Amador Appraisals and Acquisitions, Inc.

Business Brokerage and Appraisals

209-256-1371 Fax 209 231-3855

Prepared By

C. Fred Hall, MBA, AIBA

National Ceramics, Inc.

8290 Payton Lane
Pine Grove, California 95665

Business Valuation

March 5, 2010

Confidential

Amador Appraisals and Acquisitions, Inc.
Business Brokerage and Appraisals

March 5, 2010

Mr. Robert Porter
Big Bucks Bank
470 Nevada Street Suite108
Auburn, CA 95603

Dear Mr. Porter:

The appraisal assignment called for determining the Fair Market Value of your Client's company, National Ceramics, Inc., a California S-Corporation, as of February 28, 2010. The valuation is for a 100% interest in the assets of the Company being sold on a Controlling, Non-Marketable basis.

The Market Approach was employed in the valuation in which four different methods were used to estimate the Subject's value. Each of the methods used developed different values for the Subject. This is a normal occurrence since each procedure focuses on different aspects of the Company's operations. Those methods that focus on the Company's Cash Flow are considered the strongest indicators of the Subject's value and, as such, are given the greatest weight in arriving at the final Conclusion of Value.

The databases that were used to obtain transactional data of comparable sales all report the selling price known as an Asset Sale Value. An Asset Sale, which is the most common format for the sale of a small business, includes only the company's Inventory, Fixtures and Equipment, and all its Intangibles. The Seller would retain all the Cash and Accounts Receivable and pay off all the Liabilities.

In my opinion, using accepted methodologies of valuation, and, subject to the assumptions and limiting conditions set forth in this report, the Fair Market Value of a 100% interest in National Ceramics, Inc. as of February 28, 2010 is:

$960,000

Nine Hundred Sixty Thousand Dollars

The above Fair Market Value is for a 100% Interest in National Ceramics, Inc. on a Controlling, Non-Marketable Basis. Since Inventory will also be adjusted at the close of escrow, **the above price is restated at $285,000 plus inventory of $675,000 to be adjusted at the close of escrow. If Inventory increases above $675,000, the selling price will increase accordingly; and likewise, if Inventory decreases, the selling price will also decrease.**

Appraiser's Certificate

1) *The statements of fact contained in this report are true and correct to the best of my knowledge and belief, subject to the assumptions and conditions stated.*
2) *The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, unbiased and professional analyses, opinions, and conclusions.*
3) *I have no present or prospective interest in the property that is the subject of this report, nor is my compensation dependent upon the value of this report or contingent upon producing a value that is favorable to the client.*
4) *I have no personal bias with respect to the parties involved nor have I made a full disclosure of any such bias.*
5) *This appraisal has been conducted and the report was written in conformity with the Business Appraisal Standards of the Institute of Business Appraisers.*
6) *No person except the undersigned participated materially in the preparation of this report*.

Sincerely,

Fred Hall

C. Fred Hall III, MBA, AIBA

TABLE OF CONTENTS

EXHIBITS

1.0 Introduction

1.1 Report Date: March 5, 2010

1.2 Date of Valuation: February 28, 2010

1.3 Subject of Appraisal

The subject of this business appraisal is National Ceramics, Inc**.**, located at 8290 Payton Lane, Pine Grove, California 95678. The Company is a California S-Corporation, which is solely owned by John Smith. A site inspection was performed by the Appraiser on March 6, 2010. The Owner, John Smith, was interviewed by the Appraiser on March 6, 2010. The Owner's Discretionary Cash Flow Analysis was based on statements made in that interview.

1.4 Purpose and Use

The purpose of the appraisal is to determine the Fair Market Value of the assets being sold of National Ceramics, Inc. ("NC") on a 100% Controlling, Non-Marketable basis. The Marketability of a company is defined as the ability to convert the investment in the entity into cash immediately at a known or reasonably expected price. Since interests in small, closely-held companies generally cannot be converted into cash quickly, such *interests* are referred to as non-marketable. This non-marketable *interest*, however, will be valued in a manner which will reflect its unattractive investment characteristics. In other words, the Subject interest is Non-Marketable and, therefore, must be valued on a *Non-Marketable basis*.

The methodology that will be employed in the Market Approach uses databases of sold transactions of small, closely-held companies in which a 100% Controlling interest was sold. In addition, unlike public companies whose shares can be traded within seconds on a national stock exchange, these transactions might take place over many months. The selling price of these companies was not known at the outset, and, the marketing costs of the transactions were substantial compared to a typical stock broker fee. In other words, the transactions in the databases were non-marketable which fits the characteristics of the Subject Interest.

The appraisal is intended for the sole use of Big Bucks Bank to assist in its underwriting analysis of the Subject. Any other use invalidates the conclusions of this appraisal.

1.5 Standard of Value

Fair Market Value

The definition of Fair Market Value is the value at which property is exchanged, given a willing Seller and a willing Buyer, the former under no compulsion to sell and the latter under no compulsion to buy, with both parties having knowledge of all the relevant facts (Revenue Ruling 59-60). It is assumed under the standard for Fair Market Value that the

Buyer and Seller are both hypothetical parties, the transaction is for all cash or cash equivalent, and, the sale is consummated within a reasonable amount of time.

1.6 PREMISE OF VALUE

Going Concern

The underlying premise assumed here is that the business will continue to operate in the future as it has in the past which, therefore, gives rise to an intangible value for its name, reputation, location, or unique manner of doing business. The earning power of the enterprise, and its ability to continue generating cash flow in the future are indicators of Fair Market Value.

1.7 ASSUMPTIONS AND LIMITING CONDITIONS

When valuing a business the Appraiser must make certain assumptions. These assumptions and various limiting conditions will have a significant impact on the conclusion of value of the company being appraised. The following are assumptions and limiting conditions affecting this valuation.

1.7.1 In order to provide a cost effective appraisal report, at the client’s request, we have eliminated portions of the report that the client would be familiar with: for example, a detailed analysis of the economy and the industry in which the Company operates and its effects on the Subject Company.

The Scope of Work was further reduced based on the client's request to forego a certified appraisal of the subject's fixed assets. Values used for subject's fixed assets were based on the client's estimates or industry standard depreciation rates.

The scope of work reduction described above does not lessen the status of the appraisal report.

1.7.2 The Appraiser does not purport to be a guarantor of value. The valuation of closely held companies is an imprecise science and reasonable people can differ in their opinion of value. However, the formulas and valuation methodologies used in this report were developed by and are accepted by the business brokerage and business valuation communities. The application of these methods in the analysis reported herein along with years of experience in evaluating such businesses in the Appraiser’s opinion provides a reasonable basis for determining business value.

1.7.3 The valuation process is not specifically a fact-finding mission. The Appraiser’s opinion is supported by research and analysis, but the valuation conclusion ultimately reflects his informed and unbiased judgment.

1.7.4 Interviews with principals of the Subject will be conducted by the Appraiser using the Appraiser’s questionnaires. The Appraiser has relied on the representations of management without independent investigation. The information was obtained in good faith, but no opinion or warranty is implied or expressed by the Appraiser.

1.7.5 This report cannot be relied upon to disclose any fraud, misrepresentation, or deviations from Generally Accepted Accounting Principles.

1.7.6 This report is to be used for the express purpose stated above. Any other use is prohibited and invalidates the conclusions of this appraisal.

1.7.7 The appraiser assumes no responsibility for any legal or tax matters that are relative to the findings of this report.

2.0 COMPANY HISTORY

National Ceramics, Inc. (NC) was established in the early 1980's. The present owner, John Smith, acquired the company in 1984. When acquired, the Company was very small, literally operating out of a garage. The business primarily focused on manufacturing of small art-type figurines that it distributed to art studios and retail arts and craft stores. Under the current ownership, relationships were established with national retail accounts such as Ben Franklin and Michael's. During much of the 1980's and 1990's, the Company grew rapidly as a manufacturer. However, Ben Franklin's bankruptcy filing and the subsequent loss of the Michael's account resulted in a substantial decline in revenues and huge operating losses.

The Company moved its manufacturing operation to its current location in Pine Grove in 2001. The 20,000 square foot warehouse enabled the Company to increase production. However, competition from low-cost Asian factories gradually forced the Company increasingly outsource the production of its products to lower cost manufacturers and function more like a distributor. In 2004, it began importing from China and shortly thereafter the Company outsourced a portion of its production to a number of small, domestic "mom and pop" type manufacturers. In 2006 the Company began to use a manufacturer with plants in China and Thailand. NC would design molds for the products it wished to distribute and then work with the Asian and domestic manufacturers who would produce the ceramic artifacts from the molds.

In 2007 NC went through a number of major changes. In February 2007, NC completely shut down its manufacturing operations and became strictly an importer and distributor of domestically produced artwork. About the same time, one of its major domestic suppliers, Gare, Inc., decided to end its supply relationship with the Company. In exchange, Gare agreed to allow NC to produce about 120 of its figurine designs under a licensing agreement. NC then contracted with its China manufacturer to produce the figurines. The Company quickly began shifting its source of supply from domestic manufacturers to the China manufacturer. The shift to large-scale importing required a huge increase in working capital. The lead time from order to receipt of goods from China was four to six months. The long lead time and the minimum economic order quantities made it necessary for the Company to increase inventory on hand by over $125,000.

In August 2007, NC entered into a ten year Supply/Licensing Agreement with Color Me Mine (CMM), a Franchisor of over 150 ceramic studios throughout the U.S. and eight foreign countries. NC already independently developed relationships with a number of these franchisees who are allowed to buy product from any source they wish. Previous to entering the Supply/Licensing agreement, total revenues generated from the CMM franchisees were more than $500,000. The Licensing Agreement gave CN the rights to produce a number of pieces of ceramic ware, or bisque, that CMM had produced and sold to its franchisees. The agreement also required that NC buy CMM's entire warehouse of inventory, totaling $90,000. In addition, NC agreed to maintain an order fill rate with CMM's franchisees of 97.5%; give its franchisees up to a 10% discount; and, give CMM, the Franchisor, a 7.5% commission on al lNC's sales to CMM dealers.

The acquisition of new CMM customers and the high order fill requirement forced NC to boost its inventory levels even more. By the end of 2007 NC's inventory increased by $350,000 to $1,023,000. By the end of 2008 NC's annual sales to CMM dealers doubled to $1,000,000. The shift in operations also resulted in Company's Chinese source of supply accounting for 80% to 90% of its inventory purchases. The Company's product selection now includes over 1,000 SKU's of painted and unpainted figurines and functional housewares. At present NC is the Chinese manufacturer's third largest customer, Gare, Inc. and Bisque Imports (NC's largest competitors) being #1 and #2. Mr. Smith reports that its relationship with this manufacturer is excellent.

On the distribution side of NC's operations, the total repeat customers exceed 500, and, its total customer base exceeds 2,000. Although collectively, CMM dealers now account for 40% of CU's revenues, no one customer accounts for more than 10% of the Company's annual revenues and all sales are wholesale to dealers only. NC's website is the primary source of its sales. Dealers can access the website by inputting their passwords and ordering directly from the on-line catalog. This source of sales accounts for 85% to 90% of all the Company's transactions with the remainder coming from faxes or telephone orders. Approximately 70% of NC's customers use credit cards to make their purchases. The remaining 30% of sales are charged on in-house credit accounts. Terms on Accounts Receivable are Net 15 days which CU strictly enforces.

2.1 COMPETITION

Gare, Inc., which is located in Haverhill, Massachusetts, has been in existence since 1950. The company is NC's largest competitor and is the driving force in the ceramic ware, bisque market. Gare has an in-house staff of sculptors and artists who continually design new products. The company has a substantially broader line of products than NC and also produces and distributes glazes, which NC purchases. In recent years, Gare introduced in-house charge accounts for its customers and began offering freight free shipping. NC and other competitors within the industry were forced to follow suit to remain competitive. However, Gare's greatest competitive disadvantage to NC is its location. Pottery items are very heavy and, as such, freight costs represent a significant percentage of the product's delivered price. NC's freight to its predominately West Coast customer base equaled 10% of its Gross Revenues in 2009. Over half of CMM's franchisees are on the West Coast which makes it difficult for Gare to compete with NC on price due to freight costs.

Bisque Imports, Inc., which is located in Charlotte, North Carolina, has been in existence since 1999. The company is moderately larger than NC, with a product offering approximately double and a warehouse nearly five times as large. Bisque Imports originally imported Italian pottery and focused more on functional houseware items and art accessories. The company has since gravitated to the same Chinese manufacturers as NC. Mr. Smith reports that Bisque has recently had quality problems with products. It also has the same competitive disadvantage as Gare; its East Coast location makes it difficult to compete with West Coast distributors.

Chesapeake Ceramics, LLC, which is located in Baltimore, Maryland, has been in existence for over 30 years. The company has a 35,000 square foot warehouse and an inventory of approximately 15,000 SKU's. It distributes kilns as well as tools, equipment, and accessories. It also has a license to distribute Disney Bisque. As with NC's other competitors, its East Coast location puts the West Coast market somewhat out of reach.

2.2 DEMOGRAPHICS

NC is located in the town of Pine Grove in Placer County, California about fifty miles east of downtown Sacramento. Placer County and, more specifically, Pine Grove have been the fastest growing regions in California. Pine Grove's population growth average 6.4% per year since 2000 compared to California's 1.2%. Growth in Household Income has been equally

EXHIBIT I DEMOGRAPHICS

		U.S.	California	Roseville	Placer County	Sacramento County
Population	1990	248,710,000	29,760,000	44,700	172,800	1,041,000
	2000	281,421,000	33,871,000	79,900	248,400	1,224,000
	2007	304,059,000	36,756,000	115,500	332,600	1,381,000
	Gain '00 to '07	1.1% per yr	1.2% per yr	6.4% per yr	4.8% per yr	1.8% per yr
	Gain '90 to '07	1.3% per yr	1.4% per yr	9.3% per yr	5.4% per yr	1.9% per yr
Median Household Income	2000	$41,994	$47,493	$57,400	$57,500	$43,800
	2007	$50,007	$58,361	$74,300	$73,300	$57,800
	'00 to '07	2.7% per yr	3.3% per yr	4.2% per yr	3.9% per yr	4.6% per yr
Median Housing Costs	2000	119,600	211,500	194,900	213,900	144,200
	2007	181,800	513,200	431,300	469,100	360,800
	'00 to '07	7.4% per yr	20.4% per yr	17.3% per yr	17.0% per yr	21.5% per yr
% Home Ownership	2000	66.2%	56.9%	69.5%	73.2%	58.2%
	2007	67.3%	58.4%	66.3%	67.1%	60.4%
	Change	1.7%	2.6%	-4.6%	-8.3%	3.8%

impressive, increasing 4.2% per year since 2000 compared to California's 3.3%.

The level of Household Income is also well above State and U.S. levels. Household Income in Pine Grove and Placer County in 2007 was approximately $74,000 compared to $58,361 for the State and $50,007 for the U.S. Housing costs in the region, however, are 16% lower than State Levels. Even though the collapse of the housing market from 2007 to 2009 was particularly hard hit here, the median housing prices are still only 2% to 3% below the State level of $304,000. A higher level of income with respect to the cost of housing translates into a community that has very high levels of disposable income.

The effects of population growth and income growth on the value of a business will be discussed further in Section 5.1.3 below.

3.0 Financial Analysis of the Company

3.1 Financial Statements

Tax returns are the primary source of information used in the analysis. John Smith supplied tax returns for years ending 2006 through 2008. P&Ls for the interim period ending February 28, 2010, and, for years ending 2006 through 2009 were also provided. The most recent Balance Sheet is as of February 28, 2010.

The Owner, John Smith, was interviewed by the Appraiser on March 6, 2010. The Owner's Discretionary Cash Flow Analysis was based on statements made in that interview.

3.1.1 Summary of Historical Balance Sheets

The Balance Sheets for National Ceramics, Inc. available for this analysis, which were prepared on an Accrual Basis, include years-ending 2006, 2007, 2008, and February 28, 2010.

EXHIBIT II BALANCE SHEET

Cash Basis	Feb 28, 2010	Dec 31, 2008	Dec 31, 2007	Dec 31, 2006
Cash	75,722	6,581	11,588	12,129
Accounts Receivable	81,829	61,159	43,520	34,737
Loans To Shareholders	-	-	-	-
Inventory	496,726	1,011,203	1,022,886	669,451
Other Current Assets	-	-	14,068	-
Total Current Assets	654,277	1,078,943	1,092,062	716,317
Fixtures & Equipment	-	566	943	1,574
Tenant Improvement	-	-	-	-
Other Assets	-	11,397	15,897	17,513
Total Assets	654,277	1,090,906	1,108,902	735,404
Accruals	-	299	487	217
Consigned Inventory	84,447	25,000	65,000	-
0	33,625	-	-	-
0	-	-	-	-
	-	-	-	-
Total Current Liabilities	118,072	48,346	182,880	18,149
Loans From Shareholders	825,000	1,537,647	1,454,251	1,280,089
Long Term IB Debt	-	-	-	-
Total Liabilities	943,072	1,585,993	1,637,131	1,298,238
Net Worth	(288,795)	(495,087)	(528,229)	(562,834)
Total Liabilities + Net Worth	654,277	1,090,906	1,108,902	735,404

IB Debt = Interest Bearing Debt

For comparison purposes, the above Balance Sheet is converted to "common-size" in Exhibit III below. Industry comparison data is shown just to the left of the Subject's data. The industry data was taken from BizMiner under SIC code #5199, Miscellaneous Wholesaling of Non-Durable Goods. There were 792 companies whose revenues ranged from $.5 million to $5 million that were in the sub-category, Art Goods and Supplies. Data for 2009 was not available as of the date of this report.

EXHIBIT III COMMON SIZE BALANCE SHEET

Balance Sheet	Ceramics Unlimited, Inc.							
2009 data is not available at this time	2010 Industry	Subject	2008 Industry	Subject	2007 Industry	Subject	2006 Industry	Subject
Assets								
Cash/Securities	-	11.6%	9.4%	0.6%	9.1%	1.0%	11.8%	1.6%
Accts Receivable	-	12.5%	27.7%	5.6%	28.9%	3.9%	26.0%	4.7%
Inventory	-	75.9%	25.5%	92.7%	24.8%	92.2%	22.9%	91.0%
Other Curr Assets	-	0.0%	7.4%	0.0%	7.2%	1.3%	5.8%	0.0%
Total Current Assets	-	100.0%	70.0%	98.9%	69.9%	98.5%	66.5%	97.4%
Prop, Plant, Equip	-	0.0%	17.9%	0.1%	16.6%	0.1%	16.8%	0.2%
Other Assets	-	0.0%	12.1%	1.0%	13.4%	1.4%	16.7%	2.4%
Total Assets	-	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities								
Payables	-	18.0%	24.6%	4.4%	25.4%	16.4%	21.8%	2.4%
Loans Payable	-	0.0%	9.8%	0.0%	6.3%	0.0%	7.8%	0.0%
Other Current Liab.	-	0.0%	7.3%	0.0%	9.8%	0.0%	8.0%	0.0%
Total Current Liab	-	18.0%	41.7%	4.4%	41.5%	16.5%	37.6%	2.5%
Long Term Debt	-	126.1%	21.3%	141.0%	18.3%	131.1%	16.9%	174.1%
Total Liabilities	-	144.1%	63.0%	145.4%	59.9%	147.6%	54.5%	176.5%
Total Net Worth	-	-44.1%	37.0%	-45.4%	40.1%	-47.6%	45.5%	-76.5%
Total Liab & Net Worth	-	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

3.1.1.1 Cash

The Subject Company's Cash Balances have continuously been well below its peer group in recent years. However, Cash Balances rose to 11.6% of Total Assets in February 2010. Due to the changes in operations that were discussed in the Company History section, inventory rose dramatically from 2006 through 2008. The Company sold off the excess inventory in 2009 and reduced loans and increased cash balances. **Cash now appears to be in line with the industry levels.**

3.1.1.2 Accounts Receivable

During the years 2006 through 2008 the peer group averaged 27.5% of its Total Assets in Accounts Receivables. NC's Accounts Receivable averaged 4.8% during the same period. The Company accepts credit cards from its customers for more than 70% of its transactions. In addition, its in-house charge accounts are only extended net 15 day terms. As such, the Company maintains a very low level of Accounts Receivable compared to the industry. Thus, the Subject has a significant cash flow advantage over its peers in this critical area of operations.

3.1.1.3 Inventory

NC's inventory represents over 90% of its Total Assets compared to an average of 24.4% for the peer group companies. There are several reasons for the high level. First, in 2006 NCacquired all the inventory of an Italian bisque importer that went out of business. In 2007, the Company acquired all the inventory of the franchisor, Color Me Mine, who no longer wanted to act as a wholesaler to its Franchisees. The licensing agreement between CMM and NC prompted it to shift the majority of its inventory purchases to a Chinese manufacturer rather than manufacture inventory itself. The three to five month lead time required to get inventory restocked from that supplier meant that the Company would have to carry four to six months' worth of inventory on hand. As a result, inventory increased from $421,000 in the beginning of 2006 to $1,011,000 by the end of 2008.

The Company began purging excess inventory in 2009 and successfully reduced levels to less than $800,000 by year end. In addition, a $225,000 charge was taken against inventory at year end 2009 to defer taxes into 2010. Thus, as of February 28, 2009, the Company's balance sheet shows $496,000 in inventory; however, actual inventory is $225,000 higher at $721,000. Included in that amount is approximately $33,000 in consigned inventory from Colorobia that CU does not own. There is an offsetting Consignment Payable on the balance sheet for the same amount.

Thus, the Purchase Agreement indicates that the amount of inventory being purchased in the proposed transaction is $675,000. If fact, the buyer is acquiring $708,000 in inventory, but, is also assuming the $33,000 consignment payable. Hence, the NET inventory being purchased is $675,000.

3.1.1.4 Fixtures and Equipment

The Company appears to have a low concentration of fixtures and equipment on the books compared to its peers (a three year average of 0.1% of Total Assets vs. 17.1%). Roughly two thirds of the Company's fixtures were acquired more than fifteen years ago and have long since been fully depreciated. Recent fixtures acquisitions have all been written off under Section 179 and, therefore, have a net basis of zero on the books. Since the Company has evolved into an importer/wholesaler in recent years, the bulk of its assets are typical warehouse fixtures and material handling equipment. The life expectancy of this class of assets can exceed twenty-five years. As such, the Company's investment in plant and equipment does not appear too deficient. However, it most likely will have to play investment "catch-up" in coming years which will place a greater burden on the Company's Cash Flow than its peer group.

3.1.1.5 Total Debt

The Company has relied on loans from its stockholder for substantially all its capital needs. Its only other debt is from Accounts Payable. For the years 2006 through 2008 the Company's Accounts Payable averaged only 7.8% of Total Capital (Total Liabilities plus Net Worth). That compares very favorably to its peers whose Accounts Payable averaged 23.9% of Total Capital. The Company maintains a policy of prompt payment to its vendors to promote high levels of support from them and to take advantage of payables discounts.

The Subject's Total Debt is significantly higher than the industry. However, that debt is all payable to its shareholder and can be considered the same as equity. The bulk of the debt was acquired a number of years ago to finance large-scale receivables write-offs and huge operating losses sustained by the Company when one of its largest customers went bankrupt.

3.1.2 SUMMARY OF HISTORICAL INCOME STATEMENT

NC's Revenues during the last four accounting periods have generally increased with 2010 being the exception. Cash Flow, however, has increased every year during this period. The bar charts below give a visual presentation of its recent history.

EXHIBIT IV REVENUE BAR CHART - 2006 TO 2010

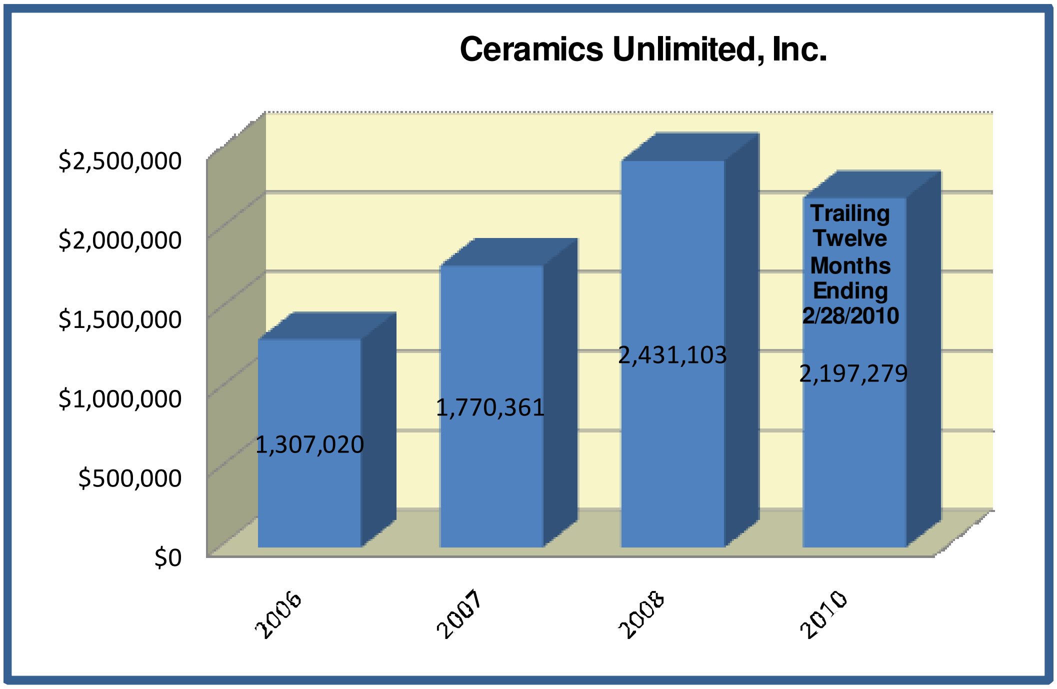
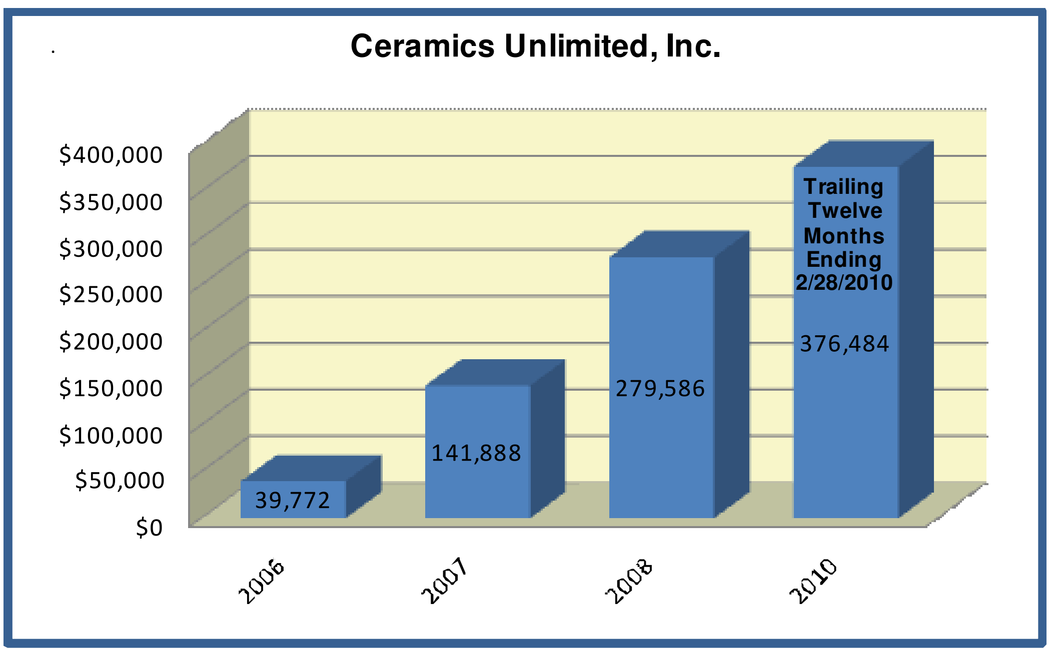


EXHIBIT V CASH FLOW BAR CHART - 2006 TO 2010



The Income Statements for National Ceramics, Inc. for the last four accounting periods are shown in Exhibit VI below.

EXHIBIT VI INCOME STATEMENT - 2006 TO 2010

INCOME	Feb 28, 2010 12 Mos.	Dec 31, 2008 12 Mos.	Dec 31, 2007 12 Mos.	Dec 31, 2006 12 Mos.
Gross Receipts	2,313,717	2,563,261	1,827,257	1,334,732
Less Returns and Allowances	(116,345)	(132,158)	(56,896)	(27,712)
TOTAL INCOME	2,197,372	2,431,103	1,770,361	1,307,020
COST OF GOODS SOLD				
Beginning Inventory	-	1,022,886	669,451	421,113
Purchases	1,127,687	1,267,975	1,230,651	891,929
Workmans Comp Insurance	9,443	12,073	13,059	10,483
Commissions	66,760	86,449	17,452	-
Shipping Supplies	14,160	45,453	78,659	60,555
Duties and Customs	4,115	9,138	12,553	-
Repairs, Maintenance	4,185	6,671	4,255	4,808
Utilities, Insurance, Misc	3,460	6,883	8,110	15,245
Royalties	-	864	34,985	26,900
Inventory Adjustment	221,692	-	-	-
Ending Inventory Adjustment	-	1,011,203	1,022,886	669,451
TOTAL COST OF GOODS SOLD	1,451,502	1,447,189	1,046,289	761,582
GROSS PROFIT	745,870	983,914	724,072	545,438
	33.9%	40.5%	40.9%	41.7%
OTHER INCOME				
Miscellaneous	30	1,137	590	209
Rent-Inv	-	-	-	-
TOTAL OTHER INCOME	30	1,137	590	209
EXPENSES				
Compensation to Officers	24,000	24,000	24,000	24,000
Labor-COGS	161,688	195,874	200,510	184,054
Bad Debts	5,366	7,955	4,764	4,293
Rents	102,033	115,682	99,817	98,645
Taxes and Licenses	107	871	875	889
Depreciation and Amortization	2,631	377	630	1,085
Interest	-	112,503	3,996	-
Advertising and Promotions	3,969	8,522	18,606	8,877
Pension Plan	-	25	1,365	940
Accounting and Professional	1,025	1,530	6,730	911
Auto and Truck Expense	41,052	41,596	43,492	44,683
Bank Charges, Credit Card Merchant F	48,988	66,730	46,318	36,030
Catalogs	3,345	15,305	9,860	22,716
Computer Expense	2,111	12,427	3,211	335
Consulting Fees	-	6,789	4,289	2,069
Delivery and Freight	219,111	244,255	157,136	106,056
Misc, Dues	2,330	1,710	1,656	3,702
Office Expense, Postage	5,923	9,367	7,259	10,409
Shows	9,825	13,811	9,041	8,793
Travel and Entertainment	27,642	35,988	30,034	38,059
Utilities. Web Expense	13,531	16,649	16,468	16,837
TOTAL EXPENSES	674,677	931,966	690,057	613,383
Net Profit Before Taxes	71,223	53,085	34,605	(67,736)

The spreadsheet in Exhibit XXIV on Page 51 also provides greater detail of the expenses and revenues.

For comparison purposes each of the above Income Statements is converted to "common-size" in Exhibit VII below. Industry comparison data is shown just to the left of the Subject's data. The industry data was taken from BizMiner under SIC code #5199, Miscellaneous Wholesaling of Non-Durable Goods. There were 792 companies whose revenues ranged from $.5 million to $5 million that were in the sub-category, Art Goods and Suppliers. Data for 2009 was not available as of the date of this writing.

EXHIBIT VII COMMON SIZED INCOME STATEMENT

Common-Sized Income Statement	Ceramics Unlimited, Inc.							
2009 data is not available at this time	2010		2008		2007		2006	
	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject
Revenues	-	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	-	66.1%	78.8%	59.5%	78.0%	59.1%	76.5%	58.3%
Gross Margin	-	33.9%	21.2%	40.5%	22.0%	40.9%	23.5%	41.7%
Other Income	-	0.0%	0.5%	0.0%	2.1%	0.0%	2.2%	0.0%
Expenses								
Officer Salaries	-	1.1%	1.4%	1.0%	1.3%	1.4%	1.6%	1.8%
Salary and Wages	-	7.4%	6.0%	8.1%	6.4%	11.3%	7.1%	14.1%
Rent	-	4.6%	1.3%	4.8%	1.4%	5.6%	1.3%	7.5%
Taxes	-	0.0%	1.6%	0.0%	1.4%	0.0%	1.3%	0.1%
Advertising	-	0.2%	0.6%	0.4%	0.7%	1.1%	0.7%	0.7%
Benefits/ Pension	-	0.0%	0.7%	0.0%	0.8%	0.1%	0.9%	0.1%
Repairs	-	0.0%	0.3%	0.0%	0.3%	0.0%	0.3%	0.0%
Bad Debts	-	0.2%	0.2%	0.3%	0.2%	0.3%	0.2%	0.3%
Other SG&A	-	17.1%	5.5%	19.2%	5.9%	19.0%	6.4%	22.2%
Interest	-	0.0%	0.7%	4.6%	0.6%	0.2%	0.6%	0.0%
Depreciation	-	0.1%	0.8%	0.0%	0.9%	0.0%	1.3%	0.1%
Net Income Before Tax	-	3.2%	2.6%	2.2%	4.2%	2.0%	4.2%	-5.2%
Income Taxes	-	0.0%	0.4%	0.0%	0.7%	0.0%	0.7%	0.0%
Net Income After Tax	-	3.2%	2.2%	2.2%	3.5%	2.0%	3.5%	-5.2%
EBITDA + Officer Compensatio	-	5.5%	5.5%	8.8%	7.1%	4.9%	7.7%	-1.4%

3.1.2.1 Revenues

The Revenues of the 792 Bizminer companies representing the peer group declined by a 5.8% Compounded Annual Growth Rate (CAGR) from 2005 to 2008. The best year was 2005 in which sales increased 1.2% over the previous year. Cash Flow (EBITDA) declined

Industry Growth	2005	2006	2007	2008	CAGR
Industry Growth - Revenue	1.2%	-3.2%	-1.9%	-17.9%	-5.8%
Industry Growth - EBITDA	-8.8%	-9.2%	-5.8%	-18.1%	-10.6%

at an annual rate of 10.6% from 2005 to 2008. The worst year was 2008 which declined 18.1%.

The Subject Company's Revenues increased at an annual rate of 13.9% from 2006 to 2010. Revenues for 2008 showed a gain of 37.3% over 2007 which was superior to the industry's 17.9% decline. Although 2009 data is not available, it would appear that NC's overall revenue growth is superior to its peers. The Subject's Cash Flow increased at an annual rate of 78.0% from 2006 to 2010. Cash Flow for 2008 showed a gain of 98.4% over 2007, whereas the industry's Cash Flow declined 18.1%. Although 2009 data is not available, it would appear that the Company's Cash Flow growth is superior to the peer group.

NC's Revenues declined a modest 9.6% in 2010. A significant portion of the decline in revenues was the result of a decline in sales to the CMM franchise stores. The recession of 2009-2010 had a significant impact on the retail sales of the franchisees.

3.1.2.2 Gross Profit Margins

Industry Gross Profit Margins have ranged between 21.2% and 23.5% from 2006 to 2008. NC's Gross Profit Margin ranged between 40.5% and 41.7% during the same period. A moderate portion of the difference could be explained by the fact that the Subject categorizes Shipping Costs to customers as an operating expense (Other SG&A), whereas, the industry companies probably classify it as a Cost of Goods Sold. The Subject's Shipping Costs averaged 10% of Gross Revenues during the last two years. Regardless, even if Shipping Costs were classified as a Cost of Goods Sold, the Subject's Gross Profit Margin would still be eight to ten percentage points higher than the industry. The Subject's shift from a manufacturer to an importer during the last four years has produced a dramatic increase in its Gross Profit Margin.

The Subject's Gross Margin for 2010 showed a marked decline from previous years. The owner decided to do some income tax planning and wrote off $225,000 in inventory at the end of 2009. Had the write-off not been taken, the Company's margin would have been 43.1% for 2009. **Although data is not available yet, it is expected that the Subject's Gross Margin will still be superior to the peer group in the current year.**

3.1.2.3 Rent

NC's average Rent Expense, as a percentage of Total Revenues, for 2006 to 2009 was 5.6%. The peer group's rent averaged only 1.3% from 2006 to 2008. The Company was paying $10,000 per month for rent through the first half of 2008. However, it received a rent reduction to $7,800 per month. The new lease rate, however, is still 4.3% of Gross Revenues. Thus, the high level rent is a threat to the Subject's future Cash Flow putting it at a competitive disadvantage to the peer group companies.

3.2 Industry Ratios

The BizMiner database for SIC code #5199, Miscellaneous Wholesaling of Non-Durable Goods, had 792 companies in the subgroup, Art Goods and Suppliers whose revenues were between $.5 million to $5 million. The financial ratio analysis of this group is presented below with the corresponding ratios of the Subject.

The Subject's Accounts Receivable turnover is vastly superior to the peer group, giving it a Cash Flow advantage. However, its Inventory Turnover is well below the peer group level. The three to five month lead times required to restock inventory from its Chinese supplier means the Company must carry up to six month's inventory on hand at all times (a 2.0 turnover). The offset is that the cost of imported inventory is so low that the Company enjoys Gross Profit Margins significantly higher that its peer group. The Company has been able to improve its turnover during the last three years by selling surplus inventory, thus increasing it from 1.0 to 2.9. Regardless, the working capital requirement imposed by the large inventory level will create a significant cash flow burden to the Company as it grows.

Exhibit VIII Peer Group Ratio Analysis

Financial Ratios	Ceramics Unlimited, Inc.							
2009 data is not available at this time	2010		2008		2007		2006	
	Industry	Subject	Industry	Subject	Industry	Subject	Industry	Subject
Receivables Turnover	-	26.9	10.4	39.8	9.1	40.7	9.3	37.6
Inventory Turnover	-	2.9	8.9	1.4	8.3	1.0	8.0	1.1
COGS/Payables Turnover	-	43.2	9.2	57.9	8.1	16.1	8.4	0.0
Fixed Asset Turnover	-	0	16.1	4,295.2	15.8	1,877.4	14.3	830.4
Working Capital Turnover	-	4.1	10.2	2.4	9.3	1.9	8.3	1.9
Working Capital to Assets	-	82.0%	28.3%	94.5%	28.4%	82.0%	28.9%	94.9%
Working Capital to Sales	-	24.4%	9.8%	42.4%	10.8%	51.4%	12.0%	53.4%
Debt to Equity Ratio	-	-3.3	1.7	-3.2	1.5	-3.1	1.2	-2.3
Total Invested Capital Structure:								
Total Int Bearing Debt to Total Invested Capital	-	153.9%	45.6%	147.5%	38.0%	157.0%	35.1%	178.5%
Net worth to Total Invested Capital	-	-53.9%	54.4%	-47.5%	62.0%	-57.0%	64.9%	-78.5%
Total Invested Capital to Total Assets	-	82.0%	68.1%	95.6%	64.8%	83.5%	70.2%	97.5%

4.0 Valuation of The Subject Business

The methodologies considered for use in the valuation of the Subject are as follows:

Income Approach is Rejected. The Income Approach analyzes a company's income stream from an investor's point of view. Implicit in the Income Approach is that a buyer will look at a company's Net Cash Flow after deducting all expenses and capital requirements, apply a desired rate of return, and, thereby calculate an appropriate level of investment. The two most important elements in the Income Approach, then, are the Subject Company's Net Cash Flow and the investor's desired rate of return.

Most small companies with revenues less than \$3 to \$5 million typically only earn enough money to compensate the owner for his labor. As a result, the remaining portion of Total Net Cash Flow that represents the return on one's investment is minimal or even a negative (the owner makes a substandard living wage). Thus, this methodology would produce an unrealistically low or a negative value.

Also, since there is no market data available for the rates of return that investors in small, privately-held companies typically earn, the Income Approach uses rates earned by investors in publicly traded companies listed on national stock exchanges. The methodology takes the rate of return an investor would expect to receive from a \$100 billion company and attempts to reconcile it to an appropriate rate he might expect from investing in a small privately-held company doing, say only, \$1 million in revenues.

The largest companies on the stock market have earned an average of 9.8% per year over the last 75 years which translates to a Price/Earnings Multiple of 10.2 (the P/E Multiple = 1 ÷ rate of return: 1 ÷ 9.8% = 10.2). The smallest 5% of companies on the stock market have historically earned 19.4% return per year for a Price/Earnings Multiple of 5.2 (1÷ 19.4% = 5.2). Thus, the smaller the size of the company, the greater the return on investment demanded by the investor, as is evidenced by the declining Price/Earnings Multiples.

When employing the Income Approach, Appraisers often erroneously take the rate of return from that smallest 5% of publicly traded companies and apply it to even smaller privately held companies. The inference here is that investors in small privately held businesses would be satisfied with the same rate of return that they could receive from investing in small publicly traded companies.

However, when we examine the transactions involving small, privately-held companies, we see that as companies continue to get smaller and smaller, their Earnings Multiples will continue to decline. Clearly, investors of small privately held businesses are demanding even greater rates of return than the stock market offers as is reflected in the lower Cash Flow Multipliers they are willing to accept.

EXHIBIT IX MULTIPLIERS BY SIZE OF COMPANY

Ultra-Small Company Risk Premium
Pratts Stats Database

Total Transactions	Total Sales		Price-Earnings Multiplier*
	Sales Range	Median Sales	Median
183	Over $25 Million	62,444,000	6.69
114	$5 to 10 Million	7,079,000	5.86
785	$1 to 5 Million	2,074,500	5.42
746	$.5 to 1 Million	674,000	4.39
1833	$0 to .5 Million	250,000	3.28

*** Cash Flow = Earnings Before Taxes (EBT) less Estimated Taxes**
Cash Flow Multipliers = Selling Price / Earnings (see footnote below)

Note: The data from Pratts Stats is insufficient to precisely calculate "Net Free Cash Flow to Equity." Therefore, the Net Earnings calculation here is not directly comparable to that used in the Income Approach. Regardless, we can observe the *relative movement* of the earnings multiples here to give us insight into estimating the Ultra-Small Company Risk Premium.

Pratt's Stats Database contained a total of 11,501 transactions. The following Transactions were eliminated from the above analysis to avoid potential ratio distortions:

1) Corporate Stock Sales.
2) Asset Sales where liabilities were assumed.
3) Companies with negative cash flow.
4) Companies with P-E Multipliers > 10.0.

www.bvmarketdata.com, *Pratt's Stats database,* as of 4/3/2008.

From Exhibit IX we can see that Earnings Multipliers[1] gradually decline from the largest privately-held companies in the $25 million to $100 million sales range (roughly the same size as the smallest publicly traded companies) to companies with revenues between $1 million to $5 million. Thus, the rates of return garnered for these investments become increasingly higher than the stock market would provide. Depending on the type of company, the Multipliers begin to fall rapidly in the mid $1million to $5 million range and crash under $1 million. In other words, the smaller the company, the lower its Cash Flow Multiplier and, therefore, the higher the resulting rate of return.

Following the linear relationship between the company's size and its rate of return means that when we get down to the smallest privately-held companies, the P/E ratio is so low that it suggests that an appropriate rate of return that an investor would demand from such an investment is in the range of 35-50% per year. Even though this rate of return is beyond comprehension, we still must apply it to a small company's Net Free Cash Flow after all expenses. As we saw from above, that often is approximately $0 for most small companies (owner's salary eats up all the excess cash flow); that means that the value of a small company, using the Income Approach, would often be $0 ($0 ÷ 50% = $0). Nothing makes sense.

[1] (Note: the Cash Flow or Earnings Multiples of privately held companies are calculated slightly differently than the P/E Multiples of publically traded companies. So, they are not directly comparable. However, we can still observe their movement and draw meaningful conclusions.)

Thus, the Income Approach, when applied to very small businesses can produce wildly exaggerated results. The Income Approach is constructed using the premise that all buyers are investors. There is no consideration for the fact that there are other reasons why people buy small businesses (i.e. a paycheck).

EXCESS EARNINGS METHOD IS REJECTED. This approach requires a high-integrity balance sheet in order to calculate the return on investment attributed to all the company's assets. The Fixtures Ledger used to prepare the Company's P&Ls and Tax Returns are compiled primarily for tax purposes and, therefore, do not include all of the Company's assets. As a matter of practice, most companies do not capitalize any asset purchases less than $1,000 to $5,000. Those assets are being used by the Company, but, are not reflected on the Balance Sheet. As such, this approach would be impractical to apply. Furthermore, this method is typically not used when there are other, more reliable approaches that can be used.

ASSET APPROACH IS REJECTED. The Asset Approach is most frequently used for companies that are asset-intensive or are holding companies. These are companies that typically have low or no cash flow yet, own a high level of assets. These companies usually have high-integrity balance sheets which can be used to determine the adjusted book value of the company's individual assets. A classic example would be a real estate investment company which owns several parcels of land that do not generate any cash flow. For the Asset Approach to be reliable, an appraisal of the individual assets is recommended which is beyond the scope of this assignment.

MARKET APPROACH IS SELECTED. The Market Approach employs the Principal of Substitution. Simply stated, a buyer will not pay more for a business if an equally desirable substitute is available at a lesser price. Thus, in the Market Approach we search for what is considered equally desirable companies and use their selling prices to estimate the value of the Subject Company.

5.0 MARKET APPROACH

The valuation process should be a "forward looking" process. That is, we are trying to look into the future potential of a company to determine its value today. The Market Approach, however, looks at actual transactions that are often years old, and, the financial data associated with the transaction obviously *predates* the sale. On the surface, then, the Market Approach would appear to be looking in the rear-view mirror. The Market Approach, however, is a buyer-driven analysis. We are literally stepping back in time to the precise moment when a buyer and seller agreed to the terms of a sale. The buyer clearly made his decision to buy based on his assessment of the recent financial statements of the business, but, just as importantly, the price he offered was based on his expectations of the future potential of the business. For example, a "dot.com" company in 2002 probably produced strong financials for 2001. However, the buyer's expectations for the long-term future of this type of business would be very negative. The price he was willing to pay in 2002 would certainly reflect that expectation. Therefore, by comparing the selling price of the business to its historical data, the resulting financial ratios describing that event clearly reflect the *future* long-term expectations of the buyer based on his knowledge of the *current* financial condition of the company. Thus, in theory, by applying those same financial ratios to our Subject Company's recent financial data, we would be calculating a price that a buyer would pay *today* that is based on the *current* financial condition of the company and a buyer's *future* expectations.

The Market Approach includes a collection of methods which use actual transactional data from the marketplace. There are various methods commonly used under this approach.

5.0.1 THE GUIDELINE PUBLIC COMPANY METHOD

The Guideline Public Company Method uses a database of publicly traded companies whose shares are Freely-Traded. The method involves observing the stock prices of smaller publicly held companies in the same industry as the subject to determine appropriate pricing multiples to apply to the subject's revenues and income stream. Because of the large size of the companies typically found in this database, its use as a comparison for small privately-held companies is often inappropriate. A search of SIC # (), the Subject's primary classification, using Business Valuation Market Data's database[2] found no comparable companies near the size of the Subject.

Therefore, the use of the Guideline Public Company Method is rejected.

5.0.2 THE MERGERS AND ACQUISITIONS TRANSACTIONS METHOD

The Mergers and Acquisitions Transactions Method involves the acquisition of businesses by other companies that are often public companies. The desired analysis of this database is to observe the prices of small privately-held companies that are acquired by large public companies. Buyers in this arena are often what we refer to as "strategic, or investment buyers." The synergies that exist between the acquiring and target companies are such that the acquiring company has far more to gain than just a return on investment. Strategic acquiring companies are often trying to dominate specific markets by buying up competitors, or trying to gain access to a specific market that fits with the markets they already control. These strategic transactions are often at a significant premium compared to those transactions where no specific synergy exists. Since the standard of Fair Market Value is to determine the transaction price between *any hypothetical buyers and any hypothetical sellers*, we must necessarily rule out those transactions where one specific player had a special agenda to fill; otherwise, we would have to do a different valuation for every different acquiring company.

A search using Business Valuations Market Data Mergerstats Database[3] found no companies similar to the subject's size. Therefore, the Mergers and Acquisitions Transaction Method is rejected.

[2] Public Stats- SIC 5063 and 5065 http://www.bvmarketdata.com
[3] Mergerstats- SIC 5199, searched on http://www.bvmarketdata.com

5.0.3 The Direct Market Data Method

The Direct Market Data Method uses databases of smaller, closely-held companies in which the controlling interest was sold. These transactions can typically be sorted by Standard Industry Classification (SIC), thus creating a statistically measurable "re-creation of the market." The companies in this database, for the most part, were traded as Asset Sales or sales that could easily be adjusted to reflect an Asset Sale. The characteristics of this method closely parallel that of the Subject Company.

Therefore, the Direct Market Data Method will be the selected method used in the Market Approach. The various sources of data contain transactions ranging from a few thousand dollars to over one billion dollars. The transactions are from businesses located all around the country which were consummated as recently as a few months ago to as long as twenty years ago. In addition, when searching a specific SIC group for transactions involving companies similar to the subject, we often find that these companies do not appear to be similar at all.

The selection of appropriate comparables (also referred to as "guideline, or peer group companies") from these databases will be made after careful consideration of the following:

5.1 Selection of Appropriate Guideline Companies

5.1.1 Databases Selected

The most commonly used databases in the Direct Market Data Method are Pratt's Stats, BIZCOMPS, BizBuySell, and the Institute of Business Appraisers (IBA) databases. For the most part, the data from these sources is obtained from business brokers who represented the buyer or the seller in the transaction. The IBA database does not report the amounts of inventory or fixtures and equipment that were included in each transaction and frequently, Discretionary Earnings is missing. Since there are only ten data points reported for each transaction, it is difficult to reconcile the many complexities of each sale. As such, this is the least useful database. BIZCOMPS reports the selling prices of a business *excluding* inventory. This database, however, *does* report the level of inventory separately, and therefore, we simply add inventory to the BIZCOMPS' reported selling price in order to be comparable to the other two databases. BIZCOMPS reports 17 data points for each transaction and claims to "police" the quality of input to its database.

BIZCOMPS and IBA state that they calculate Seller's Discretionary Earnings slightly differently. (For example, IBA does not mention adding back depreciation into Discretionary Earnings.) However, this Appraiser has completed over 250 market approach analyses and has made a point to carefully read the complete transaction reports for over 5,000 comparables from all three databases. In instances where both databases reported the same transaction, the Appraiser has found that in a high percentage of the cases the selling price, gross revenues and discretionary earnings were identical. One can attribute this to the fact that the same broker will report a transaction to both databases, and will offer only one calculation for Seller's Discretionary Earnings (SDE). Brokers will typically follow the convention recommended by the IBBA (International Business Brokers Association) for calculating SDE, a convention that BIZCOMPS expressly follows and one that IBA appears to accept by default. Therefore, both databases will be considered similar enough in their respective construction to be grouped together. Shannon Pratt draws the same conclusion in *The Market Approach to Valuing Businesses.*[4]

Pratt's Stats has over 65 data points for each transaction including a summary of the P&L and balance sheet, a description of the terms of the deal, the type of consideration tendered, and whether it is a stock sale or an asset sale. Because of the extensive information available, reconciling Seller's Discretionary Cash flow or reconciling the actual selling price of the transaction is more reliable. Pratt's Stats calculates SDE the same way as BIZCOMPS and IBA; however, it is not uncommon to find discrepancies among all three. Careful analysis of all three databases will help avoid selecting incorrect transactional data. The greater detail offered by the Pratt's Stats database can help reduce errors in selecting the transactional data. Therefore, if there are any discrepancies arising among duplicate transactions reported by the three databases, the Pratt's Stats data will generally be used in the analysis.

5.1.2 TIMING OF THE SALE

The transactions used for business valuations are often several years old. Most of us exposed to real estate appraisals on private residences have been told that proximity to the subject house and timing of the comparable's sale are critical to the valuation. Business valuations, however, are not derived by looking at the actual selling price of the comparables. Instead, the Subject Company's financial ratios are compared with the ratios of the comparable businesses. Such financial ratios have a tendency to be fairly consistent over time. For example, the Price-Earnings ratios (P/E) used to compare publicly traded companies, on the average, do not change a great deal. Over the last fifty years the average P/E ratio for the Dow Jones Index, for example, has generally fluctuated fairly closely between 18 and 21. The Index Price may drop 30 to 40% as it did in 2002, but the cause was primarily due to a drop in company earnings. As earnings declined, prices followed suit; and, as earnings subsequently rebounded, so did prices. The Price/Earnings ratio, however, remained fairly stable throughout.

Secondly, small-business investors base their investment decisions primarily on a long-term view of the market. Unlike purchasing stock, where the holding period may be weeks or months, buyers of small businesses are in it for "the long haul." Therefore, when comparing businesses that sold several years ago, the effects of recessions or bull markets on the cash flow multiples of the business are somewhat minimalized. Again, by using financial-ratio comparisons, the relationship between selling price and gross sales or selling price and cash flow tends to be fairly stable over time. The time element that is so critical in real estate appraisals is not nearly as significant a factor in business appraisals.

[4] Shannon Pratt, *The Market Approach to Valuing Businesses*, (John Wiley and Sons, Inc., 2001), p. 173

The following research was discussed in the book by Gary Trugman, Understanding Business Valuation:[5]

> *Raymond C. Miles, C.B.A., A.S.A., executive director of the Institute of Business Appraisers, published a paper entitled, "In Defense of Stale Comparables," in which Miles examined the almost 10,000 entries in the database, and demonstrated that most industries are unaffected by the date of the transaction when smaller businesses are involved. Miles performed a study that examined the multiples across various industries and time periods to see if, in fact, the multiples changed. The conclusion reached was that the multiples do not appear time-sensitive, since inflation affects not only the sales prices, but also the gross and net earnings of the business. Therefore, this information can be used to provide actual market data.*

More recently, similar results were cited by Jack Sanders, the creator of BIZCOMPS database.

> *Recently, the author [Jack Sanders] compared current study data with the data over ten years old. First the Gross Sales to Sales Price ratio was compared. In the current National Database that ratio was available in 6.748 out of 6,851 transactions. The arithmetic mean of this ratio was .46, while the median was .38. A similar analysis of 879 transactions out of 954 transactions older than ten years was made. The arithmetic mean was .44 and the median was .37. The same analysis was made of the Seller's Discretionary Earnings (SDE) to Sale Price ratio. The arithmetic mean for the current study was 1.95 while the median was 1.8. In the over 10 year-old data, the arithmetic mean was 2.0 and the median was 1.8.*[6]

The search criteria used by the Appraiser when selecting guideline companies from the three databases, therefore, will not exclude transactions based on the timing of the sale.

5.1.3 Location

The location of a business can certainly have a significant impact on its value. For example, we often hear comments from business owners such as, "my restaurant has the best location in town and, therefore, deserves a much higher valuation." That observation would be true if that business were more profitable than its competitor. When applying the *same* Cash Flow Multiple to the two different locations, the restaurant with the higher profits (and superior location) would earn a higher calculated value than the other. The superior location undoubtedly contributed to the company's higher profitability, and hence, its higher value. If the company at the supposed superior location generated the same level of profits as its competitor, one would have to seriously question the contention that the location is superior.

---

[5] Gary Trugman, Understanding Business Valuations: A Practical Guide to Valuing Small to Medium Sized Businesses, (New York: American Institute of Certified Public Accountants, 1988), p. 150

[6] Jack Sanders, *BIZCOMPS User Guide,* Las Vegas, NV, 2004, p. 7

Selecting guideline companies from different states for comparison with the subject frequently raises challenges. The Appraiser researched the BIZCOMPS database to determine if there were compelling differences in the Market Value Multiples earned by companies from different states. The exhibit below shows the Cash Flow Margins and Revenue and Cash Flow Multiples of companies sold in the major states throughout the country.

Tests were performed on the database below to determine if various economic factors influenced the level of Market Value Multiples earned by companies throughout the country. A regression analysis was performed comparing the population growth rate of a given state with the Gross Revenue Multiples earned by companies within that state. The hypothesis here is that high-growth areas must assuredly attract business buyers who are willing to pay a premium for access to that market. The regression produced an R-Square of 0.40. The value, although not compelling, suggests that there is a modest tendency for high-growth areas to produce higher Gross Revenues Multiples than low-growth areas. (An R-Square of 1.0 means a perfect correlation between variables, whereas 0.0 means no correlation at all.)

EXHIBIT X MARKET VALUE MULTIPLES BY DIFFERENT STATES

State	Median Revenue	Median Cash Flow Margin	Median Rev Multiple	Population Growth	Income Growth	# of Sales
NV	718,877	17.2%	0.54	28.3%	18.9%	50
CA	600,105	15.8%	0.42	7.8%	19.3%	911
UT	514,892	16.7%	0.37	18.4%	12.2%	95
TX	617,191	16.6%	0.44	14.6%	12.5%	335
OH	725,306	18.3%	0.42	5.7%	8.7%	58
AZ	520,839	14.0%	0.37	23.5%	16.5%	436
CO	571,762	13.8%	0.42	13.0%	10.2%	472
VA	800,000	24.0%	0.52	9.0%	14.9%	150
GA	656,533	19.2%	0.42	16.6%	20.6%	424
PA	545,000	35.5%	0.54	1.2%	15.3%	44
MA	782,496	18.1%	0.44	1.5%	18.7%	139
FL	634,666	23.6%	0.43	14.1%	17.2%	2617
MN	580,837	15.9%	0.52	5.6%	14.7%	124
MD	1,089,932	7.3%	0.28	6.0%	23.2%	81
MN	580,837	15.9%	0.52	5.7%	14.7%	43
	Median	16.7%	0.43	9.0%	15.3%	5,979
	Average	18.1%	0.44	11.4%	15.8%	
Standard Deviation		6.2%	0.073	7.9%	3.9%	
Coefficient of Variation		0.342	0.164	0.694	0.249	

Comparables were selected from BIZCOMPS Database of 10,065 Tran
Transactions of $250,000 and higher were selected .
Population growth is the annual growth rate of the state from 2000 to 2(
Only States with more than 35 transactions were included in the analys

A second test was run comparing the growth rate of household income within a state with the Gross Revenue Multiples earned by companies sold in that state. The percentage change in median household income from 2000 to 2006 for each state was regressed against the median Gross Revenue Multiples earned by companies sold in that state. The hypothesis here is that communities enjoying surging income levels will attract buyers of businesses who perceive investment opportunities. The regression only produced an R-Square of 0.0006; i.e., there was virtually no correlation between rising incomes and the Gross Revenue Multiples earned in a given region. Therefore, that hypothesis is rejected. However, a *multiple* regression analysis was performed combining the population growth rate *and* the income growth rate of a region and comparing them with the Gross Revenue Multiples. The combination produced an R-Square of 0.32. The value suggests that communities enjoying higher population growth *and* a higher growth in household income may produce transactions with higher Market Value Multiples.

Given that population growth may have a positive effect on the Gross Revenue Multiples at the state level, we can draw the conclusion that high-growth communities within the state should also enjoy higher multiples than low-growth communities. Therefore, this report will research the growth rates of the community or market area that the Subject serves and compare it to the growth rate of the entire state or country.

From Exhibit X above we can see that the population growth for California has been slightly below that of other states by about the same amount that its growth in household income has been above other states. In other words, the positive effect of the one probably offsets the negative effect of the other. The research would suggest then that California businesses should also sell at Gross Revenue Multiples that are near the median values found in other states, and in fact, the data bears this out. The Gross Revenue Multiples of companies sold in California were almost identical to the median values found in all major states (.42 vs. .43).

The search criteria used for selecting comparables from the three databases, therefore, will include all transactions regardless of their location. However, a selection of the Market Value Multiples based on Income and population growth should tend toward the median of the values observed.

5.1.4 SIMILARITY OF COMPARABLES: THE PRINCIPLE OF SUBSTITUTION

As set forth in the Revenue Ruling 59-60, the value of an item can be determined by the cost of acquiring an equally desirable substitute. The Market Approach embodies this principle through the process of finding other similar businesses that have sold. The operative word "similar" often creates debate. A business owner is quick to point out the many unique characteristics of his company that make it distinctive in the marketplace and, therefore, should add to its value. The owner's *customers* will make those same distinctions, which is why they patronize the owner's business. A *buyer*, however, typically does *NOT* make those distinctions. First and foremost, a buyer of a small business is "buying a job," a job that must support the lifestyle to which he is accustomed. We have actually seen a buyer submit an offer on a grocery store, but then subsequently buy an X-ray equipment servicing business instead. The reason he did not buy the grocery store was not because it didn't have eight foot high gondolas, or wasn't backed by the right franchisor, but rather, the X-ray equipment company simply just made more money. Clearly, a buyer's search criteria are just not detail oriented.

The Market Approach, therefore, is a buyer-driven analysis. Thus, in searching for comparable sales, it is *not* essential that the comparable be an *exact* match to the Subject Company. The ease with which Buyers choose between different types of businesses means that fairly broad classifications of businesses tend to exhibit similar value characteristics. The Buyer will simply not pay more for a business when there is an equally desirable substitute offered at a lower price.

The Subject Company is classified under SIC code #5199, Miscellaneous Wholesaling of Non-Durable Goods**.** Companies listed under these classifications may not be identical to the subject; however, they may possess many similar characteristics. From a buyer's perspective, then, most of the companies within this group would be equally desirable choices.

The search criteria used for selecting comparables from the four databases, therefore, began by searching SIC codes #5199. A total of 32 comparables were found in the Pratt's Stats database, 33 were found in the BIZCOMPS database, 109 were found in the BizBuySell database, and, 13 were found in the IBA database. The selection was further filtered to include just those companies whose revenues were between $1 million to $5 million, with the transactions occurring after 1998 and whose description of operations was similar to the Subject. A total of two comparables were found in the Pratt's Stats database, seven were found in the BIZCOMPS database, nine were found in the BizBuySell database, and, five were found in the IBA database.

Specific details on all of these companies can be found in the appendix beginning on Page 59.

5.1.5 SIZE OF THE COMPANY

The size of a company, in terms of its Gross Revenues, has a direct bearing on its value.

The Pratt's Stats Database of over 11,500 transactions was sorted by size of company. The results below show that, with few exceptions, smaller companies earn lower Cash Flow Multiples and Gross Income Multiples than larger ones. For example, all companies in the table below generated a median Cash Flow Multiplier of 2.62, whereas, those companies with revenues under $500,000 earned only 2.17. Thus, the smallest companies earned multiples of 2.17÷2.62 or 82.8% of what the average sized companies earned when sold. Similarly, companies with revenues between $1,000,000 and $5,000,000 exhibited a median Cash Flow Multiple of 2.80 which was 6.9% higher than the average sized company.

The Subject Company generated Gross Revenues during the four years observed that ranged between $1,307,020 and $2,431,103. Therefore, a "size criteria" for selecting guideline companies should be those whose revenues fall roughly in the $1 million to $5 million category. Often it is difficult to find enough comparables within a given revenue range similar to the Subject. Therefore, in order to get a sample of reasonable size, it may be necessary to select somewhat larger or smaller guideline companies. In this case, it is important that the average revenue size of the whole sample be fairly close to the Subject's revenue history.

EXHIBIT XI CASH FLOW MULTIPLIERS BY SIZE OF COMPANY

Total Transactions	Total Sales		Cash Flow Multiplier				Gross Income Multiplier			
	Sales Range	Median Sales	Median	Average	Standard	Coefficient of	Median	Average	Standard	Coefficient of
2236	0-500,000	242,000	2.17	2.75	1.90	69.1%	0.48	0.60	0.51	85.4%
922	500,000-1,000,000	693,000	2.52	2.96	1.92	64.7%	0.42	0.50	0.35	70.1%
1044	1,000,000-5000,000	2,030,000	2.80	3.28	2.01	61.4%	0.45	0.57	0.59	103.5%
168	5,000,000-10,000,000	7,003,000	4.09	4.61	2.43	52.7%	0.58	0.79	0.81	102.3%
166	10,000,000-25,000,000	15,470,000	5.10	5.32	2.31	43.5%	0.68	0.93	0.91	97.5%
252	25,000,000+	64,814,000	6.21	6.04	2.36	39.0%	0.64	0.85	0.78	91.2%
Overall Totals										
4780	All Transactions	563,000	2.62	3.23	2.17	67.2%	0.48	0.61	0.56	91.8%

Pratts Stats Database contained a total of 11,501 transactions as of June 3, 2008
The following transactions were eliminated from the above analysis to avoid potential ratio distortions:
1) Corporate Stock Sales
2) Assets Sales where liabilities were assumed.
3) Companies with negative cash flow
4) Companies with Cash Flow Multipliers over 10.0

The risk in using a smaller sample of comparables is that one "outlying" comparable can significantly distort the ratio analysis of the entire sample. By "outlying" we mean that the Market Value Multipliers produced by the single guideline company are so far above or below the other observations that it caused the group's averages to be skewed. Thus, it is accepted practice when trying to measure where the market is to use the *median* of a sample rather than its *average*. The *average* of a sample will be affected more by a single outlier than the *median*. Regardless, both measures are at risk of sampling error due to small sample size. For that reason, standard deviation and coefficient of variation tests will be run on the sample which will be compared to the entire Pratt's Stats database of 11,500 companies to determine its efficacy. In addition, a regression analysis will be performed to see if there are any guideline companies whose selling prices were significantly higher or lower than what the overall market would expect.

Standard Deviation is a statistical tool that measures the difference between the multipliers of each individual observation and the average for the entire sample. In other words, the Standard Deviation measures the degree of variability or dispersion within a sample. However, comparing the Standard Deviations of two samples, by itself, does not tell us which sample is more accurate. For that determination we use the Coefficient of Variation (CV). CV is the Standard Deviation divided by the Average. This is a measure of the *relative* variation that a sample possesses. Thus, the coefficient enables us to compare different samples in terms of their respective variability. If one sample has a much lower CV than the second, we can assume that the second sample has one or two outlying observations that may be distorting its overall average.

The best way of defining CV is through an example. Sample #1 in the table below contains the Cash Flow Multipliers of six sales transactions. The median is 4.5; the average is 4.6; standard deviation is .63; and, the CV is 14% (.63 ÷ 4.6). Sample #2 also contains the Cash Flow Multipliers of six transactions. This sample also has a median of 4.5, the same that was found in Sample #1, and, its average is just slightly higher at 4.8. However, the standard deviation and CV for this second sample are a much higher; 3.2 and 66%, respectively.

EXHIBIT XII EXAMPLE COEFFICIENT OF VARIATION

	Cash Flow Multiplers	
	Sample #1	Sample #2
Transaction #1	4.6	8.0
#2	4.0	2.0
#3	4.4	4.0
#4	4.7	9.0
#5	5.7	1.0
#6	4.0	5.0
Median	4.5	4.5
Average	4.6	4.8
Stand Deviation	0.63	3.2
Coef of Variation	14%	66%

We can simply look at the six observations in Sample #1, and intuitively we know that 4.5 is a good guess of where that market is. When looking at Sample #2, we have no clue as to what a good guess would be. Sample #2's observations are all over the map and any guess may be way off the mark. The CVs for these two samples statistically tell us what we already gleaned from visual inspection. The CV for Sample #1 was only 14%, whereas #2 was 66%. Given the choice between the two samples, Sample #1 produces, by far, a better indication of where the market is.

As noted by Shannon Pratt in his Market Approach to Valuing Businesses, "All else being equal, multiples [derived from a sample database] exhibiting low Coefficients of Variation tend to more accurately reflect market consensus with respect to value."[7] Mr. Pratt also notes, "When Market Value Multiples among companies are tightly clustered, this suggests that these are the multiples that the market pays most attention to in pricing companies … in that industry."[8]

The appraiser might have occasion to adjust a Market Value Multiple up or down given the presence of certain circumstances. Since the median value for a particular multiple describes where the general market is, there may be circumstances where the appraisal subject does not "fit the mold." According to Pratt, "*Keep in mind that the two factors that influence the selection of multiples of operating variables the most are the growth prospects of the Subject Company relative to the guideline companies and the risk of the Subject Company relative to the guideline companies."*[9]

[7] Shannon Pratt, The Market Approach to Valuing Businesses, (John Wiley and Sons, Inc., 2001), p. 212
[8] Ibid., p. 133
[9] Ibid., p. 134

Thus, if the growth rate of the subject or its profitability is greater than or less than the guideline companies as a whole, there would be justification to move the observed multiple upward or downward by a percentage, or, even go to the upper or lower quartile of the sample's range.

Standard Deviations and Coefficients of Variation will be calculated for the sample which will then be compared to the entire Pratt's Stats database of 11,501 transactions. If either sample produces significantly higher coefficients, we will reduce its weighting, or eliminate it altogether when reconciling all the calculated values to obtain a single value conclusion.

5.1.6 Other Filtering Criteria

The last filter criteria applied to the remaining database was to eliminate any transaction with negative or near zero earnings. Companies with earnings that are negative or near zero will produce Cash Flow Multiples that are negative or extraordinarily high, causing averages and Standard Deviations to be skewed inappropriately. By way of example: Selling price = $400,000, Revenues = $1,000,000, and Cash Flow = $25,000. The resulting Cash Flow Multiple = 16 ($400,000 ÷ $25,000). One would normally draw the conclusion from a Cash Flow multiple of 16, that the company sold for an extraordinarily high price. In this case, it was just the result of a very small denominator – Cash Flow.

Of the 6,279 transactions matching the initial search criteria in the Pratt's Stats database, 843 were found to have Cash Flow multiples of 10.0 or greater. The median Cash Flow Profit Margin (Cash Flow ÷ Total Revenue) for this group was only 4.4%, whereas, the median for the entire Pratt's Stats database was 19.3%. Thus, companies with Cash Flow multiples greater than ten are more than likely unprofitable companies. Since Cash Flow is the denominator in the Cash Flow Multiples equation, the high multiples earned for this group are clearly a function of a very low earnings level rather than a high price level. In addition, this group also yielded a very high Coefficient of Variation of 127.2%. The 843 transactions in this group are, therefore, loaded with outliers with distorted multiples.

Thus, companies with Cash Flow Multiples that are negative or greater than ten will be rejected from the analysis.

5.2 Procedures Used in the Direct Market Data Method

The following procedures will be used in the Market Approach to determine the value of the Subject Company:

5.2.1 Gross Revenue Multiplier – (Selling Price ÷ Gross Revenues)

This method is a simple ratio of a company's Selling Price divided by its total Gross Revenues. Companies within a specific industry classification have a tendency to exhibit similar relationships between their revenues and selling price. Selling Price and Gross Revenues of a company are readily obtainable, making this method easy to apply. However, it does not consider the company's profitability or asset valuation in the equation. Therefore, this method, if used by itself, may produce a misread of a company's potential value.

5.2.2 CASH FLOW MULTIPLIER – (Selling Price ÷ Cash Flow)

This method is the ratio of a company's Selling Price divided by its Discretionary Cash Flow. It should be noted that the database sources used in the Direct Market Data Method calculate earnings differently than the way we calculated Net Cash Flow in the Income Approach. Earnings or "Owner's Discretionary Earnings" are calculated by removing all Owner's salaries and perquisites (such as health benefits, personal autos, etc.) from expenses. Interest, depreciation, income taxes, any one-time expense or income, and any non-operating expense or income are also removed from the income statement. The resulting Owner's Discretionary Earnings (also referred to as Owner's Discretionary Cash Flow) is that cash flow which the Owner has at his disposal for his salary and perquisites, his loan payments, and his Capital Expenditures.

However, the same problem with the Gross Revenue Multiplier exists with the Cash Flow Multiplier. That is, the ratio only focuses on one aspect of the company's operations, its Cash Flow. Therefore, if used by itself, this ratio may produce a misread of the company's value. For that reason the Market Approach typically includes both ratios to estimate the value of a business.

5.2.3 ENTERPRISE VALUE + INVENTORY – (Selling Price – Inventory ÷ Cash Flow)

Under certain circumstances, however, using the above two methodologies can still produce inaccurate results when valuing businesses that derive the bulk of their revenues from the sale of inventory. For example: it was determined that the average hardware store sells for .45 times its Gross Revenue and 3.30 times its Discretionary Cash Flow. In our search, we find two guideline companies, each doing $900,000 in Gross Revenues and $125,000 in Cash Flow; yet, one sold for $400,000 and the second for $600,000. The anomaly can probably be explained by the fact that the first store had $200,000 in Inventory while the second had $400,000.

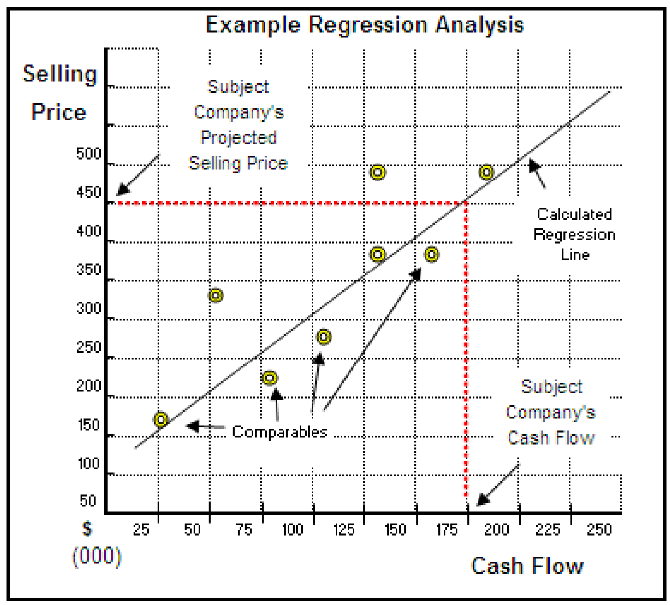
The "Enterprise Value + Inventory" methodology deducts the volatile Inventory component from the selling price of the business. The difference is then divided by the company's Discretionary Cash Flow. The resulting ratio can be used to determine what is referred to as the "Enterprise Value" of the business; that is, the value of a business *excluding* its Inventory. By using this methodology in the two above examples, we find that Enterprise Value for both businesses was 1.60 [Store 1 = ($400,000 - 200,000) ÷ $125,000; Store #2 = ($600,000 - 400,000) ÷ $125,000]. We can then use this ratio to estimate the value of a third hardware store which generated, say, $1,450,000 in Gross Revenues, $200,000 in Cash Flow, and had $375,000 in Inventory. Store #3's Enterprise Value is $320,000 ($200,000 x 1.60); its total value is, therefore, $320,000 + $375,000, or $695,000. The Cash Flow Multiplier by itself would have predicted only $660,000 (3.30 x $200,000) and the Gross Revenue Multiplier $652,500 (.45 x $1,450,000). When reconciling these three Market Value Multipliers to estimate the value of this hardware store, we might consider giving additional weighting to the Enterprise Valuation because this store primarily generates its revenue from the sale of Inventory.

5.2.4 Regression Analysis

This statistical tool looks at how four variables (gross revenues, cash flow, inventory, and fixtures) interact to indicate the Fair Market Value of a business. If all the points representing revenues, cash flow, inventory, and fixtures of all comparable businesses are plotted on a scatter chart, the regression calculation produces a line that seems to "best fit" all those points. The regression line, therefore, recreates the closest relationship of these four variables to the selling price of all the observed companies in the sample. The subject company's Revenues, Cash Flow, Inventory, and Fixtures are then plotted on the regression line to give the indicated Fair Market Value. A preliminary regression calculation will be performed with all the sample observations. If a company's actual selling price is radically different from that calculated by the regression, it will be considered a statistical distortion. These are companies whose selling prices were so far above or below the rest of the market that the transactional data must be considered flawed. As was indicate above, these distortions will be removed from the database.

For demonstration purposes a simplified Regression Analysis is graphed in Exhibit XIII. The Selling Price and Cash Flow figures for eight comparables were plotted on the chart and a regression line was then calculated. The subject company in this example had a Cash Flow of $175,000 which yielded an indicated selling price of $450,000 on the regression.

Exhibit XIII Example Regression



5.3 Owner's Discretionary Cash Flow

5.3.1 Selecting the Base Year of Operations

The Income Approach analyzes, in depth, the subject's recent financial condition, makes detailed financial ratio comparisons to the guideline companies, and then, applies various assumptions and forecasts for the industry and economy to arrive at a projection of future earnings for the company. That earnings projection, then, forms the basis for the estimate of the subject's value. The Market Approach, however, basically compares the guideline company financial ratios that were available at the time of its sale to the subject's current financial ratios. However, if we focus just on the subject's current financial statements, we are implying that it is a reasonable representation or proxy for the subject's long-term financial potential. This may not always be the case. The subject company may have just

enjoyed a record breaking year or suffered unusual non-recurring losses. Thus, it might be inappropriate, then, to compare the subject's current year with the *average* operating results of our selected sample of guideline companies.
To circumvent this possible distortion, it is not uncommon to see Market Value Multiples applied to a subject's current year's earnings, or, an average, even a weighted average of the last several years' earnings. Raymond Miles, author of *Technical Studies of the IBA Transaction Database,* even suggests that the multiples should be applied to *projected* cash flow.[10] Gary Trugman provides us with various factors for determining the basis of Subject Company earnings to be used in the Market Approach[11].

1. *If the company has cyclical earnings, the appraiser may want to use an arithmetic average of earnings.*
2. *If the company is experiencing modest growth, the appraiser should consider a weighted average earnings, the latest 12 months earnings, or proforma earnings.*
3. *Since the result of the valuation methodology is a "prophecy of the future," caution must be exercised when using a weighted average, particularly when the company is growing. The results of the weighted average will rarely, if ever, reflect "probable future earnings."*
4. *If the company's earnings are static, it does not matter what earnings base is used as long as it is representative of the assignment at hand.*
5. *If the company's earnings are declining, the appraiser may want to consider a weighted average earnings, the latest 12 months earnings, or proforma earnings.*

The use of arithmetic averaging should only be used when overwhelming circumstances call for its use, such as in the case of item #1 above. The fact that a company's revenues have been in decline for one or two years is, by itself, not a reason to use an average. It has been the Appraiser's experience as a business broker that buyers will vehemently object to valuations based on higher revenues from previous years. They will clearly see it as an attempt to artificially increase the price of the business. Buyers absolutely refuse to pay for value that may have been present two or three years ago.

The valuation is as of February 28, 2010.

The Company revenues grew rapidly from 2006 through 2008 due to various significant changes in operations that were instituted during those years. Beginning in 2007 the company ceased its manufacturing operations and became an importer. Later in the year it acquired the rights to act as a wholesaler to the Color Me Mine franchises. By early 2008 most of the major changes were in place and the Company was operating fairly efficiently. Throughout 2009 the Company shed over $200,000 in excess

[10] Raymond C. Miles, <u>*Technical Studies of the IBA Transaction Database*</u>. (Plantation, Florida: The Institute of Business Appraisers, Inc., 2002), from "How to Use the IBA Market Database", p. 4
[11] Gary R. Trugman, <u>*Using the Market Approach to Value Small and Medium-Sized Businesses*</u> (Orlando Florida: a paper presented at the Institute of Business Appraisers' 1996 National Conference), p. 14

inventory that was accumulated in previous years. Even though by 2009 the company was operating lean and efficiently the recession forced sales down 10% in 2009. However, sales for the first two months of 2010 have rebounded 14.6%. Thus, no single year in the last three is representative of the Company's current operations. Accordingly, a three year average will be used as the proxy for the basis of future sustainable growth.

In order to input the most current data into the valuation model a Trailing Twelve Month (TTM) Proforma P&L ending February 28, 2010 will be used for the most current year's operation which will then be averaged with 2007 and 2008. The TTM will be created by taking the P&Ls for the full year ending 2009, adding the revenues and expenses for the first two months of 2010, and subtracting the revenues and expenses for the first two months of 2009. Spreadsheets for all three periods can be found on Page 51.

5.3.2 Recasting Owner's Discretionary Earnings

Once the base year (or years) of earnings has been selected, the next step is to "recast" the financial statement. The "recasting" of a company's earnings attempts to present a "normalized" view of the company's operations. The recast financials should serve as a proxy for current revenues from which we may reasonably conclude that future revenues can evolve. The earnings reported in the Direct Market Databases are also recast to reflect a normalized level of earnings referred to as Owner's Discretionary Cash Flow, (ODCF) or "Owner's Discretionary Earnings."

However, the normalized view of the appraisal subject may still not be directly comparable to the guideline companies. Ratio analysis of the subject's financial data may show that it has various superior or inferior characteristics to the guideline companies. Under these circumstances an adjustment to the Market Value Multiples (that is an increase or decrease) would also be warranted. For example, it may be demonstrated that the appraisal subject is significantly more profitable than the guideline companies (Mr. Pratt uses Discretionary Cash Flow ÷ Gross Revenues as an appropriate measure of a company's profitability). In such cases, an adjustment to the Market Value Multiples should be made before it is applied to the subject's normalized earnings.[12]

In order to make the Subject Company's P&Ls directly comparable to the guideline companies, the recasting process makes the basic assumption that all companies have but one full-time managing owner. If a company has multiple owners (including working spouses of owners), the salary of the one owner who would most likely be replaced by a hypothetical buyer is added back to Cash Flow. It is also assumed that the hypothetical buyer would have to replace all the other owners with hired employees. As a result, if the *replacement cost* for those hired employees is ***less*** than the compensation paid to those other owners, the

[12] Shannon Pratt, The Market Approach to Valuing Businesses. (New York: John Wiley & Sons, Inc, 2000), p. 42

difference is also ***added back*** to Cash Flow. Conversely, if the replacement cost for those hired employees is ***more*** than the compensation paid to those other owners, the difference is ***deducted*** from Cash Flow.

In developing ODCF, Interest, Depreciation and Income Taxes are also *added back* to cash flow. In addition, the normalizing process requires that any non-recurring or non-operating expenses be *added back* to cash flow, and any non-recurring, or non-operating income be *deducted* from cash flow. The resulting Owner's Discretionary Cash Flow *after* Add-Backs is the total Cash Flow a hypothetical owner has at his disposal for his salary and perquisites, his loan payments, and his capital expenditures.

5.3.3 ADJUSTMENTS TO THE INCOME STATEMENT

The spreadsheet in Exhibit XIV shows the P&Ls for twelve months ending February 28, 2010 for NC. (See Exhibit XXIV, Page 51 or more detail.) Just to the right of the P&L data are the "Add-Backs" that represent the normalizing adjustments necessary to reconcile earnings to "Owner's Discretionary Cash Flow."

5.3.3.1 Total Revenues

The valuation of the Subject is as of February 28, 2010,

As noted above, the average of the P&Ls for 2007, 2008, and the Trailing Twelve Month P&L for February 28, 2010 will serve as the base year of operations. All Revenues, Expenses, and Add Backs, therefore, are averages for that three year period.

5.3.3.2 Inventory Purchases

Each year the Company designs molds for new products to be sold that year. The cost to produce and design the molds are included in the Cost of Goods Sold (COGS) each year and typically cost $10,000 to $12,000 per year. No molds were created in 2009. Thus, the normalized COGS would include that cost. The $12,000 cost for 2009 is equal to a $4,000 average per year for the three year period observed.

5.3.3.3 Inventory Adjustment

At the end of 2009 the Company wrote down its inventory by $225,000. This was a non-recurring charge taken by the owner in anticipation of the sale of the business. This non-cash charge is therefore, added back to Cash Flow. The add-back averaged $75,000 per year for the three year period observed.

EXHIBIT XIV DISCRETIONARY CASH FLOW

Three Year Average	2010 to 2007	Add Backs	See ₱ #
Gross Receipts	2,234,745	-	
Less Returns and Allowances	(101,800)	-	
TOTAL INCOME	2,132,945	-	5.3.3.1
		2,132,945	
COST OF GOODS SOLD			
Beginning Inventory	564,112	-	
Purchases	1,208,771	(4,000)	5.3.3.2
Workmans Comp Insurance	11,525	-	
Commissions	56,887	-	
Shipping Supplies	46,091	-	
Duties and Customs	8,602	-	
Repairs, Maintenance	5,037	-	
Utilities, Insurance, Misc	6,151	-	
Royalties	11,950	-	
Inventory Adjustment	73,897	75,000	5.3.3.3
Ending Inventory Adjustment	(678,030)	-	
TOTAL COST OF GOODS SOLD	1,314,993	71,000	
Adjusted Cost of Goods Sold		1,243,993	
GROSS PROFIT	817,952	888,952	
	38.3%	41.7%	
OTHER INCOME			
Miscellaneous	586	-	
Rent-Inv	-	-	
TOTAL OTHER INCOME	586	-	
EXPENSES			
Compensation to Officers	24,000	24,000	5.3.3.4
Labor-COGS	186,024	-	
Bad Debts	6,028	-	
Rents	105,844	2,273	5.3.3.4
Taxes and Licenses	618	533	5.3.3.5
Depreciation and Amortization	1,213	1,213	5.3.3.5
Interest	38,833	38,833	5.3.3.5
Advertising and Promotions	10,366	-	
Pension Plan	463	463	5.3.3.4
Accounting and Professional	3,095	1,667	5.3.3.6
Auto and Truck Expense	42,047	42,047	5.3.3.4
Bank Charges, Credit Card Merc	54,012	-	
Catalogs	9,503	-	
Computer Expense	5,916	3,000	5.3.3.6
Consulting Fees	3,693	-	
Delivery and Freight	206,834	-	
Misc, Dues	1,899	-	
Office Expense, Postage	7,516	-	
Shows	10,892	-	
Travel and Entertainment	31,221	21,524	5.3.3.4
Utilities. Web Expense	15,549	6,000	5.3.3.4
TOTAL EXPENSES / Total Add-Backs	765,567	141,552	
TOTAL NET INCOME (Per Tax Returns) =	52,971		
Total Add Backs =		212,552	5.3.3.7
TOTAL DISCRETIONARY CASH FLOW =		265,523	12.4%

5.3.3.4 Owner's Salary

The spouse of the owner also works in the Company. She puts in less than five hours per week and her duties can be readily absorbed by existing staff. As such her entire salary of $24,000 per year is added back.

The owners also enjoy a number of perquisites that represent part of their salaries as well. These perks are also added back to Cash Flow. They include $2,273 for reimbursement for home office rent, $463 for pension plan funding, $42,047 for personal vehicle expenses, $21,524 for reimbursement of non-essential business travel and entertainment, and, $6,000 for reimbursement for utilities on the owners' private residence. The amounts for these perks represent averages for the three year period observed.

5.3.3.5 Depreciation, Taxes, Interest and Donations

Owner's Discretionary Cash Flow is calculated before Income Taxes, Depreciation, Interest Expense, and Donations. These amounts are added back to Cash Flow.

5.3.3.6 Non-Recurring Expenses

Non-recurring expenses are added back to normalize the Company's P&Ls. These expenses include $5,000 for legal fees paid in 2007 (a three year average of $1,667), and, $9,000 for a computer upgrade in 2008 (a three year average of $3,000).

5.3.3.7 Discretionary Cash Flow Margin

The Subject Company's Discretionary Cash Flow Margin for the normalized three year average is 12.4%. This level of profitability earned is at the mid range of Cash Flow Margins earned by the guideline companies (11.7%, see Exhibit XIX).

6.0 Reconciliation of Market Approach Multipliers

6.1 Market Value Multipliers

The Pratt's Stats, BIZCOMPS, BizBuySell, and IBA databases were searched for transactions in Standard Industry Classification code #5199. The Comparables Analysis Table in Exhibit XV below shows the operating ratios of 23 businesses that were selected by using the filtering criteria discussed in 5.1 above.

All the transactions in the databases are presumed to be "Asset Sales," or, transactions that can be reconciled to Asset Sale Pricing; that is, their selling prices are comprised of Inventory, Fixtures, and Intangibles only. Those companies exhibiting very high Revenue Multiples often have either real estate, accounts receivable, or other non-operating assets included in their reported selling price, and, the transactional data neglected to disclose this fact. Many of the comparables with low Revenue Multiples may have reported their selling prices net of inventory, or, the buyer assumed some of the liabilities of the company, thereby reducing the price. Again, the transactional data may not have disclosed this fact. It only takes one or two comparables in a small sample with improper sales data to distort the Market Value Multiples.

EXHIBIT XV SOLD COMPARABLES ANALYSIS

Observations	Listing Price	Selling Price	Gross Revenues	Revenue Multiplier	Cash Flow	Cash Flow Margin	Cash Flow Multiplier	Inventory	Enterprise Multiplier	Fixtures & Equip
1		500,000	1,331,000	0.38	78,000	5.9%	6.42			45,000
2	375,000	375,000	3,103,000	0.12	131,000	4.2%	2.86	186,000	1.45	6,000
3	2,199,000	1,899,000	2,100,000	0.90	480,000	22.9%	3.96	999,000	1.88	
4	790,000	710,000	1,638,000	0.43	396,000	24.2%	1.79	40,000	1.69	138,000
5	370,000	354,000	1,132,000	0.31	234,000	20.7%	1.51	120,000	1.00	10,000
6	950,000	680,000	1,663,000	0.41	153,000	9.2%	4.44	475,000	1.34	153,000
7	950,000	872,000	4,133,000	0.21	67,000	1.6%	13.01*	390,000	7.19	130,000
8	2,700,000	1,950,000	3,192,000	0.61	643,000	20.1%	3.03	600,000	2.10	150,000
9	1,500,000	1,600,000	1,573,000	1.02	158,000	10.0%	10.13*	700,000	5.70	
10	2,199,000	1,620,000	3,260,000	0.50	442,000	13.6%	3.67	750,000	1.97	250,000
11	155,000	150,000	1,081,000	0.14	121,000	11.2%	1.24	10,000	1.15	50,000
12	399,000	380,000	1,800,000	0.21	100,000	5.6%	3.80	230,000	1.50	180,000
13	465,000	450,000	1,300,000	0.35	110,000	8.5%	4.09	105,000	3.14	40,000
14	1,090,000	940,000	2,475,000	0.38	230,000	9.3%	4.09	170,000	3.35	27,000
15	950,000	950,000	1,663,000	0.57	153,000	9.2%	6.22	475,000	3.11	100,000
16	1,500,000	1,000,000	4,188,000	0.24	395,000	9.4%	2.53	600,000	1.01	243,000
17	1,500,000	1,445,000	3,025,000	0.48	450,000	14.9%	3.21	100,000	2.99	70,000
18	2,800,000	2,200,000	4,200,000	0.52	861,000	20.5%	2.56	100,000	2.44	10,000
19		1,615,000	2,600,000	0.62	427,000	16.4%	3.78			
20		1,350,000	3,192,000	0.42	643,000	20.1%	2.10			
21		650,000	1,650,000	0.39	204,000	12.4%	3.19			
22		2,100,000	2,185,000	0.96	640,000	29.3%	3.28			
23		1,000,000	3,300,000	0.30	400,000	12.1%	2.50			
Avg:	1,229,000	1,034,000	2,425,000	↓	327,000	↓	↓	356,000	↓	100,000
	Selling Price / Listing Price = 88.5%			Gross Rev Range		CF Margin Range	Cash Flow Range		Enterprise Range	
		Bottom Quartile of Comps =		0.31		9.2%	2.53*		1.39*	
		Median =		0.41		12.1%	3.21*		1.88*	
		Top Quartile of Comps =		0.55		20.1%	3.96*		2.72*	
		Average =		0.46		13.5%	3.35*		2.01*	
		Standard Deviation =		0.24		7.1%	1.32*		0.82*	
		Standard Deviation Range=		0.21 to 0.7		6.4% to 20.7%	2.02 to 4.67		1.19 to 2.82	
		Coefficient of Variation =		53.3%		52.6%	39.5%		40.6%	

* Companies with Cash Flow Multiples that are negative or greater than 10 are ignored in this calculation.

In order to test the predictive value of a small sample, we can compare the variability of the observations in the sample with that of the entire database. The relative variability is measured by the Coefficient of Variation (CV) -- the lower the coefficient, the higher the predictive value of the sample. The findings are as follows:

EXHIBIT XVI COEFFICIENTS OF VARIATION OF SAMPLE VS. TOTAL DATABASE

(23 Observations)

Database Exhibit XI & Exhibit XV	Gross Income Multiplier	Cash Flow Multiplier	Enterprise Value Multiplier
Sample –23 Observations	53.3%	39.5%	40.6%
Total Database -4780 Obs. Pratt's Stats-Any State	91.8%	67.2%	46.1%

The three procedures applied to the 23 observations in the sample yielded significantly lower degrees of variability than the entire Pratt's Stats database. Therefore, we can assume that this sample is a reasonably good measure of the identified market size and should have good predictive abilities. To further test the predictive abilities of this sample of guideline companies, a regression analysis was done.

6.2 REGRESSION TEST

The regression test takes the four main variables describing each guideline company's operations (Inventory, Cash Flow, Fixtures and Equipment, and Total Revenues) and plots them against the company's selling price. The regression generates a formula that can be used to predict the selling price of a company by inputting the actual values for that company's four variables into the equation. From this test we can also statistically identify those comparables that are "outliers," that is, those companies whose selling prices are well above or below what the rest of the market earned.

The 23 comparables from Exhibit XV above were regressed at a 95% confidence level, and, the results are shown in the Exhibit XVII below.

The test yielded an R Square factor of 0.82. A factor of zero (0.0) means that the sample had no predictive characteristics at all, whereas, a 1.0 indicates perfect predictability. A .50 factor suggests modest predictability. The test also produces a Standard Error, which is a measurement similar to the Standard Deviation. That is, 16% of the *predicted values* will exceed the *actual selling price* of the company by the Standard Error, and, 16% will be less.

In the sample of comparables shown below, five such comparables were found to have calculated values that deviated from the actual selling price by more than, or less than, the Standard Error. These guideline companies are considered 'outliers' and were removed from the sample. One company sold for $375,000, whereas, the regression predicted a much higher $741,000. A second company sold for $354,000 with the regression predicting a much higher $804,000. A third sold for $1,600,000 with a prediction of $1,203,000. A fourth sold for $1,615,000 with a prediction of $1,185,000. The fifth company sold for $2,100,000 with a prediction of $1,615,000.

EXHIBIT XVII SOLD REGRESSION ANALYSIS

Observations	Actual Values For Comparables				Actual Values		Calculated Values		
	Gross Revenues	Cash Flow	Inventory	Fixtures		Actual Sold Price	Predicted Price	$ Difference	% Difference
1	1,331,000	77,900		45,100	1	500,000	312,903	187,097	-37.4%
2	3,103,000	131,000	185,500	5,500	2	375,000	740,679	(365,679)	97.5%
3	2,100,000	480,000	999,000		3	1,899,000	2,172,852	(273,852)	14.4%
4	1,638,000	396,000	40,000	138,000	4	710,000	865,775	(155,775)	21.9%
5	1,132,000	234,000	120,000	10,000	5	354,000	803,521	(449,521)	127.0%
6	1,663,000	153,000	475,000	153,000	6	680,000	719,869	(39,869)	5.9%
7	4,133,000	67,000	390,000	130,000	7	872,000	612,546	259,454	-29.8%
8	3,192,000	643,000	600,000	150,000	8	1,950,000	1,936,684	13,316	-0.7%
9	1,573,000	158,000	700,000		9	1,600,000	1,202,737	397,263	-24.8%
10	3,260,000	442,000	750,000	250,000	10	1,620,000	1,472,515	147,485	-9.1%
11	1,081,400	121,400	10,000	50,000	11	150,000	393,683	(243,683)	162.5%
12	1,800,000	100,000	230,000	180,000	12	380,000	345,583	34,417	-9.1%
13	1,300,000	110,000	105,000	40,000	13	450,000	482,708	(32,708)	7.3%
14	2,475,000	230,000	170,400	26,500	14	940,000	870,187	69,813	-7.4%
15	1,663,200	152,800	475,000	100,000	15	950,000	814,330	135,670	-14.3%
16	4,187,500	394,500	600,000	243,000	16	1,000,000	1,291,033	(291,033)	29.1%
17	3,025,000	449,500	100,000	70,000	17	1,445,000	1,215,322	229,678	-15.9%
18	4,200,000	861,000	100,000	10,000	18	2,200,000	2,240,830	(40,830)	1.9%
19	2,600,000	427,000			19	1,615,000	1,184,531	430,469	-26.7%
20	3,192,000	643,000			19	1,350,000	1,665,359	(315,359)	23.4%
21	1,650,000	204,000			19	650,000	673,165	(23,165)	3.6%
22	2,185,000	640,000			19	2,100,000	1,614,597	485,403	-23.1%
23	3,300,000	400,000			19	1,000,000	1,158,590	(158,590)	15.9%

Actual Data Ceramics Unlimited, Inc.		Regression Coefficients	Calculated Price
Total Sales	$2,132,945	x 0.0441 =	94,143
Total Cash Flow	$265,523	x 2.1051 =	558,949
Total Inventory	$675,000	x 0.8997 =	607,311
Total Fixtures	$190,427	x (1.7901) =	-340,874
Regression Intercept Value =			170,901
Mid-Range Predicted Price =			**1,090,430**
Upper Quartile		+ $195,565	1,285,995
Lower Quartile		- $195,565	894,865

R Square = 0.82
Standard Error = $287,596

An R Square value of 0.0 means the above sample had no predictive value. An R Square of 1.0 means the sample had perfect predictive values. A value over .50 means the above sample had a reasonably good predictive value.

Regression Formula:
Sales x 0.0441 + Cash Flow x 2.1051 + Inventory x 0.8997 + Fixtures x -1.7901 + $170,901 = Calculated Price

These five outlying comparables were removed from the sample and the remaining sample of eighteen comparables was regressed a second time. The results are shown in the two tables below. The refined Regression Analysis produced an R Square of 0.92 which is a significant improvement over the original sample of 23 indicating that it is a superior measure of the market. The Regression Equation that was constructed is shown at the bottom of the table. The actual values for the Subject's four variables of Inventory, Fixtures and Equipment, Cash Flow, and Revenues were input into this equation to solve for the Subject's estimated selling price. The mid-range predicted value was $1,071,878; the upper range was $1,197,819; and, the lower range was $945,937.

EXHIBIT XVIII REFINED REGRESSION ANALYSIS

Observations	Actual Values For Comparables					Calculated Values		
	Gross Revenues	Cash Flow	Inventory	Fixtures	Actual Sold Price	Predicted Price	$ Difference	% Difference
1	1,331,000	77,900		45,100	**500,000**	**322,723**	177,277	-35.5%
2	2,100,000	480,000	999,000	0	**1,899,000**	**2,010,979**	(111,979)	5.9%
3	1,638,000	396,000	40,000	138,000	**710,000**	**781,217**	(71,217)	10.0%
4	1,663,000	153,000	475,000	153,000	**680,000**	**720,782**	(40,782)	6.0%
5	4,133,000	67,000	390,000	130,000	**872,000**	**789,623**	82,377	-9.4%
6	3,192,000	643,000	600,000	150,000	**1,950,000**	**1,819,598**	130,402	-6.7%
7	3,260,000	442,000	750,000	250,000	**1,620,000**	**1,456,176**	163,824	-10.1%
8	1,081,400	121,400	10,000	50,000	**150,000**	**371,966**	(221,966)	148.0%
9	1,800,000	100,000	230,000	180,000	**380,000**	**392,085**	(12,085)	3.2%
10	1,300,000	110,000	105,000	40,000	**450,000**	**472,116**	(22,116)	4.9%
11	2,475,000	230,000	170,400	26,500	**940,000**	**872,654**	67,346	-7.2%
12	1,663,200	152,800	475,000	100,000	**950,000**	**804,172**	145,828	-15.4%
13	4,187,500	394,500	600,000	243,000	**1,000,000**	**1,352,393**	(352,393)	35.2%
14	3,025,000	449,500	100,000	70,000	**1,445,000**	**1,171,948**	273,052	-18.9%
15	4,200,000	861,000	100,000	10,000	**2,200,000**	**2,084,410**	115,590	-5.3%
16	3,192,000	643,000			**1,350,000**	**1,542,045**	(192,045)	14.2%
17	1,650,000	204,000			**650,000**	**640,352**	9,648	-1.5%
18	3,300,000	400,000			**1,000,000**	**1,140,760**	(140,760)	14.1%

Applied Regression Coefficients			
Actual Data Ceramics Unlimited, Inc.		Regression Coefficients	Calculated Price
Total Sales	$2,132,945	x 0.1017 =	217,011
Total Cash Flow	$265,523	x 1.6966 =	450,486
Total Inventory	$675,000	x 0.8574 =	578,772
Total Fixtures	$190,427	x (1.5794) =	-300,761
Regression Intercept Value =			126,370
Mid-Range Predicted Price =			**1,071,878**
Upper Quartile		+ $125,941	1,197,819
Lower Quartile		- $125,941	945,937

R Square = 0.92
Standard Error = $185,207

An R Square value of 0.0 means the above sample had no predictive value. An R Square of 1.0 means the sample had perfect predictive values. A value over .50 means the above sample had a reasonably good predictive value.

Regression Formula:
Sales x 0.1017 + Cash Flow x 1.6966 + Inventory x 0.8574 + Fixtures x -1.5794 + $126,370 = Calculated Price

EXHIBIT XIX REFINED SOLD COMPARABLES ANALYSIS

Refined Comparables Analysis

Observations	Listing Price	Selling Price	Gross Revenues	Revenue Multiplier	Cash Flow	Cash Flow Margin	Cash Flow Multiplier	Inventory	Enterprise Multiplier	Fixtures & Equip
1		500,000	1,331,000	0.38	78,000	5.9%	6.42			45,000
2	2,199,000	1,899,000	2,100,000	0.90	480,000	22.9%	3.96	999,000	1.88	0,000
3	790,000	710,000	1,638,000	0.43	396,000	24.2%	1.79	40,000	1.69	138,000
4	950,000	680,000	1,663,000	0.41	153,000	9.2%	4.44	475,000	1.34	153,000
5	950,000	872,000	4,133,000	0.21	67,000	1.6%	13.01*	390,000	7.19	130,000
6	2,700,000	1,950,000	3,192,000	0.61	643,000	20.1%	3.03	600,000	2.10	150,000
7	2,199,000	1,620,000	3,260,000	0.50	442,000	13.6%	3.67	750,000	1.97	250,000
8	155,000	150,000	1,081,000	0.14	121,000	11.2%	1.24	10,000	1.15	50,000
9	399,000	380,000	1,800,000	0.21	100,000	5.6%	3.80	230,000	1.50	180,000
10	465,000	450,000	1,300,000	0.35	110,000	8.5%	4.09	105,000	3.14	40,000
11	1,090,000	940,000	2,475,000	0.38	230,000	9.3%	4.09	170,000	3.35	27,000
12	950,000	950,000	1,663,000	0.57	153,000	9.2%	6.22	475,000	3.11	100,000
13	1,500,000	1,000,000	4,188,000	0.24	395,000	9.4%	2.53	600,000	1.01	243,000
14	1,500,000	1,445,000	3,025,000	0.48	450,000	14.9%	3.21	100,000	2.99	70,000
15	2,800,000	2,200,000	4,200,000	0.52	861,000	20.5%	2.56	100,000	2.44	10,000
16		1,350,000	3,192,000	0.42	643,000	20.1%	2.10			
17		650,000	1,650,000	0.39	204,000	12.4%	3.19			
18		1,000,000	3,300,000	0.30	400,000	12.1%	2.50			
Avg:	1,332,000	1,089,000	2,511,000	↓	329,000	↓	↓	360,000	↓	106,000
	Selling Price / Listing Price	= 85.9%		Gross Rev Range		CF Margin Range	Cash Flow Range		Enterprise Range	
		Bottom Quartile of Comps =		0.31		9.2%	2.53*		1.50*	
		Median =		0.40		11.7%	3.21*		1.97*	
		Top Quartile of Comps =		0.49		18.8%	4.09*		2.99*	
		Average =		0.41		12.8%	3.46*		2.13*	
		Standard Deviation =		0.18		6.4%	1.39*		0.81*	
		Standard Deviation Range=		0.24 to 0.59		6.4% to 19.2%	2.07 to 4.85		1.32 to 2.93	
		Coefficient of Variation =		42.9%		50.1%	40.2%		37.9%	

* Companies with Cash Flow Multiples that are negative or greater than 10 are ignored in this calculation.

Rejected Comparables - Values calculated by the Regression was well above or below actual selling price:

Calculated Value	Actual Selling Price	Sales	Revenue Multiplier	Cash Flow	Cash Flow Margin	Cash Flow Multiple	Inventory	Cash Flow-Inv Mult.	FF&E
741,000	375,000	3,103,000	0.12	131,000	4.2%	2.86	186,000	1.45	6,000
804,000	354,000	1,132,000	0.31	234,000	20.7%	1.51	120,000	1.00	10,000
1,203,000	1,600,000	1,573,000	1.02	158,000	10.0%	10.13*	700,000	5.70	
1,185,000	1,615,000	2,600,000	0.62	427,000	16.4%	3.78			
1,615,000	2,100,000	2,185,000	0.96	640,000	29.3%	3.28			

The last point of analysis for the sample of 18 observations is the comparison of the Coefficients of Variation for each of the calculated Market Value Multiples with the CV's for the original sample of 23, as well as the entire Pratt's Stats database. Those statistics are compiled in Exhibit XX below. The three Market Value Multipliers in the second more narrowly-defined sample of 18 observations all produced lower (superior) Coefficients of Variation. The smaller sample also produced a higher (superior) R Square factor. Thus, the smaller sample appears to be a better indicator of the market than the sample with 23 observations. The Market Value Multipliers calculated from this sample will, therefore, be used in the analysis, and, the results from the larger database will be rejected.

EXHIBIT XX COEFFICIENTS OF VARIATION OF SAMPLES VS. TOTAL DATABASE

(23 Observations vs. 18 Observations)

Database Exhibit XI, Exhibit XV & Exhibit XIX	Gross Income Multiplier	Cash Flow Multiplier	Enterprise Value Multiplier	Regression Analysis
Sample –18 observations	42.9%	40.2%	37.9%	17.3%
Sample –23 Observations	53.3%	39.5%	40.6%	26.4%
Total Database–4780Obs. Pratt's Stats	91.8%	67.2%	49.2%	

6.3 APPLYING THE MARKET VALUE MULTIPLIERS

If we merely select the median values for the three Market Value Multipliers and the regression analysis, we are effectively making the statement that the Subject Company's revenues and income stream and the risks to maintaining them into the future are roughly in line with the median of the overall market (as defined by our guideline companies). If we determine that the Subject Company is better than or worse than the guideline companies, we must adjust the median value of the Market Multipliers up or down before we apply it to our subject.

One of the basic qualitative assessments we can make between the Subject Company and the guideline companies is to compare their margins of Cash Flow profitability. With the information provided by the databases, we can calculate the Cash Flow Margin of profitability by dividing Seller's Discretionary Earnings by Gross Revenues. Companies with higher Cash Flow Margins tend to be the more dominant players within their markets. They can command higher prices for their products and services, and, they control expenses more efficiently than their competition.

The Subject Company produced an average Cash Flow Margin of 12.4% (from Exhibit XIV), whereas, the median for the guideline companies was 11.7% (from Exhibit XIX). The Subject Company is at the mid range of Cash Flow Margins of profitability in this key indicator when compared to the guideline companies. As such, from this one key indicator, a selection of Market Value Multiples at the mid ranges is considered reasonable.

We observed the financial strength of the Subject and found its growth in Revenues and Cash Flow to be vastly superior to its peer group. However, the Company's current mode of operations as an importer is less than three years old and its reliance on one Asian manufacturer for most of its products does somewhat raise the level of risk to

future revenue and cash flow. In addition, its huge working capital investment, and moderately high rent level will act as a drag on future profits. Thus, from the financial aspects of the Company a mid range of Market Value Multiples is considered reasonable.

Finally, from the demographics analysis we determined that the Subject's local market enjoys high level growth in income and population. However, the Company's overall market encompasses not only all of California, but, most of the rest of the country as well. As such, the growth in population and income of its market will mirror country as a whole. Thus, all factors considered, the median of the Market Value Multiples is considered reasonable. Accordingly, the selected Market Value are as follows:

EXHIBIT XXI RANGE OF MULTIPLIERS OBSERVED

	Gross Revenue	Cash Flow	Enterprise Value	Regression	Cash Flow Profit Margin
Lower Quartile =	0.31	2.53	1.50	945,937	9.2%
Median =	0.40	3.21	1.97	1,071,878	11.7%
Upper Quartile =	0.49	4.09	2.99	1,197,819	18.8%
	Indicated Values From Selected Multipliers				
Subject's Operation =	$2,132,945	265,523	265,523		The selected Market Value Multiples are at the mid range of values
Selected Multiplier =	0.40	3.21	1.97	1,071,878	
			523,080		
Inventory =			675,000		
Indicated Value =	853,178	852,328	1,198,080	1,071,878	

The above multipliers were derived from databases that report Asset Sale Values for the selling price of a business. The databases also involved transactions that were for the 100% Controlling Interest of the business. In addition, since all the transactions involved privately-owned companies not traded on stock markets, they are Non-Marketable by definition. Therefore, the above indicated values are for an Asset Sale transaction on a Controlling, Non-Marketable basis. Asset Sales include all Inventory, Fixtures and Equipment, and all intangibles *ONLY*. The transactions exclude all liabilities (which are paid by the Seller of the business) and assets such as Cash, Accounts Receivable, and Prepaid Expenses.

7.0 RECONCILIATION OF ALL METHODOLOGIES

It is rare that the various Approaches used would produce similar values. Each method is looking at different aspects of the company so, it is reasonable to expect that they would produce different values as a result. Internal Revenue Ruling 59-60 requires that at least 50% of a value's weighting should be placed on income-based methodologies. According to the Uniform Standards of Professional Appraisal Practice (USPAP), "an appraiser must reconcile the indications of value resulting from the various approaches to arrive at the value conclusion." A simple average does not satisfy the standard, but rather, the appraiser must evaluate the relative merits of each procedure to form a conclusion. "The value conclusion is the result of the appraiser's judgment."[13]

The various indications of value developed by the different procedures are now weighted and the final Valuation Conclusion is calculated. The discussion of the basis for the weightings follows the exhibit below.

EXHIBIT XXII VALUATION CONCLUSION

100% Controlling Interest in National Ceramics, Inc.

Valuation Method	Indicated Value	Confidence Weighting	Weighted Estimate
Adjusted Book Value Method	Not Used		
Market Approach			
Guideline Public Company Method	Not Used		
Mergers and Acquisitions Method	Not Used		
Prior Transactions	None		
Direct Market Data Method			
23 Observations Sample Database	Not Used		
18 Observations Sample Database			
Gross Revenue Multiplier	853,178	10%	85,318
Cash Flow Multiplier	852,328	50%	426,164
Enterprise Value Multiplier	1,198,080	15%	179,712
Regression Analysis	1,071,878	25%	267,969
Income Approach			
Single Period Capitalization Method	Not Used		
Multi-Period Discount Method	Not Used		
ASSET SALE VALUE (Rounded)			**$960,000**

The above Fair Market Value is for a 100% Interest in National Ceramics, Inc. on a Controlling, Non-Marketable Basis. The assets being valued are those offered in a conventional Asset Sale which includes Inventory, Fixtures and Equipment, and all Intangibles. The Seller retains all Cash and pays off all liabilities. Since Inventory will also be adjusted at the close of escrow, **the above price is restated at $285,000 plus inventory**

---

[13] *Uniform Standards of Pr*ofessional Appraisal Practice. The Appraisal Foundation, Washington D.C., 2000, p. 65

of $675,000 to be adjusted at the close of escrow. If Inventory increases above $675,000, the selling price will increase accordingly; and likewise, if Inventory decreases, the selling price will also decrease.

Summary

The Adjusted Book Value approach and Excess Earnings method are commonly used in divorce valuations because of their simplicity. However, to provide a high level of confidence, the Discrete Valuation of individual assets requires that the company have a high-integrity balance sheet, thus allowing individual tangible assets to be precisely valued. The process also requires all intangibles to be identified and valued separately. Since the Subject's balance sheet does not meet that high-integrity standard, the Adjusted Book Value Approach and the Excess Earnings Method were not used.

The Guideline Public Company Method uses a database of large publicly-traded companies. A search of the database found no companies similar to the Subject. A similar problem exists with the Mergers and Acquisition Method. No guideline companies similar in size to the Subject were found. Hence, these methods could not be used.

The Direct Market Data Method utilized in the report obtained actual sales transactions from three different databases. The first search of these databases found twenty-three transactions that were reasonably close to the description of the Subject, and, their average revenues were also reasonably close to the Subject. Further filtering of the sample to exclude those companies that the regression analysis identified as "outliers" yielded a database of eighteen transactions. Coefficient of Variation tests were performed on both samples and it was determined that the larger sample of twenty-three transactions produced a higher degree of variation, and, therefore, was considered inferior to the smaller sample. As such, the Market Value Multiples from the smaller sample were used.

In accordance with the guidelines set forth by Internal Revenue Ruling 59-60, the Appraiser must assign at least a 50% weighting to those methodologies based on cash flow. The income producing ability of a company is by far the most important element drawing a Buyer's attention. As such, it should earn the highest weighting. The Cash Flow Multiplier is therefore given a weight of 50%. Of the remaining three methodologies, the Regression Analysis had a much lower measure of variability, and therefore, is considered a better predictor of value. It was given a 25% weight. The Enterprise Value had the next lowest measure of variability and was assigned a weight of 15%. The Gross Revenue Multiplier which had the highest level of variability, and therefore, the lowest level of predictability was assigned a weight of 10%.

8.0 AFFORDABILITY PRICE TEST

The final pricing consideration focuses on a Buyer's ability to "afford" the Subject Business. If the debt service on the loans needed to purchase the business is so great that there is insufficient cash flow to pay for it, we would have to question the indicated value for that business. Exhibit XXIII below is a cash flow analysis of a hypothetical transaction at the Fair Market Value calculated above. A transaction of this size is typically financed by an SBA loan. As such, if the Buyer seeks an SBA loan for 85.0% of the selling price, the loan amount of $816,000 at 6.0% interest for 10 years, would carry annual payments of $108,711**.**

The projected Cash Flow for the Subject developed in Exhibit XIV has been reworked to show Net Cash Flow after proposed Debt Service from a hypothetical acquisition loan. When SBA lenders analyze a loan request, they typically require the Total Cash Flow *before* Debt Service to be in the range of 1.1 to 1.5 times the proposed debt service. From the exhibit below we can see that a hypothetical transaction can be structured to exceed this minimum. The ratio analysis thus shows that the calculated value for the Subject Company is indeed financeable, and, therefore passes the affordability test.

EXHIBIT XXIII AFFORDABILITY TABLE

Asset Sale Price	$960,000	Loan to Value Ratio:	85.0%
Interest Rate:	6.0%	Loan Amount:	$816,000
Term of Loan:	10 years	Total Debt Service:	$108,711
Working Capital;	$0	Working Cap Debt Service:	$0

Current Year SDE before Depreciation	376,464	
Owner's Salary, Perks & Payroll Taxes	($109,000)	
Interest on New Loans	($48,960)	
Adjusted Net Earnings Before Taxes	$218,504	
Average State and Federal Taxes at 29.8%	($65,114)	
Net Earnings After Taxes	$153,390	
Less Principal on Acquisition Loan	($59,751)	
Less Capital Exp & Working Capital Growth	(43,803)	*
Current Year Depreciation	2,631	
Net Cash Flow after Debt Service	$52,467	
Total Cash Flow Before Debt Service	$161,178	
Total Acquisition Loan Debt Service	$108,711	
Cash Flow Coverage Ratio	1.48	

Average Working Capital for last 3 Years=	$825,328		
Growth Rate of Revenues =	3%		
Working Capital Increase =		$24,760	
Fixures & Equipment =	190,427		
Estimated Remaining Life =	10 Years		
Annual Replenishment =		$19,043	
Tenant Improvements =	-		
Estimated Life =	0		
Annual Replenishment =		$0	
Total Capital Expenditures and Working Capital Growth =		$43,803	*

Prepared by
C. Fred Hall, III, MBA, AIBA

National Ceramics, Inc.

Exhibit XXIV   Four Year Discretionary Cash Flow Analysis

National Ceramics, Inc.
S-Corporation
March 5, 2010

Prepared by C. Fred Hall III, MBA		Feb 28, 2010 12 Mos.	Add Backs Per P&Ls			Dec 31, 2008 12 Mos.	Add Backs Per Taxes			Dec 31, 2007 12 Mos.	Add Backs Per Taxes		Dec 31, 2006 12 Mos.	Add Backs Per Taxes	
INCOME															
Gross Receipts	e7	2,313,717	Proforma TTM Accrual Basis			2,563,261	Accrual Basis			1,827,257	Accrual Basis		1,334,732	Accrual Basis	
Less Returns and Allowances		(116,345)				(132,158)	-			(56,896)	-		(27,712)	-	
TOTAL INCOME		2,197,372		100.0%		2,431,103	-	100.0%		1,770,361	-	100.0%	1,307,020	-	100%
			2,197,372				-				-			-	
COST OF GOODS SOLD															
Beginning Inventory		-	-	0.0%		1,022,886		42.1%		669,451		37.8%	421,113		32.2%
Purchases	e1	1,127,687	(12,000)	51.3%		1,267,975		52.2%		1,230,651		69.5%	891,929		68.2%
Workmans Comp Insurance		9,443	-	0.4%		12,073		0.5%		13,059		0.7%	10,483		0.8%
Commissions		66,760	-	3.0%		86,449		3.6%		17,452		1.0%			0.0%
Shipping Supplies		14,160	-	0.6%		45,453		1.9%		78,659		4.4%	60,555		4.6%
Duties and Customs		4,115	-	0.2%		9,138		0.4%		12,553		0.7%			0.0%
Repairs, Maintenance	e2	4,185	-	0.2%		6,671		0.3%		4,255		0.2%	4,808		0.4%
Utilities, Insurance, Misc		3,460	-	0.2%		6,883		0.3%		8,110		0.5%	15,245		1.2%
Royalties		-	-	0.0%		864		0.0%		34,985		2.0%	26,900		2.1%
Inventory Adjustment		221,692	225,000	10.1%		-		0.0%		-		0.0%	-		0.0%
Ending Inventory Adjustment		-	-	0.0%		(1,011,203)	-	41.6%		(1,022,886)	-	57.8%	(669,451)	-	51.2%
TOTAL COST OF GOODS SOLD		1,451,502	213,000	66.1%		1,447,189	-	59.5%		1,046,289	-	59.1%	761,582	-	58.3%
			1,238,502												
GROSS PROFIT		745,870	958,870			983,914				724,072			545,438		
		33.9%	43.6%			40.5%				40.9%			41.7%		
OTHER INCOME (EXPENSE)															
Miscellaneous	e3	30	-	0.0%		1,137		0.0%		590		0.0%	209		0.0%
Rent-Inv	e3	-	-	0.0%		-		0.0%		-		0.0%	-		0.0%
TOTAL OTHER INCOME		30	-	0.0%		1,137	-	0.0%		590	-	0.0%	209	-	0.0%
EXPENSES															
Compensation to Officers	e42	24,000	24,000	1.1%		24,000	24,000	1.0%		24,000	24,000	1.4%	24,000	24,000	1.8%
Labor-COGS		161,688	-	7.4%		195,874		8.1%		200,510		11.3%	184,054		14.1%
Bad Debts		5,366	-	0.2%		7,955		0.3%		4,764		0.3%	4,293		0.3%
Rents	e44	102,033	2,618	4.6%		115,682	4,200	4.8%		99,817		5.6%	98,645		7.5%
Taxes and Licenses		107	-	0.0%		871	800	0.0%		875	800	0.0%	889	800	0.1%
Depreciation and Amortization		2,631	2,631	0.1%		377	377	0.0%		630	630	0.0%	1,085	1,085	0.1%
Interest	e48	-	-	0.0%		112,503	112,503	4.6%		3,996	3,996	0.2%			0.0%
Advertising and Promotions		3,969	-	0.2%		8,522		0.4%		18,606		1.1%	8,877		0.7%
Pension Plan		-	-	0.0%		25	25	0.0%		1,365	1,365	0.1%	940	940	0.1%
Accounting and Professional	e51	1,025	-	0.0%	h51	1,530		0.1%	k51	6,730	5,000	0.4%	911		0.1%
Auto and Truck Expense		41,052	41,052	1.9%		41,596	41,596	1.7%		43,492	43,492	2.5%	44,683	44,683	3.4%
Bank Charges, Credit Card Merchant Fe		48,988	-	2.2%		66,730		2.7%		46,318		2.6%	36,030		2.8%
Catalogs		3,345	-	0.2%		15,305		0.6%		9,860		0.6%	22,716		1.7%
Computer Expense		2,111	-	0.1%		12,427	9,000	0.5%		3,211		0.2%	335		0.0%
Consulting Fees	e5	-	-	0.0%		6,789		0.3%		4,289		0.2%	2,069		0.2%
Delivery and Freight		219,111	-	10.0%		244,255		10.0%		157,136		8.9%	106,056		8.1%
Misc, Dues	e58	2,330	-	0.1%		1,710		0.1%		1,656		0.1%	3,702		0.3%
Office Expense, Postage		5,923	-	0.3%	h58	9,367		0.4%		7,259		0.4%	10,409		0.8%
Shows		9,825	-	0.4%		13,811		0.6%		9,041		0.5%	8,793		0.7%
Travel and Entertainment	e6	27,642	18,571	1.3%		35,988	26,000	1.5%		30,034	20,000	1.7%	38,059	28,000	2.9%
Utilities. Web Expense	e6	13,531	6,000	0.6%		16,649	6,000	0.7%		16,468	6,000	0.9%	16,837	6,000	1.3%
TOTAL EXPENSES / Total Add-Backs		674,677	94,872	30.7%		931,966	224,501	38.3%		690,057	105,283	39.0%	613,383	105,508	46.9%
TOTAL NET INCOME (per Tax Return) =		71,223		3.2%		53,085		2.2%		34,605		2.0%	(67,736)		-5.2%
Total Add Backs =			307,872				224,501				105,283			105,508	
Owner's Discretionary Cash Flow =			379,095	17.3%			277,586	11.4%			139,888	7.9%		37,772	2.9%
Balance Sheet Accrual Basis Per Tax Returns															
Cash		75,722				6,581				11,588			12,129		
Accounts Receivable	e74	81,829		14 Days		61,159		9 Days		43,520		9 Days	34,737		10 Days
oans To Shareholders															
Inventory	e7	496,726		109 Days		1,011,203		256 Days		1,022,886		358 Days	669,451		322 Days
Other Current Assets						-				14,068			-		
Total Current Assets			654,277	24.4%			1,078,943	42.4%			1,092,062	51.4%		716,317	53.4%
Fixtures & Equipment		190,427	(190,427)			187,796	(187,230)			169,296	(168,353)		169,296	(167,722)	
Tenant Improvement		-													
Other Assets						11,397				15,897			17,513		
Total Assets			654,277				1,090,906			-	1,108,902		-	735,404	
Accruals		-				299				487			217		
Accounts Payable		84,447		38 Days		23,047		14 Days		117,393		54 Days	17,932		7 Days
Consigned Inventory		33,625				25,000				65,000					
		-				-				-			-		
Total Current Liabilities			118,072				48,346				182,880			18,149	
Loans From Shareholders	e7	825,000				1,537,647				1,454,251			1,280,089		
Long Term IB Debt		-				-				-			-		
Total Liabilities			943,072				1,585,993				1,637,131			1,298,238	
Net Worth		(288,795)				(495,087)				(528,229)			(562,834)		
Total Liabilities + Net Worth			654,277				1,090,906				1,108,902			735,404	

N-IB = Non-Interest Bearing IB = Interest Bearing

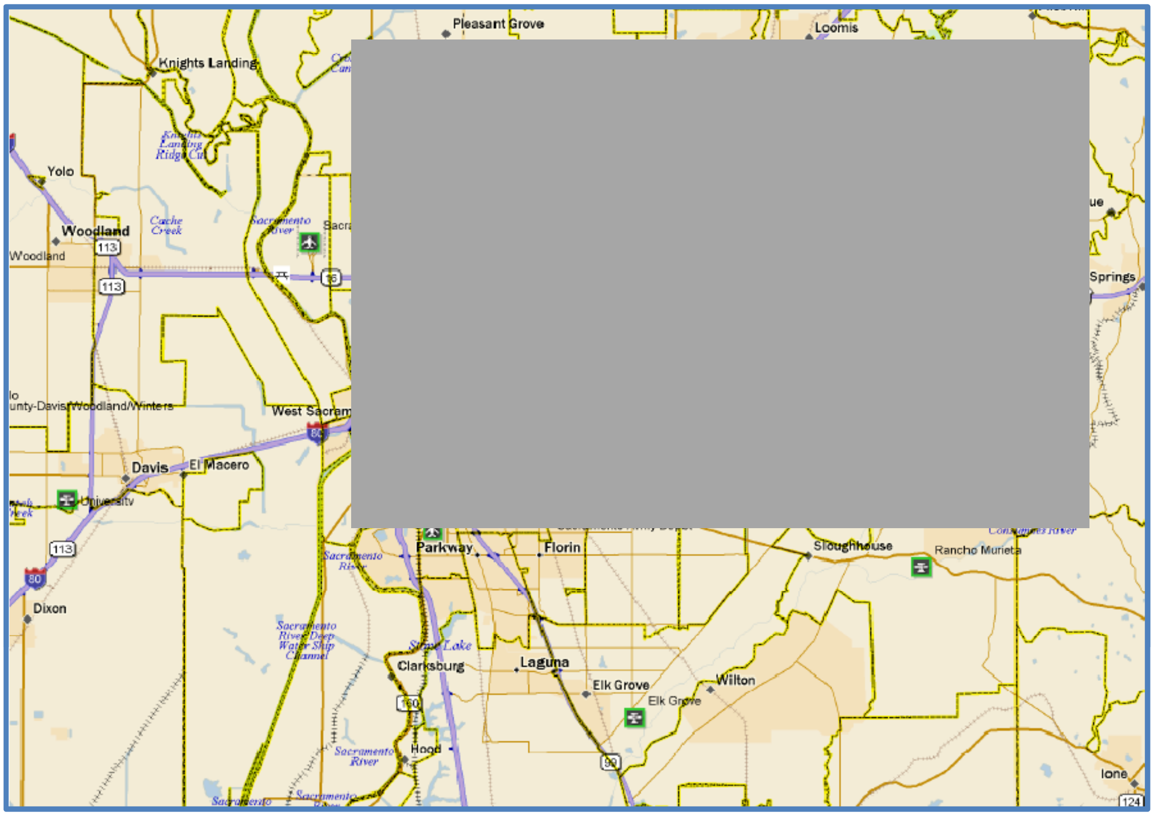
Prepared by C. Fred Hall III, MBA	Feb 28, 2010 2 Mos.	Add Backs Per P&Ls		Feb 28, 2009 12 Mos.	Add Backs Per P&Ls		Dec 31, 2009 12 Mos.	Add Backs Per P&Ls	
INCOME									
Gross Receipts	397,030	Accrual Basis		343,027	Accrual Basis		2,259,714	Accrual Basis	
Less Returns and Allowances	(21,868)	-		(15,718)			(110,195)	-	
TOTAL INCOME	375,162	-	100.0%	327,309	-	100%	2,149,519	-	100%
		-			-			2,149,519	
COST OF GOODS SOLD									
Beginning Inventory			0.0%			0.0%			0.0%
Purchases	174,830		46.6%	170,846		52.2%	1,123,703		52.3%
Workmans Comp Insurance	1,713		0.5%	1,668		0.5%	9,398		0.4%
Commissions	11,273		3.0%	11,180		3.4%	66,667		3.1%
Shipping Supplies	2,976		0.8%	2,057		0.6%	13,241		0.6%
Duties and Customs			0.0%	1,499		0.5%	5,614		0.3%
Repairs, Maintenance	75		0.0%	465		0.1%	4,575		0.2%
Utilities, Insurance, Misc	1,233		0.3%	5,527		1.7%	7,754		0.4%
Royalties			0.0%			0.0%			0.0%
Inventory Adjustment	(243)		-0.1%	(5,546)		-1.7%	216,389	225,000	10.1%
Ending Inventory Adjustment	-	-	0.0%	-		0.0%	-	-	0.0%
TOTAL COST OF GOODS SOLD	191,857	-	51.1%	187,696	-	57.3%	1,447,341	225,000	67.3%
								1,222,341	
GROSS PROFIT	183,305			139,613			702,178	927,178	
	46.2%			40.7%			32.7%	43.1%	
OTHER INCOME (EXPENSE)									
Miscellaneous			0.0%			0.0%	30		0.0%
Rent-Inv			0.0%			0.0%	-		0.0%
TOTAL OTHER INCOME	-	-	0.0%			0.0%	30	-	0.0%
EXPENSES									
Compensation to Officers	2,000	2,000	0.5%	2,000	2,000	0.6%	24,000	24,000	1.1%
Labor-COGS	28,852		7.7%	29,593		9.0%	162,429		
Bad Debts	1,954		0.5%	192		0.1%	3,604		0.2%
Rents	15,425		4.1%	17,982	2,382	5.5%	104,590	5,000	4.9%
Taxes and Licenses			0.0%	800	800	0.2%	907	800	0.0%
Depreciation and Amortization			0.0%			0.0%	2,631	2,631	0.1%
Interest			0.0%	43	43	0.0%	43	43	0.0%
Advertising and Promotions	410		0.1%	300		0.1%	3,859		0.2%
Pension Plan			0.0%			0.0%			0.0%
Accounting and Professional	315		0.1%			0.0%	710		0.0%
Auto and Truck Expense	6,463	6,463	1.7%	6,366	6,366	1.9%	40,955	40,955	1.9%
Bank Charges, Credit Card Merchant Fe	8,941		2.4%	8,469		2.6%	48,516		2.3%
Catalogs			0.0%	198		0.1%	3,543		0.2%
Computer Expense	130		0.0%	375		0.1%	2,356		0.1%
Consulting Fees			0.0%			0.0%			0.0%
Delivery and Freight	41,670		11.1%	33567		10.3%	211,008		9.8%
Misc, Dues	182		0.0%	486		0.1%	2,634		0.1%
Office Expense, Postage	412		0.1%	2,944		0.9%	8,455		0.4%
Shows			0.0%			0.0%	9,825		0.5%
Travel and Entertainment	4,691	3,143	1.3%	8,317	5,572	2.5%	31,268	21,000	1.5%
Utilities. Web Expense	2,017		0.5%	2,396	-	0.7%	13,910	8,000	0.6%
TOTAL EXPENSES / Total Add-Backs	113,462	11,606	30.2%	114,028	17,163	34.8%	675,243	102,429	31.4%
TOTAL NET INCOME (per Tax Return) =	69,843		18.6%	25,585		7.8%	26,965		1.3%
Total A		11,606			17,163		160,000	327,429	
Owner's Discretionary C		81,449	21.7%		42,748	13.1%		354,394	16.5%
Balance Sheet Accrual Basis Per Tax Returns									
Cash							526,878		
Accounts Receivable(							82,875		#######
Loans To Shareholders									
Inventory(							570,602		#######
Other Current Assets	-			-			-		
Total Current Assets		0	0.0%		0	0.0%		1,180,355	45.9%
Fixtures & Equipment							190,427	(190,427)	
Tenant Improvement									
Other Assets									
Total Assets	-	0			0			1,180,355	
Accruals									
Accounts Payable							157,542		
Consigned Inventory							37,253		
	-			-			-		
Total Current Liabilities		0			0			194,795	
Loans From Shareholders(							1,344,200		
Long Term IB Debt	-			-			-		
Total Liabilities		0			0			1,538,995	
Net Worth	-			-			(358,639)		
Total Liabilities + Net Worth		0			0			1,180,356	

N-IB = Non-Interest Bearing IB = Interest Bearing

National Ceramics, Inc.

8290 Payton Lane
Pine Grove, California 95665

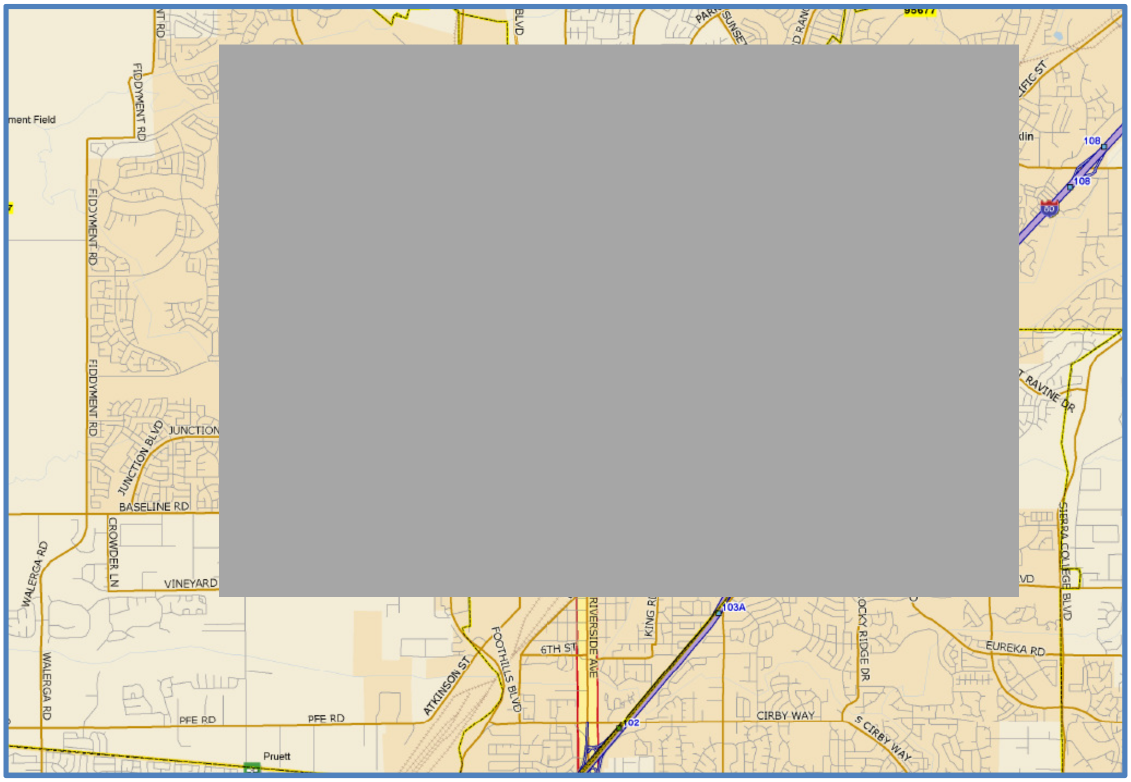
DEMOGRAPHICS

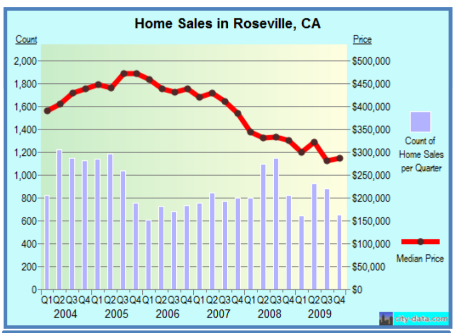


Census 1990-2007 Demographic Profile

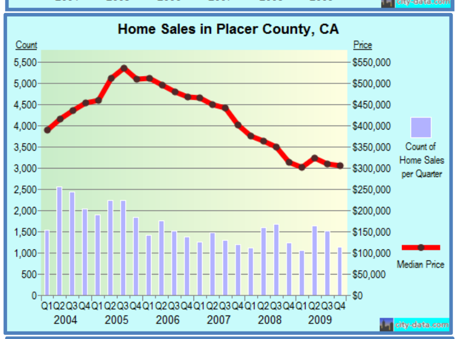
US Census Fact Finder, 2009

		California	% of U.S. Population	United States		
California						
General Characteristics						
Total Population	**2008**	36,756,000	12.1%	304,059,000		
Economic Characteristics						
Median Household Income	**2005-7**	58,361	116.7%	50,007		
Median Family Income		66,420	110.0%	60,374		
Housing Characteristics						
Median Value (dollars)		513,200	282.3%	181,800		
% of Owner-occupied Housing		58.4%	86.8%	67.3%	Increase from 2000-2007	
California	**2000**	**California**	**% of U.S. Population**	**United States**	**California**	**United States**
General Characteristics						
Total Population		33,871,000	12.0%	281,421,000	+ 1.1% per year	+ 1.0% per year
Economic Characteristics						
Median Household Income		47,493	113.1%	41,994		
Median Family Income		53,025	106.0%	50,046		
Housing Characteristics						
Median Value (dollars)		211,500	176.8%	119,600		
% of Owner-occupied Housing		56.9%	86.0%	66.2%		
					Increase from 1990-2007	
California	**1990**	**California**	**% of U.S. Population**	**United States**	**California**	**United States**
General Characteristics						
Total Population		29,760,000	12.0%	248,710,000	+ 1.3% per year	+ 1.2% per year

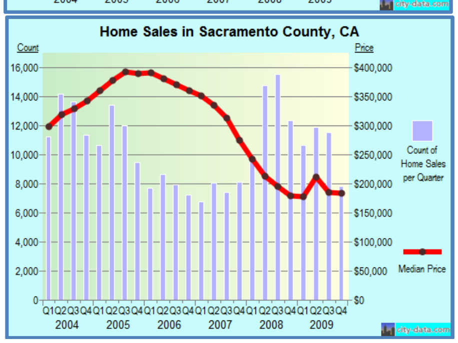




	1990	2000	2007	Roseville 2000-2007	Calif 2000-2007
Roseville					
General Characteristics					
Total Population	44,700	79,900	115,500	+ 6.4%	1.1%
Economic Characteristics				Roseville vs CA	CA 2007
Median Household Income		57,400	74,300	+ 27.3%	58,361
Median Family Income		65,900	88,500	+ 33.2%	66,420
Housing Characteristics					
Median Value (dollars)		194,900	431,300	-16.0%	513,200
% of Owner-occupied Housing		69.5%	66.3%	+ 13.5%	58.4%



	1990	2000	2007	Placer 2000-2007	Calif 2000-2007
Placer County					
General Characteristics					
Total Population	172,800	248,400	332,600	+ 4.8%	1.1%
Economic Characteristics				Placer vs CA	CA 2007
Median Household Income		57,500	73,300	+ 25.6%	58,361
Median Family Income		65,800	86,400	+ 30.1%	66,420
Housing Characteristics					
Median Value (dollars)		213,900	469,100	-8.6%	513,200
% of Owner-occupied Housing		73.2%	67.1%	+ 14.9%	58.4%



	1990	2000	2007	Sacramento 2000-2007	Calif 2000-2007
Sacramento County					
General Characteristics					
Total Population	1,041,000	1,224,000	1,381,000	+ 1.8%	1.1%
Economic Characteristics				Sacramento vs	CA 2007
Median Household Income		43,800	57,800	-1.0%	58,361
Median Family Income		50,700	66,800	+ 0.6%	66,420
Housing Characteristics					
Median Value (dollars)		144,200	360,800	-29.7%	513,200
% of Owner-occupied Housing		58.2%	60.4%	+ 3.4%	58.4%

Prepared By
C. Fred Hall, MBA
Business Consultant

Exhibit XXVIII

Sold Comparables

National Ceramics, Inc.

The following pages are write-ups for the comparables that were listed on Exhibit XV, Sold Comparables Analysis.

BVR

Pratt's Stats® Transaction Report
Prepared: 3/7/2010 10:30:53 AM (PST)

Seller Details

Target Name:	Windjammer Promotions
Business Description:	Promotional Products Distribution
SIC:	5199 Nondurable Goods, NEC
NAICS:	541890 Other Services Related to Advertising
Sale Location:	Osterville, MA, United States
Years in Business:	23
Number Employees:	7

Source Data

Broker Name:	Jennings, Karl
Broker Firm Name:	Nash & Company

Income Data

Data is "Latest Full Year" Reported	Yes
Data is Restated (see Notes for any explanation)	No
Income Statement Date	12/31/2005
Net Sales	$1,331,667
COGS	$784,639
Gross Profit	$547,028
Yearly Rent	$36,000
Owner's Compensation	$80,760
Other Operating Expenses	$433,023
Noncash Charges	$6,132
Total Operating Expenses	$555,915
Operating Profit	($8,887)
Interest Expenses	$795
EBT	($9,682)
Taxes	$0
Net Income	($9,682)

Asset Data

Data is Latest Reported	Yes
Data is "Purchase Price Allocation agreed upon by Buyer and Seller"	No
Balance Sheet Date	12/31/2005
Cash Equivalents	$4,000
Trade Receivables	$23,000
Inventory	$0
Other Current Assets	$0
Total Current Assets	$27,000
Fixed Assets	$45,155
Real Estate	$0
Intangibles	$0
Other Noncurrent Assets	$0
Total Assets	$72,155
Long-term Liabilities	$27,000
Total Liabilities	$27,000
Stockholder's Equity	$45,155

Transaction Data

Date Sale Initiated:	1/27/2004
Date of Sale:	2/15/2006
Asking Price:	N/A
Market Value of Invested Capital*:	$500,000
Debt Assumed:	$0
Employment Agreement Value:	$0
Noncompete Value:	$0
Amount of Down Payment:	$500,000
Stock or Asset Sale:	Stock
Company Type:	C Corporation
Was there an Employment/Consulting Agreement?	Yes
Was there an Assumed Lease in the sale?	No
Was there a Renewal Option with the Lease?	No

*Includes noncompete value and interest-bearing debt; excludes real estate, employment/consulting agreement values, and all contingent payments.

Additional Transaction Information

Was there a Note in the consideration paid? No
Terms:
Assumed Lease (Months): 6
Noncompete Length (Months): 60
Employment/Consulting Agreement Description: 30 day employment agreement.
Additional Notes:

Was there a personal guarantee on the Note? No
Terms of Lease: Fair Market Value
Noncompete Description: 100 miles

Valuation Multiples

MVIC/Net Sales	0.38
MVIC/Gross Profit	0.91
MVIC/EBITDA	N/A
MVIC/EBIT	N/A
MVIC/Discretionary Earnings	6.41
MVIC/Book Value of Invested Capital	6.93

Profitability Ratios

Net Profit Margin	-0.01
Operating Profit Margin	-0.01
Gross Profit Margin	0.41
Return on Assets	-0.13
Return on Equity	-0.21

Leverage Ratios

Fixed Charge Coverage	-11.18
Long-Term Debt to Assets	0.37
Long-Term Debt to Equity	0.60

Earnings

EBITDA	($2,755)
Discretionary Earnings	$78,005

Liquidity Ratios

Current Ratio	N/A
Quick Ratio	N/A

Activity Ratios

Total Asset Turnover	18.46
Fixed Asset Turnover	29.49
Inventory Turnover	N/A

Pratt's Stats® Transaction Report
Prepared: 3/7/2010 10:30:53 AM (PST)

Seller Details

Target Name:	Gift Cents, Inc.
Business Description:	Wholesale and Distribution of Cards
SIC:	5199 Nondurable Goods, NEC
NAICS:	453220 Gift, Novelty, and Souvenir Stores
Sale Location:	Huntington, NY, United States
Years in Business:	10
Number Employees:	5

Source Data

Broker Name:	Citrolo, Anthony
Broker Firm Name:	New York Business Brokerage, Inc.

Income Data

Data is "Latest Full Year" Reported	Yes
Data is Restated (see Notes for any explanation)	No
Income Statement Date	12/31/2007
Net Sales	$3,103,000
COGS	$2,893,000
Gross Profit	$210,000
Yearly Rent	N/A
Owner's Compensation	$61,000
Other Operating Expenses	N/A
Noncash Charges	N/A
Total Operating Expenses	$139,500
Operating Profit	$70,500
Interest Expenses	$0
EBT	$74,700
Taxes	$0
Net Income	$74,700

Asset Data

Data is Latest Reported	Yes
Data is "Purchase Price Allocation agreed upon by Buyer and Seller"	No
Balance Sheet Date	12/31/2007
Cash Equivalents	$125,000
Trade Receivables	$6,500
Inventory	$185,500
Other Current Assets	$7,500
Total Current Assets	$324,500
Fixed Assets	$5,500
Real Estate	$0
Intangibles	$0
Other Noncurrent Assets	$0
Total Assets	$330,000
Long-term Liabilities	$0
Total Liabilities	$162,000
Stockholder's Equity	$168,000

Transaction Data

Date Sale Initiated:	10/1/2008
Date of Sale:	11/13/2008
Asking Price:	$375,000
Market Value of Invested Capital*:	$345,000
Debt Assumed:	$0
Employment Agreement Value:	$0
Noncompete Value:	$100,000
Amount of Down Payment:	$270,000
Stock or Asset Sale:	Asset
Company Type:	S Corporation
Was there an Employment/Consulting Agreement?	No
Was there an Assumed Lease in the sale?	No
Was there a Renewal Option with the Lease?	No

*Includes noncompete value and interest-bearing debt; excludes real estate, employment/consulting agreement values, and all contingent payments.

Additional Transaction Information

Was there a Note in the consideration paid? Yes

Was there a personal guarantee on the Note? No

Terms:

Consideration: 18 months at 6.5% interest.

Assumed Lease (Months): N/A

Terms of Lease: N/A

Noncompete Length (Months): 36

Noncompete Description: No territorial limits

Employment/Consulting Agreement Description: The seller will be available for up to 6 months to respond to buyer's questions.

Additional Notes:

EBT includes interest income of $4,200.

Valuation Multiples

MVIC/Net Sales	0.11
MVIC/Gross Profit	1.64
MVIC/EBITDA	N/A
MVIC/EBIT	4.89
MVIC/Discretionary Earnings	N/A
MVIC/Book Value of Invested Capital	2.05

Profitability Ratios

Net Profit Margin	0.02
Operating Profit Margin	0.02
Gross Profit Margin	0.07
Return on Assets	0.23
Return on Equity	0.44

Leverage Ratios

Fixed Charge Coverage	N/A
Long-Term Debt to Assets	0.00
Long-Term Debt to Equity	0.00

Earnings

EBITDA	N/A
Discretionary Earnings	N/A

Liquidity Ratios

Current Ratio	2.00
Quick Ratio	0.86

Activity Ratios

Total Asset Turnover	9.40
Fixed Asset Turnover	564.18
Inventory Turnover	16.73

BIZCOMPS® Transaction Report

Prepared 3/7/2010 10:25:45 AM (PST) N/A = Not Available

Transaction Details

Business Description	Distr-Gifts/Glassware
SIC	5199 Nondurable Goods, NEC
NAICS	42299 --No description--
Location	S San Francisco, CA, United States
Number Of Employees	N/A

Transaction Data

Sale Date	1/31/1998
Days On Market	330
Ask Price (000)	$1,200.0
Sale Price (000) (Excludes Inventory)	$900.0
Percent Down	52.0%
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$2,100.0
Franchise Royalty	N/A
SDE	$480.0

Asset Data ($000's)

Inventory Value	$999.0
Furniture, Fixtures and Equipment	N/A
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.229
Rent/Annual Gross Sales	0.046

Valuation Multiples

Sale Price/Annual Gross Sales	0.429
Sale Price/SDE	1.875

BIZCOMPS® Transaction Report
Prepared 3/7/2010 10:25:45 AM (PST) N/A = Not Available

Transaction Details

Business Description	Whsle-Ceramic Products
SIC	5199 Nondurable Goods, NEC
NAICS	42299 --No description--
Location	South Florida, United States
Number Of Employees	5

Transaction Data

Sale Date	7/19/2004
Days On Market	120
Ask Price (000)	$790.0
Sale Price (000) (Excludes Inventory)	$670.0
Percent Down	82.0%
Terms on Outstanding Consideration	2 Yrs @ 0%

Income Data ($000's)

Annual Gross Sales	$1,638.0
Franchise Royalty	N/A
SDE	$396.0

Asset Data ($000's)

Inventory Value	$40.0
Furniture, Fixtures and Equipment	$138.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.242
Rent/Annual Gross Sales	N/A

Valuation Multiples

Sale Price/Annual Gross Sales	0.409
Sale Price/SDE	1.692

BIZCOMPS® Transaction Report

Prepared 3/7/2010 10:25:45 AM (PST) N/A = Not Available

Transaction Details

Business Description	Distr-Nondurable Goods
SIC	5199 Nondurable Goods, NEC
NAICS	42299 --No description--
Location	Minnesota, United States
Number Of Employees	N/A

Transaction Data

Sale Date	10/1/2002
Days On Market	105
Ask Price (000)	$250.0
Sale Price (000) (Excludes Inventory)	$234.0
Percent Down	100.0%
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$1,132.0
Franchise Royalty	No
SDE	$234.0

Asset Data ($000's)

Inventory Value	$120.0
Furniture, Fixtures and Equipment	$10.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.207
Rent/Annual Gross Sales	N/A

Valuation Multiples

Sale Price/Annual Gross Sales	0.207
Sale Price/SDE	1.000

BIZCOMPS® Transaction Report
Prepared: 3/7/2010 10:25:45 AM (PST) N/A = Not Available

Transaction Details

Business Description	Whole-Dollar Store Prod
SIC	5199 Nondurable Goods, NEC
NAICS	42299 --No description--
Location	W Central Florida, United States
Number Of Employees	N/A

Transaction Data

Sale Date	6/20/2005
Days On Market	311
Ask Price (000)	$475.0
Sale Price (000) (Excludes Inventory)	$205.0
Percent Down	100.0%
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$1,663.0
Franchise Royalty	N/A
SDE	$153.0

Asset Data ($000's)

Inventory Value	$475.0
Furniture, Fixtures and Equipment	$100.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.092
Rent/Annual Gross Sales	N/A

Valuation Multiples

Sale Price/Annual Gross Sales	0.123
Sale Price/SDE	1.340

BIZCOMPS® Transaction Report

Prepared 3/7/2010 10:25:45 AM (PST) N/A = Not Available

Transaction Details

Business Description	Whsle/Distr-Products
SIC	5199 Nondurable Goods, NEC
NAICS	42299 --No description--
Location	Minneapolis, United States
Number Of Employees	N/A

Transaction Data

Sale Date	1/31/2006
Days On Market	187
Ask Price (000)	$560.0
Sale Price (000) (Excludes Inventory)	$482.0
Percent Down	N/A
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$4,133.0
Franchise Royalty	No
SDE	$67.0

Asset Data ($000's)

Inventory Value	$390.0
Furniture, Fixtures and Equipment	$130.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.016
Rent/Annual Gross Sales	N/A

Valuation Multiples

Sale Price/Annual Gross Sales	0.117
Sale Price/SDE	7.194

BIZCOMPS® Transaction Report

Prepared 3/7/2010 10:25:45 AM (PST) N/A = Not Available

Transaction Details

Business Description	Distr-Gifts & Wares
SIC	5199 Nondurable Goods, NEC
NAICS	42299 --No description--
Location	Florida, United States
Number Of Employees	2

Transaction Data

Sale Date	6/27/2005
Days On Market	80
Ask Price (000)	$2,100.0
Sale Price (000) (Excludes Inventory)	$1,350.0
Percent Down	N/A
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$3,192.0
Franchise Royalty	No
SDE	$643.0

Asset Data ($000's)

Inventory Value	$600.0
Furniture, Fixtures and Equipment	$150.0
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.201
Rent/Annual Gross Sales	0.023

Valuation Multiples

Sale Price/Annual Gross Sales	0.423
Sale Price/SDE	2.100

BIZCOMPS® Transaction Report

Prepared: 3/7/2010 10:25:45 AM (PST) N/A = Not Available

Transaction Details

Business Description	Import-Ceramics
SIC	5199 Nondurable Goods, NEC
NAICS	42299 --No description--
Location	Minnesota, United States
Number Of Employees	N/A

Transaction Data

Sale Date	9/15/2006
Days On Market	332
Ask Price (000)	$800.0
Sale Price (000) (Excludes Inventory)	$900.0
Percent Down	N/A
Terms on Outstanding Consideration	N/A

Income Data ($000's)

Annual Gross Sales	$1,573.0
Franchise Royalty	No
SDE	$158.0

Asset Data ($000's)

Inventory Value	$700.0
Furniture, Fixtures and Equipment	N/A
Value Of Real Estate	N/A

Operating Ratios

SDE/Annual Gross Sales	0.100
Rent/Annual Gross Sales	N/A

Valuation Multiples

Sale Price/Annual Gross Sales	0.572
Sale Price/SDE	5.696

SOLD!

Brand-Name Consumer Product Co.

CA

TRANSACTION DETAILS

Sale Date	Sale Price	Asking Price	Gross Income	Cash Flow
11/23/2009	$1,620,000	$2,199,000	$3,260,000	$442,000

ORIGINAL LISTING BELOW

Nondurable Goods | Textile Mill Products

Asking Price ?	$2,199,000	Inventory ?	$750,000 *
Gross Income ?	$3,260,000	Real Estate ?	
Cash Flow ?	$442,000	Year Established	1990
FF&E ?	$250,000	Employees	6

* included in the asking price

** not included in the asking price

The information in this listing has been provided by the seller stated above. BizBuySell has no stake in the sale of this business and has not independently verified any of such information and assumes no responsibility for its accuracy or completeness. Read BizBuySell's Terms & Conditions before responding to any ad.

SOLD!

Profitable Wholesale Company for Sale

Orange County, CA

TRANSACTION DETAILS

Sale Date	Sale Price	Asking Price	Gross Income	Cash Flow
06/18/2009	$140,000	$145,000	$1,081,421	$121,400

ORIGINAL LISTING BELOW

Nondurable Goods | Non-classifiable Establishments

Asking Price ?	$145,000	Inventory ?	$10,000 **
Gross Income ?	$1,081,421	Real Estate ?	
Cash Flow ?	$121,400	Year Established	2007
FF&E ?	$50,000	Employees	7

* included in the asking price

** not included in the asking price

SOLD!

Cash & Carry Packaged Consumer Goods Wholesale Business

Rialto, CA

TRANSACTION DETAILS

Sale Date	Sale Price	Asking Price	Gross Income	Cash Flow
12/18/2008	$150,000	$169,000	$1,800,000	$100,000

ORIGINAL LISTING BELOW

Nondurable Goods | Durable Goods

Asking Price	$169,000	Inventory	$230,000 **
Gross Income	$1,800,000	Real Estate	
Cash Flow	$100,000	Year Established	1006
FF&E	$180,000	Employees	0

* included in the asking price

** not included in the asking price

The information in this listing has been provided by the seller stated above. BizBuySell has no stake in the sale of this business and has not independently verified any of such information and assumes no responsibility for its accuracy or completeness. Read BizBuySell's Terms & Conditions before responding to any ad.

SOLD!

Distribution-Consumer Products

Davidson County, TN

TRANSACTION DETAILS

Sale Date	Sale Price	Asking Price	Gross Income	Cash Flow
11/19/2008	$450,000	$485,000	$1,300,000	$110,000

ORIGINAL LISTING BELOW

Nondurable Goods

Asking Price	$465,000	Inventory	$105,000 *
Gross Income	$1,300,000	Real Estate	
Cash Flow	$110,000	Year Established	1984
FF&E	$40,000	Employees	3 ft- 2 pt

* included in the asking price

** not included in the asking price

The information in this listing has been provided by the seller stated above. BizBuySell has no stake in the sale of this business and has not independently verified any of such information and assumes no responsibility for its accuracy or completeness. Read BizBuySell's Terms & Conditions before responding to any ad.

SOLD!

Promotional Products/Advertising Specialties - Decorator

New Haven County, CT

TRANSACTION DETAILS

Sale Date	Sale Price	Asking Price	Gross Income	Cash Flow
09/16/2008	$940,000	$920,000	$2,475,000	$230,000

ORIGINAL LISTING BELOW

Nondurable Goods

Asking Price	$920,000	Inventory	$170,400 **
Gross Income	$2,475,000	Real Estate	
Cash Flow	$230,000	Year Established	1950
FF&E	$26,500	Employees	10

* included in the asking price

** not included in the asking price

The information in this listing has been provided by the seller stated above. BizBuySell has no stake in the sale of this business and has not independently verified any of such information and assumes no responsibility for its accuracy or completeness. Read BizBuySell's Terms & Conditions before responding to any ad.

SOLD!

Well Established Import Distrubution Company

FL

TRANSACTION DETAILS

Sale Date	Sale Price	Asking Price	Gross Income	Cash Flow
07/11/2005	$950,000	$950,000	$1,663,215	$152,801

ORIGINAL LISTING BELOW

Nondurable Goods

Asking Price	$950,000	Inventory	$475,000 *
Gross Income	$1,663,215	Real Estate	$500,000 **
Cash Flow	$152,801	Year Established	1993
FF&E	$100,000	Employees	5

* included in the asking price

** not included in the asking price

SOLD!

Niche Distribution Company

CA

TRANSACTION DETAILS				
Sale Date	Sale Price	Asking Price	Gross Income	Cash Flow
02/06/2007	$1,000,000	$1,500,000	$4,187,595	$394,533

ORIGINAL LISTING BELOW

Nondurable Goods | Durable Goods

Asking Price ?	$1,500,000	Inventory ?	$600,000 *
Gross Income ?	$4,187,595	Real Estate ?	
Cash Flow ?	$394,533	Year Established	1971
FF&E ?	$243,000	Employees	12

* included in the asking price

** not included in the asking price

The information in this listing has been provided by the seller stated above. BizBuySell has no stake in the sale of this business and has not independently verified any of such information and assumes no responsibility for its accuracy or completeness. Read BizBuySell's Terms & Conditions before responding to any ad.

SOLD!

Leading the Pack! 30+ Years of Proven Success

ME

TRANSACTION DETAILS

Sale Date	Sale Price	Asking Price	Gross Income	Cash Flow
08/16/2005	$1,695,000	$1,750,000	$3,025,000	$449,500

ORIGINAL LISTING BELOW

Nondurable Goods

Asking Price	$1,750,000	Inventory	$100,000 **
Gross Income	$3,025,000	Real Estate	$350,000 *
Cash Flow	$449,500	Year Established	1972
FF&E	$70,000	Employees	10

* included in the asking price

** not included in the asking price

SOLD!

Advertising and Promotional Products (Under Contract)

Fort Worth, TX

TRANSACTION DETAILS

Sale Date	Sale Price	Asking Price	Gross Income	Cash Flow
05/01/2007	$2,200,000	$2,800,000	$4,200,000	$861,000

ORIGINAL LISTING BELOW

Nondurable Goods | Other Business Services

Asking Price	$2,800,000	Inventory	$100,000 *
Gross Income	$4,200,000	Real Estate	
Cash Flow	$861,000	Year Established	2000
FF&E	$10,000	Employees	4

* included in the asking price

** not included in the asking price

Institute of Business Appraiser Database

Range of Selection: $1,500,000 to $3,500,000

01/01/2000 to 12/31/2009

Transactions Selected								
	Summary							
SIC	Business Description	Sales	DE	Price	Price / Sales	Price / DE	State	Sale Date
5199	Distr-Advert. Promotions	2,600	427	1,615	0.62	3.78	CO	11/30/00
5199	Distribution|Dist-Gifts & Crafts	3,192	643	1,350	0.42	2.10	FL	06/27/05
5199	WH/DIST	1,650	204	650	0.39	3.19		01/01/03
5199	Wholesale - Dist	2,185	640	2,100	0.96	3.28	CA	01/01/05
5199	Wholesale-Dist	3,300	400	1,000	0.30	2.50	CA	01/01/05

RESUME OF C. FREDERICK HALL, III, MBA, AIBA

21190 PAYTON LANE
PINE GROVE, CA 95665
209-256-1371

EDUCATION: B. S in Business Administration from U. C. Berkeley
MBA degree in Business Finance and Computers from San Diego State University

Completed the following course work with the IBA and received the designation of **AIBA (Accredited by the Institute of Business Appraisers)**

8001 A & B	Appraisal Skills Workshop	– 64 hours
1060	Appraisal Writing	– 16 hours
	Annual Appraisal Workshops	– 20 hours

EXPERIENCE:

1971 to 1975 – Business Analyst and Commercial Loan Officer at Union Bank in the San Francisco and Los Angeles headquarters offices. The first year involved a Management Training Program that included nine months (at 40 hours per week) of financial analysis and legal environment of business lending, followed by three months of in-the-field appraisal training.

1975 to 1978 – Purchased and operated a retail hardware company in Portola Valley, California.

1977 to 1981 – Served on the Board of Directors and functioned as CFO for Bay Cities Wholesale Hardware Company, a dealer-owned co-operative comprised of 350 stores in Northern California. Dealt with many union problems, a warehouse relocation from San Francisco to Manteca, California, and, a complete computerization of operations.

1978 to 2002 – Built from the ground up a Retail Hardware and Lumber Company in Pine Grove, California. The company went through four major expansions during this period. The store grew to $5,000,000 revenues with 30 employees. From 1992 to 2002 I completely automated the company at all levels and networked together a dozen workstations. I personally wrote scores of computer programs that involved every aspect of the operations, including inventory control, general ledger bookkeeping, accounts receivable and accounts payable control, and a complete payroll program.

2002 to 2005 – Business Broker and Business Analyst for Sunbelt Business Advisors of Sacramento and Reno. During this period successfully completed the course work for business appraisals offered by IBA (Institute of Business Appraisers) and received the designation of AIBA.

2005 to Present – Managing partner of Compass Point Capital, specializing in mergers and acquisitions of smaller mid-size companies ranging in revenues from $5mm to $25mm.

2003 to Present – Wrote business valuations for over 250 companies. During this time I regularly presented lectures on business valuation techniques to a number of organizations in Northern California. I was also recently invited to speak on the subject at the Annual Murphy Business and Financial convention in Florida and the International Business Broker Convention in Louisville, Kentucky. Attendees included business brokers, bankers, and accountants.

A number of the appraisals I wrote involved marriage dissolutions and partnership breakups which often required presenting and defending the findings to both parties. Approximately 25 appraisals were done at the request of several SBA Banks for their loan applicants. Those banks include Bank of the West, Northern Nevada Bank, Temecula Bank, Plumas Bank, Comerica, and Bridge Bank.

Recent Clients:

Comerica Bank Robert Porter Sacramento, CA	Temecula Valley Bank Gerry Boras Sacramento, CA	CIT Financial Matthew Christie Sacramento, CA	Bridge Bank Hinson Thomas Rancho Cordova, CA
Bank of the West Scott VanderLohe Sacramento, CA	Northern Nevada Bank Bryan Wallace Reno, NV	ProSource Sales and Mkt Gail Sievers Sparks, NV	Wright Outdoor Center Jim Wright Sparks, NV
ScareCrow Lath & Plaster Steve Crow Reno, NV	Lake Bar & Grill Robert Treanur Sparks, NV	Nelson Logistics Jeffery Ting So. San Francisco, CA	Chase Western Cabinets Brett Zunino Reno, NV
North Valley Athletic Club Scott Schofield Chico, CA	Mueller Fitness Center Vance Mueller El Dorado, CA	MAACO Art Alvi North Highlands, CA	Consign-It Bonnie Grisel Rancho Cordova, CA
Liquor Cabinet Manjeet Sandhu Corning, CA	Lighting Unlimited Dean Osborn El Dorado, CA	LA Pines Building Supply Pat Lawrence Portland, OR	Divide Supply Janice Hoyt Greenwood, CA
Holiday Grocery Jim Lumley Marysville, CA	Golden Years Retirement Jace Schmitz, Coldwell Banker Port Angeles, WA	GHH, Inc. Environmental Eng. Gary Hall Auburn, CA	Doyle's Steel Terry Henry Modesto, CA
DEA- Bathroom Machinery Tom Scheller Murphys, CA	Cal Inc. Environmental Training Mike McCalmont Vacaville, CA	B & J Unical Gas John Rockwood Grass Valley, CA	Putnam HVAC John Putnam Rancho Cordova, CA
Tom's Ace Chris Doyle San Leandro, CA	Theresa's Place Restaurant Phil Giurlani Jackson, CA	Pine Cone Pharmacy Paul Wesseler Pine Grove, CA	Sierra X-Ray Services Pete Kohler Reno, NV
Oak's Hardware Dave Hill Fair Oaks, CA	Dixon Lumber Bryan Bock Dixon, CA	Davenport Lumber Doug Allen Davenport, WA.	Tender Touches Spa Barbara Brown Sequim, WA
Meineke Auto Care Dave Sparks Gladstone, OR	Foothill Ace John Norris Oregon House, CA	Columbia Nursery & Florist Janet Ofstad Columbia, CA	Twin Cities Bike and Repair Rick Elia Yuba City, CA
A & J Paving Allen & Joan Ashby Reno, NV	Ameritech Industries Kerry Dawes Redding, CA	Applied Control Electronics Terrence Burke Placerville, CA	Mark Bailey Plumbing Lisa Bailey Susanville, CA
Garden Valley Feed Manuel Vieira Garden Valley, CA	Great Shape of America Steve Lubarsky Los Angeles, CA	Imperial Steel & Tube Rick Stamper Perris, CA	Wood Rat Productions Dennis McKee Murrietta, CA
Hayward Ace Hardware Andrew Lee Hayward, CA	Rossi Building Materials Richard Nelepovitz Fort Bragg, CA	Thrillworks, Extreme Engineer Jeff Wilson Newcastle, CA	Outhouse Collection Jeanette Skaff Arnold, CA

Professional References:

Dave Thomas, Attorney Pine Grove, CA (209) 296-2220	Dave Fulton, CPA Sutter Creek, CA (209) 267-0305	Craig Weber, Attorney La Quinta, CA (909) 657-3309	Guy Barber, Title Officer Alliance Title Insurance (916) 787-1717
Johanna Benker, CPA Vacaville, CA (707) 446-4455	Ron Mittlebrunn Director, Amador Econ. Dev. Corp. (209) 223-0351	Tom Propp, CPA Sacramento, CA (916) 929-1006	Karen Simons, Loan Officer Bank of the West (916) 563-2939
Tim Rogers, CEO Sunbelt Business Advisors (916) 932-2465	Robert Porter, SBA Bus. Dev. Comerica Bank (916) 774-7564	Gerry Boras, Loan Officer Temecula Bank (916) 643-1820	Mercedes Bennet, Title Office Fidelity National Title (916) 923-9134

Appraiser's Certification

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct to the best of my knowledge and belief, subject to the assumptions and conditions stated.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, unbiased and professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report, nor is my compensation dependent upon the value of this report or contingent on producing a value that is favorable to the client.
4. I have no personal bias with respect to the parties involved or have made a full disclosure of any such bias.
5. This appraisal has been conducted and the report was written in conformity with the Business Appraisal Standards of the Institute of Business Appraisers.
6. No person except the undersigned participated materially in the preparation of this report.

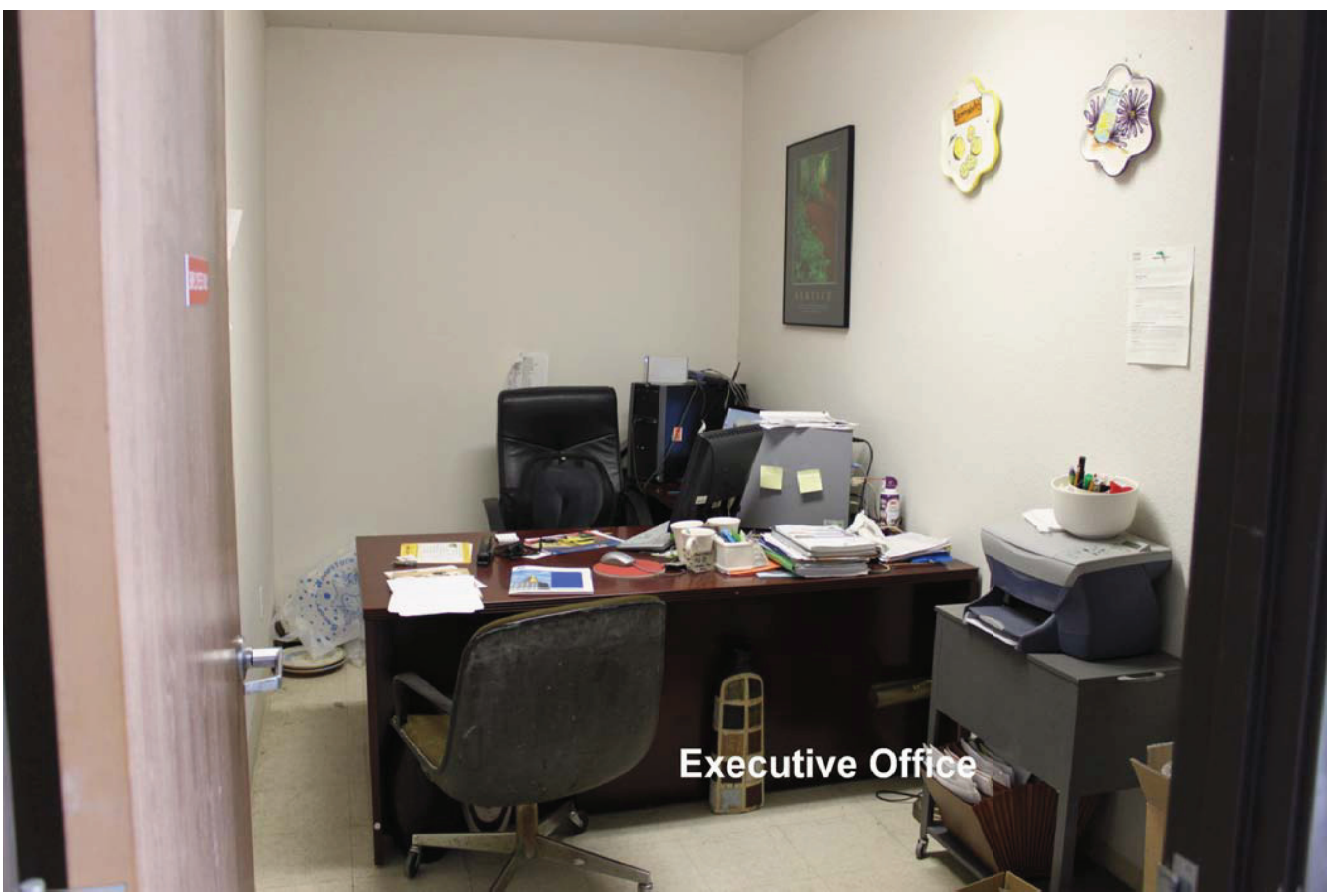
Fred Hall

C. Frederick Hall III, MBA, AIBA

March 5, 2010
Date

By accepting this report, the client agrees to the following terms and conditions:

1. The appraisal report will not be given to any other party without the appraiser's approval.
2. You agree to indemnify and hold the Appraiser, Compass Point Capital, Sunbelt Business Advisors, and their officers and employees harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence.
3. You agree that, in the event we are judicially determined to have acted negligently in the execution of this engagement, damages shall be limited to an amount not to exceed the fee received by us for this engagement.
4. Our liability for injury or loss, if any, arising from the services we provide to you shall not exceed $5,000 or our fee, whichever is greater. There shall be no punitive damages. Increased liability limits may be negotiated upon your written request, prior to commencement of our services, and your agreement to pay an additional fee.
5. Your obligation for indemnification and reimbursement shall extend to any controlling person of Sunbelt Business Advisors, or Compass Point Capital, including any director, officer, employee, subcontractor, affiliate or agent.
6. If in the future the appraiser is called upon to testify in court or at deposition regarding the written report, the appraiser will be paid $150.00 per hour to cover professional time, the gathering of materials, reviewing the case and preparing for testimony along with other expenses incurred.
7. If called upon to defend this report to any other party, the appraiser's expenses and hourly rate will be billed on a monthly basis or as incurred.
8. The client will shoulder the responsibility of legal costs incurred by the appraiser when defending this appraisal.
9. Client agrees that the Limiting Conditions, as stated in the report, will be acceptable with the level of work and detail of work to be performed as outlined above.
10. In the unlikely event of a dispute, the parties under the terms of this agreement shall be subject to arbitration. Arbitration shall be conducted in the state of residence of the appraiser.


Executive Office


Staff Office


Packing Area


Shipping and Receiving


Forward Area of Warehouse

Forward Area of Warehouse

Colorants

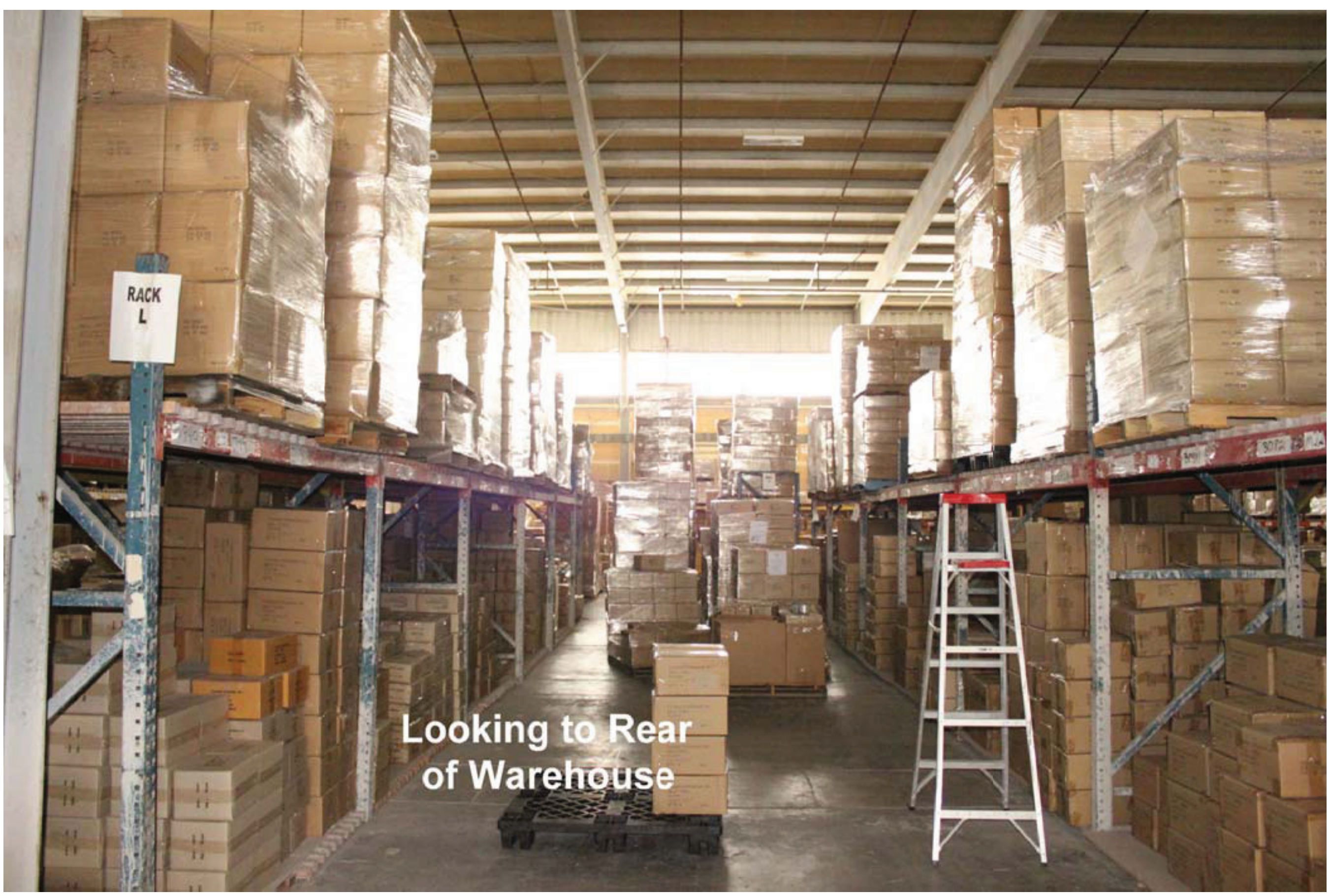

Warehouse


Looking to the
Rear of the Warehouse

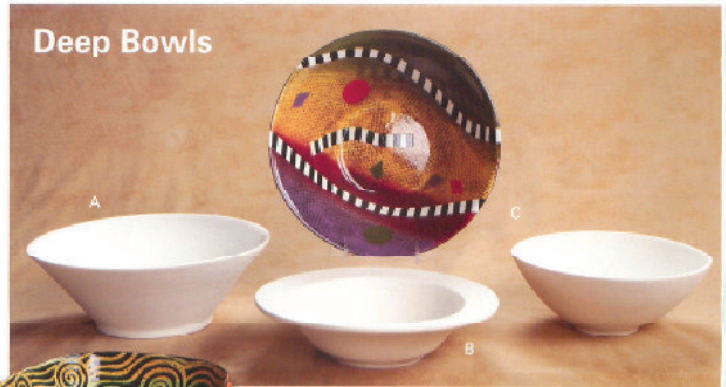

Rear Warehouse


Looking to Rear
of Warehouse


RACK
K
Looking to Rear
of Warehouse


RACK
L
Looking to Rear
of Warehouse

Deep Bowls



A 99805 DEEP "V" BOWL – 12" x 4.75"
6 per case

B 99731 LARGE RIM SALAD BOWL – 11" x 3"
12 per case

C 99803 UDON NOODLE BOWL – 9.75" x 4"
6 per case

D 99841 LARGE SQ BOWL – 11.25" x 5.125"
6 per case

E 99851 MEDIUM SQ BOWL – 9.125" x 4.25"
6 per case

F 99806 TALL SQ BOWL – 6" x 3.25"
12 per case

G 99807 SQ BOWL – 5" x 3"
12 per case

H 99749 X-LARGE ROUND SALAD BOWL – 13" x 5"
6 per case

I 99739 LARGE ROUND SALAD BOWL – 11.5" x 4.5"
6 per case

J 99748 MEDIUM ROUND SALAD BOWL – 10.25" x 4.25
6 per case

Kitchen Essentials

A 08000 CREAMER – 4"T
6 per case

B 08010 SUGAR BOWL – 5 x 3.5"
6 per case

C 07080 BUTTER DISH w/LID – 7.5"W
6 per case

D 98190 GRAVY BOAT and DISH – 8.5"L
6 per case

E 09460 TEA BAG DISPENSER w/LID
6 per case

F 07081 LARGE SALT and PEPPER – 4.75"
12 per case

G 01561 SALT and PEPPER SHAKERS – 3.5"
12 per case

H 02020 NAPKIN RING GROOVED – 3"D
12 per case

I 02000 NAPKIN RING ROUND – 3"D
12 per case

J 02010 NAPKIN RING PLAIN – 3"D
12 per case

K 10160 NAPKIN HOLDER – 5.25"T

Dogs

A 77000 PUPPY SITTING – 5"T
12 per case

B 70240 CHIHUAHUA – 4"T
6 per case

C 73041 DOG BOX – 5.25"D
6 per case

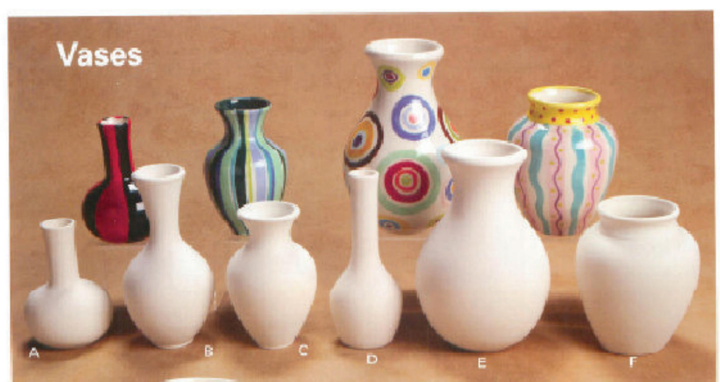
D 74320 BULLDOG – 2.5"T
6 per case

E 70348 PUPPY STANDING – 6"T
9 per case

F 71981 DOG BANK – 3"T
6 per case

G 70350 PUPPY SITTING – 5"T
10 per case

Vases



A	06540	5" BUD VASE	12 per case
B	06520	NARROW NECK VASE – 7"T	6 per case
C	99700	VASE – 3.375" x 5.375"	6 per case
D	06530	7" BUD VASE	12 per case
E	99763	PEAR VASE – 4.75" x 7.5"	6 per case
F	99764	SMALL CLASSICAL VASE – 5.5"T	6 per case