

BIDDING PROCEDURES

Set forth below are the bidding procedures (the “Bidding Procedures”) to be employed with respect to the proposed sale (the “Proposed Sale”) of certain of the assets (the “Assets”) of Carabel Export & Import, Inc. d/b/a Italceramica (“Carabel”), Quattro Group Corporation. d/b/a National Ceramics (“Quattro”), Architectural Materials Corporation d/b/a Caribbean Marble & Granite (“ARC”) and MHD Investments Corporation (“MHD”) (the “Sellers”). The Proposed Sale is subject to competitive bidding as set forth herein and approval by the United States Bankruptcy Court for the District of Puerto Rico (the “Bankruptcy Court”) pursuant to Sections 105, 363 and 365 of Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”). All capitalized terms shall have the meaning ascribed to them in the Asset Purchase Agreement (the “Agreement”), dated as of March 3, 2009, by and between Sellers and Continental Tiles, Inc. (the “Purchaser”).

On March 3, 2009 Sellers filed “*Debtors’ Urgent Motion For Orders Pursuant To Sections 105, 363, And 365 Of The Bankruptcy Code, Bankruptcy Rule 4001(C)(2) And Local Bankruptcy Rule 9013-1(f): (A) Authorizing The Sale Of Certain Of Debtors’ Assets, Free And Clear Of All Liens, Claims, Interests And Encumbrances, Subject To The Terms Of The Proposed Purchase Agreement Between Debtors And Continental Tiles, Inc. And To Higher And/Or Better Offers; (B) Authorizing And Approving The Agreement With Continental; (C) Authorizing Debtors To Consummate All Transactions Related To The Proposed Sale; And (D) Granting Other Relief Including Scheduling Auction, Approving Expense Reimbursement And Bidding Procedures*” (the “Sale Motion”). On March 12, 2009, the Bankruptcy Court entered an order approving the bidding procedures (the “Bidding Procedures”), as set forth herein.

These Bidding Procedures describe, among other things, the assets available for sale, the form of bids and the manner in which bidders and bids become qualified, the coordination of diligence efforts among bidders, the conduct of the Auction (as defined herein), the ultimate selection of the Successful Bidder (as defined herein) and the Court’s approval thereof (the “Bidding Process”). The Bidding Procedures were developed following consultation with Westernbank, the Sellers’ professionals, and Continental, and its professionals. Sellers will continue to consult with Westernbank and such constituents throughout the Bidding Process. In the event that Sellers and any such constituents disagree as to the interpretation or application of these Bidding Procedures, the Bankruptcy Court shall have jurisdiction to hear and resolve such dispute.

Assets to be Sold

The Assets proposed to be sold include:

- (a) All of Sellers’ Merchandise Inventory, machinery and equipment, racks, cash registers, music system and signage equipment and all other know assets, excluding accounts receivable as of the Closing Date.

- (b) The “Italcaramica”, “National Ceramics” and “Caribbean Mable & Granite” Trade Names, logos and their domain. After the sale transaction is authorized by the Bankruptcy Court, Sellers will transfer to Purchaser the exclusive right in perpetuity to the “Italcaramica”, “National Ceramics” and “Caribbean Mable & Granite” trade names and logos.
- (c) Transfer to all licenses and rights to all computer programs, software and POS systems currently in operation as well as all representation agreements, licenses, franchises and distribution contracts.
- (d) To the extent assignable and transferable by Sellers, any permits, authorizations, consents, orders, rulings, decrees, licenses and approvals (collectively the “Permits and Licenses”) related to the Assets, or used in connection with the operation of the Assets;
- (e) To the extent assignable and transferable by Sellers, all nonproprietary operating software and MIS systems used with or related to the operation of the Assets.

The Sellers and Westernbank shall each retain all of their respective rights to any assets that are not subject to a bid accepted by the Sellers and approved by the Bankruptcy Court at the Sale Hearing (as defined herein).

The sale of the Assets is on an “as is, where is” basis and without representations or warranties of any kind, nature, or description by Sellers, their agents or estates, except to the extent set forth in the Agreement, as approved by the Bankruptcy Court. Except as otherwise provided in such approved Agreement, all of Sellers’ rights, title and interest in and to the Assets to be acquired shall be sold free and clear of all liens, claims, interests and encumbrances and interests thereon (collectively, the “Liens”), any such Liens to attach solely to the net proceeds of the sale of the Assets.

Participation Requirements

Any person (a “Potential Bidder”) who wishes to participate in the Bidding Process must be a “Qualified Bidder”. A Qualified Bidder is a person:

- (a) who has delivered to Sellers an executed confidentiality agreement in form and substance acceptable to Sellers;
- (b) who has delivered to Sellers on or before the Bid Deadline a bid that constitutes a Qualified Bid that identifies the Assets as the assets to be purchased by the bidder and the consideration to be paid for such assets that constitutes an alternative transaction (the “Alternative Transaction”); Current audited financial statements or other form of financial and/or credit-quality disclosure reasonably sufficient to ascertain the Potential Bidder’s bona fides or of those entities who will guarantee the obligations of the Potential Bidder;

- (c) whose financial information and credit-quality support demonstrate the financial capability to consummate the sale of the Assets and whom the Sellers and Westernbank in good faith determine is reasonably likely (based on availability of financing, experience and other considerations) to be able to consummate a transaction based on the Alternative Transaction, if selected as the Successful Bidder. To avoid any doubt, one or more persons or entities may join together to qualify as a Qualified Bidder;
- (d) who has submitted a Qualified Bid for all of the Assets.

In the event there is a dispute as to whether a person is a Qualified Bidder, the Bankruptcy Court shall decide the issue.

In order to become a Qualified Bidder, a Potential Bidder must deliver (unless previously delivered) to Sellers a Qualified Bid, on or before March 31, 2009, consisting of an Alternative Transaction the value of which contains an offer in cash, of no less than \$100,000.00 in excess of the Purchase Price of \$2,500,000 set forth in the Agreement, that reflects no material substantive changes to the Agreement and a commitment to close by no later than April 15, 2009 (the "Marked Agreement") and does not include a termination fee, expense reimbursement or other bid protections. A Qualified Bid must also:

- (a) provide satisfactory evidence of committed financing or current audited financial statements or other form of financial and/or credit-quality disclosure reasonably sufficient to ascertain such bidder's ability to perform or of those entities that will guarantee the obligations of such bidder;
- (b) be accompanied by a cash deposit in the amount of One Hundred And Twenty Five Thousand Dollars (\$125,000.00) with respect to the Assets, which deposit shall be forfeited as liquidated damages if the Potential Bidder is selected as the successful bidder at the Auction, approved by the Bankruptcy Court and fails or refuses to close for reasons other than Sellers' default; and
- (c) be accompanied by a cover letter from the bidder stating that (i) the bidder is prepared to enter into and consummate the transactions in accordance with the terms of the Marked Agreement after approval by the Bankruptcy Court of the Sale Order, (ii) the bidder will make all necessary federal, state or local filings, pay all costs and expenses associated with such filings (including the costs and expenses of the Seller), and (iii) such bidder's offer is irrevocable until the date that is twenty (20) days after the conclusion of the Sale Hearing with respect to the Assets.

As promptly as practicable after a Potential Bidder delivers a Qualified Bid, the Sellers and Westernbank shall determine and shall notify the Potential Bidder in writing, whether the Potential Bidder is a Qualified Bidder with respect to the Assets. A bid received by a Qualified Bidder prior to the Bid Deadline that meets the above requirements is a "Qualified Bid". The Purchaser is deemed a Qualified Bidder and the offer to purchase the Assets set forth in the Agreement is deemed to be a Qualified Bid. Nothing set forth herein shall be deemed to alter or waive Westernbank's rights in the Assets or its rights to credit bid part or all of its claim, pursuant to Section 363 of the Bankruptcy Code and applicable law.

Bid Deadline

A Qualified Bidder that desires to make a bid shall deliver written copies of its bid to (i) Carabel Export & Import, Inc. d/b/a Italceramica (“Carabel”), Quattro Group Corporation. d/b/a National Ceramics (“Quattro”), Architectural Materials Corporation d/b/a Caribbean Marble & Granite (“ARC”) and MHD Investments Corporation (“MHD”); to (ii) Charles A. Cuprill, PSC, Law Offices, 356 Fortaleza Street, Second Floor, San Juan, Puerto Rico 00901, Attention: Charles A. Cuprill-Hernández, Esq.; and to Westernbank Puerto Rico, c/o Luis C. Marini, Esq., O’Neill & Borges, 250 Munoz Rivera Ave., Suite 800, San Juan Puerto Rico 00918, not later than 4:00 p.m. (prevailing eastern time) on March 31, 2009 (“Bid Deadline”).

Due Diligence

Upon a Potential Bidder’s execution of a confidentiality agreement in form and substance satisfactory to Sellers, such Potential Bidder shall be afforded reasonable due diligence access with respect to the Assets between March 17, 2009 and March 30, 2009 (proposed dates) (the “Due Diligence Period”). Neither Sellers nor their representatives shall be obligated to furnish any information of any kind whatsoever relating to the Assets at any time prior to or after the Due Diligence Period. Due diligence access may include management presentations as may be scheduled by Sellers, access to data rooms, on-site inspections of the Assets and such other matters which a Potential Bidder may request and as to which Sellers, in their sole discretion may agree (but such ability to conduct due diligence shall not be unreasonably withheld), . Sellers will designate an employee or other representative to coordinate all reasonable requests for additional information and due diligence access from Potential Bidders. Sellers may, in their discretion, coordinate due diligence efforts such that multiple Potential Bidders have simultaneous access to due diligence materials and/or simultaneous attendance at management presentations or site inspections. Potential Bidders are advised to exercise their own discretion before relying on any information regarding the Assets provided by anyone other than Sellers, Westernbank or their representatives.

Each Qualified Bidder shall be deemed to acknowledge and represent that it has had an opportunity to inspect and examine the Assets and to conduct any and all due diligence regarding the Assets prior to submitting its bid, that it has relied solely upon its own independent review, investigation and/or inspection of any documents in making its bid, and that it did not rely upon any written or oral statements, representations, promises, warranties or guaranties whatsoever, whether express, implied, by operation of law or otherwise, regarding the Assets, or the completeness of any information provided in connection with the Bidding Process except as expressly stated in the relevant Agreement of the Successful Bidder approved by the Bankruptcy Court.

Auction

If Qualified Bids with respect to the Assets have been received from at least one Qualified Bidder in addition to the Purchaser, Sellers shall conduct an auction (the “Auction”) with respect to the Assets. Only Qualified Bidders with respect to the Assets will be eligible to participate in or attend the Auction. The Auction shall take place on April 6, 2009 at 10:00 a.m. (prevailing eastern time) at O’Neill & Borges, American International Plaza, 250 Muñoz Rivera Street, Suite 800, San Juan, PR 00918-1913, or such other time or other place as the Sellers shall

notify all Qualified Bidders who have submitted Qualified Bids with respect to the Assets subject to Auction. Sellers shall provide copies of all Qualified Bids for the Assets to Purchaser and all other Qualified Bidders prior to the Auction. At least three (3) business days prior to the Auction, each Qualified Bidder who has submitted a Qualified Bid for the Assets must inform the Sellers in writing whether it intends to participate in the Auction.

At the Auction, Qualified Bidders will be permitted to increase their bids (such increased Qualified Bid, a “Qualified Overbid”), provided that each successive overbid shall exceed the then existing highest bid by at least fifty thousand dollars (\$50,000.00).

The Auction shall not conclude until each Qualified Bidder has the opportunity to submit while present at the Auction a Qualified Overbid with full knowledge of the existing highest bid. The Sellers shall have the right, but not the obligation, to participate in the Auction. Based upon the terms of the Qualified Overbids received, the number of Qualified Bidders participating in the Auction, and such other information as Sellers determine is relevant, Sellers, in their business judgment and in consultation with the Westernbank, may conduct the Auction in the manner they determine will achieve the maximum value for the Assets. Sellers will inform the Qualified Bidders participating in the Auction of the manner in which the Auction will be conducted.

Selection of Successful Bid

As soon as practicable after the conclusion of the Auction or, if no other Qualified Bids are received by the Bid Deadline, then as soon as practicable after the Bid Deadline, Sellers and Westernbank, in consultation with its professionals and representatives, shall review each Qualified Bid on the basis of financial and contractual terms and the factors relevant to the Bidding Process, including those factors affecting the speed and certainty of consummating the Proposed Sale, and identify the highest or otherwise best offer for the Assets (the “Successful Bid” and the bidder making such bid, the “Successful Bidder”). Purchaser shall be the Successful Bidder if there are no other Qualified Bids. At the Sale Hearing, Sellers and Westernbank shall present the Successful Bid to the Bankruptcy Court for approval. Sellers’ and Westernbank’s presentation of the announced Successful Bid to the Bankruptcy Court for approval does not constitute Sellers’ acceptance of such Successful Bid. Sellers shall have accepted a Successful Bid only when such bid has been approved by the Bankruptcy Court.

The Sale Hearing

The hearing to approve the Proposed Sale (the “Sale Hearing”) is presently scheduled to take place before the Honorable Enrique S. Lamoutte, of the United States Bankruptcy Court for the District of Puerto Rico on April 10, 2009 (proposed date), or such other date as may be requested at the hearing to approve the Bidding Procedures (the “Procedures Hearing”). At the Sale Hearing, Sellers will seek entry of an order, among other things, authorizing and approving the sale of the Assets to the Successful Bidder, as determined by both Sellers and Westernbank in accordance with the Bidding Procedures, pursuant to the terms and conditions set forth in the relevant Agreement submitted by the Successful Bidder. The Sale Hearing may be adjourned or rescheduled without notice other than by an announcement of the adjourned date at the Sale Hearing.

Following the Sale Hearing approving the sale of the Assets to the Successful Bidder, the closing shall occur no later than April 15, 2009. If any such Successful Bidder fails to consummate an approved sale because of a breach or failure to perform on the part of such Successful Bidder, the next highest or otherwise best Qualified Bid or Qualified Overbid with respect to the Assets as disclosed at the Sale Hearing, shall be deemed to be the Successful Bid with respect to the Assets and Sellers shall effectuate such sale without further order of the Bankruptcy Court. Sellers shall retain all rights to the Assets that are not subject to a bid accepted by Sellers and approved by the Bankruptcy Court.

Return of Good Faith Deposit

The deposits of all Qualified Bidders shall be retained by Sellers, and all Qualified Bids will remain open, notwithstanding Bankruptcy Court approval of a sale pursuant to the terms of a Successful Bid by a Qualified Bidder until the date that is twenty (20) days after the conclusion of the Sale Hearing with respect to the Assets (the "Return Date"). On the Return Date, Sellers shall return the deposits with accrued interest, if any, to all bidders who submitted bids in connection with the Assets (other than the Successful Bidder). In addition to any other remedies available to Sellers, Sellers may retain the deposit of any Qualified Bidder who breaches or fails to perform any of its obligations pursuant to these Bidding Procedures or its Qualified Bid.

Reservation of Rights

Sellers and Westernbank reserve all rights to terminate the Bidding Process at any time if Sellers and Westernbank determine, in their business judgment that the Bidding Process will not maximize the value of Sellers' bankruptcy estates and/or the recoveries to Westernbank, as the secured lender with a first priority perfected security interest over all of the Assets. In addition, Sellers reserve all rights not to submit any bid which is not acceptable to Sellers and Westernbank for approval to the Bankruptcy Court. Sellers shall further have the right to amend the rules set forth herein for the Bidding Process or impose such other terms and conditions for the Bidding Process which Sellers and Westernbank determine, in their business judgment, is necessary for Sellers to fulfill their fiduciary duties, provided that such modifications are not inconsistent with any Bankruptcy Court order. Without limiting the generality of the foregoing, Sellers and Westernbank may reject at any time before entry of an order of the Bankruptcy Court approving a Qualified Bid, any bid that, in Sellers' discretion, is (i) inadequate or insufficient, (ii) not in conformity with the requirements of the Bankruptcy Code or the Bidding Procedures, or (iii) contrary to the best interests of Sellers, their estate and creditors.

