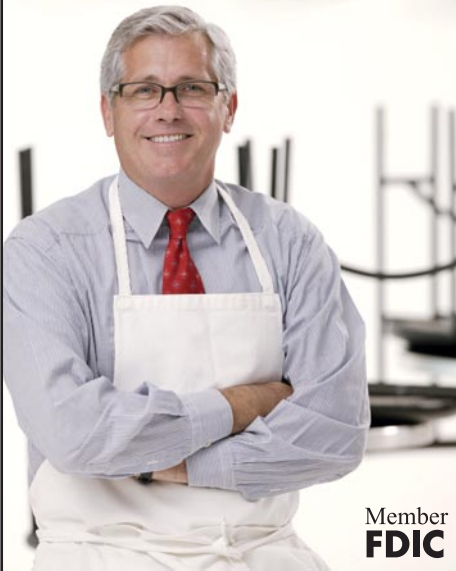


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Multiple . . . continued from page 1

to a 28 percent equity position to help transform the company into a \$1.3 million enterprise.

While this would reduce your equity to 37 percent, it's important to note that you would have attracted the same \$400,000 in total financing while retaining nearly twice the 20-percent-equity position you would have retained with one equity capital offering of \$400,000 when your company had a certified value of \$100,000.

There are many people who call themselves business appraisers without being accredited or having formal training. As a result, businesses should give hiring preference to appraisers accredited by reputable valuation organizations including the American Institute of Certified Public Accountants, the American Society of Appraisers, the National Association of Certified Valuation Analysts and the International Business Brokers Association.

Do due diligence. Before awarding the appraisal, examine the appraiser's background, experience and credentials. Find out if there are any lawsuits or complaints. Check the Better Business Bureau and references. Be sure the appraiser has a track record in your type of business, because lenders and potential investors will do their homework before investing in your company.

Your appraiser will gather data from you and third parties. He or she will do market research and consider assets and income streams. Many professional appraisers require up to two months for an appraisal, while some can complete the job in five business days.

Some appraisers will use ValuSource Pro to create their reports. This high-end and court-tested business-valuation system is used internally by companies, too. □




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California Business Bank BUSINESS FOCUS

Volume 2, Number 2

What's Your Multiple?

Recent changes in tax laws require that publicly traded companies have valuations of their businesses. While there is no such requirement for private companies, knowing what a company is worth can be a distinct advantage for many reasons.

Business-appraisal reports are used for a wide variety of purposes. First, an objective valuation gives company leaders a valuable benchmark against which business and financial objectives can be measured. Second, a certified valuation is proof of value with the Internal Revenue Service and insurance companies, should you ever have a loss or damage to your property. Third, valuations are critical for equity-based compensation, and when considering debt and equity options to raise money for your business.

Relying on rules of thumb or on multiples of earnings common to industries to gauge business value is not enough. After all, market sectors are often made up of businesses with very different cultures, assets (including patents) and liabilities, as well as short- and long-term financial needs.

To better illustrate the importance of business valuations, consider the benefits of timing financing to meet specific goals. Let's say the present value of your company is \$100,000, and you need \$400,000 more to get your company to the next level of profitability. If you attract equity financing for this whole amount, you immediately would lose decision-making control of the company, being left with just a 20 percent interest.

But, if you carefully consider financing options to achieve key milestones —

each of which significantly increases the value of your company — then you likely could achieve growth objectives while retaining control of the business.

If the first of a series of milestones to increase company value would require \$50,000, you would put off total long-term financing needs and focus on this one initiative. Optimally, you accomplish this objective to dramatically improve your company's market position with a business loan from California Business Bank. Another independent business valuation is secured. It shows that in six months the business has tripled in value (\$300,000).

You then do a co-venture using \$30,000 of an equity investor's money (10% equity interest). Happily, the investment allows your company to achieve its next milestone.

Another business appraisal shows this accomplishment boosts company value to \$400,000, of which \$360,000 is your 90-percent equity position.

Strategic growth requires still more capital. So, you attract \$100,000 more in equity financing (25 percent equity interest). You realize another key mile-



stone. This raises certified business value to \$800,000, of which your net ownership position is now 65 percent (\$520,000).

You meet with your California Business Bank officer. You discuss progress being made against your strategic plan, as well as steps that need to be taken quickly to further enhance market position. You explore the possibility of more debt financing to meet a final long-term objective. Yet, because operating expenses are already high, you decide to seek another \$220,000 in equity capital. Using your independent appraisal, you sell what amounts

continued on page 4



President's Message

I'm pleased to report the bank has achieved six consecutive quarters of profit in these challenging economic times. More notably, the conspicuous intensification of both oil and food prices, along with the complexities in the residential housing and new construction markets, have created anxiety and negatively impacted the banking industry. We have noted some strains within our very limited construction portfolio, and our evaluation has denoted minimal exposure to the bank from the orderly resolution of these loans. Our stock price has been trading between \$10.95 and \$8.50 per share in small quantities and at June 30, 2008, the stock was trading around \$10.40 per share.

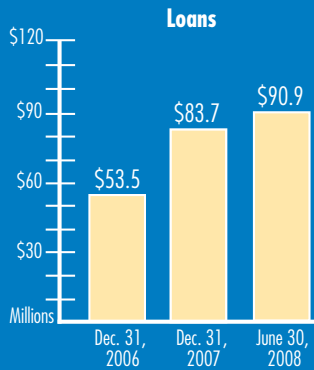
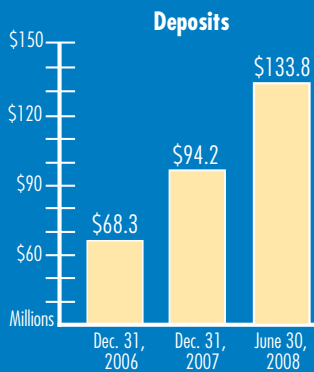
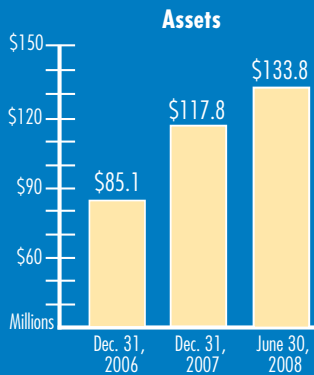
The bank reported pre-tax profits of \$164,632 and the after tax profits totaled \$98,633, or 5.25 cents per share compared to \$243,000, or 13.1 cents per share for same period last year. Comparison to our June 30, 2007 results, total assets growth was 26% to \$133.8 million, total deposits grew by 26.7% to \$103.9 million and total loans outstanding increased by 32.8% to \$92.1 million. We were very pleased that the majority of this growth was in our core deposits and loans, Commercial and Industrial loans account for 62% of our loans outstanding, and our demand deposits exceed 20%.

We're pleased to report that David Pilliod, Senior Vice President/Business Relationship Manager, and Cathy Allan, Vice President/Business Relationship Officer, have joined the bank to anchor our Inland Empire office. Dave and Cathy have decades of expertise, and will assist your business with flexible services and highest the professional standards.

In closing, I want to personally thank our customers for their continued support of the bank. We are committed to creating financial solutions for our existing and future clients of the bank. We will be adding additional products and services to further your financial experience and banking enjoyment.

With my best regards,

Charles R. Wood
President and Chief Executive Officer



California Business Bank Balance Sheet As of Dec. 31, 2007; in thousands

ASSETS

Cash & Due from Banks	\$1,789
Fed Funds Sold	21,493
Investment Securities	17,163
Loans	
Commercial and Industrial	57,974
Commercial Real Estate	18,784
Construction	15,189
Consumer	121
Total Loans	92,068
Deferred Loan Fees	(50)
Deferred Loan Premiums	44
Reserve for Loan Losses	(1,135)
Loans, net	90,927
Property and Equipment	820
Other Assets	1,678
Total Assets	\$133,870

LIABILITIES & STOCKHOLDERS' EQUITY

Deposits	
Non-Interest Bearing Demand	\$20,936
Interest Bearing Demand	7,283
Savings & Money Market	29,292
Certificates of Deposit	46,450
Total Deposits	103,961
Other Borrowings	11,800
Other Liabilities	318
Total Stockholders' Equity	17,791
Total Liabilities & Stockholders' Equity	\$133,870

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Reduce Your Taxes

If you want to increase what you keep, active tax planning is essential for both employers and the employed. Here are some tax-reduction ideas that you should discuss with your tax adviser.

Think above-the-line deductions first. Establishing a Health Savings Account, if you or your family is covered by a high-deductible health insurance policy, could result in a \$5,650 reduction to 2007 adjusted gross income. That's \$1,865 in immediate tax savings at the 33 percent tax bracket, added to the insurance premium savings you would enjoy during the year with a high-deductible policy. HSA investments grow tax-free and can be withdrawn to pay for future medical expenses without being taxed. Not even Individual Retirement Accounts offer this threefold tax benefit, and unlike IRAs, the tax deductibility of a Health Savings Account contribution is not impacted by income level.

“HSA investments grow tax-free and can be withdrawn to pay for future medical expenses without being taxed.”

Other notable above-the-line deductions available to every American include stock losses up to \$3,000, but only after reducing any capital gains, IRA contributions, student loan interest, moving expenses and alimony.

If you are self-employed, you should have many above-the-line deductions for business expenses. One of the most valuable could be hiring a spouse. As a bona fide employee, a spouse can be given health insurance that covers the entire family, including the small-business owner. The net result: All family health-insurance premiums become business expenses. An employee-spouse also is entitled to up to \$50,000 of group term life insur-

ance and disability premiums as non-taxable benefits. Plus, the family business can offer the employee-spouse a “Section 105” medical reimbursement plan to deduct insurance copays, prescriptions not covered by insurance, dental care, orthodontics, eyeglasses and other medical expenses that otherwise would be confined to itemized “Schedule A” deduction with the hard-to-achieve 7.5 percent-of-income floor.

Retirement income also could be increased with an employee spouse. Most defined-benefit plans have limitations on annual contributions per qualified employee participant, so the owner and the employee-spouse would make two plan participants in one household. When a spouse earns as little as \$1,000 per quarter for 10 years, he or she could qualify for Social Security retirement and disability benefits.

Also, an employee-spouse can qualify for business-related travel and entertainment expenses that otherwise would not be deductible.

Regardless of whether a business owner employs a spouse, being an employer requires a business to pay Federal Unemployment Tax Act taxes for any employee earning at least \$1,500 in wages during a quarter. Because FUTA taxes are “experienced-based,” they increase as unemployment claims rise.



To directly or indirectly minimize FUTA payments, entrepreneurs should:

- A.** Take steps to reduce employee turnover.
- B.** Verify their company's unemployment insurance account annually.
- C.** Request and file resignation letters from employees departing your company voluntarily.
- D.** Maintain detailed records describing employee termination circumstances.
- E.** Challenge any unreasonable unemployment claims.

For more information regarding these and other tax-reduction tactics, meet with your tax adviser after visiting both the Small Business Accounting Solutions Web site (www.sbaccountingsolutions.com) as well as the IRS Web site for small business (www.irs.gov/smallbiz). □