

1. Executive Summary

1.0 Executive Summary

Introduction

InteliChild.com offers bright children an entertaining place to interact with each other, the Web, educators, and the world in general. It generates traffic first, valuation for investors, and eventually commerce and profits. It is a healthy place for kids to play, for parents and schools to buy, and a creative and fair work environment for employees.

The InteliChild.com e-commerce project is the natural evolution for the InteliChild.com Internet presence. The site will market and sell selected toys, books, and software products. It will also produce Web products and Web applications that will increase market share, promote name recognition, and maximize efficiency.

The Company

The present InteliChild.com is a start-up company with four full-time employees. The company was incorporated early in 1999 as a California C corporation owned by its principal founders, at 25% ownership each. Late in 1999 (Name Omitted) Capital partners acquired 50% of the company for \$500,000. The company has a single office in Bend, Oregon. The initial website is at www.citruscoolkids.com.

Our key competitive advantage is the in-house knowledge base we have developed. Our competitor spends five to 10 times the amount of money we do outsourcing to expensive companies for services we perform in-house. The same will take place with the InteliChild.com website. We already have the SQL™ server and ColdFusion™ programming expertise, and we will be adding the Flash™ integration of these skills.

Products and Services

InteliChild will be offering a steadily increasing mix of three lines of products:

- **Toys and Games:** carefully selected toys and games that appeal to the target market, the parents of the target market, and educators.
- **Books:** there should be a selection of books that appeal specifically to the parents and educators of the target market, so that these interested adults can go to this site and

order books about their children. In addition, of course there is also a selection of books to be ordered by and for the kids to read.

- **Software:** carefully selected software to appeal to the target market and target parents and educators.

The Internet reinvents itself every three months, or even faster. Therefore, our strategy for future development is to remain positioned with enough flexibility to adapt new technologies, and adapt to changes quickly.

The Market

The IntelliChild.com market has been expanding exponentially with the advances of technology in the teaching sectors and the acceptance of technology as a teaching aid. The critical component to our entrance into the market will be approval and support from the school communities - including teachers, the PTA, and special education programs.

Our primary target markets include these four areas:

1. The kids themselves.
2. Parents.
3. Educational institutions for children of the upper class.
4. Self-teaching families.

While we have plans to expand into international territory, our initial launch will target our most important market - the American upper class. We know that most of our clients drive BMW's and have very good taste - they spend money on their children because they can appreciate the technology that we have created. They also generally have high bandwidth connections, and are impressed by first-class design.

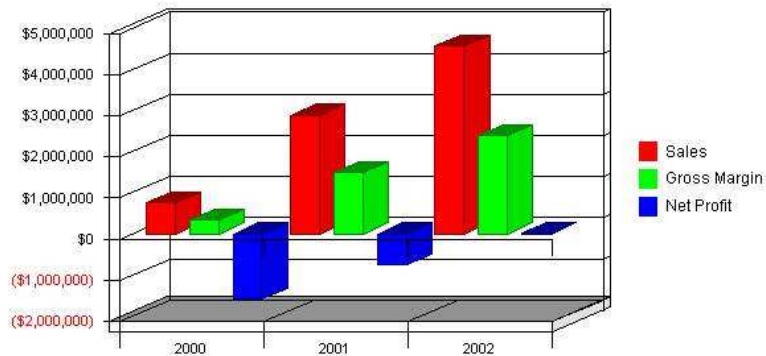
Financial Considerations

Our start-up costs come to \$33,750, which are high because of our commitment to dominate the Internet market place.

The Break-even Analysis is a good financial indicator. We show break-even with a sales level of about \$265K per month, even assuming a fixed cost of \$169 per month, which is high. Given those assumptions, we reach steady-state break-even in December of this first year.

The sales forecast is based on increasing website traffic and increasing sales per unique user session. Sales are projected to rise from \$569 thousand in 2000 to \$6 million in 2001 and \$25.8 million in 2002. The forecast obviously depends on traffic increase. We plan to lose money for at least three years while we build traffic and develop our position for the long-term future.

Highlights



1.1 Objectives

- Traffic, as measured in unique user sessions: 100,000 unique user sessions in June, 2000; 450,000 in December, 2000; 3.5 million in 2001; and 5 million in 2002.
- Sell-through, as measured in dollar sales per unique visit: a high of \$0.58 per unique visit in December of 2000; increasing to \$0.83 in 2001; and \$0.92 in 2002.
- Valuation, as measured in ability to bring in additional investment at economically feasible valuations. We need to attract \$750 thousand this year, and an additional \$2 million in 2001, with valuation performance that yields attractive internal rate of return (IRR) to investors. The financial section indicates IRR of more than 100% for all investors, with larger IRR for seed, declining slightly for first round and then second round.
- Acquisition or Initial public offering (IPO) in 2003, with a valuation of more than \$20 million. This assumes of course the market valuations based on sales and earnings, which are relatively high as this plan is written.

1.2 Mission

InteliChild.com offers bright children an entertaining place to interact with each other, the Web, educators, and the world in general. It generates traffic first, valuation for investors, and eventually commerce and profits. It is a healthy place for kids to play, for parents and schools to buy, and a creative and fair work environment for employees.

1.3 Keys to Success

1. We must retain the customers. The website has to be easy to use and quickly viewable. User satisfaction is an ultimate priority.
2. The project will succeed if it can capitalize on the traffic that InteliChild.com produces, and turn the user sessions into dollars through the commerce site.
3. The sales process must be easy to administer and flexible enough to accommodate the needs of InteliChild, which is not ready to take on more employees to do so.
4. The e-commerce project should further establish InteliChild.com presence as a technology leader, not only returning traffic but actually bringing in new traffic.

2. Company Summary

2.0 Company Summary

The present InteliChild.com is a start-up company with four full time employees. We are a high-powered team of creative individuals. The company creates an Internet environment attractive to bright kids, and is planning to sell toys, books, and software to those kids, their parents, and schools. Our products will be the best reviewed in our niche.

2.1 Company Ownership

The company was incorporated early in 1999 as a California C corporation owned by its principal founders, at 25% ownership each. Late in 1999 Name Omitted Capital partners acquired 50% of the company for \$500,000.

2.2 Start-up Summary

Our start-up costs come to \$33,750, because of our commitment to dominate the Internet market place.

Our development costs are high, but because we are now located in Oregon instead of the Silicon Valley, our human resources costs are not as high as they might be - particularly for the

talented programmers that we need. Marketing expenses are also high, but spending on the costly development of this site without promoting it appropriately would make it difficult to gather together the traffic necessary to make this a success.

Our location leverages our partner potential, even though we are paying a premium for space and for talent due to development costs.

Start-up

Requirements	
--------------	--

Start-up Expenses	
-------------------	--

Legal	\$1,000
Software	\$2,500
Design Work	\$5,000
Programming	\$15,000
Insurance	\$250
Rent	\$500
Research and Development	\$1,000
Hosting Setup	\$3,500
Other	\$5,000
Total Start-up Expenses	\$33,750

Start-up Assets Needed	
------------------------	--

Cash Balance on Starting Date	\$494,000
Start-up Inventory	\$0
Other Current Assets	\$5,000
Total Current Assets	\$499,000

Long-term Assets	\$0
------------------	-----

Total Assets	\$499,000
--------------	-----------

Total Requirements \$532,750

Funding	
---------	--

Investment	
------------	--

Seed investor \$500,000

Founders \$32,750

Other	\$0
-------	-----

Total Investment \$532,750

Current Liabilities	
---------------------	--

Accounts Payable \$0

Current Borrowing \$0

Other Current Liabilities	\$0
---------------------------	-----

Current Liabilities \$0

Long-term Liabilities	\$0
-----------------------	-----

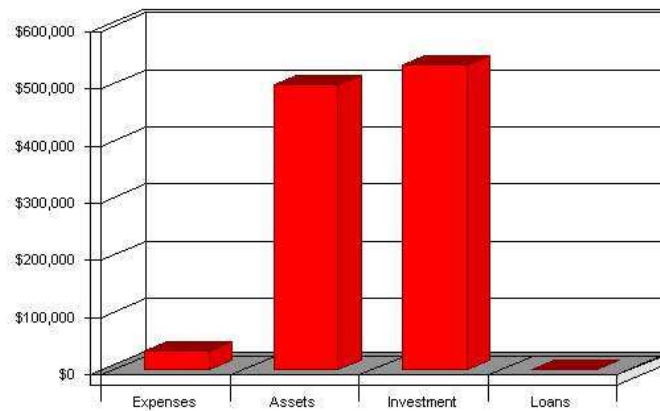
Total Liabilities \$0

Loss at Start-up	(\$33,750)
------------------	------------

Total Capital	\$499,000
---------------	-----------

Total Capital and Liabilities	\$499,000
-------------------------------	-----------

Start-up



2.3 Company Locations and Facilities

The company has a single office in Bend, Oregon. Its important website and Internet infrastructure situation is explained in detail in Chapter 5. The initial website is at www.citruscoolkids.com.

3. Products

3.0 Products

InteliChild will be offering a steadily increasing mix of three lines of products:

1. Toys and Games: carefully selected toys and games that appeal to the target market, the parents of the target market, and educators.
2. Books: there should be a selection of books that appeal specifically to the parents and educators of the target market, so that these interested adults can go to this site and order books about their children. In addition, of course there is also a selection of books to be ordered by and for the kids to read.
3. Software: carefully selected software to appeal to the target market and target parents and educators.

3.1 Product Description

In the original plan this is a detailed description of the specific toys and games, books, and software that are included on the website. This level of detail was considered proprietary and was removed from the plan for purposes of illustration. If you are using this sample plan as an example, then insert here a detailed list of your own products for your own plan.

3.2 Competitive Comparison

In the original plan this is a detailed description of and analysis of other channels and sources from which the target market and parents and educators can purchase toys, games, books, and software. It describes in general some kinds of toy shops, and then specifically some catalog and web businesses that appeal to this audience.

This level of detail was considered proprietary and was removed from the plan for purposes of illustration. If you are using this sample plan as an example, then insert here a detailed description of your competitors for your plan.

3.3 Sales Literature

Our answer to sales literature is the web. Within six months we should also have a printed catalog that we can send to people to go along with the web purchasing process, because some buyers will want to refer to a hard-copy catalog.

3.4 Sourcing

In the real plan this section referred in detail to distributors and products they carried. This detail was considered proprietary and strategic, and was omitted from the sample plan for purposes of illustration. If you are using this plan as an example, then in this section you should have detailed discussion of how the products to be sold can be purchased from manufacturers and distributors.

3.5 Technology

The IntelliChild.com e-commerce site will be built on a three-tier structure. Driven by SQL™ servers and an IIS™ Web server backed with bandwidth, the site will be coded mostly in ColdFusion™ and ASP™. We will be taking our registration databases live to be able to email updates on products and the website to customers. We will offer customers the option to take themselves out of the list.

The information architecture will be based on four fundamental arenas - the free valuable information arena, the product detail arena, the final purchasing arena, and the purchase administration area.

The purchase arena will require a Verisign™ certificate and a Cybercash™ connection. That will begin immediately because dealing with Cybercash™ can sometimes be a lengthy process.

The administrative arena will be hosted on mirror servers that query to the live databases for migration into local databases. This server is hidden from Internet traffic and kept under high security even within the company.

The entire set-up will be somewhat costly. We will need five servers, two for in-house reasons, and three for Web hosting reasons. Two of the Web host servers will be serving traffic through ColdFusion™ and ASP™ in cluster, and the third will be a dedicated SQL™ server.

3.6 Future Products

The Internet reinvents itself every three months, or even faster. Our strategy for future development is to remain positioned with enough flexibility to adapt new technologies, and adapt to changes quickly.

4. Market Analysis Summary

4.0 Market Analysis Summary

The IntelliChild.com market has been expanding exponentially with the advances of technology in the teaching sectors and the acceptance of technology as a teaching aid. The critical component to our entrance into the market will be approval and support from the school communities - including teachers, the PTA, and special education programs.

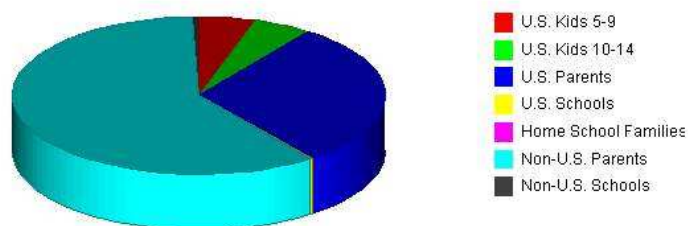
4.1 Market Segmentation

Our primary target markets include these four areas:

1. The kids themselves. We include ages 5-9 and ages 10-14 in our market statistics because these are the breakdowns available at www.census.gov, and we include only 10% of the total in each category.

2. Parents. We include 10% of the parents, assuming that leads to an average combined income above \$100,000. Most of these people live in suburban areas, but the urban upper class is also a major component. [Editor note: details for this sample plan are not necessarily correct.]
3. Educational institutions for the children of the upper class. This includes day care and private schools. Penetrating this market is excellent because it generates leads to our other targets. We include 107,000 schools in the U.S. in our table.
4. Self-teaching families. There is an excellent group of established customers who teach their children from home. The site will benefit greatly from the time available from this target group.

Market Analysis (Pie)



Market Analysis							
Potential Customers	Growth	2000	2001	2002	2003	2004	CAGR
U.S. Kids 5-9	2%	1,994,000	2,033,880	2,074,558	2,116,049	2,158,370	2.00%
U.S. Kids 10-14	2%	1,961,200	2,000,424	2,040,432	2,081,241	2,122,866	2.00%
U.S. Parents	2%	12,000,000	12,240,000	12,484,800	12,734,496	12,989,186	2.00%
U.S. Schools	1%	107,000	108,070	109,151	110,243	111,345	1.00%

Home							
School Families	40%	5,000	7,000	9,800	13,720	19,208	40.00%
Non-U.S. Parents	4%	24,000,000	24,960,000	25,958,400	26,996,736	28,076,605	4.00%
Non-U.S. Schools	0%	225,000	225,000	225,000	225,000	225,000	0.00%
Total	3.20%	40,292,200	41,574,374	42,902,141	44,277,485	45,702,580	3.20%

4.2 Website Demographics

While we have plans to expand into international territory, our initial launch will target our most important market - the American upper class. We know that most of our clients drive BMW's and have very good taste - they spend money on their children because they can appreciate the technology that we have created. They also generally have high bandwidth connections, and are impressed by first-class design.

4.2.1 Market Needs

The IntelliChild.com website will have to reflect its product line - simultaneously fun, easy to use and informative. In order to gain recognition for our site efforts, we are going to have to put together a site that is worthy of attention. The design work should promote the feeling of superior quality. The IntelliChild.com attitude will match the company's inherent value drive - parents and educators will feel guilty not buying into these products.

4.2.2 Market Trends

The market for intelligent technological teaching devices is growing exponentially. The key factors driving this growth are the increase in salaries in the technology sectors, the double-income household and the loss of leisure time. Hardworking parents are dedicated to giving their children every educational opportunity possible. Our target market's behavioral patterns are changing dramatically as well - research used to happen in many places; now increasingly it happens on the Internet.

4.2.3 Market Growth

The macro-environment is the real reason for the urgency of the IntelliChild.com e-commerce project. All trends in our market indicate that strong a Web presence will not be a frivolous extra for the company, but rather, an absolute necessity. As mentioned before, the double-income

family in the technological sector is doing their research on the Internet. In order to survive, IntelliChild.com must be present as a destination for these search results.

4.3 Industry Analysis

The website industry is exploding. Growth is absurd, amazing. We don't have business reasons to detail this situation in this plan, our readers are aware of it.

4.3.1 Industry Participants

This is sample text describing the different companies addressing the same target market. The real plan included details on which companies sell products (toys, books, or games) into this market. It includes who owns them, how much market share they get (according to available information sources), and what we know about their assorted business models.

4.3.2 Distribution Patterns

This is sample text describing the different websites addressing the same target market. The real plan included details identifying these websites, who owns them, how much traffic they get (according to available information sources), and their assorted business models.

4.3.3 Competition and Buying Patterns

This is sample text describing factors in competition for website use by bright children ages 8-14, for sales to their parents and schools. It details information available about the importance of factors such as pricing, shipment, quality, presentation, etc.

4.3.4 Main Competitors

Our competition is the market leader - and their success is a symbol of our potential market. We were pleased to see their Web division spin-off to its own company that went public with a tremendous initial offering. The market is too large for them to cover entirely, and as a second-best in dollar market share, with better reviews from the critical industry leaders, IntelliChild.com stands in a position to expand our business significantly.

5. Web Plan Summary

5.0 Web Plan Summary

The primary IntelliChild.com strategy is to build an impressive destination website. The marketing of the site will be built around the core value that the site will offer. Although our competition has built a simple store for ordering the product, the IntelliChild.com site will be reviewed by Web award companies as a great destination. We will build our revenue and market share around this traffic.

5.1 Business Model

Our business model is based on the sales of our products over the website. Because the site is also intended to increase brand equity and awareness, we are building for high traffic. Our model requires giving users an excellent free experience and to develop trust to increase sell-through. We plan to lose money for at least three years while we build traffic and develop our position for the long-term future.

5.2 Website Marketing Strategy

Our first class design and product quality are critical to our positioning as a dot-com company - we should be the best reviewed website in our category, and that will become the key to future sales. In the past, our design work and marketing has not matched our better-funded competitor. However, the core experience for the children has always been better, and with a new design team and a round of financing, the IntelliChild.com company is ready to grow with the market. IntelliChild.com will distinguish itself from its competitor as a full learning center, rather than just a store front.

5.3 Development Requirements

Of course the development needs to match the overall business strategy as explained in the rest of the plan. This has to be an excellent site or we just haven't implemented. That involves both front-end and back-end strategies, as explained in the following topics.

5.3.1 Front End

Because IntelliChild.com's target customers are all affluent, we have the luxury of using the latest technologies to impress the visitors with excellent design and animation. We plan to release the site entirely in Shockwave™ format as almost 90% of our visitors will already have it installed.

We will carry on the colorful and extremely well branded design of our company literature and logo - the decisions on basic aesthetics will not get in the way. The site will have a colorful and intelligent design, taking the ad campaign and product art into an interactive medium on the Web.

5.3.2 Back End

The IntelliChild.com e-commerce site will be built on a three-tier structure. Driven by SQL™ servers and an IIS™ Web server backed with bandwidth, the site will be coded mostly in ColdFusion™ and ASP™. We will be taking our registration databases live to be able to email updates on products and the website to customers. We will offer customers the option to take themselves out of the list.

The information architecture will be based on four fundamental arenas - the free valuable information arena, the product detail arena, the final purchasing arena, and the purchase administration area.

The purchase arena will require a Verisign™ certificate and a Cybercash™ connection. That will begin immediately because dealing with Cybercash™ can sometimes be a lengthy process.

The administrative arena will be hosted on mirror servers that query to the live databases for migration into local databases. This server is hidden from Internet traffic and kept under high security even within the company.

The entire set-up will be somewhat costly. We will need five servers, two for in-house reasons, and three for Web hosting reasons. Two of the Web host servers will be serving traffic through ColdFusion™ and ASP™ in cluster, and the third will be a dedicated SQL™ server.

5.4 Traffic Forecast

The traffic forecast is based on increasing sessions, increasing page views per session, and increasing orders per session. The bottom line called "sell-through" is the overall dollars in order per user session, an important indicator that should be increasing over time.

6. Strategy and Implementation Summary

This is sample text only. The original was very proprietary, describing the company strategy in detail. This is sample text only. This is sample text only. This is sample text only. This is sample text only. This is sample text only. This is sample text only. This is sample text only. This is sample text only. This is sample text only. This is sample text only. This is sample text only.

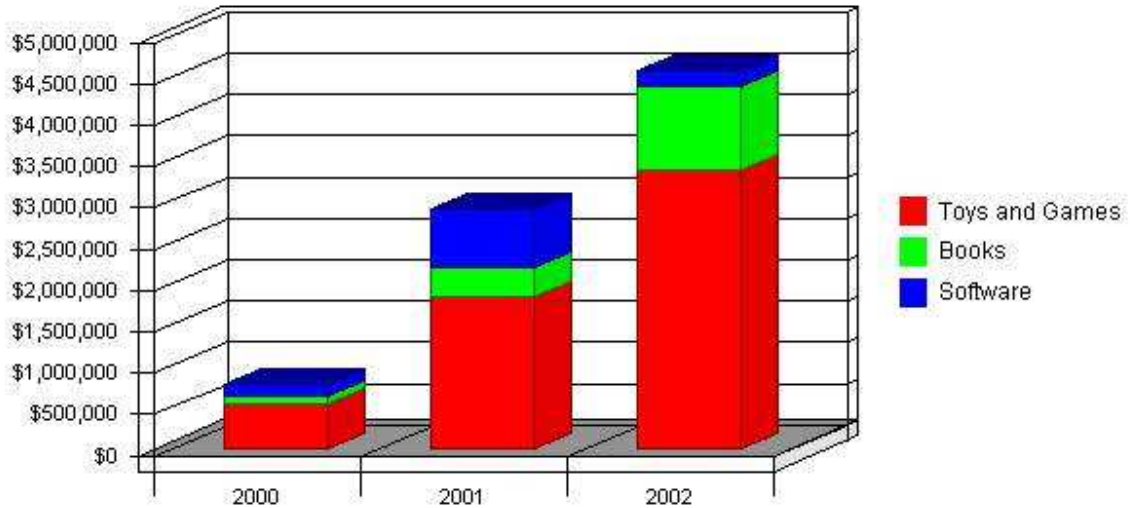
6.1 Strategy Pyramids

This is sample text only. The original was very proprietary, describing the company strategy in detail. This is sample text only. This is sample text only. This is sample text only. This is sample text only. This is sample text only. This is sample text only. This is sample text only. This is sample text only. This is sample text only. This is sample text only.

6.2 Value Proposition

This is sample text only. The original was very proprietary, describing the company strategy in detail. This is sample text only. This is sample text only. This is sample text only. This is sample text only.

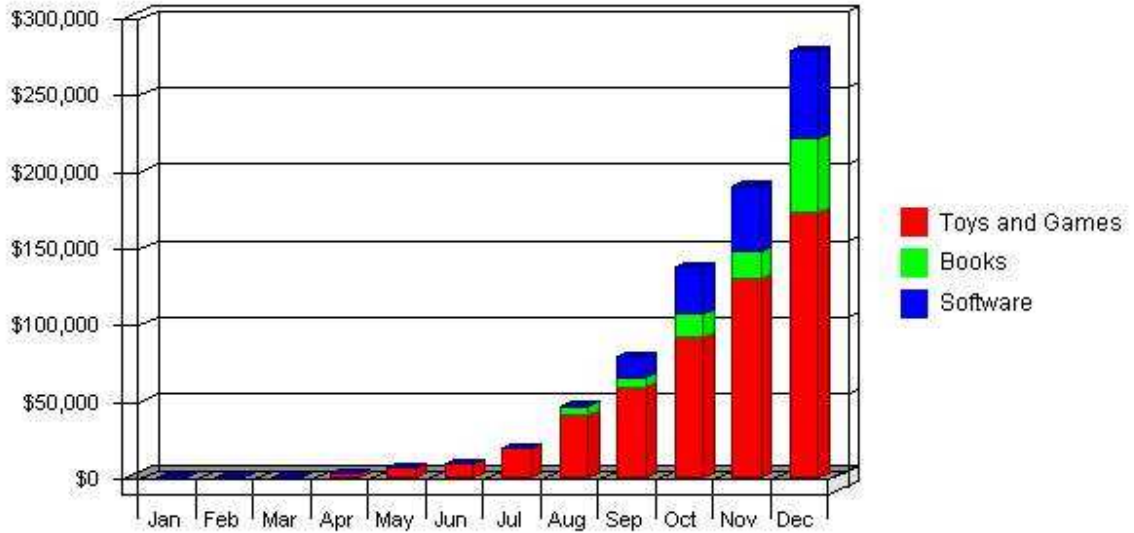
Sales by Year



6.5.1 Sales Forecast

The sales forecast in the following table and charts is based on increasing website traffic and increasing sales per unique user session. Sales are projected to rise from \$569 thousand in 2000 to \$6 million in 2001 and \$25.8 million in 2002. The forecast obviously depends on traffic increase.

Sales Monthly



Sales Forecast			
Unit Sales	2000	2001	2002
Toys and Games	17,622	61,250	112,500
Books	4,618	17,500	50,000
Software	3,604	17,500	5,000
Total Unit Sales	25,845	96,250	167,500

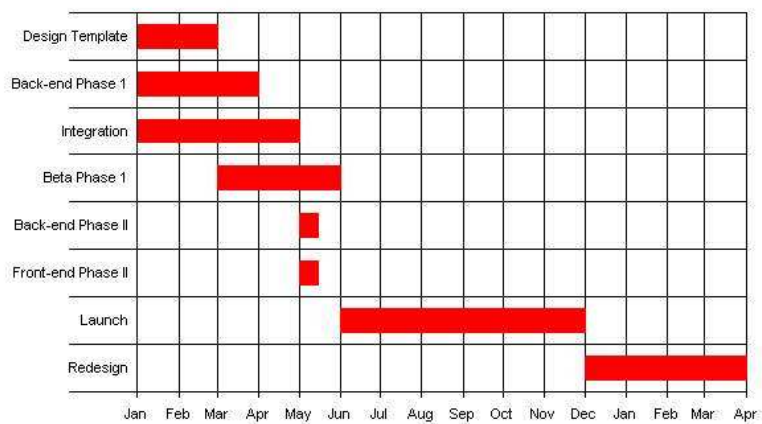
Unit Prices	2000	2001	2002
Toys and Games	\$30.00	\$30.00	\$30.00
Books	\$20.00	\$20.00	\$20.00
Software	\$40.00	\$40.00	\$40.00

Sales	2000	2001	2002
Toys and Games	\$528,672	\$1,837,500	\$3,375,000

6.7 Milestones

The milestones graphic illustrates key implementation activities. The most important milestone to reach will be the design templates. During that time we will be putting together the back-end phases, and both milestones should be achieved at the same time. After that point, integration can begin between the back-end and the front-end phases. Our next milestone will be the beta release, followed by the full launch two weeks later.

Milestones



Milestones					
Milestone	Start Date	End Date	Budget	Manager	Department
Design Template	1/1/2000	3/1/2000	\$2,500	Terry	Front end
Back-end Phase 1	1/1/2000	4/1/2000	\$10,000	Sonny	Back end
Integration	1/1/2000	5/1/2000	\$500	Leslie	Management
Beta Phase 1	3/1/2000	6/1/2000	\$1,000	Leslie	Management
Back-end Phase II	5/1/2000	5/15/2000	\$5,000	Sonny	Back end
Front-end Phase II	5/1/2000	5/15/2000	\$2,500	Terry	Front end
Launch	6/1/2000	12/1/2000	\$0	Leslie	Management

Redesign	12/1/2000	4/1/2001	\$35,000	Leslie	Management
Totals			\$56,500		

7. Management Summary

7.0 Management Summary

Our producer, Sonny XXXX, will head the InteliChild.com project. This full-time position will oversee all activities for the project. Sonny interfaces with each partner and staff member. This places Sonny in the role of administrator and coordinator of development and marketing activities, but also requires him to implement training and individual development activities for each partner. We all recognize the challenge Sonny faces as an employee, coach, and supervisor.

More sample text here, not useful for purposes of example, describing the people involved and the management structure.

7.1 Organizational Structure

We need an agile organizational structure that recognizes the need for a smooth flow of ideas and implementation between sales, marketing, and website development. We can't allow the team to think as if these were separate functions.

On the surface, however, we have the president dealing with three direct reports: admin/finance, sales/marketing, and web development. In fact we are not going to manage with a strict hierarchy, because we need to emphasize the team. Still, particularly as we grow in size, structure is necessary. We will want to preserve decision-making power, and the ability to act, rather than trying to do everything by consensus.

7.2 Management Team

Person 1: More sample text here, not useful for purposes of example, describing the people involved and the management structure. More sample text here, not useful for purposes of example, describing the people involved and the management structure. More sample text here, not useful for purposes of example, describing the people involved and the management structure. More sample text here, not useful for purposes of example, describing the people involved and the management structure. More sample text here, not useful for purposes of example, describing the people involved and the management structure.

We agree that the most obvious weakness at this point is the lack of seasoned professional management with experience. This is what the investors call the "gray haired factor." We will be looking to add more experience to the team as we build our administrative and financial capabilities.

7.4 Personnel Plan

The following personnel plan details our plans for the ramp-up. We start with the four key founders; by the end of 2000 we should have 14 people, and 16 by the end of 2002.

Personnel Plan			
Production Personnel	2000	2001	2002
People	3	4	4
Average per Person	\$22,167	\$35,000	\$45,000
Subtotal	\$66,500	\$140,000	\$180,000

Sales and Marketing Personnel			
	2000	2001	2002
People	3	3	3
Average per Person	\$26,000	\$65,000	\$70,000
Subtotal	\$78,000	\$195,000	\$210,000

General and Administrative Personnel			
	2000	2001	2002
People	3	3	3
Average per Person	\$37,000	\$42,000	\$50,000
Subtotal	\$111,000	\$126,000	\$150,000

Other Personnel			
	2000	2001	2002
People	5	6	6
Average per Person	\$57,000	\$65,000	\$65,000
Subtotal	\$285,000	\$390,000	\$390,000

Total People	14	16	16
Total Payroll Expenditures	\$540,500	\$851,000	\$930,000

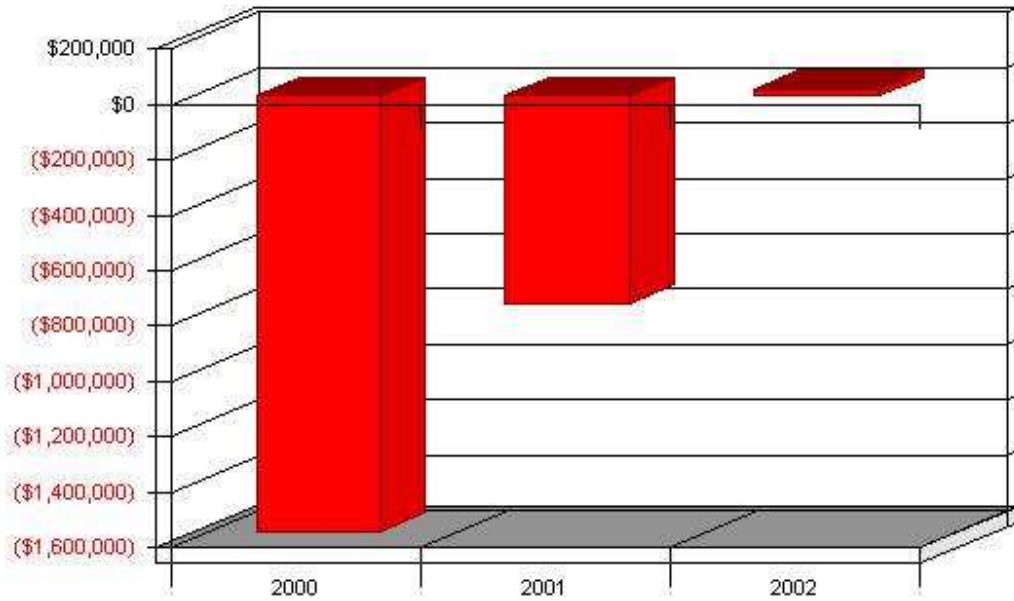
8. Financial Plan

8.0 Financial Plan

This is an Internet venture that, of course, depends on the developing financial prospects of the growing Internet world. To make it work financially, we need to increase valuation on schedule to bring in substantial additional capital. The following table defines the investment offering for investors. Specifically:

1. The exit strategy is acquisition in 2003, valuing the company at more than \$20 million.
2. Equity plan and valuations at time of exit are detailed in the section that follows, "Exit Strategy." The plan assumes an ending valuation of \$20 million based on market trends, with IRR of more than 100% for all investors.

Profit Yearly



8.1 Important Assumptions

The general assumptions are listed in the following table. Obviously these are detailed financial assumptions, trivial compared to the underlying critical assumptions, which include:

1. Continued growth of Internet usage. We accept published forecasts that say 4% of the world's population presently uses the Internet, and that will grow to 11% by 2005. That's strong growth.
2. No e-commerce disaster scenarios. We'll have no huge problems with credit card authorization, shipping, etc.
3. Continued support of financial markets, which means continued rise in valuations of Internet companies, even Internet companies losing money. The increase in valuation is critical to our financial strategy.

General Assumptions			
	2000	2001	2002
Plan Month	1	2	3
Current Interest Rate	10.00%	10.00%	10.00%

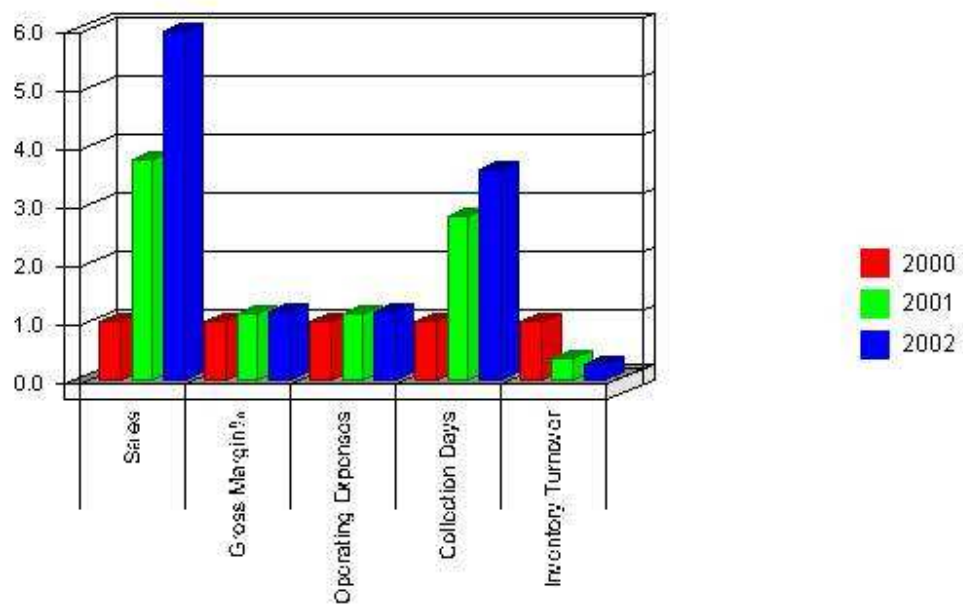
Long-term Interest Rate	10.00%	10.00%	10.00%
Tax Rate	25.42%	25.00%	25.42%
Sales on Credit %	10.00%	10.00%	10.00%
Other	0	0	0

8.2 Key Financial Indicators

The following benchmarks chart indicates a very ambitious increase in sales and matching increases in operating expenses. We expect to improve ratios of inventory, payable days, and collection days.

One of the more important assumptions is that we can increase sales at a very high rate without corresponding increase in operating expenses. This is because of the leverage available in use of Internet technology as our main marketing and sales channel.

Benchmarks



8.3 Exit Strategy and Financing

Details of the exit strategy are included in two following tables:

1. The Investment Analysis table details how we expect valuation to proceed over time, linked in to the planned rounds of financing.
2. The table included here shows how we plan to distribute equity and shares over time, and planned ending valuation of \$23 million and investment yield for three rounds of investment.

Equity Shares and Investment Return

Round	Amount (\$000)	Shares	Per share	Year	2003 Value	IRR %
Seed	\$500K	1.5 million	\$0.33	1999	\$8.4 million	157 %
Round 1	\$750K	750K	\$1.00	2000	\$4.2 million	138%
Round 2	\$2 million	800K	\$2.50	2001	\$4.5 million	126%

Investment Analysis				
	Start	2000	2001	2002

Initial Investment				
Investment	\$532,750	\$750,000	\$2,000,000	\$0
Dividends	\$0	\$0	\$0	\$0
Ending Valuation	\$0	\$0	\$0	\$22,880,000
Combination as Income Stream	(\$532,750)	(\$750,000)	(\$2,000,000)	\$22,880,000
Percent Equity Acquired	0%			
Net Present Value (NPV)	\$13,020,565			
Internal Rate of Return (IRR)	178%			

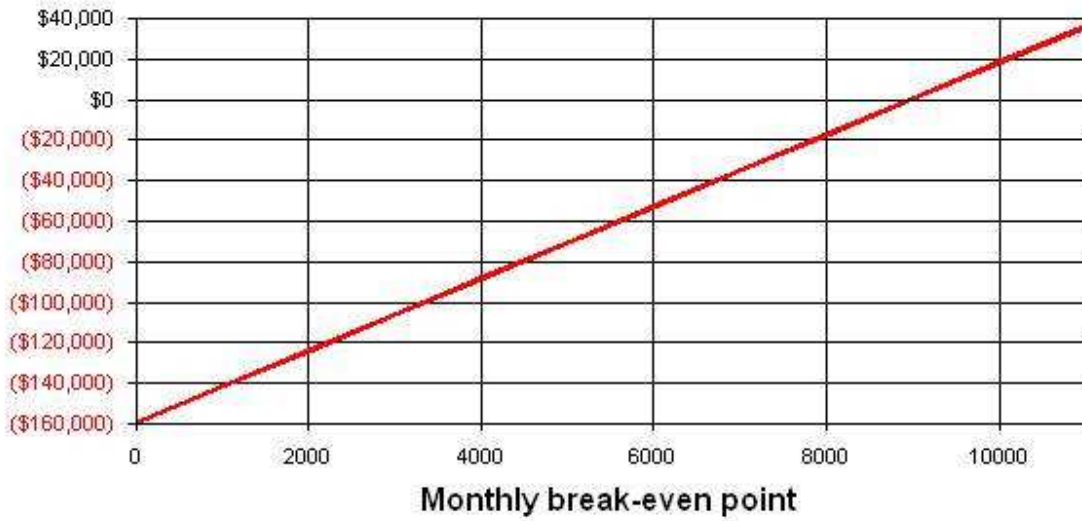
Assumptions				
-------------	--	--	--	--

Discount Rate	10.00%			
Valuation Earnings Multiple		20	20	20
Valuation Sales Multiple		5	5	5
Investment (calculated)	\$532,750	\$750,000	\$2,000,000	\$0
Dividends		\$0	\$0	\$0
Calculated Earnings-based Valuation		\$0	\$0	\$430,000
Calculated Sales-based Valuation		\$3,830,000	\$14,440,000	\$22,880,000
Calculated Average Valuation		\$1,915,000	\$7,220,000	\$11,655,000

8.4 Break-even Analysis

The break-even analysis is a good financial indicator. We do show break-even with a sales level of about \$265K per month, even assuming a fixed cost of \$169 per month, which is high. Given those assumptions, we reach steady-state break-even in about December of this first year.

Break-even Analysis



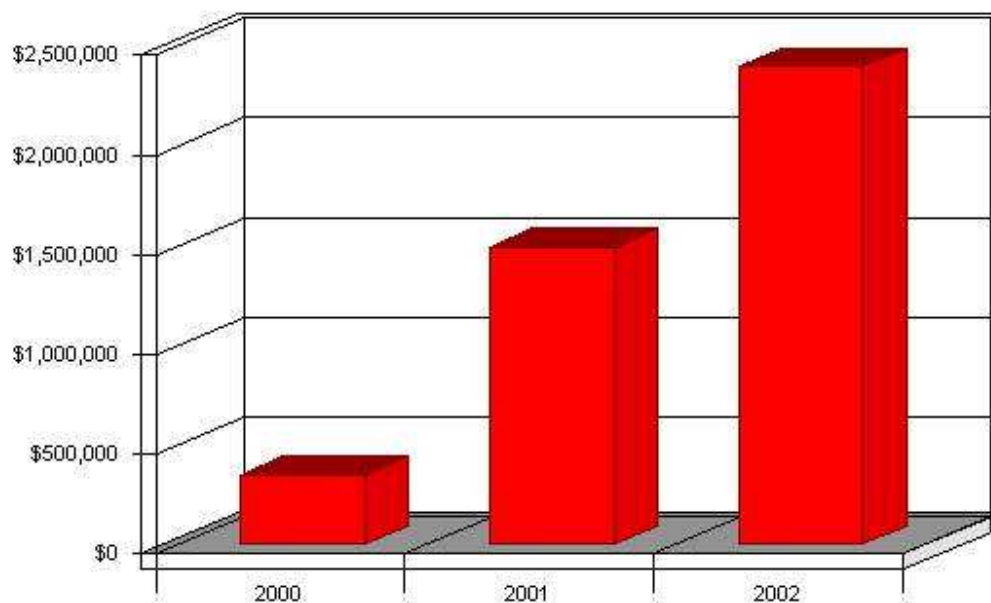
Break-even point = where line intersects with 0

Break-even Analysis:	
Monthly Units Break-even	8,971
Monthly Revenue Break-even	\$265,591
Assumptions:	
Average Per-Unit Revenue	\$29.61
Average Per-Unit Variable Cost	\$11.84
Estimated Monthly Fixed Cost	\$159,355

8.5 Projected Profit and Loss

Despite the present trend towards investors encouraging losses for website businesses, we believe that we can turn a profit by the third year. We also intend to reduce losses significantly in the second year, as shown by the following table. Nevertheless, the investment in on-line and off-line advertising is substantial, and the traffic justifies the loss.

Gross Margin Yearly



Pro Forma Profit and Loss			
	2000	2001	2002
Sales	\$765,188	\$2,887,500	\$4,575,000
Direct Costs of Goods	\$306,075	\$1,155,000	\$1,830,000
Production Payroll	\$66,500	\$140,000	\$180,000
Fulfillment	\$45,845	\$98,250	\$169,500
	-----	-----	-----
Cost of Goods Sold	\$418,420	\$1,393,250	\$2,179,500
Gross Margin	\$346,768	\$1,494,250	\$2,395,500
Gross Margin %	45.32%	51.75%	52.36%
Operating Expenses:			
Sales and Marketing Expenses:			
Sales and Marketing Payroll	\$78,000	\$195,000	\$210,000

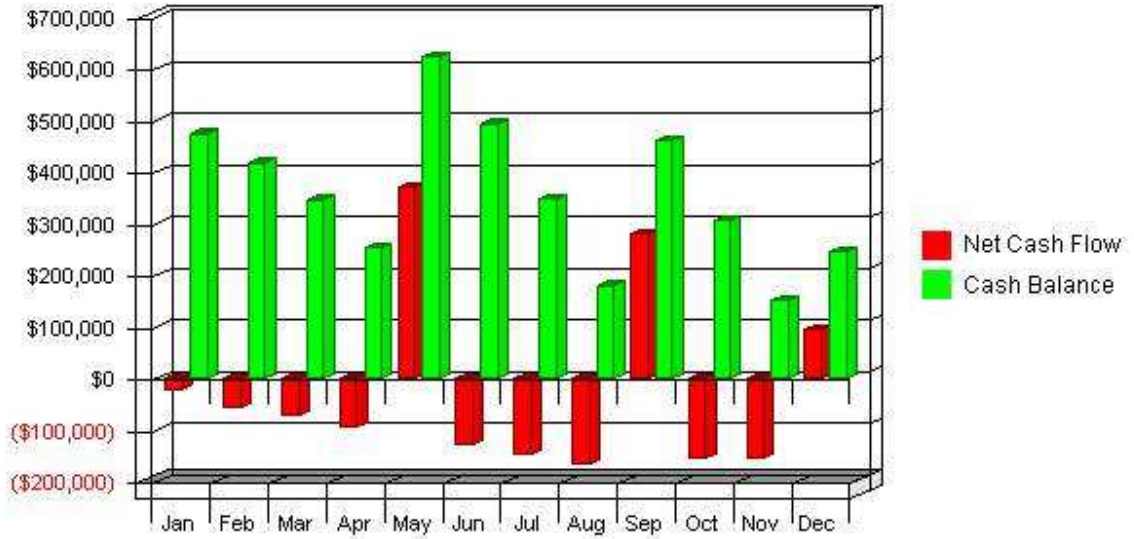
Online Advertising	\$640,880	\$673,000	\$707,000
Other Advertising	\$444,400	\$400,000	\$360,000
Collaterals	\$42,000	\$38,000	\$34,000
Events	\$20,000	\$18,000	\$16,000
Public Relations	\$27,000	\$30,000	\$33,000
Website Infrastructure	\$90,000	\$99,000	\$109,000
Miscellaneous	\$12,000	\$13,000	\$14,000
	-----	-----	-----
Total Sales and Marketing Expenses	\$1,354,280	\$1,466,000	\$1,483,000
Sales and Marketing %	176.99%	50.77%	32.42%
General and Administrative Expenses:			
General and Administrative Payroll	\$111,000	\$126,000	\$150,000
Sales and Marketing and Other Expenses	\$0	\$0	\$0
Depreciation	\$2,000	\$3,000	\$4,000
Leased Equipment	\$9,000	\$12,000	\$15,000
Utilities	\$2,400	\$6,000	\$10,000
Insurance	\$500	\$3,000	\$10,000
Rent	\$42,000	\$50,000	\$55,000
Payroll Taxes	\$81,075	\$127,650	\$139,500
Other General and Administrative Expenses	\$0	\$0	\$0
	-----	-----	-----
Total General and Administrative Expenses	\$247,975	\$327,650	\$383,500

General and Administrative %	32.41%	11.35%	8.38%
Other Expenses:			
Other Payroll	\$285,000	\$390,000	\$390,000
Software & Equipment	\$25,000	\$20,000	\$20,000
	-----	-----	-----
Total Other Expenses	\$310,000	\$410,000	\$410,000
Other %	40.51%	14.20%	8.96%
	-----	-----	-----
Total Operating Expenses	\$1,912,255	\$2,203,650	\$2,276,500
Profit Before Interest and Taxes	(\$1,565,487)	(\$709,400)	\$119,000
Interest Expense	\$8,333	\$40,000	\$90,000
Taxes Incurred	\$0	\$0	\$7,371
Net Profit	(\$1,573,821)	(\$749,400)	\$21,629
Net Profit/Sales	-205.68%	-25.95%	0.47%

8.6 Projected Cash Flow

As is to be expected in this kind of venture, the cash flow is supported mainly by new capital from new investment in the company. We've scheduled additional rounds of financing to make that realistic.

Cash



Pro Forma Cash Flow			
	2000	2001	2002

Cash Received			
Cash from Operations:			

Cash Sales	\$688,669	\$2,598,750	\$4,117,500
Cash from Receivables	\$39,856	\$187,061	\$376,645
Subtotal Cash from Operations	\$728,525	\$2,785,811	\$4,494,145

Additional Cash Received			
Sales Tax, VAT,	\$0	\$0	\$0

HST/GST Received

New Current Borrowing	\$400,000	\$0	\$1,000,000
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	\$750,000	\$2,000,000	\$0
Subtotal Cash Received	\$1,878,525	\$4,785,811	\$5,494,145

Expenditures	2000	2001	2002
Expenditures from Operations:			
Cash Spending	\$182,665	\$296,373	\$372,503
Payment of Accounts Payable	\$1,946,051	\$3,447,113	\$4,288,983
Subtotal Spent on Operations	\$2,128,716	\$3,743,486	\$4,661,486

Additional Cash Spent			
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	\$2,128,716	\$3,743,486	\$4,661,486

Net Cash Flow	(\$250,191)	\$1,042,325	\$832,659
Cash Balance	\$243,809	\$1,286,134	\$2,118,793

8.7 Projected Balance Sheet

The balance sheet shows our projected financial position during the next three years. Obviously the key variable during this period, overall valuation, isn't shown.

Pro Forma Balance Sheet

Assets

Current Assets	2000	2001	2002
Cash	\$243,809	\$1,286,134	\$2,118,793
Accounts Receivable	\$36,663	\$138,352	\$219,207
Inventory	\$111,221	\$419,701	\$664,981
Other Current Assets	\$5,000	\$5,000	\$5,000
Total Current Assets	\$396,693	\$1,849,187	\$3,007,980
Long-term Assets			
Long-term Assets	\$0	\$0	\$0
Accumulated Depreciation	\$2,000	\$5,000	\$9,000
Total Long-term Assets	(\$2,000)	(\$5,000)	(\$9,000)
Total Assets	\$394,693	\$1,844,187	\$2,998,980

Liabilities and Capital

Current Liabilities	2000	2001	2002
Accounts Payable	\$319,513	\$518,407	\$651,572
Current Borrowing	\$400,000	\$400,000	\$1,400,000
Other Current Liabilities	\$0	\$0	\$0
Subtotal Current Liabilities	\$719,513	\$918,407	\$2,051,572

Long-term Liabilities	\$0	\$0	\$0
-----------------------	-----	-----	-----

Total Liabilities	\$719,513	\$918,407	\$2,051,572
-------------------	-----------	-----------	-------------

Paid-in Capital	\$1,282,750	\$3,282,750	\$3,282,750
-----------------	-------------	-------------	-------------

Retained Earnings	(\$33,750)	(\$1,607,571)	(\$2,356,971)
-------------------	------------	---------------	---------------

Earnings	(\$1,573,821)	(\$749,400)	\$21,629
----------	---------------	-------------	----------

Total Capital	(\$324,821)	\$925,779	\$947,409
---------------	-------------	-----------	-----------

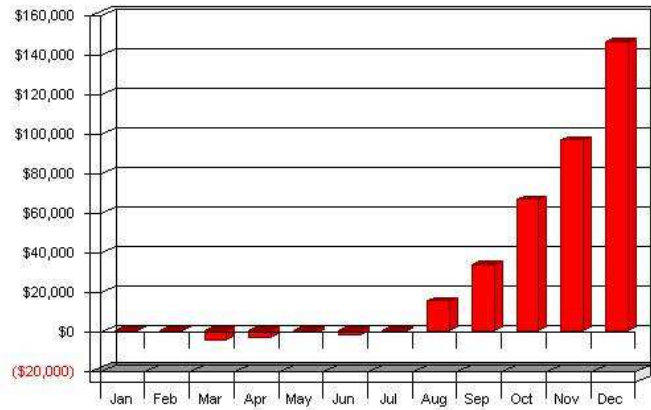
Total Liabilities and Capital	\$394,693	\$1,844,187	\$2,998,980
-------------------------------	-----------	-------------	-------------

Net Worth	(\$324,821)	\$925,779	\$947,409
-----------	-------------	-----------	-----------

8.8 Business Ratios

Our ratios, as projected here, are typical of the kind of growth company we project. The comparisons are based on SIC 5999, miscellaneous retail, which is obviously not an excellent match with our business... however, it seems as close as we can come because there is no data available on true Internet businesses. We do expect our gross margin and sales per employee to be much higher than standard retail.

Gross Margin Monthly



Ratio Analysis				
	2000	2001	2002	Industry Profile

Sales Growth	0.00%	277.36%	58.44%	6.30%
--------------	-------	---------	--------	-------

Percent of Total Assets				
-------------------------	--	--	--	--

Accounts Receivable	9.29%	7.50%	7.31%	16.90%
---------------------	-------	-------	-------	--------

Inventory	28.18%	22.76%	22.17%	39.30%
-----------	--------	--------	--------	--------

Other Current Assets	1.27%	0.27%	0.17%	23.90%
----------------------	-------	-------	-------	--------

Total Current Assets	100.51%	100.27%	100.30%	80.10%
----------------------	---------	---------	---------	--------

Long-term Assets	-0.51%	-0.27%	-0.30%	19.90%
------------------	--------	--------	--------	--------

Total Assets	100.00%	100.00%	100.00%	100.00%
--------------	---------	---------	---------	---------

Current Liabilities	182.30%	49.80%	68.41%	46.00%
---------------------	---------	--------	--------	--------

Long-term Liabilities	0.00%	0.00%	0.00%	14.00%
-----------------------	-------	-------	-------	--------

Total Liabilities	182.30%	49.80%	68.41%	60.00%
-------------------	---------	--------	--------	--------

Net Worth	-82.30%	50.20%	31.59%	40.00%
-----------	---------	--------	--------	--------

Percent of Sales				
Sales	100.00%	100.00%	100.00%	100.00%
Gross Margin	45.32%	51.75%	52.36%	34.10%
Selling, General & Administrative Expenses	251.00%	77.70%	51.89%	19.80%
Advertising Expenses	83.75%	23.31%	15.45%	2.60%
Profit Before Interest and Taxes	-204.59%	-24.57%	2.60%	1.10%

Main Ratios				
Current	0.55	2.01	1.47	1.77
Quick	0.40	1.56	1.14	0.67
Total Debt to Total Assets	182.30%	49.80%	68.41%	60.00%
Pre-tax Return on Net Worth	484.52%	-80.95%	3.06%	2.60%
Pre-tax Return on Assets	-398.75%	-40.64%	0.97%	6.50%

Additional Ratios	2000	2001	2002	
Net Profit Margin	-205.68%	-25.95%	0.47%	n.a
Return on Equity	0.00%	-80.95%	2.28%	n.a

Activity Ratios				
Accounts Receivable Turnover	2.09	2.09	2.09	n.a

Collection Days	39	111	143	n.a
Inventory Turnover	12.00	4.35	3.37	n.a
Accounts Payable Turnover	7.09	7.03	6.79	n.a
Payment Days	20	42	48	n.a
Total Asset Turnover	1.94	1.57	1.53	n.a

Debt Ratios				
Debt to Net Worth	0.00	0.99	2.17	n.a
Current Liab. to Liab.	1.00	1.00	1.00	n.a

Liquidity Ratios				
Net Working Capital	(\$322,821)	\$930,779	\$956,409	n.a
Interest Coverage	-187.86	-17.74	1.32	n.a

Additional Ratios				
Assets to Sales	0.52	0.64	0.66	n.a
Current Debt/Total Assets	182%	50%	68%	n.a
Acid Test	0.35	1.41	1.04	n.a
Sales/Net Worth	0.00	3.12	4.83	n.a
Dividend Payout	0.00	0.00	0.00	n.a