

Artistic Studios

February 2005

Peter Artistic

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1.0 Executive Summary

Artistic Studios produces better quality reprints of artwork of prominent artists than anyone else. The company was founded in October 1998 by Peter Artistic and for the past seven years has been successful at increasing sales and offerings.

The company has hit a plateau of about \$400,000 in annual sales. Artistic Studios is looking to increase sales to become the world leader in quality digital art print works by implementing its company reorganization and three-point marketing plan. To accomplish this, the company is seeking to enter into a consulting management contract with Longstone Consulting to provide a general manager and develop a marketing plan for the company.

The general manager (GM) will handle daily operations not related to production, provide a strategic growth plan for the future, and coordinate the efforts of the sales force. This will allow Peter Artistic the opportunity to focus on production and quality issues as well as recruiting other artists who would be interested in having their work promoted by the studio.

First, the GM will hire and direct the efforts of a sales rep to aggressively market the offerings and capabilities of the company to produce quality art reprints. The sales rep will initially target over 1,500 art galleries nationwide that focus on animal and eclectic offerings, the area in which Jerome Artistic has a strong reputation. Mr. Artistic is a world-renowned artist in the area of wildlife paintings.

Once this is established, another sales rep will be hired to focus on selling the studio printmaking services to high-production clients, publishers, prominent artists, and photographers. As more artists' works are added to the offerings, they will concentrate on other types of art galleries throughout the U.S. and Canada.

Second, aggressively target other reputable artists to add to our list of offerings. Peter will focus on this area with a goal to add one new artist every quarter. These artists will be featured on the website and will be promoted through our sales force. He will also manage the production and quality control issues.

The third is to expand the capabilities of our website to make it the premier art gallery on the web. This will include the capability to do e-Commerce. New artists will pay an initial setup fee and a commission for each sale. Additional or new work by the artist will be added at no cost as an incentive for artists to offer their work through the website. Artists will also agree to have a hyperlink created, if they have their own website, to the Artistic Studios online gallery.

We have carefully expanded the operation over seven years, starting in the basement of the owner's house, moving to the garage, and then to our current location that provides 5,650 square feet of production and office space. The company has recently invested \$145,000 in IRIS and Roland printers, which allows it to produce the highest quality prints available on the market today, even surpassing the manufacturer's quality expectations. The printers are only producing at about 10 to 20 percent of capacity, which

gives Artistic Studios lots of growth opportunity with little to no investment for capital equipment.

To date, the company has done little to no advertising, relying instead upon word of mouth and the reputation of Jerome Artistic's artistic abilities to promote the company. We have reached a threshold and are ready to move to the next level of production, offerings, and service. To do so, the company is seeking \$150,000 in funding to be able to move off the bubble we have been on for the last three years and move sales to \$677,206 within two years and over \$1.3 million within three years.

Both equity and debt funding are being contemplated with terms for each to be determined by agreement between the parties. The funding will be used to contract for a general manager with Longstone Consulting, provide a base salary and operating expenses for a sales rep, refinance the capital equipment currently owned, and upgrade our website.

1.1 Objectives

1. Develop network of one hundred dealers during 2005.
2. Get to a profitable level by month nine of 2005.
3. Bring in Longstone Consulting to help develop processes and methodologies for administration and marketing for the company.
4. Raise an additional \$150,000 for the company by April 2005.
5. Use the proceeds to build the business and hire a solid salesperson.

1.2 Mission

Artistic Studios will consistently strive to be the finest digital printmaker in the world, specializing in producing the highest quality artwork available through use of the latest hardware and software technology. We will provide the most personable service and greatest value for the price. Artistic Studios is known as a fair and honest company; a company operated with integrity and only the best in quality.

1.3 Keys to Success

The keys to this business are leveraging the relationships dealers have with galleries, and giving them the proper tools to be successful. Customer service is an absolute necessity for us to continue to refine and grow.

2.0 Company Summary

Started in 1998, Artistic Studios has become a recognized company among eclectic art

dealers and galleries that provides high-quality art with a reputation of excellent customer service.

Revenue for the past three years and for the first month of 2005 has been on a steady growth curve. Revenue streams for the past three years are as follows: 2002—\$288,560; 2003—\$318,000; and 2004—\$276,047. Gross margins for the same operating period are as follows: 2002—66.18 percent; 2003—58.74 percent; and 2004—62.40 percent.

Although 2004 shows a dip in our revenue stream, the gross margins were still kept at a higher level than the previous year. We anticipate revenue and profitability to increase with additional funding and our new marketing plans.

2.1 Company Ownership

Artistic Studios is a limited liability company incorporated in the state of Nebraska. Majority ownership is by Peter Artistic with 70 percent, and Jerome Artistic with 30 percent. Jerome Artistic does not participate in the day-to-day management of the company.

2.2 Company Locations and Facilities

The Company headquarters is located at 9001 Thunderbird Street, Lincoln, Nebraska, in a 4,000 square foot facility. The facility includes a full production area, five office suites, a warehouse, and delivery areas. Artistic Studios is presently leasing the space and does not own the building.

3.0 Products and Services

Artistic Studios provides three main products and a variety of services to the market. We offer over seventy-five different eclectic prints from the famed artist Jerome Artistic in both original art and printed artwork. Our images are printed in two different formats via Roland presses and IRIS presses.

The Roland offers greater longevity over the IRIS due to the use of six pigmented inks verses the four dye-based inks used on the IRIS. This creates prints that should last over a hundred years. The Roland also allows for prints up to 50" wide by almost any length since the media normally comes in rolls.

The media we print on is very important in our process. We use only the finest rag papers such as Arches and Somerset. We are also continually experimenting with new papers to produce the highest quality images possible.

The Somerset was made and sized especially for the IRIS and is one of our favorites. The paper size is 35" x 47", which allows for a 34" x 46" image with 1/2" borders, and is extremely white, producing the highest quality image possible on watercolor paper.

Also one of our favorites is the Ultra Gamut Canvas. This specially coated canvas has the

largest color gamut of any fine art material we currently print on.

On the Roland, we have several different choices of canvas and papers to suit your needs and to best complement your artwork and photography.

IRIS · Giclée Printmaking

IRIS prints are often called Giclée (French, meaning “a spray of water,” and pronounced, “zhee-clay”). Giclée also refers to the fact that the IRIS printer used to make these prints has been customized to produce longer-lasting, higher-quality images.

The IRIS prints images by spraying one million droplets of ink per second through each of its four nozzles. At a perceived resolution of 1850 dpi, an IRIS print can be applied to nearly any surface or material up to 35" x 47". The drum spins at a speed of 100 to 150 inches per second, and it can take up to eighty minutes to print one 34" x 46" image.

The ink droplets produced by the IRIS printer measure fifteen microns in diameter, approximately the size of a red blood cell. With microscopic accuracy, the printer places anywhere from 0 to 31 of these droplets per color—in whatever CMYK combination is called for by the image data—in a given pixel or dot. In that way, IRIS printers very precisely vary the size of the individual pixels that together form the printed image. Another printer—using a single dot size—would have to place from 1500 to 1800 dots per inch to achieve a resolution comparable to that of an IRIS image. However, no other digital printer can create dots as small or control dots with such microscopic precision as IRIS printers.

Art & Photographic Reproduction

Transparencies are a critical first step when creating fine art prints. Making a “color-correct” transparency is as critical as our scanning it, imaging it, proofing it, and finally printing it. Each step injects its own peculiarities, but the process will be crippled by poor transparencies! Preferably, transparencies should be viewed on a 5000 light box next to the artwork that is also lit at 5000 in order to judge whether the transparency matches the artwork. Otherwise the human eye cannot see color casts and shifts.

When a work of art is reproduced, our normal procedure is to produce four 6" x 8" small proofs to send to the client so they can choose one to print or if further changes and adjustments are desired. When a proof is chosen and returned for our files, the image is ready for printing and editing.

We also have a special custom black and white process especially for photographic reproductions that creates incredibly rich blacks with all the same incredible quality that the IRIS offers. We can also create custom color tones for art and photographic reproductions that can't be accomplished with other methods.

Image Archiving and Printing on Demand

This is an exciting and very attractive feature of IRIS printing, in which an image can be printed on demand. Only a portion of an edition needs be printed. When sales of prints necessitate further printing, the image, which has been stored on a CD, is reprinted.

There is, however, a misconception that results can be duplicated exactly at any time. The factors that contribute to repeatability are numerous and include paper, inks, and even the

weather. For example, most of the fine art papers that we use are made in very old European mills on antique machinery, and are subject to minor fluctuations often due to the spring water used by the mills. Winter paper is more consistent than spring and summer paper. Also, the inks that we use are subject to variation. These variations are very minor, although a more apparent change occurs when a huge gain in longevity is established by the introduction of new dyestuffs utilized in the form of new ink sets. This almost always produces a different color gamut from the previous set, so it isn't expected that an image stored on CD at Artistic Studios can be exactly repeated in a year. Changes that affect image repeatability do not occur frequently, and we will give at least sixty days notice prior to any major changes. Any reproofing necessary after a change will be the customer's responsibility.

3.1 Competitive Comparison

The competition that Artistic has faced over the years has been large, national printing firms that specialize in many forms of art. Their scope is broad in nature and does not target the eclectic enthusiast, as does Artistic Studios. A few of our competitors are listed below:

Cumulon Digital Print and Imaging

6532 Clay Ave S.W.
Grand Rapids, MI 49548-7832
Phone: 555-998-0000
Toll-Free: (800) 555-5555
Fax: 555-998-0987
Website: www.cumulondi.com

Tiger Editions

7001 North Fort Avenue
Harrison, FL 33755
Phone: 555-987-5555
Fax: 555-987-6767
Contacts: Steve Carlisle and Philip Langford
Website: www.tigereditions.com

Shone Editions Press, Ltd.

Springs Rd.

P.O. Box 51
Northern Light, VT 05076
Phone: 555-339-5751
Fax: 555-339-6501
Contact: Jon Climate
Website: www.shone-editions.com

Finer Quality Printing

9087 Sexton Avenue
Seattle, WA 91220
Phone: 555-552-9262
Contact: Kristine Smith

Moonlight Productions

90831 S. Via Linda Scarte
New York, NY 90044
Phone: 555-333-1212
Fax: 555-334-8776
Contact: John Dillingham

Eclectic Central Editions

PO Box 9130
Kuning, ME 04333
Phone: 555-234-2802
Fax: 555-234-9720
Contact: Bonnie Bluesmith
Website: www.eclecticcentraleditions.com

3.2 Sales Literature

The company is presently using a full-color, professionally designed catalog with over twenty-five images included. This catalog is sent throughout the world to various art dealers. Plans are to include all available images in the catalog and update it on a regular basis.

In addition, the company offers a full-scale website with plans to offer e-Commerce capabilities for the dealer and art buyer to easily browse the website and choose the prints that are just right for them.

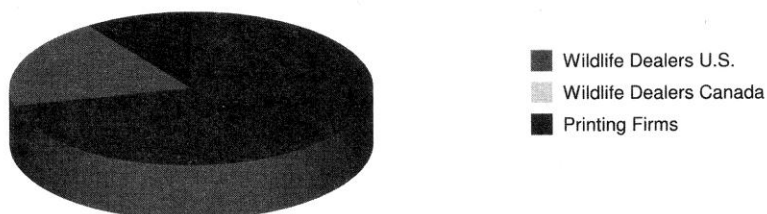
4.0 Market Analysis Summary

Eclectic art is a specialized area of artistic talent that Jerome Artistic is a master of. Jerome Artistic's art is a favorite among many of the dealers and galleries worldwide. However, when it comes to comparing Jerome's art with other eclectic artists, it is very difficult to size up any other artist's work and make a true comparison. For this reason, Artistic Studios digitally prints Jerome Artistic's art that reaches a targeted audience of dealers and buyers. This business plan outlines eclectic dealers in the U.S. and Canada, as well as digital printing firms in the U.S.

4.1 Market Segmentation

Market Analysis							
Potential Customers	Growth	2005	2006	2007	2008	2009	CAGR
Eclectic Dealers U.S.	3%	1,500	1,545	1,591	1,639	1,688	3.00%
Eclectic Dealers Canada	2%	400	408	416	424	432	1.94%
Printing Firms	2%	200	204	208	212	216	1.94%
Total	2.70%	2,100	2,157	2,215	2,275	2,336	2.70%

Market Analysis (Pie)



4.2 Target Market Segment Strategy

Our target market is very focused. We offer the highest quality prints and original artwork to a network of eclectic art dealers throughout the U.S. and Canada.

4.3 Industry Analysis

There are approximately 1,500 eclectic dealers in the U.S. and about 500 eclectic dealers in Canada. For this business plan we have also included digital printing firms in the U.S. There are approximately 200 digital printing firms throughout the country.

5.0 Strategy and Implementation Summary

Our main strategy is built on the reliance of dealers throughout the U.S. and Canada to move the products at a quicker pace. As we continue to penetrate the dealer market space, product movement will be dramatically increased. We are presently working with a handful of dealers with plans to increase our dealer network to one hundred by the conclusion of 2005.

5.1 Competitive Edge

The competitive edge that Artistic Studios has over most other print houses is two-fold. We offer:

- **Highest Quality.** We don't settle for "good enough." We've worked hard to make Artistic Studios the best fine art digital printmaking studio in the world.
- **Service.** You'll find friendly, personalized service from people who understand fine art because we're also artists and photographers, and we know how important your work is to you.
- **Quick Turnaround.** We get your work back to you faster, usually within days instead of weeks or months.
- **Competitive Pricing.** In fact, we're one of the least expensive you'll find, but for the quality and service you'll receive, we're the best you'll find anywhere.

5.2 Milestones

Our milestones are listed in the following table:

Milestones	Start Date	End Date	Budget	Manager	Department
Milestone	2/17/2005	3/15/2005	\$0	Peter	Owner
Business Plan Completed					

Business Plan to Investor	2/22/2005	tbd	\$0	Peter	Owner
Funding Obtained	4/01/2005	tbd	\$0	Peter	Owner
General Manager Search/Hire	3/1/2005	4/1/2005	\$200	Peter	Owner
Sales Rep Hired	4/1/2005	4/15/2005	\$200	GM	Management
Sales Rep Training	4/16/2005	4/30/2005	\$500	GM	Management
Sales Rep Out Selling	5/1/2005	indel	\$13,500	Sales Rep	Sales
Increasing Dealers	3/1/2005	indel	\$14,400	ABC	Department
Totals			\$28,800		

6.0 Management Summary

Peter Artistic has over seven years experience in operating a digital printmaking business. He is highly capable of sizing up opportunities for moving products through the dealer and gallery channels. Peter is also very talented in hiring the right personnel for the printmaking business.

6.1 Organizational Structure

Peter Artistic is president and director of operations of Artistic Studios. Jerome Artistic sits on the board of directors, and is the creative consultant for the company.

6.2 Personnel Plan

The Company is moving toward a better-rounded staff as illustrated in the following table:

Personnel Plan	2005	2006	2007
Personnel			
General Manager	\$36,000	\$54,000	\$59,400
Production Manager/Peter Artistic	\$48,000	\$48,000	\$52,000
Production Worker/Lead	\$13,360	\$19,760	\$21,840
Production Worker	\$16,100	\$17,680	\$35,360
Production Worker/Part Time	\$9,400	\$6,760	\$13,520
Office/Clerical	\$11,760	\$16,640	\$17,680
Total Payroll	\$134,620	\$162,840	\$199,800
Total Headcount	7	8	10
Payroll Burden	\$26,924	\$32,568	\$39,960
Total Payroll Expenditures	\$161,544	\$195,408	\$239,760

6.3 Management Team

Peter Artistic is the president and founder of Artistic Studios, LLC. He founded the company in 1998 after researching the digital printmaking capabilities of IRIS printers for almost a year. After three years, production required expansion with more equipment, including a second IRIS printer. The following year a new type of printer was introduced

on the market, and Peter set out to be the first printmaker on the market with the new Roland printer. After acquiring the first Roland printer anywhere, within weeks he had it producing better prints than the distributor (also a competitor) and manufacturer thought possible.

Artistic Studios started with two customers and now has several hundred artists, photographers, and other clients. Local artists include Chris Young, Jim Norton, and Greg Olsen. National and international clients include Jerome Artistic, Guy Coheleach, and the Valentine Group.

Peter is a founding member of the International Association of Digital Fine Art Printmakers and current member of the board. He studied printmaking at the University of Miami and has spent the past fifteen years creating and selling his own hand-colored etchings and paintings as well as fine-art-related services for other artists through Clearwater Publishing.

Jerome Artistic Lincoln, Nebraska

Education: The University of Nebraska

Jerome Artistic was born and raised in Lincoln, Nebraska, and spent his boyhood admiring artists in the Midwest. Early on, he decided on a career in art, studying at the University of Nebraska. His paintings are rich in detail and muted in tone, true to the remote landscapes he chooses to illustrate. The Indian encampments, eclectic, and hunting subjects portrayed against these magnificent areas are rendered in such a way as to give the viewer a sense of gazing on the past.

Artistic best loves the dusky, grey, misty, muted tones of fall and early winter. His paintings evoke the early 19th century masters of the Hudson River School, artists whom he credits with deeply influencing his art. The mood he captures is that to which all painters of the mystique and power of the tradition and lore of the West aspire.

SELECTED EXHIBITIONS, HONORS, AND AWARDS:

2003 Prix de West Award, National Eclectic Hall of Fame, Oklahoma City, Oklahoma

1998 One-man show, National Hunting Museum, Amsterdam, Netherlands

1999 National Academy of Western Art, Oklahoma City, Oklahoma

Gold Medal Award (Watercolor)

1997 National Academy of Western Art, Oklahoma City, Oklahoma

Silver Medal Award (Oil)

1999 International Eclectic Exposition, Everard Read Gallery, Johannesburg, South Africa

1990 Hubbard Award for Excellence

1991 International Exhibition of Eclectic and Natural History

1997 Hubbard Award for Excellence

1989 One-man show, J.N. Bartfield Gallery, New York

1988 One-man show, J.N. Bartfield Gallery, New York
 1986 One-man show, Gerald Peters Gallery, Santa Fe, New Mexico
 1985 One-man show, Wunderlich & Co., New York
 1985 One-man show, Gerald Peters Gallery, Santa Fe, New Mexico
 1984 Museum of Western Art, Denver
 1984 One-man show, Wunderlich & Co., New York
 1983 Mongerson Gallery, Chicago
 1983 Charlie Russell Museum, Great Falls, Montana
 1981 Palm Springs Museum, Palm Springs, California
 1979 Gold & Silver Medal, Eclectic Hall of Fame, Oklahoma City, Oklahoma
 1979 One-man show, Kennedy Galleries, New York
 1977 One-man show, Kennedy Galleries, New York
 1977 One-man show, Buffalo Bill Historical Center, Cody, Wyoming
 1976 One-man show, Kennedy Galleries, New York

PRIVATE AND PUBLIC COLLECTIONS:

Proton International, Lincoln, Nebraska
 Gulf States Paper Corporation, Tuscaloosa, Alabama
 Texas Commerce Bank, Houston
 The White House, Washington, D.C.
 Anschutz Collection, Denver
 Corning Museum, New York
 Buffalo Bill Historical Center, Cody, Wyoming
 Charlie Russell Museum, Great Falls, Montana
 William Middendorf, Washington, D.C.
 Mack Pogue, Dallas
Sports Afield Magazine, New York
 Burt Reynolds, Los Angeles
 Hal Wallace, Los Angeles
 Clint Eastwood, Carmel, California
 Los Angeles Athletic Club, Los Angeles
 Steven L. Rose, Los Angeles
 Stan Kamen, Los Angeles

National Eclectic Art Museum, Jackson Hole, Wyoming
 Bill Kerr, Jackson Hole, Wyoming
 Ian Cumming, Leucadia Corporation, Salt Lake City
 John Huntsman, Huntsman Chemical Company, Salt Lake City
 Canadian Embassy
 Leaning Tree Museum, Colorado
 Long Grass Prairie Preserve, Oklahoma

COMMISSIONS:

1995 National Eclectic Art Museum, Jackson, Wyoming
 1985 Boone and Crockett Club, Brown Bear Conservation Stamp
 1986 Alaskan Professional Hunters Association, Grizzly Stamp
 1987 Alaskan Professional Hunters Association
 Hyatt Regency, Aspen, Colorado
 Leaning Tree Museum, Colorado

FILMS:

The Romantic Eclectic Landscape of Jerome Artistic, Ian Mandan producer

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 1996 *Salt Lake City*, November/December
 1995 *Southwest Art*, Commemorative Edition
Covering the West: The Best of Southwest Art, July
 1992 *Art of the West*, March/April
 1992 *Salt Lake City*, January
 1990 *Eclectic Art*, November/December
 1990 "Top Ten Investments for the 90s," *USA Today*
 1988 *Sporting Classics*, May/June
 1987 *Southwest Art*, November
 1987 *Sports Afield*, October
 1985 *Grays Sporting Journal*, Summer
 1984 *American Way*, May

1984 *Sports Afield*, July

1984 *Southwest Art*, January - Cover

1983 *Sports Afield*, April

1978 *Rocky Mountain Magazine*

1977 *Southwest Art*, February

1976 *Ten American Landscape Artists and How They Work*, edited by Susan Meyer, published by Watson Guptill

1975 *American Artist*, January

GALLERY REPRESENTATIONS:

Mongerson Wunderlich Galleries, Chicago, Illinois

Legacy Galleries, Jackson, Wyoming

J.N. Bartfield Galleries, New York, New York

Drummond Gallery, Coeur d'Alene, Idaho

Settlers West Gallery, Tucson, Arizona

Allman Art, Springville, Nebraska

6.4 Management Team Gaps

The current gaps that exist in the management team are in human resources, sales, and finance. The company is pursuing hiring personnel with skills; however, the influx of capital will be required in order to bring on the right people, and hire additional full-time managers.

7.0 Financial Plan

The most important element in the financial plan is the critical need for improving several of the key factors that impact cash flow:

1. We must at any cost emphasize the plan to sell both products and services to our clients and develop better customer service policies than our competition. This should also be a function of the shift in focus toward service revenues to add to the product revenues.
2. We hope to bring the gross margin to 77 percent and the net profit margin to 1.7 percent by the end of fiscal year 2005. This, too, is related to improving the mix between product and service revenues, because the service revenues offer much better margins. Gross margin is anticipated to remain steady for fiscal years 2006 and 2007 at about 72 percent. Net profit margins are anticipated to rise to 11.4 percent in fiscal year 2006 and

to 28.5 percent in fiscal year 2007.

3. We plan to borrow \$150,000 in equity financing and have commitments to fund potential acquisitions. The commitment for acquisitions has not yet been determined.

7.1 Important Assumptions

The financial plan depends on important assumptions, most of which are shown in the general assumptions table below. The key underlying assumptions are as follows: We assume a moderate-growth economy, without a major recession. We assume that there are no unforeseen changes in business and technology to make our products immediately obsolete. We assume access to equity capital and financing sufficient to maintain our financial plan as shown in the accompanying tables.

General Assumptions			
	2005	2006	2007
Short-term Interest Rate %	10.00%	10.00%	10.00%
Long-term Interest Rate %	10.00%	10.00%	10.00%
Payment Days Estimator	57	57	57
Collection Days Estimator	45	45	45
Inventory Turnover Estimator	3.00	3.00	3.00
Tax Rate %	25.00%	25.00%	25.00%
Expenses in Cash %	10.00%	10.00%	10.00%
Sales on Credit %	95.00%	95.00%	95.00%
Personnel Burden %	20.00%	20.00%	20.00%

7.2 Key Financial Indicators

We are assuming a 20 percent personnel burden for additional items such as vacation, insurance, and sick leave. As far as long-term and/or short-term debt, we have figured in an interest rate of 10 percent. This plan outlines a 25 percent tax burden.

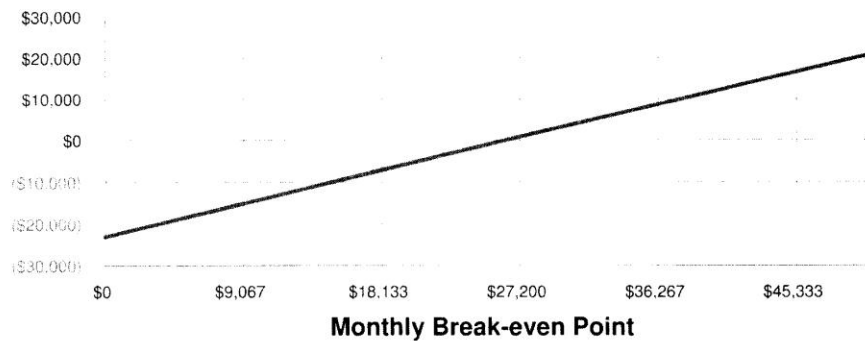
7.3 Break-even Analysis

For our break-even analysis, we assume monthly running costs of approximately \$26,000 per month, which includes our full payroll, rent and utilities, interest, telephone, and an estimation of marketing costs. Margins are harder to assume. Our overall average of \$1,133 per unit sold is based on an average of the three primary products that the company sells. We have calculated an average of 12.5 percent cost for each unit sold. We hope to attain a margin that will remain high in the future. The chart shows that we need to sell about twenty-three units per month to break even, according to these assumptions.

Break-even Analysis:	
Monthly Units Break-even	23
Monthly Sales Break-even	\$26,286
Assumptions:	
Average Per-unit Revenue	\$1,133.33

Average Per-unit Variable Cost \$141.67
Estimated Monthly Fixed Cost \$23,000

Break-even Analysis



Break-even point = where line intersects with 0

7.4 Projected Profit and Loss

The most important assumption in the projected profit and loss statement is the gross margin, which is estimated to be \$347,592 by the end of year one, \$488,972 at the conclusion of year two, and \$984,765 by the end of year three. Month-by-month assumptions for net profit margin are intended to achieve \$7,689 at the conclusion of year one, \$77,658 at the conclusion of year two, and \$388,557 by the end of year three.

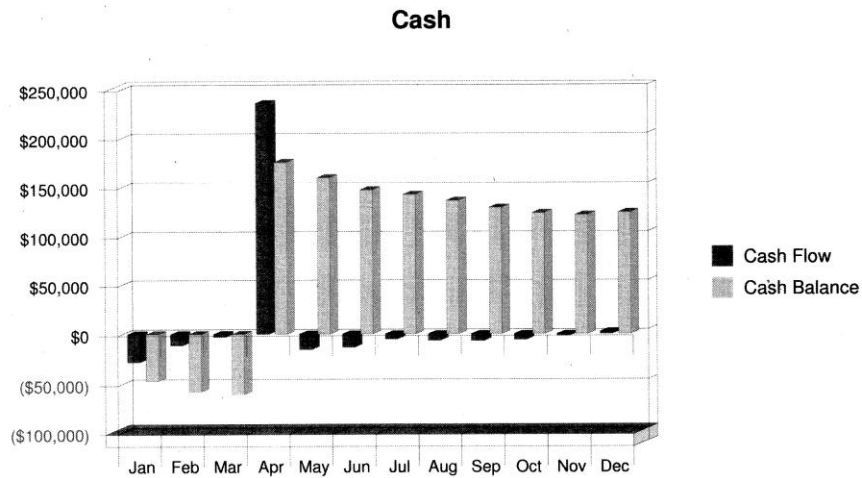
Profit and Loss (Income Statement)			
	2005	2006	2007
Sales	\$449,048	\$677,206	\$1,363,509
Direct Cost of Sales	\$60,051	\$86,654	\$174,217
Commissions	\$41,405	\$101,581	\$204,526
Total Cost of Sales	\$101,456	\$188,235	\$378,743
Gross Margin	\$347,592	\$488,972	\$984,765
Gross Margin %	77.41%	72.20%	72.22%
Operating Expenses:			
Advertising/Promotion	\$14,400	\$24,000	\$38,400
Travel	\$18,000	\$22,500	\$28,125
Miscellaneous	\$2,400	\$3,600	\$5,400
Payroll Expense	\$134,620	\$162,840	\$199,800
Payroll Burden	\$26,924	\$32,568	\$39,960
Depreciation	\$7,200	\$7,200	\$7,200
Leased Equipment	\$54,000	\$54,000	\$54,000
Utilities	\$10,015	\$12,540	\$13,794
Insurance	\$3,600	\$4,140	\$5,175
Legal and Professional Fees	\$3,600	\$4,140	\$5,175
Rent	\$32,400	\$34,200	\$36,000
Contract/Consultants	\$22,800	\$9,600	\$15,000
Website Costs	\$5,080	\$7,200	\$8,400
Entertainment/Sales Rep	\$2,050	\$6,600	\$9,900

	\$250	\$300	\$360
Mail			
Total Operating Expenses	\$337,339	\$385,428	\$466,689
Profit Before Interest and Taxes	\$10,252	\$103,544	\$518,076
Short-term Interest Expense	\$0	\$0	\$0
Long-term Interest Expense	\$0	\$0	\$0
Taxes Incurred	\$2,563	\$25,886	\$129,519
Extraordinary Items	\$0	\$0	\$0
Net Profit	\$7,689	\$77,658	\$388,557
Net Profit/Sales	1.71%	11.47%	28.50%

7.5 Projected Cash Flow

The cash flow depends on assumptions for projected sales revenue, inventory turnover, payment days, and accounts receivable management. Our projected forty-five-day collection days are critical and reasonable. We need \$150,000 in new financing to get through a cash flow dip in the next stages of the business to fund payroll, rent, utilities, and marketing and to acquire the necessary inventory as we build up for mid-year sales.

Pro-Forma Cash Flow	2005	2006	2007
Net Profit	\$7,689	\$77,658	\$388,557
Plus:			
Depreciation	\$7,200	\$7,200	\$7,200
Change in Accounts Payable	\$33,215	(\$6,420)	\$37,381
Current Borrowing (Repayment)	\$0	\$0	\$0
Increase (Decrease) Other Liabilities	\$0	\$0	\$0
Long-term Borrowing (Repayment)	\$0	\$0	\$0
Capital Input	\$150,000	\$0	\$0
Subtotal	\$298,104	\$78,438	\$433,138
Less:			
Change in Accounts Receivable	\$110,776	\$56,600	\$170,253
Change in Inventory	\$44,139	(\$6,440)	(\$2,807)
Change in Other Short-Term Assets	\$0	\$0	\$0
Capital Expenditure	\$0	\$0	\$0
Dividends	\$0	\$0	\$0
Subtotal	\$154,914	\$50,160	\$167,446
Net Cash Flow	\$143,190	\$28,277	\$265,692
Cash Balance	\$123,985	\$152,262	\$417,954



7.6 Projected Balance Sheet

The projected balance sheet is quite solid. We do not project any real trouble meeting our debt obligations, as long as we can achieve our specific objectives.

Pro Forma Balance Sheet

Assets	2005	2006	2007
Short-term Assets			
Cash	\$123,985	\$152,262	\$417,954
Accounts Receivable	\$111,397	\$167,997	\$338,250
Inventory	\$44,139	\$37,699	\$34,891
Other Short-term Assets	\$0	\$0	\$0
Total Short-term Assets	\$279,520	\$357,958	\$791,096
Long-term Assets			
Capital Assets	\$203,000	\$203,000	\$203,000
Accumulated Depreciation	\$136,200	\$143,400	\$150,600
Total Long-term Assets	\$66,800	\$59,600	\$52,400
Total Assets	\$346,320	\$417,558	\$843,496
Liabilities and Capital			
	2005	2006	2007
Accounts Payable	\$44,745	\$38,325	\$75,706
Short-term Notes	\$0	\$0	\$0
Other Short-term Liabilities	\$22,706	\$22,706	\$22,706
Subtotal Short-term Liabilities	\$67,451	\$61,031	\$98,412
Long-term Liabilities	\$0	\$0	\$0
Total Liabilities	\$67,451	\$61,031	\$98,412
Paid-in-Capital	\$270,181	\$270,181	\$270,181
Retained Earnings-Beginning	\$999	\$8,688	\$86,346
Earnings	\$7,689	\$77,658	\$388,557
Total Capital	\$278,869	\$356,527	\$745,084
Total Liabilities and Capital	\$346,320	\$417,558	\$843,496
Net Worth	\$278,869	\$356,527	\$745,084

7.7 Business Ratios

The table illustrates our main business ratios.

Ratio Analysis			
	2005	2006	2007
Profitability Ratios:			
Gross Margin	77.41%	72.20%	72.22%
Net Profit Margin	1.71%	11.47%	28.50%
Return on Assets	2.22%	18.60%	46.07%
Return on Equity	2.76%	21.78%	52.15%
Activity Ratios			
AR Turnover	3.83	3.83	3.83
Collection Days	48	79	71
Inventory Turnover	4.60	4.60	10.44
Accts Payable Turnover	6.37	6.37	6.37
Total Asset Turnover	1.30	1.62	1.62
Debt Ratios			
Debt to Net Worth	0.24	0.17	0.13
Short-term Liabilities to Liabilities	1.00	1.00	1.00
Liquidity Ratios			
Current Ratio	4.14	5.87	8.04
Quick Ratio	3.49	5.25	7.68
Net Working Capital	\$212,069	\$296,927	\$692,684
Interest Coverage	0.00	0.00	0.00
Additional Ratios			
Assets to Sales	0.77	0.62	0.62
Debt/Assets	19%	15%	12%
Current Debt/Total Assets	19%	15%	12%
Acid Test	1.84	2.49	4.25
Asset Turnover	1.30	1.62	1.62
Sales/Net Worth	1.61	1.90	1.83
Dividend Payout	\$0	\$0	\$0