

# THE PLAN

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## A STEP-BY-STEP BUSINESS PLAN WORKBOOK

**The Plan**  
will help you:

- Move ideas from your head to paper in an organized, clear, convincing manner
- Avoid the most common mistakes
- Keep your focus on key points

C O M P L I M E N T S O F



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MasterCard® Solutions for Small Business encompasses MasterCard's ongoing commitment to better serve the needs of small businesses. Small business owners need greater control over every aspect of their business. They want solutions to help them run their company better. MasterCard is focused on providing small business owners with “what it takes” to be successful small business entrepreneurs. With access to innovative card programs, value-added services, productivity tools, web-based reporting solutions, rewards and savings on products and services, MasterCard delivers powerful, flexible, and creative payment solutions built specifically with the needs of small business owners in mind. Every solution is backed by advanced technology, unsurpassed global merchant acceptance and the anytime, anywhere reliability of the MasterCard brand. MasterCard is proud to support small business owners and ready to start working for you.

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# THE PLAN

## A STEP-BY-STEP BUSINESS PLAN WORKBOOK

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### I N T R O D U C T I O N

Planning is your map to success in the business world. You need to write a business plan if you are:

- **starting or buying a business**
- **financing or refinancing your business**
- **raising debt or equity capital**

Much money is made then lost because one area of a business fails, dragging the positive parts down with it.

**THE PLAN** helps you find hidden business flaws and makes you think carefully about each phase of your business.

It is important that **you** write your business plan. Why? You will gain in-depth knowledge about your business which will make it easier to answer lenders' questions. The process of writing your business plan will clarify what is involved in making your business work successfully.

# How To Use This Workbook

Divide your business plan into sections that match the “contents” outline shown on the next page. There is no set length for your answers — they will range from a paragraph to a few pages long.

Once it's written, your business plan will need editing. Ask other people to read and critique your plan. Include a statement on the inside cover that says its contents are confidential, and making copies is prohibited.

Your business plan should be neat and organized to make a professional impression. Write text in a word processing program that will point out misspellings and grammatical errors. For financial data, use a spreadsheet program.

Once you're done, make copies for your lender and for others who are interested in your business. Make sure all the copies you submit are readable and include original signatures. Lenders keep your presentation even if you are rejected, so make copies for yourself of everything you submit. Number the business plan copies and make a list of who you've given it to.

It's a good idea to put your loan presentation in a 3-ring binder with tabs and indexes.

## ► Business Loan Basics

### ASK YOURSELF THESE QUESTIONS:

- How much money do I need? \_\_\_\_\_
- What type of lender do I need? (*bank, state or federal agency, venture capitalist firm, or other investor*) \_\_\_\_\_
- What is the lender's minimum and maximum loan size? \_\_\_\_\_
- Can the lender meet my present and future needs? \_\_\_\_\_
- What types of businesses will the lender finance? \_\_\_\_\_
- What collateral does the lender accept? \_\_\_\_\_

### LENDERS USE THE EIGHT “C’s” RULE:

1. Credit (*must be good*)
2. Capacity (*ability to repay*)
3. Capital (*money going into the business*)
4. Collateral (*your assets that secure the loan*)
5. Character (*you*)
6. Conditions (*economy, finances, anything that affects your business*)
7. Commitment (*your ability and willingness to succeed*)
8. Cash Flow (*can it support the business' debt and expenses?*)

### BASIC QUESTIONS A LENDER WILL ASK YOU:

- How much money do you want? \_\_\_\_\_
- How much are you investing in the business? \_\_\_\_\_
- How will the loan be used? \_\_\_\_\_
- How long do you need to repay the loan? \_\_\_\_\_
- How will the loan be repaid? \_\_\_\_\_
- What collateral do you have to offer? \_\_\_\_\_

### BEFORE MEETING WITH A LENDER:

- Call to find out the rules for their business loans.
- Make sure the lender is looking for loans of your size and type.
- Ask for a loan application.
- Make an appointment.
- Rehearse your presentation.
- Remember, the lender is like a customer. You have to convince the lender that your business has merit.

# ▶ Business Loan Basics

## WHEN MEETING WITH A LENDER:

- Bring your business plan, a completed loan application, and any other materials you need.
- Keep the entire presentation to 30 minutes. Give an overview or outline at the beginning. Know how you are going to end the presentation.
- Invite your lender for a tour of your current or proposed operation.
- Answer all negative questions with positive answers. Be willing to back up your answers.
- Find out when you can expect a decision.
- Ask that lenders decisions, made on the telephone, be put in writing.
- Follow up with a thank you letter and a phone call.



## The Appendix

The **APPENDIX** comes at the end of your business plan and includes all details and documents that support the plan.

Throughout this workbook, items that need to be included in the **APPENDIX** are mentioned. On page 31, you'll find a comprehensive list, which you can use as a guide.

The first page of the **APPENDIX** should be a listing of its contents. Be sure to separate and organize the documents logically, perhaps in the order they are referred to in the plan.

The **APPENDIX** will grow, so it is a good idea to use a 3-ring binder with tabbed dividers. Some people prefer using an expandable file.

## FORMULAS

Generally, lenders like to simplify the process used to screen loan requests. Take your business through the same exercise that lenders do. The complexity or size of the loan request doesn't matter; the basic formula is as simple as **1-2-3**.

# CONTENTS

**BREAK YOUR BUSINESS PLAN  
DOWN INTO SECTIONS  
SIMILAR TO THIS BOOK.**

Executive Summary .....	6
Business Description .....	8
Managers & Employees .....	10
Operations & Location .....	11
Marketing .....	12
Buying a Business .....	16
Buying a Franchise .....	17
Loan Request .....	18
<b>FINANCIAL STATEMENTS</b>	
General Information .....	19
Personal Finances .....	20
Balance Sheet .....	22
Income Statement .....	24
Cash Flow .....	26
Ratios .....	28
Formulas .....	30
Appendix .....	31

# EXECUTIVE SUMMARY

The **Executive Summary** (*your Cover Letter*) briefly explains the rest of your business plan in about *one or two pages*.

Page two is the **Table of Contents**. It shows the lender on which page each section can be found (*see page 5 for the breakdown of sections*).

The Executive Summary should include:

- the owners' names and their credentials
- your products or services
- your market(s) and the competition
- the amount of money needed
- how the loan will be repaid
- how long you want the loan to last

## YOUR COVER LETTER SHOULD READ SOMETHING LIKE THIS ONE:

Leave off your return address if the letter is on your company's stationery.

List the purpose of the loan (*starting, buying, or expanding a business*). Include owners' names and experience. Mention your products and services.

Briefly mention your markets and customers

Include key facts about your competition.

Tell the lender who should be contacted and provide a phone number.

Include all signature(s) and typed name(s).

December 31, 2007

The Green Rose  
456 Oak Street  
This Town, USA 67890

Mr. John Nelson  
ABC Bank  
123 Main Street  
Anytown, USA 12345

Re: Loan Request for \$300,000

Dear Mr. Nelson,

With 20 years of management experience in the residential landscaping business, we are requesting a loan to start our own landscaping business, called The Green Rose.

The climate for a successful landscaping business is perfect. Last year, the number of new homes built in Pembroke Pines increased by 15%. Just this quarter, new building permits are up 10% over last year. Of the 45,000 homes in the area, 3,000 were built last year.

Our target market is owners of new and older homes. We plan to reach them with focused marketing, which you will read about in our plan. In addition, we have good working relationships with many building contractors, who have indicated they will refer us to their clients.

Two of our six local competitors have filed Chapter 11. Two are family-owned businesses who concentrate on commercial contracts. The last two are healthy competition, though they lack our marketing and management expertise.

We are investing \$75K in savings and are requesting a \$300K loan from your bank. We would like five years to repay the loan, using the cash flow of the business. Our secondary source of repayment will be from collateralized equipment. Our homes and business assets, valued at \$300K, are offered as collateral for the loan.

Our business plan is attached. In it you will find the information you need. If you have any questions or need more information, please contact Mr. Green at (321) 234-5678.

Respectfully submitted,

*Ed Rose*      *Tim Green*  
Ed Rose      Tim Green



*To build the lender's enthusiasm, make references to what's included in your business plan*

Mention how much money you would like to finance and the terms (how many years). List the source of re-payment (*loans should be repaid by the business' cash flow*). Also include how much **you** are investing and where your money will come from.

List the secondary source of repayment. This is usually collateral which includes business and personal assets (see page 18). Also, fill in the equity value of these assets.

## EXECUTIVE SUMMARY (YOUR COVER LETTER)

date \_\_\_\_\_  
 your address \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Lender's name, bank name, and address

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Re: Loan Request for \$ \_\_\_\_\_ (fill in amount)

Dear (fill in lender's name) \_\_\_\_\_:

I (or we) am requesting a loan of \_\_\_\_\_. The owner(s) (fill in names) \_\_\_\_\_ have experience in this industry including... (mention experience in industry or training that would qualify you to run this business).

The market for this business... (include one brief paragraph about the industry and its growth)

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Our target market is... (include one brief paragraph about your target market/customers)

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

The competition includes... (include one brief paragraph about your competition and how your business will attract their customers)

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

We are investing \$ \_\_\_\_\_ of our own money. Our collateral consists of business assets having a fair market value of \$ \_\_\_\_\_ and personal assets (if applicable) with a value of \$ \_\_\_\_\_

Attached is our business plan which backs up our request. If you have any questions, please contact (name) \_\_\_\_\_ at \_\_\_\_\_ (include phone number).

Sincerely,

\_\_\_\_\_  
 Your signature(s) and printed name(s) here

# BUSINESS DESCRIPTION

**General:** List the business name, location, mailing address, telephone, fax, e-mail and web site address.

**Legal Business Description:**

Sole proprietorship, partnership, limited liability, "C" or "S" corporation. List the state where the business is incorporated.

**Purpose:** Describe the intent of your business.

**Type of business:**

Retail, wholesale, service, manufacturing, contracting, professional, importing/exporting.

**Goals:**

Include both current and long-term projections.

**Industry:**

Talk about what's going on in your industry, including economic trends, outlook, growth patterns and forecasts. Keep this section short. Explain more fully in your Marketing section.

**GENERAL**

Name: MRJ Design  
Address: 21 Longwood Drive, Orlando, Florida 32751  
Phone: (407) 123-4567 Fax: (407) 123-4789  
E-mail: smith@MRJ.com, Web Site: www.MRJ.com

**OWNERS:**

Bob Smith: 10 Brookfield Rd., Orlando, FL 32751  
Phone: 407-456-7891 Social Security: 367-89-7088  
Over 20 years of experience in creative management. Worked for several design firms. Mr. Smith owns 60% of the business.  
Linda Jones: 96 Elm St., Orlando, FL 32751  
Phone: 407-567-1234 Social Security: 234-56-7891  
Ten years of experience as manager of large marketing communications department within Fortune 1000 corporation. Ms. Jones owns 40% of the business.

**LEGAL STATUS:** Florida S Corporation

**PURPOSE:** Produce superior marketing communications material for other businesses.

**STATUS:** Start-Up.

**BUSINESS TYPE:** Service

**PRODUCTS AND SERVICES:** Graphic design, illustration, and artwork production. Other services, supplied by vendors/suppliers, include writing, photography, printing, and mailing services.

**REASONS:** Both partners have over 30 years of industry experience that will be put to profitable use in our own firm. The demand for graphic communications is ...etc.

**Owners:**

List each owner's name, business title, home address, telephone number, and social security number. Include a brief description of owners and managers (*experience and credentials in running the business*) and their ownership percentage of the business.

**Business Status:**

New/start up, ongoing, expansion, or buying a business. Include the date your business started or will start. *If buying a business, include a detailed business history in this section.*

**Reasons** for starting, buying, or expanding business.

**GOALS:**

**CURRENT:** Bring to profitable status that will equal or exceed current income levels. Create relationships with clients. Build ...etc.  
**LONG-TERM:** In four years, we will have 50-100 clients. Hire administrative person ... etc.

**INDUSTRY:**

100 design firms and designers exist in our territory. Advertising agencies (about 235) are also competitors but their specialty is not design. Many companies have relocated to Orlando so the demand for our services is growing. The number of start-up companies numbered 6000 last year...etc.

**PROFESSIONAL RELATIONSHIPS:**

**ACCOUNTANT:**

Larry Stuart, CPA, 123 Main St., Winter Springs, FL 32751. Ph: 407-678-9012, Fax: 407-678-7890

**ATTORNEY:**

Linda Johnson of Johnson and Smith, 456 Elm St., Winter Park, FL 32789.  
Ph: 407-234-5678, Fax: 407-345-6789

**BANKER:**

John Nelson, Heritage Bank, 678 Oak St., Orlando, FL 32908. Ph: 407-123-4567. Fax: 407-0987-6543.

**INSURANCE AGENT:**

Linda Doe, Doe Insurance, 321 Grove Ave., Winter Park, FL 32789. Ph: 407-432-7654. Fax: 407-876-5432

**PROFESSIONAL ADVISORS:**

Claire Velleca, Velleca Consultants, 1 Park St., Orlando, FL 32701 Ph: 407-222-1456, Fax: 407-419-1989

**Professional Relationships:**

Include name, address, and telephone/fax numbers for your accountant, attorney, banker, insurance agent, and professional advisor(s).



# BUSINESS DESCRIPTION

## GENERAL

Business name \_\_\_\_\_  
 Location \_\_\_\_\_  
 Mailing address \_\_\_\_\_  
 Phone number \_\_\_\_\_ Fax \_\_\_\_\_  
 Tax identification number \_\_\_\_\_  
 E-Mail address \_\_\_\_\_  
 Web Site address \_\_\_\_\_

## PROFESSIONAL RELATIONSHIPS.

Include name, address, and telephone/fax numbers  
 Accountant \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Attorney \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Banker \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Insurance agent \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Professional advisor(s) \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

## OWNERS

Provide the following information for each principal in the company.  
 Name \_\_\_\_\_  
 Business title \_\_\_\_\_  
 Home address \_\_\_\_\_  
 Telephone number \_\_\_\_\_  
 Social security number \_\_\_\_\_

Include a brief description of owners and managers (*experience and credentials in running the business*) and their percentage of ownership

\_\_\_\_\_  
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 \_\_\_\_\_

**Legal Business Description** (sole proprietorship, partnership, corporation, etc.). \_\_\_\_\_

**State.** What state is your business organized in? What states will you operate in? \_\_\_\_\_

**Type of business** (retail, wholesale, service, manufacturing, contracting, etc.). \_\_\_\_\_

**Business Status.** New, ongoing, expanding, or buying a business. \_\_\_\_\_

**Date** your business started or will start. \_\_\_\_\_


To Do  Done ● **Reasons**  
 for starting, buying, or  
 expanding business.

To Do  Done ● **Goals**  
 Current goals (within the next year)  
 Long-term (over the next five years)

To Do  Done ● **Products and Services**  
 Provide a summary.

To Do  Done ● **Industry**  
 Provide a brief summary of what's going  
 on in your industry. Include economic trends,  
 outlook, growth patterns and forecasts. Include  
 details in the **APPENDIX**.

To Do  Done ● **Purpose**  
 Describe the intent of your business.



To Do  Done ●

**KEEP TRACK**

*Use this check box as a reminder system. Some answers will be short and some will be long.*

# MANAGERS & EMPLOYEES

## Managers

To Do  Done

● How many departments and managers do you need? What are their functions?

To Do  Done

● If there are gaps in your management team, explain how they will be filled.  
Lenders also like to see a back-up plan. If you die or can no longer work, who will run the business and repay the company's debts? One solution is to buy enough life insurance to cover the business debt.

## Employees

To Do  Done

● How many part-time and full-time employees are needed to run the company? *It's a good idea to develop an organizational chart (example below).*

To Do  Done

● How and where will you find employees and keep them?

## Costs

To Do  Done

● Include managers' job descriptions, salaries, benefits and resumes in the **APPENDIX**.

To Do  Done

● How much are you going to pay each employee?

To Do  Done

● What are the employee benefits and their costs?

To Do  Done

● What employee training is needed and how much will it cost? How will it occur?

## General

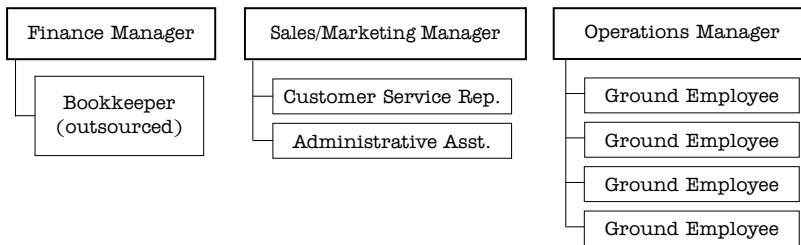
To Do  Done

● Describe any resources available from outside the business. *For example, you may use an accountant for financial reporting.*

To Do  Done

● Some functions can be outsourced. The monthly cost for this service is included in the **APPENDIX**. *For example, you can outsource a direct mail program to a marketing firm.*

The Good Earth Organizational Chart



### Finance

MIKE JONES (accountant and owner)  
20 years of accounting experience in various industries...

A bookkeeper will be outsourced.

### Sales & Marketing

LEE MYERS  
10 years of marketing experience. Myers will be responsible for the sales staff (estimators), customer service, promotional plans...

Two office staff: One full-time customer service representative and one full-time administrative assistant. Each will be paid \$25,000 annually. They will receive health insurance, ten paid sick days, paid holidays, and two weeks of vacation. These benefits will cost ...

### Operations

JOHN SMITH  
20 years of operational experience in landscaping industry . Smith will supervise the grounds staff and handle ...

Four (4) full-time grounds employees starting at minimum wage for working Monday- Friday, 7:00 a.m. to 3:30 p.m. A two-day training program is required before joining the company. Employees will receive paid health insurance, five paid sick days, paid holidays, and one week of vacation. These benefits will cost ...



# OPERATIONS & LOCATION

## HOW WILL YOUR BUSINESS OPERATE?

To Do  Done

- How will the product be produced and sold?  
How will your services be rendered?

To Do  Done

- What months, days, and hours will your business be open? Is the business seasonal?  
If so, show how you will adjust your time, schedule, inventory, and personnel.

To Do  Done

- What furniture, fixtures, equipment and machinery is needed? Will it be bought, leased, or rented? Include proposed purchases in your **APPENDIX**.

## SUPPLIERS

To Do  Done

- If you need suppliers and other companies to complete your product or service:
  - › What and how much will you need?
  - › Where will you get these products and services?
  - › How much will they cost?
  - › What system will you use for materials processing and inventory control?

To Do  Done

- Include in the **APPENDIX** details about your suppliers, including names, addresses, products or services supplied, costs/quotes, delivery/shipping fees and turnaround, terms of sales, contracts, and a purchasing plan.

To Do  Done

- If you've requested financial, managerial, or technical assistance from your suppliers, include details in the **APPENDIX**.

## LOCATION

To Do  Done

- What kind of space does your business need?
  - › Why is the area and location desirable?
  - › Does this location affect your costs?
  - › How much are utilities, taxes, and other expenses?
  - › Is it easily accessible?  
Is public transportation available?  
Is there adequate parking?
  - › Does your business comply with zoning laws?
  - › Do you own or lease the building? Include zoning statements from local government in the **APPENDIX** and approval letters from local and state inspectors. If owned, provide a copy

of the deed in the **APPENDIX**. If leased, the term of the lease must be renewable to match the loan period you are requesting. Include a copy of the lease (or proposed lease) with terms, conditions, length, and cost in your **APPENDIX**.

- › Are improvements, renovations, furniture, fixtures, equipment or machinery necessary? Show quotes in the **APPENDIX**.
- › Retailers:
  - > Research and show traffic patterns in the **APPENDIX**.
  - > What other businesses are in your immediate area?
- › Wholesalers, manufacturers and other businesses:
  - > Are you located near your customers and suppliers?
  - > Do you have easy access to major highways, railways, and airports?
- Provide photos and a summary of your location including a floor plan, blueprint or plot plan (if building) in the **APPENDIX**.

### CLOTHES WITH CLASS

We are a school uniform shop. Business hours will be from 10 to 5, Monday through Saturday. Our plan is to purchase fixtures to display uniforms and furniture to create a relaxed retail atmosphere. A computer system to track customer purchases and inventory will be leased. These costs are included in the Appendix.

Our stock will come from three suppliers — two national and one local. Local supplies will be delivered by truck, with the remainder of goods coming via UPS. Information on our proposed suppliers and purchases may be found in the Appendix.

The five-year lease we have signed on a 1,500 sq. ft. building is included in the Appendix. The building is located within 15 miles of 22 private and parochial schools who require uniforms that we will stock. Our building is on a major thoroughfare, conveniently located right off Highway 93.

A floor plan of the building is included in the Appendix. We have divided the area into retail space and warehousing/office space. 700 sq. ft. will include retail displays, three dressing rooms, restroom facilities and two purchasing counters. The remaining 800 sq. ft. will warehouse stock. It includes a delivery receiving area, two offices, and a small employee lounge with restroom. The 20-space parking lot is adjacent to the building.

# MARKETING

**MARKETING** has been defined as “the activity of presenting products or services to customers and potential customers which makes them eager to buy.”

Especially in today’s crowded marketplace, where competition is fierce, savvy small business owners should never underestimate the power of smart marketing. The right product or service at the right price is only the beginning. You must also identify your audience, promote your product and find the best distribution method.

## THE PRODUCT OF ALL YOUR HARD WORK

First and foremost, believe in the success potential of your product or service. Then think about things like:

- Benefits of your product. If you’re not clear on them, no one else will be.
- Research and development. Will you need it? If so, include detailed plans and costs in the **APPENDIX**.
- What licensing requirements, restrictions, registrations or regulations affect your business?
- What about legal issues? Are there patents, copyrights or trademarks to think about? What are the costs involved?

## THE PRICE IS RIGHT

Determining just the right price for your product or service is a delicate matter. Keep in mind that:

- The price will be affected by the quality of your product, customer demand and the competition (see page 15).
- The selling price must cover all your operating expenses (materials, labor and overhead) and also include a margin of profit. To determine what this is, you need to calculate your breakeven point (see page 30).

## PLAN TO PROMOTE, THEN PROMOTE YOUR PLAN

Your promotional plan will be implemented with several marketing tools. These days, a web site is an increasingly important piece of the promotion pie. In addition, there are a handful of proven methods for promoting your product, such as:

- **Advertising** tells your target market about your product or service. But how do you approach it, with so many choices available? Which publications are best? Is radio and TV advertising where you should be? Researching web sites is a good place to start your advertising plan. Ask professional organizations for referrals when looking for designers and writers to help develop ads. Media buyers help you reach the biggest

audience for your dollar. When putting together your business plan, include advertising ideas, schedules and budgets in the **APPENDIX**.

- **Direct Marketing** means contacting prospects by traditional mail, email or phone. Take, for example, a nature camp company that wants to mail out brochures. Buying a list of subscribers to an outdoor magazine seems smart. But measuring results is key. Say you mail 5,000 postcards and get 100 responses. That’s a 2% response level. Of those, how many turn into orders or become clients? Keeping track of these things helps you determine which databases are best, and how much it costs to gain an order or client.
- **Public Relations (PR)** is more than getting publicity. It’s a great way to build an image or a brand identity. Through your business activities, you influence the attitudes of your audience. For example, your company makes sunblock, so you sponsor a sandcastle contest at the beach. In order to get publicity — media coverage at no cost to you — you send press releases with pertinent information well in advance to area newspapers, radio and TV stations.
- **Promotional/Sales Material** rounds out the marketing picture. Items like a logo, a catalog, a price list, and business cards can position you as a polished marketer, helping the sales process go more smoothly. Think about what promotional materials you’ll need and what they’ll cost. Include samples, costs and ideas in the business plan **APPENDIX**.
- **Trade Shows** can be a great way to get your product in front of people, to get leads and take orders. Shows can be a great place for your sales force to meet your customers in person. In addition, it’s a chance for you to talk with others in your industry and share information. Many times, trade associations are present at shows, presenting an opportunity for you to gain valuable insights.

## FULL SALES AHEAD

- Who will sell your products?
- Can you do it yourself or will you require a sales staff, reps, agents, brokers or wholesalers?
- Think carefully about their compensation — will they work for a salary, commission, or both? Include sales expenses in the **APPENDIX**.

# MARKETING

## KNOW YOUR CUSTOMERS

- It is crucial to figure out who is most likely to use your product or service. These important group or groups are your market or markets.
- In most cases, slicing your market into smaller groups (called segments) is helpful in targeting them. For example, if your product is gourmet dog biscuits and you want to do a postcard mailing, you would naturally want to narrow your mailing list down to dog owners.
- How do you get started gathering customer and marketing data? There's a wealth of knowledge on web sites, through case studies, in magazines, newspapers, reference books, trade journals and government statistics.



## QUESTIONS TO ASK YOURSELF

- Where are your customers — local, regional, national or international?
- What's the size of your target market? Is it small (ballet students in Des Moines, Iowa) or large (new parents across America)?
- When will your product be used — daily, weekly, monthly? Is there a peak season or will demand be steady?
- If you're targeting consumers, what are the demographic similarities? Think about age, income, gender, education, type of residence, marital status, profession, lifestyle, hobbies and size of household.
- If you're targeting businesses, what size are you targeting? Know their annual sales, the number of employees and the number of locations. Be sure to identify the decision maker in the business. For example, if you're sending a letter to physicians, you should know that generally, doctors only get the mail that makes it past the office manager's desk.

## YOU'VE GAINED A CUSTOMER. NOW WHAT?

- How will you get your product to the consumer? Consider the cost of product storage, packing material, handling and shipping.
- Will you accept credit cards? Determine (1) the cost of leasing or buying credit card equipment and (2) the percentage paid for credit card sales.
- Who will help customers with information requests, new orders, status inquiries and returns?
- Will you allow customers to pay you at a later date? What are your credit policies (for example, do you want invoices paid in 30 days)? What is your follow-up procedure for slow-paying customers?

### MISS HARRIET'S SOUTHERN KITCHEN

#### MARKET

40,000 potential customers who live and/or work in Chicago's North End.

#### CUSTOMER PROFILE

Male and female, ages 18 – 85, singles, couples and families, household income of \$15K and up

#### ABOUT THE PRODUCT

Authentic, homemade Southern food cooked by Miss Harriet herself, who was born and raised in the South. Menu will consist of only 6 choices, taking the confusion out of the decision process.

#### DISTRIBUTION

Orders will be filled quickly since the food will be prepared in the morning and kept hot throughout the day.

Customers may eat in the restaurant or take food with them. Phone and fax orders will be encouraged, so the food is ready when the customer arrives. Two employees will deliver.

Location is on a busy, two-way street that is close to a major subway stop, making it easy for customers to take food home.

#### PRICE

Our prices will be highly-competitive to similar take-out /eat-in restaurants in the neighborhood.

Prices will encourage bulk ordering (5 pieces or more). Complete meals - a main course and side dish - will be available.

#### ADVERTISING

Small ads placed in local publications will include discount coupons (costs are outlined in the Appendix).

#### PROMOTION

Menus and fax order forms will be available at the counter. A menu mailing will be sent three times a year to area residents (costs are outlined in the Appendix). Seven local businesses have agreed to place menus and coupons in their establishments.

#### PUBLIC RELATIONS

Press releases will be sent to the media, telling the story of a Southern woman cooking authentic food far away from home. A recipe contest - "Enter Your Best Southern Fried Chicken Recipe" - will encourage customer loyalty. The winning recipe will be featured as a menu item for a limited time.

# MARKETING: WEB SITES

## Web Sites

### Now You're Clicking

The internet's World Wide Web has changed marketing forever. These days, it seems that "www" is seen and heard everywhere. For companies large and small, the web is a powerful marketing tool that allows your marketing efforts to reach potential customers in your city, your state, the country and indeed the world.



#### WHY DO I NEED A WEB SITE?

These days, having a web site is like having a business card. Even a simple web site will:

- Act as a virtual storefront to sell your product or service
- Make your company more visible to a worldwide audience
- Position you as a resource for information
- Complement your other marketing efforts

#### SET YOUR SIGHTS ON THESE QUESTIONS

- What will your site name be? What if the name of your company is already taken?
- Who will help develop your site and how much will it cost?
- Will you use an Internet Service Provider (ISP) or host your own site?
- What information will be included on your site?
- Will your product or service be for sale on the site? Who will handle the transactions and fulfill the orders?
- What security barriers will be in place, to protect your company's information from outsiders?
- How will privacy be handled once you collect data from site visitors? How will the data be used?

#### HOW DO YOU CREATE TRAFFIC?

Think about ways you'll promote your site:

- Will you register with search engines so you come up in a search?
- Will you want a tracking program to monitor how many people visit your site?
- What about advertising on related web sites? What will the costs be?
- Will you allow other companies to place ads on your site? What will you charge?
- Will you consider exchange links with other sites that complement yours? (Visitors to your site can click on a link to their site, and vice versa)

#### INVITE THEM BACK

Attracting visitors to your site is one thing, but giving them a reason to return is quite another. Give some thought to these questions:

- How will you make your site "sticky?" — appealing enough so visitors come back.
- What are the costs for maintaining your web site?
- Who will be responsible for updating the site? How often?
- Who will respond to email inquiries?

#### NO SITE IN SIGHT?

Even if you don't have a web site, you can still take advantage of the Internet by:

- Setting up an email account so you can send and receive information
- Asking other web sites to include your company information on their "link lists."
- Paying for ads on web sites that relate to your product or service

# MARKETING: YOUR COMPETITION

## DON'T UNDERESTIMATE THE POWER OF THE COMPETITION

Healthy competition is what makes the marketplace go around. Today's smart business owners not only know their competitors, but learn from them. By knowing what your competitors are offering customers, you can try to do better. First and foremost, you must be clear on why a customer would buy from you rather than one of your competitors. This is called your USP — Unique Selling Proposition.

## PUT IT ON PAPER

You'd be surprised how a competitive analysis can help you understand the competition. Include as many of your competitors as possible. Each competitive analysis should show:

- How your business is better and different. Include factors such as quality, service, price/value, creativity, flexibility, prestige, knowledge and innovations.
- Ways in which your business is the same as your competitor.
- The strengths and weaknesses of your competitors. How are they performing? Are they strong or weak, and why?
- The pricing differences between you and them. Is a cheaper product available? If so, why is yours more expensive? In the **APPENDIX** of your plan, show products and price comparisons.
- Ways your competitors promote their business. Include ads, events, sales, web sites and anything else they use.

## KEEP A LEVEL HEAD

When thinking about your competition, be careful not to put too much emphasis on "stealing" customers or market share from them. It's healthy to know how much of the market you need to gain from your competitors, but be sure you can meet the demand when you do.

### Competitive Analysis for TAIT'S ALL-NATURAL LAWN COMPANY

Tait's offers chemical-free, family-safe fertilizers, plant growth and weed-control products. Our products are so safe, customers can let their children play on the lawn immediately after treatments.

Tait's All-Natural, with a mix of 20 full-time and part-time employees, intends to grow, if you will, with a solid base of homeowners. In addition, we are prepared to handle commercial contracts.

### COMPETITORS:

Tait's All-Natural has three competitors in the local area; two are family-owned with over 20 years of experience.

Not one of our three competitors offers natural products, nor do they sell plants, bushes and trees grown with natural products. We will be the only business in our category.

NAME	LOCATION	COMMENTS
The Good Earth	Memphis, TN	Family-owned business, 25 years old, 30 employees, good location
Landscapes Unlimited	Memphis, TN	Medium-sized business, new facility looks clean and modern
Reggie & Ruth	Memphis, TN	Twenty-year old company, but their small size (only three employees) prevents them from gaining large projects.

This example represents a pared down version of a Competitive Analysis.

# BUYING A BUSINESS

## QUESTIONS THAT NEED ANSWERS:

- Why is the business for sale?
- What is the value of the business?
- What are the company's products and services?
- Who started the business? What is the history of the business? Where is it located and where are its customers located?
- Has the competition increased or changed (see page 15)?
- What sales and marketing plans have you seen? What are the business' sales trends? How will you increase sales?
- Will you hire new employees and managers or use the existing staff?



## CHECKLIST for buying a business

To Do Done

- Talk to the business' customers and suppliers.

To Do Done

- Review financial statements and tax returns from the last 3 years.

To Do Done

- Develop a purchase and sale agreement which shows:
  - › the purchase price components - down payment, allocation of the price, and how it will be financed
  - › how the business will be conducted until purchased
  - › the liabilities you are assuming including accounts payable, loans, leases, contracts, taxes, and legal
  - › the value of the assets your are buying including Accounts Receivable (quality and the age of the invoices), inventory (value and age), machinery/equipment/furniture/fixtures (age, condition, and value), patents/trademarks, and real estate.
  - › that the purchase and sale agreement is subject to financing and inspections

To Do Done

- Know how you will finance the business. Is the seller willing to finance all or any of the business (especially the goodwill - the difference between the value of hard assets and the business' purchase price)? What are the terms, rates, and conditions? Develop a Loan Request (see page 18).

To Do Done

- Determine who will pay for closing costs including legal services, points, appraisals and environmental inspections.

### ORANGE DOT MACHINE

PRODUCT: machining services for the seller's railroad product line

OWNERS: Jack Reich and Tom Wallis, both of whom want to retire

LOCATION: Western Connecticut. The building's landlord is Reich Holdings, LLC (see Appendix Section 9, "Business Location")

LEGAL STATUS: S Corporation registered in Connecticut

HISTORY: Started in 1982 as a division of a larger corporation.

CLIENTS: 200 companies in Connecticut and southern New England. (Commercial companies: 60%; military-related: 25%; railroad: 15%)

SALES: \$1.4 million in sales last year — a 30% increase over the previous fiscal year, due to an expanded product line and aggressive marketing. The quality of the equipment and caliber of the staff present an excellent growth opportunity.

MARKETING: The addition of a company web site, along with a formal marketing program, is expected to increase the customer base and expand the service area.

PURCHASE PRICE: \$500,000 includes \$475,000 in assets (see appraisals in the Appendix) and \$25,000 in good will. An additional \$50,000 is needed for working capital. Refer to our Loan Request and Cash Flow Analysis.

TRANSFER TERMS: As of the closing, all Accounts Receivable and Payable will be the current owners' responsibility. Work-in-progress inventory will be consigned to the buyer, then completed on a labor-only basis. When the product is completed, future revenue will be kept by the new owners.

LIABILITIES: The assumption of capital lease obligations (see Appendix)

In your **APPENDIX**, include pictures of the business location, a detailed description and appraised value of the building, inventory and equipment, assets and liabilities, inspection reports, and any patents/trademarks. Also include the purchase-and-sale agreement and any legal documents.



# BUYING A FRANCHISE

## **BUYER, BE AWARE**

A franchise is a legal, business relationship between a franchiser (Burger King, for example) and the franchisee (you). The franchiser owns the right to the business name, and sells that right to you. In return, you sell products and services supplied by the franchiser.

The advantages of buying a franchise can be appealing. You get an established business presence. And since many of the decisions and products come from the franchiser, your risks are reduced. You are also provided with a range of support services, such as site selection, training, supplies and advertising/marketing plans.

## **THE DISCLOSURE DOCUMENT: READ IT CAREFULLY**

The Federal Trade Commission (FTC) requires sellers of franchises and other business-opportunity ventures to provide a Disclosure Document to prospective buyers. In it, you should find detailed information that explains how business between you and the franchiser will be conducted.

It is crucial that you read this document very carefully, as many times as you need to, because it contains important information — audited financial statements, your start-up and ongoing costs, and locations of other franchises. It will clearly explain the responsibilities of the buyer and the seller. Have your attorney read through it as well.

The Disclosure Document must be given to you in advance so you can gather and consider any and all information you need to be sure your decision is an informed one.

## Top Ten Questions To Ask Before Buying a Franchise

- 1 How many franchises are there and how many in your area? Don't be afraid to ask for a list, then to visit as many as you can. If possible, speak with the owner(s) about some of the real-world realities of running the business.
- 2 How long has the franchiser been in the industry? Ask how long they have been selling franchises.
- 3 How financially healthy is the franchiser? You have a right to see their financial statements, which should be included in the Disclosure Document. Make sure you are comfortable with all the numbers.
- 4 What does your initial cost cover? Discuss things like the licensing fee, training, equipment, starting inventory and promotional fees. Find out if the land will be purchased or leased, and whether the building will be constructed or renovated.
- 5 Will the franchiser help finance the business? If so, you still need to develop a business plan with financial projections.
- 6 What ongoing costs will you pay the franchiser? Discuss royalties, training, insurance and advertising.
- 7 Will you be required to buy supplies from the franchiser or their designated suppliers? Will prices be competitive?
- 8 Do any restrictions apply when competing with the competition?
- 9 What is the length of the partnership? Be clear about the terms covering renewal rights.
- 10 Do you have the right to resell the franchise?

# LOAN REQUEST

## HOW MUCH WILL YOU NEED?

You must invest of 25%-50% your own money. Show how much and where your money will come from. Also provide information about money coming from investors. Show how much money you are requesting from the lender.

## HOW WILL THE MONEY BE USED?

Uses include inventory, furniture, fixtures, equipment, machines, repairs and improvements, and working capital (money for the business' day-to-day activities). Your business' income (and other money) must cover your expenses. You need more money if your expenses are more than your income. Use of funds must be fully documented with quotes in the **APPENDIX** (include a breakdown of machinery, equipment, fixtures and furniture).

## HOW LONG ARE YOU ASKING FOR REPAYMENT?

- **Short Term** (*less than a year*): Short-term loans are called Lines of Credit (LOC) or Revolvers and work like a credit card, with a pre-determined amount. Lines of credit are primarily used for working capital and must be paid in full within that year.
- **Intermediate Term** (*1-10 years*): Like a car loan, payments are monthly. Use for buying the business, equipment, or for long-term working capital.
- **Long Term** (*10 years or more*): Like a mortgage, used to buy commercial real estate, commercial vehicles, and heavy equipment.

## HOW WILL THE LOAN BE REPAYED?

The lender wants to see the loan repaid from the business' income. If necessary, the lender needs to know that the loan could also be repaid by selling an asset or by a cash infusion from an investor.

## IF YOUR LOAN REQUEST IS REJECTED, ASK:

- Why it was rejected.
- If you can correct the problems and re-submit the request.
- If you should go to another lender or seek alternative financing.

## WHAT COLLATERAL ARE YOU OFFERING?

Collateral is assets the bank has a lien on and will take if you can't repay the loan. Collateral can be personal (*savings, stocks and/or equity*

*in personally owned real estate*) or business (*receivables, inventory, equipment*).

<b>AMOUNT NEEDED</b>	
• Amount Requested	\$ _____
• Owner's Investment	\$ _____
• Other Investors	\$ _____
Total	\$ _____
<b>USE OF FUNDS</b>	
• Inventory	\$ _____
• Working Capital	\$ _____
• Equipment, Machinery, Computers	\$ _____
• Furniture & Fixtures	\$ _____
• Other	\$ _____
• Real Estate	\$ _____
Total	\$ _____
<b>Repayment</b>	
• Period: _____ years	_____
• Source: Business Cash Flow	_____
• Collateral:	_____
- Accounts Receivable	\$ _____
- Inventory	\$ _____
- Equipment & Machinery	\$ _____
- Furniture & Fixtures	\$ _____
- Equity in Real Estate	\$ _____
- Other	\$ _____
Total	\$ _____

Lenders require appraisals of your collateral and they discount the value of your assets. The total *discounted* collateral amount must equal the total loan amount requested.

<b>EXAMPLE:</b>	Market Value	Discount Percentage	Discounted Value
• Inventory	\$100,000	50%	\$50,000
• Fixed Assets	\$50,000	50%	\$25,000
• Accounts Receivable	\$80,000	25%	\$60,000
<b>Total</b>	<b>\$230,000</b>		<b>\$135,000</b>

Typical discounts include: saleable inventory at 50% or lower, fixed assets at

50% or lower, collectable accounts receivable at 25% or lower, and furniture/fixtures/machinery/equipment at fair market value of book value (in the **APPENDIX** include the, model, year, serial number and fair market value).

A maximum loan request of \$135,000 is based on the collateral value of their assets.



### Loan Decisions

The "1-2-3 Method" on page 30 helps you calculate your maximum loan amount.

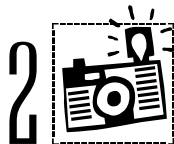
# FINANCIALS

## FOUR FINANCIAL STATEMENTS ARE INCLUDED IN THIS SECTION:



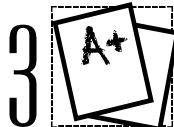
### 1 Personal Financial Statement

Your own personal financial health will be carefully examined by the lender. See page 20.



### 2 Balance Sheet

This is a snapshot of your business. A moment frozen in time. See page 22.



### 3 Income Statement

Think of this as your business' "report card" over a period of time. See page 24.



### 4 Cash Flow Statement

This will show how much money comes in and how much goes out. See page 26.

## HINTS FOR DEVELOPING FINANCIALS:

- Make realistic assumptions. Lenders know there are risks, so explain how they will be handled. They like to see business owners who recognize and solve them. Make a record of your assumptions so you can prove to the lender that your projections are realistic.
- Show reasonable links between the past (if buying a business), actual, and future projections.

## WATCH FOR THESE COMMON FINANCIAL PROBLEMS:

### • Limited capital

Capital is just another word for money, and if there's not enough of it, it can lead to insufficient working capital (money for day-to-day activities). Don't try to make money stretch too far. Ask for more loan money, or cut down on liabilities and expenses.

### • Little or no record keeping

You must keep meticulous records for yourself, the IRS, and your lender.

### • Failure to seek outside help

Consult an accountant, gain business advisors, contact the Small Business Administration/SBA ([www.sba.gov](http://www.sba.gov)) or your state's Department of Economic Development (look in the phone book or search on the Internet). Your advisors' input is valuable but don't be totally dependent on them. Educate yourself. You should have a basic understanding of your company's finances. Know how to read your own financial statements and reports.

### • Poor management

A business needs a good financial manager (within the company or an outside advisor). It's your money, so be very self-disciplined.

### • Reluctance to invest in the business

Why should the lender stand behind you if you won't invest any of your own money? You must put a percentage of *your own money* into the company (usually 25% to 50%).

### • Failure to personally guarantee the loan repayment

If the business fails for any reason, the owners must repay the loan. Lenders need to be assured of your total commitment.

## ACCOUNTING METHODS

Accrual

vs.

Cash

There are two ways to handle your accounting - **accrual** or **cash**.

1. The **cash** method means you don't record a sale until you collect money, and you don't record an expense until you pay for it.
2. The **accrual** method, the one lenders want, means:
  - Sales are made but payments are not immediately collected. Your customers pay later, which creates "accounts receivable."
  - Business purchases are made, but paid for later, creating "accounts payable."
  - Assets (like equipment) are depreciated over their lifetime. This is tax deductible.
  - Net Income does not always mean cash since money is tied up in accounts receivable and inventory.



# 1 PERSONAL FINANCIAL STATEMENT

**WHAT'S THE BIG IDEA?**

Personal financial health is carefully examined by the lender or investor.

Complete a Personal Financial Statement for each person listed in the business plan who will be guaranteeing the loan (partners, officers, stockholders). It's a good idea to order your credit report from the three credit bureaus and review it because lenders will scrutinize it. Be prepared to explain any negative reports.

Most lenders will supply you with their own Personal Financial Statement form, but the information they usually request is shown in this sample.

**Life Insurance:** In the **APPENDIX**, provide face amount and cash surrender value of policies, name of insurance companies and beneficiaries.

**Other Property:** Describe in the **APPENDIX**. If any pledged as security/collateral, include name and address of lien holder, lien amount, and payment terms.

**Notes Payable:** In the **APPENDIX**, include the name and address of the noteholder, original loan balance, current balance, payment amount, and what collateral is used for security.

**PERSONAL FINANCIAL STATEMENT**

Date \_\_\_\_\_  
 Your Name and Address \_\_\_\_\_  
 Business Name and Address \_\_\_\_\_  
 Social Security \_\_\_\_\_ Date of Birth: \_\_\_\_\_  
 Phone: \_\_\_\_\_ Fax: \_\_\_\_\_ E-mail: \_\_\_\_\_

**ASSETS & LIABILITIES**

**ASSETS (what you own)**

Cash	\$	_____
Savings Accounts	\$	_____
Retirement Accounts	\$	_____
Accounts & Notes Receivable	\$	_____
Life Insurance, cash surrender value	\$	_____
Stocks & Bonds (market value)	\$	_____
Real Estate (market value)	\$	_____
Automobiles (market value)	\$	_____
Other Property	\$	_____
Other Assets	\$	_____
<b>TOTAL ASSETS</b>	\$	_____

**LIABILITIES (what you owe)**

Accounts Payable	\$	_____
Notes Payable	\$	_____
Residential Mortgage, balance	\$	_____
Investment Mortgage, balance	\$	_____
Installment Loan Balance, auto	\$	_____
Installment Loan Balance, other	\$	_____
Unpaid taxes	\$	_____
Other liabilities	\$	_____
<b>TOTAL LIABILITIES</b>	\$	_____

**NET WORTH (assets less liabilities)** \$ \_\_\_\_\_  
**TOTAL LIABILITIES + NET WORTH** \$ \_\_\_\_\_

**Stocks & Bonds:** The total is included here. In the **APPENDIX**, include the number of shares, name of securities, cost, market value with date.

**Real Estate:** Total included here. In the **APPENDIX**, list each and include: type of property, date purchased, original cost, and the present market value. Also include the mortgage account number, balance, and monthly payment.

**Unpaid taxes:** Describe in the **APPENDIX** the type of tax, who taxes are owed to, the amount, when it is due and whether there is a lien on any property.

**Annual Expenses:**  
Multiply your monthly expenses by 12.

**Contingent liabilities:**  
Are you an endorser, co-maker or guarantor of other loans? If so, are there any legal actions or contested taxes?

INCOME & EXPENSES	
<b>ANNUAL INCOME:</b>	
Salary, Bonuses, and Commissions	\$ _____
Dividends, Interest, Investment income	\$ _____
Real Estate Income	\$ _____
Other Income	\$ _____
<b>TOTAL ANNUAL INCOME</b>	<b>\$ _____</b>
<b>ANNUAL EXPENSES:</b>	
Mortgage/Rental payments	\$ _____
Loans and notes payable	\$ _____
Taxes: Federal, State, Local, Property	\$ _____
Insurance premiums	\$ _____
Alimony and child support	\$ _____
Tuition	\$ _____
Medical Exp./Insurance	\$ _____
Contingent liabilities	\$ _____
Other Debt or Liabilities	\$ _____
<b>TOTAL ANNUAL EXPENSES</b>	<b>\$ _____</b>

This statement is true and accurate.  
I authorize any inquiries necessary to verify its accuracy.

(your signature and date) \_\_\_\_\_

In the **APPENDIX**, include copies of:

- Assets: life insurance statements, stocks and bonds, real estate, and personal property.
- Liabilities: notes payable, mortgages on real estate and unpaid taxes.
- Loans/mortgages: monthly payment amount and a copy of the last statement.
- Three years of tax returns for each owner.

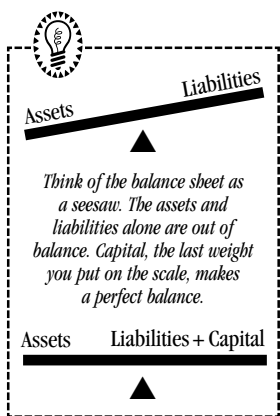


# 2 BALANCE SHEET

## YOUR BALANCE SHEET INCLUDES THE FOLLOWING:

### WHAT'S THE BIG IDEA?

The Balance Sheet is like a snapshot of your business, frozen for a second. The numbers change every day.



### ASSETS

*What the company owns*

#### Current Assets

*Can be converted into cash in one year*

#### Accounts Receivable

*Sales made but not collected*

#### Inventory

*Inventory on hand, waiting to be sold*

#### Total Current Assets

*Add up all of the Current Assets*

#### Non-Current Assets

*Takes one year or more to turn into cash*

#### Fixed Assets

*This includes property, plant, and equipment*

#### Less Depreciation

*Subtract Accumulated Depreciation*

#### Fixed Assets (net)

*Fixed Assets minus Accumulated Depreciation*

#### Advances to Owners

*Money that owners take out of the business in the form of a loan to be repaid*

#### Total Non-Current Assets

*Add up all the Non-Current Assets*

#### Total Assets

*Add Current Assets and Non-Current Assets*

### LIABILITIES

*How much the company owes*

#### Current Liabilities

*Liabilities due within one year*

#### Current Portion of Long-Term Debt

*One year's worth of loan payments*

#### Note Payable

*Due within one year*

#### Accounts Payable (A/P)

*Purchases not paid for*

#### Total Current Liabilities

*Total all the Short-Term Liabilities*

#### Long-Term Liabilities

*Due for more than one year*

#### Loan Payable

*Due after one year's worth of payments*

#### Total Long-Term Liabilities

*Total all the Long-Term Liabilities*

#### Total Liabilities

*Add the Long-Term and Current Liabilities*

### CAPITAL OR NET WORTH

*The business' equity*

#### Owners Investment

*Amount of money owners have invested*

#### Retained Earnings

*Income earned and kept in the business*

#### Total Capital

*Add Owners Investment and Retained Earnings*

#### Total Liabilities & Capital

*Add Liabilities and Capital. Equal to Total Assets*

### Depreciation:

Except for land, assets wear out. The value goes down and can be deducted. Values for assets are presented via a reserve for depreciation. Market value, or the price you could sell it for, will differ from this figure.

### Owners Investment:

Also called capital or common stock in a corporation

### Total Capital:

Also called net worth

Max Computer Company Balance Sheet December 31, 2007	
<b>ASSETS</b>	
Current Assets:	
Cash	10,000
Accounts Receivable	75,000
Inventory (ending)	85,000
<b>Total Current Assets</b>	<b>170,000</b>
Non-Current Assets	
Fixed Assets	140,000
Less Accumulated Depreciation	(25,000)
Fixed Assets (net)	115,000
Advances to Owners	6,000
<b>Total Non-Current Assets</b>	<b>121,000</b>
<b>Total Assets (170 + 121)</b>	<b>291,000</b>
<b>LIABILITIES</b>	
Current Liabilities	
Current Portion of Long-Term Debt	6,000
Note Payable	100,000
Accrued Taxes	3,000
Accounts Payable(A/P)	41,000
<b>Total Current Liabilities</b>	<b>150,000</b>
Long-Term Liabilities	
Loan Payable	54,000
<b>Total Long-Term Liabilities</b>	<b>54,000</b>
<b>Total Liabilities (150 + 54)</b>	<b>204,000</b>
<b>CAPITAL OR NET WORTH</b>	
Owners Investment	20,000
Retained Earnings	67,000
<b>Total Capital</b>	<b>87,000</b>
<b>Total Liabilities &amp; Capital (204 + 87)</b>	<b>291,000</b>

**Date:** Include last three years' fiscal year-end statements and an interim statement (not more than three months old) in the **APPENDIX**. Start-up companies: Include an opening Balance Sheet (what the balance sheet will look like the day after the loan closes).

**These numbers should be the same.**

Your Company Name  
 BALANCE SHEET  
 date of statement

ASSETS

Current Assets

Cash .....	\$	_____
Accounts Receivable .....	\$	_____
Inventory (ending) .....	\$	_____
Other Current Assets .....	\$	_____
Total Current Assets .....	\$	_____

Non-Current Assets

Fixed Assets .....	\$	_____
Less Depreciation .....	\$	_____
Fixed Assets (net) .....	\$	_____
Advances to Owners .....	\$	_____
Other Non-Current Assets .....	\$	_____
Total Non-Current Assets .....	\$	_____
Total Assets .....	\$	_____

LIABILITIES

Current Liabilities

Current Portion of Long-Term Debt .....	\$	_____
Note Payable .....	\$	_____
Accrued Taxes .....	\$	_____
Accounts Payable(A/P) .....	\$	_____
Total Current Liabilities .....	\$	_____

Long-Term Liabilities

Loan & Notes Payable .....	\$	_____
Total Long-Term Liabilities .....	\$	_____
Total Liabilities .....	\$	_____

CAPITAL

Owners Investment .....	\$	_____
Retained Earnings .....	\$	_____
Total Capital .....	\$	_____

TOTAL LIABILITIES & CAPITAL

\$	_____
\$	_____

**These numbers should be the same.**



3

# INCOME STATEMENT

## YOUR INCOME STATEMENT INCLUDES THE FOLLOWING:

### WHAT'S THE BIG IDEA?

The Income Statement is your company's report card. Expenses are subtracted from income, which gives you the business' financial performance or net profit (or loss) over a period of time. Other names for the Income Statement are Operating Statement, Earnings Statement, or Profit and Loss Statement.

#### SALES

**Net Sales**  
*Revenue or income. Gross sales is before returns and allowances. Net sales is after returns and allowances.*

**Less Cost of Goods Sold**  
*Cost to make products including materials and labor*

**Beginning Inventory**  
*Comes from the Ending Inventory of the previous year.*

**Purchases**  
*Used to make product*

**Labor**  
*Used to make product only. Other labor-related expenses are included in the Operating Expenses section*

**Less: Ending Inventory**  
*This number becomes the beginning inventory for the next year's Income Statement.*

**Total Cost of Goods Sold**  
*Compute the Cost of Goods Sold*

**Gross Profit**  
*Sales less cost of goods sold. This is your profit margin*

#### EXPENSES

**Selling Expenses**  
*Salaries and expenses related to sales only*

**General and Administrative**  
*All other expenses used to run the company*

**Operating Income (or Loss)**  
*Shows how the business performed*

**Interest Expense**  
*Subtract interest expense*

**Net Profit before taxes**  
**Less: Income Taxes**  
*Tax rates depend on your business' legal status*

#### PROFIT

*Profit left after all expenses (including taxes) have been paid*

#### Net vs. Gross Sales

Gross sales is the amount before adjustments (like returns and allowances). The adjusted figure is Net Sales.

#### Operating Income:

Gross Profit less Selling Expenses and General/Administrative Expenses.

In the **APPENDIX**, include three years' fiscal year end statements plus an interim statement (not more than three months old).

Start-up companies:  
Project month by month for the first year, quarterly for the second year and one whole year for the third year.

Max Computer Company INCOME STATEMENT December 31, 2007	
<b>SALES</b>	
Net Sales	900,000
Less Cost of Goods Sold:	
Beginning Inventory	75,000
Purchases	350,000
Labor	200,000
Total	625,000
Less: Ending Inventory	85,000
Cost of Goods Sold (625 less 85)	540,000
<b>GROSS PROFIT (900 less 540)</b>	<b>360,000</b>
<b>EXPENSES</b>	
Operating Expenses:	
Selling Expenses	90,000
General & Administrative	170,000
Total Expenses	260,000
Operating Income (360 less 260)	100,000
Interest Expense	20,000
<b>PROFIT</b>	
Net Profit before taxes (100 less 20)	80,000
Less: All Income Taxes	27,000
<b>Net Profit (80 less 27)</b>	<b>53,000</b>

**Date:**  
Represents activity for an entire period, at the end of that time period.

\$75,000 was the ending inventory for the previous year and became the beginning inventory for 2007.

This number is pulled from the Balance Sheet on page 22.

**Important Note:** Compare numbers in the current year's Income Statement with the previous year. For control purposes, you need to know if income/profits and expenses are going up or down.



Your Company Name  
**INCOME STATEMENT**

Date of Statement \_\_\_\_\_

**SALES**

Net Sales .....		\$	_____
Less Cost of Goods Sold:			
Beginning Inventory .....	\$		_____
Purchases .....	\$		_____
Labor .....	\$		_____
Total .....	\$		_____
Less: Ending Inventory .....	\$		_____
Cost of Goods Sold .....	\$		_____
Gross Profit (sales less cost of goods sold) .....	\$		_____

**EXPENSES**

Operating Expenses:			
Selling Expenses .....	\$		_____
General and Administrative .....	\$		_____
Total Expenses .....	\$		_____
Operating Income .....	\$		_____
Interest Expense .....	\$		_____

**PROFIT**

Net Profit before taxes .....	\$		_____
Less: All Income Taxes .....	\$		_____
Net Profit .....	\$		=====



## 4

## CASH FLOW STATEMENT

### WHAT'S THE BIG IDEA?

The Cash Flow Statement is your cash "register." It shows money that comes into the business and what goes out. Profits do not guarantee positive cash flow. You need to know or estimate income and expenses based on the direct and variable costs of your products or services. Cash must be available to pay bills on time and for day-to-day activities. This statement will also show an important figure, the breakeven point, when cash income equals the cash outflow (see page 30).

### Tips for preparing Cash Flow Statements:

Numbers in the Cash Flow Statement will also appear in the Income Statement. However, the Cash Flow Statement differs because it records when cash is received, when cash is paid, and how much cash you have reserved.

- Begin with income at the top, followed by expenses and repayment of the loan.
- Show realistic assumptions. If sales increase 80% every year, this may seem unrealistic. Prove assumptions and include them in the **APPENDIX**.
- Cash jumps up from year 1 to 2 because start-up costs are large in the first year.
- Negative balances are common in the first year. They must be covered by providing more cash (loans or owners' investments), or by reducing expenses.
- Increased sales can cause a cash drain (due to increased costs or labor). Show how you will overcome this.
- Show monthly figures in the first year, quarterly figures in the second year, and a lump sum or one figure in the third year.

Name of Business	Start-Up Costs	Month 1 FIRST MONTH'S REVENUE	Month 2	Month 3	Month 4
<b>A. CASH ON HAND</b> (Beginning of month)					
<b>B. CASH RECEIPTS</b>					
1. Cash Sales					
2. Collections from Credit Accounts					
3. Loan or Other Cash injection (Specify)					
<b>C. TOTAL CASH RECEIPTS (B1+B2+B3)</b>					
<b>D. TOTAL CASH AVAILABLE</b> (A + C, before cash paid out)					
<b>E. CASH PAID OUT:</b>					
1. Purchases (Merchandise)					
2. Gross Wages					
3. Payroll Expenses (Taxes, vacations, etc.)					
4. Outside Services (Outside labor)					
5. Supplies (Office & operating, not for re-sale)					
6. Repairs and maintenance					
7. Advertising					
8. Car, Delivery and Travel					
9. Professional Services (Accounting, legal, etc.)					
10. Rent (real estate only)					
11. Telephone					
12. Utilities (Water, heat, electricity, etc.)					
13. Insurance (on business property & products)					
14. Taxes (Real estate, sales, inventory, etc.)					
15. Interest (on loans)					
16. Other Expenses (Specify each)					
17. Miscellaneous (small expenses)					
18. <i>Subtotal</i>					
<b>F. OTHER OPERATING COSTS:</b>					
1. Loan Principal Payment (include equipment)					
2. Capital Purchases (Specify)					
3. Other Start-up Costs					
4. Reserve and/or Escrow (Insurance, tax, etc.)					
5. Owner's Withdrawal (income tax, etc.)					
<b>G. TOTAL CASH PAID OUT</b> (E18 + F1 through F5)					
<b>H. CASH POSITION</b> (End of month, D minus G. Becomes cash on hand for next month)					
<b>ESSENTIAL OPERATING DATA</b> (Items explained on page 27)					
1. Accounts Receivable (End of month)					
2. Bad Debt (End of month)					
3. Inventory on Hand (End of month)					
4. Accounts Payable (End of month)					
5. Monthly Depreciation					



# RATIOS



## WHAT'S THE BIG IDEA?

Ratios are your business' scores. Even though ratios are not included in your business plan, they will be calculated by lenders to make decisions.

Lenders and investors compare your ratios to:

- acceptable bank ranges
- a company's prior years
- your business' history
- other companies in your industry

Industry averages are found in reference books and on the Internet. They include the RMA Annual Statement Studies, the Almanac of Business and Industrial Financial Ratios, Dun & Bradstreet, your industry's associations, trade periodicals (magazines and newspapers for your industry), and the Small Business Administration/SBA ([www.sba.gov](http://www.sba.gov)).

## 1

### ASSET MANAGEMENT RATIOS

#### Accounts Receivable Turnover

Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)

Accounts Receivable (\$75,000 on pg. 22)  
X 365 days

$$\frac{\$27,375,000}{\$900,000} = 30.4$$

It takes 30 days to collect bills

Net Sales Figure (pg. 24)

**NOTE:** This shows how many days it takes to collect money owed to you. Lower answers are better.

#### Inventory Turnover

Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)

Inventory Figure (\$85,000 on pg. 22)  
X 365 days

$$\frac{\$31,025,000}{\$540,000} = 57.4$$

57 days to turnover or sell the inventory

Cost of Goods Sold (pg. 24)

**NOTE:** This formula shows how many days it takes you to turnover (or sell) your inventory. Lower answers are better.

## ?

### LIQUIDITY RATIOS

#### Working Capital

Number Source: Balance Sheet (pg. 22)

$$\begin{array}{l} \text{Current Assets (pg. 22)} \\ \$170,000 \\ \text{Subtract Current Liabilities (pg. 22)} \\ -\$150,000 \\ \hline \end{array} = \$20,000$$

Working Capital

**NOTE:** Shows if a company has enough cash to pay bills. This example shows an excess amount after paying all current liabilities. The answer must be positive. More money is needed to meet expenses if the answer is negative.

#### Quick or Acid Test

Number Source: Balance Sheet (pg. 22)

$$\begin{array}{l} \text{Total Current Assets of } \$170,000 \text{ (pg. 22) less Inventory of } \$85,000 \text{ (pg. 22)} \\ \$85,000 \\ \hline \\ \text{Total Current Liabilities (pg. 22)} \\ \$150,000 \end{array} = .56$$

The answer should be 1 or more. In this example, the answer, \$0.56, is less than 1. The company could not pay all its current liabilities without selling some inventory.

**NOTE:** Inventory may become no longer useful. This ratio eliminates inventory from current assets and cash. It's called "quick" because it includes items that can be turned into cash.

#### Current

Number Source: Balance Sheet (pg. 22)

$$\begin{array}{l} \text{Total Current Assets (pg. 22)} \\ \$170,000 \\ \hline \\ \text{Total Current Liabilities (pg. 22)} \\ \$150,000 \end{array} = 1.13$$

Number of times you can pay current liabilities

**NOTE:** Tests a company's short-term debt paying ability. This means there is \$1.13 in cash and current assets available to pay every \$1 of current liabilities.

# RATIOS

## 3 DEBT MANAGEMENT RATIOS

### Leverage (or Debt-to-Worth)

Number Source: Balance Sheet (pg. 22)



<b>F O R M U L A</b>		
Total Liabilities (pg. 22)	$\frac{\$204,000}{\$87,000}$	$= 2.34$
Total Capital (pg. 22)		

The company is leveraged 2.34 times

**NOTE:** Determines if a company has enough equity. Lower answers are better. Lenders prefer this ratio to be 3 or lower.

### Accounts Payable Turnover

Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)

<b>F O R M U L A</b>		
Accounts Payable at \$41,000 (pg. 22) X 365 days	$\frac{\$14,965,000}{\$350,000}$	$= 42.75$
Purchases (pg. 24)		

Accounts Payable are paid every 43 days

**NOTE:** Shows how quickly a company pays its suppliers. Lower numbers are better.

## 4 PROFITABILITY RATIOS

### Profit Margin on Sales

Number Source: Income Statement (pg. 24)

<b>F O R M U L A</b>		
Net Profit (pg. 24)	$\frac{\$53,000}{\$900,000}$	$= .0588$
Net Sales (pg. 24)		

The profit margin is 5.9%

**NOTE:** Shows the percentage of net profit for every dollar of sales. If the profit margin is too low: the prices are too low, the cost of goods is too high, or expenses are too high. Compare the profit margin to previous years (if the business is over three years old). New businesses may compare the profit margin to those published in RMA studies or by trade associations.

### Cash Flow to Current Maturities (Debt Service)

Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)



<b>F O R M U L A</b>		
Net Profit of \$53,000 (pg. 24) + Depreciation of \$10,000 (amount created for this example).	$\frac{\$63,000}{\$6,000}$	$= 10.5$
Current Portion of Long-Term Debt (pg. 22). For new businesses, use one year's worth of loan payments.		

For every dollar of debt, 10.50 is available to pay it

**NOTE:** Shows your ability to pay term debts after owners' withdrawals. Lenders prefer 2 or better.

## YOUR BUSINESS: RATIO ANALYSIS

		YOUR ANSWER
Assets	1 Accounts Receivable Turnover	_____
	Inventory Turnover	_____
Liquidity	2 Working Capital	_____
	Quick or Acid Test	_____
	Current	_____
Debt	3 Leverage (or Debt-to-Worth)	_____
	Accounts Payable Turnover	_____
Profit	4 Profit Margin on Sales	_____
	Cash Flow to Current Maturities (Debt Service)	_____

# FINANCIAL FORMULAS

## BREAKEVEN POINT

When a company has neither a profit nor a loss, it is the breakeven point. It is important to determine your breakeven point so you know the sales needed for your business to be profitable. The numbers for this formula come from your Income Statement (see page 24).

NUMBERS USED IN THIS EXAMPLE COME FROM THE INCOME STATEMENT ON PAGE 24.

<b>1</b>	Determine your <b>Net Sales</b>	\$900,000 NET SALES	100%
<b>2</b>	Total your <b>Variable Expenses</b> and divide them by the Net Sales to calculate the percentages they represent	$\frac{\$540,000 \text{ COST OF GOODS SOLD} + \$90,000 \text{ SELLING EXPENSES}}{\$630,000 \text{ TOTAL VARIABLE EXPENSE}}$	$\frac{60\% (540K/900K) + 10\% (90K/900K)}{70\% (630K/900K)}$
<b>3</b>	Subtract your Total Variable Expenses from your Net Sales to calculate the <b>Margin</b> .	$\frac{\$900,000 \text{ NET SALES} - \$630,000 \text{ TOTAL VARIABLE EXPENSE}}{\$270,000 \text{ MARGIN}}$	$\frac{100\% - 70\%}{30\% \text{ or } .30}$
<b>4</b>	Divide your Fixed Expenses by the Margin and the answer is your <b>Breakeven Point</b>	$\frac{\$170,000 \text{ FIXED EXPENSES (this number comes from page 24 General \& Administrative)}}{\div .30 \text{ MARGIN}}$	\$566,667 BREAKEVEN AMOUNT

This company needs sales of \$566,667 to break even. One dollar more and the business is profitable. One dollar less and the business shows a loss.

## 1 - 2 - 3 METHOD FOR LOAN DECISIONS

USE THE 1-2-3 METHOD TO PRE-QUALIFY AND CALCULATE YOUR MAXIMUM LOAN AMOUNT.

	EXPLANATION	EXAMPLE: ABC Company	ANSWER																				
<b>1</b>	<b>DISCOUNTED COLLATERAL</b> Also called COLLATERAL COVERAGE Every \$1 borrowed must be covered by \$1 in collateral. Lenders discount the value of assets (collateral) so the <i>discounted</i> value must equal the loan amount. This covers the lender in case of foreclosure. See page 18.	<b>This is a common discount formula used with collateral:</b> <b>EXAMPLE:</b>																					
		<table border="1"> <thead> <tr> <th></th> <th>Market Value</th> <th>Discount Percentage</th> <th>Discounted Value</th> </tr> </thead> <tbody> <tr> <td>• Inventory</td> <td>\$30,000</td> <td>50%</td> <td>\$15,000</td> </tr> <tr> <td>• Fixed Assets</td> <td>\$50,000</td> <td>50%</td> <td>\$25,000</td> </tr> <tr> <td>• Accounts Receivable</td> <td>\$20,000</td> <td>25%</td> <td>\$15,000</td> </tr> <tr> <td><b>Total</b></td> <td><b>\$100,000</b></td> <td></td> <td><b>\$55,000</b></td> </tr> </tbody> </table>		Market Value	Discount Percentage	Discounted Value	• Inventory	\$30,000	50%	\$15,000	• Fixed Assets	\$50,000	50%	\$25,000	• Accounts Receivable	\$20,000	25%	\$15,000	<b>Total</b>	<b>\$100,000</b>		<b>\$55,000</b>	Maximum loan based on discounted collateral is <b>\$55K</b>
	Market Value	Discount Percentage	Discounted Value																				
• Inventory	\$30,000	50%	\$15,000																				
• Fixed Assets	\$50,000	50%	\$25,000																				
• Accounts Receivable	\$20,000	25%	\$15,000																				
<b>Total</b>	<b>\$100,000</b>		<b>\$55,000</b>																				
<b>2</b>	<b>THE ABILITY TO REPAY</b> Also called DEBT SERVICE COVERAGE For every \$2 a business has in annual cash flow, the bank will allow \$1 in loan payments.	The ABC Company needs to calculate how much they can borrow and afford to re-pay for a seven-year loan: • \$12K net profit + 3K in depreciation = \$15K annual cash flow • \$15K x 50% = \$7.5K the maximum lenders usually allow in annual payments is half of the annual cash flow • \$7.5K/12 months = \$625 maximum monthly payment • \$625/\$17.13* = \$36.48K rounded to \$36.5K *Monthly payment on a \$1000, seven-year loan with an interest rate of 11% is \$17.13	Maximum loan based on the ability to repay is <b>\$36.5K</b>																				
<b>3</b>	<b>EQUITY</b> Also called DEBT-TO-WORTH or LEVERAGE A business can borrow \$3 for every \$1 invested.	Assume ABC Company wants to refinance a \$75K loan. The business has assets of \$100K, liabilities of \$75K, and Net Worth or Equity of \$25K.	Maximum loan based on equity is \$75K (\$25K in equity x 3) <b>\$75K</b>																				

### THE LOAN DECISION

The lowest of the three answers calculated here is the maximum loan size. The maximum loan size for ABC Company is \$36.5K.



# APPENDIX ITEMS CHECKLIST

The **APPENDIX** comes at the end of your business plan. It includes all the details and documents that support your business plan.

The first page of your Appendix should be a listing of its contents. Organize the documents in the order they are referred to in your business plan. The Appendix grows so it's a good idea to use a 3-ring binder with tabs or an expandable file.

In general, your Appendix should include:

- estimates for anything being purchased
- estimates on any work to be done
- copies of documents related to loans, mortgages, and accounts payable to be refinanced

To Do  Done

## Page 8 > BUSINESS DESCRIPTION

- Legal documents filed with your state or municipality

To Do  Done

## Page 9 > BUSINESS DESCRIPTION, EXPLAINED

- Detailed industry information including economic trends, growth patterns and forecasts.

To Do  Done

## Page 10 > MANAGERS & EMPLOYEES

- Managers' job descriptions, salaries and benefits.
- Monthly cost and explanation of outsourced services or functions.
- Managers and employees resumes

To Do  Done

## Page 11 > OPERATIONS & LOCATION

- Include proposed rentals, leases or purchases of furniture, fixtures, equipment and machinery.
- Suppliers names, addresses, products or services supplied, costs/quotes, delivery/shipping fees, turnaround, terms of sales, contracts, and a purchasing plan.
- Details about assistance from your suppliers.
- Provide a copy of the deed if you own the business location.  
If buying the location, include a purchase-and-sale agreement and related legal documents. An appraisal of the building, the assets and liabilities along with an environmental inspection, will be done by the lender.
- If your location is leased, include a copy of the lease (or proposed lease) with terms, conditions, and cost.
- Show quotes for improvements and renovations.
- Traffic patterns if you own a retail business.
- Zoning statement from local government.
- Approval letters from local and state inspectors (building, fire, health, environmental, and occupational safety).
- Photos of your location, inside and outside. Include a floor plan, blueprint or plot plan (if constructing location).

To Do  Done

## Page 12 > MARKETING

- Detailed plans and costs for research and development.
- Advertising and promotional ideas, schedules and budgets.
- Compensation (salary, commission, or both) details for sales staff, reps, agents, brokers or wholesalers.

To Do  Done

## Page 15 > MARKETING

- Product and price comparisons of competitors.

To Do  Done

## Page 16 > BUYING A BUSINESS

- Pictures of the business location
- Detailed description
- Appraised value of the building, inventory and equipment.
- Inspection reports (if available). If not, let the lender order them.
- Copies of tax returns (past 3 years) from the seller and interim (year-to-date) Income Statement and a current Balance Sheet.

- Patents and trademarks.
- Purchase-and-sale agreement and/or an offer to buy and any legal documents that apply to the purchase

To Do  Done

## Page 18 > LOAN REQUEST

- The use of loan proceeds: Include quotes and a breakdown of furniture, fixtures, equipment and machinery.
- Collateral: Make, model, year, serial number, and fair market value of furniture, fixtures, equipment and machinery.
- Cash Flow analysis to prove working capital needs.

To Do  Done

## Page 20 > PERSONAL FINANCIAL STATEMENT

- Stocks & Bonds: The number of shares, name of securities, cost, market value with the date.
- Life Insurance policies: Provide the face amount and cash surrender value, name of insurance companies and beneficiaries.
- Real Estate: List each property and include the date purchased, its original cost, and the present market value. Also include the mortgage account number, loan balance, and the monthly payment.
- Other property: Any pledged as security/collateral. Include the name and address of lien holder, lien amount, and payment terms.
- Notes Payable: Include the name and address of the noteholder, original loan balance, current loan balance, payment amount, and what collateral is used for security.
- Unpaid taxes: Describe the type of unpaid tax, who taxes are owed to, the amount, when it is due, and whether there is a lien on any property.

To Do  Done

## Page 21 > PERSONAL FINANCIAL STATEMENT

- Copies of life insurance statements, stocks and bonds certificates, and real estate deeds.
- Copies of notes payable, real estate statements with monthly payment amounts, and unpaid tax bills.
- Copies of signed tax returns (past three years) for each owner.

To Do  Done

## Page 22 > BALANCE SHEET

- Existing businesses: Last three years' fiscal year-end statements and an interim statement (not more than two months old).
- Start-up companies: Include an opening Balance Sheet (balance sheet the *day after* the loan closes).
- Balance Sheet before new financing and after the financing.

To Do  Done

## Page 24 > INCOME & EXPENSE STATEMENT (or P&L)

- Start-up companies: Provide projections month by month for the first year, quarterly for the second year and one whole year for the third year.
- Existing businesses: Three years' fiscal year end statements plus an interim statement (not more than two months old).
- Provide a three-year projected Cash Flow analysis (monthly for the first year, quarterly for the second year, and a lump sum for the third year) to prove the need for working capital.

