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PROPOSAL

MINORITY ENTERPRISE SMALL BUSINESS INVESTMENT COMPANY

(MESBIC)

Prepared and Submitted

by

Harold K. Brown

PROPOSAL

MINORITY ENTERPRISE SMALL BUSINESS INVESTMENT COMPANY

(MESBIC)

PURPOSE

TO ESTABLISH A

MINORITY ENTERPRISE
SMALL BUSINESS INVESTMENT COMPANY
(MESBIC)

IN SAN DIEGO.

INTRODUCTION:

In 1958, the Small Business Investment Act was established by the U. S. Congress. The purpose of the Act was to improve and stimulate the national economy by creating a program that would supplement the flow of private equity capital and long-term loan funds to small businessess, which were not available in adequate supply.

In 1969, a section was added to the Act that provided for licensing of a small business investment company to invest funds in businesses whose owners were socially or economically disadvantaged. This section makes available to minority business owners, funds that would not otherwise be available to them -- funds that they are unable to obtain through the traditional and more conventional lending institutions.

In the U. S., according to 1982 Census figures (the most recent data published), minorities own 7 percent (843,000) of the 12 million business firms. Blacks own 2.8 percent, Hispanics 2.1 percent, and 2.1 percent are owned by Asians and other ethnic groups. Annual sales generated by these minority owned companies for the year 1982 totaled 45.3 billion dollars. According to Fortune Magazine, May, 1982, the top American company (Exxon) had sales at year end 1981 of 108 billion (more than two times the sales of all the minority owned businesses in the U.S. for that year). Total sales for U.S. businesses for 1981 were 4.3 trillion, while sales of minority businesses totaled 45.3 billion -- slightly more than 1 percent. Minorities comprise approximately 20 percent of the nation's population.

In San Diego there are 6,000 minority owned businesses according to the "1982 Survey of Minority Owned Business Enterprises" which is published by the U. S. Department of Commerce. Hispanics own 2,129 of those businesses while Blacks own 1,466; and 2,407 are owned by Asians, American Indians and other racial minorities. Total sales for the San Diego's minority owned firms were 347.5 million; 139.5 million for Hispanic firms; 84.5 million for Blacks; and 116 million for firms owned by other minorities.

The U.S. Census shows that in San Diego for 1982, there were 18,216 wholesale and retail firms that generated 16.8 billion in sales. Total minority owned businesses numbered 6,000 but only 906 of those businesses had paid employees. Sales for all minority businesses in San Diego were 347.5 million or slightly more than 2 percent of San Diego's total.

There is a wide gap between Whites and ethnic minorities in the number and size of businesses owned. While there is more than one factor contributing to this wide disparity, dominating the list is the fact that minorities experience tremendous difficulty in accessing capital. The lack of capital for minority businessmen and women is a leading factor in keeping minorities out of the mainstream of our economic system. A greater number, as well as larger minority businesses, should

create more jobs for minorities and increase the income available to flow into the minority communities. An increase in the number and size of minority businesses would stimulate the economic development of minority communities and would result in a higher quality of life for minority citizens.

This business proposal represents an opportunity for San Diego to address a serious historical problem -- the need for capital among our new and existing minority owned businesses. In San Diego our minority communities suffer from lack of employment, and lack of capital. There is a serious underrepresentation of minority owned business firms that generate sales above the modest level.

This business proposal calls for the formation and operation of a small business investment company (SBIC). The SBIC will invest in minority owned businesses. The purpose of the company is to provide needed capital to minority entrepreneurs for the purpose of expanding or starting their businesses. This company, commonly known as a Minority Enterprise Small Business Investment Company (MESBIC), will raise one million dollars in private capital which can be matched up to 4 to 1 by the U.S. Small Business Administration. The MESBIC will make low interest loans and provide equity capital to minority owned businesses that would be considered too risky for the traditional lending institutions and venture capital firms.

There are 150 MESBICs in the United States, covering 25 states (including Hawaii, Alaska, the District of Columbia, and Puerto Rico). These 150 MESBICs are located in 72 cities. All of the top ten largest cities in the U.S. except San Diego have at least one MESBIC. There are 23 MESBICs in the state of California located in 12 cities. San Diego, the 7th largest city in the U.S. and the 2nd largest in California does not have a MESBIC. The formation of a strong MESBIC for San Diego is greatly needed and long overdue. It represents an opportunity for San Diego to underscore its intent of making this America's finest city for all its residents.

The objective of this proposal is to raise one million dollars from the private sector. This one million when matched by up to 4 to 1 by the Small Business Administration will make available to minority businesses approximately five million dollars to help stimulate business ownership among San Diego's minority populations. As someone said recently, "it takes more than brains and burning ambition to fuel an entrepreneur's vision -- it takes capital".

FORMATION AND OPERATION OF THE MESBIC:

A company (in the process of being formed) to be known as Capital Formation and Management Services, Inc., (CFM), will be established under the laws of the State of California to operate The MESBIC. CFM will be owned by private investors who will purchase common shares of the company's stock.

The company will attempt to raise one million dollars of private capital through the sale of common shares. When pledges of commitment to purchase one million

dollars worth of common shares are received, the company will submit an application to the U. S. Small Business Administration (SBA) for a license to operate as a MESBIC.

During the first year of operation, CFM will make only loans. This will allow the company time to get well organized and will provide the time needed to screen and analyze proposals for equity investments.

One-hundred-thousand dollars of the private capital will be raised from the minority communities. This will be done through the sale of common shares.

THE COMPANY:

Captial Formation and Management Services (CFM) will be under the control of an eleven member board of directors comprised of the major investors, one investor from the minority community and members of the financial community.

CFM, under the management of its president, will analyze requests for capital received from minority owned businesses. These request proposals will be screened by the CFM staff, reviewed by its president and those receiving favorable recommendations will be submitted to a loan and investment review committee for approval. The loan and investment review committee will be comprised of members of the board of directors.

CFM will provide capital to minority owned businesses in the form of loans and by taking equity positions in the companies. CFM staff will provide referral assistance and consultation to prospective clients who need assistance in preparation of a business plan, loan packaging and proposal writing. The staff will also provide consultation in the area of management to borrowers who need that service. Consultation fees will be charged. CFM will contract with individuals for specific areas of expertise when that expertise is not available from the staff.

BUSINESS STRATEGY:

As mentioned earlier, the company will only make loans during its first year of operation. All loans will be made to companies located in the San Diego area. Loans will be made to existing and start-up companies. Loan requests will be evaluated on the basis of the company's ability to succeed as a business. This evaluation will be based on (1) the management skills of the company; (2) the market for the company's product or service; (3) the company's ability to market its product or service; (4) the company's willingness to accept advice and assistance in areas of need; and the financial statements of the company and its principals.

During this first year CFM will have on deposit in banks and savings and loan associations the one million dollars of private capital. The million dollars will be in the form of three months, six months, nine months, and one year certificates of deposit (CDs). As each CD comes due, the proceeds will be used to make loans to

companies. When 65 percent of the private capital is invested, CFM then becomes eligible to sell to the Small Business Administration (SBA) one million dollars worth of 3 percent cumulative preferred stock. As CFM continues to operate and as it makes loans and investments in minority owned companies, it becomes eligible to apply for a second and third sale of preferred stock to the SBA in one million dollar increments. In addition, CFM can become eligible for SBA financing through debentures. This process usually takes 3-4 years.

To begin the first year of operation CFM will need a $10,000 line of credit for operating expenses until interest income from the CDs is received. This line of credit will be used to pay office rent, utilities, supplies and equipment costs, telephone and salaries. The income from the CDs and loans will then be used to pay operating expenses and the line of credit will be paid in full and closed.

Sometime during the second year of operation it is planned that CFM will include equity investments in its portfolio. These investments will be evaluated using the same criteria as used for the loans. While CFM will have more flexibility than traditional financial institutions in making loans and investments, it will nonetheless apply prudent analyses of credit worthiness. Investments must have a good chance of returning a profit to the company. CFM's main objective is to help minority businesses grow and become profitable. Intelligent selection of those businesses, providing them with needed capital and assisting them in the management of the companies, are the three keys to achieving that objective.

For the first 3-4 years of operation, CFM will make loans and equity investments in companies located in the San Diego area. After this period, CFM will be free to accept investment proposals from minority owned companies located outside the San Diego area.

CFM will not limit its investments to any particular industries. Proposals will be evaluated on the basis of the company's potential to be successful. This will take into consideration the expertise available to CFM to adequately evaluate and measure that potential. Investments will also not be limited to minimum or maximun dollar amounts. SBA requires that MESBICs be limited to investing no more than 30 percent of its private capital in any one company. All investments will be evaluated on the basis of developing a diversified loan and investment portfolio.

THE STAFF:

The following staff will be needed for the first year's operation of the company:

A. *President & General Manager:*

Will be employed by the company through a contract for the daily operations of all aspects of the company. For the first year the president's position will be part-time and increased according to the

growing workload of the company as determined by the board of directors.

The president's duties include management of all personnel; evaluation of proposals and making presentations to the loan and investment committee; contracting with consultants for special areas of expertise; managing the company's portfolio; liaison with banks and savings and loan institutions where accounts are held; developing and maintaining relationships with the financial community; being responsible for community relations and serving as a member of the board of directors.

B. *Operations Manager:*

Will be employed full-time to be responsible to the president for the daily operations of the company. The operations manager will review loan and investment proposals; do on-sight evaluations of companies that submit proposals; monitor loans and investments; assist in preparation of proposals; be responsible for keeping the financial records, preparing financial statements, and supervising clerical personnel.

C. *Secretary:*

Will perform all clerical duties and assist the operations manager in bookkeeping. This will be a full-time position.

STAFF COMPENSATION:

President/General Manager - will receive an annual salary of $45,000 which will be deferred for as long as it takes for the company to be able to absorb this cost. The president will work the number of hours necessary to develop the MESBIC and manage the company. The president will begin receiving a salary based on one half-time during the second year. Deferred compensation will be received when the company reaches a positive cash flow position and after the line of credit is paid in full and closed. Compensation such as health benefits and insurance for the president will not be received while employed part-time. The president will receive reimbursement for his costs of organizing the MESBIC. Such costs will be approved by the board of directors.

Operations Manager - will receive an annual salary of $38,000 during the first year. Compensation will include a benefits package to be approved by the board of directors. Annual increases will be recommended by the president of the board of directors.

Secretary - the secretary will receive an annual salary of $14,500 for the first year and will receive a benefits package to be approved by the board of directors.

SUMMARY:

This proposal is a recommendation that a Minority Enterprise Small Business Investment Company (MESBIC) be Formed in San Diego. The need for a MESBIC, its formation, business strategy, management and financial projections are addressed in the proposal.

The steps to establishing a MESBIC are:

1) Commit the necesssary capital ($1,000,000).

2) Incorporate as an investment company.

3) File the license application with SBA.

When the necessary capital is committed, a development team consisting of the prospective investors or their designees, will oversee the remaining actions of the MESBIC's formation.

EXISTING COMPANIES:

There are 6,000 minority owned businesses in San Diego.

The following companies are ones that the writer has personal knowledge of and represents a few examples of minority owned businesses that have been and are presently in need of capital to save or expand their businesses.

(1) **National City Hardware**: A family owned and operated hardware and home improvement store located in National City. The store sells do-it-yourself plumbing, hardware, and basic repair items. The business is about 10 years old. The annual sales are approximately $160,000. With additional capital, the owner feels that he can increase sales to about $400,000.00 annually. The company has not been able to acquire money from conventional sources for expansion.

(2) **Anna Brown Trucking Company:** Anna Brown Trucking Company is a long haul operation, hauling from coast to coast. They are currently operating two rigs grossing about $150,000 annually. With additional capital, management feels that sales could be increased to $600,000 to $1,000,000 in the next twelve months. The company has not been able to acquire the necessary funds.

(3) **E. H. Engineering:** This company does computer aided engineering, design and documentation. It was started in 1979 and is approved for government 8A set-aside contracts. Has cash flow problem and needs capital and management assistance. Has secured a 14.5 million dollar contract with the Navy.

(4) **Omni Communications, Inc.:** A marketing and communications company which was started in 1981. The company is owned by a black man who graduated from the University of Missouri in communications & journalism. His company is primarily involved in marketing, business communications and training services. Capital is needed mainly to operate while waiting for revenue from receivables. Funds are also needed for advertising and subsequently additional staff when more business is generated.

(5) **Gellerosa Ranch:** This is a Bar B'Que restaurant and catering service located in the downtown area. The owner, who is a black lady operates the restaurant along with her daughter. The establishment has eight employees.

This establishment was started by the out of pocket capital of the owner. The establishment has been in operation for eight months and is gradually developing a customer base. The owner has no capital for advertising and depends entirely on word-of-mouth for additional customers. Owner also needs capital to purchase a portable pit to take advantage of the super bowl being held in San Diego and for other large catering events.

(6) **John Isaac Company:** This company provides tax and bookkeeping service and was formed in 1982 by a Black who is a San Diego State University graduate in accounting. This business, located in Mission Valley, was started by capital from the owner's savings and his personal credit. Much of the start-up capital was used to purchase sophisticated tax software. Additional capital is needed to purchase sophisticated accounting software, computer equipment and advertising.

(7) **Integrated Computer Resources:** Two graduates of San Diego State University's Business School started this high-tech company 18 months ago. The company has sales of $15,000 per month and has had to refuse contracts because the company does not have the capital to increase the staff. The company was started with a $10,000 loan and has survived on the use of the two principals' credit cards.

(8) **WW Construction, Inc.:** WW Construction, Inc. is a general contractor that has the capabilities to build single and multi-unit residential and small commercial facilities. WW's sales for 1986 were approximately $750,000. The company needs working capital and bonding. With additional working capital and bonding the company's income could reach as high as $2,500,000 in the next two years. WW has not been able to acquire necessary funds to expand.

(9) **Ed Rowe Catering Services:** Ed Rowe Catering Services caters parties of all sizes, for churches, and civic and business organizations. The company is currently doing about $50,000 annually, operating out of the home. With additional funding, the company could locate in a larger facility and increase it's sales significantly.

(10) **La Carlen Women's Apparel**: La Carlen specializes in fashions for women. The shop is a unique little shop located in southeast San Diego. The annual sales are currently about $55,000. With additional working capital, she feels she can increase sales to about $150,000 within a twelve month period. Conventional funds are not available to her.

(11) **A.T.A. Taekwonda Center**: A marshal arts of Korea and physical fitness training program. The facility currently has about 400 students in National City and Spring Valley. The facility grossed about $147,000 in 1986. With additional working capital, the owner would expand to three or four satellite facilities in the South Bay area. The expansion would increase the gross to about $450,000.

(12) **Davis Painting Contractor:** A local painting contractor that does interior and exterior painting for residential and commercial facilities. The company did over $150,000 in gross sales in 1986. The company could expand to over $500,000 with bonding and working capital. Conventional funds are not available.

ESTIMATED OPERATING COSTS

SAN DIEGO MESBIC (IN ORGAZATION)
INCOME / CASH FLOW PROJECTIONS
YEAR ONE

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
REVENUE					
INTEREST ON CD'S (1)	17,500	13,125	8,750	4,375	43,750
INTEREST ON LOANS (2)		7,500	15,000	22,500	45,000
CONSULTING FEES (3)	1,300	4,550	6,500	7,800	20,150
TOTAL REVENUE	18,800	25,175	30,250	34,675	108,900
GROSS PROFIT	18,800	25,175	30,250	34,675	108,900
OPERATING EXPENSES					
SALARIES (5)	13,100	13,100	13,100	13,100	52,400
EMPLOYEE TAXES (6)	1,703	1,703	1,703	1,703	6,812
EMPLOYEES BENEFITS (7)		1,003	1,003	1,003	3,009
OFFICE RENT (9)	1,500	1,500	1,500	1,500	6,000
TELEPHONE (10)	450	450	450	450	1,800
UTILITIES (11)	75	75	75	75	300
TRAVEL (12)	600	600	600	600	2,400
PROFESSIONAL SER.(13)	1,500	1,500	1,500	1,500	6,000
OFFICE SUPPLIES (14)	375	375	375	375	1,500
POSTAGE (15)	375	375	375	375	1,500
DUES AND SUBSCRIPTIONS (1	1,800	100	100	100	2,100
TOTAL EXPENSES	21,478	20,781	20,781	20,781	83,821
NET INCOME	(2,678)	4,394	9,469	13,894	25,079

SAN DIEGO MESBIC (IN ORGANIZATION)
INCOME PROJECTIONS
YEAR TWO

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
REVENUE					
INTEREST ON CD'S (1)	22,750	20,562	18,375	16,188	77,875
INTEREST INCOME	25,000	30,000	37,500	45,000	137,500
CONSULTING INCOME (3)	7,800	7,800	7,800	7,800	31,200
TOTAL REVENUE	55,550	58,362	63,675	68,988	246,575
COST OF FUNDS (4)		1,563	3,125	4,687	9,375
GROSS PROFIT	55,550	56,799	60,550	64,301	237,200
OPPERATING EXPENSES					
SALARIES (5)	19,661	19,661	19,661	19,661	78,644
EMPLOYEES TAXES (6)	2,556	2,556	2,556	2,556	10,224
EMPLOYEES BENEFITS	1,059	1,059	1,059	1,059	4,236
OUTSIDE CONSULTANTS (7)	3,000	3,000	3,000	3,000	12,000
OFFICE RENT (9)	1,800	1,800	1,800	1,800	7,200
TELEPHONE (10)	600	600	600	600	2,400
UTILITIES (11)	100	100	100	100	400
TRAVEL (12)	3,000	3,000	3,000	3,000	12,000
PROFESSIONAL SERVICES (12	1,500	1,500	1,500	1,500	6,000
OFFICE SUPPLIES (14)	750	750	750	750	3,000
POSTAGE (15)	750	750	750	750	3,000
DUES AND SUBSCRIPTIONS (1	2,000	100	100	100	2,300
TOTAL EXPENSES	36,776	34,876	34,876	34,876	141,404
NET INCOME	18,774	21,923	25,674	29,425	95,796

SAN DIEGO MESBIC (IN ORGANIZATION)
INCOME PROJECTIONS
YEAR THREE

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
REVENUE					
INTEREST ON CD'S (1)	14,875	13,388	11,900	10,412	50,575
INTEREST ON LOANS (2)	52,500	60,000	67,500	75,000	255,000
CONSULTING FEES (3)	10,000	12,500	15,000	15,000	52,500
TOTAL REVENUE	77,375	85,888	94,400	100,412	358,075
COST OF FUNDS (4)	6,250	7,812	9,375	10,938	34,375
GROSS PROFIT	71,125	78,076	85,025	89,474	323,700
OPERATING EXPENSES					
SALARIES (5)	20,644	20,644	20,644	20,644	82,576
EMPLOYEES TAXES (6)	2,684	2,684	2,684	2,684	10,736
EMPLOYEES BENEFITS (7)	1,112	1,112	1,112	1,112	4,448
OUTSIDE CONSULTANTS (8)	5,000	5,000	5,000	5,000	20,000
OFFICE RENT (9)	3,000	3,000	3,000	3,000	12,000
TELEPHONE (10)	900	900	900	900	3,600
UTILITIES (11)	150	150	150	150	600
TRAVEL (12)	5,000	5,000	5,000	5,000	20,000
PROFESSIONAL SER. (13)	1,500	1,500	1,500	1,500	6,000
OFFICE SUPPLIES (15)	900	900	900	900	3,600
POSTAGE (15)	750	750	750	750	3,000
DUES AND SUBSCRIPTIONS (1	2,000	150	150	150	2,450
TOTAL EXPENSES	43,640	41,790	41,790	41,790	169,010
NET INCOME	27,485	36,286	43,235	47,684	154,690

SAN DIEGO MESBIC (IN ORGANIZATION)
INCOME PROJECTIONS
YEAR FOUR

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
REVENUE					
INTEREST ON CD'S (1)	8,225	6,793	5,467	6,412	26,897
INTEREST ON LOANS (2)	82,500	90,000	97,500	105,000	375,000
CONSULTING FEES (3)	18,000	18,000	18,000	18,000	72,000
TOTAL REVNUE	108,725	114,793	120,967	129,412	473,897
COST OF FUNDS	12,500	14,063	15,625	18,750	60,938
GROSS PROFIT	96,225	100,730	105,342	110,662	412,959
OPERATING EXPENSES					
SALARIES (5)	21,677	21,677	21,677	21,677	86,708
EMPLOYEES TAXES (6)	2,818	2,818	2,818	2,818	11,272
EMPLOYEES BENEFITS (7)	1,167	1,167	1,167	1,167	4,668
OUTSIDE CONSULTANTS (8)	9,000	9,000	9,000	9,000	36,000
OFFICE RENT (9)	3,000	3,000	3,000	3,000	12,000
TELEPHONE (10)	1,200	1,200	1,200	1,200	4,800
UTILITIES (11)	300	300	300	300	1,200
TRAVEL (12)	6,000	6,000	6,000	6,000	24,000
PROFESSIONAL SER. (13)	2,000	2,000	2,000	2,000	8,000
OFFICE SUPPLIES (14)	900	900	900	900	3,600
POSTAGE (15)	750	750	750	750	3,000
DUES AND SUBSCRIPTIONS (1	2,500	300	300	300	3,400
TOTAL EXPENSES	51,312	49,112	49,112	49,112	198,648
NET INCOME	44,913	51,618	56,230	61,550	214,311

SAN DIEGO MESBIC (IN ORGANIZATION)
INCOME PROJECTIONS
YEAR FIVE

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
REVENUE					
INTEREST ON CD'S (1)	7,474	8,612	9,839	11,072	36,997
INTEREST ON LOANS (2)	120,000	120,000	120,000	120,000	480,000
CONSULTING FEES (3)	18,000	18,000	18,000	18,000	72,000
TOTAL REVENUE	145,474	146,612	147,839	149,072	588,997
COST OF FUNDS	25,000	25,000	25,000	25,000	100,000
GROSS PROFIT	120,474	121,612	122,839	124,072	488,997
OPERATING EXPENSES					
SALARIES (5)	22,760	22,760	22,760	22,760	91,040
EMPLOYEES TAXES (6)	2,959	2,959	2,959	2,959	11,836
EMPLOYEES BENEFITS (7)	1,226	1,226	1,226	1,226	4,904
OUTSIDE CONSULTANTS (8)	9,000	9,000	9,000	9,000	36,000
OFFICE RENT (9)	3,000	3,000	3,000	3,000	12,000
TELEPHONE (10)	1,200	1,200	1,200	1,200	4,800
UTILITIES (11)	300	300	300	300	1,200
TRAVEL (12)	6,000	6,000	6,000	6,000	24,000
PROFESSIONAL SER. (13)	2,000	2,000	2,000	2,000	8,000
OFFICE SUPPLIES (14)	900	900	900	900	3,600
POSTAGES (15)	750	750	750	750	3,000
DUES AND SUBSCRIPTIONS (1	2,500	300	300	300	3,400
TOTAL EXPENSES	52,595	50,395	50,395	50,395	203,780
NET INCOME	67,879	71,217	72,444	73,677	285,217

SAN DIEGO MESBIC (IN ORGANIZATION)
INCOME PROJECTIONS
YEAR ONE THROUGH FIVE

NOTES

(1) INTEREST ON CERTIFICATES OF DEPOSITS:

The interest is based on a simple rate of 7% annually,added on quarterly. The rate is constant for the life of the projections. The total return declines quarterly because we are reducing the $1,000.000.00 base by $250,000.00 per quarter to make loans and investments. After we invest the first $750,000.00 SBA will purchase $1,000,000.00 in 3 % cummulative preferred stock, which we will start investing in year two. We will also earn interest on excess cash from earnings in years three, four and five.

(2) INTEREST ON LOANS AND INVESTMENTS:

The interest on loans and investments is based on a rate of 12% annually added on quarterly. Beginning in the second quarter we will loan $250,000.00 and will loan $250,,000.00 per quarter until we are fully invested. As in item one the interest is not compounded because the return is used fo operations.

(3) CONSULTING FEES:

Consulting fees are estimated at an hourly rate of $32.50 per hour. The hours will increase as our portfolio of loans and investments increase. The hours of consulting time will range from forty hours in the first quarter to five hundred and fifty four per quarter in the fifth year.

(4) COST OF DEBENTURE FUNDS:

The debentures, which will be guaranteed by the Small Business Administration, will cost us 3% less than the cost of money to the government. We are estimating that our cost will be 5% .

(5) SALARIES FOR THE FIRST FIVE YEARS:

(A) YEAR ONE:

President/ General Manager	(1/2 time)	$22,500
Vice President/ operations	(full time)	38,000
Secretary/ Office Manager	(full time)	14,400
Total		74,900

Salaries reflect an increase of 5% each year for the first five years.

(6) EMPLOYEE TAXES:

Employee taxes are computed at a rate of 13% on gross wages without regard for individual limitations on FICA, SDI, or SUI.

SAN DIEGO MESBIC (IN ORGANIZATION)
INCOME PROJECTIONS
YEAR ONE THROUGH YEAR FIVE

NOTES

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(7) EMPLOYEE BENEFITS:
Employee benefits are estimated at a rate of 5% of the gross wages.

(8) OUTSIDE CONSULTANTS:
Outside Consultants cost is based on the estimated number of hours for services we cannot provide directly to the clients.

(9) OFFICE RENT:
Office rent is based on a first year rent of $500.00 per month, increaseing to $1,000.00 as required by growth.

(10) TELEPHONE:
The telephone cost is based on an estimated rate of 150.00 during the period the offices are shared, afterwhich it increase sharpely to accomendate a larger operation.

(11) UTILITIES:
Utilities are based on the current rates of serving a similar sized office.

(12) TRAVEL:
The travel account include all travel, lodging, and auto milage.

(13) PROFESSIONAL SERVICES:
Professional Services include legal and outside auditing services.

(14) OFFICE SUPPLIES:
Office supplies are estimated based on the needs of three people for operating in an administrative enviorment.

(15) POSTAGE:
Postage is estimated based on the need to utilize the over night mail and cerified mail and additional regular mail.

(17) DUES AND SUBSCRIPTIONS:
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