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\_\_\_\_\_  
Date

\_\_\_\_\_  
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*This is a business plan and does not imply an offering of securities.*

# Infrared Measuring Technologies

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## Table of Contents

---

<b>1. Executive Summary</b>	<b>1</b>
Business Opportunity	
Products/Services Description	
Current Business Position	
Financial Potential	
The Request	
<hr/>	
<b>2. Company Background</b>	<b>4</b>
Business Description	
Company History	
Current Position and Business Objectives	
Ownership	
<hr/>	
<b>3. Products</b>	<b>6</b>
Product Overview	
Competitive Analysis	
Suppliers and Inventory	
Research and Development	
<hr/>	
<b>4. Services</b>	<b>8</b>
Service Descriptions	
Competitive Comparison	
Service Delivery	
Research and Development	
<hr/>	
<b>5. The Industry, Competition and Market</b>	<b>10</b>
Industry Definition	
Primary Competitors	
Market Size	
Market Growth	
Customer Profile	
<hr/>	
<b>6. Marketing Plan</b>	<b>14</b>
Competitive Advantage	
Pricing	
Distribution Channels	
Promotional Plan	
Feedback	
<hr/>	
<b>7. Operating Plan</b>	<b>17</b>
Location	

Facility  
Operating Equipment  
Suppliers and Vendors  
Personnel Plan  
General Operations

---

**8. Management, Organization and Ownership** **20**

Management/Principals  
Organizational Structure  
Professional Consultants  
Ownership and Boards

---

**9. Goals and Strategies** **22**

Business Goals  
Keys to Success  
Future Plans

---

**10. Financial Assumptions** **24**

Beginning Balance Sheet  
Profit & Loss  
Balance Sheet  
Cash Plan

---

**11. Appendix** **31**

Beginning Balance Sheet  
Profit & Loss (Years 1, 2, 3)  
Balance Sheet (Years 1, 2, 3)  
Cash Plan (Years 1, 2, 3)  
Product Brochure  
Customer Testimonials

## **1. Executive Summary**

Infrared Measuring Technologies, Inc. is ready to begin manufacturing and marketing an exciting new product targeted to the custom-fitted clothing industry. This market has been growing in the last several years, and the company's new electronic scanning product will provide retailers and customers alike a quick and easy way to measure customers for fitted clothing. The company is in its start-up phase, but has already contracted 25 percent of its first year's projected sales.

### **1.1 Business Opportunity**

Infrared Measuring Technologies (IMT) manufactures and distributes a portable scanner that analyzes and records body measurements for custom-fitted clothing. Several main-line clothing manufacturers, such as Levi Straus, have started to offer "made-to-order" clothing through traditional retailers. Upscale clothing manufacturers have been offering custom-fitted clothing for many years.

The "SmartScanner" allows a retailer to accurately take a customer's measurements electronically and transmit them immediately to the manufacturer. This saves up to 90 percent of the time normally taken to record measurements, freeing the salesperson to serve other customers. In addition, it saves the customer time and entices the retailers to push higher margin custom clothes. The custom-fitted clothing market has grown from 0.05 percent of the U.S. retail clothing market to 0.10 percent in the last two years. This 200 percent increase translates into a \$100 million market for custom-fitted clothing manufacturers in 1998 and a terrific opportunity for IMT's product, the SmartScanner.

### **1.2 Products/Services Description**

The SmartScanner is a hand-held, electronic, scanning device that utilizes an infrared beam to record a customer's clothing measurement information onto an integrated chip. The salesperson scans the customer in three positions. For optimal results, the scanner should be used in a fitting room with a bare white wall as a backdrop. The scanning process takes only two minutes compared to an industry standard of twenty minutes for hand measurement. IMT assembles the device at its plant in Michigan, relying on two principal vendors for the chip and the infrared system. The company is targeting upscale clothing retailers as the market for its first product. The scan is 100 percent accurate, eliminating measuring errors made by hand, and ensures customer satisfaction with the custom clothing. The company also plans to offer a maintenance agreement on the SmartScanner, which guarantees its operation for as long as the maintenance agreement is in effect.

### **1.3 Current Business Position**

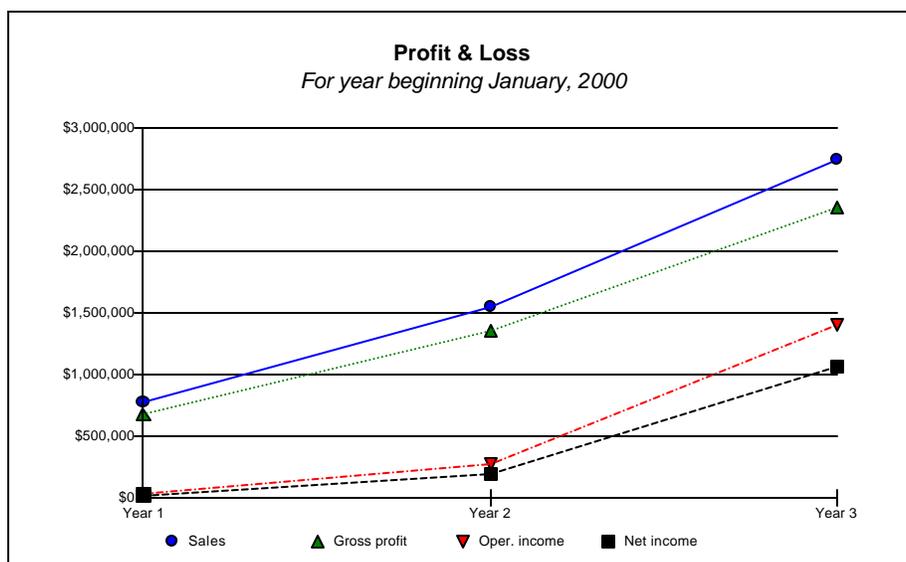
Jack Ball, a twenty-year veteran of the retail clothing industry, and Bill Jackson, an engineer and seven-year veteran of the integrated chip industry, founded IMT as a C Corporation in Michigan in 1997. It was capitalized with \$150,000 in cash from the two founders. The funds were used primarily for research and development of the SmartScanner. Fifty prototypes have been made and were tested for six months in Neiman Marcus retail stores across the U.S., an arrangement secured by Mr. Ball. The scanner received positive responses from customers,

salespersons, and management.

The fifty prototype scanners were manufactured, assembled, and delivered to IMT at a unit cost of \$200. Neiman Marcus paid \$500 rent per unit for the test period. With the test proving successful, the company has agreed to purchase the prototype scanners for an additional \$500 per unit. Unit costs are expected to drop from \$200 to \$100 after production is scaled up, and a final selling price of \$750 is anticipated. Neiman Marcus has signed an order to purchase an additional 250 units in the next year. Sales efforts are currently underway with six major upscale department stores in the U.S. and Canada.

#### 1.4 Financial Potential

IMT expects to generate \$775,000 in revenues in year one, based on the sale of approximately 1,000 scanners and 200 maintenance agreements. Sales are expected to double in year two. Net income before taxes and interest is projected to be \$25,000 in year one and \$267,000 in year two. The company expects to introduce a second-generation scanner, to be named the "ValueScanner," in year three that will sell for \$500 and target lower-end department and apparel stores as the principal market. Year three revenue projections are about \$2.8 million in sales with a net income before interest and taxes of almost \$1.4 million.



#### 1.5 The Request

IMT principals are willing to invest an additional \$100,000 and are seeking funding of \$100,000 from an equity partner. Such an equity partner would enjoy minority ownership, and IMT is willing to negotiate terms for a stock repurchase guarantee at the end of five years.

These funds will be used for rent (\$50,000), to upgrade space for operations (\$25,000), secure packaging and assembly equipment (\$30,000), and provide funds for IMT's initial marketing effort (\$95,000).

At the beginning of year two, IMT will require an operating loan of \$100,000 to help cover research and development expenses for the ValueScanner. IMT plans to secure this amount as standard debt. Expected terms are a three-year loan at a 10 percent annual interest rate.

## 2. Company Background

The founders of the IMT have many years of experience in the retail clothing and electronics industries. Jack Ball's retail clothing experience provided the environment that led to his realization that consumers desire a way to make purchasing custom-fitted clothing quick and easy. Bill Jackson's electronics experience enabled them to make a device that can meet this need and exploit a previously unmet customer demand and market. With positive feedback from several retailers, the founders decided to move forward with the concept. The two left their former places of employment and started working on their concept in 1996.

### 2.1 Business Description

IMT is a C Corporation registered in Michigan that manufactures and markets scanners for taking and recording body measurements. As an added service, IMT offers its customers maintenance agreements that guarantee replacement of defective units. The scanning devices will be marketed to clothing retailers, primarily upscale department stores initially. The initial target market is the U.S. with future plans to expand into Canada. Currently no other technologies exist that address this market, and IMT's only competition is the old, cumbersome hand method of taking measurements.

### 2.2 Company History

Although the principals began full-time development work on the product in 1996, IMT's structure was not formalized until the following year. Both principals live in Michigan and established a C Corporation in that state in 1997. The company has completed the necessary registration with the State of Michigan and with the IRS to enter full-scale operations.

Jack Ball had the original concept for the scanner in 1996. He identified the need for such a device by calling on clothing retail accounts for his former employer, Levi Straus, where he served as national sales account manager for several years. After collecting anecdotal information on the need for such a product, he left his employer in May 1996 to devote his efforts to developing the concept. Before concentrating his full-time effort on the product, Mr. Ball consulted with his neighbor, Bill Jackson. Mr. Jackson was an engineer for Acme Merchandising Systems (AMS) at the time, a company that manufactures computer chips among other products. Mr. Jackson helped Mr. Ball by identifying the electronics that would be required for the device and possible vendors who could provide such items. In September 1996, Mr. Jackson left AMS and began working full-time on the project.

A successful prototype had been made by the end of 1997. Throughout the months of product development, the two founders put little capital into the business and drew no personal salaries. The decision was made to move forward with testing the product and the corporation was formed in late 1997. Mr. Ball and Mr. Jackson invested a total of \$150,000 at that time to fund the manufacturing of fifty prototypes, which could be tested under actual retail conditions. By the beginning of 1998, the prototypes were ready and a lease arrangement had been negotiated to test the scanners at several Neiman Marcus locations throughout the Midwest.

### **2.3 Current Position and Business Objectives**

Currently, the company has completed the test phase of the scanners at the Neiman Marcus sites. IMT received revenues of \$25,000 from Neiman Marcus for leasing the scanners during the test phase, and has secured a commitment from them to pay an additional \$25,000 to keep and use the scanners. This revenue, together with the founders' investment, have been able to cash flow the operations up to this point. Research and development of the SmartScanner is complete, testing has been extremely favorable, vendors for components are secured, and the product is ready to be manufactured. IMT has moved to the start-up phase of its operations.

IMT's mission statement follows:

*"The goal of Infrared Measuring Technologies is to become the leader in the manufacturing and marketing of electronic measuring devices for custom clothing retailers. We will constantly strive to satisfy our customers' needs and conduct our business in a manner to produce financial returns that encourage and reward our shareholders."*

In the first several years, IMT will accomplish this mission with body-measurement scanner products. The company expects to grow to almost \$2.8 million in annual sales revenues in its third year of operation. This will be achieved through the offering of two different scanner products and a maintenance agreement.

### **2.4 Ownership**

The principals, Jack Ball and Bill Jackson, are the sole stockholders in the company. The company currently has no debt. A banking relationship has been established with the First Bank of Michigan.

### 3. Products

"The hand-held SmartScanner is the greatest thing to hit the custom-clothing market in the last twenty years. The product saves our salespeople time and makes it quick and easy for customers to purchase higher margin custom clothing." This quote is from Mary Smith, Custom Clothing Manager for Neiman Marcus, who tested the SmartScanner for six months in her store. IMT has received similar comments from other test participants. Additional customer testimonials are included in the appendix.

#### 3.1 Product Overview

The SmartScanner appears as a plastic box, 6" wide, 4" high, and 12" deep. The 6" by 4" front of the device is clear, allowing an infrared beam to scan the area in front of the device. The operating parts of the scanner are basically the infrared beam, a power supply, and a microchip to analyze and record data. The device requires only one operator, usually a customer service representative or salesperson. In order to use the device, the customer stands before a white wall in three positions, i.e., facing front, sideways, and back. The scanner is moved from the head to the foot of the customer in each of the three positions. It is held at least two feet from the customer, so there is no physical contact. The device detects the difference between the white background and the contours of the customer, thereby determining body measurements.

The SmartScanner can measure a person in just a couple of minutes rather than the twenty or more minutes required by a conventional tailor or salesperson. Both the customer and the company save time. The information is encoded in the device and may be immediately transmitted to the manufacturer for slotting in the next manufacturing run of the clothing item. Ultimately, the customer receives the custom-fitted clothing he or she has ordered, quickly and without the usual hassle. Each SmartScanner unit will be priced at \$750.

*Below is a photograph of a customer being measured with a tape measure:*



### **3.2 Competitive Analysis**

Currently, no direct competition exists for the SmartScanner. Up until now, a tailor or salesperson had to take the customer's measurements with a tape measure. For a modest investment, a retailer can save around eighteen minutes of employee time on each customer fitting. Competition from off-the-shelf, "sized" clothing is a consideration; however, retailers have other incentives to drive customers to purchasing custom clothing. Custom-fitted clothing usually delivers a higher margin, little or no money is invested in inventory, and display space is opened for other goods. With the SmartScanner, the retailer will satisfy customers' needs and desires, and, at the same time, achieve higher custom clothing sales and greater profits.

### **3.3 Suppliers and Inventory**

The two major items incorporated into the product are the infrared system and the integrated board that includes the computer chip. Smith Co. procures the chip, manufactures the board, and provides the harness for the infrared system according to IMT's specifications. Jones Co. supplies the infrared scanning device to specifications that allow integration with the board. Both of these companies are located in Michigan and have solid track records. Mr. Jackson worked with both companies in his previous position and developed a strong working relationship with them. IMT has a contract with both Smith Co. and Jones Co. that guarantees a fixed number of units to be purchased in a given year; however, these companies only ship and bill on demand. This allows for minimum cash investment in inventory. Lead-time to assemble the scanners is minimal, and sales orders are secured before assembling the product.

IMT receives its plastic casings from a local plastics company, Kelly, Inc. All of the major assemblies are shipped to IMT's facility where they are assembled into the finished unit, packaged, and shipped.

### **3.4 Research and Development**

The initial scanner, the SmartScanner, is being targeted to upscale department stores. The scanner is priced at a premium, which allows IMT to maximize its gross margin. Beginning in year two, a second-generation scanner will be researched and developed. The work will be performed by IMT's current suppliers and their development teams.

This new ValueScanner will take advantage of feedback from the initial product and any economies of scale discovered in the manufacturing process. It is expected to sell for \$500 per unit and have a 25 percent lower production cost than the SmartScanner. This product will expand the target market as further explained in the marketing plan section.

## **4. Services**

The SmartScanner is a unique instrument with no similar products used in the apparel industry. As such, there may be reluctance on the part of the retailers to purchase the SmartScanner without a maintenance agreement. The company has tested the prototypes and has experienced a zero failure rate to date. Yet, to foster customer confidence and satisfaction, IMT will be offering a maintenance agreement that will give retailers the assurance they desire and bring additional revenues into the business.

### **4.1 Service Descriptions**

IMT will offer its customers an optional unlimited maintenance agreement that guarantees the scanner will satisfactorily operate or be replaced at no charge. IMT will charge an annual fee of \$125 for this service. This pricing follows the industry standard for an annual maintenance agreement of 18 percent of the item's purchase price.

The standard warranty on the SmartScanner is ninety days. IMT expects that none of the units will actually fail; however, if the unit should fail and it is covered by a maintenance agreement, IMT will replace the product.

### **4.2 Competitive Comparison**

No direct competitive products exist on the market today similar to the SmartScanner. Other electronics companies that target clothing retailers offer maintenance agreements so customers are familiar and accustomed to purchasing such add-ons. These companies include those selling cash registers, time and attendance systems, and general office equipment. This familiarity in the industry may foster customer interest in purchasing a maintenance agreement for the SmartScanner.

### **4.3 Service Delivery**

In order to service the SmartScanner units, the customer will contact the IMT service center via a toll-free number. The IMT representative will ensure the unit is either covered under warranty or a maintenance agreement. If covered, the customer will identify the serial number on the failed scanner, IMT will authorize its return, and a new scanner will be sent to the customer immediately. IMT expects that no customer will go longer than two days from reporting a problem to receiving a replacement scanner. If the unit is not covered by either warranty or maintenance agreement, the retailer is charged for repairs made to the SmartScanner unit and runs the risk of not having a functioning unit until the repairs have been made. The IMT service center is located in the assembly plant.

### **4.4 Research and Development**

IMT is planning to research and develop a second-generation scanner, the ValueScanner, in year two. The maintenance agreement will be used as a quality control tool and to measure customer satisfaction. It will be a residual profit center for IMT. The failure rate of the SmartScanner will be tracked and used to determine warranty policy. Also, if the SmartScanner maintenance agreement program is successful, IMT will offer a comparable maintenance

agreement to ValueScanner owners.

## **5. The Industry, Competition and Market**

The economic boom of the late 1990's was strongly driven by consumer spending. Part of this boom has been felt in the apparel industry, and with rising incomes, it is expected to continue. Sales of custom-fit clothing are increasing, and the SmartScanner can help retailers capitalize on this high-profit market. The following sections discuss the opportunities for the scanner in light of no competition and growing consumer demand for custom clothing.

### **5.1 Industry Definition**

IMT's core products will be electronic measuring devices. Although the industry for such instruments is diverse and filled with competitors, the company will not compete in this arena. The true industry that is relevant to IMT is the retail consumer apparel industry. This industry encompasses clothing stores (North American Industry Classification System [NAICS] #4481), and department stores (NAICS #452110). There are other classifications for apparel outlets, e.g., on the Internet, but these are not viable markets for IMT's products which requires customer contact.

Technological advances are creating the opportunity for clothing manufacturers to manufacture and provide apparel in custom sizes on a short-notice basis. Clothing retailers and department stores are taking advantage of this to sell higher-profit, custom-fitted clothing to customers. According to the U.S. Department of Commerce, sales of custom-fit clothing have increased from 0.05 percent of the U.S. clothing market to 0.10 percent in the last two years -- an increase of 200 percent. Johnson & Co., a market research firm specializing in retail clothing stores, projects that U.S. custom-fit apparel sales will increase an average of 20 percent each year over the next five years. With such projected growth, retailers in the industry stand to benefit from utilizing IMT's products.

### **5.2 Primary Competitors**

The SmartScanner has no direct competitors. Historically, custom clothing measurements have been taken with a tape measure by a salesperson. For catalog and online clothiers, the consumer takes his or her own measurements. Since the SmartScanner is being targeted to upscale department stores, catalog and websites sales are only indirect competitors to our target market, not to the scanner itself.



Another area of indirect competition is the sale of "ready-to-wear" apparel. This has been the standard in the industry for long time. People go to stores and buy clothes off the rack. However, the resurgence of custom-fit clothing is a relatively recent phenomenon, and the SmartScanner only helps foster its growth by making fittings faster, easier, and more accurate.

Given its indirect competition, there are several advantages for retail stores to utilize the SmartScanner. First, the time saved in measuring the customer for custom-fit clothing is significant. Salespersons easily save on average eighteen minutes per customer by using the scanner instead of the standard measuring technique. Second, since the device is easy to operate and accurate, there is no need for the retailers to have tailors take the measurements, another personnel savings. Third, the sale of custom-fit clothing offers a greater profit margin for retailers than "ready-to-wear" clothing, requires no inventory investment, takes little or no display space, and appears to satisfy today's customers.

### **5.3 Market Size**

According to American Business Information, there are over 30,000 department stores in the U.S. today. These range from upscale stores like Neiman Marcus and Bloomingdale's to more value-driven clothiers like Marshall's and Mervyn's. In addition to department stores,

American Business Information states there are 200,000 apparel and accessory stores in the U.S. Of these, 17,477 are men's clothing stores and 47,850 are women's clothing stores.

The number of department and apparel stores has been relatively stagnant over the last ten years. New stores are being opened constantly in new shopping areas, but stores in lower-traffic locations are being closed. The upsurge in catalog offerings, and more importantly Internet sites, is also limiting the growth of additional department and apparel stores.

Of the entire department store market, we estimated that 50 percent, or 15,000 stores, would be a suitable market for the SmartScanner. The remaining 15,000 department stores, plus the over 65,000 men's and women's clothing stores, would be an appropriate target market for our less expensive, second-generation ValueScanner to be released in IMT's third year of operation.

Each department store has the potential to purchase multiple SmartScanner units. On average, it is estimated that each store could utilize at least two or three SmartScanner units. With 15,000 target department stores, we estimate the total market for the SmartScanner to be between 30,000 and 45,000 units or between \$22 million and \$34 million. Of course, this does not include the additional residual revenue generated from the sale of maintenance agreements. The upscale segment of the department store market is the initial and primary market.

At the beginning of year two, IMT plans on developing a lower-end scanner unit for the other 15,000 department stores and 65,000 apparel stores. Similar to the upscale department stores, IMT expects to sell each of these department stores two or three units, and probably only one unit to the men's and women's apparel stores. Assuming complete penetration, this comprises a market of between 95,000 and 110,000 units. At an estimated selling price of \$500, this market is worth between \$47 million and \$55 million. In addition, a maintenance agreement will be offered to these customers to provide IMT with residual income. The specifics of this maintenance agreement will be determined on the success of the SmartScanner maintenance agreement.

#### **5.4 Market Growth**

Although the number of department stores has been static over the last several years, the potential market for the SmartScanner is growing. Sales of custom-fitted clothing have doubled in the last two years. Retail apparel analysts expect this trend to continue at a slower pace of approximately 20 percent per year over the next five years. Each person who purchases custom-fit clothing has to have his or her size measured. The SmartScanner is the quickest and easiest way to have these measurements taken.

#### **5.5 Customer Profile**

The purchasers of the SmartScanner are the upscale department stores that offer custom-fitted clothing. Neiman Marcus has tested fifty scanners, purchased all of them after the successful test period, and placed an order for 250 additional scanners. Department stores that carry

more expensive apparel lines are realizing the increasing customer demand and profit potential of custom-fitted clothing. IMT's plan is to target these stores through personal selling.

## **6. Marketing Plan**

IMT's relationship with Neiman Marcus is the cornerstone of its marketing plan. The willingness of this premier, upscale retailer to test the SmartScanner in its stores, the encouraging results of those tests from both the customers and the sales representatives, and finally the order for 250 additional scanners, is an incredible endorsement. IMT believes efforts to market the scanner to other department stores will be more easily accepted with a prominent retailer like Neiman Marcus already committed to using the technology.

### **6.1 Competitive Advantage**

Two key benefits will be highlighted in the marketing effort. First, the growth in customer demand for custom-fitted clothing will be presented to the target market. The fact that profit margins are greater in the custom-clothing line is a fact already realized by IMT's target market. Most of the target retailers are already offering custom-fitted clothing, but only to customers asking for such goods. Little in the way of marketing is being done to promote this area of the retail clothing business.

Second, specific advantages of the SmartScanner will be communicated to the target market. Its speed and ease-of-use in taking customer measurements is unparalleled by any manual process. The scanner takes an average of eighteen minutes less than a salesperson with a tape measure. Thus, it saves both the customer and the salesperson time. Additionally, it is simple to learn how to operate the scanner, plus the results are 100 percent accurate versus measuring by hand.

### **6.2 Pricing**

The SmartScanner has no competitive products against which to make price comparisons. The comparative factors are the amount of time saved by salespersons in taking custom-fit measurements and the accuracy of the measurements. The scanner has been priced with the goal of maximizing profits for IMT while still offering solid value to the market. The initial price for the SmartScanner is set at \$750 per unit. The operation of the unit requires only a standard wall-outlet power supply and a white background against which the customer being fitted stands. Consequently, there are no real barriers for the retailer to overcome to implement use of the scanner.

The value of the SmartScanner comes to the retailer in several ways. The more orders taken for custom-fitted clothes, the more measurements a salesperson will need to take. The more the SmartScanner is used, the greater the amount of time saved for the salesperson to use for other activities. The accuracy of the device is also a selling point for the store to use with its clientele.

The total unit cost to IMT for each SmartScanner is \$100. This leaves a solid margin for marketing costs, operating expenses, and research and development. The company expects to provide on-site training seminar to each company that purchases the SmartScanner. The scanner is easy to use, and once several sales representatives are trained in one company, they may competently train others. In addition, a complete user's manual will accompany each unit shipped.

### **6.3 Distribution Channels**

IMT will market the SmartScanner through its own marketing representatives. The key to this effort will be the connections made by Mr. Ball in his 20 years of retail merchandising industry experience. Mr. Ball will identify and contact the initial target customers. No other distributors will be used at this time to facilitate sales. IMT's sales goal in year one is 1,000 units, and a contract is already in hand for one-fourth of the goal. There is no need at this time for manufacturers' representatives or distributors with the connections IMT currently has directly to its target markets.

Mr. Ball expects to handle the sales effort during the first six months. In the second half of the year, the company expects to add a full-time marketing person to service existing customers and to work with Mr. Ball to acquire new retailers. In year two, two additional marketing persons will be added to prepare for the arrival of the ValueScanner in year three. The ValueScanner will be targeted to more value-driven department stores and apparel retailers. The marketing plan is yet to be completed for this product introduction. It is anticipated that fewer personal contacts will be made into these markets and greater efforts will be made through other promotional venues and direct marketing efforts.

### **6.4 Promotional Plan**

The initial promotion will be handled directly by Mr. Ball. In addition to Neiman Marcus, Mr. Ball has direct contact with six other major upscale department stores. Mr. Ball is already contacting key decision makers in these target stores. The first year's unit sales goal of 1,000 units is likely to be met early in the year. Delivery of the units will be spread out to ensure that production can meet schedules with quality control mechanisms in place and allow Mr. Ball to personally perform on-site training seminars.

The promotional plan includes budget items for communications, primarily telephone. A small amount is budgeted for printing brochures, which will show the SmartScanner's use and report its test results. A large part of IMT's year one promotional budget will be spent on travel. Mr. Ball and the new marketing person will travel extensively to meet with potential clients and to train new purchasers in the use of the SmartScanner.

In year two, a web site will be developed, anticipating the introduction of the ValueScanner and its broader target market. In addition, display and classified advertisements will be placed in trade magazines towards the end of the year two to help with the product launch.

The total budget for promotional expenses, including travel, in year one is \$114,000. The budget for year two is set at \$188,500, which includes design and operation of the website. The budget for year three is set at \$242,000.

### **6.5 Feedback**

Continued satisfaction with the SmartScanner is imperative to the long-term success of IMT. To

ensure purchasers of IMT scanners are pleased, a marketing person will contact the purchaser via telephone one month after purchase and conduct an informal customer satisfaction survey.

In addition, where possible, IMT will conduct personal interviews with the salespersons who are actually using the scanners on a daily basis. These interviews will be used to determine the salesperson's level of satisfaction with their IMT product and to obtain suggestions for future enhancements. Another possible feedback mechanism might include mail surveys to the customer who was measured with the SmartScanner.

As marketing personnel are added to IMT's staff, monthly review meetings will be held. These meetings will have two purposes: First, to find out what IMT's own employees are hearing in the field, and second, to measure the team's performance against projections.

## 7. Operating Plan

IMT operates out of a single building in Flint, Michigan. Operations will be managed by one of the founders, and the other will be responsible for marketing activities, as previously discussed. The company is near to beginning full-scale manufacturing and marketing operations. The site and business relationships are already established; however, IMT needs to acquire some additional equipment to begin its full operation.

### 7.1 Location

IMT's building is located in a light commercial district in Flint, Michigan. The area is properly zoned by the city to allow IMT to conduct all of its manufacturing and related activities. The site is located on a major highway, allowing excellent truck access for shipping finished scanners and receiving electronic components. The city also has an airport that has seven daily flights to Detroit, a major hub connecting all national locations and many international sites. In addition, the city of Flint is close to IMT's primary vendors.

### 7.2 Facility

The facility is a five-year-old building of 5,000 square feet. Of the total space, 3,000 square feet is finished office space, which will be used for sales and administration. The remaining space will be used for manufacturing, assembly, shipping, receiving, and storage.

The facility is not a showroom for potential clients or customers. It is utilized exclusively for product assembly, marketing, and internal corporate administration. The facility is located in the hometown of the company's two founders.

The company does not own the building, but has negotiated a two-year lease with an option to extend the lease for another three years. The lease was established for two years anticipating the need for additional space in year three. If the building proves adequate, the lease term may be extended. The annual lease rate is \$10 per square foot, which is a blended rate between comparable office and industrial space in the area.

### 7.3 Operating Equipment

The company needs to secure some assembly and packaging equipment to implement full-scale manufacturing of the SmartScanner. Below is a listing of the equipment required by IMT and their respective costs:

1. Packaging system (\$15,000)
2. Soldering equipment (\$7,500)
3. Automated production line (\$7,500)

The layout for receiving, assembly, storage, and shipping requires little equipment for efficient operation. IMT's products are lightweight and shipping will consist of UPS, U.S. mail, or other light-package carriers. It is anticipated that the same equipment used to manufacture the SmartScanner will be used to produce the ValueScanner.

IMT's principals already own the office equipment, including a telephone system, four personal computers, desks, chairs, filing cabinets, and miscellaneous items. The office is set up in the facility and operating at this time.

#### **7.4 Suppliers and Vendors**

The company has established contracts with two primary vendors. Jones Co. supplies the infrared system that has been designed and built to IMT's specifications. Smith Co. designs and builds the integrated circuit board and computer chip for the SmartScanner. Both of these companies are located in Kalamazoo, Michigan. Mr. Jackson has contacts with both of these companies from his prior employment. Kelly, Inc., a local plastics company, manufactures the plastic case for the scanner. IMT owns the mold from which the case is manufactured.

Certain other items are needed for the manufacture and packaging of the product. Packaging material is available from several local vendors. The product itself requires only minimal wiring, set screws, and soldering for assembly. These items also are available locally from a variety of suppliers.

#### **7.5 Personnel Plan**

Staffing for the operation includes the two owners who will handle marketing, procurement, and production responsibilities. A person who has been assisting the owners on a part-time basis will fill a full-time support administrative position. A janitorial service will be retained to handle regular cleaning needs.

The administrative support person will report to Mr. Ball. He will also be responsible for hiring a marketing person to be added in the middle of year one, and two more marketing persons to be added in year two.

Personnel needs for the assembly operation will consist initially of only three persons. One person will be in charge of receiving supplies and will work with Mr. Jackson to eventually take over procurement. The second person will run the assembly and packaging part of the business. The third person will handle storage and shipping of the finished scanners. All three will be cross-trained in all aspects of the assembly and packaging of IMT's products.

Compensation for the owners will be set at \$75,000 each. The administrative support person will be compensated at an approximate wage level of \$15 per hour. Operating personnel will be paid approximately \$22 per hour, a competitive non-union wage rate in the area. Marketing personnel will be offered a base rate of \$4,000 per month, plus be eligible for a \$5,000 annual bonus should the marketing team reach its sales goal.

#### **7.6 General Operations**

The IMT facility will maintain a standard forty-hour, Monday through Friday, work week. There are no unusual regulatory requirements for this operation. Because of the light soldering

performed during the assembly process, an air exhaust system will be needed above the assembly station. Upon completion, the system will be inspected by both state and federal regulators. The building itself currently meets all regulatory requirements and the lease holds the owner responsible for any future requirements. Mr. Jackson has experience in light assembly operations and is current with regulations in that arena.

## **8. Management, Organization and Ownership**

The owners of the company are well experienced in the industry. Mr. Ball has twenty years experience specifically with retail apparel stores. His previous position allowed him to build personal relationships with management and buyers in numerous upscale department stores and retail clothing franchisers. His background provides IMT with an advantageous start in marketing the SmartScanner.

### **8.1 Management/Principals**

Specifically, Mr. Ball worked for Acme Merchandising Systems (AMS) for ten years as a regional marketing manager. The company provided electronic registers for recording sales, clearing credit cards, and monitoring inventory. Mr. Ball had responsibility for national retailer companies, and he developed strong relationships with companies such as Neiman Marcus, Macy's, Bloomingdale's, Nordstrom's, and others. Prior to this position, Mr. Ball was a regional sales representative for Levi Straus. This background provided experience in both clothing and support systems for apparel retailers. He will be responsible for all marketing efforts of the company. He also will supervise the administrative assistant, the marketing team, and manage the financial concerns of the company.

Mr. Jackson also worked for AMS in the product development division. He was responsible for designing new products and developing the concept designs into manufacturing plans. As part of his responsibilities, he had significant experience with integrated circuit board and chip design. He will be responsible for developing new products, sourcing and procuring sub-assemblies, and managing the assembly operation.

### **8.2 Organizational Structure**

Mr. Ball and Mr. Jackson will divide management responsibilities. Mr. Ball will handle all marketing and financial responsibilities. Mr. Jackson will manage the assembly, warehousing, and shipping areas. These two divisions of duties cover the management of personnel that will be hired for the operation. Mr. Ball will be responsible for hiring and supervising an administrative assistant and the marketing team. Mr. Jackson will be responsible for hiring the three operations personnel in the assembly operation.

Additionally, Mr. Jackson will oversee research and development of the ValueScanner, plus any new products. Mr. Ball will play an integral part in this process by assessing the needs of the market for new types of products.

The company will begin operations with a total of six employees. Staffing additions in the form of marketing personnel will come in the middle of year one and at the beginning of year two and will be under the supervision of Mr. Ball. The addition of assembly staff is not anticipated throughout the three-year forecast period.

### **8.3 Professional Consultants**

The company will retain two outside consultants to assist in professional corporate duties. Mr.

Pat Williams, a local attorney, will handle the company's legal matters. Professional Accounting Services, LLC, a local accounting firm, will handle the companies accounting and filing requirements. All financial duties, including payroll, will be performed outside the company. The company uses National Insurance Company for its business insurance needs.

#### **8.4 Ownership and Boards**

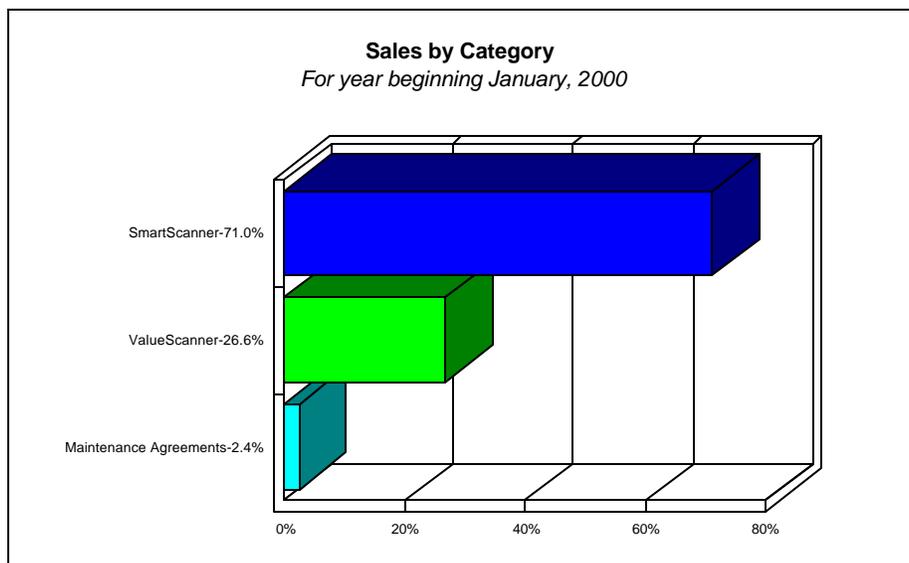
Currently, Mr. Jackson and Mr. Ball are the sole owners, officers, and directors of the company. Mr. Ball is chairman, president, and treasurer of the company. Mr. Jackson is vice-president and secretary. Mr. Williams, the company's legal counsel, is holder of one share of stock and proportionate voting rights. Mr. Ball owns 50 percent of the stock, Mr. Jackson owns 49 percent, and Mr. Williams owns 1 percent. After successful completion of the current financing proposal, ownership will be redistributed with 40 percent going to Mr. Ball, 40 percent going to Mr. Jackson, and the new stockholder(s) will receive 20 percent. The company will purchase Mr. Williams' share of stock when the new stockholder(s) are added. The new stockholder(s) will have a seat on the board of directors. No directors' fees or other compensation are anticipated for the board members.

## 9. Goals and Strategies

IMT is well on its way to success. A retail market leader has accepted the SmartScanner, and a price level that is profitable to the company has been established. The first year's projection of 1,000 unit sales is already 25 percent secured, which will result in IMT's first year sales of \$775,000.

### 9.1 Business Goals

The company has established revenue targets of \$775,000 in year one, \$1,550,000 in year two, and \$2,745,000 in year three. The first two years are based on the sale of the SmartScanner with third-year sales being driven by the addition of a second-generation scanner. Profit before interest and taxes for IMT's first three years of operation are forecasted to be \$25,000, \$267,000, and almost \$1.4 million, respectively. The owners are confident of attaining these profit levels given the achievement of the revenue projections.



### 9.2 Keys to Success

A few significant critical items will bolster or hamper the success of the venture. First of all, the owners' industry connections are the primary assets of the company, which makes introduction to the target customers' decision-makers much more likely. This asset is well protected because of the similar experience of both owners, with one being able to "stand in" for the other if the need arises.

Competition is not a concern at this point. When the SmartScanner begins to appear widely in the industry, others may attempt to copy it. The company expects to have a lead on future competitors by that time in terms of satisfied major customers and proven products, which will be difficult to overcome.

The technology underlying the SmartScanner is not patented. The most proprietary aspect of the

technology is the chip and integrated circuit board. The company that manufactures this item for IMT embeds the circuit in a plastic case in such a way that it cannot be opened for inspection. The technology for the instrument is readily available on the market, but the advantage to IMT is speed to market rather than protection of the technology.

Perhaps of greatest risk to the company is the continuation of the consumer trend to purchase custom-fitted clothing. If this trend should falter, IMT's target markets may have less desire for the product. Management has taken this possibility into consideration. First, sales projections have been made on a conservative basis; in fact, projected unit sales can be expected without any growth in the trend to purchase custom-fitted apparel. Second, it is likely that an economic downturn will be needed to dampen this customer trend and economists currently predict no dramatic downturn. Third, the target customers for the product have a need for the scanner even under current consumer conditions.

Another risk to the company is that the financing currently sought will not be made available. The company will continue its plans on a slightly scaled-back version under these circumstances.

### **9.3 Future Plans**

The company has current plans for a lower priced model of the SmartScanner, called the ValueScanner, to appear in year three. Beyond this time frame, market research may hold the key for other opportunities. If sales of custom-fitted apparel become much more prolific through catalogs and web sites, a "home" model scanner may be developed. Such a scanner might be integrated to feed the data directly through a personal home computer to the web-site seller along with the order. Technology and a solid consumer economy will provide a number of opportunities for the company. The owners of IMT are experienced and eager to take advantage of these exciting new opportunities.

## 10. Financial Assumptions

The enclosed financials are based on several assumptions. They assume the owners will invest an additional \$100,000 of their own funds and IMT will be able to align an equity partner for an additional \$100,000. Also, they assume that IMT will be able to secure a \$100,000 operating loan at the beginning of year two to help cover research and development expenses. No distributions have been included in this forecast. Depending upon performance, distributions will be made when appropriate. Below is a summary of the assumptions used to forecast the next 36 months of IMT's planned operation.

### 10.1 Beginning Balance Sheet

<b>Beginning Balance Sheet</b> <i>For year beginning January, 2000</i>		
Assets:		
Current assets:		
Cash	145,000	
Inventory	7,500	
Total current assets	152,500	
Property, plant and equipment (net)	65,000	
Total assets		217,500
Liabilities:		
Current liabilities:		
Accounts payable (inventory)	7,500	
Total current liabilities	7,500	
Total liabilities		7,500
Equity:		
Contributed cash	200,000	
Assets transferred in	10,000	
Total equity		210,000
Total liabilities and equity		217,500
Debt-to-equity ratio		0.04

Cash - The amount of cash remaining after the anticipated \$200,000 infusion, \$100,000 by the founders and \$100,000 from the new equity partner. Of this amount, \$55,000 will be used to purchase a packaging system (\$15,000), soldering equipment (\$7,500), an automated production line (\$7,500), and perform some building improvements (\$25,000).

Inventory - Since IMT plans on having 60 days' worth of inventory on-hand at all times, this is the amount of inventory IMT will have on-hand at the beginning of its operation to meet its first two month's sales.

Property, plant and equipment (net) - This includes the planned purchase of \$55,000 of

equipment and building improvements, plus the \$10,000 of office equipment and furniture contributed by the founders. The contribution consists of computers worth \$5,000, a telephone system worth \$2,500, and some office furniture worth \$2,500.

Contributed cash - This is anticipated joint investment by the founders and the new equity partner.

Assets transferred in - This is value of the office equipment and furniture contributed by the founders.

## 10.2 Profit & Loss

<b>Profit &amp; Loss Statement</b>			
<i>For year beginning January, 2000</i>			
	Year 1	Year 2	Year 3
Sales	775,000	1,550,000	2,745,000
Less cost of sales:			
Material	75,000	150,000	297,000
Other costs of sales	25,000	50,000	85,500
Total cost of sales	100,000	200,000	382,500
Gross profit	675,000	1,350,000	2,362,500
Operating expenses:			
Advertising	36,000	60,000	90,000
Dues & subscriptions	600	600	600
Entertainment	6,000	9,000	12,000
Insurance	5,000	5,000	5,000
Legal & accounting	8,000	6,600	7,800
Manufacturing personnel	171,600	171,600	171,600
Marketing personnel	33,125	198,750	198,750
Miscellaneous	1,200	1,200	1,200
Office supplies	3,600	3,600	3,600
Postage	1,200	1,200	1,200
Rent	50,004	50,004	50,004
Repairs & maintenance	2,400	2,400	2,400
Research & development	0	180,000	0
Salaries (Owners/Asst.)	226,500	226,500	226,500
Telephone	9,000	12,000	18,000
Trade shows	36,000	63,000	87,000
Travel	42,000	55,500	65,000
Utilities	8,400	8,400	8,400
Website development	0	10,000	0
Depreciation	8,498	8,498	8,498
Total operating expenses	649,127	1,073,852	957,552
Operating income	25,873	276,148	1,404,948
Interest expense	53	8,646	5,497
Net income before taxes	25,819	267,501	1,399,451
Estimated taxes	6,455	73,102	343,636
Net income	19,365	194,400	1,055,814

Sales - Assumptions are based on anticipated unit sales. Year 1 forecasts 1,000 SmartScanner units sold to upscale department stores at \$750 per unit and 200 maintenance agreements at \$125 each. Year 2 forecasts 2,000 units sold to upscale department stores at \$750 per unit and 400 new maintenance agreements at \$125 each. Year 3 forecasts 1,800 units sold to upscale

department stores at \$750 per unit, 2,700 units of the new ValueScanner sold to other department/apparel stores at \$500 each, plus 360 new maintenance agreements at \$125 each. All sales are assumed to be on credit, with net 30 payment terms, and no bad debt. A certain portion of IMT's annual maintenance agreement customers are expected to renew, but this residual income is not included in this forecast.

Cost of sales - Calculated as \$100 per unit for the SmartScanner (\$75 for materials and \$25 for other expenses such as shipping, shop supplies, etc.) Manufacturing labor is accounted for as a fixed operating expense. Costs for the ValueScanner total \$75 per unit (\$60 for materials and \$15 for other expenses such as shipping, shop supplies, etc.) There is no cost of sales for the maintenance agreements.

Advertising - Monthly advertising expenses for Years 1, 2, and 3 are \$3,000, \$5,000, and \$7,500, respectively. These funds will be used for trade magazines and direct mail campaigns.

Insurance - IMT has already established business and product liability insurance. The annual cost of IMT's present coverage is \$5,000.

Legal & accounting - Legal and accounting expenses assume fixed monthly retainers for IMT's legal counsel and accountants. Initially, there is an anticipated \$2,000 legal cost for documenting the addition of an equity partner.

Manufacturing Personnel - IMT plans to immediately hire three full-time assembly workers at a rate of \$22 per hour. A payroll burden of 25 percent has been added to cover taxes and benefits.

Marketing Personnel - IMT plans to hire one full-time individual for the last six months of year one at a base of \$4,000 per month. Two additional marketing personnel will be added at the beginning of year two. If the marketing team reaches IMT's annual sales forecast, performance bonuses of \$5,000 will be paid to each marketing person. In the case of year one, a bonus of \$2,500 will be paid due to the length of service being only six months. A payroll burden of 25 percent has been added to cover taxes and benefits.

Rent - Monthly rent is calculated based upon an annual established lease agreement for IMT's current 5,000 square foot facility. The negotiated rate per square foot is \$10.

Repairs & maintenance - These fees are based upon IMT's current average monthly maintenance expense, which includes a janitorial service.

Research & development - Research and development for IMT's ValueScanner will begin and be completed in year two. This work will be contracted to IMT's current suppliers and their development teams. Budgeted costs for this project are \$180,000.

Salaries (Owners/Asst.) - Each of the two owners will receive a fixed salary of \$75,000 a year. The Administrative Assistant will receive \$31,200 a year. A payroll burden of 25 percent has been added to cover taxes and benefits.

Trade shows - These funds will be used for IMT personnel to attend several regional and national tradeshows. This monthly amount does not include travel, which is listed separately.

Travel - These funds will enable IMT personnel to visit and train new customers as well as attend trade shows.

Utilities - Utilities are based upon IMT's own historical average for building occupancy.

Website development - Production of IMT's website will be outsourced to a local web development company. These funds will cover not only the development of the site, but also the hosting during the forecast period. The project will take approximately 60 days and cost a total of \$10,000.

Depreciation - Depreciation is calculated on a straight-line method based upon the associated life of IMT's assets. Computers and telephones are depreciated over 5 years, office furniture is depreciated over 7 years, manufacturing equipment is depreciated over 5 years, and building improvements are depreciated over 39 years.

Interest expense - IMT will incur an interest expense of \$53 in month 7 of its operation for using its line-of-credit loan. The amount is needed in month 6 and repaid completely in month 7. In years two and three, IMT will incur interest expenses of \$8,646 and \$5,497 on the \$100,000 operating loan secured at the beginning of year two.

Estimated taxes - The annual amount estimated to cover taxes is calculated at an average percent of 25 percent of net income before taxes. This amount is computed on a monthly basis.

### 10.3 Balance Sheet

<b>Balance Sheet</b>			
<i>For year beginning January, 2000</i>			
	Year 1	Year 2	Year 3
<b>Assets:</b>			
Current assets:			
Cash	98,713	378,287	1,203,875
Accounts receivable (net)	77,500	77,500	266,250
Inventory	15,000	27,000	58,500
Total current assets	191,213	482,787	1,528,625
PPE (net)	56,502	48,004	39,505
Total assets	247,715	530,790	1,568,131
<b>Liabilities and equity:</b>			
Current liabilities:			
Accounts payable	18,350	37,100	51,850
Line of credit	0	0	0
Notes payable	0	0	36,702
Current maturities	0	33,223	0
Total current liabilities	18,350	70,323	88,552
Long-term liabilities (net)	0	36,702	0
Total liabilities	18,350	107,026	88,552
Equity	229,365	423,764	1,479,579
Total liabilities and equity	247,715	530,790	1,568,131

Accounts receivable (net) - Since IMT will be extending its customers credit terms of Net 30, this is the amount of uncollected cash IMT is owed at the end of each month.

Inventory - Since IMT plans on having 60 days' worth of inventory on-hand at all times, this is the amount of inventory IMT will have on-hand at the end of each month.

PPE (net) - This is the value of IMT's equipment net of depreciation.

Accounts payable - This is the amount IMT owes its suppliers for inventory.

Line of credit - IMT's line of credit will be needed in June of year one to cover the amount of \$6,402 which will be repaid the following month.

Notes payable - The sum of principal payments from the \$100,000 operational loan due in less than one year. The value shown is net of interest expense. The sum of the principals payments from this loan are first categorized in the Current maturities section of the Balance Sheet until less than a year is owned on the loan and it is moved to Notes payable.

Current maturities - The sum of principal payments from the \$100,000 operational loan due in less than one year. The value shown is net of interest expense.

## 10.4 Cash Plan

<b>Cash Plan</b>			
<i>For year beginning January, 2000</i>			
	Year 1	Year 2	Year 3
Cash receipts	697,500	1,550,000	2,556,250
Operating cash expenses:			
Inventory purchases	82,500	150,000	318,750
Other costs of sales	25,000	50,000	85,500
Other expenses	629,779	1,058,604	944,054
Estimated taxes	6,455	73,102	343,636
Total operating cash exp.	743,734	1,331,706	1,691,940
Cash from operations	(46,234)	218,294	864,310
Debt activities:			
Issuance of debt	0	100,000	0
Principal payments	0	(30,074)	(33,223)
Interest payments	(53)	(8,646)	(5,497)
Total debt activities	(53)	61,279	(38,721)
Net cash after debt service	(46,287)	279,574	825,589
Change in cash	(46,287)	279,574	825,589
Beginning cash	145,000	98,713	378,287
Cash before borrowing	98,713	378,287	1,203,875
Line of credit activity	0	0	0
Ending cash	98,713	378,287	1,203,875

Cash receipts - Sales to customers will be made on Net 30 credit terms. The forecast assumes that cash will be received in the month following the sale. Due to the nature of IMT's target market, no bad debt is anticipated.

Inventory purchases - IMT plans on having 60 days' worth of inventory on-hand at all times. IMT has negotiated supplier credit terms of Net 30. Inventory purchases are derived from the SmartScanner and ValueScanner material costs of \$75 and \$60, respectively.

Other costs of sales - The SmartScanner and ValueScanner have other costs of sales of \$25 and \$15, respectively. These costs will cover shipping, shop supplies, etc.

Issuance of debt - At the beginning of year two, IMT plans to secure an operational loan of \$100,000.

Principal payments - These are the principal amounts paid on the \$100,000 operating loan.

Interest payments - Please refer to "Interest expense" in the Profit & Loss assumptions section.

Line of credit activity - IMT has already established a \$10,000 line of credit with First Bank of Michigan. It carries an interest rate of 10 percent. This will be needed in June of year one to

cover the amount of \$6,402 which will be repaid the following month.

## **11. Appendix**

This section contains the following information and supporting documentation:

- Beginning Balance Sheet
- Profit & Loss (Years 1, 2, 3)
- Balance Sheet (Years 1, 2, 3)
- Cash Plan (Years 1, 2, 3)
- Product Brochure
- Customer Testimonials