A HYPOTHETICAL GOING PRIVATE TRANSACTION

By Arthur H. Rosenbloom *

It is a great pleasure to speak this afternoon before so distinguished a group representing in its number those by whom I have been interrogated in "going-private" transactions and my rehabilitators. Given this group's distinction, for me to lecture to you on the history and application Rule 13(e)(3) [1] or on Delaware statutory and case law in the "going-private" arena would, figuratively and to some degre literally, represent an attempt to carry coals to New Castle.

Instead, I would like to devote the time allotted to a kind of "in the trenches" description of how we go about doing a valuation study to determine fairness in a "going-private" transaction. Let's do so by examining this hypothetical going-private transaction in a fact pattern as follows:

Socal Foods Marts [hereinafter Socal] is an attractive and growing chain of supermarkets incorporated in Delaware, but operating principally in Southern California. In the summer of 19XX, Socal had about 5.4 million shares outstanding, of which a million was in the hands of the public and the balance was held by insiders. Continuing problems with the SEC had arisen by reason of the ownership by certain of Socal's management of the underlying real property and fixtures in many of the supermarkets operated by the company with resulting conflict of interest allegations by the SEC staff. This problem, together with a continually depressed common stock price which kept the stock unattractive as a medium of consideration for a merger and acquisition transaction or for employee incentives, caused management to consider the prospect of a going-private transaction. Thus, on June 21 of 19XX, an announcement was made by Socal of a proposed transaction whereby Socal's insiders would transfer their shares to a new company which would merge into Socal.

On the date of that merger, each public shareholder of Socal would have his common stock converted into the right to receive $21 per share. The transaction would be subject to, among other things, an affirmative vote of two-thirds of the outstanding stock of the company, with the insiders agreeing to vote their shares in ac-

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1. *See* 17 C.F.R. § 240.13e-3 (1981).

cordance with the vote of a majority of the public stockholders. A committee of independent directors was asked to determine the fairness of the offer; that committee, in its wisdom, retained Standard Research Consultants, our firm, to determine the fairness of the price.

In order to make that determination, we engaged in a process that went something like this:

The first step is the due diligence phase. The ability to arrive at sound and reasonable conclusions in going-private transactions is enhanced by a due diligence process upon which the ultimate financial calculations can be based. Typically, a due diligence process for a company like Socal might involve the following:

1. Learning about the history of the company—when it was founded and the major milestones in its corporate life—by interviewing members of senior management.

2. Learning about Socal's current operations and future prospects by inspecting a number of stores and interviewing not only senior management, but also Socal's auditors, its bankers, legal counsel, and others, in an attempt to cover such areas as: the kinds of items sold in the stores; store size, location, sales per square foot; problems of sourcing of goods, demographic data for the area in which Socal operates (in this case Southern California); the company's sales and promotional efforts; its competitive position and market share in its market area; the labor situation (union versus non-union, and the available labor pool in the area); and all the variables that affect the very important issues of management and management structure—the age of its top management, their duties and compensation, their length of time with the company, the question of depth of management, and the number of shares held by management and other insiders. In these days of high levels of legal and regulatory compliance, items of concern for us would include SEC, EEOC, OSHA, ERISA, liability questions, and material lawsuits. All of these can reduce value. Conversely, items like potential damage awards in class action suits in which Socal was a plaintiff offer the possibility of substantial profits. This too can affect value.

A document review is the next phase. That document review would consist of an examination of the original S-1 plus all filings with the SEC, including the 10-Ks, the 10-Qs, the 8-Ks, if any, and annual meeting proxy statements and principal loan agreements. We look particularly closely at those loan agreements for acceleration clauses, in which unwaived breaches of affirmative and negative covenants can completely change the debt picture of the company.

We try to find New York Stock Exchange member firm reports on the company, and addresses by representatives of the company to security analyst groups to develop a further picture of the company.

We also take a good hard look at the company's financial statements, both those contained in public filings and those that are internally generated, particularly where there are consolidating entries. We look at principal financial documents such as the balance sheet, the income statement, changes in stockholders' equity, sources and application of funds, and financial projects, if any.

We might consider economic, industry, and stock market conditions, including conditions in the general economy, leading indicators, gross national product, and related kinds of indices. Details respecting the particular geographic area in which the company is located, in this case Southern California, might also be relevant as might industry data including problems and opportunities in the supermarket industry. Stock market data including general measurements of stock market conditions such as the Dow Industrials, S & P indices, and others, as well as data for the particular industry in which the company is active (the supermarket industry) may represent useful data too. Of course we look at the price history of Socal's stock over extensive time periods.

This will give you some rough benchmarks as to the kinds of elements involved in the typical due diligence process. I do not suggest that they are exhaustive.

Having done our due diligence investigation, it is possible to develop some valuation approaches. As you know, the tests of fairness include approaches based upon market price, earnings, assets, and dividends. We divide these approaches into a market approach and a fundamental approach. Let me take them up with you seriatim.

Under the market approach we determine Socal's unaffected price prior to the announcement date or the date that the news of the transaction leaked out. In determining the unaffected price, we tend not to use a day-before announcement rule or a five-day two-week-before announcement rule or even a one-month-before announcement rule. We try to look relatively empirically at the company's stock, and, by noting changes in the price and volume of the stock in relation to the announcement date, to determine the last date before trading in the stock was affected by news of the transaction.

We then look at the going-private premium, the rationale for which we believe is twofold: first, the loss of speculative opportunity in the security by the public investor; and, second, the need to induce affirmative stockholder votes in the transaction. The methodology

that we use involves examining premiums in other recent going-private transactions or in recent tender offers. We determine, in each of these, the premium over the unaffected market price represented by the offer, and we take a look at the relationship of the offered price to book value. This examination will provide a rough basis by which to determine whether the premium being offered to Socal's public stockholders is "in the ball park."

That is a very capsule version of the market approach. The fundamental approach represents an alternative to the market approach. Where appropriate under the market approach, we develop three fundamental approaches to value: an earnings approach, an assets approach, and a dividend approach. Let me go through them one by one.

Comparative company methodology is our principal approach to value. This methodology attempts to compare the subject company, Socal, against what is intended to be a homogeneous array of comparative companies. The process begins as follows:

We would search for Socal's SIC Code (the Standard Industrial Classification Code of the Commerce Department) under the four-digit SIC Code, in the T through Z volume of Standard & Poor's *Corporation Records,* or by the three-digit SIC Code in the Directory of Companies Required to File Annual Reports with the SEC and note the other company's listed under the same SIC Code. The results of this process would give one a rather long laundry list of potential comparatives.

The next step is to weed out from that rather large universe those companies that really do not fit, so as to have an appropriate array of comparatives. Some may be weeded out because of size. If the subject company is one that has continued to show profits, and you have loss companies among the comparatives, those loss companies ought to be excluded. Companies which, while aggregated under a given SIC Code, are perhaps not as regional as Socal might also be eliminated. Finally, one achieves an array of comparative companies having in common with each other and with Socal all of the characteristics stated such that there are no companies who do not meet all of the criteria of the category.

Typically, an array of comparative companies might have all or some of the following characteristics in that they are:

1. All found in Standard & Poor's *Corporation Records* and, with sufficiently active trading, found in Standard & Poor's *Stock Guide.*
2. Within a designated SIC Code or industry area.
3. United States companies.

4. Not controlled by another company.

5. Generally profitable.

6. Not the subject of an ancillary transaction, such as a tender offer, which might result in a distortion in the price of the company's stock.

We then compare Socal against the comparatives, using a series of indices. One index is the growth index. We look at revenues and profits over the longer of a five-year period or a typical business cycle for the industry. We look at profits before and after taxes, and before and after depreciation.

We also look at so-called "takedown ratios," the relationship of profit before and after taxes, before and after depreciation, divided by revenue. We consider a series of balance sheet ratios including current ratio, the acid test ratio, and leverage ratios, all of which may variously include the relationship of long-term debt to common equity, total debt to equity, or common equity to the company's total capitalization. Other ratios which we consider include the return on average common equity, return on assets, market to book value, dividend yields, and dividend payouts.

The purpose of this entire exercise is to determine how the performance of that company stacked up against that of the comparatives so as to infer a value for the company.

Given all this information, we can develop several approaches to value. One of these is the earnings approach. The earnings approach to value may, in the first instance, require adjustment of the comparative companies to the subject company, or vice versa. Adjustments, for example, may be required to account for different accounting tax treatment effects, i.e., FIFO versus LIFO companies or for differences in depreciation policy.

Having attempted to develop some level of performance for Socal against the comparatives, we would measure Socal's earnings over five years, three years, most recent year, and the trailing four quarters. Sometimes the subject company's projected earnings may be examined if there is sufficiently good evidence to believe that they are probative of value and if publicly disclosed projections are available for the comparatives. We then divide the average price for each comparative by the earnings per share or cash flow per share for each of the periods just described to get a price/earnings multiple or price/cash flow multiple. We pick from an array of price/earnings or price/cash flow multiples thus constructed, a multiple applicable for Socal based upon a qualitative judgment which stems from Socal's performance against that of the comparatives.

The second approach is the assets approach. We believe that book value, either on an as-booked basis or as-reconstructed, usually should not be the major determinant of value unless, for example, the company is an investment company or liquidation is in process or in contemplation. One may want to look at asset value, however, where the real property's fair market value is high and earnings are very small by comparison. Certain land or agricultural companies come to mind in that connection. In such instances, one may need appraisals of underlying assets.

One approach we have found useful over the course of the years is to look at asset value in a going concern context by attempting to develop a relationship between return on common equity and market price to tangible book value. In a homogeneous array of comparative companies, we often find that the higher the ROE, the higher the market to tangible book value. Since, when using this fundamental approach, it is possible to compute the ROE of Socal, the subject company, it may be possible to infer a theoretical market price to tangible book value for Socal by considering the relationship of ROE and market price to tangible book value in the comparatives and fitting in Socal's ROE to a market to tangible book value ratio that corresponds to it. The third approach is the dividend approach, in which we frequently use the capitalized dividend approach, details of which I will discuss a bit further on.

Finally, there is a weighting of the results from the earnings approach, the assets approach, and the dividend approach in which, customarily the greatest weight is given to results from the earnings approach and the smallest to results from the dividend approach. We believe that fairness is achieved when the price offered is an amount equal to or higher than an unaffected market price plus a premium (the market approach) and represents fair value under the fundamental approach.

Now let's turn to the partial contents of SRC's workpaper file reproduced for you in your workbook and go through the hypothetical Socal transaction I have been talking about.

Page 1 of the Socal transaction contains the company's balance sheet.[2] We see that Socal is a company which in Year 5 had a working capital of about $18.3 million, total invested capital of about $60.3 million, and common equity of about $53 million. We note that, at the most recent date, March 31, it had book value per share of $11.02. When we look at the income statement on page 2,

2. All workbook pages referred to by Mr. Rosenbloom are reproduced at the conclusion of his talk and are numbered as they appear in his text.

we see that the trailing four quarters ending March 31 of Year 6 showed revenues of $524 million approximately and after-tax income of about $9.6 million, or $1.76 a share.

Page 3 illustrates what we would regard as an appropriate array of comparatives for the Socal study. What we are trying to do is to define a universe of regional supermarket companies, and as a result of our review, a series of companies was chosen, beginning with Colonial Stores and ending with Weis Markets. I point out that we attempt to develop an array of comparatives such that we have not excluded any company which really is comparable to Socal. Having developed that array of comparative companies, we begin to compare Socal's performance against that of the comparatives and note certain economic facts as well.

On page 3a we are looking at some information with respect to the market in which Socal operates. To summarize, we see from the exhibit on page 3a that households and populations in Southern California are growing more rapidly than those throughout the United States generally. This augurs well for future prospects for Socal in the market in which it operates.

Page 3b describes comparative economic data in terms of personal income and household income, which we see is increasing more rapidly in Sourthern California than throughout the U.S. generally. We also note, however, that that increase is not reflected in supermarket sales. The valuator must inquire as to why that is the case and what that means for Socal.

On page 4 we see a kind of truncated version of the trends analysis that I was talking about earlier. Using Year 1 as the 100% year, and measuring, in this case, over a five-year period, we measure trends in revenues and net income. I say truncated because, in the full-blown analysis, we will have pre-tax income, income before and after depreciation, as well as before and after taxes. We note that Socal's performance in terms of sales is below the average except for Year 5. We also note that in the case of net income, it is fairly consistently under the average. There is no great magic to the use of an average. Sometimes, where there are atypical features, the median may be the appropriate measure. Alternatively, if Socal's operations are nearly comparable to one or more of the comparatives, pricing off of those very close comparatives might be appropriate.

Turning now to page 5, we look at a series of other measurements, the so-called takedown ratios or profit margin ratios, examining, in the process, operating income before and after depreciation and amortization to sales, net income before sales, and net income to

sales. We see from this analysis that Socal generally exceeds the average on the upper four indices.

On page 6, we consider some balance sheet ratios, including the working capital, and quick-asset ratios. We note, in the case of working capital ratios for Socal, that Socal had better working capital ratios in Years 1, 2, and 3 than the average, giving way to inferior ones in Years 4 and 5. A question for the valuator to put to management is: Why is that the case and what does it suggest for Socal in the future? In terms of quick-asset ratios, we see substantially the same kind of result.

Page 7 provides us with an important leverage ratio, the ratio of common stock equity to total invested capital in the most recent years in question. We see that Socal is less leveraged than the average in Year 4 (95.4%). In this case, the higher the percentage, the better, since it is based on the relationship of common stock equity to total invested capital. In Year 5, Socal's leverage is about the same as the average of the comparatives. Socal, however, is more leveraged than it was in previous years. Why is this so, and how, if at all, is value affected by reason of this fact?

Page 8 examines two important ratios, the return on average common equity and the return on average invested capital. We see in both instances that Socal generally outperforms the average of the companies. Please note, again, that I am using average as a kind of shorthand. In some studies there may be some comparatives that are materially better than other comparatives, and we might want to focus on those.

Page 9 describes the percentage earned on average common stock equity, on an average five-year and Year 5. On the right hand side is the ratio of market price at the valuation date to latest tangible book value. We also see a two-tiered structure, where low ROE companies (Loblaw, King Kullen, and Thorofare) are accompanied by low market/tangible book value relationships. Note the interesting break after Thorofare and beginning with Colonial Stores where we see substantially higher ROEs and, accordingly, higher market price/tangible book value relationships. There are no precise arithmetic correlations in terms of ROE and market/book; in fact, there are usually discontinuities in the system. But you can see a generally decent relationship in this array between ROE and market/tangible book value.

Turning to page 10, we see a series of price earnings multiples for the comparatives. These are based on average five-year, three-year, latest year, and latest twelve-month earnings, together with the

current indicated dividend yield. Which of the earnings periods we use is really a function of our judgment as to which of these is likely to be most probative of future value. Where there are cyclicalities in an industry one would tend to use longer periods than in situations where such was not the case. Where past results are not probative of the future, we would tend to use more recent periods. Frequently, we use some combination of these.

We also take into account prospects of a company by looking at its financial projections, by trying to examine what is happening in the company's market, and sometimes by looking at estimated earnings for comparative companies.

Turning now to page 11, we look at dividend yields and dividend payout ratios, which will be relevant to us in developing our dividend approach to value.

Finally, on page 12, we consider a series of going-private offers and look at the range of values and the indicated premiums in totality and average, as well as the relationship of the price offered to tangible book value. This will help us develop our market approach.

Let's do a valuation in the hypothetical given the records that I have portrayed over the past few minutes. Appendix A, the daily stock price record for over-the-counter stock, is instructive. Socal Food Marts appears, as you see, in column 2. Appendix A would suggest to us that the unaffected price is 15¾ bid on June 20. Notice the run-up on June 21 to the 18 bid price. That is the date of the announcement. It is our belief that, based upon the prior trading in this stock, the market was probably uninformed of this transaction, and that, in this case, we can use the day prior to announcement as the unaffected price date.

Turning back now to page 12, we see that there is an average indicated premium of 41.7%. Assuming *arguendo* that the company's prospects were average in terms of those of the comparatives, we might be inclined to believe that a premium of somewhere in the 35% to 45% area over the unaffected price of 15¾ or a price range between 20⅝ and 22⅛ rounded might be fair. These amounts are significantly greater than the average premium over tangible book value of 101.2%. That figure would be 11½ rounded.

Under the market approach, then, it appears that management's offer might be acceptable because that $21 offer is within that 20⅝ to 22⅛ range. But that is not enough. How does the question of fairness stack up in the context of the three fundamental approaches I have described? Let's look at the earnings approach first. Let's assume that the latest twelve month and average five years are, in our

judgment, most probative of future value. I hasten to point out that these are by no means universal criteria for measurement.

Looking at page 10 and multiplying 9.9, the average P/E for the latest twelve months, by $1.76 per share, Socal's most recent twelve-month EPS, results in a value of $17.42 per share. Likewise, by multiplying 12.4, the average P/E for five years, by $1.03 per share, the average five-year EPS, yields $12.77 per share. The average of these two (assuming that an averaging was appropriate here) is $15.10 per share.

There is no great secret or sanctity to using average P/E's. I am doing so only for simplicity's sake, and it assumes that Socal's performance is on balance average versus that of the comparatives. If Socal's performance was inferior to or superior to most of the comparatives, obviously one would have to use higher or lower P/Es, depending upon the particular case.

Turning now to the assets approach and to page 9, we look at Socal's ROE average in Years 1-5 and Year 5, and see that the 14.7% and 15.9% ROE should give it a market/book value somewhere in the 130%-150% range. Applying that range to Socal's most recent tangible net worth of $11.02 results in indicated values of between $14.33 and $16.53, or an average of $15.43.

Under the dividend approach, while Socal had not paid a cash dividend on its common stock, we believe that it is useful to measure not only actual dividends but dividend-paying capacity. We believe that it had the capacity to make a 35% dividend payout in line with that of the average for Year 5 of the comparatives described on page 11. Using the average twelve-month yield of the comparatives, again assuming an average yield of 3.5% on page 10, applied to a 62¢ dividend per share (that is .35 times profit after taxes of $9,563,000, or $3,347,000 divided by the 5,439,520 shares outstanding) suggests a value of $17.71 per share for the company on a dividend approach basis. In a company with a consistent dividend paying history and dividend payment projections, an alternative approach would be to discount the company's projected dividend stream at an appropriate rate. Having developed the three approaches (earnings, assets, and dividends), we then weigh these. In this case we are going to use a "60%-30%-10%". Again, this is by no means a universal measuring rod, but one that we use in this hypothetical resulting in a value of $15.45, which, because it is less than the $21 per share offer, would render the deal fair under the fundamental test. Since that offer is also within the 20⅝ to 22⅛ range under the market test, we would declare the deal fair.

Value, I hasten to point out, is relative and not absolute. To illustrate, I would like to close with a twentieth century version of an old Mark Twain story. The story is told of that great merger and acquisition man who saw his youngster over the breakfast table one morning and said, "Son, I see that Trixie has had two pups. What are you going to do with them?"

He replied, "I think I'll keep one and I'll sell one."

"How much do you think you can get for the one that you sell?"

"About a million dollars, Dad."

"A million dollars for a puppy? That's an incredible amount of money."

"Don't worry, Dad. I'll do the deal."

About a week later the father comes back after an extensive business trip, sees the youngster over the breakfast table. The youngster is beaming. He said, "Dad, I did the deal."

"How much did you get for the puppy?"

"A million dollars."

"A million dollars for that puppy? Where's the money?"

"I'm sorry, Dad. It wasn't a cash deal. I did an exchange for two $500,000 kittens."

For those of you who have been in cat-and-dog deals like some I have been in over the years, you know exactly what I am talking about. I hope that is not to be your lot in the future.

SOCAL FOOD MARTS

A HYPOTHETICAL GOING

PRIVATE TRANSACTION

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STANDARD RESEARCH CONSULTANTS

PARTIAL CONTENTS OF WORKPAPER

FILE

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SOCAL FOOD MARTS

COMPARATIVE BALANCE-SHEET DATA

YEARS 1-6

		December 31					September 30,
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
		In Thousands of Dollars					
Current Assets:							
Cash		6,595	4,926	8,963	6,724	7,885	8,069
Receivables		2,738	2,793	2,700	4,598	4,000	5,870
Inventories		16,830	19,563	21,743	23,757	28,085	28,780
Prepaid expenses		841	794	822	713	1,256	1,455
Properties for development and sale within one year		3,264	4,866	3,236	1,790	1,269	4,559
Total current assets		30,268	32,942	37,464	37,582	42,495	48,733
Current Liabilities:							
Notes payable to bank		-	2,000	-	3,000	2,000)	-
Current installments of long-term debt		500	300	530	400	437)	3,779
Accounts payable		7,609	8,456	11,310	12,490	16,430	13,336
Accrued expenses		2,393	1,696	1,534	3,096	3,693	7,002
Federal income taxes		1,504	674	1,964	379	1,635	635
Total current liabilities		11,996	13,126	15,338	19,365	24,195	24,752
Working capital		18,272	19,816	22,126	18,217	18,300	23,981
Other Assets:							
Noncurrent receivables		204	167	261	415	408	-
Investment property		741	1,210	600	541	2,725	1
Cash surrender value of life insurance		363	422	481	538	594	594
Total other assets		1,308	1,799	1,342	1,494	3,727	595
Net property, plant and equipment		18,549	21,204	24,602	34,239	38,245	41,281
Unamortized long-term debt expense		39	34	28	23	19	18
Total net assets		38,168	42,053	48,098	53,973	60,291	65,875
Represented By							
Long-term debt		3,730	3,430	2,900	2,500	7,231	5,912
Stockholders' Equity:							
Common stock ($1.00 par)		1,500	1,500	1,500	6,000(a)	6,000	6,000
Less treasury stock		-	-	-	-	(6,701)	(7,021)
Retained earnings		32,938	37,923	43,698	45,473	53,791	60,984
Total common stock equity		34,438	39,423	45,198	51,473	53,090	59,963
Total invested capital		38,168	42,053	48,098	53,973	60,291	65,875
Average common stock equity		31,600	36,931	42,311	48,336	52,242	-
Average invested capital		35,660	40,511	45,476	51,036	57,133	-
Ratio of common stock equity to total invested capital	(%)	90.2	92.0	94.0	95.4	87.9	91.0
Tangible book value per share(b)	($)	5.74	6.57	7.53	8.58	9.71	11.02
Shares outstanding	(#)	1,500,000	1,500,000	1,500,000	6,000,000	5,457,520	5,439,520
Adjusted shares outstanding(b)	(#)	6,000,000	6,000,000	6,000,000	6,000,000	5,457,520	5,439,520

Notes: (a)300% stock dividend. (b)Adjusted for stock dividends.

SOCAL FOOD MARTS

COMPARATIVE INCOME-STATEMENT DATA

YEARS 1-6

		Year Ended December 31					12 Months Ended September 30,
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
		In Thousands of Dollars					
Net sales		292,271	320,560	358,684	409,465	465,743	523,867
Cost of sales		240,790	265,210	294,720	332,773	377,726	403,283(b)
Gross profit		51,481	55,350	63,964	76,692	88,017	120,584
Operating and administrative expenses		37,640	42,419	47,476	59,076	66,559	96,810
Profit sharing contribution		1,297	537	834	1,686	2,128	2,240
Operating income before depreciation		12,544	12,394	15,654	15,930	19,330	21,534
Depreciation		2,756	3,822	4,027	4,055	4,649	4,995
Operating income after depreciation		9,788	8,572	11,627	11,875	14,681	16,539
Other Income:							
Gain on disposals of property and equipment		-	41	20	195	108	-
Net rental income from shopping centers		217	276	238	474	1,073	1,414
Other		255	233	295	401	482	853
Total other income		472	550	553	1,070	1,663	2,267
Other Expenses:							
Interest on long-term debt		213	192	171	146	124	400
Other interest expense		39	64	69	70	67	122
Amortization of long-term debt expense		5	5	5	5	5	-
Total other expenses		257	261	245	221	196	522
Income before federal income taxes		10,003	8,861	11,935	12,724	16,148	18,284
Federal income taxes		4,487	3,876	6,160	6,450	7,830	8,721
Net income		5,516	4,985	5,775	6,274	8,318	9,563
Earnings per share(a)	($)	0.92	0.83	0.96	1.05	1.40	1.76
Earned on average invested capital	(%)		12.8	13.1	12.6	15.1	-
Earned on average common stock equity	(%)	17.4	13.5	13.6	13.0	15.9	-

Notes: (a)Adjusted for 300% stock dividend in 1969. (b)Cost of merchandise sold.

Sources: Annual reports to stockholders and company financial statements. Computations by Standard Research Consultants.

Selection of Comparative Companies

The selection of comparative companies was based on the following criteria:

1. The company had to conduct its business within regional boundaries in the United States. National chain stores were excluded.

2. The company had to derive a majority of its revenues from the retailing of groceries, produce, meat, and baked goods. Companies manufacturing or processing a substantial amount of the products they retailed under private labels were excluded, as were convenience stores, pharmacies, service stations, general merchandise department stores, and companies which emphasized discount operations.

3. The company's stock had to be traded on an exchange or in the over-the-counter market.

4. The company had to be profitable, with adequate company financial and operating data available for a significant period of time.

As a result of our review, the following companies were selected:

Colonial Stores Incorporated ("Colonial")
Foodarama Supermarkets ("Foodarama")
Giant Food, Inc. ("Giant")
King Kullen Grocery Company ("King Kullen")
Loblaw, Inc. ("Loblaw")
Thorofare Markets, Inc. ("Thorofare")
Waldbaum, Inc. ("Waldbaum")
Weis Markets, Inc. ("Weis")

GROWTH IN POPULATION AND HOUSEHOLDS

UNITED STATES AND SOUTHERN CALIFORNIA

YEARS 1 TO 5

Year	Population		Households	
	United States	Southern California	United States	Southern California
	In Thousands			
One	197,207.8	5,454.5	58,784.3	1,724.9
Two	199,220.9	5,618.1	59,612.6	1,776.6
Three	201,405.7	5,842.9	61,020.8	1,865.5
Four	203,482.7	6,018.1	62,318.9	1,958.8
Five	205,017.2	6,283.5	64,195.7	2,116.4
Percentage increase, years 1-5	4.0	15.2	9.2	22.7

Source: Sales Management, Annual Survey of Buying Power. Computations by Standard Research Consultants.

COMPARATIVE ECONOMIC DATA

UNITED STATES AND SOUTHERN CALIFORNIA

YEARS 1-5

Year	Personal Income		Retail Supermarket Sales	
	United States	Southern California	United States	Southern California
	- - -$ Per Capita - -		- - -$ Per Capita- -	
One	2,986	2,308	N.A.	N.A.
Two	3,170	2,538	254	290
Three	3,436	2,717	285	313
Four	3,708	2,961	300	332
Five	3,943	3,324	329	346
Percentage increase, years 1-5	32.1	44.0	29.5	19.3(a)
	- $ Per Household-		- $ Per Household- -	
One	9,929	7,349	N.A.	N.A.
Two	10,494	7,937	847	908
Three	11,222	8,413	940	943
Four	11,978	9,077	978	991
Five	12,517	9,671	1,051	1,023
Percentage increase, years 2-5.	26.1	31.6	24.1(a)	12.7(a)

Notes: (a)Years 2-5.
N.A.—Not available.

Sources: U.S. Department of Commerce; Sales Management, Annual Survey of Buying Power. Computations by Standard Research Consultants.

SOCAL FOOD MARTS VERSUS COMPARATIVE SUPERMARKETS

TRENDS IN SALES AND NET INCOME

YEARS 1-5

Company	Year 1	Year 2	Year 3	Year 4	Year 5
	Year One=100				
	Sales				
Colonial Stores Incorporated	100	99	105	114	123
Foodarama Supermarkets(a)	100	120	159	182	394(f)(i)
Giant Food, Inc.(b)	100	120	143	168	184
King Kullen Grocery Company(c)	100	110	119	129	149
Loblaw, Inc.(d)	100	80(e)(f)	103	114	130
Thorofare Markets, Inc.(g)	100	99	113	123	129
Waldbaum, Inc.	100	120	138	170	203
Weis Markets, Inc.	100	110	137	147	158
Average(h)	100	111	127	143	154
Socal Food Marts	100	110	123	140	159
	Net Income				
Colonial Stores Incorporated	100	94	100	101	113
Foodarama Supermarkets(a)	100	112	133	126	183(f)
Giant Food, Inc.(b)	100	136	166	212	144
King Kullen Grocery Company(c)	100	152	146	60	177
Loblaw, Inc.(d)	100	65(e)(f)	130	152	168
Thorofare Markets, Inc.(g)	100	71	136	165	153
Waldbaum, Inc.	100	121	148	165	151
Weis Markets, Inc.	100	114	125	131	155
Average(h)	100	108	136	139	156
Socal Food Marts	100	90	105	114	151

Notes: (a) Fiscal year ended October 31. (b) Fiscal year ended April 30 of following year. (c) Fiscal year ended about September 30. (d) Fiscal year 1 ended June 3 of the following year; later fiscal years ended about March 30 of the following year. (e) Forty-three weeks. (f) Atypical. (g) Fiscal year ended about July 31. (h) Excludes atypical data. (i) Pro forma, reflecting merger with Big Apple Supermarkets.

SOCAL FOOD MARTS

VERSUS COMPARATIVE SUPERMARKETS

PROFIT MARGINS

YEARS 1-5

Company	Year 1 %	Year 2 %	Year 3 %	Year 4 %	Year 5 %	Period Average %	Year 1 %	Year 2 %	Year 3 %	Year 4 %	Year 5 %	Period Average %
	Operating Income Before Depreciation and Amortization to Sales						Operating Income to Sales					
Colonial Stores Incorporated	3.5	3.5	3.6	3.3	3.3	3.4	2.5	2.4	2.6	2.3	2.2	2.4
Foodarama Supermarkets	N.A.	N.A.	N.A.	3.5	2.5	3.0	3.1	2.9	3.2	2.8	1.8	2.8
Giant Food, Inc.	3.5	3.7	3.8	4.2	3.3	3.7	2.4	2.6	2.8	3.2	2.1	2.6
King Kullen Grocery Company	2.4	2.5	2.6	1.2	2.3	2.2	1.6	1.7	1.8	0.5	1.7	1.5
Loblaw, Inc.	2.1	1.9(b)	2.8	3.1	3.0	2.6	1.1	0.8(b)	1.9	2.1	2.1	1.6
Thorofare Markets, Inc.	1.4(b)	1.5	2.3	2.5	2.3	2.0	0.6(a)	0.8	1.6	1.9	1.8	1.3
Waldbaum, Inc.	2.8	2.6	2.9	2.7	2.2	2.6	1.8	1.7	2.0	1.9	1.4	1.8
Weis Markets, Inc.	9.6	10.1	9.6	10.0	10.4	9.9	8.5	8.9	8.3	8.6	9.0	8.7
Average	3.6	3.7	3.9	3.8	3.7	3.7	2.7	2.7	3.0	2.9	2.8	2.8
Socal Food Marts	4.3	3.9	4.4	4.0	3.6	4.0	3.3	2.7	3.2	3.0	2.6	3.0
	Income Before Income Taxes to Sales						Net Income to Sales					
Colonial Stores Incorporated	2.6	2.4	2.6	2.4	2.4	2.5	1.4	1.3	1.3	1.2	1.3	1.3
Foodarama Supermarkets	3.0	3.0	2.8	2.4	1.5	2.6	1.7	1.6	1.5	1.2	0.8	1.4
Giant Food, Inc.	2.2	2.5	2.7	3.1	1.8	2.5	1.1	1.3	1.3	1.4	0.9	1.2
King Kullen Grocery Company	1.6	1.9	1.9	0.7	1.8	1.6	0.8	1.1	0.9	0.4	0.9	0.8
Loblaw, Inc.	1.2	0.8(b)	1.7	2.1	2.0	1.6	0.8	0.6(b)	1.0	1.0	1.0	0.9
Thorofare Markets, Inc.	1.2	0.8	1.7	1.9	1.8	1.5	0.7	0.5	0.8	0.9	0.8	0.7
Waldbaum, Inc.	1.6	1.6	2.0	1.9	1.4	1.7	1.0	1.0	1.1	1.0	0.7	1.0
Weis Markets, Inc.	8.9	9.4	8.6	9.1	9.4	9.1	4.5	4.6	4.1	4.0	4.4	4.3
Average	2.8	2.8	3.0	3.0	2.8	2.9	1.5	1.5	1.5	1.4	1.4	1.5
Socal Food Marts	3.4	2.8	3.3	3.1	3.5	3.2	1.9	1.6	1.6	1.5	1.8	1.7

Notes: (a)As originally stated. As restated, 2.1 and 1.3, respectively. (b)Forty-three weeks. N.A. - Not available.

Sources: Appendix A, pages 1-8 [omitted].

SOCAL FOOD MARTS VERSUS COMPARATIVE SUPERMARKETS

WORKING-CAPITAL AND QUICK-ASSET RATIOS

YEARS 1-5

Company	Year 1	Year 2	Year 3	Year 4	Year 5
	Times				
	Working-Capital Ratios				
Colonial Stores Incorporated	2.4	2.4	2.1	2.3	2.4
Foodarama Supermarkets	1.0	1.5	1.5	0.9	1.3
Giant Food, Inc.	1.9	1.7	1.6	1.4	1.5
King Kullen Grocery Company	2.2	2.3	2.3	2.6	2.4
Loblaw, Inc.	1.4	1.8	1.7	1.6	1.7
Thorofare Markets, Inc.	3.0	2.8	2.6	2.4	2.6
Waldbaum, Inc.	1.9	1.9	1.8	1.6	1.5
Weis Markets, Inc.	3.0	2.6	3.5	3.1	3.3
Average	2.1	2.1	2.1	2.0	2.1
Socal Food Marts	2.5	2.5	2.4	1.9	1.8
	Quick-Asset Ratios				
Colonial Stores Incorporated	0.7	0.7	0.7	0.7	0.7
Foodarama Supermarkets	0.5	0.8	0.8	0.4	0.6
Giant Food, Inc.	0.8	0.5	0.4	0.2	0.5
King Kullen Grocery Company	0.9	1.0	1.1	1.3	1.2
Loblaw, Inc.	0.5	0.5	0.4	0.3	0.4
Thorofare Markets, Inc.	0.9	0.9	0.9	0.8	0.7
Waldbaum, Inc.	0.7	0.7	0.8	0.7	0.6
Weis Markets, Inc.	1.8	1.1	1.5	1.5	1.7
Average	0.9	0.8	0.8	0.7	0.8
Socal Food Marts	1.1	1.0	1.0	0.7	0.6

Sources: Companies' annual reports to the stockholders.
Computations by Standard Research Consultants.

SOCAL FOOD MARTS VERSUS COMPARATIVE SUPERMARKETS

RATIO OF COMMON STOCK EQUITY TO TOTAL INVESTED CAPITAL

YEARS 4 AND 5

Company	Equity to Total Invested Capital	
	Year 4	Year 5
	%	%
Colonial Stores Incorporated	82.0	91.1
Foodarama Supermarkets	63.4	70.6
Giant Food, Inc.	73.3	66.8
King Kullen Grocery Company	100.0	100.0
Loblaw, Inc.	92.1	96.4
Thorofare Markets, Inc.	99.4	99.4
Waldbaum, Inc.	68.7	72.7
Weis Markets, Inc.	100.0	100.0
Average	84.9	87.1
Socal Food Marts	95.4	87.9

SOCAL FOOD MARTS

AND COMPARATIVE SUPERMARKETS

RATE OF RETURN ON INVESTED CAPITAL

YEARS 1-5

Company	Year 1 %	Year 2 %	Year 3 %	Year 4 %	Year 5 %	Period Average %
	Earned on Average Common Stock Equity					
Colonial Stores Incorporated	14.0	12.3	12.2	11.5	12.1	12.4
Foodarama Supermarkets	28.3	25.0	22.1	16.7	13.8	21.2
Giant Food, Inc.	12.1	14.7	15.4	16.8	10.2	13.8
King Kullen Grocery Company	6.2	8.8	7.9	3.1	8.8	7.0
Loblaw, Inc.	5.0	3.2	6.5	7.5	8.0	6.0
Thorofare Markets, Inc.	5.9	4.3	8.0	9.3	8.2	7.1
Waldbaum, Inc.	14.0	14.7	15.3	14.8	11.9	14.1
Weis Markets, Inc.	23.4	22.7	21.5	19.7	20.3	21.5
Average	13.6	13.2	13.6	12.4	11.7	12.9
Socal Food Marts	17.4	13.5	13.6	13.0	15.9	14.7
	Earned on Average Invested Capital					
Colonial Stores Incorporated	11.4	10.3	10.4	10.0	10.6	10.5
Foodarama Supermarkets	24.2	18.9	16.5	13.2	12.1	17.0
Giant Food, Inc.	9.8	11.8	12.7	14.0	9.5	11.6
King Kullen Grocery Company	6.2	8.8	7.9	3.1	8.8	7.0
Loblaw, Inc.	5.1	3.7	6.5	7.4	7.9	6.1
Thorofare Markets, Inc.	5.8	4.3	8.0	9.2	8.1	7.1
Waldbaum, Inc.	10.9	11.6	12.4	12.2	10.2	11.5
Weis Markets, Inc.	23.4	22.7	21.5	19.7	20.3	21.5
Average	12.1	11.5	12.0	11.1	10.9	11.5
Socal Food Marts	16.1	12.8	13.1	12.6	15.1	13.9

Source: Annual reports to the stockholders. Computations by Standard Research Consultants.

COMPARATIVE SUPERMARKETS

PERCENT EARNED ON AVERAGE COMMON STOCK EQUITY

AND RATIO OF MARKET PRICE TO TANGIBLE BOOK VALUE

YEARS 1-5

Company	Percent Earned on Average Common Stock Equity		Ratio of Average Market Price At the Valuation Date to Latest Tangible Book Value
	5-Year Average Years 1-5	Year 5	
	%	%	%
Loblaw, Inc.	6.0	8.0	63.1
King Kullen Grocery Company	7.0	8.8	65.0
Thorofare Markets, Inc.	7.1	8.2	72.2
Colonial Stores, Inc.	12.4	12.1	155.8
Giant Food, Inc.	13.8	10.2	145.8
Waldbaum, Inc.	14.1	11.9	132.3
Foodarama Supermarkets	21.2	13.8	138.2
Weis Markets, Inc.	21.5	20.3	317.1
Socal	14.7	15.9	——

Source: Computed by Standard Research Consultants from data in Appendix A, pages 1-8 [omitted].

The general relationship between the ratios is clear: the higher the rate of return on average common stock equity, the higher the ratio of market price to tangible book value.

COMPARATIVE SUPERMARKETS

PRICE:EARNINGS MULTIPLES AND DIVIDEND YIELDS

AT THE VALUATION DATE

Company	Price:Earnings Multiples Based on Average Market Price* Related to: 5-Year Average Earnings	3-Year Average Earnings	Latest Year Earnings	Latest 12 Months Earnings	Current Indicated Dividend Yield
	Times				%
Colonial Stores Incorporated	14.7	14.3	13.3	12.0	3.7
Foodarama Supermarkets	7.1	6.9	7.1	10.7	2.7
Giant Food, Inc.	13.2	11.8	14.7	9.6	2.6
King Kullen Grocery Company	10.6	10.4	7.4	6.9	5.2
Loblaw, Inc.	9.9(a)	9.0	8.0	7.7	5.9
Thorofare Markets, Inc.	11.1	9.2	9.1	8.2	5.7
Waldbaum, Inc.	12.9	11.4	11.7	9.1	-
Weis Markets, Inc.	19.6	17.9	15.9	14.8	2.0
Average	12.4	11.4	10.9	9.9	3.5

Notes: *Average of high and low prices in valuation period, December 1-14.
(a)Average earnings for latest 4 years.

Source: Compiled and computed by Standard Research Consultants from data in Appendix A, pages 1-3 [omitted].

COMPARATIVE SUPERMARKETS

DIVIDEND YIELDS AND DIVIDEND PAYOUT RATIOS

YEARS 1-5

Company	Year 1	Year 2	Year 3	Year 4	Year 5
	Dividend Yields(f)				
Colonial Stores Incorporated	5.4	5.9	5.1	5.7	5.7
Foodarama Supermarkets(a)	Nil	0.6	0.9	1.3	2.3
Giant Food, Inc.(b)	4.4	3.9	3.0	2.5	2.8
King Kullen Grocery Company(c)	6.2	5.6	4.5	5.1	5.8
Loblaw, Inc.(d)	6.1	6.5	6.3	5.8	6.5
Thorofare Markets, Inc.(e)	7.1	6.1	2.8	2.9	5.5
Waldbaum, Inc.	Nil	Nil	Nil	Nil	Nil
Weis Markets, Inc.	3.0	3.1	2.0	2.2	2.6
Average	5.4	4.5	3.5	3.6	4.4
	Dividend Payout Ratios				
Colonial Stores Incorporated	51.3	56.5	54.7	54.9	49.1
Foodarama Supermarkets(a)	Nil	6.9	13.3	19.2	16.3
Giant Food, Inc.(b)	16.1	19.9	22.7	22.0	35.0
King Kullen Grocery Company(c)	17.3	17.7	20.3	49.4	16.0
Loblaw, Inc.(d)	83.3	N.M.	61.5	52.6	47.6
Thorofare Markets, Inc.(e)	113.3	103.6	40.0	33.9	49.7
Waldbaum, Inc.	Nil	Nil	Nil	Nil	Nil
Weis Markets, Inc.	32.6	31.6	32.2	34.0	30.3
Average	52.3	39.4	35.0	38.0	34.9

Notes: (a) Fiscal year ended October 31. (b) Fiscal year ended about April 30 of the following year. (c) Fiscal year ended about September 30. (d) Fiscal year one ended about May 31 of the following year; for years 2-5, fiscal year ended about March 30 of the following year. (e) Fiscal year ended about July 31. (f) Based on average of year's high and low prices.
N.M.—Not meaningful.

Source: Computed by Standard Research Consultants from data in Appendix A, pages 1-8 [omitted].

SUCCESSFUL CASH TENDER OFFERS FOR COMMON STOCK

OF COMPANIES FOR THE PURPOSE OF GOING PRIVATE

JANUARY 31, 1977-MAY 31, 1977(a)

Company	Where Traded	Date of Initial Offer	Cash Tender Price Per Share	Market Price of Stock Prior to Influence of Tender Offer: Price Per Share(b)	Market Price of Stock Prior to Influence of Tender Offer: Date(c)	Indicated Premium	Latest Available Tangible Book Value	Cash Tender Price to Book Value
Bourns, Inc.	OTC	5/27/XX	24.00	15.75	5/26/XX	52.4	18.60	129.0
Curtis Mathes Corp.	ASE	4/8/XX	6.25	5.00	4/6/XX	25.0	4.92	127.0
Howell Industries Inc.	OTC	2/16/XX	6.50	5.75	1/15/XX	13.0	6.14	105.9
Multi-Amp Corporation	ASE	4/30/XX	6.30	4.00	3/30/XX	57.5	6.16	102.2
Purity Supreme Inc.	OTC	4/14/XX	7.80	6.00	3/23/XX	30.0	13.57	57.5
Timpte Industries, Inc.	ASE	2/24/XX	12.00	7.50	2/23/XX	60.0	9.45	127.0
Warshow (H.) & Sons Inc.	OTC	2/1/XX	5.00	3.25	1/4/XX	53.8	8.38	59.7
Average						41.7		101.2

Note: (a)Period within which transaction was completed. (b)Close price of stocks listed on the exchanges; average of bid and asked prices for over-the-counter stocks. (c)Estimated by Standard Research Consultants.

Source: The Wall Street Journal; Standard & Poor's Corporation Records; ISL Daily Stock Price Index; Stock Guide and Stock Reports; SEC Forms 10-K; 10-Q and 8-K; Interim and annual reports to stockholders; Proxy statements.

APPENDIX A

DAILY STOCK PRICE RECORD

OVER-THE-COUNTER

1977

April May June

INDUSTRIAL STOCKS

419

Socal
Food Marts
Security No. 919154 10

TICKER SYMBOL THOUS SH OUTSTANDING
VALM 913

	VOL	BID	ASKED
4/1		14-04	17
		1.57	16
4		14-04	17
5		14-04	17
6		14-04	17
7		14-04	17
8		HOLIDAY	
		1.53	16
11		14-04	17
12		14-04	17
13		14-04	17
14		14-04	17
15		14-04	17
		1.54	16
18		14-04	17
19		15	17-04
20	3	15	17
21		15	17
22		15	17
	3	1.61	15-7
25		15	17
26		15	17
27		15	17
28		15	17
29		15	17
		1.53	15-7
5/2		15	17
3		15	17
4		15	17
5	1	15	17
6		15	17
	1	1.62	15-7
9	1	15	17
10	133	14-04	16-04
11		14-04	16-04
12		14-04	16-04
13		14-04	16-04
	134	1.54	15-4
16		14-04	16-04
17		14-04	16-04
18	1	14-04	16-04
19		14-04	16-04
20		14-04	16-04
	1	1.59	15-6
23		14-04	16-04
24		14-04	16-04
25		14-04	16-04
26		14-04	16-04
27		14-04	16-04
		1.60	15-6
30		HOLIDAY	
31		14-04	16-04
6/1	4	14	16
2	10	13-04	15-04
3		13-04	15-04
	14	1.48	15-5
6		13-04	15-04
7		13-04	15-04
8	4	13-04	15-04
9		13-04	15-04
10	15	14	16
	19	1.46	15-5
13		14-04	16-04
14	1	14-04	16-04
15		15	17
16	2	15	17
17		15-02	17-02
	3	1.62	15-4
20		15-02	17-02
21	15	18	21
22	5	19	22
23		19	22
24		19	22
	20	2.07	15-5
27		19	22
28		19	22
29		19	22
30		19	22
EARN		DEFECITS 4.10	

2ND QTR 1977

Standard Research Consultants 26 Broadway, New York, N.Y. 10004 (212)558-6660

January 6, 1981

Transaction Review Committee of
the Board of Directors
Rapid-American Corporation
c/o Golenbock and Barell
645 Fifth Avenue
New York, New York 10022

Attention: Seymour Kleinman, Esq., Chairman

Gentlemen:

In June 1980, Standard Research Consultants was engaged by your committee to determine the fairness of a transaction pursuant to which public shareholders of the Common Stock ("the Common Shareholders") and of the $3.00 Preference Stock ("Preference Stockholders") of Rapid-American Corproation ("RPD" or "the company") would receive, in exchange for their shares, a $45 principal amount 8% RPD debenture (the other terms of the debenture not having been finally determined at the time of our engagement) for each share of common stock or $3.00 Redeemable Preference stock owned by them. In this transaction ("the going-private transaction") a newly organized corporation would be merged into RPD resulting in all of RPD's stock being owned by RPD, Kenton Corporation ("Kenton"), American Financial Corporation ("AFC"), and certain of RPD's employee-stockholders.

Subsequent to our engagement but prior to the rendition of this report, the form of the transaction was modified as follows (the "Kenton modification"): (i) RPD was to be merged into Kenton ("the Surviving Corporation"), and Kenton's name would be changed to Rapid-American Corporation; (ii) 60% of the outstanding common stock of the Surviving Corporation would be owned by the Riklis Family Corporation, all of whose capital stock would be owned by Meshulam Riklis ("Riklis") and two trusts ("the Riklis Family Trusts") created by him for members of his family; and 40% of the outstanding common stock of the Surviving Corporation would be owned by AFC and certain of its subsidiaries; (iii) all of the outstanding preferred stock of the Surviving Corporation would be owned by Riklis and AFC: (iv) Kenton shareholders other than Riklis, the Riklis Family Trusts, AFC, and the officers and directors of Kenton and certain related parties ("Kenton Management") would receive $22.50 in cash for each share of Kenton common stock and for each share of Kenton $100 par value 6% Cumulative Preferred Stock; (v) Kenton Management would receive subordinated notes in the principal amount of $22.50 for each share of Kenton owned by them.

Rapid-American Corporation January 6, 1981
Page 2

Subsequent to our engagement but prior to the rendition of this report, the original terms of the debenture were modified, and the terms that were originally undetermined were determined, to the following effect: Upon consummation of the merger, RPD's Common Shareholders and its Preference Stockholders would receive for each share of Common or Preference Stock $45 principal amount of Surviving Corporation 10% Sinking Fund Subordinated Debentures due 2006. In addition, RPD's $3.00 Preference Stockholders would receive cash equal to the pro rata share of the stated dividend for any period between the last dividend payment date and the date of the merger.

In accordance with the terms of our engagement, we are providing this written report containing our approaches and findings:

I. Procedures Followed

During the course of our investigation we conducted interviews with persons who, in our judgment, were capable of providing us with information necessary to complete the assignment. In addition, we inspected the physical facilities of the company and of its principal subsidiaries and divisions, as well as the physical facilities of Kenton, of Kenton's principal subsidiaries, and of ILC Industries Inc ("ILC").

A. Persons Interviewed

1. Company personnel

a) Headquarters personnel. We conducted interviews with RPD's chairman and its vice president-treasurer.

b) Subsidiary and divisional personnel. We conducted a series of interviews at RPD's operating companies during which we interviewed the following company officers:

(i) Lerner Stores Corporation ("Lerner")

We interviewed Lerner's chairman, vice chairman, president, and treasurer.

(ii) McCrory Stores division ("McCrory")

We interviewed McCrory's chairman, president, executive vice president, vice president-controller, and assistant vice president-corporate planning.

(iii) Otasco, Inc. ("Otasco")

We interviewed Otasco's chairman, president, vice president, general counsel, treasurer, vice president-wholesale, vice president-retail, and vice president-distribution.

(iv) Schenley Industries, Inc. ("Schenley")

We interviewed Schenley's chairman and senior vice president and the senior vice president of Schenley Distillers, Inc.

(v) RPD's Industrial Group ("Industrial")

At Industrial, we interviewed McGregor-Doniger Inc's chairman and its controller. At the Botany 500 division we interviewed the chairman and executive vice president (the same persons as those described for McGregor-Doniger Inc.). We interviewed the president and the chief financial officer of Cross Country Clothes. At the McGregor Sportswear division we interviewed the chairman and the executive vice president (the same persons as those described for McGregor-Doniger Inc.). We interviewed the Botany Shirt division's president and its controller. At the Wonderknit division we interviewed the divisional president and the controller.

c) Affiliated company personnel. We conducted the following interviews:

(i) Kenton Corporation

We interviewed Kenton's chairman and its treasurer and the following officers of Kenton subsidiaries: a vice president of Melville Knitwear Co., Inc., the chief financial officer of Shenandoah Corporation, and the president of Plastic Toy and Novelty Corp.

(ii) ILC Industries, Inc.

We interviewed ILC's chairman and its chief executive officer.

2. Individuals having professional affiliations with RPD. We conducted interviews with: three partners of the law firm which serves as RPD's general counsel, two partners and a manager of the company's auditors, and two officers at each of two of the company's principal banks.

3. Independent directors. We met on several occasions with those independent directors who constitute RPD's Transaction Review Committee.

4. Facilities Visited

We visited Lerner's principal offices and main warehouse and two of its stores; McCrory's office and warehouse; a McCrory's and a Newberry store; and a Captain Mac's restaurant. We also visited Schenley's principal offices and one of its distilleries. At Industrial, we visited the principal offices and manufacturing facilities of Botany 500, McGregor-Doniger Inc., McGregor Sportswear, Cross Country Clothes, Botany Shirt Company, and Wonderknit. In connection with Kenton, we visited Kenton's principal offices, its Charles Town and Shenandoah race tracks, Melville Knitwear's knitting and manufacturing plants, and Plastic Toy and Novelty's offices and plant. In addition, we visited the ILC Data Device Corporation plant.

II. Documents and Information Examined

The following were among the documents and information we examined in order to arrive at our conclusion:

A. RPD's annual reports and SEC forms 10K, 10Q and 8K for several years, and financial statements of certain of the company's corporate affiliates.

B. RPD's offer to purchase documents and proxy statements for the past several years.

C. The indenture and loan agreements of RPD and its McCrory and Schenley subsidiaries.

D. The April and July news releases in connection with the going-private transaction and the Kenton modification respectively.

E. Budgets for the company and its affiliates.

F. The draft proxy statement in connection with the merger of RPD into Kenton.

G. Publicly available financial and operating data concerning the companies selected by us for comparative purposes.

H. Economic and business data respecting the economy and the stock market in general; conditions in and prospects for the industries in which RPD operates, and stock market data respecting companies in such industries.

I. The analysis and conclusions of Bear, Stearns & Co. respecting the value of his proposed debenture.

III. Factors Considered

A. In determining the fairness of the transaction to the Common Shareholders, we considered numerous factors, including the following:

1. Activity on the New York Stock Exchange in the common shares of RPD for significant periods of time, both alone and in conjunction with appropriate indices.

2. Other transactions involving the purchase and sale of RPD's common stock.

3. The nature of RPD's principal businesses, factors affecting them, and their future prospects.

4. RPD's history and its management.

5. The company's historical operating results, particularly earnings or losses generated, and factors affecting results.

6. Dividends paid, payout, and dividend-paying capacity.

7. RPD's financial condition, historical and current, and an analysis of its assets and invested capital.

8. Historical and current book value, both including and excluding intangibles.

9. Conditions in the general economy and in the industries in which RPD is active, and the current outlook for each.

10. The current outlook for the company, particularly as to earnings and dividends.

11. Bases on which investors were and are appraising publicly traded common stocks of companies that can be utilized for comparative purposes in this case.

12. The number of shares of RPD involved in the proposed transactions.

13. Premiums above market price paid for the shares of publicly held companies.

14. The foreseeable price at which the new debentures might trade upon issuance in light of comparable debt issues (including some debt issues of RPD) and in the context of their proposed interest rate, sinking fund provisions, term, dividend restrictions, and other provisions.

15. The effects of the Kenton transaction.

B. In determining the fairness of the transaction to the Preference Stockholders we considered all of the elements set forth in Section III A. In addition, we considered trading prices for RPD's $3.00 Preference Stock, the provisions of this security, and the terms and results of the exchange offer of October 1979 in which the $3.00 Preference Stock was issued.

IV. Access to Information and Personnel

During our investigation we received access to all materials and personnel we requested for our study, and no limitations were imposed on our investigation.

V. Assumptions and Limitations

Our opinion is expressly subject to and limited by the following assumptions and limitations, among others:

A. We express no opinion as to: (i) the tax consequences of the transaction; (ii) the effect of the tax consequences on the net value received by the holders of the securities that are the subject of the transaction contemplated; or (iii) the possible effect on the market price of the debentures resulting from the holders' need (due to their receipt of debentures rather than cash) to sell the debentures to pay taxes.

B. We have assumed that the debentures proposed to be issued will contain indenture provisions substantially similar to those previously furnished us.

C. Our opinion with respect to the value of the debentures proposed to be issued assumes them to be "seasoned" and free of the fluctuations in market price that frequently accompany such securities when newly issued.

D. We made no independent verification of the financial or operating data contained in the company's annual audited reports, its unaudited interim reports, its SEC filings, or data supplied by management of the company or others.

E. We understand that the company has no recent appraisals evidencing the fair market value of its property except with respect to the McCrory art collection.

F. We have assumed the following:

1. That the information supplied by management of the company and by others reflected good faith efforts to describe the present and prospective status of the company from an operational and financial point of view.

2. That the company has no present intention of exchanging its stock, selling all or substantially all of its assets, or merging with another company, and that there are no current discussions respecting the sale of any material corporate asset; however, we are advised that the company may at some future time elect to sell one or more of its operations.

VI. Preliminary conclusion

By letter dated August 25, 1980, we advised your committee of our preliminary conclusion. In that letter we indicated that, based upon and subject to the contents of the letter (which letter included a series

of assumptions and limitations and was effective in the context of the information available at the date of that letter), it was our preliminary opinion that the issuance of a $45 principal amount 9 3/4% debenture due in 2006 (with the sinking fund, dividend restrictions, and other terms summarized in the section captioned "Description of New Debentures" in the RPD-Kenton draft proxy statement) would result in consideration fair to RPD's Common Shareholders and its Preference Stockholders.

Thereafter, RPD elected to raise the interest rate on the debentures to be issued to 10%, with all other terms remaining the same.

VII. Events subsequent to our preliminary conclusion

In November and December 1980, we took such steps as we deemed necessary to update our preliminary conclusion. In so doing we investigated any changes that might have taken place subsequent to our preliminary conclusion. These included changes in RPD's operations and financial condition, the investor appraisal ratios of the companies chosen by us for comparative purposes and changes in interest rates and economic conditions. As a result of this investigation, on December 19, 1980 we made an oral report to the chairman of your committee and its counsel. In that report, we discussed the terms of the proposed transaction and, after describing the relevant facts as we understood them, advised them that, in our opinion, pursuant to the information available to us at that date and subject to the same assumptions and limitations as those contained in our letter of August 25, 1980, we believed that the terms of the debenture proposed to be issued did not represent sufficient consideration to RPD's Shareholders and Preference Stockholders. On December 22, 1980 your committee's chairman and counsel advised us that management was prepared to recommend to RPD's board of directors, a modification of the terms of the offer proposed to be made, pursuant to which, in addition to the debenture proposed to be issued (and with no modifications or changes in the terms thereof), RPD's Common Shareholders and Preference Stockholders would receive $1.75 cash per share for each share of such securities held by them. We then concluded that the transaction, if so modified, would result in fair consideration to RPD's Common Shareholders and its Preference Stockholders.

On December 29, 1980, your committee's counsel advised us that management was prepared to recommend to RPD's board of directors a second modification of the terms of the proposed offer. Pursuant to the second modification, the proposed debenture would accrue

interest beginning August 1, 1980, rather than from the effective date of the proposed merger, resulting in an initial interest payment becoming due upon consummation of the merger, rather than on August 1, 1981 (and with no other modifications in the terms thereof). In addition to such debenture, RPD's Common Shareholders and Preference Stockholders would receive $0.75 in cash for each share of such securities held by them.

VIII. Conclusion

Based on and subject to the foregoing, it is our opinion (effective in the context of information available to us at the date of this letter) that the issuance of a $45 principal amount 10% debenture due in 2006 (with sinking fund, dividend restrictions, and other terms summarized in the section captioned "Description of the New Debentures" in the RPD-Kenton draft proxy statement, except as altered by the second modification described in VII above) plus $0.75 in cash per share would result in fair consideration to RPD's Common Shareholders and its Preference Stockholders.

Very truly yours,

s/Standard Research Consultants
STANDARD RESEARCH CONSULTANTS