Consulting a Small Business: Southwestern Ohio Services

A thesis submitted to the Miami University Honors Program in partial fulfillment of the requirements for University Honors with Distinction

by

Andrea Sebastian

In Collaboration with Jeff Schaeffer

May 2005
Oxford, Ohio
Abstract

After consulting a local small business, I performed an analysis of the business and provided recommendations to the business owner based upon my research. This thesis provides an analysis of the small business as well as recommendations to achieve the owner’s business objectives. Additionally, it was created in collaboration with my teammate, Jeff Schaeffer. Southwestern Ohio Services (SOS) is a surfacing and specialty services firm owned and operated by Nick Smith. Nick currently has limited time to operate the business due to his full-time career; consequently, the business provides services to contractors on a part-time basis. With plans to retire within a year, he desires to convert SOS into a full-time business. Nick consulted with our team to obtain assistance in attaining his business objectives, some of which include: expanding the target market to include residential clients, hiring several full-time employees, and experiencing sustainable growth. Our team then utilized past successes and failures, extensive research, an understanding of the business, and our team’s knowledge to devise a plan to achieve Nick’s objectives. Our recommendations concentrate on the following three areas: profit-sharing, strategic marketing, and financial recordkeeping and organization. These recommendations will assist Nick in realizing his specific, long-term business objectives.
Executive Summary

Southwestern Ohio Services is a surfacing and specialty services firm owned and operated by Nick Smith. Nick is currently the Assistant Principal at a local high school and therefore has limited time to operate the business. Consequently, the business principally provides services to contractors on a part-time basis with the help of Nick’s colleagues and students. With plans to retire within the next year, he desires to convert Southwestern Ohio Services into a full-time business. Nick consulted with our team in order to obtain assistance in attaining his specific business objectives, which include:

- Increasing revenues and contracts
- Expanding the target market to include residential clients
- Establishing his stepson, Michael, as a manager within three to five years
- Hiring several full-time employees
- Experiencing controlled business growth
- Remaining active in business operations

Considering Nick’s objectives, our team utilized his past successes and failures, research on a variety of business subjects, an understanding of the business, and our team’s knowledge to devise a plan to achieve his objectives. Most of our recommendations cannot be implemented until Nick is fully retired and capable of devoting more time to the business. Our recommendations concentrate on the following three areas:

- Profit-sharing plan
- Strategic marketing plan
- Financial recordkeeping and organization
Nick wanted to reward employees beyond their normal compensations as well as provide incentives for potential employees to join the business. Thus, extensive research was completed on the various types of profit-sharing plans available to businesses. With consideration of Southwestern Ohio Services’ business needs and capabilities, it became evident that a straightforward profit-sharing plan would best most appropriate for the Company. We recommend that Nick develop a simple, cash profit-sharing plan that distributes contributions to employees using a percentage of net profit. Further, we recommend that Nick determine each employee’s contribution using his or her relative proportion of compensation.

Because no advertising media are currently used, a strategic marketing plan was also developed using research and prior team knowledge. More specifically, the marketing plan includes:

- Radio advertising
- Yellow Pages advertising
- Web-based marketing

The utilization of each of the following advertising media will facilitate the expansion to a residential target market, while maintaining the current contractor target market.

Our radio advertising recommendation is to purchase two weekly 30-second radio spots between 6:00 am and 10:00 am with WKRC-AM, a Clear Channel Talk station reaching the greater Cincinnati, Ohio area. In addition, we suggest that Nick purchase a Yellow Pages listing that will be used exclusively for Southwestern Ohio Services. Nick should not use one listing for both Southwestern Ohio Services and Save Our Sod, his secondary, mole-trapping business. With regard to web-based marketing, we recommend that Nick purchase a proprietary web domain name, www.swohioservices.com. An e-mail address containing the domain should also
be developed. Additionally, we created the content of the website, which can be used within the purchased web space.

Introductory client meetings revealed Nick’s relatively unsystematic financial recordkeeping and organization. Considering Nick’s technological skills as well as his business needs, several options to improve his financial recordkeeping were researched. After investigation, it is our recommendation that Nick purchase QuickBooks Basic 2005, a relatively simple computer application for Nick to organize his financial records and customer information into one, centralized location.

In conclusion, our team believes that Southwestern Ohio Services will be in a position to grow tremendously in the near future. When Nick is capable of providing more resources to the Company, he should implement the aforementioned recommendations. We are confident that our recommendations will assist Nick in achieving his specific, long-term business objectives.
Background

I. History of Southwestern Ohio Services

The business concept for Southwestern Ohio Services ("SOS" or "Company") began in 1979 in Hamilton, Ohio. Nick Smith, the sole proprietor of Southwestern Ohio Services, opened his first surfacing business, Yarbo’s Line Striping, in 1979. The business specialized in the seal coating and striping of parking lots and driveways. In the late 1970s, Nick also purchased a Hamilton, Ohio-based franchise of Save our Sod (SOS), a mole-catching business. While Nick decided to maintain the Save Our Sod mole-trapping venture, he sold Yarbo’s Line Striping in the early 1980s. One year later, Nick wished to open another surfacing business, because he enjoyed the nature of the work and the additional income. He incorporated the new surfacing business with the SOS acronym and appropriately named the new venture Southwestern Ohio Services.

II. Services Provided

Although SOS provides a variety of services, the business primarily performs surfacing services for contractors in the Southwestern Ohio area. The services provided include:

- Surfacing and striping outdoor tennis and basketball courts
- Seal coating and striping parking lots and driveways
- Loading sand, gravel, and mulch with a Bobcat or dump truck
- Plowing snow
- Constructing retaining walls and paver blocks
Given that the principal services provided by SOS involve the surfacing and striping of tennis courts, parking lots, and driveways, the business is seasonal. While the majority of the business occurs between April and November, the Company has the capability of performing services in the winter, including snow plowing. According to the contactors with which Nick works, the tennis court striping services provided by SOS are considered to be of higher quality than its competitors. Consequently, the Company’s tennis court striping is a highly sought after service within the tri-state area.

III. Position of the Firm Today

Since the Company is a sole proprietorship, SOS’s profits and losses are reflected in Nick’s personal tax return. The only financial documentation we received was a copy of his 2003 federal and state income tax returns. Due to this limited information regarding SOS, we were not able to perform a more thorough analysis of the Company’s financial performance. As a result of Nick’s full-time position at Hamilton High School, he has little time to devote to his business. However, given Nick’s current part-time commitment to SOS, we foresee sales and ultimately profits increasing two to three-fold as the business is converted to a full-time endeavor.

Additionally, sales and profits are limited as a result of Nick’s current, full-time position in education. As seen on Nick’s Schedule C (Appendix D-1 on page 94) SOS’s gross sales totaled $38,685 for 2003. Additionally, its cost of goods sold was $22,487, which resulted in a $16,198 gross profit. After deducting allowable business expenses of $52,935, SOS incurred a net loss of $36,737. Although the business experienced a loss in 2003, a large portion of the
business expense was a result of depreciation on equipment. This overall loss was netted with Nick’s earnings from other sources, reducing his taxable income significantly.

However, since many pieces of depreciable equipment will begin to be fully depreciated by 2006 (see Appendix D-1 page 104), SOS will most likely not experience the same level of net loss as in 2003. This will result in higher profits and consequently a greater tax liability for Nick. When he begins his full-time commitment to SOS upon retirement, he will no longer be earning income from his assistant principal position. However, he will be receiving pension from his retirement fund. Purchasing additional depreciable equipment on a regular basis will maintain the high depreciation expense relative to sales, reducing taxable income and taxes accordingly.

IV. Owner’s Credentials

Nick Smith is the founder and sole proprietor of Southwestern Ohio Services. Since its opening in the mid 1980s, the Company has been operated as a part-time business while Nick has maintained a full-time career in education. He has spent roughly 31 years as an educator and athletic director. Nick is currently the Assistant Principal at Hamilton High School in Hamilton, Ohio. He plans to retire from education after the 2004-2005 school year, at which time he will operate Southwestern Ohio Services as a full-time business.

In our opinion, Nick shows much potential as the long-term business owner of SOS. Although the primary motive of any for-profit business is to generate income, it is evident that Nick truly enjoys the nature of the business. On several occasions, Nick expressed his genuine interest in engaging with customers and performing the services offered by SOS. Although Nick is approaching his retirement, he appears to have the physical capability of continuing his
current business. He is a graduate and former football player at the University of Cincinnati, and he seems to be capable of performing the services offered by SOS for many years in the future.

Several of Nick’s family members are also engaged in business operations in varying degrees. Nick’s wife, Jessica, occasionally assists Nick with the completion of striping services but does not typically handle paperwork involved with the business. Matthew, Nick’s son, is currently employed as a police officer and, therefore, has little interest in participating in SOS’s future operations. However, his stepson, Michael, is 16 years old and shows great interest in the Company. Michael currently helps with the completion of jobs and demonstrates initiative and leadership qualities. In addition, he has learned to perform the services exactly the way Nick likes them to be performed. For these reasons, Nick considers Michael to be a future owner and prospective manager within the next three to five years.

**Operations**

1. **Personnel**

   Currently there are no full-time personnel employed by Southwestern Ohio Services. Since the business is operated on a part-time basis, Nick employs part-time help (primarily fellow teachers and students) to complete jobs. Nick’s wife and stepson also help perform services. According to Nick, it is difficult to retain skillful employees who work hard and perform high quality work. This is primarily due to the nature and variety of equipment that must be used to perform surfacing and striping services. In addition, he believes SOS provides adequate pay for the efforts of its personnel. Nick realizes that treating employees well promotes employee retention. As a result, he offers his part-time employees a generous hourly pay and frequently purchases meals before or after the completion of jobs.
II. Pricing of Services

Southwestern Ohio Services performs services for contractors through a bidding process to price services. As displayed in Appendix D-2, the minimum billing amount for each job is $200.00. With a bidding process, pricing is dependent upon several factors, including the season, customer, and availability of employees to perform the job. For example, SOS receives less expensive bids in the spring and more expensive bids in the fall. The pricing of services is also dictated by the contracting industry. Nick currently sets his prices by calling competitors to ask for pricing information. Since Nick believes SOS offers higher quality services than his competitors, he prices most of his services slightly higher than his competitors. SOS also provides a sense of reliability to its clients by consistently meeting customer expectations, which brings about repeat business. As a result, the Company competes on quality, price, and reliability.

III. Suppliers

Several suppliers provide paint and tape to Southwestern Ohio Services for its line painting services. The Company primarily purchases its supply of paint from two suppliers. This paint is used for both parking lot striping and tennis court striping. One paint supplier provides paint to the majority of line painters in the Hamilton, Ohio area. SOS also purchases specialty paint for tennis courts from Nova Sports USA, a supplier in Maine. This specialty paint, along with the high quality jobs performed by SOS, differentiates his tennis court striping services from those of its competitors. In addition, Nick purchases approximately 1,600 to 1,800 rolls of tape each year from Tape Products Company, a tape wholesaler located in Cincinnati, Ohio. This tape is used to aid Nick and his employees in line painting on various surfaces.
Since the services offered by SOS are largely seasonal, Nick maintains an inventory of paint and tape to cover roughly 15 to 20 tennis courts over the winter season. This safety stock has proved to be sufficient over the years, as relatively few requests for tennis court striping services have been made in the winter months.

IV. Financial Recordkeeping

As indicated by other surfacing businesses, up-to-date financial records are imperative to effective operations. These companies mentioned the importance of having all financial documents filed and accessible for reference or to settle billing disputes. Competitors also noted the time savings experienced by maintaining an organized system of financial records.

Currently, Nick has no systematic approach for recordkeeping and financial accounting. Nick has admitted to being relatively disorganized regarding his financial information. He keeps an address book containing relevant customer and contact information. His billing is done on a pad of blank invoices on which he manually records billing information before invoicing customers. Additionally, no master record of invoices is kept for reference.

Although Nick assures that the business will remain profitable, Nick has little idea how profitable until his accountant, Otto Swanner, prepares his annual tax return. Nick provides the box of receipts, invoices, and billing information he has accrued over the year and gives it to Otto to organize and record. Nick then views his profit for the year for the first time and keeps a copy of all his returns for reference. His admittedly inefficient system provides very little information about his financial situation in the current period. While Nick is not worried about remaining profitable, he would like to have a more detailed breakdown of his financial status at any given point during the year.
Beyond organizing financial data, Nick also expressed interest in creating standardized paperwork for use in operations. He identified specific documents including invoices, payment requests, receipts, and inventory worksheets as paperwork he would like to generate and even complete electronically.

V. Business Risks

Typically the contracting industry involves many risks, including financial, contractual, operational, and insurable risks. Southwestern Ohio Services has the potential exposure to such risks and has the appropriate insurance to mitigate the risks. Nick has purchased insurance to cover all trucks and equipment used in the Company’s service lines. Additionally, SOS has liability insurance coverage, although only one claim has been made in 25 years. No toxic products are used in the services provided by SOS, which helps to mitigate the possibility of future liabilities. Furthermore, Nick calls a 1-800 number before digging or excavating with his equipment to ensure that underground utility lines are not broken. Each state maintains a 1-800 number to support the national “Call Before You Dig” program. In Ohio, this “Call Before You Dig” number is operated by the Ohio Utilities Protection Service.\(^1\) Additionally, no special permits or licenses are required by law to complete the Company’s services.

\(^1\) http://www.cinergycge.com/Exploring_Energy/Outage_Information/default_call_before_you_dig.asp
Marketing

I. Clientele

Southwestern Ohio Services primarily provides surfacing services to contractors. In addition, the business provides services to homeowners and schools. The major service provided to residential clients is the seal coating of driveways. The Company performs a variety of services for schools, including the resurfacing and striping of outdoor tennis and basketball courts and the painting of maps of the United States and other games on playgrounds. The majority of its customers are located within a 50 mile radius of Hamilton, Ohio. However, SOS has performed services for customers as far away as Columbus, Ohio; Cleveland, Ohio; and the tropical island of Palau, in the South Pacific. Many of the clients outside the Southwestern Ohio area contact SOS for its premium tennis court striping services. According to Nick, approximately 95 percent of the customers are repeat customers. This relatively large percentage of repeat business has affected other aspects of the business, including advertising.

The Company will need to expand its current customer-base to transform the business into a full-time venture. Nick wishes to meet this objective by increasing the amount of residential clients, while maintaining the present contractor clientele. SOS has the capability of providing asphalt driveway maintenance services to residential clients. The Company can also easily enter into the concrete maintenance sector through the purchase of a new sprayer and concrete sealant materials. Since approximately 90 percent of driveways in the United States are made of either concrete or asphalt, there are a large number of potential clients in this target market. According to the US Census in 2000, there were 25,913 total housing units in the city.

2 http://www.thisoldhouse.com/toh/knowhow/repair/article/0,16417,218415,00.html
of Hamilton, Ohio. Although some of these housing units would not have driveways, there would still be thousands of potential residential clients in the city of Hamilton alone.

II. Competitors

SOS’s competitors are mostly situated in the greater Hamilton, Ohio area. While many of these competitors offer specialty surfacing services, few provide these services exclusively. These companies offer surfacing services to support their more predominant construction businesses.

Consequently, SOS’s primary competitors are those companies who provide a more limited line of specialty surfacing services. Its primary competitors include the following:

- **Yarbo’s**: Nick, the current owner of SOS, started Yarbo’s in 1979. Named using the nickname of Nick’s father, Yarbo’s began as a small surfacing and striping business. After experiencing moderate success, Nick sold the enterprise and earned a gain on its sale. Nick helped the new and current owner to successfully continue where Nick concluded his business. Today, Yarbo’s offers driveway surfacing and line striping services in the Hamilton, Ohio area. Nick and the current owner are friends who communicate regularly.

- **Seal and Stripe**: As the only other area business that provides driveway sealing and striping services almost exclusively, Seal and Stripe is another direct competitor to SOS. The business owners also communicate regularly with Nick, providing a healthy and good-willed competition between SOS and Seal and Stripe.

Other competitors include larger general construction businesses, such as Abco, Houck

---

3 http://hamilton.areaconect.com/statistics.htm
Asphalt Maintenance, and Blue Chip. There are open lines of communication among SOS and these businesses, providing more good-willed competition. While these contractors do not provide a lot of the specialty work such as line striping that SOS does, they remain competitors due to the surfacing services they provide.

III. Marketing Techniques in Use/Used Previously

The Company presently does not have a clear marketing plan. No promotion methods are utilized. Word of mouth is the primary source of advertising to target markets. In the past, SOS has purchased phone book advertisements, which have not been a cost effective source of sales promotion. However, Nick currently has a courtesy listing in the Yellow Pages that is used primarily for his Save our Sod mole-trapping business. The listing is titled “SOS Moletrappers.”

Nick wishes to implement a strategic marketing plan that will help transform Southwestern Ohio Services from a part-time venture to a full-time business. The target market to which the Company plans to direct its marketing efforts is comprised of contractors who are predominantly males in the 35 to 64 year-old age group. SOS will attempt to reach males as opposed to females, because women comprise only 2.8 percent of the total workforce in construction and extraction occupations.  

Industry Information

I. Industry

Southwestern Ohio Services falls within the Construction industry. More specifically, the Company is considered to be part of the Special Trade Contracting industry. This industry is given the Standard Industrial Classification (SIC) code 17. Special Trade Contractors perform activities that are specialized either to building construction or to both building and nonbuilding projects. Painting, electrical work, carpentry work, plumbing, heating, air-conditioning, roofing, and sheet metal work are included within this classification.⁵ Accordingly, the Company is considered to be part of the Special Trade Contracting industry based on the variety of line painting and other specialty services performed.

II. Associations Available

The Encyclopedia of Associations provides several associations within SOS’s industry that may be helpful to future operations. The following associations provide opportunities for local and national involvement and information on trade shows, current regulations, and advocacy:

- **American Subcontractors Association**
  - Telephone: (703) 684-3450
  - Address: 1004 Duke Street
    Alexandria, VA  22314
  - Web address: www.asaonline.com

- **American Sports Builders Association**
  - Telephone: (410) 418-4875
  - Address: 7010 W. Highway 71
    Suite 340, PMB #312
    Austin, TX  78735
  - Web address: www.sportsbuilders.org

⁵ http://www.census.gov/epcd/ec97sic/def/C17.TXT
Objectives

I. Owner’s Objectives

Nick Smith has several long-term objectives for the future of Southwestern Ohio Services. His primary long-term objective is to transform SOS into a full-time business by increasing revenues and the number of contracts. Regarding clientele, he wishes to expand the Company’s current customer-base to more residential clients while maintaining good customer relations with its current contractor clients.

With the introduction of a new target market, Nick expects to experience growth. In the future Nick wishes to experience sustainable business growth. This will create the need for more personnel. Within the next three to five years, Nick plans to slowly establish his stepson, Michael, as a manager of the business. While Michael currently assists with the completion of jobs, Nick wishes to teach Michael how to bid new jobs to handle the expected increase in business. In addition, the Company will need maintain a few hard-working, full-time employees with the future growth.

Throughout the years, Nick wants to stay active in the operations of SOS for as long as possible. He will both train employees and perform services until he is no longer physically able, at which point he will oversee the business operations. Nick wishes to remain in the specialty services industry. Additionally, he is willing to consider new specialty services or cease operations for services that are not profitable or worthwhile to the Company.
II. Agreed-Upon Objectives

After considering Nick’s business objectives based on initial interviews, we have identified several agreed-upon objectives for Southwestern Ohio Services. The letter of engagement, as seen in Appendix D-3, was signed by Nick and our team and includes the following objectives:

- Execute a profit-sharing plan
- Implement a marketing plan
- Improve financial recordkeeping/organization
- Establish a growth plan for customers and personnel
- Develop an exit strategy to phase in Michael
- Improve the method of pricing of services
- Develop an inventory management system

Analyses and Recommendations

I. Profit-Sharing Plan Analysis

Definition of Profit Sharing

Profit-sharing plans are utilized by many companies in order to “motivate people to greater achievement.” More specifically, profit-sharing plans are organizational reward systems that contribute to increased personal responsibility, creativity, commitment, productivity, and profitability within an organization. According to the Profit Sharing Council of America, profit sharing includes “any procedure under which an employer pays or makes available to

---

employees, subject to reasonable eligibility rules, in addition to prevailing rates of pay, special current or deferred sums based on the profits of the business.”

**Types of Profit-Sharing Plans**

Once an organization discovers the need for a profit-sharing plan, it must decide which type of plan to implement. Although there are numerous types of plans from which to choose, there are two broad classifications of profit-sharing plans. The first category provides cash payments when relevant profits are known, while the second offers deferred payments into the plan. The Profit Sharing Council of America offers explanations of the different types of profit-sharing plans. Refer to Appendix A-1 for information regarding the details of each type of profit-sharing plan.

According to the Profit Sharing Council of America, a current or cash profit-sharing plan disburses profits “directly to employees in cash, check or stock as soon as profits are determined.” However, unlike other profit-sharing plans, cash plans are not qualified retirement plans. Qualified retirement plans, including Individual Retirement Accounts (IRAs), Keogh plans, and pensions, allow for the tax-deferred accumulation of investment income. Therefore, payments made to employees are considered taxable income in the year received. Additionally, current or cash profit-sharing plans are relatively simple to implement in an organization.

---

10 http://www.psca.org/starting.html#types
11 http://www.psca.org/starting.html#types
12 http://moneycentral.msn.com/taxes/glossary/glossary.asp?TermID=269
Conversely, a deferred profit-sharing plan is a “qualified program of retirement benefits wherein the employer provides retirement benefits subject to a written agreement and based on the limitations described in the Internal Revenue Code.”\textsuperscript{13} As illustrated in Appendix A-2, deferred profit-sharing plans are a particularly common form of defined-contribution plans. In 1993, profit-sharing plans represented 477,054 of the 618,501 private defined-contribution plans in the United States.\textsuperscript{14} However, deferred profit-sharing plans are subject to complex rules concerning participation, vesting, reporting and disclosure as well as fiduciary rules. The Employee Retirement Income Security Act sets forth these rules as well as other minimum standards involving pension and health plans.\textsuperscript{15} A deferred profit-sharing plan must “provide a definite predetermined formula for allocating contributions made to the plan participants.”\textsuperscript{16} Additionally, the Business Owner’s Toolkit website\textsuperscript{17} describes other required elements of the written plan, including:

- purpose and definitions
- service credit and participation
- contributions by employer and members
- individual accounts and allocations, including allocation of employer's contributions, gains and losses, forfeitures, and notification to members
- retirement benefit
- death benefit
- disability benefit

\textsuperscript{13} http://www.psca.org/pubs/role.html#a
\textsuperscript{14} http://www.psca.org/pubs/role.html#b
\textsuperscript{15} http://www.psca.org/pubs/role.html#a
\textsuperscript{16} http://www.psca.org/pubs/role.html#a
\textsuperscript{17} http://www.toolkit.cch.com/tools/profit_m.asp
• termination of employment and forfeitures
• distribution notices and methods of payment
• special governmental requirements
• administration
• establishment of trust fund
• right to amend
• withdrawal and termination, including transfers of plan assets and plan mergers, plan termination, suspension and discontinuance, and liquidation
• general provisions, including nonguarantee of employment, manner of payment, nonalienation of benefits, amounts returnable to the employer, and governing law

Therefore, deferred profit-sharing plans are relatively more difficult to implement in comparison to cash profit-sharing plans.

**Advantages of Profit Sharing**

Profit-sharing plans provide many advantages to small businesses and larger companies alike. A 1939 study conducted by a subcommittee of the Senate Committee on Finance determined that profit-sharing plans allow for improved energy, efficiency, and employee-employer relations as well as reduced employee turnover and losses. Consequently, the capitalist economic system is strengthened.\(^{18}\) In addition, profit sharing has been proven to increase employee empowerment, labor stability, organizational commitment, productivity, and profitability.

\(^{18}\) http://www.psca.org/pubs/role.html#retire
Participation, Productivity and the Firm's Environment (1989), an article written by David Levine and Dawn D'Andrea Tyson of the University of California at Berkeley, proposes that while an employee’s participation in an organization can initiate a demand for profit sharing, profit sharing can also lead to an employee’s demand for active participation in organizational decision-making. Therefore, employees feel more empowered to contribute to organizational decisions that may affect their income. Similarly, profit sharing has been proven to increase organizational commitment. As indicated by Geoffrey W. Latta, author of Profit Sharing, Employee Stock Ownership, Savings, and Asset Formation Plans in the Western World, profit-sharing plans “[motivate] the employee as a member of the team and [create] a more positive working environment.” Thus, organizational commitment is strengthened.

As indicated in the April 1998 article, Helping Americans to Help Themselves: The role of profit-sharing/401(k) plans in the retirement-income security framework, the Profit Sharing Council of America and Hewitt Associates conducted annual surveys regarding employee turnover between the years of 1973 and 1988. The surveys discovered that “the average participant turnover rate at profit-sharing companies is 13.0 percent, a figure substantially lower than the 21.6 percent national rate reported by the Bureau of Labor Statistics in 1987.” This reduction in labor turnover in companies with profit-sharing plans also helps to improve labor stability.

Douglas L. Kruse, author of Profit Sharing: Does It Make A Difference?, surveyed and studied the relationship between productivity and profit sharing within 500 United States

---

19 http://www.psca.org/pubs/role.html#d
21 http://www.psca.org/pubs/role.html#retire
companies. As noted in Appendix A-3, his study concluded that the adoption of profit sharing in an organization was associated with a 3.5 percent to 5.0 percent productivity increase.\(^{23}\) Additionally, Appendix A-3 illustrates that cash profit-sharing plans increase productivity 3.6 percent to 4.3 percent, while deferred profit-sharing plans increase productivity 1.4 percent in the year of adoption. Thus, cash profit-sharing plans positively affect productivity more quickly than deferred profit-sharing plans.

There is also a correlation between companies with profit-sharing plans and increased profitability. In 1988, the Profit Sharing Research Foundation studied 796 of the largest companies, and 386 had profit-sharing plans. The study concluded that all of the 386 companies with profit-sharing plans were more profitable than the 410 companies that did not share profits.\(^{24}\) It is suggested that the aforementioned increases in employee empowerment, labor stability, organizational commitment, and productivity are likely to be the impetus for increased profitability.

The government also provides several incentives to companies with deferred profit-sharing plans. Contributions and investment earnings on profit-sharing plans are tax deferred. Both employee and employer contributions and investment earnings in retirement plans are subject to federal income tax only when they are withdrawn from the plan.\(^{25}\) When an individual makes a withdrawal from his or her retirement plan, special taxation rules may apply in an attempt to provide tax relief. According to the Profit Sharing Council of America, such “rules are designed to generally prevent individuals from being taxed at a higher rate because of the plan distribution.”\(^{26}\) Additionally, employer contributions to the plan are a tax-deductible

---

23 http://www.psca.org/pubs/role.html#retire
24 http://www.psca.org/pubs/role.html#retire
25 http://www.psca.org/pubs/role.html#retire
26 http://www.psca.org/pubs/role.html#retire
business expense to the company.\textsuperscript{27} The 1998 article, \textit{Helping Americans to Help Themselves: The role of profit-sharing/401(k) plans in the retirement-income security framework}, also indicates that retirement account balances are easily transferable. According to the Profit Sharing Council of America, “[c]urrent law encourages individuals who change jobs or who temporarily leave the workforce to preserve their plan assets in tax-deferred accounts.”\textsuperscript{28}

\textit{Disadvantages of Profit Sharing}

Just as there are advantages to profit sharing, there are several disadvantages for companies with profit-sharing plans. Certain types of profit-sharing plans have proven to cause an administrative burden to companies using the plans. Specifically, companies utilizing deferred profit-sharing plans are required to file Form 5500, the Annual Return/Report of Employee Benefit Plan, with the Internal Revenue Service (IRS).\textsuperscript{29} Refer to Appendix A-4 for an example of Form 5500. In addition, a written plan describing the allocation of contributions must be adopted and communicated with employees. Consult Appendix A-5 (pages 57 to 66) for detailed information regarding the administrative requirements of deferred profit-sharing plans.

Profit sharing may effectively reduce the quality of products or services as there is an increased emphasis on profitability.\textsuperscript{30} Employees might sacrifice the quality of products or services for increased profitability. Therefore, companies with profit-sharing plans must monitor the quality of products and services consistently as well as earnings.

Although contributions are a tax-deductible business expense, there are contribution and deduction limits imposed on businesses with deferred profit-sharing plans. According to the

\textsuperscript{27} http://www.key.com/templates/t-ps2.jhtml?nodeID=I-1.5e
\textsuperscript{28} http://www.psca.org/pubs/role.html#retire
\textsuperscript{29} http://www.irs.gov/retirement/article/0,,id=108948,00.html
\textsuperscript{30} http://www.hr-guide.com/data/G444.htm
IRS, the amount of the employer’s contribution to an employee’s plan cannot exceed the lesser of 100 percent of the employee’s compensation or $41,000 in 2004.\textsuperscript{31} Furthermore, the deduction for contributions “cannot be more than 25 percent of the compensation paid (or accrued) during the year” to employees participating in the plan.\textsuperscript{32} Consequently, a company may not be able to deduct the total amount of contributions made into a deferred profit-sharing plan.

\textit{Recommendations}

The analyses of the advantages and disadvantages of cash and deferred profit-sharing plans offer several distinctions between the two types of plans. Based upon these analyses, it is apparent that a cash profit-sharing plan is a more appropriate alternative for the Company. Therefore, it is our recommendation that Southwestern Ohio Services implements a cash profit-sharing plan.

A cash profit-sharing plan will provide several distinct benefits to the Company. First, a cash plan will reduce SOS’s administrative burden, since the Company will not have to create a written plan and file Form 5500 annually. However, a written plan is useful in communicating the plan in writing to employees. In our opinion, if employees have written documentation of the profit-sharing plan, the future benefits of plan may seem more tangible and attainable. As a result, employees may feel more motivated and committed to the Company. Thus, a brief, written plan should be developed to inform employees of the new profit-sharing plan.

As noted above in the discussion on advantages to profit sharing, a cash profit-sharing plan will help to increase employee empowerment, labor stability, organizational commitment,

productivity, and profitability. The improvement to employee empowerment, labor stability, and organizational commitment may be applicable to future employees as well as current employees. Based upon the current situation of SOS, the Company will be actively seeking new employees within the next year. A cash profit-sharing plan may help to attract future employees to the business. Although deferred profit sharing also increases productivity, cash profit sharing increases productivity more quickly. SOS can expect to experience relatively rapid increases in productivity.

The Company will be able to make payments annually to employees with a cash profit-sharing plan. However, payments to the plan are discretionary; SOS is not required to make payments each year. In less profitable years, the Company can choose whether it will disburse a share of the profits to employees. SOS should inform employees, either in a written plan or orally, that payments are not guaranteed each year, so as to minimize future conflicts.

SOS also has the ability to choose the method by which it will allocate payments to employees. The Company may determine its contribution as a percentage of payroll or total net profit. According to the 47th Annual Survey of Profit Sharing and 401(k) Plans, the average company contribution in 2003 was 4.4 percent of payroll. However, this figure includes both profit-sharing and 401(k) plans. Contributions were highest in profit-sharing plans, at 9.3 percent of payroll, and lowest in 401(k) plans, at 3.0 percent of payroll.\(^\text{33}\) Considering only profit-sharing plans, the average company contribution in 2003 was 15.5 percent of total net profit.\(^\text{34}\)

Although either method is acceptable, the percentage of total net profit method will allow for simplicity in determining SOS’s total contribution. Using this method will allow Nick to

\(^{33}\) http://www.psca.org/DATA/47th.html

\(^{34}\) http://www.psca.org/DATA/47th.html
easily see the effects of the contribution on his profitability. Furthermore, in future years, this method can be applied more consistently than the percentage of payroll method. With the anticipation of growth, the number of employees and amount of payroll is expected to vary significantly in future years. The specific percentage to use for the percentage of payroll method may be more unpredictable and difficult to determine each year. Therefore, we recommend that SOS determine contributions based upon a percentage of total net profits. Although the specific percentage should be carefully determined each year, it should be in the range of 5.0 to 15.0 percent.

After determining the total contribution to be made to employees, the Company must then determine how to allocate the contribution to each employee. Considering only relatively straightforward methods, SOS can choose one of three methods:

- Allocate the total contribution equally to each employee
- Allocate based on the relative proportion of each individual employee’s hours worked to total employee hours
- Allocate based on the relative proportion of each employee’s compensation to total compensation

Although simple, allocating contributions equally among all employees may prove to be problematic. It may result in conflicts within the Company if employees who work more hours than others feel unfairly treated. Conversely, using a proportion of total hours worked method may create an administrative burden for SOS. The Company would be responsible for maintaining accurate records of the hours worked by each employee. The Internal Revenue
Service describes how to effectively calculate each employee’s contribution using the proportion of total compensation, or “comp-to-comp,” method.  According to the IRS:

- Calculate the sum of all employee compensation paid or accrued (the total “comp”)
- Divide each employee’s compensation (employee “comp”) by the total “comp” to determine the fraction of total compensation earned by each employee
- Multiply each employee’s fraction by the total intended employer contribution (calculated using a percentage of total net profit) to determine each employee’s share of the contribution

Due to the overall simplicity of this method, we recommend that the Company calculate plan payments to employees using the employee’s proportion of total compensation.

II. Marketing Analysis

SWOT Analysis

A SWOT analysis of Southwestern Ohio Services was performed to identify the strengths, weaknesses, opportunities, and threats of the Company. Strengths and weaknesses are internal factors, while opportunities and threats involve the Company’s external environment.

The SWOT analysis serves as an opportunity and issue analysis for the Company. This analysis illustrates the possibilities of expanding to a residential target market as well as accepting a greater number of contracts from the current contractor target market. After considering the associated threats of competition and limited resources, we believe that SOS should pursue these opportunities only if there are enough available employees to complete the services.

---

35 http://www.irs.gov/retirement/article/0,,id=108948,00.html
Table 1. SWOT Analysis

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
</table>
| • High-Quality services provided  
  • Highly specialized services offered  
  • High customer loyalty/repeat business  
  • High degree of word of mouth advertising | • Lack of full-time business venture  
  • Lack of marketing expertise  
  • Lack of adequate financial recordkeeping  
  • Limited personnel/lack of full-time personnel |

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
</table>
| • Expansion to residential customers  
  • Accepting additional subcontracting work | • Established competition in residential services  
  • Accepting excessive amounts of new business given current resources |

Strategic Marketing Plan

Nick has identified several methods of advertising which will be considered for SOS. These advertising media include radio, fliers, a phone book listing, and a website. He has also expressed an interest in using guarantees as a form of sales promotion. Since Nick is not familiar with costs associated with these advertising media, he does not have a predetermined monthly budget for advertising expenses. However, based upon discussions with Nick, we presume that he is willing to adequately fund a strategic marketing plan for SOS. He realizes the importance of marketing in expanding his business.

We intend to research and assist in the implementation of a strategic marketing plan that will effectively convert SOS into a full-time business. The marketing plan must first consider the appropriate target markets. The primary target market, consisting of contracting businesses, is able to sufficiently support the current operations of the business without any purchased forms of advertising. Therefore, the principal focus of the marketing plan will be the residential target market. Several methods of advertising should be employed to enter the new residential target market. These advertising media include radio spots, an updated phone book listing and a website.
Radio Advertising

Southwestern Ohio Services will benefit greatly from radio advertising. According to the Radio Advertising Bureau, radio reaches roughly 95.2 percent and 78.1 percent of males aged 35 to 64 each week and each day, respectively. Nick expressed much interest in advertising on Clear Channel radio stations after hearing of the successes from other small business owners in his industry. Clear Channel Communications Inc. is a media company that owns 1,200 radio stations and 30 television stations in the United States. In addition, it owns several radio stations in nearby Cincinnati, Ohio that would effectively reach SOS’s target market. See Appendix B-1 for a listing of these Clear Channel radio stations.

We considered several radio formats for advertising the Company, including News, Talk, Sports, Classic Rock, and Album-Oriented Rock. News, Talk, and Sports radio stations have a 16.5 percent share of radio listening, which is the highest share in comparison to all other formats. Alternatively, Rock formats have an 8.7 percent share of radio listening. In addition, the News, Talk, and Sports format is the most-listened-to radio format for ages 45 and over. According to Pete Schulberg, author of Radio Advertising: The Authoritative Handbook, Album-Oriented Rock features large, diverse playlists, while Classic Rock features music from the mid 1960s to the 1980s, including Led Zeppelin, the Beatles, the Eagles, and the Rolling Stones. Additionally, Album-Oriented Rock appeals strongly to males aged 25 to 44 years, while Classic Rock appeals almost equally to both males and females aged 25 to 44 years. Considering these facts, the News, Talk, and Sports format is likely to reach more listeners and potential SOS

37 http://www.clearchannel.com/
customers than Rock formats. It is our recommendation that Southwestern Ohio Services considers radio advertising with News, Talk, or Sports stations in Cincinnati, Ohio.

In the Greater Cincinnati, Ohio area, the Clear Channel stations with the News, Talk, or Sports format include WLW-AM, a News station, and WKRC-AM, a Talk station. As seen in Appendix B-2, with regard to cumulative audience (Cume), WLW is ranked first among males aged 35 to 64, while WKRC is ranked sixth. Each week WLW and WKRC reach 129,800 and 47,200 males aged 35 to 64, respectively.\(^\text{40}\) In addition to considering cumulative audiences, a business must consider radio spot costs and times when deciding with which radio station to advertise.

The time of day of radio spot is a major consideration concerning radio advertisements. The Company would most effectively reach its target markets in the early morning, Monday through Friday, as the majority of contractors and construction employees begin work early in the day. Additionally, daily in-car radio audiences are highest just after 7:00 am.\(^\text{41}\) Both target markets, contractors and homeowners, would be reached effectively in the early morning, assuming they are driving to work at that time. Therefore, SOS should advertise between the hours of 6:00 am and 10:00 am, Monday through Friday.

Depending on the advertising budget for a business, the cost per radio spot may also be a determining factor in choosing with which radio station to advertise. Appendix B-3 displays the prices for one-minute spots for WLW and WKRC, dependent on the time of day the advertisement is administered. Between 6:00 am and 10:00 am, two 60-second spots cost $350.00 each at WLW and $45.00 each at WKRC.\(^\text{42}\) However, these costs can be reduced if the spot length is reduced. Radio advertisements can be purchased in 15-second, 30-second, or 60-...

\(^{40}\) References provided by Don Kowalewski, Senior Account Executive Clear Channel Radio Sales
\(^{42}\) References provided by Don Kowalewski, Senior Account Executive Clear Channel Radio Sales
second spot lengths. Per discussion with the client, Nick foresees that a 15-second spot length will be sufficient for his advertisement. However, per discussion with Don Kowalewski, Senior Account Executive at Clear Channel radio sales, a 15-second radio spot may not be sufficient to make reference to both a website and a telephone number. Consequently, we recommend that Nick purchase a 30-second radio spot with WKRC.

Weekly advertisement costs for two 30-second spots per week would be $525.00 at WLW and $67.50 at WKRC. A WLW radio spot between 6:00 am and 10:00 is reported to reach a cumulative audience of 80,200, while a WKRC radio spot will reach 26,100 listeners.\footnote{References provided by Don Kowalewski, Senior Account Executive Clear Channel Radio Sales} Although WLW will reach 54,100 more listeners each week, a WKRC radio advertisement will reach 32.5 percent of the WLW listeners at less than 13.0 percent of the cost. It would be more cost effective for the Company to advertise with WKRC. Therefore, we recommend that Southwestern Ohio Services purchases a 30-second spot with WKRC between 6:00 am and 10:00 am. More detailed information about WKRC is displayed on Appendix B-4.

Once Southwestern Ohio Services has determined the frequency, timing, and station with which is chooses to advertise, it must contact Clear Channel. Refer to Appendix B-5 for the contact information for Don Kowalewski of Clear Channel Radio Sales. According to Don Kowalewski, SOS must then send a script to Clear Channel. This script will be recorded by a radio personality or voice talent at the radio station. Subsequently, the radio station will play the recorded advertisement during the selected time slot.

SOS must develop a plan to test the effectiveness of the WKRC radio advertisements. The nature of radio advertisement easily allows for direct response from potential customers. According to Pete Schulberg, author of \textit{Radio Advertising: The Authoritative Handbook}, “radio
works for direct response when a radio commercial is designed to elicit phone calls.”

The Company should include a phone number and/or website address in the radio spot in order to facilitate customer responses. Schulberg also states that “direct response radio commercials work at once or they [do not] work at all.”

SOS can easily determine if the WKRC radio spots are effective based upon the number of telephone or e-mail inquiries for residential services. Additionally, the Company should inquire how each new customer became aware of the business. If it can be proven that radio advertising is effective in promoting sales, SOS should consider purchasing additional radio advertisements at WLW as needed.

Yellow Pages Advertising

Based upon the results of previous advertising techniques utilized by SOS, it would not be appropriate to purchase a Yellow Pages advertisement. However, it may be beneficial to either modify the current Yellow Pages listing or purchase an additional listing. Potential customers may hear the radio advertisement for residential driveway services. However, if the customer is unable to remember or make a note of the Company’s telephone number or website address, a Yellow Pages listing specifically for Southwestern Ohio Services may be the only way to successfully reach the customer. Per discussion with a Cincinnati Bell Yellow Pages representative, an additional listing in the Cincinnati Bell Yellow Pages will cost the Company $20.75 per month, or $249.00 annually. We recommend that Nick purchase an additional listing exclusively for Southwestern Ohio Services.


**Web-Based Marketing**

One method of marketing we suggested to Nick is an SOS webpage on the internet. According to a 2000 US Census Special study on internet use in the United States, nearly 42 percent of the population uses the internet at home. With usage of the internet increasing as steadily as it has, Nick can potentially benefit from this medium of marketing. In homes where the householder is between the ages of 25 and 64, 48.6 percent of these are connected to the internet.\(^{46}\) This age group is nearly the same as our target market, making the internet an ideal way to create residential customers for Nick.

Currently, the only connection SOS has to the internet is an e-mail address, yarbo22@aol.com. This address is similar to the name of Nick’s previous surfacing business, Yarbo’s, which as mentioned in the Business History was sold in the mid 1980s. It does not correspond with the current name, Southwestern Ohio Services.

**Recommendations**

We recommend that Nick invest in a very small amount of web space on which to host a minimal webpage. While we do not foresee the webpage to be the predominant source of reaching new customers, it will certainly accommodate those homeowners who research driveway surfacing on the internet, helping to secure at least a small number of customers.

**Web Domain**

The domain is the part of a website’s address most consumers will pay attention to when browsing. It is the text appearing after the `http://` command in a web browser. Investing in a

---

proprietary domain name adds some legitimacy to a business in the eyes of web-browsing consumers. Additionally, it will help potential customers remember the web address if revisiting or referring the webpage to someone else.

While it is possible to only register the domain name for an internet web address, we recommend that our client invest in at least one e-mail address ending in the same domain name as the new website. This adds extra legitimacy for consumers, making the e-mail address appear more official and the business more professional.

Upon researching available options for domain names, we have produced several viable options. According to Register.com, any site with a .net domain is recommended for internet infrastructure, and any site with a .org domain is recommended for not-for-profit organizations. Any .com domain is acceptable for business use (see Appendix B-6 for domain name rules). Many users will assume most sites end with a .com, so this type of domain is best suited for Nick’s business. As seen in the table below, we show domain names, their availability, and possible e-mail addresses to use for SOS:

<table>
<thead>
<tr>
<th>Domain Name</th>
<th>Available?</th>
<th>E-mail Address</th>
</tr>
</thead>
<tbody>
<tr>
<td><a href="http://www.sos.com">http://www.sos.com</a></td>
<td>NO</td>
<td>N/A</td>
</tr>
<tr>
<td><a href="http://www.swohioservices.com">http://www.swohioservices.com</a></td>
<td>YES</td>
<td><a href="mailto:_____@swohioservices.com">_____@swohioservices.com</a></td>
</tr>
<tr>
<td><a href="http://www.swos.com">http://www.swos.com</a></td>
<td>NO</td>
<td>N/A</td>
</tr>
<tr>
<td><a href="http://www.swoservices.com">http://www.swoservices.com</a></td>
<td>YES</td>
<td><a href="mailto:_____@swoservices.com">_____@swoservices.com</a></td>
</tr>
<tr>
<td><a href="http://www.swohservices.com">http://www.swohservices.com</a></td>
<td>YES</td>
<td><a href="mailto:_____@swohservices.com">_____@swohservices.com</a></td>
</tr>
<tr>
<td><a href="http://www.southwestsurfacing.com">http://www.southwestsurfacing.com</a></td>
<td>YES</td>
<td><a href="mailto:_____@southwestsurfacing.com">_____@southwestsurfacing.com</a></td>
</tr>
</tbody>
</table>

The cost of the domain services vary depending on the level of service and number of e-mail accounts desired. We recommend purchasing only the most basic level of service, only because the webpage will not contain much of the functionality granted by the more expensive

47 http://www.register.com/domain-rules.cgi
packages. For example pricing, we have included the pricing page from Register.com\textsuperscript{48} as Appendix B-7. The basic package includes the domain name registration, the five page self-designed webpage, and an e-mail address. Our team and Nick both agreed that the www.swohioservices.com domain would be the most appropriate for his website. More e-mail addresses and more web storage are available if Nick sees it necessary. No extensive technical features are needed for the SOS site. Since Nick sells surfacing services, it is superfluous to implement transaction technology on the website, thus eliminating the need to purchase many of the additional services from the domain registrar.

Additionally, if Nick decides to purchase website services, he should also update his business cards with the appropriate e-mail address and new website address. This provides interested customers a chance to research SOS by browsing the webpage, and even contact Nick via e-mail if they prefer.

\textit{General Web Page Layout}

To streamline the appearance and functionality of the SOS website, we suggest a template for how each page should be constructed. Most importantly, the color scheme and overlying design of the site as a whole must be consistent.\textsuperscript{49} We used red, grey, black, and white consistently throughout the site. The colors contrast well and are generally not difficult to view on a computer screen. The red catches the user’s attention without causing him to squint due to poor contrast with the other colors.

\textsuperscript{48} \url{http://www.register.com/pricing/index.cgi}
\textsuperscript{49} Skylar, Joel. Principles of Web Design 2\textsuperscript{nd} ed. Course Technology, 2002. p. 32
Secondly, the overall structure of each page is consistent as well. The page is divided into four separate areas:

**Figure 1. Page Layout**

The template is arranged to logically lead the user’s eye from object to object on the web page. Users’ eyes will tend to naturally move from the center of the page, to the right-hand side, to the bottom, to the top, and finally to the left. The SOS page is designed to accommodate this theory, placing the body in the center, the business logo at the top, and quick contact information at the bottom.

---

The title/company name area contains an example SOS logo in Appendix B-8. It remains at the top of the screen as the user navigates the other pages within the site. This serves as a permanent reminder to users that the name of the company is Southwestern Ohio Services.

The body page is the only part of the site that will change when links are clicked. When users click the links to other pages within the SOS site, the content changes in the body area. The size of the body area will not change from page to page; however, the content contained therein will.

The links area contains appropriate images with links to each of the five pages on the site. This list of links remains static on the left side of the screen, providing a permanent navigational tool to users. Graphics have a black background with contrasting gray and red text for easy readability. These colors were selected also based on the fact that Nick’s business card uses a similar color scheme. This will add consistency between marketing media to help potential customers associate the two with Southwestern Ohio Services.

The quick contact area is constant throughout each of the pages as well. While it occupies a relatively small amount of space on the screen, it permanently displays Nick’s name, e-mail address, and phone number for the user. If users decide at any time during their visit to the site that they are interested in SOS’s services, they will have access to Nick’s contact information without having to find the contact page.
**Site Layout**

If Nick decides to purchase the five page web space, the layout could be as follows:

**Figure 2. Website Hierarchy**

![Website Hierarchy Diagram]

**Note: The suggested website, in its entirety, is reproduced in Appendices B-8 through B-12 to provide visual aid to the concepts recommended in this section.**

**Content Pages**

**Welcome/Home Page**

As described in the general layout, five different pages will differ only in the body area of the screen. The welcome page is the default page users are directed to after clicking on a link to the SOS site. This page offers a very general introduction of the business, as seen in Appendix B-8. This page is essentially a splash page for the site as a whole and contains only limited information about SOS.
Company Information Page

The company information page provides some more relevant facts to users about exactly what SOS does. The page states the nature of SOS’s surfacing services, as well as its location in Hamilton, Ohio. It is also useful to mention how long SOS has been in business, so potential customers see that the business has a history of success. A few images of the equipment or examples of completed jobs make the site visually stimulating, as seen in Appendix B-9.

Description of Services Page

It is a key goal of this site to ensure that users know exactly what types of services SOS performs, so they can determine whether SOS’s services are appropriate for them or not. Accordingly, the services page provides a listing of what SOS offers to customers, as seen in Appendix B-10. A description of the service is coupled with a picture of the final product to help users determine what services, if any, they desire.

About the Owner

To include a more personal aspect, the site includes a brief page about Nick and any other associates he would like to include. Some customers may appreciate the fact that they will be dealing with a person rather than a “company” when browsing the site. Information may include Nick’s experience in the industry, some anecdotes about very successful jobs, or any other information aimed at helping users trust Nick as a professional in the specialty surfacing industry. A small picture, as seen in Appendix B-11, may help users attach a face to the business.
Contact Page

While Nick’s name, e-mail, and phone number are all located at the bottom of every page, this page serves as a more detailed resource for those looking to contact Nick. This page includes business hours, Nick’s and SOS’s names, e-mail, both Nick’s land line and cell phone numbers, and even address information if Nick deems it appropriate (see Appendix B-12). This page offers more explicit contact information for those users who prefer to know such specific information.

Registering with Search Engines

To make the site accessible to users, it is necessary to register the website and address with other sites offering web search functions to users. There are several ways to approach this task. The first method involves paying approximately $50.00 to have an internet company manually list the SOS website on many different search engines. This is useful for businesses looking for a mass audience and response but is not as cost effective for a business such as SOS looking to reach a much smaller audience. We recommend simply going to many of the larger search engines, such as Lycos, Google, AltaVista, Yahoo, MSN, or MetaCrawler, and registering manually with each of these. Danex Export Marketing Resources\(^{51}\) has created a page offering both the pay services as well as links to the individual search engines to register at each separately for free (see Appendix B-13 for search engine listings). Registering with the search engines requires clicking the “add URL” links next to the corresponding search engine, and filling out the appropriate information. Some of the individual search engines offer registration for a fee; however, a customer’s website is registered with the partners and subsidiaries of the search engine. This is a cost effective way to register with many sites with minimal effort if

\(^{51}\) http://www.danex-exm.dk/major10.htm
Nick desires greater website exposure with less effort. Metacrawler, for example, offers registration for $50.00 in many of its widely-used subsidiaries (see Appendix B-13 for link). This method can be attempted if exposure is not great enough using the free services of the other search engines.

Many of these search engines will require either a short description of the webpage, or certain key words to help classify the user’s site. However, certain key words have already been built into the code of the website we developed that most search engines will read even if they are not specified when registering the site. We included the words: “surfacing”, “striping”, “tennis court”, “driveway sealing”, and “basketball court.”

**Web Site Effectiveness**

While we do not expect a great deal of increased business resulting from this website alone, we feel strongly that it is cost effective. Based on our estimates, the website will cost approximately $150.00 per year to maintain. As Nick’s minimum billing figure is $200.00 (see Appendix D-2), it will only take approximately two residential customers to earn enough income to cover the cost of the website annually. At the very least, we forecast that the income earned by SOS as a result of this web-based advertising will match the expenses incurred.

However, we anticipate that many more than two customers will contact SOS as a result of the web page, especially if the website is identified in other marketing media such as the radio advertisement we suggested to our client. The website can also serve as a source of additional information for those customers who may have heard about SOS somewhere else but want to further research the Company and its services.
III. Financial Recordkeeping Analysis

Recommendations

Our goals for Nick’s organization and financial recordkeeping are as follows:

- Create a central location for all business information
- Implement a computerized accounting system capable of providing current information on Nick’s business performance
- Save Nick time when preparing financial statements

We suggest that Nick develop a more systematic approach to recordkeeping and organization. This is a two-step process beginning with the most basic element: Nick’s address book. A more organized layout for Nick’s addresses, contact information, and customers can provide quick access to logically arranged information, which is vital to effectively running a small business. Consequently, electronic storage of constantly-updated information is essential. Electronic storage ensures that information remains logically sorted (alphabetically, for example) by allowing the user to create new records and allowing the computer to sort it via user-defined criteria. This feature can be found in many of the newer financial software packages, such as Intuit’s QuickBooks software.

The second step in creating an effective recordkeeping system is the development of a financial accounting system. Ultimately, we suggest a full-feature, out-of-the-box software program to address all of Nick’s organizational needs. A full financial package, such as the previously mentioned QuickBooks software, provides these advanced capabilities, although at the cost of complex set-up and a steeper learning curve.
Nick advised us to err toward an application he would be most able to navigate without much help. Consequently, we initially began development of a basic Microsoft Excel template in which Nick could enter and store financial and customer information. The more we discussed Nick’s needs, the more we realized he needs a complete, professionally developed financial software package.

During a telephone call with Nick’s accountant, we learned that his firm uses QuickBooks to prepare his annual tax return. This provides an excellent opportunity for Nick to reduce processing time and transaction cost by using the same application as his accountant. Based on this research and applications available, we recommend that Nick invest in a financial recordkeeping application.

We recommend QuickBooks Basic 2005 specifically, as it provides most of the features Nick is looking for. While there is a contractor-specific edition of QuickBooks, which provides a number of very useful tools to contractors (see Appendix C-1), Nick indicated that he would rarely use these additional features. The Basic Edition is slightly less expensive but contains only the accounting and information organization features that we think are most useful for Nick. Additionally, it includes features to create and store customer records (see Appendix C-2). Pricing information and feature comparison for all available QuickBooks editions can be seen in Appendix C-3. Consequently, we recommend Nick invest in the QuickBooks Basic 2005 for his financial accounting and organization system.

There is also an in-depth tutorial system included in the application which aids the user set up his or her business information without outside help. However if Nick’s accountant provides assistance setting up such systems, we recommend to Nick that he utilize these services to make the transition to electronic bookkeeping as efficient and effective as possible.
Benefits

Nick will now have a dynamic resource whereby he can see the performance of his business in real time. He will know at any given time his approximate financial status, allowing him to take appropriate action in a variety of situations. QuickBooks can generate profitability, expense, employee payroll, and a number of other very useful reports that will aid in Nick’s decision-making process.

Second, all of Nick’s financial and customer information can be aggregated into one organized resource. An electronic resource will make it much more difficult to misplace or not find important contact information when it is needed. The program will automatically arrange business information in a meaningful way (customer names arranged alphabetically, or invoices by date, for example). This information can also be electronically backed up on the computer or a separate storage medium (CDs, floppy disks, or Zip drive) to ensure that information is always available.

Additionally, Nick will have access to standardized document templates for SOS. Using a feature in QuickBooks, Nick can create customized invoices, checks, and other important financial documents to add a more professional look to his administrative paperwork. Having expressed interest in this feature, Nick will benefit greatly from this feature of QuickBooks.

Finally, Nick will save money in the form of reduced accountant fees to prepare his annual tax return. Since the records will already be systematically filed and the numbers compiled in the computer program, the information previously stored in a cardboard file box will be available for nearly instant reference.
Conclusions and Comments

We have suggested many ideas for Nick and Southwestern Ohio Services to implement when the business operates on a full-time basis. As a result of our research, we addressed three of the most important business objectives we agreed upon with Nick, notably:

- Development of a profit-sharing plan
- Development of effective marketing/advertising
- Development of a financial recordkeeping and organization system

We suggested to Nick that he implement a cash profit-sharing plan to reward his employees. This suggestion met his desire to have an easy-to-calculate, straightforward way of sharing the success of Southwestern Ohio Services with his employees. We believe that his employees will greatly appreciate this new program and will work harder to earn a greater reward from SOS. Nick enjoys compensating his employees for quality work, and this is one method by which he can simultaneously reward workers and increase productivity.

Second, we offered a number of recommendations regarding marketing via radio, Yellow Pages, and the internet. We believe this collaborative approach to marketing will attract many new customers to SOS. Especially if each medium references the others, customers will be well-informed and highly exposed to the Company.

Radio advertising will reach the largest number of potential customers of any of the methods we recommended. By playing the radio spots early in the morning (between 6:00 am to 10:00 a.m.), Nick can reach his target market and save money by not advertising during peak radio traffic hours. By specifically advertising with WKRC, he can reach many listeners at a fraction of the price of WLW.
The web-based marketing we have suggested to Nick will give users access to SOS via an entirely new medium: the internet. This website will provide an additional resource to customers looking to research SOS, and hopefully provide additional assurance that the Company will perform high quality service at a competitive price. Customers will then be able to contact Nick via his new e-mail address including a proprietary Southwestern Ohio Services domain name. All of these updates to SOS’s marketing plan will enhance its chances of attracting new residential customers and propelling the business to a full-time endeavor.

Finally, our recommendations regarding Nick’s financial organization and recordkeeping will give him the ability to gauge the success of SOS at any point during the fiscal year. Instead of receiving specific financial performance measures once annually from his accountant, Nick will know if his business is profitable or losing money on a real-time basis if he successfully implements the QuickBooks software we suggest.

Our recommendations notwithstanding, Nick already has a successful, profitable business in Southwestern Ohio Services. His desire to provide high quality work to customers, both residential and commercial, has secured him a reputation that will continue to bring him business well into the future. We wish him great success as he pursues Southwestern Ohio Services full-time and look forward to hearing of his accomplishments in the striping and surfacing industry.
## Appendices: Table of Contents

Appendix A-1: Types of Profit-Sharing Plans . . . . . . . 48
Appendix A-2: Prevalence of Profit-Sharing Plans . . . . . . 51
Appendix A-3: Productivity Increases Resulting from Profit-Sharing . . 52
Appendix A-4: IRS Form 5500 . . . . . . . . 53
Appendix A-5: Requirements of Deferred Profit-Sharing Plans . . . 57
Appendix B-1: Clear Channel Radio Stations . . . . . . . 67
Appendix B-2: Cumulative Audiences of Clear Channel Stations . . . 68
Appendix B-3: Pricing for 60-Second Radio Spots . . . . . . 69
Appendix B-4: Detailed WKRC Information . . . . . . . 70
Appendix B-5: Don Kowalewski Contact Information . . . . . . 73
Appendix B-6: Domain Name Rules . . . . . . . . 74
Appendix B-7: Pricing for Domain Names and Services . . . . . . 76
Appendix B-8: Welcome/Home Page . . . . . . . . . . 78
Appendix B-9: Company Information Page . . . . . . . 79
Appendix B-10: Description of Services Page . . . . . . . 80
Appendix B-11: About the Owner Page . . . . . . . . . . 81
Appendix B-12: Contact Page . . . . . . . . . . . . 82
Appendix B-13: Search Engine Registration Pages . . . . . . . 83
Appendix C-1: QuickBooks Premier Contractor Edition 2005 Information . 84
Appendix C-2: QuickBooks Basic 2005 Information . . . . . . . 86
Appendix C-3: QuickBooks Product Comparison Chart . . . . . . 88
Appendix D-1: 2003 Income Tax Return . . . . . . . . . . 91
Appendix D-2: Price List . . . . . . . . . . . . . . . . 109
Appendix D-3: Letter of Engagement . . . . . . . . . . . . 110
Appendix A-1: Types of Profit-Sharing Plans

Starting a Profit Sharing or 401(k) Plan

Starting a plan will help your company stay competitive in today’s tight labor market.

401(k) plans help you:

- Attract and retain the best employees
- Help your employees plan for retirement
- Take control of your own financial future

401(k) plans help your employees:

- Defer federal and, in most cases, state income taxes
- Contribute through automatic payroll deductions
- Simplify investment decisions
- Receive immediate investment return when a company match is available

Today, 401(k) plans are more available, easier to administer and more affordable than ever before, whether you have 50 or 5,000 employees. In fact:

- Approximately 400,000 companies are already benefiting from 401(k) plans
- 42 million employees are saving for retirement through company-sponsored plans
- Americans have more than $1.5 trillion invested in 401(k) plans

Choosing a Plan

There are several types of plans to choose from. Your decision will be based upon both your own personal goals and your goals for your company. The following questions will help you identify plans that may best suit your company. Plan service providers will be able to discuss your needs in detail and help you decide what type of plan is right for you.

- Do you have fewer than 100 employees and want to make a company contribution of up to 3% of pay? Consider the SIMPLE plan.
- Do you want to include employees who work less than 1000 hours a year? Consider a SEP Plan
Appendix A-1: Types of Profit-Sharing Plans

- Do you want contributions to vary according to company profits and be paid to employees immediately?
  Consider a cash profit sharing plan.
- Do you want contributions to vary according to company profits and be payable upon retirement?
  Consider a deferred profit sharing plan.
- Do you want to make contributions with the goal of participants achieving a specific "target" amount of money at retirement independent of company profits?
  Consider a target-benefit plan or a defined-benefit plan.
- Do you want your employees to be able to defer some of their current income so they can save in a tax-deferred account?
  Consider a 401(k) plan.
- Do you want to match your employees' contribution more than 3%?
  Consider a 401(k) plan.
- Do you want to make contributions independent of company profits?
  Consider a money purchase plan.

Types of plans

- Profit sharing plan
- Cash profit sharing plan
- Deferred profit sharing plan
- 401(k) plan
- Money-purchase plan
- Target-benefit plan
- Simplified employee-pension plan (SEP)
- SIMPLE plan (savings incentive match plan for employees)
- Defined-benefit plan

Profit sharing plan
A plan established and maintained by an employer to provide for the participation in its profits by its employees or their beneficiaries. Company contributions may be determined either by fixed formula or at the discretion of the board of directors.

Cash profit sharing plan
Profit sharing plan in which profits are paid directly to employees in cash, check or stock as soon as profits are determined. (This type of profit sharing plan is not a qualified retirement plan.)

Deferred profit sharing plan
Profit sharing plan designed to provide benefits upon retirement. Benefits at retirement are based strictly upon the sum total of the contributions made and the investment results therein. The plan must provide a definite predetermined formula for allocating contributions made to the plan participants.
Appendix A-1: Types of Profit-Sharing Plans

401(k) plan
A defined contribution plan that enables employees to choose between receiving current compensation and making pre-tax contributions to an account through a salary-reduction agreement. Employers may also make contributions to employees’ accounts.

Money-purchase plan
A type of defined contribution plan in which the employer’s contributions are determined by a specific formula, usually as a percentage of pay. Contributions are not dependent on company profits.

Target-benefit plan
Contributions are based on an actuarial valuation designed to provide a target benefit to each participant upon retirement. The plan does not guarantee that such benefit will be paid; its only obligation is to pay whatever benefit can be provided by the amount in the participant’s account. It is a hybrid of a money-purchase plan and a defined-benefit plan.

Simplified employee-pension plan (SEP)
This is essentially an individual retirement account (IRA) to which an employee and his or her employer may contribute. Any employer contributions are excluded from an employee’s income.

SIMPLE plan (savings incentive match plan for employees)
A type of pension plan that may be implemented by employers with 100 or fewer employees in which the employer matches 100% of employee deferrals up to 3% of compensation or provides nonelective contributions up to 2% of compensation. These contributions are immediately and 100% vested, and they are the only employer contribution to the plan. SIMPLE plans may be structured as individual retirement accounts (IRAs) or as 401(k) plans.

Defined-benefit plan
A type of retirement plan that provides each participant with a fixed income at retirement.
Appendix A-2: Prevalence of Profit-Sharing Plans

Number of private defined-contribution plans, participants, contributions and assets

<table>
<thead>
<tr>
<th>Plan type</th>
<th>Number of plans (^a)</th>
<th>Total participants (^b) (in thousands)</th>
<th>Active participants (in millions)</th>
<th>Total contributions (^c) (in millions)</th>
<th>Total assets (^d) (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit sharing and</td>
<td>477,054</td>
<td>36,115</td>
<td>33,013</td>
<td>$88,483</td>
<td>$913,848</td>
</tr>
<tr>
<td>thrift savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money purchase</td>
<td>114,997</td>
<td>4,197</td>
<td>3,753</td>
<td>7,633</td>
<td>95,854</td>
</tr>
<tr>
<td>Target benefit</td>
<td>8,955</td>
<td>202</td>
<td>192</td>
<td>781</td>
<td>7,090</td>
</tr>
<tr>
<td>Stock bonus</td>
<td>1,542</td>
<td>1,658</td>
<td>1,432</td>
<td>1,906</td>
<td>23,876</td>
</tr>
<tr>
<td>Other</td>
<td>15,953</td>
<td>1,431</td>
<td>1,229</td>
<td>2,716</td>
<td>27,424</td>
</tr>
<tr>
<td>Totals</td>
<td>618,501</td>
<td>43,603</td>
<td>39,619</td>
<td>$101,519</td>
<td>$1,068,092</td>
</tr>
</tbody>
</table>


Notes:

a. Excludes plans covering only one participant
b. Includes active, retired and separated vested participants not yet in pay status. Also includes double counting of workers in more than one plan.
c. Asset amounts shown exclude funds held by life insurance companies under allocated insurance contracts for pay-ment of retirement benefits. These funds make up roughly 10 to 15 percent of total private retirement-fund assets.
d. Includes both employer and employee contributions.
Appendix A-3: Productivity Increases Resulting from Profit-Sharing

**Productivity gains experienced by profit-sharing companies**

<table>
<thead>
<tr>
<th></th>
<th>Yearly growth in sales per employee (%)</th>
<th>Yearly growth in value added per employee (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Within-industry All pairs**</td>
<td>Within-industry All pairs**</td>
</tr>
<tr>
<td>All profit-sharing plans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year of adoption</td>
<td>4.4</td>
<td>5.0</td>
</tr>
<tr>
<td>Subsequent trend</td>
<td>0.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Cash vs. deferred plans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash profit sharing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year of adoption</td>
<td>3.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Subsequent trend</td>
<td>0.5</td>
<td>-0.3</td>
</tr>
<tr>
<td>Deferred profit sharing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year of adoption</td>
<td>1.8</td>
<td>1.4</td>
</tr>
<tr>
<td>Subsequent trend</td>
<td>0.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Plan formulas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent-of-profits plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year of adoption</td>
<td>4.8</td>
<td>7.9</td>
</tr>
<tr>
<td>Subsequent trend</td>
<td>-0.2</td>
<td>-2.5</td>
</tr>
<tr>
<td>Discretionary plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year of adoption</td>
<td>7.7</td>
<td>9.2</td>
</tr>
<tr>
<td>Subsequent trend</td>
<td>-0.4</td>
<td>2.1</td>
</tr>
<tr>
<td>Percent-of-pay plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year of adoption</td>
<td>2.2</td>
<td>-1.6</td>
</tr>
<tr>
<td>Subsequent trend</td>
<td>-1.7</td>
<td>-2.8</td>
</tr>
<tr>
<td>Other plan formula</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year of adoption</td>
<td>1.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Subsequent trend</td>
<td>-0.1</td>
<td>-0.4</td>
</tr>
</tbody>
</table>

**Source:** Profit Sharing: Does It Make a Difference?

**Notes:** * Value added - (the sales price minus the value of raw materials) divided by the number of employees. ** Within-industry pairs results are the difference between profit-sharing and non-profit-sharing companies in the same industry and year.
Appendix A-4: IRS Form 5500

Form 5500
Department of the Treasury
Internal Revenue Service
Department of Labor
Employee Benefits Security Administration
Pension Benefit Guaranty Corporation

Annual Return/Report of Employee Benefit Plan

This form is required to be filed under sections 104 and 4069 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6047(e), 6057(b), and 6066(e) of the Internal Revenue Code (the Code).

Complete all entries in accordance with the instructions to the Form 5500.

Part I Annual Report Identification Information

For the calendar plan year 2004 or fiscal plan year beginning and ending

A This return/report is for:
   (1) a multiemployer plan;
   (2) a single-employer plan (other than a multiple-employer plan);
   (3) a multiple-employer plan; or
   (4) a DFE (specify)

B This return/report is:
   (1) the first return/report filed for the plan;
   (2) an amended return/report;
   (3) the last return/report filed for the plan;
   (4) a short plan year return/report (less than 12 months).

C If the plan is a collectively-bargained plan, check here

D If filing under an extension of time or the DFWC program, check box and attach required information. (see instructions)

Part II Basic Plan Information -- enter all requested information

1a Name of plan

1b Three-digit plan number (PN)

1c Effective date of plan

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report if it is being filed electronically, and to the best of my knowledge and belief, it is true, correct and complete.

Signature of plan administrator

SIGN HERE

Date

Type or print name of individual signing as plan administrator

Signature of employer, plan sponsor, DFE

SIGN HERE

Date

Type or print name of individual signing as employer, plan sponsor or DFE

For Paperwork Reduction Act Notice and OMB Control Numbers, see the instructions for Form 5500.
Plan sponsor's name and address (employer, if for single-employer plan) (Address should include room or suite no.)

2a

C/O

3)

4)

5)

6)

7)

8)

9)

Plan administrator's name and address (if same as plan sponsor, enter same)

3a

C/O

3)

4)

5)

6)

7)

2b Employer Identification Number (EIN)

2c Sponsor's telephone number

2d Business code (see instructions)

3b Administrator's EIN

3c Administrator's telephone number

4 If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report below:

a Sponsor's name

b EIN

c PN
Appendix A-4: IRS Form 5500

Form 5500 (2004) Page 3

6 Preparer information (optional)
   a Name (including firm name, if applicable) and address

7 Number of participants as of the end of the plan year (welfare plans complete only lines 7a, 7b, 7c, and 7d)
   a Active participants
   b Retired or separated participants receiving benefits
   c Other retired or separated participants entitled to future benefits
   d Subtotal. Add lines 7a, 7b, and 7c
   e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits
   f Total. Add lines 7d and 7e

8 Number of participants with separate balances as of the end of the plan year (only defined contribution plans complete this item)

9 Number of participants who terminated employment during the plan year with accrued benefits that were less than $1000 limited

10 If any participants separated from service with a deferred vested benefit, enter the number of separated participants required to be reported on a Schedule SSA (Form 5500)
Appendix A-4: IRS Form 5500

Form 5500 (2004) Page 4

8 Benefits provided under the plan (complete 8a and 8b, as applicable)
   a Pension benefits (check this box if the plan provides pension benefits and enter below the applicable pension feature codes from the List of Plan Characteristics Codes printed in the instructions):

   b Welfare benefits (check this box if the plan provides welfare benefits and enter below the applicable welfare feature codes from the List of Plan Characteristics Codes printed in the instructions):

9a Plan funding arrangement (check all that apply)
(1) Insurance
(2) Code section 412(i) insurance contracts
(3) Trust
(4) General assets of the sponsor

9b Plan benefit arrangement (check all that apply)
(1) Insurance
(2) Code section 412(i) insurance contracts
(3) Trust
(4) General assets of the sponsor

10 Schedules attached (Check all applicable boxes and, where indicated, enter the number attached. See instructions.)
   a Pension Benefit Schedules
      1) R (Retirement Plan Information)
      2) T (Qualified Pension Plan Coverage Information)
   b Financial Schedules
      1) H (Financial Information)
      2) I (Financial Information--Small Plan)
      3) A (Insurance Information)
      4) C (Service Provider Information)
      5) D (DFE/Participating Plan Information)
      6) G (Financial Transaction Schedules)
      7) P (Trust Fiduciary Information)

If Schedule T is not attached because the plan is relying on coverage testing information for a prior year, enter the year covered.

3) E (Actuarial Information)
4) E (ESOP Annual Information)
5) SSA (Separated Vested Participant Information)

FOR INFORMATION PURPOSES ONLY. DO NOT USE FOR FILING.
Appendix A-5: Requirements of Deferred Profit-Sharing Plans

Schedule C (Form 1040), Profit or Loss From Business, or Schedule F (Form 1040), Profit or Loss From Farming, partnerships deduct contributions on Form 1065, U.S. Return of Partnership Income, and corporations deduct contributions on Form 1120, U.S. Corporation Income Tax Return, Form 1120-A, U.S. Corporation Short-Form Income Tax Return, or Form 1120S, U.S. Income Tax Return for an S Corporation.

Self-employed individuals and partners deduct contributions for themselves on line 82 of Form 1040, U.S. Individual Income Tax Return. (If you are a partner, contributions for yourself are shown on the Schedule K-1 (Form 1065), Partner's Share of Income, Credits, Deductions, etc., you get from the partnership.)

Tax Treatment of Contributions
You can deduct your contributions and your employer can exclude these contributions from their gross income. SIMPLE IRA plan contributions are subject to federal income tax withholding. However, salary reduction contributions are subject to social security, Medicare, and federal unemployment (FUTA) taxes. Matching and nonelective contributions are not subject to these taxes.

Reporting on Form W-2. Do not include SIMPLE IRA plan contributions in the "Wages, tips, other compensation box" of Form W-2. However, salary reduction contributions must be included in the boxes for social security and Medicare wages. Also include the proper code in box 12. For more information, see the Instructions for Forms W-2 and W-3.

Distributions (Withdrawals)
Distributions from a SIMPLE IRA are subject to IRA rules and generally are includible in income for the year received. Tax-free rollovers can be made from one SIMPLE IRA into another SIMPLE IRA. However, a rollover from a SIMPLE IRA to a non-SIMPLE IRA can be made tax-free only after a 2-year participation in the SIMPLE IRA plan.

Early withdrawals generally are subject to a 10% additional tax. However, the additional tax is increased to 25% if funds are withdrawn within 2 years of beginning participation.

More Information. See Publication 590, Individual Retirement Arrangements, for information about IRA rules, including those on the tax treatment of distributions, rollovers, and required distributions, and income tax withholding.

More Information on SIMPLE IRA Plans
If you need more help to set up and maintain SIMPLE IRA plans, see the following IRS notice.

Notice 99-4. This notice contains questions and answers about the implementation and operation of SIMPLE IRA plans, including the election and notification requirements for these plans. Notice 96-4 is in Cumulative Bulletin 1996-1.

SIMPLE 401(k) Plan
You can adopt a SIMPLE plan as part of a 401(k) plan if you meet the 100-employee limit as discussed earlier under SIMPLE IRA Plan. A SIMPLE 401(k) plan is a qualified retirement plan and generally must satisfy the rules discussed under Qualification Rules in chapter 4. However, a SIMPLE 401(k) plan is not subject to the nondiscrimination and top-heavy rules in that discussion if the plan meets the conditions listed below.

1. Under the plan, an employee can choose to have you make salary reduction contributions for the year to a trust in an amount expressed as a percentage of the employee’s compensation, but not more than $9,000 for 2004 ($10,500 for 2005). If permitted under the plan, an employee who is age 50 or over can also make a catch-up contribution of up to $1,500 for 2004 ($2,000 for 2005). See Catch-up contributions earlier under Contribution Limits.

2. You must make either:
   a. Matching contributions up to 3% of compensation for the year, or
   b. Nonelective contributions of 2% of compensation on behalf of each eligible employee who has at least $5,000 of compensation from you for the year.

3. No other contributions can be made to the trust.

4. No contributions are made, and no benefits accrue, for services during the year under any other qualified retirement plan of the employer on behalf of any employee eligible to participate in the SIMPLE 401(k) plan.

5. The employer's rights to any contributions are nonforfeitable. No more than $206,000 of the employee's compensation can be taken into account in figuring salary reduction contributions, matching contributions, and nonelective contributions.

Employee notification. The notification requirement that applies to SIMPLE IRA plans also applies to SIMPLE 401(k) plans. See Notification Requirement in this chapter.

Credit for startup costs. You may be able to claim a tax credit for part of the ordinary and necessary costs of starting a SIMPLE 401(k) plan that first became effective in 2004. For more information, see Credit for startup costs under Retirement Plans earlier.

More Information on SIMPLE 401(k) Plans
If you need more help to set up and maintain SIMPLE 401(k) plans, see Revenue Procedure 97-6 in Cumulative Bulletin 1997-1. This revenue procedure provides a model amendment you can use to adopt a plan with SIMPLE 401(k) provisions. This model amendment provides guidance to plan sponsors for incorporating SIMPLE 401(k) SIMPLE provisions in plans containing cash or deferred arrangements.

4.

Qualified Plans

Topics
This chapter discusses:

- Kinds of plans
- Setting up a qualified plan
- Minimum funding requirement
- Contributions
- Employer deduction
- Employer deferrals (401(k) plans)
- Distributions
- Prohibited transactions
- Reporting requirements
- Qualification rules

Useful Items
You may want to see:

- Publication 575, Pension and Annuity Income
- Form 1099-B, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, insurance Contracts, etc.
- Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, insurance Contracts, etc.
- Form 5500, Return of Exempt Organization Information
- Form 5500, Annual Return/Report of Employee Retirement Plan
- Form 5500-EZ, Annual Return of One-Participant (Owners and Their Spouses) Retirement Plans
- Form 5500, Schedule A, Information on ERISA Plans

Qualified retirement plans are set up by self-employed individuals or partnerships with 10 or fewer employees. A sole proprietor or a partner can set up a qualified plan. A common-law employee or a partner cannot set up a qualified plan. The plans described here can also be set up and maintained by employers that are corporations. All the rules discussed here apply to corporations except where specifically limited to the self-employed.

Chapter 4 Qualified Plans Page 11
Appendix A-5: Requirements of Deferred Profit-Sharing Plans

The plan must be for the exclusive benefit of employees or their beneficiaries. A qualified plan can include coverage for a self-employed individual.

As an employer, you can usually deduct, subject to limits, contributions you make to a qualified plan, including those made for your own retirement. The contributions and earnings on them are generally tax-free until distributed by the plan.

Kinds of Plans

There are two basic kinds of qualified plans—defined contribution plans and defined benefit plans—and different rules apply to each. You can have more than one qualified plan, but your contributions to all plans must not total more than the overall limits discussed under Contributions and Employer Deduction, later.

Defined Contribution Plan

A defined contribution plan provides an individual account for each participant in the plan. It provides benefits to a participant largely based on the amount contributed to that participant's account. Benefits are also affected by any income, expenses, gains, losses, and forfeitures of other accounts that may be allocated to an account. A defined contribution plan can be either a profit-sharing plan or a money purchase pension plan.

Profit-sharing plan. A profit-sharing plan is a plan for sharing your business profits with your employees. However, you do not have to make contributions out of net profits to have a profit-sharing plan.

The plan does not need to provide a definite formula for figuring the profits to be shared. But, if there is no formula, there must be systematic and substantial contributions.

The plan must provide a definite formula for allocating the contribution among the participants and for distributing the accumulated funds to the employees after they reach a certain age, after a fixed number of years, or upon certain other occurrences.

In general, you can be more flexible in making contributions to a profit-sharing plan than to a money purchase pension plan (discussed next) or a defined benefit plan (discussed later).

Forfeitures under a profit-sharing plan can be allocated to the accounts of remaining participants in a nondiscriminatory way or they can be used to reduce your contributions.

Money purchase pension plan. Contributions to a money purchase pension plan are fixed and are not based on your business profits. For example, if the plan requires that contributions be 10% of the participants' compensation regardless of whether or not you have profits (or the self-employed person has earned income), the plan is a money purchase pension plan. This applies even though the compensation of a self-employed individual as a participant is based on earned income derived from business profits.

Defined Benefit Plan

A defined benefit plan is any plan that is not a defined contribution plan. Contributions to a defined benefit plan are based on what is needed to provide benefits for retirement contributions. Actuarial assumptions and computations are required to figure these contributions. Generally, you will need continuing professional help to have a defined benefit plan.

Forfeitures under a defined benefit plan cannot be used to increase the benefits any employee would otherwise receive under the plan. Forfeitures must be used instead to reduce employer contributions.

Setting Up a Qualified Plan

There are two basic steps in setting up a qualified plan. First you adopt a written plan. Then you invest the plan assets.

You, the employer, are responsible for setting up and maintaining the plan.

If you are self-employed, it is not necessary to have employees besides yourself to sponsor and set up a qualified plan. If you have employees, see Participation, under Qualification Rules, later.

Set-up deadline. To take a deduction for contributions for any tax year, your plan must be set up (adopted) by the last day of that year (December 31 for calendar year employers).

Credit for startup costs. You may be able to claim a tax credit for part of the ordinary and necessary costs of starting a qualified plan that first became effective in 2004. For more information, see Credit for startup costs under Reminders, earlier.

Adopting a Written Plan

You must adopt a written plan. The plan can be an IRS-approved master or prototype plan offered by a sponsoring organization. Or it can be an individually designed plan.

Written plan requirement. To qualify, the plan you set up must be in writing and must be communicated to your employees. The plan's provisions must be stated in the plan. It is not sufficient for the plan to merely refer to a requirement of the Internal Revenue Code.

Master or prototype plans. Most qualified plans follow a standard form of plan (a master or prototype plan) approved by the IRS. Master and prototype plans are plans made available by plan providers for adoption by employers (including self-employed individuals). Under a master plan, the plan establishes a separate trust for each employer. Under a prototype plan, a separate trust or custodial account is established for each employer.

Plan providers. The following organizations generally can provide IRS-approved master or prototype plans.

- Banks (including some savings and loan associations and federally insured credit unions)
- Trade or professional organizations
- Insurance companies
- Mutual funds

Individual design plan. If you prefer, you can set up an individually designed plan to meet specific needs. Although advance IRS approval is not required, you can apply for approval by paying a fee and requesting a determination letter. You may need professional help for this. Revenue Procedure 2004-6 in Internal Revenue Bulletin 2004-1 may help you decide whether to apply for approval.

Internal Revenue Bulletins are available on the IRS website at www.irs.gov. They are also available at most IRS offices and at certain libraries.

User fee. The fee mentioned earlier for requesting a determination letter does not apply to certain requests made in 2004 and later years, by employers who have 100 or fewer employees who received at least $5,000 of compensation from the employer for the preceding year. At least one of them must be a non-highly compensated employee participating in the plan. The fee does not apply to requests made by the later of the following dates.

- The end of the 5th plan year the plan is in effect.
- The end of any remedial amendment period for the plan that begins within the first 5 plan years.

The request cannot be made by the sponsor of a prototype or similar plan the sponsor intends to market to participating employers.


Investing Plan Assets

In setting up a qualified plan, you arrange how the plan's funds will be used to build its assets.

- You can establish a trust or custodial account to invest the funds.
- You, the trust, or the custodial account can buy an annuity contract from an insurance company. Life insurance can be included only if it is incidental to the retirement benefits.
- You, the trust, or the custodial account can buy face-amount certificates from an insurance company. These certificates are treated like annuity contracts.

You set up a trust by a legal instrument (written document). You may need professional help to do this.

You can set up a custodial account with a bank, savings and loan association, credit union, or other person who can act as the plan trustee.
Appendix A-5: Requirements of Deferred Profit-Sharing Plans

You do not need a trust or custodial account, although you can have one, to invest the plan’s funds in annuity contracts or face-amount certificates. If anyone other than a trustee holds them, however, the contracts or certificates must state they are not transferable.

Other plan requirements. For information on other important plan requirements, see Qualification Rules, later.

Minimum Funding Requirement

In general, if your plan is a money purchase pension plan or a defined benefit plan, you must actually pay enough into the plan to satisfy the minimum funding standard for each year. Determining the amount needed to satisfy the minimum funding standard for a defined benefit plan is complicated. The amount is based on what should be contributed under the plan formula using actuarial assumptions and formulas. For information on this funding requirement, see section 412 and its regulations.

Quarterly instalments of required contributions. If your plan is a defined benefit plan subject to the minimum funding requirements, you must make quarterly instalment payments of the required contributions. If you do not pay the full instalments timely, you may have to pay interest on any underpayment for the period of the underpayment.

Due dates. The due dates for the instalments are 15 days after the end of each quarter. For a calendar-year plan, the instalments are due April 15, July 15, October 15, and January 15 (of the following year).

Instalment percentage. Each quarterly instalment must be 25% of the required annual payment.

Extended period for making contributions. Additional contributions required to satisfy the minimum funding requirement for a plan year will be considered timely if made by 8½ months after the end of that year.

Contributions

A qualified plan is generally funded by your contributions. However, employees participating in the plan may be permitted to make contributions.

Contributions deadline. You can make deductible contributions for a tax year up to the due date of your return (plus extensions) for that year.

Self-employed individual. You can make contributions on behalf of yourself only if you have net earnings (compensation) from self-employment in the trade or business for which the plan was set up. Your net earnings must be from your personal services, not from your investments. If you have a net loss from self-employment, you cannot make contributions for yourself for the year, even if you can contribute for common-law employees based on their compensation.

When Contributions Are Considered Made

You generally apply your plan contributions to the year in which you make them. But you can apply them to the previous year if all the following requirements are met:

1. You make them by the due date of your tax return for the previous year (plus extensions).
2. The plan was established by the end of the previous year.
3. The plan treats the contributions as though it had received them on the last day of the previous year.
4. You do either of the following.
   a. You specify in writing to the plan administrator or trustee that the contributions apply to the previous year.
   b. You deduct the contributions on your tax return for the previous year (A partnership shows contributions for partners on Schedule K (Form 1065), Partner’s Share of Income, Credits, Deductions, etc.)

Employer’s promissory note. Your promissory note made out to the plan is not a payment that qualifies for the deduction. Also, issuing this note is a prohibited transaction subject to tax. See Prohibited Transactions, later.

Employer Contributions

There are certain limits on the contributions and other annual additions you can make each year for plan participants. There are also limits on the amount you can deduct. See Deduction Limits, later.

Limits on Contributions and Benefits

Your plan must provide that contributions or benefits cannot exceed certain limits. The limits differ depending on whether your plan is a defined contribution plan or a defined benefit plan.

Defined benefit plan. For 2004, the annual benefit for a participant under a defined benefit plan cannot exceed the lesser of the following amounts:

1. 100% of the participant’s average compensation for his or her highest 5 consecutive calendar years.
2. $165,000 ($170,000 for 2005).

Defined contribution plan. For 2004, a defined contribution plan’s annual contributions and other additions (excluding earnings) to the account of a participant cannot exceed the lesser of the following amounts:

1. 100% of the participant’s compensation.
2. $41,000 ($42,000 for 2005).

Catch-up contributions (discussed later under Limit on Elective Deferrals) are not subject to the above limit.

Excess annual additions. Excess annual additions are the amounts contributed to a defined contribution plan that are more than the limits discussed previously. A plan can correct excess annual additions caused by any of the following actions:

- A reasonable error in estimating a participant’s compensation.
- A reasonable error in determining the elective deferrals permitted (discussed later).
- Forfeitures allocated to participants’ accounts.

Correcting excess annual additions. A plan can provide for the correction of excess annual additions in the following ways:

1. Allocate and reallocate the excess to other participants in the plan to the extent of their unused limits for the year.
2. If these limits are exceeded, do one of the following.
   a. Hold the excess in a separate account and allocate (and reclassify) it to participants’ accounts in the following year (or years) before making any contributions for that year (see also Carryover of Excess Contributions, later).
   b. Return employee after-tax contributions or elective deferrals (see Employee Contributions and Elective Deferrals (401(k) Plans), later).

Tax treatment of returned contributions or distributed elective deferrals. The return of employee after-tax contributions or the distribution of elective deferrals to correct excess annual additions is considered a corrective payment rather than a distribution of accrued benefits. The penalties for early distributions and excess distributions do not apply. These disbursements are not wages reportable on Form W-2. For specific information about reporting them, see the instructions for Forms 1098, 1098-EZ, 5498, and W-2.

Participants must report these amounts on the line for Penalties and annuities on Form 1040 or Form 1040A, U.S. Individual Income Tax Return.

Employee Contributions

Participants may be permitted to make nondeductible contributions to a plan in addition to your contributions. Even though these employee contributions are not deductible, the earnings on them are tax free until distributed in later years. Also, these contributions must satisfy the nondiscrimination test of section 401(m). See Notice 98-1 for further guidance and transitional relief relating to the nondiscrimination rules under sections 401(k) and 401(m). Notice 99-1 is in Cumulative Bulletin 1999-1.

Chapter 4 Qualified Plans Page 13

59
Appendix A-5: Requirements of Deferred Profit-Sharing Plans

Employer Deduction

You can usually deduct, subject to limits, contributions you make to a qualified plan, including those made for your own retirement. These contributions (and earnings and gains on them) are generally tax free until distributed by the plan.

Deduction Limits

The deduction limit for your contributions to a qualified plan depends on the kind of plan you have.

Defined contribution plans. The deduction for contributions to a defined contribution plan (profit-sharing plan or money purchase pension plan) cannot be more than 25% of the compensation paid (or accrued) during the year to your eligible employees participating in the plan. If you are self-employed, you may reduce this 25% limit in figuring the deduction for contributions you make for your own account. See Deduction Limit for Self-Employed Individuals, later.

When figuring the deduction limit, the following rules apply:
- Elective deferrals (discussed later) are not subject to the limit.
- Compensation includes elective deferrals.
- The maximum compensation that can be taken into account for each employee is $205,000.

Defined benefit plans. The deduction for contributions to a defined benefit plan is based on the actuarial assumptions and computations. Consequently, an actuary must figure your deduction limit.

In figuring the deduction for contributions, you cannot take into account any contributions or benefits that are more than the limits discussed earlier under Limits on Contributions and Benefits. However, your deduction for contributions to a defined benefit plan can be as much as the plan’s unfunded current liability.

Deduction limit for multiple plans. If you contribute to both a defined contribution plan and a defined benefit plan and at least one employee is covered by both plans, your deduction for those contributions is limited. Your deduction cannot be more than the greater of the following amounts.

25% of the compensation paid (or accrued) during the year to your eligible employees participating in the plan. If you are self-employed, you may reduce this 25% limit in figuring the deduction for contributions you make for your own account.

Your contributions to the defined benefit plans, but not more than the amount needed to meet the year’s minimum funding standard for any of these plans.

This limit does not apply if contributions to the defined contribution plan consist only of elective deferrals.

For this rule, a SEP is treated as a separate profit-sharing (defined contribution) plan.

Deduction Limit for Self-Employed Individuals

If you make contributions for yourself, you need to make a special computation to figure your maximum deduction for these contributions. Compensation is your net earnings from self-employment, defined in chapter 1. This definition takes into account both the following items:
- The deduction for one-half of your self-employment tax.
- The deduction for contributions on your behalf to the plan.

The deduction for your own contributions and on your behalf to the plan. For this reason, you determine the deduction for your own contributions indirectly by reducing the contribution rate called for in your plan. To do this, use either the Rate Table for Self-Employed or the Rate Worksheet for Self-Employed in chapter 5. Then figure your maximum deduction by using the Deduction Worksheet for Self-Employed in chapter 5.

Multiple plans. The deduction limit for multiple plans (discussed earlier) also applies to contributions you make as an employer on your own behalf.

Where To Deduct Contributions

Deduct the contributions you make for your common-law employees on your tax return. For example, sole proprietors deduct them on Schedule C (Form 1040), Profit or Loss From Business, or Schedule F (Form 1040), Profit or Loss From Farming, partnerships deduct them on Form 1065, U.S. Return of Partnership Income, and corporations deduct them on Form 1120, U.S. Corporation Income Tax Return, Form 1120-A, U.S. Corporation Short-Form Income Tax Return, or Form 1120S, U.S. Income Tax Return for an S Corporation.

Sole proprietors and partners deduct contributions for themselves on line 90 of Form 1040, U.S. Individual Income Tax Return. If you are a partner, contributions for yourself are shown on the Schedule K-1 (Form 1065), Partner’s Share of Income, Credits, Deductions, etc., you get from the partnership.

Carryover of Excess Contributions

If you contribute more to the plans than you can deduct for the year, you can carry over and deduct the difference in later years, combined with your contributions for those years. Your combined deduction in a later year is limited to 25% of the participating employees’ compensation for that year. For purposes of this limit, a SEP is treated as a profit-sharing (defined contribution) plan. However, the percentage limit must be reduced to figure your maximum deduction for contributions you make for yourself. See Deduction Limit for Self-Employed Individuals, earlier. The amount you carry over and deduct may be subject to the excise tax discussed next.

Table A-1 illustrates the carryover of excess contributions to a profit-sharing plan.

Excise Tax for Nondeductible (Excess) Contributions

If you contribute more than your deduction limit to a retirement plan, you have made nondeductible contributions and you may be liable for an excise tax. In general, a 10% excise tax applies to nondeductible contributions made to qualified pension and profit-sharing plans and to SEPs.

Special rule for self-employed individuals. The 10% excise tax does not apply to any contribution made to meet the minimum funding requirements in a money purchase pension plan or a defined benefit plan. Even if that contribution is more than your earned income from the trade or business for which the plan is set up, the difference is not subject to this excise tax. See Minimum Funding Requirement, earlier.
Appendix A-5: Requirements of Deferred Profit-Sharing Plans

Exceptions. If you maintain a defined benefit plan, the following exceptions may enable you to choose not to take certain nondeductible contributions into account when figuring the 10% excess tax.

Contributions to one or more defined contribution plans. Contributions to one or more defined contribution plans are not deductible only because they are more than the combined plan dedication limit, the 10% excess tax does not apply to the extent the difference is not more than the greater of the following amounts:

- 6% of the participants' compensation (including elective deferrals) for the year.
- The sum of employer matching contributions and the elective deferrals to a 401(k) plan.

Defined benefit plan exception. In figuring the 10% excess tax, you can choose not to take into account as nondeductible contributions for any year contributions to a defined benefit plan that are not more than the full funding limit figured without considering the current liability limit. Apply the overall limits on deductible contributions first to contributions to defined contribution plans and then to contributions to defined benefit plans. If you use this new exception, you cannot also use the exception discussed above under Contributions to one or more defined contribution plans.

Reporting the tax. You must report the tax on your nondeductible contributions on Form 5330. Form 5330 includes a computation of the tax. See the separate instructions for completing the form.

Elective Deferrals (401(k) Plans)

Your qualified plan can include a cash or deferred arrangement under which participants can choose to have you contribute part of their before-tax earnings as defined contributions in cash. A plan with this type of arrangement is popularly known as a "401(k) plan." As a self-employed individual participating in the plan, you can contribute part of your before-tax net earnings from the business. This contribution is called an "elective deferral" because participants choose (elect) to set aside the money, and defer the tax on the money until it is distributed to them.

In general, a qualified plan can include a cash or deferred arrangement only if the qualified plan is one of the following plans:

- A profit-sharing plan.
- A money purchase pension plan in existence on June 27, 1974, that included a salary reduction arrangement on that date.

Automatic enrollment in a 401(k) plan. Your 401(k) plan can have an automatic enrollment feature. Under this feature, you can automatically reduce an employee's pay by a fixed percentage and contribute the amount to the 401(k) plan on his or her behalf unless the employee affirmatively chooses not to have his or her pay reduced or chooses to have it reduced by a different percentage. These contributions qualify as elective deferrals. For more information about 401(k) plans with an automatic enrollment feature, see Revenue Ruling 2000-6 in Cumulative Bulletin 2000-1.

Partnership. A partnership can have a 401(k) plan.

Restriction on conditions of participation. The plan cannot require, as a condition of participation, that an employee complete more than 1 year of service.

Matching contributions. If your plan permits, you can make matching contributions for an employee who makes an elective deferral to your 401(k) plan. For example, the plan might provide that you will contribute 5 cents for each dollar your participating employees choose to defer under your 401(k) plan.

Nonelective contributions. You can, under a qualified 401(k) plan, also make contributions (other than matching contributions) for your participating employees without giving them the choice to take the cash instead.

Employee compensation limitation. No more than $255,000 of the employee's compensation can be taken into account when figuring contributions.

SIMPLE 401(k) plan. If you had 100 or fewer employees who earned $5,000 or more in compensation during the preceding year, you may be able to set up a SIMPLE 401(k) plan. A SIMPLE 401(k) plan is not subject to the nondiscrimination and top-heavy plan requirements discussed earlier under Qualification Rules. For details about SIMPLE 401(k) plans, see SIMPLE 401(k) Plan in chapter 5.

Limit on Elective Deferrals

There is a limit on the amount an employee can defer each year under these plans. This limit applies without regard to community property laws. Your plan must provide that your employee cannot defer more than the limit that applies for a particular year. For 2004, the basic limit on elective deferrals is $13,000. (For 2005, this limit increases to $14,000.) If, in conjunction with other plans, the deferral limit is exceeded, the difference is included in the employee's gross income.

Catch-up contributions. A 401(k) plan can permit participants who are age 50 or over at the end of the calendar year to also make catch-up contributions to the plan. For 2004, the catch-up contribution limit is $3,000 ($4,000 for 2005). Elective deferrals are not treated as catch-up contributions for 2004 unless they exceed the $13,000 limit, the ADP test limit of Internal Revenue Code section 401(k)(3), or the plan limit (if any). However, the catch-up contribution a participant can make for a year cannot exceed the lesser of the following amounts:

- The catch-up contribution limit.
- The excess of the participant's compensation over the elective deferrals that are not catch-up contributions.

Treatment of contributions. Your contributions to a 401(k) plan are generally deductible by you and tax-free to participating employees until distributed from the plan. Participating employees have a nonforfeitable right to the accrued benefits resulting from these contributions. Deferrals are included in wages for social security, Medicare, and federal unemployment (FUTA) tax.

Reporting on Form W-2. You must report the total amount deferred in boxes 5, 6, and 12 of your employee's Form W-2. See the Form W-2 Instructions.

Treatment of Excess Deferrals

If the total of an employee's deferrals is more than the limit for 2004, the employee can have the difference (called an excess deferral) paid out of any of the plans that permit these distributions. He or she must notify the plan by April 15, 2005 (or an earlier date specified in the plan), of the amount to be paid from each plan. The plan must then pay the employee that amount by April 15, 2005.

Excess withdrawn by April 15. If the employee takes out the excess deferral by April 15, 2005, it is not reported again by including it in the employee's gross income for 2005. However, any income earned on the excess deferral taken out is taxable in the tax year in which it is taken out. The distribution is not subject to the additional 10% tax on early distributions if the employee takes all of the excess deferral and the income on it, the distribution is treated as made proportionately from the excess deferral and the income.

Even if the employee takes out the excess deferral by April 15, the amount is considered contributed for satisfying (or not satisfying) the nondiscrimination requirements of the plan, unless the distributed amount is for a non-highly compensated employee who participates in only one employer's 401(k) plan or plans. See Contributions or benefits must not discriminate, later, under Qualification Rules.

Excess not withdrawn by April 15. If the employee does not take out the excess deferral by April 15, 2005, the excess, though taxable in 2004, is not included in the employee's cost basis in figuring the taxable amount of any eventual benefits or distributions under the plan. In effect, an excess deferral left in the plan is taxed twice, once when contributed and again when distributed. Also, if the entire deferral is allowed to stay in the plan, the plan may not be a qualified plan.

Reporting corrective distributions on Form 1099-R. Report corrective distributions of excess deferrals (including any earnings) on Form 1099-R. For specific information about reporting corrective distributions, see the Instructions for Forms 1099, 1098, 5498, and W-2G.

Tax on excess contributions of highly compensated employees. The law requires distributions to offset discrimination in a plan. If tests, such as the actual deferral percentage test (ADP test) (see section 401(k)(6)) and the actual contribution percentage test (ACP test) (see section 401(m)(2)), show that contributions for highly compensated employees are more than the test limits for these contributions, the employer may have to pay a 10% excise tax. Report the tax on
Appendix A-5: Requirements of Deferred Profit-Sharing Plans

Form 5500. The ADP and ACP tests do not apply to safe harbor 401(k) plans.

The tax for the year is 10% of the excess contributions for the plan year ending in your tax year. Excess contributions are elective deferrals, employer contributions, or employer matching or nonelective contributions that are more than the amount permitted under the ADP test or the ACP test.

See Notice 98-1 for further guidance and transition relief relating to the nondiscrimination rules under sections 401(k) and 401(m). Notice 98-1 is in Cumulative Bulletin 1998-1.

Distributions

Amounts paid to plan participants from a qualified plan are called distributions. Distributions may be nonperiodic, such as lump-sum distributions, or periodic, such as annuity payments. Also, certain loans may be treated as distributions. See Loans Treated as Distributions in Publication 576.

Required Distributions

A qualified plan must provide that each participant will receive:

• Resolve his or her entire interest (benefits) in the plan by the required beginning date (defined later), or

• Begin receiving regular periodic distributions by the required beginning date in annual amounts calculated to distribute the participant’s entire interest (benefits) over his or her life expectancy or over the joint life expectancy of the participant and the designated beneficiary (over a shorter period).

These distribution rules apply individually to each qualified plan. You cannot satisfy the requirement for one plan by taking a distribution from another. The plan must provide that these rules override any inconsistent distribution options previously offered.

Minimum distribution. If the account balance of a qualified plan participant is to be distributed (other than as an annuity), the plan administrator must figure the minimum amount required to be distributed each distribution calendar year. This minimum is figured by dividing the account balance by the applicable life expectancy. For details on figuring the minimum distribution, see Tax on Excess Accumulation in Publication 576.

Minimum distribution incidental benefit requirement. Minimum distributions must also meet the minimum distribution incidental benefit requirement. This requirement ensures the plan is used primarily to provide retirement benefits to the employee. After the employee’s death, only "incidental" benefits are expected to remain for distribution to the employee’s beneficiary (or beneficiaries). For more information about other distribution requirements, see Publication 575.

Required beginning date. Generally, each participant must receive his or her entire benefits in the plan or begin to receive periodic distributions of benefits from the plan by the required beginning date.

A participant must begin to receive distributions from his or her qualified retirement plan by April 1 of the first year after the later of the following years:

1. Calendar year in which he or she reaches age 70½.

2. Calendar year in which he or she retires from employment with the employer maintaining the plan.

However, the plan may require the participant to begin receiving distributions by April 1 of the year after the participant reaches age 70½ even if the participant has not retired.

If the participant is a 5% owner of the employer maintaining the plan or if the distribution is from a traditional or SIMPLE IRA, the participant must begin receiving distributions by April 1 of the first year after the calendar year in which the participant reached age 70½. For more information, see Tax on Excess Accumulation in Publication 576.

Distributions after the starting year. The distribution required to be made by April 1 is treated as a distribution for the starting year. (The starting year is the year in which the participant meets (1) or (2) above, whichever applies.) After the starting year, the participant must receive the required distribution for each year by December 31 of that year. If no distribution is made in the starting year, required distributions for 2 years must be made in the next year (one by April 1 and one by December 31).

Distributions after participant’s death. See Publication 576 for the special rules covering distributions made after the death of a participant.

Distributions From 401(k) Plans

Generally, distributions cannot be made until one of the following occurs:

• The employee retires, dies, becomes disabled, or otherwise ceases employment.

• The plan ends and no other defined contribution plan is established or continued.

• In the case of a 401(k) plan that is part of a profit-sharing plan, the employee reaches age 59½ or suffers financial hardship. For the rules on hardship distributions, including the limits on them, see section 1.401(k)-1(c) of the regulations.

Certain distributions listed above may be subject to the tax on early distributions discussed later.

Qualified domestic relations order (QDRO). These distribution restrictions do not apply if the distribution is to an alternate payee under the terms of a QDRO, which is defined in Publication 576.

Tax Treatment of Distributions

Distributions from a qualified plan minus a pro-rated part of any cost basis are subject to income tax in the year they are distributed. Since most participants have no cost basis, a distribution generally is fully taxable. An exception is a distribution that is properly rolled over as described next under Rollover.

The tax treatment of distributions depends on whether they are made periodically over several years or if a periodic distribution is made. See Table of Periodic Payments and Taxation of Nonperiodic Payments in Publication 576 for a detailed description of how distributions are taxed, including the 10-year tax option or capital gain treatment of a lump-sum distribution.

Rollover. The recipient of an eligible rollover distribution from a qualified plan can defer the tax on it by rolling it over into a traditional IRA or another eligible retirement plan. However, it may be subject to withholding as discussed under Withholding requirement, later.

Eligible rollover distribution. This is a distribution of all or any part of an employee’s balance in a qualified retirement plan that is not any of the following:

1. A required minimum distribution. See Required Distributions, earlier.

2. Any of a series of substantially equal payments made at least once a year over any of the following periods:
   a. The employee’s life or life expectancy.
   b. The joint lives or life expectancies of the employee and beneficiary.
   c. A period of 10 years or longer.

3. A hardship distribution.

4. The portion of a distribution that represents the return of an employee’s nonforfeitable contributions to the plan. See Employee Contributions, earlier. Also, see the Tip below.

5. A corrective distribution of excess contributions or deferrals under a 401(k) plan and any income allocable to the excess, or of excess annual additions and any allocable gains. See Correcting Excess Annual Additions, earlier, under Limits on Contributions and Benefits.

6. Loans treated as distributions.

7. Dividends on employer securities.

8. The cost of life insurance coverage.

A distribution of the employee’s nonforfeitable contributions may qualify as a rollover distribution. The transfer must be made either (1) through a direct rollover to a defined contribution plan that separately accounts for the taxable and nontaxable parts of the rollover or (2) through a rollover to a traditional IRA.

More Information. For more information about rollovers, see Rollovers in Publications 575 and 576.

Withholding requirement. If, during a year, a qualified plan pays to a participant one or more eligible rollover distributions (defined earlier) that are reasonably expected to total $500 or more, the payer must withhold 20% of each distribution for federal income tax.
Appendix A-5: Requirements of Deferred Profit-Sharing Plans

Exception: If, instead of having the distribution paid to him or her, the participant chooses to have the plan pay it directly to an IRA or another eligible retirement plan (a direct rollover), no withholding is required.

If the distribution is not an eligible rollover distribution, defined earlier, the 20% withholding requirement does not apply. Other withholding rules apply to distributions such as long-term periodic distributions and required distributions (periodic or nonperiodic). However, the participant can still choose not to have tax withheld from these distributions. If the participant does not make this choice, the following withholding rules apply.

- For periodic distributions, withholding is based on their treatment as wages.
- For nonperiodic distributions, 10% of the taxable part is withheld.

Estimated tax payments: If no income tax is withheld or not enough tax is withheld, the recipient of a distribution may have to make estimated tax payments. See Withholding Tax and Estimated Tax in Publication 575.

Tax on Early Distributions

If a distribution is made to an employee under the plan before he or she reaches age 59½, the employee may have to pay a 10% additional tax on the distribution. This tax applies to the amount received that the employee must include in income.

Exceptions: The 10% tax will not apply if distributions before age 59½ are made in any of the following circumstances:

- Made to a beneficiary (or to the estate of the employee) or on or before the death of the employee.
- Made due to the employee having a qualifying disability.
- Made as part of a series of substantially equal periodic payments beginning after separation from service and made at least annually for the life or life expectancy of the employee or the joint lives of life expectancies of the employee and his or her designated beneficiary. (The payments under this exception, except in the case of death or disability, must continue for at least 5 years or until the employee reaches age 59½, whichever is the longer period.)
- Made to an employee after separation from service if the separation occurred during or after the calendar year in which the employee reached age 55.
- Made to an alternate payee under a qualified domestic relations order (QDRO).
- Made to an employee for medical care up to the amount allowable as a medical expense deduction (determined without regard to whether the employee itemizes deductions).
- Timely made to reduce excess contributions under a 401(k) plan.

- Timely made to reduce excess employee or matching employer contributions (excess aggregate contributions).
- Timely made to reduce excess elective deferrals.
- Made because of an IRS levy on the plan.

Reporting the tax: To report the tax on early distributions, file Form 5529, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts. See the form instructions for additional information about the tax.

Tax on Excess Benefits

If you are or have been a 5% owner of the business maintaining the plan, amounts you receive at any age that are more than the benefits provided for under the plan formula are subject to an additional tax. This tax also applies to amounts received by your successor. The tax is 10% of the excess benefit includible in income.

5% owner. You are a 5% owner if you meet either of the following conditions at any time during the 5 plan years immediately before the plan year that ends within the tax year you receive the distribution.

- You own more than 5% of the capital or profits interest in the employer.
- You own or are considered to own more than 5% of the outstanding stock (or more than 5% of the total voting power of all stock) of the employer.

Reporting the tax: Include on Form 1040, line 62, any tax you owe for an excess benefit. On the dotted line next to the total, write "Sec. 72(r)(6)" and write in the amount.

Lump-sum distribution. The amount subject to the additional tax is not eligible for the optional methods of figuring income tax on a lump-sum distribution. The optional methods are discussed under Lump-Sum Distributions in Publication 575.

Excise Tax on Reversion of Plan Assets

A 20% or 50% excise tax is generally imposed on the cash and fair market value of other property an employer receives directly or indirectly from a qualified plan. If you owe this tax, report it on Form 5330. See the form instructions for more information.

Notification of Significant Benefit Accrual Reduction

An employer or the plan will have to pay an excise tax if both the following occur:

- A defined benefit plan or money purchase pension plan is amended to provide for a significant reduction in the rate of future benefit accrual.
- The plan administrator fails to notify the affected individuals and the employee organizations representing them of the reduction in writing. Affected individuals are the participants and alternate payees whose rate of benefit accrual under the plan may reasonably be expected to be significantly reduced by the amendment.

A plan amendment that eliminates or reduces any early retirement benefit or retirement-type subsidy reduces the rate of future benefit accrual.

The notice must be written in a manner calculated to be understood by the average plan participant and must provide enough information to allow each individual to understand the effect of the plan amendment. It must be provided within a reasonable time before the amendment takes effect.

The tax is $100 per participant or alternate payee for each day the notice is late. It is imposed on the employer, or, in the case of a multi-employer plan, on the plan.

There are certain exceptions and limitations on the tax. The tax does not apply in any of the following situations:

- The person liable for the tax was unaware of the failure and exercised reasonable diligence to meet the notice requirements.
- The person liable for the tax exercised reasonable diligence to meet the notice requirements and provided the notice within 30 days starting on the first date the person knew or should have known that the failure to provide notice existed.

If the person liable for the tax exercised reasonable diligence to meet the notice requirements, the tax cannot be more than $50,000 during the tax year. The tax can also be waived to the extent it would be excessive or unfair if the failure is due to reasonable cause and not to willful neglect.

Prohibited Transactions

Prohibited transactions are transactions between the plan and a disqualified person that are prohibited by law. (However, see Exemption later.) If you are a disqualified person who takes part in a prohibited transaction, you must pay a tax (discussed later).

Prohibited transactions generally include the following transactions:

1. A transfer of plan income or assets to, or use of them by or for the benefit of, a disqualified person.
2. Any act of a fiduciary by which he or she deals with plan income or assets in his or her own interest.
3. The receipt of consideration by a fiduciary for his or her own account from any party dealing with the plan in a transaction that involves plan income or assets.
4. Any of the following acts between the plan and a disqualified person.
   a. Selling, exchanging, or leasing property.
   b. Lending money or extending credit.

Chapter 4 Qualified Plans Page 17
Appendix A-5: Requirements of Deferred Profit-Sharing Plans

c. Furnishing goods, services, or facilities.

Exemption. Certain transactions are exempt from being treated as prohibited transactions. For example, a prohibited transaction does not take place if you are a disqualified person and receive any benefit to which you are entitled as a plan participant or beneficiary. However, the benefit must be figured and paid under the same terms as for all other participants and beneficiaries. For other transactions that are exempt, see section 4975 and the related regulations.

Disqualified person. You are a disqualified person if you are any of the following:

1. A fiduciary of the plan.
2. A person providing services to the plan.
3. An employer, any of whose employees are covered by the plan.
4. An employee organization, any of whose members are covered by the plan.
5. Any direct or indirect owner of 50% or more of any of the following:
   a. The combined voting power of all classes of stock entitled to vote, or the total value of shares of all classes of stock of a corporation that is an employer or employee organization described in (3) or (4).
   b. The capital interest or profits interest of a partnership that is an employer or employee organization described in (3) or (4).
   c. The beneficial interest of a trust or unincorporated enterprise that is an employer or employee organization described in (3) or (4).
6. A member of the family of any individual described in (1), (2), (3), or (6). (A member of a family is the spouse, ancestor, lineal descendant, or any spousal of a lineal descendant.)
7. A corporation, partnership, trust, or estate of which (or in which) any direct or indirect owner described in (1) through (5) holds 50% or more of any of the following:
   a. The combined voting power of all classes of stock entitled to vote or the total value of shares of all classes of stock of a corporation.
   b. The capital interest or profits interest of a partnership.
   c. The beneficial interest of a trust or estate.
8. An officer, director (or an individual having powers or responsibilities similar to those of officers or directors), a 10% or more shareholder, or highly compensated employee (earning 10% or more of the yearly wages of an employer) of a person described in (3), (4), (5), or (7).
9. A 10% or more (in capital or profits) partner or joint venturer of a person described in (3), (4), (6), or (7).
10. Any disqualified person, as described in (1) through (9) above, who is a disqualified person with respect to any plan to which a section 501(c)(9) trust is permitted to make payments under section 4222 of ERISA.

Tax on Prohibited Transactions

The initial tax on a prohibited transaction is 15% of the amount involved for each year (or part of a year) in the taxable period. If the transaction is not corrected within the taxable period, an additional tax of 100% of the amount involved is imposed. For information on correcting the transaction, see Correcting a prohibited transaction, later.

Both taxes are payable by any disqualified person who participated in the transaction (other than a fiduciary acting only as such). If more than one person takes part in the transaction, each person can be jointly and severally liable for the entire tax.

Amount involved. The amount involved in a prohibited transaction is the greater of the following amounts:

- The money and fair market value of any property given.
- The money and fair market value of any property received.

If services are performed, the amount involved is any excess compensation given or received.

Taxable period. The taxable period starts on the transaction date and ends on the earliest of the following days:

- The day the IRS mails a notice of deficiency for the tax.
- The day the IRS assesses the tax.
- The day the correction of the transaction is completed.

Payment of the 15% tax. Pay the 15% tax with Form 5500.

Correcting a prohibited transaction. If you are a disqualified person who participated in a prohibited transaction, you can avoid the 100% tax by correcting the transaction as soon as possible. Correcting the transaction means undoing it as much as you can without putting the plan in a worse financial position than if you had acted under the highest fiduciary standards.

Correction period. If the prohibited transaction is not corrected during the taxable period, you usually have an additional 90 days after the day the IRS mails a notice of deficiency for the 100% tax to correct the transaction. This correction period (the taxable period plus the 90 days) can be extended if either of the following occurs:

- The IRS grants reasonable time needed to correct the transaction.
- You petition the Tax Court.

If you correct the transaction within this period, the IRS will abate, credit, or refund the 100% tax.

Reporting Requirements

You may have to file an annual return/report form by the last day of the 7th month after the plan year ends. See the following list of forms to choose the right form for your plan.

Form 5500-EZ. You can use Form 5500-EZ if the plan meets all the following conditions:

- The plan is a one-participant plan, defined below.
- The plan meets the minimum coverage requirements of section 410(b) without being combined with any other plan you may have that covers either employees of your business.
- The plan only provides benefits for you, your spouse, or one or more partners and their spouses.
- The plan does not cover a business that is a member of an affiliated service group, a controlled group of corporations, or a group of businesses under common control.
- The plan does not cover a business that leases employees.

One-participant plan. Your plan is a one-participant plan if either of the following is true:

- The plan covers only you (or you and your spouse) and you (or you and your spouse) own the entire business (whether incorporated or unincorporated).
- The plan covers only one or more partners (or partner(s) and spouse(s)) in a business partnership.

Form 5500-EZ not required. You do not have to file Form 5500-EZ (or Form 5500) if you meet the conditions mentioned above and either of the following conditions:

- You have a one-participant plan that had total plan assets of $100,000 or less at the end of every plan year beginning after December 31, 1992.
- You have two or more one-participant plans that together had total plan assets of $100,000 or less at the end of every plan year beginning after December 31, 1993.

Example. You are a sole proprietor and your plan meets all the conditions for filing Form 5500-EZ. The total plan assets are more than $100,000. You should file Form 5500-EZ.

All one-participant plans must file Form 5500-EZ for their final plan year, even if the total plan assets have always been less than $100,000. The final plan year is the year in which distribution of all plan assets is completed.

Form 5500. If you do not meet the requirements for filing Form 5500-EZ, you must file Form 5500.
Appendix A-5: Requirements of Deferred Profit-Sharing Plans

Schedule A (Form 5500). If any plan benefits are provided by an insurance company, insurance service, or similar organization, complete and attach Schedule A (Form 5500) to Form 5500. Schedule A is not needed for a plan that covers only one of the following:

1. An individual or an individual and spouse who wholly own the trade or business, whether incorporated or unincorporated.
2. Partners in a partnership or the partners and their spouses.

**TIP**

Do not file a Schedule A (Form 5500) with a Form 5500-EZ.

Schedule B (Form 5500). For most defined benefit plans, complete and attach Schedule B (Form 5500), Attachement Information to Form 5500 or Form 5500-EZ.

Schedule P (Form 5500). This schedule is used by a fiduciary (trustee or custodian) of a trust described in section 401(a) or a custodial account described in section 401(t) to protect it under the statute of limitations provided in section 6521(e). The filing of a completed Schedule P (Form 5500) Annual Return of Fiduciary of Employee Benefit Trust, by the fiduciary satisfies the annual filing requirement under section 6033(a) for the trust or custodial account created as part of a qualified plan. This filing starts the running of the 3-year limitation period that applies to the trust or custodial account. For this protection, the trust or custodial account must qualify under section 401(a) and be exempt from tax under section 501(a). The fiduciary should file under section 6033(a), a Schedule P as an attachment to Form 5500 or Form 5500-EZ for the plan year in which the trust year ends. The fiduciary cannot file Schedule P separately. See the instructions for Form 5500 for more information.

Form 5310. If you terminate your plan and are the the sponsor or plan administrator, you can file Form 5310, Application for Determination for Terminating Plan. Your application must be accompanied by the appropriate user fee and Form 8717, User Fee for Employee Plan Determination Letter Request.

Form 8606. For more information about reporting requirements, see the forms and their instructions.

Qualification Rules

Qualification Rules

To qualify for the tax benefits available to qualified plans, a plan must meet certain requirements (qualification rules) of the tax law. Generally, unless you write your own plan, the financial institution that provided your plan will take the continuing responsibility for meeting qualification rules that are later changed. The following is a brief overview of important qualification rules that generally have not yet been discussed. It is not intended to be all-inclusive. See Setting Up a Qualified Plan, earlier.

- Vesting.
- Limits on contributions and benefits.
- Top-heavy plan requirements.
- Contributions or benefits provided by the leasing organization for services performed for you are treated as provided by you.

Benefit payment must begin when required. Your plan must provide that, unless the participant chooses otherwise, the payment of benefits to the participant must begin within 60 days after the close of the latest of the following periods:

- The plan year in which the participant reaches the earlier of age 65 or the normal retirement age specified in the plan.
- The plan year in which the 10th anniversary of the year in which the participant began participating in the plan occurs.
- The plan year in which the participant separates from service.

**Early retirement.** Your plan can provide for payment of retirement benefits before the normal retirement age. If your plan offers an early retirement benefit, a participant who separates from service before satisfying the early retirement age requirement is entitled to that benefit if he or she meets both the following requirements:

- Satisfies the service requirement for the early retirement benefit.
- Separates from service with a nonforfeitable right to an accrued benefit. The benefit, which may be actuarially reduced, is payable when the early retirement age requirement is met.

Survivor benefits. Defined benefit and money purchase pension plans must provide automatic survivor benefits in both the following forms:

- A qualified joint and survivor annuity for a vested participant who does not die before the annuity starting date.
- A qualified pre-retirement survivor annuity for a vested participant who dies before the annuity starting date and who has a surviving spouse.

The automatic survivor benefit also applies to any participant under a profit-sharing plan unless all the following conditions are met:

- The participant does not choose benefits in the form of a life annuity.
- The plan pays the full vested account balance to the participant's surviving spouse (or other beneficiary if the surviving spouse consents or if there is no surviving spouse) if the participant dies.
- The plan is not a direct or indirect transferee of a plan that must provide automatic survivor benefits.

**Loan secured by benefits.** If survivor benefits are required for a spouse under a plan, he or she must consent to a loan that uses as security the accrued benefits in the plan.

Chapter 4 Qualified Plans Page 19 65
Appendix A-5: Requirements of Deferred Profit-Sharing Plans

Waiver of survivor benefits. Each plan participant may be permitted to waive the joint and survivor annuity or the pre-retirement survivor annuity (or both), but only if the participant has the written consent of the spouse. The plan also must allow the participant to withdraw the waiver. The spouse’s consent must be witnessed by a plan representative or notary public.

Waiver of 20-day waiting period before annuity starting date. A plan may permit a participant to waive (with spousal consent) the 20-day minimum waiting period after a written explanation of the terms and conditions of a joint and survivor annuity is provided to each participant. The waiver is allowed only if the distribution begins more than 7 days after the written explanation is provided.

Involuntary cash-out of benefits not more than dollar limit. A plan may provide for the immediate distribution of the participant’s benefit under the plan if the present value of the benefit is not greater than $5,000.

However, the distribution cannot be made after the annuity starting date unless the participant and the spouse or surviving spouse of a participant who dies (if automatic survivor benefits are required for a spouse under the plan) consents in writing to the distribution. If the present value is greater than $5,000, the plan must have the written consent of the participant and the spouse or surviving spouse (if automatic survivor benefits are required for a spouse under the plan) for any immediate distribution of the benefit.

Benefits attributable to rollover contributions and earnings on them can be ignored in determining the present value of these benefits.

For distributions made on or after March 28, 2005, a plan must provide for the automatic rollover of any cash-out distribution of more than $1,000 to an individual retirement account, unless the participant chooses otherwise. The plan administrator must notify the participant in writing that the distribution can be transferred to another IRA.

Consolidation, merger, or transfer of assets or liabilities. Your plan must provide that, in the case of any merger or consolidation with, or transfer of assets or liabilities to, any other plan, each participant would (if the plan then terminated) receive a benefit equal to or more than the benefit he or she would have been entitled to just before the merger, etc. (if the plan had then terminated).

Benefits must not be assigned or alienated. Your plan must provide that its benefits cannot be assigned or alienated.

Exception for certain loans. A loan from the plan (not from a third party) to a participant or beneficiary is not treated as an assignment or alienation if the loan is secured by the participant’s accrued nonforfeitable benefit and is exempt from the tax on prohibited transactions under section 4975(d)(1) or would be exempt if the participant were a disqualified person. A disqualified person is defined earlier under Prohibited Transactions.

Exception for qualified domestic relations order (QDRO). Compliance with a QDRO does not result in a prohibited assignment or alienation of benefits. QDRO is defined in Publication 576.

Payments to an alternate payee under a QDRO before the participant attains age 59½ are not subject to the 10% additional tax that would otherwise apply under certain circumstances. The interest of the alternate payee is not taken into account in determining whether a distribution to the participant is a lump-sum distribution. Benefits distributed to an alternate payee under a QDRO can be rolled over tax free to an Individual retirement account or to an individual retirement annuity.

No benefit reduction for social security increases. Your plan must not permit a benefit reduction for a post-separation increase in the social security benefit level or wage base for any participant or beneficiary who is receiving benefits under your plan, or who is separated from service and has nonforfeitable rights to benefits. This rule also applies to plans supplementing the benefits provided by other federal or state laws.

Elective deferrals must be limited. If your plan provides for elective deferrals, it must limit those deferrals to the amount in effect for that particular year. See Limit on Elective Deferrals, earlier.

Top-heavy plan requirements. A top-heavy plan is one that mainly favors partners, sole proprietors, and other key employees.

A plan is top heavy for any plan year for which the total value of accrued benefits or account balances of key employees is more than 60% of the total value of accrued benefits or account balances of all employees. Additional requirements apply to a top-heavy plan primarily to provide minimum benefits or contributions for non-key employees covered by the plan.

Most qualified plans, whether or not top heavy, must contain provisions that meet the top-heavy requirements and will take effect in plan years in which the plans are top heavy. These qualification requirements for top-heavy plans are explained in section 416 and its regulations.

SIMPLE and safe harbor 401(k) plan exceptions. The top-heavy plan requirements do not apply to SIMPLE 401(k) plans or to safe harbor 401(k) plans that consist solely of safe harbor contributions.

Table and Worksheets for the Self-Employed

As discussed in chapters 2 and 4, if you are self-employed, you must use the following rate table or rate worksheet and deduction worksheet to figure your deduction for contributions you make for yourself to a SEP-IRA or qualified plan.

First, use either the rate table or rate worksheet to find your reduced contribution rate. Then complete the deduction worksheet to figure your deduction for contributions.

The table and the worksheets that follow apply only to self-employed individuals who have only one defined contribution plan, such as a profit-sharing plan. A SEP plan is treated as a profit-sharing plan. However, do not use this worksheet for SAR-SEPs.
# Appendix B-1: Clear Channel Radio Stations

## Clear Channel Radio

<table>
<thead>
<tr>
<th>STATION</th>
<th>DIAL</th>
<th>DEMO FORMAT WEBSITE</th>
<th>COMMENTS</th>
<th>CORE ARTISTS</th>
<th>STATION LINE-UP</th>
</tr>
</thead>
<tbody>
<tr>
<td>WXIX 91.5</td>
<td>107.1 FM</td>
<td>&quot;WIX 107 All Of Today's Best Music&quot;</td>
<td>wxixcincinnati.com</td>
<td>Reaches the hardcore group of advertisers to reach, with over 187 billion dollars in disposable income; delivers female audience; CinCincinnati Reds, Ladies Party in the Park, Ladies Day of Coney Island, KISS1075FM/Riverboat USA Nightlife; Many Kiss&quot;Make a Wish&quot; Foundation Telethon</td>
<td>Eminem, Jennifer Lopez, Pink, Kelly, KID, Sheryl, Shania, Mary J. Blige</td>
</tr>
<tr>
<td>WAVE 94.1</td>
<td>94.1 FM</td>
<td>&quot;Mix 94.1 - Mix Your Way&quot;</td>
<td>wavexxci.com</td>
<td>UI and Carson Morning Show; Delivers adult female listeners; Healthy Spring Promotion - hours/car/boom giveaway; Kids Fed - &quot;Save for the kids&quot; event in the county - draws over 125,000 parents and kids between 2-12</td>
<td>Sheryl Crow, Dixie Chicks, Madonna, Matchbox 20, Dave Matthews Band, Billy Joel, John Mayer, Smash Mouth</td>
</tr>
<tr>
<td>WZTS 1360 AM</td>
<td>1360 AM</td>
<td>&quot;The Sports Station&quot;</td>
<td>wsat.com</td>
<td>WSAT - national radio station in the Tri-State area. Local radio at its best, WZTS plays the best music of the 80's &amp; 90's delivered to a FM end up tempo style by personalities known throughout the Tri-State.</td>
<td>Bix, Four Seasons, Stryper Brothers, Chuck Norris, &quot;The King&quot; Denny Rhoades</td>
</tr>
<tr>
<td>WGST 1340 AM</td>
<td>1340 AM</td>
<td>&quot;New Oldies&quot;</td>
<td>wgsct.com</td>
<td>Official Home of the Bengals, High School Football, Miami Beach/Pit Bull, Mighty Ducks Hockey, NFL/Super Bowl, MLB/World Series, NHL/Final Four, NASCAR, NHL/Stanley Cup, and Bloomberg Market Minute</td>
<td>N/A</td>
</tr>
</tbody>
</table>
## Appendix B-2: Cumulative Audiences of Clear Channel Stations

### Ranker

<table>
<thead>
<tr>
<th>Cincinnati SP04 NSA ARB</th>
<th>Format</th>
<th>Rep</th>
<th>AQH Rnk</th>
<th>AQH (00)</th>
<th>AQH Rtg</th>
<th>Cume (00)</th>
<th>Cume Rnk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men 35-54</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M-Su 8a-12m</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WLW-AM</td>
<td>News</td>
<td>Emerald</td>
<td>1</td>
<td>108</td>
<td>2.8</td>
<td>1298</td>
<td>1</td>
</tr>
<tr>
<td>WGRR-FM</td>
<td>Gold</td>
<td>Cristal</td>
<td>2</td>
<td>54</td>
<td>1.4</td>
<td>747</td>
<td>3</td>
</tr>
<tr>
<td>WOFX-FM</td>
<td>Classic Rock</td>
<td>Emerald</td>
<td>3</td>
<td>53</td>
<td>1.4</td>
<td>833</td>
<td>2</td>
</tr>
<tr>
<td>WUBE-FM</td>
<td>Country</td>
<td>Cristal</td>
<td>4</td>
<td>40</td>
<td>1.0</td>
<td>525</td>
<td>5</td>
</tr>
<tr>
<td>WEBN-FM</td>
<td>Album-Oriented Rock</td>
<td>Emerald</td>
<td>4</td>
<td>40</td>
<td>1.0</td>
<td>625</td>
<td>4</td>
</tr>
<tr>
<td>WKR-C-AM</td>
<td>Talk</td>
<td>Emerald</td>
<td>6</td>
<td>38</td>
<td>1.0</td>
<td>472</td>
<td>6</td>
</tr>
<tr>
<td>WMOJ-FM</td>
<td>Rhythmic Oldies</td>
<td>D&amp;R</td>
<td>7</td>
<td>26</td>
<td>0.7</td>
<td>431</td>
<td>7</td>
</tr>
<tr>
<td>WYGY-FM</td>
<td>Country</td>
<td>D&amp;R</td>
<td>8</td>
<td>19</td>
<td>0.5</td>
<td>288</td>
<td>9</td>
</tr>
<tr>
<td>WRRM-FM</td>
<td>Soft AC</td>
<td>D&amp;R</td>
<td>9</td>
<td>17</td>
<td>0.4</td>
<td>390</td>
<td>8</td>
</tr>
<tr>
<td>WCKY-AM</td>
<td>Sports</td>
<td>Emerald</td>
<td>10</td>
<td>16</td>
<td>0.4</td>
<td>289</td>
<td>10</td>
</tr>
<tr>
<td>WIZ-FM</td>
<td>Urban Contemporary</td>
<td>D&amp;R</td>
<td>11</td>
<td>15</td>
<td>0.4</td>
<td>180</td>
<td>14</td>
</tr>
<tr>
<td>WDBZ-AM</td>
<td>Talk</td>
<td>D&amp;R</td>
<td>11</td>
<td>15</td>
<td>0.4</td>
<td>114</td>
<td>21</td>
</tr>
<tr>
<td>WAKW-FM</td>
<td>Religion</td>
<td>N/A</td>
<td>13</td>
<td>14</td>
<td>0.4</td>
<td>197</td>
<td>13</td>
</tr>
<tr>
<td>WSAJ-AM</td>
<td>Gold</td>
<td>Emerald</td>
<td>14</td>
<td>8</td>
<td>0.2</td>
<td>147</td>
<td>17</td>
</tr>
<tr>
<td>WTUE-FM</td>
<td>Album-Oriented Rock</td>
<td>Emerald</td>
<td>14</td>
<td>8</td>
<td>0.2</td>
<td>161</td>
<td>16</td>
</tr>
<tr>
<td>WVVMX-FM</td>
<td>Adult Contemporary</td>
<td>Emerald</td>
<td>14</td>
<td>8</td>
<td>0.2</td>
<td>268</td>
<td>11</td>
</tr>
<tr>
<td>WKRG-FM</td>
<td>Hot AC</td>
<td>Cristal</td>
<td>17</td>
<td>7</td>
<td>0.2</td>
<td>261</td>
<td>12</td>
</tr>
<tr>
<td>WCIN-AM</td>
<td>Urban Adult Contemp</td>
<td>N/A</td>
<td>17</td>
<td>7</td>
<td>0.2</td>
<td>77</td>
<td>24</td>
</tr>
<tr>
<td>WHKO-FM</td>
<td>Country</td>
<td>Cristal</td>
<td>17</td>
<td>7</td>
<td>0.2</td>
<td>132</td>
<td>18</td>
</tr>
<tr>
<td>WCZ-FM</td>
<td>Alt/Modern Rock</td>
<td>Cristal</td>
<td>17</td>
<td>7</td>
<td>0.2</td>
<td>171</td>
<td>16</td>
</tr>
<tr>
<td>WNLT-FM</td>
<td>Christian AC</td>
<td>N/A</td>
<td>21</td>
<td>5</td>
<td>0.1</td>
<td>140</td>
<td>18</td>
</tr>
<tr>
<td>WAOI-AM</td>
<td></td>
<td></td>
<td>22</td>
<td>4</td>
<td>0.1</td>
<td>73</td>
<td>26</td>
</tr>
<tr>
<td>WLQT-FM</td>
<td>Soft AC</td>
<td>Emerald</td>
<td>22</td>
<td>4</td>
<td>0.1</td>
<td>84</td>
<td>23</td>
</tr>
<tr>
<td>WMMX-FM</td>
<td>Hot AC</td>
<td>Emerald</td>
<td>24</td>
<td>3</td>
<td>0.1</td>
<td>74</td>
<td>25</td>
</tr>
<tr>
<td>WFCJ-FM</td>
<td>Religion</td>
<td>Salem</td>
<td>26</td>
<td>2</td>
<td>0.1</td>
<td>70</td>
<td>27</td>
</tr>
<tr>
<td>WKS-FM</td>
<td>Contemporary Hit Radio</td>
<td>Emerald</td>
<td>28</td>
<td>2</td>
<td>0.1</td>
<td>120</td>
<td>20</td>
</tr>
<tr>
<td>WPFB-FM</td>
<td>Country</td>
<td>N/A</td>
<td>28</td>
<td>2</td>
<td>0.1</td>
<td>86</td>
<td>22</td>
</tr>
<tr>
<td>WGCFZ-FM</td>
<td>Contemporary Hit Radio</td>
<td>D&amp;R</td>
<td>28</td>
<td>1</td>
<td>0.0</td>
<td>31</td>
<td>29</td>
</tr>
<tr>
<td>WCVG-AM</td>
<td>Religion</td>
<td>N/A</td>
<td>28</td>
<td>1</td>
<td>0.0</td>
<td>36</td>
<td>28</td>
</tr>
</tbody>
</table>

This report has been prepared using Strata NuMath research. Strata NuMath and report designs Copyright ©2004 Strata Marketing, Inc. 312-222-1555

Arbitron Audience Estimates Copyright ©2004 The Arbitron Company

Cincinnati SP04 MSA ARB  [excluded from rank: combo components, simulcast components]
# Schedules

## 2005

### Cincinnati

<table>
<thead>
<tr>
<th>Daypart</th>
<th>Note</th>
<th>Spt/Wk</th>
<th>Spt $</th>
<th>Total Cost</th>
<th>CPP ($)</th>
<th>Cumc</th>
</tr>
</thead>
<tbody>
<tr>
<td>WCKY-AM</td>
<td>Sports Talk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M-F 12m-6a</td>
<td>Overnights</td>
<td>16</td>
<td>$5</td>
<td>$90</td>
<td>$10</td>
<td>2,300</td>
</tr>
<tr>
<td>M-F 6a-10a</td>
<td></td>
<td>2</td>
<td>$45</td>
<td>$90</td>
<td>$44</td>
<td>16,300</td>
</tr>
<tr>
<td>M-F 10a-3p</td>
<td></td>
<td>2</td>
<td>$45</td>
<td>$90</td>
<td>$90</td>
<td>15,100</td>
</tr>
<tr>
<td>M-F 3p-7p</td>
<td></td>
<td>2</td>
<td>$60</td>
<td>$120</td>
<td>$75</td>
<td>20,400</td>
</tr>
<tr>
<td>M-F 7p-12m</td>
<td></td>
<td>10</td>
<td>$15</td>
<td>$150</td>
<td>$150</td>
<td>6,300</td>
</tr>
<tr>
<td><strong>Total 1 Week</strong></td>
<td></td>
<td>34</td>
<td>$16</td>
<td>$540</td>
<td>$79</td>
<td>31,300</td>
</tr>
<tr>
<td>WEBN-FM</td>
<td>AOR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M-F 12m-6a</td>
<td>Overnights</td>
<td>18</td>
<td>$35</td>
<td>$630</td>
<td>$175</td>
<td>8,400</td>
</tr>
<tr>
<td>M-F 6a-10a</td>
<td></td>
<td>2</td>
<td>$325</td>
<td>$650</td>
<td>$155</td>
<td>37,100</td>
</tr>
<tr>
<td>M-F 10a-3p</td>
<td></td>
<td>2</td>
<td>$275</td>
<td>$550</td>
<td>$138</td>
<td>31,500</td>
</tr>
<tr>
<td>M-F 3p-7p</td>
<td></td>
<td>2</td>
<td>$325</td>
<td>$650</td>
<td>$203</td>
<td>38,500</td>
</tr>
<tr>
<td>M-F 7p-12m</td>
<td></td>
<td>10</td>
<td>$100</td>
<td>$1,000</td>
<td>$333</td>
<td>15,200</td>
</tr>
<tr>
<td><strong>Total 1 Week</strong></td>
<td></td>
<td>34</td>
<td>$102</td>
<td>$3,480</td>
<td>$193</td>
<td>59,900</td>
</tr>
<tr>
<td>WOFX-FM</td>
<td>Classic Rock</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M-F 12m-6a</td>
<td>Overnights</td>
<td>18</td>
<td>$45</td>
<td>$810</td>
<td>$225</td>
<td>10,300</td>
</tr>
<tr>
<td>M-F 6a-10a</td>
<td></td>
<td>2</td>
<td>$290</td>
<td>$580</td>
<td>$107</td>
<td>56,000</td>
</tr>
<tr>
<td>M-F 10a-3p</td>
<td></td>
<td>2</td>
<td>$160</td>
<td>$320</td>
<td>$100</td>
<td>40,500</td>
</tr>
<tr>
<td>M-F 3p-7p</td>
<td></td>
<td>2</td>
<td>$185</td>
<td>$370</td>
<td>$132</td>
<td>43,900</td>
</tr>
<tr>
<td>M-F 7p-12m</td>
<td></td>
<td>10</td>
<td>$50</td>
<td>$500</td>
<td>$167</td>
<td>18,000</td>
</tr>
<tr>
<td><strong>Total 1 Week</strong></td>
<td></td>
<td>34</td>
<td>$76</td>
<td>$2,580</td>
<td>$143</td>
<td>84,300</td>
</tr>
<tr>
<td>WLW-AM</td>
<td>News &amp; Talk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M-F 12m-6a</td>
<td>Overnights</td>
<td>18</td>
<td>$25</td>
<td>$450</td>
<td>$36</td>
<td>24,800</td>
</tr>
<tr>
<td>M-F 6a-10a</td>
<td></td>
<td>2</td>
<td>$350</td>
<td>$700</td>
<td>$95</td>
<td>80,200</td>
</tr>
<tr>
<td>M-F 10a-3p</td>
<td></td>
<td>2</td>
<td>$350</td>
<td>$700</td>
<td>$83</td>
<td>72,200</td>
</tr>
<tr>
<td>M-F 3p-7p</td>
<td></td>
<td>2</td>
<td>$275</td>
<td>$550</td>
<td>$102</td>
<td>79,000</td>
</tr>
<tr>
<td>M-F 7p-12m</td>
<td></td>
<td>10</td>
<td>$100</td>
<td>$1,000</td>
<td>$71</td>
<td>44,800</td>
</tr>
<tr>
<td><strong>Total 1 Week</strong></td>
<td></td>
<td>34</td>
<td>$100</td>
<td>$3,400</td>
<td>$71</td>
<td>130,800</td>
</tr>
<tr>
<td>WKRC-AM</td>
<td>Talk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M-F 12m-6a</td>
<td>Overnights</td>
<td>18</td>
<td>$5</td>
<td>$90</td>
<td>$17</td>
<td>7,200</td>
</tr>
<tr>
<td>M-F 6a-10a</td>
<td></td>
<td>2</td>
<td>$45</td>
<td>$90</td>
<td>$41</td>
<td>26,100</td>
</tr>
<tr>
<td>M-F 10a-3p</td>
<td></td>
<td>2</td>
<td>$45</td>
<td>$90</td>
<td>$26</td>
<td>29,800</td>
</tr>
<tr>
<td>M-F 3p-7p</td>
<td></td>
<td>2</td>
<td>$60</td>
<td>$120</td>
<td>$33</td>
<td>34,900</td>
</tr>
<tr>
<td>M-F 7p-12m</td>
<td></td>
<td>10</td>
<td>$15</td>
<td>$150</td>
<td>$30</td>
<td>15,900</td>
</tr>
<tr>
<td><strong>Total 1 Week</strong></td>
<td></td>
<td>34</td>
<td>$16</td>
<td>$540</td>
<td>$28</td>
<td>51,700</td>
</tr>
</tbody>
</table>

Appendix B-3: Pricing for 60-Second Radio Spots
Appendix B-4: Detailed WKRC Information

Market: Cincinnati

Station: 55KRC “The Talk Station”

Years in format: 14

Personality Information:
Jerry Thomas, of the Jerry and Craig Morning show, has been on the air for over forty years.

Top syndicated programming of Rush Limbaugh and Sean Hannity

Compelling Articles:

Cincinnati Post
Military personnel past and present, local police chiefs and politicians are about lined up. But who organizers would most like to see at a rally in Cincinnati on Wednesday are thousands of tri-staters, showing they are fully behind the American men and women who might be called on to oust the regime of Saddam Hussein by force.

The rally for the troops, being organized by 55KRC radio and several civic groups, will begin at noon Wednesday at Fountain Square and last for about an hour. "You may not believe in the war and you may not support the war, but if you are a soldier, you don't have any choice," said Sandy Arnold, whose husband Clyde, an Army staff sergeant in a reserve unit based in Sharonville, is on his way to Fort Snelling, Minn., today for possible deployment to the Middle East. "They need to know that we support them and appreciate the sacrifice that they make."

Tony Bender, program director at 55KRC and organizer of the rally, said speakers would likely include current and/or former military personnel, police chiefs from Cincinnati and Northern Kentucky. Also expected are representatives from the Cincinnati City Council.

Kentucky Post
Troops get Tri-state greetings...
BELLEVUE - Dozens of Tri-state families came out this weekend to record online video messages to troops overseas. An estimated (100) 2-minute messages were recorded at the Party Source, said Heather Johnson, a Party Source employee who helped register people Saturday and Sunday. "They're mostly just wishing them well," she said. "One little girl did the pledge for her dad."
Appendix B-4: Detailed WKRC Information

Johnson said they were still talking about having future message-recording weekends. The messages are available to troops online at www.mailfromhome.tv. The event was co-sponsored by 55KRC radio.

- Erica Solvig

Cincinnati Post

WLW-AM (700) continues to rule in tri-state radio ratings, but Clear Channel sister station and conservative talker WKRC-AM (550) made dramatic gains. The hottest talk show in the tri-state is Sean Hannity on WKRC and the hottest music trend is the urban, hip-hop scene.

The huge winner in the winter book was WKRC, up two shares in total listeners from a 3.8 to a 5.8 posting the station's highest numbers in years. The increase was almost single handily driven by the addition of syndicated talk host Hannity who came on the air in mid-January replacing Pat Barry.

The New York-based Hannity, who also hosts a week night show with liberal foil Alan Colmes on Fox News, posted a whopping increase for the station’s 3-6 p.m. period – up an incredible four shares in total listeners, an amazing three shares among the 25-54 group. Such doubling of radio audiences over one rating period from a single personality is unprecedented.

Conservative talk was generally up for WKRC’s other daytime syndicated shows featuring Glen Beck and Rush Limbaugh, which posted significant increases.

Cincinnati Enquirer

Hannity shows the other side of the boycott story

Sean Hannity should be listed on the New York Stock Exchange: SeanInc. He's a one-man opinion industry, with products in every media grocery aisle: TV, Internet, talk radio and a best seller in print, Let Freedom Ring.

He says he now reaches as many as 18 million people a week. And it felt like all of them were packed into Cintas Center to hear him Friday night. Hannity is riding a Banzai Pipeline wave of anger at the media. His success is fueled by a growing national appetite for the "other side" of the story from a conservative point of view. And he thinks the demand itself shows how far the rest of the press has tilted. "People have choices, and they instinctively perceive an institutional bias," he says. Networks and newspapers "don't understand the problem, but we've made them more aware of their bias."

In an interview and during his speech at Cintas Center, he described the epic battle for America's future as an all-out ideological war. "The Democrats are on the run," he said to reverberating cheers from fans of his syndicated show on 550 WKRC-AM. A well-dressed, middle-aged woman stood up during the Q&A and asked him, "When are you going to get Hillary on your show and grill her like the pork chop she is?" The sell-out crowd of 4,000 erupted. It was feeding time at the zoo, and liberals were the raw meat being broiled by Hannity and his guest, author Ann Coulter.

Welcome to Cincinnati, where conservatives are the majority, and know how to act like it. They were young and old, from all over town, having a rowdy "booya" good time.
Appendix B-4: Detailed WKRC Information

When Hannity asked for a head-count of liberals in the crowd, one guy raised his hand. One. That's not counting the eight who picketed outdoors, the last stragglers in the slow, ragtag retreat of the increasingly disoriented Cincinnati boycott. Hannity had asked their leader, Nate Livingston, to come on stage and have his say, uninterrupted. Livingston chose instead to stand outside with a bullhorn as protesters shouted racist slurs and profanities at the departing crowd. "Liberals are on the wrong side of history," Hannity said.

And there was the proof, standing outside in the rain behind a line of cops, waving soggy cardboard signs, screaming insults and obscenities at men, women and children who chose to defy a boycott enforced by a tiny handful of misguided extremists.

The people who came to see Hannity had another reason to show up: Many were also there to stand up against the boycott threats and intimidation that had become a national topic on Hannity's radio show. They were there to say, "It's over."

Once again, Cincinnati was in the national spotlight. But this time, the story was actually flattering. Finally, the boycotters were exposed as a joke. Threats of "hundreds" of picketers turned out to be just eight. A boycott for "justice" was revealed as an attack on free expression of ideas.

It was the long overdue reply to boycotters Bill Cosby and Whoopi Goldberg. "I don't think innocent people should get hurt because you want to make a political point," Hannity said.
Appendix B-5: Don Kowalewski Contact Information

Don Kowalewski  
Senior Account Executive  
Team Emerald

3250 West Big Beaver Road  
Troy, MI 48084-2902  
T 248.614.7111  F 248.614.5292  
e-mail: don.kowalewski@clearchannelradiosales.com

CLEARCHANNEL  
RADIO SALES
Domain Name Rules

General Extensions

Country-Specific Extensions

The following is a list of rules of each registry. Please note that this list may not be a complete list and that each registry may adopt additional rules from time to time.

Domain Names have a variety of basic rules:

GENERAL EXTENSIONS

.COM, .NET and .ORG Domain Names

- .COM - to be used for commercial and personal sites
- .NET - recommended for companies involved in Internet infrastructure
- .ORG - recommended for not-for-profit organizations
- Use only letters, numbers, or hyphen ("-"),
- Cannot begin or end with a hyphen
- Must have less than 63* characters, not including .COM, .NET and .ORG

* .com, .net and .org domain names exceeding a total of 26 characters are supported by most web browsers. However, certain web browsers, email programs and other Internet related applications may not support domain names over 26 characters.

.INFO Domain Names

- .INFO - to be used for both commercial and personal sites
- Use only letters, numbers, or hyphen ("-"),
- Cannot begin or end with a hyphen
- Must have at least 3 characters and less than 63 characters, not including .INFO

.BIZ Domain Names

- .BIZ - sites restricted to commercial and bona fide business purposes
- Use only letters, numbers, or hyphen ("-"),
- Cannot begin or end with a hyphen
- Cannot have two hyphens in a row
- Must have at least 3 characters and less than 63 characters, not including .BIZ
Appendix B-6: Domain Name Rules

.NAME Domain Names

1. .NAME - to be used for personal sites
2. Must be composed of a first and last name (yourname1.yourname2.name)
3. First name (yourname1 in above example) must have at least 1 character and no more than 63 characters
4. Second name (yourname2 in above example) must have at least 3 characters and no more than 63 characters
5. Use only letters, numbers or hyphen ("-")
6. Cannot begin or end with a hyphen

COUNTRY-SPECIFIC EXTENSIONS

.AC and .SH Domain Names

1. .SH - St. Helena, to be used for both commercial and personal sites
2. .AC - Ascension Island, to be used for both commercial and personal sites
3. Use only letters, numbers, or hyphen ("-")
4. Cannot begin or end with a hyphen
5. Must have at least 3 characters, but less than 23, not including .AC and .SH

.AS Domain Names

1. .AS - American Samoa, to be used for commercial and personal sites
2. Use only letters, numbers, or hyphen ("-")
3. Cannot begin or end with a hyphen
4. Must have at least 3 characters, but less than 23, not including .AS

.BE Domain Names

1. .BE - Belgium, to be used for commercial and personal sites
2. Use only letters, numbers, or hyphen ("-")
3. Cannot begin or end with a hyphen
4. Must have at least 2 characters, not including .BE

.CA Domain Names

1. .CA registrants must meet Canadian presence requirements as defined by CIRA (Canadian Internet Registration Authority)
2. Use only letters, numbers, or hyphen ("-")
3. Cannot begin or end with a hyphen
4. Length. Domain names must be not less than two (2) and not greater than fifty (50) characters long.

.CC Domain Names

1. .CC - Cocos (Keeling) Islands, to be used for commercial and personal sites
2. Use only letters, numbers, or hyphen ("-")
## Registration

### General Domain Name Extensions

Register a Domain Name Now. Registration Questions


All prices in US dollars.

<table>
<thead>
<tr>
<th>EXTENSION</th>
<th>REGISTRATIONS</th>
<th>RENEWALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>.com</td>
<td>$35/1 year</td>
<td>$35/1 year</td>
</tr>
<tr>
<td></td>
<td>$70/2 years</td>
<td>$70/2 years</td>
</tr>
<tr>
<td></td>
<td>$150/5 years</td>
<td>$150/5 years</td>
</tr>
<tr>
<td></td>
<td>$299/10 years</td>
<td>$299/10 years</td>
</tr>
<tr>
<td>.net</td>
<td>$70/2 years</td>
<td>$70/2 years</td>
</tr>
<tr>
<td></td>
<td>$150/5 years</td>
<td>$150/5 years</td>
</tr>
<tr>
<td></td>
<td>$299/10 years</td>
<td>$299/10 years</td>
</tr>
<tr>
<td>.org</td>
<td>$299/10 years</td>
<td>$299/10 years</td>
</tr>
<tr>
<td>.biz</td>
<td>$70/2 years</td>
<td>$70/2 years</td>
</tr>
<tr>
<td></td>
<td>$150/5 years</td>
<td>$150/5 years</td>
</tr>
<tr>
<td></td>
<td>$299/10 years</td>
<td>$299/10 years</td>
</tr>
<tr>
<td>.info</td>
<td>$299/10 years</td>
<td>$299/10 years</td>
</tr>
<tr>
<td>.name</td>
<td>$35/1 year</td>
<td>$35/1 year</td>
</tr>
<tr>
<td></td>
<td>$70/2 years</td>
<td>$70/2 years</td>
</tr>
<tr>
<td></td>
<td>$299/10 years</td>
<td>$299/10 years</td>
</tr>
</tbody>
</table>

### Transfers

- **Switch Your Domain Name to Register.com**
- **Transfer Your Domain Name to Another Person/Company**

1. Only .com and .net domain names are eligible for Transfer of Registrant.
2. Only .com, .net, .biz, .info, .name and .us domain names are eligible for Transfer of Registrant.

Find out how long a domain name can be and which characters are allowed in the Domain Name Rules.

### Services

- **5-page WebSiteNOW!™ Do-It-Yourself Web Site Building Tool**
- **TERM**
- **PRICE**

- **monthly**
- **$4.95**
Appendix B-7: Pricing for Domain Names and Services

20-page WebSiteNOW™ Do-It-Yourself Web Site Building Tool

Personalized Email @ Your Domain Name

Hosted Microsoft® Exchange (Business Class Email Package)
Premium Web Site Forwarding
Web Site Hosting

OUR PARTNERS' SERVICES
Please visit our partners' sites for current pricing information.

Overture - Pay-per-Click Advertising
Google AdWords Select™ - Pay-Per-Click Advertising
Web Site Design Center - Professionally Designed Web Sites
Constant Contact® - Email Marketing

<table>
<thead>
<tr>
<th>Duration</th>
<th>Pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>$49.00</td>
</tr>
<tr>
<td>2 years</td>
<td>$88.20 (save 10%)</td>
</tr>
<tr>
<td>3 years</td>
<td>$117.60 (save 20%)</td>
</tr>
<tr>
<td>Monthly</td>
<td>$14.95</td>
</tr>
<tr>
<td>1 year</td>
<td>$149.00</td>
</tr>
<tr>
<td>2 years</td>
<td>$238.40 (save 20%)</td>
</tr>
<tr>
<td>3 years</td>
<td>$268.20 (save 40%)</td>
</tr>
<tr>
<td>1 year</td>
<td>$29.99</td>
</tr>
<tr>
<td>2 years</td>
<td>$59.98</td>
</tr>
<tr>
<td>3 years</td>
<td>$80.97 (save 10%)</td>
</tr>
<tr>
<td>4 years</td>
<td>$95.97 (save 20%)</td>
</tr>
<tr>
<td>5 years</td>
<td>$104.97 (save 30%)</td>
</tr>
<tr>
<td>Monthly</td>
<td>$15/month per mailbox</td>
</tr>
</tbody>
</table>

$49.00/year per domain name
Packages starting at $14.95/month

PRICE

Packages starting at $50.00
Packages starting at $55.00
Packages starting at $749.00
Packages starting at $10.00/month
Welcome to the Internet Home of Southwestern Ohio Services!

Insert picture
of equipment, etc

(Input short introduction to the business, including market location, general industry, years in business, etc. Keep description brief, as much of the information is described in other pages)

For inquiries please contact Nick:

Phone: / -or- Email: Nick. @SWOhioServices.com
Welcome to the Internet Home of Southwestern Ohio Services!

Insert picture of storage area for equipment, picture of completed job, or any other representative image.

(Input history of how the business came to be, including dates, years, etc. Emphasize the duration of time the business has been performing services, customer satisfaction, and quality services offered by SOS.)

For inquiries please contact Nick:

Phone: -or- Email: Nick @SWOhioServices.com
Southwestern Ohio Services: What do we do?

Insert one (or more) example pictures of work performed to illustrate descriptions of the work.

- (Input some detailed information in these bulleted points regarding the type of service and the nature of the work. Other information that may attract customers is useful also)

Insert one (or more) example pictures of work performed to illustrate descriptions of the work.

For inquiries please contact Nick

Phone: -or- Email: Nick. @SWOhioServices.com
About Nick, Owner of Southwestern Ohio Services:

Insert picture of Nick (if desired)

(Input short description of experience in industry, experience with SOS and previous businesses as well. Highlight years of experience and quantity/quality of jobs performed.)

For inquiries please contact Nick:

Phone: -or- Email: Nick. @SWOhioServices.com
How to contact Southwestern Ohio Services:

The most direct way to reach SOS is via the business phone number:

If all available personnel is busy at the time, your call will be forwarded to Nick's cell phone.

If you would rather contact SOS via E-mail, you can contact the owner at Nick @SWOhioServices.com

-OR-

You can use the form below to submit any questions you may have for SOS:

Please enter your comments or questions here:

For inquiries please contact Nick:

Phone: ___________________________ -or- Email: Nick__________@SWOhioServices.com
Appendix B-13: Search Engine Registration Pages

Free Registration

<table>
<thead>
<tr>
<th>Search Engine Name</th>
<th>Link to Register Homepage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Altavista</td>
<td><a href="http://www.altavista.com/sites/search/addurl">http://www.altavista.com/sites/search/addurl</a></td>
</tr>
<tr>
<td>Google</td>
<td><a href="http://www.google.com/addurl.html">http://www.google.com/addurl.html</a></td>
</tr>
<tr>
<td>Lycos*</td>
<td><a href="http://searchservices.lycos.com/searchservices/">http://searchservices.lycos.com/searchservices/</a></td>
</tr>
<tr>
<td>Yahoo*</td>
<td><a href="http://docs.yahoo.com/info/suggest/">http://docs.yahoo.com/info/suggest/</a></td>
</tr>
</tbody>
</table>

* Sites may require registration with service

Pay Registration:

<table>
<thead>
<tr>
<th>Search Engine Name</th>
<th>Link to Register Homepage</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metacrawler</td>
<td><a href="http://www.metacrawler.com">http://www.metacrawler.com</a> (click &quot;Submit Your Site at bottom of page)</td>
<td>$49.99</td>
</tr>
</tbody>
</table>

Useful Resources:

<table>
<thead>
<tr>
<th>Search Engine Name</th>
<th>Link to Homepage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lycos</td>
<td><a href="http://insite.lycos.com/tutorial.asp">http://insite.lycos.com/tutorial.asp</a></td>
</tr>
</tbody>
</table>

1 User  5 User

Full Version:  $499.95  $1,499.95
Upgrade:  $379.95  $1,349.95

What is an Upgrade?

Now available for download

Product Information | What People Say | System Requirements | Add-ons | Ways to Buy

Overview | Features & Benefits | New for 2005 | How It Works | FAQs

Product Overview

Custom-built for contractors, QuickBooks: Premier Contractor Edition 2005 with advanced job costing helps you make more money from your jobs.

Key Features and Benefits

- **Boost Job Profits with Automatic Job Costing.** Find ways to make more money from your jobs with 17 reports, including 5 new advanced reports.

- **Keep All Your Job Details in One Place.** Manage your whole job from estimate to purchase order, invoice and job cost reports. Track and bill for change orders automatically.

- **Run Your Contracting Business More Efficiently & Accurately.** Contractor-specific reports give you just the information you need.

- **Easy for Contractors to Learn & Use.** Setup & use QuickBooks in ways proven to work for contractors.

- **Manage Your Accounting More Easily and Accurately.** Stay on top of bills and receivables effortlessly. Pay bills on time and get paid every penny you're owed.

→ Learn More

What's New for 2005

- **Stay on budget with 5 new Job Costing reports including Cost-to-Complete and Job Cost by Vendor & Job.**

- **Learn how to use Job Costing and other powerful features with built-in tutorials.**

- **See a snapshot of your jobs on the Job Costing Center.**
Appendix C-1: QuickBooks Premier Contractor Edition 2005 Information

- Create invoices formatted as letters right from QuickBooks.¹
- Create faster, more accurate time-and-materials billing with billing rate levels by employee.

→ Learn More

Note

¹ Word integration requires Microsoft Word 2000, 2002 or 2003, sold separately.

Terms, conditions, features, pricing, and service options are subject to change.
Appendix C-2: QuickBooks Basic 2005 Information

QuickBooks: Basic 2005 for Windows

Full Version: $199.95
Upgrade: $99.95

Have questions?
Call: (888) 729-1996

Product Overview

QuickBooks: Basic 2005 has the tools you need to manage your business finances faster, with complete confidence. And now we’ve streamlined many features you use most.

Key Features and Benefits

- **Track expenses just by paying your bills.** Track bills and get reminders when they’re due. View bills and create checks in one click and track your expenses automatically.

- **Create invoices and track sales tax.** Create invoices instantly. Calculate sales taxes automatically.

- **Locate customer and vendor records instantly.** Save time and give your customers excellent service.

- **Get key facts, forms and resources, all in one place.** New Business Checklist offers valuable links and tips.

- **Get the accounts and features you need.** Answer easy questions about your business. QuickBooks sets up your company file with the accounts you need.

- **Learn More**

What’s New for 2005

- **Find the right report faster.** Report Navigator with sample views and descriptions make selection a snap.

- **Boost your confidence using QuickBooks.** New Learning Center tutorials show you how to work faster, smarter, better with QuickBooks.

- **Easily manage payments, including overpayments, underpayments, credits and refunds.**
Appendix C-2: QuickBooks Basic 2005 Information

- Create invoices formatted as letters right from QuickBooks.¹
- Create faster, more accurate time-and-materials billing with billing rate levels by employee.

→ Learn More

Note:
² Word integration requires Microsoft Word 2000, 2002 or 2003, sold separately.

Terms, conditions, features, pricing, and service options are subject to change.

© 2004 Intuit Inc. All rights reserved.
### Appendix C-3: QuickBooks Product Comparison Chart

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>$99.95</td>
<td>$99.95 - $199.95</td>
<td>$199.95 - $749.95</td>
<td>$379.95 - $1,499.95</td>
<td>$3,500.00</td>
<td>from $19.95 per month</td>
</tr>
</tbody>
</table>

#### Purchase Options
- **Number of Simultaneous Users**
  - N.A.
  - N.A.
  - Up to 5
  - Up to 5
  - Up to 10
  - Up to 20
- **Available for download**
  - N.A.
- **Retail Specific Features**
  - Simple Start 2005
  - Basic 2005
  - Pro 2005
  - Premier Editions 2005
  - Enterprise Solutions
  - Online Edition

#### Works with QuickBooks Point of Sale
- N.A.
- N.A.
- N.A.

#### Professional Services Specific Features
- Simple Start 2005
- Basic 2005
- Pro 2005
- Premier Editions 2005
- Enterprise Solutions
- Online Edition

#### Track vehicle mileage
- Simple Start 2005
- Basic 2005
- Pro 2005
- Premier Editions 2005
- Enterprise Solutions
- Online Edition

#### Specifically Designed for Manufacturers and Wholesalers
- Simple Start 2005
- Basic 2005
- Pro 2005
- Premier Editions 2005
- Enterprise Solutions
- Online Edition

#### Manage inventory by tracking inventory items, components and assemblies
- Simple Start 2005
- Basic 2005
- Pro 2005
- Premier Editions 2005
- Enterprise Solutions
- Online Edition

#### Track Income & Expenses
- Simple Start 2005
- Basic 2005
- Pro 2005
- Premier Editions 2005
- Enterprise Solutions
- Online Edition

- Print checks, pay bills & track expenses
- Invoice customers, track payments & sales taxes
- Generate purchase orders from estimates or sales orders
- Download bank and credit card transactions
- Easily reconcile & "undo" last
## Appendix C-3: QuickBooks Product Comparison Chart

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconciliation</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Accept credit card payments in QuickBooks (additional fee)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Job costing</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Memorize and send recurring invoices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EasyStep® start-up interview</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support and product upgrades included</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automatic data backup on Intuit's firewall-protected servers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manage payroll processing &amp; direct deposit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reporting, Analysis &amp; Forms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instantly find and generate reports - financial statements, sales reports and more</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Save reports, invoices and forms as PDFs and e-mail directly from QuickBooks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automatically create a budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Cash Flow</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automatically Create a forecast</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customize professional-looking designs for forms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custom report templates designed by your dedicated support engineer</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combine reports from multiples companies and/or locations</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Track Inventory</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Track inventory &amp; create purchase orders</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

89
Appendix C-3: QuickBooks Product Comparison Chart

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Integration, Import &amp; Export</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Print packing slips and shipping labels for FedEx and UPS</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Integrates with Microsoft Word and Excel</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Works with 325+ popular software applications</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Increased Multi-User Performance and Capacity</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Store customer, product, and vendor records</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Improved simultaneous user performance</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Run critical reports up to 90% faster</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Quickly find customer and item records by searching multiple fields</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Enhanced audit trail performance and advanced audit tracking reports</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>New Design Professional Financial Statements</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>User &amp; Access Controls</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Advanced user permissions - customize user access levels to over 115 separate entitlements</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Delegate administrative functions to other users</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Better Tools to Manage Growth</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Work with data over the Web from any PC</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Connect multiple locations and remote workers</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Prices:
- Simple Start 2005: $99.05
- Basic 2005: $99.05 - $199.95
- Pro 2005: $379.95 - $3,500.00 from
### Appendix D-1: 2003 Income Tax Return

**Form 1040**

Department of the Treasury - Internal Revenue Service  
U.S. Individual Income Tax Return  
2003  

<table>
<thead>
<tr>
<th>Label</th>
<th>Description</th>
<th>Line Number</th>
<th>Instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your first name and initial</td>
<td>Your first name and initial</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Last name</td>
<td>Last name</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Tax-exempt interest</td>
<td>Tax-exempt interest</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Ordinary dividends</td>
<td>Ordinary dividends</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Wages, salaries, tips, etc.</td>
<td>Wages, salaries, tips, etc.</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Taxable interest</td>
<td>Taxable interest</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Social security benefits</td>
<td>Social security benefits</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td>Other income</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Total income</td>
<td>Total income</td>
<td>9</td>
<td></td>
</tr>
</tbody>
</table>

**Filing Status**

1. Single  
2. Married filing jointly (even if only one filed)  
3. Married filing separately, enter spouse's SSN above  
4. Head of household (with qualifying person) (see page 22)  
5. Qualifying widower with dependent child (see page 22)

**Exemptions**

6a. Spouse  
6b. Dependents:  
6c. Total number of exemptions claimed

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a.</td>
<td>Wages, salaries, tips, etc.</td>
<td>$20,000</td>
</tr>
<tr>
<td>2a.</td>
<td>Tax-exempt interest</td>
<td>$30,000</td>
</tr>
<tr>
<td>4a.</td>
<td>Ordinary dividends</td>
<td>$50,000</td>
</tr>
<tr>
<td>5a.</td>
<td>Capital gain or (loss)</td>
<td>$60,000</td>
</tr>
<tr>
<td>7a.</td>
<td>IRA distributions</td>
<td>$70,000</td>
</tr>
<tr>
<td>8a.</td>
<td>Social security benefits</td>
<td>$80,000</td>
</tr>
<tr>
<td>9a.</td>
<td>Total income</td>
<td>$90,000</td>
</tr>
</tbody>
</table>

**Adjusted Gross Income**

23. Educational expenses | $2,000 |
24. IRA deductions | $3,000 |
25. Student loan interest deduction | $4,000 |
26. Moving expenses | $5,000 |
27. One-half of self-employment tax,Attach Schedule SE | $6,000 |
28. Self-employed health insurance deduction | $7,000 |
29. Self-employed SE, SIMPLE, and qualified plans | $8,000 |
30. Penalty on early withdrawal of savings | $9,000 |
31. Alimony paid | $10,000 |
32. Add lines 23 through 31 | $30,000 |

**Total Income**

22. Add the amounts in the last column for lines 2 through 21. This is your total income | $85,996 |

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 77.

Form 1040 (2003)
Appendix D-1: 2003 Income Tax Return

Form 1040 (2003)

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>35</td>
<td>Amount from line 34 (adjusted gross income)</td>
</tr>
<tr>
<td>35a</td>
<td>Check if you were born before January 2, 1956, if spouse was born before January 2, 1956, or if you are married filing separately and your spouse has taxable deductions, or if you are a qualifying child, see page 34 and check here.</td>
</tr>
<tr>
<td>35b</td>
<td>Add lines 35a and 35b.</td>
</tr>
<tr>
<td>36</td>
<td>Subtotal line 36 from line 35.</td>
</tr>
<tr>
<td>36a</td>
<td>Subtract line 36 from line 35.</td>
</tr>
<tr>
<td>37</td>
<td>Taxable income. Subtract line 36 from line 35.</td>
</tr>
<tr>
<td>37a</td>
<td>Tax (see page 26). Check if any tax is from Form 8864.</td>
</tr>
<tr>
<td>38</td>
<td>Alternative minimum tax (see page 38).</td>
</tr>
<tr>
<td>39</td>
<td>Alternative minimum tax (see page 38).</td>
</tr>
<tr>
<td>40</td>
<td>Add lines 41 through 52. This is your total tax.</td>
</tr>
<tr>
<td>41</td>
<td>State and local income tax paid.</td>
</tr>
<tr>
<td>42</td>
<td>Child tax credit (see page 40).</td>
</tr>
<tr>
<td>43</td>
<td>Adoptions credit. Attach Form 8839.</td>
</tr>
<tr>
<td>44</td>
<td>Child care and dependent care expenses. Attach Form 2441.</td>
</tr>
<tr>
<td>45</td>
<td>Education credits. Attach Form 8863.</td>
</tr>
<tr>
<td>46</td>
<td>Foreign tax credit. Attach Form 1118 if required.</td>
</tr>
<tr>
<td>47</td>
<td>Credit for the elderly or the disabled. Attach Schedule R.</td>
</tr>
<tr>
<td>48</td>
<td>Credit for the elderly or the disabled. Attach Schedule R.</td>
</tr>
<tr>
<td>49</td>
<td>Education credits. Attach Form 8863.</td>
</tr>
<tr>
<td>50</td>
<td>Education credits. Attach Form 8863.</td>
</tr>
<tr>
<td>51</td>
<td>Credit from a Form 8962.</td>
</tr>
<tr>
<td>52</td>
<td>Other credits. Check applicable box(es).</td>
</tr>
<tr>
<td>53</td>
<td>Add lines 44 through 52. This is your total tax.</td>
</tr>
<tr>
<td>54</td>
<td>State and local income tax paid.</td>
</tr>
<tr>
<td>55</td>
<td>State and local income tax paid.</td>
</tr>
<tr>
<td>56</td>
<td>State and local income tax paid.</td>
</tr>
<tr>
<td>57</td>
<td>State and local income tax paid.</td>
</tr>
<tr>
<td>58</td>
<td>State and local income tax paid.</td>
</tr>
<tr>
<td>59</td>
<td>Child tax credit (see page 40).</td>
</tr>
<tr>
<td>60</td>
<td>Education credits. Attach Form 8863.</td>
</tr>
<tr>
<td>61</td>
<td>Federal income tax withheld from Forms W-2 and W-3.</td>
</tr>
<tr>
<td>62</td>
<td>2003 estimated tax payments and amount applied from 2002 return.</td>
</tr>
<tr>
<td>63</td>
<td>Earned income credit (EIC).</td>
</tr>
<tr>
<td>64</td>
<td>Excess social security and tier 1 RRTA tax withheld (see page 56).</td>
</tr>
<tr>
<td>65</td>
<td>Additional child tax credit. Attach Form 8812.</td>
</tr>
<tr>
<td>66</td>
<td>Amount paid with request for extension to file (see page 56).</td>
</tr>
<tr>
<td>67</td>
<td>Direct deposit (see page 25).</td>
</tr>
<tr>
<td>68</td>
<td>Amount of line 68 you want refunded to you.</td>
</tr>
<tr>
<td>69</td>
<td>Amount of line 68 you want refunded to you.</td>
</tr>
<tr>
<td>70a</td>
<td>Direct deposit (see page 25).</td>
</tr>
<tr>
<td>70b</td>
<td>Amount of line 68 you want refunded to you.</td>
</tr>
<tr>
<td>71</td>
<td>Direct deposit (see page 25).</td>
</tr>
<tr>
<td>72</td>
<td>Amount you owe. Subtract line 68 from line 63. For details on how to pay, see page 57.</td>
</tr>
<tr>
<td>73</td>
<td>Estimated tax penalty (see page 56).</td>
</tr>
</tbody>
</table>

Third Party Designee

Name: PREPARE, Personal identification number (PIN) |

Sign Here


Preparer's signature: Date: 4/06/04

Preparer's DSN or PMA |

Preparer's firm or name (et al.) |

Use Only if self-employed, address, and ZIP code |

SAA |

Form 1040 (2003)
## Schedule A-Itemized Deductions

<table>
<thead>
<tr>
<th>10. Home mortgage interest and points reported to you on Form 1098</th>
<th>12,967</th>
</tr>
</thead>
<tbody>
<tr>
<td>11. Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person’s name, identifying no., and address.</td>
<td>11</td>
</tr>
</tbody>
</table>

### Notes
- **Personal Interest is not deductible.**
- Investment Interest, Attach Form 4952 if required. (See page A-4.)

### Gifts to Charity
- Gifts by cash or check: If you made any gift of $250 or more, see page A-4.
- Other than by cash or check, if any gift of $250 or more, see page A-4. You must attach Form 8283 if over $500.

### Casualty and Theft Losses
- Casualty or theft losses. Attach Form 4684. (See page A-5.)

### Miscellaneous
- Unreimbursed employee expenses- job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ

### Other (See page A-5.)
- Tax preparation fees
- Other expenses-investment, safe deposit box, etc. List type and amount

### Schedule A (Form 1040) 2003

---

**For Paperwork Reduction Act Notice, see Form 1040 Instructions.**
## Appendix D-1: 2003 Income Tax Return

### SCHEDULE C

**Profit or Loss From Business**

(Sole Proprietorship)

- **Form 1040**
- **Department of the Treasury**
- **Internal Revenue Service (IRS)**
- **Attach to Form 1040 or 1041**
- **See Instructions for Schedule C (Form 1040)**

### Profit or Loss From Business

- **2003**
- **EIN**
- **Sequence No.** 09
- **Social security number (SSN)**

#### Part I: Income

1. Gross receipts or sales. Caution: If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-3 and check here

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gross receipts or sales</td>
<td>38,685</td>
</tr>
<tr>
<td>2</td>
<td>Returns and allowances</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>Subtotal line 1 and 3</td>
<td>38,685</td>
</tr>
<tr>
<td>4</td>
<td>Cost of goods sold</td>
<td>22,487</td>
</tr>
<tr>
<td>5</td>
<td>Gross profit</td>
<td>16,198</td>
</tr>
</tbody>
</table>

#### Part II: Expenses. Enter expenses for business use of your home only on line 30.

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Otner income, including Federal and state gasoline or fuel tax credit or refund (see page C-8)</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>Gross income, Add lines 5 and 6</td>
<td>16,198</td>
</tr>
</tbody>
</table>

#### Part III: Expenses. Enter expenses for business use of your home only on line 30.

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Advertising</td>
<td>380</td>
</tr>
<tr>
<td>9</td>
<td>Car and truck expenses</td>
<td>20</td>
</tr>
<tr>
<td>10</td>
<td>Commissions and fees</td>
<td>6,685</td>
</tr>
<tr>
<td>11</td>
<td>Contract labor</td>
<td>6,685</td>
</tr>
<tr>
<td>12</td>
<td>Depreciation and amortization</td>
<td>6,685</td>
</tr>
<tr>
<td>13</td>
<td>Depreciation and amortization</td>
<td>6,685</td>
</tr>
<tr>
<td>14</td>
<td>Employees benefit programs (other than one line 19)</td>
<td>0</td>
</tr>
<tr>
<td>15</td>
<td>Interest</td>
<td>5,651</td>
</tr>
<tr>
<td>16</td>
<td>Legal and professional</td>
<td>275</td>
</tr>
<tr>
<td>17</td>
<td>Office expense</td>
<td>18</td>
</tr>
<tr>
<td>18</td>
<td>Total office expense</td>
<td>27</td>
</tr>
<tr>
<td>19</td>
<td>Pension and profit-sharing plans</td>
<td>19</td>
</tr>
<tr>
<td>20</td>
<td>Rent or lease (see page C-9)</td>
<td>0</td>
</tr>
<tr>
<td>21</td>
<td>Repairs and maintenance</td>
<td>3,567</td>
</tr>
<tr>
<td>22</td>
<td>Supplies (not included in Part III)</td>
<td>228</td>
</tr>
<tr>
<td>23</td>
<td>Taxes and licenses</td>
<td>944</td>
</tr>
<tr>
<td>24</td>
<td>Travel, meals, and entertainment</td>
<td>0</td>
</tr>
<tr>
<td>25</td>
<td>Utilities</td>
<td>0</td>
</tr>
<tr>
<td>26</td>
<td>Wages (less employment credits)</td>
<td>0</td>
</tr>
<tr>
<td>27</td>
<td>Other expenses (from line 18 on page 2)</td>
<td>8,929</td>
</tr>
<tr>
<td>28</td>
<td>Total expenses before expenses for business use of home. Add lines 8 through 27 in columns</td>
<td>52,935</td>
</tr>
<tr>
<td>29</td>
<td>Tentative profit (loss). Subtract line 28 from line 7</td>
<td>36,737</td>
</tr>
<tr>
<td>30</td>
<td>Expenses for business use of your home. Attach Form 1099</td>
<td>0</td>
</tr>
<tr>
<td>31</td>
<td>Net profit (loss). Subtract line 30 from line 29.</td>
<td>-36,737</td>
</tr>
</tbody>
</table>

#### Schedule D (Form 1040) 2003

**For Paperwork Reduction Act notice, see Form 1040 instructions.**

**3AA**
### Appendix D-1: 2003 Income Tax Return

#### Part III: Cost of Goods Sold (see page C-6)

<table>
<thead>
<tr>
<th>Method(s) used to value closing inventory:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Cost</td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>Lower of cost or market</td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>Other (attach explanation)</td>
<td></td>
</tr>
</tbody>
</table>

34. Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation.

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

35. Inventory at beginning of year, if different from last year’s closing inventory, attach explanation: 0

36. Purchases less cost of items withdrawn for personal use: 12,850

37. Cost of labor. Do not include any amounts paid to yourself: 9,637

38. Other costs: 22,487

40. Add lines 35 through 39: 22,487

41. Inventory at end of year:

42. Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on page 1, line 4:

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>22,487</td>
</tr>
</tbody>
</table>

#### Part IV: Information on Your Vehicle

Complete this part only if you are claiming car or truck expenses on line 6 and are not required to file Form 4562 for this business. See the instructions for line 13 on page C-4 to find out if you must file Form 4562.

43. When did you place your vehicle in service for business purposes? (month, day, year):  

44. Of the total number of miles you drove your vehicle during 2003, enter the number of miles you used your vehicle for:  

<table>
<thead>
<tr>
<th></th>
<th>a</th>
<th>b</th>
<th>c</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commuting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

46. Do you (or your spouse) have another vehicle available for personal use?:  

48. Was your vehicle available for personal use during off-duty hours?:  

47a. Do you have evidence to support your deduction?:  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

#### Part VII: Other Expenses

List below business expenses not included on lines 8-26 or line 30.

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>CELL PHONE</td>
<td>565</td>
</tr>
<tr>
<td>TELEPHONES</td>
<td>1,217</td>
</tr>
<tr>
<td>OFFICE SUPPLIES</td>
<td>404</td>
</tr>
<tr>
<td>POSTAGE &amp; PRINTING</td>
<td>232</td>
</tr>
<tr>
<td>CART MAINT</td>
<td>978</td>
</tr>
<tr>
<td>FUEL, FOR EQUIPMENT</td>
<td>462</td>
</tr>
<tr>
<td>GAS &amp; OIL</td>
<td>2,475</td>
</tr>
<tr>
<td>SMALL TOOLS</td>
<td>1,532</td>
</tr>
<tr>
<td>DISPOSABLE SMALL TOOLS</td>
<td>985</td>
</tr>
</tbody>
</table>

48. Total other expenses. Enter here and on page 1, line 27: 8,323

Schedule C (Form 1040) 2003
### Appendix D-1: 2003 Income Tax Return

**Schedule E (Form 1040) 2003**

**Attachment Sequence No. 13**

#### Part I. Income or Loss From Partnerships and S Corporations

Note: If you report a loss from an at-risk activity for which any amount is not at risk, you must check column (d) on line 28 and attach Form 8938, See page E-1.

If you answered "Yes," see page E-6 before completing this section.

**Caution:** The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

27 Are you reporting losses not allowed in prior years due to the at-risk or basis limitations, passive losses not reported on Form 8839, or unreimbursed partnership expenses? 

- Yes
- No

28 (a) Name ____________________________

(b) Enter your partner's name if any.

(c) Code if foreign partnership

(d) Check if partnership number

(e) Check if any amount is not at risk

<table>
<thead>
<tr>
<th>Passive Income and Loss</th>
<th>Nonpassive Income and Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>(f) Passive loss allowed (attach Form 8938 if required)</td>
<td>(f) Section 179 expense deduction from Form 4562</td>
</tr>
<tr>
<td>(g) Passive income from Schedule K-1</td>
<td>(g) Nonpassive income from Schedule K-1</td>
</tr>
<tr>
<td>(h) Nonpassive income from Schedule K-1</td>
<td>(h) Nonpassive income from Schedule K-1</td>
</tr>
</tbody>
</table>

#### Part II. Income or Loss From Estates and Trusts

32 Total partnership and S corporation income (loss). Combine lines 30 and 31. Enter the result here and include in the total on line 41 below.

<table>
<thead>
<tr>
<th>Passive Income and Loss</th>
<th>Nonpassive Income and Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>(d) Passive deduction or loss allowed (attach Form 8938 if required)</td>
<td>(f) Other income from Schedule K-1</td>
</tr>
<tr>
<td>(e) Passive income from Schedule K-1</td>
<td>(e) Nonpassive income from Schedule K-1</td>
</tr>
<tr>
<td>(f) Section 179 expense deduction from Form 4562</td>
<td>(f) Section 179 expense deduction from Schedule K-1</td>
</tr>
</tbody>
</table>

**Part IV. Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)-Residual Holder**

<table>
<thead>
<tr>
<th>Passive Income and Loss</th>
<th>Nonpassive Income and Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>(d) Taxable income (net losses) from Schedule Q, line 10</td>
<td>(e) Income from Schedule Q, line 20</td>
</tr>
</tbody>
</table>

**Part V. Summary**

| Net farm rental income (loss) from Form 4446A; Also, complete line 42 below | 40 |
| Total income (losses). Combine lines 28, 32, 36, and 40. Enter the result here and on Form 1040, line 17 | 41 |
| Reconciliation of Farming and Fishing Income. Enter your gross farming and fishing income reported on Form 4446A, line 7; Schedule K-1 (Form 1030), line 15b; Schedule K-1 (Form 1120S), line 23; and Schedule K-1 (Form 1041), line 14 (see page E-6) | 42 |
| Reconciliation for Real Estate Professionals. If you were a real estate professional (see page E-1), enter the net income or (loss) you reported anywhere on Form 1040 filed all real estate activities in which you materially participated under the passive activity loss rules | 43 |

Schedule E (Form 1040) 2003

DAE

96
## Appendix D-1: 2003 Income Tax Return

### Depreciation and Amortization

**Form 4562**

- **Department of the Treasury**
- **Internal Revenue Service**

**Depreciation and Amortization**

(INCLUDING INFORMATION ON LISTED PROPERTY)

- **See separate instructions.**
- **Attach to your tax return.**

**2003**

**Attachment:**

**Section D-1**

- **Forms 4562**
- **Identification number**

### Part I: Election To Expense Certain Property Under Section 179

**Note:** If you have any listed property, complete Part V before you complete Part I.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Maximum amount. See page 2 of the instructions.</td>
</tr>
<tr>
<td>2</td>
<td>Cost of section 179 property placed in service (see page 2 of the instructions).</td>
</tr>
<tr>
<td>3</td>
<td>Reduction in limitation. Subtract line 2 from line 1, if zero or less, enter 0.</td>
</tr>
</tbody>
</table>

### Part II: Special Depreciation Allowance and Other Depreciation (Do not include listed property.)

**Special depreciation allowance for qualified prop. (other than listed prop.) placed in service during the tax year (see page 4 of the instructions.)**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td></td>
</tr>
</tbody>
</table>

**Property subject to section 168(h)(1) election (see page 4 of the instructions)**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

**Other depreciation (including ACRS) (see page 4 of the instructions)**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td></td>
</tr>
</tbody>
</table>

### Part III: MACRS Depreciation (Do not include listed property.) (See page 4 of the instructions.)

**Section A: Assets Placed in Service During 2003 Tax Year Using the General Depreciation System**

<table>
<thead>
<tr>
<th>(a) Classification of property</th>
<th>(b) Month and year placed in service</th>
<th>(c) Basis for depreciation (installment sales or alternate)</th>
<th>(d) Recovery period</th>
<th>(e) Convention</th>
<th>(f) Method</th>
<th>(g) Depreciation deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>19a 3-year property</td>
<td>51,735</td>
<td>5.0</td>
<td>3/Y</td>
<td>19,172</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6-year property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7-year property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12-year property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15-year property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20-year property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25-year property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential rental property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonresidential real property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Section B: Assets Placed in Service During 2003 Tax Year Using the Alternative Depreciation System**

<table>
<thead>
<tr>
<th>(a) Classification of property</th>
<th>(b) Month and year placed in service</th>
<th>(c) Basis for depreciation (installment sales or alternate)</th>
<th>(d) Recovery period</th>
<th>(e) Convention</th>
<th>(f) Method</th>
<th>(g) Depreciation deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>20a Class life</td>
<td>12 yrs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40-year property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Part IV: Summary (see page 6 of the instructions)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td></td>
</tr>
</tbody>
</table>

For Paperwork Reduction Act Notice, see separate instructions.
Appendix D-1: 2003 Income Tax Return

---

**Form 4562 (2003)**

**Section A: Depreciation and Other Information**

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>24a</td>
<td>Are you an employee of a corporation?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see page 6 of the instructions)</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

**Property used more than 50% in a qualified business use (see page 6 of the instructions):**

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>10/23/03</td>
<td>27,611</td>
</tr>
<tr>
<td></td>
<td></td>
<td>13,806</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HY</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,530</td>
</tr>
</tbody>
</table>

---

**Section B: Information on Use of Vehicles**

**If you provide vehicles to your employees, and answer the questions in Section C to see if you meet an exception to completing this section for those vehicles:**

<table>
<thead>
<tr>
<th>Vehicle</th>
<th>Type of use during the year</th>
<th>Miles driven</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle 1</td>
<td>Personal</td>
<td>2,500</td>
</tr>
<tr>
<td>Vehicle 2</td>
<td>Personal</td>
<td>5,000</td>
</tr>
</tbody>
</table>

---

**Section C: Questions for Employers Who Provide Vehicles for Use by Their Employees**

**If your answer to 37, 38, 39, 40, 41 is "Yes," do not complete Section B for these vehicles:**

---

**Part VI: Amortization**

<table>
<thead>
<tr>
<th>Description</th>
<th>Date amortization begins</th>
<th>Amortizable amount</th>
<th>Cost section</th>
<th>Amortization period or percentage</th>
<th>Amortization for this year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Appendix D-1: 2003 Income Tax Return

#### Auto Worksheet

<table>
<thead>
<tr>
<th>Form 1040</th>
<th>Auto Worksheet</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxpayer Identification Number</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Form/Schedule</th>
<th>Unit number</th>
<th>Description</th>
<th>2001 FORD LTD</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Vehicle 1 - Date</th>
<th>Description</th>
<th>10/23/03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle 2 - Date</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>Vehicle 3 - Date</td>
<td>Description</td>
<td></td>
</tr>
</tbody>
</table>

**General Information**

<table>
<thead>
<tr>
<th></th>
<th>Vehicle 1</th>
<th>Vehicle 2</th>
<th>Vehicle 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total mileage</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Business miles (36 cents per mile)</td>
<td>2,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Commuting mileage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Other mileage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Business use percentage</td>
<td>50.00 %</td>
<td>%</td>
<td>%</td>
</tr>
</tbody>
</table>

**Actual Expenses**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Parking fees and tolls</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 a. Gasoline, oil, repairs, insurance, etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Interest, registration &amp; taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 c. Vehicle rentals (net of interest amount)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Total expenses. Add lines 7a - 7c</td>
<td>50.00 %</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>9. Business use percentage from line 8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Business use portion of actual expenses</td>
<td>1,530</td>
<td>1,530</td>
<td></td>
</tr>
</tbody>
</table>

**Standard Mileage Rate Method**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13. Business mileage (line 2) multiplied by applicable rate</td>
<td>900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Parking fees and tolls from line 8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Line 7b (int &amp; taxes only) multiplied by bus perc (line 9)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Standard mileage rate</td>
<td>900</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Vehicle 4 - Date</th>
<th>Description</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle 5 - Date</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>Vehicle 6 - Date</td>
<td>Description</td>
<td></td>
</tr>
</tbody>
</table>

**General Information**

<table>
<thead>
<tr>
<th></th>
<th>Vehicle 4</th>
<th>Vehicle 5</th>
<th>Vehicle 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total mileage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Business miles (36 cents per mile)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Commuting mileage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Other mileage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Business use percentage</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Actual Expenses**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Parking fees and tolls</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 a. Gasoline, oil, repairs, insurance, etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Interest, registration &amp; taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 c. Vehicle rentals (net of interest amount)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Total expenses. Add lines 7a - 7c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Business use percentage from line 8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Business use portion of actual expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Depreciation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Total actual expense allowable. Add lines 6, 10 and 11</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Standard Mileage Rate Method**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13. Business mileage (line 2) multiplied by applicable rate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Parking fees and tolls from line 8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Line 7b (int &amp; taxes only) multiplied by bus perc (line 9)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Standard mileage rate</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Allowable Deduction**

<table>
<thead>
<tr>
<th></th>
<th>Vehicle expense</th>
<th>Vehicle rentals</th>
<th>Vehicle depreciation</th>
<th>Total allowable deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.</td>
<td>1,530</td>
<td>1,530</td>
<td>1,530</td>
<td>1,530</td>
</tr>
</tbody>
</table>
### Appendix D-1: 2003 Income Tax Return

<table>
<thead>
<tr>
<th>Activity</th>
<th>K-1 &amp; KIT input</th>
<th>A-Risk adjustment</th>
<th>Suspended PAL</th>
<th>PAL disallowed</th>
<th>Entire disposition of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedule E pg 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary Income (loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental RE Income (loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other rental inc (loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible drilling costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invest int exp (Sch E)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation / Sec. 179</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disallowed Sec. 178 exp</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other expenses *</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auto expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home office expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other inc (loss), Sch E</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Schedule E pg 2</td>
<td>6,011</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guaranteed payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schedule E pg 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Royalties</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Schedule E pg 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schedule B</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax-exempt interest inc</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schedule D</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ST Capital gain (loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LT Capital gain (loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Form 4797</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part I gain (loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part II gain (loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Section 175 recapture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schedule A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charitable contrib</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Misc subj to 2% AGI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Misc not subj to 2% AGI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Form 4952</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income adj</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credits &amp; Payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low inc housing pre '90</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low inc housing post '89</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rehabilitation credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work opportunity cr</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonconv. source fuel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhanced oil recovery</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fed Income Tax pymnts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Form 6251</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pos: 86 depreciation adj</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted gain (loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depletion</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre 87 depreciation adj</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible drilling costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beneficiary's AMT adj</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Includes unreimbursed partner expense, debt financed interest and allowed prior year basis loss*
### Federal Statements

#### PAINTIN & STRIPING

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRUCK INSURANCE</td>
<td>$4,534</td>
</tr>
<tr>
<td>LIABILITY INSURANCE</td>
<td>463</td>
</tr>
<tr>
<td>BOBCAT</td>
<td>240</td>
</tr>
<tr>
<td>CAR INSURANCE 788 &amp; 50%</td>
<td>394</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$5,651</strong></td>
</tr>
</tbody>
</table>

#### Schedule C, Line 15 - Insurance

#### PAINTIN & STRIPING

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>LICENSES</td>
<td>$510</td>
</tr>
<tr>
<td>PERSONAL PROPERTY TAXES</td>
<td>434</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$944</strong></td>
</tr>
</tbody>
</table>
### Federal Statements

**PAINTIN & STRIPING**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASUAL LABOR</td>
<td>$12,850</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$12,850</td>
</tr>
</tbody>
</table>

*Schedule C, Line 37 - Cost of Labor*
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>ELECTRIC STORAGE BLDG</td>
<td>$167</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$167</td>
</tr>
</tbody>
</table>
# Federal Asset Report
## PAINTIN & STRIPING

**FYE: 12/31/2003**

| Asset | Description                  | In Service | Cost  | Bus % | Sec Sec | Basis | Per Conv Meth | Prior | Current | Basis |
|-------|------------------------------|------------|-------|-------|--------|-------|----------------|-------|---------|-------|-------|
| 11    | FECON BULLDOG                | 5/20/03    | 20,847| 20,847| S      | HY S/L| 0              | 3,085 | 458     | 0     |
| 12    | ALDER WALLS                  | 6/2/03     | 4,353 | 4,353 | S      | HY S/L| 0              | 1,365 | 622     | 0     |
| 13    | KUBOTA TRACTOR               | 9/13/03    | 13,650| 13,650| S      | HY S/L| 0              | 266   | 79      | 0     |
| 14    | STRIPER                      | 5/6/03     | 8,215 | 8,215 | S      | HY S/L| 0              | 99    | 0       | 0     |
| 15    | 72" QUICK CLAW GRAPPLE RAKE | 12/31/02   | 2,654 | 2,654 | S      | HY S/L| 0              | 0     | 5,173   | 0     |
| 16    | PALLET FORKS                 | 1/25/03    | 791   | 791   | S      | HY S/L| 0              | 99    | 0       | 0     |
| 17    | LOW PROFILE SMOOTH BUCKET    | 3/1/03     | 993   | 993   | S      | HY S/L| 0              | 0     | 5,173   | 0     |
| **Prior MACRS:** |                              |            |       |       |        |       |                |       |         |       |
| 1     | GMC SIERRA                   | 11/1/00    | 17,000| 17,000| S      | HY 200DB| 0       | 6,800 | 0       | 2,722 | 176 |
| 2     | SALT SPREADER                | 12/12/01   | 6,805 | 6,805 | S      | HY 200DB| 0       | 560   | 0       | 2,722 | 176 |
| 3     | SHOP VAC                     | 12/15/01   | 284   | 284   | S      | HY 200DB| 0       | 113   | 0       | 2,722 | 176 |
| 4     | 1980 FORD                    | 12/21/01   | 1,210 | 1,210 | S      | HY 200DB| 0       | 3,309 | 0       | 2,722 | 176 |
| 5     | WEATHER RADIO                | 1/22/02    | 169   | 169   | S      | HY 200DB| 0       | 113   | 0       | 2,722 | 176 |
| 6     | BOBCAT                       | 10/1/02    | 6,771 | 6,771 | S      | HY 200DB| 0       | 2,548 | 0       | 2,722 | 176 |
| 7     | ACCESSORIES-BOBCAT           | 11/5/02    | 3,863 | 3,863 | S      | HY 200DB| 0       | 1,365 | 0       | 2,722 | 176 |
| 8     | TRAILER                      | 11/10/02   | 650   | 650   | S      | HY 200DB| 0       | 440   | 0       | 2,722 | 176 |
| 9     | FUEL TANKS                   | 12/13/02   | 2,447 | 2,447 | S      | HY 200DB| 0       | 976   | 0       | 2,722 | 176 |
| **Listed Property:** |                              |            |       |       |        |       |                |       |         |       |
| 18    | 2001 FORD LTD                | 10/23/03   | 27,611| 13,806| S      | HY 200DB| 0       | 1,530 | 0       | 2,722 | 176 |
|       |                               |            |       |       |        |       |                |       |         |       |
|       | **Grand Totals**             |            |       |       |        |       |                |       |         |       |
|       |                               |            |       |       |        |       |                | 126,547| 112,742 | 0     | 25,876 |
|       | **Less: Dispositions**        |            |       |       |        |       |                | 0     | 0       | 0     | 25,876 |
|       | **Net Grand Totals**          |            |       |       |        |       |                | 126,547| 112,742 | 0     | 25,876 |
### Sec 168(k) Report

**FYE: 12/31/2003**

<table>
<thead>
<tr>
<th>Asset</th>
<th>Property Description</th>
<th>Date in Service</th>
<th>Tax Cost</th>
<th>Bus Pct</th>
<th>Tax Sec 179 Exp</th>
<th>Current Sec 168(k)</th>
<th>Prior Sec 168(k)</th>
<th>Tax - Basis for Dep</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>GMC SIERRA</td>
<td>11/8/01</td>
<td>17,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>17,000</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>SALT SPREADER</td>
<td>12/15/01</td>
<td>6,885</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>6,885</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>SHOP VAC</td>
<td>12/15/01</td>
<td>264</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>264</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>WEATHER RADIO</td>
<td>12/22/01</td>
<td>169</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>169</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>BOBCAT</td>
<td>8/20/02</td>
<td>8,272</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>8,272</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>ACCESSORIES-BOBCAT</td>
<td>10/31/02</td>
<td>6,471</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>6,471</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>TRAILER</td>
<td>11/9/02</td>
<td>3,863</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3,863</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>FUEL TANKS</td>
<td>11/16/02</td>
<td>660</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>660</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>RUBBER MATS</td>
<td>4/12/02</td>
<td>2,447</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2,447</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>PAINTING &amp; STRIPING</strong></td>
<td></td>
<td>45,951</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>45,951</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Grand Total</strong></td>
<td></td>
<td>45,951</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>45,951</td>
<td></td>
</tr>
</tbody>
</table>
Appendix D-1: 2003 Income Tax Return

Future Depreciation Report  
FYE: 12/31/04
PAINTIN & STRIPING

<table>
<thead>
<tr>
<th>Asset</th>
<th>Description</th>
<th>Date In Service</th>
<th>Cost</th>
<th>Tax</th>
<th>AMT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior MACRS:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>GMC SIERRA</td>
<td>11/07/01</td>
<td>17,000</td>
<td>4,080</td>
<td>4,080</td>
</tr>
<tr>
<td>2</td>
<td>SALT SPREADER</td>
<td>12/13/01</td>
<td>6,805</td>
<td>1,633</td>
<td>1,633</td>
</tr>
<tr>
<td>3</td>
<td>SHOP VAC</td>
<td>12/15/01</td>
<td>264</td>
<td>88</td>
<td>88</td>
</tr>
<tr>
<td>4</td>
<td>1980 FORD</td>
<td>7/20/01</td>
<td>1,300</td>
<td>380</td>
<td>380</td>
</tr>
<tr>
<td>5</td>
<td>WEATHER RADIO</td>
<td>12/22/01</td>
<td>169</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>6</td>
<td>BOBCAT</td>
<td>8/20/02</td>
<td>8,272</td>
<td>1,985</td>
<td>1,985</td>
</tr>
<tr>
<td>7</td>
<td>ACCESSORIES-BOBCAT</td>
<td>10/31/02</td>
<td>6,471</td>
<td>1,553</td>
<td>1,553</td>
</tr>
<tr>
<td>8</td>
<td>TRAILER</td>
<td>11/05/02</td>
<td>3,863</td>
<td>977</td>
<td>977</td>
</tr>
<tr>
<td>9</td>
<td>FUEL TANKS</td>
<td>11/16/02</td>
<td>680</td>
<td>147</td>
<td>147</td>
</tr>
<tr>
<td>10</td>
<td>RUBBER MATS</td>
<td>4/12/02</td>
<td>2,647</td>
<td>587</td>
<td>587</td>
</tr>
<tr>
<td>11</td>
<td>FECON BULLDOZER</td>
<td>9/30/03</td>
<td>20,847</td>
<td>4,165</td>
<td>4,165</td>
</tr>
<tr>
<td>12</td>
<td>AUGER WIRTS</td>
<td>6/30/03</td>
<td>4,583</td>
<td>917</td>
<td>917</td>
</tr>
<tr>
<td>13</td>
<td>KUBOTA TRACTOR</td>
<td>9/12/03</td>
<td>13,020</td>
<td>2,730</td>
<td>2,730</td>
</tr>
<tr>
<td>14</td>
<td>STRIPER</td>
<td>5/06/03</td>
<td>8,215</td>
<td>1,663</td>
<td>1,663</td>
</tr>
<tr>
<td>15</td>
<td>72&quot; QUICK CLAW GRAPPLER</td>
<td>12/31/02</td>
<td>2,656</td>
<td>531</td>
<td>531</td>
</tr>
<tr>
<td>16</td>
<td>PALLETS FORKS</td>
<td>1/05/03</td>
<td>791</td>
<td>158</td>
<td>158</td>
</tr>
<tr>
<td>17</td>
<td>LOW PROFILE SMOOTH BUCKET</td>
<td>3/31/03</td>
<td>999</td>
<td>199</td>
<td>199</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>98,936</td>
<td>21,703</td>
<td>21,703</td>
</tr>
<tr>
<td>Listed Property:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>2003 FORD LTD</td>
<td>10/23/03</td>
<td>27,611</td>
<td>2,450</td>
<td>2,450</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>27,611</td>
<td>2,450</td>
<td>2,450</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>126,547</td>
<td>24,153</td>
<td>24,203</td>
</tr>
</tbody>
</table>

Grand Totals
Appendix D-1: 2003 Income Tax Return

IT 1040  OHIO Income Tax Return 2003

For the year Jan. 1-Dec. 31, 2003 or other taxable year ending

Social Security Numbers must be filled in below.

Please print, type, or use black or dark blue ink.

If joint return, sp. first name Initial Last name Spouse's social security no.

Home address (number and street)

Apartment Number

Ohio Residency Status (see Instructions)

Ohio Public School District Number (See pages 33-35)

Ohio Political Party Fund Yes No

Do you want $1 to go to this fund?

Ohio County

If joint return, does your spouse want $1 to go to this fund? X

Note: Checking "Yes" will allow your tax to increase or decrease your refund.

1. Federal Adjusted Gross Income (see Federal Form 1040, line 34, or 1040A, line 35, or 1040EZ, line 4, or 1040ES).

   1. Federal Adjusted Gross Income (line 2 subtracted from or added to line 3).

   2. Ohio Adjusted Gross Income (line 2 subtracted from or added to line 3).

   3. Ohio Adjusted Gross Income (line 2 subtracted from or added to line 3).

   4. Multiply your personal and dependent exemptions times $5,250 and enter the result here.

   5. Ohio Taxable Income (subtracted line 4 from line 3).

   6. Federal Tax Due (see tax tables, pages 26-32).

   7. Credits from Schedule B (line 54 on back of this return).

   8. Ohio Tax less Schedule B Credits (Subtract line 54 from line 53. If line 7 is more than line 53, enter zero).

   9. Refundable Credits (Subtract line 55 from line 53. If line 7 is more than line 53, enter zero).

   10. Ohio Tax less Refundable Credits (Subtract line 56 from line 53). If line 7 is more than line 53, enter zero).

   11. Joint Filing Credit (see instructions and attach documentation). % times line 10 (limit $650).

   12. Ohio Tax less Joint Filing Credit (subtracted line 11 from line 10).

   13. Resident/Nonresident Part-Year Credits (Sche. C or D) & Nonrefundable Business Credits (attach Sche. E).

   14. Ohio Income Tax (Subtract line 13 from line 12. If line 14 is more than line 12, enter zero).

   15. Interest Penalty on Underpayment of Estimated Tax: Check if attached.

   16. Unpaid Ohio Use Tax (see worksheet on page 36).

The amount you show on this line is your total income tax liability for the year.

17. Total Ohio Tax (add line 14, line 15 and line 16).

18. Ohio Tax Withheld (line 17 on your W-2).

   (which W-2s to the back of this form).

   AMOUNT WITHHELD  3,721


20. Refundable Estimated Tax Credit.

21. Add lines 18, 19, and 20.

22. If line 21 is LESS than line 17, subtract line 21 from line 17. Attach payment made payable to Treasurer of State of Ohio.

   Check here if you have paid or will pay with an electronic check or credit card.

23. If line 21 is GREATER than line 17, subtract line 17 from line 21.

24. Amount of line 22 you wish to DONATE for nature preserves, scenic views, and endangered species protection.

25. Amount of line 22 you wish to DONATE for Ohio wildlife species and endangered wildlife conservation.

26. Amount of line 22 to be credited to 2004 estimated tax liability.

27. Amount of line 22 to be refunded (outstanding amounts on lines 24, 25, and 26 from line 23).

   YOUR REFUND  364

IF THE BALANCE DUE IS LESS THAN $1.00 PAYMENT NEED NOT BE MADE, AND IF THE OVERPAYMENT IS LESS THAN $1.00, NO REFUND WILL BE ISSUED.

I have read this return, Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature

Date

Sign Here

Spouse's signature (if filing jointly, both must sign)

Phone number (optional)

Preparer's name

Preparer's phone number

FOR DEPARTMENTAL USE ONLY

No Payment Enclosed-Mail to:

Ohio Department of Taxation
P.O. Box 2670
Columbus, OH 43220-2670

Payment Enclosed-Mail to:

Ohio Department of Taxation
P.O. Box 2057
Columbus, OH 43216-2057

107
Appendix D-1: 2003 Income Tax Return

Additions - Add to the extent not included in federal adjusted gross income (Line 1)

23. Add non-Ohio state or local government interest and dividends ............................................. 28
29. Add Pass-through Entity withdrawal ........................................................................................................... 29
30. Add income from an electing small business trust (ESST-see instructions) ........................................... 30
31. Other, Check all that apply:
   a. Federal interest and dividends subject to state taxation
   b. Reimbursement of college tuition expenses and fees deducted in any previous year(s)
   c. Losses from sale or disposition of Ohio Public Obligations
   d. Nonmedical withdrawals from an Ohio Medical Savings Account
   e. Reimbursement of expenses previously deducted for Ohio income tax purposes but only if the reimbursement is not in FASG
   f. Non-education expenditures from College Savings Account
   g. Add back the depreciation adjustment for IRC sections 168(k) and 179 — NEW

Total of a through g .................................................................................................................................................. 31

32. Total additions (add lines 28 through 31) ........................................................................................................... 32

Deductions - See Limitations In Instructions

33. Deduct federal interest and dividends exempt from state taxation ................................................................. 33
34. Deduct compensation earned in Ohio by full-year residents of neighboring states and certain income earned by military nonresidents Check box if you are a military nonresident ......................................................... 34
35. Deduct state or municipal income tax overpayments (see instructions) ......................................................... 35
36. Deduct disability and survivorship benefits (does not include pension contributions) ..................................... 36
37. Deduct qualifying social security benefits and some railroad benefits ................................................................ 37
38. Deduct contributions to College Advantage 529 savings plan and/or purchases of tuition credits .............. 38
39. Deduct tuition expenses paid to a qualified Ohio educational institution ...................................................... 39
40. Deduct unsubsidized health insurance/long-term care insurance and excess medical expenses (see worksheet) ................................................................. 40
41. Deduct funds deposited into & earnings of a Medical Savings Account for eligible medical expenses (see worksheet) ........................................................................................................... 41
42. Deduct losses from an Electing Small Business Trust (ESST-see instructions) ............................................ 42
43. Other, Check all that apply:
   a. Wage & salary expense not deducted due to the federal targeted jobs or the work opportunity tax credits
   b. Interest income from Ohio Public Obligations and Ohio Purchase Obligations and gains from the sale or disposition of Ohio Public Obligations
   c. Refund or reimbursements shown on line 21 of federal 1040 of itemized deductions claimed on a prior year federal income tax return
   d. Repayment of income reported in a prior year
   e. Amount contributed to an Individual Development Account
   f. Depreciation expense adjustment for IRC sections 168(k) and 179 — NEW

Total of a through f .................................................................................................................................................. 43

44. Total Deductions (add lines 33 through 43) ........................................................................................................... 44

45. Net adjustments-If line 32 is GREATER than line 44, enter the difference here & on line 2 as a positive amount, if line 32 is LESS than line 44, enter the difference here & on line 2 as a negative amount .............................................................................................................................................. 46
46. Retirement Income Credit (see instructions for credit table) (Limit-$200) ................................................................. 46
47. Senior Citizen Credit (Limit-$51 per return) ........................................................................................................... 47
48. Lump Sum Distribution Credit (you must be 55 years of age or older to claim this credit) ........................................... 48
49. Child and Dependent Care Credit (see instructions and worksheet) ...................................................................... 49
50. Lump Sum Retirement Credit .......................................................................................................................... 50
51. Job Training Credit (see instructions & worksheet) (Limit-$400 single; $1,000 joint, if both spouses qualify) .................. 51
52. Ohio Political Contributions Credit .................................................................................................................. 52
53. Ohio Adoption Credit (Limit-$500 per adoption) .............................................................................................. 53
54. Total Credits (add lines 46 through 53) - enter here and on line 7 ........................................................................ 54

55. Enter the portion of line 3 subject to tax by other states or the District of Columbia while an Ohio resident ........ 55
56. Enter Ohio Adjusted Gross Income (line 3) ......................................................................................................... 56

57. Divide line 55 by line 56 .................................................................................................................................. 57

58. Enter the 2003 income tax law related to net 2003 income tax laws other than withholding and estimated tax payments and carry-forwards from previous years paid to other states or the District of Columbia .................................................................................................................................... 58

59. Enter the smaller of line 57 or line 58, This is your Ohio Resident Tax Credit. Enter here and on line 13 ........................................................................................................................................................................ 59

List item(s) other than Ohio with which you filed 2003 Income Tax Returns ..............................................................................

60. Enter the portion of Ohio Adjusted Gross Income (line 3) that was earned or received in Ohio .......................... 60
61. Enter the Ohio Adjusted Gross Income (line 3) .................................................................................................... 61

62. Divide line 60 by line 61 .................................................................................................................................. 62

108
# Appendix D-2: Price List

## Southwestern Ohio Services

### NEW LAYOUT

<table>
<thead>
<tr>
<th>Count</th>
<th>Rate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 500 STALLS</td>
<td>$3.05</td>
</tr>
<tr>
<td>501-1000 STALLS</td>
<td>$2.90</td>
</tr>
<tr>
<td>1001-2500 STALLS</td>
<td>$2.75</td>
</tr>
</tbody>
</table>

### RESTRIPE

<table>
<thead>
<tr>
<th>Count</th>
<th>Rate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-1000 STALLS</td>
<td>$2.45</td>
</tr>
<tr>
<td>1000+ STALLS</td>
<td>$2.30</td>
</tr>
</tbody>
</table>

### LINEAR LINE

<table>
<thead>
<tr>
<th>Distance</th>
<th>Rate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2000 FEET</td>
<td>$0.22</td>
</tr>
<tr>
<td>2001-3000 FEET</td>
<td>$0.20</td>
</tr>
</tbody>
</table>

### STENCILS

12" Lettering & Symbols

<table>
<thead>
<tr>
<th>Item</th>
<th>Rate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO PARKING</td>
<td></td>
</tr>
<tr>
<td>FIRE LANE</td>
<td></td>
</tr>
<tr>
<td>RESERVED</td>
<td>$10.00</td>
</tr>
<tr>
<td>VISITOR</td>
<td></td>
</tr>
<tr>
<td>DRIVE-THRU</td>
<td></td>
</tr>
<tr>
<td>SINGLE LETTERS</td>
<td>$1.00/ea.</td>
</tr>
</tbody>
</table>

*Can custom make stencils to fit most needs*

### OTHER

<table>
<thead>
<tr>
<th>Item</th>
<th>Rate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SINGLE NUMBERS</td>
<td>$1.00/ea.</td>
</tr>
<tr>
<td>SPEED BUMPS</td>
<td>$1.00/ft.</td>
</tr>
<tr>
<td>GLASS BEADS</td>
<td>$.06/ft.</td>
</tr>
<tr>
<td>PARKING CURBS</td>
<td>$12.00/ea.</td>
</tr>
<tr>
<td>PERIMETER CURBS</td>
<td>$.30-.60/ft.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Item</th>
<th>Rate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HOLLYWOOD STALLS</td>
<td>$5.25</td>
</tr>
<tr>
<td>BUS/TRUCK STALLS</td>
<td>$.22/ft.</td>
</tr>
<tr>
<td>ANGLED STALLS</td>
<td>$3.50</td>
</tr>
<tr>
<td>CROSSHATCHING</td>
<td>$.15/sq.ft.</td>
</tr>
<tr>
<td>MULTI COLOR CHG.</td>
<td>$20.00</td>
</tr>
</tbody>
</table>

### SITE SIGNAGE

<table>
<thead>
<tr>
<th>Type</th>
<th>Rate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Signs installed in dirt</td>
<td>$165.00</td>
</tr>
<tr>
<td>Signs installed with basic concrete core</td>
<td>$195.00</td>
</tr>
</tbody>
</table>

*Job minimum billing $200.00
*Add 20% for chlorinated rubber paint

*Sealcoat jobs are considered New Layout.*
Appendix D-3: Letter of Engagement

MIAMI UNIVERSITY, OXFORD, OHIO 45056

Letter of Engagement:

Client Name: Southwestern Ohio Services

Client Address: 

Description of consulting team's anticipated projects/activities (in priority of importance):

1. Profit-sharing plan
2. Marketing plan
3. Financial recordkeeping/organization
4. Growth plan for customers and employees
5. Exit strategy to phase in Chris
6. Pricing of services
7. Inventory management system

Client Signature: [Signature]

Team Members: Jeffrey Schrader
Andrea Sebastian

110