B. 3-YEAR PROFIT/VOLUME ANALYSIS AND BUDGET PROJECTION – NOTES OF EXPLANATION (PLEASE REFER TO PAGE 8, 9 AND 10.)

Gross Placements – This represents the total dollar volume of new accounts acquired. First year gross placements are expected to average $40,000 per month.

Sales – Gross Commissions – These figures represent amounts that will actually be collected from gross placements. Historical commissions for the company have exceeded 28 percent. This percentage is projected to continue.

Cost of Sales – 53 percent of gross commissions collected will be paid to clients. This is again based on historical figures from 1994 and 1995 company records.

Overhead Payroll – Compensation for one full-time employee to be hired as a collections agent.

Insurance – Vehicle insurance per historical. Please note that year 1 errors and omissions and business liability insurance is paid for from loan proceeds. Insurance will be completely paid from operations in year 2 and 3.

Rent – Estimated to be $450 per month. Ranges for suitable offices in Livingston have been quoted from $175 to $700 per month.

Vehicle Lease – The business is currently leasing a 1994 Dodge Ram 4-wheel drive pickup. This lease currently runs to June of the third projected year.

Auto or Truck Expense – Fuel, oil, grease, tires, and maintenance for the 1994 pick-up mentioned above.

Advertising and Promotion –Represents funding needed for yellow pages and miscellaneous print advertising.

Legal and Accounting – Fees for court costs, legal filings, financial statement preparation, and tax returns.

Miscellaneous and Startup – This item is larger in year 1 due to various deposits, telephone and fax hookups, and other miscellaneous items associated with the office move to Livingston.

Other Expenses and In-directs – Self-explanatory.

Interest on Loan #1 – This is the equipment/working capital loan to be acquired. This loan is based on a starting principal of $25,000 over a 6 ½ year term at 11 percent interest.

<u>Advertising and Promotion</u> – Years 1,2, and 3 are projected at $720, $885, and $1,155 (.3% of sales). The nature of the business itself is quite promotional but a formalized allocation should be made for specific advertising.

<u>Travel and Entertainment</u> – Projections for the first 3 years are $720, $885, and $1,155 (.3% of sales).

<u>Legal and Accounting</u> – The first three years will be about $1,450, $1,600 and $1,750 (estimated). The largest share of these expenses will be for bookkeeping and accounting services. Legal expenses should be minimal.

<u>Remaining Overhead Expenses</u> – These items will collectively increase each year. Year 1 estimates are based on historical costs and estimates derived from the first 6 months of operations.

<u>Interest on Credit Line</u> – Interest on the credit line will be approximately $5,779, $4,922, and $4,351. This is based on an APR of 11.9%, principal of $50,000 and principal reductions of $4,800 each year. **(Calculations tend to indicate a need for an additional $15,000 over and above the original $35,000.)**

<u>Interest on Minivan</u> – As per amortization schedule.

<u>Depreciation</u> – The minivan, computer and additional purchased asset depreciation calculations are based on a 5 year, 200% MACRS scale. This results in $4,460, $3,245, and $5,645 for the first 3 years.

<u>Net Profit after Depreciation and before Income Tax</u> – Year 1 is projected at $27,340 (11.4%), Year 2 is $36,165 (12.3%), and Year 3 is $60,100 (15.6%).

Note: This is before draws.

Income Tax – Income taxes are roughly estimated at 30% for each year. This comes to $8,202, $10,850, and $18,030. Differing accounting and tax avoidance strategies could significantly affect tax outcomes each year.

Owner Draws – Year 1 is projected at the current draws rate. Years 2 and 3 allow for modest increases. Annual totals are $22,266, $24,000, and $27,000 for the first three years respectively.

Capital Asset Purchases – By Year 2 the company is likely to require computer component upgrades or replacements. An allocation of $2,000 and $3,000 for Years 2 and 3 is projected.

Loan Principal for the Credit Line - $4,800 annually is projected. However, the minimum principal payment required is unknown at this time. Since principal was paid on the line for the first 6 months, it is assumed some version of this same policy will continue.

Loan Principal Payments on the Minivan – Years 1, 2, and 3 will be $1,711, $1,972, and $2,272.

Cash Flow before Adjustments – These adjustments will also affect cash flow. "Inventory" represents the ordered merchandise that is not yet delivered and invoiced. Although this item somewhat resembles inventory, it is not. However, for calculation and spreadsheet purposes, this is how we have chosen to represent it. This is the only way we were able to approximate this item.

<u>Inventory</u> – ("for bookings") Will increase by $494 for Year 1, $(2,948) for Year 2, and (4,827) by Year 3. Since this item has a 3 to 4 week cycle, we have chosen to "turn" it 12 times per year. This will result in an increase from $12,906 to $21,175 by the end of Year 3.

<u>Receivables</u> – Accounts receivable will increase $1,983 by the end of Year 1, $5,274 for Year 2, and $8,630 by the end of Year 3. Keep in mind that these are <u>increases</u> not total amounts. These figures are based on a 35 day cycle (which is close to the initial 6 month historical records).

<u>Payables</u> – **Accounts payable are projected to increase $7,305 by the end of the first year, $2,423 by the end of the second year, and $3,967 by the end of the third year. Note once again that these are <u>increases</u> not total amounts. A pure assumption of 25 days unpaid is used. Unlike accounts receivable, the consultant has projected a trend that <u>needs to occur</u> instead of a historically-based projection. The company should be able to obtain better credit (hence more payables) over time as trade relationships develop.**

<u>True Cash Flow</u> – This item is the net of cash flow and the previous three adjustments. Cash flow by the end of year 1 is <$351>, by the end of year 2 <$8,010>, and a positive $1,153 for year 3.

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C. Income and Cash Flow Projections

The income projections immediately following this narrative section are presented in two different formats for easier reading and understanding. The actual financial information is identical for both versions.

Total revenues for the first three years are as follows: 1995 - $1,300,420; 1996 - $1,800,238; and 1997 - $1,800,238. This represents the combined total for oil wells, rig service and production. Please note that these revenues are projected on a $16.50 per barrel basis even though the current market price is closer to $19.00 per barrel. (Refer to Appendix C.)

Cost of goods sold for the oil wells consists of landowner royalties and overrides ranging from 13.5% to 43% of gross revenues. Cost of goods sold for the rig service and construction division consists of fuel, oil, grease, tires, and direct materials. The combined totals for the first three years are $366,588, $528,867 and $528,867 respectively.

The combined gross profit for 1995, 1996 and 1997 will be $933,832, $1,271,371 and $1,271,371.

Well head taxes are fixed at 14.1% of gross oil revenues.

Payroll is expected to remain at about $50,000 for each of the first three years. The associated burden will be approximately $27,825 for the first three years. This includes a Worker's Compensation rate of 46% for oil field workers. Included in these figures is compensation for office employees.

Insurance is currently $20,400 per year and is expected to increase to $21,000 by 1996. This includes vehicle insurance and general liability insurance based on payroll.

The four shareholder/partners combined salaries are $80,000, $100,000 and $120,000 for salaries for the first three years.

Repairs and maintenance for well and construction equipment is projected to cost 12% to 12.2% of sales. $156,291 is allocated for year 1 and $219,226 is projected for 1996 and 1997. About ½ of this allocation will be for the oil well division in each year.

Utilities are expected to remain constant at $24,000 per year as will the telephone expense of $3,600 per year.

Operating supplies are projected to be 1% to 1.1% of sales.

Auto and truck expense will be $15,914 to $18,180 for the first three years.

Other expenses are nominal and self-explanatory.

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Interest on the bank loan will be $41,106, $49,669, and $43,169 for the first three years. Interest for year one is based on April 1, 1995 start date. The initial loan principal amount is $515,000 at 11% interest over a 7 year period.

Depreciation is estimated at $57,436, $78,643 and $78,643 for the first three years. Depreciation is based on 7 year straight line for the cost of the bank loan assets of $507,500. An additional $43,000 of assets are to be acquired in 1995 on a 7 year depreciation basis. First year depreciation is based on the period starting April 1, 1995 and ending December 31, 1995. Depreciation figures may be increased by accelerated methods and 5 year schedules as determined by management and optimal accounting conventions.

Net profits before income tax are @290,251, $437,846 and $424,146 for the first three years.

State and federal taxes for these respective years are projected to be $155,040, $262,768 and $258,110. (Crown Oil will explore various legal tax strategies to reduce annual taxes below these projected levels.)

Net profits after tax are $135,522, $175,078 and $166,036 for these same years.

The company will purchase assets of $43,000 in the first year. It is expected that additional assets will be purchased in year 2 and 3 although they are not listed in the projections.

Loan principal payments for the first 3 years will be $38,256, $56,150, and $62,647.

Receivables will increase to $96,884 by the end of the first year and increase another $41,081 by the end of the second year. Total receivables will stabilize at about $147,965 by the third year. Payables will increase $30,131 during the first year and increase another $13,338 during the second year. Total payables will stabilize at $43,469 by the third year.

Cash flow for the first three years will be $44,638, $169,828 and $182,032.

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C. Balance Sheet Projections

Please refer to the following page for the balance sheet projections.

Starting cash is $52,500. The intended use of these funds will be for first year working capital and equipment acquisition needs.

Cash will increase from $97,138 in year one to $448,998 by year three assuming no stockholder distributions or asset purchases. Although exact amounts are unknown at this time, the company plans on making stockholder distributions, asset purchases, and possibly accelerated loan payments.

Accounts receivable starts at $10,000 and will increase to $147,965 by the end of year 3.

Fixed assets are $507,500 to start. This is based on assets of $507,500 purchased via loan proceeds. An additional $43,000 of fixed assets are projected during the first year. Net fixed assets will decrease each year as the result of depreciation, assuming no new purchases.

Total assets increase from $570,500 to $932,741 primarily from the addition of annual retained earnings.

Accounts payable starts at $0 and will increase to $43,469 by the end of year 3.

The original note of $515,000 is reduced to a remaining principal of $357,947 by the end of the third year.

Starting equity is $55,000 and will increase to $531,325 by the end of the third year.

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C-1 3 YEAR CASH FLOW PROJECTIONS – NOTES OF EXPLANATION (PLEASE REFER TO PAGE 12.)

Income Tax -- Estimated 25 percent of net profit.

Loan Principal Payments Loan #1 – Annual principal to be paid on new $25,000 loan for equipment and working capital.

C-2 FIRST YEAR CASH FLOW PROJECTION BY MONTH – NOTES OF EXPLANATION (PLEASE REFER TO PAGE 13.)

Cash on Hand – Starting cash on hand will be the net proceeds of the $25,000 loan after equipment purchases, computer purchases, and principal payment for business credit cards, fax, telephone lines, and insurance ($9,500).

Sales Commissions – Note that monthly sales commissions are based on the percentage assigned on the "profile" line at the bottom of the 12-month cash flow projection. The assigned percentage per month is multiplied against $134,400 (Annual sales commissions).

Client Payments – Same as "Cost of Sales" on the 3 year projection.

Gross Wages – Total of overhead payroll, FICA, unemployment, and worker's compensation from the first year of the 3-year projection.

Expenses with Irregular Payments – Note that Insurance, Advertising, Legal & Accounting, Taxes & Licenses, and Miscellaneous & Start Up expenses have payments that predominantly fall earlier in the year causing an earlier strain on available cash.

Cash Balance -- Cash balance will be $11,173 at the end of the first year. ($1,672 net from operations plus starting cash of $9,500 from the loan #1.) This correlates with the first year of the 3-year projection also.

Other Disbursements – Self-explanatory.

D. 3-YEAR BALANCE SHEET PROJECTIONS AND SUMMARY OF FINANCIAL PLAN NOTES OF EXPLANATION (PLEASE REFER TO PAGES 15 THROUGH 18.)

BALANCE SHEET

Cash – Starts at $9,500. (from loan proceeds) Cash will increase each year from annual net cash flow.

Work in Process – Represents gross profit likely to be generated based on accounts currently being processed. (This is a realistic approximation and but does not follow usual accounting conventions.) We have chosen to keep this at $20,000 in future years but, in fact, is likely to increase.

Fixed Assets Net of Depreciation – Total fixed assets based on assets previously purchased at $11,613 and $13,573 of assets purchased from the $25,000 loan.

Other Balance Sheet Items – Self-explanatory.

SUMMARY OF FINANCIAL PLAN

Budgeted Overhead – Overhead will be significantly higher percentage-wise during the first year due to extra "startup" costs relative to income.

Budgeted Cash Flow – Cash flows are relatively small for the three years but will be supplemented by $9,500 from the equipment/working capital loan.

Other Categories – Self-explanatory.

Cash Flow 1998

Description	Month: Start-up	1	2	3	4	5	6	7	8	9	10	11	12	Total
Action														
Sales in $		35,000	36,000	35,000	35,000	34,000	33,000	32,000	33,000	34,000	35,000	36,000	37,000	415,000
Cash In														
Collections														
Retail		35,000	36,000	35,000	35,000	34,000	33,000	32,000	33,000	34,000	35,000	36,000	37,000	415,000
Beginning Cash	100,000													100,000
Total Cash In	100,000	35,000	36,000	35,000	35,000	34,000	33,000	32,000	33,000	34,000	35,000	36,000	37,000	515,000
Cash Out														
Purchases														
Net 30	0	11,667	12,000	11,667	11,667	11,333	11,000	10,667	11,000	11,333	11,667	12,000	12,333	138,333
Capital Expenditures														
Beginning Inventory	60,000													60,000
Payroll		5,000	5,000	5,500	5,500	5,500	5,600	5,800	6,000	6,000	6,000	6,200	6,200	68,300
Taxes														
State			2,160	2,100	2,100	2,040	1,980	1,920	1,980	2,040	2,100	2,160	2,220	30,900
Federal			7,920	7,700	7,700	7,480	7,260	7,040	7,260	7,480	7,700	7,920	8,140	91,300
Benefits		250	250	250	250	250	250	250	250	250	250	250	250	3,000
Lease		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Lease Deposit		3,000												3,000
Legal & Accounting													700	700
Utilities		250	250	250	250	250	250	250	250	250	250	250	250	3,000
Phone		100	100	100	100	100	100	100	100	100	100	100	100	1,200
Operating Supplies		10,000												10,000
City Licenses/Permits		1,000												1,000
Insurance		183	183	183	183	183	183	183	183	183	183	183	183	2,196
Advertising		1,000			1,000				1,000					3,000
Delivery Van		20,000	600											20,600
Total Cash Out	60,000	53,950	29,963	29,250	30,250	28,636	28,123	27,710	29,523	29,136	29,750	30,563	31,876	454,529

Cash Flow Assumptions

Sales	Sales are based on average sales of stores currently operating in the same market. Furniture sales tend to operate on a seven year cycle throughout the valley. This being the down side of the cycle in 1995, it is now a good time to enter the market to take advantage of the up swing in the cycle that is forthcoming.
Inventory	$60,000 of inventory will be purchased to start the store. After three months inventory costs will be evaluated and it will be determined at that time how much inventory will be needed as stock and how many things can be purchased on a just-in-time schedule. $60,000 inventory purchases are also scheduled for years 2 and 3. The purchase is scheduled to coincide with the beginning of the furniture buying season and will replenish the previous year's depleted stock.
Accounts Payable	Accounts payable will be in accordance with the payment terms negotiated with suppliers.
Accounts Receivable	All accounts receivables will be paid in full at or before time of delivery. This will be done using cash, check, credit card or through a cooperating bank and/or finance company.
Capital Expenditures	Other equipment may be needed as sales increase and will be purchased as required. All equipment purchased at start-up will be considered capital expenditures.
Depreciation	Equipment will be depreciated on a straight line basis over ten years of useful life.

Section VII. Conclusion

Feasibility Statement

CFM's strategy of a furniture manufacturing and retailing business can be successful in the valley area. By targeting those customers who wish custom furniture at an affordable price, CFM can gain a niche in the area market.

Action Plan

I. M. Owner to seek out additional financing to allow the start-up of CFM. Sources will include friends and family, banks, SBA loan sources and community revolving loan funds.