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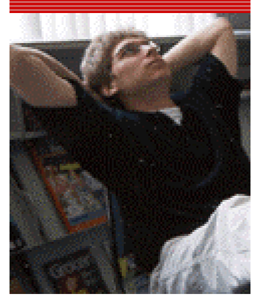
CD-ROM Extra
Sample Business Plan
(Publishing)



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Sample Plan
Business Plan for the period
Starting May 1998

Executive Summary

Business Description

CD-ROM Extra is a magazine with headquarters located in Cape Discovery, B.C. The magazine was originally distributed to and sold in a small number of Vancouver area computer stores; with the popularity of the magazine increasing steadily, the magazine is now distributed throughout Southwestern B.C. and Southern Alberta. CD-ROM Extra is unique in that it focusses exclusively on CD-ROM products for the North American market. In addition to our own in-house staff, we have regular editorial contributions from industry experts in locations such as Silicon Valley, Kanata, Ontario and Chiba, Japan. The magazine contains expert commentary, industry news, samples and reviews of CD-ROM applications, reader feedback and tips on using CD-ROM applications.

Ownership and Management

CD-ROM Extra Inc. was incorporated under the laws of British Columbia in 1996 and is owned and operated by two partners, Clarence D. Rawm and Catherine D. Dyskmann. Mr. Rawm owns 60% of the company while Ms. Dyskmann owns the remaining 40%; both partners are equally involved in operation and management of the company. Clarence D. Rawm worked at Microsoft Inc. in Redmond, WA for eight years and was a programmer on the Windows 3.0 design team. Clarence also has worked with Sun Microsystems in Cupertino, CA and Newbridge Networks in Kanata, Ontario.

Catherine D. Dyskmann received her Diploma in Computer Science from the British Columbia Institute of Technology (BCIT) in 1989. Ms. Dyskmann spent four years in Japan, working for Sony as part of their compact disc research and development department. Prior to founding the magazine, Ms. Dyskmann was a CD-ROM product development manager for Silicon Graphics.

Key Initiatives and Objectives

The primary objective of the company is to expand the magazine's distribution into Edmonton, Saskatchewan, Manitoba and Ontario while expanding each issue from 20,000 copies to 50,000 copies. Bank loans totalling $33,000 are required to finance the expansion and maintain positive cash flows in the first year. We are also working to increase our distribution into retail stores and bookstores as part of our expansion strategy. Negotiations with distributors and sales efforts are currently underway in order to realize these objectives. In addition, we are also planning to create an interactive on-line Internet website in order to gain more feedback from our customer base.

Marketing Opportunities

There are over 250,000 CD-ROM drives in use in Canada and up to 11 million in the United States. All industry experts agree that the phenomenal 100% or more annual growth rates seen since 1994 will continue for at least three years. It is estimated that as many as 1,000,000 CD-ROM drives, the owners of which are all potential customers for the magazine, will be in use in Canada by the year 2000. During 1996, despite a general downturn in business for general consumer periodicals, computer related periodicals have experienced steady growth. Advertising revenues for 35 leading computer related periodicals grew by approximately 32% to U.S. $650 million in 1996 versus U.S. $490 million in 1995. While 1997 figures are not yet available, a similar increase is expected by industry experts.

Competitive Advantages

CD-ROM Extra has several competitive advantages over our competitors including a focus on the Canadian market. Both CD-ROM Buyer's Guide and Multimedia CD have virtually no Canadian content and, with the exception of Corel, no advertising from Canadian companies. By analyzing new products and technologies from a Canadian rather than American standpoint, we can attract more readers in our target markets. A national rather than regional focus will also help attract readers and gain a competitive advantage over Canadian based regional publications. Contributing columnists from the major high technology areas (Silicon Valley, Kanata, Ont. and Chiba, Japan) also gives us a competitive advantage to some degree.

Marketing Strategy

Our primary target markets are the purchasers of desktop and laptop computers, whether the computers are for mainly business or personal use. Our major market among retailers is convenience store chains and bookstores with multiple locations in the target markets. By securing distribution contracts with the major stores, the magazine's market exposure and availability will be greatly enhanced. Promotional efforts directed toward customers include point of sale displays in computer stores, advertisements in newspapers and advertising fliers, Internet advertising and radio ads in selected markets.

In addition, CD-ROM Extra will continue to participate in computer and computer magazine related trade shows throughout Canada and the United States.

Summary of Financial Projections

With expansion into the prairies and Eastern Canada taking place by the summer of 1997, we project that our revenues will be $812,200 in 1997, increasing to $1,230,800 in 1998. Direct cost of sales will average 70% of gross sales, including 47% for printing and publishing, 12% for production wages, and 10% for distribution costs. We project that our net income will increase from $3,200 in 1997 to $48,600 by 1998 as costs associated with expansion are absorbed by increased sales revenues.

Confidentiality and Recognition of Risks

Confidentiality Clause

The information included in this business plan is strictly confidential and is provided on the understanding that it will not be disclosed to third parties without the expressed written consent of Clarence D. Rawm and Catherine D. Dyskmann.

Recognition of Risk

This business plan represents management's best estimate of the future potential of our business venture. It should be recognized that not all major risks can be accurately predicted or otherwise avoided and that few business plans are free of errors of omission or commission. Therefore investors should be aware that this business has inherent risks that should be evaluated prior to any investment.

Business Overview

Business History

CD-ROM Extra, founded in 1996 by Clarence D. Rawm and Catherine D. Dyskmann, is a magazine with headquarters located in Cape Discovery, B.C. The magazine was originally distributed to and sold in a small number of Vancouver area computer stores; with the popularity of the magazine increasing steadily, the magazine is now distributed throughout Southwestern B.C. and Southern Alberta.

Vision and Mission Statement

CD-ROM Extra seeks to establish and maintain a unique position among CD-ROM oriented publications in Canada as being the most comprehensive source for readers interested in learning about and using CD- ROM products. The magazine also aims to provide the most recent industry news and trends both in print and via a new website on the Internet.

Objectives

Our primary objectives over the next year are:

1. Establish and maintain a unique position among CD-ROM oriented publications in Canada as the best magazine to consult when wanting information about new or existing CD-ROM products and industry trends.
2. Expand magazine distribution to the remainder of Western Canada and Ontario.
3. Increase distribution per issue from current levels of 20,000 copies to 50,000 copies. A bank loan of $100,000 will be obtained to finance the increase in copies, distribution and marketing and ensure a positive cash flow in the first year of operations.
4. Expand the magazine from its current 64 pages to 96 pages per issue by the end of 1997.
5. Position the magazine for an acquisition by a major publisher within the next two years.

Ownership

CD-ROM Extra Inc. was incorporated under the laws of British Columbia in 1996 and is owned and operated by two partners, Clarence D. Rawm and Catherine D. Dyskmann. Mr. Rawm owns 60% of the company while Ms. Dyskmann owns the remaining 40%; both partners are equally involved in operation and management of the company.

Location and Facilities

CD-ROM Extra is headquartered in the town of Cape Discovery, B.C. The magazine occupies one floor of a three storey building in the Cape Discovery Industrial and Technical Park. Total office and work space is 3,000 square feet, which is leased for $1,600 per month, triple net. Office equipment includes satellite uplinks, one IBM Supercomputer, several 686 and Pentium computers office furniture and videoconference equipment.

The magazine contracts printing operations out to TotalPrint Ltd. in Vancouver, B.C. Copies of the magazine are distributed directly to vendors from the printers by Western Booksellers, a national magazine and book distribution firm.

By locating head offices in Cape Discovery, overhead costs are reduced by 50% as lease rates are approximately half of those in Greater Vancouver. Contracting out printing and distribution limits the direct overhead expenses.

Products and Services

Description of Products and Services

CD-ROM Extra is an 8 ?" by 11" perfect bound, 3-colour, 64 page magazine. Produced on high quality perfect stock, the magazine is recognized for its unique and top quality layout by many industry players.

CD-ROM Extra Inc. published two issues of the magazine in 1996 and six issues in 1997. Currently a bi- monthly publication, CD-ROM Extra has quickly gained a position as a market leader among CD-ROM oriented publications sold in B.C. and Alberta.

The company relies on both in-house staff and contributing writers for its editorial content. Customers can buy single issues of the magazine at computer stores and major bookstores or take out an annual subscription to the magazine.

Key Features of the Products and Services

CD-ROM Extra is unique in that it focusses exclusively on CD-ROM products for the North American market. In addition to our own in-house staff, we have regular editorial contributions from industry experts in locations such as Silicon Valley, Kanata, Ont. and Chiba, Japan. The magazine contains expert commentary, industry news, samples and reviews of CD-ROM applications, reader feedback and tips on using CD-ROM applications.

Production of Products and Services

CD-ROM Extra is produced on a network of in-house desktop publishing systems, including Adobe Photoshop, Corel PhotoPaint and Micrografx Picture Publisher. In-house desktop publishing systems allow for high quality publishing and creative control, all at a minimal cost.

Once the editorial material is prepared, it is output to film using an imagesetter. At the printer it is then assembled with the advertising material, which is already in film form. The films are used by the printer to produce the printing plates for the presses that press the actual magazine. All printing takes place at TotalPrint Inc. in Vancouver.

Future Products and Services

We will continue to expand and diversify our editorial and magazine content according to the wishes of our readers. We also plan to introduce a new Internet website and e-mail "chat room" in order to solicit additional feedback from our customers.

Comparative Advantages in Production

By contracting out printing and distribution to outside firms, CD-ROM Extra does not have to secure the capital and operating loans necessary to purchase printing equipment, plant space and qualified labour. By using the latest in computerized desktop publishing technology, CD-ROM Extra is able to produce a high quality product at a minimal cost.

Industry Overview

Market Research

To analyze the market potential of a CD-ROM oriented magazine in Western Canada and Ontario, we collected information from a number of sources. We gained information with respect to the market for CD- ROM products and computer oriented magazine sales for each province dating from 1991-1996 from two leading market research companies, C.A. Nelson Canada and Hamish Mead Group. The information also included industry trend analysis, future sales projections and an assessment of the level of competition in computer and CD-ROM oriented magazines.

In addition, we also commissioned an on-site survey of computer store customers in Vancouver, Kelowna and Calgary in November, 1997. The survey results were used to prepare customer profiles and gauge what type of information and articles were in demand. Newspaper clippings and journal articles gleaned from local libraries and the Internet were also used as sources of market research information.

Size of the Industry

According to C.A. Nelson Canada, there are over 250,000 CD-ROM drives in use in Canada and up to 11 million in the United States. All industry experts agree that the phenomenal 100% or more annual growth rates seen since 1994 will continue for at least three years. It is estimated that as many as 1,000,000 CD- ROM drives, the owners of which are all potential customers for the magazine, will be in use in Canada by the year 2000. With a rapid decline in CD-ROM drive and CD-ROM software prices, CD-ROM drives have now become standard equipment in all personal computers. With respect to CD-ROM titles, it is estimated that there are now 25,000 titles in print worldwide, up from 4,000 in 1994.

During 1996, despite a general downturn in business for general consumer periodicals, computer related periodicals have experienced steady growth. Advertising revenues for 35 leading computer related periodicals grew by approximately 32% to U.S. $650 million in 1996 vversus U.S. $490 million in 1995. While 1997 figures are not yet available, a similar increase is expected by industry experts.

Key Product Segments

Computer related magazines sold in Canada consist of three main product sectors: those dealing with new software titles and applications (65%), hardware applications and related equipment (25%) and the Internet (10%). Magazines describing and evaluating software titles released by the three major companies (Microsoft, Corel, and IBM) account for 55% of the software related magazines; another 35% is occupied by magazines dealing with software titles produced by all manufacturers. The remaining 10% pertains to software development and programming.

In the hardware applications product segment, 80% of the magazines deal primarily with multimedia applications such as audio programs, video capabilities and Internet website design. The other 20% focusses on new computer components such as RAM chips, processing circuitry and disc drives.

Key Market Segments

Readers of computer related periodicals can generally be grouped into one of five major categories: developers and suppliers of computers and computer related products, information systems managers, technical users, business users and consumers. By far, the two largest market segments are consumers and business users. While business users are the largest market segment today, consumers are expected to be the largest market segment by the year 2000.

In terms of magazine distribution, the key market segments are convenience stores, supermarkets, bookstores and computer stores. A U.S. study commissioned by CompuMag indicates that 43% of all computer related periodicals are sold in convenience stores or corner stores, 24% in bookstores/newsstands and 17% in computer stores and 6% in supermarkets. The remaining 10% are mailed directly to subscribers.

Purchase Process and Buying Criteria

CD-ROM Extra can be purchased through a retailer or mailed directly to a purchaser's home or office. Subscribers generally receive a reduced rate compared to the cover price of a magazine purchased at a retailer. The decision to purchase a particular magazine is based on the appeal of the magazine's layout, price, relevance of magazine content and interest of the buyer in the general subject of the magazine.

For retailers, the purchase price and buying criteria are simple: the magazine has to be able to sell enough units to justify the shelf space allotted to it. Retail magazine space is generally scarce and very competitive; a magazine will be removed quickly from circulation if a retailer feels that another magazine can sell more units.

Description of Industry Participants

There are currently 46 computer related periodicals for sale in Canada. Of these, 40 are available in Western Canada or Ontario. The industry is highly regionalized in that only eight computer related periodicals are available nationwide; these eight magazines accounted for 71% of all Canadian computer related magazine sales in 1996.

While nationally distributed magazines have anywhere between 20 to 50 employees, most magazines have less than 10 employees.

Key Industry Trends

Several factors have contributed to the growth in sales of computer related periodicals in Canada. First and foremost is a vast increase in the number of Canadians who own or plan to buy a personal computer. According to a 1996 Toronto Daily Courier report and several excerpts from other national newspapers, a total of 3.2 million Canadian households, or 32% of all Canadian households, own a personal computer. A Hamish Mead study conducted in 1997 discovered that 25% of Canadians polled plan to purchase a personal computer in the next five years. By the year 2001, industry experts anticipate that 50% of Canadian households will own one or more personal computers.

With many of these computers coming with CD-ROM drives, coupled with a proliferation of new CD-ROM titles on the market, interest in CD-ROMs and their capabilities will increase substantially. With CD-ROM prices dropping, more people can afford CD-ROM products and will thus want information onn product types and capabilities.

Industry Outlook

The market outlook for computer related periodicals, in particular those with a focus on CD-ROM technologies and applications, is extremely positive. While computer users are bombarded with new software and hardware products, there is a lack of information on how to use these products to their maximum potential.

In an article from Canadian Business Today (May, 1997 pgs. 38-50), part of the above problem emanates from the culture of high technology companies that are usually run by those who enjoy figuring out how to use software and related gadgets. Unfortunately, little attention is paid to describing the full range of functions of these products. Users generally find the software confusing, hence only a small number of functions are actually used.

With the increases in CD-ROM applications and availability mentioned earlier, the potential customer base for a CD-ROM oriented magazine is expected to quadruple in the next three years. Demandd for information on CD-ROM products should increase proportionally; thus a CD-ROM magazine can expect large increases in readership and revenues provided it can fulfil customer needs.

Marketing Strategy

Target Markets

Our primary target markets are the purchasers of desktop and laptop computers, whether the computers are for mainly business or personal use. Geographically, we would like to increase our market share in B.C. and Alberta and eventually expand east into Saskatchewan, Manitoba and Ontario. Should this expansion prove successful, we will further expand our distribution into the rest of Canada and the United States.

Our major market among retailers is convenience store chains and bookstores with multiple locations in the target markets. By securing distribution contracts with the major stores, the magazine's market exposure and availability will be greatly enhanced.

Description of Key Competitors

While there are 46 computer related periodicals in Canada that could be considered competitors to CD-ROM Extra, only nine of these periodicals focus specifically on CD-ROM technologies. Only four of the nine publications are available in B.C. and Alberta, CD-ROM Extra's current markets. The largest competitor is the CD-ROM Buyer's Guide, a San Francisco based monthly publication with North America wide distribution. Another American monthly publication, Multimedia CD, is also available throughout Canada. Both of these magazines sell over 75,000 units per month in Canada and are available at most major retailers. Each magazine uses a Toronto area distributor as its primary means of distribution. Copies of both magazines are printed in the United States.

The remaining seven CD-ROM oriented publications are printed and distributed locally in their regional areas and cumulatively account for sales of 200,000 units per quarter. None of the regional periodiccals have expressed an interest in expanding the scope and reach of their operations.

Analysis of Competitive Position

CD-ROM Extra has several competitive advantages over our competitors including a focus on the Canadian market. Both CD-ROM Buyer's Guide and Multimedia CD have virtually no Canadian content and, with the exception of Corel, no advertising from Canadian companies. By analyzing new products and technologies from a Canadian rather than American standpoint, we can attract more readers in our target markets. A national rather than regional focus will also help attract readers and gain a competitive advantage over Canadian based regional publications. Contributing columnists from the major high technology areas (Silicon Valley, Kanata, Ontario and Chiba, Japan), a trait not shared by all of our competitors, also gives us a competitive advantage to some degree.

As the only CD-ROM oriented magazine with printing and distribution facilities in Western Canada, we also have an advantage in producing a high quality lower priced product than our competitors. By charrging lower advertising rates than our competitors in the U.S., we can also attract advertising revenues from Canadian companies who might not otherwise use magazines as a means of advertising.

Although it may be difficult to secure expanded distribution contracts given the intense competition for magazine shelf space in most retail chain outlets, existing and pending distribution agreements will ensure that the magazine achieves wide enough distribution to meet financial targets. High demand for the magazine in areas not served at present also indicates that the magazine will be able to expand its current distribution network.

Pricing Strategy

Our strategy is to price our products at a level comparable to our competitors on a national scale, namely $3 to $4 an issue. The magazine is currently priced at $2.99 per issue, excluding GST. Should the magazine increase in size to 96 pages from its current 64 pages, the magazine will be priced at $3.99 to $4.99 per issue, excluding GST. Our pricing takes into account the costs of production, distribution and editorial content as well as consumer sensitivity to price. To reward annual subscribers, a 33% rebate off the cover price will be extended to these customers. Our goal is to provide a high quality, affordable product while still maintaining healthy profit margins. In order to allow retailers a generous margin on sales of the magazine, single issues will be sold to retailers at $2.25 per copy, allowing a retail mark-up of $0.74 per copy, or 33%.

Promotion Strategy

Our company's promotional strategy targets both customers and those responsible for deciding which magazines will be placed on the shelves of major retail and bookstore chain stores. The latter group will receive free samples of the magazine, sales visits/presentations and will have access to a 24 hour helpline to answer any questions they may have. In areas outside of greater Vancouver, a sales agent will be used to promote the product.

Promotional efforts directed toward customers include point of sale displays in computer stores, advertisements in newspapers and advertising fliers, Internet advertising and radio ads in selected markets.
In addition, CD-ROM Extra will continue to participate in computer and computer magazine related trade shows throughout Canada and the United States.

Distribution Strategy

We will continue to distribute CD-ROM Extra in Western Canada through Western Booksellers, our current distributor. Negotiations are currently underway with AllStar News and Journals, a Toronto based firm, to distribute the magazine in Ontario. Subscribers will receive their issues directly by second class bulk postage through an agreement with Canada Post Corporation.

Management and Staffing

Organizational Structure

CD-ROM Extra Inc. is owned and operated by Clarence D. Rawm and Catherine D. Dyskmann. The owners/operators manage the company and share all managerial, administrative, marketing, design, layout and editorial functions. The company has four full time staff including a full time secretary. Three part time employees handle circulation and other customer enquiries. Contributing writers in Eastern Canada, the United States and Japan also submit articles on a periodic basis. Additional employees will be hired as circumstances warrant.

Management Team

Clarence D. Rawm and Catherine D. Dyskmann both have extensive experience in the high technology and computer industry. Clarence D. Rawm worked at Microsoft Inc. in Redmond, WA for eight years and was a programmer on the Windows 3.0 design team. Clarence also has worked with Sun Microsystems in Cupertino, CA and most recently was a software products project manager for Newbridge Networks in Kanata, Ontario.

Catherine D. Dyskmann received her Diploma in Computer Science from the British Columbia Institute of Technology (BCIT) in 1989. Ms. Dyskmann spent four years in Chiba prefecture, Japan, working for Sony as part of their compact disc research and development department. Prior to founding the magazine, Ms. Dyskmann was a CD-ROM development manager for Silicon Graphics.

The complete resumes of both individuals can be found in the appendices.

Staffing

CD-ROM Extra currently has one full time employee who is responsible for graphic design and magazine layout applications. Another full time staff member is responsible for advertising sales and some promotional activities such as out of province sales calls. A third full time staff member is devoted to researching new products and industry trends. Three part time employees, each working 20 hours per week, handle circulation and general customer enquiries. The magazine also engages contributing writers on a contract basis; anywhere from one to four contracted writers contribute to each issue. Both partners also each contribute one or more articles to each issue.

Labour Market Issues

None of our staff is unionized and there have been no attempts by staff or outside agencies to do so. Employees receive a standard benefits package including medical and a limited dental plan. At present there is no company pension plan. With unemployment in Vancouver hovering around the 10% mark, there is no shortage of skilled labour to fill any existing or new positions at the magazine.

Regulatory Issues

Intellectual Property Protection

We have put a trademark on the name of the magazine, CD-ROM Extra. Each issue of the magazine is copyrighted once it has been produced. Magazine articles posted on the World Wide Web are also copyrighted.

Regulatory Issues

In accordance with Communications Canada and Industry Canada regulations governing magazines distributed in Canada, over 50% of magazine content and advertising is deemed to be Canadian content. To comply with Revenue Canada regulations, GST is included in our subscription price. GST from subscriptions is remitted twice a year; remittance of GST from retail sales of the magazine is the responsibility of the retailer. CD-ROM Extra has a business license from the Municipality of Cape Discovery and is a member of the Better Business Bureau.

Risks

Market Risks

The magazine has relatively few subscribers. While single issue sales have grown as expected, subscriptions have not increased as originally hoped. A lack of a strong subscriber base may create a market risk in the future. The lack of support from a large group publisher also presents a market risk; group publishers can typically negotiate stronger distribution agreements and have more capital available to support new magazines. CD-ROM Extra is actively seeking a group publisher and is positioning itself for acquisition by a major publishing firm.

Other Risks

With its West Coast location, the magazine cannot readily meet with its advertising clients, most of whom are based in Eastern Canada. In order to maintain strong business relationships with advertisers, the magazine has been dependent on trade shows and occasional face to face meetings. CD-ROM Extra is attempting to alleviate this problem by soliciting offers from publishing houses throughout North America.

Another risk would be the loss of a partner. However, both partners in the magazine are involved in all aspects of the business so the loss of one partner would have no long term adverse effects on the success of the magazine.

Implementation Plan

Implementation Activities and Dates

Within the next several months the magazine will undertake the following activities:

1. Finalize agreements with AllStar News and Journals to distribute the magazine in Ontario.
2. Continue our efforts in getting more retail outlets to carry the magazine through sales calls, samples and presentations.
3. Continue soliciting offers from major publishing houses and secure a publishing agreement.
4. Attend and participate in Multimedia '98, a multimedia trade show in San Jose, CA. We will also participate the Bits and Bytes trade show in Hamilton, Ontario in October, 1998.
5. Prepare point of sale displays and reader card inserts in order to promote new subscriptions.
6. If expansion into the Prairies and Ontario are successful, we will hire an Eastern Canadian based sales and marketing agent as well as prepare a plan for expansion into the U.S. market.

Financial Plan

Discussion of Projected Net Income

Our revenue projections for 1997 are $812 200, which is estimated to increase to $1,230,800 in 1999. We project strong growth in revenues of 51% in 1998 and 49% in 1999 due to increased distribution of the magazine in June, 1997 and a planned increase in magazine size by January, 1999. The majority of revenues will be generated by advertising sales, which are priced at the industry standard per page of $75 for each 1000 issues distributed. Approximately 32 pages per issue (50% of available pages) are devoted to advertising. Bad debts are estimated to be 1% of single copy sales.

The direct cost of sales averages 70% of net sales, leaving a gross margin of 30%. The largest direct sales cost is publishing, which averages 47% of gross sales. With increases in the price of paper and newsprint, publishing costs per page are estimated to increase 10% in 1999. Production wages and distribution costs will increase substantially in 1999 as the magazine expands ffrom its current 64 pages to 96 pages. Sales and marketing costs will comprise an average of 6% of gross sales. Plant lease rates will increase by $100 per month in each of the next two years; property and utilities expenses account for 2% of gross sales.

Operating expenses, the majority of which are for travel, comprise 1% of gross sales. Banking and related expenses also account for 1% of gross sales; included in this total is remittance of GST collected from subscribers. Wages and benefits not associated with production comprise 11% to 14% of gross revenue.

Net income is projected to increase from $3,179 in 1997 to $48,626 in 1998. The large increase in net income is due to larger revenue streams and less costs associated with the initial expansion. Interest on the term loan is 8% per annum; depreciation is calculated at 15% per year. Combined federal and provincial income taxes are calculated at 22.8% of net income before taxes.

Discussion of Monthly Cash Flow Statement

As the majority of expenses are incurred in the month where the issue is printed and distributed, cash flows during these months are negative. Cash flows in months where the magazine is not produced are all positive after the third month. Term loans of $12,000 in the fourth month and $21,000 in the sixth month of the first year will ensure positive monthly cash balances throughout the year and the following two years. Both loans are two year terms at 10% per annum, payable monthly. No other loans to cover cash flow deficits are anticipated. The monthly cash flow table is located at the end of the business plan.

Discussion of Projected Annual Cash Flow

Due to a projected increase in revenues in 1998, it is estimated that there will be an increase in cash of $33,512, yielding a closing cash balance of almost $70,000. In the third year, 1999, cash will increase by $100,000 to a closing cash balance of $170,000. While the latter figure may seem inordinately high, we project that at least $120,000 will be required in order to finance the planned expansion of the magazine in future years, particularly if the magazine is distributed outside of Canada. The proposed 50% increase in the number of pages in the magazine will also result in higher costs; an adequate cash reserve will be required in order to meet all short term and long term debt obligations. The annual cash flow table can be found at the end of the business plan.

Discussion of Pro-Forma Balance Sheet

As the magazine is projected to have a high cash balance, for reasons discussed in the previous section, we do not anticipate any problems in meeting our short term or long term debt obligations. It is anticipated that the magazine will have no outstanding loan obligations by the end of 1999.

Discussion of Business Ratios

We have compared our ratios to those compiled in the Stanford and Coors Industry Profiles. The gross margins and profit margins are consistent with other start-up magazines with similar distribution. Our inventory turnover is much higher than the industry average as our inventory consists exclusively of back issues that can be special ordered by our customers. Our return on assets and total asset turnover are higher than the industry average. Return on Equity in 1998 and 1999 is almost six times the industry average, reflecting the higher revenues the magazine is expected to obtain after expansion.

CD-ROM Extra Inc.
PRO FORMA INCOME STATEMENT
for the Periods Ending Dec

	1997	1998	1999
Net Sales	812200	1230800	1837200
Direct Cost of Sales	572500	847000	1314000
Gross Margin	239700	383800	523200
Expenses			
Sales & Marketing	64700	77000	103000
Property & Utilities	28200	29900	32600
Operations	12200	15300	19100
Banking & Other	9480	12720	15600
Other Wages & Benefits	108500	174000	197000
Interest Operating Loan	0	0	0
Interest Term Loan	1850	2504	676
Depreciation	4500	4500	4500
Total Expenses	229430	315924	372476
Net Income Before Taxes	10270	67876	150724
Less: Income Taxes	2346	15503	34425
Net Income	7924	52373	116299

CD-ROM Extra Inc.
PROJECTED CASH FLOW STATEMENT
for the Year Ending Dec, 1997

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7
Cash Inflows:							
Cash Receipts	29526	56140	29140	53140	29239	53250	61938
Other Sources of Funding							
Owner Investment	0	0	0	0	0	0	0
	0	0	0	0	0	0	0
Operating Loan Advances							
Term	0	0	0	12000	0	21000	0

Loan Advances							
Sale of Fixed Assets	0	0	0	0	0	0	0
Other Assets	0	0	0	0	0	0	0
Total Cash Inflows	29526	56140	29140	65140	29239	74250	61938
Cash Outflows: Payment Of:							
Cost of Sales Items	11000	49000	11000	49000	11000	64000	14000
Sales & Marketing Items	1000	3400	9000	3900	1500	3900	6500
Property & Utilities Items	1200	700	1300	700	1200	1200	1200
Operations Items	2500	2300	2500	2200	2400	2200	2400
Banking & Other Items	300	760	150	710	150	1690	500
Other Wages & Benefits Items	6500	8500	6500	8500	6500	8500	9500
Other Uses of Funding:							
Repayment of Shareholder Capital	0	0	0	0	0	0	0
Payment of Dividends /Earnings	0	0	0	0	0	0	0
Operating Loan Interest & Principal	0	0	0	0	554	554	1523
Term Loan Interest & principal	0	0	0	0	0	0	0

	0	0	0	0	0	0	0
Purchase of Fixed Assets							
Payment of Other Assets	0	0	0	0	0	0	0
Payment of Taxes	0	0	0	0	0	0	0
Total Cash Outflows	22500	64660	30450	65010	23304	82044	35623
Increase/ Decrease in Cash	7026	-8520	-1310	130	5935	-7794	26315
Beginning Cash Balance	5000	12026	3506	2196	2326	8261	467
Closing Cash Balance	12026	3506	2196	2326	8261	467	26782

	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Cash Inflows:						
Cash Receipts	118910	69118	119230	69438	119550	808619
Other Sources of Funding						
Owner Investment	0	0	0	0	0	0
Operating Loan Advances	0	0	0	0	0	0
Term Loan Advances	0	0	0	0	0	33000
Sale of Fixed Assets	0	0	0	0	0	0
Other Assets	0	0	0	0	0	0
Total Cash Inflows	118910	69118	119230	69438	119550	841619
Cash Outflows:						
Payment Of:						
Cost of Sales Items	112500	14000	112500	14000	112500	574500
Sales & Marketing Items	7500	1500	17500	1500	7500	64700

Property & Utilities Items	700	1300	700	1200	800	12200
Operations Items	2200	2400	2300	2500	2300	28200
Banking & Other Items	1170	450	1210	450	1940	9480
Other Wages & Benefits Items	11500	9500	11500	9500	12000	108500
Other Uses of Funding:						
Repayment of Shareholder Capital	0	0	0	0	0	0
Payment of Dividends/Earnings	0	0	0	0	0	0
Operating Loan Interest & Principal	1523	1523	1523	1523	1523	10246
Term Loan Interest & principal	0	0	0	0	0	0
Purchase of Fixed Assets	0	0	0	0	0	0
Payment of Other Assets	0	0	0	0	0	0
Payment of Taxes	0	0	0	0	2346	2346
Total Cash Outflows	137093	30673	147233	30673	140909	810172
Increase/Decrease in Cash	-18183	38445	-28003	38765	-21359	31447
Beginning Cash Balance	26782	8599	47044	19041	57806	5000
Closing Cash Balance	8599	47044	19041	57806	36447	36447

CD-ROM Extra Inc.
PROJECTED ANNUAL CASH FLOW STATEMENT
for the Years Ending Dec

	1997	1998	1999
Cash Inflows:			
Cash Receipts	808619	1220211	1825770
Other Sources of Funding			
Owner Investment	0	0	0
Operating Loan Advances	0	0	0
Term Loan Advances	33000	0	0
Sale of Fixed Assets	0	0	0
Other Assets	0	0	0
Total Cash Inflows	841619	1220211	1825770
Cash Outflows:			
Payment Of:			
Cost of Sales Items	574500	844000	1316000
Sales & Marketing Items	64700	77000	103000
Property & Utilities Items	12200	15300	19100
Operations Items	28200	29900	32600
Banking & Other Items	9480	12720	15600
Other Wages & Benefits Items	108500	174000	197000
Other Uses of Funding:			
Repayment of Shareholder Capital	0	0	0
Payment of Dividends/Earnings	0	0	0
Operating Loan Interest & Principal	10246	18276	8030
Term Loan Interest & principal	0	0	0
Purchase of Fixed Assets	0	0	0
Payment of Other Assets	0	0	0
Payment of Taxes	2346	15503	34425
Total Cash Outflows	810172	1186699	1725755
Increase/Decrease in Cash	31447	33512	100015
Beginning Cash Balance	5000	36447	69959
Closing Cash Balance	36447	69959	169974

CD-ROM Extra Inc.
PRO FORMA BALANCE SHEET
As at Dec

	Starting Balance	1997	1998	1999
ASSETS				
Current Assets:				
Cash	5000	36447	69959	169974
Accounts Receivable	9000	12581	23170	34600
Inventory	2000	4000	6000	8000
Other Assets	0	0	0	0
Total Current Assets	16000	53028	99129	212574
Fixed Assets:				
Fixed Assets	30000	30000	30000	30000
Accumulated Depreciation	6000	10500	15000	19500
Total Fixed Assets	24000	19500	15000	10500
TOTAL ASSETS	40000	72528	114129	223074
LIABILITIES & OWNER'S EQUITY				
Liabilities:				
Accounts Payable	5000	5000	10000	10000
Taxes Payable	0	0	0	0
Operating Loans Payable	0	0	0	0
Term Loans & Mortgages	0	24604	8832	1478
Total Liabilities	5000	29604	18832	11478
Owner's Equity:				
Paid-in Capital	20000	20000	20000	20000
Retained Earnings	15000	22924	75297	191596
Total Owner's Equity	35000	42924	95297	211596
TOTAL LIABILITIES & OWNER'S EQUITY	40000	72528	114129	223074

CD-ROM Extra Inc.
RATIO ANALYSIS
As at Dec

RATIOS	1997	1998	1999
Gross Margin	30	31	28
Net Profit Margin	1	5	8
Return on Assets	14	59	67
Average Collection Period Days	6	7	7
Inventory Turnover	143	141	164
Total Assets Turnover	11	10	8
Debt to Net Worth	0	0	0
Return on Owner's Equity	23	71	71
Times Interest Coverage	2	15	33

Note 1: Revenue Assumptions

a. Our revenue projections by product and by month for the first year are:

Year 1	Advertising	Subscriptions	Single Copies	Bad Debts	Total
Month 1	24000	2140	0	0	26140
Month 2	24000	2140	30300	-300	56140
Month 3	24000	2140	0	0	26140
Month 4	24000	2140	30300	-300	56140
Month 5	24000	2250	0	0	26250
Month 6	24000	2250	30300	-300	56250
Month 7	60000	2570	0	0	62570
Month 8	60000	2570	63200	-600	125170
Month 9	60000	2890	0	0	62890
Month 10	60000	2890	63200	-600	125490
Month 11	60000	3210	0	0	63210
Month 12	60000	3210	63200	-600	125810
Total	504000	30400	280500	-2700	812200

b. Our revenue projections by product for Years 2 and 3 are:

Year 1	Advertising	Subscriptions	Single Copies	Bad Debts	Total
Year 2	720000	51400	464000	-4600	1230800
Year 3	1080000	64200	700000	-7000	1837200

Note 2: Assumptions Regarding the Collection of Sales Revenue

a. We assume that the percent of our sales which are collected in the month they are made, in the month following, in the two months, and in the three months are:

Current Month	90
In the Following Month	10
In Two Months	
In Three Months	
Total	100

b. Based on these assumptions, we have projected how much we will collect from our sales in each month. The following table also identifies any adjustments we may have made to these figures.

Year 1	Projected Collections	Adjustment	Revised Estimate
Month 1	29526		29526
Month 2	56140		56140
Month 3	29140		29140
Month 4	53140		53140
Month 5	29239		29239
Month 6	53250		53250
Month 7	61938		61938
Month 8	118910		118910
Month 9	69118		69118
Month 10	119230		119230
Month 11	69438		69438
Month 12	119550		119550
Total	808619	0	808619

c. Not all of our sales in the first year will be collected during that year. Based on the assumptions shown above, our Accounts Receivable at the end of Year 1 will be:

12581

d. We assume that our Accounts Receivable at the end of Years 2 and 3 will be:

Year 2	23170
Year 3	34600

Note 3: Cost of Sales Assumptions

a. Our assumptions regarding the amount that we will pay each month in Year 1 for Cost of Sales items listed below. These figures show up on our cash flow statements.

Year 1	Production Wages	Goods & Materials	Distribution	Website	Total
Month 1	8000	0	3000		11000
Month 2	8000	35000	6000		49000
Month 3	8000	0	3000		11000
Month 4	8000	35000	6000		49000
Month 5	8000	0	3000		11000
Month 6	8000	35000	6000	15000	64000
Month 7	8000	0	6000		14000
Month 8	8000	92500	12000		112500
Month 9	8000	0	6000		14000
Month 10	8000	92500	12000		112500
Month 11	8000	0	6000		14000
Month 12	8000	92500	12000		112500

Total	96000	382500	81000	15000	574500

b. Our assumptions regarding the amount that we will pay in Year 2 and 3 for Cost of Sales items listed below. These figures show up on our annual Cash Flow Statement.

Year 1	Production Wages	Goods & Materials	Distribution	Website	Total
Year 2	135000	600000	108000	1000	844000
Year 3	180000	1000000	135000	1000	1316000

c. Some of these payments may have been to produce or purchase goods which we won''t have sold yet. We estimate the value of such goods which we will have in inventory at the end of Years 1, 2, and 3 will be:

Year	Inventory
Beginning Balance	2000
Year 1	4000
Year 2	6000
Year 3	8000

d. Apart from what we have already paid for, there may be additional Cost of Sales goods or services which we have received but we won''t have paid for yet. We estimate the amount that we will owe (have as an Account Payable) for Cost of Sales items at the end of Years 1, 2, and 3 will be:

Year	Cost of Sales Payable
Beginning Balance	5000
Year 1	5000
Year 2	10000
Year 3	10000

e. Based on these assumptions, we have calculated our Cost of Sales expenses. These figures, which show up on our Income Statement, are shown in both dollar values and as a percent of our projected revenues.

Cost of Sales	$	%
Year 1	572500	70
Year 2	847000	69
Year 3	1314000	72

Note 4: Sales and Marketing Assumptions

a. Our assumptions regarding the amount that we will pay each month in Year 1 for Sales and Marketing items are listed below. These figures show up on our cash flow statements.

Year 1	Advertising	Displays	Trade Shows	Commissions	Total
Month 1	1000	0	0	0	1000
Month 2	1000	0	0	2400	3400
Month 3	1000	8000	0	0	9000
Month 4	1000	500	0	2400	3900
Month 5	1000	500	0	0	1500
Month 6	1000	500	0	2400	3900
Month 7	1000	500	5000	0	6500
Month 8	1000	500	0	6000	7500
Month 9	1000	500	0	0	1500
Month 10	1000	500	10000	6000	17500
Month 11	1000	500	0	0	1500

Month 12	1000	500	0	6000	7500
Total	12000	12500	15000	25200	64700

b. Our assumptions regarding the amount that we will pay in Year 2 and 3 for Sales and Marketing items are listed below. These figures show up on our annual Cash Flow Statement.

Year 1	Advertising	Displays	Trade Shows	Commissions	Total
Year 2	15000	6000	20000	36000	77000
Year 3	18000	6000	25000	54000	103000

c. Apart from what we have already paid for, there may be additional Sales and Marketing items which we have received by we won''t have paid for yet. We estimate the amount that we will owe (have as an Account Payable) for Sales and Marketing items at the end of Years 1, 2, and 3 will be:

Year	Sales & Marketing Payable
Beginning Balance	0
Year 1	0
Year 2	0
Year 3	0

d. Based on these assumptions, we have calculated our Sales and Marketing expenses. These figures, which show up on our Income Statement, are shown in both dollar values and as a percent of our projected revenues.

Sales & Marketing	$	%
Year 1	64700	8
Year 2	77000	6
Year 3	103000	6

Note 5: Property and Utilities Assumptions

a. Our assumptions regarding the amount that we will pay each month in Year 1 for Property & Utilities items are listed below. These figures show up on our cash flow statements.

Year 1	Rent & Property	Utilities	Telephone	Other	Total
Month 1	1600	400	500	0	2500
Month 2	1600	400	300	0	2300
Month 3	1600	400	500	0	2500
Month 4	1600	300	300	0	2200
Month 5	1600	300	500	0	2400
Month 6	1600	300	300	0	2200
Month 7	1600	300	500	0	2400
Month 8	1600	300	300	0	2200
Month 9	1600	300	500	0	2400
Month 10	1600	400	300	0	2300
Month 11	1600	400	500	0	2500
Month 12	1600	400	300	0	2300
Total	19200	4200	4800	0	28200

b. Our assumptions regarding the amount that we will pay in Year 2 and 3 for Property & Utilities items are listed below. These figures show up on our annual Cash Flow Statement.

Year 1	Rent & Property	Utilities	Telephone	Other	Total
Year 2	20400	4500	5000	0	29900
Year 3	21600	5000	6000	0	32600

c. Apart from what we have already paid for, there may be additional Property & Utilities items which we have received by we won''t have paid for yet. We estimate the amount that we will owe (have as an Account Payable) for Property & Utilities items at the end of Years 1, 2, and 3 will be:

Year	Property & Utilities Payable
Beginning Balance	0
Year 1	0
Year 2	0
Year 3	0

d. Based on these assumptions, we have calculated our Property & Utilities expenses. These figures, which show up on our Income Statement, are shown in both dollar values and as a percent of our projected revenues.

Property and Utilities	$	%
Year 1	28200	3
Year 2	29900	2
Year 3	32600	2

Note 6: Operations Assumptions

a. Our assumptions regarding the amount that we will pay each month in Year 1 for Operations items are listed below. These figures show up on our cash flow statements.

Year 1	Supplies	Repair & Maintenance	Vehicle & Travel	Licences & Permits	Total
Month 1	200	0	1000	0	1200
Month 2	200	0	500	0	700
Month 3	200	100	1000	0	1300
Month 4	200	0	500	0	700
Month 5	200	0	1000	0	1200
Month 6	200	100	500	400	1200
Month 7	200	0	1000	0	1200
Month 8	200	0	500	0	700
Month 9	200	100	1000	0	1300
Month 10	200	0	500	0	700
Month 11	200	0	1000	0	1200
Month 12	200	100	500	0	800
Total	2400	400	9000	400	12200

b. Our assumptions regarding the amount that we will pay in Year 2 and 3 for Operations items are listed below. These figures show up on our annual Cash Flow Statement.

Year 1	Supplies	Repair & Maintenance	Vehicle & Travel	Licences & Permits	Total
Year 2	2500	400	12000	400	15300
Year 3	3000	600	15000	500	19100

c. Apart from what we have already paid for, there may be additional Operations items which we have received by we won''t have paid for yet. We estimate the amount that we will owe (have as an Account Payable) for Operations items at the end of Years 1, 2, and 3 will be:

Year	Operations Payable
Beginning Balance	0
Year 1	0
Year 2	0

Year 3	0

d. Based on these assumptions, we have calculated our Operations expenses. These figures, which show up on our Income Statement, are shown in both dollar values and as a percent of our projected revenues.

Operations	$	%
Year 1	12200	2
Year 2	15300	1
Year 3	19100	1

Note 7: Banking and Other Assumptions

a. Our assumptions regarding the amount that we will pay each month in Year 1 for Banking, Professional & Other items are listed below. These figures show up on our cash flow statements.

	Bank Charges	Accounting & Legal	Insurance	Other	Total
Month 1	200	100	0	0	300
Month 2	100	100	0	560	760
Month 3	50	100	0	0	150
Month 4	50	100	0	560	710
Month 5	50	100	0	0	150
Month 6	100	500	500	590	1690
Month 7	100	400	0	0	500
Month 8	100	400	0	670	1170
Month 9	50	400	0	0	450
Month 10	50	400	0	760	1210
Month 11	50	400	0	0	450
Month 12	100	500	500	840	1940
Total	1000	3500	1000	3980	9480

b. Our assumptions regarding the amount that we will pay in Year 2 and 3 for Banking, Professional & Other items are listed below. These figures show up on our annual Cash Flow Statement.

	Bank Charges	Accounting & Legal	Insurance	Other	Total
Year 2	1000	4000	1000	6720	12720
Year 3	1100	5000	1100	8400	15600

c. Apart from what we have already paid for, there may be additional Banking, Professional & Other items which we have received by we won''t have paid for yet. We estimate the amount that we will owe (have as an Account Payable) for Banking, Professional & Other items at the end of Years 1, 2, and 3 will be:

Year	Amount Payable
Beginning Balance	0
Year 1	0
Year 2	0
Year 3	0

d. Based on these assumptions, we have calculated our Banking, Professional & Other expenses. These figures, which show up on our Income Statement, are shown in both dollar values and as a percent of our projected revenues.

Banking and Other	$	%
Year 1	9480	1

Year 2	12720	1
Year 3	15600	1

Note 8: Wages and Other Assumptions

a. Our assumptions regarding the amount that we will pay each month in Year 1 for Wages & Other items are listed below. These figures show up on our cash flow statements.

Year 1	C.D. Rawm	C.D. Dyskmann	Secreterial	Contract Writers	Total
Month 1	1500	1500	3500	0	6500
Month 2	1500	1500	3500	2000	8500
Month 3	1500	1500	3500	0	6500
Month 4	1500	1500	3500	2000	8500
Month 5	1500	1500	3500	0	6500
Month 6	1500	1500	3500	2000	8500
Month 7	3000	3000	3500	0	9500
Month 8	3000	3000	3500	2000	11500
Month 9	3000	3000	3500	0	9500
Month 10	3000	3000	3500	2000	11500
Month 11	3000	3000	3500	0	9500
Month 12	3000	3000	3500	2500	12000
Total	27000	27000	42000	12500	108500

b. Our assumptions regarding the amount that we will pay in Year 2 and 3 for Wages & Other items are listed below. These figures show up on our annual Cash Flow Statement.

Year 1	C.D. Rawm	C.D. Dyskmann	Secreterial	Contract Writers	Total
Year 2	54000	54000	48000	18000	174000
Year 3	60000	60000	53000	24000	197000

c. Apart from what we have already paid for, there may be additional Wages & Other items which we have received by we won"t have paid for yet. We estimate the amount that we will owe (have as an Account Payable) for Wages & Other items at the end of Years 1, 2, and 3 will be:

Year	Wages Payable
Beginning Balance	0
Year 1	0
Year 2	0
Year 3	0

d. Based on these assumptions, we have calculated our Wages & Other expenses. These figures, which show up on our Income Statement, are shown in both dollar values and as a percent of our projected revenues.

Wages and Other	$	%
Year 1	108500	13
Year 2	174000	14
Year 3	197000	11

Note 9: Other Sources of Funding

a. Our assumptions regarding other sources of funding for our business in Year 1 are:

	Investment By Owners	Operating Loan Advances	Term Loan Advances	Sale of Fixed Assets	Other Assets
Month 1	0	0	0	0	0
Month 2	0	0	0	0	0
Month 3	0	0	0	0	0
Month 4	0	0	12000	0	0
Month 5	0	0	0	0	0
Month 6	0	0	21000	0	0
Month 7	0	0	0	0	0
Month 8	0	0	0	0	0
Month 9	0	0	0	0	0
Month 10	0	0	0	0	0
Month 11	0	0	0	0	0
Month 12	0	0	0	0	0
Total	0	0	33000	0	0

b. Our assumptions regarding other sources of funding for Years 2 and 3 are:

	Investment By Owners	Operating Loan Advances	Term Loan Advances	Sale of Fixed Assets	Other Assets
Year 2	0	0	0	0	0
Year 3	0	0	0	0	0

Note 10: Other Uses of Funding

a. Our assumptions regarding payments to owners and repayment of loan principal and interest in Year 1 are:

Payment or Repayment of:	Capital to Shareholders	Dividends/Earnings Shareholders	Operating Loan Interest & Principal	Term Loan Interest & Principal
Month 1	0	0	0	0
Month 2	0	0	0	0
Month 3	0	0	0	0
Month 4	0	0	0	0
Month 5	0	0	0	554
Month 6	0	0	0	554
Month 7	0	0	0	1523
Month 8	0	0	0	1523
Month 9	0	0	0	1523
Month 10	0	0	0	1523
Month 11	0	0	0	1523
Month 12	0	0	0	1523
Total	0	0	0	10246

b. Our assumptions regarding payments to owners and repayment of loan principal and interest in Years 2 and 3 are:

Payment or Repayment of:	Capital to Shareholders	Dividends/Earnings Shareholders	Operating Loan Interest & Principal	Term Loan Interest & Principal

Year 2	0	0	0	18276
Year 3	0	0	0	8030

c. Our assumptions regarding other payments in Year 1 are:

Other Uses of Funds	Purchase of Fixed Assets	Payments for Other Assets	Payment for Income Taxes
Month 1	0	0	0
Month 2	0	0	0
Month 3	0	0	0
Month 4	0	0	0
Month 5	0	0	0
Month 6	0	0	0
Month 7	0	0	0
Month 8	0	0	0
Month 9	0	0	0
Month 10	0	0	0
Month 11	0	0	0
Month 12	0	0	2346
Total	0	0	2346

d. Our assumptions regarding other payments in Year 2 and 3 are:

Payment or Repayment of:	Capital to Shareholders	Dividends/Earnings Shareholders	Operating Loan Interest & Principal
Year 2	0	0	15503
Year 3	0	0	34425