

WAL MART STORES INC
Form S-3
July 11, 2005
Table of Contents

As filed with the Securities and Exchange Commission on July 11, 2005

Registration No. 333-_____

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

WAL-MART STORES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

71-0415188
(I.R.S. Employer
Identification No.)

702 S.W. Eighth Street
Bentonville, Arkansas 72716
(479) 273-4000

(Address, including zip code, and telephone number, including area
code, of registrant's principal executive offices)

ANTHONY D. GEORGE, ESQ.

Senior Assistant General Counsel, Finance

Wal-Mart Stores, Inc.

702 S.W. Eighth Street

Bentonville, Arkansas 72716

479-273-4000

(Name, address, and telephone number,

including area code, of agent for service)

With copies to

DUDLEY W. MURREY, ESQ.
Andrews Kurth LLP
1717 Main Street, Suite 3700
Dallas, Texas 75201
214-659-4400

GLENN M. REITER, ESQ.
Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017-3954
212-455-2000

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box: "

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: "

CALCULATION OF REGISTRATION FEE

Title of each class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Security(2)	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Debt Securities	\$5,000,000,000	100%	\$5,000,000,000	\$588,500

(1) Or the equivalent thereof in one or more foreign currencies or composite currencies, including the euro.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the U.S. Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated July 11, 2005

PROSPECTUS

WAL-MART STORES, INC.

\$5,000,000,000

DEBT SECURITIES

We may offer and sell our debt securities from time to time in an aggregate amount of up to \$5,000,000,000. The debt securities may be offered in one or more different series that have different terms and conditions. The terms of each series will be determined at the time we first offer the debt securities that are a part of that series, and those terms may differ from the terms described in this prospectus. The amount of the debt securities of any series offered and the price at which those debt securities are offered will be determined at the time of each offering.

This prospectus provides you with a general description of certain material terms of the debt securities we may offer. When we make an offering of the debt securities of one or more series of the debt securities, we will provide a prospectus supplement that describes the specific terms and conditions of each series of debt securities being then offered and the specific terms of the offering, including:

the public offering price at which the securities of that series are then being offered;

the currency or composite currency in which the securities of that series are denominated;

the maturity date of the securities;

the interest rate or rates, which may be fixed or variable;

the times for payment of principal, interest and any premium;

any redemption provisions;

any conversion or exchange provisions of the debt securities in the series; and

whether the debt securities in the series then being offered will be listed on any stock exchange.

The prospectus supplement may also contain important information about certain U.S. federal income tax consequences and, in certain circumstances, consequences under other countries' tax laws to which you may become subject if you acquire the debt securities being offered by that prospectus supplement. The prospectus supplement may also add information to, or update or change information contained in, this prospectus.

This prospectus may not be used to sell any securities unless accompanied by a prospectus supplement.

You should read carefully both this prospectus and the prospectus supplement accompanying this prospectus, together with the additional information described under the heading "Where You Can Find More Information," before deciding whether to invest in any of the debt securities being offered.

Neither the Securities and Exchange Commission nor any state securities commission or other regulatory body has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We maintain our principal executive offices at 702 S.W. Eighth Street, Bentonville, Arkansas 72716. Our telephone number there is 479-273-4000.

The date of this Prospectus is _____, 2005.

Table of Contents

TABLE OF CONTENTS

	Page
<u>About this Prospectus</u>	2
<u>Where You Can Find More Information</u>	3
<u>Cautionary Statement Regarding Forward-Looking Statements and Information</u>	4
<u>Wal-Mart Stores, Inc.</u>	5
<u>Ratio of Earnings to Fixed Charges</u>	6
<u>Use of Proceeds</u>	6
<u>Description of the Debt Securities</u>	7
<u>Book Entry Procedures</u>	14
<u>Tax Consequences to Holders</u>	16
<u>Plan of Distribution</u>	17
<u>Legal Matters</u>	18
<u>Experts</u>	18

You should rely only on the information contained or incorporated by reference in this prospectus and in any accompanying prospectus supplement relating to any of our debt securities being offered by means of this prospectus and the accompanying prospectus supplement. We have not authorized anyone to provide you with different information.

We are not offering the debt securities in any jurisdiction in which the offer is not permitted.

ABOUT THIS PROSPECTUS

This prospectus is part of a Registration Statement on Form S-3 that we filed with the Securities and Exchange Commission using the shelf registration process. By using a shelf registration statement, we may offer and sell, from time to time, in one or more offerings any combination of the debt securities described in this prospectus up to a total of \$5,000,000,000 of our debt securities.

For further information about our company and business and the debt securities, you should refer to the registration statement and its exhibits. The exhibits to that registration statement include the full text of the indenture pursuant to which the debt securities will be issued and certain other important documents. Certain terms of the indenture are summarized in this prospectus. Since that summary may not contain all of the information that you may want to have regarding the indenture's terms, you should review the full text of the indenture and the other documents that are exhibits to the registration statement.

In this prospectus and the accompanying prospectus supplement, unless otherwise specified, the terms "Wal-Mart," "Wal-Mart Stores," "we," "us" and "our" refer to Wal-Mart Stores, Inc. and its consolidated subsidiaries.

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. Our filings with the SEC are available to the public through the Internet at the SEC's website at <http://www.sec.gov>. Those filings are also available to the public on our website at <http://www.walmartstores.com>. You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You can also obtain copies of these documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the SEC's public reference facilities by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available at the office of the New York Stock Exchange. For information on obtaining copies of public filings at the New York Stock Exchange, you should call 212-656-5060.

As permitted by the SEC's rules, we incorporate by reference into this prospectus information contained in certain documents we file with the SEC, which means we disclose to you important information concerning us by referring you to those documents incorporated by reference. Those documents that we are incorporating by reference into this prospectus form an important part of this prospectus. The information contained in the documents that we file with the SEC in the future and that are incorporated by reference in this prospectus as noted below will also be considered to be part of this prospectus and will automatically update and supersede, as appropriate, the information contained in this prospectus and the documents previously filed with the SEC and incorporated by reference into this prospectus.

We incorporate by reference into this prospectus the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until we complete or terminate the offering of debt securities by this prospectus. Please note that we are not incorporating any information furnished under either Item 2.02 or Item 7.01 of any Current Report on Form 8-K that we furnish to the SEC after the date of this prospectus unless, and except to the extent, specified in that Current Report.

Our Annual Report on Form 10-K for our fiscal year ended January 31, 2005.

Our Quarterly Report on Form 10-Q for our fiscal quarter ended April 30, 2005.

Our Current Reports on Form 8-K dated March 8, 2005, March 25, 2005, June 8, 2005, June 9, 2005 and June 10, 2005.

You can obtain any of our filings incorporated by reference into this prospectus through us, from the SEC or from the New York Stock Exchange as noted above. We will provide to you a copy of any or all of the information incorporated by reference in this prospectus, as well as a copy of the indenture and any other agreements referred to in this prospectus, free of charge. To request any such filing or other documents, you should write or call:

Wal-Mart Stores, Inc.

702 S.W. Eighth Street

Bentonville, Arkansas 72716

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Attention: Investor Relations

Telephone: (479) 273-8446

Table of Contents

CAUTIONARY STATEMENT REGARDING

FORWARD-LOOKING STATEMENTS AND INFORMATION

This prospectus, the accompanying prospectus supplement and the filings and other information incorporated by reference may include or incorporate by reference certain statements that may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements included or incorporated by reference in this prospectus, the accompanying prospectus supplement or any information incorporated by reference in this prospectus address activities, events or developments that we expect or anticipate will or may occur in the future, including the amount and nature of future capital expenditures, opening of additional stores and clubs in the United States, opening of additional units in the other countries in which we operate, conversion of Discount Stores into Supercenters, anticipated levels of change in comparative store sales from one period to another period, expansion and other development trends of retail industry, our business strategy, our financing strategy, expansion and growth of our business, changes in our operations, including the mix of products sold, our liquidity and ability to access the capital markets, our anticipated earnings per share for certain periods, and other similar matters. Although we believe the expectations expressed in the forward-looking statements included in this prospectus, the accompanying prospectus supplement and any information incorporated by reference into this prospectus are based or will be based on reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause our actual results to differ materially from those expressed in any of those forward-looking statements.

Our business operations are subject to factors outside our control. Any one, or a combination, of these factors could materially affect our financial performance, business strategy, plans, goals and objectives. These factors include: the cost of goods, labor costs, the availability of qualified associates, transportation costs, the cost of fuel and electricity, the cost of healthcare, competitive pressures, inflation, accident-related costs, consumer buying patterns and debt levels, weather patterns, currency exchange fluctuations, trade restrictions, changes in tariff and freight rates, changes in tax law, the outcome of legal proceedings to which we are a party, unemployment levels, interest rate fluctuations, zoning and land use restrictions, changes in employment legislation and other capital market, economic and geo-political conditions. The foregoing list of factors that may affect our performance is not exclusive. Other factors and unanticipated events could adversely affect our business operations and financial performance. The forward-looking statements included in this prospectus, the accompanying prospectus supplement or any information incorporated by reference in this prospectus are based on a knowledge of our business and the environment in which we operate and our beliefs and assumptions, but because of the factors described and listed above, actual results may differ materially from those contemplated in the forward-looking statements. Consequently, this cautionary statement qualifies all of the forward-looking statements we make in this prospectus, the accompanying prospectus supplement or any information incorporated by reference in this prospectus. We cannot assure you that the results or developments anticipated by us will be realized or, even if substantially realized, that those results or developments will result in the expected consequences for us or affect us, our business or our operations in the way we expect. You should not place undue reliance on these forward-looking statements, which speak only as of their dates. We do not intend to update any such forward-looking statements after we distribute this prospectus.

Table of Contents

WAL-MART STORES, INC.

We are the world's largest retailer as measured by total net sales for the fiscal year ended January 31, 2005. Our total net sales exceeded \$285 billion in fiscal 2005. We operate mass merchandising stores that serve our customers primarily through the operation of three segments:

Wal-Mart stores, which include our discount stores, Supercenters and Neighborhood Markets in the United States;

SAM'S Clubs, which include our warehouse membership clubs in the United States; and

the international segment of our business.

We currently operate in all 50 states of the United States, Argentina, Brazil, Canada, Germany, Mexico, Puerto Rico, South Korea and the United Kingdom, and in China under joint venture agreements. The units operated by our International Division represent a variety of retail formats. We also own an interest in The Seiyu, Ltd., a Japanese retail chain.

Wal-Mart Stores, Inc. is the parent company of a group of subsidiary companies, including Wal-Mart.com, Inc., Wal-Mart de Mexico, S.A. de C.V., Asda Group Limited, Sam's West, Inc., Sam's East, Inc., Wal-Mart Stores East, LP, Sam's Property Co., Wal-Mart Property Co., Wal-Mart Real Estate Business Trust and Sam's Real Estate Business Trust.

Wal-Mart Stores, Inc. was incorporated in the State of Delaware on October 31, 1969.

Our principal executive offices are located at 702 S.W. Eighth Street, Bentonville, Arkansas 72716. Our telephone number there is (479) 273-4000, and our Internet address is www.walmartstores.com. Information contained in our website is not a part of this prospectus.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth the ratio of our earnings to fixed charges, for the periods indicated:

Three Months Ended		Year Ended January 31,				
April 30,						
2005	2004	2005	2004	2003	2002	2001
10.9x	9.1x	10.5x	10.5x	9.0x	6.7x	6.5x

For the purpose of computing our ratios of earnings to fixed charges, we define earnings to mean our earnings before income taxes and fixed charges, excluding capitalized interest and earnings attributable to minority interests owned by others in our subsidiaries.

We define fixed charges to mean:

the interest that we pay; plus

the capitalized interest that we show on our accounting records; plus

amortized premiums, discounts and capitalized expenses related to indebtedness; plus

the portion of the rental expense for real and personal property that we believe represents the interest factor in those rentals.

Our fixed charges do not include any dividend requirements with respect to preferred stock because we do not have any shares of preferred stock outstanding.

USE OF PROCEEDS

Except as otherwise specifically described in the accompanying prospectus supplement, we will use the net proceeds from the sale of the debt securities:

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to repay the short-term borrowings that we have incurred for corporate purposes, including to finance capital expenditures, such as the purchase of land and construction of stores and other facilities;

to finance acquisitions;

to repay long-term debt as it matures or to refinance debt of our subsidiaries;

to repay short-term borrowings that we have incurred to acquire other companies and assets;

to repay short-term borrowings that we have incurred to acquire our common stock pursuant to our share repurchase program;

to meet our other general working capital requirements; and

for general corporate purposes.

Before we apply the net proceeds to one or more of these uses, we may invest those net proceeds in short-term marketable securities.

We may also incur from time to time additional debt other than through the offering of debt securities under this prospectus.

Table of Contents

DESCRIPTION OF THE DEBT SECURITIES

We will issue the debt securities in one or more series under an indenture, dated as of _____, 2005, between us and J.P. Morgan Trust Company, National Association, as the indenture trustee.

The indenture is a contract between us and the trustee. The trustee has two main roles. First, the trustee can enforce your rights against us if an event of default, as that term is described below, occurs under the indenture in relation to debt securities we have issued. Second, the trustee performs certain administrative duties for us.

We have summarized below material provisions of the debt securities that we will offer and sell pursuant to this prospectus and material provisions of the indenture. However, you should understand that this is only a summary. We have not described all of the provisions of the indenture. We have filed the indenture with the SEC, and we suggest that you read the indenture. We are incorporating by reference the provisions of the indenture referred to by section numbers and summarized below. The following summary is qualified in its entirety by those provisions of the indenture.

We will describe the particular terms and conditions of a particular series of debt securities offered in a prospectus supplement relating to the offer of that series of debt securities. The prospectus supplement, which we will file with the SEC, may or may not modify the general terms found in this prospectus. For a complete description of any series of debt securities offered pursuant to this prospectus, you should read both this prospectus and the prospectus supplement relating to that series of debt securities.

General

As a holder of the debt securities issued under the indenture, you will be one of our unsecured creditors and will have a right to payment equal to that of our other unsecured creditors.

The debt securities offered by this prospectus will be limited to a total of \$5,000,000,000, which will include the U.S. dollar equivalent amount of any debt securities that we issue that are denominated in any non-U.S. currency or in a composite currency. The indenture, however, does not limit the amount of debt securities that may be issued under it and provides that debt securities may be issued under it from time to time in one or more series.

With respect to each particular series of debt securities that we offer by this prospectus, the prospectus supplement will describe the following terms of each series of debt securities:

the title of the series;

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the maximum aggregate principal amount, if any, established for debt securities of the series;

the maximum aggregate initial public offering price, if any, established for the debt securities of the series;

the date or dates on which the principal will be paid;

the conditions pursuant to which and the times at which any premium on the debt securities of the series will be paid;

the annual rate or rates, if any, which may be fixed or variable, at which the debt securities of the series shall bear interest, or the method or methods by which the rate or rates, if any, at which the debt securities of the series shall bear interest may be determined;

the date or dates from which interest, if any, shall accrue;

the dates on which any accrued interest shall be payable and the record dates for the interest payment dates;

the percentage of the principal amount at which the debt securities of the series will be issued, and if less than face amount, the portion of the principal amount that will be payable upon acceleration

Table of Contents

of those debt securities maturity or at the time of any prepayment of those debt securities or the method for determining that amount;

if we may prepay the debt securities of the series in whole or part, the terms of our prepayment right, the time or times at which any such prepayment may be made, whether the prepayment may be made in whole or may be made in part from time to time and the terms and conditions on which such prepayment may be made, including the obligation to pay any premium or any other make-whole amount in connection with any prepayment;

the offices or agencies where the debt securities of the series may be presented for registration of transfer or exchange;

the place or places where the principal of, premium, if any, and interest, if any, on debt securities of the series will be paid;

if we will have the right to redeem or repurchase the debt securities of the series, in whole or in part, at our option, the terms of our redemption or repurchase right, when those redemptions or repurchases may be made, the redemption or repurchase price or the method or methods for determining the redemption or repurchase price, and any other terms and conditions relating to any such redemption or repurchase by us;

if we will be obligated to redeem or repurchase the debt securities of the series in whole or part at any time pursuant to any sinking fund or analogous provisions or without the benefit of any sinking fund or analogous provisions, the terms of our redemption or repurchase obligation, including when and at whose option we will be obligated to redeem or repurchase the debt securities of the series, the redemption or repurchase price or the method for determining the redemption or repurchase price and any other terms and conditions relating to any such redemption or repurchase;

if the debt securities of the series will be convertible into or exchangeable for any other of our securities, the terms of the conversion or exchange rights, including when the conversion or exchange right may be exercised, the conversion or exchange price or the ratio or ratios or method of determining the conversion or exchange price or ratios and any other terms and conditions, including anti-dilution terms, upon which conversion or exchange may occur;

if other than denominations of \$2,000 and any integral multiple of \$1,000 in excess thereof, the denominations in which we will issue debt securities of the series;

the currency in which we will pay principal, any premium, interest or other amounts owing with respect to the debt securities of the series, which may be U.S. dollars, a foreign currency or a composite currency;

any index, formula or other method that we must use to determine the amount of any payment of principal, any premium or interest on the debt securities of the series;

if we are required to pay any additional amounts, the terms of our obligation to pay additional amounts and under what conditions we will be required to pay such amounts;

whether the debt securities of the series will be issued in certificated or book-entry form;

any addition to, or change in, the events of default with respect to, or covenants relating to, the debt securities in the series;

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whether the debt securities of the series will be subject to defeasance as provided in the indenture; and

any other specific terms and conditions of the series of debt securities.

(Section 3.01)

If we sell any series of debt securities for, that we may pay in, or that are denominated in, one or more foreign currencies, currency units or composite currencies, we will disclose any material applicable restrictions, elections, tax consequences, specific terms and other information with respect to that series of debt securities and the relevant currencies, currency units or composite currencies in each prospectus supplement relating to that series.

Table of Contents

We may offer and sell series of the debt securities as original issue discount securities, bearing no interest or interest at a rate that at the time of issuance is below market rates, or at a substantial discount below their stated principal amount. We will describe the income tax consequences and other special considerations applicable to any original issue discount securities of that kind described in each prospectus supplement relating to that series.

Conversion or Exchange Rights

Debt securities offered by this prospectus may be convertible into or exchangeable for other securities, including, for example, shares of our equity securities. We will describe the terms and conditions of conversion or exchange in the applicable prospectus supplement. The terms and conditions will include, among others, the following:

the conversion or exchange price or prices or the ratio or ratios or method of determining the conversion or exchange prices or ratios;

the conversion or exchange period;

provisions regarding our ability or the ability of the holder to convert or exchange the debt securities;

events requiring adjustment to the conversion or exchange price; and

provisions affecting conversion or exchange in the event of our redemption of the debt securities.

Events of Default and Waiver

An event of default with respect to debt securities of a series issued will occur if:

we fail to pay interest on any outstanding debt securities of that series when it is due and payable and that failure continues for 30 days;

we fail to pay principal of, or premium, if any, on any outstanding debt securities of that series when it is due and payable;

we fail to perform or we breach any covenant or warranty in the indenture with respect to any outstanding debt securities of that series and that failure continues for 90 days after we receive written notice of that default;

certain events of bankruptcy, insolvency or reorganization occur with respect to us; or

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any other event occurs that is designated as an event of default with respect to the particular series of debt securities when that particular series of debt securities is established.

(Section 7.01)

An event of default with respect to a particular series of debt securities issued under the indenture does not necessarily constitute an event of default with respect to any other series of debt securities issued under the indenture. If an event of default with respect to any series of outstanding debt securities occurs and is continuing (other than an event of default relating to certain events of bankruptcy, insolvency or reorganization with respect to us), the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of that series may declare the principal amount of the outstanding debt securities of that series to be immediately due and payable. If an event of default relating to certain events of bankruptcy, insolvency or reorganization with respect to us occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest on all of the debt securities will become and be immediately due and payable without any declaration or other act on the part of the trustee or any holders of the debt securities. (Section 7.02) The holders of a majority in aggregate principal amount of the outstanding debt securities of a series may waive an event of default resulting in acceleration of the debt securities of that series and rescind and annul that acceleration, but only if all other events of default with respect to the debt securities of that series have been remedied or waived and all payments due with respect to the

Table of Contents

debt securities of that series, other than those due as a result of acceleration, have been made. (Section 7.02) If an event of default occurs and is continuing with respect to the debt securities of a series, the trustee may, in its discretion, and will, at the written request of holders of not less than a majority in aggregate principal amount of the outstanding debt securities of that series and upon reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request and subject to certain other conditions set forth in the indenture, proceed to protect the rights of the holders of the debt securities of that series. (Section 7.03; Section 7.12) The holders of a majority in aggregate principal amount of the debt securities of that series may waive any past default under the indenture and its consequences except a default in the payment of principal of, premium, if any, or interest on, those debt securities and any covenant or provision of the indenture that cannot be waived without the consent of each holder of debt securities of that series. Upon such a waiver, the default and any event of default arising out of the default will be deemed cured for all purposes of the debt securities of that series. (Section 7.13)

The indenture provides that upon the occurrence of an event of default described in the first two bullet points in the first paragraph under Events of Default and Waiver with respect to debt securities of a series, we will, upon the trustee's demand, pay to the trustee for the benefit of the holders of the outstanding debt securities of that series, the whole amount then due and payable on the debt securities of that series for principal, premium, if any, and interest. The indenture also provides that if we fail to pay such amount forthwith upon such demand, the trustee may, among other things, institute a judicial proceeding for the collection of those amounts. (Section 7.03)

The indenture also provides that, notwithstanding any other provision of the indenture, the holder of any debt securities of a series will have the right to institute suit for the enforcement of any payment of principal of, and interest on, the debt securities of that series or any redemption price or repurchase price when due and that that right will not be impaired without the consent of that holder. (Section 7.08)

The trustee is required, within 90 days after the occurrence of a default with respect to the debt securities of a series, to give to the holders of the debt securities of that series notice of all uncured defaults known to it. However, except in the case of default in the payment of principal or interest on any of the debt securities of that series, the trustee will be protected in withholding that notice if the trustee in good faith determines that the withholding of that notice is in the interest of the holders of the debt securities of that series. The term default, for the purpose of this provision only, means the occurrence of any event that is or would become, after notice or the passage of time or both, an event of default with respect to that series. (Section 8.02)

We are required to file annually with the trustee a written statement as to the existence or non-existence of defaults under the indenture or any series of debt securities. (Section 5.05)

Legal Defeasance and Covenant Defeasance

We may, at our option and at any time, elect to have all of the obligations discharged with respect to the outstanding debt securities or as to any series thereof, except for:

the rights of holders of debt securities to receive payments of principal and interest from the trust referred to below when those payments are due;

our obligations respecting the debt securities concerning issuing temporary notes, registration of transfers of debt securities, mutilated, destroyed, lost or stolen debt securities, the maintenance of an office or agency for payment and money for debt security payments being held in trust;

the rights, powers, trusts, duties and immunities of the trustee and our obligations in connection therewith; and

the provisions of the indenture relating to such a discharge of obligations.

We refer to a discharge of this type as defeasance. (Section 11.02)

In addition, other than our covenant to pay the amounts due and owing with respect to a series of debt securities, we may elect to have our obligations as the issuer of a series of debt securities released with respect to covenants relating to that series of debt securities. Thereafter, any failure to comply with those obligations will not constitute a default or event of default with respect to the debt securities of that series. If such a release of our

Table of Contents

covenants occurs, our failure to perform or our breach of the covenants or warranties defeased will no longer constitute an event of default with respect to those debt securities. (Section 11.03)

To exercise either of the rights we describe above, certain conditions must be met, including:

we must irrevocably deposit with the trustee, in trust for the debt security holders benefit, moneys in the currency in which the securities are denominated, securities issued by a government, governmental agency or central bank of the country in whose currency the securities are denominated, or a combination of cash and such securities, in amounts sufficient to pay the principal of and interest on all of the then outstanding debt securities to be affected by the defeasance at their stated maturity;

the trustee must receive an opinion of counsel confirming that the holders of the outstanding debt securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of that defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if that defeasance had not occurred, which opinion, only in the case of the type of defeasance described first above, will be based on a ruling of the Internal Revenue Service or a change in federal income tax law to that effect occurring after the date of the indenture;

no default or event of default exists on the date of such deposit, subject to certain exceptions; and

the trustee must receive an opinion of counsel to the effect that, after the 91st day following the deposit, the trust funds will not be part of any estate formed by the bankruptcy or reorganization of the party depositing those funds with the trustee or subject to the automatic stay under the United States Bankruptcy Code or, in the case of covenant defeasance, will be subject to a first priority lien in favor of the trustee for the benefit of the holders.

(Section 11.04)

Satisfaction and Discharge

If we so request, the indenture will cease to be of further effect, other than as to certain rights of registration of transfer or exchange of the notes, as provided for in the indenture, and the trustee, at our expense, will execute proper instruments acknowledging satisfaction and discharge of the indenture and the debt securities when:

either all the debt securities previously authenticated and delivered under the indenture, other than destroyed, lost or stolen securities that have been replaced or paid and notes that have been subject to defeasance, have been delivered to the trustee for cancellation; or

all of the securities issued under the indenture not previously delivered to the trustee for cancellation have become due and payable, will become due and payable at their stated maturity within 60 days or will become due and payable at redemption within 60 days under arrangements satisfactory to the trustee for the giving of notice of redemption by the trustee in our name and expense; and

in each of the foregoing cases, we have irrevocably deposited or caused to be deposited with the trustee cash in U.S. dollars, certain United States government securities or a combination thereof, in trust for the purpose and in an amount sufficient to pay and

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discharge the entire indebtedness arising under the debt securities issued pursuant to the indenture not previously delivered to the trustee for cancellation, for principal and premium, if any, on and interest on these securities to the date of such deposit (in the case of notes that have become due and payable) or to the stated maturity of these securities or redemption date, as the case may be; and

we have paid or caused to be paid all sums payable under the indenture by us; and

no default or event of default then exists; and

we have delivered to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent provided in the indenture relating to the satisfaction and discharge of the indenture and the securities issued under the indenture have been complied with.

Table of Contents

(Section 11.08)

Modification of the Indenture

The indenture provides that, with the consent of the holders of not less than a majority in aggregate principal amount of the outstanding debt securities of each affected series, modifications and alterations of the indenture may be made which affect the rights of the holders of such debt securities. However, no such modification or alteration may be made without the consent of the holder of each debt security affected if the modification or alteration would, among other things:

change the maturity of the principal of, or of any installment of interest on, any such debt security, or reduce the principal amount of any such debt security, or change the method of calculation of interest or the currency of payment of principal or interest on, or reduce the minimum rate of interest thereon, or impair the right to institute suit for the enforcement of any such payment on or with respect to any such debt security, or

reduce the above-stated percentage in principal amount of outstanding debt securities required to modify or alter the indenture.

(Section 9.02)

The trustee and we, without the consent of the holders of the debt securities, may execute a supplemental indenture to, among other things:

evidence the succession of another corporation to us and the successor's assumption to our respective covenants with respect to the debt securities and the indenture;

add to our covenants further restrictions or conditions that our board of directors and the trustee consider to be for the protection of holders of all or any series of the debt securities and to make the occurrence of a default in any of those additional covenants, restrictions or conditions a default or an event of default under the indenture subject to certain limitations;

cure ambiguities or correct or supplement any provision contained in the indenture or any supplemental indenture that may be defective or inconsistent with another provision;

add additional events of default with respect to all or any series of the debt securities;

add to, change or eliminate any provision of the indenture provided that the addition, change or elimination will not affect any outstanding debt securities;

provide for the issuance of debt securities whether or not then outstanding under the indenture in coupon form and to provide for exchangeability of the coupon form securities with other debt securities issued under the indenture in fully registered form;

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establish new series of debt securities and the form or terms of such series of debt securities and to provide for the issuance of securities of any series so established; and

evidence and provide for the acceptance of appointment of a successor trustee and to change the indenture as necessary to have more than one trustee under the indenture.

(Section 9.01)

Amalgamation, Consolidation, Merger or Sale of Assets

The indenture provides that we may, without the consent of the holders of any of the outstanding debt securities of any series, amalgamate, consolidate with, merge into or transfer our assets substantially as an entirety to any person, provided that:

any successor to us assumes our obligations on the debt securities and under the indenture;

Table of Contents

any successor to us must be an entity incorporated or organized under the laws of the United States;

after giving effect thereto, no event of default, as defined in the indenture, shall have occurred and be continuing; and

certain other conditions under the indenture are met.

Any such amalgamation, consolidation, merger or transfer of assets substantially as an entirety that meets the conditions described above would not constitute a default or event of default that would entitle holders of the debt securities or the trustee, on their behalf, to take any of the actions described above under Events of Default and Waiver. (Section 10.01; Section 10.02)

No Limitations on Additional Debt and Liens

The indenture does not contain any covenants or other provisions that would limit our right to incur additional indebtedness, enter into any sale and leaseback transaction or grant liens on our assets.

The Indenture Trustee

J.P. Morgan Trust Company, National Association, is the trustee under the indenture governing the debt securities and will also be the registrar and paying agent for each series of debt securities unless otherwise noted in the applicable prospectus supplement. The trustee is a national banking association with its principal offices in Los Angeles, California.

The trustee has two main roles under the indenture. First, the trustee can enforce your rights against us if any of the actions described above under Events of Default and Waiver occurs. Second, the trustee performs certain administrative duties related to the debt securities for us. The trustee is entitled, subject to the duty of the trustee during a default to act with the required standard of care, to be indemnified by the holders of the debt securities before proceeding to exercise any right or power under the indenture at the request of those holders. The indenture provides that the holders of a majority in principal amount of the debt securities may direct, with regard to that series, the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities, although the trustee may decline to act if that direction is contrary to law or if the trustee determines in good faith that the proceeding so directed would be illegal or would result in personal liability to it.

J.P. Morgan Trust Company, National Association (as successor in interest to Bank One Trust Company, NA) also serves as trustee under an indenture, dated as of December 11, 2002, between it and us. As of the date of this prospectus, we had issued a total of \$12.62 billion (including the U.S. dollar equivalent amount of certain debt securities issued under the indenture that were denominated in pounds Sterling) of our senior unsecured debt securities under that indenture, of which \$11.12 billion remained outstanding. In addition, J.P. Morgan Trust Company, National Association (as successor in interest to Bank One Trust Company, NA) serves as trustee under an indenture, dated as of July 5, 2001, among it, us and three of our finance subsidiaries. As of the date of this prospectus, we had issued a total of \$5.50 billion of our senior unsecured securities under that indenture, of which \$3.00 billion remained outstanding. J.P. Morgan Trust Company, National Association (as successor in interest to Bank One Trust Company, NA, which was itself the successor in interest to The First National Bank of Chicago) also serves as trustee under an indenture, dated as of April 1, 1991, between it and us, as supplemented through the date of this prospectus. As of the date of this prospectus, we had issued a total of \$17.46 billion (including the U.S. dollar equivalent amount of certain debt securities issued under the indenture that were

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denominated in pounds Sterling) of our senior unsecured securities under that indenture, of which approximately \$7.00 billion remained outstanding. Also, J.P. Morgan Trust Company, National Association (as successor in interest to Bank One Trust Company, NA, which was itself the successor in interest to The First National Bank of Chicago) serves as trustee under an indenture, dated as of December 1, 1986, covering secured bonds issued in the aggregate principal amount of \$137,082,000 by the owner trustees of approximately 24 SAM S Clubs store properties that are leased to one of our subsidiaries.

We expect to maintain banking relationships in the ordinary course of business with JPMorgan Chase Bank, National Association and J.P. Morgan Securities Inc., affiliates of J.P. Morgan Trust Company, National Association.

Table of Contents

BOOK-ENTRY PROCEDURES

The debt securities offered by this prospectus may be issued in the form of one or more global certificates, each of which we refer to as a global security, registered in the name of a depository or a nominee of a depository and held through one or more international and domestic clearing systems, principally, the book-entry system operated by The Depository Trust Company, or DTC, in the United States, and Euroclear Bank S.A./N.V., or the Euroclear Operator, as operator of the Euroclear System, or Euroclear, and Clearstream Banking S.A., or Clearstream, in Europe. No person who acquires an interest in these global securities will be entitled to receive a certificate representing the person's interest in the global securities except as set forth herein or in the accompanying prospectus supplement. Unless and until definitive debt securities are issued, all references to actions by holders of debt securities issued in global form refer to actions taken by DTC, Euroclear or Clearstream, as the case may be, upon instructions from their respective participants, and all references herein to payments and notices to the holders refer to payments and notices to DTC or its nominee, Euroclear or Clearstream, as the case may be, as the registered holder of the offered debt securities. Electronic securities and payment transfer, processing, depository and custodial links have been established among these systems and others, either directly or indirectly, which enable global securities to be issued, held and transferred among these clearing systems through these links.

Although DTC, Euroclear and Clearstream have agreed to the procedures described below in order to facilitate transfers of global securities among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform these procedures, and these procedures may be modified or discontinued at any time. Neither we, nor any trustee, nor any registrar and transfer agent with respect to our debt securities offered by means of this prospectus will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants or the respective obligations under the rules and procedures governing their operations.

Unless otherwise specified in the accompanying prospectus supplement, the debt securities in the form of one or more global securities will be registered in the name of DTC or a nominee of DTC.

DTC

DTC has advised us as follows: DTC is a limited-purpose trust company organized under the laws of the State of New York, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC was created to hold securities for its participating organizations, or DTC participants, and to facilitate the clearance and settlement of securities transactions between DTC participants through electronic book-entry changes in accounts of the DTC participants, thereby eliminating the need for physical movement of certificates. DTC participants include securities brokers and dealers, brokers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is also available to others, or indirect DTC participants, for example banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Under the rules, regulations and procedures creating and affecting DTC and its operations, DTC is required to make book-entry transfers between DTC participants on whose behalf it acts with respect to the debt securities and is required to receive and transmit distributions of principal of and interest on the debt securities. DTC participants and indirect DTC participants with which investors have accounts with respect to the debt securities

Table of Contents

similarly are required to make book-entry transfers and receive and transmit payments on behalf of their respective investors.

Because DTC can only act on behalf of DTC participants, who in turn act on behalf of indirect DTC participants and certain banks, the ability of a person having a beneficial interest in a security held in DTC to transfer or pledge that interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of that interest, may be affected by the lack of a physical certificate of that interest. The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form in order to transfer or perfect a security interest in those securities. Consequently, the ability to transfer beneficial interests in a security held in DTC to those persons may be limited.

DTC has advised us that it will take any action permitted to be taken by a holder of debt securities (including, without limitation, the presentation of debt securities for exchange) only at the direction of one or more of the participants to whose accounts with DTC interests in the relevant debt securities are credited, and only in respect of the portion of the aggregate principal amount of the debt securities as to which that participant or those participants has or have given the direction. However, in certain circumstances, DTC will exchange the global securities held by it for certificated debt securities, which it will distribute to its participants.

Euroclear

Euroclear was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thus eliminating the need for physical movement of certificates and risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled through Euroclear in many currencies, including United States dollars and Japanese yen. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC.

Euroclear is operated by the Euroclear Operator, under contract with Euroclear Clearance System plc, a U.K. corporation, or the Euroclear Clearance System. The Euroclear Operator conducts all operations, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not Euroclear Clearance System. The Euroclear Clearance System establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters of the debt securities offered by this prospectus or one or more of their affiliates. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Euroclear is an indirect participant in DTC.

The Euroclear Operator is a Belgian bank, which is regulated and examined by the Belgian Banking Commission and the National Bank of Belgium.

The Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of Euroclear and applicable Belgian law govern securities clearance accounts and cash accounts with the Euroclear Operator. Specifically, these terms and conditions govern transfers of securities and cash within Euroclear; withdrawal of securities and cash from Euroclear; and receipts of payments with respect to securities in Euroclear.

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All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding securities through Euroclear participants.

Distributions with respect to debt securities held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with Euroclear's terms and conditions, to the extent received by the Euroclear Operator and by Euroclear.

Table of Contents

Clearstream

Clearstream was incorporated as a limited liability company under Luxembourg law. Clearstream is owned by Cedel International, *société anonyme*, and Deutsche Börse AG. The shareholders of these two entities are banks, securities dealers and financial institutions. Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thus eliminating the need for physical movement of certificates. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities, securities lending and borrowing and collateral management. Clearstream interfaces with domestic markets in a number of countries. Clearstream has established an electronic bridge with the Euroclear Operator to facilitate settlement of trades between Clearstream and Euroclear.

As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. In the United States, Clearstream participants are limited to securities brokers and dealers and banks, and may include the underwriters of the debt securities offered by means of this prospectus or one or more of their affiliates. Other institutions that maintain a custodial relationship with a Clearstream participant may obtain indirect access to Clearstream. Clearstream is an indirect participant in DTC.

Distributions with respect to the debt securities held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by Clearstream.

TAX CONSEQUENCES TO HOLDERS

A prospectus supplement may describe the principal U.S. federal income tax consequences of acquiring, owning and disposing of debt securities of some series in certain circumstances, including the following:

payment of the principal, interest and any premium in a currency other than the U. S. dollar;

the issuance of any debt securities with original issue discount, as defined for U.S. federal income tax purposes;

the issuance of any debt securities with an associated bond premium, as defined for U.S. federal income tax purposes; and

the inclusion of any special terms in debt securities that may have a material effect for U.S. federal income tax purposes.

In addition, if the tax laws of foreign countries are material to a particular series of debt securities, a prospectus supplement may describe the principal income tax consequences of acquiring, owning and disposing of debt securities of some series in similar circumstances under those foreign tax laws.

Table of Contents

PLAN OF DISTRIBUTION

We may sell the debt securities being offered hereby:

directly to purchasers;

through underwriters;

through dealers;

through agents; or

through a combination of any of these methods of sale.

We may effect the distribution of the debt securities from time to time in one or more transactions as follows:

at a fixed price or prices which may be changed;

at market prices prevailing at the time of sale;

at prices related to the prevailing market prices; or

at negotiated prices.

We may directly solicit offers to purchase the debt securities. Offers to purchase debt securities may also be solicited by agents designated by us from time to time. Any of those agents, who may be deemed to be an underwriter, as that term is defined in the Securities Act of 1933, involved in the offer or sale of the debt securities in respect of which this prospectus is delivered are named, and any commissions payable by us to that agent will be set forth, in the accompanying prospectus supplement.

If a dealer is utilized in the sale of the debt securities in respect of which this prospectus is delivered, we will sell those debt securities to the dealer, as principal. The dealer, who may be deemed to be an underwriter, as that term is defined in the Securities Act of 1933, may then resell those debt securities to the public at varying prices to be determined by that dealer at the time of resale.

We may offer these debt securities to the public through underwriting syndicates represented by managing underwriters or through underwriters without a syndicate. If underwriters are used for a sale of debt securities, the debt securities will be acquired by the underwriters for their own

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account. The underwriters may resell the debt securities in one or more transactions, including negotiated transactions at a fixed public offering price or at varying prices determined at the time of sale. Unless otherwise indicated in the accompanying prospectus supplement, the obligations of the underwriters to purchase the debt securities will be subject to customary conditions precedent and the underwriters will be obligated to purchase all the debt securities offered if any of the debt securities are purchased.

If we use an underwriter or underwriters in the sales of the debt securities, we will execute an underwriting agreement with those underwriters at the time of sale of the debt securities, and the name of the underwriters will be set forth in the accompanying prospectus supplement, which will be used by the underwriters, along with this prospectus, to make resales of the debt securities in respect of which this prospectus is delivered to the public. The compensation of any underwriters will also be set forth in the accompanying prospectus supplement. Underwriters may sell the debt securities to or through dealers, and the dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agent. Any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

Underwriters, dealers, agents and other persons may be entitled, under underwriting or other agreements that may be entered into with us, to indemnification by us against certain civil liabilities, including liabilities under the Securities Act of 1933, or to our contribution to payments those underwriters, dealers, agents and other persons are required to make.

In order to facilitate the offering of the debt securities, the underwriters of the debt securities may engage in transactions that stabilize, maintain or otherwise affect the price of these debt securities or any other debt securities the prices of which may be used to determine payments on these debt securities. Specifically, the underwriters may

Table of Contents

over-allot in connection with the offering, creating a short position in the debt securities for their own accounts. In addition, to cover over-allotments or to stabilize the price of the debt securities or of any other debt securities, the underwriters may bid for, and purchase, the debt securities or any other debt securities in the open market. In any offering of the debt securities through a syndicate of underwriters, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the debt securities in the offering, if the syndicate repurchases previously distributed debt securities in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the debt securities above independent market levels. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

Any underwriters named in the accompanying prospectus supplement are, and any dealers or agents named in the accompanying prospectus supplement may be, deemed to be underwriters within the meaning of the Securities Act of 1933 in connection with the debt securities offered thereby. Any discounts or commissions they receive from us and any profit they realize on their resale of the debt securities may be deemed to be underwriting discounts and commissions under the Securities Act of 1933.

One or more dealers, referred to as remarketing firms, may also offer or sell the debt securities offered by means of this prospectus, if the accompanying prospectus supplement so indicates, in connection with a remarketing arrangement contemplated by the terms of the securities. Remarketing firms will act as principals for their own accounts or as agents in any such remarketing of debt securities. If there is a remarketing arrangement with respect to the particular debt securities described in the accompanying prospectus supplement, the accompanying prospectus supplement identifies any such remarketing firm and the terms of its agreement, if any, with us and describes the remarketing firm's compensation. Remarketing firms may be deemed to be underwriters in connection with the remarketing of the securities.

Except for securities issued upon a reopening of a previous series, each series of debt securities will be a new issue of the debt securities and will have no established trading market. Any underwriters to whom any of the debt securities are sold for public offering and sale may make a market in such offered securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. The debt securities offered in any particular offering may or may not be listed on a securities exchange. No assurance can be given that there will be a market for any of the debt securities offered and sold under this prospectus.

Underwriters, dealers and agents through whom any of the debt securities are offered or one or more of their respective affiliates may engage in transactions with, or perform services for, us or any of our subsidiaries in the ordinary course of business.

LEGAL MATTERS

Unless otherwise specified in the prospectus supplement accompanying this prospectus, Andrews Kurth LLP, Dallas, Texas, will act as our counsel and provide an opinion for us regarding the validity of the debt securities and Simpson Thacher & Bartlett LLP, New York, New York, will act as counsel to the underwriters in any underwritten offer of the debt securities and will pass on the validity of such debt securities for the underwriters.

EXPERTS

The consolidated financial statements of Wal-Mart Stores, Inc. incorporated by reference in Wal-Mart Stores, Inc.'s Annual Report on Form 10-K for the fiscal year ended January 31, 2005 and Wal-Mart Stores, Inc. management's assessment of the effectiveness of internal control over

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financial reporting as of January 31, 2005 incorporated by reference therein, have been audited by Ernst & Young LLP, our independent registered public accounting firm, as set forth in their reports thereon incorporated by reference therein and incorporated herein by reference. Such consolidated financial statements and management's assessment are, and audited financial statements and Wal-Mart Stores, Inc. management's assessments of the effectiveness of internal control over financial reporting to be included in subsequently filed documents will be, incorporated herein in reliance upon the reports of Ernst & Young LLP pertaining to such financial statements, to the extent covered by consents filed with the SEC, given on the authority of such firm as experts in accounting and auditing.

Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.**

The following table sets forth all fees and expenses payable by the registrant in connection with the issuance and distribution of the securities being registered hereby (other than any underwriting discounts and commissions).

Securities and Exchange Commission registration fee	\$ 588,500
Printing and engraving*	10,000
Legal fees and charges*	40,000
Accounting services*	30,000
Trustee services*	10,000
Miscellaneous*	5,000
	<hr/>
Total	\$ 683,500
	<hr/>

* Estimated.

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Amended and Restated Bylaws of the Registrant provide that the Registrant shall indemnify any person made or threatened to be made a party to any threatened, pending, or completed action, lawsuit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director or officer of the Registrant (or is or was serving at the request of the Registrant as a director or officer for another entity) to the full extent it has the power to do so under the Delaware General Corporation Law and other applicable law, except that the Registrant need not indemnify any such person in connection with a proceeding initiated against the Registrant by that person unless the proceeding was authorized by the Registrant's board of directors. The Amended and Restated By-Laws further provide that the Registrant may indemnify, to the full extent it has the power to do so under the Delaware General Corporation Law and other applicable law, any person made or threatened to be made a party to any proceeding by reason of the fact that such person is or was an associate or agent of the Registrant (or is or was serving at the request of the Registrant as an employee or agent of another entity).

Section 145 of the Delaware General Corporation Law provides, among other things, that the Registrant has the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Registrant) by reason of the fact that the person is or was a director, officer, employee or agent of the Registrant, or is or was serving at the request of the Registrant as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding. This power to indemnify applies only if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Registrant, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

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This power to indemnify applies to actions brought by or in the right of the Registrant to procure a judgment in its favor as well, but only to the extent of expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or of the action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Registrant, and, with the further limitation that in such actions no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Registrant, unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application

II-1

Table of Contents

that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

To the extent that a present or former director or officer of the Registrant is successful on the merits or otherwise in defense of any action, suit or proceeding, or in defense of any claim, issue or matter of the type described in the two preceding paragraphs, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

The Restated Certificate of Incorporation of the Registrant, as amended to date, provides that, to the fullest extent permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended, a director of the Registrant shall not be liable to the Registrant or its stockholders for monetary damages for breach of fiduciary duty as a director. The Delaware General Corporation Law permits Delaware corporations to include in their certificates of incorporation a provision eliminating or limiting director liability for monetary damages arising from breaches of their fiduciary duty. The only limitations imposed under the statute are that the provision may not eliminate or limit a director's liability (i) for breaches of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or involving intentional misconduct or known violations of law, (iii) for the payment of unlawful dividends or unlawful stock purchases or redemptions or (iv) for transactions in which the director received an improper personal benefit.

The Registrant is insured against liabilities that it may incur by reason of its indemnification of officers and directors in accordance with its Amended and Restated By-Laws. In addition, the directors and officers of the Registrant are insured, at the expense of the Registrant, against certain liabilities that might arise out of their employment and are not subject to indemnification under its Amended and Restated By-Laws.

The foregoing summaries are necessarily subject to the complete text of the statute, the Restated Certificate of Incorporation, as amended, of the Registrant and the Amended and Restated By-Laws of the Registrant referred to above and are qualified in their entirety by reference thereto.

Table of Contents

ITEM 16. EXHIBITS.

EXHIBIT

NUMBER	DESCRIPTION OF DOCUMENT
1.1*	Form of Underwriting Agreement.
4.1	Restated Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3(a) to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1989).
4.2	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant (incorporated herein by reference to Exhibit 4(b) to the Registrant's Registration Statement on Form S-8 (File No. 33-43315)).
4.3	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant (incorporated herein by reference to the Registrant's Current Report on Form 8-K dated July 27, 1999).
4.4	Amended and Restated By-laws of the Registrant (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on March 8, 2005).
4.5	Form of Indenture, dated as of _____, 2005, between the Registrant and J.P. Morgan Trust Company, National Association, as Trustee.
5.1	Opinion of Andrews Kurth LLP with respect to the legality of the securities being registered.
12.1	Statement Regarding Computation of Ratios.
23.1	Consent of Ernst & Young LLP.
23.2	Consent of Andrews Kurth LLP (included in Exhibit 5.1).
24.1	Power of Attorney (included in signature pages hereto).
25.1	Statement of Eligibility of Trustee on Form T-1.

* To be filed by amendment or as an exhibit to a document to be incorporated by reference herein.

Table of Contents

ITEM 17. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar amount of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated offering range may be reflected in the form of a prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective Registration Statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel in the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against

public policy as expressed in the Act and will be governed by the final adjudication of such issue.

II-4

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Bentonville, State of Arkansas, on July 11, 2005.

WAL-MART STORES, INC.

By: /s/ H. Lee Scott, Jr.
Name: H. Lee Scott, Jr.
Title: President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints H. Lee Scott, Jr. and Thomas M. Schoewe, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her in his or her name, place and stead, in any and all capacities, to sign any or all amendments to this registration statement and additional registration statements relating to the same offering or which are to be filed with the Securities and Exchange Commission pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.

DATE: July __, 2005

S. Robson Walton
Chairman of the Board and Director

DATE: July 11, 2005

/s/ H. Lee Scott, Jr.

H. Lee Scott, Jr.
President, Chief Executive Officer and Director

DATE: July 11, 2005

/s/ Thomas M. Schoewe

Thomas M. Schoewe
Executive Vice President and Chief Financial Officer

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(Principal Financial Officer)

DATE: July 11, 2005

/s/ Charles M. Holley, Jr.

Charles M. Holley, Jr.
Senior Vice President and Controller

(Principal Accounting Officer)

DATE: July 11, 2005

/s/ James W. Breyer

James W. Breyer
Director

DATE: July 11, 2005

/s/ M. Michele Burns

M. Michele Burns
Director

II-5

Table of Contents

DATE: July 11, 2005

/s/ Douglas N. Daft

Douglas N. Daft

Director

DATE: July 11, 2005

/s/ David D. Glass

David D. Glass

Director

DATE: July 11, 2005

/s/ Roland A. Hernandez

Roland A. Hernandez

Director

DATE July 11, 2005

/s/ John D. Opie

John D. Opie

Director

DATE: July 11, 2005

/s/ J. Paul Reason

J. Paul Reason

Director

DATE: July __, 2005

Jack C. Shewmaker

Director

DATE: July __, 2005

José H. Villarreal

Director

DATE: July __, 2005

Christopher J. Williams

Director

DATE: July 11, 2005

/s/ Linda S. Wolf

Linda S. Wolf

Director

II-6

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PA
06/25/98

19308 5172
Petroleum Distributor

5,899 1,577 2,375 0.40 1.51

NY
12/04/98

21126 5172
Distribution\Dist-Petroleum Prod

2,150 78 650 0.30 8.33

FL
08/04/03

In order to compare the variability of the variables, we calculated the Coefficient of Variation for each price multiple per database. The coefficient of variation is equal to the standard deviation divided by the mean.⁴ The resulting ratio can be expressed as a percentage by multiplying it by 100. Accordingly, the coefficient of variation equals 100% if the standard deviation equals the mean.

With respect to the transactions listed in the preceding exhibit, the price-to-revenue's coefficient of variation ratio and the price-to-earnings coefficient of variation ratio were consistent between both databases. As compared to their mean, the price-to-revenue ratio fluctuates less than the price-to-earnings ratio which is persuasive evidence that the price-to-revenue ratio would be a much better basis for deriving an indication of value for than the price-to-earnings ratio.

Additionally, many valuation analysts suggest that the price-to-revenue multiple is a more reliable indicator of value than the price-to-earnings multiple because the owners of relatively small businesses are in a position to more easily manipulate net income.

IBA Transactions Selected Exhibit 8						BizComp Transactions Selected Exhibit 9					
	Sales	DE	Price	Price / Sales	Price / DE		Sales	DE	Price	Price / Sales	Price / DE
Low	\$68	\$8	\$14	0.07	1.44	Low	\$428	\$167	\$240	0.13	0.27
High	\$11,468	\$1,577	\$6,132	0.67	12.00	High	\$16,868	\$4,297	\$8,719	0.57	3.52
Mean	\$3,848	\$397	\$1,240	0.31	5.51	Mean	\$4,983	\$922	\$1,240	0.38	2.04
Median	\$2,339	\$151	\$650	0.29	4.76	Median	\$2,952	\$131	\$650	0.34	2.26
Standard Deviation	\$3,660	\$482	\$1,670	0.17	3.71	Standard Deviation	\$6,343	\$1,691	\$1,670	0.19	1.14
Coefficient of Variation				0.55	0.67	Coefficient of Variation				0.51	0.56
Harmonic Mean				0.21	3.24	Harmonic Mean				0.28	1.00
Count	13	12	13	13	12	Count	6	6	6	6	6

Valuation Methods Considered but Rejected

The following valuation methods were considered and rejected:

Prior Transactions in Subject Interest

Dividend Paying Capacity

Revenue Ruling 59-60, Section 4(e) states:

Primary consideration should be given to the dividend-paying capacity of the company rather than to the dividends actually paid in the past... where an actual or effective controlling interest in a corporation is to be valued, the dividend factor is not a material element, since the payment of such dividends is discretionary with the controlling stockholders. The individual or group in control can substitute salaries and bonuses for dividends, thus reducing net income and understating the dividend-paying capacity of the company. It follows, therefore, that dividends are less reliable criteria of fair value than other applicable factors.

The Company has never paid dividends and the current controlling interest owner has expressed that he does not plan to do so in the future. Accordingly, this method of valuation is not applicable.

Liquidation Value

Liquidation value, as generally defined, is the net proceeds that could be reasonably expected to be realized if the assets of a business were sold off piecemeal or in bulk with all liabilities extinguished, and all business activity terminated. It is assumed that the business discontinues as a going concern. This assumption is not consistent with the terms of this engagement to estimate fair market value of a minority interest ownership as a going concern. It has been expressed that it is management's intention to maintain its operations into the foreseeable future. Additionally, the value of the Company based on a going concern basis is greater than if the company were to be liquidated.

Discounted Cash Flow Method

This method is based on the concept that the worth of a business is best represented by the present value of the estimated cash flow streams it can generate in the future. The estimated cash flow streams of the business enterprise are adjusted to reflect the time value of money as well as the associated business and economic risks of the enterprise.

While this method is theoretically sound, it relies on the ability of the valuation analyst and management to forecast earnings or cash flows with reasonable accuracy and assess the risk associated with those earnings or cash flows. As with any forecast, there is an element of uncertainty involved. This method is most suitable when current and historical performance do not provide a reasonable proxy for future performance or an unsustainable rate of growth expected for some years. We did not employ this valuation method because management indicated that it did not anticipate any major changes in future growth over the near term, but rather anticipated a rather constant rate of growth the next several years.

Selection of Most Suitable Methods

Consideration was given to the methods described in the previous section and they were rejected. After consideration was given to the methods described in the previous section, we selected the capitalization of earnings method, adjusted net asset method and the guideline public company method as the most appropriate for this valuation engagement.

2 Net profit may be defined as the amount available to the owner after normal business expenses but before taxes, loan payments, and owner's compensation; this is sometimes called seller's (owners) discretionary cash flow. It also may be defined in several alternative ways: (1) EBT=Earnings Before Taxes, (2) EBIT=Earnings Before Interest and Taxes; (3) EBITDA=Earnings Before Interest, Taxes, Depreciation and Amortization; and (4) Cash Flow.

3 Earnings within the Bizcomps database is defined as seller's or owner's discretionary cash flow (net profit before taxes, interest, depreciation and amortization, and one officer's compensation).

4 Take the absolute value of the mean if it is negative.

45

Income Approach

The income approach is income-based rather than an asset or a market-based approach. The underlying assumption embodied in this approach is that an investor whose objective is to maximize his return on investment will invest in a property with similar investment characteristics, but not necessarily the same business. Value under this method is derived by discounting the expected future income streams of the business by the expected rate of return of the business. This discounted present value methodology evolves into a capitalization of earnings method when the expected future income streams are constant (i.e. a single period stream of benefits). The capitalization of earnings method is merely the procedure of converting a single period stream of future benefits into value.

Historical data is generally used as a starting point for estimating the future income of a business, but it is the future that cannot be ignored. Analysts will often value larger businesses using a discounted future earnings method because larger companies generally tend to more easily develop reliable economic income projections. On the other hand, because smaller businesses may not be able to develop such reliable economic income forecasts, analysts will more often use the capitalization of earnings method in determining value of such smaller companies. Notwithstanding, there can be exceptions to these generalities because of the facts and circumstances of each specific valuation engagement.

Application of the Capitalization of Earnings Method

Conceptually, this method is used to value a business based on the future estimated benefits, normally using some measure of earnings or cash flows to be generated by the company. These estimated future benefits are then capitalized using an appropriate capitalization rate. Under this method, all assets, both tangible and intangible, are indistinguishable parts of the business and it does not value them separately. In other words, the critical component to the value of the business is its ability to generate future earnings/cash flows. This method expresses a relationship between the following:

- Estimated future benefits (earnings or cash flow)
 - Yield (required rate of return) on either equity or total invested capital (capitalization rate.)
 - Estimated value of the business

The capitalization of earnings method is most appropriate when it appears that a company's current and historical earnings can reasonably be considered indicative of its future operations, i.e. stable earnings and a long-term sustainable growth rate. Under this method, a normalized future benefit stream is divided by a capitalization rate⁵ to arrive at an estimate of value. Based on the foregoing, the application of this method requires the selection of the following assumptions used in the formula to estimate value:

- a. The selection of a benefits stream (usually earnings, cash flow, or dividends) to capitalize;
- b. Whether the benefits stream base is applicable to equity or invested capital; and
- c. The selection of a capitalization rate appropriate to the level of benefit stream selected.

Benefits to be Capitalized

The benefit stream selected in this method should be one that represents the most probable expectation of future returns for the interest being valued. The selection process requires determining the following:

- a. The type of benefits (e.g., earnings, cash flow, or dividends);
- b. The number of years to be used. Under the capitalization of earnings method, a single benefit stream is used to represent future earnings into perpetuity; and
- c. If more than one year is used in the determination of the expected future benefit stream, then it is necessary to determine whether any special weighting favoring some years over others is appropriate.

For the subject company we selected net cash flow after taxes because it is the level of benefits that is the best proxy for the return available to the owner of the company, a return that could be removed without impairing the ability of the business to meet its obligations and fund its future. Refer to Exhibit 5 for the computation of the normalized net cash flow to equity of \$1.5 million.

Should an equity ownership interest be valued using a direct or indirect method? If equity is valued using a direct method, then an income or cash flow, which relates to the equity (shareholders) must be capitalized or discounted using a capitalization or discount rate related to the equity holders. Common benefit streams used when valuing equity directly include earnings (net of interest expense) before taxes (“EBT”), earnings (net of interest expense) after taxes (“EAT”), and equity net cash flows.

If equity is valued using an indirect method, then an income or cash flow, which relates to both equity and debt holders, must be capitalized or discounted using a capitalization or discount rate related to both the equity and debt holders. The rate is defined as a weighted average cost of capital (“WACC”). Common benefit streams used when valuing equity indirectly include earnings before interest and taxes (“EBIT”), earnings before interest, taxes, depreciation and amortization (“EBITDA”), discretionary earnings (sometimes called “seller’s discretionary cash flow” or “SDCF” or earnings before owner’s compensation, depreciation, interest, and taxes), or invested capital net cash flows. This approach results in a total market value for all invested capital (value to equity holders and debt holders). The market value of the debt is subtracted from the market value of all invested capital to arrive at the market value of the equity.

Analysts most often value equity directly. However, there are certain instances where valuing equity indirectly should be considered. These instances include: (1) mergers and acquisitions of mid-size and large closely held companies, (2) those instances where the subject company has a capital structure that is likely to change during the forecasted periods, and (3) situations where the subject company has an atypical capital structure.

Summary

We selected net (after tax) cash flow to equity, which is a measure of net cash flow after interest expense. This means that the return to the debt holders (interest expense) has been eliminated, and the income to be capitalized is the income to the equity owner(s) only. Accordingly, this income stream, when capitalized, arrives at a value directly to the equity owner(s) of the subject Company.

Selection of an Appropriate Capitalization Rate

The critical step in the development of the fair market value of an equity ownership interest under the capitalization of earnings method is the determination of a capitalization rate for the appropriate definition of economic income

forecasted.

The capitalization rate is any divisor, typically expressed as a percentage, used to convert anticipated benefits into value. Alternatively, the discount rate is a rate of return (cost of capital) used to convert a monetary sum, payable or receivable in the future, into present value and also must be appropriated to the forecasted income streams. The discount rate represents the total rate of return that an investor would demand on the purchase of an investment given the level of risk associated with the investment. The difference between the two rates is the capitalization rate equals the discount rate less the expected growth rate.

47

The expected rate of return for an investment in the subject company is based on the risk associated with that investment and the rates of return available on alternative investments. The expected rate of return determined, or the capitalization rate plus the expected growth rate, must combine to meet the expectations of the hypothetical buyer (investor) under the fair market value standard, as required in this valuation engagement. In addition, this rate of return must also be one that is acceptable to the willing seller, as also inherently embedded in the definition of the fair market value. In accordance with this definition of value, the valuation analyst must determine an acceptable rate of return that both a hypothetical willing buyer and a hypothetical willing seller would deem acceptable without compulsion and with knowledge of relevant information.

Furthermore, as explained earlier, the buyer is a financial and not a strategic buyer. Therefore, the buyer is not motivated by any synergy or other strategic advantage. It is also important to note that an investor will require a higher rate of return, as expected returns are perceived to contain more risk. Empirical studies have indicated that investors of publicly traded firms have required rates of return that are currently above prevailing risk-free rates of return. Naturally, investors of private firms would require substantially higher rates of return because of the additional risk associated with private firms. For example, closely held firms have limited access to public capital markets increasing the inherent risk and thus the required rate of return.

Given the IRS's position as previously cited in Revenue Ruling 59-60, we reviewed the public marketplace in developing our estimate of the capitalization rate. The capitalization rate, as calculated in Exhibit 10-Capitalization Rate - Ibbotson Build up Model is presented below.

Capitalization Rate - Ibbotson
Build up Model Exhibit 10

Cost of equity				
	Risk-free Rate of Return		2.48	%
	Common Stock Equity Risk Premium		6.62	%
	Small Stock Risk Premium		10.90	%
	Plus/Minus Industry Risk Premium		7.1	%
	Company Specific Premium			
		Depth of Management	8.0	%
		Importance of Key Personnel	8.0	%
		Debt Structure	8.0	%
	Total Company Specific Premium		24.0	%
	Total Cost of Equity			51.1 %
	Less Sustainable Growth			3.0 %
	Next Year Capitalization Rate			48.1 %
	Current Year Capitalization Rate			46.7 %

Selected Capitalization
Rate

46.7 %

Risk free rate. Generally, the risk-free rate of return is the rate of return that an investor can obtain without taking on risk associated with the market (i.e. free of the risk of default). The rate most commonly used by analysts is the 20-year U.S. Treasury yield to maturity as of the effective date of the valuation. Additionally, Ibbotson Associates, which is often used in the development of discount and capitalization rates, uses this rate of return in its calculations of equity risk premiums because its data goes back to 1926 and 20 years was the longest period U.S. Treasury obligations were issued during the earlier years of that time period.

The estimated 20-year U.S. Treasury bond yield as of December 31, 2011 was 2.48%.

Equity Risk Premium (Reflecting Systematic Risk). The equity risk premium (“ERP”) is the reward required by investors to accept uncertain outcomes associated with owning equity securities and its measured by distributions (dividends and withdrawals), the reinvestment of dividends in the market, and the capital gain or loss in the value of the investment. It represents the extra return that equity holders expect to achieve over risk-free assets on average. The ERP is calculated by Ibbotson Associates⁶ using the arithmetic average returns on the Standard & Poor’s 500 from 1926 to December 31, 2010 over the income return for the same period on the 20-year U.S. Treasury bond as the benchmark for the risk-free rate.

The ERP as of December 31, 2011 is equal to 6.62%.

Small Company Risk Premium This added-risk element is associated with the additional risk inherent in the development of equity risk premiums for smaller companies as compared to larger companies. The need for this size premium adjustment is the result of the fact that small companies generally are more risky than larger companies. Empirical studies have shown that the returns of the shares of small companies tend to generally outperform stocks of larger companies. The greater risks inherent in smaller companies are the results from limited access to capital markets, dependence upon limited products and geographic market with relatively small customer bases, reliance on few suppliers, limited management depth and/or key person dependence, etc.

The risk premium for size is obtained from Ibbotson Associates Annual Studies⁷ as well. Due to the fact that an industry risk premium is incorporated in this build-up capitalization rate computation, Ibbotson Associates notes that the proper size premium to be used should be the beta-adjusted size premium, in this case, 10.9% is the beta-adjusted size premium for the 10th decile designated as Micro Cap.

Industry Risk Premium. This additional risk premium or discount may be determined by focusing on how the general economy compares with expectations for the particular industry. The key considerations in arriving at the Industry Risk Premium were:

- 1) How has this industry reacted to similar general economic conditions in the past?
- 2) What are the industry forecasts and how do they relate to this company?
- 3) What is its position in the industry?

The analyst has concluded that a 7.1% rate would be appropriate for this risk factor.

Specific Company Risk Premium. The last increment considered relates to factors specific to the Company and is based on the analyst’s professional judgment, as no empirical data or evidence presently exists to measure these specific risk factors. The analyst needs to identify these additional risk factors and determine their incremental magnitude to the rate of return.

Operating History, Consistent Earnings Growth. In each of the years analyzed in the previous sections, the Company experienced significant growth resulting from its flexibility in its business model and managements relationships within the industry. For this reason, the analyst has slightly decreased the potential specific risk premium that was to be added for this factor.

Reliance on Key Personnel. Heartland, Inc.'s management is experienced and capable. However, the operation is very dependent on its majority shareholder and key executives in its day to day operations. We view lack of management depth as a significant risk. For this reason, we have increased our specific risk premium that was added for this factor.

Financial Risk. The Company's balance sheet indicates that it is more highly leveraged than its industry peers and its metal fabrication business segment is unable to service its debt and has to borrow from the other segments. Highly leveraged companies are more susceptible to market downturns and we believe that this represents an increased risk premium for this factor.

Based on the foregoing, we added 24.0% as an additional company specific risk premium.

Long-term Sustainable Growth. We selected 3.0% as our long-term sustainable growth rate for the Company. This rate was based on the fact that the industry outlook is positive and the fact that the management team has produced a consistent growth pattern over the years analyzed. However, it would not be prudent to expect that the Company would continue at this pace into the future.

Summary and Indication of Value by this Method

To arrive at the value indicated under this method, we divide the selected normalized net earnings by the capitalization rate of 46.7% which is presented in the following Exhibit 10-1.

Indicated Value Exhibit 10-1

Adjusted After Tax Cash Flow	1,459,900	
Divide By		
Capitalization Rate	46.7	%
Indicated Value	3,126,124	
Selected Value	3,126,000	

The value indicated is a control value because the normalizing adjustments to arrive at the average adjusted net cash flows represent those that were solely at the discretion of the controlling owners. To the extent any discount for lack of marketability (liquidity) or minority interest is necessary will be explained and applied in a later section.

Adjusted Net Asset Method

Consideration was given to the asset-based approach. This method is normally applicable only when valuing control ownership interests, where such owners possess the authority to access the values locked in the assets. This is true because the assets are owned by the corporation not by the shareholders who own only shares in the corporation.

Application of the Adjusted Net Asset Method

In Exhibit 10-2: Normalized Operating Tangible Equity as of December 31, 2011, we accepted book values of the tangible and intangible assets as a proxy for their fair market values. All assets were considered operating assets.

Summary and Indication of Value by this Method

Indicated Value Exhibit 10-2	Dec 2011
Unadjusted Equity	7,478,252
Total Adjustments	-
Indicated Value	7,478,252
Selected Value	7,478,000

The value indicated by this method is on a “control” and “marketable” basis with respect to the net tangible assets. The value is a control value because the individual assets (tangible and intangible) were valued based on the assumption that the controlling owner of the individual assets had the right to liquidate them without obtaining approval from any other owner. It is considered to be marketable for the assets at their fair market value, free from restrictions or alienation. Notwithstanding, a discount for lack of marketability and control would be applicable as the Company is being valued on a minority interest and non-marketable basis.

Market Approach

The market approach is the most direct approach for establishing the market value of a business. Under this approach, the objective is to identify guideline businesses that are comparable and are traded on a public market or have actually sold. In general, this approach is difficult to use for relatively small, closely held businesses because the number of comparable guideline companies are relatively few in number and often times difficult to obtain the pertinent information regarding their financial and operating performance.

Application of the Guideline Public Company Method

Conceptually, under the Guideline Public Company Method, the initial value determined is often called a publicly traded equivalent value or “as if freely traded” value—that is, the price at which the stock would be expected to trade if it were publicly traded. The method relies on value measures derived from the prices of the shares of publicly traded stocks of companies that are sufficiently similar to the subject company’s shares in order to be classified as a “guideline” or “comparable” company. The value measure is usually some multiple computed by dividing the price of the guideline company’s stock as of the valuation date by some relevant economic variable (earnings, revenue, book value, etc.) observed or calculated from the guideline company’s financial statements, which results in multiples such as price/earnings, price/revenue, price/book value, etc. The appropriate multiple, adjusted to be more comparable with the subject company, is then multiplied by the applicable economic variable of the subject company (earnings, price, book value, etc.) to derive the initial indicated value, before adjustment for shareholder specific factors such as size of the block and degree of marketability.

To ensure comparability, the economic factors that drive the guideline company should be driving the subject company. However, it is important to note that larger, guideline companies will sell for higher multiples than the smaller subject company. This is due to the fact that larger companies tend to have greater management depth, stronger market positions, more diversified customers and products, easier access to capital and, resulting from greater financial resources, are generally viewed as less risky than the smaller subject company.

The Guideline Company method is considered most useful when valuing other minority interests. When valuing controlling interests, it is more appropriate to value these equity interests by using only guideline controlling-interest transactions. There is a presumption that the guideline companies will continue as a going concern and therefore, it is expected to produce a value under the premise that the subject company is expected to operate on a going concern

basis.

51

In this case, we are using guideline public companies that have similar operational characteristics and meet the subject criteria to Heartland, Inc.

Guideline Companies Selected

As directed by Revenue Ruling 59-60, we looked for companies in “the same or similar line of business” as the subject company. As presented in Exhibit 10-3: Public Guideline Company Transactions, we used Heartland, Inc. ticker symbol HTLJ. The publicly traded counterpart to the interest being valued is identical. This publicly traded stock represents the minority interest value of the subject interest in a freely trading market place.

For each, we have analyzed the price-to-earnings multiple, based upon the high and low stock price for the year ended December 31, 2011. We then calculated the average for the price-to-earnings multiple for the group. The results are reflected in Exhibit 5-5: Development of Price/Earnings from Guideline Companies below:

Public Guideline Company

Transactions

Exhibit

Public Company	Sales (Millions)	Pre-Tax Profit Margin	Net Profit Margin	Total Assets (Millions)	Equity (Millions)	ROE (common)	Shares Outstanding (Millions)	Price for the Month Ended 3/31/2011	Market Value Equity (Millions)	Market Value Capital (Millions)	P/R 12/31/2011	P/A 12/31/2011
Heartland	100,241	(996)	(1,047)	26,305	6,710	-1564118.1%	56,518	0.03	1,695.54	1,695.54	0.02	0.06

Average 0.02 0.06

Median 0.02 0.06

Selected Multiples ==> Median 0.02 0.06

We selected the December 31, 2011 market price because we believe it represents the markets perspective of a marketable minority interest holding. Additionally, we believe that the market has adjusted over time to reflect the fact that this security is thinly traded or lacks liquidity.

Application of the Merger and Acquisition Method

Conceptually, the Merger and Acquisition Method, although similar to the Guideline Company Method in its use of price multiples, focuses on the transactions involving the sales of entire companies, rather than sales of minority interest of publicly traded shares of stock. Since the transactions comprise sales of entire companies, any derived value for the subject company using this method results in a control value.

Additionally, this method can be applied by using both public company and private company data. However, multiples derived from public company data result in minority interest, marketable values, while multiples determined from private company data result in control, non-marketable values. Public company data is more readily available, but because of size of public companies, they are often not comparable to the subject company. Alternatively, private

company data, obtained more often than not from business brokers, is frequently available but with limited amounts of detail. In fact, the most often used multiples (ratios) available from these private databases are the selling price to annual gross revenue and the selling price to some form of earnings (usually, some form of discretionary earnings). Most all of the databases provide limited information about the business, typically a short description about its line of business, annual revenue, selling price, and some form of earnings.

The multiples derived from using the Merger and Acquisition Method may be averaged and/or modified to arrive at a single price-to-revenue and/or price-to-earnings multiple that is most similar to the subject company. This derived multiple is then applied against the subject company's revenue (sales) and/or net income to derive a value for the subject company.

In previous sections, several transactions from each database were found that met our criteria for comparability with Heartland, Inc. We found that, for each database, the price-to-revenue multiple, as shown in Exhibit 5-2, was the ore appropriate measure to use in determining an indication of value for the Company. The price-to-revenue multiples included for each database were calculated using the sold businesses' most recent year's revenue. We used revenues for 2011 which were \$112 million.

The subject interest is an incorporated business and, assuming that the Company would be sold to a buyer in a stock sale, all assets and liabilities of the subject business must be taken into account in the final opinion of value. All sales listed in the Bizcomp and IBA databases are asset sales, as contrasted with stock sales, and the sales price is total reported consideration, including cash, notes, liabilities assumed by the buyer, but excludes the value of real estate.

As such, the transactions in these databases are presumed to be inclusive of fixed assets (excluding real estate) but not certain debt or any cash or accounts receivable. Accordingly, adjustments will be required to recognize those assets and liabilities that are recorded on the books of Heartland, Inc., but would not be included in a typical sale as reported in the aforementioned databases.

In Exhibit 8 and 9, we determined the multiples based upon the percentage of earnings-to-revenue for the sales transactions and how these percentages compared to Subjects normalized earnings-to-revenue percentage. See information is presented again below:

Summary and Indication of Valuation by the Market Approach (Guideline Public Company and Mergers & Acquisition Methods)

Market Data P/R Indicated Value Exhibit 10-4

	BIZCOMPS	Comparable Public Data	IBA Data
Revenue Base	111,979,800	111,979,800	111,979,800
P/R Multiple	0.23	0.02	0.29
Sub-Total	25,204,590	1,894,098	32,474,142
Adjustment	7,478,252		(8,676,411)
Sub-Total	32,682,842	1,894,098	23,797,731
Less Minority Interest Discount	0.0 %	0.0 %	0.0 %
Operating Value	32,682,842	1,894,098	23,797,731
Less Marketability Discount	0.0 %	0.0 %	0.0 %
Operating Value	32,682,842	1,894,098	23,797,731
Excess/Non-Operating Assets	-	-	-
Ongoing Value	32,682,842	1,894,098	23,797,731

The value selected represents a minority interest valuation because the price multiples were determined from the sales of minority interests of publicly traded shares of stock, and the net earnings figure was an unadjusted net earnings amount. Therefore, in order to derive a controlling interest value, it would be necessary to apply a control premium to this indicated value. This is not necessary for this non marketable minority interest valuation engagement.

Adjustment for Minority Interest

We were engaged for the purpose of valuing a minority ownership interest of the issued and outstanding shares of common stock of Heartland, Inc. on a non-marketable basis.

Conceptual Basis

A minority ownership interest generally lacks the ability to control a business enterprise. As a result, the minority owners are considered to be less valuable on a pro rata basis than a comparable controlling interest. A minority adjustment, or lack of control adjustment, takes into account the inability of an owner of a fractional interest in a closely held business to control the operation and management of the business. In particular, a security interest lacking control is unable to compel distribution of earnings and profits (absent judicial remedies), to force liquidation, or to affect any significant changes in operations and general business. As a result these inherent limitations in owning a non-controlling interest in a business that is closely held, a willing buyer will presumably purchase such an interest only at a price that accounts for these limitations.

Adjustment Appropriate for the Subject Interest

The determination of whether a formulated value is on a control or minority basis is based on the valuation methodology applied. The key to determining whether a calculated value is a control or a minority value depends on the determination of economic income. Shannon Pratt, a noted authority on the valuation of businesses, states in his book titled *Valuing A Business* that “almost all the difference in control versus minority value in the income approach is found in the numerator—the expected economic income—rather than in the denominator—the discount or capitalization rate.”⁸ Accordingly, to the extent the normalizing adjustments represent those that are solely at the discretion of the controlling owners, the resulting indicated value represents a control value. Alternatively, if a minority value is required, then it is inappropriate to record a controlling adjustment.

Capitalization of Earnings Method. The normalizing adjustments that we made to arrive at expected economic income to be capitalized under this method are only those adjustments that would not require control. We added non-cash expenditures such as depreciation, and then offset this adjustment by anticipated capital expenditures as provided to us by the owner of the controlling interest in the Company. Additionally, we made adjustments for long-term debt and expected changes in working capital. The indication of value based upon these adjustments represents a control value, requiring an adjustment to arrive at the value for a minority interest stakeholder.

Adjusted Net Asset Method. As previously stated, this method initially derives a controlling interest value. Therefore, a lack of control discount is appropriate.

Guideline Public Company Method. The indicated value derived under this method represents a minority interest valuation because the price multiples were determined from the sales of minority interest of publicly traded stock. In addition, the price/earnings multiple was applied to the unadjusted earnings (i.e. earnings that would be attributable to a minority shareholder) of the Company for the year ended December 31, 2011. Accordingly, no further minority interest adjustment is required.

Merger and Acquisition Method. This method used transactions in which controlling interests were sold. As such, the resulting value is a control value and a minority interest adjustment is required.

As previously stated, the value of a minority interest in a company is worth less than that of a controlling interest. Merger stat Review Studies reflect that, as recently as 1994, the median minority discount would be about 26%. These numbers were derived by studying the price differences between a company's stock price when sold as a whole company versus the trading price in the open market representing a minority interest.

Control Premiums and Discounts		Exhibit 11					
Industry Class:		Wholesale & Distribution		Average Control Premium		Implied * Minority Discount	
Use Year 1=Yes/2=No		Acquisition Year	Number of Transactions				
2	Year 5	2006	11	25.3	%	20.2	%
2	Year 4	2007	11	31.7	%	24.1	%
2	Year 3	2008	8	40.9	%	29.0	%
2	Year 2	2009	5	47.3	%	32.1	%
1	Year 1	2010	14	146.5	%	59.4	%
Weighted Average				146.5	%	59.4	%

* Formula:

$1 - (1 / (1 + \text{Average Premium Paid}))$

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Accordingly, we chose a minority discount of 59.4%.

Adjustment for Lack of Marketability

A prudent investor would consider the fact that the common shares are not easily traded like those of a public company. Studies such as Robert W. Baird & Co. study of the value of marketability as illustrated in initial public offerings of common stock indicate an average discount of 45% with a maximum discount of 79%. Other studies have been done and the results were comparable. Since the studies consider the lack of marketability for stocks that are eventually marketed to the public and our subject company will not ever be marketed to the public, according to the majority owner, a discount larger than the average for lack of marketability would seem appropriate. We have chosen a discount of 40%.

5 Any divisor (usually expressed as a percentage) used to convert anticipated benefits into value. A capitalization rate for a company is equal to the discount rate less the long-term annually compounded sustainable growth rate of the company into perpetuity.

6 Stocks, Bonds, Bills & Inflation, Valuation Edition, 2011 Yearbook, (Chicago: Ibbotson Associates, 2011).
(Ibbotson Associates)

7 (Ibbotson Associates)

8 Shannon P. Pratt, with Robert F. Reilly, and Robert P. Schweihs, Valuing A Business, The Analysis and Appraisal
of Closely Held Companies, (Irwin Professional Publishing, 1996), p. 304.

55

RECONCILIATION OF INDICATED VALUES

In order to finalize the valuation, a level of confidence or weighting must be placed on the indicated values under the various methods. The weighting is applied not to mechanize the valuation process through the application of a formula, but rather to assist the reader in understanding our informed judgment with respect to the issue of greater and lesser appropriateness of the various methods applied.

The Capitalization of Earnings Method. Under this method, the business is treated as a pure investment activity and it stresses the measurement of the investment on its financial return generated. We have concluded that this is the best method of valuing Heartland because the earnings of an operating business are critical to its financial success and ultimate value.

The Adjusted Net Asset Method. Under this method, the analyst treats the business as a collection of assets, and in effect, values the business asset-by-asset, net of liabilities. We believed that this method was not appropriate for valuing the Company under the circumstances.

The Guideline Public Company Method. As indicated earlier, this method would not have been contemplated based upon the significant size of the comparable public companies in relation to the size of Heartland.

The Merger and Acquisition Method. Due to the fact that the value is determined based upon evidence from the market of the amount at which similar companies have sold, this method was appealing. However, due to their size of the comparable companies and the limitations on the data known about these transactions, we did not use this method in valuing Heartland.

RECONCILIATION AND ADJUSTMENT OF INDICATED VALUES -
MINORITY/NON-MARKETABLE - Exhibit 12

Valuation Method	Valuation Approach	Value Indicated by Method	Minority Discount	Marketability Discount	Adjusted Value	Determined Value	Shares O/S	Value per Share	
CAPITALIZATION OF EARNINGS METHOD									
	Income	\$3,126,120	59 %	40 %	\$769,026	\$769,026	56,518,422	0.01	
ADJUSTED NET ASSETS METHOD									
	Asset	7,478,300	59 %	40 %	\$1,839,662	N/A	56,518,422	0.03	
GUIDELINE PUBLIC COMPANY METHOD									
	Market	1,894,098	N/A	40 %	\$1,136,459	N/A	56,518,422	0.02	
MARKET COMPARABLE METHOD - BizComps									
	Market	32,682,842	59 %	40 %	\$8,039,979	N/A	56,518,422	0.14	
MARKET COMPARABLE									
	Market	23,797,731	59 %	40 %	\$5,854,242	N/A	56,518,422	0.10	

METHOD - IBA

Total	\$769,026
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100% Interest	\$769,026
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VALUE CONCLUSION

The fair market value of a minority interest share in the outstanding common stock on a non-marketable basis of Heartland Inc., a C Corporation, subject to the assumptions and limiting conditions contained herein, as of December 31, 2011 is: \$0.01 PER SHARE (56,518,422 SHARES ISSUED AND OUTSTANDING).

APPENDIX A: VALUATION ANALYST'S REPRESENTATIONS

The analyses, opinions, and conclusion of value included in the valuation report are subject to the specified assumptions and limiting conditions (see Appendix B), and they are the personal analyses, opinions, and conclusion of value of the valuation analyst.

The economic and industry data included in the valuation report have been obtained from various printed or electronic reference sources that the valuation analyst believes to be reliable. The valuation analyst has not performed any corroborating procedures to substantiate that data.

The valuation engagement was performed in accordance with the American Institute of Certified Public Accountants Statement on Standards for Valuation Services.

The parties for which the information and use of the valuation report is restricted are identified; the valuation report is not intended to be and should not be used by anyone other than such parties.

The analyst's compensation is fee-based and 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 estimate of value or the attainment of a stipulated result.

The valuation analyst did not use the work of outside specialists to assist during the valuation engagement.

The valuation analyst has no obligation to update the report or the opinion of value for information that comes to his or her attention after the date of the report.

Signature of the Analyst: _____

Mr. M. Scott Calhoun, CPA, CVA

A-1

APPENDIX B: LIMITING CONDITIONS

1. The conclusion of value arrived at herein is valid only for the stated purpose as of the date of the valuation.
2. Financial statements and other related information provided by Heartland, Inc. and Subsidiaries or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. Cross Roads Consulting, LLC has not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.
3. Public information and industry and statistical information have been obtained from sources we believe to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.
4. We do not provide assurance on the achievability of the results forecasted by Heartland, Inc. and Subsidiaries because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of management.
5. The conclusion of value arrived at herein is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.
6. This report and the conclusion of value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore the report and conclusion of value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The conclusion of value represents the considered opinion of Cross Roads Consulting, LLC, based on information furnished to them by Heartland, Inc. and Subsidiaries and other sources.
7. Neither all nor any part of the contents of this report (especially the conclusion of value, the identity of any valuation specialist(s), or the firm with which such valuation specialists are connected or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without the prior written consent and approval of Cross Roads Consulting, LLC.
8. Future services regarding the subject matter of this report, including, but not limited to testimony or attendance in court, shall not be required of Cross Roads Consulting or its Analysts, unless previous arrangements have been made in writing.
9. Cross Roads Consulting, LLC is not an environmental consultant or auditor, and it takes no responsibility for any actual or potential environmental liabilities. Any person entitled to rely on this report, wishing to know whether such liabilities exist, or the scope and their effect on the value of the property, is encouraged to obtain a professional environmental assessment. Cross Roads Consulting, LLC does not conduct or provide environmental assessments and has not performed one for the subject property.
10. Cross Roads Consulting, LLC has not determined independently whether Cell [1]ReportWriter!B3 0 Heartland, Inc. and Subsidiaries is subject to any present or future liability relating to environmental matters (including, but not

limited to CERCLA/Superfund liability) nor the scope of any such liabilities. Cell [1]ReportWriter!B7 0 Cross Roads Consulting, LLC's valuation takes no such liabilities into account, except as they have been reported to Cell [1]ReportWriter!B7 0 Cross Roads Consulting, LLC by Cell [1]ReportWriter!B3 0 Heartland, Inc. and Subsidiaries or by an environmental consultant working for Cell [1]ReportWriter!B3 0 Heartland, Inc. and Subsidiaries, and then only to the extent that the liability was reported to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to Cell [1]ReportWriter!B18 0 us, Cell [1]ReportWriter!B7 0 Cross Roads Consulting, LLC has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.

B-1

11. Cell [1]ReportWriter!B7 0 Cross Roads Consulting, LLC has not made a specific compliance survey or analysis of the subject property to determine whether it is subject to, or in compliance with, the American Disabilities Act of 1990, and this valuation does not consider the effect, if any, of noncompliance.

12. No change of any item in this appraisal report shall be made by anyone other than Cell [1]ReportWriter!B7 0 Cross Roads Consulting, LLC, and Cell [1]ReportWriter!B16 0 we shall have no responsibility for any such unauthorized change.

13. Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to future Federal, state, or local legislation, including any environmental or ecological matters or interpretations thereof.

14. If prospective financial information approved by management has been used in Cell [1]ReportWriter!B19 0 our work, Cell [1]ReportWriter!B16 0 we have not examined or compiled the prospective financial information and therefore, do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected and there will usually be differences between prospective financial information and actual results, and those differences may be material.

15. Cell [1]ReportWriter!B15 0 We have conducted interviews with the current management of Cell [1]ReportWriter!B3 0 Heartland, Inc. and Subsidiaries concerning the past, present, and prospective operating results of the company.

16. Except as noted, Cell [1]ReportWriter!B16 0 we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report. Cell [1]ReportWriter!B15 0 We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets.

17. Cross Roads Consulting, LLC did not perform a site visit.

B-2

APPENDIX C: QUALIFICATIONS OF APPRAISER

Mr. Calhoun is the Managing Director and founder of Cross Roads Consulting, LLC. He is a licensed Certified Public Accountant (CPA) in the State of Florida and a Certified Valuation Analyst (CVA) who has 25 years of accounting and financial management experience. Mr. Calhoun has spent most of his professional career working with public and private middle market and emerging growth companies in the areas of financial reporting, business and strategic planning, internal accounting, tax planning, forecasting and financial modeling and valuation. He has a comprehensive background in financial management, contract negotiation, system evaluation, staff development, account management and client development. Mr. Calhoun has demonstrated abilities in the implementation of strategic/tactical plans, identification of process improvement opportunities and building relationships with multiple personnel levels. He has significant experience in multiple unit/location environments.

Mr. Calhoun has been engaged as a subject matter expert for the purpose of providing his clients' guidance on the application of technical accounting standards and the development of models for the purpose of calculating fair value as defined in SFAS 157 Fair Value Measurements (FASB Codification ASC 820-10). Recent projects include analysis of convertible notes, convertible preferred stock, mandatorily redeemable instruments (preferred and common stocks), free standing written put agreements and earn out agreements. Additionally, he has performed calculations of fair value for the purpose of allocating purchase price under SFAS 141 and 141r Business Combinations (FASB Codification ASC 805) and was engaged to restate financial statements and perform valuations resulting from the incorrect application of SFAS 123r Accounting for Stock-Based Compensation (FASB Codification ASC 718 & 505) and back dating issues. Mr. Calhoun has held positions as Controller, Director of Financial Planning and Analysis, CFO and Director of Consulting. His experience includes private industry, public company, public accounting and government. His industry coverage includes retail, manufacturing, agriculture, sports and entertainment, governmental and not-for-profit, exploration, construction, food service, hospitality, gaming, telecommunications and real estate management.

Mr. Calhoun's unique and diversified background enables him to apply valuation concepts to virtually any industry and business enterprise. Having worked both as member of executive management and as a consultant, he has a tremendous amount of experience to draw on in analyzing the results of operations which is crucial in the application of valuation concepts. Mr. Calhoun has been engaged to prepare business valuations for SEC reporting, income tax reporting and buy/sale arrangement purposes.

Mr. Calhoun holds a Bachelor of Science in Accounting from the University of Florida and a Masters in Business Administration from Florida Southern College.

C-1

APPENDIX D: SOURCES OF INFORMATION

This information was accepted without further verification. See Appendix B for a complete list of the assumptions and limitations to which this valuation report is subject to.

1. Forms 10Q and 10K as published in public domain on the SEC EDGAR Online system.
2. Excel spreadsheet files containing annual consolidating worksheets and segment financial information provided by management.
3. Fixed asset schedules and depreciation worksheets provided by management.
4. Notes Payable amortization schedules provided by management.

D-1

APPENDIX E: MARKETABILITY DISCOUNT

Marketability relates to the liquidity of an investment relative to a comparable and actively traded alternative. In essence, impairment of liquidity increases an investor's expected rate of return. As a result, the market clearing price of a nonmarketable security is discounted relative to the price of its marketable counterpart. The discount for lack of marketability is stated as a percentage of a marketable value.

The valuation of share of stock in closely held corporations typically warrants a discount for lack of marketability. Many factors affect the liquidity of an investment. Among them are the following:

1. Number of shareholders;
2. Size of the block of stock being valued;
3. Restrictions on its sale by agreement or law;
4. The absence of registration; and,
5. The anticipated dividend flow attributable to the investment.

When attempting to quantify these factors that influence liquidity into an appropriate discount for lack of marketability, it is necessary to consider the following factors:

1. The holding period. Without an active market, an investor must hold for an uncertain length of time until a liquidity event occurs. In general, longer holding periods without liquidity imply higher discounts for lack of marketability. An investor should reasonably characterize exit timing along a probability distribution. Although subjective, the relative probabilities of exit dates are reasonably related to the following:

- a. Historical ownership policies (insiders, outsiders, family, investors, etc.);
- b. Buy/sell or other shareholder agreements;
- c. Management/ownership succession (age, health, competence, emerging liquidity needs);
- d. Business plans and likely exit strategies of the controlling owner(s); and
- e. Emerging attractiveness for equity offering or acquisition.

2. Required holding period return. To overcome the unattractiveness of the lack of liquidity, an investor in such securities expects a premium return in excess of that provided by liquid alternatives. Investment features that impair marketability will exact higher expected rates of return which imply higher discounts for lack of marketability. Unattractive features of a lack of liquid security could include the following:

- a. Absence, inadequacy of or inability to pay dividends;
- b. Subjective uncertainties related to the duration of the expected holding period and to achieving a favorable exit date valuation;
- c. Restrictive shareholder agreements; and,
- d. Various other features that increase uncertainty of cash flows.

3. Growth in underlying value during the holding period. If an investment is appreciating, that growth will provide a portion of the realized return during the holding period. Growth and marketability discounts are negatively correlated. As expected capital appreciation increases, discounts for lack of marketability decrease. Growth potential should be evaluated in the context of management's business plan, historical growth, and external factors such as emerging industry conditions and market valuations.

E-1

4. Expected cash flow distributions during the holding period. Holding period returns are also provided by interim cash flows (in addition to capital appreciation). As with growth, holding period cash distributions and discounts for lack of marketability are negatively correlated. Holding period cash flows (dividends, etc.) should be evaluated in the context of historical dividend policy, ability to distribute and the cash needs implied by the business plan.

Empirical Studies

Guidance as to the proper level of the discount can also be found in examining studies which have approached the question from several different perspectives.

One approach is to analyze the differences in prices between publicly traded securities and those of restricted stocks of the same companies. Since a "lettered" stock is identical to the traded stock in all respects except marketability, the difference in price highlights the marketability discount. Among the more prominent studies are the following:

1. "Discounts Involved in Purchases of Common Stock," in US 92nd Congress, 1st Session, House, Institutional Investor Study Report of the Securities and Exchange Commission (Washington, DC: US Government Printing Office, March 10, 1971, 5:2444-2456, Document No. 92-64, Part 5);
2. A study of closed end investment funds (Milton Gelman, "An Economist-Financial Analyst's Approach to Valuing Stock of A Closely Held Company," *Journal of Taxation* (June 1972), p. 354);
3. A study of prices paid for restricted stocks (Robert E. Maroney, "Most Courts Overvalue Closely Held Stocks," *Taxes*, March 1973, pp. 144-54);
4. A study of prices paid for restricted stocks (J. Michael Maher, "Discounts for Lack of Marketability for Closely Held Business Interests," *Taxes*, September 1976, pp. 562-71; and,
5. A more recent study of restricted stocks (William L. Silber, "Discounts on Restricted Stock: The Impact of Illiquidity on Stock Prices," *Financial Analysts Journal*, July/August 1991, pp. 62-64.)

All of these studies identified median or average discounts in the range of 30-40% for prices of non-marketable stocks in comparison to marketable shares which were otherwise deemed to be comparable. The SEC Institutional Investor study reflected a mean discount of 25.8% while the remainder had average discounts in the range of 33-35%.

A second approach is to analyze the relationship between the prices of companies whose shares were initially offered to the public (IPO) and the prices at which their shares traded privately within a five month period immediately preceding the public offering. A series of studies conducted by John D. Emory at Robert W. Baird & Co., Inc. indicate median and mean lack of marketability discounts of 40% to 45% (see Emory, John D., "The Value of Marketability as Illustrated in Initial Public Offerings of Common Stock, February 1992 through July 1993," *Business Valuation Review*, December 1993, pp. 3-5).

The objective of the Emory studies is to relate the prices at which private transactions took place before an IPO and the price at which the stock was subsequently offered to the public, in order to objectively gauge the value of marketability.

The majority of the companies in the survey reflected discounts exceeding 30%. The highest discounts indicated in the sample were 82% and 94%.

The implication of the studies is clear: presumably arm's length transactions taking place within a short time of the actual IPOs occur at substantial discounts to the ultimate public offering price. These studies support both the validity and magnitude of marketability discounts in general, and particularly for companies that are not public offering candidates and for which the prospects for shareholder liquidity may be remote.

Court Decisions

Further guidance for marketability discounts can be found in various court decisions. These decisions provide insight into the discounts allowed in various circumstances. «Cell [1]ReportWriter!b15 0 I» look at evidence from court decisions, not to cite as direct evidence in the instant case, but to review how courts have previously interpreted the objective evidence presented. In addition, «Cell [1]ReportWriter!b16 0 I» look to court cases for general guidance concerning the nature of evidence deemed acceptable in previous decisions.

A survey performed by Thomas Solberg (Thomas A. Solberg, “Valuing Restricted Securities: What Factors Do the Courts and the Service Look For,” *Journal of Taxation*, September 1979, pp. 150-54) of fifteen cases indicated a mean discount of 37.4%. A similar study by Phillip Moore (Phillip W. Moore, “Valuation Revisited,” *Trusts & Estates*, February 1987, pp. 40-52), which analyzed fourteen cases by the U.S. Tax Court from 1969 through 1982, indicated wide variations in the decisions but with a trend toward allowing higher discounts.

In “Estate of Berg” (61 TCM 1991-279), the Tax Court relied upon an expert’s analysis of specific factors that influenced the magnitude of a minority interest discount (20%) and a marketability discount (10%). The expert’s specificity appeared to be persuasive to the court. Other experts in the Berg case were admonished by the court for presenting discount analyses that were “exceedingly general and lacking in specific analysis of the subject interest.”

In “Estate of Jung” (101 TIC. No.28), the Tax Court allowed a 35% discount for lack of marketability for a 21% interest in Jung Corp., a manufacturer and distributor of elastic textile goods. Jung’s revenues (\$68 million) and profits (\$3.1 million) had been growing for several years, a dividend was being paid, and there was a reasonable knowledge that the company could be an attractive acquisition candidate. Of particular note is that the court relied upon several of the empirical studies cited above.

The various studies indicate that a marketability discount in the range of 35%-40% is near the mean. The court cases are increasingly referring to objective data, but the courts are asking for data and analysis that relate to the specific cases in question, not mere averages. It is important to note that the actual range of discounts can be very wide with the top end of the range at 70% or more, depending on the features and circumstances of the subject company.

APPENDIX F: GLOSSARY

International Glossary of Business Valuation Terms*

To enhance and sustain the quality of business valuations for the benefit of the profession and its clientele, the below identified societies and organizations have adopted the definitions for the terms included in this glossary. The performance of business valuation services requires a high degree of skill and imposes upon the valuation professional a duty to communicate the valuation process and conclusion in a manner that is clear and not misleading. This duty is advanced through the use of terms whose meanings are clearly established and consistently applied throughout the profession. If, in the opinion of the business valuation professional, one or more of these terms needs to be used in a manner which materially departs from the enclosed definitions, it is recommended that the term be defined as used within that valuation engagement. This glossary has been developed to provide guidance to business valuation practitioners by further memorializing the body of knowledge that constitutes the competent and careful determination of value and, more particularly, the communication of how that value was determined. Departure from this glossary is not intended to provide a basis for civil liability and should not be presumed to create evidence that any duty has been breached.

American Institute of Certified Public Accountants
American Society of Appraisers
Canadian Institute of Chartered Business Valuators
National Association of Certified Valuation Analysts
The Institute of Business Appraisers

Adjusted Book Value Method. See a method within the asset approach whereby all assets and liabilities (including off-balance sheet, intangible, and contingent) are adjusted to their fair market values. {NOTE: In Canada on a going concern basis}

Adjusted Net Asset Method. See Adjusted Book Value Method.

Appraisal. See Valuation.

Appraisal Approach. See Valuation Approach.

Appraisal Date. See Valuation Date.

Appraisal Method. See Valuation Method.

Appraisal Procedure. See Valuation Procedure.

Arbitrage Pricing Theory. A multivariate model for estimating the cost of equity capital, which incorporates several systematic risk factors.

Asset (Asset-Based) Approach. A general way of determining a value indication of a business, business ownership interest, or security using one or more methods based on the value of the assets net of liabilities.

Beta. A measure of systematic risk of a stock; the tendency of a stock's price to correlate with changes in a specific index.

Blockage Discount. An amount or percentage deducted from the current market price of a publicly traded stock to reflect the decrease in the per share value of a block of stock that is of a size that could not be sold in a reasonable period of time given normal trading volume.

F-1

Book Value. See Net Book Value.

Business. See Business Enterprise.

Business Enterprise. A commercial, industrial, service, or investment entity (or a combination thereof) pursuing an economic activity.

Business Risk. The degree of uncertainty of realizing expected future returns of the business resulting from factors other than financial leverage. See Financial Risk.

Business Valuation. The act or process of determining the value of a business enterprise or ownership interest therein.

Capital Asset Pricing Model (CAPM). A model in which the cost of capital for any stock or portfolio of stocks equals a risk-free rate plus a risk premium that is proportionate to the systematic risk of the stock or portfolio.

Capitalization. A conversion of a single period of economic benefits into value.

Capitalization Factor. Any multiple or divisor used to convert anticipated economic benefits of a single period into value.

Capitalization of Earnings Method. A method within the income approach whereby economic benefits for a representative single period are converted to value through division by a capitalization rate.

Capitalization Rate. Any divisor (usually expressed as a percentage) used to convert anticipated economic benefits of a single period into value.

Capital Structure. The composition of the invested capital of a business enterprise; the mix of debt and equity financing.

Cash Flow. Cash that is generated over a period of time by an asset, group of assets, or business enterprise. It may be used in a general sense to encompass various levels of specifically defined cash flows. When the term is used, it should be supplemented by a qualifier (for example, “discretionary” or “operating”) and a specific definition in the given valuation context.

Common Size Statements. Financial statements in which each line is expressed as a percentage of the total. On the balance sheet, each line item is shown as a percentage of total assets, and on the income statement, each item is expressed as a percentage of sales.

Control. The power to direct the management and policies of a business enterprise.

Control Premium. An amount or a percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise to reflect the power of control.

Cost Approach. A general way of determining a value indication of an individual asset by quantifying the amount of money required to replace the future service capability of that asset.

Cost of Capital. The expected rate of return that the market requires in order to attract funds to a particular investment.

Debt-Free. We discourage the use of this term. See Invested Capital.

Discount for Lack of Control. An amount or percentage deducted from the pro rata share of value of 100% of an equity interest in a business to reflect the absence of some or all of the powers of control.

Discount for Lack of Marketability. An amount or percentage deducted from the value of an ownership interest to reflect the relative absence of marketability.

Discount for Lack of Voting Rights. An amount or percentage deducted from the per share value of a minority interest voting share to reflect the absence of voting rights.

Discount Rate. A rate of return used to convert a future monetary sum into present value.

Discounted Cash Flow Method. A method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate.

Discounted Future Earnings Method. A method within the income approach whereby the present value of future expected economic benefits is calculated using a discount rate.

Economic Benefits. Inflows such as revenues, net income, net cash flows, etc.

Economic Life. The period of time over which property may generate economic benefits.

Effective Date. See Valuation Date.

Enterprise. See Business Enterprise.

Equity. The owner's interest in property after deduction of all liabilities.

Equity Net Cash Flows. Those cash flows available to pay out to equity holders (in the form of dividends) after funding operations of the business enterprise, making necessary capital investments, and increasing or decreasing debt financing.

Equity Risk Premium. A rate of return added to a risk-free rate to reflect the additional risk of equity instruments over risk free instruments (a component of the cost of equity capital or equity discount rate).

Excess Earnings. That amount of anticipated economic benefits that exceeds an appropriate rate of return on the value of a selected asset base (often net tangible assets) used to generate those anticipated economic benefits.

Excess Earnings Method. A specific way of determining a value indication of a business, business ownership interest, or security determined as the sum of a) the value of the assets derived by capitalizing excess earnings and b) the value of the selected asset base. Also frequently used to value intangible assets. See Excess Earnings.

Fair Market Value. The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts. {NOTE: In Canada, the term "price" should be replaced with the term "highest price". }

Fairness Opinion. An opinion as to whether or not the consideration in a transaction is fair from a financial point of view.

F-3

Financial Risk. The degree of uncertainty of realizing expected future returns of the business resulting from financial leverage. See Business Risk.

Forced Liquidation Value. Liquidation value, at which the asset or assets are sold as quickly as possible, such as at an auction.

Free Cash Flow. We discourage the use of this term. See Net Cash Flow.

Going Concern. An ongoing operating business enterprise.

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 work force, an operational plant, and the necessary licenses, systems, and procedures in place.

Goodwill. That intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified.

Goodwill Value. The value attributable to goodwill.

Guideline Public Company Method. A method within the market approach whereby market multiples are derived from market prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market.

Income (Income-Based) Approach. A general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more methods that convert anticipated economic benefits into a present single amount.

Intangible Assets. Nonphysical assets such as franchises, trademarks, patents, copyrights, goodwill, equities, mineral rights, securities, and contracts (as distinguished from physical assets) that grant rights and privileges and have value for the owner.

Internal Rate of Return. A discount rate at which the present value of the future cash flows of the investment equals the cost of the investment.

Intrinsic Value. The value that an investor considers, on the basis of an evaluation or available facts, to be the “true” or “real” value that will become the market value when other investors reach the same conclusion. When the term applies to options, it is the difference between the exercise price and strike price of an option and the market value of the underlying security.

Invested Capital. The sum of equity and debt in a business enterprise. Debt is typically (a) all interest-bearing debt or (b) long-term, interest-bearing debt. When the term is used, it should be supplemented by a specific definition in the given valuation context.

Invested Capital Net Cash Flows. Those cash flows available to pay out to equity holders (in the form of dividends) and debt investors (in the form of principal and interest) after funding operations of the business enterprise and making necessary capital investments.

Investment Risk. The degree of uncertainty as to the realization of expected returns.

Investment Value. The value to a particular investor based on individual investment requirements and expectations. {NOTE: in Canada, the term used is “Value to the Owner”.}

Key Person Discount. An amount or percentage deducted from the value of an ownership interest to reflect the reduction in value resulting from the actual or potential loss of a key person in a business enterprise.

Levered Beta. The beta reflecting a capital structure that includes debt.

Limited Appraisal. The act or process of determining the value of a business, business ownership interest, security, or intangible asset with limitations in analyses, procedures, or scope.

Liquidity. The ability to quickly convert property to cash or pay a liability.

Liquidation Value. The net amount that would be realized if the business is terminated and the assets are sold piecemeal. Liquidation can be either “orderly” or “forced.”

Majority Control. The degree of control provided by a majority position.

Majority Interest. An ownership interest greater than 50% of the voting interest in a business enterprise.

Market (Market-Based) Approach. A general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Market Capitalization of Equity. The share price of a publicly traded stock multiplied by the number of shares outstanding.

Market Capitalization of Invested Capital. The market capitalization of equity plus the market value of the debt component of invested capital.

Market Multiple. The market value of a company’s stock or invested capital divided by a company measure (such as economic benefits, number of customers).

Marketability. The ability to quickly convert property to cash at minimal cost.

Marketability Discount. See Discount for Lack of Marketability.

Merger and Acquisition Method. A method within the market approach whereby pricing multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business.

Mid-Year Discounting. A convention used in the Discounted Future Earnings Method that reflects economic benefits being generated at midyear, approximating the effect of economic benefits being generated evenly throughout the year.

Minority Discount. A discount for lack of control applicable to a minority interest.

Minority Interest. An ownership interest less than 50% of the voting interest in a business enterprise.

Multiple. The inverse of the capitalization rate.

Net Book Value. With respect to a business enterprise, the difference between total assets (net of accumulated depreciation, depletion, and amortization) and total liabilities as they appear on the balance sheet (synonymous with Shareholder's Equity). With respect to a specific asset, the capitalized cost less accumulated amortization or depreciation as it appears on the books of account of the business enterprise.

Net Cash Flows. When the term is used, it should be supplemented by a qualifier. See Equity Net Cash Flows and Invested Capital Net Cash Flows.

Net Present Value. The value, as of a specified date, of future cash inflows less all cash outflows (including the cost of investment) calculated using an appropriate discount rate.

Net Tangible Asset Value. The value of the business enterprise's tangible assets (excluding excess assets and non operating assets) minus the value of its liabilities.

Non operating Assets. Assets not necessary to ongoing operations of the business enterprise. {NOTE: in Canada, the term used is "Redundant Assets".}

Normalized Earnings. Economic benefits adjusted for nonrecurring, noneconomic, or other unusual items to eliminate anomalies and/or facilitate comparisons.

Normalized Financial Statements. Financial statements adjusted for nonoperating assets and liabilities and/or for nonrecurring, noneconomic, or other unusual items to eliminate anomalies and/or facilitate comparisons.

Orderly Liquidation Value. Liquidation value at which the asset or assets are sold over a reasonable period of time to maximize proceeds received.

Premise of Value. An assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation; for example, going concern, liquidation.

Present Value. The value, as of a specified date, of future economic benefits and/or proceeds from sale, calculated using an appropriate discount rate.

Portfolio Discount. An amount or percentage deducted from the value of a business enterprise to reflect the fact that it owns dissimilar operations or assets that do not fit well together.

Price/Earnings Multiple. The price of a share of stock divided by its earnings per share.

Rate of Return. An amount of income (loss) and/or change in value realized or anticipated on an investment, expressed as a percentage of that investment.

Redundant Assets. See Non operating Assets.

Report Date. The date conclusions are transmitted to the client.

Replacement Cost New. The current cost of a similar new property having the nearest equivalent utility to the property being valued.

Reproduction Cost New. The current cost of an identical new property.

F-6

Required Rate of Return. The minimum rate of return acceptable by investors before they will commit money to an investment at a given level of risk.

Residual Value. The value as of the end of the discrete projection period in a discounted future earnings model.

Return on Equity. The amount, expressed as a percentage, earned on a company's common equity for a given period.

Return on Investment. See Return on Invested Capital and Return on Equity.

Return on Invested Capital. The amount, expressed as a percentage, earned on a company's total capital for a given period.

Risk-Free Rate. The rate of return available in the market on an investment free of default risk.

Risk Premium. A rate of return added to a risk-free rate to reflect risk.

Rule of Thumb. A mathematical formula developed from the relationship between price and certain variables based on experience, observation, hearsay, or a combination of these; usually industry specific.

Special Interest Purchasers. Acquirers who believe they can enjoy post-acquisition economies of scale, synergies, or strategic advantages by combining the acquired business interest with their own.

Standard of Value. The identification of the type of value being utilized in a specific engagement; for example, fair market value, fair value, investment value.

Sustaining Capital Reinvestment. The periodic capital outlay required to maintain operations at existing levels, net of the tax shield available from such outlays.

Systematic Risk. The risk that is common to all risky securities and cannot be eliminated through diversification. The measure of systematic risk in stocks is the beta coefficient.

Tangible Assets. Physical assets (such as cash, accounts receivable, inventory, property, plant and equipment, etc.).

Terminal Value. See Residual Value.

Transaction Method. See Merger and Acquisition Method.

Unlevered Beta. The beta reflecting a capital structure without debt.

Unsystematic Risk. The risk specific to an individual security that can be avoided through diversification.

Valuation. The act or process of determining the value of a business, business ownership interest, security, or intangible asset.

Valuation Approach. A general way of determining a value indication of a business, business ownership interest, security, or intangible asset using one or more valuation methods.

Valuation Date. The specific point in time as of which the valuator’s opinion of value applies (also referred to as “Effective Date” or “Appraisal Date”).

Valuation Method. Within approaches, a specific way to determine value.

Valuation Procedure. The act, manner, and technique of performing the steps of an appraisal method.

Valuation Ratio. A fraction in which a value or price serves as the numerator and financial, operating, or physical data serve as the denominator.

Value to the Owner. See Investment Value.

Voting Control. De jure control of a business enterprise.

Weighted Average Cost of Capital (WACC). The cost of capital (discount rate) determined by the weighted average, at market value, of the cost of all financing sources in the business enterprise’s capital structure.

Additional Terms

Assumptions and Limiting Conditions. Parameters and boundaries under which a valuation is performed, as agreed upon by the valuation analyst and the client or as acknowledged or understood by the valuation analyst and the client as being due to existing circumstances. An example is the acceptance, without further verification, by the valuation analyst from the client of the client’s financial statements and related information.

Business Ownership Interest. A designated share in the ownership of a business (business enterprise).

Calculated Value. An estimate as to the value of a business, business ownership interest, security, or intangible asset, arrived at by applying valuation procedures agreed upon with the client and using professional judgment as to the value or range of values based on those procedures.

Calculation Engagement. An engagement to estimate value wherein the valuation analyst and the client agree on the specific valuation approaches and valuation methods that the valuation analyst will use and the extent of valuation procedures the valuation analyst will perform to estimate the value of a subject interest. A calculation engagement generally does not include all of the valuation procedures required for a valuation engagement. If a valuation engagement had been performed, the results might have been different. The valuation analyst expresses the results of the calculation engagement as a calculated value, which may be either a single amount or a range.

Capital or Contributory Asset Charge. A fair return on an entity’s contributory assets, which are tangible and intangible assets used in the production of income or cash flow associated with an intangible asset being valued. In this context, income or cash flow refers to an applicable measure of income or cash flow, such as net income, or operating cash flow before taxes and capital expenditures. A capital charge may be expressed as a percentage return on an economic rent associated with, or a profit split related to, the contributory assets.

Capitalization of Benefits Method. A method within the income approach whereby expected future benefits (for example, earnings or cash flow) for a representative single period are converted to value through division by a capitalization rate.

Comparable Profits Method. A method of determining the value of intangible assets by comparing the profits of the subject entity with those of similar uncontrolled companies that have the same or similar complement of intangible assets as the subject company.

Comparable Uncontrolled Transaction Method. A method of determining the value of intangible assets by comparing the subject transaction to similar transactions in the market place made between independent (uncontrolled) parties.

Conclusion of Value. An estimate of the value of a business, business ownership interest, security, or intangible asset, arrived at by applying the valuation procedures appropriate for a valuation engagement and using professional judgment as to the value or range of values based on those procedures.

Control Adjustment. A valuation adjustment to financial statements to reflect the effect of a controlling interest in a business. An example would be an adjustment to owners' compensation that is in excess of market compensation.

Engagement to Estimate Value. An engagement, or any part of an engagement (for example, a tax, litigation, or acquisition-related engagement), that involves determining the value of a business, business ownership interest, security, or intangible asset. Also known as valuation service.

Excess Operating Assets. Operating assets in excess of those needed for the normal operation of a business.

Fair Value. In valuation applications, there are two commonly used definitions for fair value: (1) For financial reporting purposes only, the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Source: Financial Accounting Standards Board definition in Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, as used in the context of Generally Accepted Accounting Principles (GAAP) (Effective 2008). (2) For state legal matters only, some states have laws that use the term fair value in shareholder and partner matters. For state legal matters only, therefore, the term may be defined by statute or case law in the particular jurisdiction.

Guideline Company Transactions Method. A method within the market approach whereby market multiples are derived from the sales of entire companies engaged in the same or similar lines of business.

Hypothetical Condition. That which is or may be contrary to what exists, but is supposed for the purpose of analysis.

Incremental Income. Additional income or cash flow attributable to an entity's ownership or operation of an intangible asset being valued, as determined by a comparison of the entity's income or cash flow with the intangible asset to the entity's income or cash flow without the intangible asset. In this context, income or cash flow refers to an applicable measure of income or cash flow, such as license royalty income or operating cash flow before taxes and capital expenditures.

Pre-adjustment Value. The value arrived at prior to the application, if appropriate, of valuation discounts or premiums.

Profit Split Income. With respect to the valuation of an intangible asset of an entity, a percentage allocation of the entity's income or cash flow whereby (1) a split (or percentage) is allocated to the subject intangible and (2) the remainder is allocated to all of the entity's tangible and other intangible assets. In this context, income or cash flow refers to an applicable measure of income or cash flow, such as net income or operating cash flow before taxes and capital expenditures.

Relief from Royalty Method. A valuation method used to value certain intangible assets (for example, trademarks and trade names) based on the premise that the only value that a purchaser of the assets receives is the exemption from paying a royalty for its use. Application of this method usually involves estimating the fair market value of an intangible asset by quantifying the present value of the stream of market-derived royalty payments that the owner of the intangible asset is exempted from or “relieved” from paying.

Residual Income. For an entity that owns or operates an intangible asset being valued, the portion of the entity’s income or cash flow remaining after subtracting a capital charge on all of the entity’s tangible and other intangible assets. Income or cash flows can refer to any appropriate measure of income or cash flow, such as net income or operating cash flow before taxes and capital expenditures.

Security. A certificate evidencing ownership or the rights to ownership in a business enterprise that (1) is represented by an instrument or by a book record or contractual agreement, (2) is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment, and (3) either one of a class or series or, by its terms, is divisible into a class or series of shares, participations, interests, rights, or interest-bearing obligations.

Subject Interest. A business, business ownership interest, security, or intangible asset that is the subject of a valuation engagement.

Subsequent Event. An event that occurs subsequent to the valuation date.

Valuation Analyst. For purposes of this Statement, an AICPA member who performs an engagement to estimate value that culminates in the expression of a conclusion of value or a calculated value.

Valuation Assumptions. Statements or inputs utilized in the performance of an engagement to estimate value that serve as a basis for the application of particular valuation methods.

Valuation Engagement. An engagement to estimate value in which a valuation analyst determines an estimate of the value of a subject interest by performing appropriate valuation procedures, as outlined in the AICPA Statement on Standards for Valuation Services, and is free to apply the valuation approaches and methods he or she deems appropriate in the circumstances. The valuation analyst expresses the results of the valuation engagement as a conclusion of value, which may be either a single amount or a range.

Valuation Service. See Engagement to Estimate Value.