MICCO & DELUCA

INVESTIGATIVE ACCOUNTING
INSURANCE & LITIGATION SUPPORT SERVICES

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LEBANON, PA 17042

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December 12, 2008

Mr. Claims Professional
USA Insurance Group
1 Cumberland Drive
Anywhere, PA 17042

Re:	Insured:	**Ivy Crafts, Inc.**
	Claim No:	99-99999
	Date of Loss:	January 8, 2008
	Our File No:	LA0118

Dear Mr. Professional:

In accordance with your written request of November 22, 2008, this firm examined the loss of income claim submitted by the insured relating to a fire that severely damaged their retail craft and gift store. A temporary location was established within a short distance of the loss location. Full operations resumed on July 12, 2008. A calculation of loss was prepared by the insured's consultants, Everywhere Public Adjusters on October 17, 2008. Everywhere presented a business income loss in the amount of $55,000.

Nature of Operations:
The insured operates a small retail craft and gift store.

Nature of Loss:
On January 8, 2008, there was a small fire in the insured's store. As a result of the fire, the store operated in a limited capacity (at an alternate location) until the building was fully restored.

Contacts:
Mr. Joe Everywhere, CPA with Everywhere Public Adjusters provided me his report and additional information via our telephone conversations. He can be reached at (717) 555-1212. No on-site visit was made.

Coverage:
No coverage restrictions were noted. There is a separate policy and claim for the rental income loss. The rental income loss was not considered in my analysis.

Nature of Loss:
Due to the significant fire damage, the insured was not able to conduct its normal retail trade resulting in a loss of income.

Limitations & Qualifications:
The procedures performed were limited to the documents and information provided through December 12, 2008, by Everywhere Public Adjusters. These documents included a calculation of loss with a revenue analysis, 2006 & 2007 U.S. Income Tax Return Form 1120S, lease agreements and several other prepared schedules.

The consulting services provided do not constitute an engagement to provide audit, review, compilation or attest services as described in the pronouncements on professional standards issued by the AICPA.

This report may only be used by USA Insurance Group and its counsel. This report may not be disclosed, copied, published or used, in whole or in part without prior permission from Micco & DeLuca, except as ordered by arbitration proceedings, legal process or court of competent jurisdiction.

Calculation of Loss:
In my opinion, the insured's calculation of loss does not reflect a fair and reasonable analysis. Adjustments were made to the revenue projections and the saved expense factors. First, the insured projected revenue at a rate of 134.64%, which was based on the same loss months in calendar year 2006. I found no reasonable basis to use 2006 as the base year of comparison for revenue growth. I used actual revenue from 2007 to make my revenue projections. Second, given that a portion of July is included in the period of restoration, I used only the last five months of 2007 as the base in my growth calculation. This period from 2007 yielded a lower growth factor of 100.15%. The gross revenue difference between our calculations amounted to $16,018. Third, the insured was paid $5,000 for clean-up labor. As we discussed, these wages were not shown with the insured's regular wages, therefore, no savings were included under labor. However, per the insured's public adjuster, a minor amount of $312 was included under regular payroll and that amount was properly deducted in my computation. Fourth, I deducted $840 in saved outside labor expense. No amount was deducted in the insured's calculation. The insured pays some workers (their children) as casual labor to assist as necessary with various tasks involved with the business. I considered this as a variable expense that would have been saved during the period restoration.

The insured also had some additional (extra) expenses associated with the temporary location that was used during the period of restoration. They purchased shelving and other similar items to accommodate their business needs, they paid rent and also had to pay utilities at the temporary location. Each of these is a reasonable and eligible extra expense. The total of the extra expenses was $16,109.

Below is a summary of my analysis, which yielded a business income loss of $47,434. This compares to the insured's calculation of $55,000.

Gross Revenue Lost	$119,198
Less: COGS	79,529
Gross Profit	$ 39,669
Saved Expenses:	
Advertising	2,996
Bank charges	2,875
Cleaning	64
Dues/publications	343
Postage	71
Printing	223
Promotions	621
Clean-up labor	312
Outside labor	840
Total Saved Expenses	8,345
Net Income plus Continuing Expenses	$ 31,324
Extra Expenses:	
Temporary space supplies	1,368
Utilities (temp location)	1,408
Rent - temp location	13,334
Business Income Loss	**$ 47,434**

Your instructions indicated that the rental income policy limits were paid in full at $25,000. However, please note that the insured's actual rental income loss was only $17,108 and the insured deducted the difference ($7,892) from its total loss. The entire loss as calculated by the insured (public adjuster) was $73,108. With my lower loss of income figure, the adjusted total would be $65,542. The total difference between our calculations is $7,566.

Please contact me with any additional questions or concerns.

Sincerely,

Joseph C. Micco

Joseph C. Micco, CFE, CPA
Micco & DeLuca