

Vine Restaurant

Broker's Opinion of Value[®] *July, 2009*

Legal Structure:
S-Corporation



Business & Financial Corporation

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Prepared By:

Richard Flask

Report Date

August 11, 2009

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Broker's Opinion of Value®

August 11, 2009

Margaret Fischer/Brian O'Loughlin
Vine Restaurant

Valuation Date: July, 2009 (Date of Most Recent Financial Statements)

Per your request we have conducted a price evaluation analysis and prepared this Broker's Opinion of Value® report.

The purpose of this report is to provide the Seller with an estimate of the probable Selling Price of the Subject Business in preparation for its potential sale / acquisition and should not be used for any other purpose. For completeness, the Seller's estimate of the market value of real estate, if any, is included in the estimate of Net Shareholder Equity provided below.

Based on the information available to us, our opinion of the Probable Selling Price for the Subject in a "typical" asset sale (i.e., includes goodwill and other intangibles, inventory and fixed assets) as of the valuation date given above is:

**Estimated Selling Price in "Typical" Asset Sale
\$350,000**

**Estimated Selling Price in "Typical" Asset Sale Including A/R - A/P
\$350,000**

Value in a "Typical" Asset Sale	<u>\$350,000</u>
Add: Accts Receivable - Accts Payable	<u> </u>
Add: Other Assets Less Other Liabilities	<u> </u>
Subtract: Long-Term Liabilities	<u> </u>
Add: Excess Assets	<u> </u>
Add: Real Estate Included In Sale	<u> </u>
<u>Total</u>	<u>\$350,000</u>

**Net Owner / Shareholder Equity
\$350,000**

Net owner / shareholder equity is the amount that would be received by the owner(s) / shareholder(s) in a "typical" asset sale after collecting all assets not included in the sale and paying off all liabilities. Note: This does not take into account: tax liabilities; broker's fees, closing costs; and, other costs associated with the sale.

The value considerations herein are contingent upon the date of the latest financial statements used in the analysis and the limiting conditions set forth in the body of the report. The Net Shareholder Equity is specifically dependent on the actual Balance Sheet as of the sale date; and, Seller's estimate of the value of included real estate, if any.

Report Prepared By:
Richard Flask

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DISCLAIMER

Murphy Business & Financial Corporation. has conducted this price evaluation analysis and prepared this report as a "business brokerage service" not as part of an appraisal practice as defined by USPAP (Uniform Standard Professional Appraisal Practice) standards and therefore is not bound by the requirements of USPAP.

This report is a business broker's opinion of value and not a valuation or appraisal. There are a number of significant differences between a broker's opinion and appraisals. An broker's opinion of value is not nearly as rigorous as a formal appraisal, and is designed to give a guideline or benchmark value rather than a formal determination of value. Specifically, and at a minimum, a valuation and/or appraisal analysis should include the following conditions to be considered an appraisal or formal valuation:

1. Strict adherence to USPAP (Uniform Standard Professional Appraisal Practice) standards.
2. A full financial statement's analysis, including Income Statement, Balance Sheets and Cash Flows.
3. An in-depth understanding of the financial statements and the company to justify making appropriate adjustments to the Income Statements and Balance Sheets.
4. An assurance that all data is accurate and included in the final report.
5. A comparison of the valued company's financial statements to industry norms (RMA, trade, or other ratios/percentages) and using this data in building discount and capitalization rates.
6. A certifying cover letter with the evaluator's signature.

Murphy Business & Financial Corporation does not purport to be a guarantor of value. The valuation of closely held companies is an imprecise science and reasonable people can differ in their opinion of value. However, the formulas and valuation methodologies used in this report were developed by and are accepted by the business brokerage and / or business valuation communities. The application of these methods in the analysis reported herein along with years of experience in evaluating such businesses, although not considered a formal valuation or appraisal, in our opinion provides a reasonable basis for estimating the likely Selling / Listing Price of a business.

INCOME STATEMENT RECASTING - DISCRETIONARY EARNINGS ANALYSIS

Fiscal Year	2008	No. of Months	12	<i>Figures on Page 5 summary are annualized if No. of Months < 12.</i>
Data Source	P&L			

	Statement	Add Backs	Adjusted	Notes
Income				
Gross Sales	\$749,432		\$749,432	
Other Income (Loss)				
Total Income (Revenue)	\$749,432		\$749,432	
Cost of Goods Sold	\$356,068		\$356,068	
Gross Profit	\$393,364		\$393,364	
Expenses				
Officer's Salary				
Salaries & Wages	\$216,434		\$216,434	
Repairs & Maintenance	\$9,900		\$9,900	
Bad Debts				
Rents	\$39,546		\$39,546	
Taxes & Licenses	\$4,643		\$4,643	
Interest Expense				
Depreciation	\$7,477	\$7,477		
Credit Card Exp	\$18,283		\$18,283	
Amortization	\$5,056	\$5,056		
Auto Expense				
Equipment	\$5,619	\$5,619		
Equipment Rental				
Insurance	\$11,295		\$11,295	
Kitchen Supplies	\$10,207		\$10,207	
Linen	\$11,684		\$11,684	
Marketing & Promo	\$356		\$356	
Miscellaneous	\$2,575		\$3,306	
Office Supplies	\$2,243		\$2,243	
Payroll Expense	\$1,953		\$1,953	
Professional Fees	\$6,438	\$2,198	\$4,240	
Telephone	\$1,417		\$1,417	
Travel & Entertainment	\$506	\$506		
Uniforms	\$644		\$644	
Utilities	\$18,759		\$18,759	
Guaranteed Payments				
Other Income				
Other Expense				
Other Expenses				
Total Expenses	\$375,035		\$354,910	
Net Income (Before Tax)	\$18,329			
Seller's Discretionary Earnings			\$38,454	

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INCOME STATEMENT RECASTING - DISCRETIONARY EARNINGS ANALYSIS, CONT.

Fiscal Year	2007			Notes
	P&L			
Data Source	Statement	Add Backs	Adjusted	
Income				
Gross Sales	\$747,477		\$747,477	
Other Income (Loss)				
Total Income (Revenue)	\$747,477		\$747,477	
Cost of Goods Sold	\$336,369		\$336,369	
Gross Profit	\$411,108		\$411,108	
Expenses				
Officer's Salary				
Salaries & Wages	\$145,866		\$145,866	
Repairs & Maintenance	\$6,510		\$6,510	
Credit Card	\$16,988		\$16,988	
Rents	\$38,527		\$38,527	
Taxes & Licenses	\$56,324		\$56,324	
Interest Expense				
Depreciation	\$8,528	\$8,528		
Amortization	\$4,702	\$4,702		
Auto Expense				
Equipment	\$5,166	\$5,166		
Equipment Rental	\$1,654		\$1,654	
Insurance	\$14,733		\$14,733	
Kitchen Supplies	\$11,089		\$11,089	
Linen	\$9,805		\$9,805	
Marketing & Promo	\$399		\$399	
Miscellaneous	\$1,905	\$1,400	\$505	
Office Supplies	\$1,735		\$1,735	
Payroll Expense	\$1,659		\$1,659	
Professional Fees	\$5,811	\$302	\$5,509	
Telephone	\$1,374		\$1,374	
Travel & Entertainment	\$1,734	\$1,734		
Uniforms	\$851		\$851	
Utilities	\$16,722		\$16,722	
Gain/loss on Asset	\$2,184	\$2,184		
Guaranteed Payments				
Other Income				
Other Expense				
Other Expenses				
Total Expenses	\$354,266		\$330,250	
Net Income (Before Tax)	\$56,842			
Seller's Discretionary Earnings			\$80,858	

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INCOME STATEMENT RECASTING - DISCRETIONARY EARNINGS ANALYSIS, CONT.

Fiscal Year	2006			
Data Source				
	Statement	Add Backs	Adjusted	Notes
Income				
Gross Sales	\$671,090		\$671,090	
Other Income (Loss)				
Total Income (Revenue)	\$671,090		\$671,090	
Cost of Goods Sold	\$299,262		\$299,262	
Gross Profit	\$371,828		\$371,828	
Expenses				
Officer's Salary				
Salaries & Wages	\$143,841		\$143,841	
Repairs & Maintenance	\$6,867		\$6,867	
Bad Debts				
Rents	\$37,226		\$37,226	
Taxes & Licenses	\$29,929		\$29,929	
Interest Expense				
Depreciation	\$11,671	\$11,671		
Credit Card Expense	\$14,581		\$14,581	
Amortization	\$4,448	\$4,448		
Auto Expense				
Equipment	\$490	\$490		
Equipment Rental	\$632		\$632	
Insurance	\$15,986		\$15,986	
Kitchen Supplies	\$9,970		\$9,970	
Linen	\$9,199		\$9,199	
Marketing & Promo	\$1,669		\$1,669	
Miscellaneous	\$2,215	\$1,739	\$476	
Office Supplies	\$1,619		\$1,619	
Payroll Expense	\$3,729		\$3,729	
Professional Fees	\$8,568	\$3,017	\$5,551	
Telephone	\$1,309		\$1,309	
Travel & Entertainment	\$2,441	\$2,441		
Uniforms	\$344		\$344	
Utilities	\$15,779		\$15,779	
Guaranteed Payments				
Other Income				
Other Expense				
Other Expenses				
Total Expenses	\$322,513		\$298,707	
Net Income (Before Tax)	\$49,315			
Seller's Discretionary Earnings			\$73,121	

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RECASTED INCOME STATEMENTS SUMMARY

Fiscal Year	2008	2007	2006
Revenue	\$749,432 100.0%	\$747,477 100.0%	\$671,090 100.0%
Cost of Goods Sold	\$356,068 47.5%	\$336,369 45.0%	\$299,262 44.6%
Gross Profit	\$393,364 52.5%	\$411,108 55.0%	\$371,828 55.4%
Total Expenses	\$354,910 47.4%	\$330,250 44.2%	\$298,707 44.5%
Seller's Discretionary Earnings (SDE)	\$38,454 5.1%	\$80,858 10.8%	\$73,121 10.9%
Weighting	60.00	30.00	10.00
Expected SDE Growth in Next Year			In Percent

WEIGHTED AVERAGES:

Revenue	\$741,011
SDE	\$54,642
Reasonable Owner Salary	\$80,000
EBITDA	

BALANCE SHEET RECASTING

DATA SOURCE: TAX RETURN

PERIOD ENDING:

INCLUDED IN "TYPICAL" ASSET SALE *

ASSETS	NET BOOK VALUE PER B/S	ADJUSTMENTS	SELLER'S EST. FAIR MARKET VALUE
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Current Assets:

ASSETS	NET BOOK VALUE PER B/S	ADJUSTMENTS	SELLER'S EST. FAIR MARKET VALUE
Cash & Equivalents			
Accounts Receivable (A/R)			
Inventory	\$26,637		\$26,637 *
Prepaid Expenses			
Other			
Total Current Assets	\$26,637		\$26,637

NOTES

Fixed Assets

Fixed Assets	\$100,000		\$100,000 *
Accumulated Depreciation			
Total Fixed Assets	\$100,000		\$100,000

Real Estate

Land & Buildings			
Accumulated Depreciation			
Total Real Estate			

Other Assets

Deposits			
Loans To Officers/Shareholders			
Other			
Intangible Assets			
Accumulated Amortization			
Total Other Assets			

TOTAL ASSETS	\$126,637	\$126,637
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LIABILITIES

Current Liabilities

Accounts Payable (A/P)			
Other			
Current Portion, LT Debt			
Total Current Liabilities			

Long-Term Liabilities

Notes Payable			
Loans from Officers/Shareholders			
LTD Less Current Portion			
Total Long-Term Liabilities			

TOTAL LIABILITIES

EQUITY	\$126,637	\$126,637
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TOTAL LIABILITIES + EQUITY	\$126,637	\$126,637
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VALUE OF EXCESS ASSETS

DESCRIPTION OF EXCESS ASSETS

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PRICE EVALUATION METHODS

Method 1: Market Method

Provide Price/SDE and / or Price/Revenue Multiples from Comparables Sold database(s) or Industry Rules of Thumb:

	<u>Price/SDE</u>	<u>Price/Revenue</u>	<u>Other¹</u>	<u>Data Source</u>
Multiple:	2.50	0.35		A, D, F
SDE:	\$54,642			
Total Income:		\$741,011		
Product:	\$136,605	\$259,354		
<u>Adjustments²:</u>				
Add Inventory:	\$26,637	\$26,637		
Add Fixed Assets:		\$100,000		
Estimated Selling Price:	\$163,242	\$385,991	\$395,000	
Weightings:		90	10	

Estimated Selling Price (Market Method) = \$386,892

Data Sources:

- A. BizComps
- B. IBA Comps
- C. Pratt's Stats
- D. BBF Comps
- E. BizBuySell Comps
- F. Business Reference Guide, Tom West
- G. Other

Comments on Data Used (Median Value, Upper 25% etc.):

Using a multiple of revenue, plus inventory & assets, is a commonly accepted methodology.

Notes:

1. For Industry Rules of Thumb that are not expressed as multiples of SDE or Revenue provide description below and enter, under "Other" the Estimated Value obtained using this Rule of Thumb (reference data source):

Other represents approximately 1 X Gross Profit, and considers that the P&L may not capture the true performer

2. Make adjustments, such as adding inventory, only if specified by the industry rule of thumb or if not included in price in the comparables database. Note: Inventory should be added when using the BizComps database.

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PRICE EVALUATION METHODS

Method 2: Multiple of Discretionary Earnings Method¹

Note: Rank each factor from 0 to 3

- 1 Historical Profits (0 = Negative, 3 = Above Industry Norm)
- 2 Income Risk (0 = Startup/Risky, 3 = Well Established/Low Risk)
- 3 Deal Financing (Seller/SBA)? (0 = All Cash, 3 = Excellent Terms)
- 4 Business Type (0 = Service Biz/few assets, 3 = Biz w/High Assets)
- 5 Business Growth (0 = Declining, 3 = Rapid Growth)
- 6 Location/Facilities (0 = Undesirable, 3 = Superior)
- 7 Marketability (0 = Low/Special Skills Reqd., 3 = High/Many Buyers)
- 8 Desirability (0 = No Status, 3 = Challenging & Attractive Environ.)
- 9 Competition (0 = High, 3 = Little Competitor)
- 10 Industry Trend (0 = Declining, 3 = Dynamic Growth)

Selected Multiplier	Weight	Weighted Value
1.50	10	15.00
2.00	9	18.00
1.50	8	12.00
1.50	7	10.50
2.00	6	12.00
1.50	5	7.50
1.50	4	6.00
2.00	3	6.00
1.00	2	2.00
1.00	1	1.00
TOTAL	55	90.00

Earnings Multiple (Weighted Ave.) = $\frac{\text{Weight Values Total}}{\text{Weight Total}} = \boxed{1.64}$

Revenue Breakpoint $\boxed{\$750,000}$ Size Premium $\boxed{1.33}$

Est. Selling Price (Earnings Mult. (Ave) X SDE X Size Premium) = **\$118,921**

The Weights in the above table are set at typical default values ranging from 10 to 1 as shown. However, it is up to the User to adjust these weights, if required, based upon the criteria and the specific characteristics of the business being valued.

For businesses with Revenue <= the Revenue Breakpoint, the Size Premium is set equal to 1.00. For businesses with Revenue > the Revenue Breakpoint the default Size Premium is set equal to 1.33 (equivalent to the maximum value of factors above set = 4). The Default Revenue Breakpoint is \$750,000. The User can adjust the Revenue Breakpoint and Size Premium by analyzing BizComps Data for the specific type of business of interest. The Table provides size premia for general business categories.

BIZCOMPS 2008 SIZE PREMIA* (REVENUE BREAKPOINT \$750,000)	
BUSINESS SERVICES	1.43
CONSTRUCTION	1.33
MANUFACTURING	1.31
AUTO REPAIR SERVICES	1.36
FINANCE, INSURANCE & REAL ESTATE	1.23
RETAIL	1.22
WHOLESALE - DURABLE GOODS	1.22
WHOLESALE - NON-DURABLE GOODS	1.40
PERSONAL SERVICES	1.13

* Size Premium = Ratio of Median SP/SDE multiple for companies in category with revenues greater than \$750,000 (Numerator) to Median SP/SDE multiple for companies with revenues of \$750,000 or less (Denominator). Includes all BizComp transactions with both positive revenue and positive SDE, as well as SDE multiples < 6 (transactions with Price/SDE >6 are considered to be outliers).

1. The Multiple of Discretionary Earnings Method was first presented by Thomas L. West and Jeffrey D. Jones in the *Handbook of Business Valuation*, 1992, John Wiley & Sons, Inc.

PRICE EVALUATION METHODS

Method 3: Buyer's Test Method

Reasonable Owner/Manager Salary (See Recasted Income Statement Summary on Page 5)	\$80,000
Req'd Rate of Return on Down Payment (%) =	-7
Downpayment as % of Price (%) =	50
Enter Estimated Annual Capital Expense as a Percent of Fixed Asset Value at Cost (%)	0.0
Estimated Annual Capital Expense	\$0
Loan Interest Rate (%) =	7.5
Loan Period (Number of Months) =	84
Debt Coverage Ratio =	1.25
Annual Payment per \$1000 of Note =	\$184

Estimated Selling Price (Price which satisfies above conditions) = \$0

The Estimated Rate of Return on Down Payment and the Estimated Annual Capital Expense given above are set at default values as discussed below. These defaults, and the other defaults discussed below, can be modified by the User as required.

Expected Rate of Return - This value is determined using the maximum Price/SDE multiple (MULT_{SDE}) obtained from the Multiple of Discretionary Earnings and Market Data Methods as follows:

$$\text{Buyer's ROI} = \frac{\text{EBIT}'}{\text{SDE}} \times \frac{1}{\text{MULT}_{\text{SDE}}}$$

Where, EBIT' = EBITDA - Owner's Salary - Annual Capital Expense

This variable will typically be in the range of 20 (20% ROI) to 40 (40% ROI), lower for larger / lower risk businesses and higher for smaller / higher risk businesses. May be zero for very small businesses where buyer is buying a job, not making an investment.

Downpayment - default is set at 50%, which is the most common downpayment for transactions in the BizComps database (Ref. *Transaction Patterns - Obtaining Maximum Knowledge from the BizComps Database*, Toby Tatum, 2002).

Estimated Annual Capital Expense - default is set at 10% of Subject's fixed assets.

Loan Period Months - default is set at 84 months, typical SBA loan term w/o real estate. Loan Period can be set anywhere from 24 to 160 months. Loan period tends to be longer for lower risk businesses and shorter for higher higher risk businesses.

Debt Coverage Ratio - default is set at 1.25, the value required by most SBA lenders.

PRICE EVALUATION SUMMARY & CONCLUSIONS

The Results for each of the three Price Evaluation Methods used are summarized on the following pages. These results, or value estimates, provide an estimate of the price range for the Subject. The most probable selling price is estimated by weighting each of the three value estimates and then calculating the weighted average value, which in our opinion, is the most probable selling price for the subject.

The weighting can be thought of as the probability that the value estimate for a given valuation method represents the value of the business (the sum of all weightings would then equal 100).

The weightings should take into account the extent to which a given valuation method addresses, or does not address, risk factors associated with the subject business. For example, consider a business that has high account concentration (e.g., one customer accounts for 50% of revenue). The input variables for the Multiple of Discretionary Earnings and the Buyer's Test Methods can be adjusted to take this risk into account, while the Market Method ratios may be based on median comparables sold data or typical typical rules of thumb. In such cases, the Market Method should receive lower weighting than the other methods.

Based on the information available to us, our opinion of the value of the Subject (excluding real estate, if any) in a "typical" asset sale (i.e., sale includes goodwill & other intangibles, inventory and fixed assets) as of the valuation date is:

**Estimated Selling Price in "Typical" Asset Sale
\$350,000**

**Estimated Selling Price in "Typical" Asset Sale Including Accounts Receivable - Accounts Payable
\$350,000**

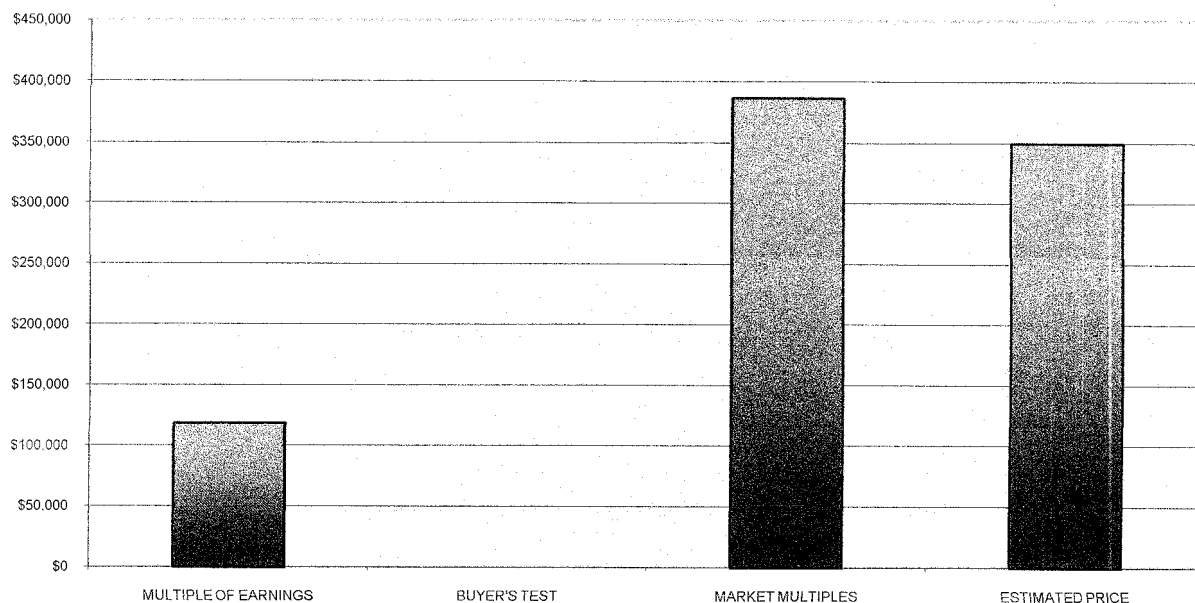
Value in a "Typical" Asset Sale	<u>\$350,000</u>
<u>Add: Net Working Capital (A/R - A/P)</u>	<u>\$0</u>
<u>Add: Other Assets Less Other Liabilities</u>	<u>\$0</u>
<u>Subtract: Long-Term Liabilities</u>	<u>\$0</u>
<u>Add: Excess Assets</u>	<u>\$0</u>
<u>Add: Real Estate Included In Sale</u>	<u>\$0</u>
<u>Total</u>	<u>\$350,000</u>

**Net Shareholder Equity
\$350,000**

Net shareholder equity is the amount that would be received by the owner(s) / shareholder(s) in a "typical" asset sale after collecting all assets not included in the sale and paying off all liabilities. Note: This does not take into account: tax liabilities; closing costs; and, other costs associated with the sale.

The value considerations herein are contingent upon the date of the latest financial statements used in the analysis and the limiting conditions set forth in the body of the report. The Net Shareholder Equity is specifically dependent on the actual Balance Sheet as of the sale date; and, Seller's estimate of the value of included real estate, if any.

PRICE EVALUATION SUMMARY & CONCLUSIONS, CONT.



PRICE EVALUATION RESULTS

			WEIGHT
ESTIMATED PRICE - MULTIPLE OF EARNINGS*	\$118,921	66.0%	15.0
ESTIMATED PRICE - BUYER'S TEST*		100.0%	
ESTIMATED PRICE - MARKET MULTIPLES*	\$386,892	-10.5%	85.0
ESTIMATED PRICE OF BUSINESS (WEIGHTED AVERAGE)*	\$350,000	A	
ACCOUNTS RECEIVABLE - ACCOUNTS PAYABLE		B	
ESTIMATED PRICE INCL. A/R - A/P	\$350,000	C=A+B	
OTHER ASSETS LESS OTHER CURRENT LIABILITIES		D	
LONG-TERM LIABILITIES		E	
EXCESS ASSETS		F	
ESTIMATED VALUE OF REAL ESTATE		G	
NET OWNER/SHAREHOLDER EQUITY INCL. REAL ESTATE	\$350,000	H=C+D-E+F+G	

* TYPICAL ASSET SALE (ONLY GOODWILL, FIXED ASSETS & INVENTORY TRANSFER TO BUYER)
 ONE OR MORE PRICE ESTIMATES ARE LESS THAN THE VALUE OF FIXED ASSETS PLUS INVENTORY

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PRICE EVALUATION SUMMARY & CONCLUSIONS, CONT.

MULTIPLES (TYPICAL ASSET SALE)

MULTIPLES (Uses Weighted Ave. Values of Earnings & Revenue)

PRICE/FIXED ASSETS	3.50
PRICE/SDE	6.41
PRICE/EBITDA	-13.80
PRICE/REVENUE	0.47

MULTIPLES (Using Most Recent Year Earnings & Revenue)

PRICE/FIXED ASSETS	3.50
PRICE/SDE	9.10
PRICE/EBITDA	-8.42
PRICE/REVENUE	0.47

PRICE BREAKDOWN (TYPICAL ASSET SALE)

FIXED ASSETS	\$100,000	28.6%
INVENTORY	\$26,637	7.6%
GOODWILL	\$223,363	63.8%
REAL ESTATE		
TOTAL	\$350,000	100.0%

PRICE BREAKDOWN (INCL. A/R - A/P)

FIXED ASSETS	\$100,000	28.6%
INVENTORY	\$26,637	7.6%
ACCTS. RECEIVABLE - ACCTS. PAYABLE		
GOODWILL	\$223,363	63.8%
REAL ESTATE		
TOTAL	\$350,000	100.0%

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NOTES & COMMENTS

Population and tourists continue to fuel the industry, and this business is well-situated to take advantage. Proprietor-run operation has carefully built the Vine into a destination stop for frequent users, with an extensive, unique selection of beers, moderately priced wines and high-quality, value-oriented menu. Margin has been deliberately controlled to build an excellent price-value reputation. Consequently, the Vine has earned the "Best place to eat in Ocean Beach" recognition along with the Beer Advocate's highest rating (97) in the nation for unique/exclusive variety of beers. The Union Tribune has voted the Vine in their Top 5 ratings in the past.

The Vine occupies a prominent, corner location on the "Hot Block" of dining in Ocean Beach, one of the hottest areas in San Diego. Growth potential in expanding to the lunch daypart, and via margin opportunities should be attractive to a new proprietor, while care should be taken not to alienate loyal clientele.

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