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SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

May 7, 2007

South Dakota State
Public Utilities Commission

Gentlemen,

I have reviewed the balance sheet and income statement for the Aberdeen Finance Corporation and submit my opinion of the current value of the 35 shares of stock you hold as follows:

I made some appropriate adjustments to the financial statement to bring it into compliance with GAAP. The reserve for loan loss account is being shown as a liability on their statement but it should be carried as a contra asset. I also moved the deprecation from a liability to a contra asset. These two adjustments to the statement act to reduce the amount of the receivables by the amount of the reserve for loan loss account and reduce the value of the depreciable assets by the amount of depreciation.

It is interesting to note that the picture of the financial status changes materially. Based on their financial statement they claim they have $3,324,292 in assets and after the adjustments their assets reduce to $2,823,371. The total liabilities are also reduced from $1,521,203 to only $951,952. Equity remains unchanged at $ 1,803,089 (rounded). What' significant about this is the leverage changes from 84% to 53%. In other words the company is presenting a picture that says that the money they owe equals 84 percent of their equity. Not a pretty picture. The adjustments made to the statement present a different picture. After adjustments the money they owe equals only 53 percent of their equity. Therefore, the leverage of the company after bankruptcy to be appears acceptable. The company does not now seem to be debt ridden, and they should be capable of being able to successfully manage their cash flow.

However, without additional information, assumptions about profitability will not have a high degree of certainty. For example, it appears the company charged $77,000 in loans in April. Should they charge the same amount off each quarter, the total for the year should be approximately $308,000. Their reserve for losses is $350,000 which seams adequate. The quality of the loan portfolio will be a make or break factor for the company, and without any additional historical financials, I must conclude that the reserve is adequate and they will continue to write off about $300,000 per year. If this is correct and all other income and expense accounts remain the same, then the company will continue to earn the same amount as they did during this period..

For the first quarter, the company's income statement reflects a $10,000 loss. However, let's take a closer look at that income statement. The company is reporting on a cash basis and has paid its interest on the company's $913,000 in debt current. The interest income, however, is reported as income when it is collected. Therefore, the company has an unreported account receivable, which is the interest their borrowers owe but have not yet paid. This amount should be taken into consideration. In order to estimate this amount, we would need to know the average interest yield on their loan portfolio, the outstanding portfolio balance outstanding and the actual number of days of interest the portfolio has unpaid interest for. We can come pretty close on the balance outstanding, but I would have to guess what the interest rate is and the number of days. If we calculate the balances at $2,976,000 and the rate at 35% and only 30 days on interest, the receivable of interest earned not collected would be $87,000. That means the actual income for the company should be around $77,000 for the first quarter, not a $10,000 loss. Now by making this adjustment to the income statement and the balance sheet the leverage ratio would improve even further to 50.6%. This adjustment to income would not be a reoccurring amount and the company would still be loosing $10,000 a quarter.

Let's now take a closer look at the income statement. The second highest expense for this type of business is personnel. Salary expense was $43,000 for three months or annualized $172,000 per year. Based on my experience with finance companies, an office should need one full time person for every $4,000,000 in loans. This company only has about $3,000,000 in loans. The maximum amount of FTE's they should have is three to four. The staff should include a manager at about $45,000 and two staff at around $22,000 per year. The total personnel expense should therefore be around $100,000. Where or who is getting the rest? Is the remaining amount of $60,000 going to a person that is a shareholder? If so, are there any covenants on the Wells Fargo loan restricting salaries and dividends? If not the income stream can be contaminated. Another question regarding income is, are there any Tax Loss Carry Forwards on the company's tax return that would allow them to be able to operate tax free until they are used up?

In summary, it appears the financial structure of the company's balance sheet is sound, but the business is operating at a break even. The amount of control over the net income the company will report will be greatly influenced by the activities of the shareholders, especially if there is a large shareholder and especially if that large shareholder is active in the daily operation of the company or has influence over the daily activities. I believe that these circumstances may in fact exist. If I am correct and there is a large shareholder that could flush out minority shareholders by minimizing income and buying their stock for $100 per share, then you have no choice but to bail out and take anything you can get for your stock. If not, then if you could get some controls on the operation of the firm, you may, and only may, be successful in maximizing your stock value by holding it.

I sincerely hope this analysis will assist you in moving forward with your decisions and should you like me to participate in a telephone conference with your committee please fell free to include me.

Best regards,
Kenneth Recker, CCL
President
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Mr. Recker has 40 years experience in commercial banking. He has been president of six banks, director of ten banks and chairman of the board of one bank. Following extensive testing the American Bankers Association conferred the title of Certified Commercial Lender to him and he holds a bachelor's degree in Finance from The California State University.