



E.O. Inc.

By Jerry Paul Sheppard of Simon Fraser University. This case was written to illustrate various management principles and concepts for class discussion, and was not intended to be an example of either effective or ineffective company practices. Names and certain other data have been disguised. The case was prepared with the cooperation of the management of the corporation.

Carol Causti was sure of the goals and problems her family's business would attempt to address as 1991 began:

Ask anyone in this company and you'll find E.O. Inc. has to meet three major challenges in 1991. One, how do each of us, as owners, get more time to relax from the stresses of the business? Two, how can we get over the short-term cash flow problems the business is having? Three, how do we insure that we don't expand too quickly?"

In one way all the members of the Causti family agreed with Carol: the family business, E.O. Inc. faced three main challenges. However, exactly what those challenges were differed for almost each family member. Rob Causti, Carol's father and founder of E.O. Inc., felt that the main needs of the business were to secure financing for expansion of the family owned businesses, to use the borrowed funds to develop the present enterprises and acquire real estate adjacent to some of the present property in order to allow for future expansion. Nora, Rob's wife wanted to reduce debt, have a less stressful working environment and fund medical insurance for all family members. Rob and Nora's sons, Jay and Ben were in total agreement – with each other – that there was a need for better equipment, more personal spending money and shorter working hours. All the family members agreed that they needed to find some way to work together toward common goals.

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● COMPANY BACKGROUND

Hard work toward a common goal and a need for money were nothing new to the Causti clan. As Carol will tell you:

Back in '75 my parents declared bankruptcy. My parents, brothers and I packed up all we owned and headed out from Denver in an old station wagon. For a while we stayed in Miami where my Dad managed flophouses. We had to leave because drug dealers almost blew his head off. He managed a furniture manufacturing plant in Milwaukee, but left because the owners wanted him to do some shady things with the cash flows. We ended up on welfare in Everett, Washington in 1977. My Dad then took \$500 my Mom scraped together for 'emergencies' and bought a run down shoe repair shop in Marysville – twenty miles from where we lived! And he'd never fixed a shoe in his life!

Thus in 1977 the Shoe Shop, later to become the Shoe Shop, Inc., was born. This business was the beginning of a highly eclectic collection of businesses the Caustis would call Entrepreneurial Opportunities, Inc. or E.O. Inc.

● THE SHOE SHOP INC.

Rob was quickly able to learn the craft of shoe repair through a combination of good instruction from the shop's previous owner, his natural ability with the craft and a desire to stay off welfare (not to mention Nora's threats as to what might happen should this venture fail). The whole family pitched in to help in the business: Nora learned as fast as Rob could find the time to teach her; the two eldest children, Carol and Ben were operating the machinery before they were teenagers; Jay, the youngest, waited on customers before he was ten. The firm, through ups and downs, supported the Caustis well. By 1981 they had four Shoe Shops in and around Marysville and Everett. Nora ran one, Ben (then 16 years old) another, Carol (at the time 19 years old) the third, and Rob ran the fourth. An emergency might send Rob to one of the other stores. This would leave 12 year old Jay in charge of the store in his absence.

In 1982, disaster struck. Rob came down with double pneumonia. The illness was prolonged due to Rob's worn down condition from work related stress associated with attempting to control the activities of four different shops. Family members urged Rob to consolidate the businesses into one location. As Rob convalesced, he gave his approval to sell off excess equipment and move the best machines to one shop. Rob decided that instead of geographic expansion the business would pursue diversification of services at the one remaining location.

● THE CREATION OF E.O. INC.

The first chance to diversify lines of business activity came when the Caustis had the opportunity to acquire a post office substation contract. The Postal Service had determined that Marysville had grown sufficiently to war-

rant additional service. The Caustis bid on and received the Marysville contract. Stationary sales and eventually a typing service (“Secretary-in-a-Hurry”), were developed in association with the postal service. Nora was put in charge of the postal services and Carol ran the typing service. All these services brought in more customers and so helped the shoe repair to expand. The postal, stationary, and secretarial service also increased profits by a third.

As a reflection of the more diversified lines of business pursued by the organization, Rob created E.O. Inc. in 1983. The idea was that E.O. Inc. would act as a holding company for all Causti family businesses. The post office substation, Shoe Shop Inc. and Secretary- in-a-Hurry, were made wholly owned subsidiaries of E.O. Inc.

Further expansion occurred in 1984 when the Caustis became lottery ticket agents. This involved instant, daily and lotto ticket sales. A percentage commission was taken out by the company and the remaining funds were deposited in a bank trust account. Every Friday the previous calendar week’s deposits were taken out of the trust account by the state via electronic funds transfer. When the lotto jackpot would get large, the amount of trust funds could get up to \$25,000. The Caustis became adept at handling large sums of cash under this type of trust arrangement.

In 1985 the Caustis contracted with several local utilities to collect payments from customers. Instead of mailing a phone or electric bill payment from the Caustis’ post office, a customer could simply pay the bill to the Caustis as agents for the utility. The Caustis would then deposit the funds into the utility’s trust account and the utility customer’s payment would be recorded as paid when the Caustis mailed the list of payments to the utility at the end of the day. Thus, several trust accounts came under the Caustis’ control. The Causti’s realized that if they waited until the end of an average day to make their deposits, they would be carrying more than \$3,500 to the bank. This was an unacceptable security risk, and it was therefore necessary to make several trips daily to the bank.

The large amount of cash running through accounts that the Caustis controlled allowed them a certain amount of clout with the bank. The bank the Caustis did business with was just across the street from the Shoe Shop. Branches of at least three large banks, and two smaller ones were located within five minutes drive of the shop. Since the Caustis did all their banking at a small bank, they were one of the bank’s biggest customers. This allowed Rob to use the threat of going to one of the other nearby banks to obtain financing.

❶ ON THE HOME FRONT

Even with all this activity on the job the Caustis were busy at home. In 1983 Rob and Nora Causti sold their home in Everett and moved to the town of Granite Falls, about 12 miles from their Marysville store. With the proceeds

from the sale they bought a trailer and made a down payment on two 10 acre lots of heavily wooded land. The contract with the previous owner (to whom the Caustis paid their mortgage) stipulated that some of the land could be cleared for a building site to construct a house. The Caustis cleared a site for the trailer and then started on the site for the home. The good timber was sold to local saw mills and the lesser quality logs were sold as firewood. The Caustis built the home themselves on one of two ten acre parcels. They then sold the trailer and purchased an adjacent three acre parcel as an investment.

● THE MAKING OF THE COUNTRY STORE INC.

From 1985 to 1987 the businesses ran smoothly. The Caustis lived in an attractive three bedroom home on 23 acres. Rob became bored, however, and began looking for additional business ventures. The opportunity arose to buy the property adjacent to the family's 23 acres. This property consisted of a five acre corner lot with an old farmhouse and an additional six acre lot.

Rob's idea was to convert the bottom of the farmhouse into a convenience store and the upper floor into office space and sleeping quarters for the two boys. This plan solved several problems. First, it gave the family an additional location from which to bring in business. Second, in the event the Shoe Shop lost its lease in 1991, the family would have ownership of a commercial property. (Moving the Shoe Shop would probably mean loss of the postal and lotto contracts, however.) Third, Rob viewed the two businesses as seasonally balancing each other out. This final observation was confirmed by Ben:

This sounds crazy, but it's true. In bad weather people are more likely to get their shoes repaired. Folks don't realize they have holes or other problems with their shoes until they step in a puddle and their feet get wet. Summer in this part of the world is the dry season, for the shoe repair business, for weather and for people. On a hot, dry day when the shoe repair business is slow, the convenience store business should be booming with hot and thirsty people!

A fourth rationale behind the purchase of the store property was it got Rob's two sons out of the house. Rob, Ben and Jay all agreed that such a move would be for the best since Rob and the two boys had almost come to blows on several occasions. "We work more than 60 hours a week and all we get for pay is room, board and spending money; that's all. It's a lot of work without much reward", Ben complained. Ben estimated that he and Jay received about \$100 per month each and that Carol received about \$1000 per month (the larger sum went to Carol since she was not living at home). Jay added:

It's good to be out of the house since we'd rather not have to listen to Dad's B.S. all the time. He's always telling us that we don't appreciate the fact that: 'the business moves we make and the work we put in are for the good of the family' and 'being

entrepreneurial requires sacrifice and dedication,' but 'in the end you've really got something!' The problems I see are that "*the end*" is never any time in the near future and whatever "*something*" we're supposed to get out of all this work we don't have yet. I don't know if we ever will."

In early 1988 the farmhouse and five acres and the adjacent six acre lot were purchased. Under Rob's direction, Ben and Jay started to rewire and replumb the building. A parking lot was put in and walls were knocked out. Ben and Jay put in 50 to 60 hours at the Shoe Shop and then worked on the future convenience store and their living quarters during their "off hours." They were driven to finish the rebuilding since upon completion they would also have a decent (or at least a less dusty) place to live. After eating dinner and taking care of the day's accounting, Carol and sometimes Nora would pitch in to also help on renovations.

Ben worked alone on enlarging several passageways through supporting walls of the building that became the convenience store. "I worked alone because I needed to be able to concentrate. I risked a couple of tons of 50 year old house falling on me if I made a wrong move." A layout plan has been supplied by the Caustis (see Exhibit 1). Ben also commented that mistakes on the remodeling job he did could have been fatal in a couple of ways: "If I collapse the house the falling timbers may have killed me, if they didn't then my Dad would have killed me for destroying the place." The tone of his voice indicated he did not say this in jest.

When the remodelling was completed the building became a small 1500-square-foot convenience store – groceries, milk, snack food, pop, beer, wine, video rentals, some hot food, etc. Thus, the Country Store, Inc. was added to the list of E.O., Inc. enterprises. Rob Causti planned to later expand operations at the Country Store location to include gas pumps, a restaurant, a hardware area, and a feed and grain department. Rob planned to eventually develop this five acres into a small strip mall of E.O. Inc. enterprises and stores rented by others. The idea was to take advantage of the rural nature of Granite Falls and to create what Carol called a "new fashioned general store" and what Ben referred to as "the country mall."

A similar 'country mall' scheme had been attempted about 10 miles away by another entrepreneur, but it had closed two years ago. Rob insisted that his plan would work because this other mall was on a busy main highway where people were less likely to stop and the Country Store was part of the community with long-term loyal customers. Other family members thought that the chances of developing a loyal customer base for the Country Store and the mall were fairly likely. Carol Causti's comments were typical:

The only competition we have is an old, dirty grocery and gas store a mile down the road. Since that place opened 12 years ago the population has more than doubled in this area. The community will easily support both of us – except we plan to outdo the guy down the road. First we plan to offer more services, a cleaner, friendlier place, and we'll be open 8 A.M. to 10 P.M. every day. He's only open 9 to 9.

● Current Business

Thus, at the close of 1990, the Causti businesses included three legal entities: Shoe Shop Inc., (which included Secretary-in-a-Hurry), E.O. Inc. and the Country Store Inc. The Marysville Location was the headquarters for Shoe Shop Inc. and Secretary-in-a-Hurry and the other two entities were headquartered in Granite Falls. E.O. Inc. was the sole owner of all the businesses.

● SHOE SHOP INC. & SECRETARY-IN-A-HURRY

The Shoe Shop was located in the corner of a small strip mall, and the store itself was not visible from the road. The store front was about 25 feet wide and had a large sign proclaiming "Shoe Shop". Taped on the inside of two large display windows were the store's hours (8:00 A.M. to 6:00 P.M.), various notices as to the services to be found inside: Washington State Lotto, U.S. Post Office Substation, Western Union™ (added in 1990). Additionally, posters for recently arrived videos were taped on these large display windows. Since the Caustis had a ready supply of videos from the Country Store, Rob had decided that these could also be rented-out from the Shoe Shop

Inside the Shoe Shop, about 30 feet from the door, stretched from the right to left wall was the well worn wood paneled service counter. To the left were racks of videos and to the right were two steel shelving units. The shelving units contained stationary and mailing supplies (wrapping paper for parcels, regular and padded envelopes in a variety of sizes, writing paper, pens, etc.) and shoe related items (e.g. polish, laces, shoe horns, brushes, etc.). At the counter, no formal divisions existed but generally at one end the typing service and postal substation customers were handled; in the center, the shoe repair business, utility contract payments and video rentals and at the other end, the Western Union and lottery patrons. In back of the counter was an assortment of machinery: including a scale for the post office, a shoe patcher. Behind the counter were repaired shoes waiting for pickup, and, of course, the cash tills. Exhibit 2 shows a diagram of the store layout.

A door behind the counter that went into the office, which held some of the company records and the equipment for Secretary-in-a-Hurry. The door to this office was usually kept open so that people in the office could see if the counter became crowded. If more than four people were waiting at the counter someone would come from the office to the counter to help. Rob believed that keeping the door open allowed family members to get more done and still give quality service. Another door led from the office to the back room, where all the shoe repair equipment and supplies were kept. The door to the back room was usually shut to reduce noise and odors. Most of the equipment in the back room was 10 to 15 years old but still in fairly good working order. In the back room another door led outside. This outside back door was usually kept open to provide ventilation.

● THE COUNTRY STORE INC.

As Rob explained it, the bend in road as one drove up to the Country Store was critical to the success of the business. He reasoned that since people had to slow down at the curve in any case, they would be more likely to stop at the store. However, getting to the store from the main road was somewhat problematic. Due to zoning requirements the parking lot entrance was not on the main road – Oak Street – but on a side road – Barley Avenue. At the corner of Oak and Barley a small brightly lit new sign reading “The Country Store” stood atop a 15-foot metal pole.

The Country Store building was a small, neat barn red wood building with white trim. The inside of the store was brightly lit and clean. Just inside the store was the main service counter. On top of the counter was the cash register, a microwave and some impulse purchase items. Behind the counter were cigarettes, pop machines, hot snack food facilities and, usually, Rob Causti. Across from the counter was a window designed to spot customers at the gas pumps that were planned for the location. Under this window was a candy rack, which Rob had strategically there to minimize the risk of theft.

Toward the back of the store was a full bathroom and laundry room. The laundry room contained not only the hot water heater and washer dryer but also a kitchen sink and stove. Jay and Ben shared these facilities with the employees since there were no other bath or kitchen facilities in the building. Also in the back of the store was a room that served as a workshop while the Caustis were reconstructing the building. If the Caustis lost the lease on their other location, this room would be used as a shoe repair shop. Upstairs were Jay and Ben’s small bedrooms, as well as a large center hall area (large enough to be a room) and a large office for the records and plans of E.O. Inc. and the Country Store.

In spite of the security precautions – carefully placing small items where they could easily be seen from the counter and placing angled mirrors to watch customers – theft losses, 4.5% of the cost of goods sold, were twice as the allowance Rob had originally made for such losses. The data Rob had used to make his estimates were based on the supermarket theft loss rate of 1.5 percent. Rob suspected some employees were guilty of the thefts. He felt that his minimum wage employees thought they were worth more than the wage they were paid and had decided to enhance their incomes through pilferage. In the store’s first four months in business two of six non-family staff had been fired based on theft accusations. Rob also made sure that at least one family member was working during store hours to keep an eye on other employees. All these actions did little to cut the theft rate. Carol thought that some of the pilferage could probably be traced to midnight raiding from Ben and Jay. As she stated: “Ben and Jay live upstairs. If you got the midnight munchies and

there was a whole convenience store right downstairs what would you do? I think my dad must know, but he probably figures he can right the expense off as part of Cost of Goods Sold.”

● E.O. INC. & CAUSTI FAMILY FINANCES

E.O. Inc. is a holding company. Its only real purpose, according to company Treasurer Carol Causti, is to coordinate the activities and finances of the Shoe Shop, Secretary-in-a- Hurry and the Country Store. Thus the statements of these companies were combined into E.O. Inc.’s financial statements (Exhibits 3, 4, and 5). The balance sheet also showed both personal and business assets and liabilities (Exhibit 6). The reason for this unusual mingling was explained by Carol Causti:

Our bank always makes my parents sign personally for credit. The bank also demands statements of their personal and business assets and liabilities. In order to avoid complications we just put everything on the one Balance Sheet. My Dad says that if you’re an entrepreneur, you have to put it all on the line. I think his view is that since we started with almost nothing, we have nothing to lose. So we try to maximize our leverage by using all available credit and sometimes even floating three or four days’ worth of checks.

Other unusual items on the financial statements were the fact that the real estate properties were shown at appraised market value. The reason for this according to Rob Causti was that the bank would evaluate how much credit to extend to the Caustis based on the appraised market value of the properties rather than their historical cost. Additional notes on the financial statements were made by Carol to help the bank analyze the documents. However, she also stated that a couple points on the statements needed additional explanation:

The minority interest in the equity section shows stock holdings for Ben and me. Mostly, we’re stockholders because there are certain income tax benefits which accrue to the family and to E.O. Inc. as a Sub-S corporation. Ben and I don’t really get cash dividends, but we get our bills paid by the business. Between the two of us we’ve racked-up about \$27,000 in cash advances and other bills. Of course the bills aren’t exactly ours. Basically, we lent my parents the use of our credit cards when the businesses weren’t doing well a few years ago. Now they credit card bills are *slowly* being paid down. I have a bachelors degree in management and they never taught this in *my* finance classes. Anyway, these credit card debts have allowed my Dad to accomplish what I think are his two most important goals: maximizing business leverage and making sure Ben and I don’t leave the business like we often threaten to do.”

● E.O. INC.’S FUNCTIONAL SUPPORT

Below is a brief synopsis of the support functions performed by E.O. Inc. in its role as coordinator for Causti business activities:

MARKETING. Marketing at E.O. Inc. was minimal. Promotion was done through the Yellow Pages™, roadway signs at both locations and word of mouth. Market research involved in the decision to open the Country Store

was based on a detailed demographic report of the region surrounding the store obtained from a secretarial service client. This report had been used in 1987 as the basis to open a large supermarket about 7 miles from the Country Store. Product lines the Shoe Shop carried were determined on a trial and error basis (As Ben: said, "We buy a bit of it something, if it sells, we buy more, if it doesn't, we don't any buy more.") Product lines carried by the Country Store were suggested by vendors and were basically the result of the same trial and error selection process.

PRICING. The pricing policy at the Country Store was substantially in the hands of suppliers who suggested the appropriate mark-ups for products. Pricing at the Shoe Shop and Secretary- in-a-Hurry was determined through price comparison – i.e. what price were others charging for same goods and services the Caustis were offering. This was done through occasional inquiries at other repair shops or typing services around Marysville and Everett. Prices were set to be competitive (Carol: "We're not the highest priced or the lowest priced – I think people pick us because the location is convenient, not because of the price.") One way Carol maximized this convenience for Secretary-in-a-Hurry was to offer the service at both Causti business locations (each location contributed to about half of the secretarial service's revenue). Plans to offer shoe repair services at both locations were discussed.

PURCHASING. Purchasing logistics for E.O. Inc. were mostly performed by outside vendors. All products were delivered to the Country Store by vendors. Newspapers and magazines were brought daily, and the store was credited for unsold past date publications (i.e. yesterday's newspapers, last week's weekly journals, etc.). Various beverage companies and beer distributors came twice weekly to check and restock their products in the appropriate sections. Dairy, snack food and bakery products were checked and restocked daily by the relevant suppliers (the store again being credited for unsold past date product). The remaining products (groceries, paper products, sundry, candy, frozen pizza, etc.) were all supplied by one large wholesaler, Marcan, who delivered once a week. Marcan's prices and service were not greatly different from other wholesalers, but Marcan did extend credit to the Country Store and this was the deciding factor.

The Shoe Shop suppliers came around about twice a month and supplies of polish, laces, heels, etc. were ordered when Ben saw that they were getting low. The amount of stamps, money orders and other post office supplies that were supposed to be on hand were stipulated in the Caustis' contract with the Postal Service. Since inventory reports were required to be filed weekly with the Postal Service the supplies to be ordered by Nora were simply the difference between the inventory on hand and the inventory amounts stipulated in the contract. Supplies for the lottery and for Western Union were ordered in the same manner as the postal supplies

(that is, as dictated by inventory reports to the supplier). Paper and typewriter ribbon purchases for Secretary-in-a-Hurry were made by Carol on an “as needed” basis.

ACCOUNTING AND FINANCE. In the last two weeks of the month Rob would budget for the next month using a computer spreadsheet (that meant, e.g. June’s expected revenue, expenses and capital spending were budgeted in the last two weeks of May). Typically, one month’s budget was pretty similar to the next month. Expenses which did not occur every month were, on occasion, forgotten until the bill arrived (e.g. semi-annual auto insurance payments). While such problems would throw the budget out of whack, Rob still preferred to only budget one month in advance since he felt it gave the firm greater flexibility. During the course of the month daily cash receipts and disbursements were recorded separately for each subsidiary. Monthly statements of cash receipts and disbursements were produced for each subsidiary at the end of the month and occasionally compared to the budget.

MANAGEMENT, OPERATIONS AND HUMAN RESOURCES. Rob managed the Country Store and controls the Shoe Shop by phone. Rob occasionally visited the Shoe Shop to keep employees on their toes. In Rob’s absence, Nora was in charge of the postal substation and Western Union™, Jay was in charge of the lottery and video, Ben managed the shoe repair and Carol managed the typing services. When people need to be shifted to different posts because of a customer backlog in one area it was Carol who made the assignments. Wages were as close to minimum wage as possible and there was no benefits package (e.g. Rob and Nora are the only employees with medical insurance).

INTEGRATION AND COORDINATION. Integration & Coordination for the companies had been done at the Caustis’ dinner table. Family members gathered together most days at dinner to coordinate business efforts. Once the Country Store had opened these meetings became impossible (due to Country Store staffing requirements), and now occurred only two or three times a week after the Country Store closed at ten P.M. These meetings, chaired by Rob, usually lasted about 2 hours. Meetings kept main E.O. Inc. employees in touch with one another and made them aware of events occurring within the firm. These meetings also served as a forum for operational problems and as a brainstorming session for possible solutions. However, final decisions were made by Rob. Implementation was sometimes a problem if other family members did not support the final decision.

STRATEGIC AND LONG-RANGE PLANNING. Strategic planning functions were managed by Carol Causti with substantial input from Rob Causti. There were two reasons this task had fallen to Carol: (1) her bachelor’s

degree in business administration and (2) her typing ability. Both skills allowed her to develop quality business plans which she could present to the bank for financing. Final approval of the plan was made by Rob.

● Some Notes on the Competition

Due to their busy work schedule the Caustis were only able to gather limited information on their competition. What they did know was the geographical placement of their competitors' businesses and some of the competitors' prices. Competitors for the Country Store's business included other convenience stores and supermarkets. Causti family members realized that other competitors included video rental stores and gas stations that were increasingly moving into the business of selling snack foods. The locations of competitors are indicated on the map of the Marysville-Granite Falls area shown in Exhibit 7. Occasional purchases from these businesses allowed the Caustis to keep track of competitors' prices. Rob Causti, however, felt that vendor suggested prices were sufficiently close to the competitors and so these vendor suggested prices were the ones always used.

Secretarial service Competitors included two people in Marysville who performed typing and copying in their home. Carol Causti stated that if people wished to travel five miles down the road to Everett they could find "half a dozen professional offices that did typing and maybe twice that many 'at home' services." It was these Everett and Marysville services Carol called to check to see if her prices were competitive.

In Marysville there were no other shoe repair shops. Ben's felt that the Caustis had the shoe repair business in Marysville sewed up but he noted that there were five to ten shops in Everett that repaired shoes. The Everett shops were the ones he or Jay called to check the Shoe Shop's pricing.

● The Future

In discussing the plans for the future of the Causti companies, Carol Causti, in her role as strategic planner, told of the businesses' plans for 1, 2, 3, 5, and 10 years into the future. Carol began with the two priority items for the next year:

First, we're going to try to acquire the property across the street for about \$3,000 down and a purchase price of about \$100,000. The people who own it are getting divorced and want to get rid of the property quickly. The house needs some work, but we can use most of the 10 acres it sits on for future development. In the meantime we can rent the place out for a bit less than the payments until we get a chance to work on the place. It may be helpful to own both corners at this intersection for the purpose of future expansion five to ten years down the line.

The second thing we need to do is get the gas pumps. My dad thinks our business will really pick up when those come in. However, they cost \$60,000. On the other hand, those pumps may be vital for bringing customers to support the Country Store's expansion over the next two years.

Over the longer term Carol set out some specific goals for E.O. Inc. and the rest of the Causti enterprises:

The other important thing we'll try to do in the next three years is to arrange financing for the strip mall we're planning. We've applied to two different banks for a half million in loans. All is going according to plan: we've been turned down twice. Let me explain the plan. For us to get a loan from the U.S. Small Business Administration, we need to get turned down three times by regular lending institutions. When we get three refusals we apply to the S.B.A. and get the funding at a better rate than we could probably get at the banks. We're sure that this is the kind of project they look for and will fund.

Over the long run several projects will be finished. Three to five years out we'll be constructing the strip mall, expanding our present lines to fill some of the mall space and finding tenants for the rest of the space. Six or seven years down the line we'll fix-up the house across the street. We'll also begin development of the rest of that property. Over the eight to ten year time frame we may acquire a couple other rural locations for the Country Store and from there probably develop a chain of stores.

While Carol expressed these optimistic plans she also expressed some misgivings on their likelihood of occurring and her role in their implementation:

Right now I doubt things will look anything like what we've planning. We have cash flow problems *now* and added projects aren't going to help. In addition, the work load for all of us is increasing at a time when I want to spend less time at work. I've just gotten married and I want to spend more time with my husband. Ben just got engaged and he is already trying to work less hours. In the short run we may need to hire more employees but this will put further strain on our cash. Sometimes I just want to drop out of the business and become a schoolteacher.

Exhibit 1

The Country Store Inc. Layout

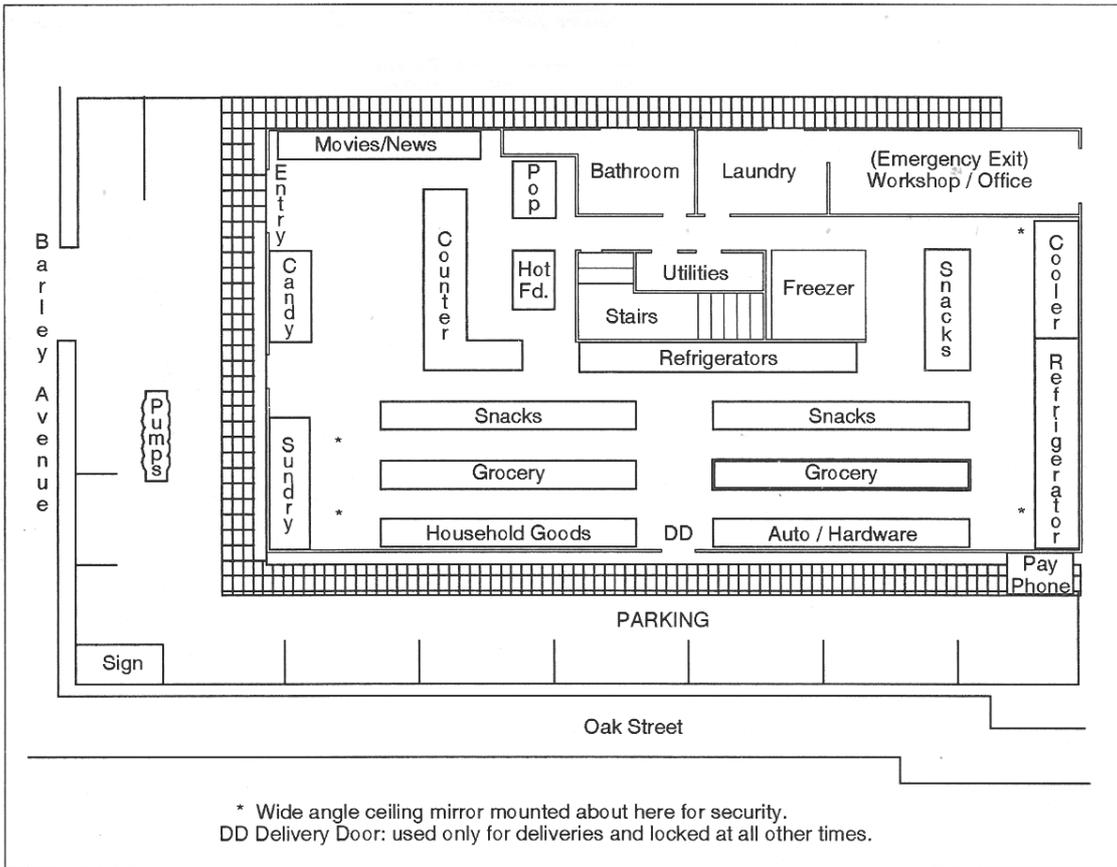


Exhibit 2

The Shoe Shop Inc. Layout

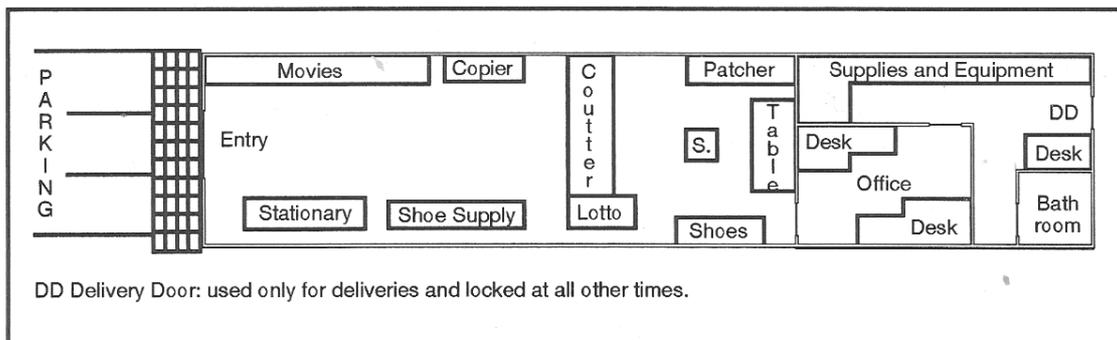


Exhibit 3

E.O. Inc. Income Statement (December 31, 1990)

	1990	1989	1988	1987
Sales				
Dairy foods	\$ 27,000	\$ 12,000	\$ 0	\$ 0
Baked goods	32,000	16,500		
Beer and wine	43,000	21,000		
Snack foods	50,750	27,000		
Country Store other	8,500	5,500		
Shoe repair	78,100	62,000	72,500	67,000
Shoe related	15,500	11,500	14,000	13,000
Secretarial and copies	30,750	26,000	28,000	25,000
Contract payments	30,250	25,000	25,500	22,500
Video rental	27,000	22,500	3,000	
Lotto commission	14,000	11,500	14,500	13,000
Shoe Shop misc.	12,000	9,500	5,500	5,000
Total sales	<u>368,850</u>	<u>250,000</u>	<u>163,000</u>	<u>145,500</u>
Cost of goods sold				
Dairy foods	21,000	10,000		
Baked goods	25,000	13,000		
Beer and wine	32,250	16,000		
Snack foods	37,000	20,000		
Country Store other	6,213	4,070		
Shoe repair	15,500	12,000	16,000	14,000
Shoe related	9,750	7,000	9,140	7,865
Secretarial and copies	10,500	8,000	10,000	7,500
Total cost of goods sold	<u>157,213</u>	<u>90,070</u>	<u>35,140</u>	<u>29,365</u>
Gross profit	<u>211,637</u>	<u>159,930</u>	<u>127,860</u>	<u>116,135</u>
Operating expenses				
Salaries and wages	51,000	48,750	10,500	11,250
R. and N. Causti Salaries	35,000	30,000	30,000	24,000
Rent	12,000	12,000	12,000	12,000
Equipment lease	10,200	10,200		
Depreciation	8,933	2,400	2,400	2,400
Utilities	5,200	4,500	1,600	1,500
Insurance	2,400	2,000	750	500
Supplies and repairs	1,250	1,000	250	250
Bank charges	1,000	750	250	250
Legal and accounting	500	500	500	500
Advertising	250	250	250	250
Shoe Shop misc.	1,000	750	250	250
Taxes	16,700	16,500	5,500	4,000
Interest	18,700	18,000	14,250	2,000
Total operating expenses	<u>164,133</u>	<u>147,600</u>	<u>78,500</u>	<u>59,150</u>
Net income	<u>47,504</u>	<u>12,330</u>	<u>49,360</u>	<u>56,985</u>
Dividends	<u>61,637</u>	<u>51,730</u>	<u>27,660</u>	<u>30,585</u>
Change in Equity	<u>(14,133)</u>	<u>(39,400)</u>	<u>21,700</u>	<u>26,400</u>

Exhibit 4E.O. Inc. Revenue Breakdown
(December 31, 1990)

Month	Store breakdown		Product line breakdown									
	Shoe Shop	Country Store	Food	Shoe repair	Shoe retail	Video	Secretarial/copies	Lotto	Contract	S.S. misc.	C.S. other	Total
January	\$ 15,281	\$ 8,660	\$ 6,870	\$ 7,000	\$ 1,400	\$ 1,800	\$ 1,780	\$ 1,150	\$ 2,521	\$ 1,080	\$ 340	\$ 23,941
February	15,319	9,742	7,900	7,030	1,395	1,755	1,930	1,100	2,521	1,080	350	25,061
March	14,391	10,715	8,840	6,250	1,240	1,750	2,000	1,120	2,521	960	425	25,106
April	12,916	16,985	14,675	4,685	930	2,160	2,460	900	2,521	720	850	29,901
May	11,501	20,880	18,100	3,125	620	2,600	2,960	700	2,521	480	1,275	32,381
June	11,110	22,220	19,510	3,000	400	2,500	2,920	800	2,520	480	1,200	33,330
July	10,316	19,695	17,675	3,125	620	1,890	2,150	700	2,521	480	850	30,011
August	11,664	17,837	15,675	3,905	775	2,025	2,300	900	2,521	600	800	29,501
September	17,989	16,467	13,725	7,810	1,550	2,565	2,920	1,400	2,521	1,200	765	34,456
October	24,818	15,068	11,750	12,100	2,400	3,105	3,530	2,000	2,521	1,800	680	39,886
November	23,888	12,838	9,805	11,700	2,325	2,835	3,230	2,000	2,521	1,800	510	36,726
December	18,032	10,518	8,225	8,370	1,845	2,015	2,570	1,230	2,520	1,320	455	28,550
Total	<u>187,225</u>	<u>181,625</u>	<u>152,750</u>	<u>78,100</u>	<u>15,500</u>	<u>27,000</u>	<u>30,750</u>	<u>14,000</u>	<u>30,250</u>	<u>12,000</u>	<u>8,500</u>	<u>368,850</u>

	Food	Shoe repair	Shoe retail	Video	Secretarial/copies	Lotto	Contract	S.S. misc.	C.S. other	Total
Approximate % of \$368,850 revenue applicable to:										
Shoe Shop	...	21.2	4.2	3.7	4.2	3.8	8.2	3.2	...	48.5
Country Store	41.4	...	...	3.7	4.2	...	...	...	2.2	51.5
Approximate % of \$86,000 labor applicable to:										
Shoe Shop	...	25.0	1.0	3.0	5.0	8.0	15.0	1.0	...	58.0
Country Store	33.0	...	...	3.0	5.0	...	...	...	1.0	42.0

Exhibit 5Rob and Nora Causti Income Statement
(December 31, 1990)

	1990	1989	1988	1987
Dividend income from E.O.	\$61,637	\$51,730	\$27,660	\$30,585
Salaries from E.O.	35,000	30,000	30,000	24,000
Expenses:				
Interest paid	25,960	24,400	12,720	9,900
Loan principle paid	13,500	7,000	6,000	5,000
Taxes	13,599	10,000	3,600	3,600
Living expenses	43,578	40,330	35,340	36,085
Net income	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Exhibit 6

Rob and Nora Causti and E.O. Inc. Balance Sheet
(December 31, 1990)

	Assets			Liabilities			
	1990	1989	1988	1990	1989	1988	
Current assets:				Current Liabilities:			
Personal cash	\$ 1,750	\$ 1,500	\$ 2,000	C.S. payables	\$ 12,000	\$ 8,000	\$ 1,000
C.S. Inc. cash	500	500	500	S.S. payables	2,500	1,000	1,000
S.S. Inc. cash	(7,500)	(2,000)	(2,000)	Postal service	10,000	10,000	10,000
Trust account	12,000	10,000	7,500	Payroll taxes	2,000	2,000	1,500
Stamps	10,000	10,000	10,000	Sales tax	2,000	2,000	1,500
C.S. inventory	12,600	7,000		Trust deposits	12,000	10,000	7,500
S.S. inventory	<u>2,650</u>	<u>2,700</u>	<u>2,700</u>	C.S. credit line	11,000	7,500	5,000
				Current part long-term debt			
Total current	<u>32,000</u>	<u>29,700</u>	<u>20,700</u>		<u>19,200</u>	<u>16,800</u>	<u>10,000</u>
Other assets:				Total current	<u>70,700</u>	<u>57,300</u>	<u>37,500</u>
Improvements	35,000	30,000	7,500	Long-term debt:			
C.S. fixtures	5,000	3,500		Improvements	25,500	15,000	5,000
S.S. equipment	7,000	7,000	7,000	C.S. fixtures	4,000	4,000	
Autos	5,000	5,000	5,000	S.S. equipment	6,000	4,000	2,000
Videos	10,000	5,000	5,000	Videos	10,000	4,000	4,000
C.S. misc.	500	500		Long-term capital lease	10,000	8,000	
Depreciation	(17,933)	(9,000)	(6,600)	Store and 5 acres	65,000	70,000	75,000
Capital lease	15,000	11,000		Home and 10 acres	120,000	125,000	85,000
Store	120,000	110,000	100,000	10-acre parcel	25,000	27,500	30,000
Depreciation	(6,000)	(1,000)		6-acre parcel	14,000	15,000	
				Current part long-term debt			
Store 5 acres	30,000	28,000	25,000		<u>(19,200)</u>	<u>(16,800)</u>	<u>(10,000)</u>
Personal	10,000	10,000	10,000	Total long-term debt	<u>260,300</u>	<u>255,700</u>	<u>191,000</u>
				Total liabilities	<u>331,000</u>	<u>313,000</u>	<u>228,500</u>
Home, 10 acres	140,000	130,000	120,000	Equity:			
10-acre parcel	60,000	55,000	50,000	Family equity	98,067	112,200	151,100
3-acre parcel	12,000	11,000	10,000	Property equity	65,000	33,000	
6-acre parcel	38,000	34,000	30,000	Common stock	1,000	1,000	1,000
Other Assets	<u>463,567</u>	<u>430,000</u>	<u>360,400</u>	Minority contributions	500	500	500
Total Assets	<u>495,567</u>	<u>459,700</u>	<u>381,100</u>	Total equity	<u>164,567</u>	<u>146,700</u>	<u>152,600</u>
				Total liabilities and equity	<u>495,567</u>	<u>459,700</u>	<u>381,100</u>

¹ Equipment at the Shoe Shop fully depreciated on 12-31-89; 3-5 more years use expected from it.

² All 1989 and 1990 capital lease payments, depreciation, business interest (less \$1700) is Country Store (C.S.).

³ Utilities for the Shoe Shop (S.S.) are \$1600 per year for 1989 and 1990.

⁴ The \$12,000 rent expense applies to the S.S.; all improvements applies to the C.S.

⁵ With the exception of above expenses, all expenses are equally shared by S.S. and C.S.

⁶ Videos, payroll payable, sales tax payable are half C.S. and half S.S.; auto is personal.

⁷ Advances from S.S. to C.S. total \$105,203 at the end of 1990.

⁸ For 1988, 1989, and 1990, current portion of S.S. long-term debt was \$1200, \$2500, and \$3000, respectively; personal portion of long-term debt was \$5000, \$7000, \$6000, respectively.

⁹ Personal tax: \$4000 of 1989 taxes and \$12,000 of 1990 taxes relate to back income tax owed but not paid in 1987. Tax payments were current as of 12-31-90. C.S. loses result in a \$1650 tax benefit.

