has changed names, list that name: Not applicable
Years Established: 49
Years Owned 49
State of Incorporation: Texas

Date of Incorporation:.....1/1/1954
Company Legal Status:.....Sub "S" Corporation
Business Category:.....Plumbing Supplies
Primary SIC Code:.....5074
Secondary SIC Code:.....
Years at current location:.....49

If the company has moved or expanded facilities, please explain why they moved.

Not Applicable

Days and Hours of Operation:

7 to 4 Monday – Friday, 7 to 12 Saturday

Company Employee Information:

Total Employees.....10
Full Time Employees.....9
Part Time Employees.....1
Union Employees.....0
Average Length of Employment (years).....5
Rate Local Labor Market:

Medium Unemployment

What impact, if any, do union employees have on the business:

None

Benefits:

Hospitalization, 401K, Life Insurance

Law Suits Pending:

Not Applicable

Tax Liens:

Not Applicable

Environmental Issues:

Not Applicable

MANAGEMENT/OWNERSHIP

Table "A" is a list of all those owning a greater than 10% share of the company's stock.

Table A:

Name	Title	% Owned	Age
Mr. John Smith	President	75	65
Mrs. Sally Smith	Treasurer	25	61

The number of hours the owner works per week: 45

Common Shares Outstanding: -n/a-

Shares Repurchased:

Price per share

Repurchase Date

Preferred Shares Outstanding:

Shares Repurchased:

Price per share:

Repurchase Date:

Buy/Sell Agreement in place:

Any Options Outstanding:

To Whom:

Functions the seller currently performs that will need to be replaced by the buyer:

The owner manages staff, he markets for new business in other geographic areas, he continuously negotiates with suppliers for lower prices and higher quality parts, and he works to expand markets, such as retail.

The following is a roster of key positions, a summary of their responsibilities, and back up personnel to these positions:

Store Manager – Manages employees and clerks; Bookkeeper – maintains the books and records
 Senior Order Buyer – Procurement
 Fleet Services Manager – Manages Delivery Trucks

Non-Compete: Yes

Miles: 100

Years: 3

Is the President the Founder? Yes

If not, how long the owner has owned: N/A

Does the owner want to continue to work at the business in any capacity?

No

Burn out; ready to retire, no family to give the business to.

Number of Family Members working in the business, including the owner:.....2

Number of Family Members that will need to be replaced by the buyer:.....2

The following is a list of positions and the salary that will need to be replaced by the buyer.

Position: Salary:

Position: Salary:

Position: Salary:

Position: Salary:

MARKETING AND DISTRIBUTION

Company's Primary Target Market

South and Central Texas based plumbing companies.

Market Trends for the company's products:

The company has grown steadily over the 40 years at a 10% - 15% rate year to year.

The company markets its products or services in the following manner:

The company advertises in the yellow pages, has radio advertising, and has scheduled open houses for plumbers and plumbing companies.

PRODUCTS AND SERVICES

General Description of company's products and/or services:

ABC provides plumbing supplies and tools to plumbing companies.

The following is a breakdown for recent fiscal year end of products/services by sales volume, in dollar and percent:

Product/Service	Sales Volume in Dollars	Sales Volume In Percentage
-----------------	-------------------------	----------------------------

Plumbing Supplies	600,000	61
Plumbing Tools	375,000	39
Total	975,000	100

List of Patents, Copyrights, or Trademarks for this product or service:

None

Cyclical or seasonal factors to consider regarding this product or service impacting sales or profitability:

None

The Company sells and distributes the products and/or services in the following manner:

The company has 1 warehouse and a store serving South Central Texas. They receive drive-up traffic from local plumbers and have a fleet of delivery trucks to deliver parts to their shop or job site.

CUSTOMER INFORMATION

General Overview of Company's customer base:

The company has over 1,400 accounts, 35 of those make up 25% of the revenues.

The following is a list of potential customers to market to or growth areas that the buyer could implement to increase business.

In order to grow this company more rapidly, the owner would need to open supply warehouses in Houston and San Antonio.

The owner offers the following tips or advice to the buyer, based on past experiences:

The owner states that they could have grown faster and been more profitable with expansion and growth by acquiring their competition. Secondly, they should have opened a retail store to compete with Home Depot and offer upscale supplies to the general public.

COMPETITION

The company has done a tremendous job with marketing. They basically have no competition. They have dominated their markets. Several stores have tried to open shops and could not maintain enough business to stay open. They have outstanding customer services, they deliver on time, and they take back bad parts or

TRAINING AND CONSULTING

Seller will be willing to train the buyer for weeks at a total cost of

Given an individual with reasonable skills and little direct knowledge of this business, it would take about months to learn enough about the business to manage it properly.

If you were to start a business of this type, considering start-up costs, and capital investment, it would take about months to show a profit after deducting a reasonable salary for yourself or a manager.

Skills or licenses required to operate business:

No licenses are required. A person needs to have good general business knowledge.

REAL ESTATE

This section discusses the real estate involved in this transaction:

Building Type: Single Story Warehouse

Rent, own or lease the real estate: Own

Monthly Rent/Lease Payment:

Annual Rent/Lease Payment:

Rent or Lease Payment Includes Insurance, Maintenance, and Taxes:

If no; will the rent/lease to buyer include these amounts?

If yes, what will be the adjusted rent/lease per year? \$18,000

If leased, what is the lease expiration date?

Lease Options and Creative Financing available to buyer:

The seller is open-minded about options and creative financing. He wants to make it work for the buyer.

If buyer is interested in renting the real estate, the owner will offer the following:

\$18,000 per year rent renewed annually.

Current Market Value of Real Estate:\$300,000

Value Established by appraisal:Yes

Date of Appraisal:6/15/2003

Owner Financing for Real Estate:

Years:15

Interest Rate:9%

Tax Liens:No

If yes, explain:

FINANCIAL OVERVIEW

Owner's Balance Sheet

Assets and Liabilities Included In the Sale

Assets

Current Assets

Accounts Receivables	\$	123,000.00
Inventory	\$	170,000.00
Other	\$	-
Total Current Assets	\$	293,000.00

Fixed Assets

Leasehold Improvements	\$	19,200.00
Furniture & Fixtures	\$	50,250.00
Equipment	\$	1,300.00
Vehicles	\$	-
Building(s)	\$	-
Land	\$	-
Other	\$	-
Total Fixed Assets	\$	70,750.00

Total Assets \$ 363,750.00

Liabilities

Accounts Payable	\$	58,000.00
Bank Debt	\$	-
Other Liabilities	\$	-

Total Liabilities \$ 58,000.00

Equity \$ 305,750.00

Historical Book Value \$ 251,864.00

Note: Seller has explained that all liabilities will be removed before close of sale, however A/R and A/P will be part of the transaction.

FINANCIAL OVERVIEW

Three Year Comparison of Income and Expenses

	2001	2002	2003	Projected
Sales Revenue \$	825,000	\$ 915,000	\$ 975,000	\$ 1,250,000
Cost of Goods Sold \$	350,000	\$ 380,000	\$ 415,000	\$ 525,000
Relationship	42%	42%	43%	42%
Gross Profit \$	475,000	\$ 535,000	\$ 560,000	\$ 725,000
Margin	58%	58%	57%	58%
Total G & A \$	317,614	\$ 347,006	\$ 393,582	\$ 453,576
Other Income \$	-	\$ -	\$ -	\$ -
Net Income (EBT) \$	157,386	\$ 187,994	\$ 166,418	\$ 271,424

FINANCIAL OVERVIEW

Historical Cash Flow Analysis

	2001	2002	2003
1. Sales Revenue	\$ 825,000	\$ 915,000	\$ 975,000
2. Net Income (Earnings Before Taxes)	<u>\$ 151,105</u>	<u>\$ 181,746</u>	<u>\$ 159,888</u>
3. Plus Customary Lender Add Backs			
Owner's Salary	\$ 85,000	\$ 87,500	\$ 90,000
Owner's Vehicle	\$ 3,500	\$ 4,000	\$ 4,500
Other Family Salaries	\$ -	\$ -	\$ -
Owner's Insurance	\$ -	\$ -	\$ -
Owner's Medical	\$ -	\$ -	\$ -
Owner's Payroll Taxes	\$ 6,800	\$ 7,000	\$ 7,200
Owner's Travel and Entertainment	\$ 7,000	\$ 8,000	\$ 25,000
Non-Essential Telephone	\$ -	\$ -	\$ -
Non-Essential Utilities	\$ -	\$ -	\$ -
Non-Essential Legal	\$ 500	\$ 500	\$ 500
Non-Essential Accounting	\$ -	\$ -	\$ -
Other Non-Essential	\$ -	\$ -	\$ -
Depreciation	\$ 1,460	\$ 1,460	\$ 1,460
Amortization	\$ -	\$ -	\$ -
Interest Expense	\$ 4,222	\$ 4,089	\$ 4,271
Unusual Non-Recurring Expense	\$ -	\$ -	\$ -
Rent Adjustments	\$ (18,000)	\$ (18,000)	\$ (18,000)
Other	<u>\$ 10,000</u>	<u>\$ 12,500</u>	<u>\$ 15,000</u>
4. Total Add Backs	\$ 100,481	\$ 107,048	\$ 129,930
5. Seller's Discretionary Cash Flow	\$ 251,586	\$ 288,794	\$ 289,818
6. Less Owner's/Manager's Salary	\$ 75,000	\$ 80,000	\$ 85,000
7. EBITDA	<u>\$ 176,586</u>	<u>\$ 208,794</u>	<u>\$ 204,818</u>

FINANCIAL OVERVIEW

Three Year Projections (Cash Flow Summary)

	2004	2005	2006
Sales Revenue	1,250,000	1,450,000	1,600,000
Net Income (EBT)	246,142	286,150	305,150
Seller's Discretionary Cash Flow	300,000	325,000	350,000
Less Owner's/Manager's Salary	<u>90,000</u>	<u>90,000</u>	<u>90,000</u>
Cash Available for Debt Service	210,000	235,000	260,000

FINANCIAL OVERVIEW

Owner's Price, Terms & Justification

Price:

Purchase Price	\$ 908,000
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What you are buying:

Adjusted Accounts Receivables	\$ 65,000
Inventory	\$ 170,000
Furniture, Fixtures & Equipment	\$ 51,550
Leasehold Improvements	\$ 19,200
Sellers Discretionary Cash Flow	\$ 289,818
Business Goodwill	\$ 312,432
<u>Grand Total</u>	<u>\$ 908,000</u>

How you are paying for it:

Seller's Discretionary Cash Flow	\$ 289,818
Annual Debt Service (Seller Note)	\$ (16,445)
Annual Debt Service (Commercial Note)	\$ (104,610)
Buyers Annual Salary	\$ (85,000)
Working Capital	<u>\$ (25,000)</u>
Remaining Cash Flow	\$ 58,763

FINANCIAL OVERVIEW

Buyer's Justification of Purchase Price

Purchase Price	\$ 908,000
Buyer's Down Payment	\$ 181,600
Seller Financing	\$ 90,800
Commercial Financing	\$ 577,600
Assumed Payables	<u>\$ 58,000</u>
Total Amount Financed	\$ 668,400
Annual Debt Service (Seller Financing) (7 years at 7%)	\$ (16,445)
Annual Debt Service (Commercial Financing) (7 years at 7%)	<u>\$ (104,610)</u>
Total Annual Debt Service	\$ (121,055)
Seller's Discretionary Cash Flow	\$ 289,818
Remaining Cash Flow	\$ 168,763
