Senior Business Analyst Training Manual

Presented By:
Global Resources, LLC and Related Companies
707 Skokie Blvd., Suite 600
Northbrook, IL 60062
CREDO

Global Resources holds the belief that our company will provide only business consulting services of the highest professional standard.

Our company is committed to the proposition that every business is unique. As such, we seek to apply individualized creative solutions specifically tailored to address the needs and concerns of our clients.

It is our mission to affect change in the lives of our clients and their businesses, while producing a significant return on their investment.
PSYCHOLOGY OF THE SURVEY

Many perceptions of what a survey really is are brought to Analyst Training Class by Senior Business Analyst candidates. The unseasoned analyst often believes that the purpose of a survey is to delve head first into the client’s business problems by analyzing the financial statements from head to toe, to have a clear understanding of the client’s industry and benchmarking the client against industry standards, to have determined an estate and strategic tax plan to suit the individual client, and many more scenarios. This is not the purpose of a survey!

The purpose of the survey is to help the client get what he WANTS! The client does not WANT a perfect chart of accounts. The client does not WANT to be at 85% of industry standard. The client does not WANT pages of tax strategy and complex corporate structures to reduce tax obligations. What the client WANTS is a clear understanding of how to run a business by the numbers, so that he can have freedom and peace. The client WANTS to meet or even exceed industry standards so that he can feel proud and hold his head high in front of his peers, community and his family. The client WANTS a thorough tax strategy and estate plan so that he stops overpaying tax and he has peace of mind for his family and business, etc.

The analyst must remain diligent in always searching out what the client wants. The minute an analyst focuses on the technical side of the survey, i.e. spending too much time and energy on financial analysis, analyzing production lines, etc., and loses sight of the intangibles that the client craves, a No Go is inevitable.

How does an analyst pull out of the client what he wants? By holding the client accountable! After posing a question to the client, always follow his answer with... Why? How come? How did that happen? Then follow up with “What should have happened? Or “How much should you have made?” etc. After establishing the “problem cost” FIND OUT HOW THIS COST IMPACTS THE CLIENT’S WANTS! “If you had the additional $50,000, would that enable you to start funding your retirement?” “If you were able to know what’s going on here on a daily basis without having to be here 80 hours a week, how would that impact your relationship with your family?” etc.

The analyst must reach the point where the scale tips, and the pain of the fix is less than the pain of not having what he wants. Once this is achieved, the likelihood of a good solid GO ahead increases immensely.

A veteran Senior Business Analyst puts it this way:

In recent conversations, we discussed our definitions of what we do and what it is that we actually sell. Our definition of what we sell is: An opportunity to evoke positive

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change (or salvation). Some call this money, some call it profit and some say we sell business services. We firmly believe that the only thing we sell is a real opportunity for the business owner to evoke change in his or her business and life.

The following facts are profound:

- 4 out of 5 small business owners are failing
- 81% of all small businesses fail in the first 5 years
- 94% fail in 10 years
- 90% are operating without a succession plan
- 60% are operating without a written business plan
- Small business owners are among the highest in categories that include divorce, suicide, depression, alcoholism, heart attacks, and ulcers
- 70% of business owners end up selling their businesses for 50%-60% below fair market value
- Most owners are required to finance their own deals when they sell; if the new owner fails and files for bankruptcy, the whole deal falls into the owner’s lap
- Most owners become employees in their own companies

Many of our prospects and clients are potentially on a bus heading for financial and personal failure. Engaging our clients is the equivalent of stopping the bus, letting them off and showing them buses heading for successful and rewarding destinations. Although some of our clients elect to get right back on the bus heading for failure, many change their course with our guidance. We give every client we engage the chance, the opportunity, and the option to do so. Once you believe this, then you know that our job is to light a fire, to provoke. We are provocateurs...

To be a provocateur one must be bold, confident, forthright, and assertive. Provoking is giving tough love. Provoking is engaging the client with passion. Provoking is holding the client accountable. Provoking is never buying the client’s excuses for procrastination. Provoking is never putting the client at risk by buying into a “let me think about it.” The only way to be provocative is to have a real love for small business owners and their plight. That passion comes from knowing that nobody on their deathbed ever says, “I wish I had spent more time at the office putting out fires.” That passion comes from a belief that small business “IS” America and we are the guardians.

We firmly believe we have one of the most important jobs in America. We save lives and families. We stimulate the economy. We create impact every day. We are not selling office supplies or internet subscriptions...we are offering hope.

This belief is what drives us. This belief is what gives us the strength to look the client in the eyes and hold him or her accountable. This belief is what gives us the insight to
know that as a provocateur, our job is not to make a friend, build a relationship, or always be comfortable.

This is why we talk so consistently and passionately about asking questions such as:

- How is this affecting the rest of your business?
- How is this affecting you?
- Are you taking this home with you?
- How long has this been going on?
- What is this costing you?
- How many extra hours a week is this causing you to work?
- How long can you continue to run the business this way until something really bad happens?
- If someone had the information that would make immediate impact on this, when would you want it? Yesterday, right?

As we work together to give our clients the opportunity to succeed, we hope all of you are excited about what we do and just how important our success is. We know that we are...

**THE ANALYST / BUSINESS DOCTOR’S OATH**

*THE SURVEY WE PERFORM IS AN OBJECTIVE REVIEW OF THE CLIENT’S BUSINESS FOR THE PURPOSE OF IDENTIFYING THE HEALTH (STRENGTHS AND WEAKNESSES) OF THE COMPANY AND “ESTABLISHING” THE PROPER PRESCRIPTION NEEDED TO IMPROVE ITS WELLBEING. AS A BUSINESS DOCTOR, IT IS OUR PLEDGE TO NOT ONLY DIAGNOSE THE SICKNESS, BUT MORE IMPORTANTLY, TO TRIGGER THE PURSUIT OF THE SURGERY REQUIRED TO MAKE THE PATIENT HEALTHY AGAIN.*

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WORKING WITH YOUR SURVEY SERVICES DIRECTOR
(SSD/SENEX)

TWO HEADS ARE BETTER THAN ONE

The SSD is an experienced analyst and executive with a track record of success both in regard
to GOs and in regard to cash collected hours.

Most SSDs have a GO % of better than 75%, therefore it certainly makes sense for each
analyst to avail themselves of the knowledge and expertise that the SSD brings to the table.
Even a 70% analyst can benefit from working with an SSD. If both are right only 70% of the
time, for example, together the odds are certainly favorable, and in this case that means the
client will actually win by the analyst winning.

The SSD is available to the analyst to make sure that there is always an objective opinion.
After all, as with our clients, the analyst sometimes cannot see the forest for the trees.

Relaying as much information to the SSD as possible, in an honest, concise and timely manner,
is imperative. The analysts that are proven to be successful know this to be the case from
firsthand experience. The SSD is your Wing Man to guide you to the GO.

It is critical the first morning of any Survey to sync your STS system so that your SSD will be
able to view the P & L and Balance Sheet information input by the Analyst. A synopsis of the
Opening Conference with the Client, not the entire Opening Questionnaire, should be faxed
via the Opening Conference Notes form. This lets the SSD know key points of both a personal
and business nature of the Client. Given this information, your SSD and their support staff will
be able to significantly increase your propensity for success through coaching the Analyst in
effective problem costing. Without this financial information, the SSD is in the dark to the
cost of the problems facing the client.

Strategy calls made throughout the day to your SSD are essential. Minimum calls should
include an O.P. call 30 minutes prior to going into the Client, a Research Call after the Opening
Conference, an O.P. strategy call later in the day on day one, a Research Call after the Goal
Meeting and an O.P. call at the end of the day. It is imperative that your SSD knows
everything going on at the client so that when problems arise they can assist you in
overcoming objections raised by the client. When communication is sporadic, the SSD’s hands
are tied in regard to assisting the Analyst effectively.

Research Staff Calls, covered thoroughly in subsequent chapters, are opportunities for the
analyst to communicate the problems in the business to the SSD while conditioning the client.
The Research Staff Call also gives the SSD the opportunity to coach the analyst in appropriate methods of conditioning the client.

Another opportunity to use the SSD/Analyst relationship is during the Company Plan Meeting. The Company Plan Meeting will be covered in detail in subsequent chapters. In this meeting, a review of the Client’s goals and objectives, both long and short term, are reviewed. This important Research Staff Call made in front of the Client but at the conclusion of this meeting gives the SSD/Analyst an opportunity to leave the Client in crisis before the end of the day. Again, the experience of your SSD is invaluable in assisting the Analyst in an effective close to the day with the Client.

It cannot be stressed enough how important proper communication with your SSD is. However, too many calls will make the Analyst look like he is calling his sales manager. The SSD and the Analyst are a team – working hand in hand to assist the Analyst in achieving the maximum amount of go aheads possible.
TYPES OF PHONE CALLS
(In order of importance)

Traffic Call

“Hello, this is ____________ calling for the Traffic Department.”
This call is made only after the client has signed the Working Agreement(s) (Form 88).
The purpose of the Traffic Call is to confirm the wisdom the Client has exercised to
proceed with the project, to cement the Client’s commitment to change the business, and to
focus the Client on the benefits that will be received from completing the project. THIS
CALL SHOULD BE MADE IN FRONT OF THE CLIENT! Additionally, the call is
used to establish, in front of the Client, the Hotel of Record for the consulting team.

Note: be sure to read the last paragraph of the Working Agreement(s) which begins
“Authority is hereby granted…”

Research Staff Call

“Hello, this is ____________ calling for Research.”
This is a “merchandising” call that is made in front of or within earshot of the client.
(There may be one or multiple individuals from Research on the ensuing call.) The SSD
can and often will assist with this call. Remember: ALWAYS maintain a posture that the
Research Staff is working for the Analyst, so the client understands the Analyst has control.

*Merchandising: giving the Analyst’s opinion of the problematic state of the business and
/or particular problems in the business in an environment that encourages the Client to hear
the problems, no matter how severe, without being positioned to defend/deny the problems.
It is imperative to include problem costing identified in the opening.

On Premises or On Site

“Hello, this is ____________ calling On Premises or (On Site).”
This call is made to contact the SSD when an “Off Premises” call cannot be made. It is
considered an unsecured call and great care must be exercised during the conversation.
Assume someone from the Client’s business is listening. Strategy calls should NEVER be
made On Premise. If for some reason the client’s phone must be used, it is imperative to
insure the line is “secure” and nobody is listening.
Off Premises or OP

“Hello, this is ______________ calling Off Premises or (OP).”
This call is made actually off premises. The call has many functions including: strategizing, reporting in/updates, to cover personal business with your SSD, etc.

Assignment Call

“Hello, this is __________________ calling for my assignment.”
This call should be made if your assignment has not been received within the normal window of time.
SEVEN KEY COMPONENTS TO GETTING A GO

In every GO there are certain key elements that must be established. By addressing each of these key components, the ability to get the GO is greatly enhanced, and for the most part assured.

WHO IS THE CLIENT?

Establishing “who the client is”, is extremely important, whereas without this knowledge, the analyst will never be able to get a decision at the conclusion of the Survey. The true client is the one who can authorize the agreement for consulting services without delay. However, the client is not necessarily the Officer or President of the company. The client may very well be a spouse, a sibling, a parent, a Board of Directors, a key employee, a professional, such as CPA or attorney, etc. Determining who the client is early on will determine who needs to be conditioned and who wants what. Each “who” may have different wants. For example, dad may want security and succession, while the son wants ego and quality of life. Every “who” should be included in the Preliminary Findings Meeting. Also, each “who” needs to be treated as “The Client.” Each “who’s” wants must be identified. Having every “who” fill out the Goals & Objectives sheet will help accomplish this.

If the analyst has not determined who the client really is, the analyst will always receive some type of a slow pass at the end, i.e., “I have to ask my ..........,” or “I have to think about it”, or “I need to discuss it with...........,” or “I never make decisions like this without conferring with .............”

WHAT DOES THE CLIENT WANT

Finding out what the client truly wants is tantamount to getting a GO. What a client truly wants is not necessarily to make more profit, or to have more time off, or to grow the business. The client’s true wants are the reasons behind getting more profit, getting more time off and growing the business. You must identify the motivating factors of your client. Examples of these are: “I want to show my dad that I can be successful because he never thought I would be”, or “I love my wife and I am disappointed that I can’t give her the life she wants”, or “I always wanted to own a 50 foot boat so all my friends will be impressed with my success”, or “I don’t want to turn my business over to my daughter in the condition it is in. I don’t want her to struggle like I have all these years.” The business should be the vehicle for the client to achieve their dreams and we, as analysts, are the catalysts to that end.
ESTABLISHING A FOCUS

The purpose of establishing a focus is to determine exactly where the analyst needs to spend time conditioning the client. It is the road map to the GO. Getting a focus of the survey entails getting a clear agreement from the client as to where the problems exist in the business, and how they are preventing the client from getting what he wants. The problems and the cost of the problems may or may not be of a monetary nature.

An easy way to determine a monetary cost early on in the survey (during the first 15 minutes) is to calculate the difference between what the client is actually making in bottom line pre-tax profit and what he truly believes is realistic. If the client is generating 2% in operating profit and thinks he should be generating 10%, the 8% difference times his net sales is a PROBLEM COST. The analyst must then get agreement from the client that he truly should have this in his pocket, does not know where it is, and does not know how to get it.

In many instances the problems and the cost of the problems may not be monetary at all. The client may be spending too much time in the business, but cannot reduce his time. He may want to retire, but there is no succession in place. He may want to turn the business over to his children, but they are not capable. In these instances the analyst must get agreement from the client that he wants change.

CREDIBILITY

The analyst walks through the client’s door for the first time with extremely high credibility. It is incumbent upon the analyst to maintain this level of credibility with the client.

The client perceives the analyst to be an expert, therefore, for the analyst to lose this perception in the client’s mind, the analyst must do something wrong. The analyst is not in front of the client to impress him with his knowledge. Most clients are technically excellent at what they do, however, their business techniques are somewhat lacking. Therefore, the analyst should not challenge the client on the technical side of the business, but should certainly challenge the client on the business of running the business. The client is probably inadequate in that area and that is the focus of the survey. Credibility is maintained and increased through teaching the client what they do not know and the client seeing the benefit to that knowledge. Teaching should be ongoing throughout the survey, but most of the opening should be spent asking questions. It is vital to listen to your client.

Your appearance must be professional at all times. Even if the client suggests you wear casual clothes on the second day of the survey, this is inappropriate. The consultants who follow you are worth $265/$300 per hour. The analyst must be worth that as well. Everything the analyst does should reflect a $265/$300 per hour professional. The analyst is not a salesperson trying to create a relationship with the client beyond the survey.
CONTROL

Control is most certainly one of the key components in getting a GO. Without control, as without knowing what the client wants, the analyst will never get a GO.

Establishing control is extremely easy. It is no different than when a person enters a doctor’s office, whether or not that person has met the doctor before, the doctor has complete control. The reason that the doctor has control is because the patient believes that they will receive benefit from the doctor. The patient therefore allows the doctor to run tests or procedures, without asking why. This is called the right of entitlement.

The analyst is in the same position. As long as the client continually perceives that they are receiving a benefit from the analysis, the analyst will be in control.

Holding the client accountable is key to maintaining control. If the client tells you “how it is” and you accept this without question, the client is in control. The client must be constantly challenged regarding the company’s deficiencies. The client must explain to the analyst why this was permitted to happen and the consequences of the problem. If the client is on a soapbox without any challenge from the analyst, the client is in control and a No Go is in the analyst’s future. There is no perceived benefit to the client – the analyst must break the chains of the status quo, thereby maintaining control. The analyst must assume entitlement. The analyst must also get the client to tell/admit to the truth.

URGENCY

Run a survey, do not walk it. Urgency is created by the analyst conditioning the client to the problems in the business and the costs to their personal life caused by the business. Creating urgency causes the client to ask to buy rather than the analyst having to sell the client. Creating urgency also prevents a non-decision GO because the client wants to start at a later date. The propensity for a deferred GO to actually open is less than ½ of 1%, therefore a deferred GO is actually a No Go and is not accepted by GR. You must “shake” the client out of their comfort zone.

CONDITIONING

The purpose of conditioning is to wear the client down and to create urgency. Through the practice of dropping bombs and planting seeds during the course of the survey, and leaving the client with “a crisis” at the end of the day, the client’s temperature is raised and urgency is instilled. The client is out of his/her comfort zone – looking at their business from the outside looking inside.

Conditioning will have the effect of heating the client up on an emotional basis and looking to the analyst for assistance on an intellectual basis. Bombs dropped need to be supported by

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the facts of the business. The crisis at the end of the day needs to play on those facts, together with an emotional tie to the client not being able to achieve what he truly wants unless changes take place.

Successful conditioning will assure that the client will ask the analyst for help numerous times, and enable the analyst to let the client ask to buy rather than the analyst having to sell. The more the client asks to buy the better the opportunity for Consulting Services to run the project its entire length and expand it beyond that. Successful conditioning then allows the analyst to sell more hours due to the fact the client chooses to get help in many areas instead of simply one or two, which in turn raise “your” cash collected hours. However, the real winner in this situation is truly the client, at the end of the consulting engagement he is rewarded with a stress free working environment that produces the financial results and accolades the client has sought since the day he started the company.
THINGS AN ANALYST SHOULD NEVER SAY OR DO

1. “I already said that.” (or I already did that)
2. “There’s nothing here.”
3. “There are no financials, so I can’t run a survey.”
4. “I’m here with the Client and I have a NO GO.” (Or an OP call saying the same thing.)
5. “The Client has no money, so there’s nothing here.”
6. “I’ve Institutionalized the Client.”
7. “The Client told me he was busy and wants to reschedule for next week.”
8. “The Client tells me everything is great! There are no problems here!”
9. “You don’t understand what’s going on here!”
10. “My Client really needs help, but…”
11. “The Client can’t afford our services.” Or, “there is no way they will spend $265 per hour!”
12. My Client wants me to call back Monday (or next week, etc.).
13. “Will you speak to my Client?” or “I’m putting you on speaker phone.”
14. “The salesman said…”
15. “The Client said “My wife is not involved in the business so I didn’t talk to her.””
16. “My computer isn’t working so I can’t develop any problem costs.”
17. Attempting to condition the SSD rather than the Client, i.e., “The Client told the salesman he didn’t have time to do this today.”
18. “I’m waiting for the Client to call me back on my cell.”
19. “The Client and I feel…”
20. “My Client wants us to help him and I have a signed 88. He wants to start 3 weeks from now.”

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Survey Activity Schedule - TIMELINE

DAY ONE

6:00 - 7:30

OP CALL TO SSD—1/2 hour before start

8:00 - 10:00

OPENING INTERVIEW WITH THE CLIENT (typically anytime between 7 a.m. and 1:00 p.m.)
---Give client confidentiality bond and letter
---Hold the client accountable; opening will usually last 45 minutes to a few hours

INSTITUTIONALIZE CLIENT

HANDOUTS
Financial Update report
Client Goals & Objectives
Management Self-Assessment
Payroll Census Report ("optional")
Payroll Analysis Report ("optional")
Employee Memo and both Questionnaires—distribute to employees

REQUEST 4 years Financials: P & L and Balance Sheet (year to date plus last 3 year-ends or 4 year-ends)

REQUEST last filed Corporate tax return(s)—1120/1120S/1065 and last filed Personal tax return(s)—1040— if running a tax illustration.

11:00

TAKE COMPANY TOUR and set company plan meeting time.

11:30

SEND IN Opening Interview Analyst’s notes.

12:00 - 1:30

DO EITHER: Opening Research call to merchandise client circumstances in front of client or OP call to SSD to advise of status and focus of survey.

COMPLETE Tax Illustration Instructions form along with Net Worth Calculations form and send with specified tax return pages to tax-business development.
DAY ONE

**2:00 - 3:30**

**INTERVIEW** (and condition/institutionalize) key influencers (partners, spouses, other). Interview key employees.

**START INPUTTING** Financials into STS; sync once complete so SSD can review.

**WORK ON CLIENT CONDITIONING** and problem costing (get client’s agreement).

**4:00 - 4:30**

**HAVE COMPANY PLAN MEETING**—End of first day (or beginning of day 2); give client any additional homework plus testimonial DVD.

**5:00**

**OP CALL** To review and strategize (before 6 p.m. CT).

**PREPARE FINDINGS MEETING** presentation that night.
<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>6:00 - 6:30</td>
<td><strong>OP CALL TO SSD</strong></td>
<td>To review strategy including potential hedges; get hours and scope of project.</td>
</tr>
<tr>
<td>7:00 - 9:30</td>
<td><strong>PRELIMINARY FINDINGS MEETING:</strong></td>
<td>Start reviewing business problems and cost of problems, quality of life issues, and missing potential. Develop and discuss benefits achieved if problems solved. You must have absolute agreement to continue. If not, take a break and call your SSD for re-strategizing. Then restart in order to get absolute agreement.</td>
</tr>
<tr>
<td>10:00</td>
<td><strong>ONCE AGREEMENT HAS BEEN ACHIEVED,</strong></td>
<td>Do a thumbnail review of findings, cost of problems and benefit to fixing.</td>
</tr>
<tr>
<td>11:00</td>
<td><strong>MAKE TRAFFIC CALL</strong></td>
<td>Once agreements are signed to merchandise project to SSD in front of client (or do OP call before leaving client premises).</td>
</tr>
<tr>
<td></td>
<td><strong>PRESENT SURVEY INVOICE</strong></td>
<td>And collect fee (if client won’t pay fee, a non-payment of survey fee report must be filled out by the client and sent in while on premises).</td>
</tr>
<tr>
<td></td>
<td><strong>SEND IN COPIES OF BOTH PAGES OF WORKING AGREEMENT(S),</strong></td>
<td>Survey fee, hotel of record and any other notes for the project. Call and confirm that all documents were received and are in order before leaving client.</td>
</tr>
<tr>
<td></td>
<td><strong>LEAVE COPY OF WORKING AGREEMENTS</strong></td>
<td>Plus Consulting Services Q&amp;A with the client.</td>
</tr>
<tr>
<td></td>
<td><strong>DROP OFF “BINDER”</strong></td>
<td>At hotel of record.</td>
</tr>
<tr>
<td></td>
<td><strong>FREE TIME</strong></td>
<td>Before next job or go home.</td>
</tr>
</tbody>
</table>
PRE-OPENING ACTIVITIES

The more prepared we are going into a client, the higher our overall chance of success. We need to be pro-active, not reactive based.

Jobs are emailed Friday late evening for Monday starts, and during the week, at approximately 4:30 p.m. central time (typically sometime between 3:30 and 5:30). If you are expecting a job and do not get it, please call in. Wait until 5:00 p.m. central time to do so. Flight information is sent at the same time for those flying to their jobs. If there is no flight, it is undoubtedly a drive job. Each Analyst must confirm receipt of their job IMMEDIATELY by either responding to the email or calling their Admin. It is then up to the Analyst to book their car and motel as required, and proceed to the job.

The Notice of Sale is considered to contain the correct information about the job (start time, address, etc.). The form 44 and the STS download may contain conflicting information in which case it should be disregarded.

The Analyst should do a basic search on the client to review their web site and any other readily available pertinent information. Also, take the time to become familiar enough with some industry buzzwords and key characteristics so you can ask the appropriate questions. This helps build credibility with the client.

Your job will also be available on the STS system to download (only when you are on line). Check to make sure the job information matches the Notice of Sale. Basic corrections can be made on the STS system if necessary.

Print all opening forms and client homework. (It is prudent to keep a spare set of forms with no client name) with you at all times, so if you can’t print specifically for that client the night before, you still have what you need.

--Confidentiality Cover Letter & Confidentiality Bonding Letter—hand to client at start
--Opening Interview Questions—use in opening
--Opening Interview Questions--Tax—use in opening
--Financial Update Report—bookkeeper or client to complete
--Payroll Census Report (“optional”)
--Payroll Analysis Report (“optional”)
--Goals and Objectives--client homework
--Management Self Assessment --client homework
--Opening Interview Analyst’s Notes
--Tax Illustration Instructions
--Net Worth Calculations
--Employee Memo and both Employee Questionnaires

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Make sure your suit is pressed (or steamed) and shoes must be shined. NEVER be late to a client. Find the client's location and call your SSD "off premises" approximately 30 minutes before you go in. It's an opportune time to confirm facts about the job, industry specifics, etc.
THE OPENING

The Opening is comprised of the Opening Client Interview Questionnaire, The Opening Interview Notes, delivering the Institutional, and the Opening Research Staff Call.

A well-run Opening will ensure a Go-Ahead right from the very start and setup the manner in which the balance of the survey will be run. A hard, up-tempo Opening will ensure a soft and easy close.

A solid and effective Opening when the analyst strongly challenges the client, develops the problems and the cost of the problems, delivers a powerful and thorough Institutional, and is able to merchandise those problems in an aggressive and confident manner through the Opening Research Staff Call. This process is also considered to be a “hard opening,” and shows the client benefit and value.

A hard Opening causes the client to question his methods, and how he runs his business, and to look to the Analyst for solutions and assistance right from the very start. Most of the clients you will encounter have been running their business for many years the exact same way because this is the best way they know how. They are a product of very limited exposure. Sure they may know how to frame a home, or engineer a part, etc., but very few of our clients have the business expertise to run a business effectively involving more than three or four people. A hard opening will give you (the analyst) great credibility, and cause the client to look to you for guidance in the areas he experiences problems. The Opening should leave the client in a feeling of “excitement” because for the first time since starting their company he may get the answers to problems that has prevented him from reaching his goals. The Opening Client Interview Questionnaire provides the road map for this discovery process.

A well-orchestrated Opening Client Interview should be done through a conversation, not merely a question and answer session. The Opening Client Interview Questions are “talking points” to open conversations regarding the deficiencies in the business. You will notice not one of the questions allows the client to answer with a one-word answer. The questions are designed to spark a dialogue. As each question is asked, the Analyst must be sure to hold the Client accountable for his inability to respond intelligently to the question posed, and then educate the client as to the importance of knowing the answer to these questions, and by having these answers how it will make their lives easier running the day-to-day operations. As each point is discussed, the desirable outcome should be the Client admitting that he doesn’t have the answer to the question. The goal is to establish from the Client “I don’t know, that is why you are here.” What is the pre-determined result for ..........? How do you proactively measure the results of ...........? If you get off track, what system do you have to get you back on track? How could you let this happen? How would your life be different if you knew these things? Do not move on to the next subject until there is agreement that the Client doesn’t
have the answer to the current question. A good follow-up question to their non-response, by the Analyst, would be, Why? If the client does have answers for you questions we must always ask ourselves: Why did the client respond the way he did? Do I need to investigate this more thoroughly throughout the Survey?

“Preaching” in the Opening, telling the client what he “needs,” or discussing what Global Resources can do for them, will lead the Client to believe you are a salesman or a consultant, and removes the Analyst from the role of diagnostician. Keep yourself in the format of question, question, and question. This will keep you out of the sales or consulting role. The Opening is to discover what the Client WANTS, not what he NEEDS.

It is not necessary, nor prudent, to ask every question listed in the Opening Client Interview Questionnaire. As in any interview process, more is gained by listening than talking. Talking on the Analyst’s part should consist of questions, not statements. Statements give solutions; questions show credibility and hold the Client accountable. Many an inexperienced Analyst has lost credibility by talking about him or herself. This entire interview is about the Client – it is not about Global Resources, LLC or the Analyst. Comments discussing the accolades or accomplishments of Global Resources, LLC are inappropriate. The Analyst enters the Client’s premises with entitlement. Trying to “sell” the Client on the benefits of GR or themselves only diminishes this entitlement.

Part of the Opening Client Interview is the Institutional. During the Opening Interview, the Client may have questions about Global Resources, LLC. These questions should be answered in the manner that the Institutional is written. If all points of the Institutional are not covered during the Opening Interview, the Analyst must be sure to cover all these points in a monologue at the conclusion of the Opening Interview. IF THE CLIENT HAS A NEGATIVE ATTITUDE OR IS NOT COOPERATIVE IN THE OPENING INTERVIEW, DO NOT COVER THE POINTS OF THE INSTITUTIONAL. By covering the Institutional with an uncooperative Client the Analyst is setting him or herself up for a hostile situation that may result in a NSR/NFC (No Survey Run, No Fee Collect). If this situation arises the Analyst should discuss the Institutional with the Client throughout the day when the Client has been brought from a negative to a neutral position. The presentation of the Institutional is covered in detail in “The Institutional” section of this binder.

By the conclusion of the Opening Interview, the Focus of the Survey should be established. The Focus is the action that the Analyst is going to take to get the Client what he WANTS. There must be clear agreement from the Client that what the Analyst will do during the survey will lead the Client towards what he wants. There should be a minimum of three issues addressed in the Focus. For example: “The Focus of my survey will be to determine how to put $200,000 on the bottom line so that you and your wife can live a better quality of life, to determine how to have ease of operations so that you can work a 40-hour week rather than an 80-hour week so you can watch your kids play ball, and to improve the retained earnings so that in 7 to 10 years you can sell the business for enough money to retire comfortably. If I
accomplish these things will you feel you’ve had a satisfactory Survey? Is there anything else you would like me to focus on Mr. Client?” If the Client agrees with this Focus, you now have the road map for the work necessary to get a GO, and to improve your Client’s life.

During the Opening Interview the Analyst should request the financial information required to do the financial analysis of the business. If financials are not available, DO NOT PANIC AND ASSUME THE SURVEY IS OVER!! Many Clients do not have formal financial statements. This is a sure GO! The lack of proper financial reporting is a symptom of overall disorganization and lack of control and should be used as a conditioning tool. If financials (profit and loss and balance sheet) are available, request the last three year-ends plus the most current financials available, and if possible, month-to-month profit and loss statements for the past twelve months. Note: if the current year is less than half complete, request four year-ends, not only three. If financial statements are not available, request four years’ tax returns. If neither of these are available, problem costing can be achieved by questioning the difference between what the Client is actually achieving versus what the Client believes he should be achieving. This topic is covered in greater detail in the section of the manual entitled “Financial Statements” or “Problem Costing”.

Note: It is imperative the Analyst makes copies of tax returns and accountant prepared financials—do not take the client’s originals off the premises. If a client prints from software or makes copies for you, those may be taken.

The final steps of the Opening are the Opening Research Staff Call and the Company Tour. More detail of the Opening Research Staff Call is covered in the section in this binder entitled “Research Staff Calls”. The purpose of this call is to condition the Client while having a conversation with a third party. All the points covered in the Opening Interview Notes should be discussed during the Research Staff Call. Facts and problems of a personal and business nature should be discussed in this call. The problem costs established in the Opening should be told to the SSD. For example: “The Client is currently making a 2% profit on this business with a volume of $2,000,000. He feels he should be making a 10% profit on this volume; therefore, 8% is leaking somewhere. That’s $160,000 that should be in the Client’s pocket!!! If he had this money I’m sure he would be able to relieve the stress of not taking home a weekly paycheck. I’m sure his wife would love that too, but the way things are going here now I can’t see that ever happening!!!” Only truthful statements should be made. It is not necessary to make up scenarios to embellish the Client’s situation.

If the SSD is not available when the Research Staff Call is placed, go on the Company Tour first. Have the Client escort you through his premises and introduce you to his/her employees. When the introduction is made, be sure to have the Client inform the employee that you are there to make improvements in the business, and it is mandatory that the employee cooperate with you in anything you may need, including an open conversation about his/her opinions of the business. Have the owner assure the employee that everything will be kept in confidence between the Analyst and the employee and that under no circumstances will the

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employees’ comments be shared with the Client. Be observant of disorganization or chaos in the business including messy workstations, disorganized tools, inventory disorganization, etc. After returning to the Client’s office, if the Research Staff Call has not been completed, another Research Staff Call should be placed.

Finally, ask the Client or the Client’s bookkeeper to complete the Financial Update Report, the Payroll Analysis Report and the Payroll Census Report. Prepare the Confidential Employee Questionnaire, the Organizational Questionnaire and the Memorandum and personally Distribute them to each and every employee, along with an envelope so that confidentiality is maintained. The purpose of the questionnaire is to learn the employees’ perceptions. It is not necessary for the client to complete the questionnaires. Make it clear that the questionnaires are to be returned to you at a predetermined time the first day and that the client will not see the questionnaires.

After a successful opening, the chance of helping your client with a Go-Ahead is assured.

Leave the Client with a feeling of excitement and anticipation!
OPENING RESEARCH STAFF CALL

The first call that the Analyst makes from the Client’s premises is the Opening Research Staff Call. This call may be made literally in front of the client, or at least within earshot of the client. It may involve one or more members of the Research team. It is one of the most important planks in the foundation for a GO, and therefore, your ability to help your Client. The call must be well thought out and be delivered both smoothly and confidently. The Analyst should therefore make notes prior to the call. The Opening Interview Analyst’s Notes form may be used as the guide and as a reference during the call.

The purpose of the call is not to describe every detail of the client’s business to the SSD, nor is it realistic! The purpose of the call is to have the client overhear what the analyst is saying to the SSD. It is to merchandise and further implant in the client’s mind what his problems are and what these problems are costing him (in terms of both dollars and reduction in his quality of life), while not talking directly to the client. The impact of this call when performed correctly cannot be overstated, and has a direct correlation to the analyst’s success in getting GO’s.

The analyst must be aware that during the call he is on stage and the client is both watching the analysts’ body language and listening very carefully. The confidence that the analyst displays through both physical and vocal means is picked up by the client, and further allows the analyst to take control, raise his credibility, and condition the client.

The Opening Research Staff call is an excellent opportunity to talk about your client and his problems in front of your client, but not to your client. The conversation is with your SSD, not the client. If the SSD asks a question, it is for the purpose of giving the analyst a “talking point.” The questions should not be answered yes or no, as this answer does not condition the client. The analyst must expound on the question so that the client is conditioned that there is a deficiency in the business regarding the question posed. The client may not have been listening to the analyst with his complete attention through the previous parts of the Opening. However, during this call, the analyst can be certain that he has the client’s undivided attention. This is a golden opportunity to take control, establish urgency, get a focus of the survey and agreement to the problems, and condition the client. For this reason, it is mandatory that every analyst complete an Opening Research Staff Call on every job.

The following is to be used only as a format for the Opening Research Staff Call and is part of the Opening Interview Analyst’s Notes format. Each call will be different, but should always include:

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1. Who is with you for the call.

2. Personal information about client(s); age, family, background, hours worked, salary, perks, future plans.

3. Brief description of the company; when started, ownership, fiscal/calendar year, products and services.

4. Base for problem costing (difference between what the client is getting in net profit and what the client thinks it should be).

5. What client states as problems (and the cost of the individual problems if identified).

6. Focus for the survey, always bringing it back to the missing management tools that are preventing the client from getting what he wants—improved quality of life, security, ego satisfaction.

7. Confirmation (if and only if the timing has been right to do so) that you have reviewed how we work with your client, that he does understand we expect an intelligent decision at the end of the survey, and that consulting services always starts the next working day.

8. Time for the Company Plan Meeting

9. Confirmation from the client that the information just relayed is accurate, and that he agrees with it fully.

10. THE MOST important issue the client would like us to address over the next few days. This will give us insight to what the client really wants.
OPENING RESEARCH CALL

Call the Home Office to have your Research staff assembled:

This is _______ for my Research Staff. (You will be given to your SSD)
Is my Research Staff assembled?

Good, I want you to take notes. I have a great deal of work to do here so I will fill you in quickly.

I’m calling from ____________ (company). (Client) ___________ is here with me now in case Research has any questions of my client.

I will provide you with all details at a later time today, however, at this time let me give you some of the more important facts. My client is (married/single), has _____ children, ages___________.

My client is ____ (years old) and is working ____ hours per week.

(Client)_________ is drawing a salary of $__________. The company was started by ___________ in _____ (year) and the company is a ____________ (manufacturer, distribution, retailer, etc.) of ____________.

The company’s fiscal year ends on ____ and for the fiscal year ______ (latest year) they had a net sales volume of $__________ with an average number of employees of __________. (Client) ___________ has no idea of yearly, monthly break-even points nor which (line, product, service) is profitable or is costing the company money. However, I will develop this by tomorrow so we can see where this company should be.

(Client)____________ has no idea of their overhead factor, not their net employee productivity. My client has no way to measure productivity but estimates productivity is at ______% and says it should be ________%. No, my client does not know how much that is costing him, but I will be calculating that also.

(Client)_________ believes that their net profit should be at least ___%. However, it is currently running at ____%. This leads me to the first problem that I have been able to uncover. If my client had indeed produced a _____% profit they would have generated $__________ in net profit. However, my client only generated a _____% profit and therefore a $__________ net profit. The difference between is $__________.

My client states the major problems in his business are: (relay 3 problems).

I see the problems as: (relay 3 problems).

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Gentlemen, I’ve asked (client) ________ a great number of management questions and received negative answers to over 90%. To keep it from becoming too complicated, there is a lack of good management controls and decisions on a day-to-day basis.

We have reviewed how we work and (client) ________ indicates a complete understanding. (Client) ________ has been very cooperative and is sincere in wanting to correct the problems we have discussed. My client also understands that we both need to make an intelligent decision as to what makes sense next at the conclusion of the survey.

I will be sending financial and tax information to you as soon as I get it. Please pull comparatives so we can look at profit potential through controlled operations. I also need you to set aside time at ________ to review my Client’s short and long-term goals during the Company Plan meeting.

Gentlemen, set aside time at _____ sharp to review my Client’s short and long-term goals.

Mr./Ms. ________ (client), do you agree that all of the information that I relayed to my Research Staff is an accurate overview of what we discussed this morning? (Turn to your client and ask, they relay response.)

Do any of the Research Staff members have any questions for ________?

Ok, I’ve got a lot of work to do here, so I’m going to roll up my sleeves and get to work.
OPENING CLIENT INTERVIEW

Note: The questions are designed to promote conversation. It may be appropriate to skip questions or sections in order to be relevant and/or to expedite the process when necessary.

How did the company get started? What is the background of the company (when, why, etc.)?

Ask a few industry specific questions. (Use industry specific questionnaire)

What type of legal structure is the company? When was this implemented? Where?

Why did you choose this type of entity? What benefits do you recognize by using your present structure? Was tax minimization or asset protection a consideration?

Who are the officers of the company?

Who are the owners of the company and what percentage do they own?

Do you employ any family members? Are there any "sacred cows" that I need to know about?

Who is your mentor?

Do you own any other companies?

Who manages the day-to-day operations of the business?

Do you work with a Board of Directors? What is their involvement? How often do you hold a Board of Directors meeting?

Do you keep corporate minutes? How often are they updated?

Who would run the business if you were incapacitated? Would the business stagnate or diminish?
Have you prepared a buy-sell or similar document that memorializes your wishes for the business if you were incapacitated? How old is the buy-sell agreement? How is it funded?

How will the stock be valued upon sale/death/divorce, etc.?

Do you have a will? A trust? When was it last updated?

How does your estate plan address the business upon your death?

Do you know what happens to your business upon your death?

Do you have enough liquidity to avoid a forced sale of the business upon death?

Tell me about your business: the operations, products you make or handle, your trading area, market penetration, who you purchase from, where you sell to, who your key customers are, number of shift worked, (and any other questions pertinent to the business or industry).

Do you have a fiscal or calendar year end? When is it?

What is your current annual sales volume? What should it be—what did you plan for?

What was your sales volume last year? What should it have been?

What was your operating profit last year? What should the profit have been? What about this year? Do you "treat profit as your number one expense," or do you treat it as residual, or "leftover?" In other words, our minimum mandatory profit is.....

START TO DEVELOP PROBLEM COSTING:

Overall operating profit should be (X percent):

Overall operating profit is (X percent):

The difference (expressed in percentage/dollars):
If profit is not what it should be, why? Where is it slipping through the cracks? DEVELOP SPECIFIC PROBLEM COSTING (See problem costing worksheet on last page)

How do you pay yourself (how do you take money out of the company)?

How is your pay determined?

Do you have a deferred compensation plan?

What is your current gross profit? What should it be?

What was your gross profit last year? What should it have been?

What sales volume is required to break-even?

What is your current working capital?

What are your daily working capital requirements?

Have you filed your current year taxes? Have you received any letters from the IRS or the state regarding your taxes?

How much did you pay in income tax last year? Does this include individual income tax? Do you feel you paid too much in taxes?

How much did you pay in payroll tax?

How much did you pay in state taxes?

Do you believe you are taking advantage of all aspects of the tax code (there are more than 60,000 pages of code and related revenue rulings)?

Which software(s) do you use for your financial and operating reporting processes? How do you use the systems you have?

How often do you get financial statements for the business? What other information do you get?

Do you get a dashboard enabling you to manage by exception and to be pro-active?

Of the information you receive, which do you consider the most important?
What information do you want to get that you do not get?

Where would you like the business to be one year from now? 3 years? 5 years?

What about you personally one year from now? 3 years? 5 years?

When do you plan on exiting your business?

What are you going to do with the business when you exit?

What is your present net worth?

What increase in your net worth would you like to reach each year (%)?

How much do you need to fund your retirement?

Do you own the property and building? How is it held? Personally? Another entity? By the company?

What is your asset protection strategy?

What happens if a liability claim exceeds your insurance?

Do you know the value of your business? When did you last have an accredited valuation?

Do you understand state and federal estate laws?

What estate planning have you implemented? When was it last updated?

Did you consider your business exit strategy in your estate plan?

Is your family aware of your business succession wishes?

Do you know how your family would be taken care of upon your death?

Have you ever used a business consulting firm before? When? What did they do?
How is your financial strength currently?

How did the last recession impact your business (if applicable)?

Where do you see your industry doing in the next few years?

What is the current breakdown of employees:
--Administrative
--Sales/Marketing
--Field/Plant/Warehouse
--Others

Do you measure the productivity of your people based on specific standards?

Why do your employees like working here?

What is your employee turnover rate?

What does it cost to replace an employee?

Who do you consider to be your key people? What are their daily responsibilities? What is their compensation?

Do you consider any one employee to be key in the business? Who are they and why?

If you had a choice, would you replace any of your key people? Who and why?

How often do you have formal meetings with your key people? Who attends these meetings?

What do you have in place to prevent a key employee from leaving?

Do you have a union? If so, when is the contract up for renegotiation?

Are wage and salary levels reviewed on a periodic basis to provide for adjustments required by inflationary or competitive influences?

Are compensation rates competitive with industry and prevailing local rates?
Where appropriate, are there incentive compensation programs?

What type do you use? Are they subjective bonuses or true incentives based on above and beyond planned for profit or cost savings that you wouldn’t otherwise have?

Which classification of employees is on an incentive program?

Do incentives appear to achieve their desired purpose? If not, why not?

Are these incentive programs tax deductible?

How many salespeople do you currently employ?

How are they compensated?

Do you feel that sales personnel are properly trained or experienced in:
  Company products or services?
  Competitive offerings?
  Policies, prices and procedures?
  Sales techniques?

Are sales quotas established for regions, territories, and sales personnel?

Do you use sales management software such as a CRM system?

Are efforts directed toward products offering high profitability?

How do you analyze your sales margin mix on an ongoing basis?

Are there unique market segments that your company has developed and gained a favorable reputation in?

How many sales orders to you receive each month?

How many active accounts do you currently have?

Are sales performance records showing actual sales against budget? And actual sales this year versus last year, prepared by:
  Salesperson?
  Region?
  Product or product grouping?
  Customer?
Are adequate reports and data provided to appropriate areas of the company for purposes of information and control:

To all departments: departmental budget versus actual expenses.

To Sales and Marketing: analysis of sales by product, customer, market, region, salesperson, product profitability, etc.

To Manufacturing: reports of labor distribution, direct versus indirect costs, labor efficiency, labor and material variances.

To Engineering: Reports of costs by program or project.

To Purchasing: Reports of cost variance.

Do financial reports and statements present a clear picture of financial results and conditions?

When you get your statements, what is the first thing you look at?

Are financial and performance ratios provided on a regular basis to highlight an overall awareness of total performance? Do you monitor ratios identified within the covenants of your loans or line(s) of credit or those checked by your bonding company (if applicable)?

Do you have a bank line of credit? If so, what is your limit? How much do you currently owe?

Adding all your debts together, how much do you currently owe?

How do you manage your cash flow? Do you have a system, or is it “checkbook style?”

Have you ever factored your receivables?

Do you take advantage of cash discounts?

How often do you invoice your customers? Is billing done in a timely manner? What are your terms?

How much of your receivables are past due? Are any uncollectible?
When purchasing, are purchase orders used? Do you use a closed loop purchase order system so the P.O. is matched to the vendor invoice to verify correctness of prices and quantities?

Are competitive quotations and actual purchases analyzed?

What is the current dollar amount of inventory? What percentage of your inventory is obsolete? How many items do you have in inventory?

Is the level of inventory or turnaround from suppliers adequate to support production needs?

Do you have parts or material shortages that affect production or delivery schedules?

What is the mandatory number of inventory turns? What is the optimal number of turns?

Is there a system for identifying reorder points and quantities on regularly purchased items? What is it?

What kind of inventory control system do you utilize? Do you get a reorder report?

How do you control theft and pilferage?

How often do you take a physical inventory? Do you do any spot checks or cycle counts?

Are perpetual inventory records maintained?

How often do you compare actual to reported inventory? What is done about discrepancies?

Does the company have a short-term plan encompassing a one-year period? Are the following subjects included in the plan:
- Profitability
- Sales
- Budgets
- Capital Expenditures
- Manufacturing and Production
- Research and Development

Does the company have a long term 5 year plan?

Do written policies and procedures exist that are clearly and readily understood?

Does the company have written operating goals and does it have periodic performance reports of actual results versus these goals?
What is your schedule for the rest of today? Tomorrow? Rest of the week?

What is your most important problem?

Why haven’t you resolved your problem yet?

Why did you authorize the survey?

What did the salesperson say I was going to do?

Institutionalize now ONLY if the client is in neutral or better.
PROBLEM COSTING GUIDE (SOFT)

Productivity:
Current rate of productivity as perceived by client: %
What should it be (a standard is 85%): %
Multiply the percentage X the labor cost

Wasted time (1 hour per day per employee; average cost $20 per hour)
5 days X 50 weeks X cost per hour X # employees

Personnel Turnover:
Cost of ad for new hire:
Cost of administration to bring onboard: interviews, paperwork:
Training cost for new hire and trainer:
Ramp-up time for new employee (lost productivity):

Cash flow management:
Lack of managing receivables:
Inability to take advantage of purchasing discounts:
Unnecessarily using line of credit:

Inventory Management:
Inventory value is:
Inventory value should be:
Difference X cost of carry rate (eg., 5%) = cost

Cost of rework/go-backs/comebacks

Pricing

Overtime

Margin Mix

Purchasing and material management

Billing procedures
Collection procedures

Quality control

Lack of incentives

Lack of sales management/effective compensation

Training

Communication

Safety

Advertising

Lost customers

Inability to grow

Not building business for value and salability
Auto Body Shop Questions

What capacity is your shop operating at and how do you measure that?

What system are you using to control waste, pilferage and theft of materials, parts and small tools?

Who is responsible for producing the estimate, and what system are you using to measure actual versus estimated when it comes to materials, and labor into the job?

How is your estimator calculating the burden rate and overhead when estimating the costs of the repair?

How do you compensate your techs?

What system is in place to control the overall shop productivity?

What is your rework (comebacks) percentage? What system is in place to reduce this percentage?
Contractor Questions

What is your current bid to award ratio? What should it be?

Who handles the bidding and estimating? How are they held accountable?

How long does it take to prepare a bid?

What is the current bonding limit?

How is the burden and overhead rate calculated?

Are actual costs on a job compared to estimated costs? How? When?

Who is responsible for controlling the job costs and how are they monitored?

How much is the small tools expense? How is it monitored and controlled?

Who is responsible for the progress billings?

What is the system for controlling change orders and making sure they get billed?

How satisfactory is the performance of the labor force?

How satisfactory is the quality of their work?

Do you feel that the foremen are as concerned about profits as you are? Are they compensated based on incentives?

Is your field to office communication written or verbal?

How often are you required to visit the job site?
Distributor and Wholesaler Questions

Can gross profit and operating profit contribution be determined by:
- Salesperson
- Product
- Product Line
- Territory

What performance information do the salespeople receive?

Is the sales staff as productive as it should be?

Is there a reasonable return on the advertising and promotion investment? How is it measured?

Are advertising policies, sales promotion and sales programs properly reflective of the product, market and sales objectives?

Is the entire customer base being reached?

Is pricing reviewed from a competitive and profit standpoint?

How long does it take to update the price list? How often is it done?

Are sales prices and credit terms based on approved standardized price lists? If so, are any deviations from standards approved by an appropriate level executive?

Is the product mix reviewed to ensure that an optimal combination of products is carried?

What method is used to keep track of inventory quantities and items?

What is the current number of back orders? Is this tracked? What is the target?

How is a customer order processed?

How is a stock status report generated?

How is the customer satisfaction measured?
Manufacturing & Production Questions

Are schedules prepared in accordance with machine, equipment and labor capacities?

Does scheduling provide allowances for normal variances in production?

Are bottle-necks experienced in the plant? Where? Why?

Is there a reliable and accurate system for reporting actual production?

Are reports showing actual production against schedules prepared periodically for management?

Are actual costs tracked to standard costs?

How are standard costs determined?

Does the business experience work stoppages or late delivery schedules due to inventory shortages?

What is the internal reject rate? Customer reject rate?

How is the labor performance monitored?

What is the scrap rate?

Who is responsible for estimating or pricing the jobs or products?

Who is responsible for production?

Who is responsible for managing cost controls while the product is in the plant/shop?

How are the actual costs per job/product determined?
  Labor
  Material
  Overhead

Is there any work-in-process reporting?
Restaurant Questions

What percent of sales is food and liquor cost?

What is the sales mix—i.e., menu items as a percent of total volume?

How is employee turnover?

What is the total check average? Liquor average? Appetizer average? Dessert average?

How are pilferage, shrinkage, spoilage and waste controlled?

How is the sales mix established?

How are the “point of sale” controls used?

Is the facility usage being maximized?

How many table turns are there on: weekend nights? week nights?

Do your employees use suggestive selling techniques?

What is your food cost as a percentage of volume? Liquor? Labor?
Transportation and Trucking Questions

What is your rolling cost per mile and how do your dispatchers utilize this number when determining which loads to take or avoid?

What is your dead-head percentage on your total miles driven last year?

How many tractors and how many trailers do you have?

Do you use any "reefers" (refrigerated trailers)?

How many of your drivers are company drivers and how many are owner operators?

Who is responsible for making sure you are current with DOT requirements, and what other role does that individual serve in the company?

Which of your rigs are the most efficient?

Which dispatching system are you using to maximize equipment utilization?

What percentage of your total trips is LTL?

What type of preventative maintenance program do you have in place in order to keep overall repair costs of your fleet under control?
Opening Interview Questions - Tax

- What is the present legal structure of your business?

- How did you choose the present structure of the company?

- Under what state law was your company organized/incorporated?

- What benefits do you recognize using your present structure?

- What is each owner's percent interest in the company?

(Multiple Owners Only)
- Are any of the owners related?

- Is there a buy sell agreement among the owners?
  - If yes, then:
    - How old is your buy-sell agreement?
    - How is the buy-sell agreement funded?
    - How is the stock valued upon sale of the stock (death, divorce, etc)?
    - When was the business valued by an independent valuator?
- Do you have ownership in any other companies?

- What did you pay for the following last year:
  - Payroll tax (client's wages, both corporate & personal portion)?
  - State income tax (personal & corporate, if applicable)?
  - Federal income tax (client's wages, both corporate & personal portion)?

- Do you believe that you are taking advantage of every tax deduction and credit available?

- How much do you feel you pay too much in tax?

- When is the end of the business year for tax purposes?

- Who prepares your internal financials?

- Who prepares your tax returns?

- How often do you meet with the person who prepares your returns?

- How do you pay yourself (how do you take money out of the company)?

- How is your pay determined?
• Are you taking a similar W-2 wage out of the company this year?

• Are there any loans between owner(s) and the company?
  • If yes, what are the terms for repayment?
  • Have these terms been honored by the parties?
  • (Multiple owners) Who has lent/borrowed money to/from the company?

• Do you have a deferred compensation plan?

• Do you depreciate personally-used vehicles through the business?

• What is your exit plan?

• What happens to the business if you pass away?

• Who will wrap up the operations or take over?
  • Are these parties aware of your plan?
  • At present, do you feel the successor to be capable of taking over?

• When are you planning to retire?
• Where is your written succession plan?

• Do you plan on selling/acquiring any businesses within the next 2 years?

• What is your expected sales volume for the current year?

• What is your goal for future growth of the company (%) each year for the next 5 years?

• Do you have a will? If so, when was it drafted/updated?

• How old is your will?

• How many trusts do you have? When were they last updated?

• What do you estimate to be your net worth?

• What are the face values of your life insurance policies?

• What increase in your net worth increase would you like to reach each year (%)?

• Does your estate plan consider a business succession plan?

• Was the business ever valued for estate purposes?

• Does your family know what to do if you passed away?
• Is your family aware of your business succession wishes?

• How many children do you have?
  • How do you plan on sending your child(ren) to college?
  • How do you plan on paying for his/her/their education(s)?

• How will your family be cared for upon your death?
# OPENING INTERVIEW ANALYST’S NOTES

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Title</th>
<th>Ownership%</th>
<th>Children</th>
<th>Hours/Week</th>
<th>Salary</th>
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Compensation:

<table>
<thead>
<tr>
<th>Sales Volume</th>
<th>Profit @/%</th>
<th>Profit Should Be</th>
<th>Employees</th>
</tr>
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Description:

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<tr>
<th>Corporate Structure</th>
<th>Fiscal Year End</th>
<th>Founded</th>
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Ownership:

<table>
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<tr>
<th>PERCEIVED AND IDENTIFIED PROBLEMS</th>
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<tr>
<td>Client</td>
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<tr>
<td></td>
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<tr>
<td>Analyst</td>
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<table>
<thead>
<tr>
<th>Client Net Worth</th>
<th>Retained Earnings</th>
<th>Debt to Equity</th>
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INSTITUTIONAL

The Institutional, when given as designed, enables the analyst to tell the client what to expect from the survey, from the analyst, from Global Resources, and what the analyst expects from the client, without selling the client.

The Institutional also conditions the client as to what to expect beyond the survey. It gets the client’s agreement that they will abide by the rules that the analyst lays down during the survey (making a decision at the conclusion of the survey, Consulting Services fees, etc.) again without selling the client.

A firmly given Institutional further cements the analyst’s control over, and credibility with the client. As with the opening questionnaire, the Institutional assists the analyst in identifying any hedges or excuses before they appear.

DO NOT deliver the Institutional until there is clear agreement from the client that there is a benefit to running the survey. The client must believe that he can realize his “wants” before the Institutional is given. You must have moved the client from a negative position to a neutral position before proceeding with the Institutional. If the Institutional is given prematurely it can result in a NSR/NFC (No Survey Run, No Fee Collected). When this situation arises, the Analyst must be sure that all the points of the Institutional are covered in bits and pieces throughout the survey. The Institutional can be woven into various discussions with the client during conditioning sessions, problem costing discussions, the Company Plan Meeting, etc.
INSTITUTIONAL ESSENTIALS

- FULL SERVICE BUSINESS DEVELOPMENT COMPANY
- 5 DEPARTMENTS:
  - BC - SALES – SURVEY – CONSULTING – CLIENT SERVICES
- BASED ON FACTS FROM WORKING WITH OVER 200,000 CLIENTS
- ORAL REPORT – SUPPORTED BY CHARTS/GRAPHS
- CUSTOM TAILORED
- OBLIGATIONS
  - IDENTIFY PROBLEMS
  - IMPACT ON BUSINESS
  - IMPACT ON BOTTOM LINE
  - CORRECTIONS POSSIBLE
  - WHO CAN DO IT
  - INVESTMENT REQUIRED
  - BENEFITS OF CORRECTION
- 2:1 RETURN ON YOUR INVESTMENT
- $265/PERSON/HOUR
- BEGIN THE NEXT BUSINESS DAY
- BONDED FOR $2,000,000.00
- CALLS TO RESEARCH STAFF IN HOME OFFICE
- LENGTH OF SURVEY – A FEW HOURS TO A FEW DAYS
- NO OBLIGATION AT THIS POINT FOR EITHER OF US
- INTELLIGENT DECISION
Global Resources Institutional

1. Global Resources, LLC is a full-service business developmental firm that works with small to medium size businesses, those having annual sales ranging from $700,000 to $10 million.

2. We operate with the following five departments:

   A. Business Coordination – These are the people that identify clients and set appointments for Sales.

   B. Sales – These were the people who scheduled this survey.

   C. Survey Services – This is the department that I represent. We act as diagnosticians. We perform an exhaustive qualitative as well as quantitative analysis of your business. This process is similar to having a complete physical. I’m going to take an X-ray of your business; meaning, I’m going to examine all aspects of your business from top to bottom.

   D. Consulting Services – They actually effect the cure; they are specialists who implement the recommendations made by Survey Services.

   E. Client Services – We have no way to predict the future. At this time, neither you nor I know if we can be of assistance beyond the survey or if Global Resources would accept you as a client. However, if we can help beyond the survey and you become a client of Global Resources, then, if at any time in the future any projects we have put into place stops being effective, you would just call Client Services and they will get you back on track at no hourly billing fee.

3. However, we’re not magicians. All of our work is based upon the actual facts, based on the condition of your business. I’m going to perform an exhaustive analysis of your business. Although my report will be oral, I will support it with charts and graphs so that you can see how the problems are affecting your business.

4. All of our work is customized. There are no two companies alike. Our work is based on many years of management experience working with clients such as you.

© Copyright Global Resources, LLC 2015 All Rights Reserved.
5. You are under no obligation other than for the survey. However, I have an obligation to you. That I must determine:

A. What the problems are.

B. How the problems are affecting your business.

C. How much the problems are costing you in lost bottom line profits.

D. What it will take to correct the problems.

E. Whether you can make the corrections on your own or whether you will need outside help.

F. If outside help is required, what the investment will be to overcome the problems.

G. But, most important of all is what the corrections will produce in bottom line profits to you.

There are 3 criteria to determine whether it makes sense to accept a client for consulting or not:

--I need to determine whether or not the problems you have are solvable, and if so, whether they can be solved by us or not.

--I have to be able to substantiate a minimum of at least a 2 to 1 return on investment. So for example, if it costs $50,000 to fix the business, there would need to be at least $100,000 in profit improvements within the first year to support a recommendation.

--The client has to be absolutely committed to change. (Consulting is a two-way street—it is not a one way street. So in other words, we know how to fix businesses, but if the client doesn’t do their part, then what we do won’t work.) The level of commitment is an assessment I will be making throughout the survey process.

If Consulting Services is called in – and at this time I have no idea if that makes any sense—they bill out at a rate of $265 per man, per hour, plus expenses. Expenses are standard for the consulting industry and include transportation to get to the client, ground transportation, lodging and a per diem. Consulting always gets started immediately following the survey. So if the survey ends Tuesday, for example, they start Wednesday. (We need continuity in our process to ensure a smooth transition from the survey to consulting. This also takes the procrastination factor out of the equation. It is human nature—if we can put things off, that is what we tend to do, and that doesn’t show commitment nor does it fix anything.)
6. Everyone employed by Global Resources, including myself, is bonded for $2,000,000. That's for your protection. This survey will be conducted under the strictest of confidence. In fact, I can never disclose anything about your business, your employees or anything uncovered in this survey to anyone outside of Global Resources.

7. As I conduct my survey, I’ll be making several calls back to my office in Chicago. I’ll be calling and asking to have my Research staff assembled, which is a group of individuals who have expertise in your industry. I rely on my Research staff in assisting me, not only in identifying problems, but also in making recommendations as to how we overcome the problems. When I make my calls, I need for you to be present as you may have some questions for my staff and I’m sure they will have questions for you as well.

8. The length of the survey can be anywhere from a few hours to several days. It depends on the cooperation of your staff and the information that I need in order to perform a thorough analysis.

Now, what questions do you have?
HOW TO UTILIZE THE FORMS DURING THE SURVEY

CONFIDENTIALITY COVER LETTER AND CONFIDENTIALITY BONDING LETTER: These should be handed to the client right away upon meeting them with the explanation that “I am bonded for confidentiality for $2 million, which means I am also covered for lying, forgery, stealing and dishonesty. So, any information you tell me, or any financials I see—everything is confidential, and the only other people who have access to the information are other professionals in my company who also are bonded for confidentiality.”

FINANCIAL UPDATE REPORT: This is an extremely important document! It lists the current financial position of the client, as well as sales volumes each month for the last year, indicating peaks, lows and average months. All data should be as of the day that the analyst is running the survey. This MUST be sent to your SSD late morning on the first day of the survey.

PAYROLL CENSUS REPORT: Indicates vital payroll information of each employee.

PAYROLL ANALYSIS: Indicates the number of employees over a 52 week period, so that turnover or peak employment periods can be identified.

CLIENT GOALS & OBJECTIVES: Short-term and long-term, business and personal, these goals and objectives and any solutions undertaken to achieve them are cornerstones to determining what the client WANTS and are utilized during the Company Plan Meeting. Each client or key family member should fill one out and review it with the analyst during the Company Plan Meeting.

MANAGEMENT SELF ASSESSMENT: Gets the client to do a company self-evaluation on a variety of key areas and components of the business. This is a very powerful conditioning tool. Also includes the company overview (use with discretion) and a list of information and reports to be gathered (use with discretion as it may be overwhelming).

EVALUATION MATRIXES (Operational, Contractor, Production, Sales & Marketing): Gets the client to rate their business in a number of different areas. Utilized during the Preliminary Findings Meeting. Client should be conditioned that a rating of poor or fair is undesirable.

MEMORANDUM: For the client to put onto their own letterhead and handed out with each questionnaire to the employees, OR left in a lunchroom, by the time clock, or in a common collecting area for employees. The purpose is to put the employees at ease that the business analyst/consultants are there for positive change to assist the employees, rather than to make negative changes and cost the employees their jobs.
CONFIDENTIAL EMPLOYEE QUESTIONNAIRE: It is preferred that the SBA performs personal interviews with key employees (3 or so if available) rather than simply giving employee questionnaires, because much more detail is discovered verbally than through the employee questionnaires. However, to all other employees the questionnaires are to be given early the first day and returned to the analyst before the end of the first day of the survey. The questionnaire gives those employees that did not have the opportunity to meet with the SBA a chance to identify problems in the business and voice their opinion without worrying about any repercussions. It is a good idea to direct the person responsible for distributing the questionnaires to include an envelope so that privacy is assured.

ORGANIZATIONAL QUESTIONNAIRE: To be given out to the employees along with the Confidential Employee Questionnaire. This allows the employees to voice their opinion on the organizational structure within the company and gives an indication of their morale level.

TAX ILLUSTRATION INSTRUCTIONS: Used to provide input to generate a Tax Savings & Exposure Illustration. The Tax Business Development group will create the output which is sent to the Analyst.

NET WORTH CALCULATIONS: The net worth worksheet that should accompany the tax illustration instruction information.

PRELIMINARY EXIT STRATEGY INSTRUCTIONS: This is used to generate the Transition Strategy Report, which addresses the client’s financial ability to exit the business.

PRELIMINARY PROJECT IMPLEMENTATION REPORT: Graphically shows areas where the client believes the corrections should occur and their priorities.

WORKING AGREEMENT FOR CONSULTING SERVICES: The agreement under which Consulting Services operates. This is authorized by the client at the conclusion of the Findings Meeting and relayed to the SSD via a Traffic Call and faxed from the client’s premises. The original executed 88 is put in the blue binder envelope for the Project Manager. A copy of the front and back of the 88 is given to the Client prior to the Analyst’s departure.

There are separate agreements for each type of service including:
MS—Agreement for Consulting Services (GR/ABS)—note there are multiple rates
STA—(US/Canadian) Agreement for Tax Consulting Services
TTP—Transactional Tax Planning Agreement
VAS—Business Valuation Authorization
DEF—US Agreement Tax Defense Services
SGS—(GR/ABS) Consulting Services Agreement
WEB—(GR/ABS) Website and E-Commerce Authorization
MULTI—(GR/ABS) VAS, STA, MS agreement all in one multi-page form

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GR ASSURANCE: The supporting document behind the 2 to 1 assurance.

PM INFORMATION LETTER: Documents information on a more specific level and outlines exactly what happened on the job. All facts must be related to the project manager and then the letter is placed in the Survey Binder envelope.

HOTEL OF RECORD: Used to provide Consulting Services all pertinent information about the hotel of record, binder location, etc. Needs to be sent in to the SSD along with the working agreements, etc.

SURVEY FEE INVOICE: Presented to the client at the conclusion of the survey. The check for the survey fee MUST be picked up by the analyst prior to being released from the Survey. A copy of the survey fee must be sent from the client’s premises to your SSD immediately upon receipt. This must be accomplished before the job is considered completed.

CREDIT CARD PAYMENT AUTHORIZATION: Used to record the client’s credit card information; this is faxed in to your SSD ONLY if the Credit Card Processing Gateway system cannot be used.

NON-PAYMENT OF SURVEY INVOICE FEE: Used when the client refuses to pay the survey fee for any reason. The form must be filled out in the client’s handwriting describing in detail the reason the client feels a fee is not due. This must be accomplished before the analyst can be released from the assignment. An “On Premise” call MUST be made to your SSD. Upon receipt of the form, it must be immediately faxed from the client’s premises to the SSD. (A copy of this form is on the following page.) You must not leave the premises without this being completed.

CONSULTING SERVICES QUESTIONS & ANSWERS: It is mandatory this be given to the client upon securing a “go ahead,” and should accompany the copy of the “88.” It explains how consulting works and proactively answers questions the client may have.

STS REPORTS: The Analyst must review and print any reports that will be portray the client’s situation. See STS section.
1/22/2015

From: J. M. Postol
GR Senior Executive

To: Alexander Manheim
Example Client
39 South Grove
Middle American City, NY 14127

Dear Alexander Manheim,

This letter will acknowledge by understanding and agreement concerning the confidentiality of various items of information, data and other documents which have or may be given to GR and its staff, whether in oral or written form by Example Client (herein after referred to as Client) or any other affiliated or subsidiary entities. To this end, GR hereby acknowledges that it has been provided the opportunity to review the Financial Statements of Client et al along with such other books, records, customer list, inventory, personnel files, equipment records, etc., (herein after referred to as information).

GR also acknowledges that the aforementioned information is a valuable asset of Client and is highly confidential. Accordingly, GR hereby warrants its agents, employees, other representatives and advisors, will not divulge or disclose said information to any third parties; nor will said information be used for GR's own business purposes.

I understand that nothing contained herein shall prevent or prohibit GR from discussing, reviewing or providing such information to in-house or outside retained professional advisors (lawyers, accountants, etc.) in order to obtain their assistance, guidance and other professional opinions concerning said information.

Yours Truly,

J. M. Postol
Senior Executive
GR
Thursday, January 22, 2015

Board of Directors
Global Resources, LLC and Related Companies
707 Skokie Blvd., Suite 600
Northbrook, IL 60062

RE: Commercial Crime Insurance
Federal Insurance Company
April 1, 2014 through April 1, 2015

To the Board of Directors:

This is to confirm that Global Resources, LLC and Related Companies has blanket employee coverage in force for the period of April 1, 2014 through April 1, 2015 with a $2,000,000 limit.

Your policy is in good standing and is underwritten by Chubb Insurance. The current Best's financial strength rating for Federal Insurance Company is A++ (superior).

If you have any questions about your commercial crime coverage, be sure to give us a call.

Sincerely,

David Danzig
David Danzig & Associates
# FINANCIAL UPDATE REPORT

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<tbody>
<tr>
<td>1)</td>
<td>Cash on hand (including petty cash)</td>
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<tr>
<td>2)</td>
<td>Marketable Securities/Available Line</td>
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<tr>
<td>3)</td>
<td>Other Investments</td>
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<td>4)</td>
<td>Accounts Receivable</td>
<td>Current (A/Rs within terms)</td>
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<tr>
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<td>30 Days Past Due Date</td>
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<td>60 Days Past Due Date</td>
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<td>90 Days Past Due Date</td>
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<td>Over 90 Days Past Due</td>
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<td>TOTALS</td>
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<td>5)</td>
<td>Other Accounts Receivable</td>
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<tr>
<td>6)</td>
<td>Notes Receivable</td>
<td>Current</td>
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<td>Long Term</td>
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<td>7)</td>
<td>Inventory</td>
<td>Finished Goods</td>
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<td>Work-in-Progress</td>
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<td>Raw Materials</td>
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<td>8)</td>
<td>Accounts Payable</td>
<td>Current (A/Ps within terms)</td>
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<td>Over 90 Days Past Due</td>
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<td>TOTALS</td>
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<tr>
<td>9)</td>
<td>Notes Payable</td>
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</tr>
<tr>
<td>10)</td>
<td>Monthly Lease/Rental Agreements</td>
<td></td>
</tr>
<tr>
<td>11)</td>
<td>Accrued Payroll Due</td>
<td></td>
</tr>
<tr>
<td>12)</td>
<td>Average Gross Payroll</td>
<td></td>
</tr>
<tr>
<td>13)</td>
<td>Average Weekly Sales</td>
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</tr>
<tr>
<td>14)</td>
<td>Sales Backlog</td>
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</tr>
<tr>
<td>15)</td>
<td>Outstanding Tax Obligations</td>
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</tr>
<tr>
<td>16)</td>
<td>Other - Explain</td>
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<tr>
<th></th>
<th>Last 12 Months Revenue</th>
<th>Average Monthly Revenue</th>
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<tr>
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<td>5)</td>
<td>9)</td>
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<td>2)</td>
<td>6)</td>
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<td>3)</td>
<td>7)</td>
<td>11)</td>
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<td>4)</td>
<td>8)</td>
<td>12)</td>
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<td></td>
<td>TOTAL</td>
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### Payroll Census Report

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<tr>
<th>Employee Name</th>
<th>Key Duty/Title</th>
<th>Hire Date</th>
<th>Rate of Compensation</th>
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</table>
PAYROLL ANALYSIS

Payroll Frequency

Daily [ ] Weekly [ ] Semi-monthly [ ]

Daily [ ] Bi-weekly [ ] Other [ ]

Do you use an outside payroll service? [ ] Yes [ ] No

Who: _______________________

Do you use independent contractors? [ ] Yes [ ] No

How Many: __________________

How many W-2’s were issued last calendar year?

Over the last fiscal year, what were your total overtime hours?

Over the last fiscal year, what were your absentee hours?

<table>
<thead>
<tr>
<th>Weekly Payroll Counts</th>
<th>Date of Last Payroll:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week</td>
<td>Week</td>
</tr>
<tr>
<td>1</td>
<td>14</td>
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<tr>
<td>2</td>
<td>15</td>
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<td>25</td>
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<td>13</td>
<td>26</td>
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</tbody>
</table>

Total # Employees 52 Wk. Pd: ____________ Divided by 52 = ______________ Avg. Weekly Employees
# BUSINESS GOALS AND OBJECTIVES

## GOALS AND OBJECTIVES: IN ORDER OF URGENCY AND IMPORTANCE

<table>
<thead>
<tr>
<th>BUSINESS SHORT TERM GOALS</th>
<th>BIGGEST CHALLENGE</th>
<th>SOLUTIONS IMPLEMENTED</th>
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<tbody>
<tr>
<td>1.</td>
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## BUSINESS LONG TERM GOALS

<table>
<thead>
<tr>
<th>BUSINESS LONG TERM GOALS</th>
<th>BIGGEST CHALLENGE</th>
<th>SOLUTIONS IMPLEMENTED</th>
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<tbody>
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<td>1.</td>
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<td>3.</td>
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</table>

## THREE MOST URGENT OR IMPORTANT PROBLEMS

| 1.                        |                   |
| 2.                        |                   |
| 3.                        |                   |

## BENEFITS OF RESOLVING

| 1.                        |
| 2.                        |
| 3.                        |
# PERSONAL GOALS AND OBJECTIVES

## GOALS AND OBJECTIVES: IN ORDER OF URGENCY AND IMPORTANCE

<table>
<thead>
<tr>
<th>PERSONAL SHORT TERM GOALS</th>
<th>BIGGEST CHALLENGE</th>
<th>SOLUTIONS IMPLEMENTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
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<td>2.</td>
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<td>3.</td>
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</tbody>
</table>

## PERSONAL LONG TERM GOALS

<table>
<thead>
<tr>
<th>PERSONAL LONG TERM GOALS</th>
<th>BIGGEST CHALLENGE</th>
<th>SOLUTIONS IMPLEMENTED</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
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<td>2.</td>
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<td>3.</td>
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## THREE MOST URGENT OR IMPORTANT PROBLEMS

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<th>1.</th>
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<td>3.</td>
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## BENEFITS OF RESOLVING

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<td>3</td>
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</tbody>
</table>
Management Self-Assessment

Instructions: In each row of the sections that follow, circle the condition that best describes the current condition in your company.

SCORING OF SELF-ASSESSMENT:

<table>
<thead>
<tr>
<th>Desired Condition</th>
<th>Average Condition</th>
<th>Weak Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 Points</td>
<td>2 Points</td>
<td>0 Points</td>
</tr>
</tbody>
</table>

You have pre-determined the results of the company and every position in it and all are being achieved. You have no pre-determined results and the performance of the company is either good, bad, or ugly. You are not getting results and don’t really know why.


Left Column = 4 Points: A "Desired Condition" is when you "know what you are doing and you are getting results" the definition of Effective.

Center Column = 2 Points: An "Average Condition" is when you "don't really know why but you are getting results" the definition of Lucky.

Right Column = 0 Points: A "Weak Condition" is when you "are not getting results and don't know why" the definition of Ineffective.

This process is for your benefit; if the results are falsified through you not being 100% honest with yourself, then only you will miss the real value that can be attained from this process. The accuracy of the analyst's report to you depends upon the accuracy of the information received.

- 90 + Points: Effective Management
- 70 - 90 Points: Need for Improvement
- 50 - 70 Points: Ineffective Management
- Below 50 Points: Severe Lack of Management Control

Section One: Leadership  \[ 5 \times 4 = 20 \]  
Section Two: Organizational Structure  \[ 8 \times 4 = 32 \]  
Section Three: Cash Management  \[ 3 \times 4 = 12 \]  
Section Four: Profit & Expense Controls  \[ 9 \times 4 = 36 \]  
Section Five: Sales & Marketing  \[ 7 \times 4 = 28 \]  
Section Six: Tax Planning, Exit Plan & Valuation  \[ 6 \times 4 = 24 \]  
Total Possible: 152
MANAGEMENT SELF-ASSESSMENT

Instructions: In each row, circle the condition that, in your opinion, best describes the current conditions in the company.

SECTION ONE - LEADERSHIP

<table>
<thead>
<tr>
<th>DESIRED CONDITION</th>
<th>AVERAGE CONDITION</th>
<th>WEAK CONDITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company's goals and direction are clearly defined and understood.</td>
<td>Company's goals and direction not clearly understood.</td>
<td>Lack of focus. No written goals or direction other than to carry on tradition.</td>
</tr>
<tr>
<td>Established procedures for constantly reviewing established plans.</td>
<td>Occasional consideration of the company's established plans.</td>
<td>Planning done under impulse.</td>
</tr>
<tr>
<td>Constantly reviewed financial plan, sales plan and organizational plans for accomplishing goals.</td>
<td>Existence of written financial plan, sales plan and organizational plan.</td>
<td>No written financial, sales or organizational plans.</td>
</tr>
<tr>
<td>Adequate reserves for replacement or assets in earmarked, liquid funds.</td>
<td>Depreciation reserves based upon allowable tax deductions.</td>
<td>Nominal reserves without regard to forecasted needs.</td>
</tr>
</tbody>
</table>

Section One: Leadership

Points: ___________________
## SECTION TWO - ORGANIZATIONAL STRUCTURE

<table>
<thead>
<tr>
<th>DESIRED CONDITION</th>
<th>AVERAGE CONDITION</th>
<th>WEAK CONDITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearly established and constantly reviewed plan for employee recruitment, training, development and retention.</td>
<td>Some written plans for employee recruitment, training, development and retention.</td>
<td>No formal plan for employee recruitment, training, development or retention.</td>
</tr>
<tr>
<td>Salaries and wage rates clearly tied to level of responsibility assigned.</td>
<td>Most salaries and wage rates tied to performance.</td>
<td>Salaries and wage rates by personal opinion—raises to those who complain.</td>
</tr>
<tr>
<td>Annotated Organizational Chart is kept up-to-date and used.</td>
<td>Organizational Chart that is communicated to the employees.</td>
<td>No formal organizational chart.</td>
</tr>
<tr>
<td>Job Descriptions clearly communicate to employees the results, accountability and incentives involved.</td>
<td>Job Descriptions used and updated regularly.</td>
<td>No written Job Descriptions.</td>
</tr>
<tr>
<td>Regular employee reviews of performance against established standards.</td>
<td>Employees review done on regular basis and deliver some improvements.</td>
<td>No effective employee reviews.</td>
</tr>
<tr>
<td>Employee Manual is used by employees; regularly reviewed by the company attorney and executives.</td>
<td>Employee Manual has been reviewed by company attorney and in possession of all employees.</td>
<td>No Employee Manual.</td>
</tr>
<tr>
<td>Written Procedures are established allowing for seamless transitions.</td>
<td>Written Procedures exist for most functions.</td>
<td>No Written Procedures for operations.</td>
</tr>
<tr>
<td>High quality, low cost production for all products through effective workflow, scheduling, quality controls.</td>
<td>Good quality by lack of control over costs, work flow and/or scheduling.</td>
<td>Questionable quality.</td>
</tr>
</tbody>
</table>

**Section Two: Organizational Structure**

**Points:**
## SECTION THREE - CASH MANAGEMENT

<table>
<thead>
<tr>
<th>DESIRED CONDITION</th>
<th>AVERAGE CONDITION</th>
<th>WEAK CONDITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecasts or cash flow provides 6-week and 6-month projections of cash and cash requirements.</td>
<td>Forecasting of cash limited to short-term.</td>
<td>No effective cash flow forecasting.</td>
</tr>
<tr>
<td>Purchasing of all materials centralized with effective purchase order system utilized.</td>
<td>Purchasing function well handled but lacks coordination.</td>
<td>Purchasing not centralized or coordinated.</td>
</tr>
<tr>
<td>Effective Receivable Management program from bid to collections.</td>
<td>Accounts Receivable regularly reviewed and consistent policies reviewed and enforced.</td>
<td>Receivables managed when the are out of control.</td>
</tr>
</tbody>
</table>

Section Three: Cash Management

Points: __________
### SECTION FOUR - PROFIT AND EXPENSE CONTROLS

<table>
<thead>
<tr>
<th>DESIRED CONDITION</th>
<th>AVERAGE CONDITION</th>
<th>WEAK CONDITION</th>
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</thead>
<tbody>
<tr>
<td>Job costing and tracking reports used weekly with clear assignment of responsibility for results.</td>
<td>Job costing and tracking reports produced and used regularly.</td>
<td>No regularly produced Job Costing or tracking reports.</td>
</tr>
<tr>
<td>Management utilizes a dynamic budget for control with variance reporting.</td>
<td>Budget process utilized to create a monthly and annual budget.</td>
<td>No use of Company Budget for cost controls.</td>
</tr>
<tr>
<td>Profit engineered, focused upon the company's reporting and actions.</td>
<td>Profit goals established and utilized.</td>
<td>Profit treated as a residual; that which is left over after operating expenses.</td>
</tr>
<tr>
<td>Pricing utilizes breakeven and revenue management.</td>
<td>Pricing based upon historical projections.</td>
<td>Pricing by old-fashioned &quot;mark-up&quot; or guessing.</td>
</tr>
<tr>
<td>Company has clearly established methods of true costs understanding, live pricing changes.</td>
<td>Company regularly reviews costs and up-dates pricing regularly.</td>
<td>Company reviews costs annually to up-date pricing.</td>
</tr>
<tr>
<td>Inventory levels monitored. Obsolescence, damage and theft controlled.</td>
<td>Inventory controls include preset order points and regular physical inventory.</td>
<td>Lack of control or plan for inventory.</td>
</tr>
<tr>
<td>Accounting and all reports provided in timely, accurate and usable format.</td>
<td>Accounting and reports provided regularly.</td>
<td>Accounting not used as a management tool.</td>
</tr>
<tr>
<td>Weekly monitoring of all key profit variables.</td>
<td>Reliance upon monthly profit and loss statements.</td>
<td>No timely review or profit variables or regular reports.</td>
</tr>
<tr>
<td>Constant monitoring or prices, cost of goods and overhead to maintain a pre-determined level of profit.</td>
<td>Monthly reports regarding cost of sales and overhead utilized in pricing.</td>
<td>No effective system for reviewing the balance between pricing cost of sales and overhead.</td>
</tr>
</tbody>
</table>

**Section Four:** Profit & Expense Controls  
**Points:**
SECTION FIVE - SALES AND MARKETING

<table>
<thead>
<tr>
<th>DESIRED CONDITION</th>
<th>AVERAGE CONDITION</th>
<th>WEAK CONDITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales plan, budget and goals established and monitored by product, customer, salesperson and territory.</td>
<td>Basic sales plan, budget and goals.</td>
<td>No sales plan, budget or written goals.</td>
</tr>
<tr>
<td>Sales force trained and provided incentives to produce the results required in the company's Plan.</td>
<td>Sales force adequately trained and supported.</td>
<td>No formal training or support for sales persons.</td>
</tr>
<tr>
<td>Effective interaction between inside and outside sales forces for maximum effectiveness.</td>
<td>Use of both inside and outside sales regularly reviewed.</td>
<td>Ineffective relationship between inside and outside sales.</td>
</tr>
<tr>
<td>Market segment measured, defined and marketing budget effectively targeting proper customers.</td>
<td>Marketing Budget producing effective results.</td>
<td>No measure of market penetration or results.</td>
</tr>
<tr>
<td>Effective use of promotional dollars through effective tracking systems.</td>
<td>Solid return on promotional dollars.</td>
<td>Unknown return on promotional dollars.</td>
</tr>
<tr>
<td>Tasks are automated, tracked and refined at regular intervals to keep conversion rates on automated tasks at optimal levels.</td>
<td>Some automation of marketing tasks and tracking of important accounts accomplished.</td>
<td>No automation of sales and marketing objectives and tasks. No tracking of tasks throughout sales and marketing endeavors.</td>
</tr>
<tr>
<td>Effective utilization of internet lead generation.</td>
<td>Company has a functional website generating leads.</td>
<td>No lead generating web presence.</td>
</tr>
</tbody>
</table>

Section Five: Sales & Marketing  
Points: ___________
**SECTION SIX - TAX PLANNING, EXIT, AND VALUATION**

<table>
<thead>
<tr>
<th>DESIRED CONDITION</th>
<th>AVERAGE CONDITION</th>
<th>WEAK CONDITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete annual review of tax strategies for business resulting in minimum legal tax.</td>
<td>Basic tax planning done to the best of the local CPA's ability.</td>
<td>No tax planning done and/or excessive income taxes paid.</td>
</tr>
<tr>
<td>Complete exit strategy for owner developed and effective succession training in place.</td>
<td>Basic concepts of succession and exit developed and integrated into business plan.</td>
<td>No plan in place for exit of owner or succession of management.</td>
</tr>
<tr>
<td>Estate tax plan fully devised and implemented.</td>
<td>Basic estate tax strategies implemented.</td>
<td>No estate tax planning.</td>
</tr>
<tr>
<td>Value of the business has been established through objective third-party within the past 18 months.</td>
<td>Value of the business has been established through objective third-party in the past 36 months.</td>
<td>No valuation of the business has been completed.</td>
</tr>
<tr>
<td>Potential buyer of the business have been identified and exit strategies implemented.</td>
<td>Potential buyers of the business have been identified.</td>
<td>No plan for transitioning the ownership of the business.</td>
</tr>
<tr>
<td>Company is fully financed and not in need of additional financing as the full cost of anticipated growth has been established and covered.</td>
<td>Company has full financing for immediate needs.</td>
<td>Company is in need of additional working capital.</td>
</tr>
</tbody>
</table>

Section Six:  Tax Planning, Exit Plan & Valuation  
Points: ____________
WHAT DO YOU KNOW ABOUT GR

GR, Inc. is a small business management consulting firm. We provide small business owners with the systems, procedures and controls that they need to be successful in our increasingly competitive environment. Most importantly we do not consider our job done until we have taught the entire organization how to use those tools. **GR does not sell theory, we implement.** We believe that the greatest obstacles facing our clients are procrastination and complacency. Our system is designed to overcome these issues.

GR has three parts -- sales, survey and management services. Our national sales department has over 500 people generating leads, qualifying those leads and then selling surveys. Their job is to sell surveys. The sales department gets informed by our consulting division as to when our industry specific consultants are finishing up on their current placements, they are then sent out to find potential clients small businesses who set the tone for our involvement by getting the survey to start as soon as possible. The survey is then structured so that we can be successful under virtually any conditions.

Business Analysts staff the survey department. The analyst has a broad base of knowledge as well as specific knowledge regarding the "business of business." The salesperson's function is to sell the client a business checkup. The analyst's function is twofold: first it is to break down strengths and weaknesses of the client's business providing enough value and benefit to the client so that he pays the Survey Fee, and second to do the opposite of sales; to keep out of the system the clients that might not be successful. The analyst with his staff has to determine if GR can provide the client with enough value to justify the involvement of management services. Management services is not inexpensive -- it is not uncommon for clients to spend anywhere from $50,000 to $200,000 with us -- therefore it is necessary that the analyst be rock-solid certain that at least two times return will be provided to the client on the level of services that the analyst recommends. **If an appropriate return for the client cannot be identified, the analyst will not discuss continuing with GR beyond the survey.** A breakdown of fees and expenses will be provided if you are an appropriate client.

Management services consists of three parts: small business management consulting, tax, and Valuation Advisory Services' (VAS). Our core business is consulting. We provide businesses with "boot camp." Six to twelve weeks of on-site implementation of systems, procedures and controls that have been proven to change the bottom line and accomplish the goals of the owner. Whereas the analyst is the "general practitioner" the consultants are surgeons. Each consultant has an advanced degree and a minimum of ten years of senior management experience in a comparable business. The tax division only gets involved if we can save you more than we charge. STA makes best use of the existing opportunities accessible in the tax code in many areas ranging from estate tax, personal and corporate income tax, liability protection, transactional tax planning, succession and retirement planning. VAS division completes business valuations as the instrument used to arrange financing and facilitate mergers or sales.

GR has systems and procedures that work for our clients and systems and procedures that work for us. You will experience some of our systems, but the procedure that has the most impact upon you is our procedure for opening an engagement. **If we are going to work with you beyond the survey we are going to start on the next business day following the conclusion of the survey.** GR makes its money from serving committed clients who implement the necessary systems and controls. At this point it is our commitment to hold your hand in order to ensure that the company obtains a minimum of a 2 to 1 return, as quickly as possible. We simply do not take on new clients who are not committed to improving their business, and personal, lifestyles, once and for all.
PLEASE GATHER THE FOLLOWING INFORMATION IMMEDIATELY

(Do not create any items that you do not have on this list. This should really not be a time consuming task, if you cannot put your finger on these items within 5 minutes then simply put an "x" beside that item indicating that it is not available)

- The last three years of year-end financial statements
- The most current financial statement
- The past 12 months of summary profit and loss statements
- Last income tax return (Personal, Corporate)
- Personal Financial Statement
- Business plan
- Budget
- Cash flow projections
- An example of your job costing reports
- Samples of your weekly management reports
- Bid/estimating formulas used in pricing
- Employee Manual
- Operations Manuals - written operating procedures
- Organizational Chart
- Owners’ Compensation for the past 3 years
- Job Descriptions
- Sample employee personnel file
- Measures of productivity
- Incentive programs
- Aged AR summary report
- Aged AP summary report
- Projected inventory levels and controls
- Work flow chart
- Sales plan
- Marketing Plan
- Succession/Transition Plans
- Copies of any valuations of the business
CIRCLE THE NUMBER BESIDE EACH CONDITION THAT EXISTS HERE:

1. There are too many or too few employees for a specific work assignment.
2. Jobs are performed in an illogical manner.
3. Quality Control is poor, resulting in an unacceptable amount of fixing and redoing.
4. Management performs routine tasks intended for less expensive employees.
5. Different employees need the same equipment at the same time.
6. Employees have to wait for assignments.
7. Required tools and equipment are not properly maintained.
8. Materials are not properly delivered or loaded up, requiring additional trips.
9. Instructions are unclear, and/or incomplete.
10. Managers believe their actions cannot be improved.
11. Employees are not adequately supervised or motivated.
12. Managers think it is more important to be nice than effective.
13. Managers blame their poor performance on someone else.
14. There is reluctance to change even after it has been proven to be justified.
15. Employees are not fully aware of their responsibilities.
16. Company goals are unclear or unrealistic.
17. The company's activities are not conducted on a team basis.
18. Management is unable to measure performance.
19. Employees are not held accountable for their performance.
20. Motion is considered the same as accomplishment.
21. Working hard is considered working smart.
22. Managers are reluctant to make decisions.
23. Managers tend to procrastinate.
24. Activities of the company or departments are poorly planned.
25. Overtime is used as an incentive to get things done.
26. The company policies and procedures are not clear.
27. The company policies and procedures are not fairly and consistently enforced.
28. Employees fail to follow existing company policies or procedures.
29. More than one person is assigned (or completes) the same function.
30. Some functions are not assigned to anyone other than the owner.

HOW MUCH MORE PRODUCTIVE COULD YOUR EMPLOYEES BE? %

WHAT PERCENTAGE OR NET PROFIT SHOULD THIS COMPANY MAKE? %
<table>
<thead>
<tr>
<th>Problem Area</th>
<th>Poor</th>
<th>Fair</th>
<th>Good</th>
<th>Problem Resolution</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
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<tr>
<td>OWNERSHIP STRUCTURE</td>
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<tr>
<td>Physical Layout/Condition</td>
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<td>Outside Conflicts</td>
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<td>Delegation Effectiveness</td>
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<td>Employee Focus</td>
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<tr>
<td>Policies</td>
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<tr>
<td>ORGANIZATION: Manuals</td>
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<tr>
<td>Departmental Standards</td>
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<td>Office Procedures</td>
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<td>Time Efficiency/Productivity</td>
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<td>Tactical Planning</td>
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<td>Strategic Planning</td>
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<td>Forecasting</td>
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<tr>
<td>Goal Setting/Tracking</td>
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<tr>
<td>Execution/Follow-Through</td>
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<td>Statistical Reports</td>
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<td>FINANCE</td>
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<td>Cost Accounting</td>
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<td>Job Costing</td>
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<tr>
<td>Expense Controls</td>
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<td>Inventory Control</td>
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<td>Earning Methods</td>
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<td>Auditing</td>
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<tr>
<td>Profit Trend</td>
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<tr>
<td>Breakeven Position</td>
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<td>Department Info Flow</td>
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<td>Reports to Management</td>
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<td>PERSONNEL</td>
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<td>Training</td>
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<tr>
<td>Turnover</td>
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<tr>
<td>Employee Morale</td>
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<td>Employee Career Guidance</td>
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<td>Employee Evaluation System</td>
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<td>Promotion Policy</td>
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<tr>
<td>Raise Policy</td>
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<tr>
<td>Incentives</td>
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<tr>
<td>Management Compensation</td>
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<td></td>
</tr>
<tr>
<td>Problem Area</td>
<td>Poor</td>
<td>Fair</td>
<td>Good</td>
<td>Problem Resolution</td>
</tr>
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<td>----------------------------</td>
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<td>--------------------------</td>
<td>--------------------------</td>
<td>-----------------------------------------</td>
</tr>
<tr>
<td></td>
<td>10% 20% 30% 40% 50% 60%</td>
<td>70% 80% 90% 100%</td>
<td></td>
<td>Can be Resolved By Client</td>
</tr>
<tr>
<td>BIDDING</td>
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<tr>
<td>Bid - Award Ratio</td>
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<tr>
<td>Take Off Procedures</td>
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<tr>
<td>Bid Pricing Procedures</td>
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<tr>
<td>Estimating</td>
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# PRODUCTION EVALUATION MATRIX

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<th>Problem Resolution</th>
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<td>Employee Morale</td>
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# SALES & MARKETING/DISTRIBUTION EVALUATION MATRIX

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<td>Inventory Control</td>
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Memorandum

To:     ALL EMPLOYEES  
Date:   1/22/2015  
Re:     EMPLOYEE INTERVIEWS AND QUESTIONNAIRES

To All Employees:

I am constantly aware of the need to carefully examine and improve our methods of operation. It is also important to me to provide the best possible working conditions. As such, we have retained an internationally recognized firm of management experts to conduct a survey which is the first in a series of steps to assist us in attaining these goals. At the end of the first step, the survey, more attention will be given to planning to put us in a better position to meet competitive conditions and secure the best performance for all of you as well as the company.

Your cooperation is key to the success of the survey; therefore, if the expert should involve you through a discussion of your job or the business activities, please cooperate fully and honestly.

Ownership and Management

NOTE: All questionnaires are CONFIDENTIAL. Please do not include your name. No one from this business will see the forms. Please fill them out as quickly as possible. This is an individual survey, please complete it alone. Thank you for your cooperation!
Your personal thoughts and opinions are extremely important in assisting in the evaluation of your company. Your answers will be used to get a general idea of the company. Under no circumstances will your answers be shown directly to any executive, manager, owner, or other employee.

There are no right or wrong answers. Please answer to the best of your ability and be as objective as possible. The questionnaire will be picked up directly by the analyst/consultant.

1. How long have you been employed by this company?
2. What is your job title?
3. Who do you report to?
4. What are your job responsibilities?
5. What else is expected of you?
6. Are working conditions adequate for you to perform your job effectively and efficiently? If not, why not?
7. Do you have the tools necessary to do your job properly?
8. What could be done to help you in your job?
9. Do you have the chance to give management your thoughts and ideas?
10. Does management listen to your ideas?
11. If you owned this company tomorrow, what would you change and why?

(Use reverse side if necessary)
Organizational Questionnaire

Organization in any company is extremely important. Without it, lines of communication fail, important issues slip through the cracks, and all employees lose their ability to be as effective as possible in contributing to the overall success of the company.

Below are statements that will give an indication of the organization that exists in your company. Please be as objective as possible in answering the questions. Check the answer YES or NO, which best describes the situation that exists, as you see it.

1. Each employee has a clearly defined job responsibility.
2. Job responsibilities are stated in a written job description.
3. Duties and responsibilities are delegated and the authority to carry out decisions is given.
4. There IS a company policy and procedure handbook.
5. Company policies and procedures are consistently upheld by management.
7. An organization chart exists.
8. Reporting relationships are outlined in the organization chart.
9. Each employee has only one boss.
10. Employee morale is high.
11. Employees are treated like individuals, not just employees.
12. A good training program exists here.
13. There is ongoing retraining and advanced training.
14. This company has well established, clear lines of communication.
15. The company organization is stable and rarely changed.
16. An incentive program exists.
17. Incentives are fair and they reward performance.
18. Turnover is low.
19. There is a clear understanding of the company's direction.
Instructions for Savings & Exposure Illustration

Fax this sheet and the following documents to 847-495-6767 or to your SSD
Email: sta@sta-na.com

Net Worth Calculations
One For Each Owner

Most Recently Filed 1040 Individual Tax Return
Pages 1-2 and Schedules A, C and E (where applicable)

Most Recently Filed 1120, 1120S and/or 1065 Business Tax Returns
Pages 1-5, Schedule 1125-A (Cost of Goods Sold), Schedule 1125-E (Officer’s Compensation) and Schedule K-1s

Analyst Name: Analyst Name
Project Number: 89353
Preferred Method of Receiving Illustration: FAX | EMAIL
Fax or Email Address:
Would you like Tax to call prior to sending the illustration? Y | N:

<table>
<thead>
<tr>
<th>Client Information</th>
<th>Project Information</th>
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<tbody>
<tr>
<td>Client’s Name:</td>
<td>Company Name:</td>
</tr>
<tr>
<td>Client’s W-2 Wages:</td>
<td>Current Year's Project Revenue:</td>
</tr>
<tr>
<td>Spouse’s W-2 Wages:</td>
<td>Current Year’s Projected Profit:</td>
</tr>
<tr>
<td>Are Spouse Wages from Client’s Company? Y</td>
<td>N</td>
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<tr>
<td>Client’s Age:</td>
<td>Projected Annual Growth (%):</td>
</tr>
<tr>
<td>Will (Year of Last Update):</td>
<td>Multiple Owner Information</td>
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<tr>
<td>Trust (Year of Last Update):</td>
<td>Please provide “Client Information” and 1040 for each owner for whom you would like and illustration.</td>
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<tr>
<td>Personal Net Worth Annual Growth (%):</td>
<td>Number of Owners:</td>
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<tr>
<td>Deferred Compensation Plan? Y</td>
<td>N</td>
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<table>
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<th>Name</th>
<th>Ownership %</th>
<th>Active/Inactive</th>
<th>Wage</th>
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This review was prepared with client provided data and is for internal use only.
CONFIDENTIAL
## Net Worth Calculations

Fax the completed sheet to (847) 495-6767 and/or your SSD

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<th>Liabilities</th>
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<tbody>
<tr>
<td>Cash &amp; Equivalents</td>
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<td>Investments</td>
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<td>Cash Value of Life Insurance</td>
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<td>Deferred Compensation</td>
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<td>Primary Residence</td>
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<td>Other Real Estate</td>
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<td>Vehicles</td>
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<tr>
<td>Personal Property</td>
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<td><strong>Total Assets</strong></td>
<td><strong>Total Liabilities</strong></td>
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<table>
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<tr>
<th>Estimated Value of Business</th>
<th>Net Worth (Total Assets minus Total Liabilities)</th>
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<th>Percent of Client Ownership</th>
<th>Face Value of Life Insurance</th>
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## Estate Net Worth

$  

How was the business value determined? (Circle One)

- Client
- CPA
- Recent Purchase
- Independent Accredited Valuation

For Internal Use Only
CONFIDENTIAL
### Preliminary Exit Strategy

Fax this sheet and the Net Worth Calculations to 847-495-6767 or to your SSD

<table>
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<tr>
<th>Have you also submitted a Tax Illustration?</th>
<th>Y</th>
<th>N</th>
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<table>
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<th>Do you wish to use a non-standard rate of inflation?</th>
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### Client Information

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<th>Client's Name:</th>
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<tr>
<td>Client's Gender:</td>
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<td>Client's Marital Status:</td>
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<td>Client's Age:</td>
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<table>
<thead>
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<th>Client's Build:</th>
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<tr>
<td>Severely Underweight = 1, Underweight = 2, Average = 3, Overweight = 4, Very Overweight = 1</td>
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<tr>
<td>extra point per each 10 lbs</td>
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<thead>
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<th>Does Client Smoke?</th>
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<tr>
<td>How Much?:</td>
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<td>One or Less = 1, One - Two = 2, Two or More = 3</td>
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<table>
<thead>
<tr>
<th>How would a friend describe the Client?</th>
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<tbody>
<tr>
<td>Easy-Going/Relaxed = 1, Intense/Aggressive = 2</td>
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<table>
<thead>
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<th>Does the Client Exercise?</th>
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<tbody>
<tr>
<td>Regularly = 1, Occasionally = 2, Rarely = 3</td>
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<tr>
<td>Annual Check-ups?</td>
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### Client Retirement Situation

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<td>Annual Rate of Return:</td>
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<tr>
<td>Cash, Stocks and Bonds Balance:</td>
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<tr>
<td>Yearly Contribution:</td>
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<td>Annual Rate of Return:</td>
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<td>Total Tax:</td>
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<td>Year of First Social Security:</td>
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<td>Current W-2/SE Wages:</td>
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<thead>
<tr>
<th>Company Annual Revenue:</th>
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<tr>
<td>Most Recent Year Profitability:</td>
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<td>Client's Ownership Percent:</td>
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<tr>
<td>Predetermined Annual Profit:</td>
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<th>Future Growth</th>
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<td>2016: _______</td>
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<td>2019: _______</td>
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<td>2020: _______</td>
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<td>2021: _______</td>
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</tbody>
</table>

This review was prepared with client provided data and is for internal use only

CONFIDENTIAL
**Preliminary Project Implementation Report**

### Manufacturing & Production
- Production Cost Control
- Tool R&D Control
- Production Performance Standards
- Job Cost Control
- Production Planning
- Plant Layout
- Material Handling
- Scheduling & Labor Forecasting
- Machine Center Loading

### Sales & Marketing
- Sales Training
- Sales Planning & Control
- Estimating Procedures

### Purchasing Control
- Material Substitution
- Inventory Control
- Material Stock Control

### Human Resources
- Job Evaluation
- Employee Training Program
- Personnel Relations
- Wage Incentive Plan
- Keyman Incentives

### Quality Assurance
- Inspection & Quality Control

### Administration & Accounting
- Operations Control
- Objective Planning
- Profit & Expense Control
- Clerical Incentives
- Budget & Cost Controls

### Priority of Implementation

<table>
<thead>
<tr>
<th>1st Project</th>
<th>2nd Project</th>
<th>3rd Project</th>
<th>4th Project</th>
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AGREEMENT FOR CONSULTING SERVICES

The following is the agreement entered into between ____________________________ ("Client") and Global Resources, LLC ("GR") for the sole purpose of Client retaining GR for a consulting agreement.

Scope of Engagement

i. Throughout the course of this engagement, GR will keep Client informed via discussions and written communications. It is essential there be continual cooperation and mutual understanding between Client and GR, and that Client retains control over the continuation of GR's services.

ii. The Project Manager will prepare a Value Enhancement Program encompassing the objectives and scope of the engagement. Due to the fact that each Client's business is unique, Consulting Services' work is custom designed around each objective, giving consideration to the specific nature of Client's business and personnel.

iii. All matters pertaining to this engagement should be addressed with the Project Manager, whom is responsible for development and implementation of the Value Enhancement Program.

iv. Each day the GR staff will discuss and/or present the work completed to Client, and discuss further work to be performed in relation to the Value Enhancement Program. All work developed during the course of the engagement will be reviewed and approved by Client prior to implementation and/or installation.

V. Achievements realized from Consulting Services' work depend upon many factors, including the aptitude and cooperation of Client's staff; factors which are not within the control of GR. Therefore, it is understood and agreed, no express or implied guarantee or warranty of any general or specific results shall apply to the work performed under this Agreement.

vi. GR does not engage in financing or bonding. As such, no employee of GR is authorized to promise that GR will secure bonding for a client; or is in a position to obtain funds for any client, either for payment of services contracted by this Agreement, or for any other purpose.

vii. Notwithstanding that some members of GR's staff are accountants and attorneys, GR does not practice law or provide tax services. Client is specifically informed that any legal or tax matter must be discussed with Client's legal and tax advisors.

Confidentiality and Solicitation

Client GR

i. Due to the confidential nature of the work, Client agrees to provide suitable working space for the GR staff, such clerical services as required; as well as pay the cost of reproduction work, binders, supplies, training materials, and manuals directly related to the consulting engagement.

ii. All GR staff, without exception, are under contract with GR and are bonded to the extent of US$2,000,000 for the protection of Client.

iii. All GR staff are contractually restricted from working for Clients of GR for a period of one year after leaving GR's employ. Client agrees not to employ or engage the services, directly or indirectly, of any person now employed by GR, for a period of one year from the date of the Business Analysis Authorization. GR agrees not to employ or otherwise engage any of Client's employees for the same period of time.
Fees

Client ___________ GR ___________

i. For services rendered under this Agreement, as documented in Value Enhancement Reviews, Client will pay all invoices in full, upon presentation.

ii. The invoices (at least one per week) will cover total charges as follows: (1) A fixed professional fee (percentage of completion billing) calculated at Two Hundred and Ninety-Five Dollars (US $295) per man-hour for services performed by the Project Manager and each GR Business Consultant, as authorized below, (2) reasonable airfare, ground transportation and lodging expenses incurred by assigned GR staff (substantiated by receipts), (3) any applicable taxes, plus (4) Fifty-Two Dollars (US $52) per diem per person. Any additional expenses must be approved by Client.

Conclusion of Engagement

Client ___________ GR ___________

GR gives the Client complete control throughout the engagement so that the Client may go forward with complete confidence. Client may conclude or recess the engagement, at the end of any business day by so informing the Project Manager or the consulting staff on the premises; at the same time presenting to the Project Manager or Senior Business Consultant a check for all fees and expenses due through the end of the business day of termination, as well as a personally written statement expressing Client’s opinion of the services rendered and the reasons for termination or recess. This statement must be originated solely by Client.

Client acknowledges that failure to complete the consulting engagement will deprive Client of some or all of the value and benefits described in the Value Enhancement Program.

GR is committed to the success of the Client throughout the consulting engagement and after its implementation. Prior to the commencement of this consulting engagement, Client may cancel this Agreement by calling (855) 803-4238, faxing a request to cancel to (855) 803-4238, or by email to xcl@clientsrv.com. Client will not be responsible for fees or expenses if notice is received prior to 5:00 PM CST on the business day prior to the commencement of the consulting engagement. Client agrees to reimburse GR for actual expenses incurred where cancellation is received after that time.

It is expressly agreed that this printed document embodies the entire agreement of the parties in relation to the subject matter of consulting services to be rendered by GR; and that no other understanding or agreement, verbal or otherwise, exists between the parties, except as herein expressly set forth. Client and GR expressly agree all disputes of any kind between the parties arising out of or in connection with this Agreement shall be submitted to GR’s designated Compliance Officer for resolution. Class actions, collective actions, or any other type of action brought in a representative capacity are not permitted. Exclusive jurisdiction and venue shall vest in Lake County, Illinois, Illinois law applying.

Authority is hereby granted to GR to assign a Project Manager and ________ Business Consultant(s) to begin:

Engagement # ___________________, beginning ___________________ at ________________

AUTHORIZED ENGAGEMENT: __________________________________________

HOURS ESTIMATED TO COMPLETE ENGAGEMENT: ______ +/- 10%

Estimated Professional Fees: First Day _______; Completion _______; +10% ________; plus applicable expenses indicated in Fees (ii) above.

_________________ acknowledges receipt of Consulting Services Q&A, which is incorporated into this Agreement by reference.

(initials)

Client: ____________________________

Global Resources, LLC (224) 676-7170

707 Skokie Blvd., Suite 800

Northbrook, IL 60062

By: ____________________________

By: ____________________________

Title: ____________________________ Date: ____________ Date: ____________

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295 GR Rev 1 1214

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U.S. AGREEMENT
TAX CONSULTING SERVICES

THIS AGREEMENT is entered into between ____________________________ ("Client") and Strategic Tax Advisors, Inc. ("STA"), for the sole purpose of Client retaining STA to provide tax consulting services. STA will evaluate past years tax reporting submissions and develop future tax savings and asset protection strategies.

Scope of Engagement

i. The Project Manager will prepare a Tax Engagement Plan encompassing the objectives and scope of the engagement. Due to the fact that each Client's business and tax situation is unique, Consulting Services' work is custom designed around each objective, giving consideration to the specific nature of Client's business and tax situation.

ii. All matters pertaining to this engagement should be addressed with the Project Manager, upon whom is placed complete responsibility for the success of the engagement.

iii. Achievements realized from Consulting Services' work depend on many factors, including the cooperation of Client's staff and professional advisors in providing required information and records, and agreement to implement the tax strategies and recommendations developed during the course of this engagement; factors which are not within the control of STA. Therefore, it is understood and agreed that no express or implied guarantee or warranty of any general or specific results shall apply to the work done under this Agreement.

iv. STA does not engage in financing. As such, no employee of STA is authorized to promise that STA will obtain funds through tax refunds or from any other source for any client, either for payment of services contracted by this Agreement, or for any other purpose.

v. Client understands and acknowledges STA will be performing tax related services, including consulting, review, analysis and advisory services regarding structuring recommendations and future tax reporting and filing strategies. Client further acknowledges that in some cases it is not possible or appropriate to amend previous reporting and filing methodologies employed by Client. In these cases, recommendations will be directed to effectuate future tax savings through changes in methodologies resulting in modifications to future tax reporting and related filings.

vi. Tax Defense services, as well as strategy implementation, are expressly excluded from the scope of work to be performed under this Agreement. If it is determined such services are required, Client may obtain them from STA (under separate agreement), or such other independent advisor(s) as Client determines appropriate.

Confidentiality, Solicitation, and Continuation of Engagement

i. Due to the confidential nature of the work, Client agrees to provide suitable working space for the STA staff and such clerical services as are required.

ii. All STA staff, without exception, are under contract with STA and are bonded for the protection of the Client.

iii. Recognizing that all STA staff are contractually restricted from working for clients of STA for a period of one year after leaving STA's employ, Client agrees not to employ or engage the services, directly or indirectly, of any person now employed by STA, for a period of one year from the date of this Agreement. STA agrees not to employ or otherwise engage any of Client's employees for the same period of time.

iv. Advisors are committed to the success of the Client throughout the consulting engagement and after its implementation. Prior to the commencement of any engagement, Client may cancel or conclude any agreement by calling (855) 803-4237, faxing a request to (855) 803-4238, or by email to xcl@clientsrv.com. Client will not be responsible for fees or expenses if notice is received prior to 5:00 PM Central Time on the business day prior to the commencement of the consulting engagement. Client agrees to reimburse Advisor(s) for actual expenses incurred where cancellation is received after that time and before the engagement commences. The Professional Services Fee due as a result of any subsequent termination will be calculated on a percentage of completion basis.

Client ___________ STA ___________

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STA US FF REV 4 0115

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Fees

For services rendered under this Agreement, STA shall receive:

i. The professional services fee shall be US______________.

ii. The total professional services fee as indicated below, of which an initial one-third retainer is due upon commencement of the engagement.

iii. Expense reimbursement shall be limited to: (1) reasonable airfare, ground transportation and lodging expenses incurred by assigned STA staff during travel to and from the Client business or such other travel as is authorized by Client (substantiated by receipts), (2) any applicable taxes, plus (3) Fifty-Two Dollars (US$52) per diem (per person) during those travel periods.

iv. No other charges will be made.

v. Invoices (submitted during the course of the engagement) are due and payable in full upon presentation.

Where possible, STA will recommend changes to Client's accounting practices, transaction structure, operating systems, procedures, and policies where, in STA's professional judgment, the implementation of such changes would enhance asset protection and/or increase after-tax income.

It is expressly agreed that this printed document embodies the entire agreement of the parties in relation to the subject matter of Consulting Services to be rendered by STA; and that no other understanding or agreement, verbal or otherwise, exists between the parties, except as herein expressly set forth. Client and Advisor expressly agree all disputes of any kind between the parties arising out of or in connection with this Agreement shall be submitted to Advisor’s designated Compliance Officer for resolution. If the dispute cannot be resolved within 30 days of submission, the exclusive mandatory remedy shall be binding arbitration administered by the American Arbitration Association or such other mutually acceptable neutral arbitrator, on an individual basis. The decision of the arbitrator will be considered final under this Agreement. Client may elect to participate via telephone or video conferencing at Advisor’s expense. Class actions, collective actions, or any other type of action brought in a representative capacity are not permitted. Exclusive jurisdiction and venue shall vest in Lake County, Illinois, Illinois law applying.

STA is hereby authorized to assign a Project Manager and a Tax Consultant Engagement #______________

Engagement commencement date: ________________________ at ______________

AUTHORIZED ENGAGEMENT: STA shall evaluate past years tax reporting submissions and develop a Strategic Tax Report comprised of specific tax related strategies for Client in the areas of tax savings (Federal and State), entity structuring, retirement planning, succession planning, estate planning, healthcare planning, education planning, employee retention, and asset protection.

Professional Fees: Total Professional Services Fee (which includes First Day Fee of $3,000 and an initial one-third Retainer), plus applicable expenses indicated in Fees (ii) above.

Client: ____________________________

By: ____________________________

Title: ____________________________

Date: ____________________________

Strategic Tax Advisors, Inc.

By: ____________________________

Title: ____________________________

Date: ____________________________

Client Relations
Phone: (847) 403-0070 Fax: (847) 403-0075
Email: clientrelations@sta-na.com

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TRANSACTIONAL TAX PLANNING AGREEMENT

THIS AGREEMENT is entered into between ______________________________ (“Client”) and Strategic Tax Advisors, Inc. (“Advisor”), for the sole purpose of Client retaining Advisor to provide transactional tax planning consulting services.

All matters pertaining to this engagement should be addressed with the Senior Advisor, who assumes complete responsibility for the success of the engagement.

Advisor shall:

- Review the economics and nuances of the proposed transaction(s),
- Identify the imperatives and deal-breaker issues of the parties to the transaction(s) (“the parties”),
- Compare and contrast alternative structuring methodologies to reconcile, where possible, the parties’ imperatives and business purposes,
- Analyze tax attributes of alternative structures under consideration to minimize resulting tax obligations,
- Develop and recommend a transaction structure designed to balance the benefits of maximizing net after-tax proceeds and realization of the return on investment hurdle rate of the respective parties,
- As directed by Client, present and discuss the recommended transaction structure with the parties, their respective advisors and others, and
- Cooperate with, and to the extent requested, assist in coordinating implementation of the agreed-upon transaction structure by the parties’ selected advisors.

The services provided hereunder shall not include accounting, legal, asset appraisal or business valuation, expert witness testimony, development and implementation of business systems and/or procedures, business brokerage or merger & acquisition services, direct or indirect financing or fundraising (either for payment of services performed under this Agreement, or for any other purpose), or estate and financial planning services. If it is determined that any of these services are required, Client may obtain such services (under separate agreement) from Advisor, related companies or Advisor, or such other independent advisors as Client determines appropriate.

Notwithstanding that members of Advisor’s staff are attorneys, Advisor does not engage in the practice of law. All legal matters should be discussed with Client’s retained legal counsel, with whom Client hereby directs Advisor to communicate regarding the contemplated transaction.

Advisor shall not disclose to anyone outside of Advisor’s organization, related companies, or independent sources/resources any confidential information concerning Client’s identity, customers, markets, products, past or present financial circumstances, or contemplated transaction(s) without express authorization of Client. Client does hereby expressly authorize Advisor to disclose transaction related confidential information to Client’s legal advisors and such other representatives and advisors as is required to perform the services contemplated herein.

Advisor’s staff are contractually restricted from working for clients of Advisor for a period of one year after leaving Advisor’s employment. Therefore, Client agrees not to employ or engage the services, directly or indirectly, of any person now employed by Advisor for a period of one year from the date of this Agreement. And, Advisor agrees not to employ or otherwise engage any of Client’s employees for the same period of time.

© Copyright 2015 Strategic Tax Advisors, Inc. All Rights Reserved.
For services rendered under this Agreement, Advisor shall receive a professional services fee, and expense reimbursement as indicated below:

i. The professional services fee shall be US$__________, and is payable upon execution of this authorization.

ii. Expense reimbursement shall be limited to: (1) reasonable airfare, ground transportation and lodging expenses incurred by assigned Advisor staff during travel to and from the Client business or such other travel as is authorized by Client (substantiated by receipts), (2) any applicable taxes, plus (3) Fifty-Two Dollars (US$52) per diem (per person) during those travel periods.

iii. No other charges will be made.

iv. Invoices (submitted during the course of the engagement) are due and payable in full upon presentation.

Please initial each item below indicating your understanding and agreement:

No estimate of value (or indicated minimum value) for the business has been provided, or will be provided.

No assurance or guarantee has been given that a business would be sold, an acquisition occur, or financing be obtained, by virtue of the services herein contemplated.

No assurance, guarantee, or commitment has been given that Advisor has, or will search for and identify, a specific buyer or acquisition candidate for Client.

The expense of all services provided by Client's legal counsel or other advisors shall be the responsibility of Client. Client agrees to indemnify Advisor against any claims for such fees that are presented to Advisor.

It is expressly agreed that this printed document embodies the entire agreement of the parties in relation to the subject matter of consulting services to be rendered by Advisor; and that no other understanding or agreement, verbal or otherwise, exists between the parties, except as herein expressly set forth. Client and Advisor expressly agree all disputes of any kind between the parties arising out of or in connection with this Agreement shall be submitted to binding arbitration which would be administered by the American Arbitration Association. Exclusive jurisdiction and venue shall vest in Lake County, Illinois, Illinois law applying.

Advisor is hereby granted authority to begin consulting services engagement #_____________________.

Engagement commencement date: _________________ at _________________.

This authorization may not be cancelled prior to the commencement date.

Client: ___________________________________________ Advisor: Strategic Tax Advisors, Inc.

By: ___________________________________________ By: ___________________________________________

Title: ______________________ Date: _______________ Date: ______________________

TTP Client Relations
Phone: (847) 403-0070 Fax: (847) 403-0075
Email: clientrelations@sta-na.com

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THIS AGREEMENT ("Agreement") is entered into between ________________________________ ("Client") and Valuation Advisory Services, LLC ("Advisor").

Advisor will perform a Valuation of Client's business, and prepare and deliver to Client a Business Valuation Report. The non-exclusive services of Advisor shall include, but not be limited to, taking any and all steps necessary to:

- Recast the business' financial statements, where necessary and appropriate, to accurately reflect the true economic financial position and results of operation on a historical and current basis;

- Conduct a comparative analysis of Client's business in relation to: (1) specific comparable businesses (if available), and (2) applicable and relevant industry averages (with specific emphasis on select, representative financial ratios); and

- Analyze and evaluate the worth of Client's business in accordance with the American Society of Appraisers' (ASA) standards for conducting and reporting on business valuations.

Advisor will provide the Valuation Report within 60 days subsequent to receipt from Client of the past five (5) years Financial Statements, and such other information as is deemed necessary by Advisor, or from the on-site visit (whichever occurs last).

Business Value Mapping [check if included] Additionally, Advisor will provide a Future Intrinsic Value Estimate ("FIVE") Report within 21 days subsequent to receipt by Advisor of the Client's approved Transition Strategy Plan ("TSP"). Advisor will review, analyze and evaluate the TSP and issue a FIVE Report. The FIVE Report will express Advisor's opinion regarding the reasonableness of the pro forma financial and operational projections incorporated in the TSP and an estimate of the resulting future value of Client business upon achievement of the projections.

The services provided hereunder shall not include accounting services, legal advice, asset appraisal, testimony, development and implementation of systems, procedures, or pricing recommendations, business brokerage services, fundraising, or estate and financial planning services. If it is determined that any of these services are required, Client may obtain such services under separate agreement with affiliates of Advisor, or such other independent advisors as Client determines appropriate.

Fees: Advisor shall receive a Professional Services Fee of US____________, any applicable taxes, reasonable airfare, ground transportation and lodging expenses incurred, plus Fifty-Two Dollars (US$52) per diem for each day Advisor is on Client business site. No other charges will be made. The Professional Services Fee is payable upon execution of this authorization, with the expenses being payable as incurred.

Continuation of Engagement: Advisor is committed to the success of the Client throughout the valuation engagement. Prior to the commencement of any engagement, Client may cancel or conclude any agreement by calling (855) 803-4238, faxing a request to (855) 803-4238, or by email to xcl@clentsvr.com. Client will not be responsible for fees or expenses if notice is received prior to 5:00 PM CST on the business day prior to the commencement of the consulting engagement. Client agrees to reimburse Advisor for actual expenses incurred where cancellation is received after that time and before the engagement commences. The Professional Services Fee due as a result of any subsequent termination will be calculated on a percentage of completion basis.

Advisor shall not make public or disclose to anyone outside of Advisor's organization, affiliated companies, or independent sources, without express authorization of Client, any information concerning Client's identity, customers, markets, products, financial history or current financial circumstances.

Please initial each item below indicating your understanding:

_________ No estimate of value (or indicated minimum value) for the business has been provided, nor will be provided prior to the presentation of the Valuation Report.

_________ No assurance or guarantee was given that the business would be sold, or financing obtained, by virtue of the Valuation services herein contemplated.
It is understood that Advisor is an independent valuation company and will present an unbiased Valuation utilizing the following:

- Historical accounting & operating information
- Economic conditions
- Comparative industry analysis
- Information provided by Client
- Application of professional standards for business valuation

Nothing in this Agreement shall be construed to constitute a partnership between, or joint venture by, the parties hereto, or constitute either party as the agent or employee of the other.

Client shall indemnify Advisor and each of its affiliates, officers, employees and agents against any loss resulting from any claim or legal proceeding whatsoever, asserted or brought by third parties, relating to the performance of any services of Advisor under this Agreement.

This is not an agreement to undertake the sale of Client business or raise financing and Advisor makes no representations, express or implied, that the business will be sold or financing obtained by virtue of the services contemplated to be rendered under this Agreement.

It is expressly agreed that this printed document embodies the entire agreement of the parties in relation to the subject of Business Valuation Services to be rendered by Advisor; and that no other understanding or agreement, verbal or otherwise, exists between the parties, except as herein expressly set forth. No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing and expressly agreed to by the parties.

Client and Advisor expressly agree all disputes of any kind between the parties arising out of or in connection with this Agreement shall be submitted to binding arbitration by the American Arbitration Association. If the dispute cannot be resolved within 30 days of submission, the exclusive mandatory remedy shall be binding arbitration administered by the American Arbitration Association or such other mutually acceptable neutral arbitrator, on an individual basis. The decision of the arbitrator will be considered final under this Agreement. Client may elect to participate via telephone or video conferencing at Advisor’s expense. Class actions, collective actions, or any other type of action brought in a representative capacity are not permitted. Exclusive jurisdiction and venue shall vest in Lake County, Illinois, Illinois law applying.

Professional Fees: Total Professional Services Fee _______________________ (which includes an initial one-third Retainer), plus applicable expenses indicated in Fees above.

Client: ______________________________

By: ________________________________  By: ________________________________

Title: ______________________________  Title: ______________________________

Date: ______________________________  Date: ______________________________

VAS
707 Skokie Blvd., Suite 600, Northbrook, IL 60062
Phone (224) 676-7170 - Fax (224) 676-7172
clientrelations@valuation-na.com

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THIS AGREEMENT is entered into between ____________________________ ("Client") and Strategic Tax Advisors, Inc. ("STA"), for the sole purpose of Client retaining STA to provide tax consulting services. STA shall evaluate Client's past years' tax reporting and payment requirements, review Client's actual submissions (if any), assess Client's potential tax exposure, and discuss the strategic options available to Client.

Scope of Engagement

i. Due to the fact that each Client's business and tax situation is unique, consulting services' work is custom designed around each objective, giving consideration to the specific nature of Client's business and tax situation.

ii. All matters pertaining to this engagement should be addressed with the Project Manager, upon whom is placed complete responsibility for the success of the engagement.

iii. Achievements realized from Consulting Services' work depend upon many factors, including the cooperation of Client's staff and professional advisors in providing required information and records, and agreement to implement the recommendations developed during the course of this engagement; factors which are not within the control of STA. Therefore, it is understood and agreed that no express or implied warranty of any general or specific results shall apply to the work performed under this Agreement.

iv. STA does not engage in financing. As such, no employee of STA is authorized to promise that STA will obtain funds through tax refunds or from any other source for any client, either for payment of services contracted by this Agreement, or for any other purpose.

v. Client understands and acknowledges STA will be performing tax related services, including review and analysis of past and current tax reporting, business and personal filings, as well as liens, levies, and other correspondence received by Client from taxing authorities. Client further acknowledges that in some cases it is not possible or appropriate to amend previous reporting and filing methodologies employed by Client. In these cases, any recommendations deemed appropriate will be directed to future tax reporting and related filings.

Confidentiality

i. Due to the confidential nature of the work, Client agrees to provide suitable working space for the STA staff and such clerical services as are required.

ii. All STA staff, without exception, are under contract with STA and are bonded to the extent of US$ 2,000,000 for the protection of the Client.

Employee Solicitation

Recognizing that all STA staff are contractually restricted from working for clients of STA for a period of one year after leaving STA's employ, Client agrees not to employ or engage the services, directly or indirectly, of any person now employed by STA, for a period of one year from the date of this Agreement. STA agrees not to employ or otherwise engage any of Client's employees for the same period of time.
Fees

i. For services rendered under this Agreement, Client will pay all invoices in full, upon presentations.

ii. Invoices (submitted during the course of the engagement) will cover total charges as follows: (1) a fee of Three Hundred Fifty-Five Dollars (US $355) per man-hour worked, (2) reasonable airfare, ground transportation and lodging expenses incurred by assigned STA staff (substantiated by receipts), (3) any applicable taxes, plus (4) Fifty-Two Dollars (US $52) per diem per person during those travel periods.

iii. No other professional services charges will be made.

AUTHORIZED ENGAGEMENT: TAX DEFENSE ASSESSMENT

The assessment shall include review of Client's tax submissions, financial records, and taxing authority correspondence; request and review taxing authority transcript(s) or Client's record; advise Client as to available courses of action; recommend steps to be taken in addressing and resolving issues in question; and, where applicable, prepare (but not present) an offer in compromise on Client's behalf.

Any work to be performed beyond the scope of the assessment shall be performed pursuant to a separate agreement entitled Tax Defense Representation.

It is expressly agreed that this printed document embodies the entire agreement of the parties in relation to the subject matter of Consulting Services to be rendered by STA; and that no other understanding or agreement, verbal or otherwise, exists between the parties, except as herein expressly set forth. Client and STA expressly agree all disputes of any kind between the parties arising out of or in connection with this Agreement shall be submitted to binding arbitration administered by the American Arbitration Association. Exclusive jurisdiction and venue shall vest in Lake County, Illinois, Illinois law applying.

Authority is hereby granted to STA to assign a Project Manager / Tax Consultant to begin Consulting Services Engagement #______________

Project commencement date: _________________________ at __________

HOURS ESTIMATED TO COMPLETE ASSESSMENT: _______ +/- 10%

This authorization may not be cancelled prior to the commencement date.

Client:

By: ____________________________

Title: ______________________ Date: __________

Strategic Tax Advisors, Inc.

By: ____________________________

Date: ____________________________

STRATEGIC TAX ADVISORS, INC.
1275 BARCLAY BLVD.
BUFFALO GROVE, ILLINOIS 60089

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CONSULTING SERVICES AGREEMENT
SALES GENERATION SERVICES
(SGS PHASE I)

The following Agreement is entered into between ________________________ ("Client") and Global Resources, LLC ("GR"), for the sole purpose of Client retaining GR for a consulting engagement.

Scope of Engagement

i. Throughout the course of this engagement, GR will keep Client informed via discussions and written communications. It is essential there be continual cooperation and mutual understanding between Client and GR, and that Client retains control over the continuation of GR’s services.

ii. For the guidance of Consulting Services’ development and progress, the Project Manager will prepare a Value Enhancement Program encompassing the objectives and scope of the engagement. Due to the fact that each Client’s business is unique, Consulting Services’ work is custom designed around each objective, giving consideration to the specific nature of Client’s business and personnel.

iii. All matters pertaining to this engagement should be addressed with the Project Manager, upon whom is placed complete responsibility for successful development and implementation of the Value Enhancement Program.

iv. Each day the GR staff will discuss and/or present the work completed to Client, and discuss further work to be performed in relation to the Value Enhancement Program. All work developed during the course of the engagement will be presented to Client prior to implementation and/or installation.

v. Achievements realized from Consulting Services’ work depend upon many factors, including the aptitude and cooperation of Client’s staff; factors which are not within the control of GR. Therefore, it is understood and agreed that no express or implied warranty of any general or specific results shall apply to the work done under this Agreement.

vi. GR does not engage in financing or bonding. As such, no employee of GR is authorized to promise that GR will secure bonding for a client; or is in a position to obtain funds for any client, either for payment of services contracted by this Agreement, or for any other purpose.

vii. Notwithstanding that some members of GR’s staff are accountants and attorneys, GR does not practice law or provide tax services. Client is specifically informed that any legal or tax matter must be discussed with Client’s legal and tax advisors.

Confidentiality

i. Due to the confidential nature of the work, Client agrees to provide suitable working space for the GR staff, such clerical services as required; as well as pay the cost of reproduction work, binders, supplies, training materials, and manuals directly related to the consulting engagement.

ii. All GR staff, without exception, are under contract with GR and are bonded to the extent of US$2,000,000 for the protection of Client.

Employee Solicitation

Recognizing that all GR staff are contractually restricted from working for Clients of GR for a period of one year after leaving GR’s employ, Client agrees not to employ or engage the services, directly or indirectly, of any person now employed by GR, for a period of one year from the date of the Business Analysis Authorization. GR agrees not to employ or otherwise engage any of Client’s employees for the same period of time.

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Fees

For services rendered under this Agreement, GR shall receive a fixed professional services fee as indicated in either (i) or (ii) as elected below, and expense reimbursement as indicated in (iii) below:

i. The professional services fee shall be US$17,650 (no revenue sharing with GR)

ii. The professional services fee shall be US$12,600, and GR shall share in annual revenue increases, calculated and paid quarterly on a cumulative basis, for four (4) consecutive quarters:

<table>
<thead>
<tr>
<th>Client Revenue % Increase</th>
<th>GR % of Client Revenue Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 4.99%</td>
<td>0.00%</td>
</tr>
<tr>
<td>5 - 9.99%</td>
<td>0.15%</td>
</tr>
<tr>
<td>10 - 14.99%</td>
<td>0.50%</td>
</tr>
<tr>
<td>15 - 19.99%</td>
<td>1.05%</td>
</tr>
<tr>
<td>20% or more</td>
<td>1.80%</td>
</tr>
</tbody>
</table>

iii. Expense reimbursement shall be limited to: (1) reasonable airfare, ground transportation and lodging expenses incurred by assigned GR staff during travel to and from the Client business or such other travel as is authorized by Client (substantiated by receipts), (2) any applicable taxes, plus (3) Fifty-Two Dollars (US$ 52) per diem (per person) during those travel periods.

No other charges will be made. Invoices (submitted during the course of the engagement) are due and payable in full upon presentation.

Conclusion of Engagement

At the conclusion of the consulting engagement Client shall provide a written statement expressing Client’s opinion of the services rendered. This statement must be originated solely by Client. Client further agrees to email each month to GR [at sgs@gr-us.com] such operational and financial reporting as directed in the final Value Enhancement Review, for post engagement support.

It is expressly agreed that this printed document embodies the entire agreement of the parties in relation to the subject matter of consulting services to be rendered by GR; and that no other understanding or agreement, verbal or otherwise, exists between the parties, except as herein expressly set forth. Client and GR expressly agree all disputes of any kind between the parties arising out of or in connection with this Agreement shall be submitted to binding arbitration which would be administered by the American Arbitration Association. Exclusive jurisdiction and venue shall vest in Lake County, Illinois, Illinois law applying.

Authority is hereby granted to GR to assign a Project Manager and Business Consultant to begin Consulting Engagement # _____________________ on ________________ at ________________

AUTHORIZED ENGAGEMENT: Phase I: Generation of Additional Sales – six (6) man-days of consulting to develop and implement a program designed to generate additional sales, and train designated employees.

Successful completion of this engagement qualifies Client for Phase II: Streamline Revenue Production, a separate engagement consisting of six (6) man-days of consulting designed to improve production/service efficiencies, pricing and estimating methods, job cost tracking, and align sales and production forecasting. Client is entitled to engage GR to complete Phase II at the fee rates stated in Fees (i) and (ii) above, for a period of ninety (90) days from the completion of Phase I.

This authorization may not be cancelled prior to the commencement.

Client:

By: ____________________ Date: ________________

Title: ____________________

Global Resources, LLC

By: ____________________ Date: ________________

Global Resources, LLC
707 Skokie Blvd., Suite 600
Northbrook, IL 60062

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GR SGS 0112
GR Website and E-Commerce Authorization

We authorize Global Resources, LLC ("GR") to initiate the development and hosting of a website through GR’s alliance agreement with Web.com, a worldwide leader in providing web design and hosting services. This authorization serves as a letter of intent by the undersigned GR client and must be accepted by Web.com prior to any services being provided by Web.com. All payments for website development and hosting services will be paid directly to Web.com under the terms established by Web.com.

We have indicated with our initials which Web Plan we have chosen:

**Web Plan #1**  
**Website and Hosting**  
$2,500

- Fully customized site, custom design for up to 15 pages, free domain name, 10 free email boxes, hosting, 5 GB storage, 1 hour of free monthly revisions, 1 ala-carte feature included for free, additional ala-carte features are $200 each, search engine submission, Google Maps and Yellow Page submissions, ongoing SEO analysis. First year of web hosting fees are included for WP#1. Two equal monthly payments.

**Web Plan #2**  
**Website and Hosting and e-Commerce Platform**  
$5,000

- Fully customized site, custom design for up to 15 pages, free domain name, 10 free email boxes, hosting, 5 GB storage, 1 hour of free monthly revisions, 1 ala-carte feature included for free, additional ala-carte features are $200 each, search engine submission, Google Maps and Yellow Page submissions, ongoing SEO analysis. Web hosting fees for e-Commerce platform begin immediately. Two equal monthly payments.

**Web Plan #3**  
**Website, Build and Carry**  
$4,500

- Fully customized site, no hosting, no ongoing support.

**Facebook Option**  
**Create & Install Company Facebook Page**  
$300

Hosting and maintenance fees begin immediately.

**Ongoing monthly fees after year one:** After year 1, hosting fees will auto renew for a period of one year unless cancelled by the customer. The monthly hosting fees are outlined below. For a client who wants to transfer a website built under Web Plan #1 to another hosting provider there will be imposed a $2,500 cancellation and transfer charge if the transfer takes place within the first year, and a $999 charge after the first year.

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<table>
<thead>
<tr>
<th>Monthly Hosting Fees</th>
<th>Web Plan #1</th>
<th>Web Plan #2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Hosting Fee (included for first year - WP#1)</td>
<td>$94.95</td>
<td>$249</td>
</tr>
<tr>
<td>e-Commerce Transaction Fee for Web Plan #2</td>
<td>N/A</td>
<td>0.75% transaction fee</td>
</tr>
<tr>
<td>Monthly billing on a four (4) week cycle</td>
<td>after one year</td>
<td>begins immediately</td>
</tr>
<tr>
<td>Facebook monthly hosting begins first month</td>
<td>$40</td>
<td>$40</td>
</tr>
</tbody>
</table>

It is understood and agreed that no express or implied warranty of any general or specific results is made by GR on behalf of Web.com for the development of a website or providing web hosting services and that any issues concerning the performance and/or payment for such services are agreed as solely between Web.com and the undersigned GR client.

Global Resources, LLC

By

Date

Project #: 

By

Title

Date

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AGREEMENTS FOR SERVICES (GR)

The following independent agreements are entered into between:

☐ Global Resources, LLC ("GR") - Business value enhancement consulting

☐ Strategic Tax Advisors, Inc. ("STA") - Tax planning and transactional structuring consulting

☐ Valuation Advisory Services, LLC ("VAS") - ☐ Business Valuation and ☐ Business Value Mapping

("Advisor(s)"), and ____________________________ ("Client").

The following understandings shall apply to all independent agreements for Engagement #________________

Confidentiality and Solicitation

i. Due to the confidential nature of the work, Client agrees to provide suitable working space for the Advisor(s) staff and such clerical services, reproduction and supplies as are required.

ii. All Advisors’ staff, without exception, are under contract with their respective Advisor and are bonded to the extent of US$2,000,000 for the protection of the Client.

iii. All Advisors’ staff are contractually restricted from working for clients of the respective Advisor for a period of one year after leaving that Advisor’s employ. Client agrees not to employ or engage the services, directly or indirectly, of any person now employed by Advisor(s), for a period of one year from the date of this Agreement. Advisor(s) agree(s) not to employ any of Client’s employees for the same period of time.

Engagement Limitations

i. Advisors do not engage in bonding, financing, or investment banking with respect to the services contemplated in these independent agreements. As such, no employee of Advisor(s) is authorized to promise that any Advisor will secure bonding for a client, or is in a position to obtain funding for a client, either for payment of services contracted by this Agreement or for any other purpose.

ii. Notwithstanding that some members of Advisors’ staff are accountants and attorneys, Advisors do not practice law or, with the sole exception of STA and VAS, provide tax services. Client is specifically informed that any tax matters outside the scope of specific tax services directly provided by STA or VAS and all legal matters must be discussed with Client’s tax and legal counsel.

iii. It is expressly agreed that this printed document embodies the entire agreement of the parties in relation to the subject matter of services to be rendered; and that no other understanding or agreement, verbal or otherwise, exists between the parties, except as herein expressly set forth. Client and Advisor(s) expressly agree all disputes of any kind between the parties arising out of or in connection with this Agreement shall be submitted to Advisors’ designated Compliance Officer for resolution. If the dispute cannot be resolved within 30 days of submission, the exclusive mandatory remedy shall be binding arbitration administered by the American Arbitration Association or such other mutually acceptable neutral arbitrator, on an individual basis. The decision of the arbitrator will be considered final under this Agreement. Client may elect to participate via telephone or video conferencing at Advisor’s expense. Class actions, collective actions, or any other type of action brought in a representative capacity are not permitted. Exclusive jurisdiction and venue shall vest in Lake County, Illinois, Illinois law applying.

iv. The contents of this page are incorporated into each of the independent agreements of GR, STA, and VAS attached hereto; however, the additional separate and distinct terms and understandings stated in GR’s, STA’s, and VAS’ respective independent agreements are applicable only to the specific agreement in which they appear. Client acknowledges that failure to complete any specific engagement will deprive Client of some or all of the value and benefits anticipated to be received as a result of that engagement.

v. Advisors are committed to the success of the Client throughout the consulting engagement and after its implementation. Prior to the commencement of any engagement, Client may cancel any agreement by calling (855) 803-4237, faxing a request to cancel to (855) 803-4238, or by email to xcl@clientsrv.com. Client will not be responsible for fees or expenses if notice is received prior to 5:00 PM CST on the business day prior to the commencement of the consulting engagement. Client agrees to reimburse Advisor(s) for actual expenses incurred where cancellation is received after that time.

Client ___________ GPS ____________
AGREEMENT FOR SERVICES (VAS)

Valuation Advisory Services, LLC (VAS) will perform an independent valuation of Client's business and prepare and deliver to Client an unbiased Business Valuation Report. American Society of Appraisers' (ASA) standards for conducting and reporting on business valuations will be utilized when analyzing and evaluating the worth of client business.

VAS will provide the Valuation Report within 60 days subsequent to receipt from Client of the past five (5) years Financial Statements, and such other information as is deemed necessary by VAS, or from the on-site visit (whichever occurs last).

☐ Business Value MappingSM (check if included) Additionally, VAS will provide a Future Intrinsic Value Estimate ("FIVE") Report within 21 days subsequent to receipt by VAS's office of the client's approved Exit Strategy Plan ("ESP"). VAS will review, analyze and evaluate the ESP and issue a FIVE Report. The FIVE Report will express VAS's opinion regarding the reasonableness of the pro forma financial and operational projections incorporated in the ESP and an estimate of the resulting future value of Client's business upon achievement of the projections.

The services provided hereunder shall not include accounting services, legal advice, asset appraisal, testimony, development and implementation of systems, procedures, or pricing recommendations, business brokerage services, fundraising, or estate and financial planning services. If it is determined that any of these services are required, Client may obtain such services under separate agreement with VAS related companies, or such other independent parties as Client determines appropriate.

VAS shall receive a Professional Services Fee of US$_______________ for the agreed services, any applicable taxes, reasonable airfare, ground transportation and lodging expenses incurred, plus Fifty-Two Dollars (US$52) per diem for each day an VAS representative is at Client's business site. No other charges will be made. The Professional Services Fee is payable upon execution of this authorization, with the expenses being payable as incurred.

Please initial each item below indicating your understanding:

☐ No estimate of value (or indicated minimum value) for the business has been provided, nor will be provided prior to the presentation of the Valuation Report.

☐ No assurance or guarantee was given that the business would be sold, or financing obtained, by virtue of the valuation services herein contemplated.

☐ No assurance or guarantee was given that: (1) VAS has identified a specific buyer for Client, or (2) VAS itself, or through any other funder, will provide bridge funding or any other kind of debt or equity funding by virtue of the valuation services herein contemplated.

Nothing in this Agreement shall be construed to constitute a partnership between, or joint venture by, the parties hereto, or constitute either party as the agent or employee of the other.

Client shall indemnify VAS and each of its affiliates, officers, employees and agents against any loss resulting from any claim or legal proceeding whatsoever, asserted or brought by third parties, relating to the performance of any services of VAS under this Agreement.

This is not an agreement to undertake the sale of Client's business or raise financing and VAS makes no representations, express or implied, that the business will be sold or financing obtained by virtue of the services contemplated to be rendered under this Agreement.

Authority is hereby granted to VAS to provide the business valuation services authorized above.

☐ Engagement commencement date: ______________________ at ____________

2 of 4
AGREEMENT FOR SERVICES (STA)

Scope of Engagement

i. The Project Manager will prepare a Tax Engagement Plan encompassing the objectives and scope of the engagement. Due to the fact that each Client’s business and tax situation is unique, tax consulting services’ work is custom designed around each objective, giving consideration to the specific nature of Client’s business and tax situation. All matters pertaining to this engagement should be addressed with the Project Manager, upon whom is placed complete responsibility for the engagement.

ii. Achievements realized from tax consulting services’ work depend upon many factors, including the cooperation of Client’s staff and professional advisors in providing required information and records, and agreement to implement the tax strategies and recommendations developed during the course of this engagement; factors which are not within the control of Strategic Tax Advisors, Inc. (STA). Therefore, it is understood and agreed that no express or implied warranty of any general or specific results shall apply to the work done under this agreement.

iii. Client understands and acknowledges STA will be performing tax related services, including review, analysis, advisory and consulting services regarding structuring recommendations and future tax reporting and filing strategies. Client further acknowledges that in some cases it is not possible or appropriate to amend previous reporting and filing methodologies employed by Client. In these cases, recommendations will be directed to effectuate future tax savings and tax deferrals through changes in methodologies resulting in modification to future tax reporting and related filings.

iv. Tax Defense services, as well as strategy implementation, are expressly excluded from the scope of work to be performed under this Agreement. If it is determined such services are required, Client may obtain them from STA (under separate agreement), or such other independent advisor(s) as Client determines appropriate.

Fees

i. The professional services fee for the STA Engagement shall be US$_____________

ii. Expense reimbursement shall be limited to: reasonable airfare, ground transportation and lodging expenses incurred by assigned STA representatives during travel to and from the Client's business or such other travel as is authorized by Client (substantiated by receipts); any applicable taxes; plus Fifty-Two Dollars (US$52) per diem (per person) during those travel periods.

iii. No other charges will be made.

iv. Invoices (submitted during the course of the engagement) are due and payable in full upon presentation.

Where possible, STA will recommend changes to Client’s accounting practices, transaction structure(s), and operating systems, procedures, and policies where, in STA’s professional judgement, the implementation of such changes would enhance asset protection and/or increase after-tax income.

________ Authority is hereby granted to STA to assign a Project Manager and a Tax Consultant to begin consulting services.

Engagement commencement date:

AUTHORIZED ENGAGEMENT: STA shall evaluate past years tax reporting submissions and develop a Strategic Tax Report comprised of specific tax related strategies for Client in the areas of tax savings (Federal and State), entity structuring, retirement, succession, estate planning, healthcare planning, education planning, employee retention, and asset protection.
AGREEMENT FOR SERVICES (GR)

Scope of Engagement

i. Throughout the course of this engagement, GR will keep Client informed via discussions and written communications. It is essential there be continual cooperation and mutual understanding between Client and GR, and that Client retains control over the continuation of GR services.

ii. The Project Manager will prepare a Value Enhancement Program encompassing the objectives and scope of the engagement. Due to the fact each Client's business is unique, consulting services' work is custom designed around each objective, giving consideration to the specific nature of Client's business and personnel.

iii. All matters pertaining to this engagement should be addressed with the Project Manager, who is responsible for successful development and implementation of the Value Enhancement Program.

iv. Each day the GR staff will discuss and/or present the work completed to Client, and discuss further work to be performed in relation to the Value Enhancement Program. All work developed during the course of the engagement will be presented to Client prior to implementation and/or installation.

v. Achievements realized from consulting services' work depend upon many factors, including the aptitude and cooperation of Client's staff, factors which are not within the control of GR. Therefore, it is understood and agreed that no express or implied guarantee or warranty of any general or specific results shall apply to the work performed under this agreement.

Fees

For services rendered under this Agreement, as documented in Value Enhancement Reviews, Client will pay all invoices in full, upon presentation.

The invoices to be presented (at least one per week) will cover total charges as follows: A fixed professional fee (percentage of completion billing) of Two Hundred and Ninety-Five Dollars (US$295) per man-hour worked by the Project Manager and each GR Business Consultant, as authorized below; reasonable airfare, ground transportation and lodging expenses incurred by assigned GR staff (substantiated by receipts); any applicable taxes, plus (4) Fifty-Two Dollars (US$52) per diem per person. Any additional expenses must be approved by Client.

Conclusion of GR Consulting Engagement

by so informing the Project Manager or the consulting staff on the premises; at the same time presenting to the Project Manager or Senior Business Consultant a check for all fees and expenses due through the end of the business day of termination, as well as a personally written statement expressing Client's opinion of the services rendered and the reasons for termination or recess. This statement must be originated solely by Client.

Authority is hereby granted to GR to assign a Project Manager and one (1) Business Consultant to

Engagement # ____________________________, beginning

AUTHORIZED ENGAGEMENT: ____________________________________________________________

HOURS ESTIMATED TO COMPLETE GR ENGAGEMENT: ________ +/- 10%

Estimated Professional Fees: First Day ___________; Completion ___________; +10% ___________; plus applicable expenses indicated in Fees above.

_________________________ Client acknowledges receipt of Consulting Services Q&A, which is incorporated into this Agreement by reference.

(initials)

Global Resources, LLC (224) 676-7171
707 Skokie Blvd., Suite 600
Northbrook, IL 60062

Client: _________________________________

By: _________________________________ By: _________________________________

Title: ____________________________ Date: ____________________________

Date: ____________________________

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GR ASSURANCE

As Stated in GR's "Agreement for Consulting Services":

The commitment and cooperation of Example Client, ("Client"), as well as the aptitude, commitment and cooperation of Client's personnel are essential to the development and implementation of a successful engagement. As these factors are outside the direct control of GR, it is understood and agreed that no express or implied warranty of any general or specific results shall apply to the services rendered by GR under this Agreement."

However, GR will, upon satisfactory completion of the consulting engagement, assure to Client the realization of a return, through a combination of cost savings and profit enhancements, in excess of 2 (two) times the investment incurred for consulting hours billed, during the twelve months following the successful completion of the project.

Early detection of variance in project profits, and affecting changes designed to bring the identified variance back into compliance, is instrumental in assuring achievement of profitability goals. To this end, it is essential that Client provide a timely, monthly Financial and Operational Summary Report to the Client Relations Department for review during the year period, and other such reports as may be determined during the course of the project.

If an unfavorable variance should develop, Client agrees (in a timely manner) to contact the Client Relations Department at (866) 910-5187 and schedule a conference call with the Consulting Services Director ("CSD") assigned to Client's engagement. Subsequent to that conference call, GR will develop a plan to address the unfavorable variance and assign a Senior Business Consultant to assist Client (by phone or during an onsite visit, at GR's discretion) without hourly billing charges. Said assistance will be for a specific period of time and with a specific focus, in order to initiate actions that will realize the 2 (two) to 1 (one) return on investment.

The return shall be determined by the consistent application of generally accepted accounting principles without changes in methodology, excluding extraordinary and capital expenditures, and leases or contracts negotiated subsequent to the completion of the initial consulting engagement.

Example Client

_________________________   ______________________
Signature, Title            GR
Tyler Burgess, President

_________________________
Date
Project Manager Information Letter

1. Describe the level of commitment the client has to change his/her business:

2. Describe specific conditions, including any negatives:

3. What does the client wish to accomplish? Is there anything specific the client wants?

4. Who else needs to be involved throughout the project?

5. Is the client sensitive about any particular areas or issues?

6. Describe what the client expects to accomplish as a result of this project:

7. What was covered in your findings meeting?

8. Is there any other information pertinent to the success of this project?

9. Please provide directions to the Opening Conference from the Hotel of Record:
### Hotel of Record

#### Client's Business Location
- **Project Number:** 89353
- **Company:** Example Client
- **Address:** 39 South Grove
- **City:** Middle American City
- **State:** NY
- **Zip:** 14127
- **Phone:** (716) 844-4444
- **Fax:**
- **Cell:**

#### Hotel Information
- **Binder Location:**
- **Hotel Name:**
- **Address:**
- **City:**
- **State:**
- **Zip:**
- **Phone:**
- **Fax:**
- **Distance to Client:**

#### Project Information
- **Analyst:** Analyst Name
- **Phone:** (847) 754-5434
- **Email:** SherCrym@aol.com
- **Survey Start:** 1/7/2015
- **Project Start:** 6/6/2014
- **PTO Time:** 6:00 AM
- **PTO Place:**

#### Financial Information
- **Cash on Hand:** $0
- **Total A/R:** $0
- **Total A/P:** $0
- **Last 12 Months Sales:** $0
- **Owners:** Alexander Manheim

#### Comments and Additional Information

---

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SURVEY FEE INVOICE

Today's Date: 1/22/2015
Project Number: 89353

Analyst: Analyst Name
Client: Example Client
Address: 39 South Grove
    Middle American City, NY 14127

Terms: Payment on Presentation
For Preliminary Analysis

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Survey Fee</td>
<td>$500</td>
</tr>
<tr>
<td>Total Invoice</td>
<td>$500</td>
</tr>
</tbody>
</table>
CREDIT CARD PAYMENT AUTHORIZATION

Analyst: Analyst Name
Client: Example Client
Address: 39 South Grove
         Middle American City, NY 14127

Survey Start Date: 1/7/2015
Today's Date: 1/22/2015
Project Number: 89353

Sign and complete this form to authorize GR to make a one time debit to your credit card listed below.

By signing this form you give permission to debit your account for the amount indicated regarding payment of GR invoice for management consulting services. This permission is for a single transaction only and does not provide authorization for any additional debits or credits to your account.

You are hereby authorized to charge my credit card for the amount of:

$500.00
Five Hundred and Dollars and Zero Cents.

It is understood that all charges to this credit card are irrevocable and nonrefundable.

The credit card information is as follows:

<table>
<thead>
<tr>
<th>Type of Card:</th>
<th>Mastercard</th>
<th>Visa</th>
<th>AMEX</th>
<th>Discover</th>
</tr>
</thead>
</table>

Name of Issuing Bank: ____________________________
Account Number: ________________________________
Expiration Date: ________________________________
Name as shown on Credit Card: ____________________
Zip Code of Billing Address: ______________________
Name of Company: Example Client
Signature:_____________________________________
Date:_________________________________________
Non-Payment of Survey Fee

Company: Example Client
Address: 39 South Grove
Middle American City, NY 14127

Analyst: Analyst Name
Date: 1/22/2015
Survey Fee: $500

Our analytical services are provided to you on the basis that the agreed upon fee will be payable upon satisfactory completion of the analysis. If you do not believe you received any benefit or value from the analysis performed by our Senior Business Analyst, please explain below your reasons for refusing to pay the agreed upon fee. Fax completed and signed form the Directory of Survey Services [847-403-0339] or the SSD immediately upon completion of the analysis.

PLEASE USE THE SPACE BELOW TO DOCUMENT THE REASON FOR NON-PAYMENT

_________________________________________________________________________________________________________________________

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Client Signature

DATE

Senior Business Analyst Signature

DATE
Consulting Services Questions & Answers

GLOBAL Resources, LLC

707 Skokie Blvd., Suite 600
Northbrook, IL 60062
224-676-7170
Q & A
About Our Consulting Services

How do I know what the consulting team will do for me and my business?

The Consulting Team will be comprised of a Consulting Services Director, a Project Manager, and a Senior Business Consultant(s).

During the course of the analysis, the Senior Business Analyst will have identified and quantified problems that have a detrimental effect on your company in areas such as sales, cash flow, productivity, operations, and profitability. Together, you and the Senior Business Analyst will determine which problem areas our Consulting Team will help you address. The agreed upon focus for the consulting engagement will be specified in the Agreement for Consulting Services as the Authorized Project.

What is the Role of the Project Manager?

A Project Manager will be assigned to supervise your consulting engagement. The primary responsibility of the Project Manager is to assure client satisfaction. This is accomplished through successful implementation of the requisite methods, systems, procedures, controls, and training necessary to achieve your personal and business goals. The Senior Business Analyst works in concert with the Project Manager to ensure a smooth transition between the analysis and the implementation process.

The Project Manager will develop a Project Plan detailing the scope and objectives of the consulting engagement. It will delineate what will be accomplished and how many hours will be worked by the Project Manager and Senior Business Consultant(s). Their Project Plan and accompanying documents will clearly define the approach to implementation, the consulting hours required, and where appropriate, will illustrate a payment methodology.

The Project Manager and the Senior Business Consultant(s) will be at your company's location for approximately 2 to 3 days. After that time, the Project Manager will depart and the Senior Business Consultant(s) will remain to continue the onsite implementation and training. The Project Manager is responsible for the supervision of all consultants on your project. This supervision will continue until the project has been successfully implemented, even though the Project Manager will not be onsite for the entire project. The ongoing implementation progress will be monitored through telephone and e-mail contact with you, the Senior Business Consultant(s), and a Consulting Services Director headquartered at our home office. The Consulting Services Director assigned to your project has overall responsibility for the project and maintains daily communication with both your Project Manager and your Senior Business Consultant(s).

How many Consultants will be assigned to my project?

Upon completion of the analysis, you and the Senior Business Analyst will have agreed on the issues facing your business, the impact these problems are having on your ability to reach your goals, and the financial impact these issues will continue to have on your business, if they remain unresolved. Together, you and the Senior Business Analyst will have determined the course of action needed to resolve the problems you face.

The Senior Business Analyst considers many factors when determining the number of consultants required to meet the needs of your specific engagement. Those factors include the immediate needs of your company, the ability and aptitude of your staff, the nature of the work to be performed, and various matters discussed with you during the course of your analysis. By agreement, more than one Senior Business Consultant might work concurrently at your business site, or there might be a substitution of one Senior Business Consultant for another to address a specific task or a particular need during the engagement.
The number of Consulting Staff assigned to your project will be clearly identified in the Agreement for Consulting Services and is determined by what is in your best interest.

**Who will be assigned to my project and what are their qualifications?**

The assignment of the Project Manager and Consultants is based solely on the specific requirements of your company, the expertise of the Project Manager and Senior Business Consultants(s), and the recommendations of the Senior Business Analyst. It is our responsibility to assure your satisfaction by exercising our professional judgement when assigning personnel. The primary and overriding consideration in assigning a Project Manager and Senior Business Consultant(s) is the specific requirements of your business, not the geographic location of individuals available for assignment. The Project Manager and Senior Business Consultant(s) are assigned immediately subsequent to the conclusion of the business analysis.

We have a pool of over 400 Senior Business Consultants and Project Managers from all over the United States and Canada, each with unique talents and experience. At a minimum, all Project Managers and Senior Business Consultants are required to have a college degree, and many have advanced degrees and specific industry certification. In addition to their educational requirements, they are also required to have a minimum of 10 years of experience in middle to senior level business management. This combination of education, experience, and expertise adequately prepares them to address the individual requirements and unique circumstances of your business in a timely and professional manner.

**How are the required number of consulting hours determined and what will be the project cost?**

At the conclusion of the analysis, the Senior Business Analyst will have determined the number of consulting hours required to implement the changes in your business you agree must be made to achieve your goals.

Those hours vary from company to company and are based on the scope and nature of your particular personal and business needs, as well as many other factors. Those factors may include the size and complexity of your business, the attitude and aptitude of your employees, and the specific course of action required to achieve the goals and objectives established during the analysis.

Unlike other consulting firms, we do not require a retainer fee. The Senior Business Consultant(s) and Project Manager typically work 10-hour days to reduce the overall expenses and to complete the project in a timely manner. The hourly charge for each Senior Business Consultant and Project Manager assigned is US$265 for U.S. companies and C$265 for Canadian companies, plus expenses (as described herein) and applicable taxes. All expenses are invoiced to you at their actual cost, substantiated by receipts.

As stated in the Agreement for Consulting Services: *For services rendered under this Agreement, as documented in Value Enhancement Reviews, Client will pay all invoices in full, upon presentation. The invoices to be presented (at least one per week) will cover total charges as follows: (1) A fee of Two hundred sixty-five Dollars (US$265) [or Two hundred sixty-five Dollars Canadian (C$265)] per man-hour worked by the SPM and each SBC, as authorized below, (2) reasonable airfare, ground transportation and lodging expenses incurred by the assigned SPM and SBC(s) (substantiated by receipts), (3) any applicable taxes, plus (4) Fifty-Two Dollars (US$52) [or Fifty-Five Dollars Canadian (C$55)] per diem per person.*

No charge is assessed for the Project Manager's off-site supervision of the Senior Business Consultant(s) or the Consulting Services Director's supervision of your engagement from the home office.

Any changes to the Agreement for Consulting Services to expand the scope of the project must be documented in writing with your signature.

Just like you, we expect to be paid for our services per our agreement. Only the Project Manager, in conjunction with the Consulting Services Director and the Executive Director of Consulting Services may take into consideration the specific
circumstances in your business and address these issues on a case-by-case basis.

May I terminate the project before its scheduled completion?

Yes. If for any reason a concern arises regarding the implementation of your Project Plan you need to discuss these issues with the Project Manager. If you still believe it is in your best interest to recess or close the project, you may terminate our services, or recess the project, at the end of any business day. At the time of termination or recess it is your responsibility to present the Project Manager or Senior Business Consultant a check for all fees due and expenses incurred through the end of that business day, as well as a personally written statement expressing your opinion of the services rendered.

How does our assurance work?

There is a written assurance available to clients who choose to participate in, and qualify for, that program. To qualify, a client must (1) successfully complete their consulting project, (2) agree to utilize and utilize the methods, systems and controls put in place, and (3) commit to providing and provide our Consulting Services Department financial and operation reports on a timely basis each month for 12 months.

Under these circumstances, we will assure you the realization of a return, through cost savings and/or profit enhancements, of a minimum or 2 times the investment (2-to-1) incurred for consulting hours billed by our Project Managers and Senior Business Consultant(s) during the 12 months following the successful completion of the management consulting engagement.

If an unfavorable variance should develop, you must inform us in a timely manner. A conference call will be scheduled with the Consulting Services Director assigned to your project. Subsequent to that conference call, a Senior Business Consultant will be assigned to assist you, by telephone or onsite visitation (at our discretion), without any hourly billing charges. The assistance will have a specific focus, in order to initiate action which will realize the 2-to-1 return on investment. We will continue to provide these services to you until the 2-to-1 return has been achieved.

The return is determined by the consistent application of generally accepted accounting principals, without changes in methodology, and excluding extraordinary and capital expenditures, as well as leases and contract negotiated subsequent to the completion of the initial consulting engagement.

Naturally, our assurance presumes the project will be completed in its entirety and the methods, systems, and controls put in place during the project continue to be used as intended. It would not be reasonable to expect this type of return from a partial or incomplete project, or where the company's management fails to follow through with the work implemented.

What if I have questions after my consulting engagement is concluded?

You may call our Client Services Department at 1-866-583-0668 with any question regarding your consulting engagement. Our goal is your complete satisfaction.
MEETING RESISTANCE
GETTING TOUGH JOBS OPEN

A job is only assigned to an analyst after it has been confirmed; therefore the only time that a job is tough to get open is when buyer’s remorse has set in with the client. It is incumbent upon the analyst at this time to resolve this issue. The way to resolve the issue is not by challenging the client, but by showing the client the benefit that he will receive by allowing the survey to run. Once the client perceives that he is receiving a benefit, and that the analyst is there to help him, not sell him, the job will open.

OVERCOMING HEDGES

The best time to overcome a hedge or excuse is before they can become one. Taking care of finding out who the client truly is will overcome an “I can’t authorize this without talking to...” comment. Not losing credibility will overcome a reference request. Showing a client where the cash is and where it will be recovered from will overcome a no money excuse. Running the survey and creating urgency will overcome a delay tactic. Getting complete agreement to the problems and the fact that the client cannot fix them will overcome a do-it-yourselfer. Giving the do-it-yourselfer the management self-assessment to fill out himself at the end of day one and then discussing it with him the next day will overcome a fix-it-yourselfer. The following pages list answers to hedges and excuses.

Survey Department personnel are apt to be most successful in obtaining GO’s if they are prepared to meet the resistances most commonly experienced. Resistances are the result of certain attitudes on the part of the client that must be overcome.

The purpose of the following arguments and answers is to help the Survey Department’s personnel respond to the more common resistances by being acquainted with some of the answers that have effectively won the analyst’s point.

The answers given are intended to be used by the analyst only as a guide for constructing personal answers which should be consistent with the individual’s particular mode of presentation.

When the analyst has not found a satisfactory and convincing answer to a question or resistance, communicate with your SSD, giving full details, so that helpful suggestions may be provided. The old adage that, “You can’t teach an old dog new tricks” is simply not true. If something is really worth doing, it ought to be done no matter who has to learn new tricks.

People can learn new things at any age if they want to learn and if you’re willing to teach them. This is a demonstrated fact, not wishful thinking.
1. WE’VE CHANGED OUR MINDS. (I CANCELLED THIS) WE WANT YOU TO LEAVE.

   a. I understand. Would you mind if I relax here a few minutes, I’ve driven quite a ways. By the way, what exactly do you do here? (Have a casual conversation regarding the clients business and what he does, which slowly leads into more pointed questions.) However, do not open your briefcase yet!

   b. That’s fine, people change their minds I understand. Let me just sit down and close out your file... You know at one point the other day, you met with our sales person who sat down with you and explained what we do, and at the time you thought, “maybe this isn’t a bad idea, getting a check-up done on the business, what do I have to lose”, after mulling it over for about 20 minutes, you decided to say yes to having the analysis done. Then sometime after that, something came up, like it does every day when you are in business for yourself, you were probably putting out another fire, and you thought, I have no time for an analysis, so you thought about it for a while, picked up the phone, and cancelled. You probably mulled that decision over in your head for about 20 minutes before picking up the phone. Seems to me it would be worth sitting down with me for 20 minutes, just to determine which one of those two decisions was the right one.

   c. That’s fine. I’d like to sit here a few minutes to fill out some paperwork to close my file. Would you mind answering a few questions for my file? What did you discuss with our sales staff? .......

   d. OK. Would you mind if I use your facilities please. I’ve been on the road for a while. (After returning from the restroom). I’m really disappointed. I was looking forward to analyzing a _____________ business. My company won’t give me another assignment until later this afternoon. I wouldn’t mind at all just doing a quick overview. How on earth did you ever get into the _____________ business? .......

   e. You seem upset that I’m here. Did something happen before I got here to upset you? I really am not part of the process before I’m assigned. As an analyst I just go to the business I’m told to go to. Let me know what happened so I can notify our Quality Control Department. Believe me, I don’t like this either. It reflects poorly on me, and I can assure you, I am a very qualified analyst and I don’t want my reputation tarnished by a misstep before I arrived. Let’s get this straightened out right now!

2. OUR COMPANY IS TOO SMALL

   a. Too small for problems? Problems do not confine themselves to the mighty, every business has them. Not having problems is a problem in itself!

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b. Is management too small in its thinking not to desire greater profits? We can raise your sights to an attainable goal.

c. Think about it a minute; I'm sure you'll agree that there is room for practical ideas and improvement in any company, regardless of size.

d. Balanced against the benefits you will get, the investment in Consulting Services is certainly small.

e. Is your company too small to increase its profits?

f. All the more reason profits should be enlarged.

g. I can certainly understand the way you feel, most business people in your industry feel this way, but how many employees do you have, and what is your volume? Do you know that we have worked for businesses with as few as five employees?

h. All businesses have basically the same problems, whatever the size.

i. We specialize in medium to small sized businesses, and we have the knowledge and experience which you can take advantage of.

j. Do you want your company to stay small or would you rather have the satisfaction of seeing it grow, surpassing your initial goals.

k. I don't agree, because for you, this should be the biggest company in the world.

l. You hope your business will grow. Many small firms use us to help plan for an orderly growth pattern.

m. Small business people like you can't afford the luxury of even the smallest problem. Because you are small, any loss will severely deplete your working capital.

n. Even in a large company, we break it down into small departments in order to more advantageous analyze and improve the operation. Only in building small parts right can the whole be right; so we are acquainted with problems in small areas.

3. WE HAVE OUR OWN GROUP OF CONSULTANTS THAT DO THE WORK YOU DO.

a. Your consulting staff is on your payroll, controlled by your company policies and they are inclined to express only management's viewpoint.
b. How effective is your Consulting Department? When did you last check your Consulting Department?

c. This proves you are interested in progress and improvement.

d. You say you have problems. How long have you had these problems? What are you doing about these problems?

e. Are the consultants on your staff going to criticize their own people? Besides, how long has it been since you checked them?

f. Since we aren’t financially or emotionally attached to your business, we are in a position to be completely objective in our analysis of your business. This will be to your advantage because it will be a crosscheck on what you are already doing to make sure you have all the bases covered.

g. Exactly what are the duties performed by your consulting department.

h. There is no harm in having a checker check the checker, is there?

i. We are not related financially or emotionally. We have an outside viewpoint, a new pair of eyes to blend our ideas with yours and others objectively.

j. Do you think a large auditing firm makes their own annual tax statements or fiscal reports?

4. **THIS IS OUR PEAK PERIOD AND WE’RE TOO BUSY AT PRESENT**

a. That is when you will get the most benefit, as this is when you handle the greatest part of your volume and make your profits. It is also where you experience your greatest losses in the areas that are losing money.

b. My company’s experience proves that problems are more evident and more advantageously corrected when you are operating at peaks, but are too busy to do anything about them.

c. The better to see how your personnel operate under stress and strain.

d. Now is the best time to measure; when you are putting the most effort into your business. Wouldn’t you like to measure its effectiveness?

e. This is the time when more dollars are flowing through your business and you are so busy that you don’t have time to watch for waste or losses, which you and I both know are occurring. This is an ideal time to fix the problem.
f. You have subordinates already trained in supervision, but in most cases are too busy with production to see and correct the costly waste of time and material.

g. It’s not good to try to resolve your problems when all your people are on vacation for example. I don’t think you would be too interested in the results.

h. There is a greater flow of money during this period than any other period. You make more, and by the same token, lose more, during this peak period.

i. The stress of peak periods is the time when any weakness in methods, controls and procedures show up like sore thumbs.

j. More of your methods, controls and procedures are readily exposed and available to ensure a thorough analysis during peak periods.

k. Our Consulting Services staff will require very little of your time, but will, at this busy season, see more of your problems than at any other time.

l. All the more reason you should be interested because you are probably wearing many hats.

m. When would be a better time?

5. WE’RE ONLY OPERATING AT ABOUT 25%. A PICTURE OF OUR COMPANY NOW WOULD NOT BE A FAIR ONE.

a. That would be to your advantage. You and your key people would be able to give more attention to our ideas.

b. We would be better able to train your key people in any new procedures before you return to full production.

c. Any improvements that would be made in your operation at this time would be more beneficial when your business increased.

d. This is the time when your costs are the highest.

e. Wouldn’t you be interested in increasing your activities so your year will have more peaks than valleys?

f. During your low period is the best time, now is the time you are planning for your peak period.
g. That will allow more time for you to devote to correcting the problems.

h. This is the best time to take a good long look at your business from a professional vantage point, and evaluate it so that you will be in a better position than your competition for your busy season.

i. This is the time to initiate any corrective measures gained from the records of past peak seasons in order to avoid costly errors in the future.

j. Good business practice dictates an efficient use of the time now at your disposal.

k. That is why I’m here. You have the time to adjust to your problems and it will be more beneficial to you when business picks up.

l. You would have more time to pick our brains.

m. You have a greater opportunity to allow more time for analysis. You will be able to take better advantage of our recommendations when production increases.

n. Perhaps we can develop ways and means to utilize this idle time in other profitable endeavors.

o. This is the perfect time. Maybe we can make the peaks and valleys of your business shallower.

p. This is the time when your costs are the highest.

6. OUR BUSINESS IS DIFFERENT THAN ANY OTHER.

a. The fact that every business is different is what keeps us in business, otherwise you would be able to go out and buy standard procedures for operating your business.

b. We develop a program tailor-made to fit your business.

c. We determine what you should expect from your business and show you how to attain this goal.

d. Have you ever seen two businesses that were not different?

e. You are in business to make a profit, or aren’t you? We deal mainly with the cash management and administrative policies of your business. That’s where businesses are alike.

f. Are your basic problems any different from any other businesses?

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g. Every business is different. Every business executive is different. You are in business to make a profit and we may have the recommendations, which will increase your net profit, which is why we run a survey to find out how they apply to your business.

h. Technically every business is different, but basically they are the same. They need management, sales, accounting, etc. To produce good products or services you need the best in tools, machines and employees, so why not have the best in management tools?

i. You're right, your business is different. This is an analysis of your unique business.

j. No two businesses, even in the same industry, are alike. It often depends on the person who occupies your chair.

k. The technicalities of your business may be different, but you have one thing in common with all types of businesses; namely, the flow of funds.

l. Your problems are related to “what you want from your business”, and we have to help you define “what” is preventing you from getting what you want and then determine how you can get it.

7. WE KNOW MORE ABOUT OUR BUSINESS THAN YOUR COMPANY COULD EVER KNOW.

a. You should, it’s your business; you live with it. What you should have is an outside viewpoint from an impartial organization that will diagnose your business objectively. You may be too close to the forest to see the trees.

b. I agree wholeheartedly with you. You are an expert in your field. You need to complete your expertise by having the management tools you need to make the right decisions at the right time.

c. We are only interested in two things: money coming in and money going out, and to develop ways that will show you how you can hold on to more of it.

d. You do not have the management tools you need to control your investment.

e. And we know more about ours than you do. This is how we blend for mutual benefit.

f. You should know the technicalities of your business. However, we deal with those areas that you and most other small to medium size business owners don’t know; cash control
and management, personnel management, paper flow, improved procedures for greater efficiency.

g. Of course you know more about your business than anyone else, and you are obviously a very successful businessperson. Our purpose is to add to the knowledge you now possess, to see how many more dollars can stick to the ribs of your business.

h. With the changes in competition and economics today, the only experts are really specialists. We are specialists in business management.

i. You are right, but are you adverse to new ideas? We know our business better than you do. Now, what we offer is a happy marriage of your thinking and ours.

j. If you didn’t know your business, you wouldn’t occupy this office. Do you believe your business is perfect?

k. Many times we have found that the head of the business is a real genius in running the operation in certain areas, but we make recommendations for the other areas of the business that are not so well run.

l. I think you’re referring to the technicalities and frankly, we are not too interested in them. What we are interested in is your investment dollar and the cycle it goes through, but more important of all is the net return on your investments.

m. I am glad you said this because the people that know their own business well are better able to judge and appreciate our findings and recommendations.

8. WE RECENTLY HAD A SERVICE JUST LIKE YOURS.

a. Just what kind of service was it? How effective was it? Don’t you agree that two heads are better than one?

b. Who checks the checker?

c. What kind of service did you have?

d. Have you ever broken a glass in the kitchen sink and thought you had cleaned up every fragment, then a little later on your wife or daughter cuts her finger badly on some of the pieces you missed? Although you have had a survey, isn’t it possible that some fragments were missed? How much better would you feel if you positively knew that everything had been taken care of?

e. Who was that? Good, that shows interest and belief in what we do.
f. Is that right? What type of service was it?

g. What recommendations for improving specific areas in your operation were made?

h. What kind of service? Just like ours? Many firms employ 2 or 3 consultants to cross-check. Surgeons almost always recommend a consultation.

i. Other firms have attempted to duplicate our service, but we have stood the test of time as no other firm of our kind.

j. Sorry, there is not a business just like ours; any more than there is one just like yours. Ownership and management make the difference. We are unique because we specialize in the problems of medium and small businesses and have the most experience.

k. Experience is the sum of the mistakes we’ve made, and success is the utilization of that experience along with an open mind.

9. WE HAVE A UNION AGREEMENT THAT CAN’T BE TOUCHED. IT’S NO USE.

a. How long have you had this problem? Have you thought of changing this problem to your advantage?

b. You have some real pros working to increase your costs. Don’t you think it’s time you have a pro working to increase your profits so you can afford the unions?

c. The union can only set job rates. They cannot run your business. To be really competitive, you need the most up-to-date methods of selling, estimating, purchasing, etc. These are functions of management and we are aware of all the latest trends.

d. You have pros increasing your labor costs, now how about some at decreasing your other costs.

e. We cannot change your union agreement, but we can make recommendations to reduce the problem. We’ve developed answers for these problems. It’s a matter of applying them after the survey.

f. Your competition has the same problem. We find other areas and ways for you to stay ahead of your competition.
g. How much of your outgoing dollar is actually in labor? Usually it is 10% to 40%. Assuming you are right in that we cannot do anything about your labor problems, how about the 60% to 90% of your business which doesn’t have anything to do with your union problems?

h. Labor agreements do not have to be affected when considering increased profits. You should be able to work within the context of union contracts and still make a significant difference to the bottom line.

i. Any improvements that would be made would be beneficial to labor in that job security largely depends on a profitable, successful operation.

j. Your unions or the prevailing wage rates in the area will dictate what you pay your people. Your competition will govern to a degree, what you can get for your products or the services you render. Your operation costs continue to rise (additional unemployment payments, additional Social Security payments). The additional operating costs either have to come out of the profits or out of the fat of the operation.

k. You have some real professionals working to raise your costs. I am going to figure out where to reduce them.

l. What percentage of your outgoing dollars is in people? (Usually it is 10% to 50%.) The worst thing that could happen is we could only make recommendations for areas that do not concern the union (usually between 70% and 90%).

10. OURS IS A JOB SHOP, NO PRODUCTION ON ANY ONE ITEM. WE DON’T HAVE TWO JOBS ALIKE.

a. I am glad you said that, but you still have estimating, pricing, inventory, shipping and indirect labor functions, all of which have a direct effect on costs and profits.

b. In the first place, you are thinking of our service as purely labor and production. Why not consider other management functions such as organization, policies, facilities, methods and personnel. And how about sales?

c. Doesn’t this mean that trial and error on costing can lose you jobs and profits?

d. The basis of your business is still the same. What kind of control do you have on your dollars?

e. You plan, buy, stock, produce, price and deliver, don’t you?
f. No two jobs are alike. This means you have to bid for these jobs and you can’t tolerate errors in production. Reduced costs would make you more competitive on the job.

g. Job shops constitute a share of our total business. You are being squeezed between low prices per product and high costs; you need to learn the answers.

h. Global Resources is a job shop. Every one of our jobs is different too.

i. Neither do we, every business is different. However, the motive is always the same – profit. We are specialists in profit consulting.

j. When you make this statement, you are probably thinking of the technicalities of your business and frankly, we are not too interested in this. What we are interested in is money coming in and money going out and a satisfactory return on your investment.

**11. OUR PEOPLE ARE ON PIECE RATES NOW, THAT IS OUR LABOR CONTROL. YOU CAN’T DO ANYTHING FOR US.**

a. You are thinking only in terms of production and labor.

b. We have found piece rates in many cases to be inequitable to both labor and management; they need to be equalized.

c. Your only control is the dollar paid labor per piece. What about controlling the flow of material, the direct expenses and use of overhead?

d. Workers satisfied with lower pay, which results in high overhead, slow good workers down.

e. Piece rates do not readily lend themselves to production planning or job timing.

f. Do some of your piece rate people make more than others? It would be to your benefit to bring up the short ones.

g. You are only talking about one phase of your business. There are many different areas of your business that you are not mentioning where there are problems. We bring this to your attention through the analysis.

h. If you received an order which your present facilities could not handle would you have to add machines and people? By increasing the production of your present labor force you could handle more orders with the same equipment.
i. Your overhead costs can be lowered when piece rate workers are motivated to higher production.

j. With your present operation and productivity, additional business would require more machines and people and take up more space. Your volume is increased but so are your costs and your ratios will stay the same. We can suggest the ways and means to get more out of your present staff.

k. Oh really? I would think that would mean more problems rather than less.

l. That isn’t quite right. You want more productivity and utilization of personnel and machines in your business. We have the answers, but we must conduct the analysis to find out how to apply them.

m. Your overhead remains the same. Have you ever considered how much more net profit you would make if production costs were decreased by 5%, 10% and 20%.

12. YOU HAVE NEVER WORKED FOR A COMPANY LIKE OURS.

a. Every company we work for is different. At this point in time, we have worked in over 3,000 different types of businesses.

b. Fundamentally, your company is no different than any other company; you’re in business to make a profit.

c. We are not interested in the technical side of your business. We are only interested in the invested dollar as it progresses through the business cycle.

d. Oh, I thought you planned, bought, stocked, produced, priced and delivered. That is the side of the business we are talking about.

e. On a non-technical basis, what do you feel is so different about your business? You buy, you sell, you inventory, and you produce, don’t you? Then what is so different? This is what we deal with.

f. All companies are basically the same. It is only people who make the difference; ambition, personalities, etc.

g. No two businesses are alike. The person who sits in your chair is often the difference.
h. We work for and help any company that wants to improve profits. Do you want more profits?

i. You may be right, but if everyone felt the same we would be looking for our first job, and for that matter so would you.

13. SEE ME IN SIXTY DAYS, WE CAN GO INTO THE MATTER MORE THOROUGHLY THEN.

a. If you felt seriously ill, would you put off a check-up for 60 days?

b. Why wait 60 days to attain the benefits you should be getting now?

c. If for example, I could show you how to increase your dollar volume 20%, would you ask me to come back in 60 days?

d. If I were to offer you this $100.00 bill, would you ask me to come back in 60 days? What will be different in 60 days?

e. It’s like the old saying; “Put off today what you can do tomorrow.” Is this how you run your business? We don’t and that is exactly why I am here today.

f. You will say the same thing in 60 days. You mentioned your main problem was ________________ (state problem).

g. Every problem has a dollar sign on it. After the Survey you can decide if you can afford to wait 60 days.

h. Every problem you have mentioned is costing you money. Trouble is nobody knows just how much. Why continue to lose money for another 60 days?

i. Would you turn down the new Chrysler out there if I offered it to you now? By the same token, if we can show you savings representing considerably more than the value of that car in the next six months, would you turn it down?

j. Do you really want to put off gaining more profits? Why?

14. WE’RE SATISFIED WITH THE PROFIT WE’RE MAKING NOW. WE DON’T NEED YOU.

a. One is hardly ever satisfied with the money they are making or at least they shouldn’t be.

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b. What are your assurances that you will continue to make money?

c. You are probably too self-satisfied. Complacency has destroyed more prosperous companies than any other business disease.

d. Are all of the departments in your business making money or don’t you know?

e. I wonder how many employees would reject an increase in earnings.

f. Are all the principals of the company as satisfied as you?

g. What measures have you taken to assure good profit in the coming years? What happens if your market falls flat? Have you prepared for this contingency by looking into any other areas?

h. Are your employees satisfied? If we can increase your profit, give it to your employees.

i. What else do you want from your business?

j. When you first started this business, profit was what kept your mind busy, your family fed, your employees paid. Now that you have gained profits, what other goals have you set for yourself.

k. What else do you want out of your business besides profit?

l. There is no such thing as a perfect business. You had to work hard to get where you are, let us help you grow and continue to show a better profit picture.

m. A successful company never stands still, it moves either up or down. Let us help you keep everyone on their toes and tighten the grip you have on SUCCESS.

n. One should never be satisfied, complacency invariably sets in.

15. I’LL HAVE TO TAKE THIS UP WITH MY BOARD OF DIRECTORS, OR LET ME TALK THIS OVER WITH A COUPLE OF MY ASSOCIATES, ONE OF THEM IS ON VACATION.

a. Do you need the approval of your Board of Directors to make a petty cash decision?

b. You will have nothing to discuss with your Board of Directors until after Consulting Services produces an action plan.

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c. Would you like to discuss this with some other officers of your company at this time? Is he/she here now? Let’s discuss it together.

d. With your permission, I would like to discuss my findings with your Board of Directors.

e. Do you consult with other people before you make command decisions or do you usually make these decisions yourself?

f. You are more aware of the problems of your company than anyone else. If some of these problems are not solved immediately, they may seriously hurt this company. Problems do not solve themselves; someone has to take action. I am sure your directors or associates will commend you for taking immediate action.

g. You can make a decision on this. After Consulting Services has put together an action plan, you and the Board of Directors will have something more tangible on which to base a decision.

h. Doesn’t your Board of Directors expect the Chief Executive Officer to make petty cash decisions?

i. If you discuss this with your Board, you are only asking for an opinion. Isn’t it better to go to them with a set plan rather than to just take an idea?

j. If there’s one thing your Board expects of a Chief Executive, its answers, not questions.

k. What do you have to discuss with your Board at this time? When we show you concrete recommendations and solutions for improvements in your company, then you will have something to discuss with them.

l. The decision that your Board will want to make is “What are you going to do about the problems?” On your own, why don’t you let us come in now and find out what all of your problems are, and then help you point out to your Board how much actual net profit will result in their corrections?

m. I may be wrong, but isn’t this a convenient way of delaying action?

n. Do you trust your partner or associate? (The answer will probably be “yes”) Now what is the real reason you do not want to air your problems? Does he/she trust you? (If the answer is “yes”, then…) What is the problem? (If the answer is “I hope he/she does” or “I don’t know”…) Let’s find out.
16. **YOU CAN’T HELP US. OUR PRICES ARE SET BY OUR COMPETITION. WE CAN’T DO ANYTHING ABOUT IT.**

a. Your prices may be set by your competition, but your costs are not.

b. This is your chance to become the competition of your competitors through better management procedures.

c. With better management facilities you will be the one establishing the prices in the industry.

d. Do you have a pricing policy, or is it guesswork?

e. Someone in each industry sets the price, don’t they? The more you know about the business, and improved methods and techniques, the more likely it will be you.

f. Are you giving up or are you trying different methods to overcome your competition? This is the purpose of the analysis. Try our methods of approaching the problem.

g. What about the rest of your business; waste, rising costs, production, etc.? These all determine how well you can face the competition.

h. Your competitor must know something you don’t know. Let’s make an analysis of your business so you can be more competitive and you may be in a position to be the leader in your industry.

i. How do you know that your competitors, who may be more financially able, are not trying to lower prices in order to force some of the competition out of the market? With additional know how you would be in a better position to hold the line, and even have a jump on the competition when things come back to normal.

j. Does your competition set your other business methods and processes?

k. Quit playing follow-the-leader. Competition is not between products and services, but between management. Which company has the better management?

l. Really? What do they know that you don’t know?

m. Competition doesn’t set prices, consumers set prices. Then it’s a matter of management utilizing methods, good and bad that makes or loses money.
17. OUR BUSINESS IS DOWN AND THE ONLY MARKET FOR OUR PRODUCTS JUST ARE NOT BUYING. YOU CAN’T HELP US.

a. How do you know you are doing everything possible to get the lion’s share of the business available?

b. Your market may not return for years. Have you given any thought to new products or services?

c. How strongly are you pushing those of your products that are not affected by this downturn in business?

d. Have you given any thought to new markets, new customers or possibly re-styling or repackaging your products?

e. Have you ever had research conducted to determine your available markets?

f. What methods have you used to find out how much of the market you have? Is it really as low as it seems? Let us look further for you.

g. Are you exploring every possible avenue?

h. Have you ever considered diversification?

i. Never was it more important for you to make sure your methods, controls, and procedures are operating as efficiently as possible, so that you can make as much profit as the market will allow.

j. What are your plans? Do you intend to stagnate and die?

k. Have you ever had an outsider analyze your position for the possibility of deleting some of the items that are not selling?

l. That’s the reason I’m here. People in your industry are calling us in to determine the best way to ride out the storm without being washed up on the rocks.

m. This is a perfect time to have Consulting Services in; we may be able to show you how to put a new wrapper on an old bar of soap.

18. WE NEVER LET OUTSIDERS IN OUR PLANT BECAUSE OF A CERTAIN SECRET PROCESSING WE HAVE.

a. We are not interested in the technicalities of your business or its secret processes.

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b. I wish to remind you that every employee in our organization is bonded for $2,000,000, but more importantly, our interest in our reputation is your insurance that all confidences will be respected and maintained.

c. We are interested in increasing your profits, not in looking at your secret processes.

d. We are not interested in the secret processes, but in the way that these processes are working for you. Are they making you money? Are you using them to the fullest potential with the greatest return for your money?

e. We will analyze only the areas you designate.

f. What other facets of your business are conducted outside of your plant area?

g. There is no need for us to become involved with your secret processes. We are only interested in how you are controlling what you are doing.

h. We could care less about secret processes. We’re only interested in following the dollar through the business cycle.

i. What good are your secret processes if they don’t return a profit? The profit structure is what we are interested in.

j. Are your accountants and lawyers on the Board of Directors of businesses directly associated with your business?

k. May I remind you we are bonded?

19. I KNOW THE SURVEY DOESN’T MEAN ANYTHING, BUT AFTER THE SURVEY YOU CHARGE TOO MUCH.

a. It is premature to even discuss anything we would do for you after the survey. We haven’t decided to accept you as a client.

b. How can you say our fees are too much until after you have an understanding of how much it is costing you to run your business the way you currently do?

c. Our fees are irrelevant at this time, as we have not even decided yet whether we would accept you as a client.

d. What our fees are should not make a difference if you are going to benefit threefold.
e. What is too much?

f. You are thinking in terms of cost alone without considering profits.

g. First, we have to determine whether there is anything wrong with your business. Then and only then will we make recommendations to you.

h. I would certainly like to be your surgeon. If you had a pain in your stomach, you wouldn’t want me to operate without giving you a physical examination. The Survey is a physical examination of your business; you may not require surgery.

i. If you will recall at the beginning of our conversation I said, “I will check your operation from the front door to the back door, from the floor to the ceiling. When something is found that affects your volume, your profits, or is below standard, I will check to find out why, how it is affecting your business, and what you should do to correct or improve it and what the investment would be. The most important aspect is how much you would gain in additional net profits or benefits in the next year when it is corrected. You mean to say that “doesn’t mean anything?”

j. Our work never costs. It pays for itself and more; it is an investment.

20. I’VE BEEN OFFERED FREE SURVEYS AND I CERTAINLY WON’T PAY YOU TO DO ONE FOR ME.

a. You may have received a free survey, but you probably didn’t get anything from it either.

b. You would not be interested enough in the results of the survey if it were free.

c. We are not in business to give free surveys. What do you give away free.

d. What will you gain from a free survey? Who will conduct it?

e. No business gives anything away free without a catch. They’d be out of business.

f. Something for nothing is usually more expensive.

g. You say you have been offered a free survey. Why didn’t you accept? Were you afraid there might be some catch in it? When we conduct a survey there are no catches because we deal in the facts of your business and charge a fee.

h. What was the worth of anything you received free in your life?

i. You get exactly what you pay for.
j. They must know what their product is worth.

k. A free survey would carry with it a stigma of further obligation on you to buy, whether you felt you wanted to or not.

l. Have you ever received something for nothing?

21. SEND ME SOME REFERENCES FROM SIMILAR COMPANIES SO I CAN CONTACT THEM.

a. I can give you our testimonial DVD at this point, which we use for general references, so as not to bombard our clients with calls.

b. We don’t have a “laundry list” of references due to our confidentiality bond.

c. We could give you plenty of references, but they would all be good, and consequently be of no value to you.

d. You did agree that every business is different. So there is not another business in the world like yours. You are the best judge to know “what you want”. You will be your own reference.

e. If I gave you a reference this minute, would you make a decision?

f. Our professional reputation is at stake when we work for you; we are bound by strict confidentiality.

g. The nominal cost of our Survey gives you the opportunity to judge for yourself.

h. Every business is different. We conduct a Survey in the strictest confidence.

i. When we work for you, we don’t expect to use you as a reference. We keep everything about your business strictly confidential. I know you will be as pleased with this policy as our clients are.

j. If I gave you the best reference in the world, it wouldn’t do any good. In the end you still have to make up your own mind.

k. If I gave you a reference from someone you did not consider a good business person, how would that influence your decision?
l. Should I send you a good one or a bad one?

m. Why don’t you draw your own conclusion instead of accepting someone else’s?

n. Have you ever flown on a commercial airline? (in most cases, the answer will be “yes”). Then say, “Don’t you automatically assume that the professional people operating that multi-million dollar piece of equipment know their business, especially since they are carrying something more important than money – people. I’m sure you will find our professionals are just as competent in their field”.

o. It’s interesting that you trust someone else’s opinion rather than your own. Do you run your business the same way?

p. Before we accept you as a client, we may need some references from your vendors.

22. WE ARE NOT INTERESTED.

a. Our best work is done with management who knows how to run their business because they can see the benefit of what could be done.

b. We know that you know your business better than we will ever know it. We are another tool at your disposal to help you do your job better.

c. Your lawyer and accountant don’t know your business, but still render a real service to your business.

d. Your interest should not be directed towards the Survey, you should be focused on the problems that you are experiencing.

e. What part of the problems do you not understand?

f. You should repeat the problems given by the client and ask, “How can you not be interested if you have the problems you indicated?”

g. Just what is it that you are not interested in? You are in business to make a profit, aren’t you?

h. Well, I can certainly understand why, I haven’t even told you about what I will do or how it will benefit you and your company.

i. If you heard of or saw a machine or a tool that would increase productivity and pay for itself many times over in a short time, wouldn’t you be interested? That’s what we are, a management tool designed to bring the same result.

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j. Wouldn’t you be interested in how a trained, outside, impartial pair of eyes sees your business?

k. I don’t understand how you could not be interested in improving some phase of your business. Certainly you are proud enough of your successes up until now to make sure that it continues to grow and increase in value and prestige.

l. Certainly not. I haven’t told you anything of interest yet. Now if you’ll let me continue.

m. If you would tell me what part of your problems you are not interested in fixing, we can direct our Consulting Services department not to cover it.

23. NEITHER YOU NOR ANYONE ELSE IS GOING TO COME IN HERE AND RUN OUR BUSINESS OR TELL US HOW TO RUN IT.

a. We have enough to do running our own business; we don’t intend to run yours. We will, however, provide you with the tools you need to operate your business more effectively.

b. The technical areas do not appear to be where you are experiencing difficulties. It is the BUSINESS side of your operation that is the problem, and where we excel.

c. You have professionals providing you with legal and accounting advice, why not have a business professional advise you in those areas.

d. Wouldn’t you be receptive to ideas that we have acquired from aiding other companies in your field?

e. You misunderstood me; we do not have the facilities to operate your business.

f. We don’t tell you how to run your business, we provide improved methods and techniques so that you can control and manage your business. Do you have an open mind on new ideas? That is the purpose of the survey.

g. Over 85% of the business people we work for are successful because they recognize the value of our service and know how to use it.

h. Do all of your machines and tools run perfectly? If they don’t you have them repaired, don’t you? Well other phases of your business need to be repaired from time to time also.
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i. We never tell anyone how to run their business. We make recommendations designed for improvements.

j. Have you ever heard the old cliché; “Two heads are better than one?”

24. UNLESS YOUR CONSULTANT IS AN EXPERT IN OUR LINE OF BUSINESS, YOU CANNOT DO US ANY GOOD.
    a. We will send a consultant who is qualified.
    b. If we do not have an expert in your field, Consulting Service will not assign a staff person. What could he/she tell you that you don’t already know?
    c. Your company is full of experts in this field; you certainly wouldn’t want another.
    d. The Project Manager and staff assigned to follow me will appreciate your business with a fresh viewpoint.
    e. Our Consulting Services staff is trained to deal with management problems in your type of business.
    f. The staff we send into your business will be familiar with your size and scope. We select our staff very carefully for an assignment in your business. We do not select someone who will not be of any use to you.
    g. We are experts in what we know best, business consulting.
    h. If we sent an expert in your field, you’d have a tendency to commiserate with each other.
    i. Our staff is an expert in making recommendations for increased efficiency and profitability for companies like your own.

25. NOW IS NOT THE TIME.
    a. If you are ever to attain the benefits, NOW is always the time.
    b. Do you wait to get a toothache before you go to the dentist?
    c. If you are sincere in your desire to fix your problems, now is the time.
    d. When will there ever be a better time?

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e. If you can’t accept criticism, you’ll never find the RIGHT time.

f. You didn’t wait when you went into business, did you?

g. Do you have the roof of your house checked before the rain comes, or do you have enough pots and pans to take care of the leaks? Business is the same. A problem might be small now, but unless it is found and corrected, it will grow.

h. There is never a right time, but the clients who have proceeded say we should have been there, yesterday.
KEY EMPLOYEE INTERVIEWS – PURPOSE

Interviewing key employees allows the analyst to get inside information on the client’s business. Key employees will divulge the real problems of the business to the analyst, problems that the client is either unaware of, or too proud to discuss with the analyst.

Key employees are not only the senior executives or upper level management in a company. Key employees are also secretaries, bookkeepers, foreman and superintendents, salesmen, warehousemen, etc. Other key employees are also the people who have been with the company the longest and have seen everything that has gone on, no matter what those individuals’ duties may be. Key individuals to interview are also direct or indirect relatives of the client that are in the business, as well as the spouse of the client.

The analyst should never be adversarial to these individuals. They can be the analyst’s best friend. In many instances these people will actually get the GO for the analyst and sell the need for quick and rapid change to the client.

Successful employee, and other key individual, interviews will assist the analyst in creating urgency and remove all possible hedges before they become problems.

Questions for key employees: please refer to Employee Interview Questions.

Questions for spouse: please refer to Spousal Interview.

Questions for accountant, banker, attorney or other sphere of influence?
  1. What recommendations have you made to the Client to help improve his operations?
  2. What action has he taken?
  3. If no action taken, why not?

Additional sample questions follow.
KEY EMPLOYEE INTERVIEW QUESTIONS

First an explanation of the analyst’s position should be delivered initially to the employee, prior to the interview. All interviews should be done in a closed door environment if possible, so that the employee feels free to open up, without fear of someone hearing.

"I have been hired by _______ (owner’s name) to perform a physical on the business just to see if there is anything we can see from an outsider’s perspective of methods of improving the overall efficiency, productivity, and profitability of the business, in order to create a smoother running ship. My job for the company as an analyst is to put together a game plan that will guide _______ (owner’s name) from where the business sits today, to where _______ (owner’s name) aspires it to be in the future. When I put together these business plans it is important that I not only address the needs and concerns of the owner(s), it is as equally important that I address the needs and concerns of the employees involved in the business, because if it doesn’t benefit any of you, there is little chance of you wanting to follow it. Your name has come up as one of the key employees, I was simply hoping I could ask you a few questions pertaining to your perceptions of what goes on in the business. I will need you to answer them truthfully and honestly. Don’t worry, what you and I discuss will stay between us. My bonding restricts me from disclosing any specifics of our conversations to anyone including _______ (owner’s name). So I would like you to consider this a privilege or opportunity for you to, not only make a difference for yourself, but also for all the other employees of the company that will not have the opportunity to speak to me. You are one of seven employees chosen from all the employees in the company to educate me on where the pain is so that I may have maximum effectiveness in helping your business. Do you have any questions for me before we begin?
KEY EMPLOYEE INTERVIEW QUESTIONS

1. How long have you been here? What is your job description? Who do you report to? (Very easy questions to get the employee talking and take their guard down.)

2. After being here for X amount of years, are you still enjoying your job? What do you like about your job?

3. What frustrates you or bothers you about what’s going on in the company?

4. On a scale of 1-10, with 1 being the worst and 10 being the best, I’d like you to rate for me the overall productivity and efficiency of the business, with respect to: Are people being used to the best of their abilities? Are we efficient at what we are doing, right from: going out and getting new and more profitable business, to estimating correctly, to scheduling efficiently, to the overall organization and communication... As an overall business, what would you rate this to be? (After the rating number is given, ask,) What is stopping the company from rating a 9 or a 10?

5. On the same scale of 1-10, rate the morale for the employees. (After rating number is given, ask,) What is stopping the company from rating a 9 or a 10?

6. If you were the ONLY owner in this company, what would you do differently or what improvements would you make?

*For questions 3-6, ask the questions repeatedly until the employee no longer has answers for that topic. (Example: “What else stops you from rating a 9 or a 10?” “What else?”, “What else is holding the company back?”)

*Generally, the aforementioned employee questions should generate a minimum of one page of commentary.
SPOUSAL INTERVIEW QUESTIONS

First explain to the spouse why you are here in a non-threatening manner. They often have no idea the survey was going to take place. The interview should take place preferably on the first day; always before the preliminary findings. You should also institutionalize the spouse after the interview.

**It is also an ideal time to bring up the client’s lack of asset protection. Many spouses have concerns about this.

1. What do you like about being a business owner?

2. What is your perception of how the business is performing?

3. How has the business affected your family’s quality of life?

4. How has the business affected the relationship between you and your spouse? Between your spouse and your children?

5. How has the business affected the health of your spouse?

6. When was the last time you had a vacation?

7. What would you like this business to do for you and your family?

8. How much money have you put away for your retirement and for your children’s college education? Do you have a budget at home?

9. If anything should happen to your spouse, would you be able to run the business?

10. If you could be granted 3 wishes, what would they be?
COMPANY PLAN MEETING & RESEARCH CALL

The Company Plan meeting allows the analyst to take the client’s temperature. The Company Plan meeting will tell the analyst if he is in control, has credibility and has established urgency. It will also verify the focus of the survey, the problems that the client believes he has, and the cost of these problems.

A well-executed Company Plan Meeting will tell the analyst if the client has been listening to the analyst and allow the analyst to know exactly where he stands with the client. For this reason the Company Plan Meeting should not take place at the end of the day. The analyst will have no time to recover and recondition the client if a problem arises during the Company Plan Meeting that the analyst was unaware of. The meeting should be held a few hours before the analyst plans to leave the first day.

The Company Plan Meeting Research Call is a merchandising tool that gives the analyst another opportunity to condition the client. It will further hammer in the client’s problems and the cost of the problems without actually talking to the client but in the client’s presence.

Both the Company Plan Meeting and the Research Call give the analyst the opportunity to remove any notion that the client may have that the client can fix the problem himself. This then provides the analyst once again an opportunity to remove any hedges or excuses that may arise before they actually appear.

INTRODUCING THE FORMS:

The CLIENT’S GOALS Form, both personal and business related are given to the client after the Institutional. A business and personal Goals Sheet should be given to each owner of the business and any other perceived owner such as a spouse or child actively involved in the business, along with any other individual the client regards as a decision maker or mentor. Many times the client has been so entrenched in crisis management, putting out fires, day-to-day survival that the only planning that has been done is thinking about it. This may even be the first time the client has ever really thought about goals and definitely the first time they have been put on paper. Tell your client to write down their specific goals, long term and short term, business and personal.

No fluff, what do they want from, and where do they want to take the business and their life. On the right side, the client should indicate what specifically he has already done to achieve each goal. In the absence of any action, what specifically does he plan to do to accomplish each goal? Also helpful would be to write down a timeframe for each action.
THE MEETING:

If the Client has not completed the forms when the meeting begins, assist him in completing the goal sheet. The Client Goal Sheet should reinforce the focus of the survey. Accept each goal, and challenge the client on how he will accomplish each goal. Why does he want each goal? How much is it costing him not to have already accomplished that? How long has the problem (not having already achieved the goal) existed? If nothing is on the right side, then the client must acknowledge that he has done nothing and does not know how. If anything is on the right side, then CHALLENGE its completion. Why has it not been completed? Challenge the details and how that action will affect other aspects of the business. How long will that take? How will he do that? A lengthy discussion should be held on each point. Do not move on from one point to the next until the client agrees that he does not know how to reach his goals. If the client lists Global Resources on the right side as a solution to his problems, you must point out the fact that the analyst is not a solution to his problems. The survey only makes recommendations on how HE/SHE, the client, will fix his own problems. This is the ultimate takeaway!

THE CALL:

If possible, fax the goal sheets to your SSD before the meeting. When you first sit down with the client, pick up the phone and call for your Research Staff to be assembled. DO NOT ask the SSD if he/she received the goal sheet – the client will wonder why you are reading a document to the Research Department that they have in their hands. Start discussing each goal with the SSD and the unlikelihood that the goal will be achieved with the current deficiencies in the business. With multiple clients you may want to have separate meetings, if appropriate. For example, if there are two partners, they would probably not feel comfortable opening up in front of one another. Consider the fact that if you do not distinguish them as individuals, you may not discover the client’s true “wants”. When you call the Research Staff again, merchandise each goal stating that they are good goals. However, at this point they are unreachable because of the lack of management tools. State the impact of not accomplishing each goal in terms of both dollars and the client’s life.

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PROBLEM DEFINITION

The Business Survey included a financial review of the performance, a visit of the facilities, interviews with key personnel and an overview of the various systems, controls, documentation, procedures, checks and balance and management tools in place. The survey has identified several areas of concern:

LACK OF MANAGEMENT INFRASTRUCTURE

- No direction, no business plan, no marketing strategy, no "how to"
- Some Policies & Procedures in place, lax and inconsistent enforcement across company
- Lack of Standard Operating Procedures to ensure uniform execution
- Overhead allocation too rudimentary: volume basis only
- Lack of Capital investment decision-making tools: we fly by the seat of our pants
- Budgets based on historical assumptions, not market conditions
- Lacking management tools: cash-flow system, flash reports, departmentalized statements
- Lack of regular management meetings

WRONG ORGANIZATIONAL STRUCTURE

- Owners still at the controls and make all key decisions
- Lack of proper role definition and expectations
- President's job not getting done i.e. vision, direction, leadership, team building
- Wrong/lack of incentive systems:
  - Most salesmen are salaried
  - Dealer incentives lacking
  - Subjective bonus system
  - Management compensation not tied to performance
  - No incentive to increase customer base, focus on product
- Lack of delegated authority; Ownership needed on every decision
- Wrong labor mix; high O/T during seasonal peaks, keep personnel during low periods
- Lack of definition and expectations; low turnover, built-in complacency
- Some double standards and favoritism; different deal with everybody
- Multiple bosses; conflict

MANAGEMENT PROBLEMS

- Ownership here full time; because of internal pressure, unable to slow down and smell the roses!
- Unable to raise prices due to very strong competitive pressure
- Poor asset management; operating well below business capacity
- Diversification attempts not enough; still have most of revenues derived from block sales
- No Tax plan to minimize taxes and shelter assets; they are at risk.
- Equipment abuses raise maintenance costs
- Failure to complete transition from "mom & pop" to corporate culture
- No succession plan to ensure survival of the business; would not survive without current ownership.
- Product sales quality falls off when volume increases; we tinker with formula!
- Deteriorating equipment; don't have money to replace, high cost of repair
- Too much inventory and receivables; could almost eliminate debt with correct levels
- No TEAM; finger pointing sales to production
- NO ACCOUNTABILITY, NO CONSEQUENCES!
DEVELOPING PROBLEM COSTS

The activity of developing problem costs is a critical part of the Survey. It provides the client with a logical reason to consider making the corrections in the business. Most clients want results such as peace of mind, quality of life, reduction of stress, improved personnel relations, and fewer working hours. They must, however, make the decision to invest in consulting services based on some rationale. Problem costs give them a tangible reason, and when compared to the fees involved, they can justify the investment. One main reason the client will say “no” to proceeding with consulting is they don’t see the economic benefit in the “cost” they see with our fees. Clients will spend a dollar if they believe they will get at least two in return. The Sales Department and the Institutional mention a 2:1 return for every dollar they invest with our consulting services.

There are two types of problem costs. Soft costs are the ones used in the opening. They are based on what the client says should be occurring versus what is actually occurring in the business. Hard problem costing is the quantification done within the STS program. In either case, it is vital to get absolute agreement to the cost of the problem. The ideal is to get the client to agree that he is missing X amount of profit overall, and then to be able to “find it” through specific problem costing. By then solving the problems, the client will get “ROI.” Virtually every problem in a business has a problem cost associated with it.

Examples of problems and problem costing:

**Overall Profitability:** The difference between what the client is currently generating versus what they absolutely agree profit should be:

Profit should be 10%
Profit is 2%
Difference is 8 points X 1,000,000 (current sales) = $80,000

**Pricing:** if they do not know their true cost of business, they may over or under price, which leads to either lost sales or unprofitable or losing sales.

**Productivity:** Wages paid to employees who are less than productive is a large cost which is mostly correctable. Most clients have no way to measure the productivity of their people and they have no idea on how to improve it.

Ask the client what their current rate of productivity is. Is it 70 percent? 50 percent? 60 percent? Let’s assume it’s 60 percent. The acceptable standard for productivity is 85 percent. The difference between what is versus what should be multiplied by the total payroll (without benefits) is the problem cost.

85% - 60% = 25% X payroll ($500,000) = $125,000 = cost to the company in lost productivity.

**Overtime:** Overtime can at times be justified. However, often it cannot be, and it may even be taken advantage of. Productivity typically goes down with the increase in hours, so that is the problem cost.
Margin Mix: If they don’t know the how their different products or services contribute to their gross profit margins, they cannot develop meaningful marketing strategies. Further, they may have losing products by default (not design). Managing margin mix improves profitability.

Personnel Turnover: Employee turnover costs include the cost of advertising for new employees; the administration; employee training—both the trainer time and the new employee time; ramp-up time resulting in lower productivity; morale amongst all employees because of turnover.

Example:
Ad $500
Administration $100
Training for trainer and trainee: $1000 + $500 = $1500
Ramp-up time for new employee: 10% (non-productivity) X 40,000 (annual wage) X .5 (half year) = $2,000
Cost of turnover: 500 + 100 + 1500 + 2000 = $4100

Purchasing and Material Management: This includes how they buy materials—do they have centralized purchasing to get better pricing?; do they take advantage of cash discounts?; do they buy too much causing waste?; do they buy too little causing extra shipping charges?, etc.

Cash Flow Management: This encompasses minimizing debt (especially lines of credit); maximizing purchasing power by taking discounts; effectively collecting receivables. It is based on a system versus “checkbook style” or cash comes in and goes right back out. Good cash flow management makes managing cash flow far less stressful and it can add .5% to 1% to the bottom line:
.005 X 1,000,000 = $5000 to .01 X 1,000 = $10,000

Inventory Management: Excess inventory incurs many costs: cost of carry—borrowing to fund; administration costs; it’s subject to theft, obsolescence, damage; it creates space constraints, etc.
For example:
Acceptable inventory is 200,000; actual is $300,000
$100,000 X .05 (cost to fund additional inventory) - $5000
Note: Too little inventory can cause problems such as lost sales.

Billing Procedures: If billing isn’t timely, revenue can be lost, at least for a period of time.
Lack of timely billing tells customers the money is not important. It may generate disputes over the item being billed late.
Collection Procedures: Lack of effective collection procedures means the client acts as a “free bank” until the money comes in (absent a late fee). So for example, if they use a line of credit to offset uncollectible monies, the interest on the line of credit is the problem cost. Further, as collections get more aged, they get harder to collect. So for example, it may be deemed that receivables older than 90 days have a 40% chance of not being collected. 10,000 (A/R over 90 days) X 40% = $4000 problem cost (potential).

Quality Control: lack of good quality control can cause shipping and production delays, it can create rework, it can lead to lawsuits, and it can cause lost customers.

Incentives: Good incentives cost a company nothing and improve profit. They are based on above and beyond planned for profit or cost savings they wouldn’t otherwise have. Example, if the client targets 10% net profit, and through everyone’s efforts they come in at 11 ¾%, that 1 ¾ points is a vehicle for sharing: some for the company, some for the employee, some for the owner. Effective incentives can add as much as 2 points to a company’s bottom line.

Compensation not based on profit contribution: This is especially (potentially) problematic for salespeople. If they are compensated based on the sale, what is the motivation to make a profitable sale? If salespeople are paid a salary, or if their base is too high, what is the motivation to sell at all?

Training: lack of training can lead to lost productivity, errors, rework, etc.

Communication problems: This can lead to things slipping through the cracks, to duplication of effort, to morale issues, etc.

Safety: Lack of effective safety can lead to worker injuries, lost time and higher insurance rates.

Scrap/Rework/Waste: Most companies will say that 2% of sales is an acceptable amount of scrap/rework/waste. Let’s assume they are running at 4% of sales. 4% -2% = 2% X 1,000,000 = $20,000.00 problem cost

Advertising: If a company does not measure the return on their advertising dollars spent, they are most likely wasting money.

Lost Customers: Lost Customers: Add up the costs to replace a lost customer/get a new one: marketing costs; commissions; administration; possible lower margins to “hook them,” etc.

Inability to grow: (no control at current level; low bid/award ration; not competitive; no funds, etc.)
Sales should be for example: 1,200,000
Sales are: 1,000,000
$200,000 X 10% net profit = $20,000 problem cost

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Not building business for value and salability: Each additional $1 of profit typically adds incremental value of between $3 and $10. Not having proven methods for making a profit makes it harder to sell. This is typically a long range problem cost. It is also a long range benefit to fixing the business and to maximizing profit.
OPTIMAL

The Optimal calculation represents the potential of the business. It is not used to determine the problem costs within the business. The Optimal is the combination of the best performance in each category over the last three or four years (or number of time periods you have to work with). If the business had performed at the best-performance levels all in the same year, they would have achieved the Optimal Net Profit. The Optimal is very effective with a business owner who has become complacent or discouraged about the business and thinks the business is performing at its best or can only do marginally better, say 2% better. It is important to note that the optimal calculation is “scientific,” in that it ignores reasons and excuses because it is based on the lowest percentage or best performance. It assumes an environment of “absolute control.” So therefore, if the owner had absolute control over the business, this is its profit potential.

Remember that this is the POTENTIAL of the business, not blue sky, and is certainly not to be used as the total dollars of problem costs you must identify. The Optimal represents the POTENTIAL of the business with controls. These are your client’s numbers, not yours. Your client can’t recover what he already lost. He can with controls make sure he starts achieving the maximum potential of the business. That may not be the optimal, but is certainly more than he has achieved in the past. Your job is to get him the help he needs to start maximizing the business. Remember! If he could have done it on his own, he would have.

The Optimal can be generated by the STS program, or it can be a manual exercise done with the client. It can be used towards the end of the first day to create urgency and give him yet another thing to think about overnight. Or, it can be used as a conditioning tool in the morning before the Preliminary Findings meeting or during that meeting. In other words, use it when it will be most effective.

To do this manually with the client, make a copy of the Comparative Detail Income Statement before determining the Optimal so you can get the client to do this himself with your help.

Remember, you are now looking at percentages, not dollars. Write 100% in the Sales row. Determine the “best performance” in the Direct Materials row. This will be the lowest percentage. Determine the “best performance” in Direct Labor, Subcontractors, and Other Direct Costs. Add the four Direct Costs and write that percentage in Cost of Goods Sold. Subtract the Cost of Goods Sold percentage from Sales, which is 100%, to get the Optimal Gross Profit percentage.

Determine the “best performance” in each indirect cost as well as in Admin Wages, Interest Expense, and Facilities Expense. Use the current Depreciation as the “best” percentage. Determine the “best performance” in Owner’s Salary. This is the only category that the “best performance” is the HIGHEST percentage since the owner of the business deserves to be
paying himself the largest percentage of sales he has paid over the time period being examined. Add all the categories to get Optimal Operating Costs.

Now subtract Total Optimal Operating Costs from the Optimal Gross Profit percentage to determine the Optimal Net Operating Profit percentage. This is the Net Operating Profit he would have achieved if he had done the best he has ever done, and did it all in one year.

Actual Owner’s Return: In each year add the Owner’s Salary PLUS the Operating Profit dollars and percentages. This is also called Total Ownership Return and is a truer picture of overall “profit” because profit alone is skewed by how much salary the owner takes.

Optimal Owner’s Return: Add the Optimal Operating Profit percentage plus the Optimal Owner’s Salary. Write that percentage in each of the years. Then multiply each year’s Net Sales by that percentage.

Loss Position: Subtract the Actual Owner’s Return from the Optimal Owner’s Return in each time period. If the Optimal is larger than the Actual, express this number without brackets. If the Actual is larger than the Optimal (which is rare) express that number with brackets. DON’T DO THE OPTIMAL EXERCISE IF THE ACTUAL IS GREATER THAN THE OPTIMAL.

Accumulated Loss Position: Add the dollars for each year in the Loss Position row and write that number with red marker. This number represents the dollars he missed by not controlling the business effectively in each category over the last four years. However, the client cannot recover what is already lost.

Further notes re the Optimal: to make this a credible tool, the logic behind it must be explained. If the profit potential is unreasonable, it may be qualified. You can say to the client...“this is perfect world—it shows absolute potential, and even if you started doing everything perfectly tomorrow, would you be this profitable? Possibly not. However, could you do half of this? If you started managing and controlling your business to maximize its potential, could you be fifty percent as good as this?
# Comparative Detail Income Statement

<table>
<thead>
<tr>
<th></th>
<th>2012 (12)</th>
<th>2011 (12)</th>
<th>2010 (12)</th>
<th>2009 (12)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$1,576,748</td>
<td>$1,511,481</td>
<td>$1,427,817</td>
<td>$1,084,938</td>
</tr>
<tr>
<td>Direct Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Material</td>
<td>$1,010,657</td>
<td>$837,554</td>
<td>$670,564</td>
<td>$444,932</td>
</tr>
<tr>
<td>Direct Labor</td>
<td>$241,634</td>
<td>$153,092</td>
<td>$105,730</td>
<td>$81,080</td>
</tr>
<tr>
<td>Subcontractors</td>
<td>$105,177</td>
<td>$124,151</td>
<td>$17,960</td>
<td>$12,400</td>
</tr>
<tr>
<td>Other Direct Costs</td>
<td>$3,461</td>
<td>$2,531</td>
<td>$1,034</td>
<td>$948</td>
</tr>
<tr>
<td>Total COGS</td>
<td>$1,273,929</td>
<td>$1,025,692</td>
<td>$795,188</td>
<td>$735,450</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$801,814</td>
<td>$286,789</td>
<td>$232,629</td>
<td>$247,488</td>
</tr>
<tr>
<td>Indirect Costs</td>
<td>$170,145</td>
<td>$166,032</td>
<td>$132,426</td>
<td>$111,163</td>
</tr>
<tr>
<td>Sales Salaries</td>
<td>$72,202</td>
<td>$52,100</td>
<td>$52,797</td>
<td>$49,540</td>
</tr>
<tr>
<td>Advertising/Promotion</td>
<td>$12,293</td>
<td>$5,850</td>
<td>$5,965</td>
<td>$6,456</td>
</tr>
<tr>
<td>Distribution and Transportation</td>
<td>$8,132</td>
<td>$7,856</td>
<td>$8,130</td>
<td>$6,121</td>
</tr>
<tr>
<td>Insurance and Benefits</td>
<td>$26,217</td>
<td>$29,560</td>
<td>$19,650</td>
<td>$16,290</td>
</tr>
<tr>
<td>Other Indirect Costs</td>
<td>$50,301</td>
<td>$50,666</td>
<td>$46,204</td>
<td>$33,156</td>
</tr>
<tr>
<td>Total Indirect Costs</td>
<td>$170,145</td>
<td>$166,032</td>
<td>$132,426</td>
<td>$111,163</td>
</tr>
<tr>
<td>Contribution Dollars</td>
<td>$191,669</td>
<td>$110,757</td>
<td>$100,203</td>
<td>$136,326</td>
</tr>
<tr>
<td>Fixed Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner's Salary</td>
<td>$45,000</td>
<td>$45,000</td>
<td>$43,250</td>
<td>$43,250</td>
</tr>
<tr>
<td>Admin Wages</td>
<td>$67,473</td>
<td>$52,656</td>
<td>$39,344</td>
<td>$30,765</td>
</tr>
<tr>
<td>Depreciation/Amortization</td>
<td>$6,756</td>
<td>$8,100</td>
<td>$13,393</td>
<td>$13,400</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>$18,082</td>
<td>$13,407</td>
<td>$7,916</td>
<td>$6,227</td>
</tr>
<tr>
<td>Facilities Expense</td>
<td>$30,058</td>
<td>$27,587</td>
<td>$27,464</td>
<td>$25,850</td>
</tr>
<tr>
<td>Unallocated Costs</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>$(88,038)</td>
<td>$(7,050)</td>
<td>$(6,087)</td>
<td>$(18,433)</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Income</td>
<td>$2,158</td>
<td>$1,310</td>
<td>$1,110</td>
<td>$0</td>
</tr>
<tr>
<td>Other Expense</td>
<td>$40,159</td>
<td>$5,023</td>
<td>$(1,200)</td>
<td>$(1,200)</td>
</tr>
<tr>
<td>Net Profit</td>
<td>$(45,700)</td>
<td>$(5,023)</td>
<td>$(1,200)</td>
<td>$(1,200)</td>
</tr>
</tbody>
</table>

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### Income Statement Optimization

<table>
<thead>
<tr>
<th></th>
<th>CURRENT</th>
<th>OPTIMAL</th>
<th>LOSSES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>$1,676,743</td>
<td>$1,676,743</td>
<td></td>
</tr>
<tr>
<td><strong>Direct Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Material</td>
<td>$1,210,457</td>
<td>$896,021</td>
<td>$314,436</td>
</tr>
<tr>
<td>Direct Labor</td>
<td>$214,334</td>
<td>$129,211</td>
<td>$85,123</td>
</tr>
<tr>
<td>Subcontractors</td>
<td>$45,177</td>
<td>$23,486</td>
<td>$21,691</td>
</tr>
<tr>
<td>Other Direct Costs</td>
<td>$3,661</td>
<td>$1,676</td>
<td>$1,985</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>$321,314</td>
<td>$420,660</td>
<td></td>
</tr>
<tr>
<td><strong>Indirect Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Salaries</td>
<td>$73,202</td>
<td>$63,000</td>
<td>$10,202</td>
</tr>
<tr>
<td>Advertising/Prom.</td>
<td>$12,293</td>
<td>$9,365</td>
<td>$2,928</td>
</tr>
<tr>
<td>Distribution &amp; Trans.</td>
<td>$4,132</td>
<td>$7,870</td>
<td>$3,738</td>
</tr>
<tr>
<td>Insurance &amp; Benefits</td>
<td>$26,217</td>
<td>$23,187</td>
<td>$3,029</td>
</tr>
<tr>
<td>Other Indirect Costs</td>
<td>$50,301</td>
<td>$60,301</td>
<td>$9,000</td>
</tr>
<tr>
<td><strong>Contribution Dollars</strong></td>
<td>$101,409</td>
<td>$148,899</td>
<td></td>
</tr>
<tr>
<td><strong>Fixed Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner's Salary</td>
<td>$45,000</td>
<td>$46,000</td>
<td>N/A</td>
</tr>
<tr>
<td>Admin Wages</td>
<td>$67,723</td>
<td>$48,484</td>
<td>$19,239</td>
</tr>
<tr>
<td>Depreciation/Amort.</td>
<td>$8,796</td>
<td>$8,796</td>
<td>N/A</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>$18,382</td>
<td>$9,864</td>
<td>$8,518</td>
</tr>
<tr>
<td>Facilities Expense</td>
<td>$30,096</td>
<td>$29,859</td>
<td>$236</td>
</tr>
<tr>
<td>Unallocated Costs</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>($30,020)</td>
<td>($19,663)</td>
<td></td>
</tr>
</tbody>
</table>

**Current Profitability**

($38,030) (2.4%)  

**Optimal Profitability**

$129,683 8.2%  

**Lost Opportunity**

$167,713

04/2013

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BREAK-EVEN ANALYSIS

Break-even analysis is used to determine the sales volume at which a company is able to cover all its costs without making or losing money.

WHAT ARE THE USES OF BREAK-EVEN ANALYSIS?
Break-even analysis is used to organize a business owner’s thinking on important broad features of business. It is especially pertinent when beginning a new activity, such as starting a new business, expanding an already existing business, or introducing a new product or service.

Other examples for using break-even analysis are; how much does a salesperson have to sell to cover his desk? How much production has to go through this machine to pay for itself? How low can I bid this job before I hurt my profitability? How much volume must this work crew produce monthly to be profitable? At what point in sales and time can I offer a promotion to move merchandise? And many more.

KEY FACTORS IN BREAK-EVEN ANALYSIS

The break-even point depends on four factors:

- The product’s selling price
- The variable cost of production, selling, and administration
- The semi-variable cost of production, selling, and administration
- The fixed cost of production, selling and administration

There are many methods to calculate break-even. The level of accuracy needed determines the choice of the method. As this level for accuracy increases, the method chosen becomes more complex until, finally, break-even is determined on a line by line basis. The complexity increases as the multiplicity of assumptions increases for the line items.

The simplest method is; there are only two types of costs represented on a particular Income Statement, fixed and variable.

Calculation:

Example 1: Jeffries Pipe

Annual Sales $1,575,743
COGS % 80.8%
Semi-Variable (Indirect) % 10.5%
G & A / Fixed Costs $177,945
Global Resources Training Manual

Simplest Method:

If Jeffries Pipe only had fixed costs then the break-even would be $177,945. However, that is not the case. For every dollar in sales the business makes it has to spend $0.808 for direct costs (Material $0.641 + Labor $0.136 + Subcontractors $0.029 + Yard Supplies $0.002 = $0.808 Cost of Goods Sold). Note, these are the percentages in direct costs. Obviously, 80.8% of $1.00 is $0.808.

Next, Jeffries Pipe has to pay an additional $0.105 for other items that change as sales are made. It follows, then, for each dollar in sales, Jeffries spends $0.913 ($0.808 + $0.105 = $0.913) to make the sale. That leaves $0.087 ($1.00 in sales - $0.913) to cover the fixed costs of $177,945. Remember, the fixed costs must be paid, no matter the level of sales. Therefore, each sales dollar leaves a little under 9 cents toward fixed costs.

The question then is: how many 9 cent bundles will Jeffries have to collect to pay the fixed costs of $177,945? In other words, how many times does $0.087 go into $177,945? That is the simplest form of calculating break-even and as such, the least accurate. However, the method will develop a conservative break-even point; that is, it will tend to overstate the break-even point. It is, however, a reasonable and fast calculation. $177.945/$0.087 = $2,045,345. Under this calculation Jeffries must sell $2,045,345 before he stops losing money.

Proof of calculation – “Mini” Income Statement:

<table>
<thead>
<tr>
<th>Break-even (B/E) Sales</th>
<th>$2,045,345</th>
</tr>
</thead>
<tbody>
<tr>
<td>COGS 80.8% X B/E Sales</td>
<td>$1,652,639</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$ 392,706</td>
</tr>
<tr>
<td>Indirect 10.5% x B/E Sales</td>
<td>$ 214,761</td>
</tr>
<tr>
<td>G &amp; A – Fixed Costs</td>
<td>$ 177,945</td>
</tr>
<tr>
<td>No Profit / Breakeven</td>
<td>$</td>
</tr>
</tbody>
</table>

BAS's method is a one level increase in complexity and will provide a much more accurate calculation.

In the Semi-Variable section of the Four Year Income Statement some of the line items change considerably as in the case of sales commissions, while others change little as sales are made, e.g. telephone. This section, then, is holding the accounts that have a fixed portion to them plus a variable portion. For example, sales people are often paid with a base salary plus a commission on the sale. The base salary is, of course, the fixed portion.
Example 2: Jeffries Pipe, splitting Semi-Variable (Indirect) Costs, half fixed and half variable.

Annual Sales $1,575,743  
COGS % 80.8%  
Semi-Variable (Indirect), 50% variable, 50% fixed  
50% Variable – 10.5% x 50% = 5.25%  
50% Fixed - $166,215 (current semi-variable) x 50% = $83,107  
G & A / Fixed Costs $177,945

To handle these conditions, Global Resources has chosen through years of experience, to use 50% as the split between fixed and variable in the Semi-Variable (Indirect) section of the Business Analytical Services Four Year Income Statement. Therefore, that makes half the costs fixed ($166,215 x 50% = $83,107). The fixed cost that must be covered has changed then to $261,052 ($83,107 + 177,945, the total Fixed (G&A) Costs on the Business Analytical Services Four Year Income Statement). This, then, leaves 5.25% (10.5% x 50% = 5.25%) as the variable portion in this section.

The story of Morris Jeffries has changed somewhat. For every dollar in sales he still has to spend $0.808 to cover his direct costs. However, he is now spending an additional $0.0525 (previous example was $0.105) to cover the other costs which vary with the sales. This means that now, more exactly, he is spending $0.8605 ($0.808 + $0.0525) for every dollar of stuff he sells. That leaves $0.1395 ($1.00 in sales minus (-) $0.8605 variable cost to make the sale) to cover the increased fixed cost of $261,052 ($83,107 + 177,945). There is just under 14 cents left after the sale to cover these fixed costs that must be paid.

The same question as in the previous example arises. How many 14 cent bundles will Jeffries have to collect to break-even? Or, how many times will $0.1395 go into the new fixed cost of $261,052? The calculation then is $261,052 / 0.1395 = $1,871,341.

Proof of Calculation:

Break-even (B/E) Sales $984,868  
COGS 73.0% x B/E Sales $718,954  
Gross Profit $265,914  
Semi-Variable – 50% fixed, 50% variable  
Variable 4.3% x B/E Sales $42,349  
Fixed Portion ($135,767 x 50%) $67,883  
G & A – Fixed Costs $155,682  
No Profit/Break-even $0

The Break-even Form calculates the Break-even percentage first:
To calculate percentages, total dollars must be divided. The above examples are actually using the percentages divided into dollars. The form’s method takes a short cut to expedite the calculation. Below is the example of Jeffries Pipe paralleling both methods.

Annual Sales $1,575,743
COGS % 80.8% or $1,273,929
Semi-Variable (Indirect), 50% variable, 50% fixed
  50% Variable – 10.5% x 50% = 5.25% or $83,108
  50% Fixed - $166,215 (current semi-variable) x 50% = $83,107
G & A/Fixed Costs $177,945
Loss - $42,346

Calculation:

First, establish the target:

<table>
<thead>
<tr>
<th></th>
<th>Total Fixed Cost to be covered at Break-even</th>
</tr>
</thead>
<tbody>
<tr>
<td>G &amp; A/Fixed Costs</td>
<td>$177,945</td>
</tr>
<tr>
<td>Fixed portion of Semi-variable amount</td>
<td>$83,107</td>
</tr>
<tr>
<td>Total</td>
<td>$261,052</td>
</tr>
</tbody>
</table>

Second, determine dollars (or percent) available from each sale left over to cover the total fixed cost above.

<table>
<thead>
<tr>
<th></th>
<th>Dollar per sale = %’s</th>
<th>Actual $’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Good Sold</td>
<td>$0.808 = 80.8%</td>
<td>$1,273,929</td>
</tr>
<tr>
<td>Cost of Variable Portion</td>
<td>$0.0525 = 5.25%</td>
<td>$83,107</td>
</tr>
<tr>
<td>Total Variable Cost</td>
<td>$0.8605 = 86.05%</td>
<td>$1,357,037</td>
</tr>
<tr>
<td>Sales</td>
<td>$1.00 = 100%</td>
<td>$1,575,743</td>
</tr>
<tr>
<td>Less: Total Variable Cost</td>
<td>$0.8605 = 86.05%</td>
<td>$1,357,037</td>
</tr>
<tr>
<td>Total left for Fixed Cost</td>
<td>$0.1395 = 13.95%</td>
<td>$218,706</td>
</tr>
</tbody>
</table>

It follows, then, having subtracted all the variable costs from Sales all that is left on the Income Statement is: Total Fixed Costs and Profit. The number remaining then, represents the Total Fixed (G & A) Cost plus (+) 50% of Semi-Variable (Indirect) Cost plus (+) Net Profit ($177,945 + $83,107 + ($42,346 loss) = $218,706). Therefore, in both methods Fixed plus (+) Profit (either percent or dollars) is divided into Total Fixed Costs. The same question is still being answered; what portion of what is left (% or $’s) will be needed to cover the fixed costs? The answer to the question is the Break-even Point.

Therefore:

Fixed $’s to be covered / $’s left to cover Fixed = Break-even %
OR
Fixed $’s to be covered / % left to cover Fixed = Break-even $’s.

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Continuing the calculation: $261,052 / $218,706 = 1.19 or 119% which is the same percentage in the above example of Jeffries Pipe’s current break-even calculation. The percentage is the percent of Sales that are needed to meet break-even.

**Calculation of the Breakeven Point**

First, breakeven should be defined. Breakeven is the moment that all the sales the business has made, exactly equals all the money the business has spent. Therefore, breakeven is that point where the business is neither making nor losing money. It’s a perfect money pass-through machine. The amount coming in equals the amount going out. It’s a tied ballgame. Obviously, breakeven is a target to exceed.

See Calculation:

There are many methods to calculate breakeven. The level of accuracy needed determines the choice of the method. As this level for accuracy increases, the method chosen becomes more complex until; finally, breakeven is determined on a line by line basis. The complexity increases as the multiplicity of assumptions increases for the line items. The simplest is: There are only two types of costs represented on a particular Income Statement, fixed and variable.
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Calculation:

Example 1: Jeffries Pipe (see page 6 for Income Statement)

Annual Sales $1,575,743
COGS % 80.8%
Semi-Variable (Indirect) % 10.5%
G&A / Fixed Costs $177,945

Simplest Method:

If Jeffries Pipe only had fixed costs then the breakeven would be $177,945. However, that is not the case. For every dollar in sales the business makes it has to spend $0.808 for direct costs (Material $0.641 + Labor $0.136 + Subcontractors $0.029 + Yard Supplies $0.002 = $0.808 Cost of Goods Sold). Note, these are the percentages in direct costs. Obviously, 80.8% of $1.00 is $0.808.

Next, Jeffries Pipe has to pay an additional $0.105 for other items that change as sales are made. It follows then, for each dollar in sales, Jeffries spends $0.913 ($0.808 + $0.105) to make the sale. That leaves $0.087 ($1.00 in sales - $0.913) to cover the fixed costs of $177,945. Remember, the fixed costs must be paid, no matter the level of sales. Therefore, each sales dollar leaves a little under 9 cents toward the fixed costs.

The question then is: how many 9 cent bundles will Jeffries have to collect to pay the fixed costs of $177,945? In other words, how many times does $0.087 go into $177,945? That is the simplest form of calculating breakeven and as such, the least accurate. However, the method will develop a conservative breakeven point; that is, it will tend to overstate the breakeven point. It is, however, a reasonable and fast calculation. $177,945 / $0.087 = $2,045,345. Under this calculation Jeffries must sell $2,045,345 before he stops losing money.

Proof of calculation - “Mini” Income Statement:

<table>
<thead>
<tr>
<th>Breakeven (B/E) Sales</th>
<th>$2,045,345</th>
</tr>
</thead>
<tbody>
<tr>
<td>COGS 80.8% x B/E Sales</td>
<td>$1,652,639</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$392,706</td>
</tr>
<tr>
<td>Indirect 10.5% x B/E Sales</td>
<td>$214,761</td>
</tr>
<tr>
<td>G&amp;A - Fixed Costs</td>
<td>$177,945</td>
</tr>
<tr>
<td>No Profit / Breakeven</td>
<td>$0</td>
</tr>
</tbody>
</table>

BAS’s Method, one level increase in complexity gives a great increase in accuracy.

However, adding one level of complexity will provide a much more accurate calculation. In the Semi-Variable (Indirect) section of the Four Year Income Statement some of the line items change considerably as in the case of sales commissions, while others change

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little as sales are made, e.g. telephone. This section, then, is holding the accounts that have a fixed portion to them plus a variable portion. For example, sales people are often paid with a base salary plus a commission on the sale. The base salary is, of course, the fixed portion.

Example 2: Jeffries Pipe, splitting Semi-Variable (Indirect) Costs, half fixed and half variable.

Annual Sales $1,575,743
COGS % 80.8%
Semi-Variable (Indirect), 50% variable, 50% fixed
  50% Variable - 10.5% x 50% = 5.25%
  50% Fixed - $166,215 (current semi-variable) x 50% = $83,107
G&A / Fixed Costs $177,945

To handle these conditions, Global Resources has chosen through years of experience, to use 50% as the split between fixed and variable in the Semi-Variable (Indirect) section of the Business Analytical Services Four Year Income Statement. Therefore, that makes half the costs fixed ($166,215 x 50% = $83,107). The fixed costs that must be covered has changed then to $261,052 ($83,107 + $177,945 the total Fixed (G&A) Costs on the Business Analytical Services Four Year Income Statement). This, then, leaves 5.25% (10.5% x 50% = 5.25%) as the variable portion in this section.

The story of Morris Jeffries has changed somewhat. For every dollar in sales he still has to spend $0.808 to cover his direct costs. However, he is now spending an additional $0.0525 (previous example was $0.105) to cover the other costs which vary with the sales. This means that now, more exactly, he is spending $0.8605 ($0.808 + $0.0525) for every dollar of stuff he sells. That leaves $0.1395 ($1.00 in sales minus (-) $0.8605 variable cost to make the sale) to cover the increased fixed cost of $261,052 ($83,107 + $177,945). There is just under 14 cents left after the sale to cover these fixed costs that must be paid.

The same question as in the previous example arises. How many 14 cent bundles will Jeffries have to collect to breakeven? Or, how many times will $0.1395 go into the new fixed cost of $261,052? The calculation then is: $261,052 / $0.1395 = $1,871,341.

Proof of calculation:

Breakeven (B/E) Sales $1,871,341
COGS 80.8% x B/E Sales $1,512,044
Gross Profit $359,297
Semi-Variable - 50% fixed, 50% variable
  Variable 5.25% x B/E Sales $98,245
  Fixed Portion ($166,215 x 50%) $83,107
G&A - Fixed Costs $177,945
No Profit / Breakeven $0

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Next to determine is the percentage of breakeven to the period’s sales. That would be done by dividing the breakeven amount by the sales - $1,871,341 / $1,575,743 = 1.19 or 119%. Note, the percentage is over 100%. This will always occur when the business has a loss because the loss states the business spent more money than it got, hence the loss and; therefore, breakeven was not reached.

This calculation is often compared to the breakeven potential. For the potential, use the Optimal/Potential calculation, it provides a detail explanation of the amounts.

Example: Jeffries Optimal (see page 6 for Income Statement)

Annual Sales $1,575,743
COGS % 73.0%
Semi-Variable (Indirect), 50% variable, 50% fixed
  50% Variable - 8.6% x 50% = 4.3%
  50% Fixed - $135,767 (Optimal semi-variable) x 50% = $67,883
G&A / Fixed Costs $155,682

Calculation:
First, establish the target:
  G&A / Fixed Costs $155,682
  Fixed portion of Semi-variable amount $67,883
Total Fixed Cost to Cover by Breakeven $223,565

Second, determine dollars available from each sale left over to cover the total fixed cost above.

  Cost of Goods Sold per Dollar of Sales $0.73
  Cost of Variable Portion of Semi-Variable $0.043
  Total Cost per each Dollar of Sales $0.773

  One Sales Dollar $1.00
  Less: Total Cost per each Dollar of Sales $0.773
  Total Amount Left Over to Cover Total Fixed Costs $0.227

Therefore; Breakeven $ are: $223,565 / $0.227 = $984,868
Breakeven % is: $984,868 / $1,575,743 = 62.5%
Days to Breakeven: 365 x .625 = 228 Days

Proof of Calculation:

Breakeven (B/E) Sales $984,868
COGS 73.0% x B/E Sales $718,954
Gross Profit $265,914

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Semi-Variable - 50% fixed, 50% variable
Variable 4.3% x B/E Sales $42,349
Fixed Portion ($135,767 x 50%) $67,883
G&A - Fixed Costs $155,682
No Profit / Breakeven $0

To calculate percentages, total dollars must be divided. The above examples are actually using the percentages divided into dollars. The form’s method takes a short cut to expedite the calculation. Below is the example of Jeffries Pipe paralleling both methods.

Annual Sales $1,575,743
COGS % 80.8% or $1,273,929
Semi-Variable (Indirect), 50% variable, 50% fixed
50% Variable - 10.5% x 50% = 5.25% or $83,108
50% Fixed - $166,215 (current semi-variable) x 50% = $83,107
G&A / Fixed Costs $177,945
Loss -$42,346

Calculation:

First, establish the target:

G&A / Fixed Costs $177,945
Fixed portion of Semi-variable amount $83,107
Total Fixed Cost to be covered at Breakeven $261,052

Second, determine dollars (or percent) available from each sale left over to cover the total fixed cost above.

<table>
<thead>
<tr>
<th>Dollar per sale = %’s</th>
<th>Actual $’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Goods Sold</td>
<td>$0.808 80.8%</td>
</tr>
<tr>
<td>Cost of Variable Portion</td>
<td>$0.0525 5.25%</td>
</tr>
<tr>
<td>Total Variable Cost</td>
<td>$0.8605 86.05%</td>
</tr>
</tbody>
</table>

Sales $1.00 = 100% or $1,575,743
Less: Total Variable Cost $0.8605 = 86.05% or $1,357,037
Total left for Fixed Cost $0.1395 = 13.95% or $218,706

It follows, then, having subtracted all the variable costs from Sales all that is left on the Income Statement is: Total Fixed Costs and Profit. The number remaining then, represents the Total Fixed (G&A) Cost plus (+) 50% of Semi-Variable (Indirect) Cost plus (+) Net Profit ($177,945 + $83,107 + $42,346 loss = $218,706). Therefore, in both methods Fixed plus (+) Profit (either percent or dollars) is divided into Total Fixed Costs. The same question is still being answered; what portion of what is left (% or $’s) will be needed to cover the fixed costs? The answer to the question is the Breakeven Point.

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Therefore:

Fixed $'s to be covered / $'s left to cover Fixed = Breakeven %

OR

Fixed $'s to be covered / % left to cover Fixed = Breakeven $'s.

Continuing the calculation: $261,052 / $218,706 = 1.19 or 119%, which is the same percentage in the above example of Jeffries Pipe’s current breakeven calculation on page 3. The percentage is the percent of Sales that are needed to meet breakeven.
PRELIMINARY FINDINGS MEETING

From the minute you walk on the client’s premises you are building for your Preliminary Findings Meeting. It is important that you discuss with your SSD what problems should be used for impromptu conditioning and what should be saved for Preliminary Findings.

Use the Management Self-Assessment or Matrix (Operational, Production, Contractors, and Sales & Marketing) sheets to be sure you have looked at every area of the client’s business. You can also use the “Problem” page. You should be giving the Matrix sheet and/or problem page to the client for homework the first evening.

Be sure all decision factors will be present and you have cleared the client’s schedule for several hours.

You should always start your meeting by stating “before we talk about what is wrong with your business…. Let’s talk about what’s right.” Briefly go over all the good things about the business. Next say, “Now we have to talk about what is wrong.”

The quickest way to get the client engaged is to go over some of the employee issues that you uncovered on the previous day. Explain to the client that he should set his ego aside, that he should not be upset with what he is about to hear, but happy that he has employees that care enough to want to contribute their thoughts. “Your employees did not voice their concerns or frustrations to hurt your feelings, they voiced them in the hopes of what making the business better.

You should have an outline detailing the problems you have discovered and the cost of the problems. Be specific. Some examples are the salary of the key people and even ownership. What percentage of their time is being spent on tasks that can be pressed down the organizational structure? If an owner is paying himself $100,000 a year and 20% of his time is spent doing clerical tasks that is a problem cost of $20,000. This should be done for ownership and all key men. Other areas to identify specific problem costs are in a machine shop; how many hours/days are the machines actually working versus what is their capacity. This works for trucking companies and any service company. Also look at accounts receivable and the over 60 and 90 day collections and their costs. Look at how purchasing is done and how the inventory is tracked. You can usually find additional problem costs. If their sales have declined or not grown at a reasonable rate (minimum 15% a year) that is also a specific problem cost.

You should prepare written notes for yourself listing the specific problems and the cost of the problems. You must get agreement to each problem before moving on to the next problem. The problem costs must be believable and real to the client. Remember the client’s financial information may not be real or he/she may be taking benefits off the top, so you must qualify the
validity of the information you are using. Problem costing should be started in the Opening Meeting with the client.

After going over each item you must pause and ask the client “What questions do you have?”

Along with preparing the outline and problem costs for your meeting you must prepare the “Key Recommendations/Benefits”. You can prepare this in an outline format for more sophisticated clients or simply list the tasks. Following this discussion are samples of “Key Recommendations/Benefits”.

The Preliminary Findings Meeting is a highly structured meeting that the analyst only enters when he knows that the outcome is destined to be a GO. Never begin this meeting if you are not properly prepared.

The Findings Meeting that follows a well run, hard, and thorough survey is not difficult at all. It merely ties together everything that has taken place up to that point, into one concise, clear, and very effective closing tool.

The Findings Meeting must never take place if you believe the client is in a negative position. At worst, it should start when the client is in a neutral position and preferably should start when the client is in a positive position. A well run Findings Meeting will cause the client to close himself; the analyst is merely the catalyst for change.

A well run Preliminary Findings Meeting begins by reviewing what the client wants and why the client wants it. During this meeting the client must become an active participant in the meeting. Do not put on a show for the client. Develop with the client the problems that are keeping the client from getting what the client wants. (Review the section in this manual entitled “Developing Problem Costs” to quantify the cost of the client’s problems.) Develop with the client how the problems are impacting the client’s business and personal life. Establish that the problems must be fixed. You do not have to cover every problem to get the GO. Each problem that you develop adds to the client’s temperature. When the temperature is right, close the client. Overkill can lose the GO just as easily as under kill. Trial close after each major problem discussed. The benefit to the client in the Preliminary Findings Meeting is the fact that the problem is fixed.

Problems are discussed in the following manner. “You do not have any money in the bank. Do you see this as a problem? There is no cash management program in your company. This is why you don’t have money in the bank.”

“Money comes in; you pay the bills and hope that there will be money left over. You can’t run a business that way. Does that make any sense to you? What is the working capital in your company? How much working capital should you have? Look at how you are collecting your receivables. You do not have a collection program that is effective. It is taking you 58 days to collect your money. Look at how you are paying your bills. You do not know when the money is spent. You have no P.O. system. If you have a bill and a delivery ticket the invoice is paid.

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Does that make sense? You don’t know if it was ordered or if the bill has the correct price. You don’t have a closed-loop purchase order system tied to sales activity and inventory turns. Look at your inventory turns that you are getting. Do you see these problems as problems? How are they impacting your cash? Do you understand now why you don’t have money in the bank? Do you think these problems should be fixed? If you fixed the problems, what do you see would change in your business?”

This type of discussion is how you obtain absolute agreement to a problem and the problem cost to the business. If you do not have absolute agreement, STOP. Do not go to the next problem. You must stay with each problem until total agreement is secured. Only then do you start with another problem. The problems that you are going to discuss with the client should be determined with your SSD.

The benefit in the Preliminary Findings Meeting is that the problems are fixed!

The well run Findings Meeting allows the analyst to put the client in a position of wanting to buy rather than the analyst having to sell. When the client is in this frame of mind, he will always allow Consulting Services to run the project its entire length, or further. In this situation, even though the analyst clearly benefits, the winner is the client, and the analyst has met all of his obligations to the client.

The analyst must always remember that certain elements have to exist for him to close a client; if they do not exist he will not be successful. To summarize, the elements are:

1. Client is the source of the problem.
2. There must be absolute agreement of the problems
3. There must be absolute agreement to the impact of the problems and the cost of each problem
4. The client must agree that the problems can be fixed and must be fixed

Agreement as it is used above does not mean a nod of the head or a simple “Yes, I agree.” The client must truly agree with what the analyst is saying. To make sure of this the analyst should ask such questions as, “What does this mean to you?” “How will this affect your company or your life?!”

When an analyst has all four of these components during the Findings Meeting, there should never be an instance when he does not get a GO. It is purely that simple.

Note: The Preliminary Findings Meeting should result in a GO-Ahead OR you break the meeting, gather more facts, and set-up another Findings Meeting to head for another GO-Ahead opportunity. You never try only once and give up. You should try as many times as possible and the only thing you should run out of is time. Keep in touch with your SSD.

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Another great tool to use at this point is “the Project Implementation Report”. After there is complete agreement to the problems, the costs associated with those problems, and the impact these problems are having, not only on the business, but the client’s personal life, take out this report. The analyst should have already highlighted the areas which need to be fixed. Hand the report to the client with a Sharpie pen and ask the client to circle those areas which HE believes need be addressed, and prioritized one thru ten, as an example. After he/she has completed this exercise, fax this document over to the SSD for review. This will allow the SSD to ascertain the client’s most important issues. The Analyst should then call for Research to merchandise these problems and allow the SSD, through the Analyst, to ask some pertinent questions regarding the client’s commitment level. This exercise gives the Analyst a reason to make a call to the Research Staff and further solidifies the client’s commitment to the project.

If you are getting agreement to the problems and the costs, call your Research Staff for the hours. If you are NOT getting agreement to the problems and the costs, call your Research Staff and they will help you get agreement. Work as a team. Don’t be a loner.

When the client agrees that they want help, complete the Form 88, the Working Agreement. Enter the job number, date and time for the start of the project, the number of hours, and the name of the project. Have the client sign and date it. Photocopy both sides and fax a copy of front and back to your SSD as soon as possible. Ask the client again if he/she has any questions. Gather all your papers and leave the client’s premises as soon as would be prudent. Prepare the binder, including your notes, and the Letter to the Project Manager. Place both the binder and the Project Manager Letter in a brown envelope and address it to Global Resources, LLC, 707 Skokie Boulevard Suite 600, Northbrook, Illinois 60062 and leave it at the front desk of the hotel of record. DO NOT tell the client where you leave the binder. Your SSD will give you further instructions.
KEY PROBLEMS

ORGANIZATION
No picture or vision for the future
No Plan – profit as residual
No training – vulnerable to employee turnover
No delegation – too many hats
No accountability
No standards – measurements
No job descriptions
Poor morale
High turnover
No quantitative analysis of functions
Paying for time – not performance
No incentives
No quality control
No sales planning

CONTROL
No productivity standards – measuring tool
No estimated/pricing based on true costs
No job cost control
No labor cost analysis- control
No burden cost analysis – control
No material cost analysis – control
No purchase order system
No overhead cost distribution – control
No break-even analysis – control
No profit as predetermined item
No budgets with profit in first – flexible basis
No departmental profit/loss analysis
No account profit/loss analysis
No territory profit/loss analysis
No cash management
No credit management
No asset management
No depreciation management
No working capital source outlined

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KEY PROBLEMS

CONTROL

No clear-cut strategy using break-even as competitive tool
No inventory justification or control
No optimal merchandising, sales, mix strategy or control
No gross margin engineering control
No work in process cost analysis – tracking
No incentives

POOR PROFITS

1. Lack of profitability – need Organization for Management – provides structured organization yielding controlled increased profits.

Benefit – ability to get profits by design

2. No delegation of responsibility – needs system to assign responsibility and delegate authority.

Benefit – management freedom to plan and design instead of constantly doing routine details.


Benefit – eliminate unacceptable high turnover, absenteeism, retraining, and rehiring: yielding full production for controlled growth and profitability.

4. Poor personnel relations and low morale – need specific guidance and experience in this difficult people handling skill.

Benefit – enable management the help in coaching, criticizing, negotiating and dealing with problem employees.

5. Inefficiency – No controls for operating expenses – needs master profit and expense control, schedules, break-even points and controls.

Benefit – control of expenses and identify break-even for main objective – PROFIT.

6. No established procedures for employees to maintain cost controls and efficiencies – very little or no standards, guidelines or systems. No incentives for employees.
Benefit – defines a yardstick to measure performance and increase productivity, in turn profit.

7. No management cost controls – Need guidelines and systems defining procedures to maintain cost controls for the business.

Benefit – Ensures business will continue to operate, avoiding a total shut down. Providing a management structure, organization based on sound principals of business management.

8. No time – inability to get things done – needs clear descriptions for key management positions – ineffective doing all things at the same time.

Benefit – provides proper and sufficient organization for important tasks such as designing, building and growing.

9. No predetermined annual operating profit schedules – needs a schedule and system of management controls for profit.

Benefit – provides the necessary tools for management to keep expenses under control, yielding PROFIT.

10. Set up Profit and Expense control schedules by Cost Center, projecting normal monthly income, expenses and operating profit – needs organization schedule of controls projections for income and expenses.

Benefit – enables management to forecast and plan objectively for the month and the fiscal year.

11. No Cost Center – needs cost center of monthly income, fixed, semi-variable and variable expense and project them 50% of normal through 150% of normal at 10% intervals – identifies break-even point – Profits become main objective.

12. No prepared master profit and standard procedures, organization – needs a procedure standard for profit and expense control.

Benefit – best result for financing and expansion programs.

13. No established procedure to cover applications of burden rates – needs organization standards as guidelines and controls.

Benefit – provide management with control over income and cost in the operation of the business.

14. No determination for methods, procedures and records necessary to provide information for labor cost – need a measure of producing on high labor dollars.
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Benefit – Establish minimum productivity standards and measure performance and increase productivity yielding PROFIT.

15. Not incorporated – no procedures establishing operations of the company – needs a standard procedure system to control and maintain the proper form of business.

Benefit – provides management the control over profits and establish proper tax planning.

**How & Where**

1. Actual cost vs. estimate
2. Duplication of effort
3. Supervision: who is responsible for what areas and determine how effective.
4. Delegate authority: determine functions of staff.
5. Who is doing what to contribute PROFIT: who’s costing us, not making profit.
6. Poor communications.
7. Inventory justification: why purchase, what is rate of consumption vs. rate of theft!
8. Monitor effectiveness of personnel – productivity. You don’t seem to understand the ramifications of how you spend money for the operations and how it affects the bottom line profit.
9. Lack of information – must keep scope to win.
10. Being very frank here – nobody is managing this facility – You are overseeing, not managing it!
11. You know what the problem is? It’s not that you don’t have the ability to control your business: you don’t have the tools to effectively manage the business – No management tools.

**NO CONTROLS**

1. No control of materials, purchasing, inventory, theft, receiving, invoicing, payment of materials.

2. Labor cost/hiring firing – who is producing and working effectively, who is not, who do we hire, who’s producing, who is not.

3. How do we control our expenses.
   Explain control of G.P – increase or decrease in gross profit.

4. Need budgets – no management of cash

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5. No control – expenses, costs, budgets, no predetermined profit, can’t justify inventory, no break-even. Don’t even fund depreciation – goals and objectives.

6. No budget of daily food cost when making purchases – no idea of restaurant daily food cost vs. daily costs to operate the business. No portion control – cost per ounce.

7. No idea of food cost per patient meal per meal, cost laundry, labor, OH/All expenses and how to control them in a care facility.
Global Resources, LLC

Client: Clueless, Inc
Project Number: TBD
Analyst: 
Date: December 1, 2013

COMPANY PROFILE

Type of Business  HVAC Contracting
Years in Business  7 years
Annual Revenues  $3.7 million
Fiscal Year  December 31
Number of Employees  37 full time
Ownership  Mr. Clueless
Family/Succession No succession plan in place

DAY ONE -- PRELIMINARY FINDINGS

The business analysis has included extensive interviews with the client and key personnel. The analyst surveyed employees, observed them at work, and reviewed all available financial statements and relevant data and documents including:

- Last four full years of internally generated financial statements
- Tax returns
The following requested data was not available:
- Current detailed business plan. Where are we going? How will we get there?
- Written Strategic Plan and Goals
- Sample of weekly management reports encompassing all areas
- Operations Manual (written operating procedures to ensure consistency) in place but not followed
- Job Descriptions for all areas outlining owner's expectations for individual's performance.
- Organizational Chart (annotated to include responsibilities/level of authority)
- Measures of Productivity on a per person basis
- Work Flow Chart
- Policies and Procedures not followed by all
- We do not have a budget being used to ensure necessary volumes are being met and costs are under control
- No method of generating new more profitable customer base. (marketing plan)
- Incentive Programs in order to make staff want to excel at their job
- Short-term Goals
- Long-term Goals

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Employee Comments

Attached is a list, without order, of typical responses provided. These were provided either as written comments or were stated to the analyst on more than one occasion. Be aware—they may not be true—these are only the perceptions of your employees:

1. The entire operation needs a lot more organization and much better communication throughout the company if we are ever going to become as efficient as we could be.
2. No rules that all must follow, people seem to do whatever they want however and whenever they feel it should be done. There is just way too much freedom given to certain people and it is hurting the company. There are policies that have been explained to everyone, but there is no backbone in the company, and the rules are not enforced by management. Howard needs to get tougher in my opinion, and actually do something about those people that take advantage of the lack of discipline here including family.
3. The quality of some of the people we have is terrible. Some people have terrible work ethic, and terrible attitudes, they don’t take any pride in what they are doing. Even if they come in with good attitudes they get brainwashed by the slackers who are already here. It seems that some people don’t seem to care about anything more than collecting a paycheck. If I owned this business I would probably get rid of 30% of the people that work here.
4. We never hear any positive comments only negatives. If you don’t hear anything you assume you are doing an Ok job.
5. We have discussed making certain changes, but nothing ever gets done about it. It just gets put off, always left as a possibility. I’ve given up on making suggestions. Howard knows there are problems. He hears about them all the time, but he never does anything about it. I believe Howard doesn’t worry about certain things because it doesn’t affect him directly. He is scared to upset people, or because he doesn’t know how to fix them.
6. It scares a lot of people to think about Howard handing the business off to his sons, I have heard on many occasions that people will leave if this ever happens. Jonathan does not have the maturity level, nor the work ethic to be in any leadership position any time soon. He hurts the company more than helps it at this time. He does half the work of anyone else in a manager position, and is more worried about talking to his girlfriend on the phone, instead of doing what he should be doing.
7. This place is the complete opposite of a team. Nobody worries about the next person down the line; they do shotty work and cover it up hoping the next person will just fix it. When contractors or the customer see this it reflects badly on Howard.
8. Training and cross training should be better. We kind of throw people into positions and hope they can do the job. This applies to the office and the field.
Global Resources, LLC

Client: Clueless, Inc  
Project Number: TBD

Analyst:  
Date: December 12, 2013

9. Communication is by far the biggest problem in the company; nobody knows what is going until after it happens or after it is too late. This causes us to be very reactive instead of giving us any chance to be proactive. Examples of communication, where do I start. There are communication problems between different depts., between the field and the office, there are language barriers that get in the way, there is no vision ever communicated to people as to the direction of the company. I am constantly getting told different instructions for me to do from at least 2 different people, forcing me to have to decide who to listen to, which I don’t think should happen.

10. People abuse their privileges here, and Howard just lets it happen.

11. Some of the people that are in managerial roles should not be, they don’t know what it means to manage. They let people do whatever they want, they don’t care. We should get rid of some of these people on cruise control, or move them into other position, or get them some training on how to manage.

12. Morale is low because people are tired of nothing ever changing. It takes forever for someone to make a decision to do something. And then once the decision is made it takes forever for anything to happen. Often times the first or second step get done, and then it stops, nobody follows up to make sure it gets completed, and we fall back to our old ways. People in here are against change, and are quick to say it can’t be done.

13. There is no accountability at all and that is the major reason for all our problems.

14. Way too much is tolerated, laziness, half ass jobs, lateness, theft, not following procedures etc. because we never want to upset people for fear of them leaving.

15. When something does go wrong, or not as planned, the blame game starts, everybody blames each other instead of figuring out how we can fix it so it doesn’t happen again.

16. If it wasn’t for Howard, this company would never have accomplished what it has, and I respect what he has accomplished here. But more and more I am seeing that things are starting to slide out of control. I don’t believe Howard truly understands the magnitude of the problems we have in this business, it is almost as if he isn’t seeing the same business the rest of us see every day. I am glad they are getting some help.

17. Some people work so much harder than others, some people are outright lazy

Productivity of Staff 6.1 out of 10  
Morale 6.6/10
### DIFFERENCES IN STYLES OF MANAGEMENT

<table>
<thead>
<tr>
<th>MOM &amp; POP</th>
<th>&quot;CORPORATE&quot; CULTURE (NEXT LEVEL)</th>
</tr>
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<tbody>
<tr>
<td>REACTIVE</td>
<td>PROACTIVE</td>
</tr>
<tr>
<td>DISORGANIZED</td>
<td>PLANNED</td>
</tr>
<tr>
<td>FLY BY THE SEAT OF PANTS</td>
<td>MAKE INFORMED DECISIONS</td>
</tr>
<tr>
<td>OWNER HANDS-ON DOER</td>
<td>OWNER MANAGES</td>
</tr>
<tr>
<td>NO CONSEQUENCES FOR ACTIONS</td>
<td>ACCOUNTABILITY</td>
</tr>
<tr>
<td>EVERYBODY DOES EVERYTHING</td>
<td>DEFINED TASKS</td>
</tr>
<tr>
<td>UNABLE TO MEASURE RESULTS</td>
<td>MEASUREMENT SYSTEM</td>
</tr>
<tr>
<td>SUBJECTIVE BONUSES</td>
<td>OBJECTIVE INCENTIVES</td>
</tr>
<tr>
<td>TRUST PEOPLE</td>
<td>TIGHT SYSTEMS, CONTROLS</td>
</tr>
<tr>
<td>COMPANY DIES WITH OWNER</td>
<td>SURVIVES THE OWNER</td>
</tr>
<tr>
<td>FAVORITISM, NEPOTISM</td>
<td>FAIR TREATMENT OF PEOPLE</td>
</tr>
</tbody>
</table>
Global Resources, LLC

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Analyst:

Date: December 1, 2013

THE ANNUAL PROBLEM COSTS ASSOCIATED WITH CLUELESS, INC. as per Business Analytical Services, LLC ANALYST AND CONSULTANTS

Productivity: When I asked your employees to rate themselves on efficiency and productivity as a group on a scale of 1 to 10, the results average across the board, was 6.6 out of 10. If you are using your staff efficiently and effectively, staff can never be considered an expense to the business, but rather a Global Resources, LLC. It would appear that we are paying staff for their time and not their performance. Over the past 12 months you paid out Wages to your staff at $1,187,688 not including any subs, or owner’s compensation.

$1,187,688* 66% = $667,475 bang for your buck
$1,187,688* 19% = $192,151 in wasted wages and salaries, in only 12 months according to your staff that we did not receive value for.

The cost of only 5% lost productivity is $80,701 per year (once again not including any subs, or owner’s compensation). Neither Dan nor Steve are able to answer the following questions, “What is your labor margin for this week’s schedule of production? What does your labor margin have to be in order to meet your profit objective? How do you measure it? Who is responsible for your labor margin? How do you communicate the standards to your people?” Without answers to these questions it is impossible to control labor costs. A mere three minutes of additional work per hour through better control of labor, would produce 24 additional work minutes—a 5.5% increase in productivity!!

Productivity issues are management issues. You cannot improve something that you cannot measure.

Profit and Expense controls, Organization for Management
You have achieved optimal net profits of 11.2% net profits over the past 4 years, but through a lack of running this business efficiently and due to your lack of systems, you are responsible for letting approximately $361,022 slip through the cracks in a 12 month period (extremely conservative number). It must be pointed out many of your direct costs have increased as a percentage of sales. Areas such as material costs having increased by 2.9% as a percentage of sales, and labor is up 1.2% as a percentage of sales. These are just some of the many costs associated with us not achieving our optimal net profit. These additional costs were not necessary, because in the previous years we were able to operate at a lesser value as percentage of sales.

1 480 minutes in the workday; 45 wasted on breaks, potty time, slow starts, getting ready for lunch and end of the day leaving 435 minutes per day. 24/435 = 5.5%

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Global Resources, LLC

Client: Clueless, Inc

Project Number: TBD

Analyst: _____________________________ Date: December 1, 2013

Profit and Expense controls, Organization for Management

You have achieved optimal net profits of 10.8% net profits over the past 4 years, but through a lack of running this business efficiently and due to your lack of systems, you are responsible for letting approximately $347,225 slip through the cracks in a 12 month period (extremely conservative number). It must be pointed out many of your direct costs have increased as a percentage of sales. Areas such as material costs having increased by 2.9% as a percentage of sales, and labor is up 1.2% as a percentage of sales. These are just some of the many costs associated with us not achieving our optimal net profit. These additional costs were not necessary, because in the previous years we were able to operate at a lesser value as a percentage of sales.

- This would be a great time to pull out some further supporting hard problem costs such as the optimal to show the client exactly where the $347,225 is slipping through the cracks of his business.

Scheduling Controls & Estimating

Our methods of estimating to determine price and/or quoting lack consistency. There is obviously little if any structure to the way we are pricing service to our customers. Scheduling systems are not used in determining consistent accurate estimates and time
Global Resources, LLC

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frames, and most importantly a comparison between actual and estimated costs prior to the end of the job is not performed. Anytime you make the same mistake twice in business, you are a complete idiot. A set structure outlining established margin must be used, to avoid the continuation of our losses. A strong estimating program, complimented by a lean scheduling process taking into account individual capabilities, along with necessary timelines for set up, and coordination of people in different locations is essential, if this business is going to stop guessing their business, and treating profit as a residual. Taking from what is left over at the end; after our lack of systems and poor productivity has sucked a portion of the profit from the job is not acceptable anymore.

Proper Cash Flow Management Program

Dan has had over $9.1 million in revenues flow into this company in the past three full years, yet their overall working capital position has diminished by $421,628 and the net worth of this business has decreased by $509,469. Why? Where is all the money going?

Cash management is the company’s system of converting sales dollars into cash. There is no real gain from making more to spend more. The only way to acquire wealth is to spend less than you earn and retain cash. All of the money that comes in here goes back out. Cash is the most powerful asset that a company has. It is also the most ignored asset in the business. Cash should be a profit center generating between ¼ and ½ % of sales in bottom line profit. Cash is not dependent on profitability. Cash can be generated at a consistent level even during periods of decline in business. Cash management covers billing procedures, collection procedures, inventory control, purchasing procedures, fixed asset purchasing, depreciation methodology and budgeting procedures. Any of the areas mentioned can be the cause of no money in the bank. Most of the time it is a combination of all of the areas mentioned. Dan must fix all of the areas in his business if he is to have consistent levels of cash in his business.

Dan needs a plan for cash management. It must address receivables, profit and expenditure of profit and cash.

Collections begin at the time of the sale. Reduction of the collection period can generate significant cash for the business causing significant bottom line impact. A company must have standards for their receivables, must have people responsible for obtaining those standards who have been given the authority to control their result, must monitor the result and must hold those people accountable for those results.

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Cash is king. Without it you have nothing. As long as your customers have your cash instead of you, you have nothing except the expense of producing the product. It is estimated that when your customer have the money it costs you 2.5% and when you have the money you can make 2.5% so there is a 5% swing between you having the money and your customer having the money. This is money that otherwise would be on your bottom line.
Global Resources, LLC

Client: Clueless, Inc

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Analyst: 

Date: December 1, 2013

Sales and Marketing:

At this moment Clueless Industries is unaware of the size of the market that they are targeting, in turn making them unaware of what percent of the market they have, and what potential for growth that is reasonable. The Sales and Marketing Plan is the Revenue Generating Strategic (activity), and Tactical Operational (results) Plan of Clueless Industries. and involves Dan understanding the optimal levels of volume for their operation giving the people and facilities, prior to large capital investments.

This plan provides the basis for: Identifying the markets that the company currently serves and are capable of attacking. Identifying the total customer base that the company serves and are capable of attacking. (Past customers (lost), and why lost. Present customers, and why retained. Customers of competitors, and why they are served by them as opposed to Clueless Industries.

Identifying the needs of the total customer base within the market that Clueless Industries serves as well as potential new markets and correlate them to the present skill-related capabilities Clueless Industries currently has. (Strengths, Weaknesses, and a their detailed plan for change.) Compare the strengths and weaknesses of Clueless Industries versus those of the competition. (The organizational, and financial structure, Markets, Customers, Service, Regional analysis). Developing appropriate promotional and marketing strategies. (Website, Literature, break-even pricing strategies, and promotional items, Advertising). Then creating successful selling activities, promotions, and special programs to cater to the four personality types, that your sales people can start to use to generate new and more profitable business.

Tax Planning:

If a person thinks that they are paying too much in taxes then they probably are. There are some companies that pay little tax and some that pay a lot. The common characteristic of those companies that pay little in tax is an aggressive tax avoidance plan. Those companies might have two entities—one a c-corporation and one an s-corporation so they can take advantage of all of the possible deductions. The c-corporation might not have a calendar year-end so that income can be timed and deferred. The company might choose to have one of the companies with only the key people as employees so that the benefit plan in that company can be enhanced. The c-corporation will show some income so that it is taxed at a rate much below the individual’s tax rate but not so much income that they get involved in double-taxation. In a nutshell, they are actively trying to minimize their taxes instead of waiting to see what is due.

Tax law is black, white and gray. Dan ventures very little into the gray. The gray is legal and legitimate, however it is more aggressive than Lee and Jeff’s current
Global Resources, LLC

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If you are never pushing into the gray, you are paying more than your fair share of tax and Mr. Obama appreciates it. Obviously the only relevant factor is not what you make but rather what you keep.

- This would be a great time to pull out some further supporting hard problem costs such as the tax illustration supplied by our tax department.*
PRELIMINARY SAVINGS & EXPOSURE ILLUSTRATION

PREPARED FOR:
William & Joyce Smith

Estimated Tax Related Benefits

<table>
<thead>
<tr>
<th>One Time Savings</th>
<th>Estimated 1st Full Year Savings</th>
<th>Estimated Five Year Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings (Excluding EI)</td>
<td>Using STA Strategies</td>
<td>Using STA Strategies</td>
</tr>
<tr>
<td>$12,617 - $514,242</td>
<td>$10,546 - $18,588</td>
<td>$53,541 - $94,366</td>
</tr>
</tbody>
</table>

Totals

| $12,617 - $514,242 | $10,546 - $18,588 | $53,541 - $94,366 |

This illustration utilizes the following Client originated estimates: 2010 W-2 wages of $144,752 and 2011 W-2 wages of $144,752; current net worth of $5,362,794; a projected annual net worth growth of 0.00%; C-corporation 2010 and 2011 estimated sales of $1,705,504 and $1,705,504, and year-over-year sales increases of 3.00%, 3.00%, 3.00%, 3.00% respectively; C-corporation Loans to Shareholders of $0 and $0; and Loans from Shareholders of $0 and $0.

This illustration was prepared utilizing select information from prior year tax returns and other confidential information (including certain proprietary future years’ estimates and projections, where applicable). Where 2001 tax returns are not available, it is presumed 2009 financial information is consistent with the treatment and filing of 2001 tax returns, as adjusted. All information required to perform the analysis in this illustration was provided to STA by Client and/or Client’s key management personnel, all sources deemed to be reliable. No attempt has been made to verify the accuracy or completeness of this information, and any significant errors in or omissions from the information furnished would have a corresponding material effect on the analysis and the conclusions derived therefrom.

The analysis and conclusions in this illustration reflect the application of existing Statutes, IRS: Regulations, Committee Reports, Revenue Rulings, Interpretation Memorandums, and applicable Case Law. No consideration has been given to proposed legislation.

This illustration reflects preliminary projections anticipated to be effected through a combination of tax savings, tax deferrals, cost savings and profit enhancements ("Savings"). The actual Savings, estimated tax exposure, and asset protection values may vary from those shown.

Inheritance Tax calculations assume second to-die. However, this illustration does not consider additional tax savings upon receipt of an inheritance.

Client has never executed a will or a living trust and has never developed an estate plan.

12/28/2010 12:53 PM
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Client: Clueless, Inc  Project Number: TBD

Analyst:  Date: December 1, 2013

There are two kinds of productivity:
1. Company productivity: which is a result of good management --- delivers profit
2. Employee productivity: which is a result of controlling workflow --- increases value and wins market share.

Components to increase productivity:
- Visible Competitive Leadership: inspires employees, controls workflow, and develops a competitive company community, that can produce the necessary productivity required so that the company will expand its market share.
- Delegated Accountability: by creating functional job descriptions which defines the responsibility of each employee’s daily expectations, it will allow each employee to work towards a goal, and optimize their own productivity on a personal note.
- Coherent Communication: insures that the owner’s messages are delivered to each employee with the same clarity, tone and innuendo, and creates a corporate community with a constructively competitive culture.
- Measuring tools: each employee should be aware that the company has methods of measuring their performance. If an employee is not measuring up to the expectations of the system, and are not informed immediately about their performance, a complacent attitude is the natural consequence.

Control of workflow is dependent on the existence, accuracy and availability of a three part communication network:
1. Owner tells all managers and employees where they want the company to go, why, and how they expect to get there. (Action: a dynamic, competitive, company mission statement, with supporting performance monitors.)
2. Managers, and all employees know how their efforts are contributing to owner’s direction and expectations
3. Managers, and employees have the tools and know-how so that they can improve their own performance and the performance of their unit, as it contributes to the owner’s direction and expectations.
Global Resources, LLC

Client: Clueless, Inc

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Analyst:                      Date: December 1, 2013

OBSTACLES

The following Obstacles prevent Dan from obtaining the shareholders' goals. The Client must create and implement a plan to overcome each of these obstacles in order to obtain his goals. Specifically, the following areas must be addressed:

1. **Leadership—the development of a written plan and presenting action items to each employee as their role in completing the plan.** Client lacks a written STRATEGIC PLAN to provide focus. They lack a clear statement of (1) where they currently are; (2) where they are planning to Go; (3) how they intend to get to where they want to go; and (4) how they will know that they are on track to get there. Lacking this, it is impossible to identify each employee's role in that plan. They lack this plan due to a long history of poor planning and simply running the operation by the seat of their pants. To date it has been somewhat effective, however as the company continues to grow, it will prove to be increasingly more difficult to control the day to day operations as well as individuals tasks. Why haven't you addressed this issue in the past year? What is your solution?

2. **Expediency vs. Planning.** Because of the foregoing weakness, the company is operated on the basis of expedience rather than upon sound planning. Expediency is costly. Expediency is waiting for a problem to hit you and then attempting to solve it under stress. Planning anticipates problems and negates them with a minimal cost. Why haven't you addressed this issue in the past year? What is your solution?

3. Currently there is no effective way to hold people Accountable or to reward them for producing additional profit through Incentives. The company lacks an ORGANIZATIONAL STRUCTURE effective enough to obtain their goals. Many basic organizational practices have been overlooked. Employees (and management) do not have clearly defined responsibilities--they do not know what results are expected in exchange for their paycheck; they are not held accountable for those pre-determined results; they are not effectively delegating the authority to control the required results; there is a lack of clear, simple measurements of the results that the employees and management can use; they lack incentives for additional productivity and they lack a loss of a benefit if they continue to fail, up to and including their job. The client lacks these fundamentals because they do not know how to install / implement the required changes. It is impossible to determine the results if you don't even have a plan. Why haven't you addressed this issue in the past year? What is your solution?
4. **Productivity cannot be achieved when employees are guessing what it is that the owners expect them to accomplish.** Without the necessary guidelines, employees cannot be held accountable for actions that you, as the owner, expect of them. Why haven’t you addressed this issue in the past year? What is your solution?

5. **An attitude of complacency is contagious.** When upper management identifies a problem and does not act upon it, employee indifference is the natural consequence. Why haven’t you addressed this issue in the past year? What is your solution?

6. The company lacks effective **communications.** **COMMUNICATIONS** are vital in any organization. Client lacks effective systems and procedures that accomplish this end. Meetings are lengthy, costly and ineffective. Why haven’t you addressed this issue in the past year? What is your solution?

7. **Processing Flow**—Management reporting tools and information flow to the owner is inadequate. The needs have never been identified and therefore steps have never been taken to make it adequate. Why haven’t you addressed this issue in the past year? What is your solution?

8. **Rewarding** our key staff if morale is low, and productivity is also inadequate, it is imperative that those who are carrying the weight are rewarded for their efforts. If they are not, a poor productivity level will quickly be adopted by the good performers, instead of them being an example for the others. Why haven’t you addressed this issue in the past year? What is your solution?

9. **Cash Flow retention,** we can continue to grow the business, bigger and bigger, yet if profits are continuing to slip through the cracks there is really no sense. Problems costs grow at a faster pace than the increase in sales. If we are not collecting at a quick enough rate, to ensure adequate cash flow in **our account (not our customers)** to operate the business effectively, then it must be addressed first and foremost. Why haven’t you addressed this issue in the past year? What is your solution?
The Ten Commitments

1. My Primary Goal(s): ________________________________

2. I am **100% committed** to achieving my goals.

3. I am **100% committed** to working with the Consultants in implementing systems and procedures that allow me to succeed.

4. I will be **100% committed** to the proposed project.

5. I recognize for the length of the project that I will be expected to participate in the process. I recognize that I will be very busy but I also know that the Consultants recognize that I have a business to run and will never jeopardize its success by pulling me away from my daily responsibilities.

6. I am 100% committed to paying the Consultants for the services. Although I may have concerns about the amount of money involved, I know that the standard practice is for an invoice to be paid each Friday. **I also know that the Consultants will never demand anything that threatens my business.**

7. I know that if I am unhappy, **no matter what the reason**, that I am to contact my Project Manager immediately, and that my Project Manager will **immediately respond to my concerns**.

8. I recognize that successful change is a journey rather than a destination and requires a **willingness to change.**

9. **Willingness to make positive change is contagious.** If I expect my employees to change, I must lead by example and I personally need to be 100% committed to the project.

10. **I understand employees measure my level of commitment.**

Client: ___________________________    Analyst: ___________________________
RUNNING A QUALITY SURVEY

As a Senior Business Analyst, each of us have the responsibility and privilege of evaluating and measuring the operations of those companies assigned. Every job is unique, this is true, but we are only human and we can become complacent, we can become dull and we can become less than effective from one assignment to another. Getting into the job late in the evening and early morning meetings can be tiring. We are given two, sometimes three and occasionally four businesses per week to meet with. At times the load becomes heavy. At times the work is very difficult. However, from the eyes of the business owner, this is most likely his first experience. They have never had this work completed before. They have no idea of the hours you have had on the road, the delays in the airport or that this may be your 3rd or 4th assignment this week. They are expecting you to be your best regardless. So for me I find it important to measure myself so that I can maintain top performance from one survey to another. Since we work on our own I feel that the only one that can actually answer the questions of how well I did is me. Here are a few questions you can ask yourself at the end of the survey to see how you can improve.

Did I make a good enough first impression?

This is very critical to the opportunity of turning a survey into a project. Yes you have to dress appropriately. Not overstated but certainly you need to look the part of the professional from the moment you arrive. No second chance here. Walk into the room with confidence and make that entry a meaningful one.

Was I on time?

Tough to always be on time. But when did you ever think that being late gave you an advantage?

How did I introduce myself?

Eye to eye contact is critical here. Being clear about your purpose without asking for permission will set the stage for a strong opening.

Did I really attempt to get the job open?

Too often we make wrong first impressions that tell us that the client will not convert to project status...that they have no money, that they have no problems, that you cannot tell them more than they already know... etc. There are a certain number of jobs that the client is just waiting for you, and a few that the client will never agree to anything regardless. But the majority lies between those two conditions and it is our responsibility to gain control of the client and situation and to get the job open. Sometimes you have to be strong to get in, other times you will need to play the role of the moderator. But generally the client will tell you which one you need to be if you LISTEN first and then size up your strategy. To assume that the first thing the
client says is what they mean is taking a big risk. Rarely will the client tell the entire truth on what they agreed to. Ask questions and don’t be discouraged if initially the client seems reluctant to continue. Sometimes it only takes a single reason that will first open the mind.

**Was my initial conversation good enough? Did I develop credibility and did I show the client that there was a “something in it for me” opportunity?**

Like any professional we need to be prepared from the beginning. An actor has his lines memorized, an attorney is prepared with opening arguments, etc. Since most of us have been there many, many times we should realize that fundamentally most of these jobs are similar. If I expect to do well with my client I must be prepared at the beginning to create a situation where the client becomes the student and I become the teacher.

**Did I condition the client?**

In a couple of days and sometimes in a few hours I must have my client “conditioned” to take the next step. If I have done the job correctly this step is easy for both of us. If not it can turn into a nightmare. The conditioning process is critical to getting jobs to move forward. I must find the weaknesses, as large or as small as they may be, and deliver them to the client over and over again until he realizes that they exist, he knows that they are the stumbling blocks that keep him from getting to where he wants to go. It is imperative that we not only identify the imperfect condition but that we are able to defend it 100%. I can never back down from a condition which I present to my client. Granted not all conditions are weighted the same; some are much more troublesome than others, some are critical. I must not only present the condition but I must get complete agreement by my client. I should never present a condition to my client and allow him to discredit it in any way. Do not overstate every condition, but make certain you have enough “critical conditions” that will allow the client to see the benefit of the total investment in the project.

**Did I create a sense of urgency?**

Jobs that start the next day are jobs that have urgency attached. It is imperative that I present the urgency factor in the relationship from the beginning and not wait until I am ready to tell the client that we are coming in tomorrow. Again, this is supported by the “conditions” I have identified and presented over and over again. Clients lose sight of how much money they are spending each day, how much money that they are losing each day in one form or another, in one product line, in one division, etc. The losses are not just the ones reported on the income statement but the loss that comes from not doing what they are capable of, or in other words the “opportunity loss”.

**Did I problem cost the analysis?**

Jobs that cash collect big numbers are jobs that have clear problem costs to them. To suggest that they could increase their profit margins by 6% does not nearly create the impact of the actual dollars they are losing and what could be done with those dollars. How much better can
actual dollars they are losing and what could be done with those dollars. How much better can
his business be, how much better can his personal life become if he had the financial resources?
The purpose of owning a business is to create the capital necessary that allows the owner the
opportunity of “doing good”.
Whatever doing good means. This is the step that allows you to sell
the whole job.

Did I find out what the client really wanted?

We can talk all day long about what the business needs, but the real question is what the owner
wants. Certain things are fundamental, true. But what sells projects is a clear unmistakable
understanding of finding out what the owner really wants. When he realizes that the
“conditions” must be removed in order for him to gain access to what he really wants, the project
will move forward. From the very first moments I am with the client I am trying to find out what
this person really wants. Not just what he says. But what he means to say. In other words,
“where is the go”?

Did I control the meeting schedules?

One basic requirement is that business owners make time to see me. When the owner pushes off
the meetings I know I am in trouble. When he stops everything he is doing and sometimes stops
what other people are doing it means I am on the right road. I must get commitment to meetings
and those meetings must have a sense of urgency attached. Rarely do I get commitment to
projects to start the next day if those meetings are at the end of the previous day. Late afternoon
Findings Meetings are conducted for the purpose of signing the 88 rarely work. So the dynamics
are with me, if I can get commitment to my schedule and not his. The client must know that my
schedule is much more intense and important than his.

Did I prepare a solid, informative job file for management services?

What good will all my work do if the Project Manager doesn’t know enough about my client and
his business to pick up where I left off. It is critical that the job file is started at the beginning of
the job and not left to the end. If this happens, generally there isn’t enough time to properly
prepare it. It is my motivation to get the Go, so my job file doesn’t become wasted effort. What
the PM doesn’t know can kill a project and he has very little time to do what you have done and
still stay connected to the client. I don’t have to engineer the project but I have an investment in
this business and must do everything I can to protect it.

Summary

When I get a “no-go” I can generally attach one or more of these failures to the job. So basically I
must hit my “clicks” on every job to have reasonable opportunity of getting help for this client.
Some of the jobs will go forward regardless, a few (very few) couldn’t have been sold by anyone,
but it is the vast majority that I have the opportunity of winning or losing. All of it depends on
how well I perform.

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PERSONAL TURNOVERS (P.T.O.’s)

The personal turnover (P.T.O.) is designed to ensure a smooth transition between Survey and Consulting Services. A P.T.O. should be performed on a Wednesday start for Consulting Services if your SSD deems it appropriate. The propensity for success on a job is greatly enhanced when a P.T.O. is performed. The proper procedures for performing a P.T.O. is as follows:

A. The Analyst is in charge until he hands over the Client to the Project Manager. The Analyst should introduce the Project Manager and the Staff to the client.

B. The Analyst should then review all of the problems that were discussed during the Findings Meeting and all of the recommendations that were made in terms of what projects Consulting Services would perform during their engagement.

C. Once the Analyst has reviewed all of this information he must get agreement from the Client that the Client concurs with the information that the Analyst has just shared with the Consulting Services staff.

D. The Analyst should also discuss the hours it will take to complete the project, along with the hourly rate, per diem rate, etc. and the fact that the Client does indeed understand how we work. The Project Manager should not handle this – the Analyst must maintain control until everyone feels there is a smooth transition to consulting.

E. When the Analyst has complete agreement from the Client as to the problems, the recommendations, Consulting Services projects to be performed, and a clear understanding of how we work, then he should turn the Client over to the Project Manager.

F. The Analyst should remain in the Opening Meeting with the Project Manager and staff and remain silent. The project is now in the hands of the Project Manager. After the project is open, the Project Manager will call Headquarters and go through the process of getting the Analyst released from the job.

If you still have concerns regarding the project, politely excuse yourself and call your SSD immediately for advice. Never turn your project over to the Project Manager unless you are 100% comfortable in doing so.
Project Manager Information Letter

1. Describe the level of commitment the client has to change his/her business:

2. Describe specific conditions, including any negatives:

3. What does the client wish to accomplish? Is there anything specific the client wants?

4. Who else needs to be involved throughout the project?

5. Is the client sensitive about any particular areas or issues?

6. Describe what the client expects to accomplish as a result of this project:

7. What was covered in your findings meeting?

8. Is there any other information pertinent to the success of this project?

9. Please provide directions to the Opening Conference from the Hotel of Record:
CONSULTING SERVICES PROJECTS
S.C.O.P.E.

Each project undertaken by Consulting Services involves evaluation, modification, and generation of systems, controls, organizational structure, and procedures to provide information and results for evaluation by management.

**Systems**
CONSULTING SERVICES custom designs operating systems to maximize profit and efficiency.

**Controls**
CONSULTING SERVICES implements proven controls to monitor and evaluate performance and force profit.

**Organization**
CONSULTING SERVICES streamlines the client’s organization to improve the cost-effective delivery of the product or service, with management by internal information systems.

**Procedures**
CONSULTING SERVICES will develop custom procedures and policies to insure smooth applications of systems necessary to get results.

**Evaluation**
These systems, controls, organizational structures, procedures and policies will provide management the necessary information to manage profitability. Quality management, not quantity. Fingertip controls and informed decision-making.

**ORGANIZATION FOR MANAGEMENT**

Establish organizational structure for management
System of assigning responsibility and delegating authority
Establish employee qualifications and hiring procedures
Establish and define a yardstick to measure employee performance
Reduce working hours for the client
Establish accountability systems for management
Establish an employee-training program
Present organization structure
Company’s functional activities, operations
Operating department and controls
Responsibilities, duties, and authority of all employees
Organizational charts and relationships

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Method for determining and setting fiscal and non-fiscal goals

Every entity has some type of organization. Effective organizations contain the following:

SOME EXPLANATION OF ORGANIZATION FOR MANAGEMENT

COMPANY STRUCTURE:
This allows everyone to know where they fit, how the reporting works and who has what responsibility. Structure includes:
- Organization charts
- Job descriptions
- Review processes
- Policies and procedures

DELEGATION
This defines the scope of trust the entity is willing to place in each person. Delegation is required in:
- Authority – defines for each person what they can decide and when they need to consider next level.
- Responsibility - tells each person for what they are accountable

STANDARDS OF PERFORMANCE
These must be based on factors which are controllable and measurable

CONSISTENCY OF APPLICATION OF STANDARDS
Follow policies and procedures
Minimize exceptions (strive for none)
Follow lines of authority up and down
Realistic goals

EFFECTIVE ALLOCATION OF RESOURCES
Tools that are sufficient to do the job
Objective and method to decide between alternatives

COMPANY DRIVING FORCE
As a place where employees are valued but certain things are expected.
Professionalism in appearance, manner and actions
- Attitude of wanting to succeed
- Ownership attitude
- Teamwork

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PROFIT AND EXPENSE CONTROLS
Implement profit and expense controls utilizing break-even
Establish job cost controls
Establish operating budgets
Establish inventory controls with justifications
Establish purchasing and inventory controls
Establish management cost controls
Establish and identify the true cost of the business
Establish expense controls by cost center
Establish procedures for employees maintaining costs
Establish scheduling and production controls
System for accurate quoting with pre-planned profits

SOME OF THE POSSIBLE BENEFITS OF PROFIT AND EXPENSE CONTROLS
All reporting procedures, records, forms and reports are designed to produce the
required information at the lowest cost and requiring the minimum time by personnel.

All reporting is in a form best suited to the needs of management. Modern accounting
equipment and techniques are used effectively. All unnecessary accounting records are
eliminated.

Management control reports are furnished as needed.

All key areas are included in an integrated reporting system.

All required financial statements (excluding tax returns) are issued timely and accurately.

CASH CONTROLS
Restructure debt
Establish accounts receivable procedures
Establish accounts payable procedures
Establish budgetary controls with cash management

BUDGETS (FLEXIBLE & VARIABLE)

USES: Goals
Strategies
Plans of Action
Markets
Competition
Life Cycle of a Product
Company’s Financial Strength
Corrective Action

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Types of Budgets

Production
How many units will be produced by what equipment and related costs incurred for a given person. This helps to determine your cash needs.

Cash
Cash collections need to be predicted, recognize the effects of collections, billing cycles, purchasing, sweep accounts and depreciation funding.

Sales
Sales must be anticipated by product, territory, and sales person by year, month and week based on:
- Product profile
- Profiles of competing products sales history
- Promotional program history
- Future promotional plans
- Market characteristics

Cost
To avoid production error costs, all variable costs must be determined by department, jobs, product and activity.

Profit
This should be treated as first line of expense. Failure to pre-engineer profits subjects corporation to residual results and unexplainable profits and losses.

Purchases
This is used to determine the quality and quantity needed to reach achievable prices and to survey alternative sources.

Financial Forecasting (Capital)
Projections must be done to determine the level of investment in current and fixed assets required to support the projected sales.

ZERO BASED BUDGETING
Appraise activity of a division, department, product line or operation. Analyze each activity from a cost-benefit perspective.
Formulate a decision package to accomplish the specified goal.
Rank the decision packages in order and priority.
Assign limited funds to competing activities on the basis of merit.

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VARIANCE ANALYSIS
Comparison between Standard and Actual Uses

- Control Costs
  “Red Flag” present and prospective problem, “Management by Exception”
  Identify responsibility so you know who to either criticize or praise
  Formulate corporate objectives; Aid in decision making
  Vehicle for better communication within the organization
  Performance reporting on budget and actual

Types

- Production (cost, quantity, quality) are used to gauge supervisor’s performance
- Sales and market share evaluate marketing
- Profit appraises overall operations
- Return on investment evaluates asset utilization

When To Use
Variance analysis can be performed by year, quarter, month, week, day or hours depending on the importance of identifying a problem quickly.

CASH MANAGEMENT SYSTEM

Purpose
To maximize the amount of cash available to the company.

Elements Involved

1. Collections
   - When to start
   - How to approach
   - Actions to be taken
   - Who is accountable?

2. Payments
   - When to pay
   - Accuracy of payment
   - Payment cycle
   - Who is accountable?

3. Cash Forecasting
   - Use of other elements
   - Cash position now and future

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4. Closed Loop Purchasing
   Who is purchasing?
   Use of purchase orders
   Purchase orders treated as cash

5. Depreciation Funding
   Cash effect
   Capital expansion and improvement

6. Billing Procedures
   When is bill issued?
   When is it mailed?
   Insure everything is billed

7. Sweep Accounts
   Every dollar earns money
   Bank does work
   Who is responsible?

Effect of Cash Management

An increase of ½ to 1% of sales in net income can result from a solid cash management system.

Example: 1,000,000 in revenue

$5,000 to $10,000 in additional profit

BREAK-EVEN

COST – VOLUME – PROFIT RELATIONSHIP

Uses
Marketing – company’s break-even has been improving or deteriorating over time

Major marketing campaign has generated sufficient sales to justify its costs

Introduction of a new product will add or detract from profitability

Evaluate the start of a new business

Profitability of a new product line or service

Profitability of investing in major capital expansion

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**Key Factors**

- Products selling price
- Variable and Fixed costs of selling and advertising

**Desired Profit Level**

Objective is to make a profit not just a break-even

**JOB COST CONTROL**

**Outline**

Job or job type towards which income, costs and expenses are to be directed.

Setup for each job:

a. Income accounts
b. Cost of income accounts
c. Direct expense accounts

Any operations expenses, which cannot be charged to jobs directly, should be allocated on some equitable basis.

Methods, routines, procedures and records necessary to provide information required.

Weekly and monthly job cost reports.

**Performance Measurement**

- Estimate versus actual cost
- Profitability

**PRODUCT LINE CONTROL**

**Outline**

Product line (type of products or customers towards which income, costs and expense) are to be directed.

Setup for each product line

1. Income accounts
2. Cost of income accounts
3. Direct expense accounts
4. Inventory accounts

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All operating expenses, which cannot be charged to product line directly, should be allocated on an equitable basis.
Method, routines, procedures and records necessary to provide information required.
Monthly product line operating statements

Performance Measurement

Budget versus actual costs
Profitability
Return on investment
Residual income

Transfer Pricing

Actual cost plus profit markup
Negotiated market price
Budgeted cost plus profit markup

INVENTORY PLANNING & CONTROL

Inventory planning and control is important to develop policies that will achieve the optional inventory investment.

Cost Associated

Order costs – all costs associated with the preparation of a purchase order
Carrying costs – storage costs for inventory items plus lost opportunity costs
Shortage costs – costs incurred when an item is out of stock, lost contributed margin on sales plus lost customer goodwill.

Other Factors

Economic Order Quantity (EOQ) – This determines the order size that minimizes the sum of carrying costs and ordering cost

\[
EOQ = \sqrt{\frac{2 \cdot \text{annual demand} \cdot \text{ordering costs}}{\text{carrying cost per unit}}}
\]

Reorder Point (ROP)

This tells you when to place an order
ROP = Lead time x average usage per unit of time

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**Determination of Safety Stock** – This is the level of stock you never wish to fall below

**Quantity Discounts** – this requires recompilation of your EOQ to see if the Discount amount offsets the increased storage.

**WAREHOUSING METHODS & CONTROL**

**Outline**
- Classify all parts and/or commodities
- Present methods of control
  1. Forms and Records
  2. Receiving and Storage
  3. Picking and Filling orders
  4. Shipping/Delivery
- Turnover of parts and quantities involved
- Code and number parts to coordinate with a location numbering system

**COMPREHENSIVE MARKETING PROGRAM**

1. Market Identification – Justification of inventory for product lines
2. Tie-in the identified markets with profit potential
3. Necessary market segmentation by territory, customer, product line, or specific product.
4. Market penetration plans existing, new or different markets
5. Systems, procedures and controls to monitor and evaluate market penetration by segmentation
6. Internal/external sales strategies
7. Sales controls/quote systems/field sales representatives; route sales force feasibility
8. Evaluation and determination of training, internal monitoring and evaluation and customer education.
9. Controlled revenue growth via actuarial mix, product promotion, and customer pre-qualification
10. Route sales evaluation/current compensation package evaluation/consideration of wage incentive programs
11. Evaluation of viability/justification for a permanent sales/marketing position to interact within the present corporate structure
12. Establish controls through which you can evaluate, monitor and engineer PROFIT.
MARKETING EFFECTIVENESS

Measure the effectiveness of your sales force by looking at gross margin. Generates sales incentives, sales cost, and the dollar value of orders per hour spent also per dollar spent.

To derive proper selling prices, identify poor marketing activities; and to establish proper discounts you must compare net income per employee and marketing cost as a percentage of sales.

Sales Person Profitability
Net sales volume less variable costs and the selling expenses determine profitability by sales solicitation. Establish the break-even point by sales person.

Sales Commission Plan
Variable commission rates based on the gross margin of the product sold. Incentives tied to break-even point.

DO NOT EVALUATE SALES PERFORMANCE ON GROSS SALES BUT ON GROSS PROFIT AND NET PROFIT CONTRIBUTION.

Measurement

Management
Product warranty complaints and their disposition: Determine revenue, costs, and earnings by product line, customer, industry segment, geographic area, distribution channel, and type of marketing effort and average order sizes.
Prepare new product evaluations in terms of risk and profitability.

Marketing
Appraise effectiveness of promotional efforts.
Evaluate revenue, marketing costs, and profits before, during and after promotional efforts.
Identify advertising costs, by media, including newspaper, journal, direct mail, TV and radio.

EVALUATING PRODUCT LINE

Appraise introduction of new products according to how the product fits into whole product line.

Decide whether to discontinue products that show losses. Consider the following:

Eliminating products that would reduce volume and sales commissions but would necessitate higher base salaries for salespeople.
Fixed costs must still be recovered.

You may still keep products that show a loss based on full costing but show contribution margin.

You appraise the risk of product line by computing the probable distribution in price, volume and costs of products.

**SALES PLANNING AND CONTROL**

**Outline**

- Sales territories and quotas by product year and month
- Sales personnel requirements, and draw up a sales organization chart
- Sales policies
- Advertising and sales promotion program
- Forms, records and reports to establish effective control over sales personnel’s daily activities and results.

**SALES FORCE**

Look at income generated by salespeople, call frequency, sales incentive, sales personnel, and sales management.

Financial, measure of marketing success includes:

- Market Share
- Sales
- Trend in industry
- Inventory patterns
- Profit margin

Look at marketing costs in terms of physical distribution, including inventory management, order processing, packaging, warehousing and customer service.

Examine trend in percentage of marketing costs to revenue as a basis for ascertaining the selling price

**SALES FORCE EFFECTIVENESS**

Look at income generated by salespeople, call frequency, sales incentives, sales personnel costs, and dollar value of order obtained per hour spent.
Gauge performance by computing following:
  Revenue and/or net income per employee
  Marketing costs to sales

Subtract variable product costs and selling expense from sales to determine profitability by type of sales solicitation. Find out the break-even point for each sales person.

Establish optimal commission plan for sales people:

  Higher commissions for original business
  Vary commission rates
  Commissions on products profitability
  Graduated commission rates

DO NOT EVALUATE SALES PERFORMANCE ON ACTUAL SALES GENERATED BUT RATHER ON PROFITABILITY

Financial measures of marketing success:

1. Sales trends by products, customer type and sales person
2. Inventory utilization and available production
3. Profit contribution

Marketing costs include physical distribution, inventory management, order processing, packaging, warehousing, and customer service.

Examine trends in percentage of marketing costs to revenue as a basis for determining selling price.

Salesperson Profitability –
  In determining salesperson profitability, subtract variable product costs and selling expenses from sales. Determine profitability by type of sales solicitation; find the break-even point for each salesperson.

Establish optimal commission plan for salesperson:

  Higher commission for original business
  Vary commission rates
  Commission on product profitability
  Graduated commission rate

Do not evaluate sales performance on actual sales generated but rather on profitability.

**PRODUCTION PLANNING AND CONTROL**
The purpose of production planning and control is to allow management to know the production contribution to the company income, bottom line and cash flow in a timely fashion. To be competitive and profitable a company can no longer schedule their production to meet customer dates.

Production Controls

1. Who is responsible and how are they held accountable for production?
2. Who is the management team and what are their responsibilities?
3. How does the company schedule production?
4. Who does the scheduling of production?
5. How many dollars will be produced today, this week, and this month by the scheduled production?
6. How many dollars will be shipped today, this week and this month by the scheduled production?
7. How many dollars will be added to the inventory by the scheduled production?
8. What is the current backlog in the production department?
9. What is the backlog by department and by machine?
10. What is the labor cost factors from the schedule?
11. What will be the productivity of the labor scheduled?
12. Which machines are scheduled above capacity?
13. Which machines are scheduled below capacity?
14. How do they determine shipping dates?
15. What percentage of product is shipped on time?
16. What is the scrap percentage?
17. What is the rework percentage?
18. What is the rejection rate by plant and by customers?
19. What incentives are in place to increase productivity?
20. Is the labor force unionized?
21. What is the company safety record?
22. Does the company have a training program?
23. Does the company have a cross training program?
24. What are the production performance standards?
25. Do they have a job-costing program based on true costs and do they use the information to verify their costs used in their pricing/quotes system?

COMMUNICATION

Communication in the company should be directed to all employees with profit as the number one concern. Few employees in a company are really concerned with the profitability of a company. This is caused by management focusing in on problems and
putting out fires. You must look at the communication within the company. This means written, verbal and meetings.

1. Do they have weekly key man meetings?
2. Who attends the meetings? The CEO, CFO, operation manager, administration manager and sales manager functions should be represented at this meeting.
3. How often are the meetings held? The meetings should be held weekly.
4. Do they have departmental meetings? Production department should have meetings daily. This is to verify what was accomplished yesterday and to discuss today’s schedule and expectations. Sales meetings are not required daily but should be more than weekly. The administration meeting could be monthly.
5. Are all company policies in written form and do they have follow-up meetings with a written summary so that misunderstanding is held to a minimum.

ORDER ENTRY

Order entry is the area that must generate information that few companies have. When job costing or production scheduling is a weak area of the business, it is usually caused by a poor order entry system. When an order is received from the customer, they should know a routing for the product. The routing should show the labor time by function, show the machine time by function and the delivery date. Without this information the client cannot know his backlog in the shop by function and he cannot control his job cost or delivery schedule. Salesmen in the field usually sell what is easiest to sell not what is the best interest of the business. A CEO must be able to direct his sales force so that they are meeting the production needs of the company. Knowing which machines are oversold and what machines have capacity left is critical to both the pricing and the selling of products. Low percentages in meeting delivery dates are a good indication of problems in this area.

CASH MANAGEMENT

This is one area of business that most entrepreneurs totally ignore. When a business does not have any money in the bank this is caused by a lack of cash management.

Your understanding of cash management will determine to a large extent your success with BAS. Most clients do not have $20,000 just sitting around waiting to be spent with us. You must learn how to address the lack of money on surveys that you run. Once you learn how cash is generated in a business your percentage of GO’s will dramatically increase. If you can solve the problem of how the client can pay for our services, then the client will buy what he has told you he wanted.
Cash management includes collections, payable expansion, forecasting, closed-loop purchasing systems, depreciation funding, billing procedures and sweep accounts. A business that has a solid cash management program will generate between ½ % and 1% of gross sales in bottom line profit. This means that a $2,000,000 company can add between $10,000 and $20,000 to their profit just by managing their cash properly. This increase in profit will often convince the client to proceed beyond the survey. If you can explain to a client why he doesn’t have money in the bank, and how we can change his cash position to pay for our services then the GO will become easy. If you have not had any cash in bank account for years and someone could solve a problem that you have not been able to solve, what would you do?

You must know and be able to discuss the following areas of cash management with your client on his level. The areas and what information that you need to know and how it impacts the business as follows.

**Billing Procedures**

1. When does the bill for goods or services leave the office? Many businesses do not bill at the same time that the products or service is complete or shipped. This delay adds to the collection period of the receivable. Do they bill daily, weekly or monthly? Do they bill when complete or partial.
2. Do they bill when shipped or wait until they have accumulated a certain number to be invoiced?
3. What type of numbering system do they have to insure that the goods and services are billed?
4. Do they offer a cash discount to encourage early payment?
5. Do they bill daily but mail weekly?

**Collection Procedures**

1. How and when is the customer contacted if payment is not received on the due date?
2. Do they call or mail reminders for past due accounts? People are taught not to pay from paper but from when they are called. If you bill based on net 30 but do not call until 60 days, you are telling the customer that it is okay to pay in 60 days. The phone call identifies at what point the vendor becomes uncomfortable.
3. Do they not call certain customers when due because they do not pay in 30 days. They always pay in 45 or 60 days because that is the way they do business. The customer trained your client in this case.
4. How do they handle cash discounts taken after the date of discount?
5. Do they charge interest on past due accounts? In most cases a business cannot force collection of interest because they do not meet finance laws.
6. How and when do they stop shipping on past due accounts?
7. Do they have credit policies and are they followed?
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8. Do they let their lien rights expire?
9. What is their bad debt write-off history?
10. When do they turn accounts over for collection by sources outside of the company?
11. What is their average period of collection?
12. Who is held accountable for collections?

Payable Expansion Procedures

1. Do they have a program to increase the length of time in which they pay their bills? If a business averages $100,000 in accounts payable and they pay on the average within thirty days; if the length of payment is expanded to forty-five days it would be the same as borrowing $50,000 interest free.
2. What is the average period of accounts payable?
3. How does the client know that the bill is valid? Do they pay off of invoices with a packing slip? Do they pay only when there is a purchase order and a packing slip?
4. Do they use purchase orders? Do the purchase orders have quantities and prices on them?
5. Who looks at the bills and who pays them?
6. Who is held accountable for the payments and the accuracy of the bills?
7. How often do they pay bills? The shorter the bill paying cycle the smaller the average balance of cash for investment purposes.
8. How do they handle credit memos?
9. How do they handle incorrect invoices? Do they adjust them or send them back to the vendor?

Closed-loop Purchase System

1. They are designed to insure that a predetermined number of inventory turns are achieved.
2. Who does the purchasing?
3. Do they use purchase orders 100% of the time?
4. Do P.O.'s have both quantity and prices on them?
5. Who approves the P.O.'s? Is the P.O. used to project cash requirements? You cannot control cash if you do not use P.O.'s and control them the same as checks. Most business owners control cash by trying to control invoices. That is like trying to keep the horse in the barn but you closed the door after the horse is in the pasture.
6. How do they determine minimum and maximum inventory levels?
7. How do they determine new inventory items?
8. How do they determine obsolete inventory?
9. How do they handle returns to their vendors?
Sweep Accounts

1. Do they look at each dollar as a source of revenue?
2. Do they put each dollar to work earning them money?
3. Do they deposit the money in a checking account and have the bank sweep it out each night and back in each morning? Does the bank sweep only an amount above a certain level? This is the most common type of account but it is also very inefficient. Why doesn’t the client deposit into an interest-bearing vehicle?
4. Who is responsible for generating interest on the client’s money?
5. How much interest income are they receiving now?

Cash Forecasting

1. Do they project cash available to cash requirements?
2. Do they know their cash position today, tomorrow? One week, two weeks, four weeks, eight weeks and twelve weeks from now?
3. How does the client determine his cash position?
4. Do they use collection periods, purchase orders and cash flow requirements to project cash position?

Depreciation Funding

1. Does the client write himself a check to cover the amount of depreciation that he writes off each month? He is deducting this amount from his income but how does he account for it in his cash flow?
2. Does the client use depreciation as a basis for funding the capital expansion and capital improvements?
3. Does the client fund capital expansion and capital improvements from profits?
4. Does the client know where the depreciation money is?

SALES PLANNING AND CONTROL

Outline

Sales territories and quotas by product, year and month
Sales personnel requirements and draw up a sales organizational chart
Sales policies
Advertising and sales promotion program
Forms, records and reports to establish effective control over sales personnel’s daily activities and results

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KEY BENEFITS SUMMARY

Goals Summary
Reduce the structural burden on employer so he can work less hours. Increase the management control so he can continue to control and grow (companies, divisions, profit centers) on the reduced personal hour invested schedule.

Problem Summary
Cash Management and retainage is not sufficient to maintain a 30 day cash supply due in part to the break-even performance of effective funds management.
Accounts Receivable – collection efforts need to improve average days.
Inventory not turning at a high enough rate.
Material – has fluctuated dramatically over the period 2000 thru 2003 with no discernible trend. Reflects lack of good management reporting and identification of purchase savings.
Labor – cost has increased significantly from 2000 levels with additional effect in 2003. Productivity is running well below acceptable level.
Organizational Rating is well below Standard; reflects structure deficiencies over reliance on employer.

Solution Summary
Contribution margin – develop internal account
Organization – define the organization as it should be and move toward it, committing the seven elements as needed:
1. Structure – including
   Organization charts
   Job descriptions
   Review processes
   Policies and procedures
2. Delegation
3. Compensation for responsibility
4. Standards of performance
5. Consistency of application of standards
6. Allocation of resources
7. Perception of the entity

Inventory planning and control to optimize investment and reduce time and effort by employer while increasing control – delegation down of responsibilities

Warehousing methods and control – see above

Job cost control to increase management control and reduce employer’s time
Sales planning and control with control to increase volume

Managerial accounting to provide timely information to control company with key reports while improving office efficiency.

Solution Effects
- Reduced time required by employer
- Increased management control
- Improved productivity
- Progressive movement forward

Authorized Survey Project Titles

Planning

Profit and Expense Controls

Organization for Management

Sales and Marketing
### Instructions for Savings & Exposure Illustration

Fax this sheet and the following documents to 847-495-6767 or to your SSD.

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<th>Net Worth Calculations</th>
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<th>Most Recently Filed 1040 Individual Tax Return</th>
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<td>Pages 1-5. Schedule 1120-A (Officers' Compensation), Schedule 1125-E (Cost of Goods Sold) and Schedule K-1s</td>
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### Client Information

<table>
<thead>
<tr>
<th>Clients Name:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client's W-2 Wages:</td>
</tr>
<tr>
<td>Spouse's W-2 Wages:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Are Spouse Wages from Client's Company?</th>
<th>Y</th>
<th>N</th>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Client's Age:</th>
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<tbody>
<tr>
<td>Will (Year of Last Update):</td>
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<tr>
<td>Trust (Year of Last Update):</td>
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<table>
<thead>
<tr>
<th>Personal Net Worth Annual Growth (%):</th>
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</table>

<table>
<thead>
<tr>
<th>Deferred Compensation Plan?</th>
<th>Y</th>
<th>N</th>
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### Project Information

<table>
<thead>
<tr>
<th>Company Name:</th>
</tr>
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<tbody>
<tr>
<td>Current Year's Projected Revenue:</td>
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<tr>
<td>Current Year's Projected Profit:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Optimal Profit (%):</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Projected Annual Growth (%):</th>
</tr>
</thead>
</table>

### Multiple Owner Information

<table>
<thead>
<tr>
<th>Please Provide &quot;Client Information&quot; and 1040 for each owner for whom you would like an illustration.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Number of Owners:</th>
</tr>
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</table>

<table>
<thead>
<tr>
<th>List Owners Below:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
</tr>
<tr>
<td>Ownership %</td>
</tr>
<tr>
<td>Active/Inactive</td>
</tr>
</tbody>
</table>

1. |
2. |
3. |
4. |
5. |

This review was prepared with client provided data and is for internal use only.  

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Global Resources Training Manual

Example Client

Project Number: 89353

Analyst: Analyst Name

Net Worth Calculations
Fax the completed sheet to (847) 495-6767 and/or your SSD

### Assets

<table>
<thead>
<tr>
<th>Asset</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Cash &amp; Equivalents</td>
<td>$</td>
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<tr>
<td>Investments</td>
<td>$</td>
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<tr>
<td>Cash Value of Life Insurance</td>
<td>$</td>
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<tr>
<td>Deferred Compensation</td>
<td>$</td>
</tr>
<tr>
<td>Primary Residence</td>
<td>$</td>
</tr>
<tr>
<td>Other Real Estate</td>
<td>$</td>
</tr>
<tr>
<td>Vehicles</td>
<td>$</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$</td>
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</tbody>
</table>

**Total Assets** $ 

### Liabilities

<table>
<thead>
<tr>
<th>Liability</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>$</td>
</tr>
<tr>
<td>Vehicle Loans</td>
<td>$</td>
</tr>
<tr>
<td>Home Equity Credit Lines</td>
<td>$</td>
</tr>
<tr>
<td>Other Credit Lines</td>
<td>$</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>$</td>
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<tr>
<td>Liens and Judgements</td>
<td>$</td>
</tr>
<tr>
<td>Personal Loans</td>
<td>$</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>$</td>
</tr>
</tbody>
</table>

**Total Liabilities** $ 

---

Estimated Value of Business $ 

Percent of Client Ownership % 

Client's Business Value $ 

Net Worth (Total Assets minus Total Liabilities) $ 

Face Value of Life Insurance $ 

**Estate Net Worth** $ 

How was the business value determined? (Circle One)

Client CPA Recent Purchase Independent Accredited Valuation

---

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WORKING WITH THE TAX HELP DESK

The Tax Help Desk is a resource available to every analyst to assist in procuring an STA Go Ahead. Please contact your SSD for approval to communicate directly with the Help Desk and Elizabeth Fullington.

The following information is needed to prepare the Tax Illustration for your client. All information should be faxed directly to your SSD, not the Strategic Tax Advisors, LLC Help Desk.

1. Pages 1-4 of the business tax return (Form 1120, 1120S, 1065) for the most recently filed tax year.

   a. For Partnerships (Form 1065) and S Corporations (Form 1120S), please include the Schedule K-1’s for key partners/shareholders.

2. Pages 1-2 of the personal tax return (Form 1040) for the most recently filed tax year for the key partners/shareholders.

   a. If the client has a Schedule C business (sole proprietorship), include pages 1 and 2 of Schedule C from their Form 1040.
   b. If the company is a partnership (Form 1065) or an S Corporation (Form 1120S), include a copy of Schedule E from their personal return, including any detail schedules, if any.

3. Please include the Tax Illustration worksheet – this has the client’s projected income, estate planning information net worth, etc. If this form is not available, please include this information on a separate page.

4. Ensure that your name and the client’s name are on each page faxed to your SSD or the STA Help Desk. This facilitates tracking the information sent into the office.
PRELIMINARY EXIT STRATEGY ILLUSTRATION

PRELIMINARY WEALTH BUILDER ILLUSTRATION

Explanations of the ESI/WBI Information Worksheet

GENERAL INFORMATION

Client Desired Age at Exit – Enter the age the client wishes to exit the business. NOTE: This age should be at least 5 years from the client’s current age.

Tax Illustration Included – Was a tax illustration run for this client?

Inflation rate (%) – The inflation rate determined by you (the analyst) and your client should be entered here to represent the average inflation rate over the remainder of the client’s life. (Rates range from 2 to 4%).

Retirement New Additional Post-Retirement Annual Taxable Income ($) – Enter the amount of any NEW ADDITIONAL income the client will receive beginning at retirement. NOTE: This must be income the client is not currently receiving. (This is not the amount “desired” by the client, which is entered in the Desired Monthly Income During Retirement field.)

Amount to Heirs at Death ($) – The amount, in cash, the client wishes to give heirs at death. THIS DOES NOT INCLUDE ANY MONEY COMING FROM LIFE INSURANCE POLICIES.

Desired Monthly Income During Retirement ($) – Enter the amount the client desires, per month, during retirement. This is expressed in today’s dollars after taxes.

Retirement Accounts Current Balance ($) – The current balance of the client’s personal existing retirement accounts (401k, IRA, pension) in US dollars.

Yearly Pre-Retirement Contribution ($) – The amount the client intends to contribute to his/her retirement accounts (in US dollars) during a typical year prior to retirement.

Annual Rate of Return on Investments (%) – The average annual rate of return on these retirement accounts expressed as a percentage. This amount varies depending on the type of investment. Typically, the percentage ranges from 2% to 10%.

Savings & Investment Accounts Current Balance ($) – The current balance of the client’s cash, stocks, bonds, etc. presently owned personally (in US dollars). An example of a current account balance would be a savings account balance and a stock brokerage account balance.

Additional Yearly Pre-Retirement Investments ($) – The amount the client intends to increase his/her savings and other investment accounts (in US dollars) during a typical year prior to retirement.
Annual Rate of Return on Taxable Investments (%) – The average annual rate of return on the savings and investment accounts expressed as a percentage. Typically, the rate of return varies from 2% to 10%.

Preliminary Exit Strategy Illustration Retirement Age – Enter the age the client wishes to exit the business. NOTE: This age should be at least 5 years from the client’s current age.

With ($)___ per month – Enter the amount the client desires, per month, during retirement. This is expressed in today’s dollars after taxes.

TAX INFORMATION (Most Recent 1040)

Taxable Income ($) – 2006 US Form 1040
  Line 43 2005 US Form 1040 - Line 43
  2004 US Form 1040 - Line 42


SOCIAL SECURITY INFORMATION Age of Receipt of First SS Benefit – At age 62, recipient may begin to receive a reduced benefit for the remainder of life. At age 67, a recipient receives full benefits. Enter either 62, 63, 64, 65, 66, or 67.

Earnings in the Current Year – The client’s W-2 wages in the current year. This is not the earnings of the company.

BUSINESS INFORMATION Annual Company Sales ($) – The sales of the company in the most recent year.

Most Recent Year Profit Percent/Loss Percent – This is the company’s percentage of profit or percentage of loss in the most recent year.

Client Ownership – Enter the ownership percent of the client.

Growth of the Business – Enter, for the respective year, the expected growth of the company. Remember conservative numbers are best (2% to 10%), as the last year’s percentage of growth is presumed to continue annually until retirement.

Predetermined Annual Profit (%) – Enter the profit that you (the analyst) and your client have discussed. Again, remember that conservative numbers are best. Please be reasonable. If the client had a 20% loss in prior years, a 15% profit is a 35 point change in the numbers and may be too aggressive. NOTE: The Predetermined Annual Profit must be higher than the Most Recent Year Profit Percent. The Exit Strategy
Illustration operates on the assumption IPA is going to improve the profitability of the company.

**PRELIMINARY WEALTH BUILDER ILLUSTRATION Desired Net Worth ($)** – Enter the desired net worth of the client at the target age.

**at age ____** – Enter the age the client wishes to meet the **Desired Net Worth**.
# Conventional Lending Analyzer

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Term Of Loan</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,085,000</td>
<td>7 Years</td>
<td>7.50%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Client A</th>
<th>Client B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Credit Score:</td>
<td></td>
</tr>
<tr>
<td>Collateral Sufficiency (Insufficiency)</td>
<td></td>
</tr>
<tr>
<td>Coverage &amp; Capacity</td>
<td></td>
</tr>
</tbody>
</table>

## Potential for Conventional Financing

**PROBLEMATIC**

---

This Conventional Lending Analyzer illustration was prepared utilizing client confidential information (including certain proprietary future years’ estimates and projections). All information required to perform the analysis in this illustration was approved by the client(s) and either provided by the client(s) and/or key management personnel—all sources deemed to be reliable. No attempt has been made to verify the accuracy or completeness of the information, and any significant errors in, or omissions from, the information furnished would have a corresponding material effect on the analysis and conclusions derived therefrom.

The information provided does not constitute an application for a loan, nor will it be used to pre-qualify the company, or the client(s) individually, with any lender or broker.

This illustration is intended to provide an indication only and is not an offer, promise or otherwise, either to make a specific loan or that any lender or broker will make any loan for any purpose or on any specific terms; nor is this an advertisement for credit as defined by Section 226.24 of Regulation Z (issued by the Board of Governors of the Federal Reserve System).

The five “Cs” of credit and other criteria promulgated by the ABA (American Bankers Association), as well as various lender software used for loan origination and ongoing loan portfolio management purposes, are taken into consideration in this illustration. However, there is no representation this illustration utilizes or approximates the criteria and/or weighting methodology employed by any particular lender or broker.

Each prospective financing scenario is unique, as are the specific internal proprietary criteria utilized by financial institutions to evaluate loan applications. There are no statutory or common lending criteria that must be used by all financial institutions. Each lender establishes credit policies and determines its own lending criteria, terms and conditions. These policies and determinations are based upon availability of funds, the lenders targeted market, risk, legal capacity to borrow, ability to encumber property, ability to repay the requested loan and settlement costs (as well as present and future financial obligations), credit history, credit scoring, collateral appraisal requirements, mitigating factors, and a host of other considerations.

There is no assurance or guarantee that a company or client will obtain financing by virtue of the analysis and conclusions stated herein.

This illustration does not constitute legal, tax, regulated investment, or other professional advice. Clients are directed to consult with qualified, licensed advisors regarding legal, tax, and investment matters.

---

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### Detailed Analysis

<table>
<thead>
<tr>
<th>Company</th>
<th>Lender Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.23%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>0.23%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>7.19 : 1</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>1.31 : 1</td>
<td>Favorable</td>
</tr>
<tr>
<td>9.08%</td>
<td>Favorable</td>
</tr>
<tr>
<td>40.87 Days</td>
<td>Requires Explanation</td>
</tr>
<tr>
<td>1.45 : 1</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>1.39 : 1</td>
<td>Favorable</td>
</tr>
<tr>
<td>2.88 Days</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>41.59 Days</td>
<td>Favorable</td>
</tr>
<tr>
<td>98.97%</td>
<td>Unfavorable</td>
</tr>
<tr>
<td>2.04 : 1</td>
<td>Favorable</td>
</tr>
<tr>
<td>0.45</td>
<td>Unfavorable</td>
</tr>
</tbody>
</table>

- **Equity (with new collateral) to Debt**: This ratio is closely watched by creditors and investors alike, because it reveals the extent to which owners are funding operations with borrowed money, rather than their own. Bankers interpret a low ratio of equity to debt to indicate a higher risk of default on loans.

- **Profit Margin**: This is the most commonly used benchmark for determining a company's performance. Creditors want to be confident there is enough profit available to service existing and new loans.

- **Debt-to-Worth**: This ratio compares the amount of borrowed money to money contributed by owners. The higher the ratio, the greater the risk for creditors.

- **Operational Cash Flow to Current Portion of Long Term Debt**: This is a key indicator of a company's ability to pay its debts. It measures the ability to make principal payments and the availability of additional borrowing capacity.

- **Index of Sustainable Growth**: This index is useful to determine if a company could embark on a growth strategy that will require more borrowed money to fund its growth.

- **Accounts Receivable Days**: This is the average time, in days, that receivables are unpaid. Generally, the greater the number of days unpaid, the higher the probability they will never be collected. Lenders view this as an indication of a company's control over credit and collections, a measure of collection efficiency and activity, and a key contributor in determining if a company's cash flow will be adequate.

- **Current Ratio**: An indication of a company's ability to pay its current bills. Generally, the higher the number, the more confident lenders are that the company will be able to pay its bills when they are due.

- **Quick Ratio**: It is similar to the current ratio but a more conservative measure. It assumes a company will only use its readily available cash to pay its bills.

- **Inventory Turnover in Days**: It is a measure of activity and the efficient use of inventory.

- **Accounts Payable Days**: This is the number of days a company's bills remain unpaid. It might indicate a company does not have sufficient cash to pay them.

- **Breakeven % of Sales**: Percentage of sales required to breakeven. This is the point at which all bills are paid, but there is no profit.

- **EBIT Interest Loan Coverage**: This ratio is used to determine how easily a company can pay interest on the money it has borrowed.

- **Working Capital Coverage**: Indicates the extent to which a company's working capital is sufficient to cover its current liabilities.
Global Resources Training Manual

A measure of a company's ability to pay its bills without having to borrow additional money.

n. **Profit Before Tax to Net Worth** 7.92% Unfavorable

The annual profit made by a company compared to the amount of money the owner(s) invested in the business to make that profit.

o. **Profit Before Tax to Total Assets** 1.01% Unfavorable

The annual profit made by a company compared to the amount of money the owner(s) invested into business assets. This ratio is considered critical in determining a company's overall level of operating efficiency.

p. **Sales to Net Fixed Assets** 16.55 : 1 Favorable

A lender utilizes this ratio to determine if a company is investing an appropriate amount of money in assets in order to generate sales.

q. **Pro forma Debt to Net Worth** 8.19 : 1 Unfavorable

See explanation in item "c. Debt to Net Worth."

r. **Sales to Total Assets** 4.37 : 1 Favorable

This ratio compares a company's sales to the amount of money the owner(s) invested into business assets. It indicates if assets are being used efficiently in light of the volume of sales being produced.

s. **Operational Cash Flow After Debt Amortization to Total Assets** 0.01 Favorable

This ratio is used by lenders to determine if a business generates sufficient cash to make the principal payments on its loans.

t. **Existing Principal and Interest Cash Coverage** 5.19 : 1 Favorable

This ratio determines if a company generates the cash flow necessary to pay the principal and interest payments on its existing loans.

u. **New and Existing Loan Cash Coverage** 1.16 : 1 Unfavorable

This ratio determines if a company generates the cash flow necessary to pay the principal and interest payments on its existing loans and the additional loan amount included in this analysis.

v. **Sales Trend Direction** 6.81% Favorable

This trend is stated as a percentage growth for the pro forma year over the last historical year. This can be an indicator of increased profit if the company is utilizing its assets and costs efficiently. It can also be an indicator of the need to revise sales and marketing strategies.

w. **Sales to Receivables** 8.93 : 1 Requires Explanation

The speed with which a company collects the money due from its customers. It measures how effectively a company avoids delinquent customers and collects past due money.

x. **Pro forma Net Profit to Expenses Plus New Total Debt Service** 0.16 Favorable

This is a lender calculation to determine, with the addition of the new loan amount included in this analysis, will the company be able to make its combined existing and new loan payments.

y. **Altman Z-Score** 2.05 Unfavorable

The Z-Score, developed by Edward Altman, is a method to assess the current or potential likelihood of a company going out of business.
STRATEGIC VALUE ADVISORS, LLC
PRELIMINARY EXIT STRATEGY ILLUSTRATION
Prepared December 30, 2009 for:
Dorothy Gale (age 50)

<table>
<thead>
<tr>
<th>DESIRED EXIT: AGE 65 WITH $7,500</th>
<th>YEARS TO RETIREMENT</th>
<th>YEARS OF RETIREMENT</th>
<th>FUNDS REQUIRED AT RETIREMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,000,000</td>
<td>15</td>
<td>19</td>
<td>$3,080,129</td>
</tr>
<tr>
<td>$2,500,000</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>$2,000,000</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>$1,500,000</td>
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<tr>
<td>$1,000,000</td>
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<tr>
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</tr>
<tr>
<td>$-5,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The client's expected net worth at retirement based on the expected annual contributions reported on the ESI entry sheet at the stated rate of return reported on the ESI entry sheet. Here, the client can expect her net worth to be $1,328,514 at her desired exit age of 65 under her present approach.

The client's net worth at retirement (here age 65) is the result of implementing the proper systems and controls to increase profit (IPA Project) and holding onto these profits (through IFA tax planning). Exit strategy planning coordinates these endeavors.

The client asks: How much will I have at age 65? The answer is the following: under the client's present approach, she will have $3,701 per month. With exit planning, she will have $6,971 per month at age 65. Of course, if she uses Exit Strategy planning including IPA/ITA, she can exit at age 65 with the full $7,500 a month, as indicated in the left column.

The client's liquid net worth today, including cash, stocks/bonds, and retirement accounts as reported on the ESI entry sheet.

Note: In this example, the Liquid Net Worth with Exit Planning does NOT reach the Funds Required at Retirement amount. However, the Liquid Net Worth does NOT include the value of the business. As systems & controls (including tax systems & controls) are implemented to increase the profitability of the company, the value of the company will also increase (see handout entitled "How does profit affect the value of the business?"). Business Value Mapping provides the client with the benefit of gauging the value of their business increases as the business becomes more profitable.

The client asks: Why will I get myself out with $7,500 a month? The answer is the following: under the client's present approach, she can exit at age 65 with $7,500 a month. With exit planning, she can exit at age 65 with $7,500 a month. (Essentially, she is "buying" 6 years of her life.)
### Preliminary Viability Questionnaire

**A. BUSINESS PROFILE:**

1. **Business name:**

2. **Last available fiscal year end is:**
   - mm
   - dd
   - yyyy

3. **NAICS code:**
   - Replaced the SIC code, this is a 6 digit code. (111140 through 814110)
   - Additional NAICS code:
   - Percentage in this category:

4. **Vendor Relationships:**
   - a. Are key vendors willing to advance additional credit?
   - Yes
   - No
   - existing credit
   - additional required
   - b. Is company on C.O.D. with any key vendors?
   - Yes
   - No

5. **Business Financial Status:**
   - a. Is the company behind on loan payments or payables?
   - Yes
   - No
   - $ amount
   - If Yes, % factored?
   - b. Is the company currently factoring receivables?
   - Yes
   - No
   - If Yes, $ amount?
   - c. Are there any legal judgements, liens or garnishments?
   - Yes
   - No
   - If Yes, date?
   - d. Is the business currently in bankruptcy?
   - Yes
   - No
   - e. Has the client recently been advised by professionals to declare bankruptcy?
   - Yes
   - No

6. **Sales and Customer Relationships:**
   - a. Percentage of customers that pay on time:
   - 0.100%
   - b. This year, annual sales are:
   - constant
   - increasing
   - decreasing
   - If increasing or decreasing box above checked. $ amount?
   - c. Are there any contracts in hand large enough to raise sales above last year?
   - Yes
   - No
   - If Yes, $ amount?
   - d. Did the company lose any major customers in the past year?
   - Yes
   - No
   - If Yes, $ amount?
   - e. Has the company raised prices in the past year?
   - Yes
   - No
   - If Yes, %?
   - f. What is the company's trend locally?
   - Deteriorating
   - Neutral
   - Improving

7. **Business Tax Obligations:**
   - a. Are business 941 payroll tax filings current?
   - Yes
   - No
   - If delinquent, amount: $  
   - b. All other fed., state, and local tax filings current.
   - Yes
   - No
   - If delinquent, amount: $  

8. **Existing Loan Payments:**
   - (Monthly, Quarterly, etc)
   - $ amount
   - Average number of years left?

9. **Employees - (trailing year):**
   - a. Direct part time employees:
   - number
   - average hours per week
   - b. Full-time employees:
   - number
   - average hours per week
   - c. Administrative and clerical employees:
   - number
   - average hours per week
   - d. Management:
   - number
   - average hours per week
   - e. Officers / Owners:
   - number
   - average hours per week

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10 Year End Financial Information. Must enter at least one full year of historical data (last fiscal year end or trailing 12 months), one year realistic pro forma forecast (without turnaround intervention) and most current financial information.

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Historical Year End 2008</th>
<th>Forecast Pro Forma 2010</th>
<th>YTD or Current Financials</th>
<th>Forecast Pro Forma 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A/R - (Trade, Notes, Etc.)</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
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</tr>
<tr>
<td>All Other Current</td>
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</tr>
<tr>
<td>Total Current</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Fixed Assets (Net)</td>
<td></td>
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<tr>
<td>All Other Non-Current</td>
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<tr>
<td>Total</td>
<td>0</td>
<td>0</td>
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| LIABILITIES & EQUITY    |                          |                         |                            |                         |
| A/P Trade               |                          |                         |                            |                         |
| Current Amount LT       |                          |                         |                            |                         |
| Notes Payable - Short Term |                          |                         |                            |                         |
| Income Taxes Payable    |                          |                         |                            |                         |
| All Other Current       |                          |                         |                            |                         |
| Total Current           | 0                        | 0                       | 0                          | 0                       |
| Long Term Debt          |                          |                         |                            |                         |
| Deferred Taxes          |                          |                         |                            |                         |
| All Other Non-Current Liabilities |            |                         |                            |                         |
| All Other Equity        |                          |                         |                            |                         |
| Retained Earnings       |                          |                         |                            |                         |
| Total Liabilities & Equity |                      |                         |                            |                         |
| Balance Sheet Out of Balance |                  |                         |                            |                         |

| INCOME DATA             |                          |                         |                            |                         |
| Net Sales               |                          |                         |                            |                         |
| Direct Labor            |                          |                         |                            |                         |
| Materials               |                          |                         |                            |                         |
| Other Direct            |                          |                         |                            |                         |
| Total Cost Of Goods Sold |                    |                         |                            |                         |
| Gross Profit            |                          |                         |                            |                         |
| Administrative/Clerical Salaries |                |                         |                            |                         |
| Management Salaries     |                          |                         |                            |                         |
| Officer/Owner Salaries  |                          |                         |                            |                         |
| Other Operating Expenses|                          |                         |                            |                         |
| Depreciation/Amortization |                         |                         |                            |                         |
| Interest Expense        |                          |                         |                            |                         |
| Total G&A Expense       | 0                        | 0                       | 0                          | 0                       |
| Operating Profit        | 0                        | 0                       | 0                          | 0                       |
| All Other Expenses (Net)| 0                        | 0                       | 0                          | 0                       |
| Profit Before Taxes     | 0                        | 0                       | 0                          | 0                       |
| Dividends/Distributions |                          |                         |                            |                         |
PRELIMINARY SAVINGS & EXPOSURE ILLUSTRATION

PREPARED FOR:
Dorothy & Orson Owner

Estimated Tax Savings
Income Taxes
Estate/Inheritance Taxes and Fees

Estimated Tax Exposure
All Taxes Included

Totals

Other Items of Concern
Asset Protection Strategies

One Time Savings

Estimated 1st Full Year Savings Using ITA Strategies

Estimated Five Year Tax Savings Using ITA Strategies

This illustration utilizes the following Client originated estimates: 200X W-2 wages of $XXXX and 200X wages of $XXXX; current net worth of $XXXX;  a projected annual net worth growth of XX%; C-corporation 200X and 200X estimated sales of $XXXX and $XXXX, and year-over-year sales increases of XX%, XX%, XX% and XX% respectively; C-corporation Loans to Shareholders of $X and $X; and Loans from Shareholders of $X and $X.

This illustration was prepared utilizing select information from prior year tax filings and Client confidential information (including certain proprietary future years’ estimates and projections, where applicable). Where most 200X tax returns are not available, it is presumed 200X financial information is consistent with the treatment and filing of a prior year return, as adjusted. All the information required to perform the analysis in this illustration was provided to ITA by Client and/or Client’s key management personnel. all sources deemed to be reliable. No attempt has been made to verify the accuracy or completeness of this information, and any significant errors in or omissions from the information furnished would have a corresponding material effect on the analysis and the conclusions derived therefrom.

The analysis and conclusions in this illustration reflect the application of existing Statutes, IRS Regulations, Committee Reports, Revenue Rulings, Interpretation Memorandums, and applicable Case Laws. No consideration has been given to proposed legislation.

This illustration reflects preliminary projections anticipated to be effected through a combination of tax savings, tax deferrals, cost savings and profit enhancements (“Savings”). The actual Savings, estimated tax exposure, and asset protection values may vary from those shown.

Inheritance Tax Calculations assume second-to-die. However; this illustration does not consider additional tax savings upon receipt of an inheritance.

Client has never executed a will or a living trust and has never developed an estate plan.
Spotting the Issue

1. VALUATION – A VALUATION is appropriate for (and needed by) EVERY company.
   ❖ "Have you ever had a business VALUATION performed on the company?"
     
     No – “Why not?”
     Yes – “Let us examine the document to assess its compliance with IRS requirements and professional VALUATION standards.”

2. Return on Investment – “You began this company with an initial investment (or you bought into the company). What is the return on your investment?”
   ❖ “If you invested the money in the stock market wouldn’t you be tracking its value? Why aren’t you doing the same with the investment in your company?”

3. Buy-sell/Stockholder/Partnership Agreement (a.k.a. the “Business Will”) – These agreements mandate what will happen to an owner’s stock (or business interest) upon the occurrence of a certain event(s), much like a individual’s will dictates the winding-up of his/her personal affairs and the distribution of his/her assets (i.e., the term “business will”). A VALUATION is a crucial planning element for all business owners as it establishes the price per share (or partnership interest) that will have to be paid to an owner’s heirs upon the owner’s death.
   ❖ “Do you have a business will?”
     Yes – “When was it last updated?” (See No. 9, page 3.)
     “How is it funded?” If with Life Insurance – A VALUATION establishes the amount of life insurance required to purchase the deceased owner’s interest.
     “How was the amount of life insurance determined? Who determined the amount? Is the amount enough? How do you know? What if you don’t have enough insurance?”
     
     No – “What are the provisions for your stock should you die?”
     For Multiple Owners or Partners -
     “How will the company purchase your partner’s stock should (s)he die or become permanently disabled?”
     “How will the company purchase your interest from your estate?”
     For a 100% Owner - “If you should die, could the business run without you?
     Are you the key person?”
     Yes or No – “Who will acquire your shares?”
     Spouse – “Is s(he) capable of running the business? What if s(he) doesn’t want to? What are the options for their exit?”
Upon a 100% owner's death, the proceeds from life insurance can, if necessary, fund the period of time when the business is on the market to be sold. In other words, the proceeds can fund the continuance of operations, hire an interim manager and keep the machines running & the employees working, which offers more appeal (and perceived value) than an abandoned operation up for sale.

Or, key employees, vendors, suppliers, friendly competitors, or other synergistic buyer(s) can purchase stock upon owner’s departure or death.

4. Estate Planning – A VALUATION is a key element for a business owner's estate plan.

- The business is most likely the client’s largest, most valuable asset in his/her estate.
  “You know the value of your house, why don’t you know how much your largest, most valuable asset is worth?”

- Without establishing a value for the owner’s stock (or business interest) and proper estate planning based on that determined value, the owner’s estate may be forced to sell or liquidate the business to pay the owner’s estate tax obligations.

- Undervalued stock is subject to penalties up to 40% of the undervalued difference; this penalty is in addition to the added estate tax assessed on the difference.

- Proper planning avoids the pains of probate (which can take up to 2 years to settle) and eases tax burdens imposed by the IRS.

5. Exit Strategy

EVEN EXIT STRATEGY HAS A TAX CONSEQUENCE. A VALUATION establishes a price at which the exit can occur in the most tax-effective manner.

- Retirement – “When do you plan to retire? Do you plan to use proceeds from the sale of the business to fund your retirement? How much will you need to fund your retirement? If you don’t know how much your business is worth today, how can you know how much it will need to grow to fund your retirement?”

  Benchmark – A VALUATION can be used to benchmark the value of the business today to calculate how much the business needs to grow (how much the value needs to increase) to fund an owner’s retirement.

- Shareholder Buyout – “Will your partner buy your shares? How will you establish a price for the purchase? How will he/she pay for your shares?”

- Estate – Without an agreed-upon purchase arrangement (at a price established by a VALUATION and in place prior to an owner’s death), spouses or heirs of deceased owners are free to ask any price they choose for the owner’s business interest. This path typically leads to disputes and expensive litigation between the heirs and the remaining shareholder(s).
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- Succession – An owner may opt to pass his/her ownership to his/her children or other family relations, or partners, or key employees, or even a knowledgeable competitor.
  
  Gifting Stock – An owner may gift stock. The VALUATION can be utilized to maximize the amount of stock that can be gifted annually, tax-free.
  
  Stock purchase by children, key employees, etc. – The VALUATION establishes a purchase price for structuring the most tax-effective purchase possible.

6. **Family-owned Businesses** – The IRS closely scrutinizes family-owned businesses.
- This is because family members tend to transfer stock at a lesser “I LOVE YOU” value, rather than at the IRS’ required standard of value Fair Market Value (FMV).

  ♥ ≠ FMV

  ♥ = IRS penalties

- “Have you gifted stock in the past 3 years?”
  
  Yes – “The IRS has a 3-year statute of limitations to examine your transfer. Let us examine the transfer to see if it meets IRS regulations.”

- “Do you have a stock purchase agreement between family members?”
  
  Yes – “Let us examine the agreement to assess whether it meets IRS regulations.”
  
  To be valid, a family Stock/Ownership Agreement must pass 3 tests:
  
  1) It must be a bona fide business arrangement
  2) The purchase must be for not less than full & adequate consideration
  3) It must be the equivalent of a “arm’s length transaction”

7. **Proactive Vs. Reactive** – The VALUATION allows business owners to be proactive versus reactive.

- Proactive = paying minimal to zero estate and gift taxes; paying only “your fair share” of taxes imposed on the transfer of business interests.

- Reactive = The business owner’s estate and family may be required to pay excessive estate and gift taxes; potential undervaluation penalties of up to 40% and possibly have to liquidate the business, along with other personal assets, to pay taxes and penalties.

8. **Who should conduct the VALUATION?**

  “Not your CPA!”

  ♥ “Your CPA is not an unbiased, independent third party. He/she is familiar with your books (possibly having created them), and therefore may have a bias opinion.”

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- "Having your CPA conduct your VALUATION is like a mother judging her own daughter's beauty contest."

**An accredited VALUATION professional:**

- Should be certified through one or more of the 4 U.S. professional VALUATION associations (NAVCA, ASA, IBA, or AICPA)

**A professional appraiser experienced in the client's particular industry:**

- Every industry has nuances which dictate special VALUATION considerations. Without the experience of valuing companies within the client's industry, an appraiser might apply inappropriate methodologies or assumptions that would yield an erroneous value.

**A professional appraiser familiar with and experienced in abiding by IRS VALUATION regulations as promulgated in the Internal Revenue Code:**

- Misinterpreting or not abiding by IRS regulations could potentially subject a business owner to undervaluation penalties of up to 40%.

9. **"How often should my VALUATION be updated?"**

A VALUATION should be performed approximately every 2 years (or subsequent to the occurrence of a significant event in the business), to keep the ownership interest value current.

***3 triggering factors that necessitate a more frequent update:***

1. Change in assets (opening a new location, acquiring a competitor)
2. Change in intentions (marriage, divorce, children, etc.)
3. Change in tax law (the law changes every 2 yrs. through 2010)
Business Valuation Services

Question: Valuations can be performed for Tax related or Non-Tax related purposes. What's the difference between Tax-related Valuations and Non-Tax related Valuations?

Answer: The defined purpose determines the valuation process. Due to the particular nuances and circumstances of each purpose, Tax-related Valuations are approached differently than Non-Tax related Valuations.

*The Defining Purpose For Valuing A Business*

The defining purpose for valuing a business falls into one of two categories, Tax related or Non-Tax related. These purposes are so distinctively different that they require the use of different methods and approaches and, thus, generate different values.

**Tax related** purposes include determining the value for: applicable estate taxes or gift taxes due, a Employee Stock Option Plan (ESOP), an Employee benefit plan, solvency or insolvency opinions, a Buy/Sell Agreement, a shareholder agreement, a stock option plan, allocation of a lump-sum purchase price (Code Section 338 and 1060 allocations), ad valorem tax planning and determination, charitable contributions, retirement planning, succession planning, estate planning, transactional tax-impact planning, etc.

**Non-Tax related** purposes include purchases, sales and divestitures, mergers and acquisitions, fairness opinions, shareholder transactions, capital infusions, start-up valuations, collateral valuations, pricing, determining insurable value, pre-sale value enhancement analysis, private capital raise, eminent domain proceedings, non-tax related litigation support issues such as partner/shareholder disputes, marital dissolution (divorce), bankruptcy and reorganization, class action disputes, mediation and arbitration, anti-trust, damage/economic loss such as those resulting from breaches of contract/warranty, lost business opportunity, infringement, lender/leasor liability, malpractice/negligence actions, product liability, etc.

*The Appropriate Valuation Standard To Be Applied*

The standard for Tax-related valuations is 'fair market value'. The standard of value for Non-Tax related valuations may be 'fair market value' or it may be 'fair value', 'intrinsic value' or 'investment value'. However, even when the standard of value for Non-Tax related valuations is 'fair market value', the process in arriving at fair market value is distinctly different from that of Tax related valuations.
**Fair Market Value:** Revenue Ruling 59-60, under the Internal Revenue Code, defines *fair market value* as “the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.” It reflects the consensus opinion among all the buyers and sellers constituting the market for the property as to its worth, rather than the opinion of any individual buyer.

**Fair Value:** SFAS No. 141 defines *fair value* as “the amount of which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.” It is a judicial concept with the method used to arrive at the value being defined by statute and relevant case law, and therefore differs by state and by the purpose of the Valuation. It refers to an equitable, just, and reasonable value that is determined without reference to either a simulated or real market transaction, as the owner has no interest in entering the market at all. With regard to dissenting shareholders, it is the value of the shares immediately before the effectuation of the corporate action to which the dissenter objects, excluding any appreciation or depreciation in anticipation of the corporate action (unless such exclusion would be inequitable).

**Intrinsic Value:** IRS Business Valuation Standards define *intrinsic value* as “the value that an investor considers, on the basis of an evaluation or available facts, to be the “true” or “real” value that will become the market value when other investors reach the same conclusion.” Intrinsic value is sometimes referred to as *fundamental value*. It differs from *investment value* in that it represents an analytical judgment of value based on the perceived characteristics inherent in the investment, not tempered by characteristics peculiar to any one investor, but rather tempered by how these perceived characteristics are interpreted by one analyst versus another. Since value is a function of expected future earnings, intrinsic value can be discerned from an objective analysis of those fundamental factors that give rise to earnings, which in the case of a business include products, market share, quality, etc.

**Investment Value:** IRS Business Valuation Standards define *investment value* as “the value to a particular investor based on individual investment requirements and expectations” (as distinguished from the concept of market value which is impersonal and detached). It reflects the synergies, a tax rate specific to the investor, policies the investor is likely to implement, the individual investors expectations of the benefits to be derived from ownership, cost of capital, perception of and tolerance for risk, acquisition criteria, mix of debt and equity involved in the transaction, the investor’s overall investment portfolio, and other unique characteristics. The investment value may be higher than the fair market value, providing the investor with an incentive to buy, or it could be lower, prompting the investor to sell; however, we typically find it reflected in the prices paid for comparable businesses investments.

**The Difference Between Tax Related and Non-Tax Related Valuations**

**Tax-related Valuations** are based on the value of a business to a hypothetical buyer who would have no special synergy with, or relationship to, the seller; relying on historical records with
little to no consideration being given to future projections, and only considering the value of assets to which the holder has an existing legally transferable interest.

Although the standard of value for estate, gift, and inheritance taxes is ‘fair market value’, the fact that the seller might be able to command a higher price due to some feature that might be uniquely valuable to a ‘particular’ buyer is not be considered. For example, legal precedents have established that items with intangible value are taxable only if the owner has the legal right to transfer them.

Similar applications of the Tax-related standard of value apply to Employee Stock Option Plans (ESOPs), Employee benefit plans, solvency or insolvency opinions, Buy/Sell Agreements, stock option plans, allocation of a lump-sum purchase price (Code Section 338 and 1060 allocations), ad valorem tax planning and determination, charitable contributions, retirement planning, succession planning, estate planning, transactional tax-impact planning, etc.

As a matter of policy, all estate plan related valuations are ultimately reviewed by the Internal Revenue Service. Accordingly, Accountancy Associates takes special care in preparing Valuations utilized for this purpose to assure they comport with IRS review requirements emphasized during Valuation training for Appeal Officers.

**Non-Tax related Valuations** represent the balance of the spectrum (involving marketplace and non-marketplace purposes), and may take into consideration supply and demand, relevant economic factors prevalent at the time, industry specific market and competitive factors, pro forma projections and other special interests, depending upon the specific purpose of the Valuation.

**AS A PRACTICAL MATTER, VALUATIONS FOR TAX PURPOSES PLACES MORE RELIANCE ON A COMPANY'S HISTORICAL RECORDS THAN DO VALUATIONS FOR SALE OR A CAPITAL INFUSION, WHICH OFTEN RELY ON PROJECTIONS.**

*The Importance Of The Related Purpose*

**Transaction-Related Purpose.** Often a business owner requires a valuation in connection with the purchase or sale of a business operating as a going concern. When putting a business up for sale, the seller places a value on the business. The seller's value assumptions may include the business's value in his or her hands as an operating concern, with risks relating to customer relations continuity, earnings stream stability and longevity, and industry knowledge.

The buyer may evaluate the business's usefulness as an addition to current operations, presuming incremental value. Or the buyer may look at the business as a new venture, estimating risk and analyzing uncertainties to determine the business's future benefits. As negotiations continue, in a free and open market, the buyer and seller attempt to agree on a value and consummate the deal. This becomes the "meeting point" for the buyer's and the seller's assumptions.
Financing-Related Purpose. Another valuation purpose is to obtain financing. A lender's valuation looks for projected future cash flow to meet the lender's interest and principal payments, and sufficient liquidation value of the related collateral should the deal become a losing proposition. This differs from seller and buyer assumptions, which presume going-concern values and evaluate earnings. A lender's assumptions are also at odds with the actual assumptions used to calculate projected future cash flow.

Tax-Related Purpose. Many valuations stem from IRS tax-reporting requirements. The value of an investment included on an estate or gift tax return would most likely be different from its valuation in an initial public offering. It may be the same company, but it's unlikely to be the same value. Why? Because tax valuations set their own particular standard, which may be inappropriate for another purpose.

Transfer-tax valuations clearly presume the loss of what may have been a key employee. They also assume that the prospective buyer and seller are hypothetical, with no motivation or specific incentive to enter into a transaction. In addition, these valuations are likely to account for the possibility of investment liquidation to pay transfer taxes. Transfer-tax valuations are inherently conservative.

Ownership-Related Purpose. Valuations for partner/shareholder purposes also have unique assumptions. For example, if a buy-sell agreement is designed to penalize a shareholder for terminating ownership or employment, the valuation method would clearly not reflect market value, even though the agreement may refer to the buyout price as market value.

For intra-family transfers, book value is often the transfer value, but rarely does book value correspond to value for any other purpose. And at the other end of the spectrum, when the buy-sell agreement is funded with life insurance proceeds, the controlling presumption in determining the market value is often the owner's life insurance and estate needs rather than the company's value.

Litigation-Related Purpose. Valuations for litigation purposes create a situation in which the claim's nature and counsel's legal interpretations of the client's needs may affect a valuators' assumptions.

Fortunately, valuators can point to many examples to justify their opinions. In shareholder disputes, for example, the market value multiple of a multinational, public company may not be representative in determining the value of an entrepreneurial business.

In domestic relations matters (divorce/marital dissolution), the parties involved may not be contemplating a sale, so the tax definition presuming a willing buyer and a willing seller will not apply. In fact, the business owner or spouse really may be an unwilling seller and, at the same time, a particular buyer. A valuation report for this purpose is typically based on the specific jurisdictional rules that exist for the type of litigation and venue in which the matter is being tried.
EXIT STRATEGY PLANNING

Exit Strategy means different things to different people. Its meaning for the client is only limited by the client’s desires and imagination.

It may mean divestiture of ownership by sale, succession (family or management), ESOP, or IPO.

Or, it may be an interim transition strategy to expand services or markets, relocate the company, reposition the company in its industry or in another industry, divestiture of non-core businesses, insure career advancement (by management without ownership interest), etc. Without a doubt – it is departure from the client’s present state of affairs to something new and different. It is an evolutionary process in the life-cycle of the client’s business and personal endeavors which will enrich the quality of the client’s life and promote an uncompromised and financially secure future.

In many ways, the exit strategy process is similar to building the client’s dream house. The client has wonderful ideas of what they want the house to look like and the amenities it will contain.

So what’s the first step? Would the client call the trades people together (the mason, carpenter, roofer, electrician, plumber, drywall, painter, landscaper, interior decorator, etc.) and say build my dream home? Of course not. For those trades to be effective they require a “blueprint” which specifies, in detail, the part they will play in this process, what is required of them, and the date(s) by which their “results” or “deliverables” must be provided.

Who provides this blueprint? An architect, of course – someone who has intimate knowledge of each trade and the regulatory and code requirements that must be met as part of the process. Without the architect this process is overwhelming and most likely unachievable. What “trades” are utilized in the exit strategy process? Every interim and final exit strategy requires the services of a team: three attorneys (general business, estate and tax), a CPA, stockbroker, personal/commercial banker, financial planner, insurance agent, benefits advisor, business valuator/appraiser, business broker or investment banker, real estate agent, and a general and/or specialized business consultant. Imagine the cost of bringing all these experts together in one room!

Aside from the cost, conflicts inevitably occur among experts. A financial planner would have a different approach than a CPA, and a tax attorney could have a contrasting opinion to that of the business broker. These professionals view the process from their individual perspectives and are advocates of how their specific products or services should be combined to provide a solution for their client. Instead, they must put aside individual perspectives and advocacy and act as a team focused on the client’s best interests. It is only through efficient teamwork that it is possible to capture the desired outcome in the shortest period of time.
TRAINING CASE STUDY

Analyst Job Assignment Information:

Job Number: 212212625
Client: Jeffries Pipe Supply
Address: 999 Industrial Avenue
         Buffalo, NY
Fee: $750.00
Start Time: 8:00 AM Monday, January 25, 2010
Number of Employees: 17
Volume: $1.5 mm
Meet With: Morris Jeffries, 100% Owner
Company Type: Supplier for underground pipe and municipal services. Also has
              on-site fabrication plant for custom modifications.
Concerns: Labor Cost Containment
          Sales & Marketing
          Administration
GENERAL COMPANY INFORMATION

The company was started in July 1971 as “The Cloud Company”, at that time it was incorporated in the state of New York as a “C” corporation with a calendar year end. The original location was designed for a clay company, but this company was setup to sell iron and clay pipe to contractors and municipalities. As the company grew it added plastic and synthetic pipe along with valves and fittings, but no concrete pipe.

In 1997, during a long illness of the founder, the company had problems and nearly went under. In 1998 Morris Jeffries who was general manager at that time purchased the corporation and changed the company name. Mr. Jeffries currently holds all of the officer positions in the firm, i.e. President, Secretary and Treasurer. There are no affiliated or subsidiary companies involved.

The company’s market area is 80 – 85% of the Buffalo area, with some of Rochester. The company sells to contractors and municipalities through its sales force of 3 people plus Mr. Jeffries. The company business tends to be highly seasonal due to the nature of the products sold and the impact of the weather on the issuance of contracts. The company does considerable advertising and promotion utilizing primarily giveaways’ which does seem to be effective yet costly at the moment. The sales people are paid a base plus a bonus/commission on gross profit over cost. The profit contribution is tracked by salesperson and territory but not by product or product line. Each salesperson gets a monthly sales report and daily invoice summaries. The company constantly reviews the products available for sale.

The company’s volume for the prior year was in the $1.5 mm range with a net loss of $90k. Mr. Jeffries believes the company requires a volume in the area of $1.8 mm to break-even each year.

The company uses Peachtree accounting computer system, which is a fully integrated program, primarily accounting but also capable of some management reporting functions. It includes general ledger, accounts receivable, accounts payable, inventory management, service orders, and purchase order modules.

The company receives orders either from call-ins or salesperson marked for the pick-up bin, as already picked up (mostly call-ins or walk-ins), or scheduled for delivery. Custom fabrication orders take anywhere from a few days to several weeks. All the paperwork is done and the order is invoiced the next day following shipment or delivery. During the bust season the company carries about 1600 part numbers with over 1000 items stocked. The annual physical inventory takes about a week to complete. However, Mr. Jeffries thinks there is little or no obsolescence on the $250,000 in inventory since it turns, varying by item, 6 to 12 times a year.

The company utilizes about 18 to 20 vendors who are measured based on the service they provide to the company. Purchase orders are issued on all material purchases but not on all purchases. Vendors whose service is consistently poor are dropped but that has not happened for a while. A lack of cash flow prohibits taking cash discounts on the $337,000 in accounts payable.

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The company invoices on Net 30 day terms, but averages 70 days in accounts receivable with accounts receivable running about $250,000.

The company has a line of credit of $150,000, which is drawn down completely. In addition it owes a note to the Cloud Company for the original purchase of about $75,000 and Mr. Jeffries has another personal note not reflected on the company books to Mr. Jeffries’ father-in-law for $90,000 which was borrowed as part of the original down payment in 1998 when the company was purchased and to expand the fabrication department.

At the current time the company employs seventeen people but adds 1-2 additional yardmen during the busy season. A second person for the office has been hired but will not start for a couple of weeks. The current employee count breaks down as follows:

- Executive: 1
- Sales: 3
- Office: 1
- Plant Mgmt: 1
- Journeymen: 5
- Skilled Labor: 5
- Driver: 1

**Morris Jeffries**

**Personal Information:**

You are 49 years old. Your wife’s name is Janet and you have two sons. The oldest is 20 and in college and the youngest is 16 and still in high school. You purchased this company more out of survival than desire. You had started at the original company in 1989 as a truck driver and worked your way up to being the general manager. At this point you are working 80 hours a week, and while you think you know how to manage you just aren’t sure. Janet helps out Bonnie from time to time in the bookkeeping area, but would rather not be involved. You haven’t decided about retirement but know it would be nice to be able to retire in another 10 or 15 years. Neither of your sons has indicated any desire to become a part of the business.
Opinions about the company:

You believe that most of the people are happy working for you because they have been here a long time. While you may ask for input you make all the decisions on policy or anything else and believe they appreciate that. You figure that the low employee turnover indicates you are doing things right. You are convinced that your return on your salespeople is pretty good, and your return on your advertising and promotion is really effective right now. You also believe that your customer satisfaction is good but that it could always be better, especially since customers are constantly looking for more items.

You don’t really manage this business from your financial statements, which you run a couple of times a year. One thing you don’t get is cost formats that you like and feel you can use. You also lack any formal way of checking productivity, although you can check sales by the numbers. On everyone else all you can do is watch them. You try to delegate all plant operations to John Westerville who has overseen all fabrication for years.

You feel that the bonuses you give annually are additional incentives for everyone to work at peak all the time.

You don’t have formal meetings with any of your people, but you do talk to them all on an informal basis every day. You consider everyone to be key at this point and are happy with them. In fact if they were to leave in an amiable fashion you would probably re-hire them. You rely heavily on Matt Ford as your second man especially during the season of May to November. John Westerville and Lewis Andowski are given great latitude to manage their areas.

You don’t cash forecast on a formal basis; instead you look at your payables and decide who to stretch. It is very much a back of the envelope, or seat of the pants method. Finding some way to improve your cash flow by improving your collections is your most urgent problem while just keeping more of the cash longer is the most important issue facing you. You feel like you control your operating expenses because you do all the major purchases.

Hopes and Aspirations:

You believe that the trends in the industry are slowly coming full circle. It used to be that manufacturers sold the product, then in the 1990’s distributors started to grow, especially major chains. Now things are returning to regional manufacturers, and more Mom & Pop distributors. The manufacturers are dealing with more distributors. Regional contractors are becoming better businessmen and municipalities are going more to quotation and bid. Prior relationships and quality seem less important.

Your future plans are to keep things steady as it is, build a stronger balance sheet, eventually take advantage of cash discounts, and become a little bigger and a little better and a bit more profitable. You would also like to be able to reduce the number of hours you work and take a long vacation without worrying about the business. You would like the business to be in a

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position that when you are ready you can either sell it or retire and let one of your sons have it if either wants it.

You have never used a consulting service before and almost decided not to do it, but decided that it would be nice if someone could come in and for a couple of days overlook the entire operation. Give it a checkup, although you assume everything is right, it would be nice to have a reality or health check.

You don’t know much about BAS except that they are Management Consultants and the brochure indicated that they would do a good check.

You and Janet are currently drawing a combined salary of approximately $41,000 a year along with all the normal benefits of owning a company.

Dorrie Vertini

You have been with this company and its predecessors since inception. You are the outside sales person responsible primarily for municipalities and small contractors. It is your belief that a lot of municipalities have loyalties to your competitors. You spend the majority of your time dealing with municipalities.

You feel that Morris is good to work for and works well with his people. You find him to be very supportive. You feel like there is good teamwork within the company.

However, communications sometimes suffer because of the volumes being handled. In your opinion a volume increase would cause significant problems.

Right now, the salespeople do all their own ordering and follow-up. If it was all done by one person, the way you feel it should be, it would probably reduce the freight cost. It would definitely improve your ability to be out seeing people, therefore, increasing the potential for making more sales.

If it were possible, you would like to see the company be bigger, with better cash flow, one person inside doing the purchasing, and higher profit margins; but you know the market drives the pricing.

Dewey Fredrickson

You have been with this company and its predecessors for the past fifteen years. While you are considered an outside salesperson like everyone else you are required to do everything; bids, quotes, setup orders, order material, load material, and ship it. You like this job because you can do pretty much what you want as long as you do the job and produce. You feel that
everybody has grown up together, which sometimes causes them to fight like brothers and sisters. You feel a lot of stress from trying to care for the customer.

You would like to see much better communication since things happen very quickly. Sometimes, you and someone else will sell the same items, causing delivery scheduled to be shifted and other problems. If there was a way for you and the others to communicate more about each others’ customers and orders, it would help a bit. The plant could improve their response time for your best customers increasing the future dependence.

You know that you are probably the most disorganized person in the company. Morris is the second most disorganized. You think that the company needs more staff and that this is the time to hire and train them.

**Matt Ford**

You have been with the company since 1989. In addition to outside sales you are also responsible for purchasing all items for inventory and the office.

You generally like the company and the people in it. You feel that the people are good and there is a lot of teamwork except for one person. This is the same person who doesn’t put in the effort needed, fouls ups, and doesn’t get told about it, and it causes disruptions and problems for everyone else. On some days you can feel the tension this causes. You don’t know why he doesn’t do anything.

You know the company is always quite busy in the summer and you try to buy optimally for it. You and everyone else are in agreement that there should be more in inventory. You feel a need to check certain areas.

You believe that everyone concentrates on their own things too much, which causes problems; this means no one has enough time to think or to revise equipment.

You know that the company could use at least one more person in addition to the extra office person starting in two weeks, to alleviate some of the duplication of efforts.

You would like to see more structure so that the double ordering, extra freight costs, and duplication would be diminished. You would like to have better communications and the paperwork systems reviewed and revised. You know you would like to have a better way to control inventory instead of being out of stock. You don’t know how the reorder report works, so you don’t use it.

You like the flexibility of being both the purchasing agent and an outside salesperson but you don’t feel you are doing enough calling on customers due to the time demands inside.
You don’t think there are any standards except sales. You feel that basically everyone is doing a good job.

**Bonnie Maraco**

You are responsible for doing everything in the office. Although that consists primarily of invoicing, prepaying checks, making deposits, dealing with anyone at the counter, (customers, deliveries, etc.), answering phones, filing and all the typing. You are not involved in collections only the salespeople do that; you do speak with customers about problems on checks or invoices.

You have been working here three years, and you love working for Morris. You find him very easy going, in fact, at times too much so. You feel you can always talk to him but he likes people to handle their own problems.

You are looking forward to someone coming in to help so you can begin to do other things. You would really like to know exactly what is expected of you since there is a lot of overlapping duties. You get more hysterical than Morris when work is incomplete. Morris does all of the receiving and mail, all of the part numbering, services his own accounts and pays the bills.

You think that all the salespeople seem to be at their maximum. They handle all the pricing for the invoices. You do all the typing including bids. It seems to you that Matt spends a lot of time in the office.

You believe that everyone gets along, but communication really slips when things begin to get hectic. You would like to change Dewey’s attitude. He seems like he can only handle one crisis at a time. He gets upset and expects you to handle them for him. Morris is aware of this but hasn’t done anything about it.

**John Westerville**

You are responsible for the fabrication plant, which is the key to providing the company’s market advantage. Give your people any configuration and they can make it.

Your employees are the best the area has to offer. Everyone seems to like their job. They are dedicated to maintaining excellent quality. Sales does not understand the constraints of continually increasing volume. The plant is nearing its capacity output without adding a second shift. You have identified two candidates to supervise a second shift if Morris wants to continue to grow the company volume. It will however take time to find the additional qualified workers.
Jeffries Pipe Supply  
Income Statement  
Dec. 31st, 2013

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>$1,575,743</td>
</tr>
<tr>
<td><strong>COSTS OF GOODS SOLD</strong></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
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</tr>
<tr>
<td>Wages</td>
<td>$214,634</td>
</tr>
<tr>
<td>Subcontract</td>
<td>$45,177</td>
</tr>
<tr>
<td>Yard Supplies</td>
<td>$3,461</td>
</tr>
<tr>
<td><strong>Cost of Goods Sold</strong></td>
<td>$1,273,929</td>
</tr>
<tr>
<td><strong>GROSS PROFIT</strong></td>
<td>$301,814</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
</tr>
<tr>
<td>Officer’s Salaries</td>
<td>$45,000</td>
</tr>
<tr>
<td>Administrative Salaries</td>
<td>$67,723</td>
</tr>
<tr>
<td>Taxes</td>
<td>$6,940</td>
</tr>
<tr>
<td>Taxes &amp; Licenses</td>
<td>$1,863</td>
</tr>
<tr>
<td>Freight</td>
<td>$2,970</td>
</tr>
<tr>
<td>Credit Services</td>
<td>$1,671</td>
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<tr>
<td>Advertising</td>
<td>$12,293</td>
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<td>Postage</td>
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<td>Office Supplies</td>
<td>$8,532</td>
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<td>Uniforms</td>
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<td>Contributions</td>
<td>$1,012</td>
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<td>Telephone</td>
<td>$6,120</td>
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<tr>
<td>Equipment Rental</td>
<td>$2,526</td>
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<tr>
<td>Gasoline &amp; Oil</td>
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</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
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<tr>
<td>Rent</td>
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<tr>
<td>Utilities</td>
<td>$6,098</td>
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<tr>
<td>Depreciation</td>
<td>$8,796</td>
</tr>
<tr>
<td>Bank Charges</td>
<td>$15,349</td>
</tr>
<tr>
<td>Sales Commission &amp; Salaries</td>
<td>$73,202</td>
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<tr>
<td>Insurance- Officer’s Life</td>
<td>$1,749</td>
</tr>
<tr>
<td>Insurance- Medical</td>
<td>$11,182</td>
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<tr>
<td>Insurance- Other</td>
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<td>Professional Fees</td>
<td>$7,223</td>
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<td><strong>Total Operating Fees</strong></td>
<td>$341,427</td>
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<td><strong>Income/(Loss) From Operations</strong></td>
<td>($39,613)</td>
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<tr>
<td><strong>OTHER (INCOME)/EXPENSE</strong></td>
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<tr>
<td>Interest Income</td>
<td>($58)</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>$2,733</td>
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<tr>
<td>Loss(Gain) on Sale of Assets</td>
<td>($2,100)</td>
</tr>
<tr>
<td><strong>INCOME/(LOSS) BEFORE TAXES</strong></td>
<td>($40,188)</td>
</tr>
</tbody>
</table>
Jeffries Pipe Supply  
Income Statement 
Dec. 31st, 2012

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$1,311,481</td>
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<tr>
<td>Purchases</td>
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<tr>
<td>Wages</td>
<td>$153,092</td>
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<td>Subcontract</td>
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<td>Yard Supplies</td>
<td>$2,531</td>
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<tr>
<td><strong>Cost of Goods Sold</strong></td>
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<tr>
<td><strong>GROSS PROFIT</strong></td>
<td>$285,789</td>
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<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
</tr>
<tr>
<td>Officer's Salaries</td>
<td>$45,000</td>
</tr>
<tr>
<td>Administrative Salaries</td>
<td>$52,656</td>
</tr>
<tr>
<td>Taxes</td>
<td>$7,043</td>
</tr>
<tr>
<td>Taxes &amp; Licenses</td>
<td>$1,983</td>
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<tr>
<td>Freight</td>
<td>$2,389</td>
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<tr>
<td>Credit Services</td>
<td>$1,043</td>
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<td>Advertising</td>
<td>$5,850</td>
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<td>Postage</td>
<td>$1,045</td>
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<tr>
<td>Office Supplies</td>
<td>$6,453</td>
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<tr>
<td>Uniforms</td>
<td>$1,277</td>
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<tr>
<td>Contributions</td>
<td>$850</td>
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<td>Equipment Rental</td>
<td>$345</td>
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<tr>
<td>Gasoline &amp; Oil</td>
<td>$5,467</td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>$14,665</td>
</tr>
<tr>
<td>Rent</td>
<td>$21,600</td>
</tr>
<tr>
<td>Utilities</td>
<td>$5,987</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$8,800</td>
</tr>
<tr>
<td>Bank Charges</td>
<td>$10,956</td>
</tr>
<tr>
<td>Sales Commission &amp; Salaries</td>
<td>$52,100</td>
</tr>
<tr>
<td>Insurance- Officer’s Life</td>
<td>$1,749</td>
</tr>
<tr>
<td>Insurance- Medical</td>
<td>$10,182</td>
</tr>
<tr>
<td>Insurance- Other</td>
<td>$17,629</td>
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<td>Professional Fees</td>
<td>$12,432</td>
</tr>
<tr>
<td><strong>Total Operating Fees</strong></td>
<td>$293,651</td>
</tr>
<tr>
<td><strong>Income/(Loss) From Operations</strong></td>
<td>($7,862)</td>
</tr>
</tbody>
</table>

**OTHER (INCOME)/EXPENSE**
- Interest Income            | ($823)    |
- Interest Expense           | $2,451     |
- Loss/(Gain) on Sale of Assets | ($487)    |

**INCOME/(LOSS) BEFORE TAXES** | ($9,003)
# Jeffries Pipe Supply
## Income Statement
### Dec. 31st, 2011

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>$1,057,817</td>
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<tr>
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<tr>
<td>Purchases</td>
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<td>$105,730</td>
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<td>Subcontract</td>
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<td>Yard Supplies</td>
<td>$1,034</td>
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<tr>
<td><strong>Cost of Goods Sold</strong></td>
<td>$795,188</td>
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<tr>
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<td>$262,629</td>
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<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
</tr>
<tr>
<td>Officer’s Salaries</td>
<td>$43,250</td>
</tr>
<tr>
<td>Administrative Salaries</td>
<td>$38,244</td>
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<tr>
<td>Taxes</td>
<td>$4,576</td>
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<tr>
<td>Taxes &amp; Licenses</td>
<td>$1,976</td>
</tr>
<tr>
<td>Freight</td>
<td>$3,567</td>
</tr>
<tr>
<td>Credit Services</td>
<td>$1,245</td>
</tr>
<tr>
<td>Advertising</td>
<td>$5,965</td>
</tr>
<tr>
<td>Postage</td>
<td>$1,232</td>
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<tr>
<td>Office Supplies</td>
<td>$8,217</td>
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<tr>
<td>Uniforms</td>
<td>$1,244</td>
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<tr>
<td>Contributions</td>
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<tr>
<td>Telephone</td>
<td>$3,345</td>
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<tr>
<td>Equipment Rental</td>
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</tr>
<tr>
<td>Gasoline &amp; Oil</td>
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</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>$12,432</td>
</tr>
<tr>
<td>Rent</td>
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<td>Utilities</td>
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<td>Depreciation</td>
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<td>Insurance- Medical</td>
<td>$6,953</td>
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<tr>
<td>Insurance- Other</td>
<td>$10,712</td>
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<td>Professional Fees</td>
<td>$12,678</td>
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<tr>
<td><strong>Total Operating Fees</strong></td>
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</tr>
<tr>
<td><strong>Income/(Loss) From Operations</strong></td>
<td>($324)</td>
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<td><strong>OTHER (INCOME)/EXPENSE</strong></td>
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<tr>
<td>Interest Income</td>
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<tr>
<td>Interest Expense</td>
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<tr>
<td>Loss(Gain) on Sale of Assets</td>
<td>($687)</td>
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<tr>
<td><strong>INCOME/(LOSS) BEFORE TAXES</strong></td>
<td>($1,200)</td>
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</tbody>
</table>
Jeffries Pipe Supply  
Income Statement  
Dec. 31st, 2010

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Sales</td>
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<td>Wages</td>
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<tr>
<td>Subcontract</td>
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<tr>
<td>Yard Supplies</td>
<td>$988</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
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</tr>
<tr>
<td><strong>GROSS PROFIT</strong></td>
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<tr>
<td><strong>OPERATING EXPENSES</strong></td>
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<tr>
<td>Officer’s Salaries</td>
<td>$43,250</td>
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<tr>
<td>Administrative Salaries</td>
<td>$30,765</td>
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<tr>
<td>Taxes</td>
<td>$2,356</td>
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<tr>
<td>Taxes &amp; Licenses</td>
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<td>Freight</td>
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<tr>
<td>Credit Services</td>
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<td>Advertising</td>
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<td>Postage</td>
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<tr>
<td>Office Supplies</td>
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<tr>
<td>Uniforms</td>
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<tr>
<td>Contributions</td>
<td>$150</td>
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<tr>
<td>Telephone</td>
<td>$3,267</td>
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<tr>
<td>Equipment Rental</td>
<td>$956</td>
</tr>
<tr>
<td>Gasoline &amp; Oil</td>
<td>$3,967</td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>$7,498</td>
</tr>
<tr>
<td>Rent</td>
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<tr>
<td>Utilities</td>
<td>$4,250</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$13,400</td>
</tr>
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<td>Bank Charges</td>
<td>$4,250</td>
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<tr>
<td>Sales Commission &amp; Salaries</td>
<td>$49,540</td>
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<tr>
<td>Insurance- Officer’s Life</td>
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<td>Insurance- Medical</td>
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<td>Insurance- Other</td>
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<tr>
<td>Professional Fees</td>
<td>$8,823</td>
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<tr>
<td>Total Operating Fees</td>
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<tr>
<td><strong>Income/(Loss) From Operations</strong></td>
<td>$18,410</td>
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<td><strong>OTHER (INCOME)/EXPENSE</strong></td>
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<td>Interest Income</td>
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<tr>
<td>Interest Expense</td>
<td>$1,977</td>
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<tr>
<td>Loss/(Gain) on Sale of Assets</td>
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</tr>
<tr>
<td><strong>INCOME/(LOSS) BEFORE TAXES</strong></td>
<td>$16,433</td>
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</table>
Jeffries Pipe Supply
Balance Sheet
Dec. 31, 2013

Assets

<table>
<thead>
<tr>
<th>Current Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
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</tr>
<tr>
<td>Accounts Receivable</td>
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</tr>
<tr>
<td>Inventory</td>
<td>$166,750</td>
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<tr>
<td>Due From Stockholder</td>
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</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>$287,324</strong></td>
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</table>

<table>
<thead>
<tr>
<th>Fixed Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture &amp; Fixtures</td>
<td>$20,223</td>
</tr>
<tr>
<td>Vehicles</td>
<td>$87,277</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>$54,730</td>
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<tr>
<td>Machinery &amp; Equipment</td>
<td>$239,895</td>
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<tr>
<td>Equipment Under Capital Lease</td>
<td>$134,834</td>
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<tr>
<td><strong>Less: Accumulated Depreciation</strong></td>
<td>($80,481)</td>
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<td><strong>Total Fixed Assets</strong></td>
<td><strong>$456,478</strong></td>
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</table>

<table>
<thead>
<tr>
<th>Other Assets</th>
<th></th>
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<tbody>
<tr>
<td>Organization Costs</td>
<td>$2,800</td>
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<tr>
<td>Less: Accumulated Amortization</td>
<td>($2,435)</td>
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<tr>
<td>Net Organization Costs</td>
<td>$365</td>
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<tr>
<td>Security Deposits</td>
<td>$6,500</td>
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<tr>
<td><strong>Total Other Assets</strong></td>
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</table>

**Total Assets**                      | **$750,667**|

Liabilities and Stockholders’ Equity

<table>
<thead>
<tr>
<th>Current Liabilities</th>
<th></th>
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<tbody>
<tr>
<td>Accounts Payable</td>
<td>$222,123</td>
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<tr>
<td>Payroll Taxes Payable</td>
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<td>Due to GW</td>
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<tr>
<td>Line of Credit</td>
<td>$50,000</td>
</tr>
<tr>
<td>Current Portion of Long Term Debt</td>
<td>$10,223</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td><strong>$398,835</strong></td>
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</table>

<table>
<thead>
<tr>
<th>Long Term Liabilities</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Capital Bank</td>
<td>$123,482</td>
</tr>
<tr>
<td>Note Payable</td>
<td>$218,224</td>
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<tr>
<td>Less: Current Portion</td>
<td>($10,223)</td>
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<tr>
<td><strong>Total Long Term Liabilities</strong></td>
<td><strong>$331,483</strong></td>
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<table>
<thead>
<tr>
<th>Other Liabilities</th>
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</thead>
<tbody>
<tr>
<td>Deferred Income Taxes</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total Other Liabilities</strong></td>
<td><strong>$0</strong></td>
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**Total Liabilities**                  | **$730,318**|

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<tbody>
<tr>
<td>Preferred Stock</td>
<td>$0</td>
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<tr>
<td>Common Stock</td>
<td>$5,000</td>
</tr>
<tr>
<td>Treasury Stock</td>
<td>$0</td>
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<tr>
<td>Contributed Capital</td>
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<tr>
<td>Retained Earnings</td>
<td>($34,991)</td>
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<td><strong>Total Stockholders’ Equity</strong></td>
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**Total Liabilities & Stockholders’ Equity** | **$750,667**
### Jeffries Pipe Supply

**Balance Sheet**

**Dec. 31, 2012**

**Assets**

<table>
<thead>
<tr>
<th>Current Assets</th>
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<tr>
<td>Cash</td>
<td>($2,423)</td>
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<tr>
<td>Accounts Receivable</td>
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<td>Inventory</td>
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<td>$287,306</td>
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<table>
<thead>
<tr>
<th>Fixed Assets</th>
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</thead>
<tbody>
<tr>
<td>Furniture &amp; Fixtures</td>
<td>$20,223</td>
</tr>
<tr>
<td>Vehicles</td>
<td>$72,704</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>$54,730</td>
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<tr>
<td>Machinery &amp; Equipment</td>
<td>$143,160</td>
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<tr>
<td>Equipment Under Capital Lease</td>
<td>$71,383</td>
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<td><strong>Less: Accumulated Depreciation</strong></td>
<td>($71,713)</td>
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<table>
<thead>
<tr>
<th>Other Assets</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Organization Costs</td>
<td>$2,800</td>
</tr>
<tr>
<td>Less: Accumulated Amortization</td>
<td>($2,407)</td>
</tr>
<tr>
<td>Net Organization Costs</td>
<td>$393</td>
</tr>
<tr>
<td>Security Deposits</td>
<td>$3,500</td>
</tr>
<tr>
<td><strong>Total Other Assets</strong></td>
<td>$3,893</td>
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</table>

**Total Assets** **$581,686**

**Liabilities and Stockholders’ Equity**

<table>
<thead>
<tr>
<th>Current Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$226,724</td>
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<tr>
<td>Payroll Taxes Payable</td>
<td>$8,013</td>
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<tr>
<td>Due to GW</td>
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<tr>
<td>Line of Credit</td>
<td>$40,000</td>
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<td>Current Portion of Long Term Debt</td>
<td>$8,850</td>
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<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>$308,587</td>
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<table>
<thead>
<tr>
<th>Long Term Liabilities</th>
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</thead>
<tbody>
<tr>
<td>Capital Bank</td>
<td>$115,072</td>
</tr>
<tr>
<td>Note Payable</td>
<td>$123,484</td>
</tr>
<tr>
<td>Less: Current Portion</td>
<td>($8,850)</td>
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<td><strong>Total Long Term Liabilities</strong></td>
<td>$229,706</td>
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<table>
<thead>
<tr>
<th>Other Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Income Taxes</td>
<td>($6,750)</td>
</tr>
<tr>
<td><strong>Total Other Liabilities</strong></td>
<td>($6,750)</td>
</tr>
</tbody>
</table>

**Total Liabilities** **$531,543**

**Stockholders’ Equity**

| Preferred Stock                    | $0    |
| Common Stock                       | $5,000 |
| Treasury Stock                     | $0    |
| Contributed Capital                | $50,340 |
| Retained Earnings                  | ($5,197) |
| **Total Stockholders’ Equity**     | $50,143 |

**Total Liabilities & Stockholders’ Equity** **$581,686**
### Jeffries Pipe Supply
#### Balance Sheet
Dec. 31, 2011

**Assets**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$1,253</td>
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<tr>
<td>Accounts Receivable*</td>
<td>$163,567</td>
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<tr>
<td>Inventory</td>
<td>$134,336</td>
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<tr>
<td>Due From Stockholder</td>
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<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>$304,995</strong></td>
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<tr>
<td><strong>Fixed Assets</strong></td>
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<tr>
<td>Furniture &amp; Fixtures</td>
<td>$18,721</td>
</tr>
<tr>
<td>Vehicles</td>
<td>$52,732</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>$63,122</td>
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<tr>
<td>Machinery &amp; Equipment</td>
<td>$62,645</td>
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<tr>
<td>Equipment Under Capital Lease</td>
<td>$38,905</td>
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<tr>
<td><strong>Less: Accumulated Depreciation</strong></td>
<td>($62,941)</td>
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<td><strong>Other Assets</strong></td>
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<tr>
<td>Organization Costs</td>
<td>$2,800</td>
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<tr>
<td><strong>Less: Accumulated Amortization</strong></td>
<td>($2,379)</td>
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<tr>
<td>Net Organization Costs</td>
<td>$421</td>
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<td>Security Deposits</td>
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<td><strong>Total Other Assets</strong></td>
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<td><strong>Total Assets</strong></td>
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**Liabilities and Stockholders’ Equity**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
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<tr>
<td>Accounts Payable</td>
<td>$234,269</td>
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<tr>
<td>Payroll Taxes Payable</td>
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<td>Due to GW</td>
<td>$15,000</td>
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<tr>
<td>Line of Credit</td>
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<tr>
<td>Current Portion of Long Term Debt</td>
<td>$9,420</td>
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<td><strong>Total Current Liabilities</strong></td>
<td><strong>$292,949</strong></td>
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<td><strong>Long Term Liabilities</strong></td>
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<tr>
<td>Capital Bank</td>
<td>$58,643</td>
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<tr>
<td>Note Payable</td>
<td>$71,532</td>
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<td><strong>Less: Current Portion</strong></td>
<td>($9,420)</td>
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<td><strong>Total Long Term Liabilities</strong></td>
<td><strong>$120,755</strong></td>
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<td><strong>Other Liabilities</strong></td>
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<tr>
<td>Deferred Income Taxes</td>
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<td><strong>Total Other Liabilities</strong></td>
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<td><strong>Total Liabilities</strong></td>
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<td><strong>Stockholders’ Equity</strong></td>
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<td>Preferred Stock</td>
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</tr>
<tr>
<td>Common Stock</td>
<td>$5,000</td>
</tr>
<tr>
<td>Treasury Stock</td>
<td>$0</td>
</tr>
<tr>
<td>Contributed Capital</td>
<td>$50,340</td>
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<tr>
<td>Retained Earnings</td>
<td>$8,806</td>
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<td><strong>Total Stockholders’ Equity</strong></td>
<td><strong>$64,146</strong></td>
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<tr>
<td><strong>Total Liabilities &amp; Stockholders’ Equity</strong></td>
<td><strong>$482,100</strong></td>
</tr>
</tbody>
</table>
# Jeffries Pipe Supply

## Balance Sheet

### Dec. 31, 2010

### Assets

#### Current Assets
- Cash: $4,573
- Accounts Receivable: $108,331
- Inventory: $100,355
- Due From Stockholder: $2,850

**Total Current Assets**: $216,109

#### Fixed Assets
- Furniture & Fixtures: $14,247
- Vehicles: $34,123
- Office Equipment: $48,117
- Machinery & Equipment: $53,092
- Equipment Under Capital Lease: $38,661

Less: Accumulated Depreciation ($49,569)

**Total Fixed Assets**: $138,671

#### Other Assets
- Organization Costs: $2,800
- Less: Accumulated Amortization ($2,351)
- Net Organization Costs: $449
- Security Deposits: $3,500

**Total Other Assets**: $3,949

**Total Assets**: $358,729

### Liabilities and Stockholders’ Equity

#### Current Liabilities
- Accounts Payable: $167,995
- Payroll Taxes Payable: $2,398
- Due to GW: $0
- Line of Credit: $8,000
- Current Portion of Long Term Debt: $5,420

**Total Current Liabilities**: $183,813

#### Long Term Liabilities
- Capital Bank: $21,713
- Note Payable: $97,196
- Less: Current Portion ($5,420)

**Total Long Term Liabilities**: $113,489

#### Other Liabilities
- Deferred Income Taxes: $1,081

**Total Other Liabilities**: $1,081

**Total Liabilities**: $298,383

#### Stockholders’ Equity
- Preferred Stock: $0
- Common Stock: $5,000
- Treasury Stock: $0
- Contributed Capital: $50,340
- Retained Earnings: $5,006

**Total Stockholders’ Equity**: $60,346

**Total Liabilities & Stockholders’ Equity**: $358,729
MANDATORY REQUIREMENTS
FOR RUNNING A SURVEY

1. Telephone Calls & Scan-Emails/Faxes/ Syncing – 1st Day
   A. O.P. call (30 minutes prior to opening)
   B. Send in Opening Interview Analyst’s Notes sheet
   C. Opening Research Staff Call
   E. Strategy Call – O.P.
   F. Sync STS once your 4-year financial work is input
   G. Send in Tax Illustration form and tax returns if applicable
   H. Send in client’s Goals & Objectives sheet(s)
   I. Company Plan Research Staff Call
   J. Strategy Call – O.P. before 6:00 p.m. (CST)

2. Telephone Calls & Scan-Emails/Faxes – 2nd Day
   A. Strategy Call – O.P. prior to going into client
   B. Send in your problem cost work and client’s homework
   C. Preliminary Findings Research Staff Call, if necessary
   D. Traffic Call with client
   E. Upon Traffic, send in both sides of any signed Working Agreement, copy of the survey check, and the completed hotel of record form

3. Telephone Calls & Faxes – 3rd Day (if necessary)
   A. Strategy Call – O.P. prior to going into client
   B. Preliminary Findings Research Staff Call, if necessary
   C. Traffic call with client
   D. Upon Traffic, send in both sides of any signed Working Agreement, copy of the survey check, and the completed hotel of record form
   E. Upon a No Go, send in a copy of the survey check, or a copy of the Non-Payment of Survey Fee form (Analyst MUST call SSD before leaving the client’s premises)

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4. **Survey Administrative Tasks**

   A. Must collect Survey Fee from Client and send copy to SSD

      1. Approval to not collect a Survey fee can only be given by your SSD.
      2. Non-Payment of Survey Fee Form must be filled out in the client’s hand and sent to your SSD immediately when approval has been given by your SSD in a non-collect situation.
      3. You must send in a copy of the survey check to the Home Office prior to leaving the client’s premises.

   B. Must Fed-Ex Survey Fee checks each week on Friday to the Home Office in the designated orange envelope to arrive in the Home Office no later than Tuesday. All Client information for each assignment must be filled out in its entirety on the front of the orange envelope. Missing checks must be reported immediately.

   C. Follow-up GO’s are pre-approved by SSD only.

   D. No altered Form 88 Working Agreement.

   E. Do not leave any survey material or reference material with client other than copies of the 88(s) and the Consulting Services Q & A.

   F. Expense vouchers must be submitted per the Commission and Expenses Payment Schedule.

   G. You must call your SSD from the client’s office before you leave, GO, NO GO or any other status. The SSD must be called under all circumstances for the analyst to be released from the client’s premises.
SURVEY CONTACT NUMBERS – ALL CALLS

GLOBAL RESOURCES
224-676-7171 (local)
855-338-0266 (toll free)

ESS CANADA
224-676-7006 (local)
877-269-0826 (toll free)

Executive Director: Tyler Burgess. Should you have a problem that cannot
be resolved by your SSD, call Tyler at the number above, or email him at
tyler.burgess@biz-solve.com.

SSD | EMAIL | FAX NUMBER
--- | --- | ---
Jay Aldebert | jay.aldebert@biz-solve.com | 847-808-2400
Brent Parsegian | brent.parsegian@biz-solve.com | 847-808-0241
Yancy Watkins | yancy.watkins@biz-solve.com | 847-495-6019
Donna Brewer | donna.brewer@biz-solve.com | 847-808-1311
Peter Napoli | peter.napoli@biz-solve.com | 847-808-2388

SURVEY ADMINISTRATION

Kim Woods | kim.woods@biz-solve.com
(Assists Jay, Yancy, Donna)
Sarah Gibrick | sarah.gibrick@biz-solve.com
(Assists Brent, Peter)

BUSINESS DEVELOPMENT: TAX & EXIT ILLUSTRATIONS, CLAs & PVIs

sta@sta-na.com | 847-495-6767

Elizabeth Clauser
Renee Edgecomb
Administration: Tonia Etoh

SURVEY SOFTWARE SUPPORT

Help Desk | sss@biz-solve.com | 800-531-7100, ext 79001*
*(during office hours only; 7 a.m. to 5 p.m. CT)
<table>
<thead>
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<th>For the 2 Weeks Ending</th>
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<th>Expenses will be paid</th>
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</tr>
<tr>
<td>11/14/2015</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Travel Notes

Delayed Travel
NEVER CALL A CLIENT. If you have travel issues on Sunday or during the week, you are responsible for making new flight arrangements and for calling Tom Woodford in the morning (he gets in at 5:30 CST). He will contact the client. You should NOT CALL THE CLIENT EVER. Tom can be reached at the general number (800-531-7100) or whichever number you normally call in on.

Flight Arrangements
Flights will be booked and paid for by the Office. Your ticket will be available electronically when you go to check in.

Airlines
Sign up for all of the frequent flyer programs and let the car rental agencies know your frequent flyer numbers. Many of them give bonus points when you rent a car.

Flight Problems
Canceled flights generally cause mass hysteria and pandemonium at the gate. Seasoned travelers (Analysts) should be a step ahead and program all the airline 800 reservation numbers into your phone so you can take immediate action and get rebooked. This may involve being put on another airline to get to your destination. Do this right away as the good flights go fast.

Packing
If possible, carry on your bags. You are allowed one roll-aboard and a computer bag. This gives you tremendous flexibility in the event of a travel disruption. In addition, you may be able to stand by on an earlier flight. It also ensures you will have your business attire and everything else you need when you arrive at your destination.
It is recommended that men pack 2 dark suits, 5 dress shirts, 3 ties, and appropriate undergarments and toiletries. Women can pack 2 dark suits and 3 tops, along with appropriate undergarments and toiletries. Dark suits work best because they do not show dirt easily.
Make sure you steam or iron wrinkled clothes. Shoes should be shined.
It is easiest if you don’t unpack each week; keep the basics in your suitcase and replace worn clothes with clean ones.

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Security
Note the 3-1-1 policy with liquids: 1 one-quart bag with each liquid being no more than 3 oz. Develop a simple routine to remove shoes, coats and place your stuff in bins, and pick it up again at the other end in order to expedite the security process and not forget anything.

TSA Pre-check
This program allows you to go through a much faster and scaled back security process when you qualify. You may get it randomly when you travel and are not part of the program. To be part of the program, and to get “TSA PRECHECK” on a very regular basis, go to the tsa.gov/TSA-Precheck site to get enrolled. It is a multi-step process, but a huge benefit to frequent travelers.

Navigating and Finding your Client
The best tool for finding a client is to use a stand-alone GPS/navigation unit or the GPS on your phone. Mapquest and Google Maps (among others) are also good and are free over the Internet. “Streets and Trips” is excellent map software that can be used as well. Maps and directions are a good backup to a GPS.

Car Rental
You should rent a car from one of the national franchises we get corporate rates with: Avis, National and Budget. This is important because we often pick up a car at one airport and drop it at another. Without these privileges the rates go “sky-high.” If you need to drop your car at another airport, you must call the car rental company and get the drop pre-approved. If you don’t, it may be an “Unauthorized drop,” and it can be a lot more costly. As a benefit for frequent renting, you may get free days, upgrades, etc., with the companies we have corporate rates with. Note that you may get walk-up rates that beat our corporate rates from time to time. Don’t go for upgrades if offered as it usually means they are out of your car class and have to do it gratis anyway. Do not go for the prepaid fuel program as it is beneficial only when you return the car empty. Do not prepay for the car on-line as we need to be flexible as to return dates, etc.

If credit is tight, book the car on a day by day basis (you can extend the rental by phone) so there is not a big hold on your credit card. Upon returning the car, you may wish to pay cash at the counter and have your credit card cleared of the hold they have on it.

Insurance should be avoided if: 1) You are using the corporate account numbers—insurance is included in the agreement. 2) Your credit card has car rental insurance coverage. 3) Your own car insurance may cover you in any car you drive.

Note: Some of even the major car company locations are franchises and do not honor our drop privileges. It is prudent to verify that they allow one way drops when you initiate the rental.

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Many Analysts actually get rid of their cars and use a rental car at home on the weekends. It can be much cheaper than owning a car, and it saves the cost of either parking while you are away during the week, or transportation to get to and from the airport.

**Driving**

Be safe on the road. If you have a late arrival at your airport coupled with a substantial drive to your assignment, it may make sense to stay near the edge of town (to avoid rush hour traffic) that night, and complete the drive in the morning.

When you have finished one assignment and are waiting for the next, hang out near the airport in your car. If you are staying in the area, you can keep your rental car (just extend it as necessary). If you are driving a few hours away, and may be dropping it at another airport, switch out the car so you don’t get charged the drop fee for the preceding days too. (Note: check to make sure more cars are available before you turn in the one you have.)

You should rent a car if the drive to your first assignment is more than 2.5 hours from your home.

If you drive your own vehicle, you can claim mileage if your assignment is in excess of 80 miles (100 kilometers) from your home base.

**Motels/Hotels**

Rent your motel one day at a time, and it is often prudent to check out in the morning. That way you are not charged for an extra day in the event your assignment is a “one-day,” or the job doesn’t open, or whatever the reason.

You can sometimes get a better deal if you do a walk-up registration, especially if there is a high vacancy rate at the motel. Take advantage of discounts such as AAA, AARP, etc. Join the frequent stay hotel programs. The free nights are great for vacations and for situations when the rates are elevated (such as peak season or a convention in town).

**Per Diem and Expense Policy**

The per diem is designed to cover the bulk of your expenses beyond the flight and applies to all jobs 80 miles (100 kilometers) or more from home. Note that in more expensive centers including Boston, New York City, Washington DC, San Francisco, San Diego, Sacramento, Santa Barbara, Anchorage or Honolulu, there is a bump up in per diem of $100 per night, but a receipt must be submitted with your voucher. In addition to the per diem, you are reimbursed when you drive to a job in excess of 80 miles (100 kilometers) from your home base. If you are flown to a destination city, mileage will be paid from the destination city to the client and all driving on the assignment or assignments during the week of the rental. The mileage allowance is 30 cents per mile/per kilometer. If choosing to drive instead of fly, rental cars will be reimbursed in lieu of airfare with the advance approval of your SSD; you must submit a receipt with your voucher. Baggage fees (one bag only per flight) and ink cartridges (not to exceed $50 per month) are also reimbursed. Faxes are reimbursed with SSD approval and a receipt must be provided with your voucher. Tolls and parking are not reimbursed. Transportation to/from your home airport is your responsibility.

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Other
Do not rely solely on a motel wake-up call. Use an alarm as well as sometimes motels don’t always do the calls as requested.

Keep your computer and valuables out of sight (in the trunk, for example). “Smash and dash” is a common problem.
The wireless carriers have “wireless cards” that allow for portable Internet almost anywhere you go. There is a monthly fee to use one.
Stay in contact with your family—they need to know you are okay. Technology makes this quite doable.

Travel Apps
The majority of the airlines have apps which allow you to check in on your smart phone as well as choose seats, etc. This is especially useful if you are running late. The major hotel chains and car rental companies also have apps which make it easy to book “on the fly,” without having to open your laptop or speak on the phone.
Kayak is a great app for finding flights, hotels and rental cars. May or may not be used for actual bookings.
Hotels.com is great for finding hotels in the area and may or may not be used for bookings.
Hotel Tonight is good for last minute deals on same night bookings.
Hotwire and some of the similar services are also popular but have limitations because of the need to prepay and also the fact that some of it is “blind” booking.
Travel Phone Book

Motels

Choice Hotels corp ID#: CP 00071176
IHG properties corp ID#: 100282036

Best Western (800) 528-1234
http://www.bestwestern.com/

Budget Inns (800) 428-3438
http://www.budgetinn.com/

Choice Hotels (800) 258-2847
http://www.choicehotels.com/

Comfort Inns (800) 228-5150
http://www.comfortinn.com/

Days Inn (800) 547-7878
http://www.daysinn.com/

Econo Lodge (800) 446-6900
http://www.econolodge.com/

Embassy Suites (800) 362-2779

Hilton Hotels (800) 445-8667

Holiday Inns (800) 465-4329

Howard Johnson (800) 654-2000
http://www.hojo.com/

Hyatt Hotels (800) 233-1234
http://www.hyatt.com/

Knights Inn (800) 722-7220
http://www.knightsinn.com/

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LaQuinta Inns (800) 531-5900

Marriott (800) 228-9290
http://www.marriott.com/default.mi

Quality Inns (800) 228-5050
http://www.qualityinn.com/

Radisson Hotels (800) 333-3333
http://www.radisson.com/

Ramada (800) 228-2828
http://www.radisson.com/

Red Roof Inns (800) 843-7663
https://www.redroof.com/

Sheraton Hotels (800) 325-3535

Super 8 Motels (800) 800-8000
http://www.super8.com/

Rental Cars
Avis (Corp # A026700) (800) 651-2847
http://www.avis.com/car-rental/avisHome/home

Budget (Corp # X891700) (800) 283-4384 (Note: insurance is not included on Canadian rentals.)
http://www.budget.com/budgetWeb/home/home.exe

National (Corp #XZ15003) (800) 227-7368
https://www.nationalcar.com/

Airlines
Air Canada (800) 776-3000

Alaska Air (800) 426-0333
http://www.alaskaair.com/

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American (800) 843-3000

Delta (800) 323-2323
http://www.delta.com/

Jet Blue (800) 538-2583
http://www.jetblue.com/

Southwest (800) 435-9792
https://www.southwest.com/

US Air (800) 428-4322
http://www.usairways.com/

United (800) 241-6522

Westjet (877) 952-4696

Federal Express
FED-X USA (800) 238-5355
http://www.fedex.com/us/

FED-X Canada (800) 463-3339
http://www.fedex.com/ca_english/
Thursday, October 23, 2014 3:40:02 PM CDT

*1*
1. TUTTLE/WILLIAM*SS-BP  **GPS**
   1 AA1096P 23OCT Q JFKBOS HK1  500P  610P /DCAA*JEIKPH /E
   2 OTH AA 30MAR M BK1  ORD/ HOLD FOR DLB-
   TKT/TIME LIMIT
   1.T-23OCT-IH7A*A75

PHONES
1. CHI847-808-5590 X19000 OR 800-531-7100X19000
2. CHI847-495-3075- FAX
3. BOS508-778-8825-HOME
4. BOS508-737-5026-CELL

PASSenger EMAIL DATA EXISTS  *PE TO DISPLAY ALL
CUSTOMER NUMBER - 016400
INVOICED
ADDRESS
   DLB TVL SERVICES
   1250 BARCLAY BLVD
   BUFFALO OR IL 60089
FARE - PRICE RETAINED/HISTORY
TRAVEL POLICY -¥
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2. Organize your business and leisure trips in one place.
3. Access your trip details everywhere via the web or mobile app.

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Safe travels.

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# NOTICE OF SALE

**JOB #:**

**REPRESENTATIVE #:**

**DATE OF SALE:**

**FEE:**

**VOLUME:**

**COMPANY:**

**STREET:**

dba

**CITY:**

**STATE:**

**ZIP:**

**COUNTY:**

**PHONE:**

**FAX:**

**CELL:**

**BUSINESS TYPE:**

**CLASSIFICATION:**

Contractor
Manufacturer
Wholesale/Distributor
HRI
Retail
Service
Transportation
Import/Export
Other

**AUTHORIZED BY:**

**TITLE:**

**% OWNERSHIP:**

**OWNER/OFFICERS:**

Chamber of Commerce Membership - Mandatory Check-Off [ ] Nat. [ ] Local [ ] None

**PROBLEMS:**

Accounting
Administration
Bidding/Estimating
Cash Flow
Competition
Computerization
Cost Control
Diversification
Financing
Government Regulations
Growth
Hiring/Training
Inventory Control
Job Descriptions
Labor Cost
Material Cost
Material Flow
Organization
Operations
Overhead
Personnel
Planning
Productivity
Profit
Sales/Marketing
Turnover
Web-Site
E-commerce

**COMMENTS:**

**NEAREST AIRPORT/DIRECTIONS:**

**TAKEN BY:**

**CONFIRMED BY:**
SMS is authorized to perform a Business Analysis of ___________ beginning on ______________ at ______________ a.m./p.m. I authorize the scope of the analysis to include the following:

<table>
<thead>
<tr>
<th>Business Analysis - $450</th>
<th>Accepted by Client ___________ SMS ___________ (please initial)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perform a quantitative and qualitative analysis of all aspects of the business. Please select the problem areas you believe are having a direct or indirect influence on revenues and profits.</td>
<td></td>
</tr>
<tr>
<td>________________________</td>
<td>________________________</td>
</tr>
<tr>
<td>Cost Controls</td>
<td>Sales &amp; Mktg.</td>
</tr>
<tr>
<td>Profit</td>
<td>Management</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>Operations</td>
</tr>
</tbody>
</table>

The Senior Business Analyst will determine the true cost and impact of these problems on daily operations and long-term goals. The Analyst will discuss solutions and strategies, and provide recommendations to increase revenues, increase profits and enhance the ease of operations.

These additional services are available with the Business Analysis:

<table>
<thead>
<tr>
<th>Preliminary Viability Illustration (PVI) - $200</th>
<th>Accepted by Client ___________ SMS ___________ (please initial)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A proprietary illustration depicting the current viability of a business as a going concern, incorporating a forecast of its future trend and direction. For companies facing moderate to severe business continuity challenges, a perspective turnaround timeline for return to stable financial health is also provided. Industry and company specific data, trends and ratios are utilized in deriving the findings presented in the illustration.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exit Strategy Planning Illustration (ESP) - $300</th>
<th>Accepted by Client ___________ SMS ___________ (please initial)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A proprietary illustration based upon thousands of complex calculations quantifying the projected impact of modifying and controlling key business and investment variables and their resulting impact on funds available at retirement. The calculated 'funds required at retirement' to sustain the desired lifestyle has been indexed for inflation and reflects the future value of the desired present-day after-tax monthly income.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tax Savings Illustration (TSI) - $350</th>
<th>Accepted by Client ___________ SMS ___________ (please initial)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A proprietary illustration depicting potential future tax savings available as a result of implementing tax-related strategies in the areas of entity structuring; Federal and State tax savings; estate, succession, retirement, education and health care planning; and applicable asset protection strategies to reduce risk exposure.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Discounted Illustration Package - $425</th>
<th>Accepted by Client ___________ SMS ___________ (please initial)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All three proprietary illustrations (PVI, TSI and ESP) packaged together at a discount of 50%.</td>
<td></td>
</tr>
</tbody>
</table>

The total fee for the services accepted is $_________ and payable upon the satisfactory completion of the analysis.

I understand the Senior Business Analyst will be on premises for 1, 2 or 3 days to perform the review of my operations and financial performance. I agree to provide access to my financials and participate in an "opening meeting" and a "findings conference" at the conclusion of the analysis, where both findings of the analysis and oral recommendations for improvement will be presented. The Senior Business Analyst will work within any scheduling conflicts the client may encounter during the course of the analysis. The "Mutual Confidentiality Agreement" is included as part of this authorization.

Company: ___________ Owner's Name: ___________

Address: ______________________________________________________

City: __________________ State: ___________ Zip: ___________

Industry: ____________________

Phone: ___________ Fax: ___________

Cell: ___________

Email: ___________

Authorized by: ___________ Title: ___________

By SMS: ___________ Name: ___________

Company Data

<table>
<thead>
<tr>
<th>Annual Sales Volume</th>
<th>20</th>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years in business</td>
<td>___</td>
<td>___</td>
</tr>
<tr>
<td>Ownership %</td>
<td>___</td>
<td>___</td>
</tr>
</tbody>
</table>
## Survey Expense Voucher

Two Weeks Ending: 1/17/2015

### Analyst/ID#: [Blank]

### Mailing Address: [Blank]

<table>
<thead>
<tr>
<th>Day</th>
<th>Date</th>
<th>Client</th>
<th>Start City</th>
<th>End City</th>
<th>Mileage</th>
<th>Amt</th>
<th>Other</th>
<th>Notes</th>
<th>Amount</th>
<th>Per Diem</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUN</td>
<td>4-Jan</td>
<td>Manheim Manufacturers LLC</td>
<td>ORD</td>
<td>Buffalo</td>
<td>90.0</td>
<td>$27.00</td>
<td></td>
<td></td>
<td>$75.00</td>
<td>$102.00</td>
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</tr>
<tr>
<td>MON</td>
<td>5-Jan</td>
<td>Manheim Manufacturers LLC</td>
<td>Rochester</td>
<td>Rochester</td>
<td>6.0</td>
<td>$1.80</td>
<td></td>
<td></td>
<td>$100.00</td>
<td>$101.80</td>
<td></td>
</tr>
<tr>
<td>TUE</td>
<td>6-Jan</td>
<td>Manheim Manufacturers LLC</td>
<td>Rochester</td>
<td>Rochester</td>
<td>6.0</td>
<td>$1.80</td>
<td></td>
<td></td>
<td>$100.00</td>
<td>$101.80</td>
<td></td>
</tr>
<tr>
<td>WED</td>
<td>7-Jan</td>
<td>Manheim Manufacturers LLC</td>
<td>Rochester</td>
<td>Rochester</td>
<td>6.0</td>
<td>$1.80</td>
<td></td>
<td></td>
<td>$100.00</td>
<td>$101.80</td>
<td></td>
</tr>
<tr>
<td>THU</td>
<td>8-Jan</td>
<td>Jeffries Pipe Supply</td>
<td>Rochester</td>
<td>Buffalo</td>
<td>90.0</td>
<td>$27.00</td>
<td></td>
<td></td>
<td>$100.00</td>
<td>$127.00</td>
<td></td>
</tr>
<tr>
<td>FRI</td>
<td>9-Jan</td>
<td>Jeffries Pipe Supply</td>
<td>Buffalo</td>
<td>Buffalo</td>
<td>10.0</td>
<td>$3.00</td>
<td></td>
<td></td>
<td>$50.00</td>
<td>$53.00</td>
<td></td>
</tr>
<tr>
<td>SAT</td>
<td>10-Jan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUN</td>
<td>11-Jan</td>
<td>Rod's Fertilizer</td>
<td>ORD</td>
<td>Bloomington, IL</td>
<td>135.0</td>
<td>$40.50</td>
<td></td>
<td></td>
<td>$75.00</td>
<td>$115.50</td>
<td></td>
</tr>
<tr>
<td>MON</td>
<td>12-Jan</td>
<td>Rod's Fertilizer</td>
<td>Bloomington, IL</td>
<td>Bloomington, IL</td>
<td>12.0</td>
<td>$3.60</td>
<td></td>
<td></td>
<td>$100.00</td>
<td>$103.60</td>
<td></td>
</tr>
<tr>
<td>TUE</td>
<td>13-Jan</td>
<td>Rod's Fertilizer</td>
<td>Bloomington, IL</td>
<td>ORD/Janesville, WI</td>
<td>237.0</td>
<td>$71.10</td>
<td></td>
<td></td>
<td>$100.00</td>
<td>$171.10</td>
<td></td>
</tr>
<tr>
<td>WED</td>
<td>14-Jan</td>
<td>Other Service Station</td>
<td>Janesville</td>
<td>Janesville</td>
<td>7.0</td>
<td>$2.10</td>
<td></td>
<td></td>
<td>$100.00</td>
<td>$102.10</td>
<td></td>
</tr>
<tr>
<td>THU</td>
<td>15-Jan</td>
<td>Other Service Station</td>
<td>Janesville</td>
<td>ORD</td>
<td>110.0</td>
<td>$33.00</td>
<td>Supplies</td>
<td>Note 1</td>
<td>$45.99</td>
<td>$50.00</td>
<td>$128.99</td>
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<tr>
<td>FRI</td>
<td>16-Jan</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>SAT</td>
<td>17-Jan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Mileage Totals (US)

<table>
<thead>
<tr>
<th>Total Mileage</th>
<th>Total Amt</th>
</tr>
</thead>
<tbody>
<tr>
<td>709.0</td>
<td>$212.70</td>
</tr>
</tbody>
</table>

### Voucher Totals (US)

<table>
<thead>
<tr>
<th>Voucher Amount</th>
<th>Per Diem</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$45.99</td>
<td>$950.00</td>
<td>$1,208.69</td>
</tr>
</tbody>
</table>

**Note:** In-see receipt

1/4/2015 - 90mi. Buffalo to Rochester
1/5/2015 - 6mi. Rochester to Rochester
1/6/2015 - 6mi. Rochester to Rochester
1/7/2015 - 6mi. Rochester to Rochester
1/8/2015 - 90.0mi. Rochester to Buffalo
1/9/2015 - 10mi. Buffalo to Buffalo
1/11/2015 - 135mi. ORD to Bloomington
1/12/2015 - 12mi. Bloomington to Bloomington
1/13/2015 - 237mi. Bloomington, IL to ORD/Janesville, WI
1/14/2015 - 7mi. Janesville to Janesville
1/15/2015 - 110mi. Janesville, WI to ORD
Communication Styles

<table>
<thead>
<tr>
<th>Analytical</th>
<th>Task Oriented</th>
<th>Driver</th>
</tr>
</thead>
<tbody>
<tr>
<td>Get their attention?</td>
<td>Get their attention?</td>
<td>Get their attention?</td>
</tr>
<tr>
<td>Maintain their attention?</td>
<td>Maintain their attention?</td>
<td></td>
</tr>
<tr>
<td>Get their commitment?</td>
<td>Get their commitment?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amiable</th>
<th>Relationship Oriented</th>
<th>Expressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Get their attention?</td>
<td>Get their attention?</td>
<td></td>
</tr>
<tr>
<td>Maintain their attention?</td>
<td>Maintain their attention?</td>
<td></td>
</tr>
<tr>
<td>Get their commitment?</td>
<td>Get their commitment?</td>
<td></td>
</tr>
</tbody>
</table>

Adapted from the wilson Learning Corporation Personality Styles

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## Communication Style Attributes

<table>
<thead>
<tr>
<th>Analytical</th>
<th>Closed</th>
<th>Driver</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perfectionist</td>
<td>High ego strength</td>
<td>Strong-willed</td>
</tr>
<tr>
<td>Sensitive</td>
<td>Strong-willed</td>
<td>Decisive</td>
</tr>
<tr>
<td>Accurate</td>
<td>Decisive</td>
<td>Efficient</td>
</tr>
<tr>
<td>Persistent</td>
<td>Desires change</td>
<td>Competitive</td>
</tr>
<tr>
<td>Serious</td>
<td></td>
<td>Independent</td>
</tr>
<tr>
<td>Needs explanations</td>
<td></td>
<td>Practical</td>
</tr>
<tr>
<td>Orderly/Organized</td>
<td></td>
<td>Independent</td>
</tr>
<tr>
<td>Cautious</td>
<td></td>
<td>Pushy</td>
</tr>
<tr>
<td>Stuffy</td>
<td></td>
<td>Impatient</td>
</tr>
<tr>
<td>Picky</td>
<td></td>
<td>Domineering</td>
</tr>
<tr>
<td>Indecisive</td>
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<td>Tough</td>
</tr>
<tr>
<td>Moralistic</td>
<td></td>
<td>Harsh</td>
</tr>
<tr>
<td>Fears criticism</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Critical</td>
<td></td>
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<table>
<thead>
<tr>
<th>Asking</th>
<th>Telling</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Unsure</td>
<td>Disorganized</td>
<td>Undisciplined</td>
</tr>
<tr>
<td>Pliable</td>
<td>Manipulative</td>
<td>Excitable</td>
</tr>
<tr>
<td>Awkward</td>
<td></td>
<td>Reactive</td>
</tr>
<tr>
<td>Possessive</td>
<td></td>
<td>Vain</td>
</tr>
<tr>
<td>Conforming</td>
<td></td>
<td>Emotional</td>
</tr>
<tr>
<td>Insecure</td>
<td></td>
<td>Enthusiastic</td>
</tr>
<tr>
<td>Dependable</td>
<td></td>
<td>Optimistic</td>
</tr>
<tr>
<td>Agreeable</td>
<td></td>
<td>Ambitious</td>
</tr>
<tr>
<td>Supportive</td>
<td></td>
<td>Friendly</td>
</tr>
<tr>
<td>Accepts change slowly</td>
<td></td>
<td>Talkative</td>
</tr>
<tr>
<td>Contented</td>
<td></td>
<td>People oriented</td>
</tr>
<tr>
<td>Calm</td>
<td></td>
<td>Stimulating</td>
</tr>
<tr>
<td>Amiable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Respectful</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Communication Styles

A  
- dominant
- take charge
- assertive
- challenging
- active
- confronting
- talkative
- bold
- intense
- forceful

B  
- easy going
- go along
- hesitant
- accepting
- thoughtful
- supporting
- quiet
- retiring
- relaxed
- subtle

C  
- informal
- spontaneous
- responsive
- impulsive
- close
- feeling
- people-oriented
- outgoing
- dramatic
- warm

D  
- formal
- disciplined
- self-controlled
- methodical
- distant
- thinking
- task-oriented
- reserved
- matter-of-fact
- cool

___ Total (horizontal)  
___ Total (vertical)

Adapted from the Wilson Learning Corporation: Personally Styles

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The Driver

As a Driver, you are likely to be a person who tends to be practical, direct, competitive, proud, and have a desire for excellence.

Drivers usually don’t worry or speculate. They don’t enjoy idle chatter or activity. In conversation, Driver’s are often outspoken. In groups or teams, they are often the leader.

Drivers like to make things happen. If you want something done, call a Driver. However, they are not fastidious. They rarely have time for the details, just the basics.

Reading seldom interests the Driver. They lack the time. It’s the bottom line that interests them: will it help me? How? How much will it cost? How long will it take?

Drivers like to shop and to bargain. They are usually possession conscious- career, house, wardrobe, etc. and activity oriented.

Drivers don’t sit still – life is too short! The career-oriented Driver generally has a job that is exciting, fast-paced and challenging.

Driver’s seldom plan but tend to have very good common sense. Driver’s rarely deal with feelings.

A word of caution. Drivers seldom think they’re wrong and will often ignore feelings to prove their point.

Dress:

________________________________________________________________________________________

________________________________________________________________________________________

________________________________________________________________________________________

Hobbies:

________________________________________________________________________________________

________________________________________________________________________________________

________________________________________________________________________________________

________________________________________________________________________________________
The Amiable

An Amiable is a person who tends to make decisions based on feelings.

The Amiable loves people. They are caring, sentimental, supportive and loyal.

Amiables listen to their heart, are easily hurt, and can’t stand rejection, criticism, or controlled responses of others.

Amiables are more interested in why a person does things, their motives rather than how successful they are.

Amiables like to work – and play – in spurts, and their temperament is usually just as volatile.

In relationships, security is often of high importance. They are interested in guarantees and assurances. They have super-sensitive radar, so it is a mistake to try to deceive them.

Be careful. An Amiable is rarely outspoken, and may not tell you if they have been hurt or wronged. But it won’t be forgotten and an Amiable will carry a grudge for a long time.

Dress:


Hobbies:


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The Expressive

An Expressive is a social specialist.

Expressives normally appear communicative, warm, approachable, and competitive. They are very imaginative, and intuitively intellectual. Rarely dealing with facts, they base decisions on opinions, hunches, and intuition.

An Expressive is a risk taker who likes special incentives.

Expressives move rapidly and often appear disorganized. Time schedules are not particularly important and their focus on the future causes them to have little concern for practical details in the present.

Expressives are often found in sales, entertainment, advertising, art, music, and writing.

Expressives seek to gain personal recognition.

While relationships and people are important to them, outsiders may observe their relationships as shallow and self-serving. It's not unusual for Expressives to be accused of being manipulative.

They love to talk, to entertain and to be entertained.

Dress:

Hobbies:
The Analytical

As an Analytical, we know you as a person who tends to be very well organized, logical, highly systematic, and intellectual.

Analyticals make decisions only after close examination of all the facts and thorough analysis of the situation.

Analyticals like to manage money and are good budgeters.

The Analytical tends to be a conservative realist. They insist on knowing the facts, all the facts, and the more details the better.

An Analytical does not enjoy sweet talk or giddiness.

Objectivity is of utmost importance: they look at all sides of any issue.

Analyticals take a long time to make a decision, but once they have made it, they stick with it tenaciously.

Dress:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

Hobbies:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
Presentation with Drivers

**DO**

- Be clear, specific, brief, to the point
- Stick to business
- Come prepared, know what your objectives are
- Present these facts logically; plan your presentation efficiently
- Ask specific (preferably “what?”) questions
- Provide facts and figures about profitability of success or effectiveness of options
- If you disagree, take issue with the facts, not the person
- If you agree, support results, not the person
- Motivate and persuade by referring to objectives and results

**DON’T**

- Don’t waste their time!
- Don’t try to build personal relationships
- Don’t forget or lose things; don’t be disorganized or messy; don’t confuse or distract their mind from business
- Don’t leave loopholes or cloudy issues – if you don’t want to be zapped
- Don’t ask rhetorical questions
- Don’t make their decisions for them
- Don’t speculate. Don’t offer guarantees and assurances
- If you disagree, don’t let it reflect on them personally
- If you agree, don’t reinforce them with “I’m with you.”
- Don’t “epilogue!”

Adapted from Wilson Learning Corporation: Personality Styles
Presentation with Amiables

**DO**

- Start with a personal comment
- Show sincere interest in them as people, find areas of common involvement
- Patiently draw out personal goals and work with them to help achieve these goals; listen, be responsive
- Present your case softly, non-threateningly
- Ask “how” questions to draw their opinions
- If you agree easily, look for possible areas of early disagreement or dissatisfaction
- Move casually, informally
- If you disagree, look for hurt feelings, personal reasons
- Define clearly (preferably in writing) individual contributions
- Provide guarantees and assurances that their decisions will minimize risks; provide them with benefits

**DON’T**

- Don’t rush headlong into business or the agenda
- Don’t stick coldly or harshly to business; on the other hand, don’t lose sight of goals by being too personal
- Don’t force them to respond quickly to your objectives
- Don’t be domineering or demanding; don’t threaten with position or power
- Don’t debate about facts and figures; they will shut down
- Don’t manipulate or bully them into agreeing because they won’t fight back
- Don’t patronize or demean
- Don’t be abrupt and rapid
- Don’t be vague in offering options
- Don’t offer assurances and guarantees you can’t fulfill. Don’t leave them without backup

Adapted from Wilson Learning Corporation: Personality Styles
Presentation with Expressives

**DO**

- Interact supporting interests and goals
- Leave time for relating, socializing
- Relate other people’s experiences and opinions they may find stimulating
- Put details in writing
- Ask for their opinions/ideas
- Provide ideas for implementing action
- Use enough time to be stimulating, fun-loving, fast-moving, entertaining
- Let them know they are “special!”
- Offer special, immediate and extra incentives for their willingness to take risks

**DON'T**

- Don’t legislate. Don’t talk over them
- Don’t be curt or distant
- Don’t drive on to facts and figures
- Don’t leave things hanging in the air, or they will hang there
- Don’t be dogmatic
- Don’t “dream” with them
- Don’t stick to the agenda too much
- Don’t talk down at them
- Don’t use “office policy” or routine

Adapted from Wilson Learning Corporation: Personality Styles
Presentation with Analyticals

DO

- Prepare your “case” in advance
- Be straightforward and direct. Stick to business
- Build your credibility. Be objective
- Use a thoughtful approach; present specifics. Do what you say you will do
- Take your time, but be persistent
- Draw up a scheduled approach to implementing action; assure them there won’t be surprises
- Indicate long-term effectiveness
- If you disagree, make an organized presentation of your position
- Give them time to verify reliability of your actions; be accurate, realistic
- Provide solid, tangible, practical evidence

DON’T

- Don’t be disorganized or messy
- Don’t talk in circles. Don’t be giddy, casual, informal, or loud
- Don’t overwhelm them with promises you may not be able to deliver
- Don’t be vague about what’s expected of you; don’t fail to follow through
- Don’t rush the decision-making process
- Don’t leave things to chance or luck
- Don’t provide special personal incentives or gimmicks
- Don’t try to “convince” them
- Don’t use testimonies of others or unreliable sources
- Don’t use someone’s opinion as evidence

Adapted from Wilson Learning Corporation: Personality Styles
MANAGEMENT & FINANCIAL STATEMENTS

WHAT IS MANAGEMENT?

Management of a company is comprised of five areas: planning, organization, staffing, direction and controls. Weakness in one or more of the areas causes all problems in a company.

Planning starts with a detailed list that takes into account all potential variables that might occur in business. A company might have a goal to increase the sales by 10%. A plan would determine how the goal would be accomplished. Most of our clients have goals not plans. A plan allocates all resources based on various sales levels and product mixes. Basically, it says if this is my sales level and this is my sales mix, I will spend my money this way and this will be my profit. This is accomplished by using flexible budgets. The plan also has control points so that the desired results can be achieved within a period of time.

Organization is the structure of the company that matches the profit plan. The organizational structure must fit the control points within the profit plan. It ensures that the qualitative functions of the company can be accomplished. Who is accountable and for what?

Staffing with the duties, responsibilities, authority, and performance standards for that position and how that fits within the organizational structure. It ensures that there is not duplication of effort, gaps, or omissions.

Direction comes from good communications within the company. Do the meetings, verbal and written communications match the profit plan? Is everyone going in the direction that the company needs to obtain the desired result? In most companies, the employees are not bottom line oriented. That is because profit is not the focal point of the company.

Controls are the tools the company uses to assure results. Most companies do not measure performance. They do not know how to set standards, measure results, or reward performance. The owners admit that they are not in control.

MANAGERIAL ACCOUNTING

Managerial accounting is different from tax based accounting. Most of our clients have tax based systems. That is because they are designed by CPA’s to assure that the company is in compliance with federal and state laws. Tax based systems are designed to track what has happened in the company and to satisfy the tax laws. As a result, management that uses the information must become reactionary.

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Managerial accounting is designed to identify problems in a format so that management can correct the problem in a timely fashion. This is why a client cannot use his CPA to solve his problems. In Fortune 500 companies, they are now placing an emphasis on hiring Certified Management Accountants over CPA’s. They have learned that CMA’s make them money and CPA’s are a necessary expense. Do not get into an argument with the client over his CPA and the quality of the job he is doing. Simply explain to the client that the CPA’s job is to take care of the legal requirements of the company. His job is not to help the client run his business. Most companies could not afford the fees if their CPA performed managerial duties.

Managerial accounting uses a system based on the profit plan of the company. Financial information is then broken into profit centers within the company. It is departmentalized to compare results within a profit plan. The profit plan standard is the flexible budget. The flexible budget shows expenses allowable at various sales levels and with various product mixes. In other words, the budget always shows what the profit should be regardless of the sales levels.

An explanation of a managerial profit and loss statement follows with a line by line explanation:

Sales are reported by departments, product margin mixes or any other type of breakdown that will help management identify what the bottom line effect is when sales change. Tax based financials only report what the sales are. If you look at a sales figure of $1,000,000, what does it tell you about your profit? Absolutely nothing. That is why tax based doesn’t work.

Material costs are reported by the same method used to report sales information. The purpose is to identify where the material costs are out of line. Tax based only shows if there was an increase or decrease in the dollar amounts.

Labor is reported by the same method used to report sales information. The purpose is to identify where the labor costs are out of line, to measure the productivity of labor, to measure the effectiveness of supervision. The resource allocation of labor also becomes the basis of an employee incentive compensation plan. Tax based only shows that it has increased or decreased.

Other direct/variable expenses are reported by the same method used to report sales information with the same purpose as shown above. Examples are freight, subcontractor expenses, direct labor taxes, small tools, and shop supplies.

Gross margin is reported by the same method used to report sales information. The difference between managerial and tax based systems is that managerial has deducted only direct variable expenses calculating its margin. Taxed based could include indirect expenses such as rent, utilities and other overhead expenses being absorbed into the cost of goods sold. While this is the correct method for determining inventory evaluations for

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tax purposes, it only clouds the issues when making management decisions. Deducting only true variable expenses eliminates excuses for nonperformance by the supervisors responsible for generating the target margins. If you charge non-controllable expenses to margin, the supervisor can say that it is not his fault that margins are down. He can say “the increases in the expenses that I have no control over caused the decrease in the margin”.

Sales and distribution expenses are usually departmentalized. The costs are itemized so that they relate properly to the sales revenue. Commissions paid on a gross sales figure are a cost of goods sold. Those paid on a percentage of the gross profit belong in the departmental expenses. It is a true measure of supervision, since these expenses can be controlled. Sales that cover cost of goods sold, distribution costs, and contribute to overhead, are acceptable. In other words; I sold it for this; it cost me this to produce the product; it cost me this to sell the product; therefore, I have this amount towards overhead.

Administrative Expenses are never departmentalized. There is no benefit of breaking them out into departments. The issue here is what was allocated and what was spent. It is the control point for evaluating the person in charge of administration. Overhead contributions less administrative expenses give you net profit from operations.

CEO Compensation is never departmentalized. It is shown separately so that the administrator cannot use the excuse that the expenses are higher because the owner took more money out of the business. Also, by showing it separately it is easy to keep the information from those that the owner does not want to know. Net profit less CEO compensation gives you net/net or pre-tax profit.
Income Statement - Measures a period of time (week, month, year, etc.). Shows the revenue that came into the business through sales, all the expenses made to get those sales, and the Profit that was ultimately earned from those sales.

Balance Sheet - The Balance Sheet formula, Assets (what “stuff” the business owns) = Liabilities (what the business owes) + Owners Equity (the net equity in the business), is a simplistic yet solid definition. The Balance Sheet shows the condition of the business as of a particular moment.

Income Statement & Balance Sheet relationship - The Balance Sheet shows the business’ capability, while the Income Statement (P&L) shows the business’ activity; the consumption of assets. The Balance Sheet, then, is about the acquiring of assets to make a profit; while the Income Statement (P&L) is about the disposing of assets to make a profit.

The Income Statement is a subset of the Balance Sheet. It is in the detail of the Owner’s Equity section. The Income Statement is the detail that makes up Retained Earnings for a specified amount of elapsed time.

Accrual - The business event (sale or purchase) has happened but cash has yet to pass hands.

Cost of Goods Sold (COGS) - The total of all the costs that are easily measured and directly relate to each unit of sale.

Gross Profit - Often called Gross Margin is sales minus COGS. It represents the money available to run the business and generate a Net Profit.

Direct Variable Costs - Costs which are easily measured and change directly with each unit of sale.

Indirect or Semi-variable Costs - Cost which change and/or costs which behave like variable costs and fixed costs (phone bill). These costs will tend to vary with sales but not necessarily per unit of sale.

Fixed Costs - Cost which remain the same regardless to the level of sales.

Overhead - The key word is support. Cost that support what we do as a business.

Fixed Overhead - Costs that stay the same and support the business.

Variable Overhead - Costs that change and support the business. Variable overhead is the cost that kills most small businesses. For example; the electrician is putting wire in a house and runs

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out of supplies. All the time the electrician is gone getting the missing supplies he is an overhead cost.

**General & Administrative Costs (G&A)** - Cost that have a strong tendency to stay the same. Cost that will occur, regardless to the level of sales. The key is General. Simply, the cost doesn’t lend itself to anywhere else, put it in G&A.

**Net Operating Profit** - The Survey’s main target of measurement. The money the business makes by what it does as a business. Below that can be found Net Profit Before Taxes (includes the extraordinary income and profit) and Net Profit After Taxes.

Often, Earnings Before Interest and Depreciation is shown. Interest and depreciation are legitimate expense of the business and should be part of the Net Operating Profit calculation. If the business does not actually have any depreciation and interest, it tells the Analyst that the business is in its twilight years. The business is retiring. It is not reinvesting in itself. A sign of an unhealthy business.

**Extraordinary** - Income or expenses that are not about what we do as a business. In management or cost accounting it is not the same as the SEC or AICPA. Within their definition is the concept that the cost or revenue must be unusual and non-reoccurring. The key in management accounting is: to consistently measure the effectiveness of the business; i.e. the business as a machine shop. For good management it is imperative that measurement is of the operation of the machine shop. Any ancillary activity should be recorded as Extraordinary Income or Expense.

Typical examples are: Gain on sale of an asset (Extraordinary Income - we are not in the business of selling our assets) or expense for moving the business (again, we’re not in the business of moving our operations).

**Current Assets** - Stuff the business has that has the potential of being consumed in one year.

**Current Liabilities** - Money the business owes that has the potential of being paid in one year.

**Retained Earnings** - Simply, the accumulation of profit left in the business since the beginning of the business. It’s the Client’s savings account; providing the Client hasn’t taken any profit distributions. This is the case of 99% of the Clients that will be initially seen.

**Cash Conversion Cycle** - The elapsed time from initial expenditure of money to produce a sale (buy material, begin designing the product, initial research, put labor on the job, etc.) to the collection of the money from the sale.

**Inventory Turns** - The number of times during the year the average dollar amount of the inventory is replaced. Year’s total Material Cost divided by Dollar amount of Average Inventory.

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Balance Sheet and Income Statement Basic Mechanics

Note: Assets (stuff the business has) = Liabilities (money the business owes) + Owners Equity (how much the business owns) is the basic formulae.

How it works.

A person has started a business but has yet to put anything including money into the business. The person just has an idea, no activity. Therefore, the books would look like:

\[
\text{Assets} = \text{Liabilities} + \text{Owner's Equity}
\]

\[
\begin{align*}
\text{Assets} & = \text{Liabilities} + \text{Owner's Equity} \\
\$0.00 & = \$0.00 + \$0.00
\end{align*}
\]

The person puts $1,000 in the business. An account is added to assets (stuff the business has) called cash.

\[
\begin{align*}
\text{Assets} & = \text{Liabilities} + \text{Owner's Equity} \\
\text{Cash} & = \$0.00 + \$0.00 \\
+\$1,000 & = \$0.00 + +\$1,000 \\
\$1,000 & = \$0.00 + \$1,000
\end{align*}
\]

The $1,000 was put in the checking account of the business, therefore; the Owner’s Equity (how much the business owns) has gone up $1,000. The formula is still in balance - hence the reason it is called a Balance Sheet.

The person buys a used computer for $125 and pays cash for it. Another line item or account is added to keep track of the different types of stuff the business has. The new account is Equipment.

\[
\begin{align*}
\text{Assets} & = \text{Liabilities} + \text{Owner's Equity} \\
\text{Cash} & = \$1,000 + \$0.00 \\
-\$125 & = \$0.00 + +\$0.00 \\
\$875 & = \$0.00 + \$1,000
\end{align*}
\]

Therefore; depicted here is cash (an asset - stuff the business has) reduced by $125 and equipment (another asset) increased by $125. Therefore, the Owner’s Equity (how much the business owns) stayed the same because the business still owns $1,000 worth of stuff, $875 in cash and a computer worth $125. In other words, the business has converted $125 of a liquid asset into $125 of a tangible asset.

Next the owner buys a drill press for $800 but pays $200 down and agrees to pay the rest on time. Now a new account (line item) has to be opened to handle the $600 debt. The account
will be opened in the Liabilities (money the business owes) section called Accounts Payable (or A/P). Therefore; the activity in the books is:

\[
\begin{align*}
\text{Assets} & = \text{Liabilities} + \text{Owner's Equity} \\
\text{Cash} & + \text{Equipment} + \text{A/P} = \text{A/P} \\
$875 + $125 & = $0.00 + $1,000 \\
-200 & + $800 = $600.00 + $0.00 \\
$675 + $925 & = $600 + $1,000
\end{align*}
\]

Again cash (an asset - stuff the business has) is reduced by the amount of the down payment. Another asset, equipment, has gone up by $800, the value of the drill press. However, the business has incurred a debt, a Liability (money the business owes) of $600 for the drill press. Interesting to note here is that even though the assets (stuff the business has) increased by $600 the owner's equity (how much the business owns) has stayed the same. That is because the $600 of debt from the purchase of the $800 drill press keeps the owner's equity (how much the business owns) the same.

Next the owner buys material to make the world famous widget. Material for $1,000 is purchased at net 30, i.e. the owner has 30 days to pay for the material. This transaction will involve opening a new asset (stuff the business has) account called Inventory.

\[
\begin{align*}
\text{Assets} & = \text{Liabilities} + \text{Owner's Equity} \\
\text{Cash} + \text{Equipment} + \text{Inventory} & + \text{A/P} = \text{A/P} \\
$675 & + $925 + $0.00 = $600 + $1,000 \\
+$0 & + $0 + $1,000 = $1,000 + $0 \\
$675 & + $925 + $1,000 = $1,600 + $1,000
\end{align*}
\]

Total assets (stuff the business has) has gone up to $2,600 yet owner's equity (how much the business owns) has remained the same. The $1,600 the business still owes, the liability, is the reason.

This cycle has not produced any change in the owner's equity (how much the business owns). That will change when the owner takes $200 worth of material and makes the widget which is sold for $600. That transaction would be depicted, using just the formulae, as follows:

\[
\begin{align*}
\text{Assets} & = \text{Liabilities} + \text{Owner's Equity} \\
\text{Cash} + \text{Equipment} + \text{Inventory} & + \text{A/P} = \text{A/P} \\
$675 & + $925 + $1,000 = $1,600 + $1,000 \\
+$600 & + $0 - $200 = $0 + $400 \\
$1,275 & + $925 + $800 = $1,600 + $1,400
\end{align*}
\]

This depiction shows the inventory being reduced by the $200 worth of material and gaining the $600 in cash from the sale of the widget. The net of that transaction ($600 - $200) is the
increase of owner’s equity (how much the business owns) section, the $400. This methodology was satisfactory for several centuries.

However, several centuries ago people decided that they wanted to keep track of the detail activity in the owner’s equity (how much the business owns) section. But to do that for the whole life of the business would have become too cumbersome in a short time. Therefore, a year’s worth of activity became the standard.

At the end of the year all the detail activity was netted out with the resultant increase or decrease in the owner’s equity (how much the business owns). Therefore, the Income Statement or Profit and Loss Statement (P&L) was born. This evolution makes it clear that the Income Statement is just the detail activity of the owner’s equity (how much the business owns) section of the balance sheet formula (Assets = Liabilities + Owner’s Equity).

Interesting to note here is that this technique for keeping track of money transactions dates back to the Code of Hammurabi (1955 BC). Additionally, it is the only universal system in the world. Every organization in the world keeps track of money transactions the same way and has been doing it for the last 4,000 years! Not exactly the latest fad. This fact can often be used as a good counter point to the Client who says, I keep my books the old fashion way. That must be scratches on a cave wall.

In order to depict the previous transaction of using $200 of inventory to make a widget sold for $600 using the P&L details in the owner’s equity (how much the business owns) section, some new accounts (line items) will need to be made in the owner’s equity (how much the business owns) section of the formulae.

Two major sections have to made, 1) the Profit & Loss (P&L) section which will have the detail of transactions for a given period of time, usually one year; and the Retained Earnings (R/E) section. The R/E section will receive the net results of the P&L section at the end of the period. This activity resets the P&L section back to zero to track the specific activity of the next period.

Therefore, the Retained Earnings (R/E) section contains the summation of all the Profit or Loss the business has made from the beginning of the business. In most cases this would be true except for:
1) Distributions to the ownership, and
2) Missed expenses that show up after the P&L has been netted out to Retained Earnings. These expenses are called Prior Period Adjustments.

The P&L section will need three accounts (subsets of the P&L section) to record the activity of the sale of the widget. These subsets, accounts, or line items are: Sales, Material, and Profit. Therefore; the transaction would be as follows:
Assets = Liabilities + Owner's Equity
Cash Equipment Inventory = A/P + P&L + R/E
$675 + $925 + $1,000 = $1,600 + $0 + $1,000

Then the sale would be:
+$600 + $0 + $0 = +$0 + Sales + $600 + $0
+$0 + $0 + -$200 = +$0 + Material - $200 + $0
$1,275 + $925 + $800 = $1,600 + Profit + $400 + $1,000

The P&L section of the Retained Earnings section is always shown separately. It is called the Income Statement or the Profit and Loss Statement. To do this the books have to be closed out and the indicated math of the owner’s equity section (how much the business owns) must be completed. Therefore, the books would look like:

Balance Sheet

<table>
<thead>
<tr>
<th>Assets</th>
<th>Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>Sales</td>
</tr>
<tr>
<td>Cash  $1,275</td>
<td>Sales $600</td>
</tr>
<tr>
<td>Equipment $925</td>
<td>Material $200</td>
</tr>
<tr>
<td>Inventory $800</td>
<td>Profit $400</td>
</tr>
<tr>
<td>Total Assets $3,000</td>
<td></td>
</tr>
</tbody>
</table>

Liabilities

| Accounts Payable $1,600 |

Owner's Equity

| $1,400 |
| $3,000 |

Assuming, though, that the books have not been closed, a review of two more transactions will complete the basic manipulations of the formulae; assets = liabilities + owner’s equity.

After making the sale, the owner decides to pay off some of the debt. A check for $200 is written to the material supplier. That transaction would be recorded as follows:

Assets = Liabilities + Owner’s Equity
Cash Equipment Inventory = A/P + P&L + R/E
$1,275 + $925 + $800 = $1,600 + Profit + $400 + $1,000

Then the payment:
-$200 + $0 + $0 = -$200 + $0 + $0
$1,075 + $925 + $800 = $1,400 + Profit + $400 + $1,000

The formula is still in balance. Assets (stuff the business has) in the form of cash was reduced by $200. Additionally, liabilities (money the business owes) in the Accounts Payable (A/P) account was also reduced because the money owed by the business went down by the $200.
The owner has now decided to take a $300 distribution from the business. That transaction would be as follows:

\[
\begin{align*}
\text{Assets} & = \text{Liabilities} + \text{Owner's Equity} \\
\text{Cash} + \text{Equipment} + \text{Inventory} & = \text{A/P} + \text{P&L} + \text{R/E} \\
$1,075 + $925 + $800 & = $1,400 + \text{Profit} + $400 + $1,000 \\
-300 + 0 + 0 & = 0 + 0 + -300 \\
$775 + $925 + $800 & = $1,400 + \text{Profit} + $400 + $700
\end{align*}
\]

Of course, the formula is still in balance. Because the owner decided to take out $300 from the business as a distribution of profit, the asset (stuff the business has) cash was reduced by the $300. Additionally, by doing that the owner’s equity (how much the business owns) also went down by the $300. As a distribution of profit the reduction will be in Retained Earnings.

However, if it were a normal salary, it would be part of the cost of doing business or, in other words, part of the expenses in the P&L section. It would have been treated just like the $200 cost for material with one difference, a new line item (account) would have been setup, owner’s salary. The cost would have been recorded there.

The effect to the owner's equity (how much the business owns) section would be the same. The distinction is: was the cost part of the costs of operating the business or was it a return on the investment for owning the business? If it was part of the cost of operating the business, then it would go in the P&L section. If it was a return for the owner's entrepreneurial risk, then the cost would go to Retained Earnings section of owner's equity (how much the business owns) section.

However, it is important to note that most of the Clients initially seen will not have produced enough profit to take any distributions. In most cases, these Clients receive money from the company as a salary.

Therefore, closing the books (doing all the indicated math in the formulae) at this time would produce the following financial statements:

<table>
<thead>
<tr>
<th>Balance Sheet</th>
<th>Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$775</td>
</tr>
<tr>
<td>Equipment</td>
<td>$925</td>
</tr>
<tr>
<td>Inventory</td>
<td>$800</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$2,500</td>
</tr>
<tr>
<td>Equals</td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$1,400</td>
</tr>
<tr>
<td>Owner's Equity</td>
<td>$1,100</td>
</tr>
</tbody>
</table>

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This depiction is $500 less than the previous presentation of the closed books or the company’s financials. That was caused by the $200 which was paid toward the debt for the material and $300 that the owner took out as a distribution of profit.

This is the essence of the Income Statement and the Balance Sheet. The complexity of it all boils down to the simple formulae: assets = liabilities + owner’s equity.

Therefore, all of the activity that produced the above statements is:

\[
\text{(Stuff the business has)} = (\text{\$s the business owes}) + (\text{What the business owns})
\]

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities + Owner’s Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$0 + $0 = $0 + $0 + $0</td>
</tr>
<tr>
<td>$1,000</td>
<td>+ $0 = $0 + $0 + $1,000</td>
</tr>
<tr>
<td>-$125</td>
<td>+ $125 = $0 + $0 + $0</td>
</tr>
<tr>
<td>-$200</td>
<td>+ $800 = $600 + $0 + $0</td>
</tr>
<tr>
<td>$0</td>
<td>+ $1,000 = $1,000 + $0 + $0</td>
</tr>
<tr>
<td>$0</td>
<td>- $200 = $0 + Material -$200 + $0</td>
</tr>
<tr>
<td>$600</td>
<td>+ $0 = $0 + Sales $600 + $0</td>
</tr>
<tr>
<td>-$200</td>
<td>+ $0 = -$200 + $0 + $0</td>
</tr>
<tr>
<td>-$300</td>
<td>+ $0 = $0 + $0 - $300</td>
</tr>
<tr>
<td>$775</td>
<td>+ $925 = $1,400 + Profit $400 + $700</td>
</tr>
</tbody>
</table>

From the above exercise it can be seen that the business spends money in two ways:

1) It spends money on things it gets. These become assets (stuff the business has).
2) It spends money on stuff it uses. These go to the P&L portion of the Owner’s Equity (what the business owns) section.

Therefore; in the case of inventory, the business buys the inventory and possesses it. It is an asset (stuff the business has). Then the business took some of the inventory and used it to make something it sold. When the business used the inventory it went to the P&L section. This showed the using of the asset.

Most payments of a business are for things it has already used. Typically, this is the setup; the business uses electricity and then pays for it after it is used. The business does not store electricity. The same is true with labor. The business uses the labor, and then pays for it. Therefore, the payments go to the P&L section of the owner’s equity (how much the business owns) portion of the formulae because the payment is about using, not acquiring (asset section).

The above, then, demonstrates that the P&L (Income Statement) shows the using (consumption) of assets. While, the Balance Sheet shows the quantity of assets held by the business. Therefore, the Balance Sheet shows how many assets the business has available to
use to make a profit. Therefore, simply, the Balance Sheet shows the business’ capability while the Income Statement (P&L) shows the business’ activity; the consumption of assets.

The Balance Sheet, then, is about the acquiring of assets to make a profit; while the Income Statement (P&L) is about the disposing of assets to make a profit.

Next, then, is a closer look at the Income Statement. Because the Income Statement is about the consumption of assets, there are four basic methods or areas which categorize the disposing of the assets.

1) Direct Costs - These are costs which are easily measured and change directly with each unit of sale.

2) Indirect or Semi-variable Costs - These are cost which change and/or costs which have the characteristics of both variable costs and fixed costs. An example is the phone bill. A portion of the bill is the same each month while another changes with activity. Another is the electric bill. A portion of the bill stays the same. Even if all the equipment is turned off there will be a monthly charge; however, the bill increases as electricity is consumed. In some cases, rent can fit into this category. Sometimes rent is computed at a base cost plus a percentage of the monthly sales. Many malls are set up like this. These costs will tend to vary with sales but not necessarily per unit of sale.

3) Fixed Costs or General and Administrative Costs - These are cost which tend to remain the same regardless of the level of sales. Typical examples in this category are: clerical salaries, rent, depreciation, interest expense, and owner’s salary. Many administrative costs, supplies, insurance payments, etc., are put in this area.

4) Extraordinary Costs - These are costs which are not about what the business does. These are costs the business incurs but do not relate to its basic operation, e.g. the cost of moving the business.

The first three costs - Direct Cost, Semi-variable or Indirect Costs, and Fixed or General and Administrative - are reviewed in examining the effectiveness of a business. These costs compared to the sales measure the business efficiency. It is the control of the balance or the ratio of these costs to sales that produce the business’ targeted profit. This is a pre-determined profit.
FINANCIAL RATIOS & FINANCIAL TERMS

% RETURN ON INVESTMENT
The measure of income related to the assets employed to produce that income. This ratio is the true measure of profitability and has the same meaning with respect to comparable values across all industries or businesses.

% RETURN ON NET WORTH
This is a measure of profitability on those assets that are financed by shareholders equity. Profit leaders generally yield returns in the area of 30 to 38%. Too low a return would signify that a shift of the investment into another area of involvement may well be in order.

EQUITY GROWTH
This relationship reflects the relative change in the stockholder’s equity between one period and a preceding period. Since the value is relative there are no absolutes, only individually determined objectives.

OPERATING PROFIT: WORKING CAPITAL
Working capital is the excess of current assets over current liabilities. This margin represents the cushion available to the business for carrying inventories, receivable and for financing day-to-day operations. This ratio is obtained by dividing net profits by net working capital.

% OPERATING PROFIT: TOTAL ASSETS
Determined by dividing operating profit by total assets. This concept provides information for updating the fixed assets and improving the return on investment and insuring against obsolescence. Profit leading firms' rates are generally in the area of 17% to 19%. Larger is better.

OPERATING PROFIT: DEBT
This is obtained by dividing long term debt into the operating profits of the firm. A high return is not always indicative of good performance. It is, too often, the result of under-capitalization which makes a company vulnerable if there is an interruption of profits. Profit leaders generally show 6 to 9% on this ratio.

OPERATING EXPENSE: NET SALES
This is the operating ratio and a measure of management efficiency and effectiveness in controlling operating expense. The expenses referred to here are all expenses except those directly related to operations. No direct costs are included. Maintenance of a stable or reducing ratio would normally be desired.

OPERATING EXPENSE: FIXED ASSETS
This is a measure of management efficiency and effectiveness in maximizing the utility of the facilities (i.e.) plant, equipment, furniture, fixtures, etc. Generally one would expect the trend
line to be ascending. Down trend would generally indicate lax control of fixed asset acquisition and undisciplined policy structure.

CASH CYCLE... (OPERATING EXPENSE: WORKING CAPITAL)
This measures the volatility of the use of the working capital of the organization. Too low a cycle rate indicates a lazy working capital manager, it's all too easy. Whereas too high a cycle rate identifies the too short working capital organization that is constantly fighting the crunch of not enough to go around when they need it. The high rate is always scurrying for the next collection.

CURRENT ASSET TURNOVER
This measures the firm's ability to efficiently utilize its' current investment in the generation of revenue. Too high a ratio indicates inadequate resources for the level of activity, while too low a ratio indicates a sluggish or lazy use of available resources. The implication of management is indifference. High profit leaders commonly have ratios within 1 or 2 one-hundredths of one another.

TOTAL ASSET TURNOVER
The ratio is obtained by dividing net sales by the total assets of the firm. Profit leading firms generally show higher turnover rates. This combined with a higher profit as a percentage of sales results in a higher return on investment. A rate above 1.4 is desired.

NET SALES: WORKING CAPITAL
Net sales are divided by net working capital. This provides a guide as to the extent the company is turning its working capital and the margin of operating funds.

NET SALES: FIXED ASSETS
This ratio has a ceiling (values above indicate insufficient facilities for the sales activity) and also a floor (values below indicate insufficient sales activity for the available facilities.) The management task is to maintain the balance of the firm's resources and the activities within the profit channel by modernization or acquisition of additional facilities required.

NET SALES: NET WORTH
Net sales are divided by the net worth, the stockholders equity in the business. This gives a measure of relative turnover of invested capital.

TIMES INTEREST EARNED
One of the first things one would want to know is how readily a firm can pay its' fixed interest charges, whether the borrowed funds have been put to good use so that the earnings are ample to meet the interest costs. Before an individual investment can be considered a safe investment the firm should earn its' bond interest requirement at least three times over.

DAYS RECEIVABLE HOLDING PERIOD
This is the time that the receivables are held. Basically it represents the turnover, expressed in days of the accounts receivable outstanding through the direct operations of the enterprise, whether it is a sales or marketing firm or a producing entity. The shorter the held term the better in terms of cash flow needs.

DAYS AVERAGE COLLECTION PERIOD
Average daily credit sales are divided into notes and accounts receivable. This ratio is helpful in analyzing the collect-ability of receivables. The collection period should not exceed the maturity indicated by the selling terms by more than 10 days. Therefore, the variations in selling terms from one concern to another should be considered in any review.

CASH FLOW
Net cash flow over the period at question available to the firm is the net operating profit less income tax plus the designated depreciation for the period.

WORKING CAPITAL
This is the difference between the total current assets and the total current liabilities. It is the amount left free and clear if all current debts were to be paid off. The ability of a company to meet its obligations, expand its volume, and take advantage of opportunities is often determined by working capital available to the management.

WORKING CAPITAL REQUIRED
The determination of this value requires consideration of: the amount of time required to collect accounts receivable; the amount of time required to process inventories into finished goods; the amount of and payment requirements of accounts payable; and the other elements of the current assets and current liabilities. This must be evaluated directly with the actual working capital on hand.

NET WORTH
This is the difference between all assets and all liabilities. It represents the gross amount that the organization owes the stockholders. And at least in theory, is the value of the organization in the event of liquidation. Seldom, however, does the value hold up in an actual liquidation. Tracking the growth will indicate the net yield to the stockholders.

COMMON EQUITY
This represents the portion of the net worth that relates only to the common stock investment. It is the net worth less the sum of the value of preferred stock and the value of any intangible assets, i.e. goodwill, patents, copyrights, trademarks, etc.

NET INCOME AFTER TAX
This is the income realized after income tax liabilities have been provided for. This value finds its place on the Balance Sheet as "Retained Earnings" in the stockholders equity accumulation accounts.

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CURRENT CASH RATIO
This ratio identifies the proportion of the current assets that consist of cash and accounts receivable less allowance for bad debts. Too low a ratio would indicate a disproportionate amount of inventory and signifies a firm that will generally have a difficult time in meeting its daily, weekly and monthly obligations to employees and suppliers.

CURRENT ASSETS: TOTAL ASSETS
This ratio indicates the relative proportion of the current assets to the total assets. A low ratio, indicating a too heavy proportion of deferred assets, generally finds the organization squeezed when endeavoring to meet its current obligations in a timely way. The trend directional movement should be observed for management correction of deficiency.

CURRENT ASSETS: CURRENT LIABILITIES
This is the principle test of solvency. Current assets are divided by current liabilities (those liabilities that become due within a one year period).

CASH: ASSETS
This ratio identifies the proportion of the assets that consist of cash and accounts receivable less allowance for bad debts. The trend direction is of importance in analyzing the dynamics of cash availability as related to the firm's demand for cash for operation.

WORKING CAPITAL: TOTAL ASSETS
This ratio identifies the part of the total investment in total assets that is available to the firm for on-going operations growth and ready acquisition of posed-opportunities. Efficiency in the financial management of the first is indicated through an analysis of the trend movement.

FINANCIAL LEVERAGE... (ASSETS: NET WORTH)
This qualifies the management effectiveness in compounding, leveraging the equity of the organization. Leadership in this area may be noted where the trending indicates steady growth in the ratio value.

FIXED ASSETS: NET WORTH
The book value of depreciated fixed assets is divided by the stockholder's equity in the business. Ideally this relationship should not exceed 1.0 for a manufacturer and .75 for a wholesaler or retailer. For service establishments, the higher the level of technology provided the higher the ratio. Labor intensive services will indicate ratios approaching zero.

CURRENT LIABILITIES: NET WORTH
Derived by dividing current liabilities by stockholder equity. As a rule of thumb, a business begins to pile up troubles when this ratio exceeds .8, although the value is unique for each firm.
TOTAL LIABILITIES: NET WORTH
This ratio is obtained by dividing total debts, both current and long term, by the stockholder’s equity. When this relationship exceeds 1.0 the equity of the creditors in the assets of the business exceeds that of the owners.

% DEBT RATIO
All long term obligations maturing more than one year from the statement date (funded debt) is divided by working capital. This ratio is used to determine whether or not long term debts are in proper proportion. The critical point is 100% and the relationship should not exceed that value.

% DIVIDEND PAYOUT RATIO
This indicates the part of net income after income tax provision deductions which are paid out in dividends to the owners or beneficial stockholders. The inverse (dividing 100 by this percent) will produce the dividend coverage ratio and indicates the number of times the dividends have been earned. Too high a dividend pay-out ratio depletes the firm’s ability to hold growth opportunity.

% EFFECTIVE TAX RATE
This rate is developed as a percentage of taxable income for income taxes paid to taxing agencies. Company capital and investment opportunities must be evaluated for rate of return or net present value considering this tax rate as a major decision determinant.

INVENTORY: WORKING CAPITAL
Balance sheet inventory values are divided by net working capital. This is an additional measure of inventory balance and a significant indicator of purchase and inventory control as practiced by the management of the establishment. Ordinarily, the relationship should not exceed .75.

ACCOUNTS PAYABLE: INVENTORY
This ratio is found by providing the accounts payable by the inventory on hand. It indicates the extent to which the firm relies on funds from the disposal of unsold inventories to meet its debts. A low value is desired for this ratio. However, too low a value may indicate the inventories have been on hand for some time and may be un-marketable.

MERCHANDISE TURNOVER
This rate is determined by dividing the cost of goods sold by the average inventory on hand. Low rates may indicate an overstock condition and high rates may indicate low stock which could be due to the inability to procure credit from suppliers. All ratios must be so evaluated by looking at the implications signified.

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INVENTORY TURNOVER
Balance sheet inventory values are divided by net working capital. This is an additional measure of inventory balance and a significant indicator of purchase and inventory control as practiced by the management of the establishment. Ordinarily, the relationship should not exceed .75.

DAYS INVENTORY IN STOCK
Based on the sales activity rate and the experience time required to move the inventory into commerce; the result is average number of days that the inventory will have to be held prior to final sale or shipment.

$ CASH: SHARE
This relationship identifies the cash per share of common stock issued and outstanding. The significance lies in an analysis of the trends of this ratio over some multiple period of time relative to the working capital per share over the same period.

$ WORKING CAPITAL: SHARE
This should be evaluated along with the “cash per share” ratio. Generally the two should be moving in parallel and where a divergence or convergence is apparent, a move out of liquidity and into accounts receivable or inventory or work-in-process should be examined carefully.

$ COMMON EQUITY: SHARE
This ratio is developed after accumulating only that part of the equity statement that particularly pertains to common stock considerations. Each element of preferred stock value, treasury stock, intangible assets and balance sheet transactions reflected in the equity account eliminated prior to division by the number of shares of common stock issued and outstanding.

$ NET WORTH: SHARE
This is the total equity position of the company less the value of preferred stock divided by the number of shares of common stock outstanding.

$ TANGIBLE BOOK VALUE: SHARE
This is the total equity position of the organization less the preferred stock value and less intangible assets, i.e. goodwill, patents, trademarks, copyrights, etc. divided by the number of shares of common stock issued and outstanding.

$ EARNINGS BEFORE TAX: SHARE
This is the total operating profit before Federal Income Tax allocation divided by the number of shares of common stock issued and outstanding. Stockholders are prone to examine this result as an indicator of the return on their investment dollar.
$ DIVIDENDS PAID: SHARE
Just as the title indicates, it is the total dollar dividends paid divided by number of common shares of common stock issued and outstanding. This is the tangible yield for the stockholders with respect to their stock investment in the organization.

NUMBER SHARES COMMON STOCK ISSUED
The number represented here is the net number of shares of common stock issued and outstanding. It does not include shares returned to the organization treasury, as treasury stock.

MATERIAL TURNOVER
See Merchandise Turnover...Same definition

$ DIVIDENDS PAID: SHARE
Just as the title indicates, it is the total dollar dividends paid divided by number of common shares of common stock issued and outstanding. This is the tangible yield for the stockholders with respect to their stock investment in the organization.

Z SCORE
The Z Score is used in forecasting failure and in telling management whether it should make cutbacks to retain needed funds. In appraising an entity's susceptibility to failure, you should examine the trend in these ratios: working capital to total assets, debt to equity, and total liabilities to total assets. The Z Score is based on a weighted-sum of financial ratios. The Z Score model has three general outcomes: likely bankruptcy, unlikely bankruptcy, and gray area. The Z Score is about 90% accurate in forecasting business failure one year in the future and about 80% accurate in forecasting two years in the future.
## INTERPRETING RATIOS

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Computation</th>
<th>Example</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio</td>
<td>Current Assets / Current Liabilities</td>
<td>1.18</td>
<td>I have $1.18 in current assets to current every dollar in current liabilities.</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>Cash + Accounts Receivables / Current Liabilities</td>
<td>.30</td>
<td>I have $.30 in quick assets (liquid) to pay every dollar in current liabilities.</td>
</tr>
<tr>
<td>Debt to Equity</td>
<td>Total Debt / Equity</td>
<td>35.90</td>
<td>For every dollar I (the owner) put into the business, the creditors have put in $35.90.</td>
</tr>
<tr>
<td>Gross Profit Margin</td>
<td>Gross Profit / Sales</td>
<td>19.2%</td>
<td>For every dollar of sales I generate, I make 19.2 cents at the gross profit level.</td>
</tr>
<tr>
<td>Pre-Tax Profit Margin</td>
<td>Profit Before Taxes / Sales</td>
<td>3.0%</td>
<td>For every dollar of sales I generate, I make 3 cents at the pre-tax profit level.</td>
</tr>
<tr>
<td>Sales to Assets</td>
<td>Sales / Total Assets</td>
<td>2.10</td>
<td>For every dollar in assets employed in my business, I generate $2.10 in sales.</td>
</tr>
<tr>
<td>Return On Assets</td>
<td>Profit Before Taxes / Total Assets</td>
<td>10.0%</td>
<td>For every dollar in assets employed (ROA) in my business I generate 1C in profits.</td>
</tr>
<tr>
<td>Return on Equity (ROE)</td>
<td>Profit Before Taxes / Equity</td>
<td>2.0%</td>
<td>For every dollar I've invested in the business, I generate a return of 2 cents.</td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>Cost of Goods Sold / Inventory</td>
<td>6 X</td>
<td>On average, I turn my inventory 6 times a year.</td>
</tr>
<tr>
<td>Days In Inventory</td>
<td>365 Days / Inventory Turnover</td>
<td>60 days</td>
<td>On average, I turn my inventory every 60 days.</td>
</tr>
<tr>
<td>Accounts Receivables Turnover</td>
<td>Sales / Accounts Receivable</td>
<td>9 X</td>
<td>On average I collect my accounts receivable 9 times a year.</td>
</tr>
<tr>
<td>Collection Period</td>
<td>365 Days / Accounts Receivable Turnover</td>
<td>27 days</td>
<td>On average I collect my accounts receivable every 27 days.</td>
</tr>
<tr>
<td>Accounts Payable Turnover</td>
<td>Cost of Goods Sold / Accounts Payable</td>
<td>6 X</td>
<td>On average I pay my accounts payable 6 times a year.</td>
</tr>
<tr>
<td>Payable Period</td>
<td>365 Days / Accounts Payable Turnover</td>
<td>51 days</td>
<td>On average I pay my accounts payable every 51 days.</td>
</tr>
</tbody>
</table>
HOW PROFIT IS MADE IN A BUSINESS

The net profit in a business comes from three sources. It is rare that an owner is focusing on more than one area. Profit is generated through asset management, employee productivity, and through the pricing structure.

Asset management is usually ignored by business owners. They buy what they need, when they need it, if there is money in the bank. Asset management covers cash management, capital purchases and expansion planning. When they do spend money in this area, it creates problems later on because they do not have an asset management plan. Many owners will look at the checkbook balance and make a decision to buy a fixed asset. Since they do not use cash forecasting, they are unaware that the excess funds in the bank now are needed sixty days later. The result is that they are constantly waiting for the mail to arrive to see if there is any money in it.

To manage assets, there are five ratios that a business owner must look at monthly. The owner needs to pay attention to the trend of these ratios. The balance sheet is the only early warning sign that exists in the monthly statements. Many times an owner will state that when this bill is paid off we will have money in the bank. After looking at the numbers, you will see that all the ratios are trending in the wrong direction. What it means is that the light at the end of the tunnel that the client sees is not a light at all, but a train coming head on. The five ratios are; working capital vs. working capital requirement, current assets vs. current liabilities (you can also use the quick ratio here), number of inventory turns, average number of days of collection for accounts receivable and the debt ratio. These ratios determine why a client has or doesn’t have money in the bank. They also point out if the situation is improving or getting worse.

Working capital vs. working capital requirement ratio will determine the long term survival of the company. It is the most critical ratio in business. How many times have you seen a business expand from one location to two locations to five locations to ten locations, only to see the business go under? The assumption is that the business was not profitable which is not necessarily true. Some studies have shown that up to 37% of these businesses were profitable but they grew into bankruptcy because they could not generate enough working capital to meet their needs. Working capital is very easy to calculate.

Working capital is current assets minus current liabilities. Working capital requirement is more difficult to calculate. A simple way of explaining it to a client follows. A business must have enough money to pay its monthly bills (these bills are the non-variable bills. On Global Resources financial it would be the operating expenses divided by the number of months for the period), principle payments of loans, accounts receivable (variable expenses only; multiply accounts receivable by the cost of goods sold percentage) less depreciation included in operating expenses and trade accounts payable (what their vendors will carry for them).
This calculation will determine if the business is properly capitalized. If this ratio is getting worse, the business cannot survive in the long run because at some point the well will dry up. The ratio will improve if an owner converts long term assets to short term assets, short term debt to long term debt, increases the inventory turns or decreases the collection period of his receivable. Notice that we are not discussing profit. Profit does not determine if there is money in the bank. This ratio also tells the owner when money can be withdrawn from the company without hurting the business, when to invest in long term assets.

The current ratio and the quick ratio determine to a large extent the pressure that is put on the office staff and management. Banks like to see this ratio in the 2.0:1 to 3.0:1 range. Most small businesses operate with a ratio in the 1.4:1 to 1.6:1 range. The quick ratio usually will be 0.2:1 to 0.4:1 smaller. What a 1.5:1 ratio means is that for every dollar that they owe they have one dollar and fifty cents of current assets. The smaller the ratio, the higher the frequency of telephone calls that the office is fielding from their vendors and the more calls they must make in purchasing. Some businesses will have a current ratio of 2.0:1 but a quick ratio of 1.0:1. This usually means that the level of inventory is too high for that business or that they are undercapitalized.

Inventory turns is the material cost divided by raw material inventory. Most businesses can turn their inventory every sixty days. This means six turns per year. Your SSD can help you with the number of turns for the business being surveyed. If the business has $300,000 in inventory and is achieving four turns, increasing the turns from four to six would generate a positive cash flow of $25,000. This should mean they would need to borrow $25,000 less and save that interest. Work-in-process and finished goods would be cost of goods sold divided by the applicable inventory. The same impact on cash can be made.

Collection period is the accounts receivable divided by the gross charge sales for a period multiplied by the number of days in the period. Most businesses collect their money on an average of 38 to 43 days. Again, your SSD can help you with your business being surveyed.

The various ratios are shown on the Dunn & Bradstreet Scope portion of that report. Many businesses have a copy of their latest report filed with their financial report. Look for it or ask to see it, if you have a cooperative client. Each industry has its own set of ratios which are proper for that type of business. We have found that the people who value these reports the most are the client's banker and their vendors. Some customers are also interested since it may show the client's probability to remain in business.

Being able to discuss these areas with the owner early in the opening will allow you to establish tremendous credibility. Do not discuss them in detail, however. Discuss them in general in the opening, getting agreement on the problems. Save the meat for the Preliminary Findings Meeting.

Asset management should generate a minimum of one-half percent to one and a third percent to the bottom line. If a company has $1,000,000 in sales, with a gross margin of 30% and a net
profit of 5%, then adding a half percentage to the net profit ($5,000) through asset management would be the same as increasing sales by $200,000 (10% increase in sales). Which is more likely to occur and the easiest to accomplish?

**The Pricing Structure of the Business** is the second area of profit for the company. Does the owner know the true costs of his goods or service? Does he know his product mix? Does he know which are the winners and which are the losers? But more importantly does he take the strength of his company into his pricing structure to become more competitive (break-even utilization). This is a good place to discuss break-even by explaining what comprises a dollar (profit, fixed expenses, semi-variable expenses and variable expenses). Again, save the meat for the Preliminary Meeting. Most business owners build overhead into a labor rate or some type of add-on in their pricing/bidding process. They may not use a gross margin concept in pricing/bidding. Overhead absorption needs to be tracked as they approach break-even so they can respond quickly to competition when they are above their break-even point. It also allows them to see if they make a profit on every job, they can still lose money for the year. Example: the overhead is $120,000 and they work 12,000 hours. The labor absorption rate would be $10 per hour. If they worked an even 1,000 hours per month the overhead would be absorbed 100%. But what if after six months the hours were cut to 800 for the balance of the year. The overhead for the first six months is under absorbed because the absorption rate would have increased by 11.1% ($120,000 divided by 10,800 hours = $11.11 per hour). Their profit is overstated in each of the first six months by $1,111.

**Employee Productivity** is the third area of business that generates profit for the company. Does the company pay for time or performance? Most companies do not measure the productivity of their people. As a result, they are paying for time not performance. Most companies do not have any true incentive plans. Most companies have not engineered the cost of labor. They have no way to control or reward employees that are the most productive. Productivity must be measured and rewarded to maximize profits. An example of engineered labor and a reward system that does not cost the company one penny follows: The company's pricing structure is based on a cost of 20% labor. The actual cost is 18%. Under a 50% sharing for productivity increase, the company would pay 1% incentive compensation. The net cost to the company would be zero. They had planned to pay 20% but they actually paid only 19%. It is a win-win situation for both the employee and the company.

**MARGIN MIX**

Margin mix is the ability of an owner to control the effectiveness of the sales force. For most companies the higher percentage of sales is centered in the lower margin items. A shift in sales that result in a higher percentage of sales being sold at lower margins to meet sales quotas, can kill the profitability of a company. Owners, however, have none or very little information with which to control their margin mix. They do not understand where gross profit and gross sales cross with regards to profitability. In other words, if margins decrease by 1% how much in additional sales are necessary to maintain the same profit. Owners must make sure that their compensation plan rewards quality sales not quantity sales. Simply, looking at sales dollars tells the owner nothing except how fast they are moving. The owner must walk a fine line of CEO and Sales Manager. As

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the CEO, they must make sure that the correct gross margin dollars are generated to cover the overhead of the company. To the CEO gross margin percentage does not mean a great deal, their primary responsibility is the bottom line. To the Sales Manager, gross margin percentage is very important. It is their responsibility to generate the gross profit that is in the profit plan of the company. Most owners, since they fill both slots, are in a constant battle with themselves as to where to go with the pricing.

To see the effects of change in gross profit sales from higher to lower margin items, study the example shown below. Shifting the sales from higher margin products to lower margin products cost this company $30,000 even though the sales and cost remained constant.

Example: $1,000,000 sales volume. $180,000 overhead.

<table>
<thead>
<tr>
<th>Product</th>
<th>Sales</th>
<th>Gross Profit %</th>
<th>Gross Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$50,000</td>
<td>40%</td>
<td>$20,000</td>
</tr>
<tr>
<td>B</td>
<td>$150,000</td>
<td>30%</td>
<td>$45,000</td>
</tr>
<tr>
<td>C</td>
<td>$250,000</td>
<td>20%</td>
<td>$50,000</td>
</tr>
<tr>
<td>D</td>
<td>$550,000</td>
<td>10%</td>
<td>$55,000</td>
</tr>
</tbody>
</table>

Total Gross Profit = $170,000. Actual overhead $180,000, thus there is a $10,000 loss.

<table>
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<tr>
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<th>Sales</th>
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</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$100,000</td>
<td>40%</td>
<td>$40,000</td>
</tr>
<tr>
<td>B</td>
<td>$200,000</td>
<td>30%</td>
<td>$60,000</td>
</tr>
<tr>
<td>C</td>
<td>$300,000</td>
<td>20%</td>
<td>$60,000</td>
</tr>
<tr>
<td>D</td>
<td>$400,000</td>
<td>10%</td>
<td>$40,000</td>
</tr>
</tbody>
</table>

Total Gross Profit = $200,000. Actual overhead $180,000, thus there is a $20,000 profit. Lack of control of margin mix explains why an owner finds that profits have disappeared even though the sales have remained the same, or even increased.

**CASH MANAGEMENT**

Cash is the most powerful asset that a company has. It is also the most ignored asset of most businesses. Cash should be a profit center generating between ¾% and ½% of sales in bottom line profit. Cash is not dependent on profitability. Cash can be generated at a consistent level even during periods of decline in a business. Cash management covers billing procedures, collection procedures, inventory control, purchasing procedures, fixed asset purchasing, depreciation methodology, and budgeting procedures. Any of these areas mentioned can be the cause of no money in the bank. Most of the time it is a combination of all the areas mentioned. A client must fix all the areas in his business if he is to have consistent levels of cash in his business.
Inventory Turns: The correct number of inventory turns for a business is dependent upon the lead-time of orders combined with an efficient price order quantity. If the lead-time of orders is one day, then on paper the owner could have 365 turns. If the lead-time of orders is thirty days, then on paper the owner could have twelve turns. You must use common sense when determining the correct number of turns that a business should have. As a rule of thumb, 2/3rd of optimal inventory turns is the maximum turns that are achievable. In other words, a thirty day lead-time would be twelve turns times 2/3rd or 8 turns. The biggest hurdle in selling this to an owner is the thought that you cannot sell from an empty basket. The owner wants to fill every customer order 100% of the time. National studies have shown that to use inventory in the most profitable manner, the minimum amount of orders filled should be 88% and the maximum should be 96%. At what point is the cost of inventory greater than the gross profit generated from the additional sales? At what point is the savings on inventory less than the gross profit generated from additional sales? I have never met an owner who could answer these questions. Inventory has many hidden costs that the owner never considers. The cost of money borrowed to purchase inventory, the lost revenue that the money could have generated if it wasn’t sitting in inventory, the higher level of obsolescence in excess inventory, the higher level of damaged goods in excess inventory, the reduced productivity of employees that have to work around excess inventory, the higher level of incorrectly filled orders with excess inventory, the overall increase in mistakes filling orders caused by excess inventory, the higher cost of insurance on excess inventory, the higher cost of overhead for excess inventory (rent, utilities, etc).

Billing Procedures: Must be done daily. Weekly or monthly billing is totally unacceptable. Weekly billing adds four days to the average collection period. Monthly billing adds seventeen days to the average collection period. Time is money! The longer the time interval between billing periods, the higher the level of errors and omissions in billings.

Collection Procedures: Statements should not be used. Statements give the customer excuses for paying later than they would if they paid from individual bills. Using statements add eleven days to the average collection period. Statements also increase labor costs, paper costs, envelope cost and postage. Collections must be done by telephone. Good cash management programs teach owners to pay their bills as late as possible without hurting their credit. The difference between paying in 30 or 45 days is minimal on the credit reports. How do you know how late you can pay your bills? The answer is simple. When does your vendor call asking for payment? The telephone call tells you when the vendor is uncomfortable with your debt. Therefore, you should pay the bill so that it arrives one day prior to the telephone call. If a bill is due today and it is not received then they should be called the very next day. The earlier the telephone call, the earlier the payment. It is the client’s money, if he doesn’t care when it is paid why should the customer? Most clients send out a statement saying payment is due in 30 days. They then wait until the bill is 30 days past due before called to collect. The total time elapsed before the telephone call is now 75 days on the average. Why do they do this? It is fear. Fear of losing the customer. Slow paying customers are the ones you want to lose. Let them help your competitor to go out of business. Good collections procedures enhance customer relations, not hurt them. It shows the customer that you care and that you can have lower prices because you use your money efficiently.

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**Purchasing:** Always use a P.O. system. The number one benefit of a purchase order system is the ability to cash forecast effectively. P.O. systems must have price and quantity shown or they are useless. One copy must go to the accounting department for cash forecasting purposes. Accounting can then compare the purchasing to budgetary constraints and forecast cash positions 1, 2, 4, 8 and 12 weeks into the future. Control of cash occurs by determining which bills are to be paid. It occurs by controlling the purchase orders.

**Sweep Account:** The client should use an investment account at the bank that pays interest on all available balances. The bank will not like it but we are there for the client. Sweep accounts take the balance in the account at the end of the business day and invest it into a low risk interest bearing vehicle overnight. The bank deposits the balance back into the account the next morning.

**Proper Financing:** Working capital versus working capital requirement is the most critical ratio in business. It determines if money will be in the bank or not. An owner’s responsibility is to properly structure the finances of their company. Many times the owner goes to the bank and borrows money not knowing the impact on his company. A short term loan or L.O.C. does not solve the problem in the long run. Short term financing does not increase working capital. The owner does not understand why long term financing is the solution most of the time. Only long term debt reduces the financial pressure on most owners, sometimes you need to explain why. Working capital is defined as current assets minus current liabilities. A simple method of calculating working capital requirements follows: 30 days of non-variable expense plus accounts receivable, times COGS % plus inventory at cost, plus WIP at cost plus one month’s principle payments, less one month’s depreciation, less total accounts payable = net required working capital.

**Depreciation vs. Principal Payments:** Depreciation should be saved and invested back into the company in the form of debt reduction. If depreciation is higher than loan principle payments then the payments are made with pre-tax money. If depreciation is lower than loan principle payments then the payments in excess of depreciation are made with after tax dollars. The Owner must not let their accountant use depreciation methods that will adversely affect the pre-tax debt reduction. Client’s that used accelerated depreciation methods generating large losses now will get stuck with reducing debt in after-tax dollars in the future. The client would make decisions about investing into fixed assets to maintain pre-tax debt reduction.

**QUALITY CONTROL**
Quality control saves money. It does not cost money. The owner of a business needs to balance Q.C. costs within their business to the cost saving of lost orders, rework and lost productivity of workers.

**INCENTIVES**
Incentives should be based on the labor margin required by the profit plan. The incentives should kick in when the labor margin exceeds the profit plan. Incentives cannot cause the break-even point to accelerate at a rate higher than the labor margin.

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TRAINING
A fixed percentage of sales should be invested into the training of employees. This investment does not reduce profit. The productivity increase will offset the costs.

MEETINGS
Meetings are designed to keep everyone going in the direction needed to remain profitable. They are not gripe sessions. They are to communicate how well we did last week, what we are trying to accomplish this week and what our goals are for the next week. Meetings for key personnel should be weekly and include the following key functions. CEO, CFO, sales manager, production manager, quality control and human resource only. These department heads should then have their meetings for their people either daily or weekly as the need exists. Meetings that do not accomplish these goals are extremely expensive and a waste of time.

SAFETY
Just like quality control it does not cost money. The cost must be balanced to productivity and quality.

ADVERTISING
The cost must be measured in units or dollars generated based on the industry. Spending money without measuring results is stupid and a waste of time and money.
BUSINESS METRICS/KEY PERFORMANCE INDICATORS

Business metrics and KPIs (key performance indicators) are traditional and non-traditional business measurements that are seen as critical for improving a company’s bottom line.

Examples of Business Metrics:

Sales per person
Gross margin
Net profit
Sales volume
Sales backlog ratio
Fringe benefits/wage & salary expense
Sales expenses to sales ratio
Break even
AP turnover
AR turnover
EBITDA
G & A expense
Overhead
Inventory turnover
Variance from P.O. price
Percentage of receipts authorized by P.O.’s
Percentage of corporate credit card usage
Freight audit recovery ratio
Picking accuracy of parts
Average time to ship
On time delivery percentage
Percentage of products damaged in transit
Average collection period
Sales performance
Labor expenses
Material costs
Operational expenses
Constrain rework percentage
Constraint schedule attainment
Economic order quantity
Throughput effectiveness
Break even plant capacity
Manufacturing effectiveness
Productivity index
Unit output per direct labor hour
Average equipment set up time
Unscheduled downtime

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Acceptable completion percentage
Work-in-process turnover
Scrap and waste turnover
Warranty claims percentage
Indirect expense index
On time delivery
Browse to buy conversion ratio
Direct mail effectiveness ratio
Inbound telemarketing retention ratio
Quote to close ratio
Sales per salesman
Sales productivity
Sales trend percentage per product line
Product demand elasticity
Operating assets ratio
Net income percentage
Sales to operating income
Gross profit percentage
Net income percentage
Average collection percentage
Inventory to sales ratio
Accounts payable days
Altman’s Z score
Purchase discount to total discounts
Percentage of payments discounts missed
Transactions processed per person
Transaction error rate
Average time to issue invoices
Average employee expense report
Turnaround time
Payroll transaction fees per employee
To produce financial statements
Percentage of tax filing dates missed
Bad debt percentage
Percentage of receivables over 45 days
Percentage collected of dollar volume
Sales to total salesperson costs
Gross profit to salesperson cost
Revenue generated per hour paid
Revenue generated per product
Part per square foot or operation
Number of products/parts per shift
Time per operation
Cost per operation

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Percentage of waste
Number of overtime hours
Number of hours worked per week
Number of employees licensed
Bill of material accuracy
Labor routing accuracy
Percentage of new products introduced
Percentage of sales from new products
Percentage of new parts used in new products
Percentage of existing parts used in new products
Percentage of products reaching market ahead of competition
On time parts delivery
Ratio of actual to target costs
Warranty claims percentage
Timeframe design inception to production
Percentage of floor space utilization
Production schedule accuracy
Number of orders to place in a time period
Economic production run size
Raw material inventory turns
Finished goods inventory turns
Obsolete inventory percentage
Percentage of inventory over 60 days
On time parts delivery
Purchased component defect rate
Incoming components correct quantity percentage
VALUE DRIVERS

Value Drivers are the measures of the strategies, processes, activities, or assets that create long lasting value that enhance the exit valuation of a business for its stakeholders. Value Drivers represent activities that, when executed properly, guarantee future value and success.

Examples of value drivers:

Return on assets
Gross margin
Net profit
Debt to equity
Cash
Current assets
Patents
Breakeven
Investment turnover
Accounts receivable
EBITDA
Inventory
Quick ratio
Current ratio
Asset turnover
Debt ratio
Intellectual properties
Debt to worth ratio
Cash flow to current maturities
Equity ratio
Human capital
Customer base
Recurring revenue
Product integration
Management experience and expertise
General administrative leverage
Distribution leverage
History/reputation/operational tenure
Sales and marketing effectiveness
Barriers to competition
Entry/differentiation
Intellectual properties
Return on investment
Asset base

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Industry benchmarks
Net worth
Working capital
Strategic planning
Equipment
Depreciation
Amortization
Growth potential
Maintenance expense to fixed assets
Reorder points
Market share
Customer turnover
Cash flow
Viable exit strategy
Financing strategy
High customer satisfaction
Excellent product quality
Investment income
Cash flow from operations
Fixed charge percentage
Expense coverage days
Cash flow coverage ratio
Cash to working capital ratio
Accounts receivable investment
Inventory to working capital ratio
Liquidity index
Working capital productivity
Times interest earned
Defensive interval ratio
Current liability ratio
Working capital to debt ratio
Risky asset conversion ratio
Short term debt/long term debt
Working capital productivity
Cash flow to debt ratio
Stock price to cash flow price
Dividend payout ratio
Cash to current assets ratio
Cash flow to fixed asset requirement
Investment performance
Profit per person
Debt coverage ratio
Asset quality index
Accruals to assets ratio

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Industry benchmarks
Net worth
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Market share
Customer turnover
Cash flow
Viable exit strategy
Financing strategy
High customer satisfaction
Excellent product quality
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Profit per person
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Debt to equity ratio
Funded capital ratio
Retained earnings to total percentage stockholder’s equity
Book value per share
Tangible book value
Intangible book value
Number of customers
Return on assets employed
Return on operating assets
Equity growth rate
Earnings per share
Dividend yield ratio
Market value added
Cost of capital
Price/earnings ratio
Capitalization rate
Cost of credit
Inventory accuracy
Certified suppliers
Glossary

1035 Exchange
Exchange refers to the provision of the US tax code which allows investors to transfer accumulated funds in one life insurance policy, endowment or annuity policy to another without incurring a tax liability. Certain guidelines must be met to take advantage of the 1035 exchange provision.

10K
Audited document required by the SEC and sent to a public company’s or mutual fund’s shareholders at the end of each fiscal year, reporting the financial results for the year (including the balance sheet, income statement, cash flow statement and description of the company operations) and commenting on the outlook for the future.

401K
A defined contribution plan offered by a corporation to its employees, which allows employees to set aside tax-deferred income on to its employees, which allows employees to set aside tax-deferred income for retirement purposes, and in some cases employers will match their contribution dollar-for-dollar. Taking a distribution of the funds before a certain specified age will trigger a penalty tax. The name 401(k) comes from the IRS section describing the program.

403(b) Plan
A retirement plan similar to a 401(k) plan, but one which is offered by non-profit organizations, such as universities and some charitable organizations, rather than corporations. There are several advantages to 403(b) plans: contributions lower taxable income, larger contributions can be made to the account, earnings can grow tax-deferred, and some plans allow loans. Contributions can grow tax-deferred until withdrawal at which time the money is taxed as ordinary income (which is sometimes a disadvantage)

457 Plan
The organization must be a state or local government or a tax-exempt organization under IRC 501(c). Employers or employees through salary reductions contribute up to the IRC 402(g) limit ($17,500 in 2013 and 2014) on behalf of participants under the plan. There are significant tax advantages in a 457(b) plan. Contributions to a 457(b) plan are taxed-deferred. Earnings on the retirement money are tax-deferred.
**Accelerated Death Benefits**
In some life insurance policies, benefits available before death, in such events as long-term, catastrophic or terminal illness. This benefit first became available when companies offering viatical settlements purchased the life insurance policies of terminally ill individuals from the insurance companies which issued the policies. After extracting a portion of the value of the policy for costs and profits, these companies offered the remainder of the death benefit to terminally ill policy holders. Insurance companies have different rules about how close to death the holder must be to receive benefits early. The remainder of the value of the policy, minus interest charges, is awarded to the beneficiaries upon the death of the holder.

**Accidental Death Benefits (adb’s)**
A life insurance policy provision that calls for an additional payment, usually equal to the face amount of the insurance, in the event of accidental death.

**Accounts payable**
Money which a company owes to vendors for products and services purchased on credit. This item appears on the company’s balance sheet as a current liability, since the expectation is that the liability will be fulfilled in less than a year. When accounts payable are paid off, it represents a negative cash flow for the company.

**Accounts receivable**
Money which is owed to a company by a customer for products and services provided on credit. This is treated as a current asset on a balance sheet. A specific sale is generally only treated as an account receivable after the customer is sent an invoice.

**Accrual basis accounting**
The most commonly used accounting method, which reports income when earned and expenses when incurred, as opposed to cash basis accounting, which reports income when received and expenses when paid. Under the accrual method, companies do have some discretion as to when income and expenses are recognized, but there are rules governing the recognition. In addition, companies are required to make prudent estimates against revenues that are recorded but may not be received, called a bad debt expense.

**Adjustable Rate Mortgage (arm)**
A mortgage with an interest rate that may change, usually in response to changes in the Treasury Bill rate or the prime rate. The purpose of the interest rate adjustment is primarily to bring the interest rate on the mortgage in line with market rates. The mortgage holder is protected by a maximum interest rate (called a ceiling), which might be reset annually. ARMs usually start with better rates than fixed rate mortgages, in order to compensate the borrower for the additional risk that future interest rate fluctuations will create.
Amortization
The gradual elimination of a liability, such as a mortgage, in regular payments over a specified period of time. Such payments must be sufficient to cover both principal and interest. Writing off an intangible asset investment over the projected life of the assets.

Annual Percentage Rate (apr)
The Annual Percentage Rate is the cost of credit expressed as a yearly rate. The APR is a means of comparing loans offered by various lenders on equal terms, taking into account interest rates, points and other finance charges. The federal Truth-in-Lending Act requires disclosure of the APR.

Annuity
A contract sold by an insurance company designed to provide payments to the holder at specified intervals, usually after retirement. The holder is taxed only when they start taking distributions or if they withdraw funds from the account. All annuities are tax-deferred, meaning that the earnings from investments in these accounts grow tax-deferred until withdrawal. Annuity earnings are also tax deferred so they cannot be withdrawn without penalty until a certain specified age. This money is subject to ordinary income taxes in addition to estate taxes.

Appraisal
A professional opinion, usually written, of the market value of a property, such as a home, business, or other asset whose market price is not easily determined. Usually required when a property is sold, taxed, insured, or financed.

Appreciation
Appreciation is the increase in value of an asset. The term “appreciation” may be applied to real estates, stocks, bonds, etc.

Arm’s Length
A transaction between two related or affiliated parties that is conducted as if they were unrelated, so that there is no question of a conflict of interest. Or sometimes, a transaction between two otherwise unrelated or affiliated parties.

Asked Price
The lowest price that any investor or dealer has declared that he/she will sell a given security or commodity. For over-the-counter stocks, the ask is the best quoted price at which a Market maker is willing to sell a stock. For mutual funds, the ask is the net asset value plus any sales charges.
Balance Sheet
A quantitative summary of a company’s financial condition at a specific point in time, including assets, liabilities and net worth. The first part of a balance sheet shows all the productive assets a company owns, and the second part shows all the financing methods (such as liabilities and shareholders’ equity).

Bank Reserves
Bank reserves are the currency deposits which are not lent to the bank’s clients. A small fraction of the total deposits is held internally by the bank or deposited with the central bank. Minimum reserve requirements are established by central banks in order to ensure that the financial institutions will be able to provide clients with cash upon request.

Bankruptcy
A U.S. Bankruptcy proceeding in which the debtor undertakes a reorganization of his or her finances under the supervision and approval of the courts. As part of the re-organization, the debtor must submit and follow through with a plan to repay outstanding creditors within three to five years. In most circumstances, the repayment plan must provide a substantial payback to creditors – at least equal to what they would receive under other forms of bankruptcy – and it must, if needed, use 100% of the debtor’s income for repayment.

Basis
Purchase price, including commissions and other expenses, used to determine capital gains and capital losses for tax purposes. This can be determined by several methods. For a purchased investment, the basis is the value of the stock on the date of the original owner’s death. If received as a gift, the basis is the amount that was originally paid for the investment, unless the market value of the investment on the date the gift was given was lower. (also called cost basis or tax basis).

Basis Points
One hundredth of a percentage point (0.01%). Basis points are often used to measure changes in or differences between yields on fixed income securities, since these often change by very small amounts.

Bear Market
A prolonged period in which investment prices fall, accompanied by widespread pessimism. If the period of falling stock prices, it is instead called a correction. Bear markets usually occur when the economy is in a recession and unemployment is high, or when inflation is rising quickly. The most famous bear market in U.S. history was the Great Depression of the 1930s. The term “bear” has been used in a financial context since at least the early 18th century. While its origins are unclear, the term may have originated from traders who sold bear skins with the expectations that prices would fall in the future. Opposite of bull market.
Capital Markets
A general term encompassing all markets for financial instruments with more than one year to maturity.

Capital Stock
All ownership shares of a company, both common and preferred listed at par value.

Cash Equivalents
Assets that can be quickly converted to cash. These include receivables, treasury bills, short-term commercial paper, short-term municipal and corporate bonds and notes.

Cash Value
Permanent life insurance policies provide both a death benefit and in an investment component called a cash value. The cash value earns interest and often appreciates. The policyholder may accumulate significant cash value over the years and, in some circumstances, “borrow” the appreciated funds without paying taxes on the borrowed gains. As long as the policy stays in force the borrowed funds do not need to be repaid, but interest may be charged to your cash value account.

Certificate of Deposit (cd)
A Certificate of Deposit is a low risk, often federally guaranteed investment offered by banks. A CD pays interest to investors for the duration of the term of the certificate.

Charitable Remainder Trust (crt)
The Charitable Remainder Trust is an irrevocable trust with both charitable and non-charitable beneficiaries. The donor transfers highly appreciated assets into the trust and retains an income interest. Upon expiration of the income interest, the remainder in the trust passes to a qualified charity of the donor’s choice. If properly structured, the CRT permits the donor to receive income, estate, and/or gift tax advantages. These advantages often provide for a much greater income stream to the income beneficiary than would be available outside the trust.

Closed-End Fund
A fund whose value is held within a fixed number of shares. Until the fund is wound up, shares can be bought and sold on the stock exchange or the over-the-counter market.

Co-Borrower
A Co-Borrower is individually or jointly obligated to repay a loan entered into with a third party. The co-borrower may or may not share in ownership of loan collateral.
Global Resources Training Manual

Codicil
An instrument in writing executed by testator for adding to, altering, explaining or confirming a will previously made by the testator: executed with the same formalities as a will; and having the effect of bringing the date of a will forward to the date of codicil.

Collateral
Assets pledged as security for a loan. If the borrower defaults on payment, the lender may dispose of the property pledged as security to raise money to repay the loan.

Commission
The fee a broker or insurance agent collects for administering a trade or policy.

Commodity
A commodity is a physical substance such a food or a metal which investors buy or sell on a commodities exchange, usually via futures contracts.

Common Stock
A security that represents ownership in a corporation.

Compounding
The computation of interest paid using the principal plus the previously earned interest amounts.

Conduit IRA
An individual who rolled over a total distribution from a qualified plan into an IRA can later roll over those assets into a new employer’s plan. In this case the IRA has been used as a holding account (a conduit).

Conforming Loan
A mortgage loan that conforms to Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) guidelines. Currently, conforming first mortgages are under $275,000.

Construction Loan
A construction loan is a short term loan applied to the construction of a new home. The builder gradually withdraws the loan proceeds and the home serves as collateral on the loan.

Consumer Debt
Debt incurred for consumable or depreciating non-investment assets. Items include credit card debt, store-financed consumer purchases, car loans, and family loans that will be repaid.

Contrarian
An individual whose opinion is the minority and contrary to the views of the majority.
Conventional Mortgage
A conventional mortgage is not insured, guaranteed or funded by the Veterans Administration, the Federal Housing Administration, or Rural Economic Community Development.

Convertible Mortgage
A convertible mortgage is an adjustable mortgage (ARM) that allows the borrower to convert to a fixed rate mortgage during a specified period of time.

Convertible Term Insurance
Term life insurance that can be converted to a permanent or whole life policy without evidence of insurability, subject to time limitations.

Corporation
A legal business entity created under the state law. Because the corporation is a separate entity from its owners, shareholders have no legal liability for its debts.

Correction
A sudden decline in stock or bond prices after a period of market strength.

Co-Signer
An individual or party who agrees to assume a debt obligation of a third party in the event the principal borrower defaults on the terms of the loan.

Coupon Rate
The rate of interest paid on a bond, expressed as a percentage of the bond’s par value.

Credit Cards
Cards such as Visa and Master Card allow the holder to charge purchases up to the limit of the card’s credit line.

Credit Bureau Repositories
A Credit bureau repository is an organization that compiles credit history information directly from lenders and creditors into credit summaries and reports. These reports are made available to lenders and creditors to assist them in gauging an individual’s credit worthiness.

Critical Illness Insurance
Insurance protection designed to provide a lump-sum payment equal to the full value of the policy or a percentage of the policy depending upon the product design, to the insured/policy owner upon the diagnosis of a covered critical illness. Typical illnesses covered include heart attack, stroke, cancer, paralysis, renal failure and Alzheimer’s disease. Many policies offer a partial payment for certain medical procedures such as coronary bypass surgery or angioplasty. Some policies offer a return of all premiums in the event of death of the insured, others pay the full benefit upon the insured’s death.

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Currency Risk
The level of risk when investing in international markets, due to the fluctuations in exchange rates of the various world currencies. Investing in any foreign country should be preceded by a careful estimation of how well its currency is likely to do against the dollar.

Custodian
A financial institution, usually a bank or trust company, that holds a person or company’s cash and or securities in safekeeping.

Cyclical Companies
Companies that report strong earnings when the overall economy is doing well and weaker earnings when the economy is in recession.

Debit Cards
Debit Cards allow the cost of the purchase to be automatically deducted from the customer’s bank account and credited to the merchant.

Debt Markets
The fixed income sector of the capital markets devoted to trading debt securities issued by corporations and governments.

Debt to Income Ratio
The ratio of a person’s total monthly debt obligations compared to their monthly resources is called their debt to income ratio. This ratio is used to evaluate a borrower’s capacity to repay debts.

Decedent
The term decedent refers to a person who has died.

Decreasing Term
A term life insurance featuring a decreasing death benefit. Decreasing term is well suited to provide for an obligation that decreases over the years such as a mortgage.

Deed of Trust
A document used to convey title (ownership) to a property used as collateral for a loan to a trustee pending the repayment of the loan. The equivalent of a mortgage.

Deferral
A form of tax sheltering in which all earnings are allowed to compound tax-free until they are withdrawn at a future date. Placing funds in a qualified plan, for example, triggers deductions (not all qualified plans provide for tax deductions; contributions may, however, be excluded from gross
Deferred Compensation
Income withheld by an employer and paid at some future time, usually upon retirement or termination of employment.

Defined Benefit Plan
A defined benefit plan pays participants a specific retirement benefit that is promised (defined) in the plan document. Under a defined benefit plan benefits must be definitely determinable. For example, a plan that entitles a participant to a monthly person benefit for life equal to 30 percent of monthly compensation is a defined benefit plan.

Defined Contribution Plan
In a defined contribution plan, contributions are allocated to individual accounts according to a pre-determined contribution allocation. This type of plan does not promise any specific dollar benefit to a participant at retirement. Benefits received are based on amounts contributed, investment performance and vesting. The most common type of defined contribution plan is the 401(k) profit-sharing plan.

Deflation
A period in which the general price level of goods and services is declining.

Depreciation
Charges made against earnings to write off the cost of a fixed asset over its estimated useful life. Depreciation does not represent a cash outlay. It is a bookkeeping entry representing the decline in value of an asset over time.

Direct Deposit
A means of authorizing payment made by governments or companies to be deposited directly into a recipient's account. Used mainly for the deposit of salary, pension and interest checks.

Disability Insurance
Insurance designed to replace a percentage of earned income if accident or illness prevents the beneficiary from pursuing his or her livelihood.

Disposable Income
After-tax income available for spending, saving or investing.

Diversification
To distribute (investments) among different companies or securities in order to limit losses in the event of a fall in a particular market or industry. Diversification does not assure against market loss.
Dividend Reinvestment Plan (drip)
An investment plan that allows shareholders to receive stock in lieu of cash dividends.

Dividends
A distribution of the earnings of a company to its shareholders. Dividends are “declared” by the company based on profitability and can change from time to time. There is a direct relationship between dividends paid and share value growth. The most aggressive growth companies do not pay a dividend, and the highest dividend paying companies may not experience dramatic growth.

Dollar Cost Averaging
Buying a mutual fund or securities using a consistent dollar amount of money each month (or other period). More securities will be bought when prices are low, resulting in lowering the average cost per share. Dollar cost averaging neither guarantees a profit nor eliminates the risk of losses in declining markets and you should consider your ability to continue investing through periods of market volatility and/or low prices.

Down Payment
The down payment on a property is the amount of cash applied to the purchase, with the remainder of the purchase accomplished through a mortgage or other debt.

E e

Earnest Money
Similar to a deposit, earnest money is money given to the seller of a property as an assurance of their intentions to purchase the property.

Earnings Per Share (eps)
Total net profits divided by the number of outstanding common shares of a company.

Economic Cycle
Economic events are often felt to repeat a regular pattern over a period of anywhere from two to eight years. This pattern of events needs to be slightly different each time, but usually has a large number of similarities to previous cycles.

Effective Tax Rate
The percentage of total income paid in federal and state income taxes.

Effective Market
The market in which all the available information has been analyzed and is reflected in the current stock price.

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Employee Stock Ownership Plan (esop)
An ESOP plan allows employees to purchase stock, usually at a discount, that they can hold or sell. ESOP's offer a tax advantage for both employer and employee. The employer earns a tax deduction for contributions of stock or cash used to purchase stock for the employee. The employee pays no tax on these contributions until they are distributed.

Escrow Funds
Escrow funds are funds accumulated and held in an account for the periodic payment of property taxes and insurance.

Estate
A decedent's estate is equal to the total value of their assets as of the date of death. The estate includes all funds, personal effects, interest in business enterprises, titles to property, real estate, stocks, bonds and notes receivable.

Estate Planning
The orderly arrangement of one's financial affairs to maximize the value transferred at death to the people and institutions favored by the deceased, with minimum loss value because of taxes and forced liquidation of assets.

Excess Distributions
An individual may have to pay a 15% tax on distributions received from qualified plans in excess of $150,000 during a single year. The tax, however, does not apply to distributions due to death, distributions that are rolled over, and distributions of after-tax contributions.

Executor
The person named in a will to manage the estate of the deceased according to the terms of the will.

Ff

Face Amount
The face amount stated in a life insurance policy is the amount that will be paid upon death, or policy maturity. The face amount of a permanent insurance policy may change with time as the cash value in the policy increases.

Fair Market Value
The fair market value of a property or other asset is the price that a buyer and seller can establish in an arms-length transaction where neither one is compelled to buy or to sell.

Family Trust
An inter vivos trust established with family members as beneficiaries.
Federal Housing Administration (FHA)
The Federal Housing Administration (FHA) is a government agency that sets standards for underwriting residential mortgage loans made by private lenders and insures such transactions.

Federal National Mortgage Association (FNMA or Fannie Mae)
FNMA is a private corporation that acts as a secondary market investor in buying and selling mortgage loans.

Fiduciary
An individual or institution occupying a position of trust; an executor, administrator or trustee.

Financial Planner
A person who helps you plan and carry out your financial future.

Fixed Investment
Any investment paying a fixed interest rate such as a money market account, a certificate of deposit, a bond, a note, or a preferred stock. A fixed investment is the opposite of variable investment.

Fixed Rate Mortgage
With a fixed rate mortgage, your interest rate will remain the same for the entire term of the loan. Although the rate will begin slightly higher than a comparable adjustable rate mortgage (ARM), the interest rate you pay can never go up for as long as you have the mortgage.

Fluctuation
A variation in the market price of a security.

Foreclosure
A foreclosure is the legal process by which a borrower losses their ownership interest in a collateralized property due to default on the attached loan.

Fund Manager
A person who manages the assets of a mutual fund.

Fundamental Analysis
Fundamental analysis is a technique of estimating a stock’s future value based on the in-depth study of the stock’s underlying financial statements. Fundamental analysis is the opposite of technical analysis.

Future Value
The future worth of a payment, or stream of payments, projected at a given interest rate for a given period of time.
Futures Market
A market in which contracts for future delivery of a commodity are bought and sold.

G

Generally Accepted Accounting Principals (gaap)
Conventions, rules and procedures that define accepted accounting practices in the U.S.

Grace Period
A period (usually 31 days) following each premium due date, other than the first due date, during which an overdue premium may be paid, and during which time all policy provisions remain in force and effect.

Group Insurance
A form of insurance designed to insure classes of persons rather than specific individuals.

Growth Stock
The common equity of a company that consistently grows significantly faster than the economy.

Guaranteed Investment Certificate (gic)
A type of debt security sold to individuals by banks and insurance companies. They usually cannot be cashed before the specified redemption date, and pay interest at a fixed rate.

Guarantor
A third party who agrees to repay any outstanding balance on a loan if you fail to do so. A guarantor is responsible for the debt only if the principal debtor defaults on the loan.

Guardian
A person or persons named to care for minor children until they reach the age of majority. A will is the best way to ensure that the person or persons whom you desire to care for your minor children are legally empowered to do so in the event of your death.

H

Hazard Insurance
Hazard Insurance protects the insured from losses arising due to physical property damage associated with catastrophic hazards such as flood, fire, earthquake, tornado, etc. Hazard Insurance will often be required by a lender to protect their collateral from such risks.

Home Equity Line of Credit (heloc)
A home equity line of credit allows a homeowner to borrow against the equity in their home with specific limits and terms. This is an open end loan which allows the borrower to borrow and repay funds as needed.

**Home Equity Loan**
A home equity loan is a collateralized mortgage, usually in a subordinate position, entered into by the property owner under specific terms of repayment.

**I**

**Illiquid**
The description of a security for which it is difficult to find a buyer or price. An illiquid investment is an investment that may be difficult to sell quickly at a price close to its market value. Examples include stock in private unlisted companies, commercial real estate and limited partnerships.

**Illustration**
A life insurance illustration, or ledger, is a reference tool used to illustrate how a given life insurance policy underwritten by a specific insurer is expected to perform over a period of years.

**Income Averaging**
Income averaging allows individuals who were age 50 before January 1, 1986 to pay tax on a lump sum distribution as though it had been received over a five or ten year period, rather than all at once. By using income averaging individuals may be able to pay income tax at a more favorable rate.

**Income Statement**
A financial statement that shows the components of profit, such as sales, expenses, taxes and net profit.

**Income Stocks**
Stocks that have a consistent, stable, above-average dividend yield.

**Individual Retirement Account (ira)**
An individual Retirement Account (IRA) is a personal savings plan that offers tax advantages to those who set aside money for retirement. Depending on the individual’s circumstances, contributions to the IRA may be deductible in whole or in part. Generally, amounts in an IRA, including earnings and gains, are not taxed until distributed to the individual.

**Inflation**
A term used to describe the economic environment of rising prices and declining purchasing power.
In-Force Policy
An in-force life insurance policy is simply a valid policy. Generally speaking, a life insurance policy will remain in-force as long as sufficient premiums are paid, and for approximately 31 days thereafter. (See Grace Period)

Insured
A life insurance policy covers the life of one or more insured individuals.

Interest Rate
The simple interest rate attached to the terms of a mortgage or other loan. This rate is applied to the outstanding principal owed in determining the portion of a payment attributable to interest and to principal in any given payment.

Interest Rate Risk
Is the uncertainty in the direction of interest rates. Changes in interest rates could lead to capital loss, or a yield less than available to other investors putting at risk the earnings capacity of capital.

Intestate
A term describing the legal status of a person who dies without a will.

Investment Banker
A firm that engages in the origination, underwriting, and distribution of new issues.

Investment Company
A corporation or trust whose primary purpose is to invest the funds of its shareholders.

Investment Considerations
Choosing which investments are right for you will depend on a number of factors, including; your primary objectives, your time horizon and your risk tolerance.

Investment Portfolio
A term used to describe your total investment holdings.

Investment Risk
A life insurance policy covers the life of one or more insured individuals.

Investment Strategy
An investor's plan of attack to guide their investment decisions based on individual goals, risk tolerance and future needs for capital. The components of most investment strategies include asset allocation, buy and sell guidelines, and risk guidelines.

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IRA (individual retirement account)
An Individual Retirement Account is a form of “individual retirement plan”, provided by many financial institutions, that provides tax advantages for retirement savings in the United States. An individual retirement account is a type of “individual retirement arrangement” as described in IRS Publication 590, Individual Retirement Arrangements (IRAs). The term IRA (which is used to describe both individual retirement accounts and the broader category of individual retirement arrangements) encompasses an individual retirement account; a trust or custodial account set up for the exclusive benefit of taxpayers or their beneficiaries; and an individual retirement annuity, by which the taxpayers purchase an annuity contract or an endowment contract from life insurance company.

IRA Rollover
A transfer of funds from a retirement account into a Traditional IRA or a Roth IRA. This can occur either through a direct transfer or by a check, which the custodian of the distribution account writes to the account holder who then deposits it into another IRA account.

J j

Jumbo Loan
A loan that is larger than the limits set for conventional loans by the Federal national Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC) This limit is currently set at $417,000.

Junk Bonds
Bond that pay an unusually higher rate of return to compensate for a low credit rating.

K k

Keogh
A Keogh is a tax deferred retirement plan for self-employed individuals and employees of unincorporated businesses. A Keogh plan is similar to an IRA but with significantly higher contribution limits.

L l

Leverage
Using “leverage” is the process of investing using borrowed funds. Leveraging your investments magnifies your returns, both positive and negative.
Leverage Buyout (LBO)
Leveraged buyouts are deals in which a company is bought with mostly borrowed money, money frequently raised through selling high-yield and high-risk junk bonds.

Liability Risk
The risk that the legal system may assess punitive damages against you if property damage or personal injuries can be attributed to your carelessness or negligence.

Lien
A lien represents a claim against a property or asset for the payment of a debt. Examples include a mortgage, a tax lien, a court judgment, etc.

Life Expectancy
Life expectancy represents the average future time an individual can expect to live. Life expectancies have been increasing steadily over past century and may continue to increase in the future. As people are living longer the cost of retirement is increasing.

Life Insurance
A contract between you and a life insurance company that specifies that the insurer will provide either a stated sum or a periodic income to your designated beneficiaries upon their death.

Life Settlement
Occurs when a person who does not have a terminal or chronic illness sells his/her life insurance policy to a third party for an amount that is less than the full amount of the death benefit. The buyer becomes the new owner and/or beneficiary of the life insurance policy, pays all future premiums, and collects the entire death benefit when the insured dies. Some states regulate the purchase as a security while others may regulate it as insurance.

Liquidity
Liquidity is the measure of your ability to immediately turn assets into cash without penalty or risk of loss. Examples include a savings account, money market account, checking account, etc.

Living Will
If you become incapacitated this document will preserve your wishes and act as your voice in medical decisions, if you are unable to speak for yourself as a result of medical reasons.

Loan-to-Value Ratio
A loan-to-value ratio represents the relationship between all outstanding and proposed loans on a property and the appraised value of the property. For Example, an $80,000 loan on a $100,000 property would represent an 80% loan-to-value ratio. This ratio assists a lender in determining the risk associated with the loan. The higher this ratio, the riskier the loan.
Margin
The amount of money supplied by an investor as a portion of the total funds needed to buy or sell a security, with the balance of required funds loaned to the investor by a broker, dealer, or other lender.

Margin Account
A special account set up by a broker for a client who wants to buy and sell securities using margin.

Margin Call
A call from a broker to a client asking for more money to back up a security purchased on margin when such a security has declined in value. If more money is not supplied, the broker usually sells the security.

Market Order
An order to buy at the current price, or sell at the current price.

Market Risk
Every investment carries some element of market risk, the risk that the entire market will decline, reducing the investment’s value regardless of other factors.

Medical Power of Attorney
This special power of attorney document allows you to designate another person to make medical decisions on your behalf.

Minimum Distributions
An individual must start receiving distributions from a qualified plan by April 1 of the year following the year in which he/she reaches age 70 1/2. Subsequent distributions must occur by each December 31st. The minimum distributions can be based on the life expectancy of the individual or the joint life expectancy of the individual and beneficiary.

Money Purchase Plan
A Money Purchase Plan has contributions that are a fixed percentage of compensation and are not based on the employer’s profits. For example, if the plan requires that contributions be 10% of the participants compensation, the plan is a Money Purchase Pension Plan. With this type of plan, the employer is committed to making contributions each year even if the employer has no profits or is experiencing as flow problems. Employee contributions are limited to 25% of compensation. Employer contributions are limited to the smaller of $30,000 or 25 percent of a participant’s compensation.
Mortality
Mortality is the risk of death of a given person based on factors such as age, health, gender, and lifestyle.

Mortgage
A legal instrument providing a loan to the mortgagor to be used to purchase real estate property in exchange for a lien against the property.

Mortgage Broker
A Mortgage broker acts as an intermediary between a borrower and a lender. A broker’s expertise is to assist the borrower in identifying mortgage lenders and products that they might not identify otherwise.

Mortgage Insurance (mi)
Mortgage insurance protects the lender against the default of higher risk loans. Most lenders require mortgage insurance on loans where the loan-to-value ratio is higher than 80% (less than 20% equity).

Municipal Bonds
A bond offered by a state, county, city or other political entity (such as a school district) to raise public funds for special projects. The interest received from municipal bonds is often exempt from certain income taxes.

Mutual Funds
A mutual fund is a pooling of investor (shareholder) assets, which is professionally managed by an investment company for the benefit of the fund’s shareholders. Each fund has specific investment objectives and associated risk. Mutual funds offer shareholders the advantage of diversification and professional management in exchange for a management fee.

Net Asset Value
The value of all the holdings of a mutual fund, less the fund’s liabilities (also describes the price at which fund shares are redeemed).

Net Worth
Mortality is the risk of death of a given person based on factors such as age, health, gender, and lifestyle.
Non-Conforming Loan
A legal instrument providing a loan to the mortgagor to be used to purchase a real estate property in exchange for a lien against the property.

Note
A financial security that generally has a longer term than a bill, but a shorter term than a bond. Similar to bonds in that they are sold at above or below face value, make regular interest payments and have a specified term until maturity.

O o

Odd Lot
An even number of securities that represents less than a round lot. (100 shares)

Offer Price
The price that a buyer is willing to pay for an investment.

Open-End Fund
An open-end mutual fund continuously issues and redeems units, so the number of units outstanding varies from day to day. Most mutual funds are open-end funds. The opposite of closed-end fund.

Origination Fee
The origination fee on a mortgage is usually the amount charged by the lender for originating the loan. Origination fees vary by lender and are expressed in points where one point is equal to 1% of the original loan balance.

Over-The-Counter (otc) Market
Market created by dealer trading as opposed to the auction market, which prevails on most major exchanges.

P p

Paper Gain (loss)
Unrealized capital gain (loss) on securities held in portfolio, based on a comparison of current market price to original cost.

Par Bond
A bond selling at par.

**Payroll Deduction**
Payments made on your behalf by your employer. They are automatically deducted from your paycheck.

**Points**
Points are changed added to a mortgage loan by the lender and are based on the loan amount. One point is equal to 1% of the original loan balance.

**Policy**
A contractual arrangement between in insurer and the insured describing the terms and conditions of the life insurance contract.

**Policy Loan**
The policy owner can borrow from the cash value component of many permanent insurance policies for virtually any purpose. Any policy loans that are outstanding at the time of death of the insured will be deducted from the benefit paid to the beneficiary.

**Political Risk**
Political risk is the risk that stock prices may decline dramatically during periods of political unrest or crisis.

**Power of Attorney**
A legal document authorizing one person to act on behalf of another.

**Premium**
The payment that the owner of an insurance policy makes to the insurer. In exchange for the premium payment, the insurer assumes the financial risk (as defined by the insurance policy) associated with the policy.

**Present Value**
The current worth of a future payment, or stream of payments, discounted at a given interest rate over a given period of time.

**Principal**
The principal amount of a loan or mortgage is the outstanding balance, excluding interest.

**Private Mortgage Insurance**
Private mortgage insurance protects the lender against the default of higher risk loans. Most lenders require private mortgage insurance on loans where the loan-to-value ratio is higher than 80% (less than 20% equity).

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Probate
The process used to make an orderly distribution and transfer of property from the deceased to a group of beneficiaries. The probate process is characterized by court supervision of property transfer, filing of claims against the estate by creditors and publication of the last will and testament.

Profit Sharing Plan
A Profit-Sharing Plan is the most flexible and simplest of the defined contribution plans. It permits discretionary annual contributions that are generally allocated on the basis of compensation. The employer will determine the amount to be contributed each year depending on the cash-flow of the company. The deduction for contributions to a Profit-Sharing Plan cannot be more than 15% of the compensation paid to the employees participating in the plan. Annual employer contributions to the account of a participant cannot exceed the smaller of $30,000 or 25% of a participant’s compensation.

Prohibited IRA Transactions
Generally, a prohibited transaction is any improper (self-dealing) use of the IRA by the account owner. Some examples include borrowing money from an IRA, using an IRA to secure a loan and selling property to an IRA.

Prospectus
Detailed statement prepared by an issuer and filed with the SEC prior to the sale of a new issue. The prospectus gives detailed information on the issue and on the issuer’s condition and prospects.

Q q

Qualified Retirement Plan
A qualified retirement plan is a retirement plan that meets certain specified tax rules contained primarily in section 401(a) of the Internal Revenue Code. These rules are called “plan qualifications rules”. If the rules are satisfied the plan’s trust is exempt from taxes.

R r

Refinance (Mortgage)
To refinance one’s mortgage is to retire the existing mortgage using the proceeds of a new mortgage and using the same property as collateral. This usually done to secure a lower interest rate mortgage or to access equity from the property.
Registered Representative
A registered representative is licensed with the NASD (National Association of Securities Dealers), through association with an NASD member broker/dealer, to act as an account representative for clients and collect commission income.

Roving Debt
A debt or liability that does not have a fixed principal balance or payment. Examples include credit cards, home equity lines of credit, etc.

Rider
An insurance rider is an amendment to a standard policy that expands or restricts the policy’s benefits. Common riders include a disability waiver of premium rider and a children’s life coverage rider.

Risk
Investment risk is the chance that the actual returns realized on an investment will differ from the expected return.

Rule of 72
A way to determine the effect of compound interest. Divide 72 by the expected return on your investment. If your expected return is 8%, assuming that all interests is reinvested, you will double your money in 9 years.

Safety of Principal
Safety of principal is an objective that emphasizes the security of the invested principal.

Salary reduction Simplified Employee Pension (sarsep)
A SARSEP is a simplified alternative to a 401(k) plan. It is a SEP that includes a salary reduction arrangement. Under this special arrangement, eligible employees can elect to have the employer contribute part of their before-tax pay to their IRA. This amount is called an “elective deferral”.

SEC
The main regulatory body regulating the securities industry is called the Securities and Exchange Commission.

Second Mortgage
A mortgage on real property in a junior position to a primary or first mortgage. The increased risk associated with a second mortgage is often reflected in a higher interest rate and a shorter term of repayment.

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Securities
Stocks and bonds are traditionally referred to as securities. More specifically, stocks are often referred to as “equities” and bonds as “debt instruments.”

Securities and Exchange Commission
The main regulatory body regulating the securities industry is called the Securities and Exchange Commission.

Short Position
A short position in an investment indicates a position in an investment that would increase in value as the underlying asset(s) decrease in value. Opposite of a long position.

Short Sale
The sale of stock that you do not yet own in order to take advantage of an expected share price decline. If the stock declines in price, the stock is purchased at the new lower price and the short position is closed at a profit.

Simplified Employee Pension (sep)
A SEP provides employers with a “simplified” alternative to a qualified profit-sharing plan. Basically, a SEP is a written arrangement that allows an employer to make contributions towards his or her own and employees’ retirement, without becoming involved in a more complex retirement plan. Under a SEP, IRAs are set up for each eligible employee. SEP contributions are made to IRAs of the participants in the plan. The employer has control over the employee’s IRA once the money is contributed.

Small Cap
A small cap stock is one issued by a company with less than $1.7 billion in market capitalization.

Smart Card
A card with an embedded computer chip which stores more information, performs more functions and is more secure than a credit card or debit card.

Spousal IRA
An individual can set up and contribute to an IRA for his/her spouse. This is called a “Spousal IRA” and can be established if certain requirements are met. In the case of a spousal IRA, the individual and spouse must have separate IRAs. A jointly owned IRA is not permitted.

Stock
Stock Certificates represent an ownership position in a corporation. Stockholders are often entitled to dividends, voting rights, and financial participation in company growth.

Stock Dividends
The investor’s share of the income earned by the company issuing the stock.
**Stock Exchange**
A market for trading of equities, a public market for the buying and selling of public stocks.

**Stop-Loss Order**
This is when you tell your broker to sell the stock if it drops to a certain price.

**Succession Planning**
Planning for a business to pass to the next generation of owner/managers.

**Surrender Value**
When a policy owner surrenders his/her permanent life insurance policy to the insurance company, he or she will receive the surrender value of that policy in return. The surrender value is the cash value of the policy plus any dividend accumulations, plus the cash value of any paid-up additions minus any policy loans, interest, and applicable surrender charges.

**T t**

**Tax Credit**
An income tax credit directly reduces the amount of income tax paid by offsetting other income tax liabilities.

**Tax Deduction**
A reduction of total income before the amount of income tax payable is calculated.

**Tax-Deferred**
The term tax deferred refers to the deferral of income taxed on interest earnings until the interest is withdrawn from the investment. Some vehicles or products that enjoy this special tax treatment include permanent life insurance, annuities, and any investment held in IRAs.

**Technical Analysis**
Technical analysis is a technique of estimating a stock's future value strictly by examining its prices and volume of trading over time. Technical analysis is the opposite of fundamental analysis.

**Tenants in Common**
Two or more people who own the same piece of property, with the inherent condition that if one of the tenants die, his interest automatically passes on to his heirs.

**Term Insurance**
Term insurance is life insurance coverage that pays a death benefit only if the insured dies within a specified period of time. Term policies do not have a cash value component and must be renewed.
periodically as dictated by the insurance contract.

**Testamentary Trust**
A trust created under the terms of a will and that takes effect upon the death of the testator.

**Ticker Symbol**
A ticker symbol is a combination of letters that identifies a stock-exchange security.

**Title**
A legal document establishing property ownership.

**Title Search**
A detailed examination of legal records to determine the history and legal ownership of a property.

**Top Heavy Plans**
Each year, a qualified plan must be tested to determine whether it is “top-heavy”. Generally, a “top-heavy” plan is one in which more than 60 percent of the benefits under the plan are for key employees (usually owners and officers). Additional requirements apply to a top-heavy plan such as faster vesting and mandatory employer contributions.

**Total Disability**
In order to make a disability claim a person must meet the definition of disability set forth in the insurance contract. There are two general definitions of disability used in today’s contracts. The first definition is that the insured is unable to perform all of the substantial and material duties of his/her own occupation. The second, and more restrictive, definition is that the insured is unable to perform any occupation for which he/she is reasonably suited by education, training, or experience.

**Treasury Bill**
Treasury bills, often referred to as T-bills, are short-term securities (maturities of less than one year) offered and guaranteed by federal government. They are issued at a discount and pay their full face value at maturity.

**Treasury Bond**
Treasury bonds are issued with maturities between 10 and 30 years. These bonds are offered and guaranteed by the U.S. Government. They are issued at a discount and pay their full face value at maturity.

**Treasury Note**
Treasury notes are issued with maturities between one and 10 years. These notes are offered and guaranteed by the U.S. Government. They are issued at a discount and pay their full face at maturity.
TSA (tax-sheltered annuity)
Tax deferred annuity retirement plan is commonly available to employees of public schools and colleges, and certain non-profit hospitals, charitable, religious, scientific and educational organizations.

U u

Underwriter (banking)
A person, banker or group that guarantees to furnish a definite sum of money by a definite date in return for an issue of bonds or stock.

Underwriter (insurance)
The one assuming a risk in return for the payment of a premium, or the person who assesses the risk and establishes premium rates.

Underwriter (investments)
In the bond/stock market means a brokerage firm or group of firms that has promised to issue a new issue of bond/shares from a government or company at a fixed or discounted price.

Unemployment Rate
The number of people unemployed measured as a percentage of the labor force.

Universal Life Insurance
An adjustable Universal Life Insurance policy provides both a death benefit and an investment component called a cash value. The cash value earns interest at rates dictated by the insurer. The policyholder may accumulate significant cash value over the years and, in some circumstances, “borrow” the appreciated funds without paying taxes on the borrowed gains (taxes may be required if policy is surrendered). As long as the policy stays in force the borrowed funds do not need to be repaid, but interest may be charges to your cash value account. Premiums are adjustable by policy owner.

V v

Variable Investment
A variable investment is any investment whose value, and therefore returns, fluctuates with market conditions such as a common stock, a plot of raw land, or a hard commodity based asset.

Variable Universal Life Insurance
A Variable Life Insurance policy provides both a death benefit and an investment component called a cash value. The owner of the policy invests the cash value in subaccounts selected by the insurer.
The policyholder may accumulate significant cash value over the years and “borrow” the appreciated funds without paying taxes on the borrowed gains (taxes may be required if policy is surrendered). As long as the policy stays in force the borrowed funds do not need to be repaid, but interest may be charged to your cash value account.

**Variable Rate Mortgage (VRM)**
A Variable Rate Mortgage offers an initial interest rate that is usually lower than a fixed rate, but that adjusts periodically according to market conditions and financial indices. The rate may go up and/or down, depending on economic conditions. To limit the borrower’s risk, the VRM will almost always have a maximum interest rate allowed, called a “rate cap.”

**Venture Capital**
A common term for funds that are invested by a third party in a business either as equity or as a form of secondary debt. In the event of failure or business wind-up, these funds rank behind all other secured.

**Vesting**
The law requires that a qualified plan have a schedule under which a participant earns an ownership interest in employer provided contributions based on his or her years of service with the employer. Amounts contributed by the participant are always 100% vested.

**Viatical Settlement**
Occurs when a person with terminal or chronic illness sells his/her life insurance policy to third party for an amount that is less than full amount of the death benefit. The buyer becomes the new owner and/or beneficiary of the life insurance policy, pays all future premiums, and collects the entire death benefit when the insured dies. Some states regulate the purchase as a security while others may regulate it as insurance.

**Ww**

**Waiver of Premium**
A waiver of premium rider on an insurance policy sets for conditions under which premium payments are not required to be made for a time. The most popular waiver of premium rider is the disability waiver under which the owner of the policy (also called the policyholder) is not required to make premium payments during a period of total disability.

**Whole Life Insurance**
A traditional Whole Life insurance policy provides both a death benefit and a cash value component. The policy is designed to remain in force for a lifetime. Premiums stay level and the death benefit is guaranteed. Over time, the cash value of the policy grows and helps keep the premium level. Although the premiums start out significantly higher than that of a comparable
term life policy, over time the level premium eventually is overtaken by the ever-increasing premium of a term policy.

**Will**
The most basic and necessary of estate planning tools, a will is a legal document declaring a person's wishes regarding the disposition of their estate. A will ensures that the right people receive the right assets at the right time. If an individual dies without a will they are said to have died intestate.

**Wrap Account**
An account offered by investment dealers whereby investors are charged an annual management fee based on the value of invested assets.

**Write-Off**
Any loan not expected to be recovered and is recorded as a loan loss.

X x

Y y

**Yield**
The yield on an investment is the total proceeds paid from the investment and is calculated as a percentage of the amount invested.

Z z

**Zero-Coupon Bond**
A zero-coupon bond is a bond sold without interest-paying coupons. Instead of paying periodic interest, the bond is sold at a discount and pays its entire face amount at maturity. Can range from less than a year, up to 10 years.