

## 1.0 Executive Summary

### 1.0 Executive Summary

**The purpose of this document is to present the business plan for XXXXXX and to obtain a \$YYM funding to cover the initial 2-3 years of marketing and operating expenses linked to the business development.**

XXXXXX is a new recording and artist brand promotion business that will focus on some key new artists and will support its artists across all the key elements of branding, in order to diversify its revenue streams (records sales, merchandising & concerts-shows tickets sales) and maximize its profitability, with the record as the angular stone of the promotional and sales efforts.

XXXXXX's mission is to introduce quality artists with the longevity potential and a new-rejuvenated rock/pop and adult contemporary spirit and sound, to target audiences over bored with the mold of the present music industry in order to enable its core audiences to connect with music that will touch, with impact and authenticity, their heart and soul.

We believe that XXXXXX has the ability to develop a very successful and profitable label business over the next 2-3 years as:

**=> The size of Rock-Pop & Adult Alternative music market is consequent and shows positive signs of sustainability**

. Rock (Rock-Pop and Alternative) is still the biggest music genre in the US (XX% of sales in 2003 or \$3 Billion) and growing again its market share since 2001 (+ X% between 2001 and 2003), while all the other music genres are in stagnation or declining in market share (Source: RIAA)

**=> The current trend in the music business creates a support vacuum for artists that could lead to a high level of interest for new music companies with new business approaches**

\* The current business model of labels (particularly Majors) is showing clear signs of saturation and creates a support vacuum for artists (particularly independent) leading them to search for new and alternative ways to promote efficiently their music.

**=> The current state of the music business with sales under pressure, the increasing "conflict of interest" between music fans and music companies (ref: PtoP legal issues) and the growing feeling that the music business has lost its creative edge create positive elements that should/could profit a focused and innovative music promotion company**

**=> XXXXXX will leverage several competitive advantages:**

. **Competition:** While there are labels (independent) which base their approach on respecting the music and working on authenticity, we believe that there is no other label that will focus on that angle while combining it with a focus on rock-pop & AC, with a unique new rock spirit production approach that will be obtained from the expertise, knowledge and sensitivity of Vince McCartney

. **Business model:** No other label will leverage or be able to leverage quickly the same level of information-driven business expertise that XXXXXX will have through its partnership with Focus Marketing. Such an expertise will enable Golf Heart USA to focus its limited resources on its best-proven opportunities (market, target, etc.) therefore optimizing its chances to succeed and become a real attractive opportunity for artists.

. **Production:** The label has already its studio in place and will have Vince McCartney at the aim the studio and production process making the quality of the production and its process even more efficient.

. **Cost:** By having the production studio already in place, the cost for production will only be linked to marginal costs (electricity, etc.) for 2005 & 2006 productions.

**=> The business growth strategy will leverage intensively proven information analysis and information-driven marketing for optimum business results. As such, sales and marketing strategies will:**

. Be singularly focused on the top targets and markets, identified through information analysis for each album, to create the expected volume

. Be totally integrated to avoid waste

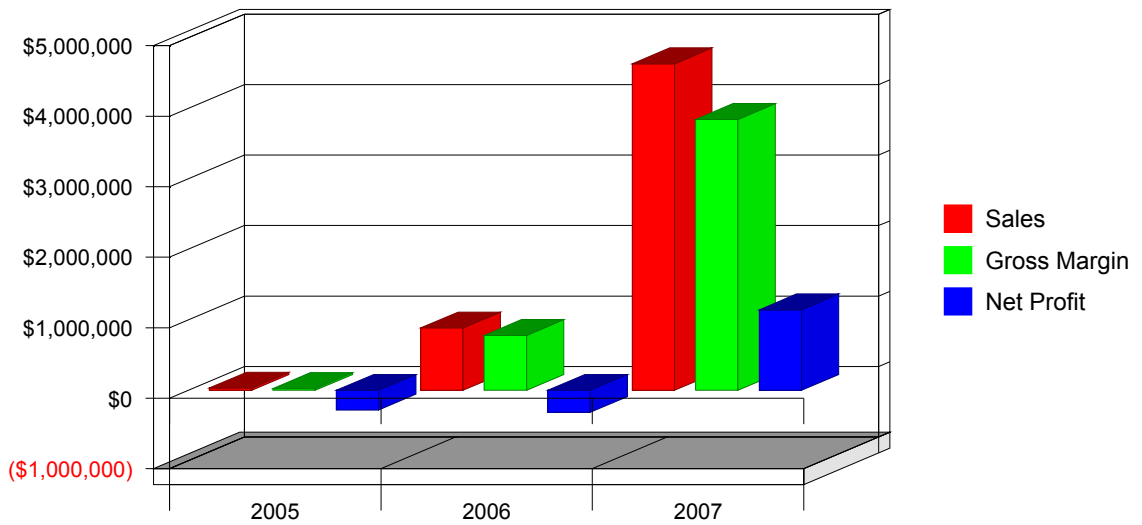
. Leverage the pre defined business focus and cost effective online capabilities to optimize the cost effectiveness of the sales and marketing efforts as well as maximize profitability

. Adopt a step by step increase of the business efforts with 2005 as the test year, 2006 as the first level of volume driven releases and 2007 as the big push while leveraging the key learnings acquired in 2005 & 2006 for optimum business impact.

Furthermore, Gold Hear USA will apply a unique disciplined "One market at a time" marketing and sales logic to optimize the leverage of its resources for optimum business results

**All in all, we are confident that XXXXXX will be able to break even in 2006 and become profitable in 2007 with \$ XX M in sales and \$ XX in profit after taxes**

### Highlights



## 1.1 Objectives

- \* Achieve \$ XXX sales on 2 albums in 2005 with losses limited to \$XXXX after taxes and interests
- \* Achieve \$ XXXX sales on 4 albums in 2006 with losses limited to \$XXXX after taxes and interests
- \* Achieve \$ XXM sales on 4 albums in 2007 with \$XXM net profit after taxes and interests

## 1.2 Mission

XXXXXX's mission is to introduce quality artists with the longevity potential and a new-rejuvenated rock/pop and adult contemporary spirit and sound, to target audiences over bored with the mold of the present music industry in order to enable its core audiences to connect with music that will touch, with impact and authenticity, their heart and soul.

## 1.3 Keys to Success

- \* Delivering music and artists that the core audience will find irresistible
- \* Deliver 2 albums with 2 artists (1 Rock-Pop act/ 1 AC act) in 2005 / 4 albums with 4 artists (2 Rock-pop acts / 2 AC acts) respectively in 2006 and 2007
- \* Have access to the distribution networks that will be able to "touch" the core audience by album/artist with impact and in volume
- \* Have access and leverage appropriate resources for PR, promotion, distribution & concerts-shows-shows
- \* Develop an impactful marketing and communication strategy and have access to most appropriate marketing channels for:
  - . XXXXXX as a label for the key business players in the music industry in order to obtain the appropriate support, access and exposure for the label artists
  - . Each artist for the core top audience that each artist will need to touch and communicate with for artist connection and optimum sales impact
- \* Have the appropriate financial resources to fund the initial albums productions and promotions before self funding occurs
- \* Have a cost effective production - manufacturing and storage infrastructure
- \* Have the core management in place and committed

## 2.0 Company Summary

XXXXXX is a recording and artist brand promotion business that will focus on some key new artists and will support its artists across all the key elements of branding, in order to diversify its revenue streams (records sales, merchandising & concerts-shows tickets sales) and maximize its profitability, with the record as the angular stone of the promotional and sales efforts.

## 2.1 Company Ownership

XXXXXX is owned at 100% by.....

### ACHIEVEMENTS:

1994: Multi Platinum "Best of Sade" by Sade (*Epic Records*)

1993: Double Platinum Album "Wilsche Dir: by Peter Reber (*Mercury Records*)

1991: Double Platinum Album "Famly Spirit" by Womack & Womack (*RCA Records*)

1989: Multi Platinum Album "COLOURS" Julio Iglesias (*Sony Internationl*)

1988: Multi Platinum "Stronger Then Pride" by Sade (*Epic Records*)

1988: Double Platinum Album "Conscious" by Womack & Womack (*Island Records*)

1985-present Received Gold Album awards for the following albums:

Robert Palmer, Anthrax, Melisa Etheridge, Takanaka, Yako Minamino, Status Quo, Bad Company, & Orange Juice Jones

## 2.2 Start-up Summary

\* Initial Business and Marketing support: \$XXXX

\* Formalized XXXXXX branding development and development- production of collateral-promotion materials

-> Creative development: \$XXX

-> Media kit (paper) (\$XXX)

-> Media Kit (CD Rom-DVD rom) (\$XXX)

\* Office supplies (business cards / letter heads/ etc.) (\$XXX)

\* Microsoft office, Microsoft project plan and Database-contact management software (already integrated)

\* Accounting software (already integrated)

\* Incorporation \$XX

\* New upgraded web site: \$XXX

\* Current Debt level : \$15K

\* \$XXXX for studio building cost as an additional debt/liability

\* Requirement for \$XXK additional investment in the studio to complete installation

\* Funding from investor(s): \$XXX M

**Table: Start-up**

Start-up

Requirements

Start-up Expenses

|                                |     |
|--------------------------------|-----|
| Legal                          |     |
| Stationery etc.                |     |
| Brochures                      |     |
| Consultants                    |     |
| Insurance                      | \$0 |
| Rent                           | \$0 |
| Research and Development       | \$0 |
| Expensed Equipment             |     |
| Other                          |     |
| <b>Total Start-up Expenses</b> |     |

Start-up Assets Needed

|                               |     |
|-------------------------------|-----|
| Cash Balance on Starting Date |     |
| Other Current Assets          | \$0 |
| <b>Total Current Assets</b>   |     |

|                           |     |
|---------------------------|-----|
| Long-term Assets          | \$0 |
| <b>Total Assets</b>       |     |
| <b>Total Requirements</b> |     |

Funding

Investment

|                         |     |
|-------------------------|-----|
| Investor 1              |     |
| Investor 2              | \$0 |
| Other                   | \$0 |
| <b>Total Investment</b> |     |

Current Liabilities

|                            |     |
|----------------------------|-----|
| Accounts Payable           | \$0 |
| Current Borrowing          |     |
| Other Current Liabilities  | \$0 |
| <b>Current Liabilities</b> |     |

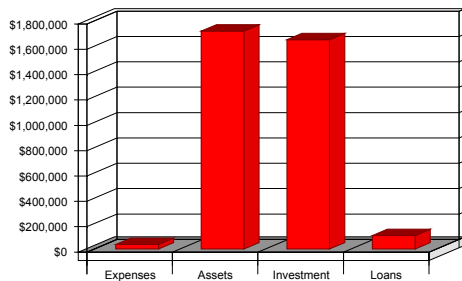
Long-term Liabilities

|                          |     |
|--------------------------|-----|
| <b>Total Liabilities</b> | \$0 |
|--------------------------|-----|

Loss at Start-up

|                                      |  |
|--------------------------------------|--|
| <b>Total Capital</b>                 |  |
| <b>Total Capital and Liabilities</b> |  |

**Start-up**



### **3.0 Products**

XXXXXX produces albums of Rock -Pop and AC music artists and groups. XXXXXX will promote the artists and their albums within a new context of a full scope-full range artist-music promotion approach:

- . Multiple-integrated artist brand promotion with the album as the core center but with applications and related revenue streams linked to merchandising, and touring (for 2007).
- . Artists-albums development and promotion across all the key elements of an artist brand in order to better manage-avoid the current financial risk for traditional label, associated with the focus on a single revenue stream (albums sales) while spending-investing at the brand level
- . The production approach will leverage a rejuvenated production approach with an authentic spirit, that will be supported by the unique talent of the head producer (XXX) and that will set the XXXXX productions apart from its competition, what ever it is at the market level or at the labels level

## 4.0 Market Analysis Summary

The specific artist market analysis, which will be at the foundation of each album promotion, will vary from artist to artist and therefore will be the subject of separate business and marketing plans for each new album that will be leveraging the same concepts of focus and information-driven marketing.

Overall, we can observe the following trends:

**=> The size of market is consequent and shows positive signs of sustainability**

. Rock (Rock-Pop and Alternative) is still the biggest music genre in the US (XX% of sales in 2003 or \$3 Billion) and growing again its market share since 2001 (+ X% between 2001 and 2003), while all the other music genres are in stagnation or declining in market share (Source: RIAA)

. Rock-Pop and Alternative represent 31% of total YTD sales in 2004 with Rock (Hard Music) being XX% of the sales and Alternative XX% of the sales (Source: Soundscan)

. Between those 2 sets of numbers, we can conclude that:

-> Rock generates grossly XX M sales per year (@\$XX average wholesale price: Source: NPD) and that XX million people buy Rock music albums per year (@ X albums per year per capita: source: XXXX)

-> Alternative generates grossly XX M sales/year (@\$XX average wholesale price: Source: NPD) and that XX million people buy Alternative music albums per year (@ X albums per year per capita: source: XXXX)

. New "authentic" Rock acts are coming to the market with various levels of success (Motley Crue, etc.)

**=> More and more artists from other music styles make the move to the rock genre (cross over) making the rock genre growing by cannibalization of other genres**

A particular trend is with the Christian music artists where more and more of those artists cross over to rock as the main genre (POD, etc.)

## 4.1 Market Segmentation

The refinement of the market segmentation will be led by the artists' top target in the roster. To achieve that level of sophistication, analysis will be engaged for each artist, leveraging their own fans database (if any), The NPD database, the Radio Airplay Media guide database, the Census bureau data and any other appropriate data, to refine the top segments to focus on and their potential.

In fact, under the rock-pop or alternative music genres, we have many sub genres (Classic Rock, Hard Rock, Metal, Pop, etc.) that are quite different one to another, making a detailed market level assessment difficult and even inappropriate.

Overall, we can say that:

. Rock (Rock-pop and alternative) is still the biggest music genre in the US (XX% of sales in 2003 or \$3 Billion) and growing again its market share since 2001 (+ X% between 2001 and 2003) while all the other music genres are in stagnation or declining in market share (Source: RIAA)

. Rock and Alternative represent XX% of total YTD sales in 2004 with Rock (Hard Music) XX% of the sales and Alternative XX% of the sales (Source: Soundscan)

. Between those 2 sets of numbers, we can conclude that:

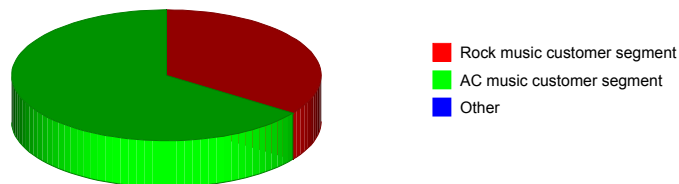
-> Rock generates grossly XX M sales per year (@\$XX average wholesale price: Source: NPD) and that XX million people buy Rock music albums per year (@ X albums per year per capita: source: XXXX)

-> Alternative generates grossly XX M sales/year (@\$XX average wholesale price: Source: NPD) and that XX million people buy Alternative music albums per year (@ X albums per year per capita: source: XXXX)

**Table: Market Analysis**

| Market Analysis             | Potential Customers | Growth | 2005  | 2006 | 2007 | 2008 | 2009 | CAGR  |
|-----------------------------|---------------------|--------|-------|------|------|------|------|-------|
| Rock music customer segment |                     | 3%     | XXXXX |      |      |      |      | 3.00% |
| AC music customer segment   |                     | 3%     | XXXXX |      |      |      |      | 3.00% |
| Other                       |                     | 0%     |       |      |      |      |      | 0.00% |
| Total                       |                     | 3.00%  | XXXXX |      |      |      |      | 3.00% |

**Market Analysis (Pie)**



## 4.2 Target Market Segment Strategy

The target market segmentation will be driven by the artists based analysis. For each artist, a top target bias will be established that will drive the specific target segmentation.

The unique process will be driven by the business support arm of the organization: Focus Marketing

## 4.3 Industry Analysis

At the high level, the following trends could be established for the music industry:

### INDUSTRY TRENDS:

#### **1) The current trend in the music business creates a support vacuum for artists that could lead to a high level of interest for new music companies with new business approaches**

\* The current business model of labels (particularly Majors) is showing clear signs of saturation and "fatigue" with sales under pressure ( Artists roster reduction, traditional marketing-promotion support for albums being even more limited than before, etc.).

\* Such a situation creates a support vacuum for artists (particularly independent) leading them to search for new and alternative ways to promote efficiently their music, which could constitute an opportunity for new labels and new artist support organizations providing those new and alternative ways to promote music

#### **2) The increasing accessibility and cost effectiveness of online tools create a set of opportunities for music businesses and artists to efficiently promote their music but online is not in it self the solution.** As a matter of fact, effective exposure through online channels becomes more expensive and online sales are still a very small 2% of overall music sales.

In such a context, a music company that will be able to:

-> Propose an efficient/best practices-driven label organization and business model

-> Apply those best practices to the online channels to generate cost-effective online promotions

Will be able to capture the attention of the independent artists community and among those, the artists with high potential and professionalism

#### **3) The current state of the music business with sales under pressure, the increasing "conflict of interest" between music fans and music companies (ref: PtoP legal issues) and the growing feeling that the music business has lost its creative edge create positive elements** that should/could profit a focused and innovative music promotion company like a new label, that can give life back to authenticity and spirit in music production.

#### **4) Nevertheless, any new music companies will still face the financial, infrastructure and skills pressure from its competition as those resources are substantially concentrated on a limited number of big labels players** with disproportionate capabilities. This will make the access to the appropriate resources and the access to the target market very challenging and/or potentially costly.

Such a situation requires to be highly focused on some top business opportunities identified through rigorous business analysis, to build the most effective infrastructure linked to those specific opportunities and develop a marketing plan that will be laser focus on the top targets...in order to create an overwhelming force against the market target and build an optimized business traction.

### 4.3.1 Competition and Buying Patterns

**Major labels:** This level of competition, while still very large and explaining XX% of the market, doesn't seem to be a direct threat to the XXXXXX concept as those labels, under financial pressures, are retreating even more to established and high end artists. On the contrary, such a situation can create opportunities for XXXXXX as major labels are looking at other-smaller organizations to bring an artist to a level of artistic and business success that can become attractive to them. As such, XXXXXX could play that role and develop some partnerships for his "winning" artists that will be mutually beneficial.

Their characteristic is that they have the financial power to overwhelm the market and the music distributor shelves, therefore creating very little space for the independent labels.

**High end independent labels:** The number of high end independent labels is also limited while less than for the majors. They can constitute more easily a direct competition for high potential-new artists. A competitive advantage that XXXXXX will have on those will be its unique full artist brand/information-driven business model as those high end labels are still applying, at a lower scale though, the same business model than the majors...therefore facing the same limitations.

**Small independent labels:** The US has plenty of small labels but none of them has in any shape or form the business model that XXXXXX will apply

**Self entrepreneur artists:** This is/could a more direct threat as the "smart" artists could understand very quickly that they could be in a better shape managing their business directly than having someone else doing that...both from a career direction management stand point but also financially. Nevertheless, the burden of building a business structure is a clear deterrent for many of them

## 5.0 Strategy and Implementation Summary

XXXXXX will use a highly focused & targeted strategy to develop an effective and profitable label business. Our promise is in our highly attractive music products/artists combined with effective branding, that will provided a rejuvenated Rock-Pop and AC music experience to the core target.

The company will leverage Fortune 100 inspired best practices for its marketing, sales and business development strategies by focusing on its top target through marketing targeting capabilities (online and offline) and driving the exposures and sales efforts on the targets and markets that will be proven to provide with the highest return, leveraging the support of a Fortune 100 experienced marketing & business development team.

Ultimately, we will be providing music experiences to our core target that will be so well targeted that they will become totally unique and “accurate” experiences.

Strategic Assumptions:

1. Not everyone is equal and therefore we will be focusing on the top targets album by album where the product offering will be the most attractive within the context of the market and the current competition for each particular target.
2. Through a combination of targeted online/offline marketing (both new and traditional media as long as they are related our top targets) and institutional marketing/exposure efforts, we will be able to raise the business attractiveness and credibility of the company, which will allow us to achieve our sales and profit goals
3. We plan a step by step growth within the logic of systematic application, at higher levels, of best practices and the elimination of bad practices

## 5.1 Competitive Edge

XXXXXX will leverage several competitive advantages:

. **Competition:** While there are labels (independent) which base their approach on respecting the music and working on authenticity, we believe that there are no other labels that will focus on that angle while combining it with a focus on rock-pop & AC, with a unique new rock spirit production approach that will be obtained from the expertise, knowledge and sensitivity of Vince McCartney

. **Business model:** No other label will leverage or be able to leverage quickly the same level of information-driven business expertise that XXXXXX will have. Such an expertise will enable XXXXXX to focus its limited resources on its best-proven opportunities (market, target, etc.) therefore optimizing its chances to succeed and become a real attractive opportunity for artists.

. **Production:** The label has already its studio in place and will have Vince McCartney at the aim the studio and production process making the quality of the production and its process even more efficient.

. **Cost:** By having the production studio already in place, the cost for production will only be linked to marginal costs (electricity, etc.) and the potential revenue losses linked to not being able to use the studio for strict production services for third parties. Even there, the potential loss of revenue could be managed by a tight and disciplined schedule for the studio. In order to fully leverage this cost advantage, the internal studio will be used all for 2005 & 2006 productions. It is only in 2007 that external studios will be used for album production.

. **Artists:** XXXXXX has already established a roster of artists with clear potential for the 1st year at least

-> XXXX

-> XXXXX

-> XXXXXXXX

-> XXXXXXXX

-> XXXXX: Co writer for Phoebe Snow last album/ 20+ years of music experience

## 5.2 Marketing Strategy

The marketing strategy will be 2 folds for XXXXXXX

- . Artists focused
- . XXXXXXX focused

### 1) XXXXXXX focused marketing strategy

#### Marketing objectives:

- . Establish XXXXXXX as a real-serious player in the music business
- . Create the exposure and the credibility required to:
  - > Have "open" access to the key distribution, PR, booking, etc. players in the music industry, that will be required to implement the plans
  - > Motivate enough artists to work with XXXXXXX and particularly artists with the right potential and within the business focus of the label, in order to achieve the release and sales objectives

#### Marketing strategy:

To achieve those objectives, the following strategies will be developed:

- . Create exposure through online and professional magazines ads, PR and presence in major music conferences
- . Create artists leads through online ad, magazines ads, PR and presence in major music conferences

#### Marketing channels:

- . Online ad
- . Magazine ad
- . PR
- . Music conferences

### 2) Artists focused marketing strategy

**It is to be noted that for the artist focused marketing strategies, the marketing plan frame work is for the time being generic but the content (channels to be selected, target to focus on, tone & manner of the communication, etc.) will be specific to each artist based on his/her top target analysis. Such analysis could also reveal that the framework will have to be changed/adapted as well. Below is mentioned the current generic framework for 2005.**

#### Marketing objective(s):

- . Establish exposure and credibility of each XXXXXXX artist on his top target and the related music professionals in a cost effective way within the limit of the planned budget by release
- . Generate high "purchase" propensity traffic/leads for concerts-shows and ultimately albums sales (and marginally merchandising).
- . Build on going business avenues through the building a fans database that will be used to further sales and extract new key learnings to improve the targeting and the marketing approach
- . Reach specific sales conversion rates of the generated leads traffic (concerts-shows, offline or online) to achieve planned sales (Albums sales and marginally merchandise sales)

## **Marketing strategy:**

### ***-> Generate Awareness-Exposure & Leverage exposure to generate qualified high purchase propensity leads/traffic***

. Online marketing/ad in selected web sites that the top target is the most surfing on / with traffic back to the artist web site for further exposure to music, albums sales, merchandise sales, tickets sales and mailing list

. Targeted search engines marketing in 2006 & 2007 (with specific key words) with traffic back to the artist web site for further exposure to music, albums sales, merchandise sales, tickets sales and mailing list

. Free communities posting on subjects (web logs) where the top target is the most interested (IE proxy artists web logs) / with traffic back to the artist web site for further exposure to music, albums sales, merchandise sales, tickets sales and mailing list

. PR with key music & media players in the selected top markets for optimum snow ball exposure coverage

. Radio promotion on the key radios with the top markets for optimum exposure (to be linked with store promotions for sales conversion optimization)

### ***-> Build main hub-multimedia-entertaining artist web site to optimize the conversion of the online traffic leads in high purchase propensity leads and actual albums-merchandise sales***

. Integrate interactive-multimedia sections to optimize experience (including when appropriate a video that can also be used for online ad)

. Integrate online sales capabilities

### ***-> Engage a high level of touring as a key lead to direct sales (albums and merchandise) and exposure volume***

. Implement Street teams to generate awareness and traffic to concerts-shows in selected top markets with planned concerts-shows

. Organize concerts-shows in selected markets with optimized direct sales of albums and merchandises on site.

### ***-> Establish national distribution for albums for awareness and exposure conversion in sales, with a promotional focus on retailers types and locations the most related to the top target and the top markets (with an additional focus for top market with concerts-shows) for sales conversion optimization***

. Implement Online stores distribution nationally (when appropriate) and engage specific distribution-promotions-advertising activities on a set of selected key online stores the most "related" to the top target / with sales traffic maintained on stores site

. Implement Traditional stores distribution nationally (when appropriate) and engage distribution-promotion on a set of selected key stores the most "related" to the top target (to be linked to radio promotion and concerts-shows)

=====

The number of channels, the size of the efforts and the quality of those channels-media will increase over time with the increased level of marketing & distribution investment-budgets by release over the years and the assumed increasing quality and appeal of the new albums over time:

\$XXk budget/album for 2 releases in 2005

\$XXK budget/album for 4 releases in 2006

\$XXXXK budget/album for 4 releases in 2007

### 5.3 Sales Strategy

The sales strategy for XXXXXXX will be primary focused on 3 revenue streams:

- . Albums sales
- . Merchandise sales
- . Concert-Show ticket sales (Starting in 2007 with effective sales of \$20 concert ticket for XXXXXXX artists)

To achieve those sales, various sales channels will be leveraged:

- . Intense Touring
- . Events
- . Online distribution
- . Traditional national and "local-regional" distribution

This will require some key elements to be successfully managed:

- . Access to a high number of touring-show venues with audience volume potential requiring the integration of a concert booking support (virtual initially)
- . Access to major online distribution channels with real exposure potential for the XXXXXXX artists
- . Access to national traditional distribution through established and successful music distribution organizations with the need for them to have regionally strong presence or players in order to leverage efficiently the markets focus that be linked to the top target profile for each artist/album. We have established initial business relationships with a key distributor in the US: XXXXXXXXX

The key objective of the related marketing strategy will be to bring qualified - high purchase propensity consumers-fans to those channels in order to achieve the sales, revenue and profitability objectives.

To do so, the sales strategy and the marketing strategies will need to:

- . Be singularly focused on the top targets and markets to create the expected volume for each album.
- . Be totally integrated to avoid waste
- . Leverage the pre defined business focus and cost effective online capabilities to optimize the cost effectiveness of the sales and marketing efforts as well as maximize profitability
- . Furthermore, XXXXXXXXX will apply a disciplined "One market at a time" marketing and sales logic where:
  - . Top markets will be identified through the artist top target analysis
  - . Those top markets will be phased out over the 5 months of touring, with synchronized single release, radio promotion, PR, distribution efforts and street team efforts

### 5.3.1 Sales Forecast

The sales forecast is driven by the following elements:

#### \* 2005

-> Initial budget for albums in 2005 limited to XXXK /album

-> All marketing efficiency rates are planned to be below the averages for online ad, radio airplay, etc. as related to the fact that no business traction exists at that time and will need to be created.

-> 2005 will constitute a business foundation year where the business and marketing model behind XXXXXX will be formally tested to extract key learnings that will be applied at larger scales in 2006 & 2007.

#### \* 2006

-> Unit budget for 2006 albums will be \$XXXXK.

-> It is assumed that efficiency of marketing activities will be in par with marketing performance averages and improved by 20% to 25% for experience driven performances due to:

-> New album for the most effective 2005 artists, therefore the new album promotion will profit from a better business foundation

-> New artists that will be selected will higher potential due to the higher profile that the label will have gained

-> The size of the effort will be increased on key elements: Online ad, PR, Radio airplay, Online distribution and traditional distribution with a first integration of search engines marketing in order to start generating higher volumes

#### \* 2007

-> Unit budget for 2007 albums will be \$XXXXK

-> The marketing efficiency will be improved by 20% to 25% over 2006 due to the roll out of best practices from 2005 & 2006.

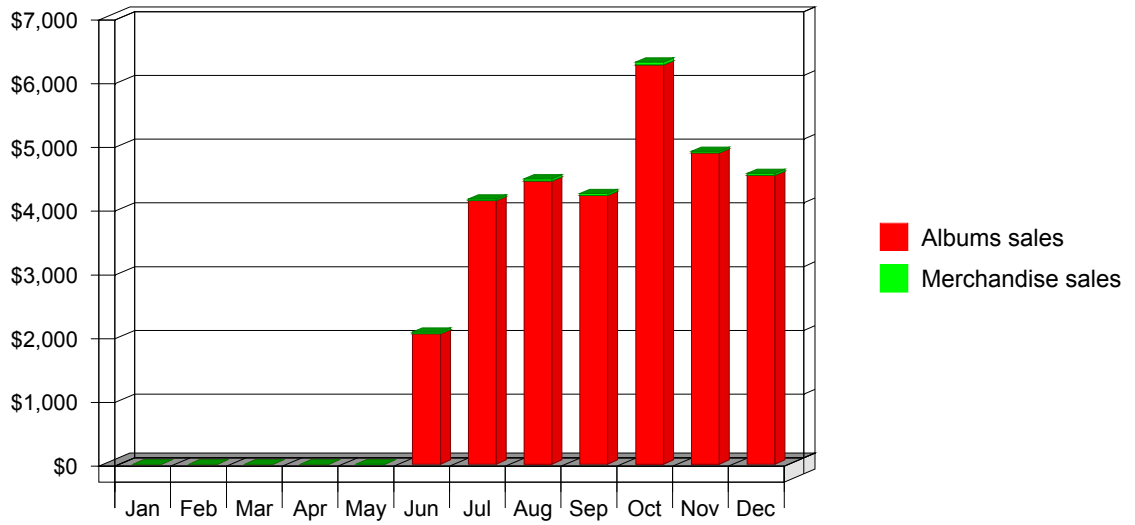
-> Search engines marketing will be pushed to its full scope with high volume impact

-> The size of the effort will be also substantially increased in line with the higher budget to fully leverage the business impact of the adjusted-optimized business and marketing model on higher level artists

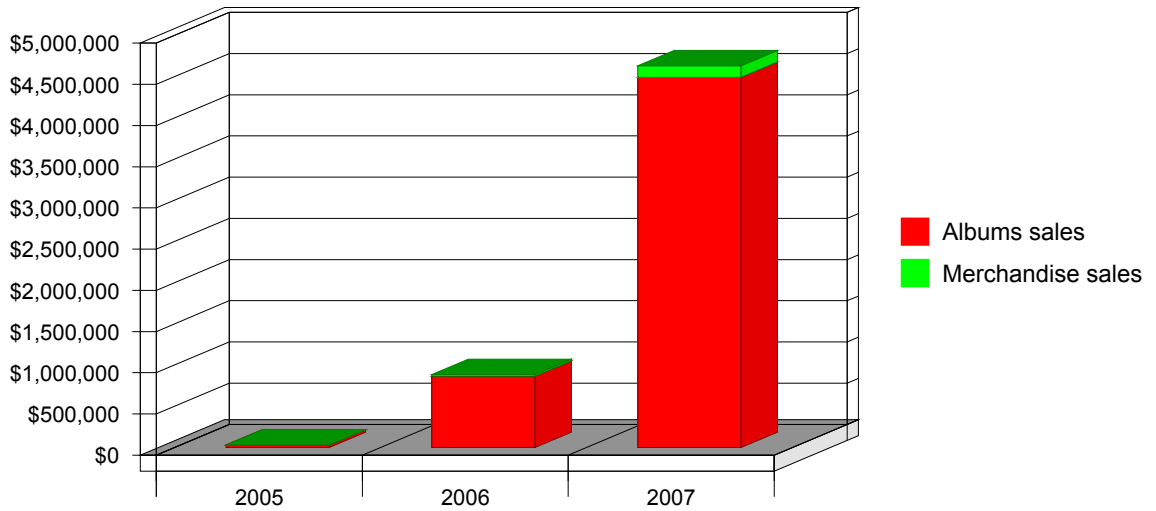
**Table: Sales Forecast**

|                               |          |           |             |
|-------------------------------|----------|-----------|-------------|
| Sales Forecast                |          |           |             |
| Sales                         | 2005     | 2006      | 2007        |
| Albums sales                  | \$30,512 | \$865,445 | \$4,491,089 |
| Merchandise sales             | \$226    | \$19,220  | \$141,925   |
| Total Sales                   | \$30,738 | \$884,665 | \$4,633,014 |
| Direct Cost of Sales          |          |           |             |
| Manufacturing                 | \$5,340  | \$106,352 | \$591,034   |
| Production                    | \$0      | \$0       | \$200,000   |
| Subtotal Direct Cost of Sales | \$5,340  | \$106,352 | \$791,034   |

### Sales Monthly



### Sales by Year



### 5.4 Milestones

- 1<sup>st</sup> 2005 release =>
- 2<sup>nd</sup> 2005 release =>
- 1<sup>st</sup> release 2006=>
- 2<sup>nd</sup> release 2006=>
- 3<sup>rd</sup> & 4<sup>th</sup> 2006 releases=>
- 1<sup>st</sup> release 2007=>
- 2<sup>nd</sup> release 2007=>
- 3<sup>rd</sup> & 4<sup>th</sup> 2007 releases=>

## 6.0 Web Plan Summary

XXXXXX will have 2 types of web site linked to its marketing strategy

### **XXXXXX web site:**

The purpose of the XXXXXX web site will be to support the XXXXXX label marketing strategy in order to:

- \* Generate awareness and credibility for the label
- \* Allow the access to the required quality resources needed by the label
- \* Attract the right type of artists for supporting the growth of the label

### **Specific artist web site:**

The specific artist web site will act as the main online hub to optimize the traffic generated directly by online Ad and community postings and indirectly by concerts-shows, PR, Radio promotion & street teams, into sales for albums and marginally for merchandise

## 6.1 Website Marketing Strategy

### **XXXXXX web site:**

The purpose of the XXXXXX web site will be to support the XXXXXX label marketing strategy in order to:

- \* Generate awareness and credibility for the label
- \* Allow the access to the required quality resources needed by the label
- \* Attract the right type of artists for supporting the growth of the label

As such, the web site will have to:

- > Be highly professional
- > Be totally linked to the branding and positioning of the label
- > Integrate various sections aimed at the different top targets that the label will have as a business: Music professional, media, etc.
- > Support the expansion of the label exposure and its artists.
- > Build credibility and attractivity for the label
- > Support the expansion of the roster of artists with high potential-quality artists

### **Specific artist web site:**

The specific artist web site will act as the main online hub to optimize the traffic generated directly by online Ad and community postings and indirectly by concerts-shows, PR, Radio promotion & street teams, into sales for albums and marginally for merchandise

The web site branding will be primary driven by the branding for the artist and his/her top target within the XXXXXX branding framework.

The web site will have various parts to support its main objective:

- . An interactive-multimedia part to reinforce the musical experience for the visitor with leads to albums purchase
- . A shop section where people can find albums and merchandise for purchase

. An online merchant capability to accept purchases online

## **6.2 Development Requirements**

\* Flash based web sites

\* Integration of multi media capabilities

## 7.0 Management Summary

The management team will be directly composed by:

XXXX CEO & President

XXXXXX Executive Vice President

The other functions will be supported through third parties as follow:

- . Admin support (accounting, invoicing, filing, studio time tracking, typing, etc.)
- . Booking agent
- . Distribution
- . Lawyer
- . Radio promotion
- . Marketing-business management support (Focus Marketing)

## 7.1 Personnel Plan

The CEO and EVP will receive the following salaries:

\* \$ XXXX/month each starting in April 2005

\* \$ XXXX/month each in 2006

\* \$XXXX/month in 2007 for EVP

\* \$XXXX/month in 2007 for CEO-President

**Table: Personnel**

| Personnel Plan           | 2005 | 2006 | 2007 |
|--------------------------|------|------|------|
| CEO & President          |      |      |      |
| Executive Vice President |      |      |      |
| Other                    |      |      |      |
| Total People             |      |      |      |
| Total Payroll            |      |      |      |

## 8.0 Financial Plan

- We want to finance growth mainly through cash flow and secondary through initial sales due to the test approach in 2005 and in some instances in 2006.
- We recognize that this means we will have to grow quite steadily after that to generate the revenue required to cover our funding & liabilities requirements.
- Collection days are very important. Due to the traditional "lay back" situation with the music business for payment of invoices or royalties, we have deliberately estimated collections days at 90 days to simulate a worst case scenario. This is reinforcing the need of investment for engaging the business activities
- We must maintain gross margins of 80+ percent at the least as we will spend heavily on marketing to overcome the inertia in the market place for new comers and reach relatively quickly a size that will make XXXXXX attractive to high profile artists and major industry players.

## 8.1 Important Assumptions

The financial plan depends on important assumptions, most of which are shown in the following table. The key underlying assumptions are:

- We assume a slow-growth market limited at 3% annually
- We assume a high growth level for the company it self
- We assume access to equity capital and financing sufficient to maintain our financial plan as shown in the tables.
- We assume that a third party support approach for some key functions will be viable

**Table: General Assumptions**

| General Assumptions     | 2005      | 2006        | 2007        |
|-------------------------|-----------|-------------|-------------|
| Plan Month              | 1         | 2           | 3           |
| Current Interest Rate   | 15.00%    | 15.00%      | 15.00%      |
| Long-term Interest Rate | 10.00%    | 10.00%      | 10.00%      |
| Tax Rate                | 30.00%    | 30.00%      | 30.00%      |
| Sales on Credit %       | 75.00%    | 75.00%      | 75.00%      |
| Other                   | 0.00%     | 0.00%       | 0.00%       |
| Calculated Totals       |           |             |             |
| Payroll Expense         | \$74,988  | \$100,000   | \$450,000   |
| Sales on Credit         | \$23,054  | \$663,499   | \$3,474,761 |
| New Accounts Payable    | \$234,858 | \$1,097,390 | \$3,041,439 |

## 8.2 Break-even Analysis

\* \$ 10 revenue per unit sold (Wholesale price paid by album by the distributor=> Low end whole sale price for independent labels)

\* \$ 1.5/ unit for manufacturing (driven by \$ 1.5/CD for complete CD manufacturing)

\* Fixed expenses include:

-> Payroll for President and Vice President

-> Insurance

-> Legal

-> Office supplies

-> Utilities

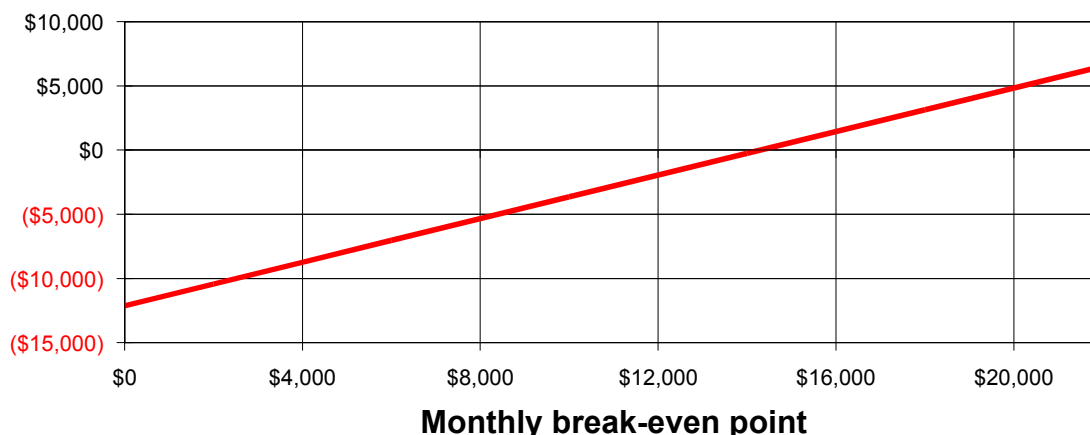
-> Rent

-> Admin support

**Table: Break-even Analysis**

|                                |          |
|--------------------------------|----------|
| Break-even Analysis:           |          |
| Monthly Units Break-even       | 1,430    |
| Monthly Revenue Break-even     | \$14,302 |
| Assumptions:                   |          |
| Average Per-Unit Revenue       | \$10.00  |
| Average Per-Unit Variable Cost | \$1.53   |
| Estimated Monthly Fixed Cost   | \$12,121 |

### Break-even Analysis



Break-even point = where line intersects with 0

### 8.3 Projected Profit and Loss

The P&L projection is linked to the following elements:

\* Low levels of sales compared to marketing investments in 2005 and in some ways in 2006, in order to create business traction and a good foundation for future growth

\* Real growth will happen in 2007 with the combination of "high" potential albums project linked to the business foundation explained above, the application of proven marketing approaches (learned from activities in 2005 & 2006) and the increased marketing budget pressure

\* The label will grow step by step with the major push in 2007 where the level of high volume business return probability will have been increased due to the business foundations built in 2005 & 2006 as well as the higher budget

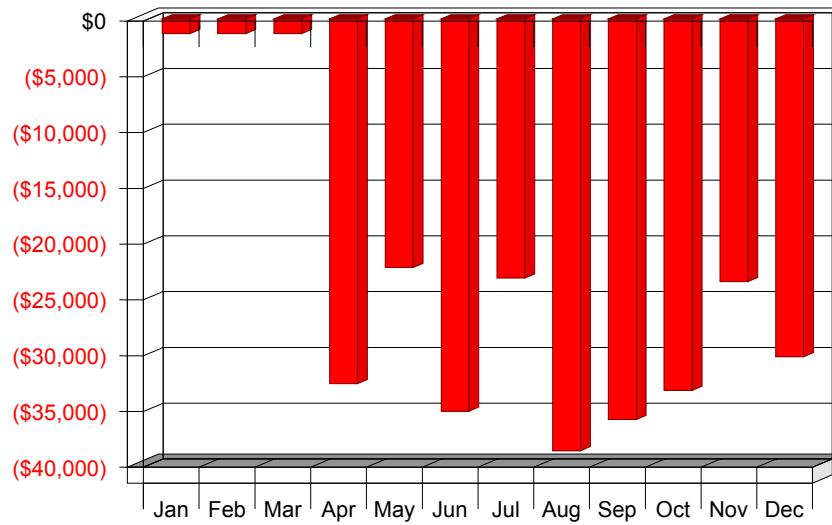
**Table: Profit and Loss**

Pro Forma Profit and Loss

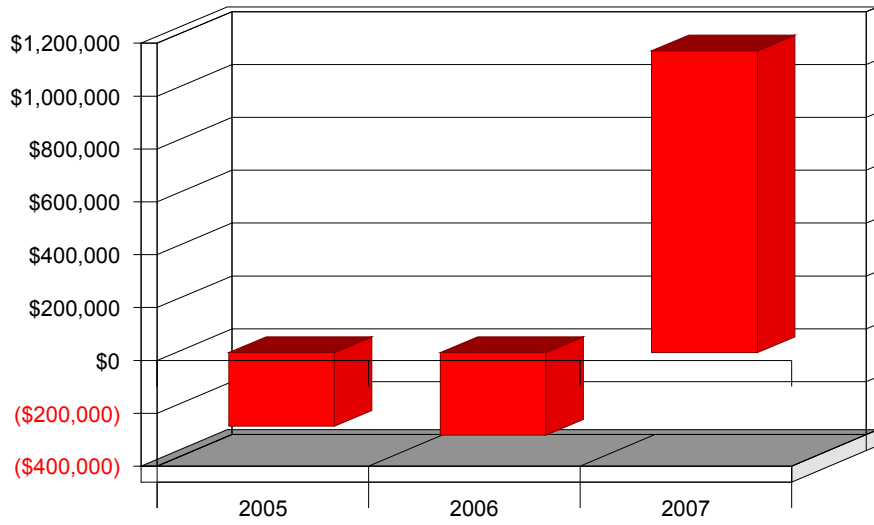
|                       | 2005     | 2006      | 2007        |
|-----------------------|----------|-----------|-------------|
| Sales                 | \$30,738 | \$884,665 | \$4,633,014 |
| Direct Costs of Goods | \$5,340  | \$106,352 | \$791,034   |
| Other Costs of Goods  | \$0      | \$0       | \$0         |
| Cost of Goods Sold    | \$5,340  | \$106,352 | \$791,034   |
| Gross Margin          | \$25,398 | \$778,313 | \$3,841,980 |
| Gross Margin %        | 82.63%   | 87.98%    | 82.93%      |
| Expenses:             |          |           |             |
| Payroll               | \$74,988 | \$100,000 | \$450,000   |

|  |                  |                    |                    |
|--|------------------|--------------------|--------------------|
| Sales and Marketing and Other Expenses | \$140,194        | \$784,634          | \$862,856          |
| Depreciation                           | \$0              | \$0                | \$0                |
| Rent                                   | \$9,000          | \$13,200           | \$14,520           |
| Utilities                              | \$1,800          | \$3,600            | \$2,400            |
| Insurance                              | \$0              | \$0                | \$0                |
| Payroll Taxes                          | \$11,248         | \$15,000           | \$67,500           |
| Other                                  | \$51,526         | \$158,854          | \$798,133          |
| <b>Total Operating Expenses</b>        | <b>\$288,756</b> | <b>\$1,075,288</b> | <b>\$2,195,409</b> |
| Profit Before Interest and Taxes       | (\$263,358)      | (\$296,975)        | \$1,646,571        |
| Interest Expense                       | \$15,750         | \$15,750           | \$15,750           |
| Taxes Incurred                         | \$0              | \$0                | \$489,246          |
| Net Profit                             | (\$279,108)      | (\$312,725)        | \$1,141,575        |
| Net Profit/Sales                       | -908.02%         | -35.35%            | 24.64%             |
| Include Negative Taxes                 | FALSE            | FALSE              | TRUE               |

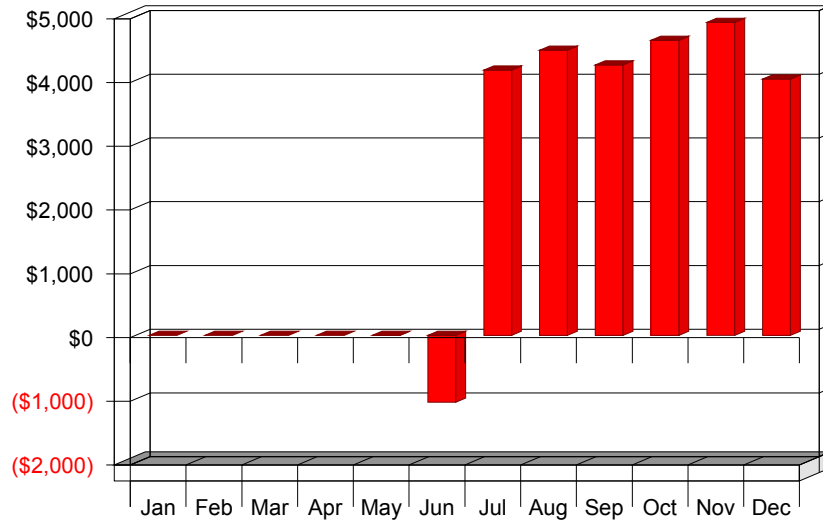
### Profit Monthly



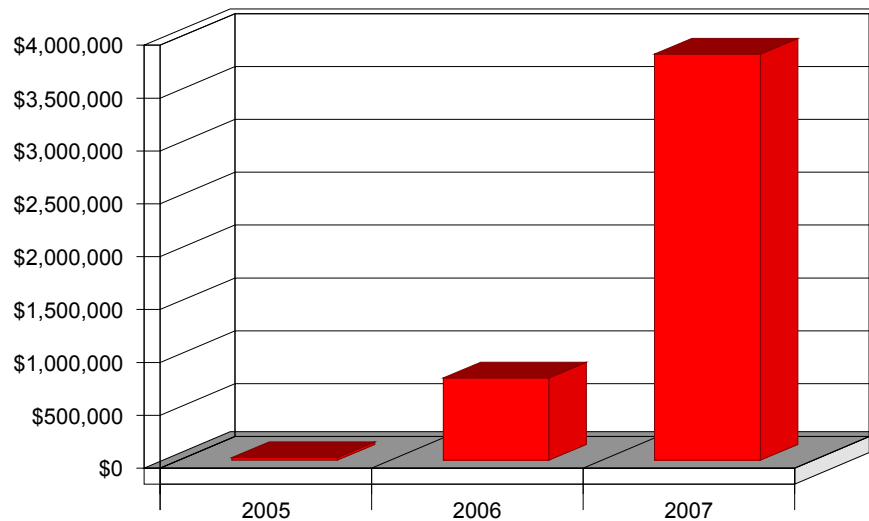
## Profit Yearly



## Gross Margin Monthly



## Gross Margin Yearly



### 8.4 Projected Cash Flow

\* Paid at 90 days for AR / 30 days for AP

\* We expect to manage cash flow over the next 2.5 years with an initial \$ 1.65 M investment to cover new releases costs and working capital as well as maintain a minimum \$190K-200K cash balance

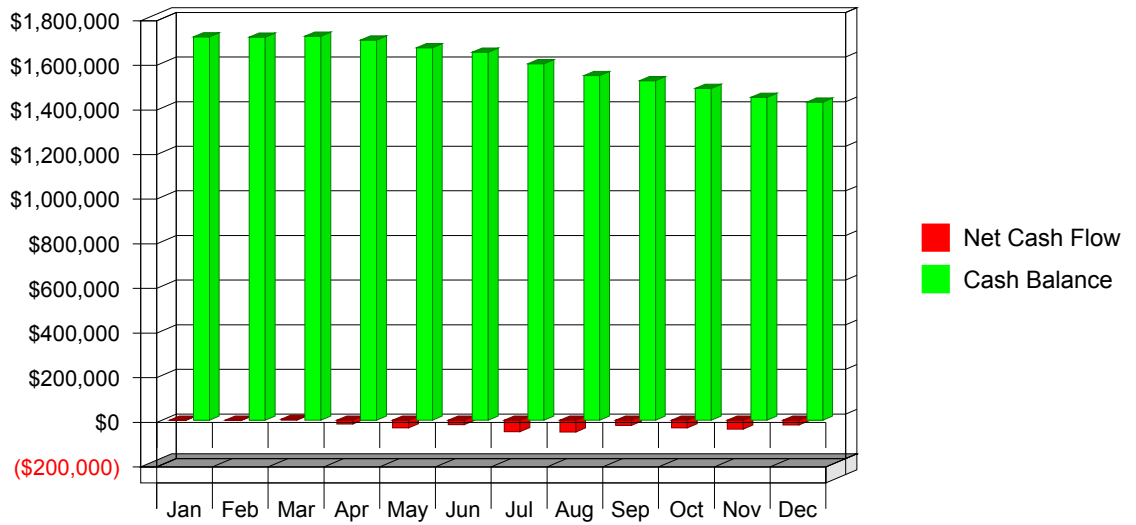
\* It is to be noted that many sales from the October 2007 albums will happen in 2008 (not counted in this business plan) while the integrality of the production costs and a very large proportion of the manufacturing and marketing costs will have occurred in 2007. Therefore, the cash balance for 2007 is negative in the plan by default and will disappear as the 2008 sales kick in.

**Table: Cash Flow**

| Pro Forma Cash Flow                   | 2005       | 2006        | 2007          |
|---------------------------------------|------------|-------------|---------------|
| Cash Received                         |            |             |               |
| Cash from Operations:                 |            |             |               |
| Cash Sales                            | \$7,685    | \$221,166   | \$1,158,254   |
| Cash from Receivables                 | (\$14,591) | (\$382,297) | (\$1,115,805) |
| Subtotal Cash from Operations         | (\$6,907)  | (\$161,131) | \$42,448      |
| Additional Cash Received              |            |             |               |
| Non Operating (Other) Income          | \$0        | \$0         | \$0           |
| Sales Tax, VAT, HST/GST Received      | \$0        | \$0         | \$0           |
| New Current Borrowing                 | \$0        | \$0         | \$0           |
| New Other Liabilities (interest-free) | \$0        | \$0         | \$0           |
| New Long-term Liabilities             | \$0        | \$0         | \$0           |
| Sales of Other Current Assets         | \$0        | \$0         | \$0           |
| Sales of Long-term Assets             | \$0        | \$0         | \$0           |
| New Investment Received               | \$0        | \$0         | \$0           |
| Subtotal Cash Received                | (\$6,907)  | (\$161,131) | \$42,448      |
| Expenditures                          | 2005       | 2006        | 2007          |
| Expenditures from Operations:         |            |             |               |
| Cash Spending                         | \$74,988   | \$100,000   | \$450,000     |
| Payment of Accounts Payable           | \$211,004  | \$434,700   | \$132,531     |
| Subtotal Spent on Operations          | \$285,992  | \$534,700   | \$582,531     |

|   |             |             |             |
|---|-------------|-------------|-------------|
| Additional Cash Spent                     |             |             |             |
| Non Operating (Other) Expense             | \$0         | \$0         | \$0         |
| Sales Tax, VAT, HST/GST Paid Out          | \$0         | \$0         | \$0         |
| Principal Repayment of Current Borrowing  | \$0         | \$0         | \$0         |
| Other Liabilities Principal Repayment     | \$0         | \$0         | \$0         |
| Long-term Liabilities Principal Repayment | \$0         | \$0         | \$0         |
| Purchase Other Current Assets             | \$0         | \$0         | \$0         |
| Purchase Long-term Assets                 | \$0         | \$0         | \$0         |
| Dividends                                 | \$0         | \$0         | \$0         |
| Subtotal Cash Spent                       | \$285,992   | \$534,700   | \$582,531   |
| Net Cash Flow                             | (\$292,898) | (\$695,830) | (\$540,083) |
| Cash Balance                              | \$1,426,602 | \$730,771   | \$190,688   |

### Cash



## 8.5 Projected Balance Sheet

As shown in the balance sheet in the following table, we expect a sustainable growth in net worth, from approximately \$1.3MK at year 1 to \$2.1M at year 3

The second year will see a drop of the net worth due to the increase in new releases investments to generate higher sales volume with year 1 proven artists and new artists with higher potential that XXXXXX will be able to attract due to its Year 1 track records.

**Table: Balance Sheet**

### Pro Forma Balance Sheet

| Assets                        | 2005        | 2006        | 2007        |
|-------------------------------|-------------|-------------|-------------|
| Current Assets                |             |             |             |
| Cash                          | \$1,426,602 | \$730,771   | \$190,688   |
| Accounts Receivable           | \$37,645    | \$1,083,440 | \$5,674,006 |
| Other Current Assets          | \$0         | \$0         | \$0         |
| Total Current Assets          | \$1,464,246 | \$1,814,212 | \$5,864,694 |
| Long-term Assets              |             |             |             |
| Long-term Assets              | \$0         | \$0         | \$0         |
| Accumulated Depreciation      | \$0         | \$0         | \$0         |
| Total Long-term Assets        | \$0         | \$0         | \$0         |
| Total Assets                  | \$1,464,246 | \$1,814,212 | \$5,864,694 |
| Liabilities and Capital       |             |             |             |
| Accounts Payable              | \$23,854    | \$686,545   | \$3,595,453 |
| Current Borrowing             | \$105,000   | \$105,000   | \$105,000   |
| Other Current Liabilities     | \$0         | \$0         | \$0         |
| Subtotal Current Liabilities  | \$128,854   | \$791,545   | \$3,700,453 |
| Long-term Liabilities         | \$0         | \$0         | \$0         |
| Total Liabilities             | \$128,854   | \$791,545   | \$3,700,453 |
| Paid-in Capital               | \$1,650,000 | \$1,650,000 | \$1,650,000 |
| Retained Earnings             | (\$35,500)  | (\$314,608) | (\$627,333) |
| Earnings                      | (\$279,108) | (\$312,725) | \$1,141,575 |
| Total Capital                 | \$1,335,392 | \$1,022,667 | \$2,164,242 |
| Total Liabilities and Capital | \$1,464,246 | \$1,814,212 | \$5,864,694 |
| Net Worth                     | \$1,335,392 | \$1,022,667 | \$2,164,242 |

## 8.6 Business Ratios

Standard business ratios are included in the table.

-> The ratios show a plan for aggressive but learnings-fact based growth.

-> We will spend heavily on very targeted marketing to generate the level of exposure and volume required to develop a healthy and growing label business

-> The sales by employee is artificially high as XXXXXX will leverage intensively partnerships to manage some of its core business functions over the 3 years

**Table: Ratios**

| Ratio Analysis                             | 2005        | 2006        | 2007        | Industry Profile |
|--|-------------|-------------|-------------|------------------|
| Sales Growth                               | 0.00%       | 2778.08%    | 423.70%     | -43.31%          |
| Percent of Total Assets                    |             |             |             |                  |
| Accounts Receivable                        | 2.57%       | 59.72%      | 96.75%      | 30.91%           |
| Inventory                                  | 0.00%       | 0.00%       | 0.00%       | 33.16%           |
| Other Current Assets                       | 0.00%       | 0.00%       | 0.00%       | 17.91%           |
| Total Current Assets                       | 100.00%     | 100.00%     | 100.00%     | 81.98%           |
| Long-term Assets                           | 0.00%       | 0.00%       | 0.00%       | 18.02%           |
| Total Assets                               | 100.00%     | 100.00%     | 100.00%     | 100.00%          |
| Current Liabilities                        |             |             |             |                  |
| Long-term Liabilities                      | 8.80%       | 43.63%      | 63.10%      | 29.99%           |
| Total Liabilities                          | 0.00%       | 0.00%       | 0.00%       | 9.89%            |
| Net Worth                                  | 8.80%       | 43.63%      | 63.10%      | 39.88%           |
|  | 91.20%      | 56.37%      | 36.90%      | 60.12%           |
| Percent of Sales                           |             |             |             |                  |
| Sales                                      | 100.00%     | 100.00%     | 100.00%     | 100.00%          |
| Gross Margin                               | 82.63%      | 87.98%      | 82.93%      | 24.12%           |
| Selling, General & Administrative Expenses | 990.65%     | 123.33%     | 58.29%      | 16.12%           |
| Advertising Expenses                       | 0.00%       | 0.00%       | 0.00%       | 0.48%            |
| Profit Before Interest and Taxes           | -856.78%    | -33.57%     | 35.54%      | 1.54%            |
| Main Ratios                                |             |             |             |                  |
| Current                                    | 11.36       | 2.29        | 1.58        | 2.71             |
| Quick                                      | 11.36       | 2.29        | 1.58        | 1.46             |
| Total Debt to Total Assets                 | 8.80%       | 43.63%      | 63.10%      | 2.24%            |
| Pre-tax Return on Net Worth                | -20.90%     | -30.58%     | 75.35%      | 42.29%           |
| Pre-tax Return on Assets                   | -19.06%     | -17.24%     | 27.81%      | 3.88%            |
| Business Vitality Profile                  |             |             |             |                  |
|  | 2005        | 2006        | 2007        | Industry         |
| Sales per Employee                         | \$0         | \$0         | \$0         | \$328,735        |
| Survival Rate                              |             |             |             | 68.22%           |
| Additional Ratios                          |             |             |             |                  |
|  | 2005        | 2006        | 2007        |                  |
| Net Profit Margin                          | -908.02%    | -35.35%     | 24.64%      | n.a              |
| Return on Equity                           | -20.90%     | -30.58%     | 52.75%      | n.a              |
| Activity Ratios                            |             |             |             |                  |
| Accounts Receivable Turnover               | 0.61        | 0.61        | 0.61        | n.a              |
| Collection Days                            | 290         | 308         | 355         | n.a              |
| Inventory Turnover                         | 0.00        | 0.00        | 0.00        | n.a              |
| Accounts Payable Turnover                  | 9.85        | 1.60        | 0.85        | n.a              |
| Payment Days                               | 25          | 118         | 257         | n.a              |
| Total Asset Turnover                       | 0.02        | 0.49        | 0.79        | n.a              |
| Debt Ratios                                |             |             |             |                  |
| Debt to Net Worth                          | 0.10        | 0.77        | 1.71        | n.a              |
| Current Liab. to Liab.                     | 1.00        | 1.00        | 1.00        | n.a              |
| Liquidity Ratios                           |             |             |             |                  |
| Net Working Capital                        | \$1,335,392 | \$1,022,667 | \$2,164,242 | n.a              |
| Interest Coverage                          | -16.72      | -18.86      | 104.54      | n.a              |
| Additional Ratios                          |             |             |             |                  |
| Assets to Sales                            | 47.64       | 2.05        | 1.27        | n.a              |
| Current Debt/Total Assets                  | 9%          | 44%         | 63%         | n.a              |
| Acid Test                                  | 11.07       | 0.92        | 0.05        | n.a              |
| Sales/Net Worth                            | 0.02        | 0.87        | 2.14        | n.a              |
| Dividend Payout                            | 0.00        | 0.00        | 0.00        | n.a              |

**Appendix Table: Sales Forecast**

| Sales Forecast                | Jan | Feb | Mar | Apr | May | Jun     | Jul     | Aug     | Sep     | Oct     | Nov     | Dec     |
|-------------------------------|-----|-----|-----|-----|-----|---------|---------|---------|---------|---------|---------|---------|
| Sales                         |     |     |     |     |     |         |         |         |         |         |         |         |
| Albums sales                  | \$0 | \$0 | \$0 | \$0 | \$0 | \$2,045 | \$4,134 | \$4,442 | \$4,217 | \$6,262 | \$4,883 | \$4,529 |
| Merchandise sales             | \$0 | \$0 | \$0 | \$0 | \$3 | \$26    | \$27    | \$34    | \$26    | \$49    | \$27    | \$34    |
| Total Sales                   | \$0 | \$0 | \$0 | \$0 | \$3 | \$2,071 | \$4,161 | \$4,476 | \$4,243 | \$6,311 | \$4,910 | \$4,563 |
| Direct Cost of Sales          |     |     |     |     |     |         |         |         |         |         |         |         |
| Manufacturing                 | \$0 | \$0 | \$0 | \$0 | \$0 | \$3,120 | \$0     | \$0     | \$0     | \$1,682 | \$0     | \$538   |
| Production                    | \$0 | \$0 | \$0 | \$0 | \$0 | \$0     | \$0     | \$0     | \$0     | \$0     | \$0     | \$0     |
| Subtotal Direct Cost of Sales | \$0 | \$0 | \$0 | \$0 | \$0 | \$3,120 | \$0     | \$0     | \$0     | \$1,682 | \$0     | \$538   |



**Appendix Table: General Assumptions**

General Assumptions

|                         | Jan     | Feb     | Mar     | Apr      | May      | Jun      | Jul      | Aug      | Sep      | Oct      | Nov      | Dec      |
|-------------------------|---------|---------|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Plan Month              | 1       | 2       | 3       | 4        | 5        | 6        | 7        | 8        | 9        | 10       | 11       | 12       |
| Current Interest Rate   | 15.00%  | 15.00%  | 15.00%  | 15.00%   | 15.00%   | 15.00%   | 15.00%   | 15.00%   | 15.00%   | 15.00%   | 15.00%   | 15.00%   |
| Long-term Interest Rate | 10.00%  | 10.00%  | 10.00%  | 10.00%   | 10.00%   | 10.00%   | 10.00%   | 10.00%   | 10.00%   | 10.00%   | 10.00%   | 10.00%   |
| Tax Rate                | 30.00%  | 30.00%  | 30.00%  | 30.00%   | 30.00%   | 30.00%   | 30.00%   | 30.00%   | 30.00%   | 30.00%   | 30.00%   | 30.00%   |
| Sales on Credit %       | 75.00%  | 75.00%  | 75.00%  | 75.00%   | 75.00%   | 75.00%   | 75.00%   | 75.00%   | 75.00%   | 75.00%   | 75.00%   | 75.00%   |
| Other                   | 0.00%   | 0.00%   | 0.00%   | 0.00%    | 0.00%    | 0.00%    | 0.00%    | 0.00%    | 0.00%    | 0.00%    | 0.00%    | 0.00%    |
| Calculated Totals       |         |         |         |          |          |          |          |          |          |          |          |          |
| Payroll Expense         | \$0     | \$0     | \$0     | \$8,332  | \$8,332  | \$8,332  | \$8,332  | \$8,332  | \$8,332  | \$8,332  | \$8,332  | \$8,332  |
| Sales on Credit         | \$0     | \$0     | \$0     | \$0      | \$2      | \$1,553  | \$3,121  | \$3,357  | \$3,182  | \$4,733  | \$3,683  | \$3,422  |
| New Accounts Payable    | \$1,313 | \$1,313 | \$1,313 | \$24,372 | \$13,952 | \$28,913 | \$19,066 | \$34,856 | \$31,821 | \$31,294 | \$20,114 | \$26,530 |

**Appendix Table: Profit and Loss**

Pro Forma Profit and Loss

|  | Jan       | Feb       | Mar       | Apr        | May        | Jun        | Jul        | Aug        | Sep        | Oct        | Nov        | Dec        |
|--|-----------|-----------|-----------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Sales                                  | \$0       | \$0       | \$0       | \$0        | \$3        | \$2,071    | \$4,161    | \$4,476    | \$4,243    | \$6,311    | \$4,910    | \$4,563    |
| Direct Costs of Goods                  | \$0       | \$0       | \$0       | \$0        | \$0        | \$3,120    | \$0        | \$0        | \$0        | \$1,682    | \$0        | \$538      |
| Other Costs of Goods                   | \$0       | \$0       | \$0       | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        |
| Cost of Goods Sold                     | \$0       | \$0       | \$0       | \$0        | \$0        | \$3,120    | \$0        | \$0        | \$0        | \$1,682    | \$0        | \$538      |
| Gross Margin                           | \$0       | \$0       | \$0       | \$0        | \$3        | (\$1,049)  | \$4,161    | \$4,476    | \$4,243    | \$4,629    | \$4,910    | \$4,025    |
| Gross Margin %                         | 0.00%     | 0.00%     | 0.00%     | 0.00%      | 100.00%    | -50.65%    | 100.00%    | 100.00%    | 100.00%    | 73.35%     | 100.00%    | 88.21%     |
| Expenses:                              |           |           |           |            |            |            |            |            |            |            |            |            |
| Payroll                                | \$0       | \$0       | \$0       | \$8,332    | \$8,332    | \$8,332    | \$8,332    | \$8,332    | \$8,332    | \$8,332    | \$8,332    | \$8,332    |
| Sales and Marketing and Other Expenses | \$0       | \$0       | \$0       | \$14,770   | \$7,650    | \$13,358   | \$11,498   | \$27,268   | \$19,048   | \$20,706   | \$12,498   | \$13,398   |
| Depreciation                           | \$0       | \$0       | \$0       | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        |
| Rent                                   | \$0       | \$0       | \$0       | \$1,000    | \$1,000    | \$1,000    | \$1,000    | \$1,000    | \$1,000    | \$1,000    | \$1,000    | \$1,000    |
| Utilities                              | \$0       | \$0       | \$0       | \$200      | \$200      | \$200      | \$200      | \$200      | \$200      | \$200      | \$200      | \$200      |
| Insurance                              | \$0       | \$0       | \$0       | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        |
| Payroll Taxes                          | \$0       | \$0       | \$0       | \$1,250    | \$1,250    | \$1,250    | \$1,250    | \$1,250    | \$1,250    | \$1,250    | \$1,250    | \$1,250    |
| Other                                  | \$0       | \$0       | \$0       | \$5,840    | \$2,540    | \$8,673    | \$3,806    | \$3,826    | \$9,011    | \$5,144    | \$3,854    | \$8,832    |
| Total Operating Expenses               | \$0       | \$0       | \$0       | \$31,392   | \$20,972   | \$32,813   | \$26,086   | \$41,876   | \$38,841   | \$36,632   | \$27,134   | \$33,012   |
| Profit Before Interest and Taxes       | \$0       | \$0       | \$0       | (\$31,392) | (\$20,969) | (\$33,862) | (\$21,925) | (\$37,400) | (\$34,598) | (\$32,003) | (\$22,224) | (\$28,987) |
| Interest Expense                       | \$1,313   | \$1,313   | \$1,313   | \$1,313    | \$1,313    | \$1,313    | \$1,313    | \$1,313    | \$1,313    | \$1,313    | \$1,313    | \$1,313    |
| Taxes Incurred                         | \$0       | \$0       | \$0       | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        | \$0        |
| Net Profit                             | (\$1,313) | (\$1,313) | (\$1,313) | (\$32,704) | (\$22,281) | (\$35,174) | (\$23,237) | (\$38,712) | (\$35,910) | (\$33,315) | (\$23,536) | (\$30,299) |
| Net Profit/Sales                       | 0.00%     | 0.00%     | 0.00%     | 0.00%      | 742710.00% | -1698.42%  | -558.45%   | -864.89%   | -846.34%   | -527.89%   | -479.35%   | -664.02%   |

Include Negative Taxes

**Appendix Table: Cash Flow**

| Pro Forma Cash Flow                       | Jan         | Feb         | Mar         | Apr         | May         | Jun         | Jul         | Aug         | Sep         | Oct         | Nov         | Dec         |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Cash Received</b>                      |             |             |             |             |             |             |             |             |             |             |             |             |
| Cash from Operations:                     |             |             |             |             |             |             |             |             |             |             |             |             |
| Cash Sales                                | \$0         | \$0         | \$0         | \$0         | \$1         | \$518       | \$1,040     | \$1,119     | \$1,061     | \$1,578     | \$1,228     | \$1,141     |
| Cash from Receivables                     | \$0         | \$0         | \$0         | \$0         | \$2         | (\$745)     | (\$26,872)  | \$1,193     | \$1,828     | \$1,956     | \$3,737     | \$4,309     |
| Subtotal Cash from Operations             | \$0         | \$0         | \$0         | \$0         | \$3         | (\$227)     | (\$25,832)  | \$2,312     | \$2,888     | \$3,534     | \$4,965     | \$5,449     |
| <b>Additional Cash Received</b>           |             |             |             |             |             |             |             |             |             |             |             |             |
| Non Operating (Other) Income              | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| Sales Tax, VAT, HST/GST Received          | 0.00%       | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| New Current Borrowing                     | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| New Other Liabilities (interest-free)     | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| New Long-term Liabilities                 | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| Sales of Other Current Assets             | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| Sales of Long-term Assets                 | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| New Investment Received                   | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| Subtotal Cash Received                    | \$0         | \$0         | \$0         | \$0         | \$3         | (\$227)     | (\$25,832)  | \$2,312     | \$2,888     | \$3,534     | \$4,965     | \$5,449     |
| <b>Expenditures</b>                       |             |             |             |             |             |             |             |             |             |             |             |             |
| Expenditures from Operations:             | Jan         | Feb         | Mar         | Apr         | May         | Jun         | Jul         | Aug         | Sep         | Oct         | Nov         | Dec         |
| Cash Spending                             | \$0         | \$0         | \$0         | \$8,332     | \$8,332     | \$8,332     | \$8,332     | \$8,332     | \$8,332     | \$8,332     | \$8,332     | \$8,332     |
| Payment of Accounts Payable               | \$1,216     | \$1,313     | (\$4,004)   | \$8,674     | \$25,697    | \$11,977    | \$17,512    | \$47,044    | \$16,746    | \$29,361    | \$36,831    | \$18,637    |
| Subtotal Spent on Operations              | \$1,216     | \$1,313     | (\$4,004)   | \$17,006    | \$34,029    | \$20,309    | \$25,844    | \$55,376    | \$25,078    | \$37,693    | \$45,163    | \$26,969    |
| <b>Additional Cash Spent</b>              |             |             |             |             |             |             |             |             |             |             |             |             |
| Non Operating (Other) Expense             | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| Sales Tax, VAT, HST/GST Paid Out          | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| Principal Repayment of Current Borrowing  | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| Other Liabilities Principal Repayment     | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| Long-term Liabilities Principal Repayment | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| Purchase Other Current Assets             | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| Purchase Long-term Assets                 | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| Dividends                                 | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         | \$0         |
| Subtotal Cash Spent                       | \$1,216     | \$1,313     | (\$4,004)   | \$17,006    | \$34,029    | \$20,309    | \$25,844    | \$55,376    | \$25,078    | \$37,693    | \$45,163    | \$26,969    |
| Net Cash Flow                             | (\$1,216)   | (\$1,313)   | \$4,004     | (\$17,006)  | (\$34,026)  | (\$20,536)  | (\$51,675)  | (\$53,064)  | (\$22,190)  | (\$34,159)  | (\$40,198)  | (\$21,520)  |
| Cash Balance                              | \$1,718,284 | \$1,716,972 | \$1,720,976 | \$1,703,970 | \$1,669,944 | \$1,649,407 | \$1,597,732 | \$1,544,668 | \$1,522,479 | \$1,488,320 | \$1,448,122 | \$1,426,602 |

**Appendix Table: Balance Sheet**

Pro Forma Balance Sheet

| Assets                               | Starting Balances  | Jan                | Feb                | Mar                | Apr                | May                | Jun                | Jul                | Aug                | Sep                | Oct                | Nov                | Dec                |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Current Assets</b>                |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| Cash                                 | \$1,719,500        | \$1,718,284        | \$1,716,972        | \$1,720,976        | \$1,703,970        | \$1,669,944        | \$1,649,407        | \$1,597,732        | \$1,544,668        | \$1,522,479        | \$1,488,320        | \$1,448,122        | \$1,426,602        |
| Accounts Receivable                  | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$2,298            | \$32,291           | \$34,454           | \$35,809           | \$38,586           | \$38,531           | \$37,645           |
| Other Current Assets                 | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                |
| <b>Total Current Assets</b>          | <b>\$1,719,500</b> | <b>\$1,718,284</b> | <b>\$1,716,972</b> | <b>\$1,720,976</b> | <b>\$1,703,970</b> | <b>\$1,669,944</b> | <b>\$1,651,705</b> | <b>\$1,630,023</b> | <b>\$1,579,122</b> | <b>\$1,558,287</b> | <b>\$1,526,905</b> | <b>\$1,486,653</b> | <b>\$1,464,246</b> |
| <b>Long-term Assets</b>              |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| Long-term Assets                     | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                |
| Accumulated Depreciation             | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                |
| <b>Total Long-term Assets</b>        | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         |
| <b>Total Assets</b>                  | <b>\$1,719,500</b> | <b>\$1,718,284</b> | <b>\$1,716,972</b> | <b>\$1,720,976</b> | <b>\$1,703,970</b> | <b>\$1,669,944</b> | <b>\$1,651,705</b> | <b>\$1,630,023</b> | <b>\$1,579,122</b> | <b>\$1,558,287</b> | <b>\$1,526,905</b> | <b>\$1,486,653</b> | <b>\$1,464,246</b> |
| <b>Liabilities and Capital</b>       |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| Accounts Payable                     | \$0                | \$97               | \$97               | \$5,413            | \$21,112           | \$9,367            | \$26,303           | \$27,857           | \$15,669           | \$30,745           | \$32,678           | \$15,961           | \$23,854           |
| Current Borrowing                    | \$105,000          | \$105,000          | \$105,000          | \$105,000          | \$105,000          | \$105,000          | \$105,000          | \$105,000          | \$105,000          | \$105,000          | \$105,000          | \$105,000          | \$105,000          |
| Other Current Liabilities            | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                | \$0                |
| <b>Subtotal Current Liabilities</b>  | <b>\$105,000</b>   | <b>\$105,097</b>   | <b>\$105,097</b>   | <b>\$110,413</b>   | <b>\$126,112</b>   | <b>\$114,367</b>   | <b>\$131,303</b>   | <b>\$132,857</b>   | <b>\$120,669</b>   | <b>\$135,745</b>   | <b>\$137,678</b>   | <b>\$120,961</b>   | <b>\$128,854</b>   |
| <b>Long-term Liabilities</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         |
| <b>Total Liabilities</b>             | <b>\$105,000</b>   | <b>\$105,097</b>   | <b>\$105,097</b>   | <b>\$110,413</b>   | <b>\$126,112</b>   | <b>\$114,367</b>   | <b>\$131,303</b>   | <b>\$132,857</b>   | <b>\$120,669</b>   | <b>\$135,745</b>   | <b>\$137,678</b>   | <b>\$120,961</b>   | <b>\$128,854</b>   |
| <b>Paid-in Capital</b>               | <b>\$1,650,000</b> | <b>\$1,650,000</b> | <b>\$1,650,000</b> | <b>\$1,650,000</b> | <b>\$1,650,000</b> | <b>\$1,650,000</b> | <b>\$1,650,000</b> | <b>\$1,650,000</b> | <b>\$1,650,000</b> | <b>\$1,650,000</b> | <b>\$1,650,000</b> | <b>\$1,650,000</b> | <b>\$1,650,000</b> |
| Retained Earnings                    | (\$35,500)         | (\$35,500)         | (\$35,500)         | (\$35,500)         | (\$35,500)         | (\$35,500)         | (\$35,500)         | (\$35,500)         | (\$35,500)         | (\$35,500)         | (\$35,500)         | (\$35,500)         | (\$35,500)         |
| Earnings                             | \$0                | (\$1,313)          | (\$2,625)          | (\$3,938)          | (\$36,642)         | (\$58,923)         | (\$94,097)         | (\$117,335)        | (\$156,047)        | (\$191,957)        | (\$225,273)        | (\$248,809)        | (\$279,108)        |
| <b>Total Capital</b>                 | <b>\$1,614,500</b> | <b>\$1,613,188</b> | <b>\$1,611,875</b> | <b>\$1,610,563</b> | <b>\$1,577,858</b> | <b>\$1,555,577</b> | <b>\$1,520,403</b> | <b>\$1,497,165</b> | <b>\$1,458,453</b> | <b>\$1,422,543</b> | <b>\$1,389,227</b> | <b>\$1,365,691</b> | <b>\$1,335,392</b> |
| <b>Total Liabilities and Capital</b> | <b>\$1,719,500</b> | <b>\$1,718,284</b> | <b>\$1,716,972</b> | <b>\$1,720,976</b> | <b>\$1,703,970</b> | <b>\$1,669,944</b> | <b>\$1,651,705</b> | <b>\$1,630,023</b> | <b>\$1,579,122</b> | <b>\$1,558,287</b> | <b>\$1,526,905</b> | <b>\$1,486,653</b> | <b>\$1,464,246</b> |
| <b>Net Worth</b>                     | <b>\$1,614,500</b> | <b>\$1,613,188</b> | <b>\$1,611,875</b> | <b>\$1,610,563</b> | <b>\$1,577,858</b> | <b>\$1,555,577</b> | <b>\$1,520,403</b> | <b>\$1,497,165</b> | <b>\$1,458,453</b> | <b>\$1,422,543</b> | <b>\$1,389,227</b> | <b>\$1,365,691</b> | <b>\$1,335,392</b> |

|   |           |
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\_\_\_\_\_ Name (typed or printed)

\_\_\_\_\_ Date

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