Private Placement Memorandum

Mayo Employee Leasing Agency, Inc.

Contact:
Anthony P. Mayo
MELA
1301 Northgate Square
Reston, Virginia 22090
703 / 437-6500

Private Placement Memorandum

Mayo Employee Leasing Agency, Inc.

A Virginia Corporation

Ten Thousand (10,000) Shares Common Stock

Purchase Price: Twenty-Five Dollars ($25.00) Per Share

Investment in the securities offered hereby involves a high degree of risk. See "**Certain Risks**."

THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, NOR HAVE SUCH SECURITIES BEEN REGISTERED UNDER THE SECURITY LAWS OR "BLUE SKY" LAWS OF ANY STATE. ACCORDINGLY, A PROSPECTIVE PURCHASER MUST BE ABLE TO BEAR THE ECONOMIC RISK OF AN INVESTMENT IN THESE SECURITIES FOR AN INDEFINITE PERIOD OF TIME.

The Material herein is furnished solely for the purpose of enabling the recipient to evaluate this offering, and is confidential for all other purposes.

February-March, 1988

Copy # Mayo

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Executive Summary

Mayo Employee Leasing Agency, Inc.

Executive Summary

Company: **MELA** – Mayo Employee Leasing Agency, Inc.
1301 Northgate Square
Reston, VA 22090
703 / 437-6500

Contact: Anthony P. Mayo

Product: Employee leasing. Employee leasing firms provide complete personnel services to small organizations (less than 100 employees) or parts of very large organizations. Services include payroll generation and tax filing, benefits administration, and coordination of hiring, reviews, and terminations.

Employee retention and loyalty are the primary benefits of leasing staff. Employee leasing relieves the client of administrative responsibilities while economically providing staff with complete, well managed fringe benefits.

Employee leasing is **not** a recruiting or temporary help service.

Initial Markets: Initially, **MELA** will target two niches in the Washington Metro area: technical services firms and hospitality businesses. These sectors are experiencing rapid growth and severe labor shortages in the Washington area. The quality of fringe benefits is improving in both markets. The many small organizations in these niches are prime prospects for employee leasing services.

Growth: **MELA** plans to diversify beyond its initial niches after the first year to serve a variety of businesses in the DC area. We expect to be established in major eastern US metropolitan areas in five years, with national and international expansion to follow.

Funds Required: **MELA** is a start-up. One Hundred Fifty Thousand Dollars ($150,000.) is required to establish operations and develop marketing methods. One Hundred Thousand Dollars ($100,000.) of additional investment, if subscribed, will be applied to more rapid growth by financing ambitious marketing, service enhancement, and working capital.

Management: Founder Anthony P. Mayo is an experienced entrepreneur and manager. He graduated from the College of the University of Chicago and earned his M.B.A. there at the age of 21. He founded MASSystems in 1978 (sold in 1982), was V.P. & Treasurer of Municipal Appraisal Service Corp., and has worked for Peat, Marwick, Mitchell, & Co, Arthur Andersen & Co, and Systemhouse, Inc.

Timothy W. Gear is an veteran financial manager with extensive experience designing and implementing procedures, controls, and systems. He worked in finance at Control Data Corporation, US Department of the Treasury, and Boeing Computer Services.

Barbara A. Koll is a successful human resource manager with background in employee relations, Affirmative Action, benefits administration, records management, and training. She is a manager at Jaycor and has worked at MCI, the Washington Metro Transit Authority, and as an independent consultant.

Plan Overview

Mayo Employee Leasing Agency, Inc.

Overview of Plan

Purpose of Plan

MELA's background and plans are described in this document for the information of potential investors. **MELA** requires One Hundred Fifty Thousand Dollars ($150,000.) to establish operations and develop marketing methods. One Hundred Thousand Dollars ($100,000.) of additional investment, if subscribed, will be applied to more rapid growth by financing ambitious marketing, service enhancement, and working capital.

Successful operation of **MELA** is the other, equal, purpose of this plan. A carefully considered, imaginative, and aggressive plan is the basis of any successful group action. Planning is not knowing, but not planning is refusing to learn. A plan never contains all the answers, but a good plan raises the important questions.

Definition of Employee Leasing

Employee leasing firms provide complete personnel services to any organization with employees. Clients pay a simple periodic fee to the leasing firm and are relieved of:

- Payroll generation
- Payroll tax deposits & forms
- Unemployment tax filing and claim reporting
- Worker's compensation administration
- Health insurance & pension benefits administration
- Immigration & Naturalization Service hassles
- COBRA health insurance risks
- Hiring & Termination legal requirements
- Evaluation and promotion paperwork
- and,

ALL ADMINISTRIVIA ASSOCIATED WITH BEING AN EMPLOYER!!!

All of a client's workers become the employees of the leasing firm and are rented back to the client. The client retains complete control over the work performed by the employees.

Employees receive better benefits through the group buying power and professionalism of the leasing firm. This creates an additional advantage for the client in the form of greater staff loyalty and enhanced recruiting.

Distinguishing Features of MELA

Employee leasing is an immature industry. The scattered participants are generally unsophisticated, undercapitalized, and unplanned.[1] **MELA** has a clear mission, marketing strategy, and expansion plans.

MELA's strategy is based on the following five points:

1. Focus on Premium Markets
   - Market test two fertile niches:
     - Technical Services Firms
     - Restaurant and Hospitality Establishments
2. Staff Retention Services
   - Emphasize, during marketing and delivery, recruiting and loyalty benefits of employee leasing
3. Professional Management and Expert Program Design
   - Operated by experienced professionals
   - Advised by the foremost experts
   - Implement systems which will support rapid, profitable growth
4. Full Line Service
   - Our clients will enjoy all the services of a large company's personnel department
   - Our employees will benefit from frequent contact with our professional staff
5. Efficient Operations and Aggressive Price Cutting
   - Automate effectively and emphasize low cost operations
   - Grow rapidly to achieve significant economies of scale
   - Lead the inevitable trend toward lower prices

Size of Target Markets, Expected Share

Over 7,500 technical or business services firms with fewer than 100 employees operate in the Washington metro area. They employ more than 87,000 people, with average salaries of $1,700. per month. More than 4,500 hospitality businesses with fewer than 100 employees operate in the Washington Metro area. They employ at least 78,000 employees at an average salary of $721. per month.[2] Less than one percent penetration of these niches will satisfy **MELA**'s plans for the first two years.

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1 A poll of leasing company executives at the June, 1987, National Staff Leasing Association convention revealed that less than 10% had written marketing plans.

2 All figures from US Census *County Business Patterns for 1984*, published in 1987.

Milestones

MELA plans to begin its formal market analysis in February of 1988. We will begin leasing employees in April of 1988. Breakeven is expected 16 months later with 780 leased employees.

Risks, Responses, Rewards

Staff Leasing offers large and enduring profits. It generates a very large cash flow from a minor capital investment. Very little capital is tied up in accounts receivable: employee leasing is operated on a cash in advance basis, with the additional assurance of a cash deposit or letter of credit. Significant capital equipment is required only after the business is well established, to bring data processing in-house. This will improve control and profitability. In addition, enhanced information services will become a marketing advantage and barrier to entry.

MELA, like any new business, faces major risks which could interfere with these returns. These include rejection by market, legal exposure, adverse economic conditions, and regulatory or tax changes. Management has endeavored to minimize these risks to the extent possible through research and planning (see the section **Major Risks, Planned Responses**, below). Investors must be aware, however, that any one of these factors or other unnamed events could result in the failure of MELA and the loss of their entire investment.

Business Plan

Mayo Employee Leasing Agency, Inc.

Business Plan

History and Potential of Staff Leasing Industry

Employee leasing is a personnel service for small companies or portions of large organizations. The leasing company handles all of the administrative and compliance duties of a personnel department:

- Generating Payroll,
- Administering Benefits,
- Paying Unemployment and
- Workers Compensation, as well as
- Coordinating Hiring,
- Performance Review, and
- Termination Of Staff.

The client organization makes a single lump sum payment each pay period to cover all of these costs plus the leasing company's fee. All government forms, insurance company reports, and other paperwork is the sole responsibility of the leasing company.

The leasing company assumes this responsibility through a simple procedure: all of the client's staff become employees of the leasing company. The client may choose to retain some staff as its own employees or to lease all personnel. The staff to be leased are terminated by the client, then immediately hired by the leasing company at the same rate of pay, whether hourly, salary, piece work or commission. The terms of their employment do not change: work is directed by the same supervisors, promotion and raises are determined by the same managers, and termination decisions are always made by the client. The staff is employed by the leasing company, but everyone still works for the client.

The concept of employee leasing has existed in various forms for centuries. One academic traces its roots to the Pharaohs of ancient Egypt. The industry emerged in close to its present form in 1972, as a means of establishing preferential pension plans for the senior employees of a business, while leasing the remainder of the workers from a employee leasing firm with little or no pension benefits. Several leasing firms received letter rulings from the IRS authorizing this advantage. The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA, Section 414n) limited this tax advantage while granting employee leasing its first formal recognition by the tax authority. A "safe harbor," therefore, was created for companies which leased their staff.

A clinic, for instance, could shift all of its lower paid staff to a leasing company while retaining the doctors as employees. The doctors would fund a very generous pension plan for themselves while leasing their office help from a employee leasing company which offered a minor pension program. Employee leasing thus presented a very effective tax advantage for certain employers and the industry responded rapidly.

The Tax Reform Act (TRA 86) eliminated this "safe harbor." One leasing firm specializing in medical offices lost 20% of its clients on the day the law took effect. Several firms saw half their clients leave during the first year under the new rules. The industry seemed to be in crisis.

Most clients continued to lease their staffs, however, and more organizations converted. The concept of employee leasing, originally an artifact of the tax code, had proven itself to be a useful service of bona fide economic value to employers. These managers had discovered that freedom from the administrative burden of being an employer was worth the fee charged by the leasing firms. And their staff had come to appreciate the enhanced benefits available to them through the group buying power of the leasing firm. The present era of employee leasing began.

Employee leasing appeals primarily to businesses which do not have personnel departments. Usually this means organizations with less than 100 employees.[3] Some employee leasing firms administer the entire staff of clients with over 400 employees or portions of much larger companies' workforces.

> *...The under 100 employee firm is* **MELA**'*s primary market and it is very significant: "45% of America's private sector jobs are with companies of less than 100 employees."*
> Professor David Birch of MIT[4]

The obligations associated with being an employer have mounted rapidly in recent years. The White House Office of Management and Budget estimates that businesses devoted 1,700,000,000 hours last year to filling out federal forms. That is equivalent to the work of 190,000 people. The trend is clearly toward more paperwork.

All of these responsibilities are shifted from the client to the employee leasing firm:

- Payroll Taxes
  - FICA (Social Security)
  - State Unemployment
  - Federal Unemployment
- Insurance
  - Health Insurance
  - Vision Care
  - Prescription Drug Coverage
  - Long Term Disability
  - Dental Insurance
  - Life Insurance
  - Worker Compensation
- Fringe Benefits
  - Pension
  - Education
  - Dependent Care Accounts

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3 American Society of Personnel Consultants/Bureau of National Affairs *Bulletin to Management* Survey Number 49, Copyright June 5, 1986.

4 Professor David Birch of the Massachusetts Institute of Technology in his book, *Job Creation in America*, 1987.

  - Medical Reimbursement Accounts
- Government Reporting
  - Form W-3
  - Form 941
  - Immigration & Naturalization Form IN-9
  - Pension Filings
  - Unemployment Claims Information
- Legal Obligations
  - COBRA Health Insurance Continuance
  - Equal Opportunity Employment / Affirmative Action
  - Sexual Harassment
  - Wrongful Dismissal
  - Mandated Minimum Benefits (Proposed)

Employee leasing is a service which not only assumes the administrative duties associated with being an employer, but provides a means for clients to improve the benefits offered to their workforce. The bulk buying power of the leasing firm allows it to get advantageous rates for health insurance, pension plans, and—in some cases—unemployment, worker's compensation, and other fees.

All personnel services are handled in a professional manner by a staff specialized and trained in human resources administration. This skilled staff handles the intricacies of benefits administration, the legal minefield of hiring and terminations, and the psychology of employee relations. This all enhances the quality of benefits received by employees:

- Staff concentrates on your business
- Better personnel can be recruited because of improved benefits
- Prompt professional reviews remind workers of their employer's interest in their career
- Newsletters, social gatherings, and other motivational programs help people identify with their companies—long term

The net impact of leasing on the staff is greater productivity and lower turnover.

The National Staff Leasing Association estimates that 100,000 employees work for 300 leasing firms in the United States. *Megatrends* author John Naisbitt & Patricia Aburdene predicted in their latest book, *Re-Inventing the Corporation*, that 10,000,000 workers will be leased by the mid-1990's.

> *..Employee leasing will grow rapidly because it is a "win-win" proposition for both clients and staff.*
> John Naisbitt[5]

5 See also his *Success Magazine* article in Appendix B of this Memorandum.

Company Description

Mission Statement

MELA will generate a very high rate of return to stockholders by efficiently providing the highest quality employee leasing services to all clients we are competent to serve. Employee leasing relieves organizations of the administrative burden of being employers by applying economies of scale and specialized knowledge to human resource management and benefits administration.

We will deliver value to our clients by:

- Constantly innovating at all levels to increase the value and reduce the cost of employee leasing
- Fulfilling promptly, courteously, and enthusiastically all obligations accepted from the client
- Enhancing the loyalty and productivity of the client's staff by:
  - Communicating honestly and promptly with our employees
  - Administering all claims and benefits quickly and accurately
  - Providing the best and most modern services we can devise and clients wish to purchase
- Efficiently and accurately executing all functions required of an employer

We will always operate from the initial assumption that every client, every employee, and every vendor is acting in good faith on the basis of the best information available to him.

The Opportunity

Employee leasing appeals primarily to two types of clients:

- Small organizations (100 or fewer employees) unwilling or unable to support dedicated, in-house personnel departments
- Large organizations (5,000 or more employees) wishing to segregate a portion of their workforce, e.g.
  - Workers in a different tax jurisdiction,
  - Workers earning different benefits, and
  - Workers not eligible for lifetime employment

MELA will follow a strategy of industry focus. We will seek to serve the special needs of one or two industries initially, adding other niches as we grow. Rigorous market analysis will guide our selection of target industries. MELA has selected two initial target markets based on available information:

- Technical services firms
- Restaurant and hospitality businesses

The Washington Metro area has a over 7,500 technical or business services firms with less than 100 employees.[6] These are often founded by one or a few technical experts with much more talent and interest in performing their service than in the administrative aspects of operating a business. Such businesses will be eager to be relieved of these duties if a reliable, professional service is made known to them.

Technical services firms have several strong motivations for using employee leasing services:

- Small administrative staff
  - Need for outside services
- Operated by technicians
  - Require expert management assistance
- Highly paid workforce
  - Management accepts any costs necessary to recruit and retain talent
- Competitive recruiting environment
  - Generous benefits a key hiring tool
- Employee turnover very costly
  - Professional personnel administration improves loyalty
- Special payroll and labor reporting requirements (for government contractors)
  - Special skills available through **MELA**

The motivations for using employee leasing in the restaurant and hospitality business are similar to that for technical services firms:

- Small administrative staff
- Operated by people not familiar with personnel administration
- Rising pay and benefits
- Competitive recruiting environment
- Employee turnover very high
- Special payroll requirements (for tips)

There are more than 4,500 of these businesses with fewer than 100 employees in the Washington metro area.[7]

The extreme difficulty of recruiting restaurant and hotel workers in the Metro area was the focus of a feature article in *Virginia Business*'s September, 1987, issue. "Help Wanted" reported that one restaurant chain is working to "retain employees through a system of frequent evaluations and raises." The regional manager of the fast food restaurant chain said, "Our competition is even starting to offer benefits."

6 Figures from the US Census's *County Business Patterns* for 1984, published in 1987.

7 Figures from the US Census's *County Business Patterns* for 1984, published in 1987.

..Friendly's Ice Cream, for example, offers pension, medical, dental, and life insurance benefits to part time workers, adding disability insurance for full time employees.

These two markets also share several features which make them appealing as employee leasing clients:

- Proliferation of new, small, and expanding companies
- Low worker compensation exposure
- Low unemployment risk

They also have compensating differences:

- Opposite ends of the wage scale
- One trends with the general economy, one trends with government spending
- Private sector unlikely to adopt employee leasing late in the calendar year, while government contractors often hire heavily in the fourth quarter

MELA's Distinctive Competence

Employee leasing is an immature industry. The scattered participants are generally unsophisticated, undercapitalized, and unplanned. **MELA** has a clear mission, marketing strategy, and expansion plans.

..Business is like war in one respect. If its grand strategy is correct any number of tactical errors can be made and yet the enterprise proves successful.
General Robert E. Woods, Chief Executive Officer of Sears

1. Focus on Premium Markets

High returns are achieved by early entrants into an industry when they provide a service desperately needed by particular clients. Some companies are so averse to the duties associated with being an employer that employee leasing is regarded as an essential to conducting business. One firm in Texas experienced the failure of two employee leasing companies in succession, then placed their staff with a third lessor. The reason: after experiencing the convenience of leasing their staff, they would not consider going back to being an employer.

MELA will use sophisticated market analysis to identify and pursue these highly motivated clients.

2. Staff Retention Services

Superior fringe benefits and effective personnel administration are the foundation of personnel satisfaction with their employer. Comprehensive health and retirement plans, administered well form one leg of the formula. Prompt, constructive evaluations and motivational programs are the other.

MELA will conduct specific programs to enhance this feature of employee leasing and make staff loyalty a major selling point.

> *..Employee leasing actually makes small (5-25 employees) to mid-size (26-100) businesses very competitive with larger companies in attracting, motivating and retaining quality personnel. Absenteeism, turnover and recruitment costs are also reduced for the client because a better benefit package can be offered. A high level of payroll, fringe benefits and claims service enhances the employees' view of [the client] and results in a more stable, productive, and satisfied workforce.*
> David J. Mathwig[8]

3. Professional Management and Expert Program Design

MELA will be managed by experienced professionals, supported by distinguished consultants and sub-contractors, to implement systems preparatory to growth into a large organization. See section on **Operations**.

4. Full Line Service

Some employee leasing entrants have chosen a bare bones approach, interacting with their client's staff little more than a payroll service would. Others make perfunctory attempts to provide some personnel services. Most have no clear strategy, therefore no definite concept of their product.

MELA will have extensive interaction with employees. We will coordinate and even conduct performance reviews and exit interviews. Motivational seminars and social programs are part of our basic service. Training and consulting services will be available to clients on a fee basis.

We will provide all the services of a large company's personnel department with one exception: recruiting. Recruiting in our target markets (indeed, the entire DC metropolitan area) is extremely competitive and specialized. Clients will be encouraged to find their own staff or use independent recruiting services. (**MELA** is exploring a referral fee relationship with several placement firms.) Our focus is on staff retention and productivity, not recruiting. The superior fringe benefits and efficient personnel administration provided by **MELA** will be a significant recruiting aid for our clients.

5. Efficient Operations and Aggressive Price Cutting

MELA will place an early emphasis on low cost operations and economies of scale. After the initial stages of high returns from premium clients, the industry will see an influx of new entrants. The firm poised to cut prices and expand services to clients willing to convert at the lower price point can expand rapidly and erect barriers to entry.

This formula, once perfected in one market can be exported directly into other markets, skipping the initial stage of establishing cash flow with premium clients by exploiting centralized operations and experienced marketing and delivery staff. **MELA** will finesse the premium clients of es-

8 David J. Mathwig, President of RSI, a human resource management firm in Dallas, TX, in *The Journal of Compensation and Benefits*, Nov/Dec, 1985.

tablished local operators while building a broad base with clients eager to convert to leasing at the new lower costs. Geographic expansion is rapid as local operators either lose clients gradually or promptly sell out to **MELA**.

Purchased clients should be a good investment for two reasons. First, because clients are reluctant to discontinue a service so closely tied to their daily operations. Second, because purchased clients would immediately enjoy a price cut and, often, an improvement in service.

Marketing

Competitors & Near Substitutes

1. In House

Personnel management has become too complex and burdensome a responsibility to be handled as an ancillary task by the managers of a small business. The choice is between inadequate human resource management or the use of outside professionals, just as it is with legal and accounting issues. Late fees, tax penalties, recruiting difficulties, and legal problems are the results of ad hoc personnel management. The government is adding immigration rules and mandated benefits to the responsibility. Fewer businesses will be willing to risk it. Employee leasing offers the only comprehensive solution.

Organizations handle their own personnel duties because they are unaware of any alternative or because the alternatives are unappealing. Employee leasing has a massive educational task ahead of it. The National Staff Leasing Association was formed largely to undertake this education. Several of the larger employee leasing firms formed the Association to promote awareness of employee leasing, lobby for acceptance by the regulators, and to encourage new entrants to the business.

2. Other Staff Leasing Companies

The employee leasing industry is in its infancy. A few dozen local operators, concentrated in California and in the medical industry compose the bulk of the business. There are only 4 or 5 companies operating beyond their local area. They do not have the management or financial resources to exclude competition.

No other employee leasing company is based in the Washington, DC, metropolitan area. Two firms, Adminstaff of Houston, Texas, and Employers Resource Management of Richmond, Virginia, have sales offices in the area. Neither serves the District of Columbia.

The local and national markets are largely untapped and there is plenty of opportunity for entry. Entry is in fact encouraged by some major operators. The task of selling the concept prior to beginning their sales presentation has been a burden. They hope to see the concept well established through the efforts of many competitors so that selling can be based on the superiority of their own approach.

3. Payroll Services

Payroll services, like ADP, Paychex, and banks, are not competitors but suppliers to the employee leasing industry. The high volume, low personal contact service offered by payroll processors is not similar at all to employee leasing. Most lessors subcontract their payroll processing to such services, making them supporters rather than competitors.

4. Temporary Agencies & Brokers

Temporary help agencies, like Manpower or Kelly Services, and brokers, like Day & Zimmerman or The Experts, have for years provided W-2 staff to clients in exchange for lump sum payments. They would appear to be the most powerful competitors for a start-up employee leasing firm. For three reasons, they are not:

1) First, the mark-ups available in the temporary placement industry are much greater than those available in employee leasing, even at this early stage of industry maturity. These margins exist because a major portion of the service provided by these agencies is their access to a large pool of potential staff, i.e., they are primarily rapid response recruiters. This is a much different skill set than that required for the long term motivation and retention of permanent staff.

2) Second, they are not willingly innovating toward employee leasing-type services. They are entrenched in the mechanisms of temporary placement. For example, these agencies are being pulled by events into adding services which are basic to a staff lessor. Their people were largely treated not as W-2 employees but as independent sub-contractors until the safe harbor for contractors was threatened by tax reform. Similarly, the shortage of office and technical workers in many cities has forced them to begin providing rudimentary fringe benefits.

3) Third, and most important, employee leasing appeals to a market mostly unfamiliar to temporary agencies: the small organization. These agencies serve the short term needs of very large, high overhead corporations and government agencies. All of their marketing and operations are designed to reach these big spenders. They have no understanding of, or contacts with, companies of 100 or fewer employees. Small firms carefully weigh every expense against the direct return while the typical customers of temporary agencies are focused on quickly finding a particular technician, with a minimum of trouble. Employee leasing, by contrast, is not sold to solve today's emergency.

Consider the expensive foray by the (otherwise) very successful Irene Cohen organization into employee leasing. She built a lucrative business placing temporary help at Fortune 500 headquarters organizations and big professional firms like Arthur Andersen & Co. They have had next to no success penetrating the employee leasing market, despite expensive promotional efforts and acquisitions. The market is entirely different.

Marketing Strategy

MELA will seek market penetration in one or two industries in the Washington Metro area during the first two years of operation. Learning the marketing approach and unique services necessary to succeed in each industry will take time and resources, so it makes sense to begin by targeting one or two types of prospective client. These segments should have a strong demand for the services in common, while being different enough to indicate the broad applicability of the leasing concept to all segments. Analyzing two markets simultaneously insures a fallback option should tests in one market prove discouraging. Technical services firms and hospitality businesses, the chosen target niches, are discussed in more detail in the Market Potential section of this plan.

During the third year, **MELA** plans to add other market segments in the Washington area, serving all prospects by the end of that year. The fourth year **MELA** plans to enter 2-4 new eastern cities, with service offerings for all types of businesses. Management expects the fifth year to see consolidation of our position east of the Mississippi as we establish a presence in a new city each month. Plans for the sixth year include national service with expansion into west coast markets.

Canadian and other international expansion is expected to follow. Employee leasing should adapt well to many other countries, since government red tape for employers tends to be more difficult in Asia, Latin America and Europe.

After the first two years, a major emphasis will be placed on entrenching **MELA** in a position as the low cost producer. A relatively high fee will be acceptable to enough prospects in key niches to get the business established. Significant penetration of the broader market will require lower prices. Being prepared to aggressively cut fees to gain market dominance will erect significant barriers to entry. As an early entrant to the employee leasing business, **MELA** will later encounter competition from inexperienced and undercapitalized new entrants. Our corporate commitment to continuous innovation and efficiency will keep us far ahead of them on the learning curve, maintaining a significant sales lead.

Marketing Tactics

MELA's marketing tactics will be based upon the five points detailed in the section of this plan titled **MELA**'s **Distinctive Competence**:

1. Focus on Premium Markets
2. Staff Retention Services
3. Professional Management and Expert Program Design
4. Full Line Service
5. Efficient Operations and Aggressive Price Cutting

This message will be delivered to highly visible members of our target niches. These are business owners/managers who are also:

- Officers of trade associations and civic groups,
- Mentioned in print media, or
- Enjoying a reputation for good management

These clients will be used as a referral base to expand our penetration in each niche and into the general business community.

Employee leasing is a topic of interest to business people, so many public relations opportunities exist:

- Presentations to civic and business groups
- Coverage in local and business press
- Radio and cable discussion programs
- Trade show and professional currency seminars

MELA will aggressively pursue these communications channels. We have already been interviewed by *The Washington Times*, and invited to moderate the Fairfax Chamber of Commerce Membership Breakfast, present our plan at the Venture Clinic, and lecture business owners at Venture Concepts' Business Growth Forum.

Sales Methods

Employee leasing requires a significant commitment from a new client. Surrendering the legal status of employer for his or her staff is a major decision. Every sale will require a personal sales call, and multiple visits prior to the close will not be unusual. The first sales will be made by **MELA**'s President, who has a record of successful business-to-business marketing. Later, **MELA** will employ a highly motivated, well supported force of commissioned sales people.

MELA's first representatives will have sold to or for our target clients. We will look for a background as a sales representative for a:

- Technical Services Company
- Banquet Facility or Catering Service
- Placement Agency
- Restaurant Supply House
- Payroll Service
- Business Equipment Supplier

We will adjust this recruiting strategy for each new market niche entered.

Representatives will be trained in employee leasing concepts and encouraged to communicate with the operations staff of **MELA**. Client service will *not* be handled by sales representatives, however. Sales representatives will be compensated to produce new business.

The sales effort will be supported by:

- Sales Training
- High Quality Materials
    - Pamphlets
    - Bindings
    - Brochures
    - Gifts
- Motivational Programs

Leads will be developed by:

- Mass Media Advertising
- Telephone Prospecting & Pre-Qualification
- Direct Mail
- Print Inserts & Reply Cards
- Government Information
    - Business Licenses & Incorporations
    - Contract Awards
- Public Announcements
    - Promotions
    - Expansions

- New Leases

- Referrals From Clients And Employees
- Tip Exchanges
- Trade Association And Chamber Of Commerce Sources

Market Analysis

Market analysis preparatory to initiating operations will be of four types, each successive to and designed in light of the preceding analysis:

1) Demographics
   - Analyze characteristics of target market niches
2) Focus Groups
   - Conduct focused group discussions with decision makers from target market niches
3) Surveys
   - Survey awareness & attitude of the target market
4) Test Marketing
   - Market thoroughly and aggressively to a random, representative sample of the target markets

The target market niches for **MELA**'s initial efforts in the Washington, DC Metro area are firms with less than 100 employees, especially those in the technical services and restaurant/hospitality businesses.

Venture Marketing Corporation of Washington will support our market analysis. The firm specializes in market research and analysis with primary focus on growth stage products and services. Clients include Professional Payroll Services, Inc., Marriott Corporation, and Rand McNally. **MELA**'s project will be conducted by Executive Vice President Nancy C. Shretter.

1) Demographics

Demographic analysis of the niches will reveal the number of firms in this area, their size, the number of employees, the fringe benefits offered now, the rate of turnover, unemployment rate, classified advertising index, the average salary, the distribution of salaries, the turnover experience, the form of organization (e.g., partnership, corporation, sole proprietorship, or subsidiary), the ownership, and the decision maker for our product (e.g., owner, CEO, COO, Controller, or V.P. Administration) We will also investigate the relationship between these aspects, e.g. the relationship between company size and benefits, between benefits and turnover, or average salary relationship to benefits.

This research will be based primarily upon secondary sources, such as government statistics, published articles and surveys, or market research reports offered for sale.

Research of this type will be conducted on a continuous basis for as long as **MELA** operates. We will carefully study our targeted markets, new target industries and planned geographic territories. A steady supply of fresh market intelligence is the foundation of smart operations.

2) Focus Groups

Potential customers know almost everything a vendor needs to learn in order to sell any service. A simple and effective way to transfer this knowledge is through a structured group discussion known as a Focus Group. **MELA** will assemble a group of 6-10 decision makers from each of our target markets for a 1-2 hour meeting. Managers of technical services firms and decision makers from the hospitality business will be in separate focus groups.

We will present the concept of employee leasing and review our marketing message for the group. The purpose is not to close any sales, but to get an honest and considered reaction to our service and sales approach.

Structured questions will stimulate reaction from the group. The entire proceeding will be tape recorded and a summary report will be prepared. The results will be a continuing resource for the management of the company. Focus groups will be repeated from time to time while the company operates and expands. Special focus groups composed of present clients will also be conducted from time to time to insure that we are continuing to meet their needs.

3) Surveys

Broad based surveys of our target markets will supply summary information about our potential customers. Telephone, direct mail, or in person interviews will be conducted to learn:

- Awareness / understanding of employee leasing concept
- Motivation for using service, e.g. convenience versus quality
- Favorability of attitude toward service
- Familiarity with other employee leasing firms
- Probability of using service
- Price sensitivity
- Alternatives presently used, e.g. payroll services, benefits carriers, personnel advisor
- Perceived benefits of employee leasing
- Relative importance of various employee leasing features
- Risks of employee leasing
- Importance of leasing company's location
- Reaction to **MELA**'s name and slogan
- Likelihood of moving to the service
- Pay periods
- Major barriers to a decision
- Decision makers' titles
- Evidence required for purchase decision
- Basic demographics, e.g. company size, industry, etc.

The results of this survey will give us precise information on our market potential and feedback on our marketing approach. Prospects will also be identified.

4) Test Marketing

This final step of our market analysis is a true test of all we have learned. A representative subset of the potential customers in each of our two market niches will be solicited to engage our service. This marketing will provide us with clients as well as providing a real world verification of our growth plans.

The selected prospects will be the object of an intense marketing effort. Techniques will likely include sequenced direct mail, telephone qualification, and personal sales calls. A focused, well planned sales effort will be mounted to close as many of the test prospects as possible. This will be a tremendously valuable opportunity to:

- Refine our marketing materials and sales techniques
- Gauge our true market potential
- Acquire a base of clients
- Pilot test our operational procedures

Significant investment in marketing and full scale production would be delayed until we had learned precisely what the likely market response will be to a broader effort.

These four results will provide some cash flow to help finance a full scale marketing effort, increase **MELA**'s creditability as a deliverer of the services, precisely project our initial market potential, train our sales force, and guide refining of our sales materials and marketing methods before a major investment in materials and media has been expended. The first three steps of market analysis—demographic analysis, focus groups, and surveys—will provide indications of **MELA**'s potential. The fourth step—test marketing—will be concrete evidence of the growth to be expected.

Major Risks, Planned Responses

MELA is a start-up entry in a new industry. The risk of failure is high. The following discussion of risks presents management's plans as of the date of this document in response to certain perceived risks. No warranty can be given against the failure of the business and loss of the entire investment.

1. Rejection by Market

Employee leasing services are used by thousands of businesses nationwide, and the number is growing rapidly. Nevertheless, the particular types of businesses in the Washington area targeted by **MELA** may fail to respond to the concept or to our presentation of it. The prudent course is to minimize the resources at risk until the issue of market acceptance is resolved. Careful market analysis and test marketing are our hedges. These sequential tests will allow **MELA** to measure our potential and target our efforts. Each is described in the **Market Analysis** section, above.

Preliminary research indicates that two markets in the Washington Metro area will be especially receptive to employee leasing. Testing two markets has several advantages. First, if one market proves unreceptive operation can continue on the other, eliminating a costly delay until a new test can be planned. Should both markets test well, rapid growth in both can be immediately enjoyed. Second, two markets are few enough not to require too large an investment in the early stages. More than two would require many studies, much planning to support the services, and a general dissipation of effort. The targets selected have high potential, share enough characteristics to provide some synergy, yet are different enough to allow risk reducing diversification during the early stages of **MELA**.

The ultimate hedge against rejection by the market is the low capital investment required to establish the business. The major data processing, e.g., payroll processing nd personnel records management, will be subcontracted. Technical advice, on benefits planning, legal matters, accounting requirements, etc., will be supplied by consultants rather than a large staff. And marketing will be largely conducted by commissioned salespeople. Contracts with clients have a 30 day cancellation clause for **MELA**, so unprofitable services could be rapidly terminated. Should the concept be rejected by the market despite our extensive testing, losses could be rapidly halted and the entire operation liquidated after only small expenditures, compared to the potential returns.

2. Undercapitalization

Too little working capital is often cited as the cause of a business's collapse. The lack of funds to operate until a large order is paid for, to expand into a new market, or to purchase new technology has forced many a business to close when it would have become profitable. **MELA** is taking several steps to guard against such a failure.

- Low Overhead

  MELA will operate with low overhead. Meeting with customers in their places of business is good marketing. Paychecks, invoices, and reports are delivered to our client. We will serve a large geographic area, so access to highways is more practical than an expensive downtown location. These facts allow us to maintain Spartan offices.

- Low Fixed Expenses

  Our fixed expenses will be minor. **MELA** will make wide use of outside services and consultants in our early stages of growth. Payroll processing will be subcontracted, reducing our data processing needs. Experts in technical areas will work on an as needed basis. Salespeople will work on commission.

- Minor Accounts Receivable

  Employee leasing does not operate on account. Services are paid for cash in advance, with the additional security of a cash deposit or bank letter of credit to cover one pay period's charges. Clients of long standing may occasionally be "carried" for one pay period, but this expense will be minor. Some clients will take advantage of the "check float" on payments but chronic abusers can be converted to automatic electronic debit systems.

- Access to Funds

  The investment required to establish **MELA** is not large, in relation to the possible return. The risk will be spread over a number of investors, each of whom is investing only a small portion of his portfolio. The prospects for additional equity investment and debt financing based on the company's successful operating experience are excellent. The active involvement of Wachtel & Co., Inc. as stockholders, investment bankers, and advisors should enhance our access to capital.

- Flexible Growth

  Finally, employee leasing is a business which can be established at a wide range of initial capitalizations. A shortage of funds would result only in a slower rate of growth, not a panicked collapse. As a service business, most of our costs are variable, allowing us to rapidly adjust our expenses to the level of business. Clients are extraordinarily loyal: a employee leasing business could continue indefinitely with as few as 300 employees, generating small but reliable profits.

3. Legal Exposure

Employee leasing requires that the client's staff become the legal employees of the leasing company. Employer status includes some legal exposure. Insulating clients from these risks is part of the service **MELA** will provide. We will take several steps to reduce our financial risk.

- Selective Marketing

  We will manage our client list. Not every prospect will be accepted as a client of **MELA** and not every client accepted will be retained. Our contracts allow us to cancel for any reason upon 30 days notice. Clients who treat staff as merely a necessary irritation of doing business, who practice illegal discrimination, or allow harassment of their staffs will not be our clients.

- Excellent Communication

  MELA's counselors and operations clerks will constantly monitor the behavior of clients and staff. Our motivational and career management services will also guide clients toward correct procedures for hiring, promotion, and terminations. By being closely involved with the employment practices of our clients, **MELA** will prevent many of the actions which may lead to legal problems. Seldom does a single incident lead to an employment related lawsuit. Our excellent benefits, counseling programs, and open communications will defuse many situations which would otherwise fester.

- Legal Advisors

  These programs will be designed in consultation with the foremost experts in employment law and human resources management. They will be working with us to prevent or resolve expensive legal disagreements with employees.[9]

- Liability Insurance

  MELA will also seek liability insurance as a final bulwark against financial loss due to legal problems.

4. Competition

There is no significant organized competition to **MELA**'s employee leasing services at this time. Most clients will be converting from in-house methods or a combination of in-house and payroll/bookkeeping services. Employee leasing is strongest in the state of California, yet even there staff lessors report that they seldom compete for an account. In metro Washington, there are thousands of potential clients and only three or four employee leasing companies with local clients and none with operations in the area.

The closest near substitutes are payroll processing services. These provide only a tiny subset of employee leasing's benefits. Payroll services are high volume, low margin operators in a service with very low personal contact. There is very little chance that any one of them could make the significant shift to providing the personal contact, customized services required of a staff lessor.[10]

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9 See **Advisors** section of **Organization Model**, below.

10 See also our discussion in the section on **Competitors and Near Substitutes.**

5. General Economic Decline

- Staff Leasing Allows Clients to Minimize Fixed Costs (Smaller Administrative Staff)

  Employee leasing should weather a recession well. Existing clients would reduce the number of employees and a few would cease operation. Except for the few which close, clients are unlikely to discontinue the service. Employee leasing relieves clients of fixed costs. Leaving **MELA** would require them to increase their own personnel administration staff and organize their own benefits program, expenses unlikely to be appealing during slow business periods. The reduced costs associated with lower turnover during a recession should balance any reductions in our existing client base. Growth should also continue in a recession, because the market for employee leasing is largely untapped. There is more business in good times than existing firms can serve, there should be an adequate supply in all but the most severe economic downturn.

- Part Government Related and Part Private Sector Market Reduces Susceptibility to General Trends

  In the first two years our business will be split between government related and private sector employment, as we target technical services firms and hospitality businesses. This will insulate us both from the swings in government spending and the general economy. We can shift resources to one sector while we wait out the other.

  Two pronged marketing is also beneficial in a strong economy because government contractors operate on a different calendar than the private sector. Private companies operate on a calendar fiscal year and are reluctant to make major changes in their accounting during the fourth quarter. We should expect few companies to start using employee leasing in October, November, and December. The federal government's fiscal year begins on October 1, however, and that is when many contracts are begun. Technical services firms doing business with the federal government do much of their hiring in the fourth quarter, often starting new divisions and new companies.

- Prompt Movement into Broad Geographic Market (National & International) Insulates Performance from Local Downturns

  MELA plans to expand beyond these two target markets after two years and broaden the economic base of its clientele. In the fourth year, we will seek to expand geographically, insulating ourselves from the local economic climate. At all stages of growth, target industries and regions will be examined in the light of diversifying ourselves away from susceptibility to economic trends. We will seek a mix of public and private sector clients, and pursue clients in anti-recession businesses like entertainment.

6. Regulatory or Tax Change

- Loophole Already Closed

  Employee leasing no longer dwells in a tax loophole. Though the business was given a tremendous boost by the IRS's explicit recognition of its pension "safe harbor" feature in 1982, that harbor has been closed. The industry has continued to grow since then, as clients recognize the utility of the basic service.

- Regulators Warming to Staff Leasing

  Government officials now welcome employee leasing.

> *...The Service clearly recognizes that the employee leasing industry can offer definite advantages to businesses, employees, and the Internal Revenue Service. Businesses are relieved of heavy administrative burdens, employees have access to better benefits packages, and the IRS receives four quarterly tax returns from a leasing company instead of 400 separate returns, and that's a tremendous benefit for us.*
>
> Mr. James Swartzwelder,
> Director of Planning for the Internal Revenue Service

The U. S. Labor Department invited officers of the National Staff Leasing Association to address a meeting in Boise, Idaho, of tax and labor department heads for 14 western states. This September, 1987, meeting was an attempt by state officials to work with the industry. This was followed by an October, 1987, meeting in Chicago for 15 mid-western states. Meetings in other states are being scheduled.

- National Staff Leasing Association is Lobbying Successfully

Lobbying and informing the regulators and tax authorities is a major function of the NSLA. The Association has had notable success in the few years of the its existence. Several IRS publications now refer explicitly to the employee leasing alternative, as do the instructions for the Immigration and Naturalization Services form IN-9, required for any employee hired since November of 1986.

The NSLA requested and received a hearing on proposed US Treasury regulations affecting the industry.[11] The IRS seems eager to avoid inadvertent harm to employee leasing. As more clients use employee leasing additional pressure will placed on the government to avoid hampering the service.

Organization Model

Staff

The staff required for the day-to-day operations of a employee leasing company is not large, relative to the number of employees served. Personnel requirements and capital at risk are minimized by:

- Extensive use of independent vendors
- Acquisition of specific advice from professionals

The staff for the first year will consist of:[12]

President Anthony P. Mayo

11 *Federal Register* August 27, 1987: 26 CFR Part 1 Affiliated Service Groups, Employee Leasing, and Other Arrangements.

12 Complete resumes for each member of the management team are reproduced in Appendix A of this document, **Resumes**.

Director of Operations	Timothy W. Gear
Director of Services	Barbara A. Koll
Director of Marketing	Open until February, 1989
Administrative Assistant	Open until October, 1988

The President reports to the Board. The treasury function will be largely handled by the President, as he communicates with investors and other sources of funds. Marketing and some sales will be performed by him. He will directly supervise the entire staff.

The Director of Operations will work with the bank, the payroll service, and have responsibility for accounting functions. He will handle the general ledger, cash receipts, and accounts payable. The controller will also be the primary CLIENT contact at **MELA**. He will, for example, respond to client billing inquiries and be responsible for publishing a newsletter to clients. He will plan and implement the transition from sub-contracting to in-house delivery of selected aspects of our service.

The Director of Services will counsel client staff (our employees) to explain fringe benefits and employment policies. This will involve resolving complaints, working with the benefits vendors, and administration of motivational programs. She will maintain the Client and Employee Manuals, publish a periodic newsletter for employees, and be the primary contact for EMPLOYEES.

Our Director of Marketing, to be added after we are serving approximately 500 employees, will close new clients and be rewarded chiefly through commission. He will participate in the preparation of marketing material, our advertising approach, and public relations effort. He will also coordinate the training and sales programs of the independent or part time sales representatives. He will be paid a base salary for these non-sales activities to compensate for time diverted from closing prospects.

The Administrative Assistant, to be added after several months of operation, will be responsible for record keeping, typing, and contact with minor vendors (i.e., those not the responsibility of a Director). He or she will be trained to direct calls to the responsible person and to handle simple queries. The Administrative Assistant reports to the President, but supports all staff.

The Board of Directors will actively advise management and assist in the resolution of operating challenges. Directors will also be a source of marketing leads and recommend professional advisors. All major personnel, financial and strategic decisions will be reviewed by the Board of Directors.

The initial Board of Directors will consist of the following three persons, though its size and composition may change from time to time:

Chairman	Anthony P. Mayo, President of **MELA**
Member	Bonnie K. Wachtel, Vice President & General Counsel, Wachtel & Co., Inc., investment bankers in Washington, DC. Director or financial advisor to numerous corporations including ANADAC, Inc. and MIT Enterprise Forum.

Member

Eugene P. Forrester, II, Executive Director of the Tennessee Democratic Party. Deputy Campaign Manager of successful 1986 gubernatorial campaign. Former publisher of *The Chicago Journal*, founder of the Chicago Journal Enterprises Ltd., Inc.

Independent Vendors

MELA will rely upon several independent vendors to deliver its services. No binding agreements have been reached with any vendor. Management anticipates working with the following firms:

- Payroll processing

  Automated Data Processing, Inc. the largest payroll processing service in the US. ADP's services are flexible and reliable. Several employee leasing firms in other parts of the country use ADP.

- Insurance

  MELA is now awaiting or evaluating bids from several firms for all types of insurance, including medical and other fringe benefits as well as general business insurance.

- Human Resources Management

  MELA is negotiating an arrangement with Robert R. Schuldt & Co. to support our peak demands for employee counseling, as well as advising us on issues. RRS&Co. was founded in 1981 to provide strategically focused human resource consulting services to senior management. Clients include General Electric, Cigna Insurance, and Metropolitan Life Insurance. They have implemented complete personnel departments for several firms, including Educational Challenges, Inc. and PSI International, Inc. Karen Schuldt, President, is personally handling our account. We are also evaluating an automated personnel record management system from RRS&Co.

Advisors

A broad range of specialized talent is required to establish employee leasing policies and procedures. Rather than commit to permanent positions for several well paid specialists, **MELA** will make extensive use of outside advisors.

General financial advisor will be Ms. Bonnie K. Wachtel, also a member of the Board of Directors.

Accounting systems, tailored to meet the needs of our government contractor clients, will be designed and supported by Arthur Young & Co. a "Big Eight" accounting firm. Mr. Kirk Brown, the manager for our account, has a great deal of experience with early stage companies and is well known in the Washington venture community. He is the organizer of the Mid-Atlantic Venture Capital Conference.

Marketing program development will be supported by Venture Marketing, Inc. See the section on **Market Analysis** for more information on this vendor.

Advertising and design of promotional material will be handled by the Wordwright agency. Mr. Hiram Jennings, owner of the agency, is responsible for our account. He conceived our company name and logo. Mr. Jennings also advises the PeopleLease employee leasing company of Jackson, Mississippi, which has experienced rapid growth. The impact of Wordwright's advertising can be gauged by the fact that the generic term for employee leasing in Mississippi is now "people leasing."

Employment law advisor is Mr. Gregory L. Hammond, Esq. of Hahn, Loeser & Parks. Mr. Hammond is a published authority on employment law and Equal Employment Opportunity regulations. He is counsel to TFE, Inc. one of the nation's oldest and largest employee leasing firms and is associated with the National Staff Leasing Association.

Advisor on general legal matters and preparer of our service agreements is Mr. Scott MacKillop of MacKillop & Hackford. Mr. MacKillop has for ten years acted as general legal advisor to a variety of start-up and early stage ventures, including Health Innovations, Inc.

Research & Development

Constant tuning and enhancement of our services will always be an important part of **MELA**'s activities. Employee leasing is a new and fertile field. **MELA** intends to take early leadership and maintain a position as the service innovator and price leader while the industry matures and consolidates. The areas of expected research and development activity over the next five years include:

- Computer Systems
  - Benefits Administration
  - Personnel Data Base
  - Enhanced Reporting for Government Contractor Clients
  - Payroll Processing
  - Multi-state and International Systems

Benefits Planning

  - Self Insurance
  - Alternative Health Coverage
  - Multi-state and International Plans

Benefits Management

  - Self Managed Pensions
  - Self Insurance
  - Group Trust Marketing Agreements
  - Third Party Administration Arrangements

Motivational & Retention Programs

Recruiting and Placement Services

- Management Services
  - Client Publications

- Fee Consulting
- Compensation Advice

Milestones

Month 0	Legal Organization
	Private Placement Memorandum to Investors
	Demographic Analysis & Focus Groups
	First Investments
Month 1	First Staff Members
	• President
	• Director of Operations
	• Director of Services
	Test Marketing
Month 2	First Leased Employees —65—
	Major Cash Infusion
Month 11	Add Marketing Manager
	450 Leased Employees
Month 12	Major Marketing Effort to Core Customers
	500 Leased Employees
Month 16	Break Even
	780 Leased Employees
Month 23	Multi-market Development Effort
	Test Marketing
	DP Systems
	Benefits Plan
	Add Data Processing Manager
	1,300 Leased Employees
Month 27	Broad Based Marketing—Mass Media
	1,785 Leased Employees

Subscription Information

Mayo Employee Leasing Agency, Inc.

Subscription Information

Capitalization

All of the Corporation's stock is voting common, non-assessable, par value $0.02 per share. There are no cumulative voting or pre-emptive rights. Capitalization is as follows:

Authorized	50,000
Anthony P. Mayo	25,200
Wachtel & Company Principals	2,000
Timothy W. Gear	2,400
Eugene P. Forrester, II	400
Total Outstanding	30,000
Reserved for employee stock options	4,000

Founders and advisors paid $0.02 per share for the above stock in the amounts listed.

Following the sale of the Ten Thousand (10,000) shares through this offering, there will be a total of Forty Thousand (40,000) shares outstanding. Purchasers will have paid a total of Two Hundred Fifty Thousand Dollars ($250,000) for Twenty-Five Percent (25%) of the Corporation. The book value will be approximately Six Dollars Sixty Cents ($6.60) per share.

Should only the minimum of Six Thousand (6,000) shares be subscribed, purchasers will have paid a total of One Hundred Fifty Thousand Dollars ($150,000.) for Seventeen Percent (17%) of the Company, and the book value will be approximately Four Dollars Fifty-six Cents ($4.56) per share.

The Corporation believes that the proceeds of this Offering, along with periodic bank financing, should be sufficient to finance operations for the period projected.

Terms of Offering

Mayo Employee Leasing Agency, Inc. is offering Ten Thousand (10,000) shares of voting stock, par value $0.02 per share, at a subscription price of Twenty-Five Dollars ($25.00) per share. The minimum individual subscription is Two Hundred (200) shares. No shares will be sold unless subscriptions for at least Six Thousand (6,000) shares have been received and accepted by the Corporation.

At the time of subscription, each purchaser will be required to execute and deliver the enclosed **Investment and Subscription Letter** and to pay full price for all shares subscribed.

The Board of Directors has the right to reject any subscriptions. In such event, funds will be returned without interest.

Each subscriber will be required to represent that he/she is acquiring the securities offered hereby for investment and not for distribution, and certificates for such shares shall bear a legend to that effect.

These shares are being offered pursuant to an exemption from the registration provisions of the Securities Act of 1933, as amended. They may not be sold, transferred, assigned, or otherwise disposed of, or offered for sale in the absence of an effective registration statement as to such shares under that Act, or an opinion of counsel satisfactory to the Corporation that such registration is not required.

Any offeree shall be entitled to inspect the Corporation's Charter, By-laws, or any other documents pertinent to the organization or affairs of the Corporation by submitting a written request to Anthony P. Mayo, President.

This offering shall terminate on March 31, 1988, (unless extended by the Board of Directors) or when subscriptions for Ten Thousand (10,000) shares have been received and accepted by the Corporation.

Use of Proceeds

Proceeds of this offering will be employed toward service development, marketing and promotion, and working capital.

Certain Risks

The securities offered hereby are subject to a high degree of risk. The risk factors include, but are not limited to, the items listed below:

1. The business of the Company may be adversely affected by market competition and economic conditions.

2. Following completion of this offering, the president of the Company will remain the majority and controlling stockholder.

3. Purchasers of the shares of this offering will incur a dilution from the $25.00 purchase price to book value which will vary depending upon the amount of shares subscribed.

4. The Company's immediate future is highly dependent on the efforts and guidance of the principal operating officers. To the extent that their services are not available, due to illness or other causes, operations could be severely hindered. The Company is investigating insurance covering key personnel with the Company as beneficiary.

5. Management anticipates that the capital provided by this offering, along with trade and bank credit, will be sufficient to finance operations for the foreseeable future. Unforeseen difficulties or opportunities for rapid profitable expansion may stimulate the need for additional capital at terms unfavorable to present shareholders.

6. Management is confident of its sales and expense projections, yet failure to meet projected sales or costs could have a negative impact on the financial results of the Company.

9. The Company is a corporation and is taxed as an ordinary business corporation under the general income tax laws. There is no "tax shelter" opportunity or feature of this offering.

10. All shares must be purchased for investment only, and with no intent toward immediate resale or further distribution. Unless a registration statement is filed with the Securities and Exchange Commission or the Company receives a satisfactory opinion of counsel as to the availability of an exemption under SEC regulations, a shareholder may not be able to sell the shares purchased.

11. The Company will investigate credit prior to accepting any new client and take other steps to promote prompt payment, yet there can be no assurance that the Company will not encounter collection problems adversely affecting cash available. The nature of employee leasing is such that a small number of credit failures may have a significant adverse effect on the business of the Company.

12. The employee leasing industry has experienced rapid growth since 1982. It is a fragmented business with many varied participants. One of the consequences of such growth has been the too rapid expansion of certain undercapitalized or poorly managed companies resulting in several of these companies filing petitions in bankruptcy. Since the service is fairly new, the Company may be adversely affected by bad publicity to the industry as a whole.

13. Due to the nature of the Company's business, the Company is subject to substantial regulation by federal, state, and local government agencies. Although the Company believes it is and will continue to be in compliance with all rules and regulations, significant changes in these rules and regulations may have a detrimental effect upon the Company's proposed operation.

14. There are many uncertainties about how leasing in general should be accomplished and what constitutes an appropriate employer-employee relationship. This creates uncertainties on the part of clients and potential leasing clients and even leasing companies themselves on matters such as the proper extent of participation by the leasing company in the hiring, firing, supervising, and reviewing of leased employees; the question of whether the client should have any choices in the employee benefit package; and other related matters. Until such matters are clarified by pending federal and state regulations or otherwise, clients and leasing companies alike must continue to rely on the judgments of their advisors whose judgment may be proven wrong resulting in possible liability to the Company.

Remuneration of Principals

Mr. Mayo's compensation is set at $45,000. for the first 12 months of operation. Mr. Gear's compensation is set at $35,000. for the first 12 months of operation. Ms. Koll's compensation is set at $35,000. for the first 12 months of operation. Their future compensation will be determined by the Board of Directors based on the profit and growth performance of the Corporation and their own contributions. Mr. Mayo, Mr. Gear, and Ms. Koll may be granted an automobile allowance, set by the Board from time to time, of up to $450. per month to cover expenses in marketing, visiting client locations, and other purposes of benefit to the Corporation.

Members of the Board of Directors currently receive no compensation for their services as Board members, but will be reimbursed for any expenses related to services rendered for the Corporation.

All employees of **MELA** will be paid a commission for closing new prospects. The planned commission schedule is discussed in the **Financial Projections** section, below. Management may change this commission system from time to time.

Dividends

The Holders of Common stock are entitled to receive dividends when and as declared by the Board of Directors. Since incorporation, **MELA** has not paid any dividends. No cash dividends are contemplated in the near future.

Subscription & Investment Letter

Mayo Employee Leasing Agency, Inc.
1301 Northgate Square
Reston, Virginia 22090

Gentlemen:

This letter will constitute my subscription to purchase ________ shares of common stock of **Mayo Employee Leasing Agency, Inc.** at $25.00 per share. This letter will confirm that:

> I have received and reviewed the Private Placement Memorandum with respect to the offering of said shares, I have been given an opportunity to meet the officers and directors, and I have had the opportunity to take such other steps as I have deemed necessary to familiarize myself with the business and financial affairs of the Corporation in order to have made an informed investment decision regarding this transaction.
>
> I fully understand the high degree of risk of this investment, and am able to bear the economic risk thereof.
>
> I am acquiring the shares for investment for my own account and not with a view to the offer for sale, or the sale in connection with the distribution or transfer thereof.

It is my understanding that the shares will be issued pursuant to an exemption from the registration provisions of the Securities Act of 1933 as amended, and that such shares when issued may not be sold, transferred, assigned, or otherwise disposed of, or offered for sale in the absence of an effective registration statement as to such shares under the Act, or an opinion of counsel satisfactory to the Corporation that such registration is not required. Further, it is understood that certificates representing the shares when issued will bear an appropriate restrictive legend reflecting the foregoing.

At the Corporation's request, I will complete a questionnaire concerning my financial condition and investment experience solely to aid the Corporation in qualifying this purchase for the exemptions from SEC registration procedures.

Please Register the shares as follows:

Name ....

Address ....

....

Social Security # ....

Very truly yours,

Date: ....

(Make checks payable to **Mayo Employee Leasing Agency, Inc.**)

You may remove and complete this copy of the **Subscription Letter.**

Mayo Employee Leasing Agency, Inc.
1301 Northgate Square
Reston, Virginia 22090

Gentlemen:

This letter will constitute my subscription to purchase ________ shares of common stock of **Mayo Employee Leasing Agency, Inc.** at $25.00 per share. This letter will confirm that:

> I have received and reviewed the Private Placement Memorandum with respect to the offering of said shares, I have been given an opportunity to meet the officers and directors, and I have had the opportunity to take such other steps as I have deemed necessary to familiarize myself with the business and financial affairs of the Corporation in order to have made an informed investment decision regarding this transaction.
>
> I fully understand the high degree of risk of this investment, and am able to bear the economic risk thereof.
>
> I am acquiring the shares for investment for my own account and not with a view to the offer for sale, or the sale in connection with the distribution or transfer thereof.

It is my understanding that the shares will be issued pursuant to an exemption from the registration provisions of the Securities Act of 1933 as amended, and that such shares when issued may not be sold, transferred, assigned, or otherwise disposed of, or offered for sale in the absence of an effective registration statement as to such shares under the Act, or an opinion of counsel satisfactory to the Corporation that such registration is not required. Further, it is understood that certificates representing the shares when issued will bear an appropriate restrictive legend reflecting the foregoing.

At the Corporation's request, I will complete a questionnaire concerning my financial condition and investment experience solely to aid the Corporation in qualifying this purchase for the exemptions from SEC registration procedures.

Please Register the shares as follows:

Name ....

Address ....

....

Social Security # ....

Very truly yours,

Date: ....

(Make checks payable to **Mayo Employee Leasing Agency, Inc.**)

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Financial Projections

Mayo Employee Leasing Agency, Inc.

Financial Projections

The following financial information is a summary of budget projections for 36 monthly periods. These detailed projections of sales, staffing, marketing, facilities & equipment, professional services, and other expenses are available for inspection by serious potential investors.

All money amounts are in constant 1988 U.S. dollars.

The major parameters are:

REVENUE

Period	Number of Leased Employees	Annual Growth Rate
Month 1	0	
Month 2	65	
Month 13	572	780%
Month 25	1,486	160%
Month 37	3,000	102%

MELA's management fee is 5% of the client's gross payroll. Average monthly employee gross pay of $835. for restaurant/hospitality and $1,968. for technical services have been used for revenue projections.

Interest is earned at a six percent annual rate.

STAFFING

Our initial staff is a President, a Director of Operations, and a Director of Services. Projections allow for an administrative assistant when we are serving 300 leased employees, a marketing manager at 450 employees, an accounting clerk for each 600 employees, and a data processing manager when we have reached 1,300 leased employees.

EXPENSES

Facilities, equipment and office supplies costs are estimated at $25,000. for the first year of operation.

Sales representatives will be paid 20% of a client's first year management fees, 10% of the second year fees, and nothing for clients staying with the service past two years.

Mayo Employee Leasing Agency
Projected Balance Sheets

	@ Startup	1st YR 1st QTR	2nd QTR	3rd QTR	4th QTR	2nd YR	3rd YR
Assets							
Cash	$5,048	$257,355	$329,497	$434,715	$553,165	$1,366,066	$3,138,611
Accounts receivable	0	0	0	0	0	0	0
Total current assets	5,048	257,355	329,497	434,715	553,165	1,366,066	3,138,611
Equipment	9,000	17,000	17,000	17,400	22,800	36,800	58,400
Less:Accumulated depreciation	0	717	1,567	2,423	3,373	9,413	17,907
Net equipment	9,000	16,283	15,433	14,977	19,427	27,387	40,493
Other assets	0	0	0	0	0	0	0
Total assets	$14,048	$273,639	$344,930	$449,692	$572,591	$1,393,453	$3,179,105
Liabilities and Stockholders' Equity							
Notes payable to bank	$0	$0	$0	$0	$0	$0	$0
Accounts payable	0	0	0	0	0	0	0
Accruals	0	0	0	0	0	0	0
Federal & state taxes accrued	0	0	0	0	0	0	151,889
Other	0	0	0	0	0	0	0
Long term notes	0	0	0	0	0	0	0
Subscriber deposits	0	96,787	202,247	328,758	473,144	1,223,743	2,481,650
Shares at par	600	800	800	800	800	800	800
Add'l paid in capital	14,448	264,248	264,248	264,248	264,248	264,248	264,248
Retained earnings	(1,000)	(88,196)	(122,365)	(144,114)	(165,601)	(95,338)	280,518
Total stockholders' equity	14,048	176,852	142,683	120,934	99,447	169,710	545,566
Total liabilities and Stockholders' equity	$14,048	$273,639	$344,930	$449,692	$572,591	$1,393,453	$3,179,105

Mayo Employee Leasing Agency
Projected Statement of Cash Balances

	Year 1	Year 2	Year 3
Cash balance: Opening	$0	$553,165	$1,366,066
Add: Cash Receipts:			
Subscriber deposits	$473,144	$750,599	$1,257,907
Payroll & taxes	$5,523,086	$20,408,339	$45,408,242
Management fee	$251,207	$928,135	$2,064,918
Interest	$19,709	$53,847	$131,250
Miscellaneous receipts	$0	$0	$0
Bank loan proceeds	$0	$0	$0
Paid in capital	$14,448	$0	$0
Shares at par	$800	$0	$0
Equity financing	$249,800	$0	$0
Total cash receipts	$6,532,195	$22,140,920	$48,862,317
Less: Disburesements:			
Payroll & taxes	$5,523,086	$20,408,339	$45,408,242
Direct expenses	$83,642	$350,345	$815,058
General administrative expenses	$211,800	$256,298	$284,116
Capital expenditures	$22,800	$14,000	$21,600
Sales & marketing expenses	$137,701	$290,803	$495,106
Research & development expenses	$0	$8,233	$65,650
Income tax	$0	$0	$0
Interest expenses	$0	$0	$0
Other payments	$0	$0	$0
Total disbursements	$5,979,030	$21,328,019	$47,089,772
Cash increase (or decrease)	$553,165	$812,901	$1,772,545
Cash balance: Closing	$553,165	$1,366,066	$3,138,611

Mayo Employee Leasing Agency
Projected Income Statement

	Year 1	Year 2	Year 3
Sales			
Payroll & taxes	$5,523,086	$20,408,339	$45,408,242
Management fee	$251,207	$928,135	$2,064,918
Total Sales	5,774,293	21,336,474	47,473,160
Cost of Sales			
Payroll & taxes	$5,523,086	$20,408,339	$45,408,242
Direct labor	$0	$27,300	$74,100
Subcontracted support	$83,642	$323,045	$740,958
Total COS	5,606,728	20,758,684	46,223,299
Gross Margin	$167,565	$577,790	$1,249,861
Gross Margin %	2.9%	2.7%	2.6%
Interest Income	$19,709	$53,847	$131,250
Operating Expenses			
General & administrative	$211,800	$256,298	$284,116
Sales & marketing	$137,701	$290,803	$495,106
Research & development	$0	$8,233	$65,650
Depreciation	$3,373	$6,040	$8,493
Total Operating Expense	352,875	561,374	853,365
Interest expense	$0	$0	$0
Profit (loss) before tax	($165,601)	$70,263	$527,745
Tax expense	$0	$0	$151,889
Profit after tax (current period)	($165,601)	$70,263	$375,856
Profit after tax (cumulative)	($165,601)	($95,338)	$280,518

Mayo Employee Leasing Agency
Projected Statement of Cash Balances
Year 1

	month 1	month 2	month 3	month 4	month 5	month 6	month 7	month 8	month 9	month 10	month 11	month 12
Cash balance: Opening	$0	$222,273	$236,803	$257,355	$282,366	$311,355	$329,497	$360,846	$391,470	$434,715	$457,429	$502,094
Add: Cash Receipts:												
Subscriber deposits	0	57,860	38,926	38,926	38,926	27,607	38,926	38,926	48,658	27,607	58,390	58,390
Payroll & taxes	0	115,721	193,574	271,427	349,279	404,494	482,347	560,200	657,516	712,730	829,510	946,289
Management fee	0	5,263	8,805	12,348	15,890	18,395	21,938	25,480	29,908	32,413	37,727	43,040
Interest	0	1,145	1,232	1,346	1,481	1,598	1,722	1,876	2,060	2,225	2,393	2,632
Miscellaneous receipts	0	0	0	0	0	0	0	0	0	0	0	0
Bank loan proceeds	0	0	0	0	0	0	0	0	0	0	0	0
Paid in capital	14,448	0	0	0	0	0	0	0	0	0	0	0
Shares at par	800	0	0	0	0	0	0	0	0	0	0	0
Equity financing	249,800	0	0	0	0	0	0	0	0	0	0	0
Total cash receipts	265,048	179,989	242,538	324,047	405,577	452,095	544,932	626,482	738,142	774,976	928,019	1,050,350
Less: Disburesements:												
Payroll & taxes	0	115,721	193,574	271,427	349,279	404,494	482,347	560,200	657,516	712,730	829,510	946,289
Direct expenses	0	1,787	2,777	3,766	4,756	6,406	7,475	8,465	9,702	11,352	12,836	14,321
General administrative expenses	18,775	18,439	16,014	16,014	16,014	16,014	16,014	18,337	18,337	18,337	19,752	19,752
Capital expenditures	9,000	8,000	0	0	0	0	0	400	0	0	5,400	0
Sales & marketing expenses	15,000	21,513	9,621	7,830	6,538	7,039	7,748	8,456	9,342	9,843	15,855	18,918
Research & development expenses	0	0	0	0	0	0	0	0	0	0	0	0
Income tax	0	0	0	0	0	0	0	0	0	0	0	0
Interest expenses	0	0	0	0	0	0	0	0	0	0	0	0
Other payments	0	0	0	0	0	0	0	0	0	0	0	0
Total disbursements	42,775	165,459	221,985	299,036	376,587	433,953	513,584	595,858	694,897	752,262	883,353	999,280
Cash increase (or decrease)	222,273	14,530	20,552	25,010	28,989	18,142	31,349	30,624	43,245	22,714	44,665	51,070
Cash balance: Closing	$222,273	$236,803	$257,355	$282,366	$311,355	$329,497	$360,846	$391,470	$434,715	$457,429	$502,094	$553,165

Mayo Employee Leasing Agency
Projected Income Statement
Year 1

	month 1	month 2	month 3	month 4	month 5	month 6	month 7	month 8	month 9	month 10	month 11	month 12
Sales												
Payroll & taxes	$0	$115,721	$193,574	$271,427	$349,279	$404,494	$482,347	$560,200	$657,516	$712,730	$829,510	$946,289
Management fee	0	5,263	8,805	12,348	15,890	18,395	21,938	25,480	29,908	32,413	37,727	43,040
Total Sales	0	120,984	202,379	283,774	365,170	422,889	504,285	585,680	687,424	745,143	867,236	989,329
Cost of Sales												
Payroll & taxes	0	115,721	193,574	271,427	349,279	404,494	482,347	560,200	657,516	712,730	829,510	946,289
Direct labor	0	0	0	0	0	0	0	0	0	0	0	0
Subcontracted support	0	1,787	2,777	3,766	4,756	6,406	7,475	8,465	9,702	11,352	12,836	14,321
Total COS	0	117,508	196,350	275,193	354,035	410,900	489,822	568,665	667,218	724,082	842,346	960,610
Gross Margin	0	3,476	6,029	8,581	11,134	11,990	14,462	17,015	20,206	21,061	24,890	28,720
Gross Margin %	0.0%	2.9%	3.0%	3.0%	3.0%	2.8%	2.9%	2.9%	2.9%	2.8%	2.9%	2.9%
Interest Income	0	1,145	1,232	1,346	1,481	1,598	1,722	1,876	2,060	2,225	2,393	2,632
Operating Expenses												
General & administrative	18,775	18,439	16,014	16,014	16,014	16,014	16,014	18,337	18,337	18,337	19,752	19,752
Sales & marketing	15,000	21,513	9,621	7,830	6,538	7,039	7,748	8,456	9,342	9,843	15,855	18,918
Research & development	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	150	283	283	283	283	283	283	287	287	287	332	332
Total Operating Expense	33,925	40,235	25,918	24,127	22,835	23,336	24,045	27,080	27,966	28,467	35,939	39,002
Interest expense	0	0	0	0	0	0	0	0	0	0	0	0
Profit (loss) before tax	(33,925)	(35,614)	(18,657)	(14,199)	(10,221)	(9,749)	(7,861)	(8,189)	(5,699)	(5,180)	(8,656)	(7,651)
Tax expense	0	0	0	0	0	0	0	0	0	0	0	0
Profit after tax (current period)	($33,925)	($35,614)	($18,657)	($14,199)	($10,221)	($9,749)	($7,861)	($8,189)	($5,699)	($5,180)	($8,656)	($7,651)
Profit after tax (cumulative)	($33,925)	($69,539)	($88,196)	($102,396)	($112,616)	($122,365)	($130,226)	($138,415)	($144,114)	($149,294)	($157,950)	($165,601)

Mayo Employee Leasing Agency
Projected Income Statement
Year 1

	month 1	month 2	month 3	month 4	month 5	month 6	month 7	month 8	month 9	month 10	month 11	month 12
Sales												
Payroll & taxes	$0	$115,721	$193,574	$271,427	$349,279	$404,494	$482,347	$560,200	$657,516	$712,730	$829,510	$946,289
Management fee	0	5,263	8,805	12,348	15,890	18,395	21,938	25,480	29,908	32,413	37,727	43,040
Total Sales	0	120,984	202,379	283,774	365,170	422,889	504,285	585,680	687,424	745,143	867,236	989,329
Cost of Sales												
Payroll & taxes	0	115,721	193,574	271,427	349,279	404,494	482,347	560,200	657,516	712,730	829,510	946,289
Direct labor	0	0	0	0	0	0	0	0	0	0	0	0
Subcontracted support	0	1,787	2,777	3,766	4,756	6,406	7,475	8,465	9,702	11,352	12,836	14,321
Total COS	0	117,508	196,350	275,193	354,035	410,900	489,822	568,665	667,218	724,082	842,346	960,610
Gross Margin	0	3,476	6,029	8,581	11,134	11,990	14,462	17,015	20,206	21,061	24,890	28,720
Gross Margin %	0.0%	2.9%	3.0%	3.0%	3.0%	2.8%	2.9%	2.9%	2.9%	2.8%	2.9%	2.9%
Interest Income	0	1,145	1,232	1,346	1,481	1,598	1,722	1,876	2,060	2,225	2,393	2,632
Operating Expenses												
General & administrative	18,775	18,439	16,014	16,014	16,014	16,014	16,014	18,337	18,337	18,337	19,752	19,752
Sales & marketing	15,000	21,513	9,621	7,830	6,538	7,039	7,748	8,456	9,342	9,843	15,855	18,918
Research & development	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	150	283	283	283	283	283	283	287	287	287	332	332
Total Operating Expense	33,925	40,235	25,918	24,127	22,835	23,336	24,045	27,080	27,966	28,467	35,939	39,002
Interest expense	0	0	0	0	0	0	0	0	0	0	0	0
Profit (loss) before tax	(33,925)	(35,614)	(18,657)	(14,199)	(10,221)	(9,749)	(7,861)	(8,189)	(5,699)	(5,180)	(8,656)	(7,651)
Tax expense	0	0	0	0	0	0	0	0	0	0	0	0
Profit after tax (current period)	($33,925)	($35,614)	($18,657)	($14,199)	($10,221)	($9,749)	($7,861)	($8,189)	($5,699)	($5,180)	($8,656)	($7,651)
Profit after tax (cumulative)	($33,925)	($69,539)	($88,196)	($102,396)	($112,616)	($122,365)	($130,226)	($138,415)	($144,114)	($149,294)	($157,950)	($165,601)

Mayo Employee Leasing Agency

Projected Statement of Cash Balances

Year 2

	month 13	month 14	month 15	month 16	month 17	month 18	month 19	month 20	month 21	month 22	month 23	month 24
Cash balance: Opening	$553,165	$603,089	$635,279	$690,897	$749,834	$811,488	$862,224	$938,880	$1,018,885	$1,103,179	$1,173,364	$1,249,661
Add: Cash Receipts:												
Subscriber deposits	58,390	46,012	58,390	58,390	58,390	46,012	68,121	68,121	68,121	55,215	68,121	97,316
Payroll & taxes	1,063,068	1,155,093	1,271,872	1,388,651	1,505,430	1,597,455	1,733,697	1,869,940	2,006,182	2,116,611	2,252,854	2,447,486
Management fee	48,354	52,529	57,842	63,156	68,470	72,645	78,844	85,043	91,242	96,252	102,451	111,307
Interest	2,883	3,088	3,307	3,593	3,894	4,174	4,492	4,882	5,292	5,677	6,042	6,523
Miscellaneous receipts	0	0	0	0	0	0	0	0	0	0	0	0
Bank loan proceeds	0	0	0	0	0	0	0	0	0	0	0	0
Paid in capital	0	0	0	0	0	0	0	0	0	0	0	0
Shares at par	0	0	0	0	0	0	0	0	0	0	0	0
Equity financing	0	0	0	0	0	0	0	0	0	0	0	0
Total cash receipts	1,172,695	1,256,722	1,391,411	1,513,790	1,636,183	1,720,285	1,885,154	2,027,986	2,170,837	2,273,755	2,429,469	2,662,632
Less: Disburesements:												
Payroll & taxes	1,063,068	1,155,093	1,271,872	1,388,651	1,505,430	1,597,455	1,733,697	1,869,940	2,006,182	2,116,611	2,252,854	2,447,486
Direct expenses	15,885	20,584	22,069	23,554	25,118	27,867	29,599	31,331	33,143	38,392	40,124	42,678
General administrative expenses	22,637	22,634	20,634	20,634	20,768	20,768	20,768	20,903	20,903	21,037	22,306	22,306
Capital expenditures	1,200	5,800	0	0	400	0	0	400	0	400	5,800	0
Sales & marketing expenses	19,981	20,421	21,218	22,015	22,812	23,459	24,433	25,408	26,315	27,129	27,971	29,640
Research & development expenses	0	0	0	0	0	0	0	0	0	0	4,117	4,117
Income tax	0	0	0	0	0	0	0	0	0	0	0	0
Interest expenses	0	0	0	0	0	0	0	0	0	0	0	0
Other payments	0	0	0	0	0	0	0	0	0	0	0	0
Total disbursements	1,122,771	1,224,532	1,335,792	1,454,853	1,574,529	1,669,549	1,808,498	1,947,981	2,086,543	2,203,570	2,353,172	2,546,228
Cash increase (or decrease)	49,924	32,190	55,619	58,936	61,654	50,736	76,656	80,005	84,294	70,185	76,297	116,405
Cash balance: Closing	$603,089	$635,279	$690,897	$749,834	$811,488	$862,224	$938,880	$1,018,885	$1,103,179	$1,173,364	$1,249,661	$1,366,066

Mayo Employee Leasing Agency

Projected Income Statement

Year 2

	month 13	month 14	month 15	month 16	month 17	month 18	month 19	month 20	month 21	month 22	month 23	month 24
Sales												
Payroll & taxes	$1,063,068	$1,155,093	$1,271,872	$1,388,651	$1,505,430	$1,597,455	$1,733,697	$1,869,940	$2,006,182	$2,116,611	$2,252,854	$2,447,486
Management fee	48,354	52,529	57,842	63,156	68,470	72,645	78,844	85,043	91,242	96,252	102,451	111,307
Total Sales	1,111,422	1,207,621	1,329,714	1,451,807	1,573,900	1,670,099	1,812,541	1,954,983	2,097,424	2,212,864	2,355,305	2,558,793
Cost of Sales												
Payroll & taxes	1,063,068	1,155,093	1,271,872	1,388,651	1,505,430	1,597,455	1,733,697	1,869,940	2,006,182	2,116,611	2,252,854	2,447,486
Direct labor	0	1,950	1,950	1,950	1,950	1,950	1,950	1,950	1,950	3,900	3,900	3,900
Subcontracted support	15,885	18,634	20,119	21,604	23,168	25,917	27,649	29,381	31,193	34,492	36,224	38,778
Total COS	1,078,953	1,175,677	1,293,941	1,412,205	1,530,548	1,625,322	1,763,296	1,901,271	2,039,325	2,155,004	2,292,978	2,490,164
Gross Margin	32,469	31,944	35,773	39,603	43,352	44,777	49,245	53,712	58,099	57,860	62,327	68,629
Gross Margin %	2.9%	2.6%	2.7%	2.7%	2.8%	2.7%	2.7%	2.7%	2.8%	2.6%	2.6%	2.7%
Interest Income	2,883	3,088	3,307	3,593	3,894	4,174	4,492	4,882	5,292	5,677	6,042	6,523
Operating Expenses												
General & administrative	22,637	22,634	20,634	20,634	20,768	20,768	20,768	20,903	20,903	21,037	22,306	22,306
Sales & marketing	19,981	20,421	21,218	22,015	22,812	23,459	24,433	25,408	26,315	27,129	27,971	29,640
Research & development	0	0	0	0	0	0	0	0	0	0	4,117	4,117
Depreciation	400	497	497	497	503	503	503	507	507	510	558	558
Total Operating Expense	43,018	43,551	42,348	43,145	44,084	44,731	45,705	46,817	47,725	48,677	54,952	56,622
Interest expense	0	0	0	0	0	0	0	0	0	0	0	0
Profit (loss) before tax	(7,666)	(8,519)	(3,268)	50	3,162	4,221	8,031	11,777	15,666	14,860	13,418	18,530
Tax expense	0	0	0	0	0	0	0	0	0	0	0	0
Profit after tax (current period)	($7,666)	($8,519)	($3,268)	$50	$3,162	$4,221	$8,031	$11,777	$15,666	$14,860	$13,418	$18,530
Profit after tax (cumulative)	($173,267)	($181,786)	($185,053)	($185,003)	($181,842)	($177,621)	($169,590)	($157,813)	($142,146)	($127,286)	($113,868)	($95,338)

Mayo Employee Leasing Agency
Projected Statement of Cash Balances
Year 3

	1st QTR	2nd QTR	3rd QTR	4th QTR
Cash balance: Opening	$1,366,066	$1,736,660	$2,164,425	$2,634,767
Add: Cash Receipts:				
Subscriber deposits	296,388	315,322	321,143	325,054
Payroll & taxes	8,508,547	10,393,717	12,297,291	14,208,687
Management fee	386,932	472,658	559,219	646,109
Interest	23,116	29,202	35,877	43,055
Miscellaneous receipts	0	0	0	0
Bank loan proceeds	0	0	0	0
Paid in capital	0	0	0	0
Shares at par	0	0	0	0
Equity financing	0	0	0	0
Total cash receipts	9,214,983	11,210,898	13,213,531	15,222,905
Less: Disburesements:				
Payroll & taxes	8,508,547	10,393,717	12,297,291	14,208,687
Direct expenses	149,256	186,024	221,392	258,384
General administrative expenses	74,355	69,159	72,371	68,231
Capital expenditures	800	6,200	1,200	13,400
Sales & marketing expenses	99,080	115,684	132,084	148,259
Research & development expenses	12,350	12,350	18,850	22,100
Income tax	0	0	0	0
Interest expenses	0	0	0	0
Other payments	0	0	0	0
Total disbursements	8,844,389	10,783,134	12,743,188	14,719,061
Cash increase (or decrease)	370,594	427,764	470,343	503,844
Cash balance: Closing	$1,736,660	$2,164,425	$2,634,767	$3,138,611

Mayo Employee Leasing Agency
Projected Income Statement
Year 3

	1st QTR	2nd QTR	3rd QTR	4th QTR
Sales				
Payroll & taxes	$8,508,547	$10,393,717	$12,297,291	$14,208,687
Management fee	$386,932	$472,658	$559,219	$646,109
Total Sales	8,895,479	10,866,375	12,856,510	14,854,797
Cost of Sales				
Payroll & taxes	$8,508,547	$10,393,717	$12,297,291	$14,208,687
Direct labor	$11,700	$17,550	$21,450	$23,400
Subcontracted support	$137,556	$168,474	$199,942	$234,984
Total COS	8,657,803	10,579,741	12,518,684	14,467,072
Gross Margin	237,676	286,634	337,827	387,725
Gross Margin %	2.7%	2.6%	2.6%	2.6%
Interest Income	23,116	29,202	35,877	43,055
Operating Expenses				
General & administrative	$74,355	$69,159	$72,371	$68,231
Sales & marketing	$99,080	$115,684	$132,084	$148,259
Research & development	$12,350	$12,350	$18,850	$22,100
Depreciation	$1,867	$2,003	$2,210	$2,413
Total Operating Expense	187,652	199,196	225,514	241,003
Interest expense	0	0	0	0
Profit (loss) before tax	73,139	116,639	148,190	189,777
Tax expense	$37,972	$37,972	$37,972	$37,972
Profit after tax (current period)	$35,167	$78,667	$110,218	$151,805
Profit after tax (cumulative)	($60,171)	$18,496	$128,713	$280,518

Appendices

Mayo Employee Leasing Agency, Inc.

Appendices

Appendix A – Resumes

Anthony P. Mayo
President

Education

University of Chicago	M.B.A.	1978
University of Chicago	B.A.	1977
LaSalle Academy	H.S.	1974

Experience

Systemhouse, Inc.
2-86 to 10-87
Business Center Manager

Mr. Mayo managed a profit center for this rapidly growing systems integration company. He prospected for and closed new business opportunities, recruited project managers and staff, and managed all project deliverables and client relations.

Mr. Mayo managed a project in support of MCI's Finance Department during the acquisition of SBS from IBM. The team developed user documentation of billing systems, coordinated the migration of data bases and revenue systems, and performed trouble shooting on a variety of transition problems.

The software testing procedures of US Sprint's Revenue & Treasury department were enhanced by a project managed by Mr. Mayo. The team developed user requirements for automated testing tools and implemented procedures for thorough testing of all revenue systems.

Arthur Andersen & Co
10-84 to 2-86
Management Information Consulting Division

Led discussions with top executives and conducted research on key strategic issues for a major integrated natural gas company. Created job descriptions and organization chart for new planning department.

Designed and tested software for various financial and securities systems for a variety of clients.

Independent Management Consultant
3-82 to 10-84

Advised business owners on the most profitable use of computers for financial control and reporting.

Researched requirements, interviewed and trained employees, managed vendor contact, designed systems, wrote manuals, supervised programming, and resolved disputes.

Developed, promoted, and presented *Computer Basics*, a full day seminar for managers.

Municipal Appraisal Service Corporation
7-78 to 3-82
Treasurer & V.P./Systems

Total responsibility for finance and data processing for 3½ year period during which firm's revenue increased ten fold and automated services rose from zero to 100% of sales.

Recruited, trained, and managed programmers, book keepers, data entry clerks, supervisors, file clerks, and typists.

Wrote and maintained firm's first personnel policy handbook and job descriptions.

Managed firm's first revolving bank line of credit and equipment lease. Coordinated real estate and equipment loans, as well as multiple bank relationships.

MASSystems
7-78 to 3-82
President & Founder

Designed and implemented automated payroll and accounts payable system.

Designed and operated interactive database system for municipal property tax administration.

Innovated use of statistics and graphical analysis, "user friendly" information retrieval, and full screen data entry.

Peat, Marwick, Mitchell, & Co
12-76 to 3-77
Audit Intern

Publications

"Tracking 'Play Money'" *Infosystems*, July, 1987

A Glossary of Computer Terms published privately, 1984

"The MASSystem: Efficient Computer Assisted Property Assessment" Lincoln Institute of Land Policy monograph, 1981

Timothy W. Gear
Director of Operations

Education

University of South Carolina	B.S.	1973
Wakefield High School	H.S.	1966

Experience

Boeing Computer Services
New Product Pricing Manager
1984-1987

Senior Financial Analyst
1981-1984

Managed financial programs to support corporate investment projects:

Designed automated business model for financial management of data processing products.

Produced training video on the financial management of investment projects.

Implemented and modified various accounting and billing systems.

Designed and implemented procedures for the strategic cost analysis and pricing of complex new time sharing services.

Responsible for financial support to introduce an integrated workstation for petroleum exploration. $30 million of annual revenue was projected for this product. Results included systems for pricing, cost analysis, and billing.

Prepared $15 million annual divisional operating plan.

Modeled cross-project and divisional expenditures, supporting a 15% cost reduction and elimination of overruns.

Supervised invoicing, accounts payable, and accounts receivable for Federal Systems Division.

Department of the Treasury
Bureau of Engraving and Printing
1976-1981
Senior Budget Analyst

Lead implementation of zero based budgeting.

Designed and implemented automated cost, transfer price, and tracking system for all U.S. Postal products. This helped to halt real price increases, which had been averaging 20% per year.

Analyzed costs & benefits of alternative processing methods, which saved $5 million per year.

Control Data Corporation
1974-1976
Finance Administrator

Coordinated and implemented financial procedures for new division.

U.S. Army
1969-1971
Sergeant

Operated voice radio network for all Army airfields in Viet Nam.

Barbara A. Koll
Director of Services

Education

George Washington University	M.A.Ed.	1979
Newark State College	B.A.	1973
Fashion Institute of New York	A.A.S.	1969

Experience

JAYCOR
1987-1988
Manager, Human Resources — East Coast Operations

Managed a staff of four professionals plus clericals.

Responsible for complete human resources function for over 450 employees in multiple locations: Recruiting, Affirmative Action, Equal Employment Opportunity, Immigration, benefits administration, personnel record keeping, payroll processing, etc.

Wrote, implemented, and supported employee handbooks, policies, and practices.

Negotiated and implemented first health insurance program for manufacturing employees.

Developed comprehensive compensation program.

MCI Telecommunications (MCIT)
1984-1987
Manager, Human Resources — Management Information Systems
Manager, Employee Relations — MCIT Human Resources Department
Senior Management Trainer, MCIT Human Resources Department

Managed a staff of four professionals plus clericals.

Responsible for human resources support for rapidly growing department, including:

Recruiting of technical and non-technical personnel.

Affirmative Action/EEO, including activity with the Equal Employment Opportunity Opportunity Commission and the OFCCP.

Managing employee relations budget of $350,000.

Designed and produced new Employee Newsletter for over 1,000 employees.

Planned and developed development programs, training, and new employee orientations.

Managed personnel and payroll records.

Conducted bi-annual employee attitude surveys, Employee Suggestion Program, and Educational Assistance Program.

Designed, modified, and delivered all Management Training Programs for MCIT Headquarters staff of 2,400.

Designed and/or delivered training in coaching and counseling, selection interviewing, management principles, effective business writing, effective presentations, policies and practices, preventing sexual harassment, time management, and performance appraisal.

Koll & Associates
1983-1984
Training & Organizational Development Consultant

Clients included U.S. Patent and Trademark Office and Montgomery County Department of Transportation.

Washington Metro Transit Authority
1982-1983
Management Training Specialist

U.S. Department of Agriculture
Graduate School
1979-1982
Management Development Specialist

Anne Arundel Community College
Prince George's Community College
1977-1984
Contract Training Specialist

Appendix B – Selected Articles

EMPLOYEE LEASING TAKES OFF

Everyone Benefits from This Ingenious Staffing System

ONE DAY TWO YEARS ago, Paul McGinty fired everyone at his company, McGinty Electrical & Lighting in Newton, Mass. The very next day, they were back on the job, happier than before. In the winter of 1985 Bill King, president of Quality Pump & Power Inc. in Austell, Ga., did the same thing. A few days later, it was business as usual. Correction: business *better* than usual.

McGinty and King are taking part in a growing trend that benefits workers while eliminating some of the bureaucratic chores a small-business owner has to contend with. It's called employee leasing.

Every year hundreds of companies around the country "fire" their entire staffs, only to lease them back a day or so later. These workers hold the same jobs in the same offices, but their paychecks and benefits come from an employee-leasing firm.

Why is employee leasing growing more popular? Quite simply, it offers a win-win situation for everyone involved. Employers pay leasing firms between 5 and 10 percent of their total payroll costs. In turn, the firm handles the time- and money-consuming task of administering the payroll, pension, health plans, and other personnel-related functions.

Employees come out ahead too. Because leasing companies deal in volume – many hold contracts on thousands of workers – they are able to secure discounted health benefits plans. Consequently, they can provide employees with benefits packages that small businesses could never match.

John Naisbitt is author of the best-sellers MEGATRENDS *and* REINVENTING THE CORPORATION. *His columns for* SUCCESS *are coauthored by Corinne Kuypers-Denlinger, vice-president for the Naisbitt group.*

"It's impossible for a business to offer a good health plan unless it has at least 30 employees," says Dave Dinger, owner of a four-person travel agency in Braintree, Mass., who recently started leasing his employees. "Now we give them a plan that we would not have been able to otherwise." Other business owners explain that improved benefits help companies hold on to restless employees and make it easier for them to recruit new workers. Leasing companies also protect businesses from labor unions. No employees, no unions.

Scores of New Leasing Firms

The nation's first employee-leasing firm opened its doors in California in 1972. But the field was chaotic. Each new firm had to obtain special permission to operate from the federal government – an arduous and time-consuming task. As a result, the number of leasing firms hovered at a handful.

Then in 1982 Congress passed the Tax Equity and Fiscal Responsibility Act (TEFRA), which set guidelines for the kinds of benefits packages leasing firms could offer. Since then a reported 275 firms have opened up, and are now leasing more than 75,000 workers.

Leasing has its critics, however. Some say it is merely a vehicle that lets business owners shelter excessive amounts of cash in their tax-deferred pension plans. Since technically the employees work for the leasing firm, company owners don't have to offer them comparable plans. Other critics contend that leased employees are less likely to feel involved in the company.

Nevertheless, employee leasing has won the support of most leased workers. In a recent survey of 500 such workers, four out of five said they liked the arrangement.

If you're interested in putting your company on a leasing plan, here are some important points to keep in mind:

◇ Employee leasing is full of legal guidelines. Work with a firm that specializes in the business rather than one that offers leasing as only part of its services.

◇ Choose a financially stable and well-managed leasing firm. Remember: If it goes under, you'll be left with a personnel mess to clean up.

◇ Look for a firm that provides better benefits than those you already offer.

◇ Make sure the firm pays its insurance premiums on time.

◇ Be certain that the firm's personnel policies are consistent with yours so that the transition will be smooth.

As the market for employees dries up, small-business owners will need every edge they can get to attract top-notch talent: flex-time and part-time hours, job sharing, and probably an arrangement or two that hasn't yet been devised. These programs often develop all kinds of painful bureaucratic headaches. In the future, we expect that more and more businesses will turn to leasing firms instead of to aspirin.

PH INFORMATION SERVICES

Pension and Profit Sharing

September 3, 1987 PRENTICE HALL Bulletin 39

Employee Leasing Still a Money-Saver Under TRA '86

[¶ 39.1] Despite what has been written or said recently, employee leasing remains a good cost-cutter and time-saver for many small businesses, such as closely held companies and professional corporations. The basic setup is as follows. The leasing company hires a business's existing employees or any people it may wish to add to its workforce. The leasing company then leases the workers back to the business. The net result is that the same individuals perform the same services and the business continues to set wage levels and has the final say over hiring and firing.

TRA '86 changes. TRA '86 eliminated the pension plan cost savings that were previously available from leasing arrangements [¶ *8895*]. Under prior law, leased employees were considered to be employed by the business for purposes of retirement plans. However, these leased employees were not considered to be employees of the business if they were covered by a safe harbor plan established by the leasing company. With this setup, the leasing company would maintain a money purchase pension plan for the leased workers and contribute at least 7½% of their compensation to it. Starting in 1987, the 7½% figure has been increased to 10% of compensation. But another change to the safe harbor rule hits most small businesses harder than this one. If more than 20% of nonhighly compensated employees are leased, the safe harbor rule doesn't apply [*§414(n)*].

Net effect: In the past, small businesses looked for leasing companies that had retirement plans providing the requisite 7½% of compensation. But now these businesses should consider leasing from a somewhat different viewpoint.

Low-cost fringe benefits. Leasing companies may be able to provide workers with a broad range of fringe benefits at a lower cost than the small

Edition AB

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business can provide them itself. That is because a leasing company—with a large number of employees—can qualify for low group rates that are unavailable to smaller employers, such as professional corporations and closely held corporations. In other words, small businesses should now look at leasing in terms of reducing labor costs without reducing the level of benefits. And the business is relieved of such payroll headaches as preparing checks, making payroll deposits and processing insurance claim forms. In addition, leasing companies can also help with such personnel management duties as interviewing prospective workers.

For example, depending on the leasing company chosen, these benefits can include:

- medical, dental, and vision plans;
- life, accidental death, and dismemberment insurance and long-term disability coverage;
- an option for the workers to purchase other benefits with pre-tax dollars; and
- retirement plan benefits.

Package plan. In general, a leasing company must provide the same benefits package to all the persons it leases out to its various clients. In other words, a small business cannot pick and choose which benefits it will pay the company to provide the workers. Thus, if an employer is presently providing its workers with a few fringe benefits, any cost savings from the lower group rates may be offset by the cost of the additional benefits it would be paying for by leasing workers.

However, certain leasing companies offer some flexibility. For example, National Staff Network (Van Nuys, Cal.), the nation's largest leasing company, gives clients the option of selecting a package that either does or does not include a pension plan on top of its basic benefits. Their pension plan is a 100%-of-salary defined benefit plan. Since the leasing business does not rely on the safe harbor tax rule previously mentioned, it isn't hit by the TRA '86 crackdown. If an employer chooses the package that doesn't include a retirement plan, the employer will have to include its workers in its own plan (if any).

As a third alternative, an employer can select a leasing package that includes a more limited group of benefits—plus the right to purchase additional ones through a salary reduction arrangement. This last option is a good choice if the work force consists of mainly married workers who are covered by their spouses' benefit plans.

Leasing cost. The actual cost of leasing employees depends on such factors as the number of workers that are leased, the level of benefits they are receiving, and the state's unemployment and disability insurance rates.

Employee Leasing of New York, Inc. (NYC) estimates the cost at 22-28% above the salaries currently paid to the workers. The firm provides a comprehensive benefit package (but without a retirement plan) and picks up the payroll taxes as well.

Liability for Bad Investment Advice Requires Continuous Client Contact

[¶ 39.2] An individual will not be found liable for breach of fiduciary duty merely because a bad investment

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POSTMASTER: Send address changes to: Pension & Profit Sharing, Prentice Hall, Subscription Service Center, Englewood Cliffs, NJ 07632.

Employees for Lease

Tired of dealing with administrative headaches? Then fire your employees—and rehire them through employee-leasing firms.

LAST YEAR, Carole Christner, president of Dallas-based Christner Industries, asked all 50 employees at her chain of gas stations to resign. It wasn't that she was unhappy with their performance. In fact, they were all back at work the next morning. But they were no longer Christner's employees. An employee-leasing company had hired them and was now leasing them back to her.

The arrangement relieved Christner of liability for payroll, insurance, taxes, the government's ever-growing list of employee-relations laws—in short, all the administrative headaches and paperwork. What's more, Christner's former employees now get comprehensive health and life insurance—benefits that are often prohibitively expensive for the small-business person. Each week, Christner receives one bill that covers everything: payroll, taxes, benefits and the company's fee. The bill: 122 percent of payroll.

Employee leasing, started in California in 1972, now affects 250,000 workers across the country. Not a large figure, perhaps, but employee leasing is only now recovering from an image problem that goes back to its early days. Then as now, though, the arrangement has especially appealed to small businesses—most clients of leasing firms have only 25 or fewer employees. The appeal is obvious: It cuts down on the red tape that bedevils small-business owners and can save them money. According to the U.S. Chamber of Commerce, a typical small business spends 138 percent of the amount of its payroll to cover its entire payroll expenses—from salaries to benefits. A leasing company, because of its large number of employees, can take advantage of the economies of scale to get

SAVVY MANAGER

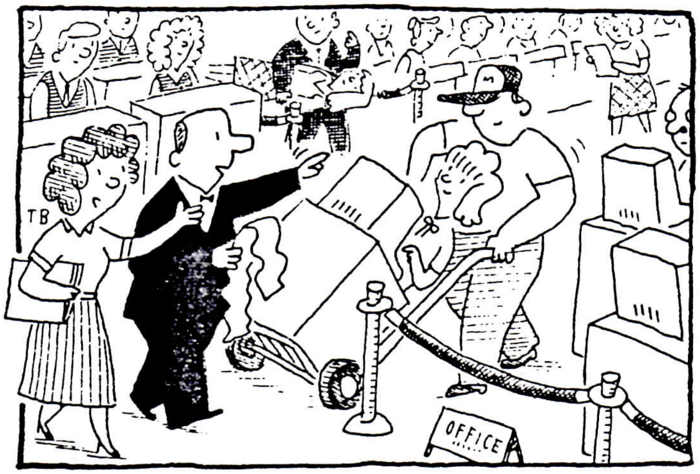
lower prices on better benefits packages and on any employee-liability insurance needed. And leasing companies typically have a lower unemployment-tax rate than client companies. Even with their fees (on average, about 7 percent of payroll) added in, most leasing companies are able to keep total costs to a client to between 121 and 150 percent of payroll.

Sue Cornish, owner of three video and two pet stores in central New York State, says she saves at least $6,500 per year with employee leasing. Total payroll expenses used to cost her 138 percent of the amount of the wages; her employee-leasing company, Onondaga Leasing Service of Syracuse, charges 123 percent. Onondaga has been able to keep costs down because its unemployment-tax rate is less than 4.5 percent (Cornish's was 6.4 percent) and its health insurance premium per employee is $67 a month (versus the $125 Cornish was paying). Cornish has been able to eliminate a full-time bookkeeper position, and her employees have a much-improved health insurance package, including a lower deductible—down to $50 from $200. But Cornish says the biggest benefit of employee leasing is not the money: "It's that I don't have the headache of worrying about payroll forms and taxes." Dr. Lani Miller, an obstetrician-gynecologist in Portland, Oregon, who leases four employees, agrees: "I shudder to think what it would be like if I had to handle all those personnel details. This frees me to do what I do and like to do best."

EMPLOYEE LEASING relieves businesses of other burdens. When a client has a job opening, the leasing company takes care of the entire hiring process, from writing the help-wanted ad to screening applicants and checking references. The client, of course, approves the candidate, but the leasing firm does the actual hiring and paperwork. Leasing relieves another headache: high employee turnover. Carmen Arno, a Los Angeles–based consultant for employee-leasing firms—there are more than 300 nationwide—estimates that leasing can reduce turnover by 80 percent. Arno cites improved benefits packages (especially those that include a vested pension plan) as the primary factor in keeping employees. Many larger companies, he adds, have begun to lease employees for high-turnover departments in order to attract and keep better workers.

If an employee does quit or is let go by the client company, the leasing company can often place her with another client. Technically, the employee is still employed by the leasing company, regardless of her status with a client. "In some cases, employees may not even lose their benefits," says Irene Cohen of Employee Leasing of New York. "This gives them a lot of security."

If employee leasing is so attractive, why has it yet to catch on? The usual resistance to a fresh idea is one reason. Another is that employee leasing has suffered from an image problem, largely because for years it was associated with a tax scam. Firing employees and then leasing them back was long regarded as nothing more than a way for doctors, dentists and other high-income professionals to set up extremely generous tax-deferred pension plans for themselves and not have to do the same for their employees. The Tax Reform Act of 1986 eliminated that tax loophole—and, in the process, helped improve the standing of the employee-leasing industry. "People in the business are glad about [tax reform] because it highlighted what the major function of staff leasing really is," says Joseph Honick, executive director of the National Staff Leasing Association. "Today, staff-leasing companies are the human resource departments for small and medium-size businesses."



Although leasing firms once catered primarily to doctors and dentists, today the market has broadened. They now serve clients in the manufacturing, professional and even nonprofit sectors. "Everyone really is a candidate for this service," says Cohen, "anyone who doesn't have a full administrative/personnel department or who's growing so fast they don't have time to set one in place." Cohen's firm targets companies with under 100 employees, although it does have one Fortune 500 client that uses the leasing service because of a hiring freeze.

If you are considering employee leasing, be sure the leasing firm you hire will actually be what Arno calls the "true employer." Many, instead, only share a "coemployer" status with clients, which means that you may suddenly find yourself liable for all the headaches you thought you were getting rid of—from a wrongful-dismissal suit to back taxes owed to the IRS.

FURTHERMORE, because leasing companies work on very tight profit margins (as little as 2 percent after taxes), make sure you check a firm's credit rating thoroughly. In an attempt to remain solvent, a financially troubled employee-leasing firm may resort to "borrowing" clients' payroll deposits and employees' pension funds, and it may stop paying insurance premiums and taxes—until, finally, the clients, the employees and the government are all out a lot of money.

If the leasing company does go bankrupt, neither clients nor employees have much recourse. Mary Lou Berry, the office manager of a dental clinic in Pullman, Washington, and two other clinic workers are a case in point: They lost $5,500 in pension money when the leasing firm they worked for went bankrupt. "Frankly, I'm against leasing companies," says Berry. "I don't like the loss of control. I think we can do better on our own."

Beyond the legal, financial and administrative consequences of hiring an employee-leasing firm, some employers fear they'll lose control over a crucial component of their business. Will employees' performance suffer? Will the relationships between owner and workers change? Apparently not. Says Julie Ward, who was hired by American Staff Management to be a receptionist at Miller's office: "My loyalties are to the doctors." In fact, Ward says she'd stay with the doctors even if they were to stop leasing. It seems that, though leased employees are not yours in fact, they remain yours in deed.

—Sue Elliott

Nancy Way contributed to the reporting of this article.

Illustration by Tom Bloom

Personnel Problems Mounting? Consider the Alternative of Employee Leasing

Human resources management has some inherent complaints, many of which relate to such administrative chores as recruiting, turnover and maintaining records on payroll, benefits and taxes. Today, however, small- and medium-sized employers have an alternative — employee leasing.

It works like this. The client company discharges its employees, who are then hired by the employee-leasing firm. (There are some 300 such firms in the country.) From that point on, the leasing firm takes over the administrative tasks and legal obligations that were the client's responsibilities. The former employer becomes, in essence, a customer of the leasing firm and shifts all personnel responsibilities to that organization. The leasing firm's fee for renting workers back to their former employer is the payroll cost plus an administrative fee of 7 to 10 percent.

This arrangement has several benefits for the employees involved, the greatest of which is improved fringe benefits. Because employee-leasing firms typically employ a large number of people who are farmed out to several different clients, a leasing firm can often obtain a superior fringe benefit package at the same or even a lesser cost than would be borne by any one of the smaller client companies for a perhaps inferior package. It's a matter of numbers — the risks are distributed over a larger group of people. In addition, employees who are laid off at one company may be reassigned by their employer — the leasing company — to another client. Under traditional employment methods, they'd be left to their own devices to find new jobs. Lastly, conflicts between leased employees and their supervisors at client companies can sometimes be resolved more amicably and faster by the leasing firm, which can act as mediator in such disputes. When such mediation fails, the individual can simply be assigned to another company.

The client company's greatest benefit is escaping the inherent burden of maintaining payroll and other employee-related records. For example, *Fortune* reported on a Dallas-based construction company that saved $2,000 per week in overhead costs after transferring 125 workers to a leasing firm. In addition, the leasing firm takes over the responsibilities of hiring and discharging workers, and the arrangement also eliminates management's concerns about unionization, because the employees work for the leasing firm, not the client company.

Although employee leasing relieves the client company of significant administrative and human-relations responsibilities, the "have skill, will travel" philosophy behind leasing may result in a loss of employee loyalty.

If your organization has a relatively small work force, the leasing alternative can be examined in several ways. Management World suggests that you talk to similar firms that have gone this route and ask for their opinions and recommendations. The choice of a leasing company is important, too. Shop around for one whose policies, procedures and general management philosophy seem to be compatible with those of your firm. Finally, you could contact the National Staff Leasing Association (818/986-9121) for additional information and a roster of its member leasing firms.

Coming Attractions

Job-rotation can be an effective training technique, but an ill-conceived or poorly administered job-rotation program can lower morale and increase turnover — especially among the very trainees you're trying to develop. Next month, we'll explore some problems associated with job rotation and suggest how those problems can be minimized.

Ever wish for more data to use in reviewing subordinates' performance? Why not ask them to evaluate themselves, and incorporate their input into your final review? See the September issue of EP for details and every future issue of EP for more specific tips and techniques to help you as you climb the corporate ladder. Don't miss out. If you haven't already renewed your subscription, I urge you to take advantage of the discount coupon below.

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Employee Leasing: A New Trend in Personnel Services

By JEFF ROWE

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It has worked well with offices, cars and furniture, and the 1980s looks like a growth era for leasing yet another workplace commodity—people.

Eager to get out from under an increasingly large volume of required forms, regulations and document-keeping, a growing number of companies are closing their personnel offices and turning over the keys to an employee leasing concern.

ORANGE COUNTY

In leasing its workers, a company basically transfers its personnel functions to the outside concern, which then handles the paper work, payroll, benefit plans and other mundane administrative tasks. Workers actually become employees of the leasing concern but continue to do their job exactly as before. Normally, the company retains the right to hire and fire, although the leasing concern often serves as a buffer between employees and the company.

Particularly for small firms, leasing companies say they can get better benefit packages for employees because they can purchase these plans in bulk, and insurance companies often are reluctant to establish plans for employers of less than 100 workers.

For small and medium-size concerns, "a leasing company can provide better and more comprehensive benefits at a reduced rate," said Marcene Murrel, manager of the Orange County office of California Staff Management Inc.

According to the National Staff Leasing Assn., a trade organization for the country's 400 or so leasing companies, there are 250,000 to 300,000 leased employees nationwide, 10 times the number just two years ago.

Figures are not available on just how many of those employees are in California but experts agree that leasing activity is vigorous in Southern California and particularly intense in Orange County because of the preponderance of small businesses, many of which are too small even to have a personnel officer on staff to handle the ever-increasing paper work.

Because Orange County is perceived as being particularly ripe for expansion of employee leasing, at least two out-of-town leasing companies are planning on joining the half-dozen companies already here.

Tri-Staff Inc. of Glendale and EmStaff Cos. of Dallas, one of the nation's largest employee-leasing concerns, plan to open offices soon in the county. "There's a lot of growth to be had out there," said Mark Ashcraft, operations manager for EmStaff.

For a fee of 5% to 7% of the payroll, leasing companies promise relief from "the terrible headache of all that paper work."

Freedom from such pains appealed to Jerry Kristensen, owner of Enterprise Electric Inc. of Anaheim, who opted to lease his employees five years ago.

Kristensen regards leasing as "a better way to do business" because it leaves a company's officers free to do what they do best, which in his case is operating a retail and service electric business.

A Buena Park dental assistant, Julie Ladjevic, said dealing with a leasing company for pay and benefits is simpler and leaves the dentist, her boss, free to concentrate on repairing teeth.

Leasing experts say the bulk of growth in recent years has come through small medical and advanced technology companies because the principals in these companies are least inclined to deal with the ever-expanding personnel function.

For the 1980s and beyond, employee-leasing companies expect leasing to grow rapidly with small and large companies and enterprises of every industrial category.

Despite the advantages, leasing experts and employers who have gone through several leasing concerns advise managers to do more than peek under the hood when choosing a leasing concern.

A number of companies apparently just kicked the tires of Tustin-based Contract Staffing of America and Long Beach-based Paystaff, both big leasing companies a few years ago.

Neither is now. Contract Staffing filed for protection from its creditors last year and Paystaff closed in 1984, leaving about 70 companies responsible for thousands of dollars in unpaid benefits.

Sometimes it is the leasing company that gets hurt, however. "There is a natural, built-in accounts-receiveable problem," said Dave Thomsen, (cq)owner of Thomsen Cos. of Newport Beach. Thomsen, whose company leases employees and provides other business services, said that when a company gets into financial difficulty, it often neglects to apprise the leasing company, which may then complete a payroll or two before realizing that its funds are not going to arrive.

Small Business

Employee Leasing Still Offers Attractive Advantages Despite Closing Of Loophole

By Rick Burnham, ***Investor's Daily***

Doing the payroll and taxes, benefits and other personnel paperwork for 30 employees used to be a time-consuming chore for Karen Lemmo, controller of Management Manpower, a Roslyn, N.Y.-based company which manages a string of gas stations in the New York area.

Like a growing number of smaller companies, Management Manpower decided the best way to save time and money and improve benefits for its mechanics, attendants and office personnel was to let them go and rehire them under lease.

The company's employees were transferred to Alcott Staff Leasing Inc. of Farmingdale, N.Y., one of a growing number of employee leasing agencies in the nation which provide varying levels of personnel and benefits administration services to small and medium-sized companies.

'Centralizes Everything'

"We like it, it centralizes everything," Lemmo said. "They (Alcott Leasing) handle everything. If we have an unemployment claim, they handle it. They handle all of the medical benefits, we don't have to handle any more tax reports, and instead of making quarterly tax and health insurance payments, we make them weekly, which helps our cash flow."

Under staff leasing also known as employee leasing a company in essence fires its employees and has a staff leasing firm rehire them, transferring the personnel and benefits duties to the leasing firm.

Staff leasing originally sprang up on the West Coast and gained in popularity following enactment of the Tax Equity and Fiscal Responsibility Act of 1982. The legislation included a section designed to prevent employers or key executives from excluding staff employees from company pension plans.

But a loophole in the act said that as long as a leasing company was providing a "safe harbor" pension contribution equal to at least 7.5% of each employee's total compensation, employers were free to develop more generous pension plans for themselves.

As a result, staff leasing became increasingly popular. An estimated 350 staff leasing firms now manage some 250,000 workers in the U.S., according to a spokesman for the Los Angeles-based National Staff Leasing Association, a trade group whose membership includes some 100 staff leasing firms.

Last year's tax reform bill, however, has all but eliminated pension planning as a motivation to lease employees. Part of the legislation requires that companies leasing more than 20% of their employees must treat the leased employees as their own when designing pension plans.

Causing Shake-Out

While the tax law change is causing a shake-out in the staff leasing industry, many businesses have found that freedom from the paperwork and administration of the employee benefits, plus the cost savings that often occurs makes staff leasing a viable alternative.

A 1986 study done for the U.S. Small Business Administration found that companies which use staff leasing rated the services favorably, and felt their employees also benefited from the service.

While some employers in the study said their employees were at first surprised, concerned or uncertain about the leasing arrangement, employees in the long run liked the leasing idea, largely because of the improvement in benefits, employers said.

"We think that generally (staff leasing) is a plus," said Jules Lichtenstein of the SBA. "Even with the change in the tax law, we see employee leasing as providing benefits to employers at a lower cost or providing benefits often not available to them because they couldn't afford it," he said.

That provides small businesses with a more stable work force and removes the burden of increasing paperwork, Lichtenstein said.

That change in the market niche for staff leasing companies "opened up a whole new world for us," said Gordon Brown of California Staff Management in Woodland Hills, Calif.

His firm, which began operations in 1980, now manages some 2,000 employees for 300 businesses. The company handles all personnel paperwork and administers a benefits program that can include health and dental plans, life insurance, a prescription drug plan, membership to a credit union, continuing education, travel discounts and other options.

Because a staff leasing firm "pools" its leased employees together into one group, it can provide health, dental and other benefits a small company either could not afford or couldn't obtain.

'Equal Footing'

"It gives a small business, at least on the benefits end, equal competitive footing to bigger business," said Louis Basso Jr., president of Alcott Leasing.

Alcott is one of only a handful of staff leasing firms on the East Coast, where the concept is just beginning to emerge, Basso said. Alcott is an affiliate of Quality Technical Service Inc., an executive recruitment agency in business for 25 years. Alcott began operations on Jan. 1 and manages 74 employees for 14 different businesses, including Management Manpower.

While staff leasing firms generally provide their services to small businesses, larger companies are beginning to explore leasing possibilities.

Tampa, Fla.-based Action Staffing Inc., formerly known as Leasing Consultants Inc., aims its services to professionals and to companies with 50 to 200 employees, said Melvin Klinghoffer, president. It now leases more than 4,500 employees to about 185 clients in five states and is planning to expand into new states.

"The company with 50 to 150 employees is no different than the company with five employees," Klinghoffer said. "With all new rules and regulations these companies find they have to have all sorts of people in personnel covering labor, legal and insurance problems, and they simply can't afford it. So they turn to us."

In order to attract larger companies to its services, Action Staffing has sought experienced labor, legal, insurance and other personnel specialists from larger companies who are familiar with and can advise its larger clients on personnel practices, Klinghoffer said.

Auto Insurance Offered

The larger employee base also allows Action to provide a wide variety of benefits including its own auto insurance plan at lower costs for its clients.

Klinghoffer believes that as larger companies become more interested in staff leasing, those leasing companies with a larger base of leased employees and highly trained personnel specialists will be able to provide the more sophisticated and cost-effective services that will be required.

While staff leasing companies vary in the scope of services they provide, most charge a certain percentage of a company's total payroll for their services.

Alcott charges between 3% and 9% of a company's total payroll, while California Staff Management charges between 3% and 5% of gross payroll. Companies also pay for the fringe benefit programs provide to employees.

Staff leasing is not without its critics, who say such services are used by companies to sidestep possible legal confrontations with employees or avoid unionization.

Action Staffing's Klinghoffer, however, said employee leasing doesn't stop unionization. "We deal with four or five unions, and some of our clients have employees that are unionized."

WASHINGTON POST 5/31/87

Leasing Employes No Longer an Oddity at Service Fir

By Chris Spolar
Washington Post Staff Writer

Little more than six months ago, managers at Bruce Industries, a professional cleaning firm in Lanham, figured they could never afford health or dental insurance for their 60 employes.

Rates for comprehensive coverage for such a small work force were prohibitive, management said. Yet their workers earned such salaries—$10,000 to $14,000 annually—that management wanted to offer some kind of benefits to supplement their incomes.

What Bruce Industries did was fire its employes. Then, the firm had them simultaneously rehired by EmStaff, a nationally known employe leasing firm that recently opened a branch office in Rockville.

EmStaff added the Bruce Industries employes to its overall payroll of several thousand workers, which qualified them for an array of new benefits under a reduced, group rate. The 60 workers were leased back to the cleaning firm. For a fee that includes the cost of the leasing procedure, EmStaff takes care of bookkeeping, payroll and pension plan options for the entire company as well.

Employe leasing, once an oddity viewed more as a West Coast experiment than serious business, has become an increasingly popular management tool, particularly in areas such as Washington where service industries are booming, and employers are vying for additional benefits to attract and maintain a stable work force.

Started in California in the 1970s, the employe leasing business now numbers about 300 firms operating in 45 states, including Maryland and Virginia. Those familiar with the young industry—also called human resource leasing and contract staffing—estimate that about 15 firms operate around the Capitol Beltway.

Today, for eight hours of daily labor, employes at Bruce Industries receive paychecks plus health insurance, eye and dental coverage

See LEASING, B2, Col. 1

Workers, Firms Note Employe-Leasing Gains

LEASING, From B1

and a prescription plan. Company officials such as Isaiah Williams, vice president, say Bruce Industries benefits from the relief of paper work and better relations with its employes at an overall cost increase of only 5 percent.

"Yes, it eats into the profits, but to me it's worth it," Williams said. "We're in a tough labor market. These people have to work odd hours, they're on the low end of the pay scale, and it's tough for them to get transportation to these office buildings . . . . If I can provide my employes with a good health maintenance plan, my absenteeism is down, and I can keep these workers longer."

Critics of employe leasing say it is used by companies that do not want to deal with employes directly, that want to prevent unionization or that want to avoid possible legal responsibility through the use of an employer middleman. "In practice, employers who are willing to adopt that kind of management are not likely to value employe involvement," said Rex Hardesty, spokesman for the AFL-CIO.

But a study contracted by the Small Business Administration late last year found that companies who used employe leasing firms rated the services highly and that employes also benefited from the change. According to its survey of 21 businesses, typically small operations, 40 percent of the leased employes for the first time received medical insurance, 44 percent began receiving pension coverage, and all gained dental coverage through employe leasing.

"It's hard to generalize, but, basically, it's a plus," said Jules Lichtenstein, chief of the applied policy branch of the SBA. "We started studying it because we've gotten so many requests from small businesses about it."

When Lelia Simmons, a 53-year-old cleaning employe of Bruce Industries, needed new eyeglasses last year, her bill came to $190. Last week, she ordered another pair. This time, she estimates, she will pay $10 to $30, a dramatic drop that is a result of medical coverage that began in October.

"Last year, I had surgery and had to have Medicaid pay because I didn't have insurance," she said. "I'm not the kind that likes to go to the doctor. But I'm glad I have this now, in case I do have to go."

Futurists who have been tracking changes in the labor force, such as John Naisbitt in his book "Re-Inventing the Corporation," noted

"This could open up a fresh, new market with us in small business."
— Peter Leto

that tax changes in 1982 gave small employers an incentive to try leasing and, at one time, estimated that as many as 10 million employes could be leased by 1995.

However, the Tax Reform Act of 1986 appeared to jeopardize enthusiasm for the concept because of the elimination of a lucrative pension loophole in the 1982 law. But those who are watching the market for employe leasing firms say the reform merely caused a shakedown that drove less-well-managed firms into bankruptcy.

One company that is hoping to cash in on employe leasing is PGO Industries, a temporary personnel firm based in Baltimore. Owner Peter Leto said he plans to attend a conference this week, sponsored by the National Staff Leasing Association, to see whether adding full-time employes to his operation would be a profitable proposition in an area where unemployment hovers around a nearly negligible 3 percent and competition for clerical and service workers is keen.

"I think it's a natural expansion of my current business," Leto said. "We're in the thousands-of-people business, and, in Washington, you have businesses that need workers. This could open up a fresh, new market with us in small business."

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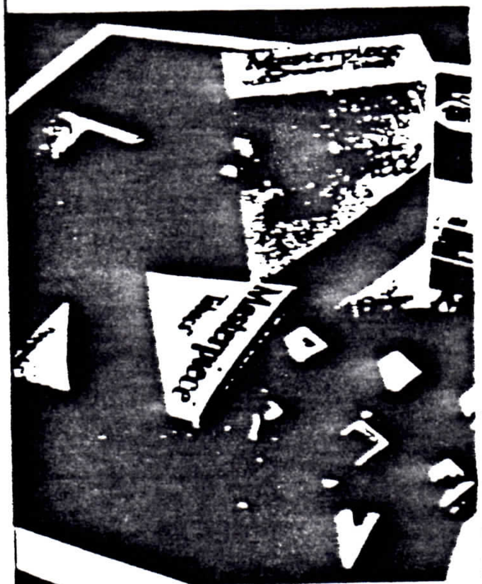
BUSINESS BRIEFING



Chewing tobacco needs no spittoon.

Spitless Chaws

The Pinkerton Tobacco Co., hoping to cash in on the increasing restrictions on smoking in public places, is coming out with a smokeless tobacco product for smokers.

Pinkerton, maker of such popular chewing tobaccos as Red Man and Renegades, is test marketing a product that looks like a piece of chocolate and is chewed like gum.

Called Masterpiece Tobacs, the peppermint- and cinnamon-flavored chews are packaged in a flip-top cigarette box and retail for about the same price as a pack of cigarettes.

With a nicotine level per piece comparable to the amount found in one cigarette, Masterpiece Tobacs can provide smokers with tobacco satisfaction in all those places where smoking is prohibited, says Herb Hausmann, Pinkerton's director of marketing.

The Richmond, Va., company is also pitching the 18-piece packs to women, making it the first chewing tobacco firm to try to expand beyond the traditional rural and blue-collar male markets.

Initial product testing showed the spitless chewing tobacco product to be equally accepted by both men and women. The company hopes that clearly marked warnings — one saying the product is not for use by minors and another warning of the possibility of gum disease and tooth loss — will deter sales of the gumlike product to young people.

New Lease on Workers

The rapidly growing employee leasing industry, which enables companies to transfer personnel responsibilities to a third party, is on the rebound after a temporary setback brought on by the Tax Reform Act of 1986.

The popularity of employee leasing (whereby companies fire employees, have them hired by a leasing firm and lease them back) is twofold. The leasing firm frees employers from the time and expense of personnel administration. Larger leasing firms also provide better health and pension benefit packages than a smaller employer can afford.

The tax law eliminated certain controversial tax advantages and pension options the leasing programs had offered and curtailed the activities of some firms. But the changes may spur long-term growth in the industry.

"Employee leasing no longer has the taint of potential tax scam associated with it," says Leslie Young, economist with ATAC, a Mountain View, Calif., research group that recently studied employee leasing. Within five years, he predicts, the industry, currently some 350 leasing companies with about 250,000 employees nationwide, could become as popular an employment service as temporary agencies are today.

Marvin R. Selter, chairman of National Staff Network, with more than 31,000 employees the nation's largest leasing concern, is even more optimistic. "In three or four years more than 10 million people will be employed by employee leasing firms," he says.

Falling Acquisitions

More than 50 percent of all efforts by 33 large U.S. companies to diversify since 1950 have been abandoned, according to a study by the Harvard Business School. "The track record of corporate strategies has been dismal," says business Professor Michael Porter, author of the study, which found each company entered an average of 80 new industries primarily through acquisitions from 1950 to 1986.

Of the acquisitions in new industries made by 1980, the firms had divested more than half by January this year. Acquisitions made after 1980 were not counted, says Porter, because it was unlikely those would be sold off yet, even if they were questionable deals.

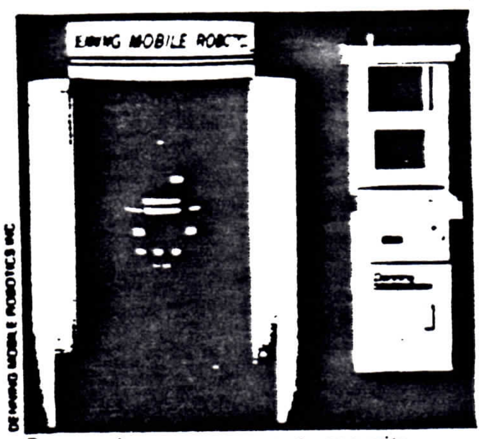
CBS, RCA and Cummins Engine were at the bottom of his list. Each had dumped at least 80 percent of all acquisitions it had made by 1980. Topping the list were Johnson & Johnson, Procter & Gamble and Raytheon. Each divested just 17 percent of the acquisitions it had made in the 30 years studied.

Cutting a Robot's Cord

Sentry, a self-navigating security robot, is now on patrol. The freewheeling, battery-operated robot finds its way around a given area once it is programmed with a map of the grounds. Other security robots in use are tied to an electric umbilical cord and are mainly used for dismantling bombs and for other dangerous tasks.

The computerized guard uses microwaves and infrared sensors to detect body heat and motion up to 150 feet away. Smoke and fire detectors also are mounted on the 4-foot, 485-pound machine, which feeds signals back to a communications center, usually staffed by humans who decide what actions to take. Sentry can also be programmed to telephone authorities in an emergency.

Marketed by Denning Mobile Robotics Inc. of Woburn, Mass., the Sentry package (robot, recharger and communications station) costs $110,000. Advance Security Inc. bought six units



Sentry gives a new sense to security.

to add to its 6,500 human guards.

Although the robots are not able to exercise human judgment, they are ideal for areas where temperatures or other factors make the environment unsuitable for humans, says Irv Morey, a vice president at the Atlanta-based security company. Moreover, he says, "robots can work continuously at even the most boring tasks, never ask for a pay raise and never sleep on the job."

— *Susan Dillingham*

Appendix C – Sample Promotional Material

Mayo Employee Leasing Agency

Employee leasing economically delivers generous fringe benefits and professional personnel administration for companies too small to afford a complete Human Resources Department.

What are the Benefits?

- A simpler, closer relationship with your staff
- Recruiting, motivation, development, and longevity are enhanced
- One check covers
  - Payroll
  - Payroll Taxes
  - Benefits Payments
  - Administrative Expenses
- Relief from Bureaucratic Hassles
  - Unemployment Forms & Hearings
  - COBRA Risks
  - Worker's Compensation Proceedings
  - Immigration Checks
  - Fair Labor Standards
  - Discrimination and Harrassment Claims
  - Equal Employment Opportunity
- Enhanced Staff Communication
  - Regular Newsletters
  - Personnel Policy Handbook
  - Counselors On-call
    - New Staff Orientation
    - Termination Procedures
    - Benefits Questions
    - Worker's Compensation Claims
  - Benefit Investment Summaries

How does Employee Leasing Work?

MELA takes responsibility for each client's payroll and benefits, while advising on employment policies. **MELA** is not a consulting service. When we say **MELA** takes responsibility, we mean it: the entire staff of our client's organization become the legal employees of **MELA**. They are covered by our comprehensive fringe benefits and enjoy our professionally designed and administered employment policies.

Who is MELA?

MELA is a new company formed by people eager to make it easier for entrepreneurs to *run their businesses* by simplifying human resources administration.

We are experts in:

- Payroll Processing
- Payroll Tax Preparation
- Employee Communication
- Personnel Recordkeeping
- Benefits Administration
- Employment Policies
- Legal Obligations of Employers

MELA administers personnel, freeing clients to *manage their staff.*

Recruiting and keeping staff is easier when employees are leased with **MELA**. The medical insurance and other fringe benefits **MELA** provides are competitive with packages offered by the largest and most respected companies in this area. Questions are handled promptly and politely by our experienced counselors. Your staff knows that you care about them when you provide these benefits. Employees need not be lured away to big companies just to be sure their families are well protected and their long term needs are assured. This security frees workers to focus on the important, productive aspects of their jobs.

Why Should You Call MELA?

Staff leased through **MELA** are *employed* by us, but they *work* for you. Stop taking the blame for hassles with health claims and other fringe benefits. Concentrate on serving your clients and developing your staff instead chasing the shifting details of personnel administration.

Just write one check each pay period. **MELA** does the rest.

Learn how much time & money you can save, call:

703 / 437-6500

MELA **Mayo Employee Leasing Agency** **1301 Northgate Square** **Reston, Virginia 22090**

..Design Note:

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