
**SIMPLE
NUMBERS,
STRAIGHT TALK,
BIG** 4 KEYS TO UNLOCK YOUR
BUSINESS POTENTIAL
PROFITS!

GREG CRABTREE

WITH BEVERLY BLAIR HARZOG



MJ Lane
Publishing

Exhibit 2.1: Gross Profit Examples		
	Construction Company	Services Company
Revenue	\$20,000,000	\$3,750,000
Cost of Goods Sold:		
Materials	5,000,000	-
Subcontractors	12,150,000	900,000
Total Cost of Goods Sold	17,150,000	900,000
Gross Profit	2,850,000	2,850,000
Direct Labor	1,000,000	1,000,000
Contribution Margin	1,850,000	1,850,000
Operating expenses:		
Facilities	150,000	150,000
Marketing	75,000	75,000
Salaries (management and admin)	750,000	750,000
Payroll taxes and benefits	100,000	100,000
Other operating expenses	150,000	150,000
Net Operating Income	625,000	625,000
Other expenses:		
Depreciation	75,000	75,000
Interest Expense	25,000	25,000
Total other expenses	100,000	100,000
Pretax Profit	\$525,000	\$525,000
as a % of Revenue	2.63%	14.00%
as a % of Gross Profit	18.42%	18.42%

Exhibit 3.1: Company A

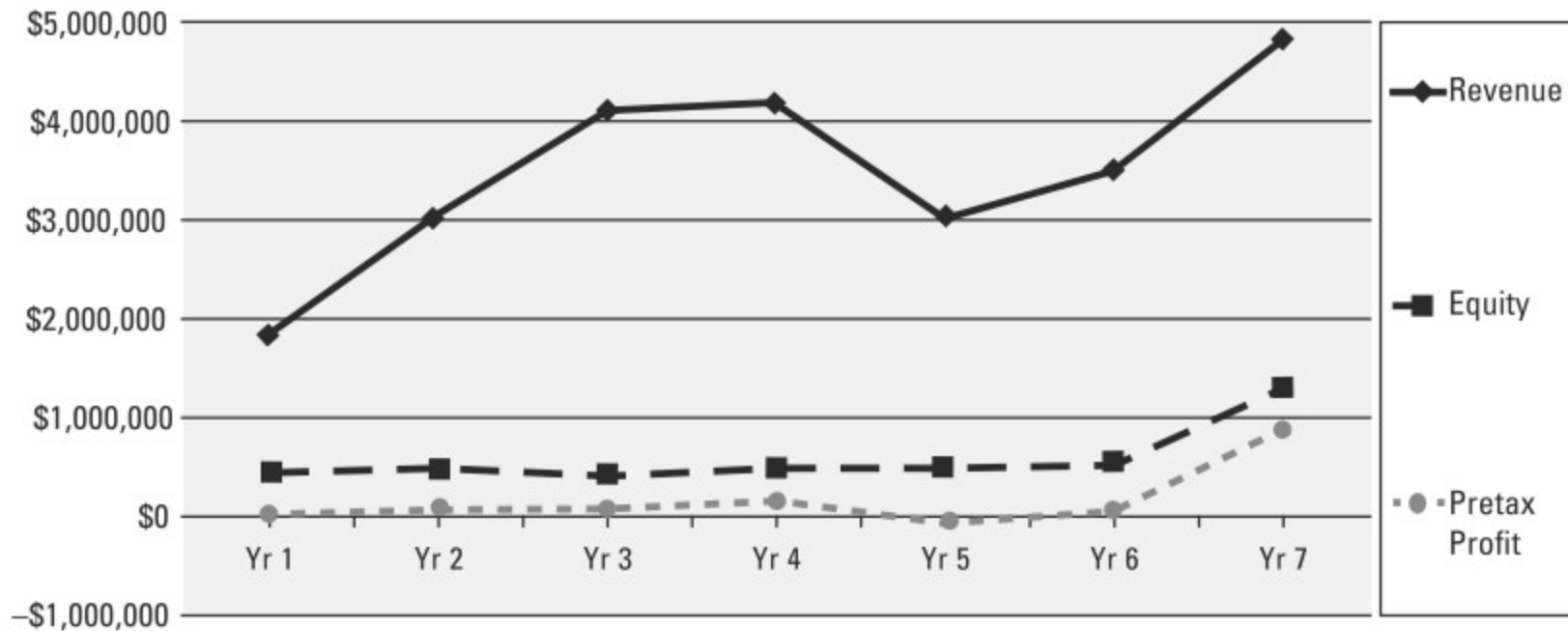


Exhibit 3.2: Company B

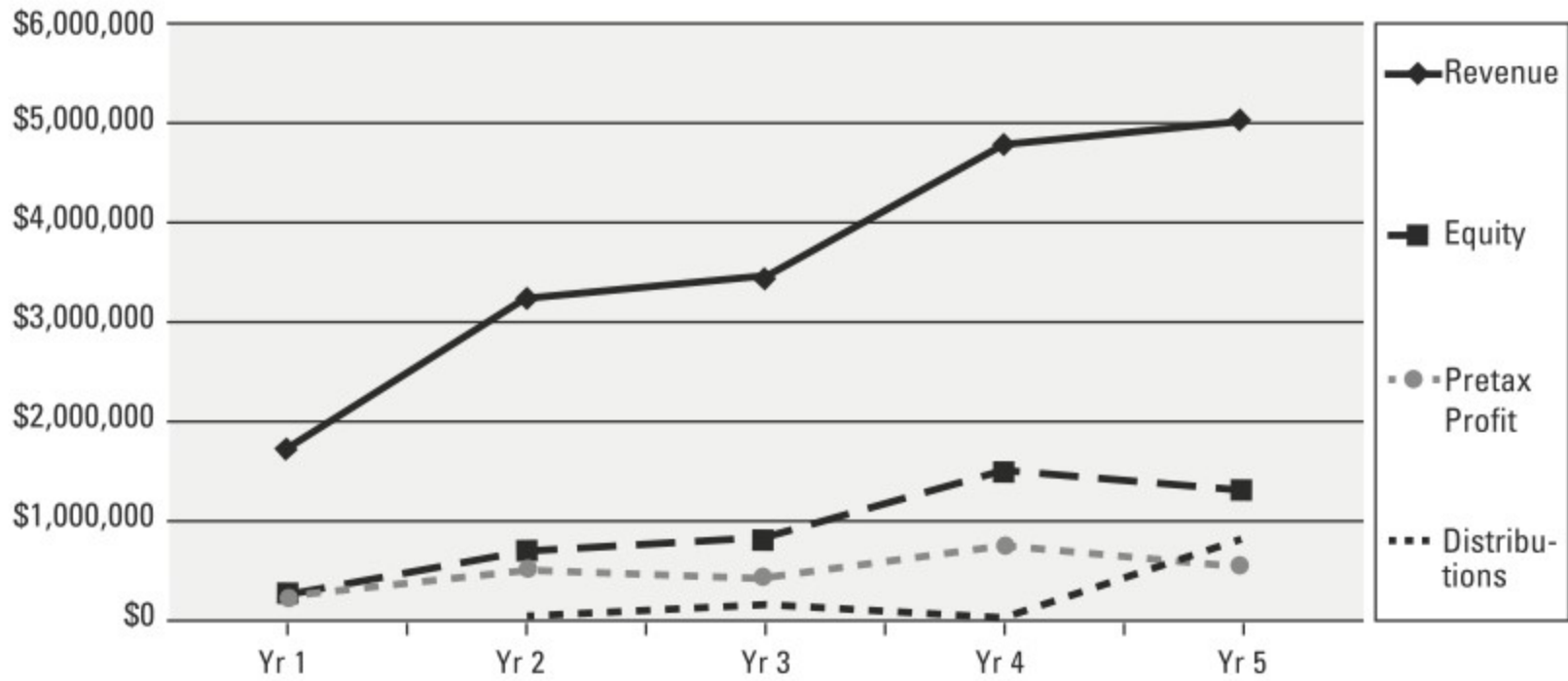


Exhibit 3.3: Salary Cap: Table 1

Revenue		\$1,000,000
Salaries	(????)	
Nonsalary costs	(????)	
Total expenses		(????)
Pretax profit (10%)		\$100,000

Exhibit 3.4: Salary Cap: Table 2

Revenue		\$1,000,000
Salaries	(????)	
Nonsalary costs	(????)	
Total expenses		(\$900,000)
Pretax profit (10%)		\$100,000

Exhibit 3.5: Salary Cap: Table 3

Revenue		\$1,000,000
Salaries	(????)	
Nonsalary costs	(\$400,000)	
Total expenses		(\$900,000)
Pretax profit (10%)		\$100,000

Exhibit 3.6: Salary Cap: Table 4

Revenue		\$1,000,000
Salaries	(\$500,000)	
Nonsalary costs	(\$400,000)	
Total expenses		(\$900,000)
Pretax profit (10%)		\$100,000

Exhibit 3.7: Salary Cap: Table 5

Revenue		\$1,000,000
Salaries	(\$450,000)	
Nonsalary costs	(\$400,000)	
Total expenses		(\$850,000)
Pretax profit (15%)		\$150,000

Exhibit 3.8: Cash Flow vs Profit at 5%

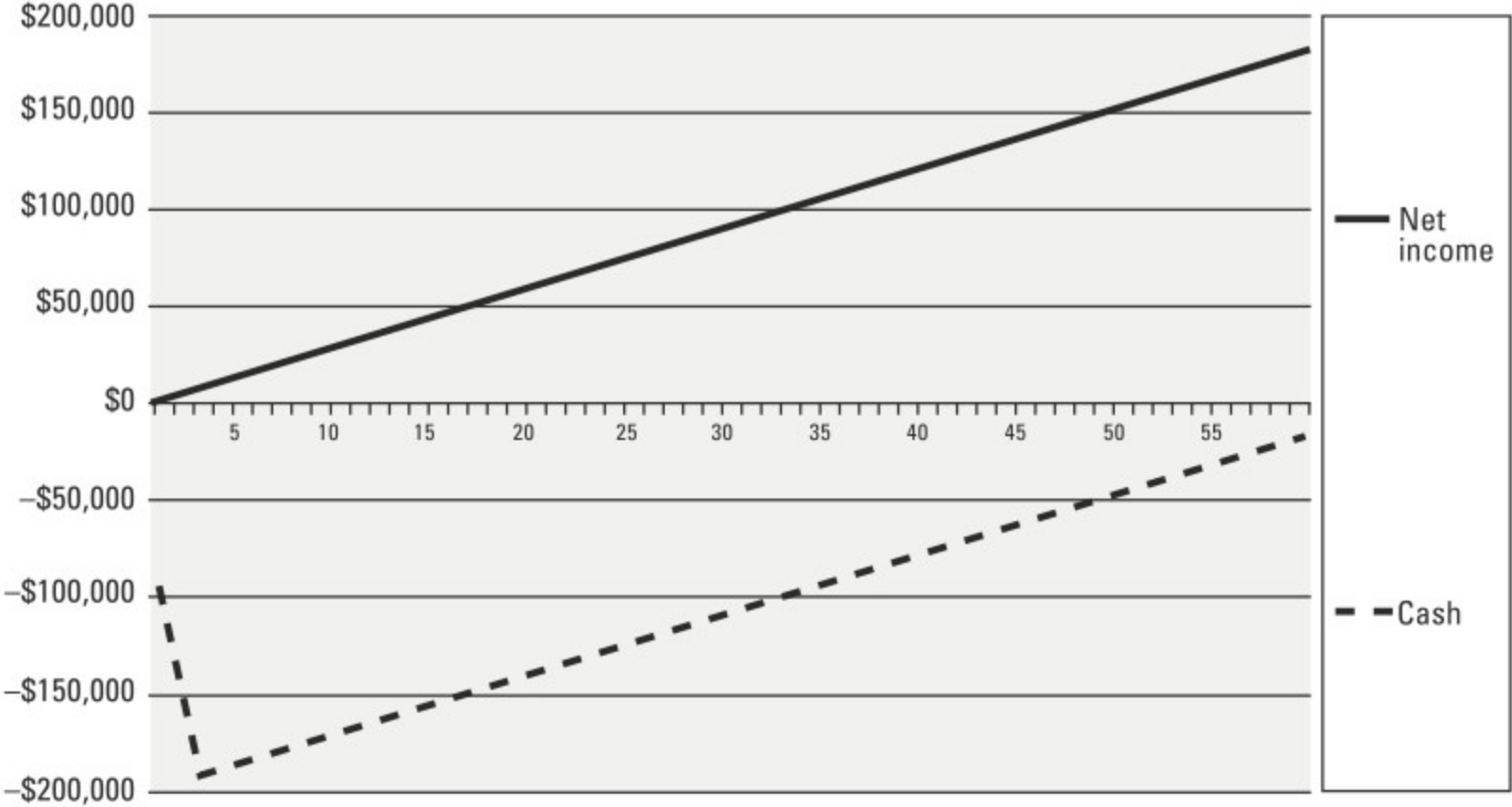


Exhibit 3.9: Cash Flow vs Profit at 10%

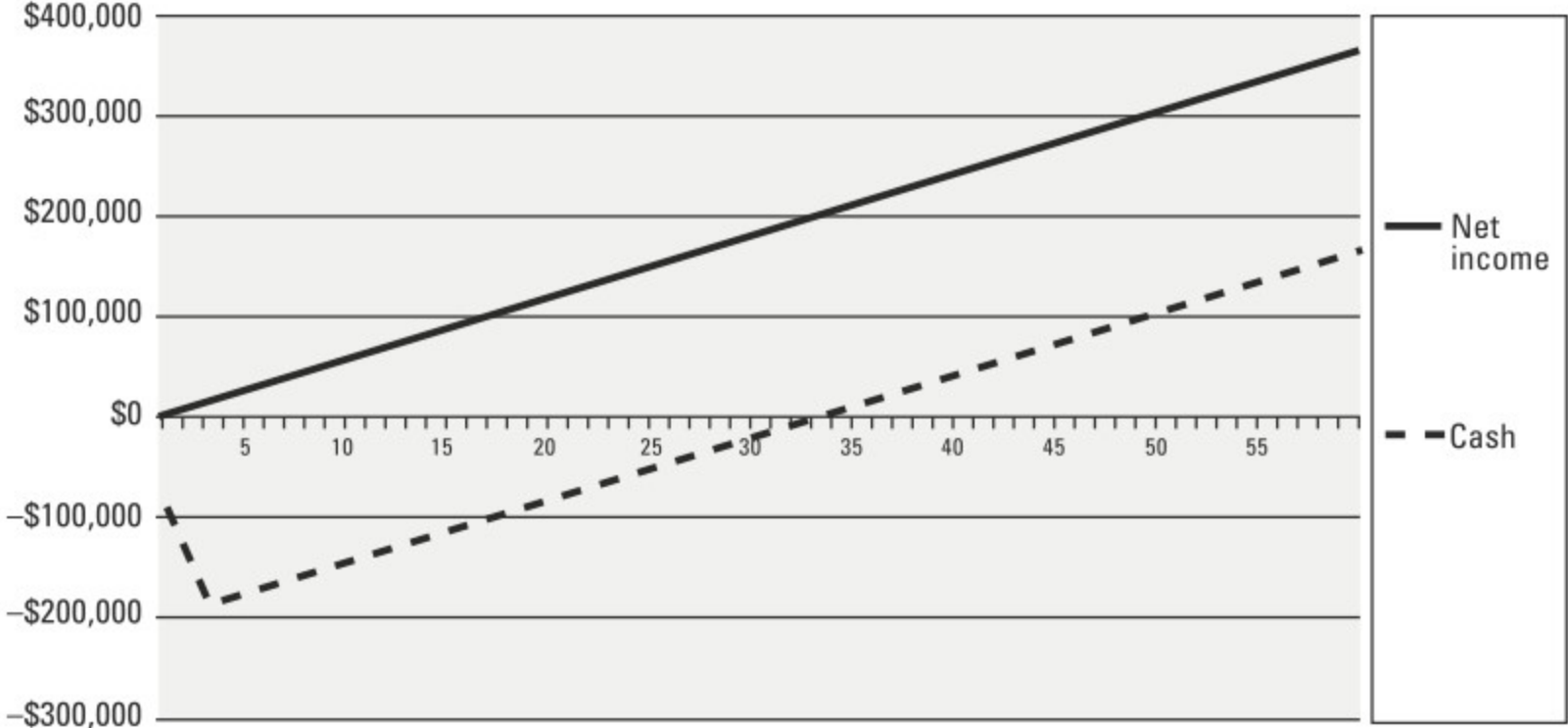


Exhibit 3.10: Cash Flow vs Profit at 15%

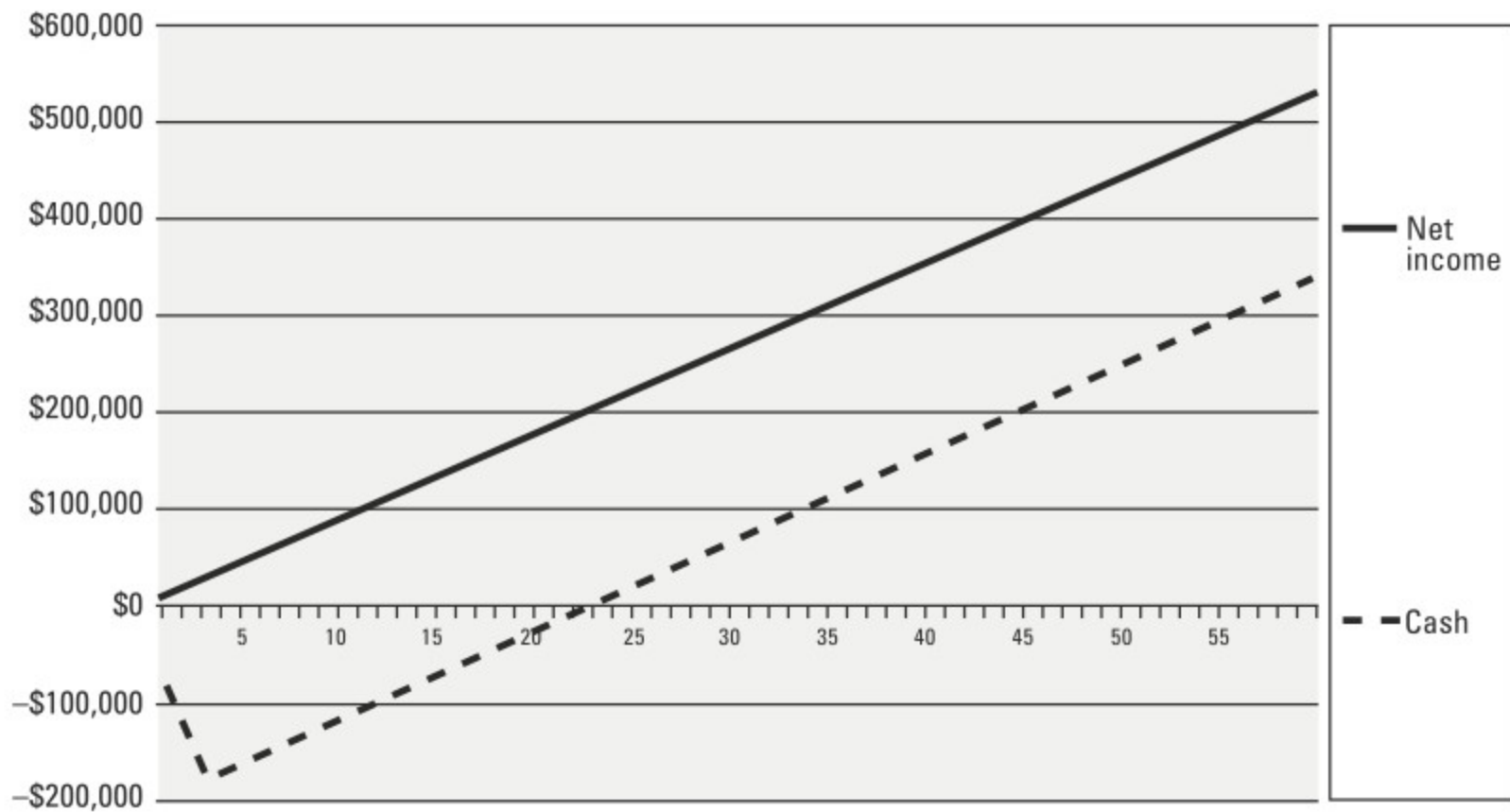


Exhibit 4.1: Where Did the Cash Go? (Step 1)

Beginning Cash	\$100,000	
Pretax Profit	\$125,000	
Cash Available		\$225,000
Taxes Paid	(\$50,000)	
Vehicle Purchase	(\$50,000)	
Distribution—Down Payment on Condo	(\$50,000)	
Principal Payments	(\$50,000)	
Total Cash Adjustments		(\$200,000)
Cash at the End of Year		\$25,000

Exhibit 4.2: Where Did the Cash Go? (Step 2)

Beginning Cash	\$100,000	
Pretax Profit	\$125,000	
Cash Available		\$225,000
Taxes Paid (Force #1)	(\$50,000)	
Principal Payments (Force #2)	(\$50,000)	
Total Cash Adjustments		(\$100,000)
Cash Available to Meet Core Capital Target (Force #3)		\$125,000
Core Capital Target (2 x \$ 50,000)		(\$100,000)
Cash Available for Distributions (Force #4)		\$25,000

Exhibit 4.3: Net Income Versus Cash Flow

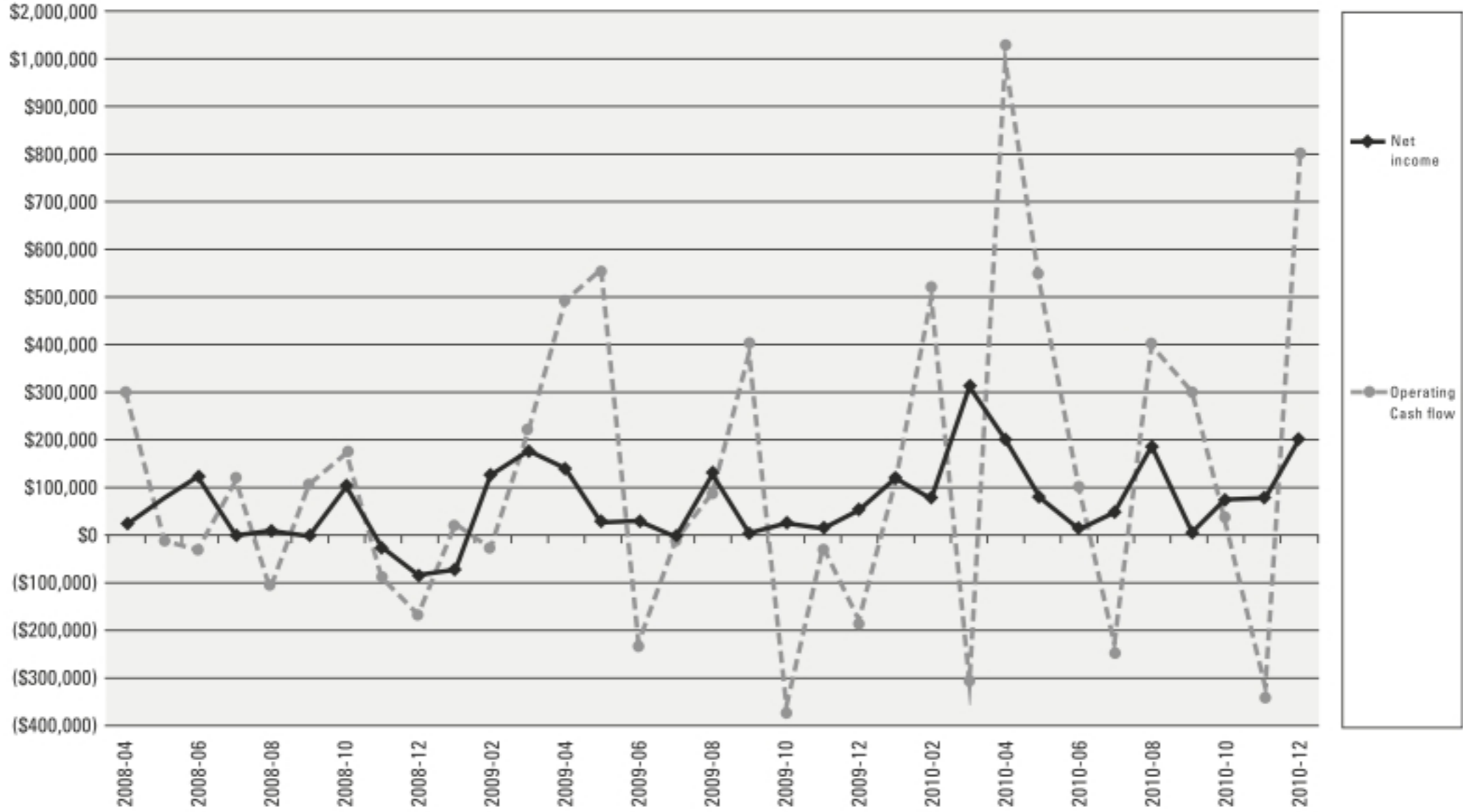


Exhibit 7.1: Return on Investment Example

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	\$1,750,000	\$3,200,000	\$3,450,000	\$4,750,000	\$5,000,000
Pretax Profit	\$200,000	\$500,000	\$415,000	\$750,000	\$620,000
% to Income	11.4%	15.6%	12.0%	15.8%	12.4%
Equity	\$245,000	\$650,000	\$ 850,000	\$1,500,000	\$1,300,000
Return on Investment	82%	77%	49%	50%	48%
Distribution		\$95,000	\$215,000	\$100,000	\$820,000

Exhibit 7.2 Sweat Equity Bonus Example

Bonus (assume base pay of \$ 75,000)	\$50,000	
Social Security and Medicare	(\$2,697)	5.39 %
Federal & State Withholding (est.)	(\$17,302)	34.61 %
Net Check Used to Purchase % of the Business	\$30,000	
After 40% Discount		
Annual Revenue	\$1,000,000	
Average Pretax Profit	\$150,000	
Equity	\$300,000	
(core capital of \$150,000 plus receivables of \$150,000)		

Business Value (Average Pretax profit x 3) + (Equity)	\$750,000	\$750,000	\$450,000
Current Shares Outstanding	\$1 = \$750,000/\$750,000		
Current Shares Outstanding	\$0.60 = \$450,000/\$750,000		
Current Shares Outstanding	\$750,000		
Shares Purchased for \$30,000 net	\$50,000		
Total Shares Outstanding	\$800,000		

ROI	Annual Profit	% Ownership	Investment	ROI	Tax Distribution	Profit Distribution
Original SH	\$140,625	93.75%	\$300,000	46%	\$56,250	\$84,375
Patrick	\$9,375	6.25%	\$30,000	31%	\$3,750	\$5,625

Exhibit 8.1 Daily Cash Balance Report

Customer payments:

Bob's Auto Repair	\$2,000.00
XYZ Engineering	\$1,500.00
Fred and Mary Smith	\$750.00
Total Deposit	\$4,250.00
QB Cash Balance	\$82,652.71

Exhibit 8.2: CASH FLOW FORECAST For the week ending 5/22/20XX

	ABC Bank	XYZ Bank	Total	
QB Balance:	\$ 71,338.98	\$ 25,000.00	\$ 96,338.98	
Total Line	\$ 100,000.00			
LOC Balance	\$ 25,000.00			
Available for draw	\$ 75,000.00			
Accounts Receivable:				
0-30	31-60	61-90	> 90	TOTAL
\$ 84,375.30	\$ 10,645.90	\$ 19,063.00	\$ 65,853.80	\$ 179,938.00
Payables				
	5/25/20XX	6/1/20XX		
Bills	\$ 6,912.52	\$ 738.59		
Credit Card Payables	\$ 1,013.25	\$ 525.00		
Loan Payment (1st)		\$ 2,500.00		
Rent (1st)	\$ 9,935.00			
Tax Deposit		\$ 8,930.94		
Payroll (Net)	\$ 26,002.24			
401(k)		\$ 1,548.65		
	\$ 43,863.01	\$ 14,243.18		

Exhibit 8.3: Sales and Productivity Report

					Labor Efficiency Ratio		
Period	GP%	Sales	GP\$	Cost of Labor	Week	MTD	YTD
January	49.50%	\$145,000	\$71,775	\$35,000		\$2.05	\$2.05
February	51.20%	\$154,000	\$78,848	\$37,000		\$2.13	\$2.09
March	47.60%	\$180,000	\$85,680	\$40,000		\$2.14	\$2.11
April	50.10%	\$190,000	\$95,190	\$42,000		\$2.27	\$2.15
May							
Week 1	50.00%	\$40,000	\$20,000	\$10,000	\$2.00	\$2.00	\$2.14
Week 2	50.00%	\$38,000	\$19,000	\$9,500	\$2.00	\$2.00	\$2.14
Week 3	50.00%	\$35,000	\$17,500	\$11,000	\$1.59	\$1.85	\$2.10
Week 4	50.00%					\$1.85	\$2.10
Week 5	50.00%					\$1.85	\$2.10
May Total		\$113,000	\$56,500	\$30,500		\$1.85	\$2.10

Exhibit 8.4: Rolling-Twelve P&L

	20X1-12	20X2-01	20X2-02	20X2-03	20X2-04	20X2-05	20X2-06
Revenue	815,000.00	950,000.00	970,000.00	1,008,000.00	998,000.00	1,085,000.00	1,120,000.00
Cost of Goods Sold	289,000.00	315,000.00	320,000.00	320,000.00	315,000.00	322,000.00	320,000.00
Gross Profit	526,000.00	635,000.00	650,000.00	688,000.00	683,000.00	763,000.00	800,000.00
as % to Revenue	65%	67%	67%	68%	68%	70%	71%
Operating Expenses:							
Labor - All	369,000.00	384,000.00	391,000.00	394,000.00	405,000.00	408,000.00	418,000.00
Marketing	48,000.00	52,000.00	53,000.00	53,000.00	50,000.00	49,000.00	48,000.00
Facilities	74,000.00	79,000.00	78,000.00	80,000.00	87,000.00	90,000.00	89,000.00
Payroll taxes & benefits	31,000.00	32,000.00	33,000.00	42,000.00	43,000.00	45,000.00	46,000.00
Other operating expenses	72,000.00	81,000.00	87,000.00	100,000.00	101,000.00	97,000.00	93,000.00
Total Operating Expenses	594,000.00	628,000.00	642,000.00	669,000.00	686,000.00	689,000.00	694,000.00

Exhibit 8.5: Salary Cap

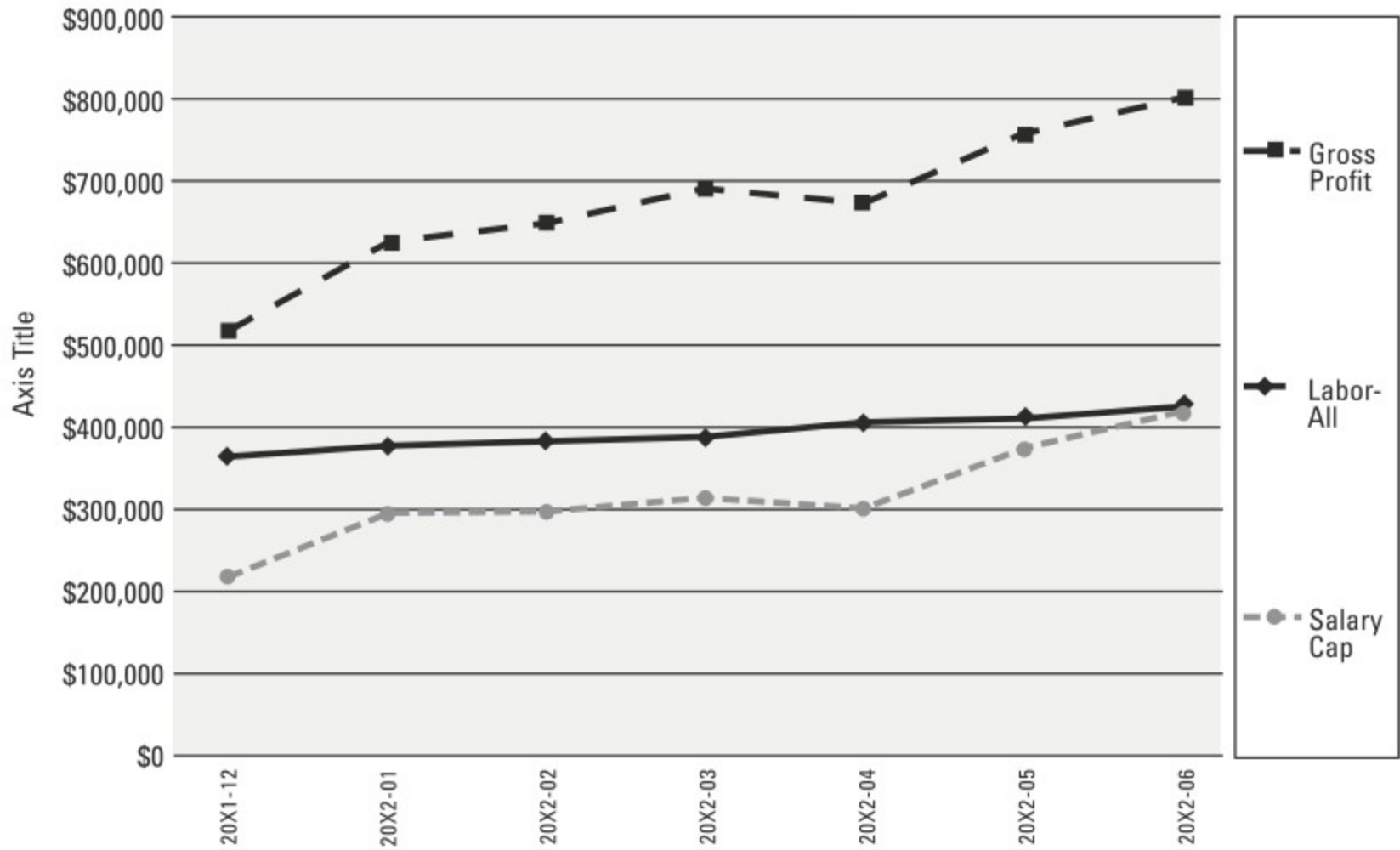


Exhibit 9.1: Company A: 10% Pretax Profit

EBITDA History					
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Revenue	\$1,050,000	\$1,920,000	\$2,070,000	\$2,850,000	\$3,000,000
Net operating income (pretax profit)	105,000	192,000	207,000	285,000	300,000
% to income	10.0%	10.0%	10.0%	10.0%	10.0%
Tax distributions (40% on previous year)		42,000	76,800	82,800	114,000
Profit distributions (amounts above core capital target)		17,000	107,700	85,200	209,900
Total distributions	—	42,000	93,800	190,500	199,200
Equity at year end (assumes \$50k to start)	155,000	305,000	418,200	512,700	613,500
Core capital target	157,500	288,000	310,500	427,500	450,000
Return on investment	68%	63%	49%	56%	49%

Exhibit 9.2: Company A FMV Calculation: 10% Pretax Profit

Valuation

Equity + 3 years EBITDA

If 3 years are not available, take the average of the years available times 3.

Value Calculation	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Average NOI	105,000	148,500	use last 3 yrs	use last 3 yrs	use last 3 yrs
x3	315,000	445,500	504,000	684,000	792,000
Equity	155,000	305,000	418,200	512,700	613,500
<i>FMV before discounts</i>	<i>470,000</i>	<i>750,500</i>	<i>922,200</i>	<i>1,196,700</i>	<i>1,405,500</i>
Discount for lack of marketability					
Percentage	20%	20%	20%	20%	20%
Amount	94,000	150,100	184,440	239,340	281,100
FMV before lack of control discount	376,000	600,400	737,760	957,360	1,124,400
Discount for lack of control					
Percentage	20%	20%	20%	20%	20%
Amount	75,200	120,080	147,552	191,472	224,880
<i>FMV after applying discounts</i>	<i>300,800</i>	<i>480,320</i>	<i>590,208</i>	<i>765,888</i>	<i>899,520</i>
Multiple of EBITDA				4.69	
Multiple of revenue				0.47	
Payback term at 100% sale				7%	
Tax				40%	
Years to repay				14.34	
Payment (3-year after-tax average)				158,400.00	

Exhibit 9.3: Company B FMV Calculation: 15% Pretax Profit

EBITDA History

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	\$1,050,000	\$1,920,000	\$2,070,000	\$2,850,000	\$3,000,000
Net operating income (pretax profit)	157,500	288,000	310,500	427,500	450,000
% to income	15.0%	15.0%	15.0%	15.0%	15.0%
Tax Distributions (40% on previous year)		63,000	115,200	124,200	171,000
Profit distributions (amounts above core capital target)			160,500	174,050	192,800
Total Distributions	-	63,000	275,700	298,250	363,800
Core capital at year end (assumes \$50k to start)	207,500	432,500	467,300	596,550	682,750
Core capital target	148,750	272,000	293,250	403,750	425,000
Return on Investment	76%	67%	66%	72%	66%

Valuation

Equity + last 3 years EBITDA

If 3 years are not available, take the average of the years available times 3.

Value Calculation					
Average NOI	157,500	222,750	use last 3 yrs	use last 3 yrs	use last 3 yrs
x3	472,500	668,250	756,000	1,026,000	1,188,000
Equity	207,500	432,500	467,300	596,550	682,750
FMV before discounts	680,000	1,100,750	1,223,300	1,622,550	1,870,750
Discount for lack of marketability					
Percentage	20%	20%	20%	20%	20%
Amount	136,000	220,150	244,660	324,510	374,150
FMV before lack of control discount	544,000	880,600	978,640	1,298,040	1,496,600
Discount for lack of control					
Percentage	20%	20%	20%	20%	20%
Amount	108,800	176,120	195,728	259,608	299,320
FMV after applying discounts	435,200	704,480	782,912	1,038,432	1,197,280
		Multiple of EBITDA	4.16		
		Multiple of Revenue	0.62		
		Payback term at 100% sale	7%		
		Tax	40%		
		Periods	11.84		
		Payment (3 year after tax average)	237,600.00		

Exhibit 9.4: Company A: Five-Year, 50% Buyout

You can buy half of the company from cash flows in 5 Years

Value of company		\$1,405,500.00		
------------------	--	----------------	--	--

(Use undiscounted value since it is 50% ownership)

Purchase Value of 50%		\$702,750.00		
Term in Years	5			
Interest Rate	7%			
Annual Payment		\$171,394.19		
Sum of annual Payments		\$856,970.93		
			-8.2%	% variance
			\$(12,994.19)	Excess/(Shortfall)
Cash Flows available				any excess allows for slight funding of growth
Pretax Profit (3 yr avg)		\$264,000.00		any shortfall has to be covered by capital, debt or growth
Tax Cost	40%	\$105,600.00		
Net Available for Loan Payment		\$158,400.00		

(Note: This assumes business is fully capitalized and does not need more working capital)

Exhibit 9.5: Company B: Five-Year, 50% Buyout

You can buy half of the company from cash flows in 5 years

Value of company		\$1,870,750.00		
(Use undiscounted value since it is 50% ownership)				
Purchase Value of 50%		<u>\$935,375.00</u>		
Term in Years	5			
Interest Rate	7%			
Annual Payment		<u>\$228,129.26</u>		
Sum of Annual Payments		<u>\$1,140,646.29</u>		
			4.0%	% variance
			\$9,470.74	Excess/(Shortfall)
Cash Flows available				any excess allows for slight funding of growth
Pretax Profit (3-yr avg)		\$396,000.00		any shortfall has to be covered by capital, debt or growth
Tax Cost	40%	\$158,400.00		
Net Available for Loan Payment		<u>\$237,600.00</u>		

(Note: This assumes business is fully capitalized and does not need more working capital)

Exhibit 9.6: FMV Calculation at 5% Pretax Profit

EBITDA History

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	\$1,050,000	\$1,920,000	\$2,070,000	\$2,850,000	\$3,000,000
Net operating income (pretax profit)	52,500	96,000	103,500	142,500	150,000
% to income	5.0%	5.0%	5.0%	5.0%	5.0%
Tax distributions (40% on previous year)		21,000	38,400	41,400	57,000
Profit distributions (amounts above core capital target)			-	-	-
Total distributions	-	21,000	38,400	41,400	57,000
Core Capital at year end (assumes \$50k to start)	102,500	177,500	242,600	343,700	436,700
Core capital target	166,250	304,000	327,750	451,250	475,000
Return on Investment	51%	54%	43%	41%	34%

Valuation

Equity + last 3 years EBITDA

If 3 years are not available, take the average of the years available times 3.

Value Calculation					
Average NOI	52,500	74,250	use last 3 yrs	use last 3 yrs	use last 3 yrs
x3	157,500	222,750	252,000	342,000	396,000
Equity	102,500	177,500	242,600	343,700	436,700
FMV before discounts	260,000	400,250	494,600	685,700	832,700
Discount for lack of marketability					
Percentage	20%	20%	20%	20%	20%
Amount	52,000	80,050	98,920	137,140	166,540
FMV before lack of control discount	208,000	320,200	395,680	548,560	666,160
Discount for lack of control					
Percentage	20%	20%	20%	20%	20%
Amount	41,600	64,040	79,136	109,712	133,232
FMV after applying discounts	166,400	256,160	316,544	438,848	532,928
		Multiple of EBITDA	5.55		
		Multiple of revenue	0.28		
		Payback term at 100% sale	7%		
		Tax	40%		
		Periods	19.68		
		Payment (3 year after tax average)	79,200.00		

Exhibit 9.7: Profit Distribution

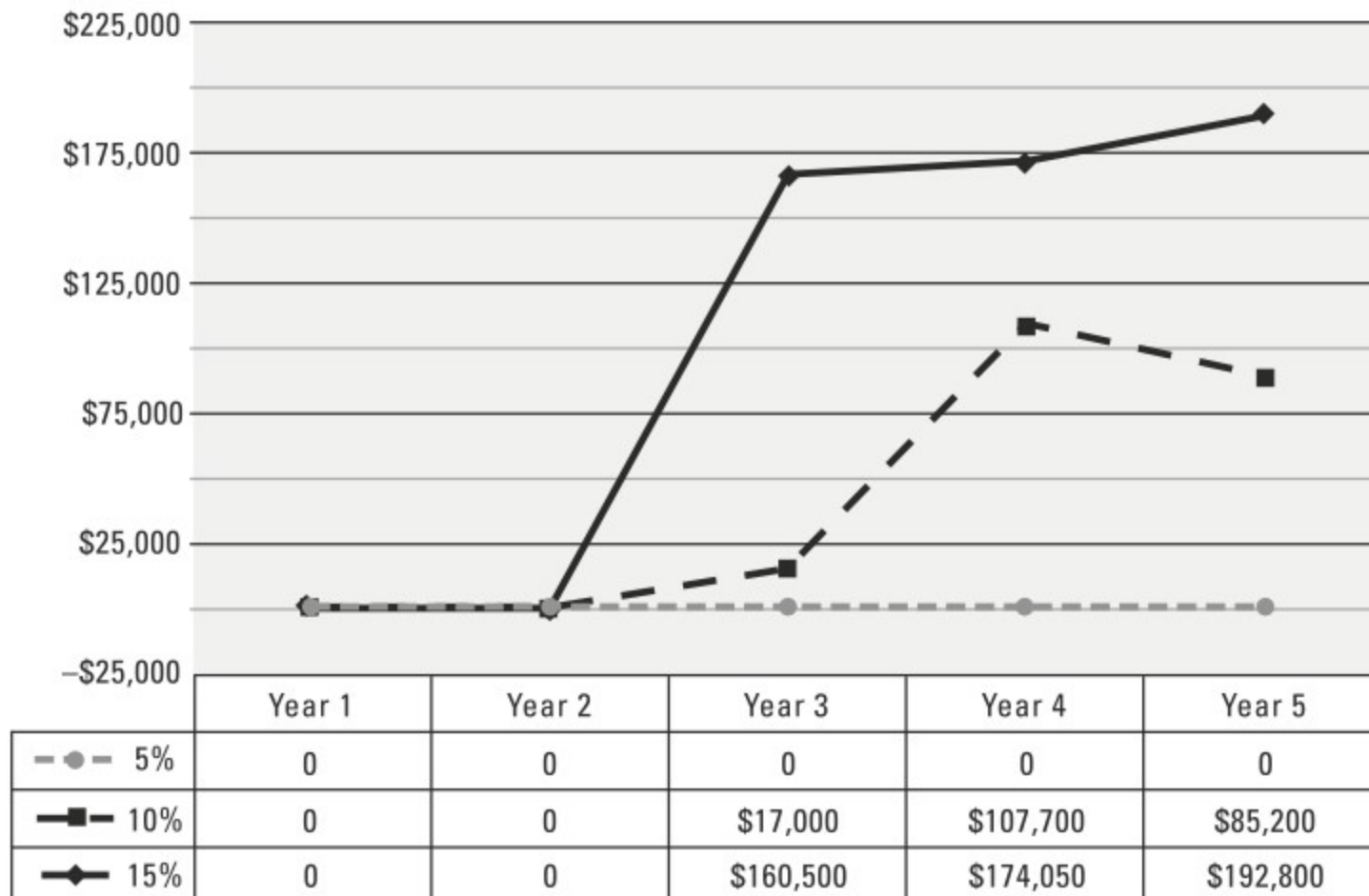


Exhibit 9.8: Company Value

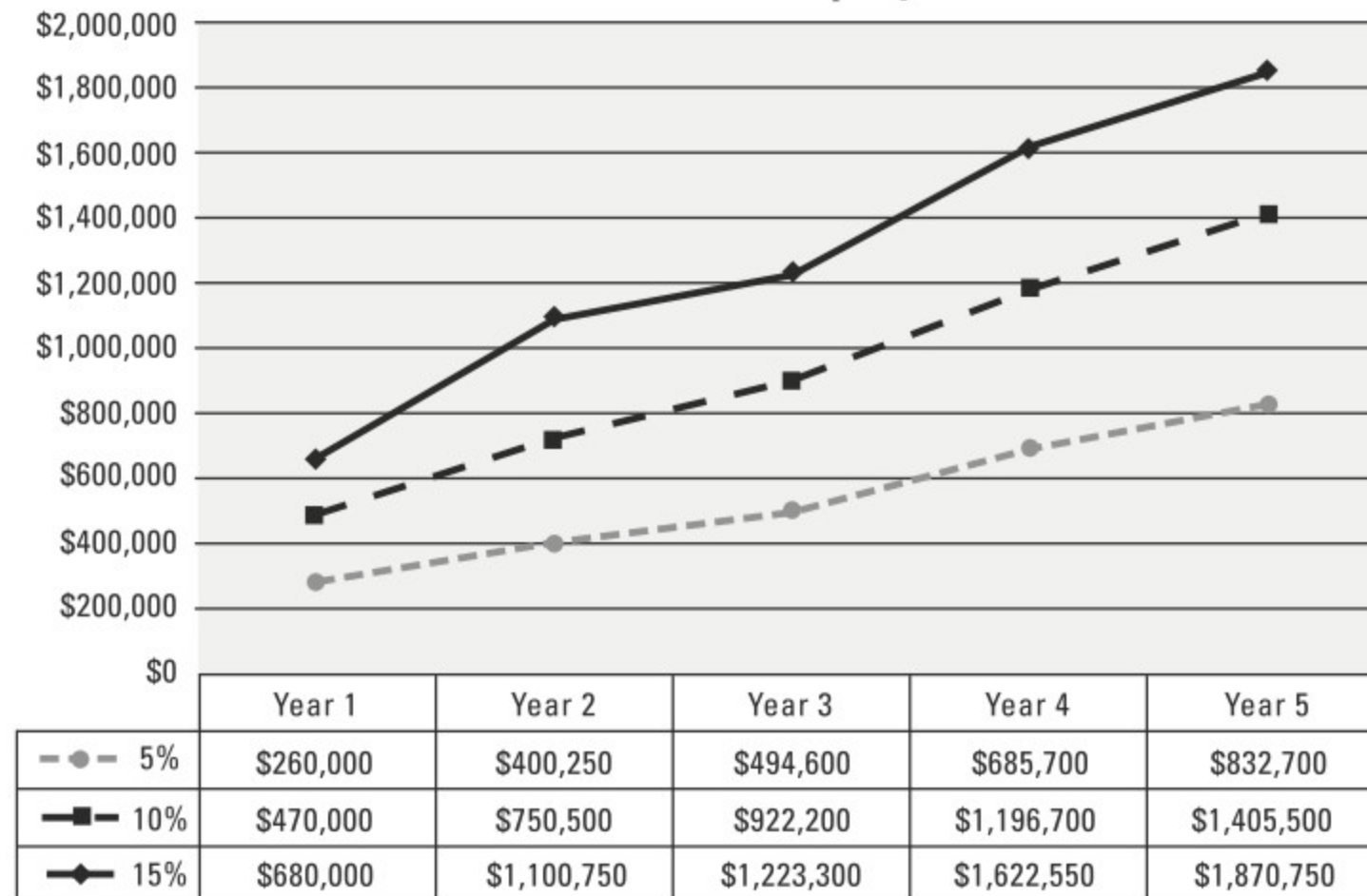


Exhibit 9.9: Value Plus Distributions

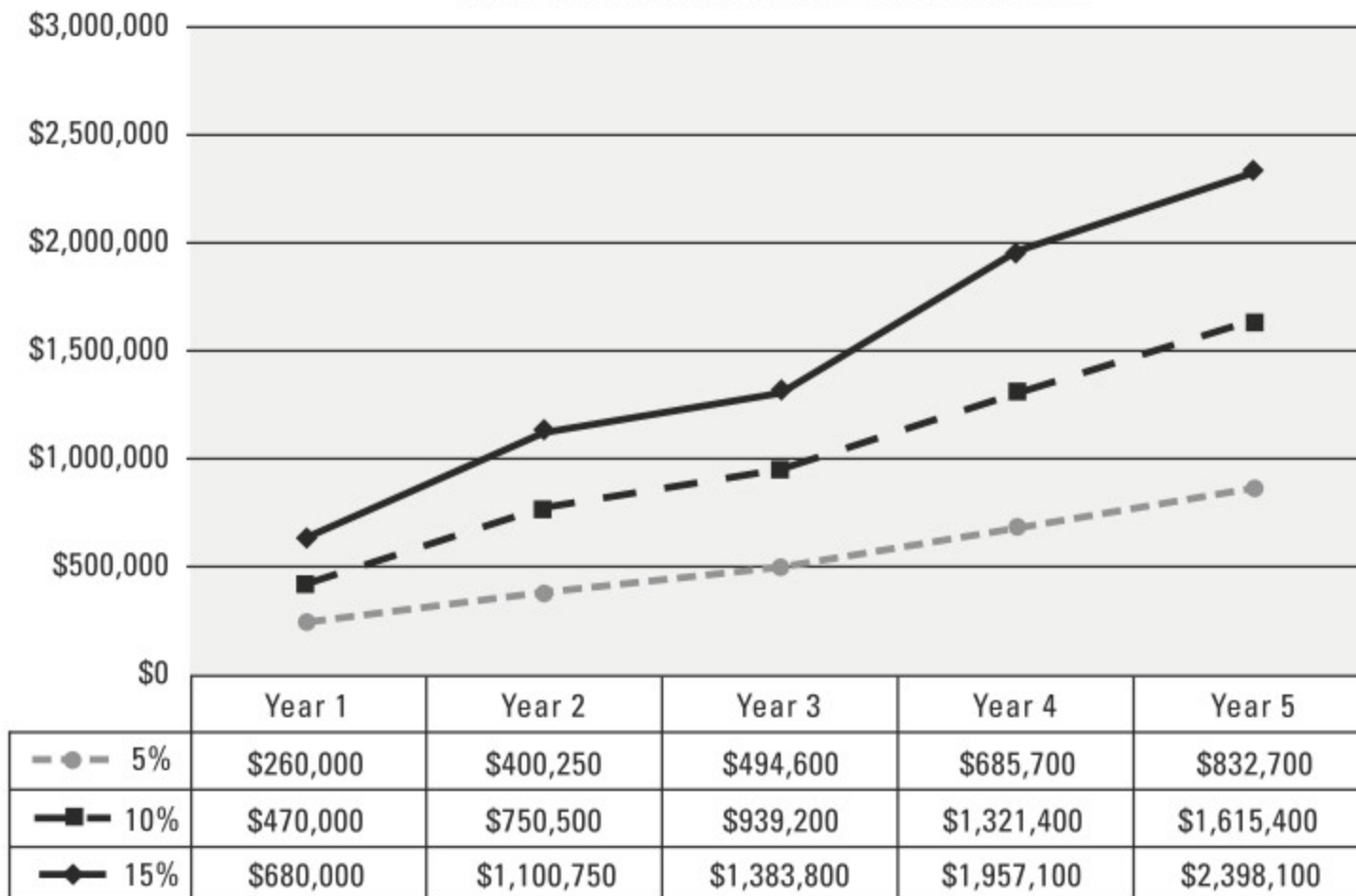


Exhibit 9.10: FMV Calculation— 15% Shareholder Example

EBITDA History					
	20X1	20X2	20X3	20X4	20X5
Revenue	\$1,050,000	\$1,920,000	\$2,070,000	\$2,850,000	\$3,000,000
Net operating income	157,500	288,000	310,500	427,500	450,000
% to income	15.0%	15.0%	15.0%	15.0%	15.0%
Equity at year end (assumes \$50k to start)	207,500	432,500	467,300	596,550	682,750
Valuation					
Value Calculation					
Average NOI	157,500	222,750	use last 3 yrs	use last 3 yrs	use last 3 yrs
x3	472,500	668,250	756,000	1,026,000	1,188,000
Equity	207,500	432,500	467,300	596,550	682,750
FMV before discounts	680,000	1,100,750	1,223,300	1,622,550	1,870,750
FMV after applying discounts	435,200	704,480	782,912	1,038,432	1,197,280

Multiple of EBITDA	4.16				
Multiple of sales	0.62				
Payback term at 100% sale	7%				
Tax	40%				
Years to repay	11.84				
Payment (3-year after-tax average)	237,600.00				
Shareholder sale example	10%	10%	10%	10%	10%
Number of shares outstanding	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Shares sold	100,000	100,000	100,000	100,000	100,000
Price per share internal	\$0.4352	\$0.7045	\$0.7829	\$1.0384	\$1.1973
Price per share external	\$0.6800	\$1.1008	\$1.2233	\$1.6226	\$1.8708
Shareholder purchase	43,520				
Internal sale value by year (after discounts)	\$43,520	\$70,448	\$78,291	\$103,843	\$119,728
External value by year (before discounts)	\$68,000	\$110,075	\$122,330	\$162,255	\$187,075

Exhibit 10.1: Simple Cash Flow Model					
	Actual		Forecast		
	Month 1	Month 2	Month 3	Month 4	Month 5
Revenue	100,000.00	110,000.00	105,000.00	120,000.00	130,000.00
Cost of Goods Sold	60,000.00	63,800.00	59,850.00	66,000.00	70,200.00
Gross Profit	40,000.00	46,200.00	45,150.00	54,000.00	59,800.00
as % of Revenue	40%	42%	43%	45%	46%
Operating Expenses					
Labor - All	15,000.00	15,000.00	18,000.00	20,000.00	21,000.00
Marketing	1,500.00	1,500.00	2,000.00	2,000.00	2,000.00
Facilities	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00
Payroll taxes & benefits	3,000.00	3,000.00	3,600.00	4,000.00	4,200.00
Other operating expenses	7,500.00	7,500.00	7,000.00	7,000.00	7,000.00
Total Operating Expenses	32,000.00	32,000.00	35,600.00	38,000.00	39,200.00
(Pretax Profit)	8,000.00	14,200.00	9,550.00	16,000.00	20,600.00
as % to Revenue	8.00%	12.91%	9.10%	13.33%	15.85%
Cash flow adjustments:					
Accounts receivable					
Beginning (add)	95,000.00	110,000.00	100,000.00	107,500.00	112,500.00
Ending (subtract)	110,000.00	100,000.00	107,500.00	112,500.00	125,000.00
Net change	(15,000.00)	10,000.00	(7,500.00)	(5,000.00)	(12,500.00)

Payables					
Beginning (subtract)	20,000.00	15,000.00	15,000.00	15,000.00	15,000.00
Ending (add)	15,000.00	20,000.00	20,000.00	20,000.00	20,000.00
Net change	(5,000.00)	5,000.00	5,000.00	5,000.00	5,000.00
Debt					
Beginning (subtract)	50,000.00	65,000.00	35,000.00	30,000.00	25,000.00
Ending (add)	65,000.00	35,000.00	30,000.00	25,000.00	20,000.00
Net change	15,000.00	(30,000.00)	(5,000.00)	(5,000.00)	(5,000.00)
Equity changes					
Capital injected (add)	-	-	-	-	-
Distributions (subtract)	5,000.00	-	-	-	18,460.00
Net change	(5,000.00)	-	-	-	(18,460.00)
Total net change in cash	(2,000.00)	(800.00)	2,050.00	11,000.00	(10,360.00)
Cash					
Beginning	25,000.00	23,000.00	22,200.00	24,250.00	35,250.00
Ending	23,000.00	22,200.00	24,250.00	35,250.00	24,890.00
Labor efficiency MTD	2.67	3.08	2.51	2.70	2.85
Labor efficiency YTD	2.67	2.87	2.74	2.73	2.75
Accounts receivable DSO	33.46	27.65	30.00	30.00	30.00
Core Capital	(42,000.00)	(12,800.00)	(5,750.00)	10,250.00	4,890.00
Core Capital Target (w/o COGS)	64,000.00	64,000.00	71,200.00	76,000.00	78,400.00
Core Capital Target (with COGS)	184,000.00	191,600.00	190,900.00	208,000.00	218,800.00

Exhibit 10.2: Rolling-Twelve Graph

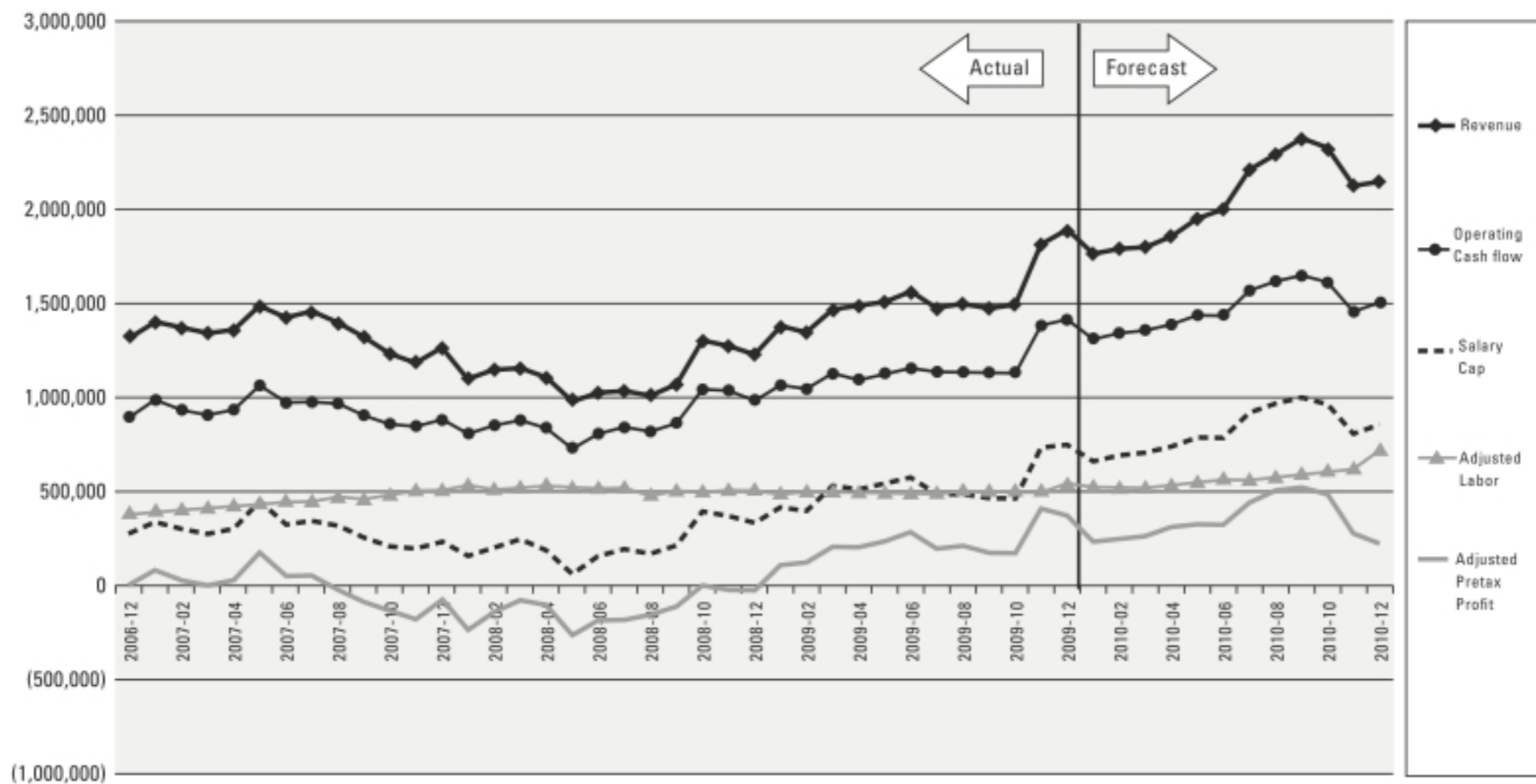


Exhibit 10.3: Dashboard

Sample Company as of (date)

Grading Legend	Great		
	OK		
	Cautious		
		Target	Rolling 12 Actual
Profitability	OK	15%	18.20%
Sales	Great	\$3,000,000.00	\$2,820,482.76
Overhead	Great	\$1,200,000.00	\$1,158,130.79
Salary Cap	Great	\$668,574.92	\$595,240.13
A/R DSO	Great	40.00	36.00
Core Capital Target	OK	\$215,895.44	\$(81,072.28)
Tax Implications	OK		
Commentary			
Profitability	OK		
Adjusted net income as % of revenue is at 18.2% Rolling 12 through the next year			
Q2 profitability was great but remainder of the year looks weaker than history			
Sales	Great		
	How will the rest of the year fare?		
	Status of sales people hired?		
Overhead	Great		
	Nothing outside of what had been planned		
Salare Cap	Great		
	Salary Cap (R12) is better than target for 10% and 15% pre-tax profit level.		
A/R DSO	Great		
	Nothing out of the ordinary from DSO		
Core Capital Target	Cautious		
	Really close to financing limits on the work in the first half of the year		
	Need to get debt down and be better prepared to self finance next opportunity		
Tax Implications	OK		
	Tax issues will be known at Q3 when receivables come in		
	Hold on to cash and no distributions until taxes are set aside and debt is gone.		