Portal & Vicente Monday, November 8, 2010

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Recommendation:

SELL

Silverleaf Resorts (NASDAQ: SVLF)

Closing Price (11/05/10)	$1.13
Target Price	$0.39
52 week Low	$0.59
52 week High	$1.73
Shares Outstanding	37.93M

Market Cap	$42.86M
ROE	1.55%
EPS	0.08
Beta	1.41

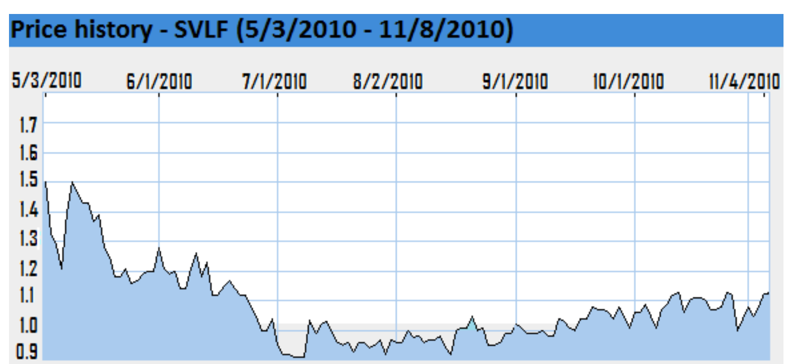
Source: MSN money, Google Finance, Company Data

Silverleaf Resorts, Inc.

Time to check out!

Highlights

1. **Heavy dependence on third-party lending and uncertainty to secure future loans threatens SVLF's survival**
2. **Relative to its peer group, SVLF has been consistently underperforming in the stock market**
3. **Expected growth for the next 10 years to be in line with Real GDP growth, at most**
4. **Management projections cannot be trusted, as it has proven to be consistently unreliable (e.g. sales targets have not been met for the past 10 years)**
5. **Uncollectible revenues account for as much as 33% of total revenues**
6. **Analysts discontinuing stock coverage further supports sell recommendation (overvaluation of $42.86M)**
7. **Potential M&A target**



Source: MSN money

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Please read this document before reading this report.

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Company Overview

Silverleaf Resorts, Inc. (NASDAQ:SVLF) is a Texas based company specialized in developing, marketing, selling and operating time share resorts ("Vacation Intervals"). It owns fourteen resorts designed to appeal to leisure travelers, who seek comfortable and affordable accommodation in venues conveniently located (mostly near big cities), and aims at offering an economical alternative to commercial vacation lodging.[1] Its principal business activities include the acquisition and development of time share resorts, marketing and selling of Vacation Intervals, providing financing to customers, and managing the resorts.

Its business model is primarily based on heavy borrowing from third-party financing institutions at a low rate and on financing customers for the purchase of Vacation Intervals at a significantly higher interest rate. The spread from these two rates is then used to finance SVLF's operations. Following traditional market practices, SVLF offers Vacation Interval buyers financing for up to 90% of the purchase price, and requires them only to pay upfront the remaining 10%. On average, the historic fixed rate charged on this type of financing is of 16% (16.7% in 2009) and the maturity term is of 7 years. In turn, SVLF's weighted average cost of debt is of 6%,[2] with 80% of this debt obtained at a floating interest rate (between 5.25% and 8%) and 20% at a fixed rate. The loans are collateralized by customer notes receivable, inventory construction in process, and land. As of 12/2009, 2% of the loans to the SVLF owners were two to three months past due, representing an outstanding amount of $7.6M.

Risks

1. Lack of availability of financing reduces demand for Vacation Intervals. Customers depend on the company's ability to provide financing; otherwise they will not buy Vacation Intervals. Unfortunately, the implication of this is that SVLF carries the risk of customer default (in 2009, the uncollectible revenue was recorded as 33% of Vacation Interval Sales).
2. Geographic location where the notes receivable were originated. In addition to the risk of customer default, the location where most of the contracts were originated is also a big risk. Chances for full recovery of the amount owed from the customer are low due to local state laws that protect the customers at default by limiting their liability (see Geographic Location section below for more discussion on this point).
3. The company has negative cash flow. Upon sealing a deal, the company only receives between 10%-15% in down payment, which is insufficient to fund its operations. On the other hand, loans from lending institutions might not always be sufficient to cover the costs. If this is the case, the company will need to turn to its capital resources, which strains its liquidity and capacity to grow.
4. The company's liquidity needs depend on sales realization, securing financing, and on limited customer default. If sales do not grow at the expected, or if the company is unable to secure financing, there might not be enough liquidity to support the operation. In 2009 for example, several lenders, one of the company's senior lender included, announced that they will discontinue their commercial lending activities in the future.
5. No existing terms with senior lenders to extend the maturity of existing loans or to secure new loans. Although in the past the company has had no problem to secure financing, nothing

[1] Company SEC 2009 10-K annual filing
[2] *Ibid.*

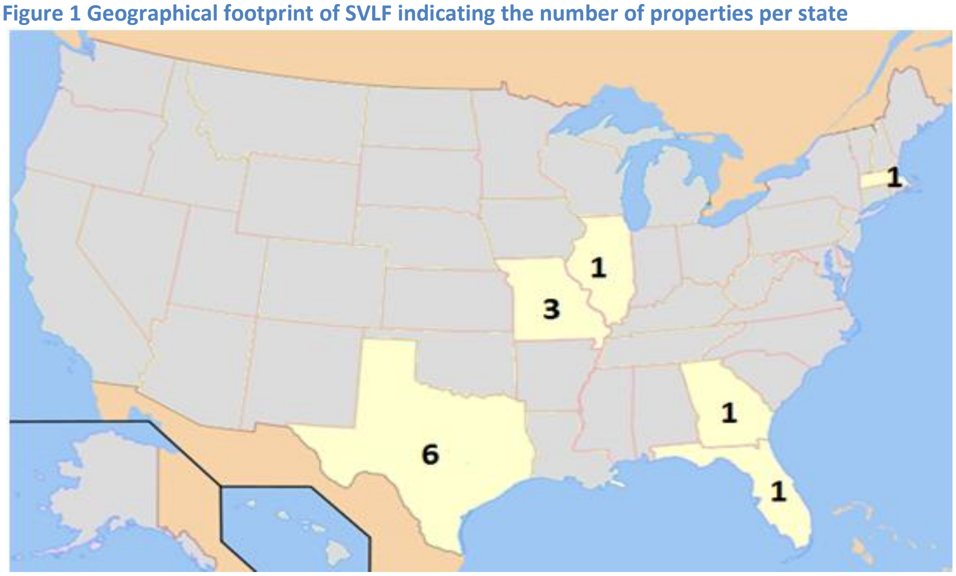
guarantees this will be the situation in the future. In the event the company is unable to find further financing, it will have to sell promissory notes at a significant discount.

6. Overreliance on management meeting its growth plans and other projections for the next 10 years. If management's estimations are wrong, the company's financial results will be severely affected, and its financial position could be threatened.

Geographical Location

The company is a pure play time share operator owning seven short-stay resorts ("Getaway Resorts") in Texas, Missouri, Illinois, and Georgia, and six upscale resorts ("Destination Resorts") in Texas, Missouri, Massachusetts, and Florida. All these properties are strategically located near big urban centers such as Dallas, Houston, St. Louis, Chicago, Atlanta, Orlando, Boston, and New York. In the past, SVLF operated resorts in other states, such as Mississippi, Alabama, and Pennsylvania. However, due to liquidity issues, the company wrote-down $15.5M of inventory related to these resorts, taking them out of their portfolio. There are currently no plans to expand neither to other states nor internationally. Figure 1 below shows the current geographic location.

Figure 1 Geographical footprint of SVLF indicating the number of properties per state



Source: Company website

The company's notes receivables are primarily originated in Texas, Missouri, and Illinois. It is important to notice that there is a huge risk inherent to this geographic distribution of receivables. If a customer defaults in its promissory note, the company would need to take legal action to collect the balance owed. As the company bears the risk of customer default, default on promissory notes has a significant impact on the company's cash flow. However, if the company were to file a lawsuit in Texas (where 52% of all the notes are originated), it would face a situation where the customer at default would have the right to file a proceeding to determine the market value of the property and limit its liability accordingly. In such a case, the company would only recover the amount by which the market value exceeds the amount owed, while taking possession back of the property. For this reason, the company rarely chooses to proceed with this remedy.

Expansion

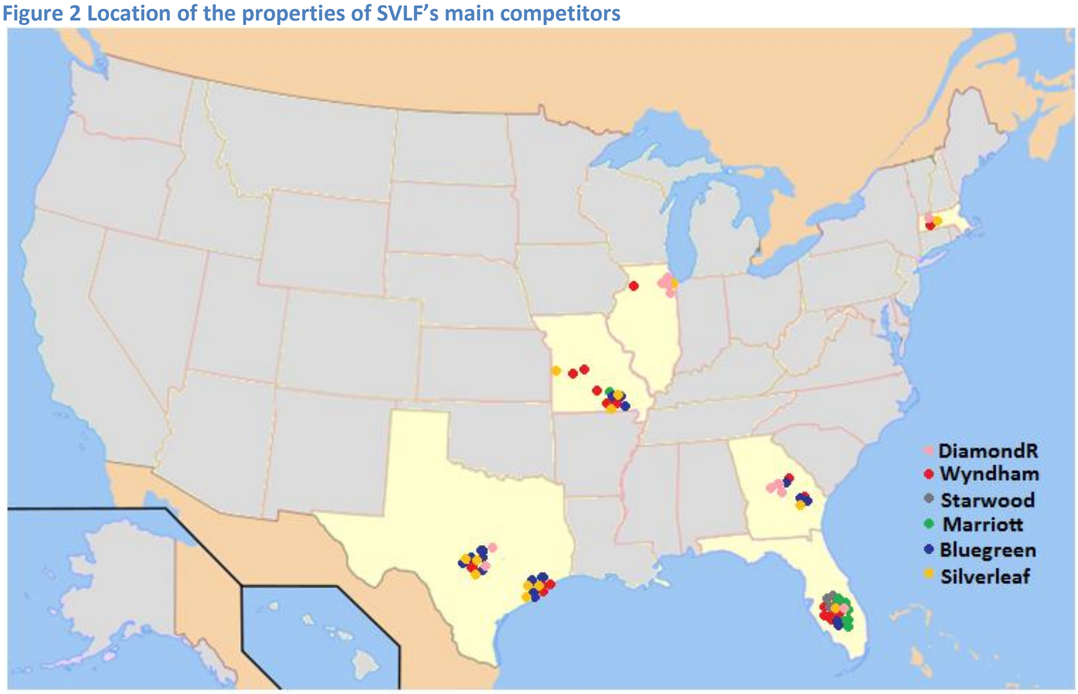
It is the company's strategy to expand according to market needs and to continue to develop new and existing resorts as the capital markets permit. However, as of date, there are no plans to open resorts in new locations. Table 4 in the Appendix shows the company's expansion plans in years 2000 and 2009 (in units and in Vacation Intervals) for the existing resorts. Even though the expansion plans going forward are extremely optimistic (2009 being even more optimistic than 2000), management has acknowledged that it is not certain that these properties will be developed as projected.[3] We concur in this point. Figures 12 and 13 in the Appendix show the percentage of year 2000 projected expansion that has been actually achieved in nine years (from 12/31/2000 to 12/31/2009). The results are not encouraging. While three properties have achieved the Vacation Interval expansion target (and two of them have actually surpassed it), one property actually reduced its inventory of Vacation Intervals and most of the properties are considerably lagging behind. The average completion rate of the 2000 targeted expansion of Vacation Interval is of only 22%. It is worth noting that by expansion the company does not refer to developing new properties, but to grow the existing ones by adding more rooms. Furthermore, the company has stated several times that it is unsure if it will be able to have the liquidity and capital resources to develop or expand their resorts.[4] Being this the case, we do not foresee a dramatic growth in neither Vacation Interval inventory nor construction of new units.

Competitive Environment

A significant amount of competition exists in the geographic areas where SVLF operates. The main competitors are timeshare operators and hotel chains which also offer timeshare plans. These include local and national resort operators in the entertainment and hospitality industries. DiamondRock, Interval Leisure, Bluegreen, Marriott, and Wyndham are the main competitors. Figure 2 shows the concentration of the main competitors. As it can be seen, the company plays in a highly competitive and saturated environment (in 2009 for example, 31% of U.S. timeshare owners were Interval Leisure Group members[5]). Moreover, most of these competitors operate in the same states; most in the same and other states; and most also operate internationally. All this increases the supply of vacation intervals to owners. While SVLF operates in six states, Interval Leisure Group operates in 10 states (plus 15 other countries), DiamondRock in 13 states, Marriott in twelve states (plus Aruba, U.S. V.I., Thailand, Spain, and France), and Bluegreen operates in 19 states (plus Aruba and Bahamas). Through the extended resort offer and through the resources of the corporate affiliates of the bigger companies, competitors have greater access to purchasers of vacation interests than SVLF has.

[3] Company SEC 2009 10-K annual filing
[4] *Ibid.*
[5] Interval Leisure Group SEC 2009 10-K annual filing

Figure 2 Location of the properties of SVLF's main competitors



Source: Companies websites

Drivers

In projecting SLVF's revenues from 2011 to 2020, three different forecasting scenarios were developed. The motivations and assumptions going into these forecasts are described below.

1. Revenue forecast: Management Expectations

SLVF's management expects that its main revenue source, Vacation Interval Sales, will grow at a historical long-term rate.[6] To determine the historical long-term growth rate for Vacation Intervals, sales for 2005 – 2010 were computed, at which the CAGR results in 7.15%.

in thousands	2005	2006	2007	2008	2009	2010	*Averages (2005 - 2010)*	*CAGR*
Vacation Interval Sales	$ 146,416	$ 187,481	$ 235,135	$ 256,300	$ 240,961	$ 221,566	*$ 214,643*	*7.15%*

Source: Company SEC 2005 -2009 10-K annual filings

However, as previously discussed, SVLF's management has been very inconsistent in reaching its stated targets. For example, figure 13 and 14 in the Appendix show that out of the 106,317 Vacation Intervals that were projected in 2000 to be landed in the coming ten years, by 2009 only 12,308 were achieved (11.6%). This fact makes us hesitate in trusting management's projections.

[6] Company SEC 2009 10-K annual filing, pages 18-21

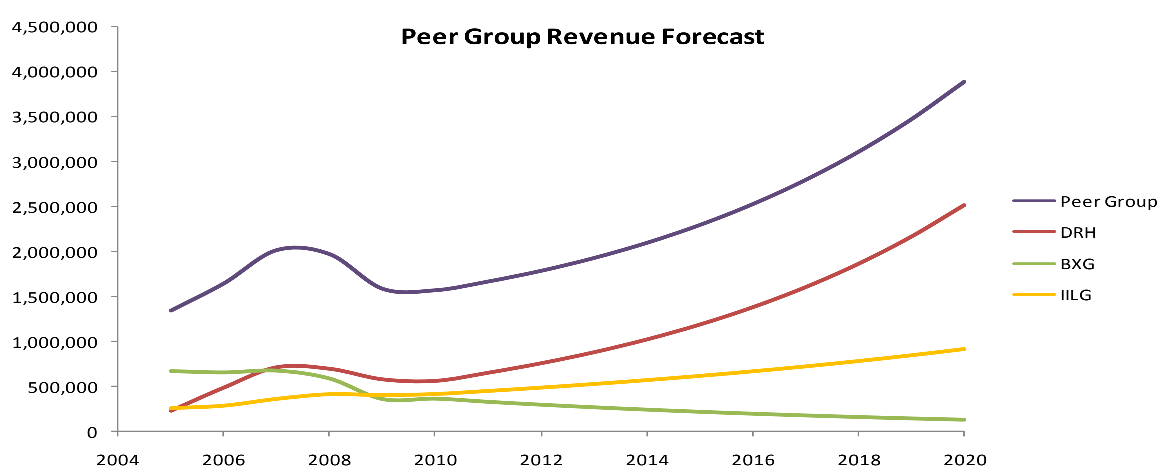
2. Revenue forecast: Peer Group Basis

In consideration of the aforementioned poor reliability on SVLF's management guidelines, for purposes of this report a peer group was defined against which SVLF will be benchmarked. The peer group was formed using companies that are similar to SVLF both in business model (i.e. pure play timeshare), total sales, EV/Sales multiple (see table 4 in the Appendix), similarity index, and long-term operational and financial activities. The similarity indices were computed taking into consideration market capitalization and total revenues among rated companies. Non-listed and foreign companies were not included. The peer group was defined by Bluegreen Corporation (NYSE: BXG), DiamondRock Hospitality Group (NYSE:DRH), and Interval Leisure Group (NASDAQ: IILG). BXG and DRH have a similarity index of 75%, while has a similarity index of 70.8%.[7] Below is a brief description of each company:

Interval Leisure Group, Inc.	Interval Leisure Group, Inc. is a global provider of membership and leisure services to the vacation travelers. Over 2,500 resorts located in more than 75 countries constitute Interval's primary exchange network.
Bluegreen Corporation	Bluegreen Corporation sells and manages real estate-based vacation ownership interests in resorts generally located in vacation destinations.
DiamondRock Hospitality Company	DiamondRock Hospitality Company is a lodging-focused real estate company. It owns a portfolio of 20 premium hotels and resorts that contain approximately 9,600 guestrooms.

Figure 3 shows the expected revenues for the peer group. As can be seen, while SVLF's expansion prospects do not look very favorable, most companies are expected to keep on growing (industry CAGR[8] estimated to be 2.62%).

Figure 3



Source: Companies Annual Reports

[7] Marques Mendes & Associados Lda (MM&A), Silverleaf Resorts, Inc., Summary Due Diligence Report, 8/31/2010
[8] As defined by the peer group, for the period 2005-2009

	in thousands	2005	2006	2007	2008	2009	2010	CAGR
SVLF	Total Revenue	175,636	206,884	255,030	263,962	236,815	219,478	3.78%
		2005	**2006**	**2007**	**2008**	**2009**	**2010**	**CAGR**
IILG	Total Revenue	260,843	288,646	364,168	415,798	404,986	417,933	8.17%
		2005	**2006**	**2007**	**2008**	**2009**	**2010**	**CAGR**
BCG	Total Revenue	678,596	663,917	683,790	594,861	365,961	370,622	-9.59%
		2005	**2006**	**2007**	**2008**	**2009**	**2010**	**CAGR**
DRH	Total Revenue	226,786	485,051	710,933	693,234	575,681	558,985	16.22%
								CAGR
Peer Group	Total Revenue	1,341,861	1,644,498	2,013,921	1,967,855	1,583,443	1,567,018	2.62%

Source: Companies Annual Reports

Figure 4 below shows the relative performance of SVLF with respect to its peers. Overall we can see that the company has been following the industry trends year over year, yet consistently underperforming.

Figure 4

Source: Google Finance

3. <u>Revenue forecast: Link with Real GDP growth</u>

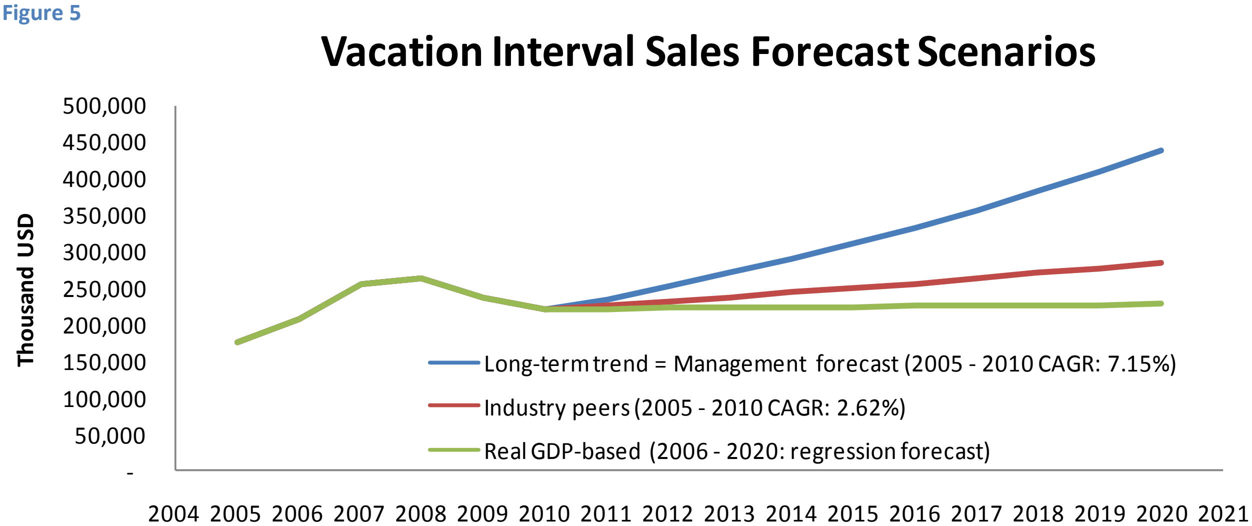
While the peer group growth rate is more representative of the expected growth rate for SLVF than the management guidance, considering the limitations of the previously described revenue drivers (i.e. no new hotels are planned), a correlation analysis of year-over-year changes for Vacation Interval Sales with real GDP (chained to 2005) was performed. Here, a strong correlation (97%) and model representativeness (93%) was identified, so that real GDP drives SLVF's Vacation Interval Sales. Our regression model results showed the following relationship:

$$Changes\ in\ Vacation\ Interval\ Sales = 0.1144 \times Changes\ in\ Real\ GDP + 0.0014$$

$$r^2 = 0.9322$$

In depicting the different Vacation Interval Sales scenarios SLVF's management unrealistic growth expectations are further underlined. Figure 5 below depicts the management's characteristic optimistic sales projections (in line with the expected Vacation Interval expansion discussed previously) and how it contrasts with the other two approaches (peer group growth and SVLF growth based on Real GDP). While a sensitivity analysis was done based on the three revenue forecast scenarios, real GDP should certainly be used as the most reliable proxy in forecasting SLVF's Vacation Interval Sales.

Figure 5



Source: Company SEC 2003 to 2009 10-K annual filings, Economist Intelligence Unit, and BXG, DRH and IILG SEC 2003 to 2009 10-K annual filings

Valuation

Real GDP Projections 2010 – 2020**:** To estimate the growth Real GDP for the coming ten years, several different sources were consulted to get a sense of where the economy is heading at. The most relevant sources found were[9]

1. The *Congressional Budget Office*. In a communication from the CBO's Director, Douglas W. Elmendorf, dated September 28, 2010, the office acknowledged several mistakes in its 2020 GDP forecast, and recognized that its projections should be revised to a slower rate. Given this fact, we chose not to use the CBO published numbers.
2. The *Federal Reserve Bank of Philadelphia* offers projections of Real GDP growth based on the opinion of professional forecasters. Studies on the accuracy of the Survey of Professional Forecasters (SPF) exist, and it has been found that the SPF's projections generally outperform other projections for the very short-term (i.e. one quarter). The SPF's accuracy, however, falls sharply at quarterly horizons beyond the first.[10] On average, our analysis found that this source's forecasts are 58 basis points off from actual GDP growth.
3. The Economist, through its *Economist Intelligence Unit (EIU)*, offers on its webpage Real GDP projections for the period 2010-2020. On average, these forecasts have been 35 basis points off the actual GDP growth.

[9] Portal & Vicente, Choice Hotels International, Inc.: Keep your luggage in the closet, September 22, 2010, Yale SOM
[10] Stark, Tom. Realistic Evaluation of Real-Time Forecasts in the Survey of Professional Forecasters, Federal Reserve Bank of Philadelphia, May 28, 2010.

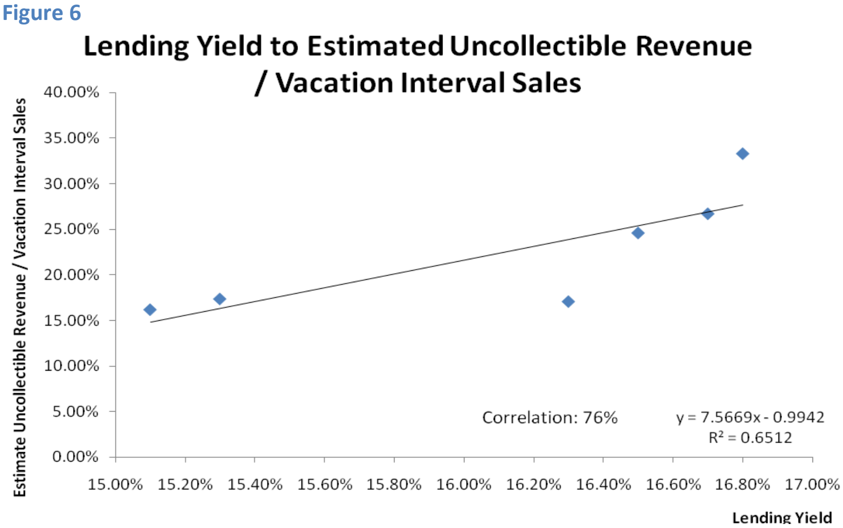
The results of our analyses on GDP accuracy can be found in the Appendix. Table 6 in the Appendix shows the recorded accuracy for the Federal Reserve Bank of Philadelphia and the EIU. Since the EIU outperforms the Philadelphia Fed, we chose to use these numbers as our estimators.

Vacation Interval Sales: Forecasted according to the EIU's expected real GDP development until 2020, at which Vacation Interval Sales are forecasted on an individual basis per year.

Profit: Figure 11 in the Appendix shows the sources of revenues and costs that construe SVLF's EBIT. The green bars represent revenues, the red bars represent costs. The key points are represented in blue.

Estimated Uncollectable Revenue: After conducting various correlation analyses a strong correlation (76%) was determined between SLVF's historical weighted average-lending-yields-to-customers and Estimated Uncollectible Revenue over Vacation Interval Sales (figure 6).

Figure 6



Source: Company SEC 2003 to 2009 10-K annual filings

SVLF's historical average lending yields is 16.12% (2005 – 2010), at which we assume that this lending yield will remain on average the same until 2020. The lending yield directly impacts SLVF's ability to execute its sales, as customers borrow from SVLF to acquire time sharing objects. Therefore and considering SVLF's inventory with $196 million in unsold objects (2009), an increase in lending yields seems unreasonable. Further, an increase in lending yields, as a result of higher borrowing costs for SVLF, is also not unexpected because of the Federal Reserve's efforts to keep borrowing rates low to stimulate a slowly recovering economy.[11]

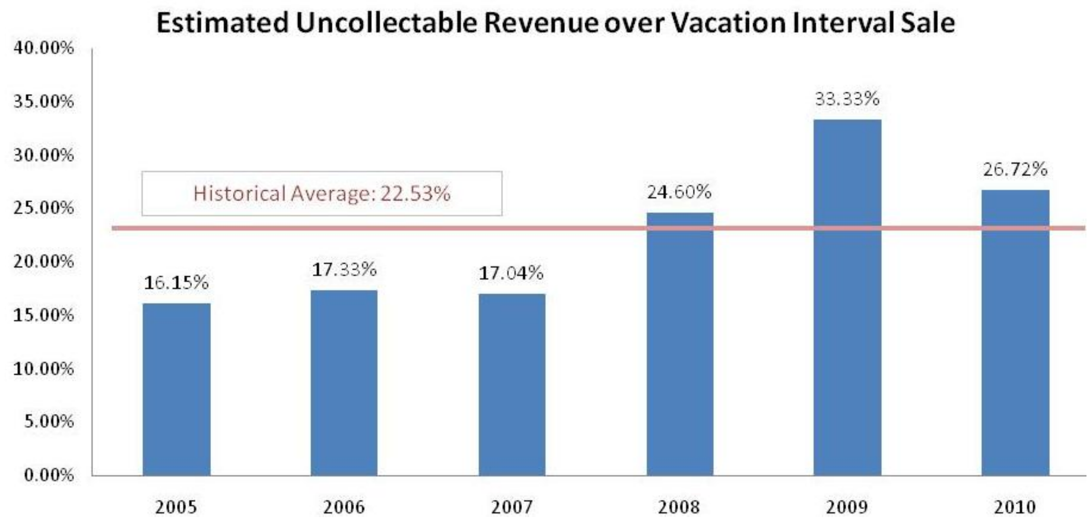
	2005	2006	2007	2008	2009	2010	*Averages (2005 - 2010)*
Weighted average lending yield	15.10%	15.30%	16.30%	16.50%	16.80%	16.70%	16.12%

Source: Company SEC 2005 to 2009 10-K annual filings

[11] Lazzaro, J. (Nov 2010): http://www.dailyfinance.com/story/fed-to-buy-600-billion-in-bonds/19701262/

By assuming that the historical lending yield of 16.12% will carry forward throughout 2020 it is also reasonable to assume that Estimated Uncollectible Revenue over Vacation Interval Sales will converge to its historical average of 22.53% in the mid- to long-term. However, we expect that with a gradual recuperation until 2013, the Estimated Uncollectible Revenue over Vacation Interval Sales is forecasted to follow the pattern of the last two years (2008 – 2010) with an average of 28.22%. The improvement in Estimated Uncollectable Revenue, initiated in the fourth quarter of 2009, make us conclude that the "catastrophic" 2009 uncollectable levels are behind for SVLF (figure 7).

Figure 7



Source: Company SEC 2005 to 2009 10-K annual filings

Interest Income: SVLF derives its Interest Income from the spread between the weighted average lending yield (to customers) and weighted average borrowing cost (to SVLF). In this sense SVLF's historical spread is of 8.95% (2005 – 2010). While SVLF has been able to widen the spread gap by approximately 100 basis points to the years prior 2008, we do not expect that the spread will further increase.

	2005	2006	2007	2008	2009	2010	*Averages (2005 - 2010)*
Weighted average lending yield	15.10%	15.30%	16.30%	16.50%	16.80%	16.70%	16.12%
Weighted average borrowing cost	8.10%	7.90%	7.60%	6.80%	6.00%	6.60%	7.17%
Spread	7.00%	7.40%	8.70%	9.70%	10.80%	10.10%	8.95%

Source: Company SEC 2005 to 2009 10-K annual filings

Whereas, the arguments for the lending yield were described in the Estimated Uncollectible Revenue section, SVLF's borrowing cost will not decline because Textron Financial Corporation, a senior lender to SVLF, will either cease or modify lending to SVLF.[12] While we assume that SVLF will secure borrowing, we do not foresee that this will be at the current conditions considering SVLF's current leverage situation and thus considerable risk for SVLF lenders, namely:

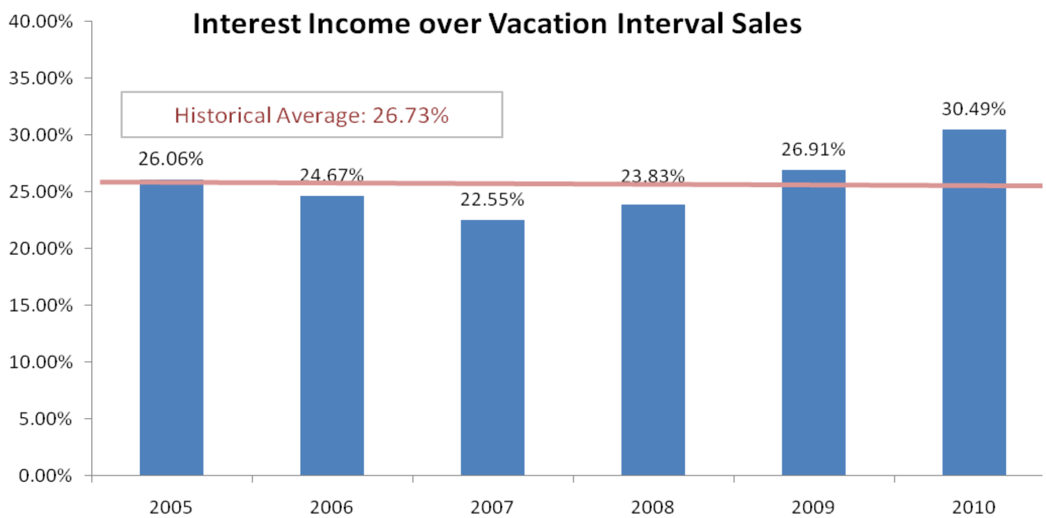
[12] Company SEC 2009 10-K annual filing, pages 21

	2008	2009
Total Debt/Equity	201.9%	206.3%
Total Debt/Capital	66.9%	67.4%
EBITDA / Interest Exp.	2.3x	2.1x

Source: Capital IQ

By combing the aforementioned factors and analyzing the historical Interest Income over Vacation Interval Sales percentage for the period 2005 to 2010, we conclude that SVLF's Interest Income will remain flat at 26.73% of Vacation Interval Sales as shown in figure 8 below.

Figure 8



Source: Company SEC 2005 to 2009 10-K annual filings

<u>Management Income Fee as well as Other Income:</u> The Management Income Fee and Other Income over Vacation Interval Sales have averaged at 1.27% and 2.71% respectively, for the period corresponding to the years 2005 to 2010. We did not find any fact which countervails the assumption that these percentage shares will not remain the same for the future. Hence, these values were used in the valuation.

Position/ Vacation Interval Sales	2005	2006	2007	2008	2009	2010	*Averages (2005 - 2010)*
Management Income Fee	1.27%	0.99%	1.19%	1.22%	1.54%	1.41%	*1.27%*
Other Income	4.37%	2.02%	1.76%	2.54%	3.16%	2.38%	*2.71%*

Source: Company SEC 2005 to 2009 10-K annual filings

<u>Cost of Vacation Interval sales:</u> These are costs (i.e. remodeling rooms and/or hotels, closing costs and legal and title transfer fees), which are directly related to Vacation Interval Sales. While in 2005 SVLF Cost of Vacation Interval sales were at 16% of Vacation Interval Sales, this position fell to 10.14% due to the implementation of SFAS No. 152, requiring that cost of sales are recorded when net revenues (adjusted

for uncollectible revenues) are recognized.[13] From 2006 onwards the percentage of Cost of Vacation Interval sales to Vacation Interval Sales has been declining as a result of decreasing recognized revenues. For the purpose of this forecast we have used the average from 2007 to 2010 because our sensitivity analysis proves that at the 9%-level the valuation impact is negligible. Hence, the 2004 – 2010 average of 9.24% was used.

Sales and Marketing as well as Operating, General and Administrative: Given the trend between 2005 and 2010, there are no reasons supporting that past trends will vary. Hence, we assume that Sales and Marketing as well as Operating, General and Administrative will be on average 52.08% and 17.65% respectively of Vacation Interval Sales.

Position/ Vacation Interval Sales	2005	2006	2007	2008	2009	2010	*Averages (2005 - 2010)*
Cost of Vacation Interval sales	16.00%	10.14%	9.79%	9.72%	9.20%	8.26%	*9.24%**
Sales and marketing	52.79%	50.12%	50.90%	52.70%	52.21%	53.80%	*52.08%*
Operating, general and administrative	19.15%	17.24%	16.63%	16.06%	18.47%	18.38%	*17.65%*

* The average was calculated for the period 2007 and 2010 due to the introduction of SFAS No. 152

Source: Company SEC 2005 to 2009 10-K annual filings

Depreciation: For the period 2005 – 2010 the average depreciation rate is of 2.03% (of Vacation Interval Sales). An analysis of past management projections (2000 – 2009) shows that only 22% of the planned investment / expansion plans were implemented. Hence, we assume that SVLF will continue with its strategy to conduct replacement investments of depreciated objects, so that the depreciation rate will remain at 2.03%.

Position/ Vacation Interval Sales	2005	2006	2007	2008	2009	2010	*Averages (2005 - 2010)*
Depreciation	1.86%	1.35%	1.49%	1.92%	2.58%	2.94%	*2.03%*

Source: Company SEC 2005 to 2009 10-K annual filings

Tax Rate: Calculated by averaging $\frac{Cash\ Tax\ Paid}{FCF\ Before\ Taxes}$ for the years 2005 – 2009, resulting in a Tax Rate of 38.95%.

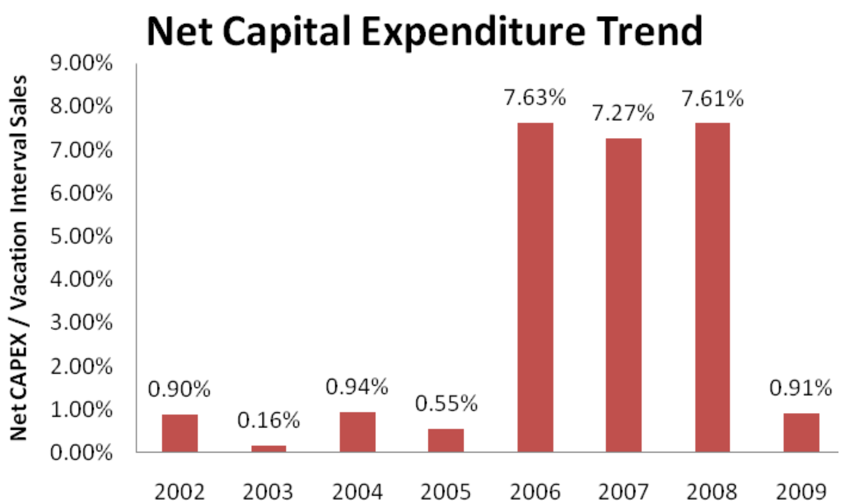
Change in Working Capital: The difference between Current Assets and Current Liabilities was estimated as a percentage of Total Revenues. This percentage has been constantly at 0.21% of Total Revenues, so that we assume that this relationship will continue to hold until 2020.

Net Capital Expenditure (Net CAPEX): In estimating SLVF's Net CAPEX for upcoming years, the last years' Net CAPEX trends are not representative, so that the time horizon of the analysis was expanded to also include the years (2002 – 2005). Net CAPEX over Vacation Interval Sales levels of greater 7% were driven

[13] Company SEC 2009 10-K annual filing (2007), page 55 and American Resort Development Association: http://www.arda.org/AM/Template.cfm?Section=FASB_EX_Summary

by the construction of the *The Villages Resort* water park, the acquisition of real properties in Massachusetts and Missouri, the purchase of parcels in Texas, and the expansion of buildings. We do not believe that SLVF will continue the capital expenditure trends of 2006 to 2008. This is corroborated by current (2009) Net CAPEX levels returning to those levels prior 2006 and management's statements that capital expenditures will be strongly restricted to maximize its cash flow in order to repay debt.[14] Additionally, the current market environment does not provide to conclude that demand for time shares will grow rapidly (as to the 2006 to 2008 levels), so requiring additional capital expenditures. Thus, we assume that Net CAPEX to be at 0.82%[15] of Vacation Interval Sales until 2013 and then rise on average to 2.5% (2014 – 2020) of Vacation Interval Sales in response to the recuperation of the economy, as indicated by EIU's rising real GDP. In general the authors do not expect that the 2006 – 2008 capital expenditures levels are reached unless SLVF's "financial health" is substantially improved (figure 9 below).

Figure 9



Source: Company SEC 2002 to 2009 10-K annual filings

Interest Expenses: Given the trend between 2005 and 2010 we assume that the Interest Expense (related to credit facilities) and the Interest Expense (related to other indebtedness) will remain at historical levels, namely 9.20% and 2.65% respectively. From the research no reason was found to foresee a substantial deviation from past levels.

[14] Company SEC 2009 10-K annual filing, page 19
[15] This represents the average of the years 2002, 2004, 2005, and 2009

Position/ Vacation Interval Sales	2005	2006	2007	2008	2009	2010	Averages (2005 - 2010)
Interest expense and lender fees (Related to receivables-based credit facilities)	9.24%	9.36%	8.20%	8.67%	9.07%	10.65%	9.20%
Interest expense and lender fees (Related to other indebtedness)	2.55%	2.19%	2.26%	2.47%	2.98%	3.44%	2.65%

Source: Company SEC 2005 to 2009 10-K annual filings

Total Debt: In order to estimate SVLF's the long-term (2002 – 2010) Total Debt, the Total Debt over Vacation Interval Sales ratio was studied, resulting in 174.44% of Vacation Interval Sales. While we believe that in the short-term (until 2013) the average will remain at the historical level (174.44%), the previously described restrictive Net CAPEX policy and improved economic conditions from 2014 onwards will allow SVLF to reduce its Total Debt position to pre-crisis levels of 147.39%[16] of Vacation Interval Sales. Additionally improved revenue collection rates as outlined before will also enable SVLF to reduce its debt financing needs.

Position/ Vacation Interval Sales	2002	2003	2004	2005	2006	2007	2008	2009	2010	Averages (2002 - 2010)
Total Debt	229.90%	203.85%	183.41%	143.73%	152.56%	145.88%	153.02%	171.39%	186.23%	174.44%

Source: Company SEC 2005 to 2009 10-K annual filings

Equity Beta: To estimate RLH's beta, we used the historical returns of a U.S. 1-month treasury bond as reported by the Federal Reserve Bank of St. Louis,[17] and the historical returns of the market (Wilshire 5000 for 2009 and CRSP for the rest of the years). The beta corresponding to 11/1/2010 is of 1.68.

Table 1

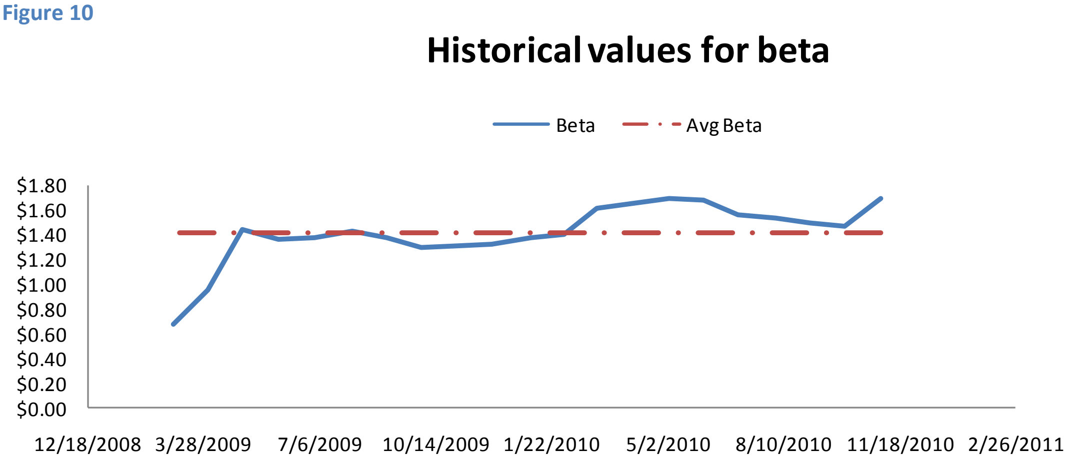
Date	Price	R_i	Wilshire 5000	R_m (Wilshire & CRSP)	R_f (1 month St Louis Fed)	$R_i - R_f$	$R_m - R_f$	Beta
11/1/2010	1.05	1.0%	12,606.55	0.9%	0.14%	0.82%	0.80%	1.681306501
10/1/2010	1.04	3.0%	12,489.09	3.9%	0.12%	2.85%	3.77%	1.465451358
9/1/2010	1.01	2.0%	12,020.91	9.3%	0.15%	1.87%	9.12%	1.486922777
8/2/2010	0.99	2.1%	11,001.12	-4.8%	0.16%	1.90%	-4.98%	1.533591119
7/1/2010	0.97	-6.7%	11,558.55	6.8%	0.08%	-6.81%	6.71%	1.556776378
6/1/2010	1.04	-13.3%	10,823.31	-3.5%	0.15%	-13.48%	-3.68%	1.672296800
5/3/2010	1.2	-20.0%	11,219.70	-10.1%	0.15%	-20.15%	-10.23%	1.685019108
4/1/2010	1.5	24.0%	12,477.33	2.1%	0.12%	23.85%	1.97%	1.647409835
3/1/2010	1.21	51.3%	12,222.30	6.2%	0.06%	51.19%	6.11%	1.609436483
2/1/2010	0.8	2.6%	11,512.41	3.2%	0.02%	2.54%	3.22%	1.393786254
1/4/2010	0.78	-6.0%	11,151.23	-3.4%	0.03%	-6.05%	-3.47%	1.375506834

Source: Wilshire 5000 (Yahoo Finance), CRSP

[16] The average of Total Debt over Vacation Internal Sales for the period 2006 to 2008)
[17] https://research.stlouisfed.org/fred2/series/DGS1MO?cid=115

Now, in order to assess the relevance of this beta, we further calculated the historic betas for SVLF, using a 3-year rolling basis. Figure 10 below shows how SVLF's beta has changed through the years. It also depicts what the average beta is.

Figure 10



Source: Wilshire 5000 (Yahoo Finance), CRSP

As it can be seen, over the past months SVLF's beta has oscillated around its average value of 1.41. Thus for purposes of our valuation, we decided to use the average beta as opposed to the current month's beta.

Terminal Growth: This was determined by averaging the yearly growths that result from the regression model discussed in the section *Drivers* above for the period 2011 – 2020. The resulting Terminal Growth rate is of 0.31%

Tables 8-10 in the Appendix shows a summary of all the variables used in our valuation.

Our DCF model and analysis can be found in the Appendix. As it can be seen, due to its heavy debt and limited equity, SVLF's actual market stock value is of $0.39. It is thus our recommendation to **SELL** this stock.

Total Enterprise Value	**$**	**413,822**
Debt	$	(412,973)
Cash	$	13,905
Total Equity Value	**$**	**14,754**
Market Cap (10/03/2010)	**$**	**42,860**
Thousand shares outstanding (10/03/2010; Google		**37,930**
Share Closing Price (10/08/2010; Yahoo Finance)	**$**	**1.11**
Share Closing Price (as per Portal & Vicente)	**$**	**0.39**

Sensitivity Analysis

To further back-up our recommendation, we performed a sensitivity analysis, varying the growth rates and several different betas. As can be seen on Table 2, the market is estimating a growth rate somewhere around 2.62%, which corresponds to the estimated growth for the industry peers. Given the current market conditions and the internal circumstances of the company, we do not see a way in which SVLF could grow at such a high rate. This leads us to think that there is the possibility that the market is using comparable multiples analysis to establish a fair value of this company. This would not be surprising, given the fact that currently there are just a few company analysts following SVLF.

Table 2

		Equity Beta				
		0.60	1.00	1.41	1.68	1.82
Sales Growth Rate	0.31%	$ 39,057	$ 26,581	$ 14,754	$ 7,445	$ 3,795
	0.50%	$ 42,198	$ 29,478	$ 17,435	$ 10,000	$ 6,288
	1.00%	$ 51,068	$ 37,663	$ 24,998	$ 17,201	$ 13,314
	2.62%	$ 87,951	$ 71,423	$ 56,055	$ 46,698	$ 42,064

current valuation result
MSN Money

Possible Exit Strategies

Given the weak prospect for the company's financial position in the coming years, SVLF might soon be in the need to divest its assets. Similar to what occurred in 2000 when it wrote-off its Mississippi, Alabama, and Pennsylvania properties, the company might have to rely on "asset fire sales" in order to secure liquidity for debt repayments and interest payment coverage.

Alternatively, SVLF might expect to receive bids from competitors in the near future, since it constitutes an excellent merger or acquisition target for buyers seeking to i.e. reap synergies by combining operations or reduce competition in the time share market through an acquisition. We do not expect that a financial investor, such as a Private Equity firm, will enter the space because of SVLF's already highly leverage capital structure and the limited growth expectations.

Appendix

Table 3

Resort/Location Getaway Resorts	Primary Market	Vacation Interval Inventory
Holly Lake Hawkins, TX	Dallas - Ft. Worth, TX	651
The Villages Flint, TX	Dallas - Ft. Worth, TX	2,626
Lake O' The Woods Flint, TX	Dallas - Ft. Worth, TX	479
Piney Shores Conroe,TX	Houston, TX	6,137
Timber Creek DeSoto, MO	St. Louis, MO	1,442
Fox River Sheridan, IL	Chicago, IL	2,629
Apple Mountain Clarkesville, GA	Atlanta, GA	1,820
		15,784
Destination Resorts		
Ozark Mountain Kimberling City, MO	Branson, MO	715
Holiday Hills Branson, MO	Branson, MO	3,940
Hill Country Country Lake, TX	Austin - San Antonio, TX	3,076
Oak N'Spruce South Lee, MA	Boston, MA - New York, NY	2,549
Silverleaf's Seaside Galveston, TX	Galveston, TX	1,115
Orlando Breeze Davenport, FL	Orlando, FL	683
		12,078

Figure 11

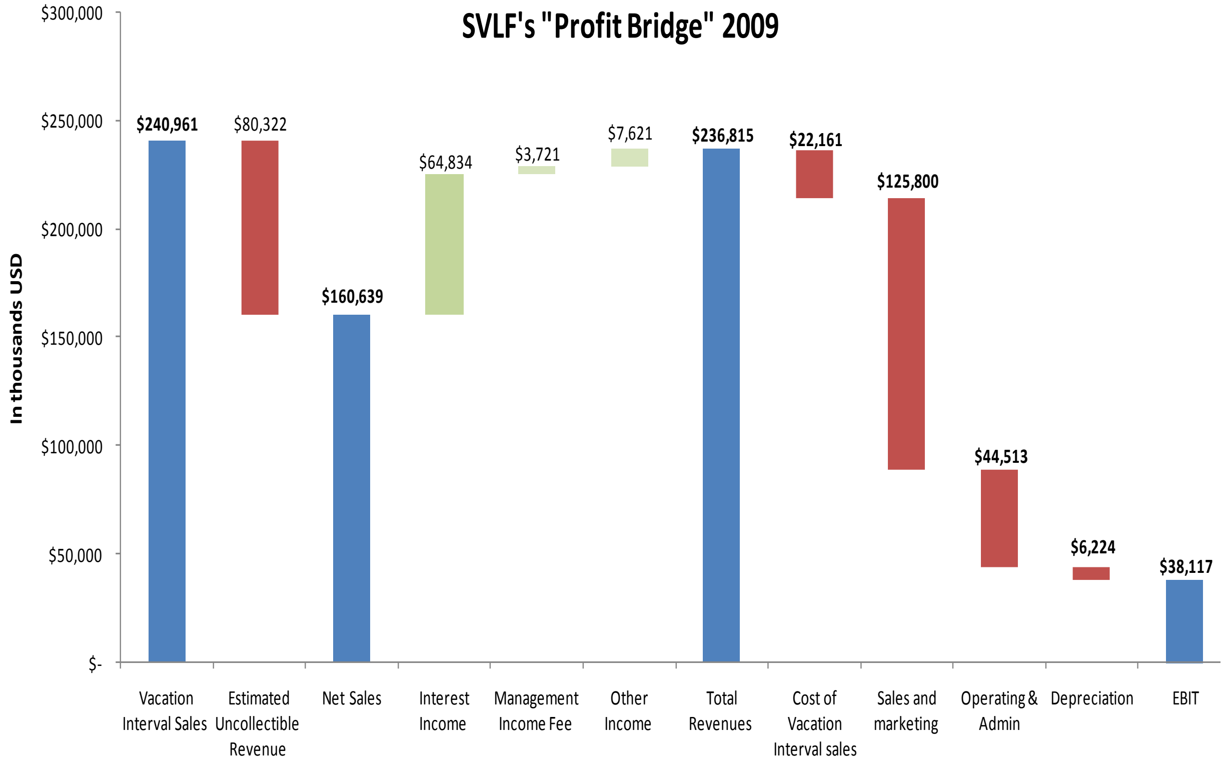


Figure 12

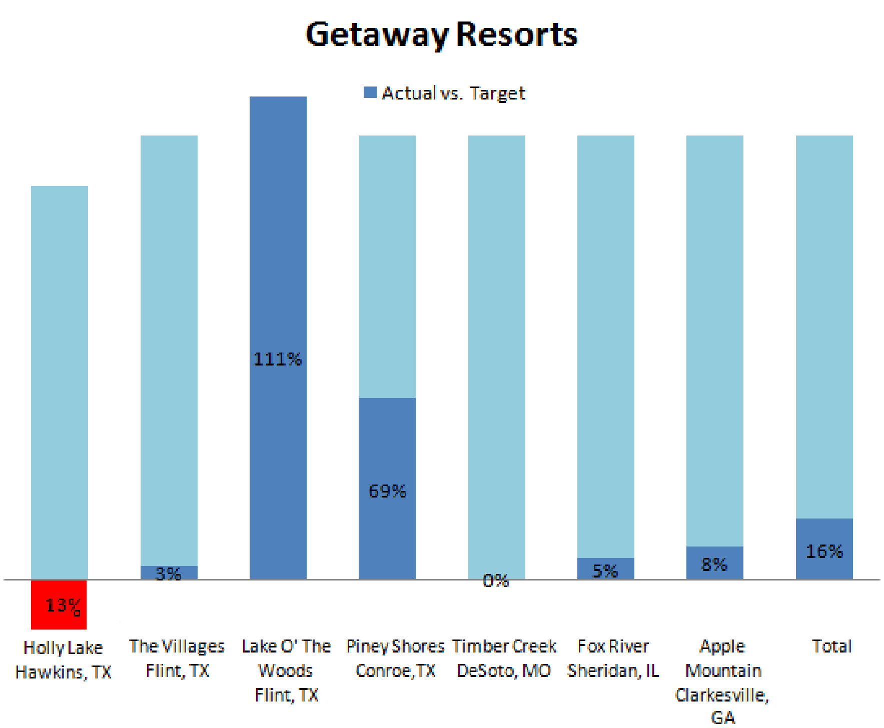


Figure 13

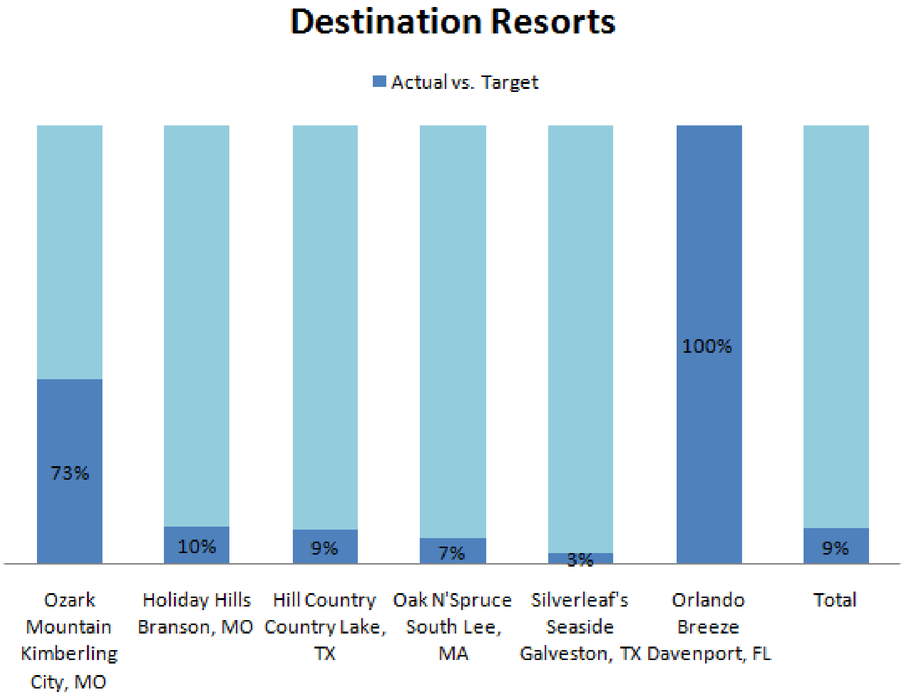

Destination Resorts
Actual vs. Target
73%
10%
9%
7%
3%
100%
9%
Ozark Mountain Kimberling City, MO
Holiday Hills Branson, MO
Hill Country Country Lake, TX
Oak N'Spruce South Lee, MA
Silverleaf's Seaside Galveston, TX
Orlando Breeze Davenport, FL
Total

Table 4

Resort/Location	12/31/2000				12/31/2009							
Getaway Resorts	**Units Inventory**	**Planned Expansion**	**Vacation Interval Inventory**	**Planned Expansion**	**Units Inventory**	**Planned Expansion**	**Vacation Interval Inventory**	**Planned Expansion**	**Actual Unit Expansion**	**Actual Vacation Interval Expansion**	**Variation in Expansion Plan**	**% Achieved in 10 years**
Holly Lake Hawkins, TX	130	0	745	-	130	-	651	-	-	(94)	0	-13%
The Villages Flint, TX	334	96	2456	4,992	394	204	2,626	10,608	60	170	113%	7%
Lake O' The Woods Flint, TX	64	0	431	-	64	-	479	-	-	48	0%	11%
Piney Shores Conroe,TX	160	132	1389	6,864	266	172	6,137	8,944	106	4,748	30%	342%
Timber Creek DeSoto, MO	72	84	1436	4,368	72	24	1,442	1,248	-	6	-71%	0%
Fox River Sheridan, IL	174	276	1907	14,352	252	264	2,629	13,728	78	722	-4%	38%
Apple Mountain Clarkesville, GA	60	192	1002	9,984	96	168	1,820	8,736	36	818	-13%	82%
Total	994	780	9366	40,560	1,274	832	15,784	43,264	280	6,418	7%	69%
Destination Resorts												
Ozark Mountain Kimberling City, MO	136	-	414	414	160	-	715	-	24	301	-100%	73%
Holiday Hills Branson, MO	254	258	1419	26,180	498	500	3,940	26,000	244	2,521	-1%	178%
Hill Country Country Lake, TX	284	504	1908	13,416	374	188	3,076	9,776	90	1,168	-27%	61%
Oak N'Spruce South Lee, MA	204	260	1659	13,520	340	10	2,549	520	136	890	-96%	54%
Silverleaf's Seaside Galveston, TX	60	222	788	11,544	144	264	1,115	13,728	84	327	19%	41%
Orlando Breeze Davenport, FL	-	-	-	683	60	12	683	624	60	683	-9%	100%
Total	938	1244	6188	65,757	1,576	974	12,078	50,648	638	5,890	-23%	95%

Table 5

`	Silverleaf SVLF		Interval Leisure IILG		Bluegreen BXG		Diamond Rock DRH
share price as of 3/11/2010	$	1.08	$	14.96	$	3.06	$ 10.32
x Diluted shares outstanding		37.93		56.94		32.5	154.57
= Market Value of B&N (in $M)	$	40.96	$	851.82	$	99.45	$ 1,595.16
+ Total debt	$	412.63	$	376.39	$	867.02	$ 782.66
+Preferred stock	$	-	$	-	$	-	$ -
+Minority interest	$	-	$	-	$	-	$ -
-Cash & Equivalents	$	(12.27)	$	(188.1)	$	(63.59)	$ (61.28)
= Enterprise Value of B&N	$	441.32	$	1,040.11	$	902.88	$ 2,316.54
EBITDA	$	53.90	$	138.89	$	71.28	$ 109.44
Sales	$	230.27	$	406.93	$	386.40	$ 590.80
EV/Sales		1.92		2.56		2.34	3.92
EV/EBITDA		8.19		7.49		12.67	21.17

Table 6

Real GDP Growth (Actual vs. Forecasts)

Year	Actual	Philadelphia Fed	Error (BP)	EIU	Error (BP)
2000	4.1%	3.8%	-30	3.8%	-30
2001	1.1%	2.2%	110	2.5%	140
2002	1.8%	1.4%	-40	1.1%	-70
2003	2.5%	2.5%	0	2.4%	-10
2004	3.6%	4.6%	100	4.2%	60
2005	3.1%	3.7%	60	3.1%	0
2006	2.7%	3.2%	50	2.8%	10
2007	1.9%	2.8%	90	2.3%	40
2008	0.0%	1.8%	180	1.5%	150
2009	-2.6%	-2.0%	60	-2.0%	60
		Average	**58**		**35**

Table 7

EIU GDP Forecast	
2010	2.3%
2011	1.5%
2012	1.9%
2013	2.2%
2014	2.4%
2015	2.6%
2016	2.8%
2017	2.9%
2018	2.9%
2019	3.0%
2020	3.0%

Source: Economist Intelligence Unit

Table 8

in thousands USD	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Forecast Assumptions
Vacation Interval Sales	$ 187,481	$ 235,135	$ 256,300	$ 240,961	$ 221,566	$ 222,002	$ 222,538	$ 223,150	$ 223,813	$ 224,528	$ 225,295	$ 226,090	$ 226,887	$ 227,713	$ 228,542	Based on EIU's forecasted GDP
Estimated Uncollectible Revenue	$ (32,491)	$ (40,071)	$ (63,051)	$ (80,322)	$ (59,192)	$ (62,649)	$ (62,800)	$ (62,973)	$ (50,425)	$ (50,586)	$ (50,759)	$ (50,938)	$ (51,118)	$ (51,304)	$ (51,490)	Period 2011 - 2013: 28.22% and period 2014 - 2020: 22.53% of Vacation Interval Sales
Net Sales	*$ 154,990*	*$ 195,064*	*$ 193,249*	*$ 160,639*	*$ 162,374*	*$ 159,353*	*$ 159,738*	*$ 160,177*	*$ 173,388*	*$ 173,942*	*$ 174,536*	*$ 175,152*	*$ 175,770*	*$ 176,409*	*$ 177,051*	
Interest Income	$ 46,248	$ 53,019	$ 61,077	$ 64,834	$ 67,554	$ 59,341	$ 59,485	$ 59,648	$ 59,825	$ 60,016	$ 60,221	$ 60,434	$ 60,647	$ 60,868	$ 61,089	Historical average share of 26.73% of Vacation Interval Sales used
Management Income Fee	$ 1,861	$ 2,806	$ 3,121	$ 3,721	$ 3,122	$ 2,819	$ 2,826	$ 2,834	$ 2,842	$ 2,852	$ 2,861	$ 2,871	$ 2,881	$ 2,892	$ 2,902	Historical average share of 1.27% of Vacation Interval Sales used
Other Income	$ 3,785	$ 4,141	$ 6,515	$ 7,621	$ 5,269	$ 6,016	$ 6,031	$ 6,047	$ 6,065	$ 6,085	$ 6,105	$ 6,127	$ 6,149	$ 6,171	$ 6,193	Historical average share of 2.71% of Vacation Interval Sales used
Total Revenues	**$ 206,884**	**$ 255,030**	**$ 263,962**	**$ 236,815**	**$ 238,319**	**$ 227,530**	**$ 228,080**	**$ 228,707**	**$ 242,121**	**$ 242,894**	**$ 243,724**	**$ 244,584**	**$ 245,447**	**$ 246,340**	**$ 247,236**	
Cost of Vacation Interval sales	$ 19,003	$ 23,027	$ 24,903	$ 22,161	$ 18,308	$ 20,513	$ 20,563	$ 20,619	$ 20,680	$ 20,746	$ 20,817	$ 20,891	$ 20,964	$ 21,041	$ 21,117	Historical average share of 9.24% of Vacation Interval Sales used
Gross Profit	**$ 187,881**	**$ 232,003**	**$ 239,059**	**$ 214,654**	**$ 220,011**	**$ 207,017**	**$ 207,517**	**$ 208,087**	**$ 221,441**	**$ 222,148**	**$ 222,907**	**$ 223,693**	**$ 224,482**	**$ 225,299**	**$ 226,119**	
Sales and marketing	$ 93,957	$ 119,679	$ 135,059	$ 125,800	$ 119,193	$ 115,619	$ 115,898	$ 116,217	$ 116,562	$ 116,934	$ 117,334	$ 117,748	$ 118,163	$ 118,593	$ 119,025	Historical average share of 52.08% of Vacation Interval Sales used
Operating, general and administrative	$ 32,315	$ 39,101	$ 41,154	$ 44,513	$ 40,722	$ 39,183	$ 39,278	$ 39,386	$ 39,503	$ 39,629	$ 39,765	$ 39,905	$ 40,046	$ 40,191	$ 40,338	Historical average share of 17.65% of Vacation Interval Sales used
Depreciation	$ 2,539	$ 3,511	$ 4,929	$ 6,224	$ 6,517	$ 4,507	$ 4,518	$ 4,530	$ 4,543	$ 4,558	$ 4,573	$ 4,590	$ 4,606	$ 4,623	$ 4,639	Historical average share of 2.03% of Vacation Interval Sales used
Operating Income / EBIT	**$ 59,070**	**$ 69,712**	**$ 57,917**	**$ 38,117**	**$ 53,579**	**$ 47,708**	**$ 47,824**	**$ 47,955**	**$ 60,832**	**$ 61,027**	**$ 61,235**	**$ 61,451**	**$ 61,668**	**$ 61,892**	**$ 62,118**	
Interest expense and lender fees (Related to receivables-based credit facilities)	$ 17,550	$ 19,285	$ 22,213	$ 21,864	$ 23,603	$ 20,424	$ 20,474	$ 20,530	$ 20,591	$ 20,657	$ 20,727	$ 20,800	$ 20,874	$ 20,950	$ 21,026	Historical average share of 9.20% of Vacation Interval Sales used
Interest expense and lender fees (Related to other indebtedness)	$ 4,112	$ 5,325	$ 6,341	$ 7,191	$ 7,631	$ 5,883	$ 5,897	$ 5,913	$ 5,931	$ 5,950	$ 5,970	$ 5,991	$ 6,013	$ 6,034	$ 6,056	
Earnings before Taxes (EBT)	**$ 37,408**	**$ 45,102**	**$ 29,363**	**$ 9,062**	**$ 22,345**	**$ 21,401**	**$ 21,453**	**$ 21,512**	**$ 34,311**	**$ 34,420**	**$ 34,538**	**$ 34,660**	**$ 34,782**	**$ 34,908**	**$ 35,035**	
Tax Expense	$ 14,402	$ 17,398	$ 11,437	$ 3,604	$ 8,703	$ 8,335	$ 8,356	$ 8,379	$ 13,364	$ 13,406	$ 13,452	$ 13,500	$ 13,547	$ 13,596	$ 13,646	Average of SVLF's Cash Taxes Paid/FCF Before Taxes over last 5 years (38.95%)
Net Income	**$ 23,006**	**$ 27,704**	**$ 17,926**	**$ 5,458**	**$ 13,642**	**$ 13,066**	**$ 13,097**	**$ 13,133**	**$ 20,947**	**$ 21,014**	**$ 21,086**	**$ 21,160**	**$ 21,235**	**$ 21,312**	**$ 21,390**	

Table 9

in thousands USD	2006	2007	2008	2009	2010	2011	2012	2013
Vacation Interval Sales	$ 187,481	$ 235,135	$ 256,300	$ 240,961	$ 221,566	$ 222,002	$ 222,538	$ 223,150
Estimated Uncollectible Revenue	$ (32,491)	$ (40,071)	$ (63,051)	$ (80,322)	$ (59,192)	$ (62,649)	$ (62,800)	$ (62,973)
Net Sales	*$ 154,990*	*$ 195,064*	*$ 193,249*	*$ 160,639*	*$ 162,374*	*$ 159,353*	*$ 159,738*	*$ 160,177*
Interest Income	$ 46,248	$ 53,019	$ 61,077	$ 64,834	$ 67,554	$ 59,341	$ 59,485	$ 59,648
Management Income Fee	$ 1,861	$ 2,806	$ 3,121	$ 3,721	$ 3,122	$ 2,819	$ 2,826	$ 2,834
Other Income	$ 3,785	$ 4,141	$ 6,515	$ 7,621	$ 5,269	$ 6,016	$ 6,031	$ 6,047
Total Revenues	**$ 206,884**	**$ 255,030**	**$ 263,962**	**$ 236,815**	**$ 238,319**	**$ 227,530**	**$ 228,080**	**$ 228,707**
Cost of Vacation Interval sales	$ 19,003	$ 23,027	$ 24,903	$ 22,161	$ 18,308	$ 20,513	$ 20,563	$ 20,619
Gross Profit	**$ 187,881**	**$ 232,003**	**$ 239,059**	**$ 214,654**	**$ 220,011**	**$ 207,017**	**$ 207,517**	**$ 208,087**
Sales and marketing	$ 93,957	$ 119,679	$ 135,059	$ 125,800	$ 119,193	$ 115,619	$ 115,898	$ 116,217
Operating, general and administrative	$ 32,315	$ 39,101	$ 41,154	$ 44,513	$ 40,722	$ 39,183	$ 39,278	$ 39,386
Depreciation	$ 2,539	$ 3,511	$ 4,929	$ 6,224	$ 6,517	$ 4,507	$ 4,518	$ 4,530
Operating Income / EBIT	**$ 59,070**	**$ 69,712**	**$ 57,917**	**$ 38,117**	**$ 53,579**	**$ 47,708**	**$ 47,824**	**$ 47,955**
Taxes on EBIT	$ 23,007	$ 27,152	$ 22,558	$ 14,846	$ 20,868	$ 18,582	$ 18,627	$ 18,678
NOPLAT	**$ 36,063**	**$ 42,560**	**$ 35,359**	**$ 23,271**	**$ 32,711**	**$ 29,126**	**$ 29,197**	**$ 29,277**
Depreciation	$ 2,539	$ 3,511	$ 4,929	$ 6,224	$ 6,517	$ 4,507	$ 4,518	$ 4,530
Working Capital	$ 425.693	$ 513.025	$ 572.406	$ 491.441	$ 460.469	$ 461.376	$ 462.490	$ 463.761
% of Revenues	0.21%	0.20%	0.22%	0.21%	0.21%	0.21%	0.21%	0.21%
Change in Working Capital		$ 87	$ 59	$ (81)	$ (31)	$ 1	$ 1	$ 1
Net CAPEX	$ 14,300	$ 17,100	$ 19,500	$ 2,200	$ 1,817	$ 1,820	$ 1,825	$ 1,830
Free Cash Flow (FCF)		**$ 28,884**	**$ 20,729**	**$ 27,376**	**$ 37,442**	**$ 31,812**	**$ 31,888**	**$ 31,976**
Present Value (PV)					$ 33,587	$ 25,599	$ 23,018	$ 20,705
Net Present Value (NPV)	**$ 302,153**							

in thousands USD	2014	2015	2016	2017	2018	2019	2020	Forecast Assumptions	
Vacation Interval Sales	$ 223,813	$ 224,528	$ 225,295	$ 226,090	$ 226,887	$ 227,713	$ 228,542	Based on EIU's forecasted GDP	
Estimated Uncollectible Revenue	$ (50,425)	$ (50,586)	$ (50,759)	$ (50,938)	$ (51,118)	$ (51,304)	$ (51,490)	Period 2011 - 2013: 28.22% and period 2014 - 2020: 22.53% of Vacation Interval Sales	
Net Sales	*$ 173,388*	*$ 173,942*	*$ 174,536*	*$ 175,152*	*$ 175,770*	*$ 176,409*	*$ 177,051*		
Interest Income	$ 59,825	$ 60,016	$ 60,221	$ 60,434	$ 60,647	$ 60,868	$ 61,089	Historical average share of 26.73% of Vacation Interval Sales used	
Management Income Fee	$ 2,842	$ 2,852	$ 2,861	$ 2,871	$ 2,881	$ 2,892	$ 2,902	Historical average share of 1.27% of Vacation Interval Sales used	
Other Income	$ 6,065	$ 6,085	$ 6,105	$ 6,127	$ 6,149	$ 6,171	$ 6,193	Historical average share of 2.71% of Vacation Interval Sales used	
Total Revenues	**$ 242,121**	**$ 242,894**	**$ 243,724**	**$ 244,584**	**$ 245,447**	**$ 246,340**	**$ 247,236**		
Cost of Vacation Interval sales	$ 20,680	$ 20,746	$ 20,817	$ 20,891	$ 20,964	$ 21,041	$ 21,117	Historical average share of 9.24% of Vacation Interval Sales used	
Gross Profit	**$ 221,441**	**$ 222,148**	**$ 222,907**	**$ 223,693**	**$ 224,482**	**$ 225,299**	**$ 226,119**		
Sales and marketing	$ 116,562	$ 116,934	$ 117,334	$ 117,748	$ 118,163	$ 118,593	$ 119,025	Historical average share of 52.08% of Vacation Interval Sales used	
Operating, general and administrative	$ 39,503	$ 39,629	$ 39,765	$ 39,905	$ 40,046	$ 40,191	$ 40,338	Historical average share of 17.65% of Vacation Interval Sales used	
Depreciation	$ 4,543	$ 4,558	$ 4,573	$ 4,590	$ 4,606	$ 4,623	$ 4,639	Historical average share of 2.03% of Vacation Interval Sales used	
Operating Income / EBIT	**$ 60,832**	**$ 61,027**	**$ 61,235**	**$ 61,451**	**$ 61,668**	**$ 61,892**	**$ 62,118**		
Taxes on EBIT	$ 23,694	$ 23,769	$ 23,850	$ 23,935	$ 24,019	$ 24,106	$ 24,194	Average of SVLF's Cash Taxes Paid/FCF Before Taxes over last 5 years (38.95%)	
NOPLAT	**$ 37,139**	**$ 37,257**	**$ 37,385**	**$ 37,517**	**$ 37,649**	**$ 37,786**	**$ 37,924**		
Depreciation	$ 4,543	$ 4,558	$ 4,573	$ 4,590	$ 4,606	$ 4,623	$ 4,639		
Working Capital	$ 465.139	$ 466.625	$ 468.219	$ 469.871	$ 471.528	$ 473.244	$ 474.966		
% of Revenues	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%		
Change in Working Capital	$ 1	$ 1	$ 2	$ 2	$ 2	$ 2	$ 2	Historical average share of 0.21% of Total Revenues	
Net CAPEX	$ 5,595	$ 5,613	$ 5,632	$ 5,652	$ 5,672	$ 5,693	$ 5,714	2010 - 2013: 0.82% and 2014 - 2020: 2.5% of Vacation Interval Sales	
Free Cash Flow (FCF)	**$ 36,086**	**$ 36,201**	**$ 36,324**	**$ 36,452**	**$ 36,581**	**$ 36,714**	**$ 36,848**	$ 330,984	Terminal Value
Present Value (PV)	$ 20,961	$ 18,862	$ 16,978	$ 15,284	$ 13,759	$ 12,387	$ 11,152	$ 89,861	
Net Present Value (NPV)									

Table 10

Debt Beginning Balance	$ 210,444	$ 286,017	$ 343,015	$ 392,192	$ 412,973	$ 386,500	$ 387,261	$ 388,196	$ 389,263	$ 390,420	$ 391,667	$ 393,005	$ 394,391	$ 395,782	$ 397,223		
																Period 2011 - 2013: 174.44% and period 2014 - 2020: 147.39% of Vacation Interval Sales	
Debt Ending Balance	$ 286,017	$ 343,015	$ 392,192	$ 412,973	$ 386,500	$ 387,261	$ 388,196	$ 389,263	$ 390,420	$ 391,667	$ 393,005	$ 394,391	$ 395,782	$ 397,223	$ 398,668		
Interest Expenses	$ 21,662	$ 24,610	$ 28,554	$ 29,055	$ 31,234	$ 26,307	$ 26,371	$ 26,443	$ 26,522	$ 26,607	$ 26,697	$ 26,792	$ 26,886	$ 26,984	$ 27,082		
Tax Debt Shield	$ 8,437	$ 9,585	$ 11,121	$ 11,317	$ 12,165	$ 10,246	$ 10,271	$ 10,299	$ 10,330	$ 10,363	$ 10,398	$ 10,435	$ 10,472	$ 10,510	$ 10,548	$ 117,696	Terminal Value
Present Value (PV)					$ 11,130	$ 8,577	$ 7,866	$ 7,217	$ 6,622	$ 6,078	$ 5,580	$ 5,123	$ 4,704	$ 4,319	$ 3,966	$ 40,488	
Net Present Value (NPV)	**$ 111,669**																

Total Enterprise Value	**$ 413,822**
Debt	$ (412,973)
Cash	$ 13,905
Total Equity Value	**$ 14,754**
Market Cap (10/03/2010)	**$ 42,860**
Thousand shares outstanding (10/03/2010; Google	**37,930**
Share Closing Price (10/08/2010; Yahoo Finance)	**$ 1.11**
Share Closing Price (as per Portal & Vicente)	**$ 0.39**

Table 11

		Source description
Risk free rate (R_f) =	1.54%	10 year risk free rate (www.treas.gov) minus 1% historical risk premium.
Market risk premium ($R_{premium}$) =	7.00%	historical value
Tax rate (T_c) =	38.95%	average of SVLF's Cash Taxes Paid / FCF Before Taxes over last 5 years
Equity beta (β_{Equity}) =	1.41	regression of equity returns over index returns
Debt beta (β_{Debt}) =	1.42	
Cost of debt (R_d) =	9.30%	YTM by historical relationship between YTM and r_D based on the firm’s debt’s rating class
Cost of equity (R_e) =	11.41%	
Asset beta (β_{Asset}) =	1.42	
Unlevered cost of equity (R_a) =	11.48%	
Market capitalization (E) -in Million USD- =	42.86	Google Finance as of 11/03/2010
Total Debt (D) -in Million USD- =	413.00	Capital IQ as of 11/03/2010
Growth rate	0.31%	Average of EIU's forecasted real GDP growth (2011 - 2020)