Business Planning

CRR, LLP, Wakefield

I. Overview of a Business Plan

A business plan is a statement of a company's goals and objectives and the course of action it intends to follow to accomplish them.[1] Every entrepreneur has a business plan, but not all put it in writing. The advantage of a written business plan is that it provides the operation details necessary to achieve the desired results. The financial models within the business plan are integrated with operational strategies to determine the financial implications of various scenarios. Then, you will have the management tools necessary to continually evaluate every aspect of your business.

The financial models within a business plan can be used to determine the cost effectiveness of certain actions. In addition, the financial projections will serve as a periodic measurement against actual results. Without a business plan, you may know how well you are doing based on your firm's development and profits. However, you will never know how well you could have done without a detailed outline of expected results. In addition, a business plan will assist you in determining the cause of poor results. For example, a business plan can be used to establish monthly quotas for your associates. Then, the actual results may indicate their true performance. However, other aspects of their work must be considered as well.

It is just as necessary for a small business to have a business plan as it is for a large business. The only difference is that large businesses usually have personnel specifically responsible for the financial results of the company. In small law firms, the partners are responsible for such results and usually don't have the time. However, a business plan for a small law firm will not take a lot of time as it does not need to be very extensive. Also, the time spent on the plan will likely save time in other areas and certainly save money. Therefore, time should be set aside monthly by a partner of your firm to work on the ongoing business plan.

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[1] Carmichael, Douglas R., Ph.D., CPA, CFE & Pallis, Don, CPA, Practitioners Publishing Company, Small Business Consulting Engagements (2016)

A business plan is a great starting point for any business, but its true value will be the ongoing use in managing your business. Changes in operations such as taking on new clients, adding partners, associates or administrative assistants, merging, moving, new areas of law or other changes can be effectively evaluated by adjusting the financial projections in your plan. You can use your business plan to not only determine the change in profits, but also to determine the cash flow ramifications. Also, the operational implications of such changes can be evaluated in a business plan such as the effect on existing clients, associates, partners and other parts of your firm. The ongoing updating of your business plan can assist you in making sound decisions.

In addition to being your guide for success, a carefully prepared and continually updated business plan will also enable you to better present your firm to the outside world. A completed business plan has direction and focus that will enable you to confidently express your firm's philosophy and goals to others. This will help you in selling your firm to current and prospective clients, developing relationships with professionals within your network, hiring of employees, obtaining capital or financing and in representing your clients.

Another aspect of a business plan to be considered is the provisions within that deal with disaster. The mindset of continuous planning using "what if" scenarios leads to proactive management. A business plan should address worst case scenarios and have actions implemented to either prevent or remedy certain situations. Most small businesses tend to react only to immediate concerns. A business with a well-prepared business plan will be prepared for most situations. For example, dealing with cash flow problems when it's too late, the loss of a major client that could have been avoided and ignoring economic changes to your specialty are examples of when many react too late.

Your business plan should be as extensive as you feel necessary to accomplish your objectives. Certain aspects of your plan should be presented to management personnel as necessary. Then, in a monthly or quarterly meeting, you can measure actual performance based on results as compared to projections. People will leave the meeting with a clear understanding of your expectations and you will know their needs and the actions necessary to prepare for a new event or resolve a problem.

II. Management and Organization Chart

Your business plan should begin with details of your firm and its management. This will lead the reader and yourself through the basic framework of the firm. Lawyers have extensive training in writing details of a situation. Use these skills in the qualitative aspects of your plan to clearly outline your goals. In doing this, be certain that the plan includes the items and answers to the questions that follow.

1. Create an organization chart and management responsibilities outline and be certain to answer the following questions:

    A. What will be the responsibilities of all parties included in the chart?

    B. Which individuals will be specifically responsible for (1) office management, (2) financial management and (3) staff management in addition to other firm responsibilities?

    C. If you will be responsible for many or all management responsibilities, list yourself in an effort to separately recognize your varied duties.

2. Prepare a Firm Profile detailing all aspects of your firm that you would like to portray to the public as if you were preparing your marketing brochure.

3. Prepare a Partner Profile detailing the background and firm responsibilities of each partner and other significant persons.

4. Prepare detailed descriptions of the responsibilities for each position and who will be responsible for them. If the position is not yet filled, describe the hiring procedures and attributes desired in the prospective candidates.

5. Prepare a mission statement regarding your firm’s objectives and philosophy.

III. Services, Industry and Client Base

Answer the following questions regarding the services provided, industries serviced and your existing or desired client base:

1. What services do you sell and intend to sell?

2. What areas of law do you practice or intend to practice?

3. What are the risks involved in providing services in such areas of law?

4. What industries do you provide services to or intend to target?

5. What are the current and prospective economic conditions of those industries and other considerations regarding their stability and business practices?

6. Who are your customers and who do you want to become your customers?

7. What facts or issues should be considered for each of your current or prospective clients?

8. What level of work in terms of hours do you anticipate during the next 12 months and what level of experience is required for this work?

9. What is your fee structure and billing rate in each area of practice?

10. What do you expect to bill and collect from your current and prospective clients over the next 12 months and what are their expectations?

11. Where are you located or where do you wish to locate your firm and how does that fall in line with the services, area of practice, industries and billing rates that you have chosen?

12. What is your five-year goal for your client base in terms of sales and number of professionals and what current year objectives are necessary to stay in line with your five-year goal?

IV. Marketing

Answer the following questions regarding the marketing of your firm:

1. What is or will be your marketing strategy?

2. What are the legal and general business concerns of each marketing effort?

3. What are the costs and anticipated results of each marketing effort?

4. Who will be your competition and can your firm compete with such firms?

5. Can your firm become established and compete in such markets or is the industry dominated by a few specialized firms?

6. What barriers do you think you may face in entering these markets?

7. What are your competitive advantages and disadvantages?

8. Where are your markets headed in terms of growth, decline or stability?

9. When and how will you be preparing your firm brochure, website, yellow page ad and other advertisements?

10. Do you plan to set up a log of all partner and firm accomplishments (i.e. cases, articles, publishings, etc.) and use them as a marketing tool?

11. Who are your current contacts and which relationships do you intend on further developing and why?

12. How much of your own time do you intend to allocate to each marketing effort and will this allow enough time to manage your current business and client needs?

V. Operations

You should prepare an outline of the operational workflow and then answer the following questions regarding your operations:

1. What is your anticipated workflow for the first 12 months and which person will be performing such tasks?

2. Do you expect to hire personnel and what level will be necessary (legal, paralegal, administrative or financial)?

3. What will be the hiring process and will you be able to attract the necessary level of personnel?

4. What will you have to pay in terms of salary and benefits and what billing rate can you yield for each person? If the person is administrative, can your billings support their cost?

5. What will be the training procedures and evaluation process?

6. What are your plans to ensure adequate supervision of your employees and careful review of their work?

7. Do you have procedures for scheduling personnel and workflow?

8. When do you intend on preparing your personnel policy manual?

9. What are your current and upcoming needs for research materials, computer equipment, software, office equipment, telephone equipment and supplies and when should you acquire such items?

10. What are your office needs in terms of space and furniture for an efficient operation? Then, what are your needs for the image you wish to display and the type of clientele you wish to attract?

11. Have you considered the availability of resources or cost sharing arrangements with other attorneys and the logistics involved?

12. Have you determined who will be responsible for office management and what procedures will be implemented for the purchasing of supplies, safekeeping of records, answering telephones, etc.?

VI. Accounting and Finance

Answer the following questions regarding accounting and finance:

1. How much capital will be available to finance the firm and what is the source of such capital (savings, loans, credit cards, etc)?

2. How is your credit and what is your current ability to raise funds?

3. What are your personal financial needs on a monthly basis and how long can you go without pay?

4. How much is your monthly overhead and how many months could you fund without collections?

5. What up front direct client expenses are required?

6. Are your billing rates adequate to support your personnel costs and overhead?

7. Are your projected sales enough to cover your projected payroll and overhead costs plus contingencies resulting from bad debts, a downturn in business, legal issues and other potential matters?

8. What will be your billing and collection procedures for each area of law (contingent, flat fee, hourly, retainer, etc.) and what are the worst case cash flow consequences?

9. What is your overall cash flow plan considering the timing of collections and payments?

10. What credit and collection procedures do you intend to implement?

11. Who will be performing the bookkeeping tasks and what bookkeeping system will be used?

12. What time billing system and procedures will you be implementing?

13. Do you have a CPA and what role does he or she play in your business?

14. Do you understand the income tax consequences based on your type of entity and projected profits and do you understand the recordkeeping requirements for income and deductions?

15. Are you familiar with the rules regarding payroll taxes? If you are on the payroll, are you aware of the timing during which payroll must be funded? Have you decided which payroll service company you plan to use? Do you understand the consequences of untimely payroll tax deposits and do your cash flow projections consider such items?

16. Have you decided which bank to use and a plan for establishing a relationship towards the future prospect of obtaining a line of credit and other necessary financing? If you already have an established banking relationship, what is the status?

VII. Staffing Plan

The staffing plan is an Excel model that has been included in the disc provided. This model is a summary recap of the billing quotas that you need to achieve for your desired results. This model can be used to determine your hiring needs, establish partner and associate billable time quotas and to tie in your business operations to the financial projections.

This schedule is most applicable to those businesses that bill hourly. However, contingent and flat fee arrangements can be integrated into the staffing plan if calculated in terms of employee work hours. For example, if you close mortgages and determine that one associate with an assistant can close 20 loans per month and each loan pays $500 for total revenue of $10,000 per month, then, you can prepare the schedule to determine how much you are yielding per hour for each employee. As far as contingent cases are concerned, you need to establish outcome expectations in terms of percentages and then apply these amounts to each employee for an hourly rate.

This staffing plan can be used on a monthly basis to monitor production. However, you will need to account for unbilled time at the end of each period for this to be completely accurate. In any event, this should be tied into the financial projections and the actual results should be converted into this format for comparability.

VIII. Financial Projections

The financial projections are an Excel model that has been included in the disc provided. The excel model is made up of four integrated sheets with several formulas that tie all sheets together. You begin by entering your projected monthly income and deductions and then proceed to the balance sheet. The cash flow statement – indirect method will automatically adjust cash for changes in balance sheet items and net income. Do not override any formulas.

A direct cash flow model has also been included to illustrate the cash basis income and expenses of the company. This is useful as the company will likely be on the cash basis method of accounting for tax purposes. The balance sheet and income statement are on the accrual basis of accounting as that reflects your true net income. Financial statements prepared for your firm to be presented to outside parties are usually prepared on the accrual basis of accounting under Generally Accepted Accounting Principles. The cash method of accounting for tax purposes is usually an option for law firms and is preferable in most cases. A growing firm will usually yield more favorable results on the accrual basis than on the cash basis due to the timing of recognizing income and expenses. The cash basis will yield a lower tax if your receivables are in excess of your payables as those items under the cash basis are not claimed until received and paid.

In your projections, you should use the income and expenses from your staffing plan and allocate monthly based on projected levels of volume. Then, you should indicate on the balance sheet the number of days that you expect to collect your receivables and pay your payables. Accrual items need to be adjusted based on expected monthly levels. The resulting cash balance each month will determine your cash flow needs based on the scenarios used. These projections can be prepared using several scenarios in an effort to evaluate your profitability and cash flow needs under different circumstances. For example, you should run different scenarios for different time periods for the collection of receivables. You will note that longer collection periods may have a substantial effect on your cash flow.

Most attorneys without a financial background will find these schedules difficult to prepare. A common comment is that “if I wanted to do comprehensive accounting, I would have become an accountant.” My response is that by starting your own firm, you have altered your occupation from that of a full time attorney to a part time business manager. As a business manager, you will be responsible for the accounting aspects of your firm whether performed by you, your CPA or an employee. However, if your firm is not yet ready to acquire the resources necessary to prepare such detailed accounting schedules, at least take the time to prepare an accrual and cash basis income statement. These schedules will provide you with the necessary information to determine your profitability and cash flow needs. In addition, by preparing these schedules, you have created your operating budget. This will assist in your managing the costs of your business. If you are uncomfortable using Excel, hand written models work just as well, but take a substantial amount of additional time and don’t allow for easy revisions for different scenarios.

Another important consideration in taking the time to learn about a balance sheet, income statement and statement of cash flows is that these financial statements are universal in business. CPA, banks, insurance companies, the IRS, business valuation specialists and even the courts use this format to understand the financial results and projections of a business. This learning experience will also be of benefit to you if your area of law involves business financials (i.e. bankruptcy, corporate counsel, etc.).

For those with a background in accounting, these schedules should be used to evaluate every major financial decision of the firm. Of course, the decision will not always be based on the financial projections, however, the financial projections will determine if the decision is feasible. As a final note, periodic comparison to actual results is essential for these projections to be effective.

<u>Dewey Cheetum & Howe, P.C.</u>

<u>Business Plan</u>

<u>As of March 21, 2017</u>

MANAGEMENT AND ORGANIZATION CHART

Management Responsibilities:

The firm is comprised of three (3) partners, one (1) associate and one (1) administrative staff member. The firm intends to hire an additional associate and administrative staff member mid-year.

Mr. Dewey will be responsible for office management including office space, telephones, office equipment and relations with vendors. In addition, Mr. Dewey will be responsible for the firm's technology including the purchase of computer software for office administration, case management and legal research.

Mr. Cheetum will be responsible for the financial management of the firm including lease obligations, credit facilities and contractual arrangements with vendors. In addition, Mr. Cheetum will be responsible to monitor cash flow, payables and payroll. At least annually, Mr. Cheetum will prepare a budget, with the input of all of the partners, which will be implemented for the following year.

Mr. Howe will be responsible for personnel management, including the management of all professional and administrative staff. Mr. Howe will monitor time and billing and ensure that the staff is fully utilized. He is also responsible for billing and the collection of receivables, including the purchase of billing software.

With respect to the provision of legal services, Mr. Cheetum will be the head of the transaction department, which encompasses business law, real estate, and estate planning. Mr. Howe will be in charge of the litigation department, which includes business litigation.

Firm Profile:

Representing local, national and international businesses, Dewey, Cheetum & Howe (DC&H) seeks to be recognized as the North Shore's premier business law firm. Based at the Cummings Center in Beverly, Massachusetts, the firm's areas of expertise include: Business Law, Commercial and Business Litigation, Commercial Lending, Land Use and Real Estate Law and Key Executive Services.

The firm intends to blend a distinctive combination of extensive business experience, legal acumen and close personal attention to client needs in order to establish DC&H among the area's pre-eminent business law firms.

The firm will value building long term relationships with its business clients and will distinguish itself by responding to its client's needs by displaying extreme responsiveness by promptly returning phone calls, addressing e-mails and attending meetings.

Partner Profiles:

Dewey

Mr. Dewey is a founding partner of the firm. He practices in the areas of Business Litigation, Commercial Litigation and Real Estate Litigation. Mr. Dewey was admitted to the Missouri Bar in 1976, the Massachusetts Bar in 1978 and the U.S. District Court District of Massachusetts and U.S. District Court Western District of Missouri in 1976. He is an Executive Board Member of the Salem Bar Association, a member of the Massachusetts Bar Association and is a Conciliator for the Essex County Superior Court. Mr. Dewey is fluent in Greek and also teaches English as a second language at the St. Patrick's Asian Center in Lynn. He graduated Magna Cum Laude and received a B.A. from the University of Massachusetts in 1973. He graduated from Northeastern University School of Law in 1976 with Phi Beta Kappa and Phi Eta Sigma honors.

Cheetum

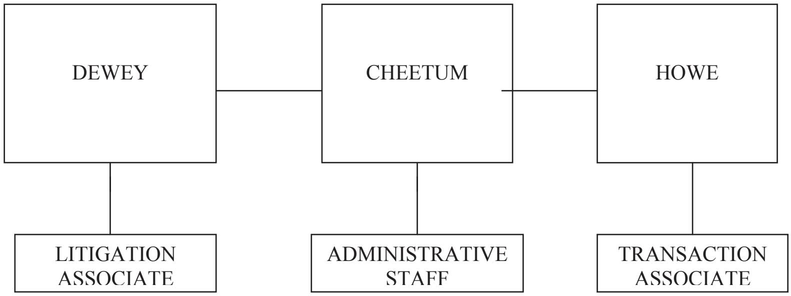
Mr. Cheetum is a founding partner of the firm, practicing in the areas of Real Estate Law, Corporate Law and Business/Tax Law. He is a Certified Public Accountant who was admitted to the Massachusetts Bar in 1992, the U.S. Court of Appeals 1st Circuit in 1993, the U.S. District Court District of Massachusetts in 1993, the District of Columbia Bar in 1999 and the U.S. Tax Court in 2001. He is a member of the Essex County and Massachusetts Bar Associations and of the National Association of Attorney-CPAs. Mr. Cheetum is the immediate past president of the Beverly Chamber of Commerce and the president of Kiwanis Club of Beverly, MA. Mr. Cheetum sits on the corporate advisory boards of the Beverly National Bank, the North Shore Music Theatre, Beverly Historical Society, and the Wenham Museum. Mr. Cheetum teaches seminars on estate planning, planning for business succession and starting your own business. He received his B.S. from Bentley College in 1985 and his J.D. from Suffolk University Law School in 1992.

Howe

Mr. Howe is a founding partner of the firm, practicing Corporate Law, Business Law, and Real Estate Law. He was admitted to the New York Bar in 1975, the New Jersey Bar in 1975 and the Massachusetts Bar in 1979. He is a member of the Massachusetts Bar Association, the Essex County Bar Association, the Board of Directors of the Smaller Business Association of New England (SBANE), the Beverly Chamber of Commerce, the North Shore Chamber of

Commerce, and the Business Network International. He is a frequent attendee at seminars held by the Technology Capital Network hosted by MIT and has been a host of "Call My Lawyer," a weekly radio program. Mr. Howe also provides assistance to the sports programs of the Town of Marblehead, Massachusetts, where he manages and coaches youth baseball. He received his B.A. from the University of Massachusetts in 1972 with Phi Kappa Phi honors and received his J.D. from Case Western Reserve University Law School in 1975. He also supports many charitable programs involving underprivileged children including Save My Children and the Make a Wish Foundation.

DC&H ORGANIZATIONAL CHART



The Mission Statement:

DC&H will provide high quality legal services to businesses and individuals in the areas of business law, business litigation, estate planning and real estate by combining legal expertise with attention to prompt client service.

Services, Industry and Client Base

The law firm of Dewey, Cheetum and Howe intends to provide services primarily to businesses and individuals in the areas of business law, estate planning, real estate, and business litigation. We intend to provide a small to medium size business with the services similar to a general counsel, with litigation services where required. The firm's ideal client is a business providing goods and/or services to other businesses with sales of $10 million to $30 million.

The risks involved in providing transactional and general corporate law services to clients are primarily in the collection of fees. Small firms are not always sufficiently capitalized and the inability of a small business to pay legal fees is a primary concern. Therefore, the partners will assume full responsibility for collections on their respective clients using the determined collection policy of the firm.

There are two primary service markets that we intend to exploit. We intend to target small business owners with sales in the $10 to $30 million range. Our customers are businesses that sell to other businesses. We will also service high net worth individual clients in areas of estate planning and real estate.

We would like to establish niche areas servicing certain industries. We have several clients in construction and manufacturing and hope to market ourselves as experts in those industries. However, the construction industry is cyclical, volatile and notorious for slow payment of professional fees. Although Mr. Howe has a lot of experience servicing manufacturing firms, we have to consider the fact that manufacturing has been dwindling in this area due to lower costs of labor in the south and overseas. Therefore, we must carefully manage our collections with those clients and closely monitor their financial health and overall financial industry trends. While we do anticipate that such expertise in these industries will give us a competitive edge, we do not want to have too high of a percentage of our client base in any one industry due to the risk factors.

Our fee structure is essentially $250.00 per hour for partners, $175.00 per hour for associates, and $75.00 per hour for paralegals (if billable). Incorporations and estate plans are flat fees of $1,000.00 for business incorporations and $2,500.00 for an estate plan including wills, durable power of attorney, health care proxy and a revocable trust. In certain circumstances we will arrange flat fees with clients where the cost of our services is determinable and a flat fee arrangement is preferred by the client. We anticipate that we will write-down certain hourly and flat fee engagements. We will record our time to our Work-In-Process (WIP) accounts at our hourly rates, whether or not the engagement is billed hourly or on a fixed fee. We will record the differences between the amounts recorded to the WIP accounts and the amounts collected to Write-Down and Bad Debt Accounts. This accounting process will function as a performance measurement tool.

The slow economy has motivated many top tier clients to leave the high priced Boston law firms and seek lower cost but high quality firms outside the city. We anticipate that the current economic conditions will provide an opportunity for growth to a premier business law firm providing quality services at lower rates outside the city.

Fortunately, our services and client industries usually suffer financial distress in different stages during an economic downturn. For example, manufacturing was the first to slow down, but is now starting to improve; construction was solid during the beginning of the recession due to a backlog of work but slowed down about a year ago and will not pick up for at least another year; real estate boomed during most of the recession, but is now starting to slow down; estate planning was booming due to people's desire to organize their financial affairs after 9/11; and litigation became strong once companies began facing financial difficulties. Therefore, we have a sufficiently diverse practice in terms of services provided and client base to ensure a steady cash flow.

We will consider the financial position of each potential client, their history with prior professional service providers and payment history with vendors. We will also require retainers to determine their willingness to pay for our services.

The hours could vary significantly from week to week. With our current workload we anticipate an average of 25-30 billable hours of work per week for each shareholder for the first year. We anticipate that we will spend most of our remaining time organizing and developing the practice. As we take on new clients and cases we anticipate hiring an additional administrative assistant and an additional associate.

We anticipate that our average engagement will take approximately 30 days to complete, and we will request that our bills are paid within 30 days. We anticipate that on average we will collect our fees approximately 60 days after services are performed, although we will strive to collect our receivables much faster. We plan to progress bill engagements that continue over several months. In addition, we will require retainers of 50% on most engagements.

We are located in Beverly, Massachusetts in a large office complex that houses 300 small businesses of the type that we are seeking to service. Our billing rates are lower than those found in Boston but are on the higher end of the scale for the North Shore of Boston.

Our current workflow is approximately 500 billable hours per month, but is expected to increase to about 650 billable hours per month later in the year due to several pending projects and large client prospects. We plan to hire an additional associate and administrative assistant to accommodate our growth mid year. We anticipate that our billable hours for the first twelve (12) months based on our staffing plan should yield approximately $1.2 million in revenue.

Our five-year goal is to have a firm of eight to ten legal professionals and two to three paralegals/administrative assistants. We plan to have annual revenues over $3,000,000.

Marketing

Dewey, Cheetum & Howe intends to market itself by targeting referral sources such as accountants, other attorneys who don't perform business services, and financial planners. By focusing on marketing to the referral sources we will maximize our efforts to obtain referral businesses. The anticipated costs are minimal, but include the costs of entertainment and dues for organizations that would put us in contact with these professionals.

Our competition is generally made up of sole practitioners or small general practices that do not focus on marketing. Our firm can compete because of our expertise in the area of business law, which is unusual in this marketplace. All of the attorneys at the firm have either a CPA or an LLM degree, which provides an additional comfort to our clients. Also, in the market on the North Shore, there are only a few firms that specialize in representing businesses. Our competitive advantages include the education outlined above together with the fact that all of the attorneys have owned their own business in the past.

We will be preparing a firm brochure and website to assist us in a branding campaign whereby our efforts are directed at name recognition and association with high quality legal services.

Each partner will prepare a list of referral sources which will be reviewed quarterly to focus on the referral sources set up for providing the most high quality clients to the firm.

Each partner intends to spend at least ten (10) hours per week on marketing, with more effort applied once the firm hires additional legal resources.

Operations

There will be one partner who is in charge of each engagement. On large engagements each partner will also supervise an associate and coordinate with Mr. Howe to obtain administrative support. The associates and the administrative staff will be shared by the three (3) partners and assigned to the tasks appropriate to their level of experience. We expect to hire an additional associate and an additional administrative staff member through personal networking combined with a classified ad in Lawyers Weekly. From those two sources, we will gather a number of resumes, which are read by all three partners. The partners will independently select the resumes that are appropriate for interview. If two (2) of the partners select a resume, the person will be interviewed.

We will be able to attract the necessary level of personnel because our compensation is competitive with that paid at similarly sized firms in Boston, with the benefit of practicing in a suburban location. We believe that we will have to pay a salary in the range of $60,000.00 for an associate with 2-5 years of experience, while an Administrative Staff member costs approximately $45,000.00, including benefits. The billings can support the costs provided that all of the staff bills at least 1500 hours per year. Our training procedure consists of MCLE and other outsourced training programs in addition to hands-on training with supervisory lawyers. Each attorney is evaluated at the end of an engagement as well as at the end of each six-month period. Each partner will be required to review the work product of an attorney prior to sending it to the client. The more substantial the matter, the higher the level of supervision required.

Our procedures for scheduling personnel and workflow consist of the partner of each department being informed of each new matter. The assigned attorney will then prepare a weekly status report indicating the progress of each client matter. The department head will review that status report to ensure the workflow is proceeding at the required pace.

We intend to prepare a personnel policy manual within the first six months of the firm's existence. We are in the process of drafting the personnel manual but wish to see how the operations are actually implemented prior to issuing the initial manual.

Our research needs consist primarily of a Westlaw Internet subscription as well as legal practice management software. This will be supported by the most current computer and telephone equipment. Our office needs are approximately 2500 square feet of space, which represent an office for each of the partners and associates and a work area for the two administrative staff members. The firm will need a conference room to hold depositions and transactional closings. Finally, there will be a small library to house the research materials. Since our clients are generally successful business persons, we will have to take care to purchase office furniture that projects an image similar to large Boston law firms.

We have considered the cost sharing arrangements of other attorneys and have determined that it will not be advantageous to us at this time. We have a partner that is responsible for office management who will be in charge of supervising administrative staff, the purchasing of supplies, safekeeping of records, etc. The telephone will be answered with a prepared script.

Accounting and Finance

We plan to finance the firm with $30,000 of savings representing $10,000 from each shareholder. Additionally, we are in the process of securing a $100,000 line of credit to fund the growth in our receivables and we will finance 100% of our equipment and furniture acquisitions, which will cost approximately $60,000. We anticipate that we will use credit cards and credit lines to reduce our use of cash during the start-up months.

All three shareholders have excellent credit. We are attempting to obtain a direct business loan for the corporation; however, if this is not possible or if the terms are prohibitive, the shareholders will borrow against their homes' equity.

Each shareholder needs approximately $6,000 per month for living expenses. Therefore, it is our goal to set the partner salaries at $120,000 per year to cover these living expenses net of income tax withholdings. Each shareholder does have sufficient savings above the $10,000 capital investment to meet three to six months of living expenses. However, our projections have been prepared to assume that paychecks will be taken each month.

Monthly overhead will initially be $18,250 and $48,900 for payroll. At this rate we would run out of funds within three months; however, we can continue operations for another two months by deferring shareholder salaries. Additionally, each shareholder has committed to fund another $30,000, which could fund operations for an additional two months, if necessary. We will not hire an additional associate or assistant until our average monthly revenue exceeds $90,000.

We do not anticipate significant direct client expenses in the first three months. We will need to revisit our cash flow before taking on engagements that involve significant direct client expenses.

Our billing rates are more than adequate to support our personnel and overhead costs. We will continually compare the amounts charged to each WIP account with the amounts collected to measure the performance of the shareholders and employees and evaluate our flat fee arrangements. We have included a 20% discount in our fees to account for write-downs and bad debt. We believe that 20% is a worst case scenario.

We have also projected that we can fund up to five months of operations without collections by deferring shareholder salaries. As the firm grows, we intend to build cash reserves sufficient to fund nine months of operations without the need to defer salaries or make capital calls.

We will evaluate the financial positions of each potential client before taking on an engagement. We will request retainers of 50% of the anticipated fees from most clients and we will require a 100% retainer from those clients with questionable credit history. Also, we will progress bill every client on a monthly basis for those engagements that last longer than two months. We will hire a collection agency to assist with past due accounts of $5,000.00 or less, and we will legally pursue past due accounts greater than $5,000.00 on our own.

Mr. Cheetum will initially be in charge of bookkeeping for the firm. He will eventually transfer this responsibility to the administrative assistants. He will be using QuickBooks because he is familiar with the program and our CPA firm has recommended it.

We will use Timeslips for our time billing software because all of the partners are familiar with the program. We will investigate other programs whenever deemed necessary.

Hours worked will be recorded on spreadsheets by all shareholders and associates. The bookkeeper will record these hours at their respective billing rates to the WIP accounts.

The firm intends to hire Costantino Richards Rizzo, LLP to prepare financial statements and projections to present to banks when seeking financing, to prepare tax returns and to assist with other tax compliance matters.

We have decided to operate the firm as an S corporation. We understand that an S corporation will not pay tax on its profits; however, as shareholders we will be taxed on our share of the profits. We may also benefit from any initial year losses passed through from the corporation to the extent that we have funded these losses through capital contributions or direct shareholder loans. We understand that we will share profits proportionally to our stock ownership. In the fortunate event that we have profits, we will take tax distributions equal to 35% of our 2015 cash basis taxable profit on April 15, 2015 to cover our tax liability on that income. However, we will make diligent efforts to perform year-end tax planning to minimize the tax burden.

Cheetum will be in charge of payroll tax filing and remittance. We will interview three payroll service companies and hire one to begin immediately. This decision was based on the cost effectiveness of outsourcing the payroll process and to avoid the risk of incurring substantial penalties for late payment of payroll taxes. Our accountant highly recommended that we do this.

We initially intend to establish our business relationships with the local bank that the shareholders have used personally and with our former employer. Since obtaining reasonable financing is essential to the success of our business, we will explore relationships with other banks, if the prospects of obtaining reasonable financing do not appear likely with our local bank.

Dewey, Cheetum & Howe, P.C.

Cash Flow Projections - Direct Method

January 1, 2017 through December 31, 2017

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Beginning Cash Balance	**0**	**10,600**	**2,900**	**325**	**8,092**	**1,108**	**13,708**	**6,508**	**7,492**	**8,725**	**10,208**	**11,942**
Cash Receipts:												
Sales Collections	0	0	80,000	80,000	90,000	90,000	90,000	90,000	110,000	110,000	110,000	110,000
Client Retainers	0	0	0	500	500	0	0	0	0	0	0	0
Partner Investment	30,000	0	0	0	0	0	0	0	0	0	0	0
Line of credit / Financing	120,000	60,000	(15,000)	(5,000)	(30,000)	(10,000)	0	(10,000)	(30,000)	(30,000)	(30,000)	(20,000)
Total Cash Available	**150,000**	**70,600**	**67,900**	**75,825**	**68,592**	**81,108**	**103,708**	**86,508**	**87,492**	**88,725**	**90,208**	**101,942**
Cash Disbursements:												
Salaries - Owner's	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Salaries - Associates	5,000	5,000	5,000	5,000	5,000	5,000	10,000	10,000	10,000	10,000	10,000	10,000
Salaries - Administrative	3,750	3,750	3,750	3,750	3,750	3,750	7,500	7,500	7,500	7,500	7,500	7,500
Payroll taxes & other costs	4,650	4,650	4,650	4,650	4,650	4,650	5,700	5,700	5,700	5,700	5,700	5,700
Partner Pension Costs	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Health Insurance	0	2,500	2,500	2,500	2,500	2,500	2,500	3,500	3,500	3,500	3,500	3,500
Accounting & consultants		600	600	600	600	600	600	600	600	600	600	600
Advertising & marketing		800	800	800	800	800	800	800	800	800	800	800
Automobile & Travel		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Cleaning & Maintenance		500	500	500	500	500	500	500	500	500	500	500
Direct Client Expenses		1,600	1,600	1,800	1,800	1,800	1,800	2,200	2,200	2,200	2,200	2,400
Dues & Subscriptions		250	250	250	250	250	250	250	250	250	250	250
Equipment Rental		700	700	700	700	700	700	700	700	700	700	700
Insurance - liability		1,500	1,500	1,500	1,500	1,500	1,500	1,800	1,800	1,800	1,800	1,800
Interest Expense - LOC	1,000	1,500	1,375	1,333	1,083	1,000	1,000	917	667	417	167	0
Meals & Entertainment		1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Office Supplies		300	300	300	300	300	300	300	300	300	300	300
Postage & Delivery		300	300	300	300	300	300	300	300	300	300	300
Rent	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Software & Library Costs		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Stationery & Printing		150	150	150	150	150	150	150	150	150	150	150
Telephone Costs		500	500	500	500	500	500	700	700	700	700	700
Utilities		400	400	400	400	400	400	400	400	400	400	400
Fixed asset acquisitions	80,000	0	0	0	0	0	20,000	0	0	0	0	0
Rent & Other Deposits	6,000	0	0	0	0	0	0	0	0	0	0	0
Total Cash Disbursements	**139,400**	**67,700**	**67,575**	**67,733**	**67,483**	**67,400**	**97,200**	**79,017**	**78,767**	**78,517**	**78,267**	**78,300**
Ending Cash Balance	**10,600**	**2,900**	**325**	**8,092**	**1,108**	**13,708**	**6,508**	**7,492**	**8,725**	**10,208**	**11,942**	**23,642**

Dewey, Cheetum & Howe, P.C.

Income Statement Projections

January 1, 2017 through December 31, 2017

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Total	Percent
Net Fees	**80,000**	**80,000**	**90,000**	**90,000**	**90,000**	**90,000**	**110,000**	**110,000**	**110,000**	**110,000**	**120,000**	**120,000**	**1,200,000**	**100.00%**
Payroll and Related Costs:														
Salaries - Partners	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000	30.00%
Salaries - Associates	5,000	5,000	5,000	5,000	5,000	5,000	10,000	10,000	10,000	10,000	10,000	10,000	90,000	7.50%
Salaries - Administrative	3,750	3,750	3,750	3,750	3,750	3,750	7,500	7,500	7,500	7,500	7,500	7,500	67,500	5.63%
Payroll taxes & other costs	4,650	4,650	4,650	4,650	4,650	4,650	5,700	5,700	5,700	5,700	5,700	5,700	62,100	5.18%
Partner Pension Cont	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000	3.00%
Health Insurance	2,500	2,500	2,500	2,500	2,500	2,500	3,500	3,500	3,500	3,500	3,500	3,500	36,000	3.00%
Total Payroll Costs	**48,900**	**48,900**	**48,900**	**48,900**	**48,900**	**48,900**	**59,700**	**59,700**	**59,700**	**59,700**	**59,700**	**59,700**	**651,600**	**54.30%**
Selling, General and Administrative Expenses:														
Accounting & consultants	600	600	600	600	600	600	600	600	600	600	600	600	7,200	0.60%
Advertising & marketing	800	800	800	800	800	800	800	800	800	800	800	800	9,600	0.80%
Automobile & Travel	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	1.50%
Cleaning & Maintenance	500	500	500	500	500	500	500	500	500	500	500	500	6,000	0.50%
Depreciation	1,333	1,333	1,333	1,333	1,333	1,333	1,667	1,667	1,667	1,667	1,667	1,667	18,000	1.50%
Direct Client Expenses	1,600	1,600	1,800	1,800	1,800	1,800	2,200	2,200	2,200	2,200	2,400	2,400	24,000	2.00%
Dues & Subscriptions	250	250	250	250	250	250	250	250	250	250	250	250	3,000	0.25%
Equipment Rental	700	700	700	700	700	700	700	700	700	700	700	700	8,400	0.70%
Insurance - liability	1,500	1,500	1,500	1,500	1,500	1,500	1,800	1,800	1,800	1,800	1,800	1,800	19,800	1.65%
Interest Expense - LOC	1,000	1,500	1,375	1,333	1,083	1,000	1,000	917	667	417	167	0	10,458	0.87%
Meals & Entertainment	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400	1.20%
Office Supplies	300	300	300	300	300	300	300	300	300	300	300	300	3,600	0.30%
Postage & Delivery	300	300	300	300	300	300	300	300	300	300	300	300	3,600	0.30%
Rent	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	72,000	6.00%
Software & Library Costs	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	1.00%
Stationery & Printing	150	150	150	150	150	150	150	150	150	150	150	150	1,800	0.15%
Telephone Costs	500	500	500	500	500	500	700	700	700	700	700	700	7,200	0.60%
Utilities	400	400	400	400	400	400	400	400	400	400	400	400	4,800	0.40%
Total SG&A Expenses	**19,633**	**20,133**	**20,208**	**20,166**	**19,916**	**19,833**	**21,067**	**20,984**	**20,734**	**20,484**	**20,434**	**20,267**	**243,858**	**20.32%**
Net Income / (Loss)	**11,467**	**10,967**	**20,892**	**20,934**	**21,184**	**21,267**	**29,233**	**29,316**	**29,566**	**29,816**	**39,866**	**40,033**	**304,542**	**25.38%**

Dewey, Cheetum & Howe, P.C.

Balance Sheet Projections

December 31, 2016 through December 31, 2017

	Beginning Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Current Assets:													
Cash	30,000	10,600	2,900	325	8,092	1,108	13,708	6,508	7,492	8,725	10,208	11,942	23,642
Accounts receivable	0	80,000	160,000	170,000	180,000	180,000	180,000	200,000	220,000	220,000	220,000	230,000	240,000
Prepaid expenses & other	0	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Total Current Assets	30,000	96,600	168,900	176,325	194,092	187,108	199,708	212,508	233,492	234,725	236,208	247,942	269,642
Fixed Assets:													
Office equipment	0	20,000	20,000	20,000	20,000	20,000	20,000	30,000	30,000	30,000	30,000	30,000	30,000
Furniture & fixtures	0	40,000	40,000	40,000	40,000	40,000	40,000	50,000	50,000	50,000	50,000	50,000	50,000
Leasehold improvements	0	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Total Fixed Assets	0	80,000	80,000	80,000	80,000	80,000	80,000	100,000	100,000	100,000	100,000	100,000	100,000
Less accumulated depn	0	(1,333)	(2,666)	(3,999)	(5,332)	(6,665)	(7,998)	(9,665)	(11,332)	(12,999)	(14,666)	(16,333)	(18,000)
Net Fixed Assets	0	78,667	77,334	76,001	74,668	73,335	72,002	90,335	88,668	87,001	85,334	83,667	82,000
Total Assets	**30,000**	**175,267**	**246,234**	**252,326**	**268,760**	**260,443**	**271,710**	**302,843**	**322,160**	**321,726**	**321,542**	**331,609**	**351,642**
Current Liabilities:													
Accounts payable	0	13,800	13,800	14,000	14,000	14,000	14,000	15,900	15,900	15,900	15,900	16,100	16,100
Financing / Line of Credit	0	120,000	180,000	165,000	160,000	130,000	120,000	120,000	110,000	80,000	50,000	20,000	0
Client retainers	0	0	0	0	500	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total Liabilities	0	133,800	193,800	179,000	174,500	145,000	135,000	136,900	126,900	96,900	66,900	37,100	17,100
Partners' Capital:													
Beginning capital	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Current earnings	0	11,467	22,434	43,326	64,260	85,443	106,710	135,943	165,260	194,826	224,642	264,509	304,542
Total Partners' Capital	30,000	41,467	52,434	73,326	94,260	115,443	136,710	165,943	195,260	224,826	254,642	294,509	334,542
Total Liabilities & Equity	**30,000**	**175,267**	**246,234**	**252,326**	**268,760**	**260,443**	**271,710**	**302,843**	**322,160**	**321,726**	**321,542**	**331,609**	**351,642**

Dewey, Cheetum & Howe, P.C.

Cash Flow Projections - Indirect Method

January 1, 2017 through December 31, 2017

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Cash flows from operating activities:												
Net income / (loss)	**11,467**	**10,967**	**20,892**	**20,934**	**21,184**	**21,267**	**29,233**	**29,316**	**29,566**	**29,816**	**39,866**	**40,033**
Adjustments to reconcile:												
Non-cash income & expense												
Depreciation	1,333	1,333	1,333	1,333	1,333	1,333	1,667	1,667	1,667	1,667	1,667	1,667
Change in:												
Accounts receivable	(80,000)	(80,000)	(10,000)	(10,000)	0	0	(20,000)	(20,000)	0	0	(10,000)	(10,000)
Prepaid expenses and other	(6,000)	0	0	0	0	0	0	0	0	0	0	0
Accounts payable	13,800	0	200	0	0	0	1,900	0	0	0	200	0
Client retainers	0	0	0	500	500	0	0	0	0	0	0	0
Total adjustments	(70,867)	(78,667)	(8,467)	(8,167)	1,833	1,333	(16,433)	(18,333)	1,667	1,667	(8,133)	(8,333)
Net cash prov by operating activities	(59,400)	(67,700)	12,425	12,767	23,017	22,600	12,800	10,983	31,233	31,483	31,733	31,700
Cash flows from investing activities:												
Payments for acquisition of equipment	(80,000)	0	0	0	0	0	(20,000)	0	0	0	0	0
Net cash used in investing activities	(80,000)	0	0	0	0	0	(20,000)	0	0	0	0	0
Cash flows from financing activities:												
Proceeds/Repayments from financing	120,000	60,000	(15,000)	(5,000)	(30,000)	(10,000)	0	(10,000)	(30,000)	(30,000)	(30,000)	(20,000)
Net cash provided by financing	120,000	60,000	(15,000)	(5,000)	(30,000)	(10,000)	0	(10,000)	(30,000)	(30,000)	(30,000)	(20,000)
Net increase / (decrease) in cash	(19,400)	(7,700)	(2,575)	7,767	(6,983)	12,600	(7,200)	983	1,233	1,483	1,733	11,700
Cash, beginning of period	30,000	10,600	2,900	325	8,092	1,108	13,708	6,508	7,492	8,725	10,208	11,942
Cash, end of period	**10,600**	**2,900**	**325**	**8,092**	**1,108**	**13,708**	**6,508**	**7,492**	**8,725**	**10,208**	**11,942**	**23,642**

Dewey, Cheetum & Howe, P.C.
Summary Financial Projections & Staffing Plan
Year Ended December 31, 2017

Personnel	Total Hours	Non Billable	Billable	%	Billing Rate	Billings	Salary	Benefits & Taxes	Total
Partner	2,600	1,200	1,400	54%	250	350,000	120,000	32,400	152,400
Partner	2,600	1,200	1,400	54%	250	350,000	120,000	32,400	152,400
Partner	2,600	1,200	1,400	54%	250	350,000	120,000	32,400	152,400
Associate	2,500	1,000	1,500	60%	175	262,500	60,000	13,200	73,200
Associate	1,250	500	750	60%	175	131,250	30,000	9,600	39,600
Admin/Para	1,580	1,080	500	32%	75	37,500	45,000	11,400	56,400
Admin/Bkpr	1,040	790	250	24%	75	18,750	22,500	5,700	28,200
TOTALS	**14,170**	**6,970**	**7,200**	**N/A**	**208.33**	**1,500,000**	**517,500**	**137,100**	**654,600**

Net Billings	**1,200,000**	300,000	Less Bad Debts & Write Downs
Payroll Costs	654,600	**1,200,000**	Net Sales
Overhead	243,858		
Projected Net Profit	**301,542**		