

HEARDAROUND:

YOUR NEIGHBORHOOD, YOUR NEWS

By

Graven Prest

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A Thesis Submitted to the Honors College

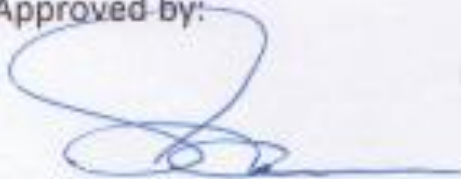
In Partial Fulfillment of the Bachelors degree  
With Honors in

Entrepreneurship

THE UNIVERSITY OF ARIZONA

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Approved by:



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Sherry Hoskinson  
McGuire Center of Entrepreneurship

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## **Entrepreneurship Team Role**

The business plan portion of my thesis was created in collaboration with my Entrepreneurship Team consisting of Blake Duhamel, William Day, Jason Mighdoll, and myself. I served as the Product and Operations Manager of the team for the past year. My main responsibilities were to work out the logistics of operating our ultra-local news website. I also worked closely with the Finance Manager to come up with realistic cost estimates for our operations. I was solely responsible for the alternative valuation addendum to the business plan.

## **Abstract**

HeardAround is a one-stop shop for national, regional, local, and ultra-local news. Users will enjoy the benefit of reading about what is happening at the high school down the street and at the White House in Washington, D.C. at a single news website. This business plan outlines this venture concept, the operations, the financials, and the implementation timeline.

The HeardAround venture also provides its customers with alternative social benefits. The alternative valuation addendum explains how HeardAround will improve the quality of the communities it enters and also provides specific measures for quantification of these benefits.



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**Your Neighborhood...Your News** ©



**Business Plan**

**5 May 2010**

**Team:**

**Billy Day (Chief Financial Officer)**

**Blake Duhamel (General Manager)**

**Jason Mighdoll (Director of Marketing)**

**Graven Prest (Chief Operations Officer)**

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## Your Neighborhood...Your News

### Executive Summary

Since 2007, the list of metropolitan dailies that have closed their doors and ended their publication is astounding. In just three years the Tucson Citizen, Rocky Mountain News, Baltimore Examiner, Kentucky Post, Cincinnati Post, King Country Journal, Union City Register-Tribune, Halifax Daily News, Albuquerque Tribune, South Idaho Press and San Juan Star to name a few have all had to end operations (NewsPaperDeathWatch). It's no secret that this industry is faltering due to the disruptive push of the Internet as an online news source. However, as all of these major national publications begin to consolidate, local stories are getting left behind. HeardAround will capture this niche as the premiere, ultra-local online news source. HeardAround will hire writers, receive feeds from local sources, and allow user content that is filtered by an editorial staff to offer credible ultra-local news, at the neighborhood level, online.

### Market

Primary research shows that 67% of people want to know about the news that happens around them and affects their day to day lives. An opportunity arises with the fact that online news viewership has increased 33% over the past two years. HeardAround's business plan is to take this local news online. The trend of more and more people reading their news stories online is rapidly growing due to user convenience and their unwillingness to pay for content.

### Competitive Advantages

Current local news websites, individually, have only a small taste of what HeardAround will bring to its readers. HeardAround's advantage comes in combining many of these unique aspects into one website. HeardAround will compile news from our writers, users, and local RSS feeds with the ability to leave comments and ratings. Most importantly, we will be the only ultra-local source that will be filtered to neighborhoods. All of this local information, a nationally branded name, and easy navigation of the website will give communities a better idea of what is happening around them and revolutionize the news industry .

### Revenue Model

This venture will be profitable due to its sale of ad space. HeardAround's local touch will add a unique option to conventional online ads; the ability for businesses to market to specific ZIP codes and neighborhoods. Not only does this allow us to attract more clients, it also allows us to offer premium ad services.

### Management Team

HeardAround's team consists of four driven and capable students at the University of Arizona. Blake Duhamel, an economics major, leads the group as the General Manager and also currently sells advertising for the Daily Wildcat. The Financial Manager, Billy Day, majors in finance and leads the appropriations board at the University of Arizona student government. Jason Mighdoll, the Marketing Manager, has marketing experience not only as his major, but also with Chipotle, Wal-Mart, and Coca Cola. And finally, Graven Prest, also an economics student, is the Operations Manager. He has experience in web design and database management. This team of four, along with a diverse and experienced advisory board, is capable of turning HeardAround into a successful and profitable venture.

### Funding Proposal

In order to cover capital requirements and expenses, this venture is looking for \$400,000 in angel funding. We believe our pre-money value to be \$1.6 million and expect a year five EBITDA of \$7.2 million with revenues of \$17.3 million.

## HeardAround's Opportunity

Since 2007, the list of metropolitan dailies that have closed their doors and ended their publication is astounding. In just three short years the Tucson Citizen, Rocky Mountain News, Baltimore Examiner, Kentucky Post, Cincinnati Post, King Country Journal, Union City Register-Tribune, Halifax Daily News, Albuquerque Tribune, South Idaho Press and San Juan Star to name a few have all had to end operations (NewsPaperDeathWatch). Some of these newspapers, such as the Rocky Mountain news and the Albuquerque Tribune have been in publication since the late 1800's only to be forced out of business within the past 3 years. It seems rather odd that newspapers with such a strong history of success would all fail so quickly and around the same time. HeardAround has found that this is due, in large part, to the migration from print to online sources where readers are now looking to find their news. In fact, according to a Pew Research study, print readership has been down 20% while online news readership has increased 50% within the last three years. For centuries, print publications were the place to look to find both national and local news but with the rising popularity of the internet, the trend is beginning to rapidly shift. Online news is not only operationally cheaper for the news company but, more importantly, it offers real time updates and instant user commentary that has been very appealing to this generation of news readers. HeardAround aims to capitalize on this growing trend and further revolutionize the news industry to solve a problem that has been identified in communities throughout the United States.

## The Problem

With the demise of these local papers, and scaling back of many more, several cities are lacking access to credible and easily obtainable local news. Unfortunately, many citizens throughout the U.S. have turned to the large, national news providers only to read about news that doesn't necessarily pertain to their everyday lives nor the issues that affect their neighborhoods and families. Those that are very concerned with this more "ultra-local" news, news at the neighborhood level, have to wait once a month to receive the association or neighborhood news letter.

We first identified this serious problem within Tucson communities and have since realized that it is a problem affecting people throughout the entire United States as well. Right now there is a

large gap in the type of news that is reported by large news papers and organizations. Although there are millions of Americans interested in reading about issues that affect themselves, their families, and their communities on a daily basis, there is yet to be a single news source able to credibly capture it and provide it on a daily basis for the world to read. Among many other problems, the small amount of ultra-local news sources in the market today is highly fragmented, infrequent, inaccessible, and unrecognizable. Appendix H shows the high fragmentation of hyper-local papers that HeardAround has noticed in the Tucson area.

Our group at HeardAround has developed a simple concept that will appeal to citizens throughout the United States who feel that the news that affects their lives is under-represented. Through the creation of the HeardAround website and brand name, we can profitably bring ultra-local news to the “doorsteps” of millions of people throughout the United States.

## **The HeardAround Solution**

HeardAround.com will be a one-stop shop for national, regional, local, and ultra-local news. Users will enjoy the benefit of reading about what is happening at the high school down the street and at the White House in Washington, D.C. at a single news site. Our news content on all scopes will be more personal, more in-depth, and more relevant to our readers than current solutions because of how it is created—from bottom (ultra-local) to top (national). This pyramid of news creation will result in our readers getting the news that they truly care about whether it is happening across the street or on the other side of the country.

The base of our news pyramid will be our stand alone ultra-local news sources. Each ultra-local news source’s coverage will be limited to its own neighborhood or community within a city, but will all come together under the HeardAround name to create a new type of news source. This “patchwork-quilt” strategy of news coverage will create synergy in our national brand name, but help maintain a personal relationship between our readers and writers. All news content on our website will begin at the ultra-local level. HeardAround will be going further than traditional papers to capture and report stories that are important but often go over-looked within communities.

The most popular ultra-local news content will move up the news pyramid, possibly all the way to national. The idea is that news important to a neighborhood is likely important to the whole city, the news important to a city is important to the state, and so on. The most “popular” stories will be the stories that are most read, most sent, and most liked by users. By the end of the ranking process, our national news will be more relevant and have a local insight and feel that other national news lacks.

Another feature of our product is our various news sources. We will have three distinct sources for our news: hired, local writers, user-generated content, and RSS (Real Simple Syndication) feeds from other online sources including the Associated Press if they are pertinent to the specific area. Our locally hired writers will serve as the main basis for our website. These are professional writers, but are a part of the community they are writing about. This content will have both credibility and a personal feel. Our user-generated content provides a forum for general community members to write about their own interests, events, and news as they see it. To ensure credibility and maintain the HeardAround brand name, all user-generated content will be screened by our editorial staff. The RSS feeds will be the final supplement to our own HeardAround content. The feeds are a direct line to another website that is alerted whenever new content is added. RSS feeds from other national and local news sources will pull geographically pertinent and popular articles to provide a different prospective and bolster our news coverage further. The way in which the specific RSS stories are matched with correct region will be the result of a proprietary algorithm developed by HeardAround and its technical staff.

The main focus of our news content will be neighborhood news. High school athletics, school concerts, community service projects, neighborhood gatherings, and local politics are the type of stories that are glazed over in other local news sources—not at HeardAround. We will provide consistent coverage of these types of events to the community. Our coverage will also be a full multi-media experience. We will upload videos and pictures to articles, in addition to allowing community members to upload their own media. Parents can post a picture of their son scoring a touchdown in a local high school game or a video of their child’s school concert. Community members will enrich the articles and make the neighborhood HeardAround site their own. The interface for our website will be interactive and simple to use. Our users would begin at the HeardAround homepage showing a map of the United States and the most popular national

stories, as seen in appendix B. They can navigate the national stories if desired or drill down to a smaller scope: the state level, city level, or neighborhood. Once at the desired scope, users can enjoy the stories from our three sources or add their own writing, pictures, and video. This ability to quickly navigate through news of all scopes and easily find interesting content should allow us to provide our customers with a complete and enjoyable news experience.

## **Target Audience**

### **Primary**

HeardAround's primary target audience is at the root of the way that the HeardAround business strategy is set up. This is why HeardAround chooses to market to adults ages 36 to 55 who are active members of their community. These are the type of people who are involved in community events, part of the P.T.A., interested in local politics or just have a strong interest in the news that is taking place in the neighborhood. This group will be our main readers and writers as they most likely have children between middle school and college aged. By having children in this age bracket, they are concerned with what is going on in their neighborhoods and schools. HeardAround plans to put a strong emphasis on the local high schools within various communities, capturing their sports and administrative issues. Also, according to Pew Research Center, 36 to 55 year olds make up the highest percentage, 58%, of online readers. Finally, there is no better way to appeal to the customers than target directly at the largest constituent base. Thus, HeardAround looks to this age segment to comprise a majority of the audience.

### **Secondary**

HeardAround's secondary target market will serve as both viewers and contributors as well. We have chosen to segment high school and college aged students between the ages of 16 and 25 years old. These young readers are into the social media aspect of HeardAround more than their adult counterparts. In addition, they have close ties to their communities and are usually active participants in the school system. The stories they write will appeal to others who are involved in similar activities in other communities. Thus it is these active community members and students that we are looking to target.

HeardAround has chosen these target markets because of their involvement in the community and interest in the knowledge and betterment of their neighborhoods. While HeardAround will

strive to reach many more markets, the two groups listed above will be the audience that is focused on first. With the increased popularity and adoption of this revolutionary news source, HeardAround will eventually reach those customers that don't fall into our primary or secondary target markets. HeardAround's product will bring communities and neighborhoods closer together.

## **Benchmark Companies**

HeardAround has identified five competitors that also serve as benchmark companies. Each one provides unique aspects that HeardAround will use to better enhance its end product and better reach the community customer. These companies include: Topix.com, EveryBlock.com, NewsVine.com, Digg.com, and neighborhood association newsletters.

**Topix:** This internet news company relies solely on RSS feeds in order to aggregate their data. They allow users to rate and comment on each story as well as post stories that are relevant to their area. HeardAround can use their RSS feeds model and apply the same general concepts as well as website visual framing for its own purposes.

**EveryBlock.com:** EveryBlock is a website that was recently bought by MSNBC only one year after formulation and under \$1.5 million in funding. This website currently covers 15 U.S. cities and filters government records/information down to a ZIP code level. Although they do pull stories from local newspapers and allow for some form of user-generated content, their primary source of information is provided from these government records. HeardAround admires their organizational structure and usability; however HeardAround currently does not use government records as a source of news.

**NewsVine.com:** NewsVine is a Seattle-based online news company that has been around since 2006 and recently bought by MSNBC as well. NewsVine is slightly different in that it aggregates stories from large news publications, such as the Associated Press, as well as collecting content from its users. It has an editorial staff that makes sure its users are writing quality stories but much of the content responsibility is left in the hands of its user-writers. HeardAround plans to study the NewsVine's editorial process of user-generated content and adopt it into its operations.

**Digg.com:** Digg is one of the more popular news sites on the Internet today. It acts as a forum for users to post their favorite links to other sites around the Internet. Although Digg is much different than the HeardAround concept, its user feedback and type of story segmentation can be used to enhance HeardAround’s community writer’s side of the website.

**Association Letters:** Local neighborhoods typically have an association letter that goes out either through mail or at their meetings. It is this local type of news that HeardAround will be providing and thus is important to recognize what type of news specific communities are interested in. It is HeardAround’s goal to be faster to market with the news as well as more relevant.

## Competitive Advantages

Together, the competition has all of the characteristics that are found in the HeardAround concept. The problem is that they all offer just a piece of the benefits that HeardAround plans to offer altogether under one brand name. The chart below outlines how HeardAround stacks up against its biggest competition and easily demonstrates how HeardAround encompasses all of the key news characteristics, where as all others are lacking many of these aspects.

Features	HeardAround	Local Newspapers	National Outlets	Association Letters	Everyblock	Newsvine
Ultra-Local news	★	⊘	⊘	★	★	⊘
Local news	★	★	⊘	⊘	★	★
National News	★	★	★	⊘	⊘	⊘
Hired Journalists	★	★	★	★	⊘	⊘
User-generated content	★	⊘	⊘	⊘	⊘	★
Daily	★	★	★	⊘	★	⊘
Nationally branded	★	⊘	★	⊘	★	★

An extended explanation of HeardAround’s competitive advantages can be found in appendix F.

## Marketing Strategy

In order to become a successful venture, a sound marketing strategy and ability to communicate with customers is an essential objective. HeardAround has developed a comprehensive, full-scale marketing approach through a three-tiered strategy. HeardAround will begin its strategy at the base of the pyramid with community marketing, work up through city saturation, and eventually build to a nationally branded name. For first year marketing operations, HeardAround has allocated \$10,000/month to be used for the sole purpose of becoming a neighborhood name. The specific estimated marketing expenditures can be found in Appendix Z.



Beginning with grassroots, community marketing, it is HeardAround's goal that the brand name will be well known in the targeted community households. We plan to begin this initial penetration of communities by reaching out to neighborhood councils and town halls. By utilizing their credibility, we will have an already established and trusted source introducing our revolutionary concept. Additional guerilla-type marketing tactics that HeardAround plans to deploy include campus representatives at nearby schools, sponsoring community events, and poster distribution within businesses. Because HeardAround currently has a free-to-use model, it will rely on word of mouth to increase traffic. This is what made other free online sources, such as Twitter and Facebook, so popular.

Once the brand name is well established within the communities that HeardAround enters, the marketing strategy then stretches to the city level. The plans to accomplish this are slightly larger in scale and include outdoor advertising, web advertisements, city print advertising, news coverage, and hosting city events while continuing with the ultra-local strategies as well. At this

part of the pyramid, HeardAround plans on having full city saturation through the various marketing techniques and the exponential growth from word of mouth.

After both local and city saturation, HeardAround will continue the marketing aspects that worked well and innovate those that did not have quality return on investment. As the HeardAround name expands at the city level, the national strategies then begin at a smaller scale. This will be done through the continued use of online advertising and very limited national print advertising. The goal is to focus on the local advertising first, let the word of mouth spread the brand, and build the reputation of the brand so that new cities are anxiously waiting for HeardAround to enter into their community.

## **Content Credibility**

HeardAround will contract active community members to become official writers for the website. HeardAround will encourage these writers to write about the stories that they see as important in the community. Community writers will be expected to write only 2-3 articles per week. To ensure proper news coverage, we expect to hire over 100 writers per city. Ideally these community members will have previous journalism experience or training, but the only requirement will be passion for the communities in which they live. We will have in-depth training software which will supplement seminar-style training throughout the year by our journalism specialists.

HeardAround will also employ a team of professional editors. Each editor should have a minimum of 10 years of journalism experience. Our editors will also be in charge of the hiring and training of all HeardAround writers. They will also monitor and screen all content posted on the HeardAround website—both user-generated and hired writer content. HeardAround's team of editors will ensure that HeardAround will have the highest reputation for content credibility.

## **Technology Strategies**

As an Internet-based company, technology is central to HeardAround's success in the marketplace. The HeardAround website needs to be interactive, innovative, and user-friendly.

In order to achieve these goals, HeardAround will outsource most of its website and technology development during our initial high growth years.

HeardAround's first order of business is to contract a third-party web design company. Our expected cost for first-year web development and design is around \$40,000. Upon the company launch, HeardAround will choose the web development company that can create the interactive and media-rich website desired for the best price.

Web hosting is important because it can make or break a website based on its number of users. Based on our growth calculations we have decided to work with MediaTemple.net. Their hosting is safe and secure. In addition they host clients such as Starbucks, ABC, NBC, and Adobe. We feel that working with them is our best use of resources. Each year that we increase our projected customer base, the number of servers that are needed to handle that bandwidth and capacity proportionally increase. The numbers for hosting range from our initial start up at \$100 per month, to a maximum of \$750 per month at year 5.

Also important in the creation of HeardAround.com will be search engine optimization (SEO). SEO involves proper "meta-tagging" and linking of the website. With SEO, HeardAround can ensure that its website shows up at the top of search engine results for queries such as "ultra-local news," "community news," etc. SEO is an on-going job that requires daily updates. HeardAround will again be contracting a third-party company for this service.

HeardAround also needs to be looking forward with its technology strategies. A couple trends that HeardAround would like to capitalize on in the future are near field communication (NFC) and the iPad/Kindle. NFC is a new technology for mobile phones that allows for data communication over very short ranges. One of the expected uses for this technology is to use one's phone like a debit card. HeardAround can capitalize on this trend by sending coupons from advertisers to users that access HeardAround with their smart phones. The iPad and Kindle offer a unique opportunity to offer online content with more of an appearance of a traditional newspaper. *The New York Times* has already created an application for the iPad that does this. HeardAround will definitely be interested in customizing its website and content layout for all of the different devices that people use to access HeardAround.com.

## Business Model

In order to monetize the HeardAround solution, we will be utilizing an ad-revenue business model. We considered charging a subscription fee to access HeardAround content, but determined it best to use a free model. We believe that this will allow for increased advertising, the fastest growth, and immediate market penetration. Additionally, we believe the HeardAround solution works best when there is maximum community participation, and anyone can access content and get involved. A subscription model is an idea that HeardAround plans to re-evaluate in later years and test its feasibility upon a strong market penetration.

The online advertising business model has smaller margins than traditional print advertising, but HeardAround will be profitable by avoiding printing and distribution costs and maintaining low overhead costs. HeardAround also will enjoy the benefit of relatively high online advertising margins because of its unique ability to geographically target the content and advertisement to a very specific audience. This model has been utilized successfully by our benchmark companies EveryBlock and Newsvine. A detailed look into the advertising assumptions can be read in appendix J. HeardAround will be targeting three distinct types of advertisers: local advertisers, national advertisers, and classified websites.

One of HeardAround's greatest strengths is its ability to cater to the needs of small, local advertisers. Mom-and-pop stores have smaller budgets and the need to squeeze every last penny out of their marketing budget. Take a small sports bar in the Tucson Foothills for example. Is it economical or viable for them to take out an ad in the *Arizona Daily Star* sports page? How about advertising on TV during the local news sports report? These advertising avenues reach many thousands of people, but many are simply outside of the geographic range of the sports bar. Thousands of dollars can be wasted through this inefficiency. It would be much better if the sports bar could target sports fans that live in the Foothills. HeardAround can do just that. The advertiser can pick the content subject and the community in which their advertisement appears. Now, the sports bar can place their ad in an article about the Catalina Foothills High School football team. The advertisement may reach fewer people total, but more of the audience will actually be a part of the intended target audience. This ultra-local type of advertising allows us to charge a higher margin for our online advertising and local advertisers to maximize the efficiency of their marketing dollars.

These same advantages will also be available to national advertisers because of HeardAround's national presence. National advertisers will still be able to buy online ad space in bulk, but they will be able to pick and choose the individual communities within cities they wish to advertise in rather than blanketing the whole city. National advertisers will reach their socioeconomic target audiences more efficiently this way.

The third source of revenue for HeardAround will be partnerships with classified websites such as Cars.com. Strategic partnerships between websites benefit both parties involved and are common according to Susan Cantrell, VP of Marketing for Tucson Newspapers. Cars.com (or any national classified company) receives classified postings from all around the country. People go to Cars.com to check these postings, but some people only check their local newspaper for car classifieds. HeardAround would potentially partner with Cars.com to post their car classifieds. Cars.com would provide the brand name and the classified ad, while HeardAround would provide additional readership and potential buyers. There are many such partnerships that HeardAround could forge and produce a substantial revenue stream.

## **Sales Strategy**

HeardAround's revenue will come from three distinct types of customers with different needs and characteristics. Naturally, our sales force which is in charge of creating this revenue will be broken up into three different departments. We will have territory sales managers for local ad sales, national account managers for national advertising, and strategic partnership managers for our national partners.

Our territory sales managers will be contracted employees. Each territory sales manager will be in charge of all of the ad sales in his or her own community within the larger city. HeardAround will provide the umbrella brand name, marketing materials, sales strategies, and other assistance to the territory sales managers. The sales managers will, in turn, be HeardAround's feet in the street. Territory sales managers may take on more than one territory if they choose, but managing large areas such as the University of Arizona community may be a full-time job in itself. These sales managers will be paid a 20% commission on all ad sales for their territory and will be held to performance standards and goals. By contracting out the local ad sales,

HeardAround will be able to expand aggressively and focus on the activities that separate HeardAround from competitors rather than the grind of ad sales.

National advertising accounts will be fewer in number and larger in size than the local advertisers, so it makes more sense for these important accounts to be managed in-house. National account managers will be salaried employees in charge of seeking out new accounts and maintaining good relations with national advertisers. Account managers will keep the national advertisers informed about the new communities HeardAround has entered and other features of our online ad product. Having the salaried, in-house account managers will allow HeardAround to keep closer tabs on these important, large accounts. HeardAround can also expect higher margins on these accounts as no commission will be paid on these ad sales.

Our national strategic partnerships will be handled in-house for many of the same reasons and benefits. Our strategic partnership managers will provide the link from HeardAround to other companies. They will ensure synergy between the two partners and make sure that both parties are seeing maximum mutual benefit.

## **Expansion Plan**

HeardAround will launch in June 2010 in Tucson, Arizona. Tucson is the right place for HeardAround to begin its entry into the marketplace for many reasons. All four of the founders are residents of Tucson and know the area well. Tucson is also an ideal community for HeardAround's ultra-local type of news. Tucson is a large urban city but has many distinct mini-communities within. The Foothills, the University of Arizona, downtown, South Tucson, and many other regions of Tucson all have their own feel and distinct residents. Each one is its own mini-community. This fragmentation is the basis of the HeardAround idea—making Tucson the perfect market in which to launch.

Before beginning full implementation into a city, HeardAround will run a test market in the Catalina Foothills area of Tucson, AZ. Catalina Foothills is a very affluent area, rich in business, with a strong interest in the local high school and community news. Entering this market first will allow HeardAround to study the process and business model in order to work out any problems that will naturally arise with a new product. Although the start-up costs will outweigh

the revenue that will be realized from this one area, it will allow HeardAround to get a better understanding of how to capture the necessary revenue from each market and further expand. Once the business model is perfected and sufficient revenue numbers are met, HeardAround will then be able to expand further and begin to realize economies of scale.

For the first year, HeardAround will focus all of its energy and money into the Tucson market. By the end of the first year, we plan to have 25,000 visitors from the Tucson community per day. This corresponds to less than half of the visitors per day that the website for the *Arizona Daily Star* receives (Compete.com). If we can reach this benchmark by the end of year one, we will continue with our expansion into Phoenix in year two.

Phoenix is a logical second market for HeardAround to enter because of its similarities and close geographic proximity to Tucson. The interaction between the Phoenix and Tucson communities is great, so HeardAround could expect to see the word of mouth marketing and success in Tucson to naturally spill over to Phoenix. The Phoenix news market is also more than three times as large as Tucson according to Compete.com. This will allow HeardAround to ramp up its operations and perfect its business formula. By the end of year 2, we expect to have 100,000 visitors combined per day for the Tucson and Phoenix markets. At this point the HeardAround business process should be perfected and ready to be replicated across the western United States.

Year 3 calls for expansion into San Diego, San Jose, and San Francisco; year 4, Seattle, Salt Lake City, and Denver; year 5, Austin, Dallas, and Houston. These cities were chosen for their close proximity to our original two markets and their special characteristics that would make them early adopters of the ultra-local news idea. In San Diego there is a non-profit website for ultra-local news (voiceofsandiego.org). San Jose and San Francisco are two of the most high-tech cities in the United States. Seattle, Salt Lake City, and Denver all have a strong sense of community. Texans are known for their fanatical devotion to high school sports such as football: high school sports are one of the main draws of the HeardAround site. Each of these market choices is also validated by one of our benchmark companies, EveryBlock.com. This expansion plan is dependent on our benchmark of 50,000 daily visitors in each city. These specific markets are some of most active markets for EveryBlock's ultra-local brand of news. HeardAround plans

to expand as rapidly as possible in order leverage the HeardaAround name brand and utilize word of mouth marketing.

## Financial Projections

HeardAround’s financial projections came from models that used research, industry averages, as well as educated assumptions. The two main industry averages we used were an EBITDA to Sales of about 40% and a cost of sales ratio of 23%. Our models follow these very closely. The figure below shows a five-year pro forma consolidated statement of income.

	Year 1	Year 2	Year 3	Year 4	Year 5
Net Sales	\$ 487	\$ 2,362	\$ 6,525	\$ 11,925	\$ 17,325
COGS	\$ 115	\$ 555	\$ 1,535	\$ 2,805	\$ 4,080
Operating Expenses	\$ 603	\$ 1,266	\$ 2,522	\$ 4,346	\$ 6,064
Net Profit (Loss)	\$ (231)	\$ 418	\$ 1,492	\$ 2,886	\$ 4,343
EBITDA	\$ (226)	\$ 552	\$ 2,480	\$ 4,793	\$ 7,211

\*all values in 1,000's

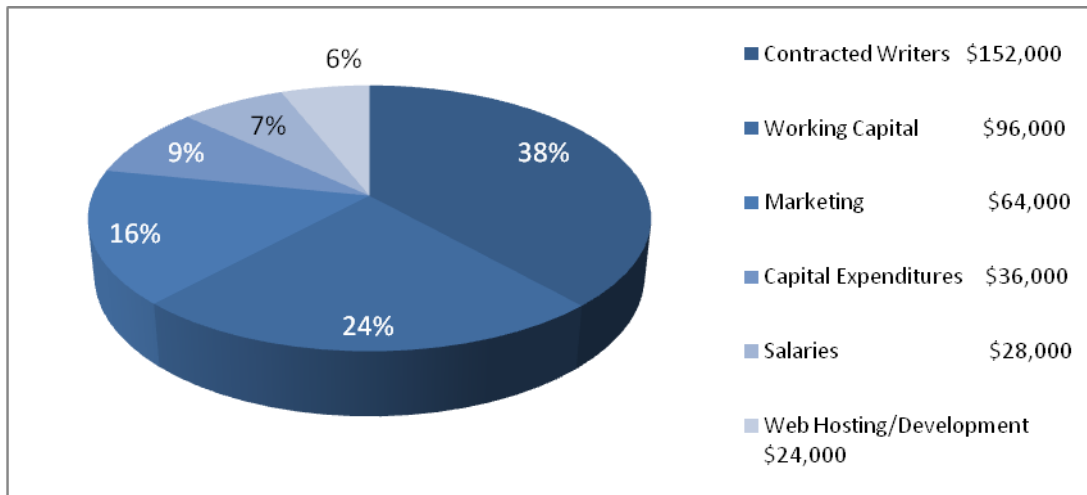
According to the model, HeardAround will be profitable by year two, and have a total EBITDA of just over \$7 million in the fifth year. On this financial statement, Operating Expenses are not directly stated. However, Appendix Y gives a breakdown of these costs. Another thing to note is the lack of interest expense. This is because we expect to receive all of our financing from angel funding. This means that HeardAround will be unleveraged and totally equity based.

Because HeardAround is a service-based firm, the cost of goods sold is fairly low. The only determinant in this category is the commissioned advertisement salespeople. Their pay will be directly tied to the sales they make, in this case 20% of total revenue. This and the subsequent payroll tax and benefits brings the cost of goods sold to the industry average of around 23%. Finally, the large jumps in revenues from year 1 to 2 are due to the full penetration of the Tucson and Phoenix markets. We feel that this is an attainable revenue amount should our expansion proceed as expected.

## Funding Proposal

After putting together a viable financial model, we have determined the necessary amount of funding needed during high, medium, and low demand situations. High and low situations were determined by a 20% increase and decrease in revenues, respectively. To start, all four founders have agreed to contribute \$40,000, totaling to \$160,000. If either a high or medium demand level is realized, then we would be looking for funding from angels of \$400,000. If a low demand situation occurs, we would need an additional \$200,000 in financing at the end of year two. In any case, we will not acquire debt from financial institutions in the first 5 years of operations. Not only would it be incredibly hard to acquire, being unlevered would be beneficial for our situation.

We believe HeardAround to have a pre-money value of \$1.6 million. This initial investment would cover start-up costs, give room for operations to expand, and allow for unforeseen costs. We will have a minimum cash balance of three-months burn rate. The figure below breaks down where the money will specifically be used in the first 15 months of operation.



The largest single cost is unique to our type of online venture—articles from our hired writers. Paying for each story is very important to the success of HeardAround because it guarantees credible content for our readers.

## Harvest Strategy

Investors can look forward to a lucrative harvest strategy in the near future. Our research shows there is a trend in large news companies to add operations and start-ups similar to ours to their portfolio of companies. Two benchmark companies, Newsvine.com and EveryBlock.com, have already been purchased by MSNBC. Both of these companies are considered local news outlets with that sense of social networking HeardAround also offers.

Being purchased would give us the resources needed to do amazing things for the ultra-local news market. Although MSNBC has shown interest in this emerging market, other companies such as Google, CNN, or Fox News might also be in the mix. Also, because of the type of our operation, other industries may be interested as well. Social networking sites like Facebook and Twitter capitalize on local, personal aspects of media. No matter what the case, our investors can look forward to a profitable harvest strategy.

## The HeardAround Team

### Blake Duhamel (General Manager)



Blake Duhamel is the General Manager of HeardAround and an Economics graduate of the University of Arizona. While remaining an extremely strong student in the classroom, Blake has mastered his leadership skills through the management of many organizations on campus. Professionally, Blake has held numerous positions with large corporations including, Raytheon Finance, and Altria Sales & Distribution. During the school year, Blake works as an account executive for the University of Arizona's daily newspaper. He has extensive experience on the business side of the news industry and plans to use his acquired skills to build HeardAround into a profitable venture.

### Jason Mighdoll (Director of Marketing)



Jason Mighdoll is the Director of Marketing for HeardAround, as well as a Marketing graduate of the University of Arizona. He first found his love for

journalism as chief editor for his high school newspaper in the Bay area. While managing several jobs on and off his college campus, Jason has continually been a leader in the classroom. Jason has quite the extensive resume, as well, which includes marketing for companies such as Chipotle, Wal-Mart, Pepsi, and Motorola. He has successfully promoted these brands on the campus of U of A and will use many of the techniques he learned from these industry leaders to market the HeardAround name. Jason is an asset for HeardAround with his diverse experiences and industry contacts.

### **Graven Prest (Chief Operations Officer)**



Graven Prest is the Chief Operations Officer for HeardAround, as well as an Economics graduate of the University of Arizona. Graven is extraordinarily strong in the classroom as one of the top students in the entire Eller business college. In addition to his many achievements in college, Graven was awarded a National Merit Scholar and scored a perfect score on his SATs before coming to the U of A. As the brains behind HeardAround, Graven continually develops creative approaches to doing business in the news industry. His professional background is very diverse, ranging anywhere from engineering and database management to real estate. Graven has been and will continue to be a great asset to the HeardAround team moving forward.

### **Billy Day (Chief Financial Officer)**



Billy Day is the Chief Financial Officer for HeardAround and Finance graduate of the University of Arizona. Billy has a strong finance background with his position on the appropriations board for the Associated Students of the University of Arizona. He has held this position for the past two years and has been responsible for allocating nearly \$500,000 dollars worth of club funding. In Addition, Billy has an extensive background in sales as a sales manager for Altria during the summer of 2009. He is responsible in everything he does and will work hard to make HeardAround a profitable venture for its investors.

The HeardAround management team is bright, young, determined and ambitious. They realize it is going to be a tough road, but feel nothing but excitement when they think about this

opportunity. As previously mentioned, in a testament to their dedication and belief in the venture, each member of the management team has decided to contribute \$40,000 of their own money to help fund the venture. They have tremendous confidence in the outcome of HeardAround and expect to see their investment generously returned in a matter of years.

While the HeardAround team has excelled during their time in college and been given tremendous direction throughout their studies in the McGuire Entrepreneurship program, they understand that they are still young entrepreneurs and in need of further expertise. They are in no way lacking the ambition and the intelligence but do admit that they still have a lot to learn about the industry. For that reason, they have developed an excellent team of advisors to leverage their knowledge and use their expertise to help make HeardAround a profitable venture for themselves and their investors. The team of advisors has been carefully constructed to include experts in almost every facet of our business ranging from IP issues to Internet start-ups and online advertising.

Name	Background and Role
<b>Nina Ossana</b>	<u>Background:</u> PhD Molecular Biology, Registered Patent Agent, Office of tech transfer at Johns Hopkins. <u>Role:</u> Expert on IP issues.
<b>Justin Miller</b>	<u>Background:</u> Founder and Partner of Internet start-up, Notehall.com <u>Role:</u> Expert in Internet start-up and technical issues.
<b>Susan Cantrell</b>	<u>Background:</u> President of online advertising for Tucson Newspapers <u>Role: Expert:</u> Expert on online advertising and marketing strategies
<b>Mark Woodhams</b>	<u>Background:</u> Director of The Arizona Daily Wildcat and over 30 years experience in the newspaper industry <u>Role:</u> Expert in hiring writers and managing a newspaper
<b>Matt Van Horn</b>	<u>Background:</u> Director of new business for Digg.com <u>Role:</u> Expert in new business strategy and developing new revenue opportunities

## Summary

The news industry is rapidly transforming unlike anything we have seen in the past 100 years. With the popularity of the Internet and the customer trend of high personalization, many large news organizations are being forced to find new ways of doing business or else having to shut their doors. We believe that HeardAround will be the next big thing in the news industry by successfully capitalizing on all of the aspects that customers are looking for in their news source. The time is right, the market is large, and the technology is available to revolutionize the news industry with this very new and unique way of collecting, aggregating, and distributing news.

With this idea comes the opportunity for a very profitable outcome for those who decide to invest their time and money into the venture. By moving into the market early, HeardAround can become the premiere brand for ultra-local news. The concept is scalable and draws interest from not only the communities that read their own news, but national audiences who want an insider view on a particular story or want to read about what's going on in the town where they grew up. HeardAround has the potential to grow fast throughout the U.S. and restore that sense of community that so many people feel American communities have been lacking. During these tough economic times, HeardAround has the ability to affect communities on an economic level by creating jobs in each area that we are a part of and allowing people, young and old, to take part in the process of collecting and providing the news that means so much to them.

HeardAround asks that you please consider the investment of \$400,000, giving the venture a pre-money value of \$1.6 million. With this investment and a strong team tirelessly working for the cause, HeardAround can be a profitable and meaningful venture for all parties involved. If this is an idea and venture that you believe in on a financial or social level, please feel free to get into contact with our staff. HeardAround would love to have new people join the team to help make HeardAround the successful venture that it has the potential to be.

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## **Appendices**

**Appendix A: NAICS Codes for Industry**

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**Appendix X: Year 2-5 Quarterly Statement of Cash Flows**

**Appendix Y: HeardAround Valuation Methods**

**Appendix Z: Marketing Budget**

## Appendix A: NAICS Codes for Industry

***Cross-References.* Independent writers and journalists (including photojournalists) are classified in [Industry 711510](#), Independent Artists, Writers, and Performers.**

2002 NAICS to 1997 NAICS		2002 NAICS to 1987 SIC		<a href="#">1997 Economic Census</a>	<a href="#">Bridge Between 1997 NAICS and SIC</a>
2002 NAICS	1997 NAICS	1987 SIC	Corresponding Index Entries		
519110	514110	7383	Feature syndicates (i.e., advice columns, comic, news)		
519110	514110	7383	News picture gathering and distributing services		
519110	514110	7383	News reporting services		
519110	514110	7383	News service syndicates		
519110	514110	7383	News ticker services		
519110	514110	7383	Newspaper feature syndicates		
519110	514110	7383	Syndicates, news		
519110	514110	7383	Traffic reporting services		
519110	514110	7383	Wire photo services		
519110	514110	7383	Wire services, news		

# Appendix B: Mock Screenshot Shots For HeardAround Website

**heard (ROUND) .com**  
Your Neighborhood...Your News!

Banner Ad

Click a state to find your city

Ban. Ad

Ban. Ad

Banner Ad

**Top Rated HA stories in U.S.**

- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX

**Top Rated User stories in U.S.**

- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX

**Top National AP Stories**

- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX

**heard (ROUND) .com**  
Your Neighborhood...Your News!

Banner Ad

Click on your city to find your neighborhood

Ban. Ad

Ban. Ad

Banner Ad

Banner Ad

**Top Rated HA stories in AZ**

- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX

**Top Rated User stories in AZ**

- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX

**RSS Feed**

- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX

**heard (ROUND) .com**  
Your Neighborhood...Your News!

Banner Ad

Click on your neighborhood to read **YOUR** news

Ban. Ad

Ban. Ad

Banner Ad

Banner Ad

**Top Rated HA stories in Tucson**

- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX

**Top Rated User stories in Tucson**

- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX

**Tucson Daily Star RSS**

- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX

**heard (ROUND) .com**  
Your Neighborhood...Your News!

Banner Ad

**Catalina Foothills: Tucson, AZ**

Ban. Ad

Home | Environment | Food | Health | Living | Politics | Sports | Technology | Travel | Autos | Jobs

**Today's Stories**

Ban. Ad

Banner Ad

Banner Ad

**Top Rated HA stories in Foothills**

- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX

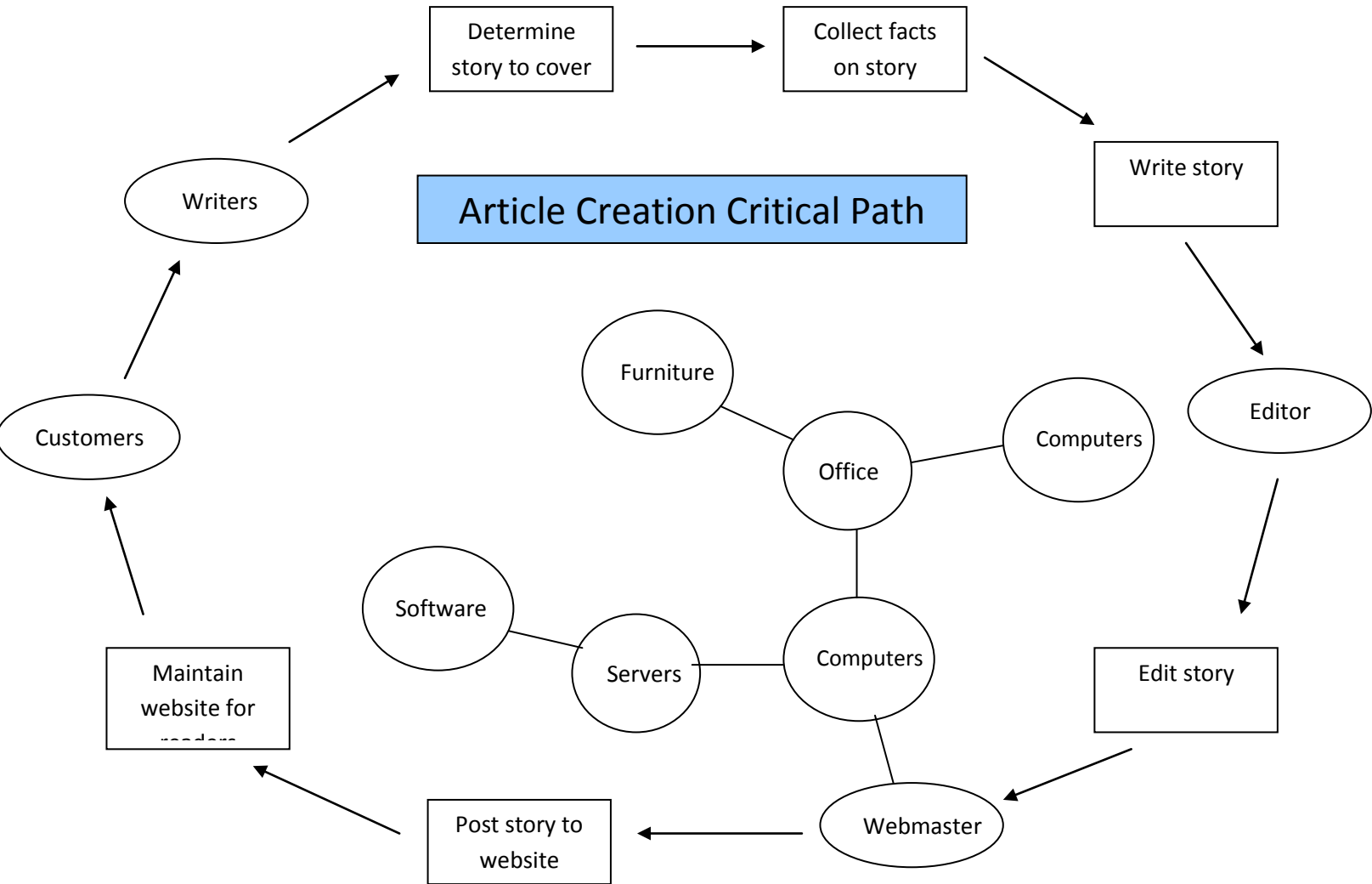
**Top Rated User stories in Foothills**

- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX

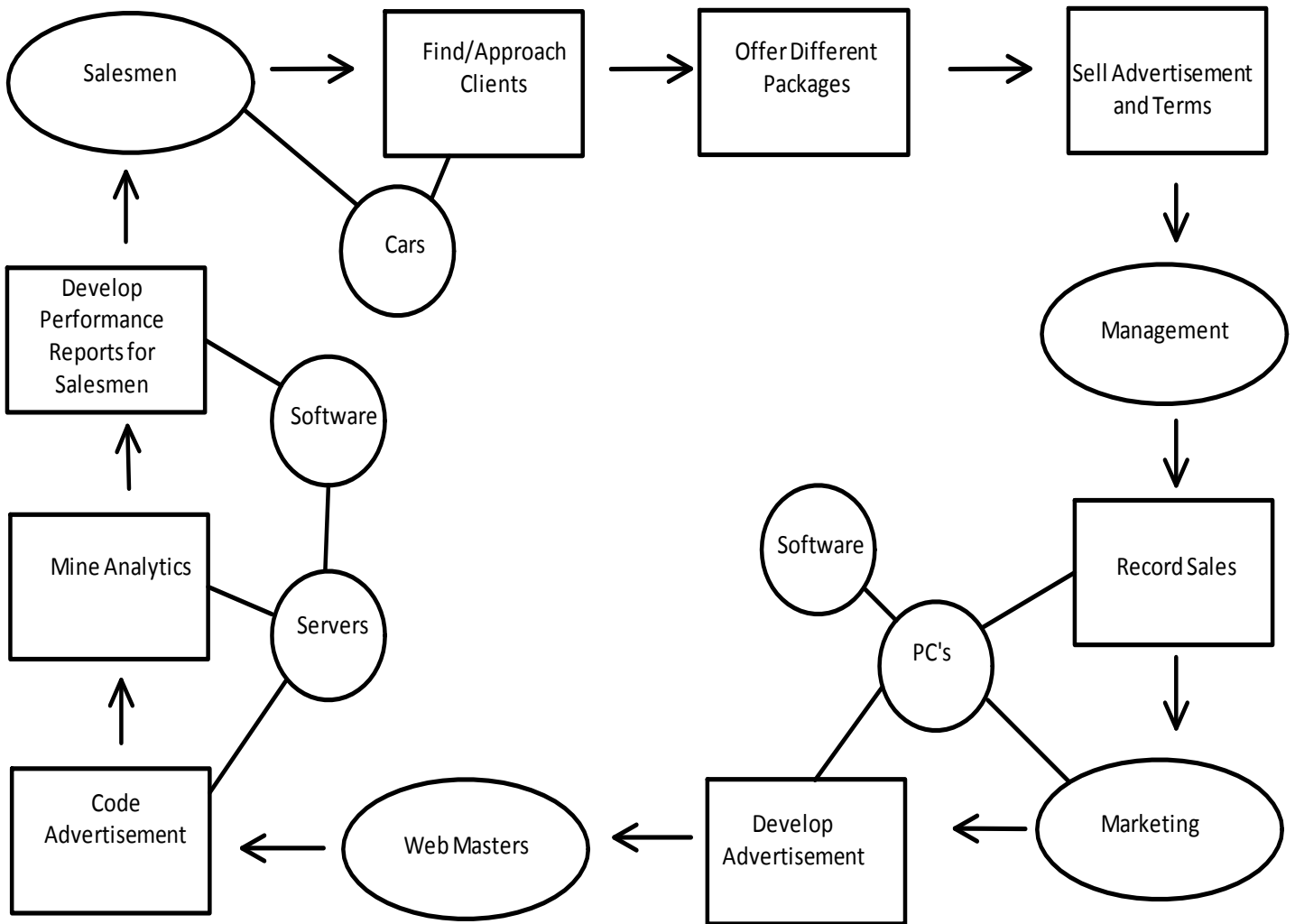
**Tucson Daily Star RSS**

- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX
- XXXXXXXXXX

## Appendix C: Critical Path for Article Creation



## Appendix D: Flow Diagram of Advertising Sales



## Appendix E: Target Market Internet News Adoption

### For Younger Age Cohorts, Web Newspapers Rival Print

	Total	Gen Y 1977-	Gen X 1965-76	Boomer 1946-64	Silent/ Greatest Pre-1946
	%	%	%	%	%
<b>2008</b>					
Newspaper yesterday	39	27	33	42	55
Print only	25	13	15	28	48
Web only	9	11	12	8	3
Both	5	3	6	6	4
<b>NET: Web version</b>	<b>14</b>	<b>14</b>	<b>18</b>	<b>14</b>	<b>7</b>
<b>NET: Print version</b>	<b>30</b>	<b>16</b>	<b>21</b>	<b>34</b>	<b>52</b>
<b>2006</b>					
Newspaper yesterday	43	29	38	47	56
Print only	34	20	25	36	52
Web only	5	7	8	5	1
Both	4	2	5	6	3
<b>NET: Web version</b>	<b>9</b>	<b>9</b>	<b>13</b>	<b>11</b>	<b>4</b>
<b>NET: Print version</b>	<b>38</b>	<b>22</b>	<b>30</b>	<b>42</b>	<b>55</b>

Source: Pew Research

## **Appendix F: Expanded Explanation of Competitive Advantages**

HeardAround has many competitive advantages, as outlined in appendix F, that will help to position ourselves as a premier source from the ultra-local news scope all the way to the national scope. There are individual features that are similar to our competitors, but when taken as a whole HeardAround offers a combination of advantages not offered by our competition. Our main competitive advantages include being ultra-local, state local, and national, having hired writers, having user-generated content, and being nationally branded.

Our news spans from the ultra-local to national scope. No current competitor's news coverage spans this wide. There are certainly many competitors that offer coverage for one or maybe two of these coverage scopes, but none cover all three. With our competitors' current setups there is no feasible way that they could. A national website like CNN.com wouldn't start hiring writers to start covering high school sports in the Catalina Foothills. The newspapers wouldn't start publishing papers daily for individual neighborhoods under one branded roof. It's not feasible for individual neighborhood news letters to start aggregating national news. Our HeardAround news model is different. HeardAround is a network of distinctive neighborhood "newspapers." All of our news is built from the bottom-up, and because our base is strong we can build it up high to the national level. This translates into a competitive advantage for us because no other news source currently is a one-stop shop for all scopes of news. Is it more convenient to go to CNN.com, than azstarnet.com, and finally DesertLeaf.com to get all of your news, or simply go to HeardAround.com? With user personalization and convenience being the latest trend in successful Internet start-ups today, our vast news scope will afford us a major competitive advantage in the online news market.

Our hired writers are also a source of competitive advantage. The hired writers will separate us from blogs. Our site will have journalistic integrity and standards. This will put us on par with legitimate news sources like CNN.com and azstarnet.com. This is important because trusted news sources are much more valuable and desired by advertisers than just an anonymous person blogging on the Internet. This will also make us more valuable to the communities we enter by bringing neighborhoods a source of trustworthy and reliable information. Our writers also

provide us with exclusive content that readers will actively seek out. Because our writers are strictly writing about the communities that they are a part of, they possess a certain insight into the community that other writers lack. They are closer to the pulse of the community and their stories will be more in line with the interests and views of the community. This will attract community members to read for obvious reasons, but will also benefit the national reader. An ultra-local story from HeardAround that reaches the national level will still offer an insider's view of the story. National readers will be able to read the article through the eyes of someone truly affected by the story. Finally, having hired writers separates us from aggregation sites. Sites like Digg.com aggregate national and local news and could conceivably start drawing ultra-local content from places such as DesertLeaf.com, but offer no content of their own. Digg's value proposition is simply aggregation. We will add even more value by creating our own content.

User-generated content will also be a valuable aspect of our venture. Most of our competitors offer the option to comment and rate stories, but few allow users to write their own stories and post their own pictures and photos, which HeardAround will allow. This will help us cover more stories, more thoroughly. It will also help draw extra traffic to our site. Community members will naturally be drawn to the articles, pictures, and videos posted by their neighbors or by themselves. One concern for any user-generated content is the concern for credibility and appropriateness; all of our user-generated content will be screened by an editor. The end result will be a truly collaborative effort between HeardAround and its readers. HeardAround will have an unparalleled personal connection with its target audience.

The HeardAround brand name is another competitive advantage. We will be nationally branded which gives us several advantages. Neighborhood newsletters and ultra-local news papers have limited brand appeal because their scope is so small. HeardAround matches their specificity of news, but carries with it a nationally recognized name. No matter what neighborhood, city, or state one moves to, HeardAround will be there to provide ultra-local news to their new community and the one in which they came from. This will also help expand the size of the ultra-local news market. Because there is no nationally recognized name in ultra-local news yet, awareness and knowledge of ultra-local news is underdeveloped. HeardAround can be the first national entry to the ultra-local news market to gain a foothold and capitalize on this emerging market.

This combination of competitive advantages will allow us to position ourselves favorably compared to our competitors. Our competitive advantages will gain us entry into the market, success, and raise barriers to entry.

Appendix G: Expansion Map (Year 1 – 5)



## **Appendix H: Local Newspapers in Tucson**

### **The Explorer- Oro Valley, Marana, NW Tucson**

47,000 households

Once weekly on Wednesdays

Driveway delivery free, 47.50 year in Pima, 49.50 outside Pima

<http://www.explorernews.com/>

### **Downtown Tucsonan- Downtown Tucson**

13,000 average circulation

Once monthly

Available in 170 Tucson locations for free, \$10 for year of mail

Music, art, events, & commerce focused

[http://www.downtowntucson.org/downtown\\_tucsonan/](http://www.downtowntucson.org/downtown_tucsonan/)

### **Tucson Citizen- online version (no longer print)**

Former writers from print version are now “bloggers”

Offer different perspective than mainstream- Arizona Daily Star

Oro Valley/ Marana Magazine

<http://tucsoncitizen.com/>

### **Zocalo Tucson Magazine**

“Zocalo Tucson is an independently published community magazine showcasing urban news, arts, entertainment, living and events in Downtown and Central Tucson.”

<http://www.thezmag.com/>

### **Tucson Green News**

Valley 150,000 readers at more than 1,600 locations throughout Tucson and Oro

Professional freelance writers

Free

Different prospective, sustainability, independent, local prespective

<http://tucsongreentimes.com/>

### **Tucson Weekly**

Opinions, current events, music, art, and dining

<http://www.tucsonweekly.com/tucson/Home>

### **Desert Leaf**

56,000 copies monthly

By mail for free to Catalina Foothills

Foothills=26,000, Oro Valley=6400 , Casas Adobes=4000, Tanque Verde  
Valley=13,400

<http://www.desertleaf.com/>

## **Appendix I: Laws and Statutes of Protection**

### **BACKGROUND:**

HeardAround.com (“HeardAround”) is an online peer-to-peer to news service provider that seeks to publish the following content online: (1) articles written by independent contractors via a copyright licensing agreement; and (2) comments and/or blogs posted by users who are not compensated for their contributions. Such online publication of content implicates civil liability considerations for HeardAround. HeardAround’s website will also host news created by users (user-generated content).

### **QUESTIONS:**

- (1) What liability can an online news service provider incur for publishing articles and comments posted by users? If subject to liability, what defenses may HeardAround employ to defeat such claims?
- (2) What copyright liability can an online news service provider incur for user-generated content? If subject to liability what defenses may HeardAround.com employ to defeat such claims?

### **ANSWERS:**

- I. **HeardAround is subject to secondary civil liability for publishing content online, but likely has a successful defense of federal immunity under the Communications Decency Act (“CDA”).**

#### **A. HeardAround is Subject to Civil Liability for Posting Content Online**

The online publication of news articles and users’ comments and/or blogs may implicate the following tort actions: intrusion upon seclusion, publication of private facts, libel, and misappropriation. See Restatement (Second) of Torts § 652A (1977). Online news service providers are subject to secondary liability for content produced by third parties, including independent contractors and users who post commentary or blogs.

#### **B. The Communications Decency Act (“CDA”) is Defense Against Civil Liability**

Online news service providers may avoid liability if they qualify as an “interactive computer service” (“ISP”) under the federal statute known as the Communications Decency Act (“CDA”). 47 U.S.C. § 230(c)(1) (“no provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.”) The CDA provides ISPs federal immunity from civil liability. Such immunity pre-empts relevant state laws. 47 U.S.C. § 230(e)(3) (“No cause of action may be brought and no liability may be imposed under any State or local law that is inconsistent with this section”).

**i. HeardAround Qualifies for Civil Liability Immunity under the CDA**

Online news service providers such as HeardAround likely qualify as an ISP, which grants them federal immunity under the CDA. To qualify as an ISP, the following two requirements must be met: (1) the online entity is a provider or user of an interactive service, and (2) such content must have been provided by another information content provider. 47 U.S.C. § 230(c)(1). For the first requirement, the CDA defines an ISP as

any information service, system, or access software provider that provides or enables computer access by multiple users to a computer server, including specifically a service or system that provides access to the Internet and such systems operated or services offered by libraries or educational institutions.

47 U.S.C. § 230(f)(2). Courts interpret such a definition broadly to cover services to that provide access to the Internet and individual websites. *See, e.g.,* *Green v. Am. Online*, 318 F.3d 465, 470 (3d Cir. 2003) (“There is no dispute that AOL is an interactive computer service as defined in 47 U.S.C. s 230(f)"); *Batzel v. Smith*, 333 F.3d 1018, 1030 (9th Cir. 2003). HeardAround likely meets the second requirement. Courts interpret the definition of “another” to include situations where an ISP is not the content provider for the information in question. *See, e.g., Batzel*, 333 F.3d 1018, 1031. Thus, HeardAround qualifies for immunity under the CDA because it is an ISP that publishes content by others, which include independent contractors and users. *See Blumenthl v. Drudge*, 992 F.Supp. 44 (U.S.D.C. 1998) (online service provider AOL not liable for libel from making co-defendant author’s gossip column available to AOL subscribers even though AOL had licensing contract with author, editorial rights over author’s materials, and AOL promoted author’s column); *Fair Hous. Council of San Fernando Valley v. Roommates.com, L.L.C.*, No. 04-56916, 04-57173, 2008 WL 879293, at \*10-11 (9th Cir. Apr. 3, 2008) (website operator Roommates.com granted immunity for discriminatory statements posted by subscribers because it “does not provide any specific guidance as to what the essay should contain, nor does it urge subscribers to input discriminatory preferences”).

**ii. The CDA Provides No Immunity for Third-Party Liability**

The CDA's immunity defense does not extend to third-party authors of objectionable content. *Zeran v. Am. Online, Inc.*, 129 F.3d 327, 330 (4th Cir. 1997) (noting that "the original culpable party who posts defamatory messages would [not] escape accountability"). Because HeardAround's independent contractors and users are unable to succeed on such a defense, it should disclose potential liability to these parties. The disclaimers should be prominent and advise that contributors of content are legally bound to comply with relevant state laws.

**II. HeardAround is subject to secondary civil liability for user-generated content, but likely has a successful defense of federal immunity under the Digital Millennium Copyright Act ("DMCA").**

**A. HeardAround is subject to liability under the Copyright Act of 1976 for user-generated content**

Section 106(1) of the Copyright Act of 1976 grants exclusive rights to copyright owners, including the right to make copies. 17 U.S.C. § 101, *et seq.* Thus a violation of the Copyright Act occurs when unauthorized copies of copyrighted material is reproduced on a website. The issue here, however, is whether peer-to-peer websites may be liable for users generated content (content uploaded by users and not at the direction of the online host). Case law holds that online hosts of user-generated content may be subject to liability for copyright infringement for user-generated content of unauthorized copies of copyright protected material. *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 2009 WL 1636914 (N.D.Cal.,2009). However, a "safe harbor" provision of the Digital Millennium Copyright Act of 1998 provides a blanket defense. 17 U.S.C. § 512(c).

**B. Digital Millennium Copyright Act of 1998**

The Digital Millennium Copyright Act of 1998 (DMCA), 17 U.S.C. § 512 (2009), was enacted to balance the "interests of content owners, on-line and other service providers, and information users in a way that will foster the continued development of electronic commerce and the growth of the Internet." H.R. Rep. No. 105-551, pt. 2, at 21 (1998). Section 512(c)(3) of the DMCA provides online hosts of user-generated content (UGC) a "safe harbor" provision that protects hosts from copyright infringement liability resulting from UGC.

To satisfy the "safe harbor" provision, a UGC host must adhere to statutorily delineated "notice and takedown" procedures. First, a host must receive a written notice from a copyright owner alleging one of the posts on the website is copyright infringing. The copyright owner must have "good faith belief that the use of the material infringes" before sending the notice. The notice must include:

- (i) A physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.
- (ii) Identification of the copyrighted work claimed to have been infringed, or, if multiple copyrighted works at a single online site are covered by a single notification, a representative list of such works at that site.
- (iii) Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate the material.
- (iv) Information reasonably sufficient to permit the service provider to contact the complaining party, such as an address, telephone number, and, if available, an electronic mail address at which the complaining party may be contacted.
- (v) A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.
- (vi) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

§ (512(c)(3)(A)(i-vi)).

After receiving the notice, the host must immediately disable access to the material in question and is not liable for removal of the content. The host must then notify the user about the removal of the content (before or after) and provide information regarding the user's ability to file a counter-notice alleging there is no copyright infringement. If a counter-notice is sent by the user, the host must notify the copyright owner of the objection and the copyright owner then has two weeks to file suit in federal court, or else the host may repost the material.

The host must meet three requirements to satisfy the "safe harbor" provision. First, the host must not possess any actual knowledge that unauthorized copies of copyrighted material have been uploaded to its website. While hosts are not required to actively patrol its site for copyrighted material, once the host has knowledge of copyright infringement, it must comply immediately with DMCA by removing access to the copyrighted material. Second, the host must not receive direct financial benefit from the infringing activity. Third, upon receipt of a takedown notice, the host must remove or disable access to the infringing material in accordance with the "notice and takedown" procedure. It is also necessary that a website make available its copyright policy online, including the notice and takedown procedure.

### **i. User-generated Content**

Most of the content found on peer-to-peer websites, such as blogs and social networking sites, is generated by users of the website. Such user-generated content (UGC) has three main characteristics: (1) the content must be available on the Internet; (2) the content must be a product of some creative effort; and (3) the content must be generally created outside of a professional context (i.e. not making money). Ian Chung, *Be Wary of Adding Your Own Soundtrack: Lenz v. Universal and How the Fair Use Policy Should be Applied to User-generated Content*, 29 LOY. L.A. ENT. L. REV. 163, 167 (2009).

On HeardAround.com, users are encouraged to upload their own versions of local news stories and comments to share with other users on the website. Such content is expected to be posted by individuals that generally do not produce local news in a professional capacity. Also, users posting local stories to HeardAround.com cannot reasonably expect to generate money as a result of posting. As a result, the content posted on HeardAround.com by users satisfies the requirements of UGC.

### **ii. Knowledge of Infringing Material**

As stated above, the first requirement to satisfy the “safe harbor” provision by a UGC host is to not possess any actual knowledge of copyright infringing material on its site. The statute provides two ways in which a host may have knowledge: (1) notice from the copyright owner and (2) “red flags”. §512(c). The DMCA “red flag” test requires that web host take down content once it is aware of facts and circumstances from which infringing activity is apparent. *Id.* However in *Perfect 10 v. CCBill*, the court held that domain names such as “illegal.net” and “stolencelebritypics.com” are not red flags because such names might be used to increase the “salacious appeal” of sites rather than admission that they are infringing. 488 F.3d 1102 (9th Cir 2007).

### **iii. Direct Financial Benefit**

As stated above, the host of user-generated content must not receive any direct financial benefit from the infringing copyright to satisfy the “safe harbor” provision. Case law demonstrates that determining whether a host is receiving direct financial benefit is not a bright line. For example, in *A & M Records, Inc. v. Napster*, the court held that copyright infringing content served as a draw for users and that Napster’s received direct financial benefit because its ad income was dependent on the user base. 239 F.3d 1004 (9th Cir. 2001). Conversely, the court in *Ellison v. Robertson*, held that AOL did not receive direct financial benefit as a result of users posting copyright infringing material because the material did not attract new customers to AOL’s Internet services. 357 F.3d 1072 (9th Cir. 2004).

Here, it is unclear whether HeardAround will receive direct financial benefit from copyright infringing user-generated content. HeardAround's business model revolves around user participation and income is directly tied to its user base as it was in the *Napster* case, however, it is uncertain whether users will be prone to post their own versions of stories or copy and paste stories from other sources. Looking forward, Viacom International Inc. has filed a claim against YouTube, Inc. for copyright infringement, alleging YouTube consistently allows unauthorized copies of Viacom owned T.V. shows be posted on its site. *Viacom, Inc. v. YouTube, Inc.*, No. 07 civ. 2103 (S.D.N.Y). Certainly the issue of direct financial benefit will be discussed and more judicial guidance on whether a host receives direct financial benefit will be clear.

**C. HeardAround will not be subject to liability for hosting unauthorized copies of copyright material uploaded by users.**

The DMCA provides a strong defense against all copyright liability of user-generated content so long as HeardAround complies strictly with the "safe harbor" provisions. To do so we recommend HeardAround's site contain a clear link to its copyright policy and information regarding where to send notice and takedown letters. The only concern for HeardAround is in regards to whether, once implemented, the site will attract users wanting to post unauthorized copyrighted news stories to share because there is uncertainty as to whether HeardAround receives direct financial benefit from such postings.

## **Appendix J: Expanded Business Model and Sales Assumptions**

HeardAround's business model will be based around revenues primarily from online ad revenues. This model, in most cases, does not bring in the revenue necessary to build and grow a business. However, HeardAround will be able to offer ultra-local based advertisements for our clients. Mom-and-Pop stores can choose to advertise to only those accessing our site from areas around that particular company. In order to ensure our business model is viable, we had to make some educated assumptions.

### Website Assumptions

- On average, each page will have 5 ads
- The average user visits 5 separate pages when they visit our website
  - 5 ads per page X 5 page visits = 25 ad impressions per visit

These assumptions were based off research done on similar local news websites. (compete.com) An ad impression is the terminology used for basically viewing an advertisement. For example, if someone were to visit a website that had two advertisements on the homepage, that page view would result in two ad impressions; one for each ad that is visible to the patron. With this being said, our business model is going to sell ad impressions to clients.

The next logical step is to find out the market price for ad impressions. After doing research into public places that sell ads, we came up with a rate of \$40 for every 10,000 impressions. This number was actually confirmed to be the exact price that the *Daily Star* charges for their online sales (Cantrell). This price of \$0.004 per impression may seem relatively low for a strong revenue stream for a business. However, our plans to expand and the goals we have for the unique visitors we will be able to obtain will show that this is a profitable model. The next set of assumptions also came from research into benchmark websites, such as AZStarnet.com.

### Revenue Assumptions

- On average, we should get 50,000 views to our website per city, per day
- 50,000 visitors X 25 impressions/visit = 1,250,000 impressions per day, per city
  - $1,250,000 * \$0.004 = \$5,000$  per day, per city

The 50,000 views to our website is a very conservative estimate. It is half of the average page views that an average local news website receives.(Compete.com) Another assumption to note is that 50,000 page views is not equal to 50,000 different people going on the website. The industry ratio for page views to unique visitors is 3 to 1. This means that we would need just under 17,000 different people to visit our site per city in a day, which is a much easier goal to accomplish. Our expansion plan involves being in 11 cities by our fifth year of operations.

Because the business model just described is completely a service-based online source of revenue, HeardAround will be able to keep strong margins. The cost of goods sold will be directly pegged at 20% of sales. This will be the payment for the franchised salespeople that we will hire. These people will be found and given the resources and knowledge needed to sell online ad space for HeardAround.com. The main reasons for franchising the sales are to mitigate risk as well as being more efficient. While these people are in the field making sales to local businesses, our in-house managers will be able to handle the national accounts.

Just as in cost of goods, our operating margin is expected to be strong. As of now, it hovers right around the industry average of 40%. The major expenses unique to this business model are the costs of paying for articles from independently contracted journalists and website hosting and upkeep.

## Appendix K: Pro Forma Balance Sheet

The next statement is a 5-year pro forma consolidated balance sheet, also under normal demand.

ASSETS		Year 1	Year 2	Year 3	Year 4	Year 5
	Current Assets					
	Cash	\$ 235,950	\$ 417,819	\$ 1,566,173	\$ 4,148,021	\$ 8,153,932
	Accounts Receivable	\$ 50,119	\$ 202,331	\$ 508,613	\$ 820,463	\$ 1,132,313
	Total Current Assets	\$ 286,068	\$ 620,150	\$ 2,074,786	\$ 4,968,483	\$ 9,286,245
	Property and Equipment	\$ 61,000	\$ 74,000	\$ 125,000	\$ 139,000	\$ 198,000
	(less accumulated depreciation)	\$ (5,880)	\$ (19,125)	\$ (33,130)	\$ (55,523)	\$ (84,690)
	Net Property and Equipment	\$ 55,120	\$ 54,875	\$ 91,870	\$ 83,477	\$ 113,310
	<b>TOTAL ASSETS</b>	<b>\$ 341,188</b>	<b>\$ 675,025</b>	<b>\$ 2,166,656</b>	<b>\$ 5,051,961</b>	<b>\$ 9,399,554</b>
	<b>LIABILITIES AND SHAREHOLER'S EQUITY</b>					
	Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
	Shareholders' Equity					
	Paid-In Capital	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000
	Retained Earnings	\$ (18,812)	\$ 315,025	\$ 1,806,656	\$ 4,691,961	\$ 9,039,554
	Total Shareholders' Equity	\$ 341,188	\$ 675,025	\$ 2,166,656	\$ 5,051,961	\$ 9,399,554
	<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>\$ 341,188</b>	<b>\$ 675,025</b>	<b>\$ 2,166,656</b>	<b>\$ 5,051,961</b>	<b>\$ 9,399,554</b>

As stated before, HeardAround plans to not take on any debt in the first five years of operations. Also due to the type of operations, HeardAround will not have any accounts payable, resulting in zero liabilities. The paid-in capital represents the founders' investments of \$40,000 each, as well as the initial investment from venture funding.

## Appendix L – Pro Forma Statement of Cash Flows

The third and final financial statement is the 5-year pro forma statement cash flow.

CASH FLOWS FROM OPERATIONS												
	Net income		\$	(18,812)	\$	333,837	\$	1,491,631	\$	2,885,305	\$	4,347,594
	Adjustments to reconcile net income											
		to cash flows from operations										
		Depreciation	\$	5,880	\$	13,245	\$	14,005	\$	22,393	\$	29,168
		Accounts receivable	\$	(50,119)	\$	(152,213)	\$	(306,281)	\$	(311,850)	\$	(311,850)
	TOTAL CASH FLOWS FROM OPERATIONS		\$	(63,051)	\$	194,870	\$	1,199,354	\$	2,595,848	\$	4,064,911
CASH FLOWS FROM INVESTING ACTIVITIES												
	Purchase of equipment		\$	(61,000)	\$	(13,000)	\$	(51,000)	\$	(14,000)	\$	(59,000)
	TOTAL CASH FLOWS FROM INVESTING ACTIVITIES		\$	(61,000)	\$	(13,000)	\$	(51,000)	\$	(14,000)	\$	(59,000)
	CASH FLOW BEFORE FINANCING		\$	(124,051)	\$	181,870	\$	1,148,354	\$	2,581,848	\$	4,005,911
	CASH FLOWS FROM FINANCING ACTIVITIES		\$	-	\$	-	\$	-	\$	-	\$	-
	CASH FLOWS BEFORE EQUITY FINANCING		\$	(124,051)	\$	181,870	\$	1,148,354	\$	2,581,848	\$	4,005,911
	Sales of Stock		\$	360,000	\$	-	\$	-	\$	-	\$	-
	TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		\$	360,000	\$	-	\$	-	\$	-	\$	-
	NET CASH FLOWS		\$	235,950	\$	181,870	\$	1,148,354	\$	2,581,848	\$	4,005,911
	CASH, BEGINNING OF PERIOD		\$	-	\$	235,950	\$	417,819	\$	1,566,173	\$	4,148,021
	CASH, END OF PERIOD		\$	235,950	\$	417,819	\$	1,566,173	\$	4,148,021	\$	8,153,932

The cash flow statement has no discrepancies with the other two statements. Year 2 is expected to bring in the lowest cash flow, mostly due to growth and capital expenditures. This statement is well representative of the business model HeardAround will utilize. Relatively high cash will allow the company to operate more freely and grow.

Again, these statements are predictions under medium-demand conditions. High and low demand were created by increasing and decreasing sales from the medium demand by 20%. We assumed 40%, 20%, and 40% probability for high, medium, and low demands, respectively. In the low situation, EBITDA drops to just over \$2 million with sales of \$10 million in year 5. The balance sheets showed \$7 million less cash, while the cash flow statements shows one year of negative flows and much lower ending balances. On the other hand, the high-demand pro-forma statements did not see as large a variation. The cash balance increases by \$3 million, and the net cash flows saw on average \$1 million increase.

## Appendix M: PRO FORMA BALANCE SHEET (LOW DEMAND)

		Year 1	Year 2	Year 3	Year 4	Year 5
<b>ASSETS</b>						
	Current Assets					
	Cash	\$ 108,831	\$ 44,416	\$ 258,525	\$ 788,601	\$ 1,757,152
	Accounts Receivable	\$ 30,071	\$ 121,399	\$ 305,168	\$ 492,278	\$ 679,388
	<b>Total Current Assets</b>	<b>\$ 138,902</b>	<b>\$ 165,814</b>	<b>\$ 563,692</b>	<b>\$ 1,280,879</b>	<b>\$ 2,436,539</b>
	Property and Equipment	\$ 61,000	\$ 74,000	\$ 125,000	\$ 139,000	\$ 198,000
	(less accumulated depreciation)	\$ (5,880)	\$ (19,125)	\$ (33,130)	\$ (55,523)	\$ (84,690)
	<b>Net Property and Equipment</b>	<b>\$ 55,120</b>	<b>\$ 54,875</b>	<b>\$ 91,870</b>	<b>\$ 83,477</b>	<b>\$ 113,310</b>
	<b>TOTAL ASSETS</b>	<b>\$ 194,022</b>	<b>\$ 220,689</b>	<b>\$ 655,562</b>	<b>\$ 1,364,356</b>	<b>\$ 2,549,849</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>						
	Total Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
	Shareholders' Equity					
	Paid-In Capital	\$ 360,000	\$ 560,000	\$ 560,000	\$ 560,000	\$ 560,000
	Retained Earnings	\$ (165,978)	\$ (339,311)	\$ 95,562	\$ 804,356	\$ 1,989,849
	<b>Total Shareholders' Equity</b>	<b>\$ 194,022</b>	<b>\$ 220,689</b>	<b>\$ 655,562</b>	<b>\$ 1,364,356</b>	<b>\$ 2,549,849</b>
	<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>\$ 194,022</b>	<b>\$ 220,689</b>	<b>\$ 655,562</b>	<b>\$ 1,364,356</b>	<b>\$ 2,549,849</b>

## APPENDIX N:

### PRO FORMA INCOME STATEMENT (LOW DEMAND)

		Year 1	Year 2	Year 3	Year 4	Year 5
NET SALES		\$ 292,500.00	\$ 1,417,500.00	\$ 3,915,000.00	\$ 7,155,000.00	\$ 10,395,000.00
COST OF SALES						
	Labor	\$ 68,825.25	\$ 333,537.75	\$ 921,199.50	\$ 1,683,571.50	\$ 2,445,943.50
TOTAL COST OF SALES		\$ 68,825.25	\$ 333,537.75	\$ 921,199.50	\$ 1,683,571.50	\$ 2,445,943.50
GROSS MARGIN		\$ 223,674.75	\$ 1,083,962.25	\$ 2,993,800.50	\$ 5,471,428.50	\$ 7,949,056.50
OPERATING EXPENSES						
	Salaries and wages	\$ -	\$ 223,992.00	\$ 367,980.00	\$ 559,968.00	\$ 559,968.00
	Payroll taxes	\$ -	\$ 17,135.39	\$ 28,150.47	\$ 42,837.55	\$ 42,837.55
	Employee benefits	\$ -	\$ 22,399.20	\$ 36,798.00	\$ 55,996.80	\$ 55,996.80
	Depreciation	\$ 5,879.76	\$ 13,245.24	\$ 14,004.76	\$ 22,392.86	\$ 29,167.86
	Bad debt expense	\$ 2,925.00	\$ 14,175.00	\$ 39,150.00	\$ 71,550.00	\$ 103,950.00
	Additional Operating Expenses	\$ 380,848.00	\$ 966,348.00	\$ 2,010,348.00	\$ 3,546,348.00	\$ 5,196,348.00
TOTAL OPERATING EXPENSES		\$ 389,652.76	\$ 1,257,294.83	\$ 2,496,431.23	\$ 4,299,093.21	\$ 5,988,268.21
OPERATING PROFIT (LOSS)						
	BEFORE INTEREST AND TAXES	\$ (165,978.01)	\$ (173,332.58)	\$ 497,369.27	\$ 1,172,335.29	\$ 1,960,788.29
INTEREST EXPENSE		\$ -	\$ -	\$ -	\$ -	\$ -
PROFIT (LOSS) BEFORE TAXES		\$ (165,978.01)	\$ (173,332.58)	\$ 497,369.27	\$ 1,172,335.29	\$ 1,960,788.29
INCOME TAXES		\$ -	\$ -	\$ (62,496.40)	\$ (463,541.37)	\$ (775,295.69)
NET PROFIT (LOSS)		\$ (165,978.01)	\$ (173,332.58)	\$ 434,872.87	\$ 708,793.92	\$ 1,185,492.60
EBITDA		\$ (160,098.25)	\$ (160,087.34)	\$ 511,374.03	\$ 1,194,728.15	\$ 1,989,956.15

## APPENDIX O:

### PRO FORMA STATEMENT OF CASH FLOW (LOW DEMAND)

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>CASH FLOWS FROM OPERATIONS</b>					
Net income	\$ (165,978.01)	\$ (173,332.58)	\$ 434,872.87	\$ 708,793.92	\$ 1,185,492.60
Depreciation	\$ 5,879.76	\$ 13,245.24	\$ 14,004.76	\$ 22,392.86	\$ 29,167.86
Accounts receivable	\$ (30,071.25)	\$ (91,327.50)	\$ (183,768.75)	\$ (187,110.00)	\$ (187,110.00)
<b>TOTAL CASH FLOWS FROM OPERATIONS</b>	<b>\$ (190,169.50)</b>	<b>\$ (251,414.84)</b>	<b>\$ 265,108.88</b>	<b>\$ 544,076.77</b>	<b>\$ 1,027,550.46</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of equipment	\$ (61,000.00)	\$ (13,000.00)	\$ (51,000.00)	\$ (14,000.00)	\$ (59,000.00)
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>\$ (61,000.00)</b>	<b>\$ (13,000.00)</b>	<b>\$ (51,000.00)</b>	<b>\$ (14,000.00)</b>	<b>\$ (59,000.00)</b>
<b>CASH FLOW BEFORE FINANCING</b>	<b>\$ (251,169.50)</b>	<b>\$ (264,414.84)</b>	<b>\$ 214,108.88</b>	<b>\$ 530,076.77</b>	<b>\$ 968,550.46</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>CASH FLOW BEFORE EQUITY FINANCING</b>	<b>\$ (251,169.50)</b>	<b>\$ (264,414.84)</b>	<b>\$ 214,108.88</b>	<b>\$ 530,076.77</b>	<b>\$ 968,550.46</b>
Sales of Stock	\$ 360,000.00	\$ 200,000.00	\$ -	\$ -	\$ -
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>\$ 360,000.00</b>	<b>\$ 200,000.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>NET CASH FLOWS</b>	<b>\$ 108,830.50</b>	<b>\$ (64,414.84)</b>	<b>\$ 214,108.88</b>	<b>\$ 530,076.77</b>	<b>\$ 968,550.46</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>\$ -</b>	<b>\$ 108,830.50</b>	<b>\$ 44,415.66</b>	<b>\$ 258,524.54</b>	<b>\$ 788,601.31</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 108,830.50</b>	<b>\$ 44,415.66</b>	<b>\$ 258,524.54</b>	<b>\$ 788,601.31</b>	<b>\$ 1,757,151.77</b>

## APPENDIX P

### PRO FORMA BALANCE SHEET (HIGH DEMAND)

			Year 1	Year 2	Year 3	Year 4	Year 5
<b>ASSETS</b>							
	Current Assets						
	Cash		\$ 277,852.25	\$ 637,438.99	\$ 2,319,997.40	\$ 5,927,730.72	\$ 11,452,322.57
	Accounts Receivable		\$ 60,142.50	\$ 242,797.50	\$ 610,335.00	\$ 984,555.00	\$ 1,358,775.00
	Total Current Assets		\$ 337,994.75	\$ 880,236.49	\$ 2,930,332.40	\$ 6,912,285.72	\$ 12,811,097.57
	Property and Equipment		\$ 61,000.00	\$ 74,000.00	\$ 125,000.00	\$ 139,000.00	\$ 198,000.00
	(less accumulated depreciation)		\$ (5,879.76)	\$ (19,125.00)	\$ (33,129.76)	\$ (55,522.62)	\$ (84,690.48)
	Net Property and Equipment		\$ 55,120.24	\$ 54,875.00	\$ 91,870.24	\$ 83,477.38	\$ 113,309.52
	<b>TOTAL ASSETS</b>		\$ 393,114.99	\$ 935,111.49	\$ 3,022,202.64	\$ 6,995,763.10	\$ 12,924,407.09
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>							
	Total Liabilities		\$ -	\$ -	\$ -	\$ -	\$ -
	Shareholders' Equity						
	Paid-In Capital		\$ 360,000.00	\$ 360,000.00	\$ 360,000.00	\$ 360,000.00	\$ 360,000.00
	Retained Earnings		\$ 33,114.99	\$ 575,111.49	\$ 2,662,202.64	\$ 6,635,763.10	\$ 12,564,407.09
	Total Shareholders' Equity		\$ 393,114.99	\$ 935,111.49	\$ 3,022,202.64	\$ 6,995,763.10	\$ 12,924,407.09
	<b>TOTAL LIABILITIES AND SHAREHLDER'S EQUITY</b>		\$ 393,114.99	\$ 935,111.49	\$ 3,022,202.64	\$ 6,995,763.10	\$ 12,924,407.09

## APPENDIX Q:

### PRO FORMA STATEMENT OF INCOME (HIGH DEMAND)

	Year 1	Year 2	Year 3	Year 4	Year 5
NET SALES	\$ 585,000.00	\$ 2,835,000.00	\$ 7,830,000.00	\$ 14,310,000.00	\$ 20,790,000.00
COST OF SALES					
Labor	\$ 137,650.50	\$ 667,075.50	\$ 1,842,399.00	\$ 3,367,143.00	\$ 4,891,887.00
TOTAL COST OF SALES	\$ 137,650.50	\$ 667,075.50	\$ 1,842,399.00	\$ 3,367,143.00	\$ 4,891,887.00
GROSS MARGIN	\$ 447,349.50	\$ 2,167,924.50	\$ 5,987,601.00	\$ 10,942,857.00	\$ 15,898,113.00
OPERATING EXPENSES					
Salaries and wages	\$ -	\$ 223,992.00	\$ 367,980.00	\$ 559,968.00	\$ 559,968.00
Payroll taxes	\$ -	\$ 17,135.39	\$ 28,150.47	\$ 42,837.55	\$ 42,837.55
Employee benefits	\$ -	\$ 22,399.20	\$ 36,798.00	\$ 55,996.80	\$ 55,996.80
Depreciation	\$ 5,879.76	\$ 13,245.24	\$ 14,004.76	\$ 22,392.86	\$ 29,167.86
Bad debt expense	\$ 5,850.00	\$ 28,350.00	\$ 78,300.00	\$ 143,100.00	\$ 207,900.00
Additional Operating Expenses	\$ 380,848.00	\$ 966,348.00	\$ 2,010,348.00	\$ 3,546,348.00	\$ 5,196,348.00
TOTAL OPERATING EXPENSES	\$ 392,577.76	\$ 1,271,469.83	\$ 2,535,581.23	\$ 4,370,643.21	\$ 6,092,218.21
OPERATING PROFIT (LOSS)					
BEFORE INTEREST AND TAXES	\$ 54,771.74	\$ 896,454.67	\$ 3,452,019.77	\$ 6,572,213.79	\$ 9,805,894.79
INTEREST EXPENSE	\$ -	\$ -	\$ -	\$ -	\$ -
PROFIT (LOSS) BEFORE TAXES	\$ 54,771.74	\$ 896,454.67	\$ 3,452,019.77	\$ 6,572,213.79	\$ 9,805,894.79
INCOME TAXES	\$ (21,656.75)	\$ (354,458.18)	\$ (1,364,928.62)	\$ (2,598,653.33)	\$ (3,877,250.80)
NET PROFIT (LOSS)	\$ 33,114.99	\$ 541,996.50	\$ 2,087,091.15	\$ 3,973,560.46	\$ 5,928,643.99
EBITDA	\$ 60,651.50	\$ 909,699.91	\$ 3,466,024.53	\$ 6,594,606.65	\$ 9,835,062.65

## APPENDIX R

### PRO FORMA STATEMENT OF CASH FLOW (HIGH DEMAND)

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>CASH FLOWS FROM OPERATIONS</b>					
Net income	\$ 33,114.99	\$ 541,996.50	\$ 2,087,091.15	\$ 3,973,560.46	\$ 5,928,643.99
Depreciation	\$ 5,879.76	\$ 13,245.24	\$ 14,004.76	\$ 22,392.86	\$ 29,167.86
Accounts receivable	\$ (60,142.50)	\$ (182,655.00)	\$ (367,537.50)	\$ (374,220.00)	\$ (374,220.00)
<b>TOTAL CASH FLOWS FROM OPERATIONS</b>	<b>\$ (21,147.75)</b>	<b>\$ 372,586.73</b>	<b>\$ 1,733,558.41</b>	<b>\$ 3,621,733.32</b>	<b>\$ 5,583,591.85</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of equipment	\$ (61,000.00)	\$ (13,000.00)	\$ (51,000.00)	\$ (14,000.00)	\$ (59,000.00)
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>\$ (61,000.00)</b>	<b>\$ (13,000.00)</b>	<b>\$ (51,000.00)</b>	<b>\$ (14,000.00)</b>	<b>\$ (59,000.00)</b>
<b>CASH FLOW BEFORE FINANCING</b>	<b>\$ (82,147.75)</b>	<b>\$ 359,586.73</b>	<b>\$ 1,682,558.41</b>	<b>\$ 3,607,733.32</b>	<b>\$ 5,524,591.85</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>CASH FLOW BEFORE EQUITY FINANCING</b>	<b>\$ (82,147.75)</b>	<b>\$ 359,586.73</b>	<b>\$ 1,682,558.41</b>	<b>\$ 3,607,733.32</b>	<b>\$ 5,524,591.85</b>
Sales of Stock	\$360,000.00	\$ -	\$ -	\$ -	\$ -
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>\$360,000.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>NET CASH FLOWS</b>	<b>\$277,852.25</b>	<b>\$ 359,586.73</b>	<b>\$ 1,682,558.41</b>	<b>\$ 3,607,733.32</b>	<b>\$ 5,524,591.85</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>\$ -</b>	<b>\$ 277,852.25</b>	<b>\$ 637,438.99</b>	<b>\$ 2,319,997.40</b>	<b>\$ 5,927,730.72</b>
<b>CASH, END OF PERIOD</b>	<b>\$277,852.25</b>	<b>\$ 637,438.99</b>	<b>\$ 2,319,997.40</b>	<b>\$ 5,927,730.72</b>	<b>\$ 11,452,322.57</b>

## APPENDIX S

### YEAR 1 MONTHLY STATEMENTS OF CASH FLOWS

	Month	1	2	3	4	5	6	7	8	9	10	11	12
<b>CASH FLOWS FROM OPERATIONS</b>													
Net income		\$ (52,812)	\$ (9,130)	\$ (4,913)	\$ (696)	\$ 3,521	\$ 6,238	\$ 8,955	\$ 9,671	\$ 7,388	\$ 5,105	\$ 3,822	\$ 4,039
Adjustments to reconcile net income to cash flows from operations													
Depreciation		\$ -	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535
Changes in certain assets and liabilities													
Accounts receivable		\$ (2,784)	\$ (4,022)	\$ (4,331)	\$ (4,331)	\$ (4,331)	\$ (4,331)	\$ (4,331)	\$ (4,331)	\$ (4,331)	\$ (4,331)	\$ (4,331)	\$ (4,331)
Inventory		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other current assets		\$ (321)	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29	\$ 29
Accounts payable		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other current payables		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pre-existing debt		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL CASH FLOWS FROM OPERATIONS</b>		\$ (55,917)	\$ (12,588)	\$ (8,680)	\$ (4,464)	\$ (247)	\$ 2,470	\$ 5,187	\$ 5,904	\$ 3,621	\$ 1,338	\$ 55	\$ 271
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>													
Purchase of equipment		\$ (36,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (25,000)
Other Assets		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>		\$ (36,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (25,000)
<b>CASH FLOW BEFORE FINANCING</b>													
		\$ (91,917)	\$ (12,588)	\$ (8,680)	\$ (4,464)	\$ (247)	\$ 2,470	\$ 5,187	\$ 5,904	\$ 3,621	\$ 1,338	\$ 55	\$ (24,729)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>													
Borrowing of long-term debt		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Repayment of long-term debt		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>CASH FLOW BEFORE EQUITY FINANCING</b>													
		\$ (91,917)	\$ (12,588)	\$ (8,680)	\$ (4,464)	\$ (247)	\$ 2,470	\$ 5,187	\$ 5,904	\$ 3,621	\$ 1,338	\$ 55	\$ (24,729)
Sales of Stock		\$ 360,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Repurchase of Stock		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>		\$ 360,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>NET CASH FLOWS</b>		\$ 268,083	\$ (12,588)	\$ (8,680)	\$ (4,464)	\$ (247)	\$ 2,470	\$ 5,187	\$ 5,904	\$ 3,621	\$ 1,338	\$ 55	\$ (24,729)
<b>CASH, BEGINNING OF PERIOD</b>		\$ -	\$ 268,083	\$ 255,495	\$ 246,814	\$ 242,351	\$ 242,104	\$ 244,574	\$ 249,761	\$ 255,665	\$ 259,286	\$ 260,624	\$ 260,678
<b>CASH, END OF PERIOD</b>		\$ 268,083	\$ 255,495	\$ 246,814	\$ 242,351	\$ 242,104	\$ 244,574	\$ 249,761	\$ 255,665	\$ 259,286	\$ 260,624	\$ 260,678	\$ 235,950

## APPENDIX T

### YEAR 1 MONTHLY STATEMENT OF INCOME

	Month	1	2	3	4	5	6	7	8	9	10	11	12
<b>SALES</b>													
Gross Sales		\$ 6,250	\$ 12,500	\$ 18,750	\$ 25,000	\$ 31,250	\$ 37,500	\$ 43,750	\$ 50,000	\$ 56,250	\$ 62,500	\$ 68,750	\$ 75,000
Returns and Allowances		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>NET SALES</b>		\$ 6,250	\$ 12,500	\$ 18,750	\$ 25,000	\$ 31,250	\$ 37,500	\$ 43,750	\$ 50,000	\$ 56,250	\$ 62,500	\$ 68,750	\$ 75,000
<b>COST OF SALES</b>													
Materials		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Labor		\$ 1,471	\$ 2,941	\$ 4,412	\$ 5,883	\$ 7,353	\$ 8,824	\$ 10,294	\$ 11,765	\$ 13,236	\$ 14,706	\$ 16,177	\$ 17,648
Taxes and Benefits		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL COST OF SALES</b>		\$ 1,471	\$ 2,941	\$ 4,412	\$ 5,883	\$ 7,353	\$ 8,824	\$ 10,294	\$ 11,765	\$ 13,236	\$ 14,706	\$ 16,177	\$ 17,648
<b>GROSS MARGIN</b>		\$ 4,779	\$ 9,559	\$ 14,338	\$ 19,118	\$ 23,897	\$ 28,676	\$ 33,456	\$ 38,235	\$ 43,014	\$ 47,794	\$ 52,573	\$ 57,353
<b>OPERATING EXPENSES</b>													
Salaries and wages		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll taxes		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employee benefits		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation		\$ -	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535	\$ 535
Bad debt expense		\$ 63	\$ 125	\$ 188	\$ 250	\$ 313	\$ 375	\$ 438	\$ 500	\$ 563	\$ 625	\$ 688	\$ 750
0		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
0		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
0		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
0		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
0		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additional Operating Expenses		\$ 57,529	\$ 18,029	\$ 18,529	\$ 19,029	\$ 19,529	\$ 21,529	\$ 23,529	\$ 27,529	\$ 34,529	\$ 41,529	\$ 47,529	\$ 52,029
<b>TOTAL OPERATING EXPENSES</b>		\$ 57,592	\$ 18,689	\$ 19,251	\$ 19,814	\$ 20,376	\$ 22,439	\$ 24,501	\$ 28,564	\$ 35,626	\$ 42,689	\$ 48,751	\$ 53,314
<b>OPERATING PROFIT (LOSS)</b>													
BEFORE INTEREST AND TAXES		\$ (52,812)	\$ (9,130)	\$ (4,913)	\$ (696)	\$ 3,521	\$ 6,238	\$ 8,955	\$ 9,671	\$ 7,388	\$ 5,105	\$ 3,822	\$ 4,039
<b>INTEREST EXPENSE</b>													
		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>PROFIT (LOSS) BEFORE TAXES</b>		\$ (52,812)	\$ (9,130)	\$ (4,913)	\$ (696)	\$ 3,521	\$ 6,238	\$ 8,955	\$ 9,671	\$ 7,388	\$ 5,105	\$ 3,822	\$ 4,039
<b>INCOME TAXES</b>													
		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>NET PROFIT (LOSS)</b>		\$ (52,812)	\$ (9,130)	\$ (4,913)	\$ (696)	\$ 3,521	\$ 6,238	\$ 8,955	\$ 9,671	\$ 7,388	\$ 5,105	\$ 3,822	\$ 4,039
<b>EBITDA</b>													
		\$ (52,812)	\$ (8,595)	\$ (4,378)	\$ (162)	\$ 4,055	\$ 6,772	\$ 9,489	\$ 10,206	\$ 7,923	\$ 5,640	\$ 4,357	\$ 4,574

## APPENDIX U

### YEAR 1 MONTHLY BALANCE SHEET

	Month	1	2	3	4	5	6	7	8	9	10	11	12
<b>ASSETS</b>													
<b>Current Assets</b>													
Cash		\$ 268,083	\$ 255,495	\$ 246,814	\$ 242,351	\$ 242,104	\$ 244,574	\$ 249,761	\$ 255,665	\$ 259,286	\$ 260,624	\$ 260,678	\$ 235,950
Accounts Receivable		\$ 2,784	\$ 6,806	\$ 11,138	\$ 15,469	\$ 19,800	\$ 24,131	\$ 28,463	\$ 32,794	\$ 37,125	\$ 41,456	\$ 45,788	\$ 50,119
Inventory		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other		\$ 321	\$ 292	\$ 263	\$ 233	\$ 204	\$ 175	\$ 146	\$ 117	\$ 88	\$ 58	\$ 29	\$ (0)
<b>Total Current Assets</b>		<b>\$ 271,188</b>	<b>\$ 262,593</b>	<b>\$ 258,214</b>	<b>\$ 258,053</b>	<b>\$ 262,108</b>	<b>\$ 268,880</b>	<b>\$ 278,370</b>	<b>\$ 288,576</b>	<b>\$ 296,498</b>	<b>\$ 302,138</b>	<b>\$ 306,495</b>	<b>\$ 286,068</b>
<b>Property and Equipment</b>													
Property and Equipment		\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 61,000
(less accumulated de		\$ -	\$ (535)	\$ (1,069)	\$ (1,604)	\$ (2,138)	\$ (2,673)	\$ (3,207)	\$ (3,742)	\$ (4,276)	\$ (4,811)	\$ (5,345)	\$ (5,880)
<b>Net Property and Equipment</b>		<b>\$ 36,000</b>	<b>\$ 35,465</b>	<b>\$ 34,931</b>	<b>\$ 34,396</b>	<b>\$ 33,862</b>	<b>\$ 33,327</b>	<b>\$ 32,793</b>	<b>\$ 32,258</b>	<b>\$ 31,724</b>	<b>\$ 31,189</b>	<b>\$ 30,655</b>	<b>\$ 55,120</b>
<b>Other Assets</b>													
Other Assets		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL ASSETS</b>		<b>\$ 307,188</b>	<b>\$ 298,058</b>	<b>\$ 293,145</b>	<b>\$ 292,449</b>	<b>\$ 295,970</b>	<b>\$ 302,208</b>	<b>\$ 311,162</b>	<b>\$ 320,834</b>	<b>\$ 328,222</b>	<b>\$ 333,327</b>	<b>\$ 337,150</b>	<b>\$ 341,188</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>													
<b>Liabilities</b>													
<b>Current Liabilities</b>													
Accounts Payable		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Current Liabilities		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pre-Existing Liabilities		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current Portion of Long-Term Debt		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Current Liabilities</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Long-Term Debt</b>													
Long-Term Debt		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Liabilities</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Shareholders' Equity</b>													
Paid-In Capital		\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000
Retained Earnings		\$ (52,812)	\$ (61,942)	\$ (66,855)	\$ (67,551)	\$ (64,030)	\$ (57,792)	\$ (48,838)	\$ (39,166)	\$ (31,778)	\$ (26,673)	\$ (22,850)	\$ (18,812)
Less: Treasury Stock		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Shareholders' Equity</b>		<b>\$ 307,188</b>	<b>\$ 298,058</b>	<b>\$ 293,145</b>	<b>\$ 292,449</b>	<b>\$ 295,970</b>	<b>\$ 302,208</b>	<b>\$ 311,162</b>	<b>\$ 320,834</b>	<b>\$ 328,222</b>	<b>\$ 333,327</b>	<b>\$ 337,150</b>	<b>\$ 341,188</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>													
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 307,188</b>	<b>\$ 298,058</b>	<b>\$ 293,145</b>	<b>\$ 292,449</b>	<b>\$ 295,970</b>	<b>\$ 302,208</b>	<b>\$ 311,162</b>	<b>\$ 320,834</b>	<b>\$ 328,222</b>	<b>\$ 333,327</b>	<b>\$ 337,150</b>	<b>\$ 341,188</b>

## APPENDIX V

### YEAR 2-5 QUARTERLY BALANCE SHEET

	Year 2					% Assets	Year 3					% Assets
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1		Qtr 2	Qtr 3	Qtr 4			
<b>ASSETS</b>												
<b>Current Assets</b>												
Cash	\$ 129,234	\$ 125,073	\$ 221,268	\$ 417,819	61.90%	\$ 457,005	\$ 668,683	\$ 1,054,072	\$ 1,566,173	72.29%		
Accounts Receivable	\$ 85,388	\$ 124,369	\$ 163,350	\$ 202,331	29.97%	\$ 274,725	\$ 352,688	\$ 430,650	\$ 508,613	23.47%		
Inventory	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	0.00%		
Other	\$ 263	\$ 175	\$ 87	\$ (0)	0.00%	\$ 263	\$ 175	\$ 87	\$ (0)	0.00%		
<b>Total Current Assets</b>	\$ 214,884	\$ 249,617	\$ 384,706	\$ 620,150	91.87%	\$ 731,992	\$ 1,021,545	\$ 1,484,810	\$ 2,074,786	95.76%		
<b>Property and Equipment</b>	\$ 74,000	\$ 74,000	\$ 74,000	\$ 74,000	10.96%	\$ 78,000	\$ 78,000	\$ 78,000	\$ 125,000	5.77%		
(less accumulated depreciation)	\$ (9,032)	\$ (12,396)	\$ (15,761)	\$ (19,125)	-2.83%	\$ (22,585)	\$ (26,115)	\$ (29,623)	\$ (33,130)	-1.53%		
<b>Net Property and Equipment</b>	\$ 64,968	\$ 61,604	\$ 58,239	\$ 54,875	8.13%	\$ 55,415	\$ 51,885	\$ 48,377	\$ 91,870	4.24%		
<b>Other Assets</b>	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	0.00%		
<b>TOTAL ASSETS</b>	\$ 279,852	\$ 311,221	\$ 442,945	\$ 675,025	100.00%	\$ 787,408	\$ 1,073,430	\$ 1,533,187	\$ 2,166,656	100.00%		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>												
<b>Total Liabilities</b>	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	0.00%		
<b>Shareholders' Equity</b>												
Paid-In Capital	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000	53.33%	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000	16.62%		
Retained Earnings	\$ (80,148)	\$ (48,779)	\$ 82,945	\$ 315,025	46.67%	\$ 427,408	\$ 713,430	\$ 1,173,187	\$ 1,806,656	83.38%		
Less: Treasury Stock	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -			
<b>Total Shareholders' Equity</b>	\$ 279,852	\$ 311,221	\$ 442,945	\$ 675,025	100.00%	\$ 787,408	\$ 1,073,430	\$ 1,533,187	\$ 2,166,656	100.00%		
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	\$ 279,852	\$ 311,221	\$ 442,945	\$ 675,025	100.00%	\$ 787,408	\$ 1,073,430	\$ 1,533,187	\$ 2,166,656	100.00%		

	Year 4					% Assets	Year 5					% Assets
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1		Qtr 2	Qtr 3	Qtr 4			
<b>ASSETS</b>												
<b>Current Assets</b>												
Cash	\$ 1,954,306	\$ 2,516,500	\$ 3,252,405	\$ 4,148,021	82.11%	\$ 4,878,419	\$ 5,807,879	\$ 6,911,050	\$ 8,153,932	86.75%		
Accounts Receivable	\$ 586,575	\$ 664,538	\$ 742,500	\$ 820,463	16.24%	\$ 898,425	\$ 976,388	\$ 1,054,350	\$ 1,132,313	12.05%		
Inventory	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	0.00%		
Other	\$ 263	\$ 175	\$ 87	\$ (0)	0.00%	\$ 263	\$ 175	\$ 87	\$ (0)	0.00%		
<b>Total Current Assets</b>	\$ 2,541,143	\$ 3,181,212	\$ 3,994,992	\$ 4,968,483	98.35%	\$ 5,777,107	\$ 6,784,442	\$ 7,965,488	\$ 9,286,245	98.79%		
<b>Property and Equipment</b>	\$ 125,000	\$ 125,000	\$ 125,000	\$ 139,000	2.75%	\$ 164,000	\$ 164,000	\$ 164,000	\$ 198,000	2.11%		
(less accumulated depreciation)	\$ (38,719)	\$ (44,344)	\$ (49,933)	\$ (55,523)	-1.10%	\$ (62,533)	\$ (69,919)	\$ (77,305)	\$ (84,690)	-0.90%		
<b>Net Property and Equipment</b>	\$ 86,281	\$ 80,656	\$ 75,067	\$ 83,477	1.65%	\$ 101,467	\$ 94,081	\$ 86,695	\$ 113,310	1.21%		
<b>Other Assets</b>	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	0.00%		
<b>TOTAL ASSETS</b>	\$ 2,627,424	\$ 3,261,868	\$ 4,070,059	\$ 5,051,961	100.00%	\$ 5,878,574	\$ 6,878,523	\$ 8,052,183	\$ 9,399,554	100.00%		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>												
<b>Total Liabilities</b>	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	0.00%		
<b>Shareholders' Equity</b>												
Paid-In Capital	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000	7.13%	\$ 360,000	\$ 360,000	\$ 360,000	\$ 360,000	3.83%		
Retained Earnings	\$ 2,267,424	\$ 2,901,868	\$ 3,710,059	\$ 4,691,961	92.87%	\$ 5,518,574	\$ 6,518,523	\$ 7,692,183	\$ 9,039,554	96.17%		
Less: Treasury Stock	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -			
<b>Total Shareholders' Equity</b>	\$ 2,627,424	\$ 3,261,868	\$ 4,070,059	\$ 5,051,961	100.00%	\$ 5,878,574	\$ 6,878,523	\$ 8,052,183	\$ 9,399,554	100.00%		
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	\$ 2,627,424	\$ 3,261,868	\$ 4,070,059	\$ 5,051,961	100.00%	\$ 5,878,574	\$ 6,878,523	\$ 8,052,183	\$ 9,399,554	100.00%		

## APPENDIX W

### YEAR 2-5 QUARTERLY INCOME STATEMENT

	Year 2					Total	% Sales	Year 3					Total	% Sales
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1			Qtr 2	Qtr 3	Qtr 4				
NET SALES	\$ 337,500	\$ 506,250	\$ 675,000	\$ 843,750	\$ 2,362,500	100.00%	\$ 1,125,000	\$ 1,462,500	\$ 1,800,000	\$ 2,137,500	\$ 6,525,000	100.00%		
COST OF SALES														
Labor	\$ 79,414	\$ 119,121	\$ 158,828	\$ 198,534	\$ 555,896	23.53%	\$ 264,713	\$ 344,126	\$ 423,540	\$ 502,954	\$ 1,535,333	23.53%		
TOTAL COST OF SALES	\$ 79,414	\$ 119,121	\$ 158,828	\$ 198,534	\$ 555,896	23.53%	\$ 264,713	\$ 344,126	\$ 423,540	\$ 502,954	\$ 1,535,333	23.53%		
GROSS MARGIN	\$ 258,086	\$ 387,129	\$ 516,173	\$ 645,216	\$ 1,806,604	76.47%	\$ 860,288	\$ 1,118,374	\$ 1,376,460	\$ 1,634,546	\$ 4,989,668	76.47%		
OPERATING EXPENSES														
Salaries and wages	\$ 55,998	\$ 55,998	\$ 55,998	\$ 55,998	\$ 223,992	9.48%	\$ 91,995	\$ 91,995	\$ 91,995	\$ 91,995	\$ 367,980	5.64%		
Payroll taxes	\$ 4,284	\$ 4,284	\$ 4,284	\$ 4,284	\$ 17,135	0.73%	\$ 7,038	\$ 7,038	\$ 7,038	\$ 7,038	\$ 28,150	0.43%		
Employee benefits	\$ 5,600	\$ 5,600	\$ 5,600	\$ 5,600	\$ 22,399	0.95%	\$ 9,200	\$ 9,200	\$ 9,200	\$ 9,200	\$ 36,798	0.56%		
Depreciation	\$ 3,152	\$ 3,364	\$ 3,364	\$ 3,364	\$ 13,245	0.56%	\$ 3,460	\$ 3,531	\$ 3,507	\$ 3,507	\$ 14,005	0.21%		
Bad debt expense	\$ 3,375	\$ 5,063	\$ 6,750	\$ 8,438	\$ 23,625	1.00%	\$ 11,250	\$ 14,625	\$ 18,000	\$ 21,375	\$ 65,250	1.00%		
Additional Operating Expenses	\$ 201,087	\$ 228,087	\$ 255,087	\$ 282,087	\$ 966,348	40.90%	\$ 381,087	\$ 462,087	\$ 543,087	\$ 624,087	\$ 2,010,348	30.81%		
TOTAL OPERATING EXPENSES	\$ 273,496	\$ 302,395	\$ 331,083	\$ 359,770	\$ 1,266,745	53.62%	\$ 504,029	\$ 588,475	\$ 672,826	\$ 757,201	\$ 2,522,531	38.66%		
OPERATING PROFIT (LOSS)														
BEFORE INTEREST AND TAXES	\$ (15,410)	\$ 84,734	\$ 185,090	\$ 285,445	\$ 539,859	22.85%	\$ 356,259	\$ 529,899	\$ 703,634	\$ 877,345	\$ 2,467,136	37.81%		
INTEREST EXPENSE	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%		
PROFIT (LOSS) BEFORE TAXES	\$ (15,410)	\$ 84,734	\$ 185,090	\$ 285,445	\$ 539,859	22.85%	\$ 356,259	\$ 529,899	\$ 703,634	\$ 877,345	\$ 2,467,136	37.81%		
INCOME TAXES	\$ (45,927)	\$ (53,365)	\$ (53,365)	\$ (53,365)	\$ (206,022)	-8.72%	\$ (243,876)	\$ (243,876)	\$ (243,876)	\$ (243,876)	\$ (975,506)	-14.95%		
NET PROFIT (LOSS)	\$ (61,337)	\$ 31,369	\$ 131,725	\$ 232,080	\$ 333,837	14.13%	\$ 112,382	\$ 286,022	\$ 459,757	\$ 633,469	\$ 1,491,631	22.86%		

	Year 4					Total	% Sales	Year 5					Total
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1			Qtr 2	Qtr 3	Qtr 4			
NET SALES	\$ 2,475,000	\$ 2,812,500	\$ 3,150,000	\$ 3,487,500	\$ 11,925,000	100.00%	\$ 3,825,000	\$ 4,162,500	\$ 4,500,000	\$ 4,837,500	\$ 17,325,000		
COST OF SALES													
Labor	\$ 582,368	\$ 661,781	\$ 741,195	\$ 820,609	\$ 2,805,953	23.53%	\$ 900,023	\$ 979,436	\$ 1,058,850	\$ 1,138,264	\$ 4,076,572.5		
TOTAL COST OF SALES	\$ 582,368	\$ 661,781	\$ 741,195	\$ 820,609	\$ 2,805,953	23.53%	\$ 900,023	\$ 979,436	\$ 1,058,850	\$ 1,138,264	\$ 4,076,572.5		
GROSS MARGIN	\$ 1,892,633	\$ 2,150,719	\$ 2,408,805	\$ 2,666,891	\$ 9,119,048	76.47%	\$ 2,924,978	\$ 3,183,064	\$ 3,441,150	\$ 3,699,236	\$ 13,248,427.5		
OPERATING EXPENSES													
Salaries and wages	\$ 139,992	\$ 139,992	\$ 139,992	\$ 139,992	\$ 559,968	4.70%	\$ 139,992	\$ 139,992	\$ 139,992	\$ 139,992	\$ 559,968		
Payroll taxes	\$ 10,709	\$ 10,709	\$ 10,709	\$ 10,709	\$ 42,838	0.36%	\$ 10,709	\$ 10,709	\$ 10,709	\$ 10,709	\$ 42,837.552		
Employee benefits	\$ 13,999	\$ 13,999	\$ 13,999	\$ 13,999	\$ 55,997	0.47%	\$ 13,999	\$ 13,999	\$ 13,999	\$ 13,999	\$ 55,997		
Depreciation	\$ 5,589	\$ 5,625	\$ 5,589	\$ 5,589	\$ 22,393	0.19%	\$ 7,011	\$ 7,386	\$ 7,386	\$ 7,386	\$ 29,168		
Bad debt expense	\$ 24,750	\$ 28,125	\$ 31,500	\$ 34,875	\$ 119,250	1.00%	\$ 38,250	\$ 41,625	\$ 45,000	\$ 48,375	\$ 173,250		
Additional Operating Expenses	\$ 765,087	\$ 846,087	\$ 927,087	\$ 1,008,087	\$ 3,546,348	29.74%	\$ 1,177,587	\$ 1,258,587	\$ 1,339,587	\$ 1,420,587	\$ 5,196,348		
TOTAL OPERATING EXPENSES	\$ 960,127	\$ 1,044,538	\$ 1,128,877	\$ 1,213,252	\$ 4,346,793	36.45%	\$ 1,387,548	\$ 1,472,298	\$ 1,556,673	\$ 1,641,048	\$ 6,057,568		
OPERATING PROFIT (LOSS)													
BEFORE INTEREST AND TAXES	\$ 932,506	\$ 1,106,181	\$ 1,279,928	\$ 1,453,639	\$ 4,772,254	40.02%	\$ 1,537,429	\$ 1,710,765	\$ 1,884,477	\$ 2,058,188	\$ 7,190,859		
INTEREST EXPENSE	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -		
PROFIT (LOSS) BEFORE TAXES	\$ 932,506	\$ 1,106,181	\$ 1,279,928	\$ 1,453,639	\$ 4,772,254	40.02%	\$ 1,537,429	\$ 1,710,765	\$ 1,884,477	\$ 2,058,188	\$ 7,190,859		
INCOME TAXES	\$ (471,737)	\$ (471,737)	\$ (471,737)	\$ (471,737)	\$ (1,886,949)	-15.82%	\$ (710,816)	\$ (710,816)	\$ (710,816)	\$ (710,816)	\$ (2,843,266)		
NET PROFIT (LOSS)	\$ 460,768	\$ 634,444	\$ 808,191	\$ 981,902	\$ 2,885,305	24.20%	\$ 826,613	\$ 999,949	\$ 1,173,660	\$ 1,347,372	\$ 4,347,593		

## APPENDIX X

### YEAR 2-5 QUARTERLY STATEMENT OF CASH FLOW

	Year 2					Year 3					
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	
<b>CASH FLOWS FROM OPERATIONS</b>											
Net income	\$ (61,337)	\$ 31,369	\$ 131,725	\$ 232,080	\$ 333,837	\$ 112,382	\$ 286,022	\$ 459,757	\$ 633,469	\$ 1,491,631	
Adjustments to reconcile net income to cash flows from operations											
Depreciation	\$ 3,152	\$ 3,364	\$ 3,364	\$ 3,364	\$ 13,245	\$ 3,460	\$ 3,531	\$ 3,507	\$ 3,507	\$ 14,005	
Accounts receivable	\$ (35,269)	\$ (38,981)	\$ (38,981)	\$ (38,981)	\$ (152,213)	\$ (72,394)	\$ (77,963)	\$ (77,963)	\$ (77,963)	\$ (306,281)	
Inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Other current assets	\$ (263)	\$ 88	\$ 88	\$ 88	\$ -	\$ (263)	\$ 88	\$ 88	\$ 88	\$ -	
<b>TOTAL CASH FLOWS FROM OPERATIONS</b>	\$ (93,716)	\$ (4,161)	\$ 96,195	\$ 196,551	\$ 194,870	\$ 43,186	\$ 211,678	\$ 385,389	\$ 559,101	\$ 1,199,354	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>											
Purchase of equipment	\$ (13,000)	\$ -	\$ -	\$ -	\$ (13,000)	\$ (4,000)	\$ -	\$ -	\$ (47,000)	\$ (51,000)	
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	\$ (13,000)	\$ -	\$ -	\$ -	\$ (13,000)	\$ (4,000)	\$ -	\$ -	\$ (47,000)	\$ (51,000)	
<b>CASH FLOW BEFORE FINANCING</b>	\$ (106,716)	\$ (4,161)	\$ 96,195	\$ 196,551	\$ 181,870	\$ 39,186	\$ 211,678	\$ 385,389	\$ 512,101	\$ 1,148,354	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>											
<b>CASH FLOW BEFORE EQUITY FINANCING</b>	\$ (106,716)	\$ (4,161)	\$ 96,195	\$ 196,551	\$ 181,870	\$ 39,186	\$ 211,678	\$ 385,389	\$ 512,101	\$ 1,148,354	
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>NET CASH FLOWS</b>	\$ (106,716)	\$ (4,161)	\$ 96,195	\$ 196,551	\$ 181,870	\$ 39,186	\$ 211,678	\$ 385,389	\$ 512,101	\$ 1,148,354	
<b>CASH, BEGINNING OF PERIOD</b>	\$ 235,950	\$ 129,234	\$ 125,073	\$ 221,268	\$ 235,950	\$ 417,819	\$ 457,005	\$ 668,683	\$ 1,054,072	\$ 417,819	
<b>CASH, END OF PERIOD</b>	\$ 129,234	\$ 125,073	\$ 221,268	\$ 417,819	\$ 417,819	\$ 457,005	\$ 668,683	\$ 1,054,072	\$ 1,566,173	\$ 1,566,173	

	Year 4					Year 5				
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
<b>CASH FLOWS FROM OPERATIONS</b>										
Net income	\$ 460,768	\$ 634,444	\$ 808,191	\$ 981,902	\$ 2,885,305	\$ 826,613	\$ 999,949	\$ 1,173,660	\$ 1,347,372	\$ 4,347,594
Adjustments to reconcile net income to cash flows from operations										
Depreciation	\$ 5,589	\$ 5,625	\$ 5,589	\$ 5,589	\$ 22,393	\$ 7,011	\$ 7,386	\$ 7,386	\$ 7,386	\$ 29,168
Accounts receivable	\$ (77,963)	\$ (77,963)	\$ (77,963)	\$ (77,963)	\$ (311,850)	\$ (77,963)	\$ (77,963)	\$ (77,963)	\$ (77,963)	\$ (311,850)
Inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other current assets	\$ (263)	\$ 88	\$ 88	\$ 88	\$ -	\$ (263)	\$ 88	\$ 88	\$ 88	\$ -
<b>TOTAL CASH FLOWS FROM OPERATIONS</b>	\$ 388,133	\$ 562,194	\$ 735,905	\$ 909,616	\$ 2,595,848	\$ 755,398	\$ 929,460	\$ 1,103,171	\$ 1,276,882	\$ 4,064,911
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>										
Purchase of equipment	\$ -	\$ -	\$ -	\$ (14,000)	\$ (14,000)	\$ (25,000)	\$ -	\$ -	\$ (34,000)	\$ (59,000)
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	\$ -	\$ -	\$ -	\$ (14,000)	\$ (14,000)	\$ (25,000)	\$ -	\$ -	\$ (34,000)	\$ (59,000)
<b>CASH FLOW BEFORE FINANCING</b>	\$ 388,133	\$ 562,194	\$ 735,905	\$ 895,616	\$ 2,581,848	\$ 730,398	\$ 929,460	\$ 1,103,171	\$ 1,242,882	\$ 4,005,911
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>										
<b>CASH FLOW BEFORE EQUITY FINANCING</b>	\$ 388,133	\$ 562,194	\$ 735,905	\$ 895,616	\$ 2,581,848	\$ 730,398	\$ 929,460	\$ 1,103,171	\$ 1,242,882	\$ 4,005,911
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>NET CASH FLOWS</b>	\$ 388,133	\$ 562,194	\$ 735,905	\$ 895,616	\$ 2,581,848	\$ 730,398	\$ 929,460	\$ 1,103,171	\$ 1,242,882	\$ 4,005,911
<b>CASH, BEGINNING OF PERIOD</b>	\$ 1,566,173	\$ 1,954,306	\$ 2,516,500	\$ 3,252,405	\$ 1,566,173	\$ 4,148,021	\$ 4,878,419	\$ 5,807,879	\$ 6,911,050	\$ 4,148,021
<b>CASH, END OF PERIOD</b>	\$ 1,954,306	\$ 2,516,500	\$ 3,252,405	\$ 4,148,021	\$ 4,148,021	\$ 4,878,419	\$ 5,807,879	\$ 6,911,050	\$ 8,153,932	\$ 8,153,932



## Appendix Z: Marketing Budget

Marketing Budget Per Month	
Kind/Place	Cost
Neighborhood Associations	500
Billboards	1,930
Search Engine Optimization	1,200
Search Engine Ad Words	1,000
Campus Representatives	50
Flyers	1,000
Banners	1,000
Posters	1,000
Bus Advertisements/Rotary Bulletins (Every Other Mo	2,000
Customized Giveaways	300
Sponsorships of High School and Community Events	300
Web advertisements on Social Medium	300
Miscellaneous	
	10,580
<b>Total</b>	
Sources: Google Adwords, <a href="http://www.clearchanneloutdoor.com">www.clearchanneloutdoor.com</a>	



**HeardAround:  
Alternative Valuation**

Graven Prest

Alternative Valuation Addendum

May 5, 2010

## **HeardAround Venture**

HeardAround is a free, online news source that emphasizes providing ultra-local news and stimulating civic discussion in communities. HeardAround's scope is national and is a one-stop shop for ultra-local, local, regional, and national news. HeardAround aggregates news from three distinct sources: its own contracted local journalists, its own users, and RSS feeds from other news websites. HeardAround builds its news content from the ultra-local level up to the national level. All national stories will originate and be written at the community level. Community level stories that begin to gain wider attention and appeal will be bumped up the geographic-scope ladder. This will ensure that all of HeardAround's content will have an insider's perspective and give a glimpse of how the community surrounding the story feels. HeardAround offers a forum for community issues to be read about, discussed, and brought to the attention of a potentially national audience. The key value proposition of this venture is providing ultra-local news content that truly affects the everyday lives of its community users.

## **Primary Benefit**

The primary alternative value created by HeardAround is a social benefit: increased community involvement. HeardAround's focus on ultra-local news and civic discussion will help foster this increase in participation. The most direct way HeardAround will do this is through the employment of user-generated content and an online forum for community members to directly engage in discussion about community issues.

HeardAround users are able to log-on and post their own news stories—possibly about a community service event, local high school play, or upcoming town hall meeting. Other community members will be able to read about these stories that may simply have too narrow of a geographic

appeal to be covered in the city-wide newspaper or on the local news. Users will also be able to upload reminders and dates of upcoming events to the community calendar.

HeardAround will also have a community forum aimed at stimulating civic discussion. Users will be able to post and weigh-in on the topics directly affecting their neighborhoods. The forum will be monitored by HeardAround's team of professional editors, and its purpose is to shed light on issues in the community. HeardAround will help create more aware, informed, and involved communities through these forums.

This venture has not launched in any communities yet, so concrete estimation of the social benefit is not feasible. Upon launch, HeardAround will focus on several specific measures to actually quantify the increase in community involvement. HeardAround will use surveys to collect primary data concerning the measures, and various other sources (i.e. government records) to collect secondary data. Data collected before actual launch will be compared to data collected at specified time periods following HeardAround's entry into the community to quantify the change in community involvement.

Initial data collection will focus on the level of community involvement before HeardAround's entry into the market. Survey questions could include the following:

- How often do you read the neighborhood newsletter or equivalent?
- How often do you discuss local politics with fellow community members?
- How often do you participate in neighborhood/cultural events?
- How often do you attend local high school sporting events?
- How often do you attend local high school concerts, recitals, plays, etc.?

The survey should contain other questions as well, but the key is to examine the community members' involvement across all aspects of life that are community oriented.

HeardAround will distribute similar surveys following entry into the communities. The first survey will take place six months after entry with the next follow-up occurring after one year of being in the market. Subsequent follow-up surveys will be taken yearly or more often as needed. The results from these surveys when compared to the pre-entry survey will give concrete quantification of the increase in community involvement across many measures.

To supplement the surveys HeardAround will examine secondary data as well. Neighborhood newsletters circulation numbers before HeardAround's entry will be compared to the number of HeardAround's website visitors. Participation percentages in municipal elections will also be examined over time. Attendance figures for high school and community events before and after HeardAround's entry will also be a key measure of community involvement.

### **Ancillary Benefits**

The primary benefit of increased community involvement will produce many different ancillary benefits, but the overriding theme is that increased community involvement leads to improved communities. It is only natural that people actively participating in and taking pride in their communities will enhance those very same communities. "Improving a community" may seem like a hard benefit to quantify, but HeardAround will quantify this benefit by examining increases in housing values. Nicer communities have higher real estate values. This measure will allow HeardAround to quantify this alternative benefit with an actual dollar value.

Many, smaller ancillary benefits will contribute to the biggest ancillary benefit of improving the community. Reduction of the crime rate is one of the most visible of these smaller contributing benefits. Other smaller contributing factors could include cleaner neighborhoods, better elected officials via more informed voters, etc. There are literally hundreds of contributing ancillary benefits, but this paper will focus on the reduction of crime rates and the subsequent effects on housing prices.

There are many ways in which HeardAround will help lower crime rates in the communities it enters. HeardAround is focused on building more cohesive communities—communities in which the members are concerned about each other and look out for one another. Neighborhood cohesion is one of top qualities of safer neighborhoods, according to Harvard University researchers (National Crime Prevention Council & Bureau of Justice Assistance, 2007). Programs like Neighborhood Watch need cohesive communities to thrive. HeardAround will help build this much needed cohesion through its promotion of community events and civic discussion.

Another way HeardAround will help reduce the crime rate is through the promotion of community service events such as neighborhood clean-ups. According to the National Crime Prevention Council, “cleaning up public areas can result in lower crime rates” (National Crime Prevention Council, n.d.). The logic behind this idea is that cleaner parks, houses, and open lots are more inviting to community members. With more community members using public areas such as parks, opportunity to commit crimes away from watchful eyes is minimized.

As discussed earlier, the ancillary benefit of lower crime rates is one of the contributing factors to “improving communities” which will be measured with increases in housing prices. There have been many studies on the effect of crime rates on housing prices and nearly all of them indicate that the two are negatively correlated (Campbell, 2007). Lower crime rates lead to higher housing prices. Any decrease in the crime rate as a result of HeardAround increasing community involvement will have a direct positive effect on the wealth of the community members. Following initial launch, HeardAround will monitor crime rate and housing price changes to ensure that it is delivering the proper alternative value to its customers.

## **Trade-Offs**

The trade-off benefits for HeardAround are essentially the flip side of the primary and ancillary benefits previously discussed. A decrease in community cohesion is the most likely of the potential trade-offs. HeardAround will provide a forum for civic discussion that will hopefully be positive, but there are no guarantees. Community members will potentially have a new platform to complain about neighbors, spread untrue rumors, and start arguments. This could mean a less cohesive community which is the exact opposite of what HeardAround is striving for. The measures for this trade-off are exactly the same as the positive benefits only in the opposite direction.

HeardAround will minimize these negative trade-offs as best as possible. HeardAround will employ a team of professional editors to monitor all user-generated content and posts to ensure any potentially harmful content is edited or removed right away. HeardAround will also stress that fact that the website is not a forum for personal attacks or arguments—strictly constructive civic discussion.

## **Benchmarks**

HeardAround's industrial benchmarks will be local newspapers and neighborhood association newsletters. HeardAround will compare itself to these industrial benchmarks using the benefits and quantifications discussed earlier. The most direct way to do this will be to simply compare the increase in housing prices in HeardAround communities to communities that are only served by newspapers or neighborhood newsletters. Any additional increase in housing values in HeardAround communities compared to non-HeardAround communities will be the additional alternative value created by HeardAround over its industrial benchmarks.

Ultra-local news websites NewsVine.com and EveryBlock.com will serve as the technology benchmarks for HeardAround. HeardAround will be compared to these two websites in the exact same way in which HeardAround was compared to its industrial benchmarks. NewsVine and EveryBlock enter

communities much in the same way HeardAround does. It will not be too difficult to compare the increases in housing values in NewsVine or EveryBlock communities versus HeardAround communities.

### **Product Diffusion Curve**

HeardAround will initially enter only the Tucson community. EveryBlock has not entered the Tucson market, and NewsVine is not very active in the Tucson market as of yet. There is a high degree of leadership and innovation in this first market. The Tucson community will fit into the innovator category of the product diffusion curve. The second community that HeardAround will enter is the Phoenix market. Again EveryBlock and NewsVine haven't penetrated this market, but because Phoenix and Tucson are so interconnected the Phoenix community fits into the early adapter category of the diffusion curve. Over the next five years, HeardAround will enter markets such as Seattle, San Francisco, and Dallas. These are some of the markets that EveryBlock and NewsVine have already entered (EveryBlock, n.d. & NewsVine, n.d.). These markets will fit into the early majority or late majority categories. Long-term market entries will be classified as the late majority or laggards.

### **Summary**

HeardAround is an innovative, new type of ultra-local news website. It will provide customers with many alternative benefits. HeardAround will outperform its industrial benchmarks (newspapers and neighborhood newsletters) and its technology benchmarks (NewsVine and EveryBlock) in delivering the maximum alternative value to its users and minimizing the negative trade-offs. The alternative value of improving communities is best measured by comparing increases in housing prices of HeardAround communities versus non-HeardAround communities. All of the social benefits created by HeardAround will actually manifest in the form of real increases of wealth in the communities. This real alternative value, as well as the original value proposition, will make HeardAround an important asset to all of the communities it enters.

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