



**UC Berkeley
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The Practical Elements of Business Forecasting and Modeling

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Your Presenters

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Purpose of Financial Model

- * Start-up Feasibility, Financing next round, M & A
 - * Demonstrate knowledge of business
Rider not the horse!!
 - * Determine Cash Requirements
 - * Link Marketing Plan, Production Plan, other Elements
 - * Describe your vision to outside world
 - * Template for ongoing changes, focal point for discussion
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Tools of the Trade

- **Excel**
 - **Like Company financials**
 - **SEC. Gov**
 - **Dun and Bradstreet**
 - **Small Business Studies**
 - **Internet**
 - **Interviews**
 - **External Validation**
 - **Project Management Software**
 - **Revise, Revise, Revise**
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Where Do I start?

- Build Revenue and Revenue assumptions for Income Statement
 - Reasonable growth, pricing, departments, product lines
 - Monthly, quarterly, annually,
 - Build variable cost model
 - Cost of Goods
 - Customer acquisition costs including commissions
 - Marketing, Sales, Rent
 - Labor
 - Develop fixed costs and semi variable analysis
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Model Development

- Build dashboard that contains as many assumptions as possible
 - Growth
 - interest rates & payment terms
 - head count
 - Time to completion (sales, milestones, product delivery)
 - Prepare Balance sheet
 - Payment terms (of days) –A/P and A/R
 - Fixed Asset Schedules
 - Inventory Turn
 - Debt Financing
 - Dun and Bradstreet ratios or SEC comparables
 - % of asset/liability
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Model Development

- Prepare Cash Flow Statement in detail staging major expenditure activities
 - Monthly over relevant time period
 - Dashboard various scenarios (High, Low, Med)
 - Beware the hockey Stick and cash plug
 - Prepare Equity Table
 - Founders stock, employee grants, convertible debt
 - Prepare valuation and offering information
 - Prepare Executive Summary
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Understanding Your Metrics

- Unique to each industry. Shows your understanding of business.
 - Restaurant: number of turns, cost per sq foot, target cost of goods, covers,
 - Web: Pageviews, churn rates, click throughs, unique visitors,
 - Accounting: recurring work, WIP, rate per hour, realization
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Questions plan should answer

- Cash burn
 - EBITDA
 - Break even point
 - FTE's
 - CapEx
 - Capital required
 - Valuation milestones
 - Highlight metrics
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Some other Tips

- Date your models—they will change often
 - Use print ranges
 - Save the model often and save multiple files
 - Simplify whenever possible
 - Make the model as fluid as possible
 - Assumptions should not be in formulas but in dashboard or assumptions table
 - Use reasonableness checks throughout.
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Some Sample Models and Tables

- Flat Panel
 - Café Café –assumptions page
 - Sexy Manufacturer
 - Wine Country Restaurant
 - Cap Tables
 - Comparative Information
 - Valuation Milestones
 - Executive Summary
 - Valuation Considerations
-

Flat Panel

- Raised \$8,000,000 in China and \$20,000,000 in US
 - Built Plant in China
 - Metrics:
 - Cost per square inch
 - Failure Rate/Break even
 - Backlog
 - 2 year design in
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Flat Panel-Balance Sheet

Flat Panel (USA)
PRO FORMA

BALANCE SHEET FOR THE
FISCAL YEARS ENDED OCTOBER 31,

	1996-97	1998	1999	2000	2001	2002
ASSETS						
Cash	\$ 10,116	\$ 445,750	\$ 3,369,621	\$ 16,476,208	\$ 43,096,585	\$ 83,822,864
Accounts Receivable	0	1,125,000	4,125,000	7,125,000	10,950,000	14,925,000
CURRENT ASSETS	10,116	1,570,750	7,494,621	23,601,208	54,046,585	98,747,864
Investments in JV-China	9,950,000	24,950,000	24,950,000	24,950,000	24,950,000	24,950,000
Other Assets	199,024	199,024	199,024	199,024	199,024	199,024
Inventory	0	562,500	2,062,500	3,562,500	5,475,000	7,462,500
Fixed Assets	322,701	5,322,701	7,322,701	8,322,701	9,322,701	10,322,701
Depreciation	(18,095)	(779,778)	(1,827,175)	(3,017,429)	(4,350,541)	(5,826,510)
TOTAL ASSETS	10,463,746	31,825,197	40,201,671	57,618,004	89,642,769	135,855,579
LIABILITIES						
Accounts Payable	60,181	922,398	2,431,874	3,502,809	4,723,474	6,317,410
CURRENT LIABILITIES	60,181	922,398	2,431,874	3,502,809	4,723,474	6,317,410
Notes Payable Bank	49,643	49,643	49,643	49,643	49,643	49,643
Other Note Payable	11,300	11,300	11,300	11,300	11,300	11,300
TOTAL LIABILITIES	121,124	983,341	2,492,817	3,563,752	4,784,417	6,378,353
SHAREHOLDERS EQUITY						
Common Stock	392,622	10,392,622	10,392,622	10,392,622	10,392,622	10,392,622
Technology Transfer	9,950,000	20,950,000	20,950,000	20,950,000	20,950,000	20,950,000
Retained Earnings	0	(500,766)	6,366,232	22,711,630	53,515,730	98,134,604
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 10,463,746	\$ 31,825,197	\$ 40,201,671	\$ 57,618,004	\$ 89,642,769	\$ 135,855,579

Flat Panel –Cash Flow

Flat Panel (USA)
PRO FORMA

STATEMENTS OF CHANGES IN CASH FLOW FOR THE
FISCAL YEARS ENDED OCTOBER 31,

	1998	1999	2000	2001	2002
OPERATING ACTIVITIES					
Net Income	\$ (500,766)	\$ 6,866,998	\$ 16,345,399	\$ 30,804,099	\$ 44,618,875
Depreciation	761,683	1,047,397	1,190,253	1,333,113	1,475,969
Accounts Receivable	(1,125,000)	(3,000,000)	(3,000,000)	(3,825,000)	(3,975,000)
Inventories	(562,500)	(1,500,000)	(1,500,000)	(1,912,500)	(1,987,500)
Accounts Payable	862,217	1,509,476	1,070,935	1,220,665	1,593,935
	(564,366)	4,923,871	14,106,587	27,620,377	41,726,279
Cash Provided (Used)					
INVESTING ACTIVITIES					
Investment in Joint Venture	(4,000,000)	0	0	0	0
Fixed Assets	(5,000,000)	(2,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
	(9,000,000)	(2,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Cash Used					
FINANCING ACTIVITIES					
Notes Payable	0	0	0	0	0
Sale of Stock	10,000,000	0	0	0	0
	10,000,000	0	0	0	0
Cash Provided					
Net Change in Cash	435,634	2,923,871	13,106,587	26,620,377	40,726,279
Cash, Beginning	10,116	445,750	3,369,621	16,476,208	43,096,585
Cash, End	\$ 445,750	\$ 3,369,621	\$ 16,476,208	\$ 43,096,585	\$ 83,822,864

**Flat Panel (USA)
PRO FORMA**

**STATEMENTS OF OPERATIONS FOR
FISCAL YEARS ENDED OCTOBER 31,**

	1998	1999	2000	2001	2002
REVENUE					
Monochrome Products	\$ 11,250,000	\$ 18,750,000	\$ 33,750,000	\$ 42,000,000	\$ 48,000,000
Color Products	-	22,500,000	37,500,000	67,500,000	101,250,000
	<u>11,250,000</u>	<u>41,250,000</u>	<u>71,250,000</u>	<u>109,500,000</u>	<u>149,250,000</u>
MATERIAL COSTS					
Monochrome Products	1,150,000	2,300,000	3,150,000	3,800,000	3,800,000
Color Products	-	2,500,000	5,000,000	6,000,000	6,000,000
Imported Products					
Monochrome Products	8,073,977	9,722,315	13,339,044	14,033,896	15,568,953
Color Products	-	9,796,421	13,539,044	23,400,845	37,805,144
	<u>9,223,977</u>	<u>24,318,736</u>	<u>35,028,088</u>	<u>47,234,741</u>	<u>63,174,097</u>
GROSS MARGIN	<u>2,026,023</u>	<u>16,931,264</u>	<u>36,221,912</u>	<u>62,265,259</u>	<u>86,075,903</u>
OPERATING EXPENSES					
SALARIES					
Management	128,000	286,726	337,371	380,889	414,119
Technicians & Engr.	279,445	537,612	843,428	952,224	941,180
Production Superv.	-	179,204	210,857	238,058	235,295
Support	41,917	80,642	126,514	178,542	176,471
Quality Control Engr.	-	224,005	369,000	416,596	411,766
Shop Tech & Fac. Engr.	-	120,963	332,100	374,938	370,589
Fringe	118,560	543,078	843,323	965,673	968,780
	<u>567,922</u>	<u>1,972,230</u>	<u>3,062,593</u>	<u>3,506,920</u>	<u>3,518,200</u>
ADMINISTRATION AND OVERHEAD					
Travel	34,931	81,456	113,270	151,132	194,194
Legal	17,466	40,729	56,635	75,566	97,097
Office Expense	104,792	244,369	313,672	386,327	458,215
Plant Rent	69,861	89,602	105,429	119,028	129,412
Plant Maintenance	5,822	20,364	67,131	134,141	132,585
Utilities	34,931	81,456	346,524	536,565	530,342
Manufacturing Supplies	69,861	162,913	281,393	402,424	596,634
Contingency	29,109	89,093	163,371	201,212	220,976
Interest	6,094	6,094	6,094	6,094	6,094
	<u>372,867</u>	<u>816,076</u>	<u>1,453,519</u>	<u>2,012,489</u>	<u>2,365,549</u>

Flat Panel, Income Statements Page 2

MARKETING

Salaries	96,000	237,600	624,360	846,516	846,516
Travel & Ent.	60,000	180,000	480,000	600,000	600,000
Advertising	375,000	656,250	1,125,000	1,350,000	1,500,000
Samples	75,000	131,250	225,000	270,000	300,000
	<u>606,000</u>	<u>1,205,100</u>	<u>2,454,360</u>	<u>3,066,516</u>	<u>3,246,516</u>

RESEARCH AND DEVELOPMENT

	<u>218,317</u>	<u>445,464</u>	<u>818,854</u>	<u>1,006,059</u>	<u>1,104,878</u>
	<u>1,765,106</u>	<u>4,438,870</u>	<u>7,789,326</u>	<u>9,591,984</u>	<u>10,235,143</u>

DEPRECIATION

	<u>761,683</u>	<u>1,047,397</u>	<u>1,190,254</u>	<u>1,333,111</u>	<u>1,475,969</u>
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TOTAL OPERATING EXPENSES

	<u>2,526,789</u>	<u>5,486,267</u>	<u>8,979,580</u>	<u>10,925,095</u>	<u>11,711,112</u>
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INCOME BEFORE INCOME TAXES

	(500,766)	11,444,997	27,242,332	51,340,164	74,364,791
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INCOME TAXES

	<u>-</u>	<u>4,577,999</u>	<u>10,896,934</u>	<u>20,536,065</u>	<u>29,745,916</u>
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NET INCOME

	(500,766)	6,866,998	16,345,398	30,804,099	44,618,875
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BEGINNING RETAINED EARNINGS

	<u>-</u>	<u>(500,766)</u>	<u>6,366,232</u>	<u>22,711,630</u>	<u>53,515,729</u>
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ENDING RETAINED EARNINGS

	<u>\$ (500,766)</u>	<u>\$ 6,366,232</u>	<u>\$ 22,711,630</u>	<u>\$ 53,515,729</u>	<u>\$ 98,134,604</u>
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CAFÉ CAFÉ Sample Assumptions Page

Café Café

OPERATING

ASSUMPTIONS:

media ratio		2.6	Ratio of Direct reponse revenues to media spent
S&H		13.0%	Shipping and handling costs as a percent of sales
cc%		3.50%	Credit card processing fee
COGS		26.3%	Cost of goods as a percent of Direct response Sales
CC Reserves		10.0%	Reserve maintained per transaction processed by Merchant Card Processor
Telemktg		2.0%	Cost of inbound telemarketing as a percent of Direct Response Sales
average order	\$	160.00	Average Direct response order on Television
cost of coffee box	\$	4.50	landed cost of Coffee
door to door sale	\$	100.00	Average sale per machine sold door to door after commission
cog per machine order	\$	42.00	Landed cost of espresso machine
avg boxes of cofee /order		6.00	Number of coffee boxes shipped per initial order with machine
continuity begins after (in weeks)	\$	12.00	Repeat coffee purchases begin after.....(weeks)
average continuity order	\$	6.00	Average weekly \$ per customer per week after initial supply is exhausted
wholesale price to retailers		90	Net sales price to retailers after returns, shipping & chargebacks
1st stick rate		30%	percent of customers that continue to use the machine after the first 12 weeks
international sales price	\$	59.00	FOB China selling price to international customers
international coffe boxes per machine		6.00	Coffee boxes per machine sold internationally
gross margin on continuity		65%	Gross margin on repeat coffee sales after initial shipment with machine
sales price international coffee	\$	6.25	Selling price per box of coffe to international customers FOB Italy
production lead time in weeks		12	Minimum number of weeks from issuing L/C or funds to manufacturer to receiving good in the US

of weeks prefund on media

6

Initial weeks of media to be purchased in advance of air date. Subsequent purchases on weekly advance.

Total cash needed

\$3,247,119.38

Cash required to fund 4 weeks of media and 12 weeks of product(machines & coffee) purchases and 6weeks of SG&A

- Public Company with 10 year history of losses
 - Raised \$10 Million in US and Europe
 - Extensive Technology and Relationships
 - HOT industry
-

Sexy Manufacturer—Sales Projections

SALES PROJECTIONS

	2008 TOTALS		2009 TOTALS		2010 TOTALS		0 Units and R Jan.....
	Units	\$ Total	Estimated Units	\$ Total	Estimated Units	\$ Total	
Example Customer							
P240 Series with 90kW (prototype)	1		-		-		
P240 Series with 90kW (prototype) \$		147,255		4,400		-	
P120 All Electric for	1		4		-		
P120 All Electric for		49,451		198,700		-	
Example Customer							
P90- EDM, MCU	20		270		800		-
P90- EDM, MCU\$		220,560		3,003,382		7,200,000	-
Other	11		-		-		
Other\$		29,262		262		-	
Example Customer							
P90 CEU	-		-		-		-
P90 CEU\$		-		-		-	-
Example Customer							
Class 4- 15/60 motor, 80kW MCU	3		-		-		
Class 4- 15/60 motor, 80kW MCU\$		172,545		-		-	
Example Customer							
Depleting (School)	4		15		175		2
Depleting (School)\$		344,452		529,635		4,807,775	54,946
Depleting (School) \$				768,820		-	
Depleting (Commercial)	1		-		-		
Depleting (Commercial)\$		86,113		-		-	
Sustaining (School)	7		8		40		3
Sustaining (School)\$		331,611		194,184		970,920	72,819
Sustaining (School) \$				188,800		944,000	70,800
Sustaining (Commercial)	1		-		-		
Sustaining (Commercial)\$		40,913		-		-	
Cage Retrofits	6		-		-		
Cage Retrofits\$		62,010		-		-	
Example Customer							
7.5T EV- P120 EDU, CEU	50		20		45		2
7.5T EV- P120 EDU, CEU\$		927,600		371,040		834,840	37,104
3.5T EV- P90 EDM, CEU	54		-		25		-
3.5T EV- P90 EDM, CEU\$		695,128		-		321,800	-
Ampere	-		-		-		
Ampere\$		-		-		-	
Tools	-		-		-		
Tools\$		9,222		-		-	
Spares	-		-		-		
Spares\$		97,284		8,752		-	
P90 CEU with DC/DC & Charger	1						
P90 CEU with DC/DC & Charger\$		7,395					
12kW On-Board Charger							1
12kW On-Board Charger\$		-		176,652		396,865	11,339
18kW On-Board Charger							1
18kW On-Board Charger\$		61,280		154,620		256,410	7,326

Sexy Manufacturer GM analysis

	TOTAL		TOTAL		TOTAL	
Gross Margin Analysis						
Sales Customer 1 (Sustaining)	372,524		194,184		970,920	72,819
Sales Sustaining Battery	-		188,800		944,000	70,800
Sales Navistar (Depleting)	430,565		529,635		4,807,775	54,946
Sales Depleting Battery	-		768,820		-	-
Gross Margin % Customer 1 (Sustaining)						25.0%
Gross Margin % Sustaining Battery						0.0%
Gross Margin % (Depleting)						25.0%
Gross Margin % Depleting Battery						
Gross Margin \$ (Sustaining)	23,096		38,837		242,730	18,205
Gross Margin \$ Sustaining Battery	-		(9,440)		-	-
Gross Margin \$ (Depleting)	12,056		82,513		1,201,944	13,737
Gross Margin \$ Battery	-		147,850		-	-
Sales Customer 2 P90	695,128		-		321,800	-
Sales Customer 2 P91	927,600		371,040		834,840	37,104
Sales Charger	61,280		331,272		653,275	18,665
Sales P90CEU	7,395		-		-	-
Gross Margin % Customer 2						10.0%
Gross Margin % Customer product 3						10.0%
Gross Margin % Charger						20.0%
Gross Margin % P90CEU						
Gross Margin \$ P90	(41,904)		-		64,360	-
Gross Margin \$ P120	(64,004)		37,104		147,488	3,710
Gross Margin \$ Charger	-		41,309		130,655	3,733
Sales from Foreign Customer	249,822		3,003,644		7,200,000	-
Margin % on unidentified customers						20%
Margin \$	-		623,520		1,440,000	-
Customer 3	-		-		-	-
Margin % on unidentified customers						15%
Margin \$	-		-		-	-
Sales from unidentified customers	40,256		-		1,140,000	38,000
Margin % on unidentified customers						20%
Margin \$ on unidentified customers	-		-		262,200	7,600
Service Sales	-		-		2,100,000	100,000
Margin % on Service Sales						20%
Margin \$ on Service Sales	-		-		420,000	20,000
Sales specifically reviewed	2,784,570		5,387,395		18,972,610	392,334
Remaining Sales (from known customers)	3,649,392		1,700,460		1,275,000	\$ 75,000
Margin % on Remaining Sales						15%
Margin \$ on Remaining Sales	(1,709,267)		237,200		228,750	11,250
Total Gross Margin \$	(1,780,023)		1,198,893		4,138,127	78,235
Total Gross Margin %	-27.7%		16.9%		20.4%	16.7%

Sexy Manufacturer

The Power of Historical Information

Historical Information----monthly

Forecast-----monthly

DUES AND SUBSCRIPTIONS	755	14,150	6,964	11,707	33,576	5,830	5,888	5,947	6,006	23,671
EMPLOYEE RELATIONS	7,139	14,842	7,685	11,512	41,178	2,680	2,947	3,095	3,126	11,848
EQUIPMENT RENTAL	10,585	4,619	4,494	6,784	26,482	3,734	3,768	3,939	3,975	15,417
STOCK OPTIONS	88,800	184,053	184,053	184,918	641,824	101,274	184,000	184,000	184,000	653,274
FIELD SERVICES PARTS AND PA LABOR	-	108,716	235,968	138,432	483,116	69,019	217,206	221,313	222,511	730,049
INSURANCE	184,739	208,442	252,762	207,501	853,445	139,188	118,842	130,131	136,638	524,800
JANITORIAL	3,589	6,285	7,269	6,100	23,242	5,395	5,449	5,503	5,558	21,906
LEGAL	19,010	42,923	153,804	281,352	497,089	52,997	200,000	250,000	250,000	752,997
LICENSES AND PERMITS	861	2,592	12,505	10	15,968	1,572	2,044	2,861	3,577	10,055
MILEAGE	2,806	3,984	1,390	1,417	9,597	1,664	1,697	1,867	1,960	7,189
MISCELLANEOUS	20,886	17,355	14,179	13,558	65,979	9,432	10,375	10,686	10,793	41,287
OFFICE SUPPLIES	112,364	30,765	23,122	35,411	201,662	4,530	12,570	18,855	18,855	54,809
OUTSIDE SERVICES	130,564	111,364	85,930	167,784	495,642	53,857	64,193	73,822	74,560	266,433

Wine Country Restaurant

- Lease opportunity started effort
 - Known Restaurateur
 - Took over from failed restaurant
 - Private raise of \$1,500,000
 - 9/11 affect
 - Borrowings
 - Great Bar, local clientele
-

Wine Country Restaurant

Wine Country Restaurant	(in detail)		By year.....							
	Year 1		Year 2		Year 3		Year 4		Year 5	
Sales	\$	%	\$	%	\$	%	\$	%	\$	%
Food	1,750,000	70.0%	2,100,000	70.0%	2,205,000	70.0%	2,345,000	70.0%	2,450,000	70.0%
Wine	500,000	20.0%	600,000	20.0%	630,000	20.0%	670,000	20.0%	700,000	20.0%
Liquor / Beer	250,000	10.0%	300,000	10.0%	315,000	10.0%	335,000	10.0%	350,000	10.0%
Total Sales	2,500,000	100.0%	3,000,000	100.0%	3,150,000	100.0%	3,350,000	100.0%	3,500,000	100.0%
Cost of Sales										
Food	525,000	30.0%	609,000	29.0%	639,450	29.0%	680,050	29.0%	710,500	29.0%
Wine	175,000	10.0%	192,000	9.1%	201,600	9.1%	214,400	9.1%	224,000	9.1%
Liquor / Beer	47,500	2.7%	51,000	2.4%	53,550	2.4%	56,950	2.4%	59,500	2.4%
Bar Supplies	3,000	0.2%	3,600	0.2%	3,780	0.2%	4,020	0.2%	4,200	0.2%
Total Cost of Sales	750,500	30.0%	855,600	28.5%	898,380	28.5%	955,420	28.5%	998,200	28.5%
Gross Profit	1,749,500	70.0%	2,144,400	71.5%	2,251,620	71.5%	2,394,580	71.5%	2,501,800	71.5%
Total Income	1,749,500	70.0%	2,144,400	71.5%	2,251,620	71.5%	2,394,580	71.5%	2,501,800	71.5%
Rest Operating Expense										
Payroll Expense	821,066	32.8%	985,279	32.8%	1,034,543	32.8%	1,100,228	32.8%	1,149,492	32.8%
Payroll Related Costs	175,783	7.0%	210,939	7.0%	221,486	7.0%	235,549	7.0%	246,096	7.0%
Equipment Lease	20,000	0.8%	20,000	0.7%	20,000	0.6%	20,000	0.6%	20,000	0.6%
Controllables	281,661	11.3%	337,993	11.3%	354,893	11.3%	377,426	11.3%	394,325	11.3%
Total Rest Operating Exp	1,298,510	51.9%	1,554,212	51.8%	1,630,922	51.8%	1,733,203	51.7%	1,809,913	51.7%
Income Before Occupancy	450,990	18.0%	590,188	19.7%	620,698	19.7%	661,377	19.7%	691,887	19.8%
Occupancy Costs										
Rent	96,000	3.8%	125,000	4.2%	157,425	5.0%	167,355	5.0%	175,100	5.0%
Insurance	23,010	0.9%	23,000	0.8%	23,000	0.7%	23,000	0.7%	23,000	0.7%
Property Tax	7,500	0.3%	7,500	0.3%	7,500	0.2%	7,500	0.2%	13,000	0.4%
Total Occupancy Costs	126,510	5.1%	155,500	5.2%	187,925	6.0%	197,855	5.9%	211,100	6.0%
Operating Profit	324,480	13.0%	434,688	18.9%	432,773	18.9%	463,522	18.9%	480,787	18.9%
Management Service	100,000	4.0%	120,000	4.0%	126,000	4.0%	134,000	4.0%	140,000	4.0%
Capital Reserves	25,000	1.0%	30,000	1.0%	31,500	1.0%	33,500	1.0%	35,000	1.0%
Interest Income										
Distributable Income	199,480	8.0%	284,688	9.5%	275,273	8.7%	296,022	8.8%	305,787	8.7%
Distribution to Limited Partners										
capital	199,480	100.0%	284,688	100.0%	275,273	100.0%	140,558	47.5%	-	-
profit	-	-	-	-	-	-	77,732	26.3%	152,893	50.0%
Total	199,480	100.0%	284,688	100.0%	275,273	100.0%	218,290	73.7%	152,893	50.0%
Distribution to General Partner	-	-	-	-	-	-	77,732	26.3%	152,893	50.0%

Wine Restaurant—Revenue Calc Snapshot

Operating Budget	Period 11	Period 12	Period 13	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10	Total	%
Total Sales	232,500	205,000	177,500	130,000	180,000	155,000	185,000	192,500	197,500	192,500	217,500	217,500	217,500	2,500,000	
Food Sales - 70%	162,750	143,500	124,250	91,000	126,000	108,500	129,500	134,750	138,250	134,750	152,250	152,250	152,250	1,750,000	70%
Wine Sales - 20%	46,500	41,000	35,500	26,000	36,000	31,000	37,000	38,500	39,500	38,500	43,500	43,500	43,500	500,000	20%
Liquor Sales - 10%	23,250	20,500	17,750	13,000	18,000	15,500	18,500	19,250	19,750	19,250	21,750	21,750	21,750	250,000	10%
Total Sales	232,500	205,000	177,500	130,000	180,000	155,000	185,000	192,500	197,500	192,500	217,500	217,500	217,500	2,500,000	100%
Restaurant Revenue															
Food - Lunch	48,825	43,050	37,275	27,300	37,800	32,550	38,850	40,425	41,475	40,425	45,675	45,675	45,675	525,000	30%
Food - Dinner	113,925	100,450	86,975	63,700	88,200	75,950	90,650	94,325	96,775	94,325	106,575	106,575	106,575	1,225,000	70%
Liq / Beer - Lunch	4,650	4,100	3,550	2,600	3,600	3,100	3,700	3,850	3,950	3,850	4,350	4,350	4,350	50,000	20%
Liq / Beer - Dinner	18,600	16,400	14,200	10,400	14,400	12,400	14,800	15,400	15,800	15,400	17,400	17,400	17,400	200,000	80%
Wine - Lunch	9,300	8,200	7,100	5,200	7,200	6,200	7,400	7,700	7,900	7,700	8,700	8,700	8,700	100,000	20%
Wine - Dinner	37,200	32,800	28,400	20,800	28,800	24,800	29,600	30,800	31,600	30,800	34,800	34,800	34,800	400,000	80%
TOTAL Rest. Revenue	232,500	205,000	177,500	130,000	180,000	155,000	185,000	192,500	197,500	192,500	217,500	217,500	217,500	2,500,000	100%
Cover Counts															
Lunch - (\$18.00 avg.)															
Dinner - (\$38.00 avg.)															
Lunch - Daily	125	110	95	70	96	83	99	103	106	103	117	117	117	1,339	
Dinner - Daily	160	141	122	89	123	106	127	132	136	132	149	149	149	1,715	
Lunch - Weekly	775	683	592	433	600	517	617	642	658	642	725	725	725	8,333	
Dinner - Weekly	1,117	985	852	624	864	744	888	925	949	925	1,045	1,045	1,045	12,007	
Lunch - Monthly	3,488	3,075	2,663	1,950	2,700	2,325	2,775	2,888	2,963	2,888	3,263	3,263	3,263	37,500	
Dinner - Monthly	4,466	3,938	3,410	2,497	3,458	2,978	3,554	3,698	3,794	3,698	4,178	4,178	4,178	48,026	
Total Cover Counts	10,130	8,932	7,733	5,664	7,842	6,753	8,060	8,387	8,605	8,387	9,476	9,476	9,476	108,921	

Wine Country Restaurant---Labor Cost Analysis

Operating Budget	Period 11 232,500		Period 12 205,000		Period 13 177,500	
Operating Payroll	\$	%	\$	%	\$	%
Food Server Labor	9,835	4.23%	8,672	4.23%	7,508	4.23%
Busser Labor	3,441	1.48%	3,034	1.48%	2,627	1.48%
Kitchen Labor	30,225	13.00%	26,650	13.00%	23,075	13.00%
Bartender Labor	2,883	1.24%	2,542	1.24%	2,201	1.24%
Host / Hostess Labor	1,395	0.60%	1,230	0.60%	1,065	0.60%
Training Pay	186	0.08%	164	0.08%	142	0.08%
TOTAL Operating Payroll	47,965	20.6%	42,292	20.63%	36,618	20.6%
Management Payroll	\$	%	\$	%	\$	%
Management Labor	22,692	9.8%	22,692	11.1%	22,692	12.8%
TOTAL Management Payroll	22,692	9.8%	22,692	11.07%	22,692	12.8%
Other Payroll	\$	%	\$	%	\$	%
Bonus Pay						
Vacation Pay	959	2.00%	846	2.00%	732	2.00%
Casual labor						
TOTAL Other Payroll	959	2.0%	846	2.0%	732	2.0%
Total Payroll	71,616	30.8%	65,830	32.1%	60,043	33.8%
Payroll Related Costs	\$	%	\$	%	\$	%
Employer FICA Cost	5,479	7.65%	5,036	7.65%	4,593	7.65%
SUI Cost	1,719	2.4%	1,580	2.4%	1,441	2.4%
FUTA Cost	573	0.8%	527	0.8%	480	0.8%
Workers' Comp Insurance	5,729	8.0%	5,266	8.0%	4,803	8.0%
SDI	645	0.9%	592	0.9%	540	0.9%
California Training Tax	72	0.1%	66	0.1%	60	0.1%
Recruiting Advertising	77		77		77	
Employee Benefits	908	4.0%	908	4.0%	908	4.0%
TOTAL Payroll Related Costs	15,201	23.9%	14,052	23.9%	12,903	23.9%
TOTAL	86,817	56.2%	79,882	57.5%	72,946	59.3%

Wine Country

Organizational and Legal Expenses

- Lawyer / Accountant / Real Estate / Consultant	\$30,000
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Hard Construction Expenses

	\$300,000
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Electrical up-grades	\$4,000
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Air Conditioning	\$1,000
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Hoods and fans	\$1,000
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Soft Costs

Architectural and Interior Design	50,000
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Graphic Design	5,000
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Plan Review Fees / Bus. License / Health Dept. Plan Review / Building Permits	6,000
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Total	\$61,000
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TOTAL

\$397,000

Furnishings, Fixtures and Equipment

Tables 36 @ \$400 each	14,400
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Chairs 110 @ \$200 each	22,000
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China	20,000
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Flatware	8,000
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Glassware	10,000
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Table Top	4,000
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Supplies-Kitchen Utensils	10,000
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Smallwares	15,000
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Art	10,000
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Window Coverings	5,000
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Music System	790
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Computer	4,500
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Copier Opening Expense on Lease	1,000
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Signage	10,000
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Point of Sale System	33,000
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Telephone System / Fax	1,000
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TMX	4,000
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Open Table.com	0
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Kitchen Equipment	75,000
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Total	\$247,690
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Operating Supplies, Inventories and Capital

Stationary	1,000
Menus	5,000
Office Supplies / Furniture	2,000
Other Supplies	6,000
Opening Food Inventory	20,000
Opening Beverage / Liquor / Wine	45,000
Liquor License Purchase and Transfer	82,500
Lease Deposits	33,000
Reserve and Opening Working Capital	50,000
Total	\$244,500

Pre-Opening Promotional Expenses

Cocktail Party	500
2 Dinner Trials	
- labor	3,000
- food	2,000
- music	1,000
Public Relations *	
Press Kits *	
Total *not in sub-total - yet to be determined	\$6,500

Pre-Opening Labor

Chef 4 months @ \$5000/month	20,000
GM 3 months @ \$5000/month	15,000
Sous Chef 6 weeks	5,500
Assistant Manager 6 weeks	5,500
Jr Manager 6 weeks	3,750
Pastry Chef for 1 week	600
Bookkeeper for 2 weeks	1,000
Front of House Training - 25 Servers / 6 Bussers / 6 Bartenders	10,000
Back of House Training - Kitchen / Steward / Dish	8,000
Total	\$69,350

Contingency **\$34,960**

Total All Categories **\$1,000,000**

Sample Cap Table #1

Major Shareholders Name	(000s) Shares O/S		
Special Situations Funds (21%)	6,335		
Management, LLC (12%)	3,464		
Directors/Officers (2%)	687		
All Others (65%)	<u>19,235</u>		
Total Common Shares Outstanding	29,721		
	<u>Cash Proceeds</u>	<u>Avg. Price</u>	<u># of Shares</u>
Outstanding Warrants	\$3,153	\$0.54	5,787
Outstanding Options	\$1,429	\$0.50	<u>2,859</u>
Fully Diluted Shares	38,367		

Sample Cap Table #2

Cap Table		Proceeds		
Butt	20,000,000	36%		
Berg	1,000,000	2%	250,000	.25/sh
Shyster	200,000	0%	50,000	.25/sh
Good Cop	50,000	0%	12,500	.25/sh
Corp Employees	540,000	1%	135,000	.25/sh
Option Program	500,000	1%		
	22,290,000			0.81
Bridge Loan	1,250,000	2%	1,000,000	1.35/sh
Bridge Warrants	312,500	1%	471,875	1.51/sh
Preferred Round A	8,888,889	16%	8,000,000	1.35/sh
	55,031,389	59% \$	9,919,376	

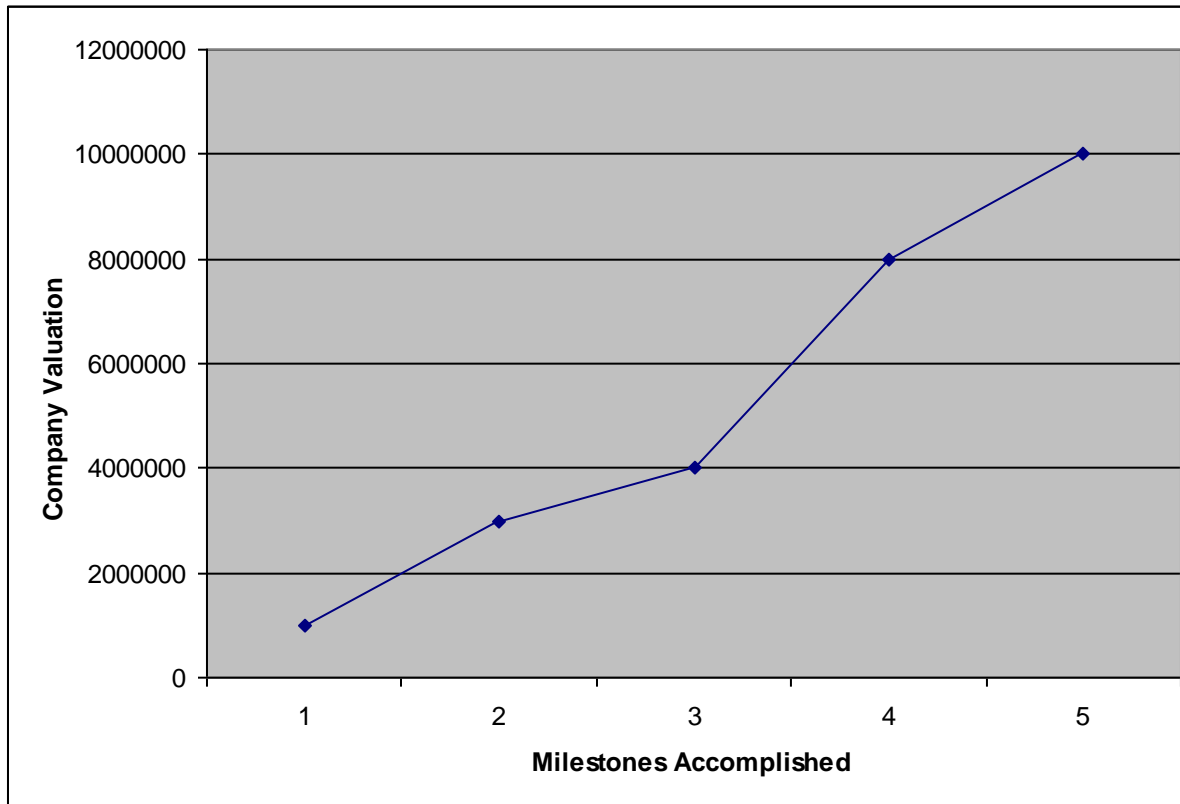
Comparative Information

Sample Comparative Analysis

In order to ascertain the profitability of companies in the film distribution segment, deemed to be comparable to that of CO, we obtained certain operating results information from three companies for fiscal year 2005. These comparable companies are Diamond Entertainment Corporation, Family Room Entertainment Corporation, and Lions Gate Entertainment, where the information scheduled below was obtained from their respective 10-K's for 2005.

(\$ in 000's)	CO	Diamond	Family Room	Lions Gate
	<u>(2006)</u> (Analysis)		Entertainment	
Revenues	\$7,889	\$6,867	\$2,331	\$ 843
Operating costs	<u>3,203</u>	<u>4,038</u>	<u>1,670</u>	<u>355</u>
Gross profit	4,686	2,829	661	488
Gross margin	59.4%	41.1%	28.4%	57.8%
Operating expense Selling, G&A	<u>4,215</u>	<u>2,175</u>	<u>1,371</u>	<u>436</u>
Income from operations	\$ 471	\$ 654	\$ 299	\$ 52

Valuation Increases as Management Team Completes Milestones



The Executive Summary -Page 1

Business Description

CORP. develops products based on state of the art silicon based photonics

"Photonics on silicon is the only way we can continue to deliver on the promise of Moore's Law"

*Dr. John Hon
President,*

Financing

The Company seeks equity financing of \$20M in one or multiple rounds

The nascent Photonics industry has been very active with mergers and acquisitions. A competitor just received \$50 million in additional financing.

Market Opportunity

CORP.'s target markets represent a \$10 billion opportunity.

CORP. recently demonstrated a sniffer that can detect minute quantities of the same bomb making materials found in the recent London terrorist plot.

Corporation is a leader in the development of next generation products based on silicon photonic technologies and optical devices.

Corporation has built a successful, on-going, business developing innovative photonic solutions on government funded contracts, yielding from \$8M to \$10M in billings per year for the past three years. Significant new contract activity leads us to expect a 25%+ growth in business in 2007.

The Company is bringing its proven technology to the market through several near term commercial products including several high speed optical interconnects that are compatible with existing data architectures. These products offer transfer speeds unequalled in the marketplace, while still reducing overall power requirements

Several of CORP.'s technologies have been adopted for use by the U.S. Military and CORP. has long term relationships with CalTech, MIT, Stanford, Lockheed Martin, DARPA and the United States Air Force.

Supported by 4 years of government contacts, CORP. has already invested over \$30M into developing silicon photonic technology and has a state-of-the-art prototyping and pilot production facility in Hawaii..

We are seeking an equity investment of \$20M which will allow CORP. to achieve initial commercial revenue flow in the first 12 months and positive cash flow in under three years. We are seeking a partner that is interested in a near term public offering or merger that could provide a profitable exit strategy for first round investors.

The market for photonic devices – specifically optical interconnects, sensors, and detectors – in communications, computing, data networking, bio-medicine, security, power generation and associated applications is \$4B in 2006, growing to \$10B in 2010.

- Optical transceivers for telecom, fiber-to-the-home, data networking, and computing applications are a \$1.2B market in 2006, growing to over \$2.5B by 2010.
- The emerging market for on-chip optical interconnects will represent an additional market opportunity of \$1B in 2010.
- Optical sensors are a \$2B market in 2006, growing to \$3B in 2010.
- The market for photovoltaic devices for solar power generation is \$500M in 2006, growing to \$2B in 2010.

Products

CORP.'s commercial products include the integration of high speed lasers, receivers, and multiplexing into existing CMOS engineered devices,

"Photonics must take advantage of the billions of dollars already invested in silicon based manufacturing processes"

Jan Peters, Chief Technology Officer, CORP.

Core Technology

CORP.'s IP is captured in patents – 3 already awarded, 5 others filed, with more to follow – and proprietary manufacturing processes.

Developing useful technologies for the military has kept CORP. focused on real world applications

Competitive Advantage

Our long term relationships with leading universities, defense contractors, and the US government has provided CORP. the resources to develop some of the best optical technology in the world.

CORP.'s initial commercial products will be integrated optical transceivers for 10 gigabit Ethernet (10GE) data networking. First products are targeted to be ready for production in mid-2007. Subsequent products rearrange and extend basic photonic building blocks to create a logical progression of bandwidth, packages, and applications supporting both data networking and telecommunications.

Success in the optical interconnect market directly supports the development of products for other high-value markets through common functional IP cores and manufacturing processes. Our second target market is optical sensors for bio-medical applications, chemical and explosive detection, environmental monitoring, and imaging. We plan to qualify products for these markets in parallel with our development of the optical interconnect market and expect significant revenue contribution in two to three years.

CORP. innovatively combines the processing methodologies and efficiencies of electronic IC manufacturing with novel photonic circuit design and breakthroughs in material physics to create photonic devices in silicon that dramatically reduce material, manufacturing, and integration costs.

Specifically, CORP. is applying CMOS-compatible processes to SOI (silicon-on-insulator) wafers. The use of CMOS-compatible processes takes advantage of decades of process development and cost reduction in IC manufacture; the use of SOI substrates, rather than exotic, difficult to manufacture, high-cost materials, allows us to take advantage of silicon's cost effectiveness as well as the performance and functional advantages of the SOI structure itself.

CORP.'s competitive advantage derives from our established optical device designs and manufacturing processes, coupled with the manufacturing assets and operational infrastructure that allows us to rapidly convert these into high value products.

Funded by government contracts, CORP. has already demonstrated all of the building block components of high performance optical transceivers and optical sensors. Our proprietary, CMOS-compatible manufacturing processes allow us to extend and optimize the performance of the integrated photonics devices in ways that a fab-less optics company cannot. In addition, our state-of-the art fab allows us to rapidly prototype new designs and processes, and to support initial production volumes.

Ongoing government contracts, along with a broad set of academic and corporate partnerships, allow us to explore and develop multiple new technologies in parallel, continually generating new IP.

Management Team

MR, XXXXX Founder and CEO
Michael CFO
Dr. XXX Founder and CTO
Dr. YYYY VP Business Development

CORP.'s core leadership team is in place. The members are seasoned industry veterans, experienced in creating, growing and operating photonic, semiconductor, and systems businesses in commercial, consumer, and defense industries. Our staff of 30 includes some of the top optical research scientists in the United States.

Operations

CORP. business will have two main pillars: a commercial products business and a government contracts business.

CORP. has administrative and engineering facilities in Nevada City, California, and a production facility in San Diego, CA.

Supported by the existing CORP. government business, the key engineering and administrative functions required for a rapid start of a commercial business are staffed and operational processes are in place. We are planning to grow the engineering staff, and commercial marketing and sales functions, in alignment with product introduction.

Major Milestones

Financing of commercial business operations by January 2007.

First product transferred to production by July 2007.

Initial, sustained commercial revenues by end of year 2007.

Sustained quarterly profits beginning in 2nd half 2009.

Financial Projections

There are multiple opportunities for breakout market success that can substantially increase CORP.'s projected revenue stream.

The projected revenue stream, gross margin, and pre-tax profits for the next five years of operation are:

	2007	2008	2009	2010	2011
Revenue	\$10.7M	\$31.1M	\$76.2M	\$200M	\$480M
GM (%)	88%	57%	43%	41%	47%
EBITA	(\$6.3M)	(\$7.9M)	(\$1.2M)	\$36M	\$160M

These projections reflect a consistent growth rate in CORP.'s core businesses; the gross margin numbers reflect a decreasing proportion of government project revenue followed by a growth in licensing revenue.

Valuation Multiples

1A. Enterprise Value Multiples

$$EV = (x)(EBITDA)$$

The most commonly used valuation metric

$$EV = (x)(EBIT)$$

When depreciation and amortization expenses are small, as in the case of a non-capital-intensive company

$$EV = (x)(Sales)$$

When a company has negative EBITDA, the EV/EBITDA and EV/EBIT multiples will not be material

$$EV = (x)(Unlevered Free Cash Flow)$$

Common Valuation Multiples

1B. Equity Value Multiples

Price/EPS (“P/E”)

One of the most commonly used valuation metrics, where the numerator is the price of the stock and the denominator is EPS

Equity Value/ Book Value

P/E/Growth (“PEG Ratio”)

The PEG ratio is simply the P/E ratio divided by the expected EPS growth rate, and is often in the range of .50x to 3.00x. PEG ratios are more flexible than other ratios in that they allow the expected level of growth to vary across companies.

Valuation Methods

Comparable Companies Analysis

Precedent Transaction Analysis

DCF Analysis

LBO Analysis

SOTP Analysis