



Salon Start-up 101

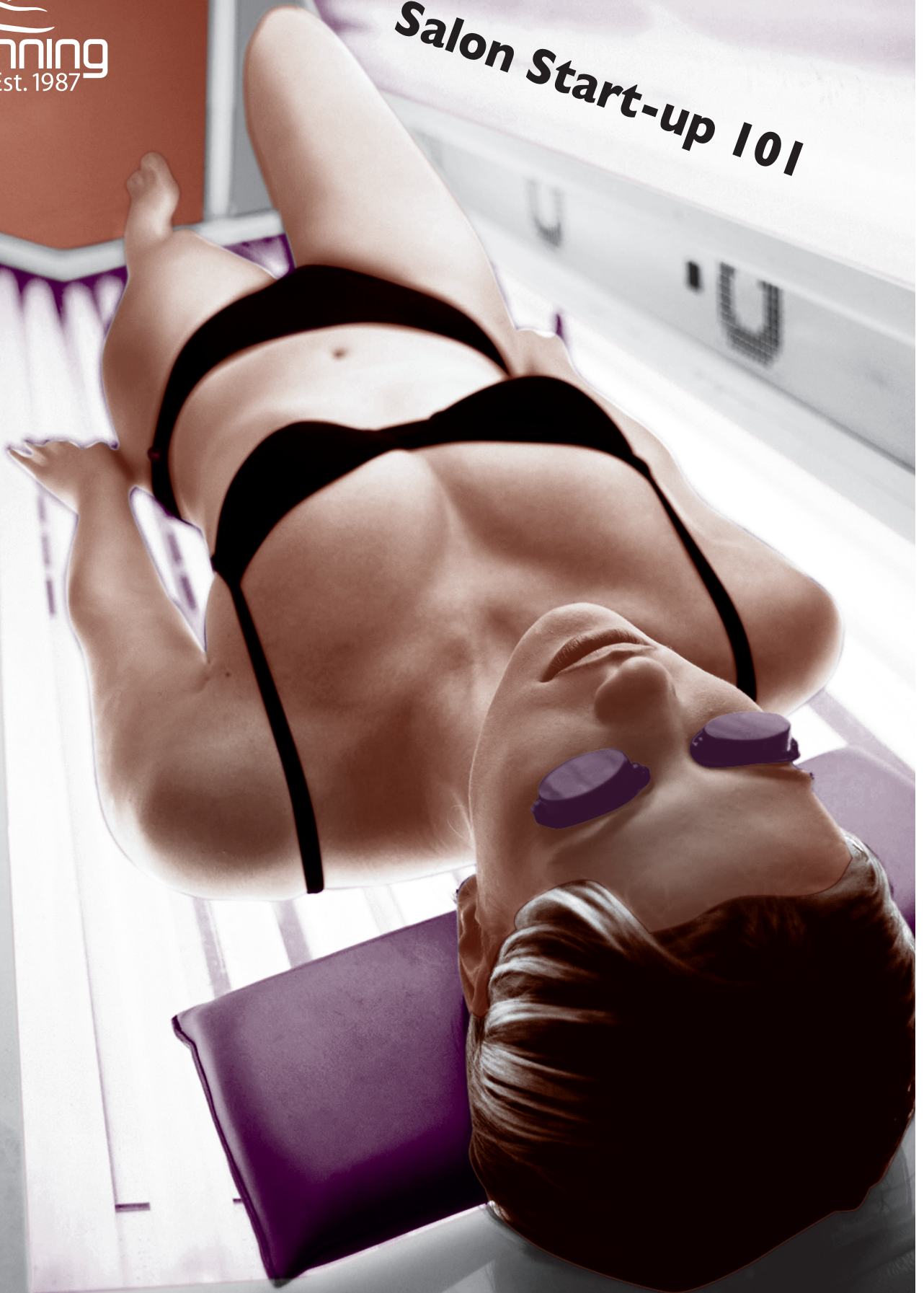


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Letter from the Vice President

Master Tanning is proud to present this "Salon Start-up 101". We have taken all the knowledge learned over the past 18 years to educate you as much as possible. We have tried to provide you with enough information to assist you in starting your very own tanning salon, or if you already have an established business on how to incorporate tanning as a new stream of revenue.

Master Tanning was established in 1987 and our main objective then, as is now, "is to put the customer first." With so much competition, it is imperative that we stay on top of the latest innovations, technology and make as many products available to you as possible. Our well-educated customer service team is always ready and willing to answer any questions you may have and fulfill your orders in a timely and professional manner.

Once you have reviewed this guide please feel free to contact Master Tanning at 1-800-552-4446 for more assistance and support in making your dream of owning your very own tanning salon come true.

We look forward to being your partner.

Kind Regards,



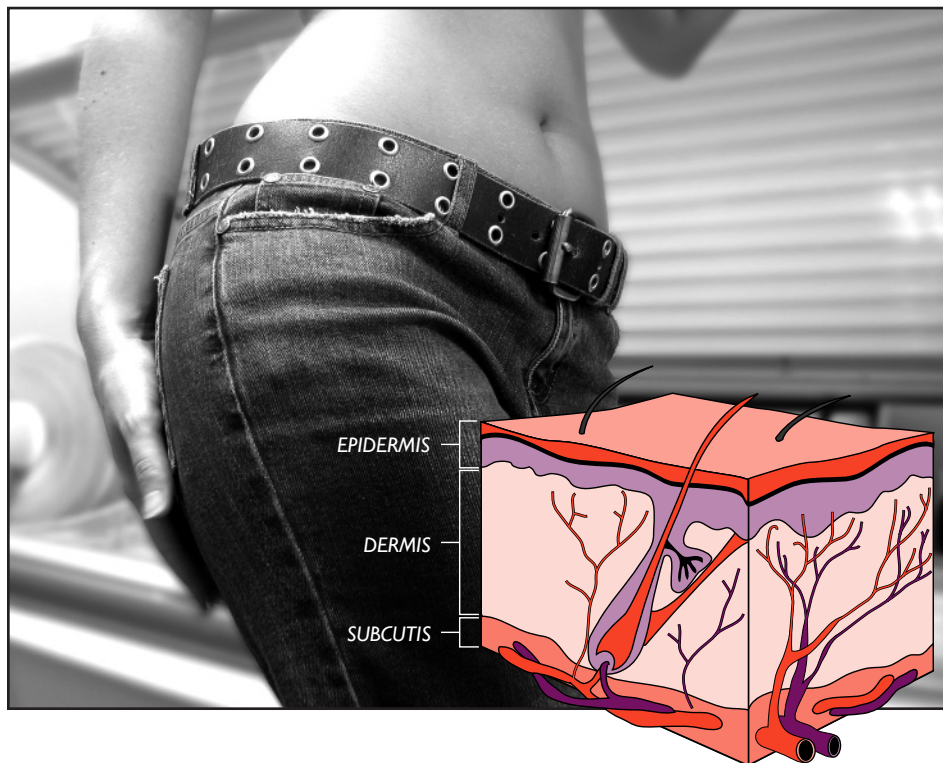
Doug Tyler
Vice President



I The Business of Tanning

Background

This guide is designed to give persons interested in investing in a tanning salon or adding tanning to a current business, direction on how to get started. Each section of this guide describes in detail, the important steps to begin the thought process of this exciting journey. Use this resource as a guideline to help you understand the tanning industry and the amount of research required to open a tanning salon. The extent of research you do will improve your opportunity for success. Many thriving salon owners spend 6 to 12 months researching the following information. The most obvious place to start is with a brief look at the tanning industry.



The Tanning Industry

The following information is based on many years of experience and extensive customer feedback. The actual size of the tanning industry is truly unknown, although the industry trade magazines estimate it to be a 2 billion to 4 billion dollar industry. There are approximately 25,000 tanning salons nationwide and a large number of other service companies which offer tanning. These service companies include but are not limited to laundry, fitness, beauty and nail facilities.

According to International Smart Tan, the number of "indoor tanners" in 1998 was believed to have grown approximately 21% since 1990. With the help of tanning industry organizations such as the Indoor Tanning

Association (ITA), National Tanning Training Institute (NTI) and SmartTan™, the entire industry is becoming more educated about the right way to tan.

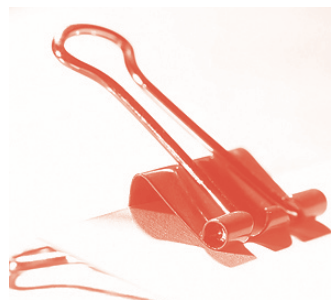
The Tanning Process Educating The Clients

The most important aspect to remember and communicate to your client is that the tanning process is your body's natural method to protect the skin from burning. This natural process occurs in the top layer of the skin, called the epidermis, which is comprised of keratinocytes and melanocytes or pigment cells.

Melanocytes produce melanosomes, which contain the pigment melanin, which is the "tan" we get when exposed to natural sunlight

(outdoor) or simulated sunlight (indoor) from tanning lamps. We cannot tan without ultraviolet A (UVA) and ultraviolet B (UVB) light, either from the sun or from indoor tanning lamps. UVB light is responsible for stimulated melanin (color) granule production and causing the granules to travel upward toward the skin. UVA light is responsible for oxidizing the granules, once they have migrated to the skin's uppermost layer, turning them to a darker color to create a golden brown tan.

In short, the tanning process uses UVB to stimulate the melanin in your skin and bring it to the surface. The UVA then oxidizes the melanin to turn it brown. The oxidation process is similar to the reaction you see when a sliced apple is exposed to air.



Your Business Plan 2

Background

Owning a tanning salon is a huge responsibility. It takes dedication, hard work and operating capital. If you have these three things, you are well on your way to opening an indoor tanning salon. This guide will show you the fine points of starting a new tanning salon, and if tanning is not going to be your primary business, this guide also shows you how adding tanning to your current business environment can increase your bottom line. Now, let's get started!

Your Mission Statement

A mission statement is a description of company goals and how they will impact interactions with your customers. Your mission statement will give you and your employees the feel for the company environment or culture. This isn't something that has to be displayed on the walls of your salon, but it should be visible to every employee, ensuring the highest level of customer service and satisfaction. However, if your mission statement involves customers, you might want to post it for your customers to read. Here is an example of a mission statement to help you:

Our goal is to satisfy the customer. We will offer a professional salon atmosphere. Our staff will serve as our customer's tanning expert to assure quality service, a pleasant experience and a great tan!

~ I'm so Tan

Preparing Your Business Plan

A business plan is a necessary part of your start-up salon, especially if you are looking for funding from a financial institution. A detailed explanation of goals and ideas for your new salon will help lending institutions see that you want to "succeed" in your business before they agree to lend you money. The next few pages describe each section of the business plan.

Cover Page

The cover page should show the name of your salon owner; the address and phone numbers of the salon and/or owners. Get creative with this page. If you have a logo this is a perfect place to display it.

Table of Contents

Your table of contents should outline a brief summary of what is covered in the business plan. Be sure to include page numbers of each section for easy reference.

Executive Summary

An executive summary should recap your business plan. This should be one of the last things you write before you complete your plan. It is not a good idea to write the summary first. If you write the summary first, you are at risk for leaving important ideas or information out.

Industry/Market Analysis

By providing industry and market analysis in your plan, you "prove" there is a NEED for your business. Here are a few things to consider for this section of your business plan.

How large is the tanning industry? There are approximately 25,000 tanning salons across the United States. In addition, there are over 20,000 other businesses that use indoor tanning as

an additional source of income. These include, but are not limited to: beauty, nail, laundry and fitness facilities.

How is the industry evolving? Tanning is becoming more popular throughout the world. Salon owners and staff are more professional and salon customers are being educated on the most effective ways to tan. Try to find the latest industry statistics and news to refer to when discussing the evolution of tanning.

What is the average annual revenue generated per tanning unit? Depending on the economic stature of your area, the average gross profit margin you should expect per piece of equipment should be between \$15,000 and \$20,000. (This figure will differ based on your tanning session price, hours of operation, etc.) However, if you are planning to add tanning to your current non-tanning facility, you can easily see how adding tanning will boost your bottom line. Since you may only add one or two pieces of equipment to start and tanning is not your primary business, you may want to reduce the profit margin expectations to between \$9,000 to \$11,000 per piece of equipment*.

What is the number of tanning salons per capita in your location? Approximately how many potential tanners are in your area? You can determine the answer to these questions by researching your location and requesting demographic information from your MTI Tanning Consultant.

Future Trends & Projected Forecasts

As mentioned earlier, the tanning industry is changing at a rapid rate. The type of equipment and type of salons are also changing. Stand up units and "mega" beds are becoming more

popular; especially in the larger tanning salons. Sunless spray tanning spas are also becoming more popular and usually bring in new clients.

Demographics of the Area

If you do not already know the demographic information of your location, your MTI, Inc. Tanning Consultant can provide you with a complete demographic package. This information outlines for you and your lender what you need to know about the area being considered.



Description of the Location

You can gather this type of information by visiting the proposed location in person. Assess the building and parking area. Pay close attention to the types of businesses that are nearby. Would their customers patronize your salon? Are there other businesses willing to partner with you on promotional efforts? Watch the flow of traffic or hire a company to do a traffic count near your proposed location. Is it heavy? During what hours of the day is it the heaviest? Is the traffic near your proposed location consistent throughout the day/week? Will there be ample parking for your customers? Is the entry to the salon and exit easily accessible? The answers to these questions will give you a good idea of the type of economic area in which you are preparing to do business.

Competition in the Area

In order to really understand your competition you should examine all tanning-related businesses within a 3-5 mile radius. The yellow pages are a great place to start your research. Visit the salons. Make notes of how they do business

* Based on figures obtained from existing tanning salons.

and what makes them unique. How many beds? What type of beds? What amount of lotions and other tanning supplies? What type of packages do they sell? The research you do may have a great impact on your success.

Marketing Strategy

How do you plan to market your business? This section should include a brief description of who your customers will be, how you will target them and what products/services you plan to provide. Of course your MTI, Inc. Tanning Consultant can give you some pointers, but you need to decide the best plan for your business.

The Business Overview

The business overview is an excellent opportunity to describe your overall business plan. What services are you selling: tanning, nails, hair or spa services? What type of products are you selling and what are your goals for the company? How is your business set-up? For example, is it a sole proprietorship, a partnership, corporation or franchise? [Research all of these – they vary and you need to pick the one most suited to your situation.] In this section you also describe how the money, if borrowed, will be used. Will you use the money to purchase or lease equipment, purchase tanning lotion, or use it as working capital?

The definitions below may help you determine the best course for your business. These definitions were extracted from www.small-business-directory.org.

Sole Proprietorship: A form of business ownership in which one person owns the entire business, earns all profits and assumes all losses. Taxes for a sole proprietorship are reported on IRS Form 1040, Schedule C.

Partnership: The Uniform Partnership Act that is in force in most states defines a partnership as “an association of two or more persons who carry on a business for profit as co-owners.” A partnership can hold the title to real property in the name of the partnership, holding by tenancy in partnership.

One tax advantage of this form of ownership is that the partnership itself does not pay taxes. However, the partnership must file a partnership information return (Form 1065) showing how much income the partnership distributes

to each partner (Schedule K-1). Then each partner is responsible for paying his or her own tax.

Corporation: A legal entity, chartered by a state of the United States or by the federal government that in a business sense is separate and distinct from the persons who own it, as an artificial businessperson. A corporation can own property, engage in contracts, incur debts, pay taxes due or be sued.

A corporation:

- has limited liability whereby owners can only lose the amount invested
- can expand ownership by sale of additional shares of stock
- can easily transfer ownership through the sale of shares of stock
- continues to exist beyond the life of individual owners
- has centralized management in a board of directors, president, secretary, and treasurer

Corporations are subject to regulation in the state where incorporated and in the states where they do business. Special corporate income tax rates apply; dividends are paid to shareholders from earnings of the Corporation.

Franchise: The right under which a person or company (FRANCHISEE) may market a product or provide a services, as granted by the proprietary owners (FRANCHISOR). The contract, defining the terms and conditions, between franchisor and franchisee is called a FRANCHISE AGREEMENT. Often a franchise is exclusive for a specified area.



The Financial Plan

Your financial plan is the most vital section of the business plan if you are considering a financial lending institution to fund your salon. Begin with the amount of money you would like to borrow. Next, provide a detailed description of how much money you will use for each start-up cost. Line item each cost individually, including projections two years out, balance sheets and income statements. Another idea is to break down each year by month, and look at the individual monthly cash flow statements. This helps you demonstrate to the lending institution your prospects for becoming a profitable business.

When preparing your financial plan, keep in mind that the tanning industry is a seasonal one. March through June typically are very strong months for tanning, while October, November, and January produce the least number of tanning customers. You should also take this into consideration while operating your business. You will earn the majority of your income in a few months, so plan your cash flow accordingly. Try to save enough money during the busy season to help maintain the salon during the "off" season.

Even if you are not planning to borrow money, developing a financial plan will help you prepare for your cash flow needs throughout the year. You will find a start up cost estimate in Chapter 3 and an example of worksheets mentioned above in Chapter 8.

Appendix

Be sure to reference any statistics and figures in this section, that you use from other sources. This could include anything from noting a key source, to the layout of your salon. You could also include a brief overview of the owners and their backgrounds as well as any persons that will be playing a large role in your tanning salon, i.e. manager or full-time employees.

Chapter 2 Tips & Highlights

There are many agencies and software programs that can help you write your business plan. Remember that you are the one running the salon; the information must come from your beliefs and knowledge. For help on writing a business plan, you can contact the Small Business Agency at www.sba.gov. Your local library is also an excellent source for gathering information to use in putting your business plan together.

Be sure to check with your local Chamber of Commerce and Small Business Development Council. They will help guide you through the business plan process or possibly even provide examples of business plans to help get you started.

In order to determine your net profit on a per bed basis, you will need to subtract salon and tanning bed operating costs. You will find a worksheet in the resource section of this manual to help you work through the numbers.

When determining how to set up your company, you may want to enlist the help of an attorney to make sure you file the proper paperwork, etc.

Your MTI, Inc. Tanning Consultant can also provide you with some examples of financial plans.

You should always have your plan reviewed by an accountant, financial planner or tax consultant to ensure that the plan is best for your business.

One of the most important parts of starting a new business is making contacts. You can do this by networking with other business leaders, finding a mentor, contacting the local Chamber of Commerce or joining the Chamber or Economic Development Council in your area. This will also help you make contact with local lending institutions.



3

Location & Build-Out



Background

Certainly you have heard real estate's coined phrase "location, location, location." The location of your indoor tanning salon could be the single largest decision you will ever make. The most common areas for salons are strip malls, or high-traffic areas such as hair salons, video stores and grocery stores. For an increase in traffic, most Salon owners will look for a location with a popular anchor store or grocery store. This typically will create a constant flow of traffic. The following are characteristics that must be considered when choosing your location.

Consider the Cost of Space and Build-Out

As with home purchases, real estate costs vary based on the location. For example, a 1,000 square foot building in a rural area will generally cost less than the same sized building in a suburban or urban area.

During the construction phase of your salon, you must consider the amount of electricity and air condition you will need. When planning for electrical service, you should plan for a minimum of single phase, 200-amp service. However; if you plan to expand your salon in the future or add larger beds later, you need to include that in your electrical plan now. It is much more expensive to upgrade your service after build-out than it is to put in what you will need during build-out. It may cost more up front, but 3-phase service gives you more power and is more energy-efficient.

You should plan for 1 to 1.5 tons of air conditioning per tanning unit. Also, since mega beds and high-pressure units typically create more heat, you will want to consider exhausting the heat from your tanning equipment out of the building.

Determine the Size of Space

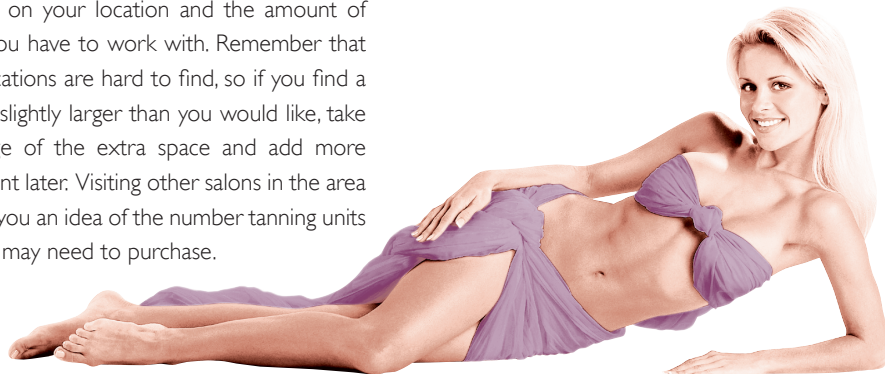
Indoor tanning facilities vary in size. It really depends on your location and the amount of capital you have to work with. Remember that good locations are hard to find, so if you find a location slightly larger than you would like, take advantage of the extra space and add more equipment later. Visiting other salons in the area will give you an idea of the number tanning units that you may need to purchase.

Investigate the Competition in the Area

When scouting for a location, pay close attention to the competition in your area. Remember, tanning salons are not your only competition. Many nail salons, fitness centers, and coin laundry facilities may offer indoor tanning. When researching your location, look within a 3-5 mile radius. Make a competitor tracking list or form for your review when establishing your competitive "attack".

Understand the Demographics of the Area

Indoor tanning captures a large age group. Your primary target market is women aged 18-44, although the number of male patrons and females over 55 at tanning salons has increased. Make sure you choose a location close to other businesses that this age group would be interested in, such as department stores, health clubs, strip malls, and college campuses.



Consider the Economics of the Area

When selecting your location, be sure to consider the changing economics of the area. Even though tanning is considered a luxury expense, it is somewhat recession-resistant. If you choose to open your salon in a lower economic area, you will need to adjust your marketing plan and business strategy. Your potential customers want to look good and feel good, although they may not pay a high price for it. On the other hand, if the economy of the area is strong, and there are other businesses that tend to attract more luxurious spending, such as day and beauty spas; you will need to take this into account when you develop your marketing plan.

Naming Your Business

The name or branding of your salon should “tell the public” exactly what “your business is”. If you want the world to know you are a tanning salon, include “tan” or “tanning” in the name. Also, the name should be catchy and easily remembered – this is part of the branding process. When securing the name of your business, make sure the name is not already trademarked in the industry. You can do this by hiring a trademark attorney.

Store Front and Signage

Your store signage and message must be visible and easy to read from the street. You cannot rely solely on word-of-mouth advertising. Many strip malls have limitations on signage. Be sure to check with the property-owner to get the proper specifications for your sign as well as the City or County for sign regulations applicable for your area.

Building out the Salon

Once you have identified your target audience through demographic and socio-economic research, picked your location, and identified your competition, you will be ready to actually make “your dream” of owning a tanning salon a reality.

If you are like most new salon owners, once you decide on your location and have the financing available you will want to get started right away. Whether you open in a new mall location or acquire a current tanning salon, you may want (or need) to do some reconstruction. When choosing a contractor, electrician, plumber, etc.

make it a point to get two or three quotes to ensure you get the best value.

You can find your local service providers in the yellow pages, but ask your friends and colleagues for referrals. Confirm the contractors you are considering have the proper license and are insured and bonded. Once you have narrowed your search, remember to ask for references. Contact the references to make certain the provider has a solid history of quality work with on-time delivery.

In order to get the most accurate contracting quotes, you need to have a basic layout designed so your contractor/electrician will understand how and where you plan to display your tanning equipment, where the walls will be located, what

type of electrical service you need and where the electrical needs to enter the building. Don't forget plumbing for the bathroom and any special exhaust or venting systems. Be sure to include the front counter, special fixtures and the types of materials you want to use (i.e. carpet, tile, etc.). If you plan to offer a sunless tanning unit, you need to plan ahead for plumbing, draining and the venting.

Estimated Start Up Costs

As you prepare the financial section of your business plan, you should have a strong idea of your start up costs. This list below is a guideline you can use to begin your start up cost list (based on our 5 bed example).

Sample Start Up Costs

Cost	Description
\$7,500	Construction of partitions for cubicles including paint, doors, cove, etc. (\$1500 per space)
\$1,000	Construction of walls behind desk includes paint, cove, etc.
\$1,500	Upgrade of electrical panel if required
\$1,500	220-Volt electrical circuits (1 per bed at \$300 each)
\$700	110-Volt electrical outlets at \$100 each (1 per bed, desk, front sign, exit)
\$600	Emergency/Exit lighting (if not already in place). \$300 per door
\$50	Telephone circuits (1 for front desk)
\$200	Fluorescent lights required (2 x 4) at \$100 each
\$7,500	HVAC Costs including ductwork, etc. (1 ton per bed at \$1,500 per ton)
\$2,500	Estimated sign cost
\$1,500	Flooring cost (\$2 per square foot)
\$600	Painting for perimeter walls only
\$200	Cove base (excluding cubicles)
\$1,200	Computer and printer cost
\$450	Cash register
\$750	Sound system and speakers
\$500	Front desk
\$300	Desk area furniture
\$500	Lobby furniture
\$200	Chairs/tables for tanning rooms (\$40 per room)
\$300	miscellaneous decor
\$90	Fire extinguishers (3 is standard)
\$275	Front door lock/\$250 for battery powered Detex alarm/lock for rear door
\$40	Entrance mat
\$100	Phone
\$600	Construction plan preparation

\$30,655 Grand Total

**Please note this total does not include tanning equipment or lotion and accessory inventory.

Chapter 3 Tips & Highlights

When to Open Your Salon

There is no magic answer to when you should open your salon. Some salon owners recommend that a lease should be signed by the end of August for a Grand Opening in December or January, which gives you plenty of time for all of the build-out issues discussed above and still be in business during the tanning season. Other successful salon owners suggest opening in the fall to start building a customer base and work out any problems and be ready for a successful “start up” during the tanning season.

It is best to decide when you want to open your salon and create a work back schedule from there. Create a process work sheet, which identifies step by step what is necessary to open the salon by your selected target date. Make sure you realistically identify how long it will take to complete each step. This will ensure you meet your target opening date. Be realistic. By the time you have documented each step you will have created a time line with a realistic start date.



A professional real estate agent will be able to assist you in your search for the perfect location for your salon.

Always check the breaker size, amount of amperage and A/C tonnage before signing a lease. If the location does not have what you require, this is typically a negotiable point in the lease agreement.

It is very important that you consider the future of your salon when planning your electricity and air conditioning needs. You need to do this right the first time to avoid costly upgrades later.

Most tanning beds fit into a 9' x 7' room and most tanning booths should not require more than a 6' x 6' space. The most important thing to remember when determining the amount of space you need is to plan your rooms with an efficient floor plan. Your MTI, Inc. Tanning Consultant can help you with your salon layout.

If you plan to offer a larger “mega” bed, you should plan for a 10' x 10' room. This will allow plenty of room for the ventilation and also space for the customer. Remember this type of bed is more expensive and is often used as a showpiece.

Planning ahead for growth will make later expansion much easier. Be sure to consider not only the space required for additional beds, but also the electrical, air-conditioning, and other factors that may be affected.

Check with your MTI, Inc. Tanning Consultant for more demographic information about the area(s) you are considering. The most profitable salons are not necessarily in the most affluent areas. Knowing the market is a key to success.

When negotiating your lease, be sure to include exclusivity clause so you will be the only tanning salon in the development. You may want to have your attorney review any type of lease agreements before you sign to make sure you have covered all of the bases.

Plan ahead every step of the way. Leave yourself plenty of time to open your salon the right way. You need to consider such things as lease negotiations, permits, inspections, electricians, time to get your tanning equipment, and overall logistics. You should plan for at least 6 to 12 months from finding the location to your grand opening.

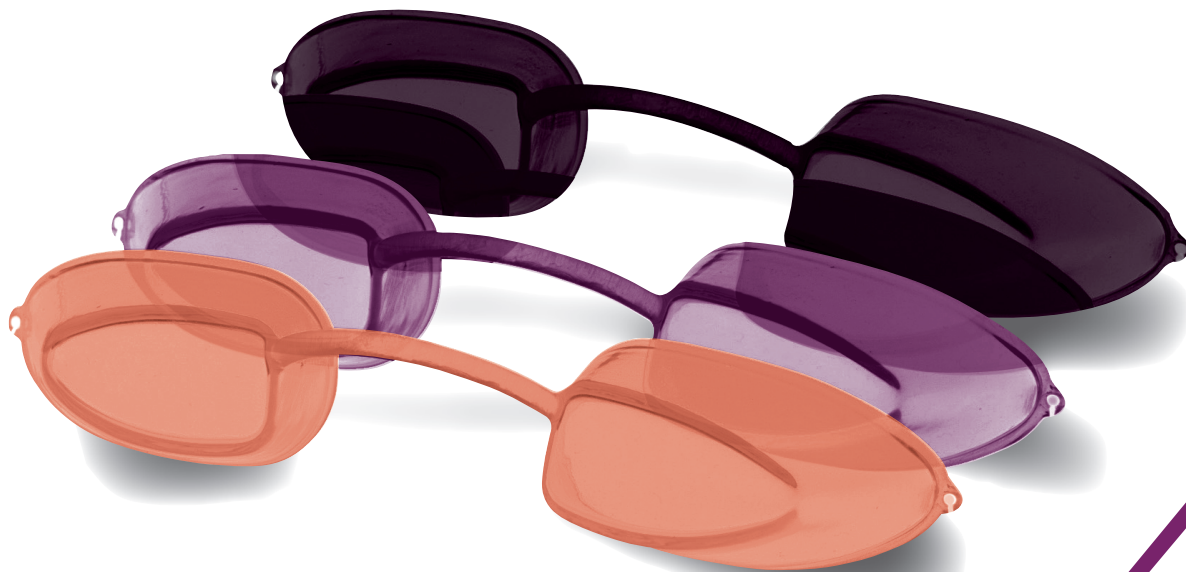
As you search for the perfect location, you should investigate zoning restrictions of the area.

While finalizing your location, investigate specific building and business permits you may need, as well as any special insurance or tax requirements. Many states have very specific regulations for tanning, so be sure you contact the state for a complete list of guidelines before you begin your build-out. The contact information for your state regulatory agency can be found in the reference tool section.

During build-out, you might consider modular walls versus dry wall. Modular walls may cost a little more up front, but using them decreases your build-out time and they become an asset because they can often be removed if you relocate. It is also more flexible than dry wall when you decide to add new equipment or change your salon layout and may reduce the need for some permits.

Actual start up costs will differ from our outlined sample based on location, number of rooms, etc. You should get quotes from local contractors and vendors before finalizing this section of your business plan.

Remember, this is a seasonal business. Save some of the money you make during the busy season to help maintain your salon during the “off” season. – MTI, Inc.



Insurance 4

Background

Another very important step to research before opening your salon is making sure you have the proper insurance/coverage. The following information, provided by Insurtec, includes different types of insurance you may require and tips to prevent occurrences.

Liability Insurance

Liability Insurance may be purchased to provide insurance coverage regarding potential claims of customers that may arise because the customer sustains injury due to neglect or error; or from a product that you sell. Liability insurance may pay for claim investigation, your legal defense, and the amount of damages you are directed to pay an injured person by a civil court. The policy may also pay for damage you cause to the property of another person.

This is limited to the "money damages" for bodily injury and property damage to your insurance policy will pay. The "Occurrence Limit" is the limit your insurance company may pay for all claims that arise due to one single incident. The "Aggregate Limit" is the limit your insurance company will pay for the total of all incidents, which occur during the period of time covered by the policy usually one year.

Liability insurance is usually provided in parts or "components". The four basic components of liability coverage available are Premises Liability, Products Liability, Personal Injury Liability, and Professional Liability.

Premises Liability Insurance

provides coverage for claims against you by a non-employee member of the public as a result of injury that may be sustained because of a defective condition of the premises you own or occupy.

Personal Injury Liability Insurance

provides coverage for claims against you by a member of the public as a result of an injury to the character, reputation, or emotions of another person. This is different than "bodily injury".

Products Liability and Completed Operations Insurance

provides coverage for claims against you by a non-employee member of the public as a result of injury they may sustain because of a defective, toxic, or hazardous character of a product you sell. Still, if you sell the product, you could be named in a suit for damages resulting from defective or adverse reaction to a product.

Professional Liability Insurance

provides coverage for claims against you by a non-employee member of the public as a result of injury they may sustain because of

reliance upon your expert advice. You often make decisions regarding the exposure time of your clients based on your knowledge and experience. If a person is injured because they relied on your experience and all equipment performs properly, you can be sued for damages.

Ask your insurance agent if they provide "occurrence" policies. This type of insurance contract means that if an incident occurs that would be covered under the policy, as long as the incident "occurs" during the policy period, the claim is covered regardless of how or when the claim is reported. This is important if the claim relates to an injury that may take a long time to manifest itself, such as skin cancer.

Property Insurance

Property Insurance may protect you by providing reimbursement (indemnity) for loss of property you own or lease. The cause of the loss must be a cause covered by the policy (a covered peril). Some typically excluded causes of loss include damage caused by the backup of a sewer or drain, damage caused by surge or failure of an electrical power source, flood, earthquake, and damage caused by contamination. The basis of reimbursement to you may be the "actual cash value" (replacement cost less depreciation) or "replacement cost". Property insurance may cover your building, your business personal property, your income from business operations, outdoor signs, money on your premises and the cost of reproducing

electronically stored data. If you are investigating property coverage, you should at least consider Business Personal Property (BPP). BPP covers your contents, equipment, inventory, fixtures, and your cost in any permanent improvements and betterments to the premises such as carpet and interior wall structure. Other coverage is added to the BPP without charge such as loss of income and outdoor signs. You should consider insuring your property to 90% of its replacement cost. Property coverage is subject to a modest deductible.

In some instances, there may be others who have interest in your property, such as a bank holding a security interest in the property as collateral for a loan or a leasing company. These entities may require insurance. Ask your insurance agent to provide proper evidence of insurance to these entities.

Liability Limits

There are a few things you should consider when deciding what limit of liability you should carry. First, if you rent your salon space, check your lease. There may be stipulations in it that require you to carry a certain amount of liability. Second, talk with other business owners about what limit may best be suited for your situation. Finally, examine your own personal wealth and determine the risk level for which you are most comfortable. Remember, if a claim were to be filed against your business, your own personal assets could be accessed.

Loss Prevention

General Theft Prevention

- All exterior doors should have dead bolt locks with at least a 1-inch ball into the strike plate.
- Install a Burglar Alarm System.
- Make sure the premises are well lit, particularly when closed for business.
- Limit the amount of cash on hand by using a safe or daily deposit routine.
- Continually check for unsafe work conditions and take steps to solve the problems.
- Computer inventory systems help control theft in your salon.

General Loss Prevention

- Provide fire extinguishers on your premises and instruct all staff on how to use them.
- Fire alarms are inexpensive and crucial in

preventing further damage to the premises in the event of a fire.

- Consider installing carbon monoxide detectors, especially if your business is in an older building.
- Do not overload electrical outlets.
- You should have all of your electrical services inspected by a certified electrician and a certified electrician should perform any required electrical modifications.
- If building is equipped with sprinkler systems, keep merchandise and stock items more than 18-inches below the sprinkler heads, so as not to interfere with the system's effectiveness in the event of a fire.
- Never store combustible material, such as cardboard or paper, near heaters or electrical equipment.

Protecting your computer and electronic equipment

- Some insurance companies offer EDP (electronic data protection) coverage when property is insured.
- Backup data and program on a regular basis and store them off site.
- Laptop computers and cellular phones are portable and easy targets for theft. Do not leave them unattended.
- Use surge protectors on all computers.
- Business Interruption Prevention - better defined as "Loss of Business Income".

Employ the services of a professional accountant to:

- Prepare financial statements.
- Perform an account audit of your books.
- Duplicate your business records and store them off site; that way, in the event your premises are damaged, you have documents to substantiate any business income loss.

Slip and Fall Loss Prevention

- Inspect the interior of your premises on a regular basis for unsafe conditions that could lead to a slip or fall loss.
- Maintain a daily log of when the inspection was done, what conditions were noted and what corrective action was taken.
- Floors should be kept clean and in good repair at all times, with loose or defective flooring being replaced immediately.

- During periods of inclement weather, all entrances should have mats or rugs to keep the floor clean and dry. Damaged mats should be replaced immediately.
- Non-slip wax should be used on floor surfaces, where required.
- Water and other spills should be mopped up immediately and a Caution-Wet Floor sign should be posted
- Certain oily spills, such as tanning lotions, must be treated with extra caution, as these spills typically leave a slick residue.
- Ensure that all entranceways and aisles are clear of obstructions and/or promotional displays.
- Any damage to stairs, sidewalks, and pavement should be well marked with signs and barriers until repairs are completed. It is important that repairs be done quickly to lessen exposure to an accident.
- A snow and ice removal program should be implemented.
- Have the appropriate equipment, tools, and materials available for use by your staff, in the case of a weather related emergency, e.g. shovels, salt, sand, etc.

How to reduce the risk of EPL claims

(Employee-Related Claims)

Act fast to prevent small complaints from becoming big claims. The key is to address the issue fast and resolve it promptly. To prevent EPL claims, consider heightening awareness of the numerous federal laws on discrimination, civil rights, etc.

Some insurance companies offer Employee Dishonesty coverage when property is insured. You should develop a written employee handbook and manual and review it periodically. Include disclaimers stating that the manual does not imply an expressed employment contract. Examine the hiring process, and don't hire someone who may cause trouble in the future. All of your employment policies should be reviewed with outside legal counsel.

Insurance Definitions

Cancellation - the termination of a policy before the expiration date.

Coverage Amount - the amount of coverage your business should carry depends on its property values or possibly the requirements of your lease.

Deductible - the specified amount of each loss that the insurer must bear.

Discounts - Insurtec offers substantial discounts that will lower your premium.

Liability Insurance - provides coverage in the event the insured's alleged negligence caused bodily injury or property damage to others and the insured becomes legally obligated to pay damages.

Occurrence Policy - offers coverage for claims made if the event in question occurred during the policy period. The claim does not need to be reported during the policy period to be covered.

Premises Liability - covers those sums that your business may be legally obligated to pay if your business is involved in a lawsuit.

Premium - the cost of insurance provided

Product Liability - covers any injury

caused by a product used or sold in your business, such as lotions or accessories.

Professional Liability - provides coverage for claims made by your customers who suffer an injury due to your professional service.

Property Damage Insurance - covers the building and contents owned by the business including everything from supplies to office desks.

Replacement Cost - a policy based on this would pay for the loss on the basis of replacement cost at the time of loss, without reduction for depreciation.

Government Regulations

Both the Food and Drug Administration (FDA) and the Federal Trade Commission (FTC) regulate the tanning industry. The FDA regulates the manufacturing and use of tanning equipment and accessories as defined by the Radiation Control for Health and Safety Act and the Federal Food, Drug and Cosmetics Act. The methods used to determine exposure times and labeling of tanning equipment is defined in 21 CFR 1040.20. The FTC regulates claims made by the tanning industry concerning truth in advertising.

You can refer to the FDA web site for more information concerning tanning regulations: www.fda.gov

Chapter 4 Tips & Highlights

In a tanning business, you should strongly consider insurance coverage that (A) contains liability insurance provided on an "occurrence" policy contract type, (B) does not include any coverage exclusions for claims which may involve any cancer; and (C) specifically provides Professional Liability Insurance for tanning as a separate coverage part integrated into the liability insurance package.

Liability insurance does not respond to claims of injury made by you, any employee, or any contractor of services to your business. These claims would fall in the area of Workers Compensation Insurance and private health insurance.

If you add or remove beds you should notify your insurance agent as soon as possible. If you have more beds than what is outlined in your policy, you are uninsured and may not recover the full amount in the event of a loss. On the other hand, you may be able to get a credit if you subtract beds, which may lower the cost of the insurance.

Other Contacts

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Web site: www.glsunderwriters.com

Insurtec

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IMC

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Email: mmcinfo@imcgroup.com
Web site: www.beautyinsurance.com

Universal Insurance Facilities, Ltd.

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Email: uif@vpico.com
Web site: www.vpico.com/universal



5 Tanning Equipment & Lamps



Background

One of the most important decisions to make concerning your new tanning salon is the type/brand of tanning equipment you plan to carry. It dictates with whom you decide to partner with in the tanning industry. The type of equipment and lotions you carry also affects the type and number of customers your salon attracts. The following is a brief description of the different types of equipment available



Low-Pressure Tanning Equipment

Tanning Time: 20 minutes

Tanning Frequency: 2 to 3/per week

The majority of tanning beds on the market today use low-pressure tanning lamps, which are similar in appearance to the florescent lamps used in business offices. These lamps emit UVA and UVB to both stimulate and oxidize melanin in the skin. Often, low-pressure tanning equipment will include two or more high-pressure face tanners. These special cassettes are positioned over the face to increase tanning power. Equipment with this additional feature is typically marketed as a step-up tanning bed.



High-Pressure Tanning Equipment

Tanning Time: 10 to 15 minutes

Tanning Frequency: 2 to 3/per month

In some areas, high-pressure tanning is becoming more popular. However, the high-pressure tanning bed market is still quite small. These units are typically more expensive to purchase than the low-pressure tanning, which also means you should market it as an upgrade unit and charge your customers more to use it.



Stand-Up Units

Tanning Time: 8 to 12 minutes

Tanning Frequency: 2 to 3/per week

Stand-up units are growing in popularity. The benefits for the customer are numerous. Many tanners prefer stand up units because they have a shorter tanning session time. The majority of salon owners market these units as "no contact tanning" since the customer can stand up and have minimal contact with the unit. There are also great benefits to the salon owner. Although every unit should be disinfected after each session, the "no contact" tanning experience of a stand-up unit means less area to clean. Most importantly, a typical stand-up unit only needs a 6' x 6' area to function properly, which makes a stand up unit perfect for beauty, nail and fitness facilities that have limited space to dedicate to tanning. Most tanning equipment manufactures also offer dressing rooms attached to stand-up units, which allow you to add such a unit without having to build another room. Some salons have used a stand-up unit with an attached dressing room in the foyer of the salon. The area is completely private, but attracts the attention of your customers who may have not tried a stand-up unit.



Unique “Flagship” Units

If you are looking for something to set you apart from the competition, you might look into purchasing a unique, flagship unit. These units typically look very high tech and exciting. Some salon owners place flagship units in the front of the salons to attract passersby. Adding this type of unit is also a great way to add another level of tanning to your equipment offering.

Sunless Spray Booth

The concept is simple. The tanner enters their assigned booth, pushes a button and is lightly covered with a special solution of DHA (Dihydroxyacetone), bronzers and moisturizers. The bronzers give some immediate color and after two to three hours, the DHA gives the tanner a beautiful golden tan, which lasts 5 to 7 days. This type of unit is great for those people who have never tanned or are not able to tan with UV light. It is also a great way to help your current customers take their tan to the next level.

Your MTI, Inc. Consultant can provide more detailed information on the type of equipment available today.

What is the Right Equipment Mix for You?

Choosing the right equipment mix can be difficult. This decision needs to be based on your amount of investment, the economic situation of your location, the local competition and your marketing plan. Most successful salons use 3 to 6 levels of tanning equipment.

Consider this 10-bed example:

- Level I - six 32-lamp beds (base beds may not include high-pressure face tanners and offer 20-minute tanning sessions).
- Level II - two 42-lamp beds, with three high-pressure face tanners and offer a 15-minute tanning session.
- Level III - one 52-lamp mega bed with four or more face tanners and an upgraded sessions time of 10 to 2 minutes.
- Stand-Up Unit - for those customers who prefer to tan standing.
- Sunless Spray Booth - based on your marketing and customer needs; this type of unit offers UV free tanning to help bring new customers through your door.

When giving customers a choice of equipment they usually do not choose the lowest or highest levels. Therefore, on average, the most popular levels of equipment are levels II and III.

Offering multi-level tanning is a great way to promote your Electronic Funds Transfer (EFT) program. This permission-based program allows you to debit a customer's bank or credit card account monthly for tanning service. This type of program is usually renewed annually.

There are many scenarios that fit this type of program. Always keep your competition in mind. Your MTI, Inc. Tanning Consultant will help you choose the best equipment for your salon.

Choosing Your Equipment Supplier

The following gives you some characteristics to look for when choosing an equipment supplier.

Your equipment supplier should provide:

- A wide selection of equipment in a variety of prices
- Knowledge about the industry and trends in equipment use
- Educational materials
- Convenient hours of operations
- Flexible financing/lease programs
- A salon design team
- The ability to be contacted easily
- Incentive program
- Large, competent staff
- Sales and training for lotions
- Helpful and reliable customer service
- Experienced management team
- Demographic information
- Equipment delivery and installation
- Advertising co-op program
- Salon management software
- An industry association affiliation
- Quick access to replacement parts
- Trouble-shooting and technical support
- Online access to equipment specification information for simplified ordering
- Comprehensive warranties

Chapter 5 Tips & Highlights

When setting up your salon, be sure to wire for upgrade equipment and consider the appropriate room size, as higher-level beds tend to take up more floor space or need additional space for venting. It is very expensive to rewire or change room size after the fact.

One of the best ways to see many types and brand of tanning equipment and products is to attend annual trade shows. The ITS show kicks off the season in the fall and the TI Show takes place in early summer.

One of the most important things you can do when considering your bed mix is to research the competition. Try to offer a different or larger selection of equipment or find a niche to offer your customers that your competitors don't offer.

When creating your equipment mix, you should consider the return on investment of each piece of equipment. Remember, larger beds may cost more, but typically have shorter sessions times (which means more sessions per hour and more money in your pocket) and usually command a higher price per session (which also means more money in your pocket). However, this does not mean you should purchase all higher end equipment, as you will need a good mix of size and session times to meet all of your clients' needs.

6

Lotions and Products



Background

As with tanning equipment, there are many types of tanning lotions available today. The majority of lotions can be broken into four types: intensifiers, bronzers, tingle lotions, and combinations.

Intensifiers

Intensifiers are the basic indoor tanning lotions. They are engineered to maximize UV-simulated melanin results. Intensifiers are offered at many price levels determined primarily by the types and amounts of ingredients in the lotions. Because healthy skin tans darker, tans faster, and stays tan longer, the premium accelerators with vitamins, antioxidants, hydrating complexes and natural elements are worth the price and tanning customers appreciate the results.

Bronzers

Bronzers are added to an intensifier lotion base to help produce immediate results. The two types of bronzers are immediate and delayed. Immediate bronzing lotions are usually oil-based and results are seen immediately and typically last until washed away. No more than 1-2 days. Delayed bronzing lotions contain DHA (Dihydroxyacetone). DHA is used in sunless products that darken the color of the skin giving it a suntanned appearance. The results are seen in 2 to 4 hours and continue for 4 to 7 days.

Tingle Lotions

Tingle lotions are designed to make the skin feel as if it is "tingling". By using special ingredients, the tingle products create a reaction with the skin, giving customer immediate color after tanning. The results from the lotion may last as long as 36 hours. Tingle lotions range in strength and beginning "tingle" users should use caution, test lotion on a portion of skin, and as a rule, always start with a lower level "tingle" lotion.

Combination Lotions

Tanning lotions are available in an array of combinations. In addition to combining the lotions previously mentioned, there are other new ingredients used in combination lotions including hemp, coolants, shimmer, and glitter. Tanning products also come in a variety of forms other than lotions including gels, mousses, sprays, oil-free and crystals.

Moisturizers

A key element in the tanning process is keeping the skin moisturized. Some companies offer a line of moisturizers developed to work with indoor tanning products to extend the tan and maximize the moisture level in a tanner's skin.

Sun Protection

Although you are promoting indoor tanning, many of your customers will spend a lot of time outdoors and on vacation, which is an excellent reason to carry lotions with SPF in your salon. Remember, you are the tanning expert. Help your customers choose the right sun protection for their skin type.

Other Products

To ensure your salon offers the best in lotions, you need to choose a lotion manufacturer that is always on the cutting edge. Some of these products may include after-tanning body spray, lotions made specifically for facial tanning, and spray bronzers with DHA.

Selling Lotion

The business of selling tanning lotions for the indoor tanning industry has grown exponentially in the last several years. The larger lotion manufacturers have invested a great deal of time marketing their products and educating salon owners on the benefits of using lotions and other products. This increased awareness

has led to a boom in the lotion market. The principle foundation behind the use of tanning lotions is healthy skin tans better and faster, and moisturized skin stays tan longer.

It is a good idea to have a variety of tanning lotions for customers to choose from. However, you might want to limit your line of lotions to three or fewer. Be sure to offer several products at different price levels from each line to accommodate all your customers. This will make it easier for your staff to learn about each line.

Other Important Products

There is a long list of items needed to open your tanning salon besides equipment and tanning lotions. These items include: warning posters, medication posters, eye wear, disinfectant, towels, acrylic polish, acrylic sanitized signs, posters of lotion & equipment, banners introducing new equipment, lamps, or lotions, client release forms (based on state), and other state regulation information.

A multitude of salons insist that their staff know each piece of equipment and how it differs from the next, as well as the key ingredients of the lotion you sell. Some successful salons have a mandatory test each employee must pass during training. Employees should be tested throughout the year to keep up with any new items/developments. You should also incorporate a certification program into your training. This type of certification focuses on skin types and exposure to ensure your customers are tanning properly. This type of testing builds employee confidence and your customers' confidence in your salon.



Computerizing Your Salon



Background

Managing your salon via computer makes you appear more professional, organized, and competent. It reduces the amount of time your customer spends waiting in line, which leads to a more pleasant atmosphere. It also helps you to better manage your bookkeeping and allows you to perform more than one function simultaneously.

Additionally, computerization helps you be more competitive. It will help reduce mistakes that are made using a manual card system. It also speeds up your ability to process a customer and saves you time. If your competition is computerized, that gives them the advantage.

Equally important is protecting your bottom line. Your computer combined with the right software adds a new element of security to your salon. Employee theft, whether it's salon products or giving free tanning sessions to friends and family, is immediately apparent with good salon management software. You won't need to rely on your staff to record cash transactions manually, which can lead to errors. Our research proves that the salon owner using only client cards and a manual system simply does not have the ability to control the salon.

Choosing your Software

Below are some general considerations to keep in mind when you are making computer software decisions. Your software should:

Manage your business - Offer features that give you the ability to create new sales and to measure and control your business.

Be reliable - Be ready when you want it and perform the way it was advertised.

Be robust - Meet your business needs today and be ready to handle your needs tomorrow. If your business plan includes owning multiple salons, your computer software must be able to provide you with the power and flexibility to minimize operation issues while maximizing your profit potential.

Be easy to use - Be user friendly in order to limit the amount of time it takes to learn the software. It should have the ability to quickly get a new customer into the system.

Boasts easily-accessible technical support - Knowledgeable and professional support people should be easily accessible and readily available. You should feel comfortable with the company and be willing to establish a long-term relationship.

Have quick and easy transaction processing - An easy to use, yet powerful system that allows quick sales and return processing. It should offer:

- The ability to get customers into their tanning session quickly
- Give staff the ability to easily monitor and manage room status.
- The ability to monitor equipment and maintenance schedules as well as interface with a variety of manufacturer's timers.
- An extensive customer profile (Captures a variety of demographic data and can hold an infinite amount of sales and promotional history of your clientele which should increase your target marketing ability).
- The ability to thoroughly and accurately measure your business by offering in-depth marketing tools, mailing lists and promotional analysis along with in-depth financial analysis reports.

- System security and controls. The user permissions are to restrict access to modules and their functionality. The software should offer the ability to make users accountable by completely tracking all user transactions. The program should control who tans and when, incorporating local, state, and federal regulations.
- Inventory control and reporting
- The ability to create unlimited membership and tanning packages.
- The ability to perform multiple tasks simultaneously. For example, the ability to put one customer in a tanning bed while filling out a new customer profile or the ability to put one customer in a bed while working on a report or mailing list.
- On-line credit card authorization through high-speed, secure Internet connection.
- The ability to reduce employee theft and manage employees even when you are not in the salon.

Financial Computer Software

There are several types and brands of accounting software on the market, however, many successful salons use Peachtree First Accounting (www.peachtree.com) or QuickBooks (www.quicken.com/quickbooks).

According to customer experience, Peachtree First is an excellent resource for managing multiple locations and QuickBooks is a great tool for managing only one location. Both provide a full range of financial statements, including a cash flow statement. You do not necessarily need to have an accounting background to run or operate one of these programs, but a basic understanding of accounting may help.

3 YEAR INCOME STATEMENT

Balance Sheet

REVENUE	YEAR 1	YEAR 2	YEAR 3
Tanning Services Revenue			
EFT Income			
Sessions/Units/Minutes			
Term Memberships			
Upgrades			
Other Tanning Services			
Total Tanning Services Revenue			
Tanning Products Revenue			
Tanning Revenue			
Other Merchandise Sales			
Other Revenue			
TOTAL REVENUE			
TOTAL COST OF SALES			
Operating Costs			
Payroll and Related Expenses			
Owner's Salary			
Other Salaries			
Employees' Wages			
Commissions/Bonuses			
Payroll Taxes			
Total Payroll/Related Expenses			
Other Operating Expenses			
Advertising/Promotion			
Bank Charges			
Contributions			
Credit Card Discounts			
Dues/Memberships/Subscriptions			
Franchise Fees Expense			
Lamps/Acrylic Replacement			
Laundry/Linen			
Licenses/Permits			
Professional Development			
Professional Services			
Repairs/Maintenance - Building			
Repairs/Maintenance - Equipment			
Repairs/Maintenance - Grounds			
Salon Operating Supplies			
Security Services			
Telecommunications/Data Processing			
Travel			
Utilities			
Vehicle Expenses			
Waste Removal			
Other Expenses			
Total Other Operating Expenses			
TOTAL OPERATING EXPENSES			
INCOME BEFORE FIXED CHARGES			
FIXED CHARGES			
Rental			
Building Rental			
Tanning Equipment Rental			
Other Equipment Rental			
Software Rental			
Payroll Taxes			
Taxes Other Than Income			
Insurance			
Liability			
Fire			
Depreciation			
Amortization			
Interest Expense			
Total Fixed Charges			
INCOME AFTER FIXED CHARGES			
INVESTMENT INCOME			
GAINS AND/OR LOSSES ON DISPOSALS			
INCOME BEFORE INCOME TAXES			
INCOME TAXES			
NET INCOME			

CURRENT ASSETS		
Cash		
Short-Term Investments		
Accounts Receivable (net)		
Inventories		
Tanning Products		
Other Merchandise		
Other Products		
Prepaid and Other Current Assets		
TOTAL CURRENT ASSETS		
PROPERTY AND EQUIPMENT		
Land		
Buildings		
Leasehold Improvements		
Furnishings		
Equipment		
Tanning		
Other		
TOTAL PROPERTY AND EQUIPMENT		
Less Accumulated Depreciation/Amortization		
NET PROPERTY AND EQUIPMENT		
OTHER ASSETS		
Deposits		
Intangible Assets		
Other		
TOTAL OTHER ASSETS		
TOTAL ASSETS		
CURRENT LIABILITIES		
Bank Notes		
Other Loans		
Accounts Payable		
Wages Payable		
Accrued Expenses		
Taxes Payable		
Payroll		
Sales		
Income		
Deferred Revenue		
Current Maturities of Long-Term Debt		
Other Current Liabilities		
TOTAL CURRENT LIABILITIES		
LONG-TERM DEBT (Net of Current Maturities)		
Mortgage Notes		
Other Notes		
Capital Lease Obligations		
Less Current Maturities of Long-Term Debt		
TOTAL LONG-TERM DEBT		
TOTAL LIABILITIES		
OWNER'S EQUITY		
Format depends upon legal entity:		
• If sole proprietorship		
(Name of Owner) Capital		
• If Partnership		
Partner A, Capital		
Partner B, Capital		
• If Corporation		
Common Stock		
At Par (stated) Value		
Paid-in Capital in Excess of Par		
Retained Earnings		
• If Limited Liability Company		
Member A, Capital		
Member B, Capital		
TOTAL OWNERS' EQUITY		
TOTAL LIABILITIES AND OWNERS' EQUITY		

MONTHLY CASH FLOW STATEMENT

CASH RECEIPTS	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cash Sales												
EFT Income												
Total Cash Receipts												
CASH EXPENSES												
Advertising/Promotion												
Bank Charges												
Contributions												
Credit Card Discounts												
Dues/Memberships/Subscriptions												
Franchise Fees Expense												
Lamps/Acrylic Replacement												
Laundry/Linen												
Licenses/Permits												
Professional Development												
Professional Services												
Repairs/Maintenance - Building												
Repairs/Maintenance - Equipment												
Repairs/Maintenance - Grounds												
Salon Operating Supplies												
Security Services												
Telecommunications/Date Processing												
Travel												
Utilities												
Vehicle Expenses												
Waste Removal												
Other Expenses												
Travel												
Cash Expenses Subtotal												
OTHER CASH EXPENSES												
Capital Purchase												
Loan Principal												
Other												
Other Cash Subtotal												
TOTAL CASH EXPENSE												
ENDING CASH BALANCE												



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