Business Valuation of

Abrasions Inc.

As of September 30 2009

NOTE ALL DATES, PLACES, NAMES AND DATA ARE FICTITIOUS AND ANY CONNECTION TO ANY KNOW CORPORATION ARE PURELY COINCIDENTAL

Prepared for:

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Introduction

Objective

Our objective was to estimate the Fair Market Value of 100.00% of Abrasions Inc. (the "Company") as of September 30 2009. The Company is a C-Corporation and is organized under the laws of Alabama. It is primarily engaged in the business of the distribution of surface preparation and coating application equipment, materials, parts and supplies and operates under the trade name of Abrasions

The standard of value used in our valuation of Abrasions Inc. is *Fair Market Value*. Fair Market Value is the price, in cash or equivalent, that a buyer could reasonably be expected to pay, and a seller could reasonably be expected to accept, if the business were exposed for sale on the open market for a reasonable period of time, with both buyer and seller being in possession of the pertinent facts and neither being under any compulsion to act.

The purpose of this valuation is for the possible sale of the stock or the business of the company to John Brown, presently the Vice President but who is not a shareholder in the company.

Our opinion of Fair Market Value relied on a "value in use" or going concern premise. This premise assumes that the Company is an ongoing business enterprise with management operating in a rational way with a goal of maximizing shareholder value.

Our analysis considers those facts and circumstances present at the Company at the Valuation Date. Our opinion would most likely be different if another Valuation Date was used.

To arrive at our conclusion of Fair Market Value, we performed the following procedures:

- **Collected the Company's relevant historic financial statements.**
- **Analyzed the historic financial statements by calculating financial ratios and common-size financial statements for each historic year in order to identify trends.**
- **Compared the Company's financial ratios and common-size financial statements to industry guideline data to identify any significant variances.**
- **Assisted management in preparing a 3 year projection of the financial statements based on management's assumptions as to the Company's future outlook.**
- **Developed risk-adjusted Capitalization and Discount Rates to apply to the Company's historic and projected earnings, respectively.**
- **Collected and analyzed transactional data from comparable companies within the same industry.**
- **Adjusted historic earnings to eliminate the effects of excess and discretionary expenses, nonoperating revenues and expenses, and non-transferable revenue streams.**
- **Applied Asset, Income, Market, and Other valuation approaches to determine an estimate of Total Entity Value. The following methods were considered under each approach:**

    1. **Asset Approach**

Net Asset Value and Liquidation Value

2. **Income Approach**

   Capitalization of Earnings and Discounted Future Earnings.

3. **Market Approach**

   Price to Earnings, Price to Revenue, Price to Gross Cash Flow, Price to Cash Flow from Operations, Price to Seller's Discretionary Cash Flow, Price to Dividends, Price to Book Value, Price to Total Assets and Price to Stockholders' Equity.

4. **Other**

   Capitalization of Excess Earnings and Multiple of Discretionary Earnings

- **Selected the most reasonable Total Entity Value from the range of values established in the valuation methods and then applied any appropriate discounts to arrive at our conclusion of the estimated Fair Market Value of the interest.**

Note that all dollar values presented in this report are stated in thousands and the 000's have been omitted.

External Sources of Information

To aid us in our analysis of the Company, we consulted a number of publicly available sources of information. Numerous financial publications and databases were consulted *Mergerstat Review*, *U.S. Financial Data*, Valuing Small Business and Professional Practices by Shannon A. Pratt, Practitioners Publishing Company's Business Valuations, Tuller on Small

Business Valuations, Mergerstat Annual Reports, Business Valuations by Christopher Mercer and Business Valuation Discounts and Premiums by Shannon P. Platt and Michael J. Bolotsky

Assumptions and Limiting Conditions

This valuation is subject to the following assumptions and limiting conditions:

1. Information, estimates, and opinions contained in this report are obtained from sources considered to be reliable. However, we assume no liability for such sources.

2. The Company and its representatives warranted to us that the information they supplied was complete and accurate to the best of their knowledge and that the financial statement information reflects the Company's results of operations and financial condition in accordance with generally accepted accounting principles, unless otherwise noted. Information supplied by management has been accepted as correct without further verification, (and we express no opinion on that information).

3. Possession of this report, or a copy thereof, does not carry with it the right of publication of all or part of it, nor may it be used for any purpose by anyone but the client without the previous written consent of the client or us and, in any event, only with proper attribution.

4. We are not required to give testimony in court, or be in attendance during any hearings or depositions, with reference to the company being valued, unless previous arrangements have been made.

5. The various estimates of value presented in this report apply to this valuation only and may not be used out of the context presented herein. This valuation is valid only for the purpose or purposes specified herein.

6. . This valuation assumes that the Company will continue to operate as a going concern, and that the character of its present business will remain intact. The present ownership has estimated the gross annual income as set out below and the percentages expenses as relates to the gross sales will remain constant. This valuation is partially based on those assumptions.

7. The valuation contemplates facts and conditions existing as of the valuation date. Events and conditions occurring after that date have not been considered, and we have no obligation to update our report for such events and conditions.

8. We have assumed that there is full compliance with all applicable federal, state, and local regulations and laws unless otherwise specified in this report. The existing status as a domestic corporation in the state of Alabama has been viewed.

9. This report was prepared under the direction of Peter Louis. Neither the professional who worked on this engagement nor Keystone Business Valuations have any present or contemplated future interest in Abrasions Inc., any personal interest with respect to the parties involved, or any other

interest that might prevent us from performing an unbiased valuation. Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.

Company Background

Company Identification

Abrasions Inc. is a C-Corporation organized under the laws of Alabama and located at 1863 Renew Avenue, Abrasionsville,, Alabama. The Company can be categorized under the North American Industry Classification System (NAICS) Code of 423830,423840.

Nature and History of the Company

Established 22 years ago, the Company is primarily engaged in the business of the distribution of surface preparation and coating application equipment, materials, parts and supplies, and operates under the trade name of Abrasions

The company started in 1986 as a manufacturer's representative agency and the only employee was John Smith. Gradually additional lines were added and the company moved to a leased unit. The focus at that time was an agency with a stocking facility of equipment, materials and parts as well as supplies for abrasive painting and blasting. The company moved its location three times and is presently in an 11,000 square foot facility including a secure yard for storage. The rental of equipment began in 2003 and is now a significant part of the companies operation.

The company has in the past seven years expanded its scope to develop the structure side of the business. This includes structures in which is performed abrasive blasting and coating activities as well as related activities. Over the past five years the structure side of the business has grown to become almost half of the gross annual income.

Stock Classes and Ownership

Joan Smith owns fifty one percent of the corporate stock. Forty nine percent is held by John Smith . All stock is common stock. The company is an SBA certified woman owned, small disadvantaged business [SBD]

Management Team

The management team consists of Joan Smith as the President, John Smith as the vice President, and Edgar in the accounting department, Thomas in administration and Hal in IT and payroll. John Brown is the vice President in charge of the sale of and the erection of Structures. All personnel as set out above are skilled in their respective departments. The key employees are Carmen, James Smith and John Brown.

Presently the company employs eight full time employees including the two owners as well as one part time employee.

Product and Service Information

The company provides rental equipment for the contractor, blast and paint industries and has an extensive list of its product line. The rental equipment includes bulk blast pots-up to 50 tons, dust collection systems, delinquent air dryers, vacuum systems and other equipment used by the contractor industry. The company also provides solutions tailored to meet the abrasive blasting industry that include custom design, retro-fit exiting blast room, dust collectors, portable equipment and turnkey installations.

Market Data and Analysis

On the distribution side of the company the competition consists of small suppliers situated in the southern Alabama area but there is major competition from a national company that uses telemarketing and bases its sales on high volume and low prices. There are numerous other competitors in blast coating industry.

On the structure side of the business there is little competition from local suppliers. However BKL is a dominant national company in the field. There are smaller companies who compete in medium and smaller facilities.

Marketing Strategy

There are growth opportunities in both the service and repair market, both large and small. An investment would need to be made in the personnel and service equipment to support such growth. Marketing is presently handled as follows;

a.	**John Brown**	**distribution**
b.	**James Smith**	**structures**
c.	**Thomas Kinkaid**	**Inside distribution sales.**
d.	**Jonah Lever**	**Customer service distribution**
e.	**Leonora Tatan**	**Customer service distribution**

Currently there are no outside sales persons.

Current Operations

Current operations could handle increased sales but additional salesperson/s may be needed. All growth could be handled from within without the injection of any additional working capital

Company Expectations

The company has completed several large contracts but confidently expects that sales for the next three years will reduce by about by approximately 15% during 2010 , 20.5% in years 2009 and 2012 and 10.25% in 2013.

Other Observations

A major issue in the company is the retention of John Brown, as his sales account for almost 50% of the company's annual sales. John is a recognized expert in the field of structures for blasting and painting and there are few if any persons who could handle the sales that he makes. If he were to leave the employ of the company it would adversely affect the value of the company. The present valuation is based on his retention.

National Economic and Industry Conditions

General Economic Conditions and Outlook

National economic conditions have adversely affected the sales of the company and are expected to account for the drop in sales for the next three years.

Historical and Normalized Financial Statements

Note that all dollar values presented in this report are stated in thousands and the 000's have been omitted.

Summary Historical Income Statements

	2004	2005	2006	2007	2008
Net Sales Revenue	4,114	7,836	8,180	7,095	8,452
Total Cost of Goods Sold	3,450	6,523	6,779	5,237	7,296
Gross Profit	664	1,313	1,401	1,858	1,156
Total General & Administrative Expenses	659	1,097	1,445	1,604	1,334

Income From Operations	**5**	**216**	**(44)**	**254**	**(178)**
Total Other Revenues and Expenses	**0**	**(26)**	**(2)**	**(19)**	**291**
Income Before Taxes	**5**	**190**	**(46)**	**235**	**113**
Total Income Taxes	**0**	**0**	**0**	**0**	**0**
Income From Continuing Operations	**5**	**190**	**(46)**	**235**	**113**
Extraordinary items	**0**	**0**	**0**	**0**	**0**
Net Income	**5**	**190**	**(46)**	**235**	**113**

Gross sales increased dramatically by almost 90% in the 2005 year but have since stabilized.

Income Statement Adjustments

	2004	2005	2006	2007	2008
Add/(deduct) expense adjustments:					
Officer/Owner's Compensation	(27)	(301)	(159)	(59)	(425)
auto expense	0	0	0	0	(7)
Open G&A expense	0	0	0	0	(30)
Total expense adjustments	(27)	(301)	(159)	(59)	(462)
Total income & expense adjustments before tax	27	301	159	59	462
Less: Tax effect *	0	0	0	0	0
Total Adjustments net of Tax effect	27	301	159	59	462

Notes to Income Statement Adjustments:

1. To adjust the expense of the owner's vehicle and the substitution of a less expensive vehicle for a sales representative.

2. The amount of $30,000 was the approximate legal expense for the defense of a wrongful termination suite, that was dismissed in favor of the Company

Normalized Historical Income Statements

	2004	2005	2006	2007	2008
Net Sales Revenue	4,114	7,836	8,180	7,095	8,452
Total Cost of Goods Sold	3,450	6,523	6,779	5,237	7,296
Gross Profit	664	1,313	1,401	1,858	1,156

Total General & Administrative Expenses	**632**	**796**	**1,286**	**1,545**	**872**
Income From Operations	**32**	**517**	**115**	**313**	**284**
Total Other Revenues and Expenses	**0**	**(26)**	**(2)**	**(19)**	**291**
Income Before Taxes	**32**	**491**	**113**	**294**	**575**
Total Income Taxes	**0**	**0**	**0**	**0**	**0**
Income From Continuing Operations	**32**	**491**	**113**	**294**	**575**
Extraordinary items	**0**	**0**	**0**	**0**	**0**
Net Income	**32**	**491**	**113**	**294**	**575**

Summary Historical Balance Sheets

	2004	2005	2006	2007	2008
ASSETS					
Total Current Assets	**744**	**1,758**	**1,422**	**1,136**	**1,066**
Net Fixed Assets	**3**	**165**	**168**	**172**	**105**
Total Other Noncurrent Assets	**4**	**21**	**20**	**13**	**13**
Total Assets	**751**	**1,944**	**1,610**	**1,321**	**1,184**
LIABILITIES & STOCKHOLDERS' EQUITY					
Total Current Liabilities	**480**	**1,344**	**1,046**	**653**	**502**
Total Long-Term Debt	**0**	**143**	**163**	**142**	**66**
Total Other Long-Term Liabilities	**0**	**0**	**0**	**0**	**0**
Total Liabilities	**480**	**1,487**	**1,209**	**795**	**568**
Stockholders' Equity:					
Common stock	**6**	**6**	**6**	**6**	**6**
Retained earnings	**265**	**451**	**395**	**520**	**610**
Total Stockholders' Equity	**271**	**457**	**401**	**526**	**616**
Total Liabilities & Stockholders' Equity	**751**	**1,944**	**1,610**	**1,321**	**1,184**

Balance Sheet Adjustments

	2004	2005	2006	2007	2008
Fixed asset #1	**3**	**165**	**168**	**172**	**105**
Normalization adjustment	**0**	**0**	**0**	**0**	**(36)**

Adjusted balance	3	165	168	172	69
Net Adjustments:					
Asset Adjustments	0	0	0	0	(36)
Less: Liability Adjustments	0	0	0	0	0
Less: Common & Preferred Stock Adjustments	0	0	0	0	0
Retained earnings Adjustment	0	0	0	0	(36)

Summary Historical Balance Sheets

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Adjusted balance	**3**	**165**	**168**	**172**	**69**
Net Adjustments:					
Asset Adjustments	**0**	**0**	**0**	**0**	**(36)**
Retained earnings Adjustment	**0**	**0**	**0**	**0**	**(36)**

Notes to Balance Sheet Adjustments:

1. To provide an estimate for the value of the owner's personal vehicle and the substitution of a less expensive vehicle

Normalized Historical Balance Sheets

	2004	2005	2006	2007	2008
ASSETS					
Total Current Assets	**744**	**1,758**	**1,422**	**1,136**	**1,066**
Net Fixed Assets	**3**	**165**	**168**	**172**	**69**
Total Other Noncurrent Assets	**4**	**21**	**20**	**13**	**13**
Total Assets	**751**	**1,944**	**1,610**	**1,321**	**1,148**
LIABILITIES & STOCKHOLDERS' EQUITY					
Total Current Liabilities	**480**	**1,344**	**1,046**	**653**	**502**
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Common stock	**6**	**6**	**6**	**6**	**6**
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Total Stockholders' Equity	**271**	**457**	**401**	**526**	**580**
Total Liabilities & Stockholders' Equity	**751**	**1,944**	**1,610**	**1,321**	**1,148**

Summary Historical Statements of Cash Flows

	2004	2005	2006	2007	2008
Net Cash Flow From Operations		108	133	441	(8)
Net Cash Flow From Investments		(287)	(47)	(72)	6
Net Cash Flow From Financing		207	(65)	(222)	4
Net Cash Flow		28	21	147	2
Cash at Beginning of Year		0	24	35	72
Cash at End of Year		28	45	182	74

Normalized Earnings and Net Cash Flow Summary

	2004	2005	2006	2007	2008	
Total income & expense adj. before tax	27	301	159	59	462	
Less: Tax effect *	0	0	0	0	0	
Less: Adjustment to Historic Tax	0	0	0	0	0	
Plus: adjustments to net of tax items	0	0	0	0	0	
Net adjustments	27	301	159	59	462	
Plus: Historic net income	5	190	(46)	235	113	
Normalized Net income	32	491	113	294	575	
Plus: Normalized income taxes	0	0	0	0	0	
Normalized EBT	32	491	113	294	575	
Plus: Normalized interest expense	0	26	12	19	15	
Normalized EBIT	32	517	125	313	590	
Plus: Normalized depr. & amort.	2	42	81	73	50	
Normalized EBITDA	34	559	206	386	640	
Historic net change in cash		28	21	147	2	
Plus: Net adjustments + Adj. to Depr., Amort. & Div.		301	159	59	462	
Normalized Net cash flow		329	180	206	464	
Historic income from operations		216	(44)	254	(178)	
Total operating adjustments		301	159	59	462	
Normalized operating income		517	115	313	284	
Less: Tax based on selected tax rate		0	0	0	0	
Plus: Normalized depr. & amort. from oper. (net of tax)			42	81	73	50
Less: Normalized fixed asset purchases		204	74	77	(53)	
Less: Normalized changes in net working capital		126	(49)	70	102	
Normalized Free cash flow		229	171	239	285	

It must be noted that this valuation is based on earnings before interest, taxes and depreciation. {EBITDA].Therefore taxes have been excluded in the final analysis.

Analysis of Normalized Financial Statements

Business Common-Size Financial Statements

This analysis includes a review of the Company's common-size income statement and balance sheet percentages on a normalized basis. In order to portray the relative size of financial statement items for comparison over time, each line item in the common-size income statements is expressed as a percentage of total revenue and each line item in the common-size balance sheets is expressed as a percentage of total assets. A summary of the normalized common-size income statements and balance sheets is presented below.

Business Common-Size Statements

	2004	2005	2006	2007	2008
Income Data:					
Net sales	100.00%	100.00%	100.00%	100.00%	100.00%
Gross profit	16.14%	16.76%	17.13%	26.19%	13.68%
Operating expenses	15.36%	10.16%	15.72%	21.78%	10.32%
Operating profit	0.78%	6.60%	1.41%	4.41%	3.36%
All other expenses (net)	0.00%	0.33%	0.02%	0.27%	-3.44%
Profit Before Tax	0.78%	6.27%	1.38%	4.14%	6.80%
Assets:					
Cash & equivalents	0.00%	1.23%	2.17%	5.45%	4.44%
Trade receivables (net)	64.05%	70.83%	55.90%	53.82%	49.65%
Inventory	34.89%	14.04%	26.71%	22.79%	33.28%
All other current assets	0.13%	4.32%	3.54%	3.94%	5.49%
Total Current Assets	99.07%	90.43%	88.32%	86.00%	92.86%
Fixed assets (net)	0.40%	8.49%	10.43%	13.02%	6.01%
Intangibles (net)	0.00%	0.00%	0.00%	0.00%	0.00%
All other noncurrent assets	0.53%	1.08%	1.24%	0.98%	1.13%
Total Noncurrent Assets	0.93%	9.57%	11.68%	14.00%	7.14%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%

Liabilities & Net Worth:					
Notes payable short-term	**33.02%**	**16.05%**	**14.10%**	**1.97%**	**9.23%**
Current maturity of long-term Debt	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Trade payables	**29.96%**	**48.46%**	**38.57%**	**38.61%**	**28.40%**
Income taxes payable	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
All other current liabilities	**0.93%**	**4.63%**	**12.30%**	**8.86%**	**6.10%**
Total Current Liabilities	**63.91%**	**69.14%**	**64.97%**	**49.43%**	**43.73%**
Long-term debt	**0.00%**	**7.36%**	**10.12%**	**10.75%**	**5.75%**
Deferred taxes	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
All other noncurrent liabilities	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Net worth	**36.09%**	**23.51%**	**24.91%**	**39.82%**	**50.52%**
Total Liabilities & Net Worth	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Business Financial Ratio Analysis

As part of the valuation, various financial ratios have been calculated from each year's normalized financial statements as presented in this report. These ratios measure Abrasions Inc.'s liquidity positions, coverage capacity, leverage/capitalization, operating efficiency and equity performance.

Business Financial Ratios:

	2004	2005	2006	2007	2008
Liquidity Ratios:					
Current	**1.55**	**1.31**	**1.36**	**1.74**	**2.12**
Quick	**1.00**	**1.04**	**0.89**	**1.20**	**1.24**
Accounts receivable turnover	**8.55**	**5.69**	**9.09**	**9.98**	**14.83**
Days' receivable	**42.09**	**63.26**	**39.61**	**36.08**	**24.28**
Inventory turnover	**13.17**	**23.89**	**15.77**	**17.40**	**19.10**
Days' inventory	**27.34**	**15.07**	**22.84**	**20.69**	**18.85**
Accounts payable turnover	**15.33**	**6.92**	**10.92**	**10.27**	**22.38**
Days' payable	**23.48**	**51.99**	**32.98**	**35.06**	**16.09**
Working capital turnover	**15.58**	**18.93**	**21.76**	**14.69**	**14.99**
Inventory as a % of Total current assets	**35.22%**	**15.53%**	**30.24%**	**26.50%**	**35.83%**
Total current assets as a % of Total assets	**99.07%**	**90.43%**	**88.32%**	**86.00%**	**92.86%**

Coverage Ratios:					
Times interest earned	0.00	19.88	10.42	16.47	39.33
Current portion of long-term debt coverage	0.00	0.00	0.00	0.00	0.00
Principal & Interest coverage	0.00	-2.86	1.62	1.30	53.64
Preferred dividend coverage	0.00	0.00	0.00	0.00	0.00
Leverage/Capitalization Ratios:					
Fixed assets to Tangible net worth	0.01	0.36	0.42	0.33	0.12
Total debt to Tangible net worth	1.77	3.25	3.01	1.51	0.98
Short-term debt to Total debt	100.00%	90.38%	86.52%	82.14%	88.38%
Short-term debt to Net worth	177.12%	294.09%	260.85%	124.14%	86.55%
Total debt to Total assets	63.91%	76.49%	75.09%	60.18%	49.48%
Operating Ratios:					
Percent return on Tangible net worth	11.81%	107.44%	28.18%	55.89%	99.14%
Percent return on Total assets	4.26%	25.26%	7.02%	22.26%	50.09%
Net sales to Net fixed assets	1,371.33	47.49	48.69	41.25	122.49
Net sales to Total assets	5.48	4.03	5.08	5.37	7.36
Percent Depr., Amort. to Net sales	0.05%	0.54%	0.99%	1.03%	0.59%
Percent Officer salaries to Net sales	5.74%	2.23%	2.14%	2.47%	2.07%
Fixed asset turnover	1371.33	47.49	48.69	41.25	122.49
Total sales to Net worth	15.18	17.15	20.40	13.49	14.57
Percent Operating cost	49.80%	48.29%	49.65%	48.87%	49.15%
Percent Net profit	0.78%	6.27%	1.38%	4.14%	6.80%
Revenue growth percentage		90.47%	4.39%	-13.26%	19.13%
Equity Ratios:					
Total net assets per share of Preferred stock	0.00	0.00	0.00	0.00	0.00
Net book value per share of Common stock	271.00	457.00	401.00	526.00	580.00
Percent dividend payout	0.00%	0.00%	0.00%	0.00%	0.00%
Percent earnings retention	100.00%	100.00%	100.00%	100.00%	100.00%
Dividends per Common share	0.00	0.00	0.00	0.00	0.00

Financial Ratios Notes and Discussion of Trends:

1. Liquidity ratios measure the short-term ability of a company to meet its maturing obligations.

2. Coverage ratios measure the degree of protection for long-term creditors and investors and the margin by which certain obligations of a company can be met.

3. Leverage/capitalization ratios measure the amount of a company's operations that are financed from debt versus financed from equity.

4. Operating ratios measure the efficiency and productivity of a company using the resources that are available and the returns on sales and investments.

5. Equity ratios measure the performance of assets and earnings in relation to common and preferred equity.

Valuation of Abrasions Inc.

The objective of this valuation is to estimate the Fair Market Value of 100.00% of the common stock of Abrasions Inc. as of September 30 2009 for the purpose as set forth in this Valuation Report.

The standard of value used in our valuation of Abrasions Inc. is *Fair Market Value*. Fair Market Value is the price, in terms of cash or equivalent, that a buyer could reasonably be expected to pay, and a seller could reasonably be expected to accept, if the business were exposed for sale on the open market for a reasonable period of time, with both buyer and seller being in possession of the pertinent facts and neither being under any compulsion to act.

There are a large number of factors to consider when estimating the common stock value of any business entity. These factors vary for each valuation depending on the unique circumstances of the business enterprise and general economic conditions that exist at the effective date of the valuation. However, fundamental guidelines of the factors to consider in any valuation have been established. The most commonly used valuation guidelines are derived from the Internal Revenue Service's Revenue Ruling 59-60. Revenue Ruling 59-60 states that in the valuation of the stock of closely held businesses, the following factors, although not all inclusive, are fundamental and require careful consideration in each case:

a) **The nature of the business and the history of the enterprise from its inception.**

b) **The economic outlook in general and the condition and outlook of the specific industry in particular.**

c) **The book value of the stock and the financial condition of the business.**

d) **The earning capacity of the company.**

e) **The dividend-paying capacity.**

f) **Whether or not the enterprise has goodwill or other intangible value.**

Based on circumstances unique to Abrasions Inc. as of September 30 2009, additional factors have been considered.

In addition to providing general valuation guidelines, Revenue Ruling 59-60 outlines other considerations and techniques for valuing the stock of closely held businesses. The techniques are commonly divided into general approaches, i.e., the Asset, Income, Market, and Other approaches. Specific methods are then used to estimate the value of the total business entity under each approach. Our conclusion of Fair Market Value is determined based on the results of these methods and the specific circumstances surrounding the interest being valued.

Overview of Valuation Approaches and Methods

As previously specified, various approaches have been used to value Abrasions Inc.. These approaches, described below, are the: 1) Asset Approach,

2) Income Approach,

3) Market Approach, and

4) Other.

The Asset Approach is generally considered to yield the minimum benchmark of value for an operating enterprise. The most common methods within this approach are Net Asset Value and Liquidation Value. Net Asset Value represents net equity of the business after assets and liabilities have been adjusted to their fair market values. The Liquidation Value of the business represents the present value of the estimated net proceeds from liquidating the Company's assets and paying off its liabilities.

The Income Approach serves to estimate value by considering the income (benefits) generated by the asset over a period of time. This approach is based on the fundamental valuation principle that the value of a business is equal to the present worth of the future benefits of ownership. The term income does not necessarily refer to income in the accounting sense but to future benefits accruing to the owner. The most common methods under this approach are Capitalization of Earnings and Discounted Future Earnings. Under the Capitalization of Earnings method, normalized historic earnings are capitalized at a rate that reflects the risk inherent in the expected future growth in those earnings. The Discounted Future Earnings method discounts projected future earnings back to present value at a rate that reflects the risk inherent in the projected earnings.

The Market Approach compares the subject company to the prices of similar companies operating in the same industry that are either publicly traded or, if privately-owned, have been sold recently. A common problem for privately owned businesses is a lack of publicly available comparable data.

The Other methods consist of valuation methods that cannot be classified into one of the previously discussed approaches. The methods utilized in the Other Approach are Capitalization of Excess Earnings and Multiple of Discretionary Earnings. Commonly referred to as the "formula method," the Capitalization of Excess Earnings

method determines the value of tangible and intangible assets separately and combines these component values for an indication of total entity value. Under the Multiple of Discretionary Earnings method, the entity is valued based on a multiple of "discretionary earnings," i.e., earnings available to the owner who is also a manager. Both of these methods are normally used to value small businesses and professional practices.

The methods utilized under each approach are presented and discussed in the following sections.

Note that all dollar values presented in this report are stated in thousands and the 000's have been omitted.

Net Asset Value

The Net Asset Value of Abrasions Inc. is estimated to be $580. The Net Asset Value method assumes that the value of a business will be realized by the hypothetical sale of its net assets as part of a going concern. In our analysis, assets and liabilities from the most recent historic, have not been adjusted to their individual tax bases. Assets and liabilities were not adjusted to their individual appraised values. No tax adjustment has been estimated based on the difference between the appraised value and the tax basis of assets and liabilities The net result is the total entity value in terms of the book valuation.

Liquidation Value

The Liquidation Value of Abrasions Inc. is estimated to be $580. Liquidation Value is defined as the present value of the net cash remaining if all assets are sold in a *quick and orderly, piecemeal* sale and all liabilities are paid at face value with the proceeds. In our analysis, the appraised value of individual assets and liabilities has not been adjusted to reflect the value that could be obtained in a quick and orderly liquidation. No tax adjustment was estimated on the difference between the appraised value and the tax basis of assets and liabilities. In addition, we have not estimated the liquidation costs and no amount have been deducted for such costs. The net result is the total entity value.

Discount & Capitalization Rate Estimates

For purposes of this analysis, various risk rates applicable to historic and projected earnings have been estimated. Generally stated, these risk-adjusted rates reflect the expected rate of return attainable on alternative investment opportunities with comparable risk.

First, a Discount Rate applicable to the Discounted Future Earnings valuation method has been calculated. This Discount Rate is then converted into a Capitalization Rate for use in the Capitalization of Earnings valuation method. These calculations are summarized in the table below.

Build-Up Model, Risk Factors:

Risk-Free Rate	**3.19%**
Market Equity Risk Premium	**15.00%**
Size Premium	**10.00%**

Discount Rate	**28.19%**
Less: Long-term growth in Net Income	**0.00%**
Capitalization Rate	**28.19%**
Divided by: 1 + Long-term growth in Net Income	**0.00%**
Historic Earnings Capitalization Rate	**28.19%**
Historic Excess Earnings Capitalization Rate	**28.19%**

In developing the Discount and Capitalization Rates to apply to the benefit stream of Abrasions Inc., the Build-Up Model was used. The Build-Up Model is based on a combination of risk factors including a Risk-Free Rate, a Market Equity Risk Premium, a Size Premium and other identifiable risk factors specific to the subject company. When added together, these risk factors provide an indication of the Discount Rate for the subject company. This Discount Rate represents the total return, in terms of cash flows and appreciation in value, that an investor would require in order to make an equity investment in the subject company. The Long-Term U.S. Treasury Bond yield to maturity prevailing on the date of (or within the week of) the effective date of the valuation is commonly used to represent the Risk-Free Rate. The Market Equity Risk Premium is the return in excess of the Risk-Free Rate that an average equity investor would require. The Size Premium is generally used if the subject company is significantly smaller than the companies used in the formulation of the Market Equity Risk Premium. The Build-Up Model is normally used for small companies or if no valid comparable company data is available. No valid comparable company data is available

Capitalization of Earnings

The Capitalization of Earnings method arrives at an estimate of value by dividing current normalized operations, which are weighted and averaged to approximate future earnings expectations, by a capitalization rate. As shown below, The Total Entity Value of Abrasions Inc. based on the

Capitalization of Earnings method is estimated to be $1,151. In the Capitalization of Earnings method, weighted average, normalized Net Income is divided by the capitalization rate, 28.19%, to determine Total Entity Value. See the Income Statement Adjustments section for a listing of any adjustments made to historic earnings and the Discount & Capitalization Rates section for the capitalization rate calculations.

Capitalization of Earnings All dollar values stated in thousands	Normalized Net Income	Weighting Factor	Weighted Earnings 2008	
Fiscal Year End 2004	32	1.0	32	
Fiscal Year End 2005	491	1.0	491	
Fiscal Year End 2006	113	2.0	226	
Fiscal Year End 2007	294	3.0	882	
Fiscal Year End 2008	575	4.0	2,300	
Annualized 2009	252	5.0	1,259	
Sum of Weighted earnings			5,190	
Divided by: Sum of weighting factors				16.0
Weighted average earnings			324	
Divided by: Historic capitalization rate				28.19%
Total entity value			1,151	

Discounted Future Earnings

The underlying premise for this valuation method is the basic valuation principle that an investment in a business is worth the present value of all the future benefits it will produce for its owner(s), with each expected

future benefit discounted back to present value at a discount rate that reflects the risk (degree of uncertainty) that those benefits may not be realized. Therefore, the application of this method requires a determination of the present value of an expected future income stream that the business generates for that owner.

To determine the expected future income stream, we assisted management in preparing projections of the financial statements for the first 3 years after the valuation date. However such projections were based on management's assessment of futures sales and expenses. An overall summary of the projections is presented below, followed by the individual statements in condensed format. (See the Projection Assumptions and Projection schedules for complete details.) No representations are made as to the veracity of such projections.

Note that all dollar values presented in this report are stated in thousands and the 000's have been omitted.

Projection Summary	2009	2010	2009
Net sales revenue	3,200	3,250	3,260
Gross profit	485	492	485
EBITDA	144	161	134
EBIT	142	152	125
EBT	142	152	125
Net income	142	152	125
Net cash flow	307	158	134
Total current assets	718	881	1,016
Net fixed assets	103	94	85
Net other assets	5	5	5
Total assets	826	980	1,106
Total current liabilities	148	150	151
Total long-term debt	0	0	0
Total liabilities	148	150	151
Total Equity	678	830	955
Net working capital	570	731	865
Federal Income tax before NOL adjustment	0	0	0
Plus: NOL tax adjustment	0	0	0
Federal Income Tax Expense	0	0	0

Income from operations	(166)	(183)	(220)
Less: Tax based on selected tax rate	0	0	0
Plus: Depr. & Amort. from operations	2	9	9
Less: Fixed asset purchases	0	0	0
Less: Changes in Working capital	(300)	3	0
Free Cash Flow	136	(177)	(211)

Summary Income Statement Projections

	2009	2010	2009
Net Sales Revenue	3,200	3,250	3,260
Total Cost of Goods Sold	2,715	2,758	2,775
Gross Profit	485	492	485
Total General & Administrative Expenses	651	675	705
Income From Operations	(166)	(183)	(220)
Total Other Revenues and Expenses	308	335	345
Income Before Taxes	142	152	125
Total Income Taxes	0	0	0
Income From Continuing Operations	142	152	125
Extraordinary items	0	0	0
Net Income	142	152	125

Summary Balance Sheet Projections

	2009	2010	2009
ASSETS			
Total Current Assets	718	881	1,016
Net Fixed Assets	103	94	85
Total Other Noncurrent Assets	5	5	5
Total Assets	826	980	1,106
LIABILITIES & STOCKHOLDERS' EQUITY			
Total Current Liabilities	148	150	151
Total Long-Term Debt	0	0	0
Total Other Long-Term Liabilities	0	0	0
Total Liabilities	148	150	151
Stockholders' Equity:			

Common stock	**6**	**6**	**6**
Retained earnings	**672**	**824**	**949**
Total Stockholders' Equity	**678**	**830**	**955**
Total Liabilities & Stockholders' Equity	**826**	**980**	**1,106**

Summary Retained Earnings Projections

	2009	2010	2009
Retained earnings at beginning of period	**784**	**672**	**824**
Additions:			
Normalized net income for the Period	**(112)**	**152**	**125**
Deductions:			
Normalized Common Dividends	**0**	**0**	**0**
Retained earnings at end of period	**672**	**824**	**949**

Summary Cash Flow Projections

	2009	2010	2009
Net Cash Flow From Operations	**232**	**158**	**134**
Net Cash Flow From Investments	**72**	**0**	**(0)**
Net Cash Flow From Financing	**(105)**	**0**	**0**
Net Cash Flow	**199**	**158**	**134**
Cash at Beginning of Period	**159**	**358**	**515**
Cash at End of Period	**358**	**515**	**649**

Summary Sources & Uses of Funds Projections

	2009	2010	2009
Total Internally Generated Cash	**429**	**156**	**133**
Total Cash from External Financing	**(231)**	**2**	**1**
Net Cash Flow	**199**	**158**	**134**

Overview of Projection Assumptions

In preparing the preceding financial statement projections, management made various assumptions about expected future revenues, expenses, assets, liabilities and equity. These assumptions were made after gathering and analyzing data that affects the future economic outlook of the Company. This data was derived from sources such as the normalized financial statements, publicly available information and other economic materials.

This section of the report provides a broad overview of the Projection Assumptions and has been prepared to emphasize items considered significant to the overall understanding of the projections.

Revenue & Expense Assumptions

Net Sales Revenues over the past 5 historic years have grown at a compound average annual rate of 19.72%. Future Net Sales Revenues are projected at an estimated, compound average annual rate of -6.82%, starting from a base amount of $8,452 and reducing to $8,939 in the first projected year and $6,838 in projected year 3.

Total Cost of Goods Sold over the past 5 historic years has averaged 82.02% of Net Sales Revenues for each respective year and was 86.32% of Net Sales Revenues in the most recent historic fiscal year, 2008. Total Cost of Goods Sold has been projected to be $2,715, or 84.84% of Net Sales Revenues in the first projected year and $2,775, or 85.12% of Net Sales Revenues in projected year 3. On average, Total Cost of Goods Sold has been projected to be 84.94% of each year's respective Net Sales Revenues.

Expenses Total General & Administrative Expenses over the past 5 historic years have grown at a compound average annual rate of 8.38%. Total General & Administrative Expenses are projected to grow at an estimated,

compound average annual rate of -6.84%, starting from a base amount of $872 and growing to $651 in the first projected year and $705 in projected year 3.

Fixed Asset Depreciation Assumptions

Depreciation Expense and Accumulated Depreciation on fixed assets have been estimated over the term of the projected financial statements.

Due to a lack of available detailed fixed assets statistics, projected depreciation on existing fixed assets has been estimated in the aggregate for all assets using the straight-line depreciation method, a single, estimated useful life and no salvage value. Projected depreciation on any fixed asset purchases is based on the terms presented in the following table.

Fixed Asset Accounts	Book Value	Original Life (years)	Salvage (% of Cost)	Depreciation Method
Fixed asset #1	105	10	15.0%	Straight Line

Discounted Future Earnings Value Calculations

The Total Entity Value of Abrasions Inc. based on the Discounted Future Earnings method is estimated to be $473 as shown below. In the Discounted Future Earnings method, Net Income has been projected for 3 years and each year's earnings have been discounted back to present value using an annual discount rate of 28.19% and end-of-year discounting calculations.

Because it is assumed that the business will continue as a going concern beyond the term of the projections, a terminal value (also referred to as residual value) has been calculated based on Net Income from projected

year 3. These residual earnings are first capitalized using the capitalization rate of 28.19% and then that quantity is discounted back to present value using the discount rate of 28.19%.

Discounted Future Earnings All dollar values stated in thousands	Projected Net Income	Discount Factor	Present Value 2008
Annualized 2009	142	0.780092	111
FY 2010	152	0.608544	93
FY 2009	125	0.474720	59
Terminal value of Net Income	444	0.474720	211
Operating value			473
Total entity value			473

End-of-Year discount factors are based on the Discount Rate of : 28.19%

Terminal value is based on the Capitalization Rate of : * 28.19%

The sum of the individual present values, including the present value of the terminal value, equals the estimate of Total Entity Value. See the Discount and Capitalization Rates section for the discount rate calculations.

Capitalization of Excess Earnings

Usually, intangible assets are not reported on the balance sheet unless purchased. However, the existence of and the value for any intangible assets should be considered. A number of methodologies have been developed to estimate intangible assets of a business. One commonly used method is the excess earnings method. The excess earnings method was developed by the U.S. Treasury Department in 1920 in Appeals and Review Memorandum 34 (ARM34). Its current version is found in Revenue Ruling 68-609. The excess earnings method is commonly used in valuing small businesses and professional practices. The Internal Revenue Service suggests that it is to be used only when no better basis exists for separately estimating the value of the intangible assets.

The model for the excess earnings method computes the company's equity value based on the "appraised" value of tangible assets plus an additional amount for intangible assets. A company's tangible assets should provide a current return to the owner. Since there are risks associated with owning the company's assets, the rate of return on those assets should be commensurate with the risks involved. That rate of return should be either the prevailing industry rate of return required to attract capital to that industry or an appropriate rate above the risk-free rate. Any returns produced by the company above the rate on tangible assets are considered to arise from intangible assets. Accordingly, the weighted average capitalization rate for tangible assets and intangible assets should be equivalent to the capitalization rate of the entire company.

In using the excess earnings method, a reasonable rate of return on net tangible assets was first calculated based on the cost of borrowing against those assets plus the cost of equity required to support the remaining investment in those assets, as shown in the following schedule.

	Cost	Percent of Total Capital	Weighted
Required Return on Debt	0.00%	-15.7%	0.00%
Required Return on Equity	28.19%	115.7%	32.61%
Rate of Return on Net Tangible Assets			32.61%

(See the Rate of Return on Net Tangible Assets schedule for the calculation of the required return on debt.)

Then, weighted average, normalized Net Income is compared to the reasonable rate of return. Excess earnings are defined as the difference between the weighted average earnings and the "normal" return. These excess earnings are then capitalized using the excess earnings capitalization rate of 28.19%. Therefore, capitalized excess earnings are an estimate of intangible value. This intangible value is then added to the appraised value of net tangible equity to estimate Total Entity Value. See the Income Statement Adjustments section for a listing of any adjustments made to historic earnings, the Discount and Capitalization Rates section for the excess earnings capitalization rate and the Net Asset Value schedule for the appraised value of net tangible equity.

As shown below, the Total Entity Value of Abrasions Inc. based on the Capitalization of Excess Earnings approach is estimated to be $1,060.

Capitalization of Excess Earnings All dollar values stated in thousands	Normalized Net Income	Weighting Factor	Weighted Earnings 2008
Fiscal Year End 2004	32	1.0	32

Fiscal Year End 2005	491	1.0	491
Fiscal Year End 2006	113	2.0	226
Fiscal Year End 2007	294	3.0	882
Fiscal Year End 2008	575	4.0	2,300
Annualized 2009	252	5.0	1,259
Sum of Weighted earnings			5,190
Divided by: Sum of weighting factors			16.0
Weighted average earnings			324
Net tangible assets		580	
Multiplied by: Rate of return on net tangible assets			32.61%
Normal return on net tangible assets		189	
Weighted average earnings			324
Less: Normal return on net tangible assets			189
Excess Earnings			135
Divided by: Excess earnings capitalization rate	28.19%		
Intangible value			480
Plus: Net tangible assets			580
Total entity value			1,060

Multiple of Discretionary Earnings

The multiple of discretionary earnings method is best suited to businesses where the salary and perquisites of an owner represent a significant

portion of the total benefits generated by the business and/or the business is typically run by an owner/manager. Discretionary earnings is equal to the Company's earnings before: income taxes, nonoperating income and expenses, nonrecurring income and expenses, depreciation and amortization, interest income or expense, and owners' total compensation for services that could be provided by an owner/manager. Buyers and sellers of very small closely held businesses tend to think in terms of income to replace their previous paycheck or income to support their family. They look at the total discretionary earnings to see if it is sufficient to pay all the operating expenses of the business, carry the debt structure necessary to buy and/or operate the business, and provide an adequate wage.

The total entity value of Abrasions Inc. using the Multiple of Discretionary Earnings method is estimated to be $1,892 as shown below.

Multiple of Discretionary Earnings All dollar values stated in thousands	Normalized EBT	Weighting Factor	Weighted Earnings 2008
Fiscal Year End 2004	32	1.0	32
Fiscal Year End 2005	491	1.0	491
Fiscal Year End 2006	113	2.0	226
Fiscal Year End 2007	294	3.0	882
Fiscal Year End 2008	575	4.0	2,300
Annualized 2009	252	5.0	1,259
Sum of Weighted earnings			5,190
Divided by: Sum of weighting factors			16.0
Weighted average earnings			324

Plus: Normalized owner's salary & benefits	178
Plus: Normalized depreciation & amortization expense	2
Less: Required capital expenditures	(53)
Discretionary earnings	558
Multiplied by: Value multiple	2.5
Value of operating assets	1,394
Plus: Normalized net working capital	670
Less: Interest-bearing debt	172
Total entity value	1,892

See the Valuation Multiple Development Worksheet for the factors considered in the development of the selected valuation multiple. Also see the most recent normalized balance sheet for the presentation of normalized net working capital and the Net Asset Value schedule for the presentation of interest-bearing debt.

Valuation Conclusions

Subject to the assumptions and limiting conditions presented herein, we have estimated the Fair Market Value of 100.00% of the common stock of Abrasions Inc. as of September 30 2009 to be $1,051.

Method	Value	Weight	Weighted Value
Net Asset Value	580	1.0	580
Liquidation Value	580	1.0	580
Capitalization of Earnings	1,151	3.0	3,452
Discounted Future Earnings	473	4.0	1,893
Discounted Net Cash Flow	624	3.0	1,871
Mergerstat Price to Earnings Multiple	4,561	0.0	0
Capitalization of Excess Earnings	1,060	3.0	3,179
Multiple of Discretionary Earnings	1,892	5.0	9,460
Sum of weighted values			21,015
Divided by: Sum of weights			20.0
Weighted average total entity value			1,051