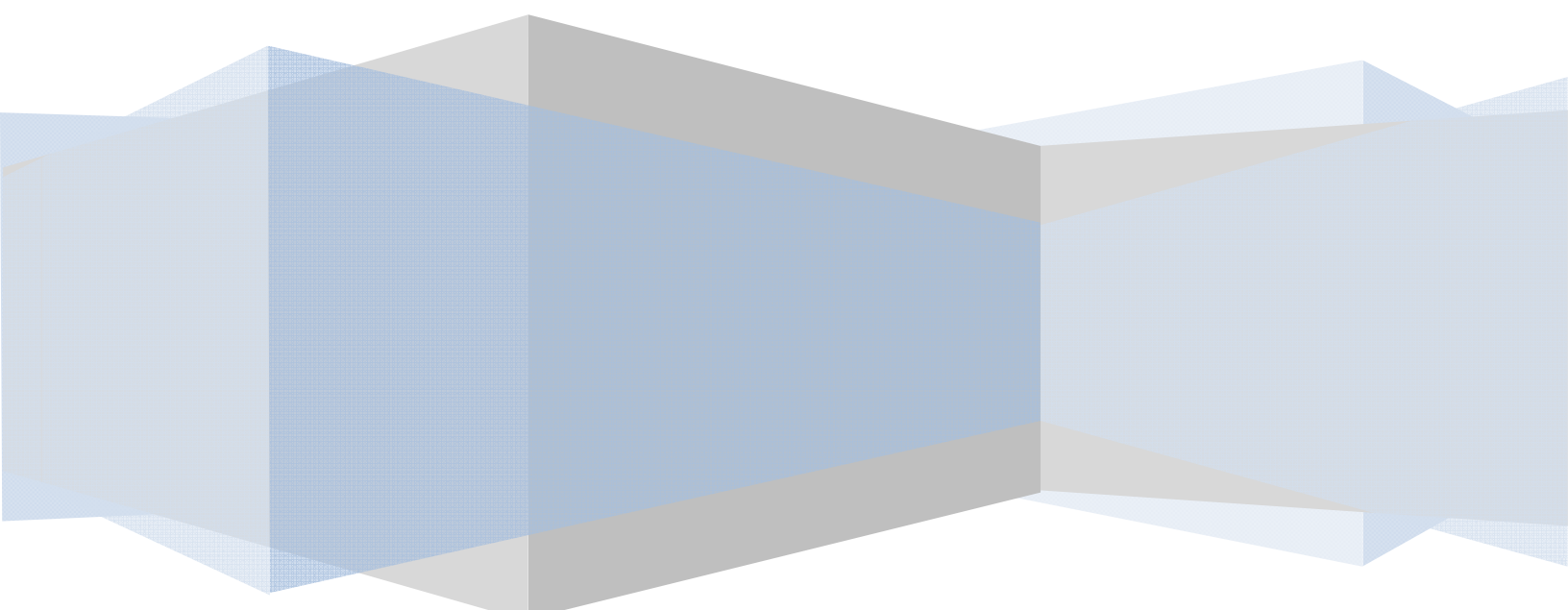




Business Valuations

A Tool for Marketing to Business Owners



Who Do You Trust with Your Success?TM

Introduction

Using the topic of a business valuation is an excellent way to:

- Get business owners talking,
- To help uncover some potential issues in their business
- To position yourself as an advisor to the business owner (as opposed to a salesperson)

The following guide discusses 3 strategies for bringing this issue up:

1. Host a seminar for business owners – “What is Your Business Worth...And Why You Need to Know?” The professionals at Independent Life Brokerage have a proven seminar and can help in reaching out to local chambers of commerce, local banks, etc.
2. Impactful door opening questions for when you meet business owners either through referrals or at networking events
3. Impactful questions for current clients and friends who own their own business.

The next section provides a background as to why business valuations are important to an owner along with strategies for bringing up the issue with new business owners you meet and current business owner clients.

The scope of this guide is to focus on valuations as a door opener to reaching business owner clients. Solutions to the valuation issues which may include life insurance buy-sell agreements, key person coverage and executive bonus plans are beyond the scope of this guide. We have a follow up guide that can help explain these concepts, their applications and the solutions they provide to business owners.

Background: Why Valuations Are Important

Most people can tell you what the exact value of their biggest stock holding is or the value of their home if they were to sell it today. It is easy to do because the information is readily available. People always want to know because these are some of their biggest assets and most prized possessions. Surprisingly though most business owners don't have a clear idea of the value of their business. Arguably their business is their highest producing, most important asset – the one they spend the most amount of time with, the one they are most passionate about and the one that provides the foundation for creating and building long term wealth

Understanding valuations and why they are important to a business is critical in understanding why the issue needs to be raised. Depending on the life stage of the business, a valuation may be important for different reasons. If we generalize owners by age, we can see a few examples of why having a clear value of their business is important.

Ages 30 to 55: Business owners may take on business partners and/or sell off pieces of their business. It is also the stage where most business owners are creating wealth for their families and have families that are dependent upon that income to maintain their lifestyle. Also as the business takes on key employees/personnel it is important to know how they contribute to the business and their impact on its growth. Knowing the value of the business is important.

Ages 45 to 65: At some point the concept of retirement begins to become important. Understanding the value of the business is critical for determining when you want to retire and what needs to be done to make sure the value of the business will produce enough capital to support the owner in retirement. A valuation is a critical first step.

Age 50 to 70: When the business owner is ready to retire and sell the business or transfer ownership it is crucially important to have an accurate valuation on the business so that the owner can receive a fair value and will also not be subject to high taxes imposed by the IRS who may value the business differently.

All Ages: It is critically important to know the value of the business in the event of death as estate taxes can significantly impact how much wealth is transferred to the owners heirs. The estate tax exemption continues to change yet this is very important for businesses valued at over \$2 mm.

Looking at the milestones above, here are a few examples of the impact of over or under valuing a business. It highlights why valuations are important at the certain milestones.

Ages 30 to 55: Buy Sell Agreement Needed for the Business

Overvalued - Selling partner gets a windfall while the buying partner overpays for the business

Undervalued - Spouse didn't receive fair value because no valuation and may eventually sue the business

Ages 45 to 65: Retirement Planning

Overvalued - The owners retirement nest egg may be smaller than expected thus delaying retirement

Age 50 to 70: Owner May Want to Sell Business

Overvalued - The high price may scare away potential buyers (like an overvalued home); it may cause issues with family members who are buying or insiders who feel they didn't get fair value

Undervalued - Money is left on the table that never should have been

All Ages: Estate Taxes

Undervalued Business - Taxes are due within 9 months and the heirs may be forced into a fire sale and not have the capital to cover the estate tax burden or worse, may have to dip into their own savings to pay the estate taxes.

The challenge and opportunity for you as an advisor is to:

- **Raise the valuation issue in a tactful and meaningful way**
- **Help connect the impact to not having a valuation to a problem, to a feeling, to something that may be of concern to the owners.**

Bringing up the Valuation Question

Begin by getting business owners to begin talking about their business. Know that almost everyone began by working for someone. A great door opener is “Everyone has a unique story as to why they went into business for themselves. It amazes me all the different reasons, motivations and unique life occurrences that motivate people to take that step. I am interested to hear more about yours.” Show a genuine interest. By intently listening you will not only build trust and show you genuinely care, you will also find out the emotional components and reasons why this business is so important to them. By connecting with their feelings now, you can then come back to them later when discussing the valuation and how it may impact their business. Ask additional open ended questions such as:

- Why did you ultimately decided to choose this business/industry?
- I am sure there are many similar businesses, how do you differentiate yourself and what do you feel makes your business unique? (This is critical because one common objection of business owners is to use rule of thumb valuations. This is never accurate because every business is uniquely different).
- What are your ultimate goals for your business and time frame for achieving them?
- If you were to look back on your business three years from today what would have had to have happened for you to feel you’ve accomplished your goals?

At this point you have shown a genuine interest and may now want to raise the valuation issue.

“I have been working with business owners for many years and one thing that shocks me most is that most owners I work don’t have a true understanding of the value of their business. They can tell me the value of their home or largest stock holding with accuracy and can give me a sense of what their business is worth yet in reality I have often found they are off by almost 50%. In fact a recent study by a valuation company I work with that has conducted over 27,000 appraisals has verified this.”

Let me ask you:

- If you were to sell the business today or take on a new partner, what do you think you could sell it for?
- If you were forced to sell your business for any reason, do you feel it would sell for the same value? For example, what if you weren’t working in the business anymore?
- If you’d like, I can analyze your business for free simply by looking at your corporate tax returns. I can usually tell within a matter of minutes what your business would sell for if you were forced to sell for any reason.

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Depending on the relationship you have, there are other probing questions which you can ask such as:

- If something were to unexpectedly happen to you, do you think that your spouse or significant other could replace you in the business?
- Do you feel clients would value that person similar to how they value what you bring to the table?
- If the business were to fall in value, how would this impact your or your family's lifestyle?
- How much income do you feel your business needs to spin off in order to support your family in the event you were no longer in the picture? If your heirs were forced to sell the business do you feel they would receive full value?

You may also want to focus on the retirement aspect of the business and ask related questions.

- Every business owner I work with has a number in their head. How much money will you need to retire and feel comfortable and secure?
- How did you come up with this number? What will it help you accomplish?
- What needs to happen in your business between now and retirement for you to achieve these goals?

Once a business owner begins to come to a realization that a business valuation is important, you can connect him with a valuation expert who can help explain further what a valuation entails and the process. When an owner's interest is piqued, most business owners become active participants and very engaged in the process of finding out what the value of their company is worth.

Up until this point you have done nothing but raise the valuation issue with the owner, highlighted its importance and provided the questions that have prompted him/her to take action.

You have positioned yourself as a knowledgeable advisor that works with business owners.

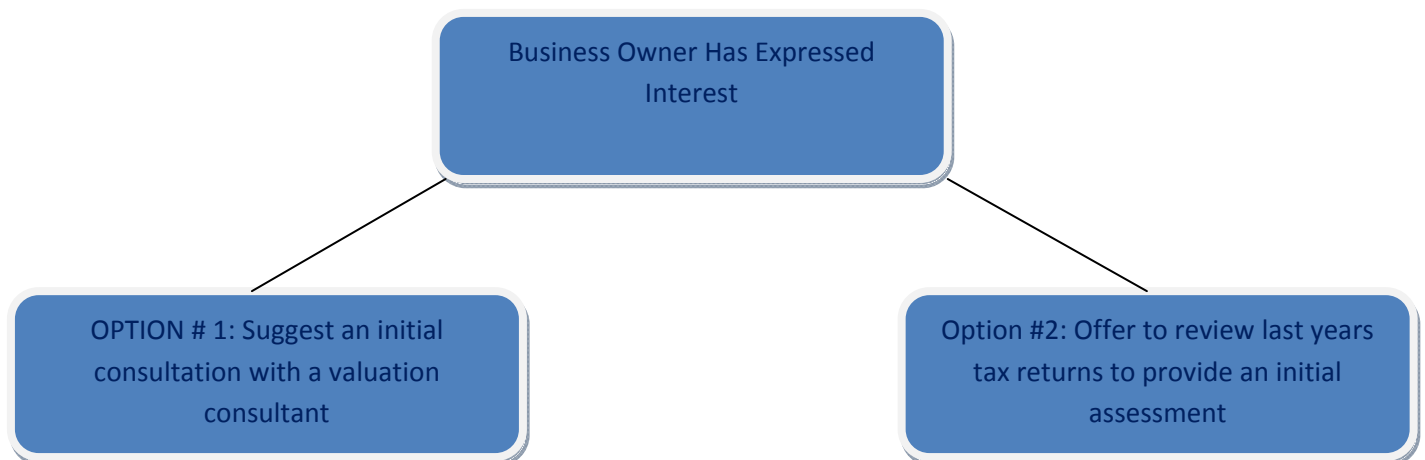
You have not begun to speak about specific products such as life insurance. If asked about solutions you can simply respond with “until I understand what the issues of importance to you are and what the valuation of the company is, it is difficult to determine what the right solution will be. Although we all want quick fixes, the key to finding the right solution is first diagnosing and understanding the issues and the problems that are important for you to solve.” The key here is that even though an issue may be there, it has to be one that they want to resolve. And as we all know, part of the role of a good advisor is to ask the probing questions that get them thinking about the issues yet also the impact of not taking action. The role of advisors is one of a coach – motivating others to take action.

Moving From Questions to Action

At this point, if a business owner is motivated to take action you can suggest he/she take one of two steps in the process.

1. You may suggest an initial phone consultation with a valuation consultant. The consultant will ask questions and determine which valuation milestone poses the greatest risk to the owner. The consultant will then address why get a valuation and explain the impact of overvaluing or undervaluing the business.
2. If the owner is interested in learning more yet needs to understand the issue further, offer to take a few minutes to ask him a few questions and look at last year's corporate tax returns to determine how much the business is worth.

You may want to first suggest a review of the tax return and then a consultation with a valuation consultant.



Reviewing Tax Returns to Provide An Initial Assessment of Business Value

The next step in the process is designed to help the business owner focus on what he feels his business is worth and the impact of him not being able to work in the business.

The first steps are to ask questions of the business owner to get an idea of what they feel the business is worth and how much income it spins off to support their lifestyle.

1. Ask the owner what he feels his business is worth and how he came up with that number.
2. A business puts money in its owner's pocket in many ways including salary, retirement plan contributions, car allowance, bonuses etc. Have owners identify every source of cash the business put in their pockets last year.
3. Ask the owner, what would be reasonable rate of interest you can earn on your cash. Typically we use 5% for illustrative purposes.
4. Next step is to divide the total cash the owner receives annually from the business (step 2) by the interest earned on the cash (step 3). For example if the owner earns \$500,000 annually divide this by 5%.
5. The answer (\$10,000,000) is the amount of money the business would need to be valued at today to support him and/or his family for the foreseeable future. The business puts cash in the owners pocket as if it were a \$10 million pile of cash.

Impact Question: If you were suddenly unable to work for any reason or if you were to retire today, is the business likely to sell for the amount indicated above (\$10,000,000)?

How much the business might sell for depends on 2 key variables:

- If the business would continue to operate as. Meaning there is no disruption to the business.
- Or if you suddenly couldn't work in the business due to death, disability, etc.

The impact questions to then ask the owner are. If you couldn't work in the business:

- Would sales likely fall in the short term? If so, by how much?
- Would your spouse control your ownership stock? Is he/she familiar with the inner workings of the business, the client base and how to run its operations?
- Would your spouse be liable for the company's debts? If so how would he/she pay them off?
- Would profits likely decline?
- Would key employees consider leaving?
- Would clients consider leaving?

If the owner has answered yes to any of the above questions, there is a good chance that the business may be sold in a "fire sale." It is important to remember that at this point you have simply raised the valuation issue and now you have begun to connect it to the impact of not knowing the correct value.

The next section discusses what a business might fetch in a fire sale by analyzing the tax return.

Analyzing the Tax Return: Determining the Potential Value in a Fire Sale

In order to complete this you will need to see last year's corporate tax return. The applicable returns are as follows:

- S Corporation = Form 1120S
- C Corporation = Form 1120
- Partnership = Form 1065 with a schedule K1

Many small businesses are S corporations and for illustrative purposes the following example walks you through the steps of analyzing a Form 1120S. Schedule L, "Balance Sheet per Books" provides all of the information you will need to conduct an accurate assessment.

You might begin by reminding the business owner that if they said "yes" to any of the questions in the section above, their business may be a candidate for a fire sale. The following exercise of reviewing their balance sheet can tell us what the approximate value would be if a fire sale were to occur. I recommend using a separate worksheet or piece of paper to write down the numbers. This will have more of an impact if you review the Schedule L with the owner and have him/her write down the numbers. Begin by having him/her write the value they think the business is worth on the top of the paper.

The steps are as follows:

1. *Line 1d. Cash-End of Year.* Cash is cash, even in a fire sale, so the company should expect to collect 100% of the cash amount listed on Line 1d.
2. *Line 2d. Trade notes and accounts receivable.* Statistics show that in a fire sale accounts receivable fetch about 50 cents on the dollar. Use the number in line 2d and discount this by half.
3. *Line 15. Other assets.* 'Other assets' are things a business may own such as furniture, equipment, vehicles etc. Other Assets are simply Total Assets minus Cash (1d) and Accounts Receivable (2a). Statistics show that in a fire sale other assets fetch about 30 cents on the dollar. Other assets equal total assets minus cash plus accounts receivable. The conclusion is what the company's assets would fetch in a fire sale **[Total Assets - (Cash + Accounts Receivable)] x.30 = Value of Other Assets**
4. *Lines 16-21. Liabilities.* A business must pay its debts, even in a fire sale. Add these figures together to come up with total liabilities.

The results of section 3 minus section 4 equal what a company might receive if sold in a fire sale.

In most cases this is significantly less than the number the business owner stated was needed in the event of an unexpected change in their participation in the business.

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The Transition: Discussing Typical Solutions

Owners of businesses and their families typically need as many as four different “buckets of capital” if the owner suddenly couldn’t work. The key for business owners is making sure the business is secure in the event of the unexpected and that the business has enough capital to maintain itself.

An impactful question to ask the business owner is:

- What if you could hire someone who could make sure all these buckets of capital existed?
- What would you pay them?

“In my experience in working with business owners like yourself, there are several ways that business owners can make sure the capital is there to meet the businesses needs.

1. The first is a Buy Sell Agreement which can help transfer a deceased owner’s interests to a business partner, a surviving spouse and/or key employees. This agreement is prepared by your attorney. A proper valuation will help business owners plan properly for how to fund this agreement. The most common funding mechanism is a life insurance policy.
2. Key Person Coverage – The sudden loss of a person who is key to a company's success can have a devastating impact on earnings, credit, morale and marketplace position. This is a strategy used to make sure a business absorb this impact. Business owners can safeguard the investment they have made in their business through company owned life insurance on key persons.
3. Executive Bonus – These are plans designed to retain and reward key employees.

At this point you may want to suggest getting the owners other advisors involved and working together to come up with a solution to the problems detailed above.

This is a great way to meet new advisors who may eventually become good centers of influence. You are also positioning yourself as yet another member of their team of advisors.

Target Market: Where You Can Have the Most Impact

We have found that business owners with the following demographics find the most value in discussing this concept:

- Greater than 5 employees but less than 50
- Over \$1,000,000 in annual sales
- Owner takes home more than \$100,000 in total compensation

Begin with business owners in an industry you are knowledgeable about. Read industry periodicals, blogs, online resources to learn more about current trends affecting the industry, who the players are, etc. By knowing the issues and trends you can speak intelligently to the business owner and ask more in depth probing questions.

Using Valuations for Referrals

Referrals are the lifeline of your business. The great thing about working with business owners is that each and everyone has faced the same challenges you face in your business...How do I get more clients?

This is why studies have shown that business owners are most open to giving referrals. If they see value in what you do, they are usually comfortable in sharing names of other people, namely other business owners that you can help.

A full discussion about referrals is beyond the scope of this guide. The key to gaining good referrals is to be targeted in your ask and make sure you follow through on the process. More than just getting names, ask for an introduction via a conference call with all parties.

Usually most business owners know other business owners in the area. They share a common bond and usually a mutual respect. Ask targeted questions to uncover referral sources that may fall under the following categories:

- Suppliers to their business
- Support services provided to their business
- Customers who own their own businesses
- Other local business owners
- Friends who own a business

Using Valuations for Introductions to Centers of Influence: CPA's

Unlike individuals, almost all business owners are actively engaged with their CPA and attorney on a regular basis. Once you have a business owner that is interested in the valuation process, it is important that you get introduced to their CPA and attorney so that they can be active participants in the process. You might ask your prospect:

“Mr. Business Owner, your CPA may have a valuation on record that he conducted either officially or an unofficial calculation. Is it okay if I ask him/her?”

“Mr. Business Owner, from time to time we might need access to information or have specific questions for your other advisors including your CPA and attorney. Instead of can you please send them a brief note to let them know I will be calling?”

Calling the CPA:

The following is some sample language you might consider using when reaching out to the prospects CPA.

“Hi ____, my name is ____ and we share a mutual client in _____. Do you have a few moments to speak. I am working with ____ on his (buy-sell, key man, estate tax planning, etc.) and feel it is very important to make sure all his advisors are involved in the process and on the same page thus why I felt it important to call and introduce myself as ____ speaks very highly of you.”

“The first step in the planning process is to make sure we have an accurate and up to date valuation on the business. Do have one available? If so, has it been prepared by a credentialed appraiser?”

IF THE CPA IS CREDENTIALLED:

“Is this company an audit client?” The purpose is to make sure no conflict exists. If it does not. “Great then I will recommend that the owner hire you to prepare a valuation report. From time to time I have clients that are looking to be introduced to a new CPA or valuation specialist. Might I suggest we meet for 20 minutes as I’d really like to learn more about your firm”

IF THE CPA IS NOT CREDENTIALLED AND HAS A VALUATION FIRM THEY RECOMMEND:

“Do you have a valuation company that you use? If so, I would welcome an introduction as I am always looking to find qualified appraisers to recommend to my clients. Additionally, from time to time I have clients that are looking to be introduced to a new CPA. Might I suggest we meet for 20 minutes as I’d really like to learn more about your firm. “

IF THE CPA IS NOT CREDENTIALLED DOES NOT HAVE A VALUATION FIRM THEY RECOMMEND:

“Do you have a valuation company that you recommend?”

“I have been using a company recently for many of my other clients called____. Have you ever worked with them before?”

If you recommend SPARDATA you can say “Lots of CPA’s I know use them as they don’t offer any accounting services and thus don’t compete with your core business.

“Do you have any objection to my recommending SPARDATA to ____?”

“First, I’d like you to get to know SPARDATA, their approach to the business and how they work with their clients. May I set up a 10 minute introductory call?”

Important Background Information When Speaking with CPA's - IRC 6695A and IRC § 170(f)(11)(E)(i)

- 6695A is a revenue ruling that came out in the Pension Protection Act of 2006 that affected the valuation and CPA industry.
- This along with other ruling essentially provide penalties for valuation misstatements and defined what a qualified appraiser is.
- It deals with penalties for "substantial and gross valuation misstatements attributable to incorrect appraisals"
- The amount of the penalties vary and are defined by the statute
- This ruling deals with both income taxes and estate and gift taxes
- It can encompass many different advisors. It only refers to “any person who knows or reasonably should have known that appraisal would be used in connection with a return or claim for refund”
- IRC 6662 defines the parameters for defining over and/or undervaluation
- IRC § 170(f)(11)(E)(i) - states that...appraisal must be conducted by a “qualified appraiser” in accordance with generally accepted appraisal standards and Treasury Regulations
 - Uniform Standards of Professional Appraisal Practice (“USPAP”) is sole example of generally accepted appraisal standards given in Notice 2006-96, §.02(2)

Using Valuations for Introductions to Centers of Influence: Attorneys

The following is some sample language you may consider using when speaking with a prospects attorney.

“Mr. Business Owner, your trusts and estates attorney may have a valuation on record. Is it okay if I ask him/her?”

“Mr. Business Owner, from time to time we might need access to information or have specific questions for your other advisors including your CPA and attorney. Can you please send them a brief note to let them know we are working together on__ and that I will be calling?”

Calling the Attorney:

“Hi __, my name is __ and we share a mutual client in____. Do you have a few moments to speak. I am working with__ on his (buy-sell, key man, estate tax planning, etc.) and feel it is very important to make sure all his advisors are involved in the process and on the same page thus why I felt it important to call and introduce myself as __speaks very highly of you.

“I need a written valuation on the business and was wondering if you have one available? If so, has it been prepared by a credentialed appraiser?”

IF THE ATTORNEY DOES NOT HAVE AN APPRIASER:

“I have been using a company recently for many of my other clients called____. Have you ever worked with them before?

If you recommend SPARDATA you can say “Lots of attorney’s I know use them. They have done work for the IRS among other clients and have conducted over 27,000 appraisals. “

“Do you have any objection to my recommending SPARDATA to ____?”

“First, I’d like you to get to know SPARDATA, their approach to the business and how they work with their clients. May I set up a 10 minute introductory call?”

Summary and Next Steps

Implementing the “valuation question” into your practice can open up many new opportunities for expanding your business. Business owners make excellent clients because:

- They are decision makers by nature
- They understand risk and the need to mitigate specific risks
- They understand the importance of planning
- They understand that protecting their business and the work they have done to date is an investment in their business not a cost
- They are usually excellent sources for referrals
- They have both personal and business needs

Now that you understand the value of working with business owners and have a strategy for opening doors with business owners, it is time to take action.

You may want to begin by speaking with your support specialist at Independent Life Brokerage to strategize on ways to get started.

Steps include:

1. Review and become comfortable with presenting the seminar, “What is Your Business Worth...And Why You Need to Know?”
2. Compile a list of local chambers of commerce and request to present at one of their upcoming meetings. For a list of chambers go to:
<http://www.uschamber.com/chambers/directory/default>
3. Reach out to the local branch office of your bank, speak to the manager and ask if you can host an event for their business owner clients.
4. Research local professional associations and ask to speak at an upcoming event. For example in New Jersey there is the NJ Business & Industry Association.
<http://www.njbia.org/>
5. Research industry organizations and ask to speak at an upcoming event. For more information on organizations go to:
<http://www.google.com/Top/Society/Organizations/Professional/>
6. Plan to host an event or webinar and advertise in regional or industry specific publications.

At Independent Life Brokerage we can help you directly or in conjunction with our partners with proposal letters, seminar invitations and advertisements to name just a few things.

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Disclaimer: Independent Life Brokerage Corporation is not an accounting firm, law firm or valuation expert, and has provided this tool solely to serve as a marketing guide for life insurance agents. All substantive issues should be referred to the appropriate professionals.

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Department of the Treasury
Internal Revenue Service

▶ Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
▶ See separate instructions.

2009

For calendar year 2009 or tax year beginning _____, 2009, ending _____, 20

A S election effective date	Use IRS label. Otherwise, print or type.	Name	D Employer identification number
B Business activity code number (see instructions)		Number, street, and room or suite no. If a P.O. box, see instructions.	E Date incorporated
C Check if Sch. M-3 attached <input type="checkbox"/>		City or town, state, and ZIP code	F Total assets (see instructions) \$ _____

G Is the corporation electing to be an S corporation beginning with this tax year? Yes No If "Yes," attach Form 2553 if not already filed

H Check if: (1) Final return (2) Name change (3) Address change
(4) Amended return (5) S election termination or revocation

I Enter the number of shareholders who were shareholders during any part of the tax year _____ ▶

Caution. Include **only** trade or business income and expenses on lines 1a through 21. See the instructions for more information.

Income	1 a Gross receipts or sales	b Less returns and allowances	c Bal ▶	1c	
	2 Cost of goods sold (Schedule A, line 8)			2	
	3 Gross profit. Subtract line 2 from line 1c			3	
	4 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)			4	
	5 Other income (loss) (see instructions—attach statement)			5	
	6 Total income (loss). Add lines 3 through 5			6	
Deductions (see instructions for limitations)	7 Compensation of officers			7	
	8 Salaries and wages (less employment credits)			8	
	9 Repairs and maintenance			9	
	10 Bad debts			10	
	11 Rents			11	
	12 Taxes and licenses			12	
	13 Interest			13	
	14 Depreciation not claimed on Schedule A or elsewhere on return (attach Form 4562)			14	
	15 Depletion (Do not deduct oil and gas depletion.)			15	
	16 Advertising			16	
	17 Pension, profit-sharing, etc., plans			17	
	18 Employee benefit programs			18	
	19 Other deductions (attach statement)			19	
	20 Total deductions. Add lines 7 through 19			20	
	21 Ordinary business income (loss). Subtract line 20 from line 6			21	
Tax and Payments	22a Excess net passive income or LIFO recapture tax (see instructions)	22a			
	b Tax from Schedule D (Form 1120S)	22b			
	c Add lines 22a and 22b (see instructions for additional taxes)			22c	
	23a 2009 estimated tax payments and 2008 overpayment credited to 2009	23a			
	b Tax deposited with Form 7004	23b			
	c Credit for federal tax paid on fuels (attach Form 4136)	23c			
	d Add lines 23a through 23c			23d	
	24 Estimated tax penalty (see instructions). Check if Form 2220 is attached			24	
	25 Amount owed. If line 23d is smaller than the total of lines 22c and 24, enter amount owed			25	
	26 Overpayment. If line 23d is larger than the total of lines 22c and 24, enter amount overpaid			26	
	27 Enter amount from line 26 Credited to 2010 estimated tax ▶ Refunded ▶			27	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign Here Signature of officer _____ Date _____ Title _____

May the IRS discuss this return with the preparer shown below (see instructions)? Yes No

Paid Preparer's Use Only Preparer's signature _____ Date _____ Check if self-employed Preparer's SSN or PTIN _____
Firm's name (or yours if self-employed), address, and ZIP code _____ EIN _____
Phone no. _____

Schedule A Cost of Goods Sold (see instructions)

1	Inventory at beginning of year	1		
2	Purchases	2		
3	Cost of labor	3		
4	Additional section 263A costs (attach statement)	4		
5	Other costs (attach statement)	5		
6	Total. Add lines 1 through 5	6		
7	Inventory at end of year	7		
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on page 1, line 2	8		
9a	Check all methods used for valuing closing inventory: (i) <input type="checkbox"/> Cost as described in Regulations section 1.471-3 (ii) <input type="checkbox"/> Lower of cost or market as described in Regulations section 1.471-4 (iii) <input type="checkbox"/> Other (Specify method used and attach explanation.) ▶			
b	Check if there was a writedown of subnormal goods as described in Regulations section 1.471-2(c)			<input type="checkbox"/>
c	Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970)			<input type="checkbox"/>
d	If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO	9d		
e	If property is produced or acquired for resale, do the rules of section 263A apply to the corporation?		<input type="checkbox"/> Yes	<input type="checkbox"/> No
f	Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation.		<input type="checkbox"/> Yes	<input type="checkbox"/> No

Schedule B Other Information (see instructions)

	Yes	No
1 Check accounting method: a <input type="checkbox"/> Cash b <input type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) ▶		
2 See the instructions and enter the: a Business activity ▶ b Product or service ▶		
3 At the end of the tax year, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) If "Yes," attach a statement showing: (a) name and employer identification number (EIN), (b) percentage owned, and (c) if 100% owned, was a QSub election made?		
4 Has this corporation filed, or is it required to file, a return under section 6111 to provide information on any reportable transaction?		
5 Check this box if the corporation issued publicly offered debt instruments with original issue discount <input type="checkbox"/> If checked, the corporation may have to file Form 8281 , Information Return for Publicly Offered Original Issue Discount Instruments.		
6 If the corporation: (a) was a C corporation before it elected to be an S corporation or the corporation acquired an asset with a basis determined by reference to its basis (or the basis of any other property) in the hands of a C corporation and (b) has net unrealized built-in gain (defined in section 1374(d)(1)) in excess of the net recognized built-in gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain from prior years ▶ \$		
7 Enter the accumulated earnings and profits of the corporation at the end of the tax year. \$		
8 Are the corporation's total receipts (see instructions) for the tax year and its total assets at the end of the tax year less than \$250,000? If "Yes," the corporation is not required to complete Schedules L and M-1		

Schedule K Shareholders' Pro Rata Share Items

	Total amount	
1 Ordinary business income (loss) (page 1, line 21)	1	
2 Net rental real estate income (loss) (attach Form 8825)	2	
3a Other gross rental income (loss) 3a		
b Expenses from other rental activities (attach statement) 3b		
c Other net rental income (loss). Subtract line 3b from line 3a 3c		
4 Interest income	4	
5 Dividends: a Ordinary dividends 5a b Qualified dividends 5b		
6 Royalties	6	
7 Net short-term capital gain (loss) (attach Schedule D (Form 1120S))	7	
8a Net long-term capital gain (loss) (attach Schedule D (Form 1120S)) 8a		
b Collectibles (28%) gain (loss) 8b		
c Unrecaptured section 1250 gain (attach statement) 8c		
9 Net section 1231 gain (loss) (attach Form 4797)	9	
10 Other income (loss) (see instructions) Type ▶ 10		

		Shareholders' Pro Rata Share Items (continued)	Total amount	
Deductions	11	Section 179 deduction (<i>attach Form 4562</i>)	11	
	12a	Contributions	12a	
	b	Investment interest expense	12b	
	c	Section 59(e)(2) expenditures (1) Type ▶ _____ (2) Amount ▶ _____	12c(2)	
	d	Other deductions (<i>see instructions</i>) Type ▶ _____	12d	
Credits	13a	Low-income housing credit (section 42(j)(5))	13a	
	b	Low-income housing credit (other)	13b	
	c	Qualified rehabilitation expenditures (rental real estate) (<i>attach Form 3468</i>)	13c	
	d	Other rental real estate credits (<i>see instructions</i>) Type ▶ _____	13d	
	e	Other rental credits (<i>see instructions</i>) Type ▶ _____	13e	
	f	Alcohol and cellulosic biofuel fuels credit (<i>attach Form 6478</i>)	13f	
	g	Other credits (<i>see instructions</i>) Type ▶ _____	13g	
Foreign Transactions	14a	Name of country or U.S. possession ▶ _____		
	b	Gross income from all sources	14b	
	c	Gross income sourced at shareholder level <i>Foreign gross income sourced at corporate level</i>	14c	
	d	Passive category	14d	
	e	General category	14e	
	f	Other (<i>attach statement</i>) <i>Deductions allocated and apportioned at shareholder level</i>	14f	
	g	Interest expense	14g	
	h	Other <i>Deductions allocated and apportioned at corporate level to foreign source income</i>	14h	
	i	Passive category	14i	
	j	General category	14j	
	k	Other (<i>attach statement</i>) <i>Other information</i>	14k	
	l	Total foreign taxes (check one): ▶ <input type="checkbox"/> Paid <input type="checkbox"/> Accrued	14l	
	m	Reduction in taxes available for credit (<i>attach statement</i>)	14m	
	n	Other foreign tax information (<i>attach statement</i>)		
Alternative Minimum Tax (AMT) Items	15a	Post-1986 depreciation adjustment	15a	
	b	Adjusted gain or loss	15b	
	c	Depletion (other than oil and gas)	15c	
	d	Oil, gas, and geothermal properties—gross income	15d	
	e	Oil, gas, and geothermal properties—deductions	15e	
	f	Other AMT items (<i>attach statement</i>)	15f	
Items Affecting Shareholder Basis	16a	Tax-exempt interest income	16a	
	b	Other tax-exempt income	16b	
	c	Nondeductible expenses	16c	
	d	Property distributions	16d	
	e	Repayment of loans from shareholders	16e	
Other Information	17a	Investment income	17a	
	b	Investment expenses	17b	
	c	Dividend distributions paid from accumulated earnings and profits	17c	
	d	Other items and amounts (<i>attach statement</i>)		
Reconciliation	18	Income/loss reconciliation. Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and 14l	18	

Schedule L	Balance Sheets per Books	Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
	Assets				
1	Cash				
2a	Trade notes and accounts receivable				
b	Less allowance for bad debts	()		()	
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach statement)				
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach statement)				
10a	Buildings and other depreciable assets				
b	Less accumulated depreciation	()		()	
11a	Depletable assets				
b	Less accumulated depletion	()		()	
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	()		()	
14	Other assets (attach statement)				
15	Total assets				
	Liabilities and Shareholders' Equity				
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach statement)				
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach statement)				
22	Capital stock				
23	Additional paid-in capital				
24	Retained earnings				
25	Adjustments to shareholders' equity (attach statement)				
26	Less cost of treasury stock		()		()
27	Total liabilities and shareholders' equity				

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return
Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more—see instructions

1	Net income (loss) per books		5	Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):	
2	Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize):		a	Tax-exempt interest \$	
3	Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 14l (itemize):		6	Deductions included on Schedule K, lines 1 through 12 and 14l, not charged against book income this year (itemize):	
a	Depreciation \$		a	Depreciation \$	
b	Travel and entertainment \$		7	Add lines 5 and 6	
4	Add lines 1 through 3		8	Income (loss) (Schedule K, line 18). Line 4 less line 7	

Schedule M-2 Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed (see instructions)

	(a) Accumulated adjustments account	(b) Other adjustments account	(c) Shareholders' undistributed taxable income previously taxed
1	Balance at beginning of tax year		
2	Ordinary income from page 1, line 21		
3	Other additions		
4	Loss from page 1, line 21	()	
5	Other reductions	()	
6	Combine lines 1 through 5		
7	Distributions other than dividend distributions		
8	Balance at end of tax year. Subtract line 7 from line 6		