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INTRODUCTION

Mission

The mission of 989 Studios is to provide high quality audio production services for two primary markets: 1) Christian artists, ministers and churches throughout the Southeast, and 2) the Gulf coast music and advertising community.

Business

989 Studios will be operated as a commercial, for-profit facility, supplying audio production services both to the ministry and the community.

989 Studios is at the growth stage of business, having released our first music project, "So Real," in July of 2002. With its release, a number of other ministries have contacted us, interested in our assistance with recording and production of a music project for them. Also, currently the Mobile-Pensacola area is currently without a quality, full-service audio production facility which appeals to ministries.

The Principals

Paul Bordenkircher has a wide-ranging background in the music industry that spans some 17 years. He started as a recording engineer at some of the most prominent music studios in the country, including the famous Power Station in New York and Prince's Paisley Park Studios in Minneapolis. Paul has also worked in marketing and promotions for the last 12 years, overseeing multimillion dollar marketing budgets for some of the largest Christian music labels in the world.

His industry background includes stints in radio and television promotions, PR and advertising. Other skills acquired include graphic design and computer networking. His most recent accomplishment involves development of RPJ Christian Arts Group, a non-profit record label and publishing company, a non-profit arts ministry under The Rock Church of Mobile, and currently operates as its President and General Manager – at this time, an unpaid position. He has a Bachelor of Music degree in Music Business from Moorhead State University.

C.J. Bordenkircher, Paul's wife, also has a background in the music industry. An aspiring songwriter, C.J. spent several years in Nashville developing her craft and learning about the music publishing side of the industry. She assisted in the development of RPJ's publishing company, Seed Planter Music (ASCAP), and works with RPJ's songwriters.

C.J. is highly organized, very motivated, and has a natural gift with people. Her background of 10 years as a psychiatric nurse gives her a decided advantage in dealing with people – especially creative ones! She will assist initially in an unpaid role.

STARTUP & MARKETING PLAN

Market Definition

We will be competing in two primary areas: (1) music and audio production services for businesses and agencies for Mobile and Gulf Coast, and; (2) music production services for Christian artists and ministries. The Christian music market was approximately \$863 million at retail in 1998, according to the Recording Industry Association of America (RIAA).

Recent market research shows that this area has a limited number of publicly available recording studios. While nearly all will work with outside clients, most studios are directly affiliated with another local company or advertising agency, which significantly limits their availability.

Since 1996, gospel music has averaged an 18.7% growth each year. While this growth has leveled off in the last two years, Christian music continues to outpace other music genres in growth and market share.

Growth Opportunities

The potential for opportunity in this area stems from a combination of three factors:

1. Dramatic improvements in recording technology. Only 10 years ago, the cost of developing a small commercial studio would run around a quarter of a million dollars or more. With the development of affordable, computer-based recording, startup costs have dropped dramatically, while increasing quality and overall ease of use.
2. The growth of independent labels and artists. According to Robbin Parrish, Christian music editor for web portal About.com, the growth of independent Christian music is inevitable:

Christian Music, I think, is at a major crossroads.... I am coming to believe that Christian record labels have, for the most part, lost their purpose and focus. They've begun placing far too much importance on producing the "next big thing," that many of them have lost sight of the ultimate purpose of Christian Music: to minister through music.... Until I realized this fact, it never occurred to me why some indies would choose to remain indies. But now I get it. Christian indies are some of the most passionate, sincere artists you'll ever encounter, because they're doing what they do because they have a strong desire to minister through music, not because they're trying to sell as many albums as they can. Indies are the wave of the future....

3. State of the Industry. Within the last 12 months, major secular and Christian companies such as EMI, Sony and Zomba have trimmed their employee and artist rosters by the thousands. We anticipate an even more pronounced growth of the indie movement, as former artists and employees begin startup ventures of their own. In addition, with our expertise in developing an independent record label, we may be able to offer consulting services to set up their own distribution, sales and/or publishing companies.

Market Segment

We define our market segment as music and audio production services. This segment has been steady in the last few years.

The major market segments are:

- Audio services for businesses
- Recording, mixing and mastering of artist music projects

Our primary customers will be:

- Local businesses
- Advertising agencies
- Church ministries
- Area independent music artists

Our market is indirectly affected by the growth of the Christian music market, which was approximately \$863 million at retail in 1998, according to the Recording Industry Association of America (RIAA). A summary of sales figures during the last 13 years reveals a record 940% growth among Christian music product sales. According to those same statistics, Christian music is the fastest-growing genre in recorded music, with a market share that surpasses jazz, classical and new age combined.

All sales in each segment are delivered through the services offered by the facility and staff. Other services added in the short-term, such as graphic design services, can be outsourced, and would not require additional office space.

A typical customer for the studio would fall into two categories:

- The first customer is a small business owner whose marketing budget is not large enough to be valuable to a major advertising agency. They need assistance with radio commercials and other needs such as on-hold messaging, but are more hands-on in their approach, or may simply be wary of the type of commitment necessary to land a major firm. They are motivated to work with us because of the services we provide at a lower rate and level of commitment. We know this from discussions with local business merchants and feel our customers will perceive the studio as similar quality at a lower cost and commitment.
- The second customer is the artist or ministry looking to do a recording of one or more songs. Their goals for doing a project are not for international stardom; usually, they want to make a good recording for their friends, relatives or congregation. Correspondingly, they do not have a six-figure budget for such a project, and would be unable to spend unknown days or weeks in another city to complete such a production. They would be looking for a more cost-effective solution, closer to home and more in line with their goals and budget.

989 Studios, does, however, have the following weaknesses: limited offering of equipment; relatively small production area, small staff. We are working to position our studio as cost-effective, small on perks but big on quality and value, in order to reduce this vulnerability.

Position

We will position the studio as an excellent facility offering a greater variety of services and with the same or greater quality at the same rate - a position not presently being addressed by the competition. Add to that a focus on ministry through service, and 989 Studios is truly a unique offering. Area ministries, independent bands and artists have a particular need for our services, and we plan to continue to refine our positioning through the early stages.

Pricing

We plan to use two methods for our pricing strategy: 1) an hourly rate based on current market rates, typically \$50 per hour, and; 2) recording package rates for such items as Messages on Hold, and artist demos. Packages are priced according to a pre-set number of hours in the studio, with additional hours priced at an hourly rate. Other items such as media sales can be included in the packages and priced separately, typically on fairly high margins. As we expand our business and include additional services, we should be able to widen our revenue base considerably.

We intend to review our pricing semiannually to ensure competitive rates, while scaling rates based on the level of services. Customers may be willing to pay as much as \$600 for a 10-hour block session because of the the experienced staff and quality of equipment.

Advertising and Promotion

989 Studios plans to begin a comprehensive, guerilla-style marketing, advertising and promotion strategy, to involve at minimum the following components:

1. Postcard mailing to churches in Mobile and surrounding areas, and a more personalized letter mailing to churches and ministries already in contact with The Rock
2. Barter relationships with local music stores to include bagstuffers, sponsored workshops and other methods for onsite presence.
3. Develop a significant local presence through the incorporation of community involvement projects, such as
 - a. Assisting a local non-profit organization by recording and releasing a music single, using sales revenue as a fundraiser.
 - b. Partnering with the Mobile Arts Council to develop a music and art CD sampler to be used to promote the wide variety of arts opportunities along the Gulf Coast. The finished product could potentially be used by civic leaders, the Chamber of Commerce and local industries recruiting new employees to the area.
4. Promote the studio locally through on site tours and demonstrations for local agencies and potential clients.
5. Our publicity plan is to remain in regular contact with editors and writers of the local newspapers, periodicals and television, with occasional submissions to

trade publications such as Recording, Electronic Musician, and EQ. We will specifically pursue media opportunities with local newspaper, magazines and television surrounding community involvement projects.

6. For Message on Hold clients, we may consider offering a discount on their packages in exchange for a brief mention on their hold programming.

The objective of all our promotions is to expand awareness to the facility, and position 989 as a quality facility with a heart for ministry. All elements will begin development and execution as soon as funding is secured. The visibility developed through the local media and the organizations involved should also boost our position and potential for additional business. We expect to have a periodic presence in the local media, as well as a regular presence in arts publications. In order to cover a larger client universe, we will submit listings to the major studio magazines, listing agencies and websites.

AVAILABLE COLLATERAL

Existing Equipment

989 Studios has already developed a modest production system, with a great potential for expandability. This includes the following:

| <u>Item</u> | <u>Estimated Value</u> |
|--|------------------------|
| • iMac 600 MHz G3 | \$1,000 |
| • Digital Performer Software | 1,000 |
| • MOTU 828 audio interface | 800 |
| • 1 Alesis R150 Power Amplifier | 300 |
| • 2 pair monitor speakers | 300 |
| • Genesis Power strip and equipment rack | 300 |
| • 2 dbx mini-pre microphone preamps | 200 |
| • 1 dbx 266XL compressor/expander/limiter/gate | 200 |

989 Studios can occasionally tap into the equipment available from The Rock of Mobile's audio systems for special needs. Some equipment is also available from the principals. This includes the following:

| <u>Item</u> | <u>Estimated Value</u> |
|---------------------------------|------------------------|
| • Drums and Percussion | \$3,000 |
| • Estimated 20 microphones | 2,000 |
| • Roland XP-50 synthesizer | 1,500 |
| • Peavey KB100 keyboard amp (2) | 1,000 |
| • Hartke 115 bass amp | 800 |
| • Fender Twin guitar amp | 700 |
| • Ibanez acoustic guitar | 300 |
| • Fender basic keyboard amp | 300 |

Equipment to Purchase

The equipment listed is necessary to elevate the level of processing power available for productions, as well as providing necessary equipment to handle projects of a larger scale than is currently possible with existing equipment. Some monies may also be regained from selling items which are replaced or upgraded. *(Additional information is available in the Appendix.)*

Item

Estimated Value

| <u>Hardware</u> | Qty | | Unit Rate | Total |
|---------------------------------------|-----|---|--------------|------------|
| Configuration A: PowerMac Tower | | | | \$3,324.00 |
| Behringer tube mic preamp | 4 | @ | 99.00 | 396.00 |
| MOTU MIDI/SMPTE sync | 1 | @ | 395.00 | 395.00 |
| Furman HD-6 Headphone amp | 1 | @ | 300.00 | 300.00 |
| Alesis Monitor One speakers | 2 | @ | 200.00 | 400.00 |
| Passive DI boxes | 3 | @ | 80.00 | 240.00 |
| Active DI boxes | 1 | @ | 120.00 | 120.00 |
| <u>Studio Furniture</u> | | | | |
| Mixing desk / workstation | | | | 1,000.00 |
| <u>Microphones & stands</u> | | | | |
| Marshall condenser | 4 | @ | 80.00 | 320.00 |
| Oktava condenser | 2 | @ | 100.00 | 200.00 |
| Shure Beta 52 | 1 | @ | 200.00 | 200.00 |
| Shure SM57 copy | 4 | @ | 50.00 | 200.00 |
| Rode NTX | 1 | @ | 500.00 | 500.00 |
| Mic stands | 10 | @ | 40.00 | 400.00 |
| <u>Software</u> | | | | |
| Antares Auto-Tune plug-in | | | | 400.00 |
| Antares Mic Modeler plug-in | | | | 400.00 |
| Amp Farm plug-in | | | | 400.00 |
| Synth patch editor/librarian software | | | | 50.00 |
| Loop editing software | | | | 400.00 |
| <u>Instruments</u> | | | | |
| Korg Triton LE | | | | \$1,500.00 |
| Drum machine | | | | \$500.00 |
| Synth module | | | | \$500.00 |
| Keyboard stand | | | | \$200.00 |
| <u>Miscellaneous</u> | | | | |
| 24x4 channel snake | | | | \$400.00 |
| Mic cables | | | | \$500.00 |

Other cables

\$200.00

Grand Total

\$13,485.00

Additional Expenses

989 Studios will also require funding to remodel existing office space to re-purpose into usable production facilities.

CASH FLOW PROJECTION

(Please refer to the Cash Flow Projection & Break Even Analysis, contained in the Appendix.)

Although early income figures are extremely conservative, cash flow is assisted by the following:

- 989 Studios will have a barter agreement with The Rock. In exchange for the use of two offices, rent and utilities, 989 will provide periodic audio production services for church services and special presentations, as well as assistance with maintenance of The Rock's computer and PA systems. This also eliminates other normal expenses such as security systems, insurance, etc.
- 989 Studios will benefit from the services of two principals as a husband and wife team while only requiring one salary.

Months 1-6

- Do a mailing to all clients just before opening. List would be pulled from existing database, local media and agencies, church pastors and worship leaders, offering grand opening specials for booking during opening weeks.
- On opening, firm book potential clients for studio and production time.
- Conduct special small group demonstrations for area musicians and music stores.
- Make presentations to companies selling telephone systems to pitch our Message On Hold services to their clients.
- Secure regular ads in local music store mailings.
- Pursue feature article in local newspaper.
- Follow up leads regarding full-length album projects.
- Become involved with Mobile Arts Council to provide free workshops for member organizations on services and issues related to 989 Studios' services.

| | | |
|---|----------|---------|
| Studio Bookings @ \$50 | 40 hours | \$2,000 |
| Message On Hold services | | 500 |
| CD & media sales | | 300 |
| Other fees or services (licensing, consulting, design services) | | 100 |

Estimated Monthly Income, Months 1-6 \$2,900

Month 7-12

- Expand bookings for full-length album projects.
- Continue to expand client list.
- Evaluate addition of 1 new service, such as short-run CD duplication.
- Pursue feature in local newspaper and special interest publications.
- Record first Arts Council fundraiser project. Pursue full media coverage.

| | | |
|--------------------------|-----------------|---------|
| Studio Bookings | 45 hours @ \$50 | \$2,250 |
| Message On Hold services | | 800 |
| CD & media sales | | 300 |
| Other fees or services | | 200 |

Estimated Monthly Income, Months 7-12 \$3,500

Months 13-18

- Review and evaluate pricing schedule
- Pursue opportunities with Mobile Business Expo and other area events
- Add 1 new service; evaluate other potential new services
- Pursue feature for national music magazines, such as EQ or Recording.
- Expand involvement with Arts Council workshops and organizations.

| | | |
|--------------------------|-----------------|---------|
| Studio Bookings | 60 hours @ \$50 | \$3,000 |
| Message On Hold services | | 1,000 |
| CD & media sales | | 400 |
| Other fees or services | | 400 |

Estimated Monthly Income, Months 13-18 \$4,800

Months 19-24

- Initiate new pricing schedule
- Pursue opportunities with other Arts Council organizations
- Review and implement one new service, evaluate additional services.
- Pursue feature for national music magazines, such as EQ or Recording.
- Pursue client projects within Arts Council membership.

| | | |
|--------------------------|-----------------|---------|
| Studio Bookings | 60 hours @ \$60 | \$3,600 |
| Message On Hold services | | 1,000 |
| CD & media sales | | 500 |
| Other fees or services | | 400 |

Estimated Monthly Income, Months 19-24 \$5,500

COMPETITIVE ANALYSIS

We compete directly with five studios locally: Dogwood Recording Studios, Grave Danger Productions, Integrity Music Studios, Nomad Music Studios and 1 of 4 Productions.

Dogwood Recording Studios is a one-room facility, utilizing a Mackie 32x8 console and ADAT recorders. Dogwood Recording Studios is a division of Dogwood Productions, whose primary business is an advertising agency. The facility has suffered from a poor reputation of late, the primary complaint being that their equipment is noisy and poorly maintained, with aging equipment. Dogwood's focus is expected to move towards in-house audio production for their affiliated agencies, Bob Holberg Advertising and Denson Reed Marketing, and therefore, will soon be less of a competitor.

Grave Danger Productions is a local studio run by Brian Graves, a local musician. The studio recently purchased a second building on Item Avenue, 1/2 block south of their current location. The current main room is literally an old garage. While Grave Danger is capable of good work, especially on techno or hip-hop projects, it is inappropriate for agency work and could not adequately handle larger-scale productions such as choir or orchestra sessions.

The second phase of their business is intended to be, in their words "the Kinko's of recording," allowing clients to burn their own CD-R's, CD booklets and imprinting in a self-service setting. For those without facilities to record their projects, this will only compete with us once we add services such as short-run CD duplication.

Grave Danger may offer some competition for music projects, but only in the lower budget tier. The principals also have no contact within the Christian music community, and do not offer business-related services so the studio does not offer competition in these areas.

Integrity Music Studios undoubtedly possesses the best control room on the Gulf Coast, housing a full-scale ProTools system and ProMix Console. The studios outboard equipment is also unsurpassed in the region. However, since the studio is owned by Integrity Music, the world's largest Christian label, the studio has limited availability for outside clients.

While an indirect competitor, Integrity has the potential to become a significant referral source, if they will refer overflow bookings to us. And since 989 Studios will also use compatible recording platforms (ProTools / Digital Performer), projects can easily be transferred from their studio to ours and back.

Nomad Music Studios is run by Barry Little, broadcast engineer for WHIL-FM, and a long-time recording aficionado. Barry has been doing recording projects for more than 15 years out of his Daphne studio. He also handles recording for the Mobile Symphony.

Because of Barry's experience and prominence in the market, Nomad is probably the most significant competition we have; however, we have a friendly relationship with Barry, and have worked together on a previous project. We hope to further solidify a relationship based on cooperation, not competition.

1 of 4 Productions is headed by Kirk Sullivan, member of the popular Christian group 4HIM and long-time Mobile native. Kirk has recently begun active promotion for his home studio, which has been operating in his home for more than five years.

Kirk's name recognition is a strong contender for Christian music clients, and his studio equipment list is fairly impressive; however, its viability as competition is limited by two factors:

- 1) 4HIM is still an active group which tours regularly, thereby severely limiting Kirk's availability for recording. Kirk has developed a reputation taking many months to complete a project, and;
- 2) The studio is run out of his home, using an extra bedroom as the control room. While Kirk's recordings are certainly solid, the atmosphere is not the kind conducive to business clients or long-term projects.

Because of these factors, 1 of 4 Productions is considered to operate as more of a hobby than a business.

RISK/OPPORTUNITY

Business Risks

Some of the major risks facing our development include:

- Market uncertainties. The recording industry in general is a volatile market, based ultimately on consumer's disposable income. However, the dramatically reduced expense of recording technology and the growing independent music market help make it less resistant to market forces. Other primary business sources such as advertising are more stable and should help the studio weather any slowdowns in music recording.
- Geographics. The majority of large-scale recorded music production in the Southeast occurs in Nashville or Atlanta. While it can potentially be a negative, the clients we seek for recorded music projects will not have the budget for such expensive facilities. We maintain a cost-benefit ratio that coincides with the Gulf Coast market.
- Reputation. As a new start-up, the studio will not have a reputation as a quality facility to rely upon for repeat business. The background and reputation of our principals will help the facility, but such perception will be overcome in a relatively short term with word of mouth from previous projects and by development of a local presence through community involvement and the Arts Council.

Opportunities

Although any venture in the recording business is expensive and carries its share of risk, we feel the opportunity for this business is greater than ever. Recent technological advances have made the studio business more cost-effective and potentially profitable than ever before. We can overcome the inherent risks in this category because of an appropriately structured studio concept for this market — excellent quality production using the latest cost-effective technologies, while offering a professional and affordable environment. We will address our potential risks with proper planning and execution of studio construction, and networking among the music, non-profit and Christian communities. We feel we can address our potential risks by focusing on the advantages our facility will offer.

If we are able to overcome these risks, our company has the opportunity to become a rapidly expanding business. Plus, with the development of relationship with non-profit organizations such as churches and colleges, we may explore the possibilities of consulting with these groups for training musicians and technicians. We think we can achieve this goal in the next 4 years.

Specifically, our facility has the chance to change the perception of Mobile and the community into a viable area for music and recording, and perhaps even all different styles of art and expression. This would also enable us to tap markets we have not yet begun to approach, such major label artists, classical recordings, etc.

GROWTH PLAN

989 Studios wants to be ready to grow, and to become a leading facility for all types of services on the Gulf Coast. We plan to have a group of services that can be quickly added with a minimum of expense, and more long-term plans as our client base grows.

Initial Services

In the initial start-up, we will offer audio production services and other services surrounding it, such as CD burning. The basic services we would offer from the start would be:

- Messages On Hold. 989 Studios works with a client to create an on-hold messaging system which interfaces directly with their multi-line phone system. Custom script writing and music burned onto a CD-R for playback while customers are on hold. Clients would be offered special rates for updates and changes to their track, creating a recurring revenue stream.
- Commercial spot production. Working with clients doing radio advertising, 989 Studios can supply creative, copywriting, sound effects and production for finished audio delivered to radio stations via internet.
- Jingle Music production. With the talents of the principals, 989 Studios can offer original music production for company music jingles, sound effects and other specialized audio for client's production and presentation needs.
- Full-length CD production. Independent artists and churches who want to record their own music, 989 Studios can assist them from initial production to finished audio master. This may also include remote recording services, another potential growth area.

Additional Services

Depending on market demand and the information given by early clients to the studio, we hope to offer the following:

- Graphic design services. We could offer entire production packages for independent artists, from start to finish. This would include graphic design and pre-production services. This could be accomplished either with in-house staff or by subcontracting these services to local designers and photographers.
- Music licensing. Every recording project requires some type of licenses, especially when a project contains cover tunes. As an enhancement to production services, 989 can also offer services to obtain mechanical licenses for their projects for a fee.
- CD production packages. We can further develop our service offerings by offering a turnkey solution for complete CD production, including photography, design and duplication of finished product. We can accomplish this by outsourcing most of the work via special arrangements with area photographers, designers and CD duplication houses.
- Short-run duplication services. 989 Studios could easily offer copies of CDs for clients with the addition of CD-R duplicators for short runs. Again, market demands will dictate whether or not we expand into this area.

Long-Term Development

As 989 Studios continues to grow, we plan to explore several large-scale additions to the suite of services we offer:

- CD production services. The cost and facility requirements to mass produce CDs has dropped dramatically in the last 5 years. An additional facility could offer complete CD mastering and duplication services, offering one-stop production and printing in a single facility.
- Ad agency services. While our initial start-up will expect income from local businesses and advertising agencies needing our services, we hope in the future to develop our own agency, going straight to the client and acting as a media buyer.
- Full-scale remote recording. Our largest potential for this category is comprised of churches wishing to do live worship recordings. As 989's church base grows, this sub-segment of recording services may warrant a self-contained production truck, capable of performing remote recording without tying up existing studio equipment.
- Standalone facility. As 989 Studios develops its client base and reputation for quality work, we can consider development of a standalone facility on The Rock's 48-acre property. We are considering a number of configurations including a full-scale commercial facility, or a combination studio / hospitality building for clients to stay over long periods of time.

CAPITAL REQUIREMENTS

(Additional details and financial documents are available in the Appendix.)

We seek \$35,000 of additional equity for development and operating expenses for the first 12 months, at which point we anticipate a positive cash flow.

The initial stage of funding will be used to build the facility and begin operations. Here is a breakdown of how the funds will be spent;

| Item Description | Amount |
|---|-----------------|
| Studio Equipment <i>(see Anticipated Startup Expenses and Studio Equipment Purchases and Upgrades in Appendix)</i> | \$14,000 |
| Building Remodeling | \$5,000 |
| Business equipment and supplies | 3,000 |
| Operating Funds to reach profitability (estimated) | 13,000 |
| | ----- |
| Grand Total | \$35,000 |

We anticipate repayment within 4 years either by a dividend of excess profits or by recapitalizations.

Conclusion

Based on our projections, we feel an investment in 989 Studios is a sound business investment. In order to proceed, we are requesting an investment of \$35,000 by May 15.

APPENDIX: FINANCIAL DOCUMENTS

Cash Flow And Break Even Analyses – Years 1 & 2

Anticipated Startup Expenses

Studio Equipment Purchases & Upgrades