

# Safe-Temp Bottle Company

## Business Plan

Panama City, Florida 32402  
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March 1995

-CONFIDENTIAL-

Copy Number 4

## Executive Summary

Safe-Temp Bottle, Inc. (the "Company") was conceived in 1993 and will be incorporated in the State of Florida in 1995. The Company's Primary line of business is the design and manufacture of the safe-Temp bottle, a baby bottle that is equipped with a temperature-indicating device. This device allows the consumers of the product to immediately determine if the liquid within the baby bottle is at the proper temperature for feeding the infant. The temperature-indicating device is unique within the baby bottle industry and the company has a patent pending on the design. Safe-Temp has designed a working prototype of the baby bottle, equipped with the temperature-indicating device, that meets all design and safety requirements. The company is in the process of raising seed capital to finance further testing and initial production of the Safe-Temp bottle.

The Company believes that an excellent opportunity exists for the sale of the Safe-Temp bottle for several reasons:

- ◆ No other baby bottle manufacturer is producing a bottle that indicates the temperature of the Liquid inside.
- ◆ Based on market research, there is a demand for a baby bottle that can indicate the temperature of its contents.
- ◆ More baby bottles today are heated in microwave ovens vs. in a pot of boiling water. Heating in a microwave oven leads to an uneven distribution of temperature of the contents in the bottle. The Safe-Temp bottle design measures the temperature throughout the contents, providing an accurate reading.
- ◆ The use of microwaves in heating baby bottles has increased because of the convenience and time savings to the consumer. The Safe-Temp bottle allows the consumer to heat the bottle quickly with the "peace of mind" that the temperature of the contents is correct.

The company has designated several stages of research and development to be completed before the Safe-Temp bottle will be ready to Market. Once seed capital is acquired, the Company will develop the molds necessary to mass-produce the Safe-Temp bottle. Further testing on the mass-production bottle will then be performed to insure that all quality and safety requirements are met. At this point, production and distribution of the Safe-Temp bottle will begin. Initially, the Company has selected the United States as its market. However, expansion internationally is expected.

The Company believes that the unique attribute of our product will appeal to the majority of baby-bottle consumers. The Company has identified its target market and has developed a marketing and distribution plan to reach its target market. Conservative projections included within this Plan show the Safe-Temp bottle reaching two percent of market share within the first year of production. By the end of year five, the Company expects to reach 8.8 percent of the baby bottle market.

The company will manufacture and distribute the Safe-Temp bottle using existing baby-bottle manufacturing plants. Safe-Temp will sell the product through a master broker who specializes in the retail channels that sell baby bottles. The projected revenues will reach approximately \$1.7 million in year one with a gross margin of 58 percent and net income of approximately \$196,000. By year five, the projected revenues will reach approximately \$7.4 million with a net income of approximately \$1.6 million. Although the enclosed financial forecast only covers distribution within the United States, the Company expects additional income from international sales.

Alex Pollack, the creator of the Safe-Temp bottle, founded the Company. Mr. Pollack is the President of the Company and has identified several other members of his management team. Scott Coffman will become Vice President of Marketing, John Mercer, Vice President and Chief Financial Officer, and Kevin Johns, Vice President of Manufacturing. The Company believes that all members of the management team add value and expertise in each of their related areas.

The Company realizes the need for outside capital to reach the production and distribution stage of the Safe-Temp bottle. The Company seeks \$200,000 from an outside investor, to be given in stages only after the Company has successfully completed certain milestones. In return, the Company will offer 20 percent equity in the Company resulting in an approximate 50 percent per annum return on investment. It is expected that at the end of year five, the Company will purchase the investor's portion of the Company, either through an Initial Public Offering or an outright purchase.

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## **II. THE INDUSTRY, COMPANY AND PRODUCTS**

### **The Industry**

The baby bottle industry in the United States is comprised of several major manufacturers, namely Playtex, Evenflo, Gerber, Munchkin, NUK, Chubs and Ansa. See Appendix A. The current baby bottle market in the United States is estimated at \$154 million. Of this amount, reusable baby bottles hold 55.2 percent, \$80 million of the market, while the remaining 48.8 percent is held by disposables. Disposables are defined as baby bottles that are designed for bottle liners and the liners are discarded after each use. The disposable market had grown to a peak of 53 percent of the baby bottle market in the United States, but had shown a steady decline as a percent of the total market over recent years. The Safe-Temp bottle will initially be designed as a reusable bottle. However, the Company will evaluate the possibility of entering the disposable market at a later date.

### **The Company and the Concept**

The Safe-Temp bottle was first conceived in 1993 by Alex J. Pollack recognized an existing market for this type product and established the Safe-Temp Bottle Company in 1994. The Company will be incorporated in the state of Florida in 1995. The Company has produced a prototype of the product and has a patent pending on the product. The Company is in the process of raising seed capital to finance initial production and distribution. The Company has identified

sources to manufacture the product to strict specifications and is selecting marketing representatives to facilitate distribution of product in the United States.

## **The Product**

During the past two years, Pollack has refined his original design in an attempt to produce a baby bottle that would allow the temperature of an internal liquid to be read visually on the outside of the bottle.

Due to the nature of the product, many design requirements and constraints existed which had to be addressed:

- (1) All components must be non-toxic,
- (2) The assembled product must be suitable for use in a microwave oven,
- (3) The assembled product must be suitable for use in boiling water.
- (4) The temperature indicator must be reliable, accurate and easy to read,
- (5) The temperature indicator must have consistent repeatability,
- (6) The entire product must be dishwasher safe and
- (7) The addition of the temperature indicator must not prohibitively increase the bottle cost.

The latest design has been found to meet all of the design requirements and constraints and a prototype has been constructed.

The Safe-Temp bottle is designed to provide an indication of the temperature of bottle contents.

The bottle utilizes a special polymer spring, which changes in size relative to the temperature.

The temperature indicator uses the same principles as an automobile or home thermostat. The spring expands and turns as it is heated. As the spring is fixed at the base, the top turns indicating the temperature. The bottle temperature is read in the indicator window located in the cap of the bottle. The bottle is designed to give an indication of "feed" between 90 and 105

degrees Fahrenheit, the feeding temperature recommended by most pediatricians. Appendix B gives several views of the product.

The very simple design utilizes only three components: the spring, the stem and the cap. All components lock together permanently on assembly and no fasteners or glues are required. The assembly contains no small parts and is baby safe. All bottle components are made of recyclable plastic providing an environmentally conscious design.

The Safe-temp bottle is designed to provide temperature indication regardless of the heating method. The temperature indicator is designed for consistent repeatability and has a product life of approximately two years.

All components of the Safe-Temp bottle are FDA approved. All of the materials utilized have been used in the food industry for over ten years. The materials are dishwasher safe and are easily cleaned. The polymers (plastics) utilized are high impact and have been tested to withstand falls of ten feet.

The Safe-Temp bottle has a patent pending status in the United States and once marketability is confirmed, worldwide patents will be applied for.

## **Entry and Growth Strategy**

The company's entry strategy is to enter the United States market via a master broker who specializes in servicing the mass merchandisers, food stores and drug stores. The current reusable baby bottle market in the United States is estimated at \$80 million. The master broker and their reps will earn a commission on the product sold to these retail channels. By utilizing the master broker network, the Company will gain access to retail accounts without the fixed cost expense of developing our own sales force. The Company expects that the unique attribute of the bottle will gain placement in most accounts.

The growth strategy for the Company is to begin expanding to foreign markets by acquiring foreign patents in those countries with the highest sales potential. The potential for global sales is immense as 98 percent of the births in the world occur outside the United States. The Company will utilize a broker network within each country to sell its product.

## **III. MARKET RESEARCH AND ANALYSIS**

### **Customers**

The average customer for a baby bottle product is a female in her late twenties who is, or will be again, employed outside the home. The median family income of the typical baby bottle customer is 36,120. Because the majority of customers of baby bottles work outside the home, time and convenience is heating bottle accurately are of the essence.

## **Market Size and Trends**

After peaking at a post-baby-boom of 4.16 million in 1990, the number of births in the United States is expected to stabilize at approximately 4 million and remain at that level through the turn of the century. The current baby bottle market in the United States is approximately \$154 million, or 73 million units a year. Currently, reusable bottles constitute 52 percent of the baby bottle market, or 38.6 million units a year. Reusable bottles have increased their market share over disposable bottles by an average of 2 percent a year over the last years. The trend of reusable bottles capturing a larger share of the baby bottle market is expected to continue over the next several years.

## **Competition and Competitive Advantages**

Although there are several major competitors in the baby bottle industry, none of these are currently marketing a product that indicates the temperature of the liquid in the bottle. The Safe-Temp bottle provides this key feature with only a minimal increase in manufacturing cost over standard bottles.

Only one other company has attempted to market a temperature sensitive baby bottle. Ansa Bottling manufactured such a product under the trade name Heat Sensitive and later Comfort Temp. This product was being produced and marketed when the current owners, according to John Iodise, President of Ansa Bottling, purchased the company.

The Bottle Ansa designed neglected one major fact of baby bottle usage; sometimes bottles are heated from the outside in (boiling water) and sometimes from the inside out (microwave). Their design simply used the bottle's surface plastic to indicate the temperature. An opaque blue or pink plastic would turn white when the contents were too hot. This neglected the fact that microwaves heat from the center so only after the bottle was shaken would it provide an accurate indication. Due to its inaccurate operation, it was withdrawn from the market. Despite their disappointing results, Ansa's efforts confirmed that based on market surveys, there is market for a bottle with a temperature sensor. In addition, Iodise felt their lack of success was the result of a design flaw and not a lack of market. The Safe-Temp bottle overcomes this shortcoming in its design of the temperature indicator device.

### **Estimated Market Share and Sales**

According to market information provided by Richard Henry, Vice President of Sales for Munchkin Bottling Company, a leading manufacturer of specialty baby bottles, a manufacturer introducing "just another decorated bottle" without any key features or benefits over current bottles could be expected to capture one to two percent of the total market in the first year of operations. This market share would probably remain at two percent during subsequent years.

Munchkin's market data also indicates that if a company produced a product with significant features or graphics as compared to existing decorated bottles, the company could expect to attain six percent of the market in the first year. That share could grow at 30 percent per year

over subsequent years. To achieve these results, however, the product would have to be unique and special.

To present conservative projected pro financial statements, Safe-Temp has assumed that the Company will earn two percent and four percent of the total reusable market in the first and second year of operations. A growth rate of 30 percent per year was assumed for years three through five.

### **Ongoing Market Evaluation**

The Company expects to refine the appearance and marketing of the Safe-Temp bottle to meet changing demographics of our customers. The Company will install a 1-800 telephone for customers to call with problems or suggestions. In addition, the Company expects to conduct marketing focus groups on a periodic basis to receive input on new graphic and design changes.

## **IV. ECONOMICS OF THE BUSINESS**

The innovative Safe-Temp bottle costs \$.35 per unit more to produce than a standard baby bottle. The new feature, however, will allow the Company, and retailers, to market the product at prices comparable to other premium bottles currently available. At a suggested retail of \$3.99, a cost to the retailer of \$2.19, and a cost to manufacture and deliver the product of \$.92, projected gross margins for Safe-Temp and the retailer are 58 percent and 45 percent, respectively.

Initially, the Company will produce a clear, quality plastic bottle to enable the customer to see the difference in the Safe-Temp product and other bottles. A decorated bottle would obscure the feature that the Company has developed and result in the appearance of "just another baby bottle." Once the Company and its bottle have achieved recognition and acceptance in the marketplace, Safe-Temp will then consider adding graphics to the product which results in little additional cost but is perceived as value added by the consumer.

Continued profit potential and durability exist as births in the United States continue at approximately four million annually. In addition, these four million births comprise only two percent of the world's births. Safe-Temp plans to secure patents in all countries where there is a market for the produce once final approval of the United States patent is obtained and full production begins.

Fixed costs for the Company will be low as the product will be manufactured by currently existing plastics manufacturers and shipped directly to the retailer. The main fixed costs will be for office and limited warehousing space. Safe-Temp will initially employ three personnel to manage and operate a small office to service the needs of consumers and retailers as well as staff a small warehousing operation to fill small or emergency orders. The use of brokers and sales representatives will significantly reduce the amount of fixed labor cost to the Company.

Safe-Temp will not recognize any revenues until stage four of the Overall Schedule shown in Section IX of the business plan. Once full-scale production and distribution begins in January 1997, however, the Company will generate positive cash flow from operations within the first

year. Pro forma financial statements contained in Section XI of the Plan present management's worst, best and most likely case projections of the results of operations through year five.

Funding for the start up period in the amount of \$200,000 will be drawn in three stages to limit investor risk. Only after specified milestones have been met will additional funds be requested and the next stage started. The initial draw of \$66,000 will be required thirteen months prior to full production (year one of the Plan) to fund the design, manufacture and testing of the spring and cap molds. Draw two in the amount of \$57,000 will be required six months prior to full production to complete bottle and stem molds. And draw three of \$77,000 will be required three months prior to full production to fund an initial production run to produce initial inventory.

## **V.     MARKETING PLAN**

### **Overall Marketing Strategy**

The overall marketing strategy for the Company is to offer our baby bottle as "safe, convenient and worry-free". Our unique temperature-reading indicator will give bottle a strategic competitive advantage over other baby bottles on the market. After final development and testing of the product, we will secure the services of a master broker who will concentrate on selling our product in the United States in the retail channels that sell baby bottles. After significant penetration in the United States market, the Company will aggressively pursue patents and distribution in foreign countries.

## **Pricing**

Retail pricing for reusable bottles averages \$3.99 for premium bottles and \$2.99 for standard bottles. Premium bottles are equipped with a heavier plastic material than standard bottles and may also include a silicone nipple versus a rubber nipple and color graphics on the bottle. The Safe-temp bottle will be equipped with heavier plastic and the silicone nipple. Those features, along with our temperature indicating device, will allow us to retail our bottle at premium prices, or a suggested retail of \$3.99. Our cost to retailers will be at \$2.19, freight included, which allows the retailer to earn a 45 percent gross margin, comparable to the margin on other baby bottle products.

## **Sales Tactics**

The Company expects that the unique attribute of its bottle will encourage consumers to purchase the product. We will design and develop packaging that emphasizes the temperature indicator on the Safe-Temp bottle and market the bottle as "safe, convenient and worry-free". Initially, the Company will distribute the product as a floor shipper in as many retail accounts as possible to expose the consumer to our product as quickly as possible. To help achieve this objective, the Company will offer price discounts to retailers who purchase these shippers. To avoid the costs of recurring, training and employing a full-time sales force, the Company will select a master broker to set up an established, experienced sales force comprised of other sales representatives. The master broker will establish sales territories within the United States for each sales representative and add additional sales representatives as the need arises. The master

broker will be compensated ten percent of gross sales and five percent of the sales from the broker's sales representatives. In addition, the sales representatives will earn five percent of the sales from the broker's sales representatives. In addition, the sales representatives will earn five percent on their sales. These sales costs have been included in the projected income statements.

### **Warranty Policies**

The company will offer a money-back guarantee to any customer who is not satisfied with the performance of its products. To assist its customers, Safe-Temp will provide a 1-800 number on all packaging. In addition, the Company will guarantee to retailers reimbursement for any returned bottles.

### **Advertising and Promotion**

The Company expects to advertise on a regional, then national basis, in the United States after the first year of sales. Advertising during the first year of sales will be five percent of sales and include point-of-sale materials to place on or near the product in the retail store. For years two and three through five of the plan, the Company projects that advertising expenditures will be four percent and three percent of sales, respectively. The Company expects to use the services of an outside advertising agency to assist in spending advertising dollars as effectively as possible.

## **Distribution**

Shipping of the Safe-Temp product will be primarily from the manufacturer to the retailer, which will require the Company to provide only minimal warehouse space. Only minimal inventory will be maintained on hand at the Company's warehouse facilities for emergency shipments. This process will eliminate the need for the Company to finance large amounts of on-hand inventory. In addition, the process will keep shipping costs to a minimum.

## **VI. DESIGN AND DEVELOPMENT PLANS**

A preliminary prototype of the Safe-Temp bottle has been manufactured. The prototype provides a functional model of how the final bottle will look and operate. A secondary prototype (Stage 2) will be developed for completion of testing. The initial prototype's spring was manufactured using a cold forming process. This process involves heating the plastic rod a formidable state and then cooling it into a spring shape. The process is slow, costly and produces inconsistent springs. The secondary prototype's spring will be made using an injection molding process. The process is utilized to manufacture 90 percent of all plastic parts. The process provides high production capabilities, low cost, consistent properties and low maintenance.

The main advantage of an injection-molded spring is the consistency in the manufactured product. This same process is presently utilized to manufacture baby bottles. The initial cost of each mold is approximately \$25,000 to \$30,000. These same molds will be used for the initial

manufacturing stage of the project. Experts in the plastic injection-molding field advise that no manufacturing problems are foreseen at this time in light of the simplicity of the molds. Several weeks will be required to perfect the molding process and optimize production.

Since an injection molded plastic spring has not been utilized before, adjustments may be required in the plastics composition to obtain the correct properties. In light of the more than 500 commercially available plastics on the market a substitute for the existing polymer will be available if needed.

Testing will require the new spring to be operating in environments replicating overheating and microwaves, exposure to detergents and extended heating and cooling cycles. Each test will subject the spring to extreme conditions. The present plan is to utilize plastic polymers presently used in baby bottles and microwavable containers (i.e., Tupperware).

The injection molding and testing of the thermostat spring is the only technical hurdle for the product. No other moving parts exist in the very simple design of the Safe-Temp bottle. The manufacturing of this critical component will be performed first to limit risk. The other components will follow sequentially. No delays are expected in the manufacturing of other components as several plastic molders are currently producing them.

Over time, the Company plans to work in proving the aesthetics of the product with colored plastics, varied bottle shapes and bottle graphics. These changes will increase product variety resulting in increasing sales.

The overall schedule (Section IX) details the cost for bringing the bottle to market. It is broken down into stages to show cost during each stage and the milestone to be achieved during each stage. The schedule shows the capital required at each stage and is a tool for illustrating the level of risk throughout the project. The majority of the "funds sought" will be required only after a fully functional product has been developed and tested.

To date no product exists on the market that provides the functions of the Safe-Temp bottle. In light of this a patent application has been made and there is a current patent pending.

The cost of manufacturing the completed Safe-Temp bottle is as follows:

Premium bottle including silicone nipple, standard ring and disk		\$0.50
Safe-Temp Temperature Sensor		
Spring	\$0.15	
Stem	.08	
Cap	.10	
		.35
Total Safe-Temp Manufactured Cost		\$0.85

Economics of scale should reduce a minimum of five percent once production exceeds 500,000 annually, which should occur during the first year of sales (cost reduction not taken into effect in financials).

## **VII. MANUFACTURING AND OPERATIONS**

The Safe-Temp baby bottle during the initial four years will be most likely manufactured in the Far East, where most bottles for the United States market are produced today. The component manufacture will be contracted only through manufacturers identified as quality injection molders. Firms experienced in providing service worldwide will also perform the assembly, packaging and shipping.

Alternative suppliers have been identified in the United States, although manufacturing costs are expected to be higher. These sources would have the advantage of shorter delivery time due to its closer proximity. The United States manufacturers will be kept as a secondary source in case supply problems occur. Since the investment castings (molds) will belong to the Company, injection molding can actually take place anywhere worldwide where injection-molding capabilities exist.

Manufacturing will occur year round. When manufacturing reaches sufficient levels, bulk purchasing of plastic will be performed during seasonal price drops. This should lead to a materials cost savings of at least five percent.

Operations during the initial years will be based in Northwest Florida. This area, having both an international port and airport, will be sufficient during the early years. The area also provides a location base with low labor and warehouse costs. The initial warehouse space selected has ample space for growth and is available at fixed, long-term, low rates. The initial staff will

consist of only three permanent employees to operate the office and warehouse. Other employees with needed expertise will join the Company in year two of operations. When sufficient qualities justify the relocation of warehousing, a more central nationwide location will be selected.

Initially distribution will occur only in the United States. However, since only two percent of the births worldwide occur in the United States, an incredible potential for future expansion exists. The Company plans to seek foreign patent protection within one year of obtaining its United States patent. To date, no conflicting patents have been identified on the worldwide cross search through the United States Patent Office.

## **VIII. MANAGEMENT TEAM**

The management team will be built in stages. Initially, Alex Pollack will be the only employee at Safe-Temp Bottle Company. His diverse expertise in engineering and manufacturing will be sufficient for all tasks in the early start up stages of the Company. Pollack will hold the position of President and Chief Executive Officer. Scott Coffman will be brought on board as the Director of Marketing as the Company enters stage four. Coffman's experience in retail will be required once the Company begins its initial production phase. John Mercer will join the Company as Director of Finance at the beginning of year two. Mercer's experience in accounting and finance for a major convenience store chain will provide the required financial support as the Company expands and accounting issues become more complex. Kevin Johns will also join the Company at the beginning of year two as Director of Manufacturing.

Financial compensation for the management team can be found in Section XI of the Plan. In addition, each of these employees, the board members and other professional advisors will be compensated through the issuance of stock of the company. The following table outlines proposed distribution of stock:

	<u>Initial</u>	<u>Year 2</u>	<u>Year 4</u>
Investor	20%		
Board Members	6%		
Attorneys	2%		
Alex Pollack	22%		
Scott Coffman	2%	2%	3%
David White	2%	2%	
John Mercer	2%	2%	
Leslie Hapner	2%	2%	
Kevin Johns	1%	2%	1%
Unissued Stock	41%	31%	27%

Unissued stock will be reserved for future financing needs, as incentives for attracting new key personal and other needs as agreed upon by the board of directors. In the event that the Company is sold, unissued stock will be divided among the employee owner according to their percentage of the employee ownership.

The board of Directors will consist of Pollack, Coffman, Jerry Osteryoung, Ph.D., and the investor. Osteryoung is currently a professor of finance at Florida State University. Professional advisors to the board will consist of Larry Carnes, Esq., Richard Youd of Sun Commercial Bank and Dawn Ramey, CPA.



## **X. CRITICAL RISKS**

The only critical point remaining for the manufacture of the Safe-Temp bottle involves the change from a cold rolled spring to an injection-molded spring. The dynamics of all solids are such that upon heating they expand, therefore the principle that leads to the spring's growth should not falter. Plastics have been used years in dishwashers, microwaves and for food storage as they are safe and dependable.

The property of thermal expansion simply has not been tested on a tested on an injection-molded spring. At least there is no published data, which can be found. Plastic containers are used for heating in microwaves and time and time again return to the original size without distortion. The repeated heating and cooling has not shown to have a degradable effect on food storage containers through thousands of cycles. Therefore, this principle of repeatability should transfer to the spring. Since testing of a spring heated and cooling in various liquids has not been performed, a risk exists.

In light of the fact that over five hundred plastics are presently widely used, a suitable substitute able to resolve an unexpected problem would be likely. Due to the simplicity of the design, the ability to engineer a spring with repeatable characteristics should not be insurmountable.

In the event the injection molded spring fails and an alternative solution not found the exposure to the investor has been limited.

## **XI. THE FINANCIAL DATA**

According to market information provided by Richard Henry, Vice President of Sales for Munchkin Bottling Company, a leading manufacturer of specialty baby bottles, a manufacturer introducing just another decorated bottle without any key features or benefits over current bottles be expected to capture one to two percent of the total market in the first year of operations. This market share would probably remain at two percent during subsequent years. This assumption is the basis for the worst-case scenario presented in the projected financial statements for Safe-Temp Bottle Company.

Munchkin's market data also indicates that if a company produced a product with significant features or graphics as compared to existing decorated bottles, the company could expect to attain four percent of the market in the first year. That share could grow at 30 Percent per year over subsequent years. To achieve these results, however, the product would have to be unique and special. These are the assumptions that Safe-Temp has used to project the Company's best-case scenario financial results.

To present conservative projected pro forma financial statements, Safe-Temp has assumed that the Company will earn only two percent per year is assumed for years three through five. Based on the above projected market share percentages, the current U.S. reusable bottle market of approximately 38.6 million units and a selling price of \$2.19 for the Safe-Temp bottle. Projected sales were calculated for all three scenarios. Based on industry practices of retailing premium

bottles at \$3.99, Safe-Temp established its cost at \$2.19 to provide a 45 percent gross margin to the retailer.

The most likely case scenario pro forma financial statements are, in management's opinion, a conservative, yet realistic, projection of Safe-Temp's first five years of production. These statements reflect positive cash flow in the first year of full production (year one of the Plan). The Company will also generate a profit after taxes in the first year of operation. Under this scenario, the Company will generate cash and grow in value sufficiently to allow Company to purchase an investor's ownership and allow the investor to realize a 50 percent return investment by the end of year five.

## Pro Forma Income Statement Assumptions

**Sales** To present a conservative view of pro forma results, the assumption was made that market share will be captured only from existing U.S. reusable market. In actuality, however, worldwide patents, the vast markets available outside the U.S. and the desirability of the product will result in greater sales than used in these financials.

To convert dollar bottle market to units for projection purposes:

	Dollar Sales	Units	Avg Selling Price	Calculations
U.S. bottle mkt	154,000,000			
U.S. reusable mkt	80,000,000	38,605,000	2.076,	175,000+32,430,000
U.S. premium reusable mkt	20,000,000	6,175,000	3.24	20,000,000/ ((2.99+3.49)/2)
U.S. standard reusable mkt	60,000,000	32,430,000	1.85	60,000,000/ ((1.80+1.90)/2)

Safe-Temp's pricing structure allows retailers 45% gross margin based on a suggested retail of \$3.99, while providing Safe-Temp a 58.0% gross margin.

## Cost of Goods Sold

Bottle including silicone nipple, standard ring & disk, shipping	\$0.57
Safe-Temp Modifications	<u>0.35</u>
Cost of Safe-Temp bottle	0.92

**Master Broker** engaged to set up established, experienced sales force. Master broker is paid 10% of his sales and 5% of his reps sales. The reps are each paid 5% of their sales. All pay their expenses and the master broker is anticipated to make 20% of the total projected sales.

## Salaries and Wages

	Year 1	Years 2-5
Alex Pollack-President and CEO	60,000	60,000
Scott Coffman-VP of Marketing	55,200	55,200
Warehouse Manager	24,000	24,000
Chief Financial Officer		50,000
Manufacturing Director		50,000
Secretary/Clerk		<u>20,000</u>
	<u>139,200</u>	259,200

## **Payroll Taxes**

OASDI	6.20% to 61,200 per employee
Medicaid	1.45% no limit
FUTA	.8% to 7,000 per employee
FL SUI	2.50% to 7,000 per employee

Worker's compensation insurance is based on 1.01% of payroll expense.

Health insurance is based on a rate of \$3,600 per family per year and is paid entirely by the Company.

Advertising is estimated at 5% of sales in year 1, 4% in year 2 and 3% in years 3 through five.

**Bad Debts** are estimated to be 3% of sales.

**Depreciation** is for office equipment and furniture with a cost of \$20,000 and manufacturing equipment with a cost of \$111,000 depreciated straight-line over 5 years.

**Dues and Subscriptions** based on estimated cost of trade journals, etc. to keep abreast of industry trends and activities.

**Insurance** expense is estimated to be 2.12% of sales and includes product liability and Directors and Officers coverage.

**Miscellaneous** expense is estimated to be .15% of sales.

**Rent** is based on .60% per square foot per month \* 1,000 square feet \* 12 months. This estimate is based on currently available office space in the Panama City business district. An additional \$.30 per square foot per month \* 10,000 square feet \* 12 months is estimated at the same site for inventory storage.

**Supplies** are based on \$.355% of sales.

**Travel** is estimated at .37% of sales per year for trade shows.

**Utilities** – Electricity costs are based on \$.89 per square foot per month \* 1,000 square feet \* 12 months. This estimate is based on current utility charges in the Panama City area. Telephone expense is estimated to be \$6,800 per year to include a 1-800 number for consumers and retailers.

### **Pro Forma Balance Sheets Assumption**

**Accounts Receivable** assumes sales are constant over the year (1/12 each month) and the accounts receivable balance at any balance sheet date is December's sales less an allowance for bad debts of 3%.  $(1/12 * \text{Annual Sales} * .97)$

**Inventory** assumes that although major orders will be shipped direct from manufacturer, equivalent of 1 month's sales will be kept in inventory at Company's office for emergencies.  $(1/12 * \text{Annual Cost of Goods Sold})$

**Fixtures and Equipment** assumes a \$20,000 purchase of office furniture and equipment (PC's) and an \$111,000 purchase of manufacturing equipment with depreciation computed on a 5 year straight-line method.

**Accounts Payable and Accrued Expenses** assumes sales are constant over the year (1/12 each month) and the accounts payable balance at any balance sheet date is December's cost of goods sold.

**Common Stock** assumes 100,000 shares of stock, par value \$.10, are authorized and issued.

**Additional Paid in Capital** assumes that 30,000 shares of the above stock is issued to an investor at \$6.67 per share.

**Retained Earnings** is the prior year's retained earnings balance plus the current year's net income.

**Safe-Temp Bottle Company**  
**Pro Forma Income**  
**Statements**  
**Most Likely Case**

	Start Up Period	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	\$0	\$1,690,680	\$3,381,360	\$4,395,768	\$5,748,312	\$7,438,992
Cost Of Goods	\$0	\$710,240	\$1,420,480	\$1,846,624	\$2,414,816	\$3,125,056
Gross Margin	\$0	\$980,440	\$1,960,880	\$2,549,144	\$3,333,496	\$4,313,936
<b>S, G &amp; A Expenses</b>						
Sales Reps						
Master Rep	\$0	\$101,441	\$202,882	\$263,746	\$344,899	\$446,340
Others	\$0	\$67,627	\$135,254	\$175,831	\$229,932	\$297,560
Total	\$0	\$169,068	\$338,136	\$439,577	\$574,831	\$743,900
Salaries & Wages	\$29,000	\$139,200	\$259,200	\$259,200	\$259,200	\$259,200
Payroll Taxes	\$2,681	\$11,341.00	\$21,214	\$21,214	\$21,214	\$21,214
Worker's Comp Ins	\$293	\$1,406	\$2,618	\$2,618	\$2,618	\$2,618
Health Ins	\$2,700	\$10,800	\$21,600	\$21,600	\$21,600	\$21,600
Advertising	\$0	\$84,534	\$135,254	\$131,873	\$172,449	\$223,170
Bad Debts	\$0	\$50,720	\$101,441	\$131,873	\$172,449	\$223,170
Depreciation	\$0	\$26,200	\$26,200	\$26,200	\$26,200	\$26,200
Dues & Subscriptions	\$0	\$400	\$400	\$400	\$400	\$400
Insurance	\$0	\$35,842	\$71,685	\$93,190	\$121,864	\$157,707
Miscellaneous	\$326	\$2,536	\$5,072	\$6,594	\$8,622	\$11,158
Patents	\$5,000	\$60,000	\$40,000	\$0	\$0	\$0
Rents	\$0	\$43,200	\$43,200	\$43,200	\$43,200	\$43,200
Supplies	\$4,000	\$5,917	\$11,835	\$15,385	\$20,119	\$26,036
Travel	\$6,000	\$6,256	\$12,511	\$16,264	\$21,269	\$27,524
Utilities	\$0	\$17,480	\$18,179	\$18,906	\$19,662	\$20,448
Total S, G & A Exps	\$50,000	\$664,900	\$1,108,545	\$1,228,094	\$1,485,697	\$1,807,545
Income Before Taxes	(\$50,000)	\$315,540	\$852,335	\$1,321,050	\$1,847,799	\$2,506,391
Income Taxes	(\$19,000)	\$119,905	\$323,887	\$501,999	\$702,164	\$952,429
Net Income	(\$31,000)	\$195,635	\$528,448	\$819,051	\$1,145,635	\$1,553,962

**Safe-Temp Bottle Company  
Pro Forma Balance Sheets  
Most Likely Case**

Current Assets	Start Up Period	Year 1	Year 2	Year 3	Year 4	Year 5
Cash	\$2,000	\$130,172	\$548,156	\$1,311,409	\$2,373,914	\$3,817,412
Accounts Receivable	\$0	\$136,663	\$273,327	\$355,325	\$464,655	\$601,319
Inventory	\$44,000	\$59,187	\$118,373	\$153,885	\$201,235	\$260,421
<b>Total Current Assets</b>	<b>\$46,000</b>	<b>\$326,022</b>	<b>\$939,856</b>	<b>\$1,820,619</b>	<b>\$3,039,804</b>	<b>\$4,679,152</b>
<b>Property &amp; Equip @ Cost</b>						
Fixtures & Equip	\$111,000	\$131,000	\$131,000	\$131,000	\$131,000	\$131,000
Less Allowances	\$0	(\$26,200)	(\$52,400)	(\$78,600)	(\$104,800)	(\$131,000)
	\$111,000	\$104,800	\$78,600	\$52,400	\$26,200	\$0
<b>Total Assets</b>	<b>\$157,000</b>	<b>\$430,822</b>	<b>\$1,018,456</b>	<b>\$1,873,019</b>	<b>\$3,066,004</b>	<b>\$4,679,152</b>
<b>Current Liabilities</b>						
Accrued Expenses	(\$19,000)	\$59,187	\$118,373	\$153,885	\$201,235	\$260,421
Long-Term Debt	\$0	\$0	\$0	\$0	\$0	\$0
<b>Stockholder's Equity</b>						
Common Stock	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Additional Paid in Capital	\$197,000	\$197,000	\$197,000	\$197,000	\$197,000	\$197,000
Retained Earnings	(\$31,000)	\$164,635	\$693,083	\$1,512,134	\$2,637,769	\$4,211,731
<b>Total Stockholder's Equity</b>	<b>\$176,000</b>	<b>\$371,635</b>	<b>\$9,000,083</b>	<b>\$1,719,134</b>	<b>\$2,864,769</b>	<b>\$4,418,731</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$157,000</b>	<b>\$430,822</b>	<b>\$1,018,456</b>	<b>\$1,873,019</b>	<b>\$3,066,004</b>	<b>\$4,679,152</b>

**Safe-Temp Bottle Company**  
**Pro Forma Cash Flows**  
**Most Likely Case**

	Start Up Period	Year 1	Year 2	Year 3	Year 4	Year 5
Net Income	(\$31,000)	\$195,635	\$528,448	\$819,051	\$1,145,635	\$1,553,962
Add Items Not Requiring Cash						
Depreciation	\$0	\$26,200	\$26,200	\$26,200	\$26,200	\$26,200
Cash From Operations	(\$31,000)	\$221,835	\$554,648	\$845,251	\$1,171,835	\$1,580,162
Sources of Cash						
Issuances of Stock	\$207,000	\$0	\$0	\$0	\$0	\$0
Increase in Accounts Payable	(\$19,000)	\$78,187	\$59,186	\$35,512	\$47,350	\$59,186
Total Sources of Cash	\$188,000	\$78,187	\$59,186	\$35,512	\$47,350	\$59,186
Uses of Cash						
Increase in Accounts Receivable	\$0	\$136,663	\$136,664	\$81,998	\$109,330	\$136,664
Increase in Inventory	\$44,000	\$15,187	\$59,186	\$35,512	\$47,350	\$59,186
Increase in Fixed Assets	\$111,000	\$20,000	\$0	\$0	\$0	\$0
Total Uses of Cash	\$155,000	\$171,850	\$195,850	\$117,510	\$156,680	\$195,850
Increase in Cash	\$2,000	\$128,172	\$417,984	\$763,253	\$1,062,505	\$1,443,498
Beginning Cash	\$0	\$2,000	\$130,172	\$548,156	\$1,311,409	\$2,373,914
Ending Cash	\$2,000	\$130,172	\$548,156	\$1,311,409	\$2,373,914	\$3,817,412

**Safe-Temp Bottle Company  
Pro Forma Income  
Statements Highlights  
Worst Case**

	Start Up Period	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	\$0	\$845,340	\$1,690,680	\$1,690,680	\$1,690,680	\$1,690,680
Cost of Goods	\$0	\$355,120	\$710,240	\$710,240	\$710,240	\$710,240
Gross Margin	\$0	\$490,220	\$980,440	\$980,440	\$980,440	\$980,440
S, G & A Expenses	\$50,000	\$487,464	\$770,577	\$714,397	\$715,153	\$715,939
Income Before Taxes	(\$50,000)	\$2,756	\$209,863	\$266,043	\$265,287	\$264,501
Income Taxes	(\$19,000)	\$1,047	\$79,748	\$101,096	\$100,809	\$100,510
Net Income	(\$31,000)	\$1,709	\$130,115	\$164,947	\$164,478	\$163,991

**Pro Forma Balances  
Sheet Highlights**

	Start Up Period	Year 1	Year 2	Year 3	Year 4	Year 5
Current Assets	\$46,000	\$102,502	\$288,411	\$479,558	\$670,236	\$860,427
Property & Equip, Net	\$111,000	\$140,800	\$78,600	\$52,400	\$26,200	\$0
Total Assets	\$157,000	\$207,302	\$367,011	\$531,958	\$696,436	\$860,427
Current Liabilities	(\$19,000)	\$29,593	\$59,187	\$59,187	\$59,187	\$59,187
Stockholder's Equity	\$176,000	\$177,709	\$307,824	\$472,771	\$637,249	\$801,240
Total Liabilities & Equity	\$157,000	\$207,302	\$367,011	\$531,958	\$696,436	\$860,427

**Pro Forma Cash  
Flow Highlights**

	Start Up Period	Year 1	Year 2	Year 3	Year 4	Year 5
Cash From Operations	(\$31,000)	\$27,909	\$156,315	\$191,147	\$190,678	\$190,191
Total Sources of Cash	\$188,000	\$48,593	\$29,594	\$0	\$0	\$0
Total Uses of Cash	\$155,000	\$73,925	\$97,925	\$0	\$0	\$0
Increase in Cash	\$2,000	\$2,577	\$87,984	\$191,147	\$190,678	\$190,191
Beginning Cash	\$0	\$2,000	\$4,577	\$92,561	\$283,708	\$474,386
Ending Cash	\$2,000	\$4,577	\$92,561	\$283,708	\$474,386	\$664,577

**Safe-Temp Bottle Company**  
**Pro Forma Income Statements Highlights**  
**Best Case**

	Start Up Period	Year 1	Year 2	Year 3	Year 4	Year 5	
Sales		\$0	\$3,381,360	\$4,395,768	\$5,748,312	\$7,438,992	\$9,636,876
Cost of Goods		\$0	\$1,420,480	\$1,846,624	\$2,414,816	\$3,125,056	\$4,048,368
Gross Margin		\$0	\$1,960,880	\$2,549,144	\$3,333,496	\$4,313,936	\$5,588,508
S, G & A Expenses	\$50,000	\$1,019,775	\$1,311,325	\$1,484,941	\$1,806,759	\$2,224,922	
Income Before Taxes	(\$50,000)	\$941,105	\$1,237,819	\$1,848,555	\$2,507,177	\$3,363,586	
Income Taxes	(\$19,000)	\$357,620	\$470,371	\$702,451	\$952,727	\$1,278,163	
Net Income	(\$31,000)	\$583,485	\$767,448	\$1,146,104	\$1,554,450	\$2,085,423	

**Pro Forma Balances  
Sheet Highlights**

	Start Up Period	Year 1	Year 2	Year 3	Year 4	Year 5
Current Assets	\$46,000	\$773,058	\$1,602,218	\$2,821,872	\$4,461,708	\$6,650,274
Property & Equip, Net	\$111,000	\$104,800	\$78,600	\$52,400	\$26,200	\$0
Total Assets	\$157,000	\$877,858	\$1,680,818	\$2,874,272	\$4,487,908	\$6,650,274
Current Liabilities	(\$19,000)	\$118,373	\$153,885	\$201,235	\$260,421	\$337,364
Stockholder's Equity	\$176,000	\$759,485	\$1,526,933	\$2,673,037	\$4,227,487	\$6,312,910
Total Liabilities & Equity	\$157,000	\$877,858	\$1,680,818	\$2,874,272	\$4,487,908	\$6,650,274

**Pro Forma Cash  
Flow Highlights**

	Start Up Period	Year 1	Year 2	Year 3	Year 4	Year 5
Cash From Operations	(\$31,000)	\$609,685	\$793,648	\$1,172,304	\$1,580,650	\$2,111,623
Total Sources of Cash	\$188,000	\$137,373	\$35,512	\$47,350	\$59,186	\$76,943
Total Uses of Cash	\$155,000	\$367,700	\$117,510	\$156,680	\$195,850	\$254,605
Increase in Cash	\$2,000	\$379,358	\$711,650	\$1,062,974	\$1,443,986	\$1,933,961
Beginning Cash	\$0	\$2,000	\$381,358	\$1,093,008	\$2,155,982	\$3,599,968
Ending Cash	\$2,000	\$381,358	\$1,093,008	\$2,155,982	\$3,599,968	\$5,533,929

## **XII. PROPOSED COMPANY OFFERING**

### **Desired Financing**

The management team has projected that Safe-Temp Bottle Company will need capital of \$200,000 to begin operations. These funds will be primarily used to secure patents, fund initial plastic mold manufacture and complete development and testing. Anticipated immediate sales should generate sufficient cash to fund operating activities once actual production begins and no additional funding needs are expected.

### **Offering**

In exchange for the seed capital in the amount of \$200,000, Safe-Temp Company is prepared to surrender 20 percent ownership in the Company. Safe-Temp Bottle Company anticipates that an investor willing to provide these funds will require a return on investment of 50 percent per year and be able to liquidate his investment in the Company in five years. At a 50 percent return rate, this investment at the end of five years will be \$2,010,000.

Based on most likely case scenario pro forma financial statements and using five times after tax earnings as a basis for valuing Safe-Temp Bottle Company, a 20 percent ownership in Safe-Temp Bottle Company will be worth approximately \$1,554,000 at the end of five years.

Assuming ten times after tax earnings as an approximate basis for valuing Safe-Temp Bottle

Company, a 20 percent ownership in the Company will be worth approximately \$3,108,000 at the end of five years.

In the event that Safe-Temp Bottle Company is not prepared or desirous of issuing an initial public offering at the end of the five-year period, the financial situation of the Company would allow Safe-Temp Bottle Company to purchase the initial investor's stake in the Company at the same rate mentioned above.

