

The Opportunity

Smart Start Toys is a specialty toy store franchise specializing in educational and learning toys ~~that are~~ not readily available in large retail chains. Our stores focus on a buying experience that includes knowledgeable and enthusiastic customer care, unique in-store events, and value-added services that serve a growing and loyal customer base. Our goal is to provide educational, safe and really fun toys for our customers in an atmosphere that fosters creativity, enthusiasm and curiosity. Our target market includes parents (primarily mothers) of children ages Birth to 11 year old. Our first two stores are located in North Wilmington, DE and West Chester, PA. These are densely-populated areas with average household income above \$80,000 per year. Beginning next year, in year 2 of operation, we will initiate our franchising activities with a goal of opening 100+ stores in four years. We feel that corporate control of our two flagship stores will provide a "pilot" location for new product platforms and marketing campaigns that can then be introduced to our franchise locations. Although the products would be considered "nice to have", recent issues regarding toy safety and poor product stewardship put our products in a more favorable light compared to the competition. Over 30 states have either passed or are considering passing their own toy safety laws. In response to the publicity these issues have received, the trend is now shifting toward environmentally friendly and safe toys. We plan to focus our marketing strategy on the high quality and the reliability of our toys.

Competitive Landscape

The toy retailing business is a changing environment with big box retailers such as Target and Wal-Mart taking an increasing market share from toy specific category stores such as Toys R Us. In recent years, serious concern about toy quality has surfaced with the discovery of lead paint usage in poor quality toys sold by large retailers. Our intent is to serve the customers who have greater concerns with toy quality and safety and who want an enjoyable toy shopping experience that cannot be provided by large retailers. We will not compete with Wal-Mart, Target, and Toys R Us on pricing, and our product line will be substantially different from the toys that can be purchased in these locations. Target does not include a specialty toy aisle in their stores - they stock a limited number of products from a small number of manufacturers - leaving even some of the most common specialty toys unrepresented. Wal-Mart carries mainly mass-marketed toys from the largest manufacturers. Smart Start Toys will sell small, boutique brands as well as national or international toys that are unrepresented in our market footprint. We will offer a more unique and interesting product line of toys that are of higher quality and educational value.

Marketing Strategy

According to a report from NPD Group, 107 million US households purchased toys in 2009, up from 105 million households in 2008, which is impressive given the recessionary pressures the nation faced in 2009. The average spend per household was \$205 giving an overall US toy market of approximately \$22B. This same study found that 100% of households with children under the age of 6 purchased toys last year, spending an average of \$485 per family. Based on the market research for our flagship

locations, the potential regional market is \$11.1 M, using 23,000 families within 5 miles of our store and an average family spend of \$485. By year 3, we expect to have 7% of the regional market share at our flagship locations. We intend on duplicating this market footprint in our franchise locations as well.

Our research shows that women make over 85% of household purchases; therefore, our target customers will be primarily mothers of children ages 0-11. Within this segment, we are looking mothers who are concerned with product quality, safety, and educational value. These mothers tend to have at least some college education, and above average income. Our franchise locations will be targeted for densely populated areas with above average income and educated clientele. The locations of the two flagship stores will serve as a model for markets that should be targeted. Based on information from the Census Bureau, there are 29,000 children between the ages 0-11, and more than 23,000 families living within a 5 mile radius of our flagship locations. The average income within these areas is more than \$80,000, and more than 64,000 area residents have at least some college education. At this time our closest specialty toy store competitor is located more than 10 miles from our flagship locations. By targeting areas that share similar demographics and focusing on a specific market segment, we can expect similar responses to marketing and sales efforts due to homogeneity of the segment targeted. This will be an asset in future efforts since the flagship stores can serve as proving grounds for new product introduction or marketing strategies before roll-out to the franchise locations.

Operating Strategy

Our flagship stores will serve dual roles for the corporation. Primarily they will be regional retail locations for the Wilmington, DE and West Chester, PA markets. However, they will also serve an important secondary role as “pilot” locations for new products, in-store activities, and marketing promotions. The flagship stores will serve as the hubs for business, product knowledge, and IT. The headquarters of the franchising operation will be the Wilmington, DE location. The flagship stores will provide support to the franchise locations in the form of:

- initial training and ongoing procedural updates
- exclusive rights to the store within a geographic area
- expert inventory and pricing support
- intranet and business services support
- hands-on store identification, design and outfit
- custom-designed point of sale software for buying, selling and exchanging goods.

The franchise stores will provide an initial licensing fee and then ongoing royalty payments that will be a percentage of gross revenues. Initial franchise locations will pay a lower licensing fee to entice potential owners and build momentum for the brand. While a franchise operation is currently employed by our main competitor, Learning Express Toys, our franchising opportunities will be more profitable and therefore more attractive to prospective store owners.

Our franchise locations will be located in strip shopping centers with anchor tenants and other businesses that are attractive to our target market. We expect to have 3

employees per store including the owner, who will manage the store and be in charge of the daily operations. Owner involvement is crucial to minimize loss from theft or employee negligence. Moreover, customers find it more appealing to deal directly with the owner of the business. Our stores will be 3,000 sq. ft., which is close to optimal for a specialty toy retailer. In our analysis, we have used information provided by the American Specialty Toy Retailing Association (ASTRA), which has over 1,000 specialty toy store members sharing information for the industry. According to ASTRA, top performers in the business have approximately 3,200 sq. ft. of retail space in their stores. Timing of store openings is of critical importance. While franchise rights can be purchased at any time throughout the year, stores themselves will be opened in mid to late October, which will allow the franchise locations to build some customer recognition and immediately enter the busy holiday season. While revenue generation is expected to begin in October, realistically, we expect to make operating profit only in November and December, and the remaining months will generate enough sales to cover some of the fixed costs associated with running the store. We realize that counting on 2-3 months of the year to generate the majority of sales increases our risk profile, but most specialty retail operations are subject to this type of business seasonality.

The Financial Model

Income statements and cash flow statements for the first five years of operation and cash build/cash burn analysis are attached in the appendices. The following assumptions have been made and validated and are listed below.

Year 1 – Assumptions for Opening Flagship Stores

1. In year one two stores will be opened using \$100,000 of founders funds and a \$300,000 bank loan. We assume bank financing to be for a term of 5 years, at an interest rate of 8%. In reality, we will obtain a variable rate financing, which at today's low interest rates will be in a range lower than 8%, but we will use 8% for purposes of being conservative and as a stress test measure in case interest rates start increasing.
2. Our estimation of sales is based on comparative data provided by ASTRA (American Specialty Toy Retailing Association) for stores of similar size located in areas with comparable demographics.
3. Based on our product mix, we anticipate maintaining a 49% profit margin in the first year of operation. We have used historical data compiled by the Risk Management Association (RMA) to estimate gross profit margin (see Appendix).
4. Each store is staffed by 3 employees including the owner.
5. Our estimation of expenses is a combination of information obtained from ASTRA, RMA, and quotes received from landlords, marketers, insurers, etc.
6. We assume that 65% of inventory will be financed on trade terms with vendors who will demand repayment within 30 days. Therefore, we anticipate \$160,000 in accounts payable at the beginning of Year 1 to partially offset the cash outflow from purchasing \$256,000 in inventory.

Year 2 – Assumptions for Franchise Operations

1. Starting year 2, \$400M in venture capital funding will be required to pay off the bank loan and to provide additional cash to fund the franchise operation.

2. The franchise operation will consist of two revenue streams – a fixed licensing fee and a royalty on gross revenues. The first 10 to 20 stores will have a nominal start-up franchise licensing fee to create an incentive for participants. After that participation point, the licensing fee will increase to \$10,000, and then \$20,000 which will still be \$15,000 less than our existing competitor (Learning Express). Fee will be subsequently increased to \$25,000 when strong interest in our franchise exists. The corporation will be entitled to 4% of the total annual sales realized by our franchises; the royalties will be collected bi-annually. The first royalty payment will be in early January since most stores will realize their strongest sales during the holiday season, and the second will be in June/July.
3. In year 2, we assume sales of 19 franchise licenses at a cost of \$5K each. We assume \$20K in royalty income from these franchises to be paid in June of year 2.
4. The company does not expect significant account receivables due to the fact that the retail operation will receive immediate payment for sales.
5. The royalty fees will be collected through an EFT directly from the franchisor's checking accounts when due.

Year 3 – Assumptions for Franchise Operations

1. Starting year 3, \$400M in venture capital funding will be required to provide additional cash to fund the ongoing franchise operation.
2. In year 3, we assume purchase of an additional 31 franchise licenses at a cost of \$10K each. We assume \$686K in annual royalty income to be paid between January and June/July.
3. We assume \$800K in sales per franchise store. This is based on the revenue generation at the flagship locations.

Year 4 – Assumptions for Franchise Operations

1. In year 4, we assume purchase of an additional 60 franchise licenses at a cost of \$20K each. We assume \$1,180,000 in annual royalty income to be paid between January and June/July.
2. We assume \$800K in sales per franchise store. This is based on the revenue generation at the flagship locations.

Year 5 – Assumptions for Franchise Operations

1. In year 5, we assume no new franchise licenses in order determine recurring cash flow regardless of the effects of the one time licensing fees.
2. We assume that 110 stores (not including the two company owned stores) contribute to the royalty income.
3. We assume \$800K in sales per franchise store. This is based on the revenue at the flagship locations.

The Capital Investment

The goal of opening over 100 stores in 4 years is achievable if we are well capitalized. Based on our financial projections, an investment of \$800K distributed evenly over two years (years 2 and 3 of operations) will provide the cash needed to fund the operation through a harvest event. Based on our projections by the end of year 5 of the operation (year 4 of the VC investment) the company will be worth approximately \$6.65M. This is based on annual cash flow of \$1.13M in year 5, an expected growth rate of 5% after year 5, and a discount rate of 22% which is a typical annualized VC return.

Based on the pre-money valuation, we assume the VC will own a 45% equity stake in the company. Our pre-money valuation calculations are based on the information below:

Founders Investment -	\$100,000
Bank Loan -	\$300,000
Corporate Stores Value -	\$480,000
VC Investment -	\$800,000

At the end of year 1 the invested capital includes the founder's \$100K investment and a \$300K bank loan. In addition the corporate stores are providing \$106K in cash after adjusting for one-time charges. If we discount the cash flows at 22%, to maintain consistency in valuation return rates, we obtain a value for the corporate stores of approximately \$480K. Since the pre-money valuation is \$880K and the VC investment is expected to be \$800K, we obtain a founder's equity stake of 55% and a 45% equity stake for the VC. Based on the valuation at the end of 5 years that VC's investment would be worth \$4M which equates to a 60% annualized return when the increase in value of the two \$400K are averaged. The VC funds will be used to retire the bank loan that was used to fund the flagship stores and to develop the operations and marketing infrastructure necessary to support national franchising. First, the \$300M bank loan that was used to fund year 1 of operations will be repaid. The next major cash outlay will be used to develop a proprietary ordering system that can be used to achieve economies of scale across the retail operation. Finally, the VC investment will subsidize a national marketing campaign built around the concept of safe toy with strong educational value.

The main risk to the investment is that we may not be able to generate sufficient interest in our franchise, which will deter our goal of opening +100 stores within 4 years. To help mitigate this risk and entice owners, we are going to provide favorable financial terms to franchisors. We are also focused on designing an ordering system that minimizes costs across the supply chain which will provide a competitive advantage over the current competition. Additionally, we are leveraging the experience in our flagship locations to support franchisors daily operations and roll-out of new marketing tools. In the event we sign a smaller number of franchisors, we will approach our franchisors to buy the corporation (possibly at a discount) from our investors.

The Harvest

Our preferred harvest event will be the sale of the company to a large retailer within the same industry e.g. Toys R Us or a similar entity. We believe this is also the most likely scenario because an industry player will have parallel operations where they can further exploit economies of scale and scope. Also, it would be a nice portfolio addition to their existing core businesses. The harvest event is targeted for the end of year 5. The main risk associated with the transaction is that we may not be able to generate sufficient interest in our franchise, which will deter our goal of opening +100 stores within 4 years. In the event we sell less franchise licenses than planned, we will approach our franchisors to buy the corporation (possibly at a discount) from our investors. This will allow for recovery our initial investment as well as a moderate profit. While this may not be attractive from a VC perspective since the high returns will not be realized, we expect a quick win or quick fail timeline. As we move forward through year

2 utilizing the first \$400K VC investment, we have a milestone of 19 franchise licenses sold. If we cannot make the 19 licenses by the end of year 2, we cannot expect to reach the harvest event by the end of year 5. So within the first 12 months after the investment the VC and founders will know whether the opportunity has failed or been a success from the VC's perspective.

If we assume an expected return of 15% for the acquirer with an expected growth rate of 5% then the expected sale price would be between \$9.5-11.3M. The \$9.5M is a conservative estimate that assumes 3% growth and a 15% expected return. This assumes the buyer will be cautious regarding growth expectations. The \$11.3M is a more aggressive estimate that assumes 5% growth and a 15% expected return. This assumes the buyer's share our perspective regarding long term growth. Using the conservative estimate, the VC would receive \$4.72M at harvest which averages to 68% annual return after 4 years. Using the aggressive estimate the VC would receive \$5.53M at harvest which averages to 76% after 4 years. As of today the expected return is a fraction of 15% however since our model is based on growth and assumes improvement in economic conditions, we assume that a reasonable return based on previous economic growth periods.

Appendix

Income Statements Year 1 through Year 5

Statement of Cash Flows Year 1 through Year 5

Cash Build/Burn Calculations

Term Sheet

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Year 1
Total Sales	12,000	187,480	452,544	87,623	90,012	110,084	99,137	94,727	89,575	94,069	90,104	124,096	1,531,451
COGS	6,120	95,615	230,798	44,687	45,906	56,143	50,560	48,311	45,683	47,975	45,953	63,289	781,040
Gross Profit	5,880	91,865	221,747	42,935	44,106	53,941	48,577	46,416	43,892	46,094	44,151	60,807	750,411
Gross Profit Margin	49%	49%	49%	49%	49%	49%	49%	49%	49%	49%	49%	49%	49%
Expenses:													
Salary & Wages	19,292	19,292	27,000	19,292	19,292	19,292	19,292	19,292	19,292	19,292	19,292	19,292	239,212
Payroll Taxes	1,158	1,158	1,620	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	14,353
General Office	120	120	120	120	120	120	120	120	120	120	120	120	1,440
Rent	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	276,000
Other Facilities	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	27,600
Utilities	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	22,320
Advertising/Promotions	300	4,360	10,285	2,087	2,143	2,560	2,306	2,203	2,083	2,188	2,095	2,866	35,476
Internet	120	120	120	120	120	120	120	120	120	120	120	120	1,440
Inventory Losses(at 1.4%)	1,800	2,442	5,760	1,168	1,200	1,434	1,292	1,234	1,166	1,226	1,174	1,616	21,512
Insurance	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	38,400
Subscriptions	0	0	0	0	0	0	240	0	0	0	0	0	240
Total Expenses	53,150	57,852	75,265	54,305	54,393	55,044	54,888	54,487	54,299	54,464	54,319	55,532	677,993
EBITDA	(47,270)	34,014	146,482	(11,369)	(10,286)	(1,102)	(6,311)	(8,070)	(10,407)	(8,370)	(10,167)	5,275	72,418
Interest on Loans	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	28,800
Depreciation	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
Pre-tax Operating Income	(50,870)	30,414	142,882	(14,969)	(13,886)	(4,702)	(9,911)	(11,670)	(14,007)	(11,970)	(13,767)	1,675	29,218

*Projections include the opening of a 2 stores at once

	2011 Oct	2011 Nov	2011 Dec	2012 Jan	2012 Feb	2012 Mar	2012 Apr	2012 May	2012 Jun	2012 Jul	2012 Aug	2012 Sep	2012 Year 2
Sales from Stores	123,456	187,480	452,544	87,623	90,012	110,084	99,137	94,727	89,575	94,069	90,104	124,096	1,642,907
Revenue from Franchise*	0	0	0	5,000	10,000	10,000	10,000	10,000	20,000	10,000	15,000	15,000	105,000
Total Revenue	123,456	187,480	452,544	92,623	100,012	120,084	109,137	104,727	109,575	104,069	105,104	139,096	1,747,907
COGS	62,963	95,615	230,798	44,687	45,906	56,143	50,560	48,311	45,683	47,975	45,953	63,289	837,883
Gross Profit	60,493	91,865	221,747	47,935	54,106	63,941	58,577	56,416	63,892	56,094	59,151	75,807	910,025
Expenses:													
Salary & Wages	19,292	19,292	27,000	19,292	19,292	19,292	19,292	19,292	19,292	19,292	19,292	19,292	239,212
Payroll Taxes	1,158	1,158	1,620	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	14,353
General Office	120	120	120	120	120	120	120	120	120	120	120	120	1,440
Rent	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	276,000
Other Facilities	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	27,600
Utilities	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	22,320
Advertising/Promotions	300	4,360	10,285	2,087	2,143	2,560	2,306	2,203	2,083	2,188	2,095	2,866	35,476
Internet	120	120	120	120	120	120	120	120	120	120	120	120	1,440
Inventory Losses(at 1.4%)	1,800	2,442	5,760	1,168	1,200	1,434	1,292	1,234	1,166	1,226	1,174	1,616	21,512
Insurance	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	38,400
Franchise Expenses													
Marketing/Product Development	15,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	25,000	25,000	25,000	25,000	255,000
Training/Logistics	0	0	0	0	5,000	8,000	8,000	10,000	11,000	11,000	11,000	11,000	75,000
Support - Other	1,000	1,000	1,000	1,200	2,000	2,000	4,000	4,000	5,500	5,500	5,500	6,000	38,700
Corporate Office expense - insurance, rent, bookkeeping, ect	2,000	2,000	2,000	11,000	11,000	11,000	11,000	11,000	11,000	14,000	14,000	14,000	114,000
Total Expenses	71,150	80,852	98,265	86,505	92,393	96,044	97,648	99,487	106,799	109,964	109,819	111,532	1,160,453
EBITDA	(10,656)	11,014	123,482	(38,569)	(38,286)	(32,102)	(39,071)	(43,070)	(42,907)	(53,870)	(50,667)	(35,725)	(250,428)
Interest on Loans	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
Pre-tax Operating Income	(11,856)	9,814	122,282	(39,769)	(39,486)	(33,302)	(40,271)	(44,270)	(44,107)	(55,070)	(51,867)	(36,925)	(264,828)

2 company stores and investment in franchise expansion

*assumes \$5,000 per store in franchise opening fees, and 4% franchise fee on total sales paid in June
19 stores are expected be open by the end of year 2

	2012	2012	2012	2012	2013	2013	2013	2013	2013	2013	2013	2013	2013	2013	2013	2013	2013	2013	2013	2013	Year 3				
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Year 3
Sales from Stores	137,890	200,560	473,115	95,968	98,585	117,765	106,053	101,336	95,825	100,632	96,391	132,754	1,756,872												
Revenue from Franchise*	30,000	30,000	30,000	276,000	10,000	20,000	20,000	20,000	30,000	450,000	40,000	40,000	996,000												
Total Revenue	167,890	230,560	503,115	371,968	108,585	137,765	126,053	121,336	125,825	550,632	136,391	172,754	2,752,872												
COGS	70,324	102,286	241,288	48,943	50,278	60,060	54,087	51,681	48,871	51,322	49,159	67,704	896,004												
Gross Profit	97,566	128,274	261,826	323,024	58,307	77,705	71,966	69,654	76,954	499,310	87,231	105,049	1,856,867												
Expenses:																									
Salary & Wages	19,292	19,292	27,000	19,292	19,292	19,292	19,292	19,292	19,292	19,292	19,292	19,292	239,212												
Payroll Taxes	1,158	1,158	1,620	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	14,353												
General Office	120	120	120	120	120	120	120	120	120	120	120	120	1,440												
Rent	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	276,000												
Other Facilities	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	27,600												
Utilities	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	22,320												
Advertising/Promotions	300	4,360	10,285	2,087	2,143	2,560	2,306	2,203	2,083	2,188	2,095	2,866	35,476												
Internet	120	120	120	120	120	120	120	120	120	120	120	120	1,440												
Inventory Losses(at 1.4%)	1,800	2,442	5,760	1,168	1,200	1,434	1,292	1,234	1,166	1,226	1,174	1,616	21,512												
Insurance	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	38,400												
Franchise Expenses																									
Marketing/Product Development	30,000	30,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	38,000	38,000	38,000	419,000												
Training/Logistics	20,000	22,000	22,000	22,000	21,000	25,000	25,000	25,000	30,000	35,000	35,000	35,000	317,000												
Support - Other	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000												
Corporate Office expense - insurance, rent, bookkeeping, ect	16,000	16,000	18,000	18,000	18,000	20,000	20,000	22,000	22,000	22,000	22,000	22,000	236,000												
Total Expenses	126,150	132,852	157,265	136,305	135,393	142,044	141,648	143,487	148,299	156,464	156,319	157,532	1,733,753												
EBITDA	(28,583)	(4,577)	104,561	186,720	(77,086)	(64,339)	(69,682)	(73,832)	(71,344)	342,846	(69,087)	(52,482)	123,114												
Interest on Loans	0	0	0	0	0	0	0	0	0	0	0	0	0												
Depreciation	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	48,000												
Pre-tax Operating Income	(32,583)	(8,577)	100,561	182,720	(81,086)	(68,339)	(73,682)	(77,832)	(75,344)	338,846	(73,087)	(56,482)	75,114												

2 company stores and investment in franchise expansion
*assumes \$10,000 per store in franchise opening fees, and 4% franchise fee on total sales paid in January and July, assumes \$700,000 in annual sales per store
31 stores are expected to open in Y3 for a total of 40 stores

	2013	2013	2013	2013	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	2014	Year 4
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep									
Sales from Stores	137,890	200,560	473,115	95,968	98,585	117,765	106,053	101,336	95,825	100,632	96,391	132,754	1,756,872								
Revenue from Franchise*	80,000	100,000	100,000	660,000	100,000	100,000	100,000	100,000	740,000	100,000	100,000	100,000	2,380,000								
Total Revenue	217,890	300,560	573,115	755,968	198,585	217,765	206,053	201,336	835,825	200,632	196,391	232,754	4,136,872								
COGS	70,324	102,286	241,288	48,943	50,278	60,060	54,087	51,681	48,871	51,322	49,159	67,704	896,004								
Gross Profit	147,566	198,274	331,826	707,024	148,307	157,705	151,966	149,654	786,954	149,310	147,231	165,049	3,240,867								
Expenses:																					
Salary & Wages	19,292	19,292	27,000	19,292	19,292	19,292	19,292	19,292	19,292	19,292	19,292	19,292	239,212								
Payroll Taxes	1,158	1,158	1,620	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	14,353								
General Office	120	120	120	120	120	120	120	120	120	120	120	120	1,440								
Rent	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	276,000								
Other Facilities	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	27,600								
Utilities	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	22,320								
Advertising/Promotions	300	4,360	10,285	2,087	2,143	2,560	2,306	2,203	2,083	2,188	2,095	2,866	35,476								
Internet	120	120	120	120	120	120	120	120	120	120	120	120	1,440								
Inventory Losses(at 1.4%)	1,800	2,442	5,760	1,168	1,200	1,434	1,292	1,234	1,166	1,226	1,174	1,616	21,512								
Insurance	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	38,400								
Franchise Expenses																					
Marketing/Product Development	48,000	48,000	50,000	50,000	50,000	55,000	55,000	55,000	55,000	55,000	60,000	60,000	641,000								
Training/Logistics	50,000	55,000	55,000	55,000	55,000	55,000	65,000	65,000	65,000	65,000	70,000	70,000	725,000								
Support - Other	15,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	25,000	25,000	30,000	30,000	265,000								
Corporate Office expense - insurance, rent, bookkeeping, ect	28,000	28,000	34,000	34,000	45,000	45,000	50,000	50,000	50,000	50,000	50,000	55,000	519,000								
Total Expenses	194,150	208,852	234,265	213,305	224,393	230,044	244,648	244,487	249,299	249,464	264,319	270,532	2,827,753								
EBITDA	(46,583)	(10,577)	97,561	493,720	(76,086)	(72,339)	(92,682)	(94,832)	537,656	(100,154)	(117,087)	(105,482)	413,114								
Interest on Loans	0	0	0	0	0	0	0	0	0	0	0	0	0								
Depreciation	8,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	74,000								
Pre-tax Operating Income	(54,583)	(16,577)	91,561	487,720	(82,086)	(78,339)	(98,682)	(100,832)	531,656	(106,154)	(123,087)	(111,482)	339,114								

2 company stores and investment in franchise expansion
*assumes \$20,000 per store in franchise opening fees, and 4% franchise fee on total sales paid in January and July
60 stores are expected to open in Y4 for a total of 100 stores

	2014	2014	2014	2014	2015	2015	2015	2015	2015	2015	2015	2015	2015	2015	2015	2015	2015	2015	Year 5
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep							
Sales from Stores	137,890	200,560	473,115	95,968	98,585	117,765	106,053	101,336	95,825	100,632	96,391	132,754	1,756,872						
Revenue from Franchise*	0	0	0	2,320,000	0	0	0	0	1,200,000	0	0	0	3,520,000						
Total Revenue	137,890	200,560	473,115	2,415,968	98,585	117,765	106,053	101,336	1,295,825	100,632	96,391	132,754	5,276,872						
COGS	70,324	102,286	241,288	48,943	50,278	60,060	54,087	51,681	48,871	51,322	49,159	67,704	896,004						
Gross Profit	67,566	98,274	231,826	2,367,024	48,307	57,705	51,966	49,654	1,246,954	49,310	47,231	65,049	4,380,867						
Expenses:																			
Salary & Wages	19,292	19,292	27,000	19,292	19,292	19,292	19,292	19,292	19,292	19,292	19,292	19,292	239,212						
Payroll Taxes	1,158	1,158	1,620	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	14,353						
General Office	120	120	120	120	120	120	120	120	120	120	120	120	1,440						
Rent	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	276,000						
Other Facilities	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	27,600						
Utilities	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	1,860	22,320						
Advertising/Promotions	300	4,360	10,285	2,087	2,143	2,560	2,306	2,203	2,083	2,188	2,095	2,866	35,476						
Internet	120	120	120	120	120	120	120	120	120	120	120	120	1,440						
Inventory Losses(at 1.4%)	1,800	2,442	5,760	1,168	1,200	1,434	1,292	1,234	1,166	1,226	1,174	1,616	21,512						
Insurance	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	3,200	38,400						
Franchise Expenses																			
Marketing/Product Development	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	720,000						
Training/Logistics	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	840,000						
Support - Other	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	25,000	25,000	30,000	30,000	270,000						
Corporate Office expense - insurance, rent, bookkeeping, ect	50,000	50,000	50,000	50,000	45,000	45,000	50,000	50,000	50,000	50,000	50,000	50,000	595,000						
Total Expenses	253,150	257,852	275,265	254,305	249,393	250,044	254,648	254,487	259,299	259,464	264,319	270,532	3,102,753						
EBITDA	(185,583)	(159,577)	(43,439)	2,112,720	(201,086)	(192,339)	(202,682)	(204,832)	987,556	(210,154)	(217,087)	(205,482)	1,278,114						
Interest on Loans	0	0	0	0	0	0	0	0	0	0	0	0	0						
Depreciation	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	96,000						
Pre-tax Operating Income	(193,583)	(167,577)	(51,439)	2,104,720	(209,086)	(200,339)	(210,682)	(212,832)	979,656	(218,154)	(225,087)	(213,482)	1,182,114						

2 company stores and investment in franchise expansion

* assumes no new franchises being open in Y5 for the purposes of obtaining a better idea of recurring cash flow
 assumes 4% annual franchise fee on average store sales of \$800,000 from 100 stores

3,998,757

	Year 1 Beginning	Year 1 End	Year 2 End	Year 3 End	Year 4 End	Year 5 End
Cash Flow from Operations						
Net Income (Loss)	0	29,218	(264,826)	75,114	341,114	1,282,114
Depreciation	0	14,400	14,400	48,000	74,000	96,000
Increase (Decrease) in A/P	160,000	(50,000)	10,000	10,000	20,000	(15,000)
Increase (Decrease) Accrued Expenses	24,000	(4,000)	0	15,000	15,000	(25,000)
Decrease (Increase) in Inventory	(256,000)	(10,000)	(10,000)	0	(10,000)	(10,000)
Net Cash Provided (Used) by Operating Activities	(72,000)	(20,382)	(250,426)	148,114	440,114	1,328,114
Cash Flows from Investing Activities						
Payments for Capital Expenditures	(209,400)	(120,000)	(150,000)	(100,000)	(250,000)	(200,000)
One-time start-up costs	(29,200)	0	(40,000)	0	0	0
Net Cash Provided (Used) by Investing Activities	(238,600)	(120,000)	(190,000)	(100,000)	(250,000)	(200,000)
Proceeds from Term Debt Bank	300,000	0	0	0	0	0
Repayment of Term Debt Bank	0	(300,000)	0	0	0	0
VC Investment	0	400,000	400,000	0	0	0
Owner Contribution	100,000	0	0	0	0	0
Net Cash Provided (Used) by Investing Activities	400,000	100,000	400,000	0	0	0
Beginning Cash	0	89,400	49,018	8,592	56,706	246,820
Ending Cash	89,400	49,018	8,592	56,706	246,820	1,374,934

Internal Use Only

The company does not expect significant account receivables due to the fact that the retail operation will be receive immediate payment for sales. The franchise stores will pay the one-time fee upfront and royalties will be collected through a EFT directly from the franchisor's checking accounts when due Therefore:

Cash Build = Net Sales - Increase in Receivables = Net Sales

Cash Burn = COGS+Operating Expenses+Interest+Tax Expense (currently ignored in our case)+increase in inventory+changes in payable+capex

	Y1	Y2	Y3	Y4	Y5
Cash Build	1,531,451	1,747,907	2,752,872	4,136,872	5,376,872
Cash Burn	1,641,204	2,168,336	2,704,757	3,823,757	3,998,757
Net Cash Build(Burn)	(109,753)	(420,429)	48,115	313,115	1,378,115

The cash burn in Y1 will be funded through a bank loan and through contribution from owners, the cash burn in Y2 will be funded through a VC investment that will pay off bank loan and provide additional cash