

**ALLEGRO MULTIMEDIA INC.,**

**Db**



**ALLEGRO RAINBOW™**  
*For the Musical Child in All of Us™*

*Presents*



**Piano Commando™**

*"I'll be Bach!"*

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For Further Information Please Contact:

**Chris Salter, CEO**  
**11510 Valencia Dr, Suite B**  
**Seffner, FL 33584**  
**813-505-2995**

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Business Summary Copy # \_\_\_\_\_

## 1 COMPANY DESCRIPTION

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### 1.1 Introduction

Allegro Multimedia, Inc., DBA Allegro Rainbow, is a Florida based company providing **non-violent computer video game software** that teaches both young and old alike how to play the piano and read music. The Company's primary activity is the development, production and marketing of music game software and hardware, specifically Piano Commando, with additional products already under consideration. The Video Game industry is one of the fastest growing and healthiest areas of the economy, and Allegro Rainbow intends to capitalize on the opportunities in that area.

**Piano Commando is an exciting video game that integrates computer-based piano tutorial software with a fun, interactive gaming environment.** It has the unique ability to transform tedious and repetitive practice sessions into an exciting and deeply rewarding video game experience for people of all ages and musical abilities. Because Piano Commando is primarily a video game, but with a deeply appealing educational aspect, it will be the first video game suitable for home shopping and infomercial marketing. The product will provide consumers with a non-violent alternative to traditional video games that is fun, compelling, and challenging. Simultaneously, it will teach musical literacy.

### 1.2 Mission statement

The mission of Allegro Rainbow, a premiere provider of music gaming software and musical educational tools, is first to increase music literacy and the ability to play and read music among all classes of people; second, to provide an answer for parents and educators as well as religious groups and government agencies to combat the onslaught of mind-numbing violence and destruction that has traditionally dominated the video game industry; and third to build long-term relationships with customers by providing quality products, training, support and additional exciting gaming products that continue to move our mission forward in a fun, safe and non violent and yet exciting way for their children.

### 1.3 Vision statement

The vision of Allegro Rainbow is to realize a tidal wave of interest in music making, achieving universal musical literacy among all people regardless of age, national origin, or economic status through the company's fun and exciting lineup of non-violent, music training video games.

### 1.4 Inception and history of the business

Allegro Rainbow is in the pre-early-revenue stage. The Company has achieved the following milestones:

- Business incorporated in August 2001
- Raised the first \$125,000 in 6 months
- Built prototype and videotaped children's reactions to field tests
- Created investor video and in 6 months closed out next round for \$250,000
- Planned and designed full game specifications
- Raised another \$500,000 in 6 months
- Began programming the game
- Oversold third round as programming for version one neared completion

- PR campaign underway, and launch plans and personnel and vendors being articulated and refined

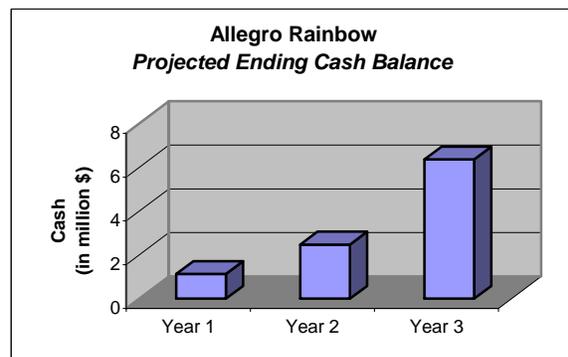
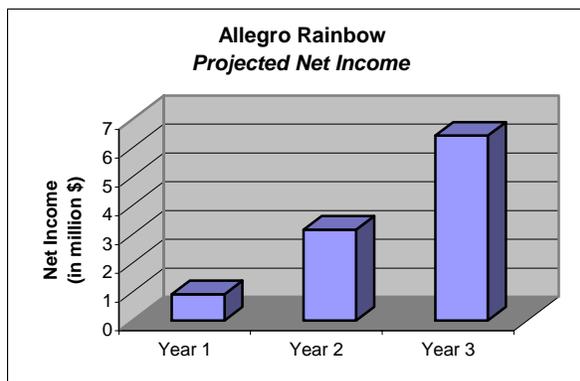
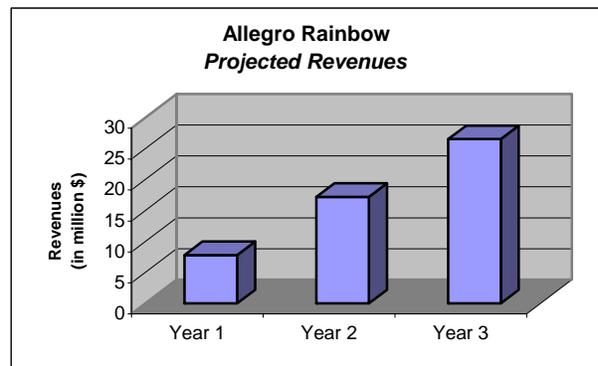
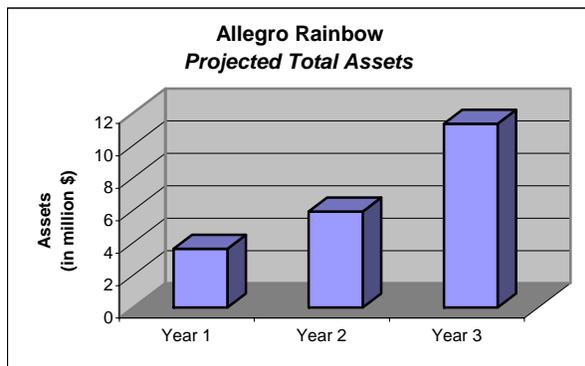
Currently, the PC Software development is in the Beta level, and pre-sales have begun. Allegro Rainbow anticipates that the first PC version will be available for sale in 2003 and that the second PC version will be available as an update in 2004. Additional versions will be completed for a variety of instruments in the future.

### 1.5 Copyrights, trademarks, patents, and trade secrets

The Allegro Rainbow team recognizes the importance of intellectual property protection and has established a series of patents, trademarks and copyrights to guard its unique gaming and music-training concept against potential competitors. Allegro Rainbow holds patents for Piano Commando, Drum Commando and Captain Kalimba. A fourth patent is underway for Band Commando. For a complete list of patents, trademarks and copyrights, please refer to the *Business Plan*.

### 1.6 Financial goals

Allegro Rainbow projects to have a net income of \$ 914,985 in its first year of operation, \$ 3,162,639 in the second year, and \$ 6,430,336 in the third year. The following graphs show the revenues, profits and ending cash balances of the first three years of operation. More detailed numbers are in the *Financial Projections* section of this document and also in the *Appendix 1* of the *Business Plan*.



## 2 PRODUCTS

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### 2.1 Key features and benefits of Allegro Rainbow's products

At present, Allegro Rainbow's product is **Piano Commando**. Piano Commando is the first product of its kind. It uses a real piano keyboard as a control device for an exciting video game that teach players of all ages how to easily play and read music.

By using intensely detailed and vibrantly colorful graphics, Piano Commando maintains the players interest and effectively teaches music literacy in record time. Plus, the program runs on a central game engine, which allows new game designs to be easily added. The player uses an interface that is parallel to an actual keyboard to easily align virtual piano keys with real ones.

Piano Commando is MIDI-compatible, providing a user with virtually unlimited song selections. Whether users have some piano-playing background or have never taken a lesson before, Piano Commando offers something for everyone. The game is a real bargain considering that piano lessons typically cost \$30-\$50 an hour.

### 2.2 Up-coming products

Allegro Rainbow's unique and innovative product lends itself to natural line extensions creating a sound foundation for growth for many years. Here is a quick list of products slated for release:

1. Drum Commando
2. Piano Commando on Xbox, Sony Playstation or Nintendo
3. Piano Commando Stand alone, built into a keyboard
4. Band Commando, networked ensemble playing
5. Captain Kalimba, thumb piano handheld videogame
6. Karaoke Commando and Voice Precise, to teach people to sing in tune and on time

In addition, due to the endless graphical variations the game platform can have, Allegro Rainbow plans to explore new niche markets such character licenses with popular icons like Barbie, Disney, and Pokemon, etc.

## 3 COMPETITION

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### 3.1 Direct competition

At present, no other manufacture or institution teaches music by having an instrument interact with a video game platform. Allegro Rainbow will have an advantage by being the first to teach music this way. The company will most likely face competition from companies that provide music teaching software or services and possibly from developers in the mainstream gaming industry.

Here is a list of products on the market today that most resemble Piano Commando:

- **Teach Me Piano by Voyetra:**

Voyetra's product is incompatible with many operating systems including Windows 2000. The software has several bugs, especially with MIDI cables, and the 'scoring' of performances sometimes does not work. Teach Me Piano is geared toward young children and does not appeal to older students. For more experienced users, the lessons become boring and repetitive after two hours.

- **Piano Suite by Adventus:**

Piano Suite begins instruction with an interactive course that teaches music notation and theory (in an interactive environment) before moving the players into a playing level. The games get confusing and boring after a short time. Additionally, songs for this software are sold in "packages" of 400 to 500 pre-selected songs according to the user's skill level, confining players to the Adventus library of available music, which is limited.

- **Keyboard Mania by Yamaha:**

Unlike Piano Commando, Keyboard Mania is not open for import of any MIDI file; it is not color-coded; it has no real teaching agenda and is not being adapted to do so; and it is based on the inherent dead end arcade game design. Yamaha is not making any money from this product.

- **Magic Lights Keyboard by Casio:**

Magic Lights Keyboard shows flashing red lights on the keys the player just missed. By the time the player sees the lights they are out of rhythm. Even though Casio is earning money with the Magic Lights Keyboard, it is a gimmick with no sustaining power. Casio is aligned with HSN and has a charismatic performer selling the keyboards — strategies that can be easily duplicated and outdone by Allegro Rainbow.

- **Online Piano Lessons:**

There are an increasing number of free and paid piano tutorial sites cropping up on the Internet. Few of these companies exist for more than a year. While these services provide the flexibility of taking piano lessons wherever you are, the training methods are archaic and it is difficult to verify the credentials of the instructors. Many piano methods succeed commercially only because people *really* want to learn to play the piano.

### **3.2 Competitors in the broader game industry**

Sony, Nintendo, Microsoft, and EA Sports are the major developers of mainstream video and computer games. These companies are currently producing action and strategy games and currently do not have any products that teach music.

### **3.3 Music tutorial software**

There are several music tutorial software programs currently in the market. They generally share three common flaws:

- They start with musical notation, a confusing and outdated transcription method
- They are boring and didactic learning software
- The few products in the market with a gaming environment are:
  - Geared toward very young children
  - Not customizable
  - Counter-intuitive, and
  - Typically not challenging or fun for older children and adults

### **3.4 Other possible competitors**

Other competitive institutions and manufacturers that currently teach music include piano schools, music teaching labs, and video teaching methods.

### **3.5 Entry barriers for competitors**

Allegro Rainbow has spent the last 2 years researching and developing its technology, based on over 12 years of music research by the founder. Patents protect the progress the company has made on unique features. In addition, Allegro Rainbow is establishing exclusive relationships with marketing distribution channels and Fortune manufacturers that will be difficult for competitors to replicate.

### **3.6 Competitive advantages for Allegro Rainbow**

- **Simplicity:** The player can begin learning how to play the piano instantly regardless of past experience. The player doesn't need to know musical notation to play a song.
- **Unmatched variety:** Central Game technology allows an infinite number of new games to be released. Also, MIDI-compatibility means that virtually any song can be uploaded for game play.
- **MIDI-compatibility.** Any song can be used to generate the game interface. Tempo, complexity, and time tolerances can be adjusted so that virtually anyone can play.
- **Software flexibility.** Software is adaptable to any PC and keyboard that can connect to a PC. The software is also flexible. Any innovation that Allegro Rainbow creates or implements can be easily included in the software.
- **Music Download system.** Allegro Rainbow will create a music download system specifically niched for market segments (e.g. by ages, religious interests, ethnic songs etc.).

## 4 INDUSTRY ANALYSIS

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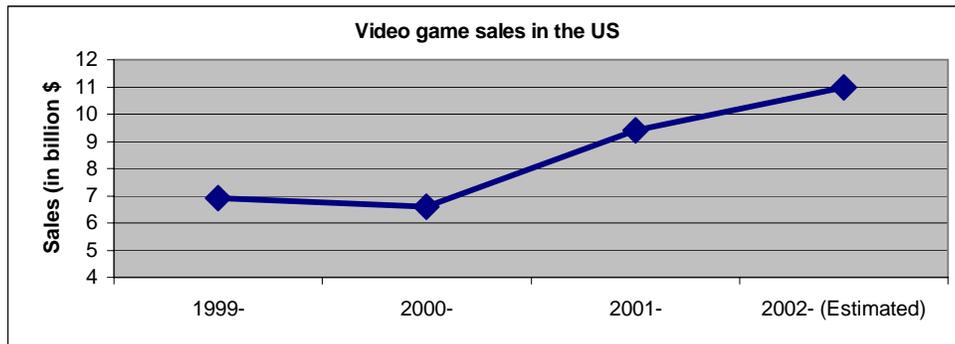
### 4.1 Industry

Piano Commando, because of its unique features and benefits, is a product in two industries:

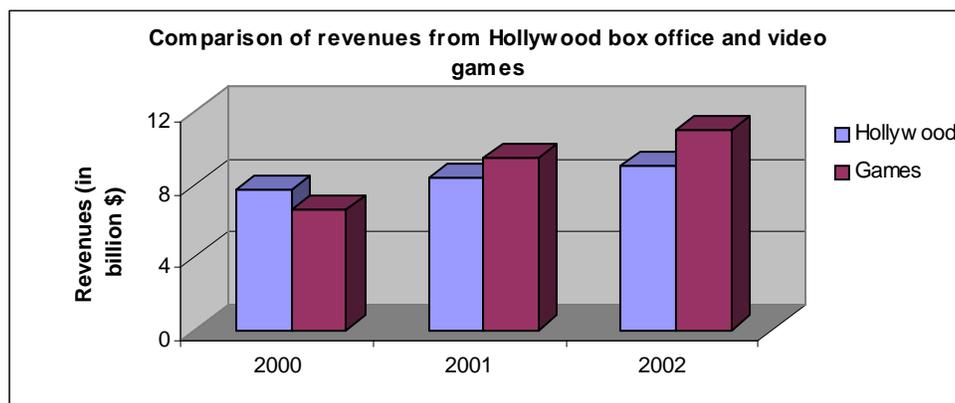
1. Computer and video games, and
2. Piano teaching by computer

### 4.2 The booming computer and video game industry

According to the Interactive Digital Software Association, 60% of all Americans of age six and older, or about 145 million people, play computer and video games. The computer and video game industry has been experiencing a boom with year-by-year growth for the last few years, even when the overall economy has been in a slump. According to market research groups, U.S. video game hardware and software sales were expected to reach record levels in 2002 — between \$10 and \$12 billion.<sup>1</sup> Experts say that the industry will be worth 20 Billion dollars domestically in the next five years.



The revenues from the game industry has surpassed the Hollywood box office revenues in recent times, as shown in the following graph:



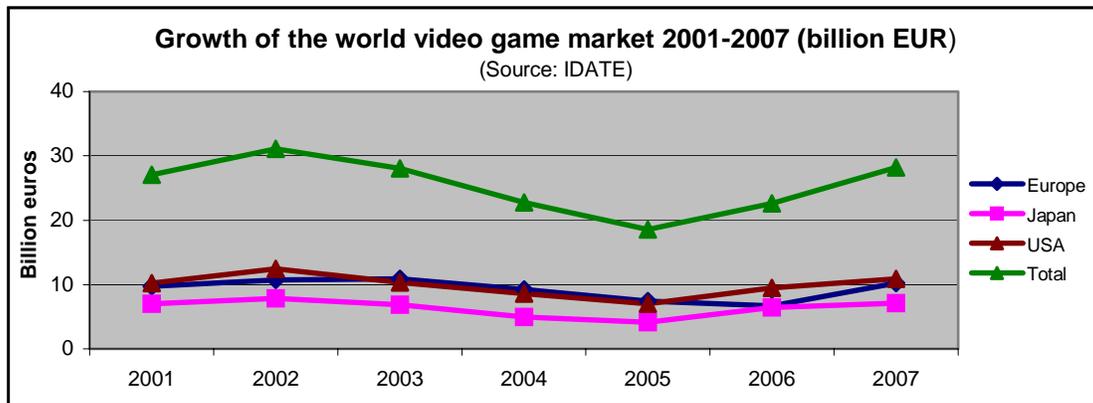
Source of Hollywood data:

<http://www.cbsnews.com/stories/2003/01/06/entertainment/main535408.shtml>  
<http://www.hollywood.com/news/detail/article/1099492>

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<sup>1</sup> <http://www.gamemarketwatch.com/news/item.asp?nid=2618>

The world video game market - hardware and software combined - is currently worth close to 28 billion euros.<sup>2</sup> IDATE's forecasts up to 2007 confirm that the markets are now on the upswing, sustained by the introduction of new consoles and by broadband deployment.



In the Christmas season of 2002, the top two fastest growing categories for the season were toys and video games and consumer electronics, with shoppers increasingly spending for both categories by more than 72%. Toys and games posted online spending of more than \$1.8 billion.

In keeping with the rising number of women gamers, more women are buying games than ever. Nearly half of those who purchase games online - in all game genres - are women. It is clear that female gamers constitute a significant market niche virtually ignored by the gaming industry. Unfortunately, violent computer games with hyper-masculine themes that are devoid of positive representations of women continue to dominate the market. Many female interests and preferences have not yet been addressed in the gaming industry, including:

- More gender-neutral games
- A reduction in violent, sexist game content
- Marketing that acknowledges women's interests and preferences
- Video game environments that are free of gender harassment

<sup>2</sup> [http://www.gii.co.jp/press/iu9950\\_en.shtml](http://www.gii.co.jp/press/iu9950_en.shtml)

## 5 MARKET NEED/OPPORTUNITIES AND ALLEGRO RAINBOW'S SOLUTION

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### 5.1 Existing need in the market

Allegro Rainbow addresses two growing needs in the market:

- *The desire to learn to play piano.* People have a desire to learn to play a musical instrument; however, learning is difficult and busy families do not have the time to learn and master an instrument like they once could. In addition, financial demands prohibit some families in lower income brackets from receiving lessons.
- *An alternative to sex and violence in games.*

### 5.2 Growing concerns about video games and children: Why it is important to find a healthy alternative to sex and violence in video games

The major companies in the game industry are mainly marketing their products to children and positioning their products as fun and action-packed with lots of blood, guts, sex situations, and rule breaking. Concerns about the social effects of media such as video games on children and youth are echoed everywhere. According to the Entertainment Software Rating Board (ESRB), 46% of current video games are not suitable for children under 13. National Institute on Media and the Family in its 7th annual report card on the video game industry took aim at what it says is the growing prevalence of sex and violence and gave the game industry an overall grade of “F”<sup>3</sup>. Studies have found that 8-year-old boys who viewed the most violent programs growing up were the most likely to engage in aggressive and delinquent behavior by age 18 and serious criminal behavior by age 30.<sup>4</sup>

### 5.3 Opportunity in the market: A growing concern and resulting change in attitude

Despite the concerns, proponents of the newer interactive technologies of video and computer games argue that such media, if created and used appropriately, can also enhance children's education. And this realization is bringing about profound changes in the market. Increasing pressure for more family-friendly games that eschew hardcore action and violence, has forced game manufacturers to reconsider their target audience. At the 2001 E3 Expo, 63% of the 2,400 games shown by the more than 430 exhibitors – a total of more than 1,500 titles in all - were classified as nonviolent games. This changing scenario poses great opportunities for a company like Allegro Rainbow.

### 5.4 How Allegro Rainbow provides a solution to the need

Allegro Rainbow, through Piano Commando, provides an easy, interesting, and inspiring method to learn piano and read music at a low cost. Piano Commando is a, non-violent wholesome computer game that challenges the player to want to progress by mastering the piano keyboard.

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<sup>3</sup> <http://www.gamemarketwatch.com/news/item.asp?nid=2617>

<sup>4</sup> <http://www.mediascope.org/pubs/ibriefs/pcac.htm>

## 6 TEST MARKETING RESULTS

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Test marketing and the product launch are occurring in Provo, Utah. Allegro Rainbow has manned demonstration booths during different events in Utah. Utah is an optimal market for launching the Piano Commando because of the deep commitment the state's residents have to learning music. The Church of Jesus Christ of Later-day Saints (Utah's predominant religious group) is one of the largest consumers of pianos and piano teaching products per capita in the country.

**Allegro Rainbow has made the following observations during the test-marketing phase in Provo, Utah:**

- Children who try playing Piano Commando tell their parents and grandparents about it.
- Parents are amazed at the level of concentration their children put into playing the game.
- Piano Commando can create **free** publicity, on both TV and print.
- Parents respond to left-brain justifications about music training improving their child's intelligence.
- Many music teachers see this product as a way to improve their teaching effectiveness and/or income.
- There is a strong word of mouth with this product. Many people came to the Allegro Rainbow booths saying they were told to come and visit the booth by their daughters, wives, mothers, fathers etc. and were told to get all the info they could on the product. Many said that the game would be great for their grandkids, nieces, brothers etc.
- Those most interested were boys aged 7-17, and some up to 23 years old. One 14-year-old boy played for quite a while and then left and returned with his mother, and said, "See, this is what I was telling you about..."
- The other group who really paid attention was that of older men – grandparents looking for Christmas presents for grandkids.

View the **Utah Focus Group Video** by contacting Allegro Rainbow management at

[CEO@AllegroMultimedia.com](mailto:CEO@AllegroMultimedia.com).

## 7 MARKETING PLAN

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### 7.1 Target customers

The customers for Piano Commando are:

- Children/Adolescents who like a challenging, compelling video game
- Parents, grandparents, uncles and aunts, and anyone who buys toys for children
- People who have always wanted to learn to play music

Age Wave Market Research reports that grandparents buy one out of every four toys sold in America. The 50-plus market is America's biggest, most affluent sector. Although they make up only 37% of the U.S. population, they control more than 70% of America's financial assets and 80% of personal wealth in financial institutions.

### 7.2 Behavior pattern of the target market

Of the people who purchase computer games, 87% are 18 years or older. Minors (those under 18 years of age), Allegro Rainbows prime target audience, traditionally get parental approval to purchase a game. In fact 84% of those under the age of 18 get their parents' permission. Though Piano Commando is designed to appeal primarily to younger persons, much of the marketing effort will be directed at getting parents and grandparents to purchase it for their children and grandchildren.

### 7.3 Pricing strategy

Allegro Rainbow's strategy is to begin selling Piano Commando at only \$199 suggested retail with piano keyboard included, or at \$99 without the keyboard. The price is aggressive to accommodate commissions from direct demonstration sales.

### 7.4 Marketing Plan Overview

Piano Commando will launch with a marketing strategy that heavily relies on the power of demonstration via computer trade shows, home shows or promotions, school systems, and direct television sales (i.e. QVC, infomercials). Only after creating a great brand and market presence will the product be released to traditional retail distribution channels. This approach allows Allegro Rainbow to control channel conflict, pricing, supply, and profit margins. It provides the flexibility of being able to pay for the expense of marketing after the fact in the form of direct sales commissions. Additionally, it enables Allegro Rainbow to come to the retail industry from a position of established strength and consumer demand.

### 7.5 Sales and Distribution strategy

To create product awareness and immediate sales of Piano Commando, Allegro Rainbow will begin selling its products direct via demonstration at computer shows, home shows, school events, and on TV. When Piano Commando has achieved sufficient sales and brand recognition, Allegro Rainbow will begin to sell it through retail distribution channels.

Allegro Rainbow plans to use the following low-cost distribution channels:

- Wholesale and retail sales of Piano Commando and related music products, through a commission-based demonstration sales model, both live and on TV
- Computer shows
- Piano education events, concerts, schools
- Home Shopping Network
- TV infomercials, per inquiry TV promotions
- Video demonstrations and trial versions via the Internet

Mr. Chris Salter, the founder of Allegro Rainbow, has extensive experience selling software directly to the consumer via demonstration sales, and can replicate the sales model of his earlier company, Crystal Software. His company sold software via demonstration strictly at computer shows nationwide. Teams of salespeople each weekend sold at shows across the country, and reached annual sales of over one million dollars within 14 months of startup. This experience of organizing and training sales teams, coordinating the logistics, and inventory control and verification gives Allegro Rainbow a proven low-cost grass roots marketing strategy to fall back on, even if the company never reaches the Home Shopping Network or QVC. Mr. Salter believes that that through this proven, grassroots process, no matter what else happens, all of the initial investment can be recouped and more.

#### **7.5.1 Referral program**

Allegro Rainbow will offer a referral program consisting of access to premium Web content from Club Piano Commando as a reward to those referring potential customers to Allegro Rainbow.

#### **7.5.2 Generating leads**

In addition to generating leads through demonstration events at tradeshow, Allegro Rainbow plans to use piano teachers, schools, and fund-raising entities as potential lead sources. A 72-hour test drive, whereby an organization can take the game, set it up and let their children play with it, may be used to convert leads to customers. A salesperson can also give a 10-minute test-drive. In addition, a thirty-day guarantee includes one teacher/facilitator visit. The salesperson can help customers upgrade their PC, speakers, and software through other vendors to enhance their experience.

#### **7.5.3 Sales commission**

The sales commission will be 40%. The number of sales for an average salesperson, based upon all the current data, could be 30 to 50 at a weekend show, if the audience at the trade show is qualified. Endorsements, testimonials, and videos will help the salespersons achieve their targets.

### ***7.6 Public Relations Strategy***

Allegro Rainbow has contracted with Gibson Communications Group (GCG), a nationally recognized public relations and event coordination firm specializing in niche market campaigns, to create a plan for a comprehensive 12-month market awareness campaign. This proposal, if accepted, would be implemented in part or full by her firm.

Gibson's extensive contact base and its "Virtual Agency" concept ensures Piano Commando an entirely senior PR account team, while managing costs at the most efficient level. The agency anticipates requiring \$15,000 - \$20,000 per month on a minimum 6-month retainer.

Gibson's areas of expertise include traditional PR, industry and educational trade news, extensive entertainment industry promotions and cross promotions, specialized shopping mall campaigns, non-profit fundraising, and event coordination.

The Agency's relevant internet/e-commerce/interactive account experience includes: BreakTV.com, Hollywood Video Online, Reel.com, Sierra Online, Sony Interactive Entertainment (Sony Psygnosis), Viridis, and Wedding411.com.

In addition, Gibson has experience with children's product introductions and cross promotions with Toys "R" Us, Sony, Psygnosis Interactive Games, Sierra Online computer games, Universal Studios, Ralph Edwards Films, Hallmark Home Entertainment, The Make-A-Wish Foundation, Fox Kids Network, Burger King, Saban Entertainment, and DreamWorks TV Animation.

The senior staff at Gibson has also successfully integrated product promotions into charitable associations like Make a Wish, in addition to Mall Event Promotions and Management, and Children's Sweepstakes. Each area of Gibson's experience is an ideal match for Allegro Rainbow.

## 8 LAUNCH PLAN

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Allegro Rainbow is establishing its initial launch in three phases:

- **Beta launch:** The Beta testing is nearly complete. Piano Commando is being placed in over 150 homes with close technical support to discover how customers interact with the product and the potential issues they have. Each issue is being addressed and solutions are being established as the product rolls out to a more mass market. The beta test is mainly confined to Provo, Utah.
- **Sales and public relations launch:** As a more perfected product is completed, Allegro Rainbow will seek attention from the press and will begin to appear at an increasing number of demonstration events. In the beginning, the sales and public relations launch will rollout throughout the major population centers in the state of Utah. The most successful tactics will be duplicated on a national level.
- **National launch:** When Allegro Rainbow's products have demonstrated stability and market acceptance, Piano Commando will be rolled out nationally through television shopping networks, infomercials, and national demonstration events.

## 9 OPERATIONS PLAN

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### 9.1 *The operational process*

Six core components form the foundation for Allegro Rainbow's operational process

- **Development**, which consists of programming, graphic designing, and the individual creativity of the founder, Chris Salter;
- **Testing**, involving consultants, bug tracking software, testing labs, and beta volunteers, customers, facilitators, and evaluators;
- **Manufacturing**, encompassing printing, production, and fulfillment vendors; 4) Vendor alliances with Yamaha, Evolution, and Creative Labs
- **Fulfillment infrastructure** through an out-sourcing partner
- **Marketing, PR and Selling**, the details of which are being developed by sales and marketing experts Kurt Koenig and Susan Gibson.

### 9.2 *Facilities*

Allegro Rainbow will direct all operations from one office. Warehouse space will be leased if necessary, only if the manufacturers cannot drop ship software directly.

## 10 BUSINESS MODEL

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Because of the educational aspects and wholesome merits of Piano Commando, Allegro Rainbow is uniquely positioned to successfully tap into the television sales market, giving it an unprecedented competitive edge over traditional video games, which are not typically marketed on TV. This also allows Allegro Rainbow to control channel conflict and pricing, and so maintain high profit margins even with high sales volume. Allegro Rainbow is completing the full development of Piano Commando and setting up a direct sales infrastructure. Allegro Rainbow will launch the game with a marketing strategy that heavily relies on the power of demonstration via direct television sales (i.e. HSN, QVC, Infomercials). The company will also focus on marketing at computer trade shows, home shows or promotions, school districts, and other educational outlets.

Allegro Rainbow plans to generate revenue through the following profit centers:

- Wholesale and retail sales of Piano Commando and related music products, via a commission-based demonstration sales model, both live and on TV
- Licensing of Piano Commando to other video game and keyboard manufacturers
- Web subscriptions to MIDI song databases and other musical and graphical elements of the game
- Licensing of additional patented inventions produced internally to market leaders, through qualified licensing brokers

## 11 RISK ANALYSIS

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### 11.1 Main risk reducers

- There is no other video game or hardware company of this type to date in the United States.
- Allegro Rainbow's small size will play to the detriment of large companies during this period of rapid market entry, and more so in light of the skill set of Allegro Rainbow marketing and sales personnel.
- Allegro Rainbow will work with key players in the industry to jointly market services.
- Allegro Rainbow intends to partially offset any competitor or current market share advantages with a wide range of strategic relationships.

### 11.2 Risks and risk minimization strategies

Allegro Rainbow faces a number of business risks, but at the same time the company's experienced management team has developed several risk management strategies:

**Limited Operating History:** As a startup company, Allegro Rainbow has a limited operating history.

*Risk Management Strategy:* Although Allegro Rainbow is a new company, its management team is not new. Fundamentally, Allegro Rainbow asserts a "management first-product/services first" philosophy. Only highly successful and experienced professionals with track records have been considered for its seasoned team of proven leaders. Management is committed to Allegro Rainbow's purpose and mission, employee empowerment, incentive structures, quality improvement, customer relations, cost containment, and strategic planning.

**Lack of Capital:** Allegro Rainbow cannot guarantee that still more than anticipated capital will not be necessary. Should additional capital prove unavailable in a timely basis, Allegro would be forced to reduce its rate of growth to ensure preservation of sufficient operations capital. In the event of reduced growth rate, Allegro's strategy to achieve market dominance may be delayed or endangered.

*Risk Management Strategy:* Allegro Rainbow's relationships with top accounting, funding sources, agencies, and law firms will play key roles towards its capitalization strategy. To avoid delays, second round financing will be undertaken promptly, following agreements for the use of the initial required capital.

**Competition:** Since there is no company that individually dominates Allegro Rainbow's market, the main threat to Allegro Rainbow are large software firms like Microsoft. However, management expects that if this were to occur, Allegro Rainbow will represent an attractive takeover target (to save competitors development expense and time to market).

*Risk Management Strategy:* Allegro Multimedia plans a multi-faceted defense against competition:

- First mover advantage: There is no other video and hardware company of this type to date in the US.
- Nimbleness: Allegro Rainbow's small size will play to the detriment of large companies during this period of rapid market entry, and more so in light of the skill set of Allegro Rainbow's marketing and sales personnel.

- **Joint marketing:** Allegro Rainbow will work with key players in the industry to jointly market services.
- **Strategic relationships:** Allegro Rainbow intends to partially offset any competitor or current market share advantages of any company with a wide range of strategic relationships.

**Copycats:** Any dramatic growth and market penetration is likely to invite “copycat” competition with similar services. Success invariably begets competition.

*Risk Management Strategy:* Allegro Rainbow’s first mover advantage and strategic partnerships will provide a formidable defense against copycats, giving it an 18-month head start on any would-be competitor. Allegro Rainbow also plans a minimum five year/multi-trademark strategy to further buttress a strong proprietary position.

**Dilution:** Depending upon Allegro Rainbow’s revenue growth, profitability and market share, additional financing may be required, any of which are likely to be dilutive to current shareholders to some degree.

*Risk Management Strategy:* With the advantage of hindsight, Allegro Rainbow management believes that sufficient analysis and planning has now occurred to substantially reduce risks of under-capitalization.

**Personnel:** In the software/high tech industry, quality personnel are often difficult to find, and it may be difficult to staff various facilities.

*Risk Management Strategy:* Through the management’s experience and contacts in the industry, a number of quality personnel have already been identified. Although Management believes there will be few staffing problems, it is prepared to modify operations if staffing becomes an issue. Allegro Rainbow’s strategy emphasizes on top quality personnel and customer service.

**Other risks:** Allegro Rainbow is uniquely protected against the various risks affecting every business, such as political and economic risks. During times of recession consumers often cocoon, providing insulation during economic downturns. Additionally, during times of economic strength, new consumers are capable of purchasing more of the services for leisure and education.

#### **More risk minimization strategies:**

**Intellectual Property (IP):** Allegro Rainbow currently has 3 patents pending on its game concepts, with more to follow. Additional trademarks, copyrights and trade secret protections are all strategically complementing these fundamental, unique and valuable assets. These broad patents are being filed simultaneously internationally.

**Proof of Concept:** Allegro Rainbow has successfully produced a working prototype, tested it on young and old alike, and has videotaped proven heartfelt testimonials that show that its concept of teaching music in a fun, intuitive way is a resounding success. **The greatest “risk reducer” of all is that children love the game and learn to play musical pieces in minutes.**

**Capital Base:** Allegro Rainbow has already raised the crucial seed capital and first round funding, and is well on its way to raising the rest of the capital to finish development for full release of the game.

**Key Man Insurance:** Allegro Rainbow has purchased Key Man Insurance for Chris Salter to protect the investors at this crucial stage. Mr. Salter’s health, however, is optimum. He is a nonsmoker, non-drinker and has played soccer for the past 25 years on a weekly basis.

## 12 MANAGEMENT TEAM

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### 12.1 Board of Directors

**Chris Salter, Chairman and CEO; Bob Mangum; Paul Simmons**

**Chris Salter:** Mr. Salter is the founder and visionary that has taken this idea on a napkin (Piano Commando) and turned it into a viable enterprise on the verge of launching its first product. His background includes a degree in Linguistics and two in Music, from SIU Carbondale and UCLA respectively, including travels to 5 continents and 23 different countries. Fluent in 4 languages, conversant in Japanese and Setswana, he spent more than five years studying music learning processes in Brazil, part of which was under the auspices of the Organization of American States Fellowship program for his Master's thesis research for UCLA. He also spent a year in Botswana with the Peace Corps, and he taught ESL in Japan. Bringing his wife Eliana to the U.S. 8 years ago, he abandoned his academic pursuits and entered the world of software sales, first with Quarterdeck and then with his own company. He took his company from an \$8,000 initial capital to \$1,000,000 gross revenues in 14 months by selling via demonstration at computer shows. After joining IBI, an entrepreneur training network, he realized the power of a cooperative network in building world-class companies, and he has assiduously applied the principals there to raise the first million dollars toward realizing his deepest dream, a way to bring true musical literacy and enjoyment to millions of happy customers.

*Upper-level management experience:* Mr. Salter previously ran a software company with about 20 employees, including telemarketers, outside sales reps, computer techs and administrative personnel.

**Bob Mangum:** Mr. Mangum, a longtime supporter of Piano Commando, has agreed to bring his expertise to the Company by becoming a member of the Board of Directors. Allegro Rainbow extended its invitation to Mr. Mangum based on his demonstrated commitment to working with entrepreneurs, his core emphasis on integrity in business, and his extraordinary career. Mr. Mangum is President of MSI, Inc., a developer, manufacturer, and marketer of precision motion control equipment for film animation, special effects and multi-image applications; President of McGraw-Edison, Canada, a subsidiary of McGraw-Edison (NYSE), a large and small electrical appliance manufacturer; President of Central Foundry Company, a subsidiary of Gable Industries, Inc. (NYSE), a manufacturer of plastic and cast iron pipe with fittings and custom gray iron castings (Mr. Mangum also served as a Vice President of GBI); and General Manager of Celco Plant, Celanese Corporation (NYSE), a chemical and synthetic fibers company converting wood pulp to cellulose acetate flake for textile and cigarette filter applications. Formerly, he was President of Project Arts, Inc., a 501(c)(3) Arts based rehabilitation non-profit for severely mentally ill adults; Director and Vice President of Harvard Business School Club of Arizona; Director and Member of Executive and Trust Investment Committees, First National Bank of Tuscaloosa, Alabama; Director of First National Bank, Narrows, VA, a subsidiary of First Virginia Bankshares (NYSE); Director of Arizona Small Business Association; and Director of Phoenix Rotary Foundation. He has testified before committees of U.S. Senate and House of Representatives on business issues, is the author of numerous published articles, and is a panelist of Business Roundtable on KFNN Radio. He has military and NSA experience with top-secret security clearance.

**Paul Simmons:** Mr. Simmons has more than 40 patents issued on products and inventions encompassing a broad range of technologies. He is a nationally recognized consultant to the pharmaceutical and nutraceutical industries and holds a collegiate level Florida State Teacher's License in Mechanical Engineering. His comprehensive background in the areas of mechanical and process engineering facilitates his extensive and successful experiences with the invention process. During the course of his career, he has been licensed as a Master Electrician, Master Plumber, and Class 'A' Mechanical

Contractor. Mr. Simmons has been the CEO of two public companies and has served as a member of the Board of Directors of 10 companies. Additionally, he has held the office of President in the National Association of Power Engineers, the International Association of Pharmaceutical Engineers, the Master Electricians Association, the Master Plumbers Association, the Bio-Process Engineering Association and the Refrigeration Services Engineering Society. Additionally, Mr. Simmons has been a member of the Instrument Society of America, the American Society of Hospital Engineers, the Society of Manufacturing Engineers, and the Construction Specification Institute. Paul Simmons is a key force in establishing and building the Tampa Bay Inventors' Council. He has been listed in several *Who's Who* publications and has also received awards in many of his fields of endeavors.

## 12.2 Officers

**President and CEO:** *Chris Salter*

**Interim COO:** *John Wheeler*

**Interim Director of Marketing and PR:** *Kurt Koenig*

**John Wheeler:** Mr. Wheeler is the Managing Partner with SalesQuest Group, a consulting firm specializing in helping emerging and established firms achieve competitive advantage through the optimization of their sales, marketing, and customer service functions. SalesQuest Group works with clients by integrating its knowledge base of best practices with a client's current skills, knowledge, and experience to enable the definition of optimized processes, policies, procedures and the selection of enabling technologies that result in reduced cost and improved effectiveness. Further, SalesQuest works with clients to help them move products to market, and develop and implement strategies to acquire and retain customers. Mr. Wheeler is a senior level thought leader with multi-disciplinary expertise in the telecommunications, utilities, high technology, information services, process manufacturing, and insurance industries. With over 30 years of experience in sales, marketing, product development, management, operations improvement, and information technology, Mr. Wheeler is a respected industry leader, having served as President of the CRM industry's largest non-profit professional association and spoken at major industry conferences. His comments have appeared in numerous industry publications. Currently, he is a Board member of a high-tech company and teaches graduate level courses on the entrepreneurial firm at Suffolk University.

**Kurt Koenig:** Mr. Koenig is the founder of Encore Publishing, a company that specializes in marketing and licensing information products and training entrepreneurs how to maximize their profits from the Internet, seminars, joint ventures and direct sales. The company specializes in taking projects from conceptualization to immediate implementation, including promotions and free publicity. For Allegro Rainbow, he has already created and implemented the concept of the "Foundation for Music Literacy", (<http://www.LearnToReadMusic.org>), the 501(3)c non-profit organization dedicated to providing free recommendations on ways to improve your family's music literacy. This project included the conceptualization and creation of the downloadable (PDF) publication "How Music Can Dramatically *Effect* Your Child's Development and Life-Time *Success*". The foundation and PDF publication were key elements in Allegro Rainbow's acceptance into Brigham Young University's Education Week in Provo, Utah, several television appearances, articles, and introductions to influential educators in the community.

## 12.3 Advisory Board

*Linda Chandler, Fred Brown, Alexey Pajitnov, Steve Corn, Tony Cucci, Richard Crawford, Donald Beattie, Parviz Firouzgar, James Burk*

**Linda Chandler:** Ms. Chandler is a best-selling author, professional speaker, and strategic advisor. She is the CEO and President of Chandler Leadership & Development, a training and seminar company; Founder and Managing Director of Chandler-Drew, LLC, a strategic advisory/ venture capital/ mergers and acquisition firm (Chandler-Drew handles deals in the range of \$25 million to one billion dollars); and President of Learning 2000, a digital publishing firm. Formerly, she was the Senior Vice President of Morgan, Omstead, Kennedy, a leading West Coast investment-banking firm (There Ms. Chandler was actively involved in a large number of IPO's involving many Silicon Valley technology companies. Many of the startups she worked with are today among the new Fortune 500); Co-Founder and former CEO of Chandler/ Roberts, Inc., the first all-women securities firm in the nation; and Senior VP of Sutro & Company, Inc., a prestigious and prominent securities firm, where Ms. Chandler personally raised over one billion dollars in investment funds to help finance many Silicon Valley companies. Ms. Chandler has attended Iowa State University and University of Arizona, and has taken postgraduate executive education programs at Harvard University and Stanford University. Ms. Chandler has authored the critically acclaimed book "Winning Strategies For Capital Formation", the No. 1 best selling book at Amazon.com in the venture capital/entrepreneurship category. Ms. Chandler has also authored six best-selling audio albums. Her clients include Genentech, AT&T, Teradyne Corporation, Intel Corporation, Apple Computer, Lockheed, Toys 'R' Us, Sun Microsystems etc.

**Fred Brown - Supervising Producer/ Executive Producer for the Home Shopping Network:** Mr. Brown is a seasoned broadcast professional with extensive experience in on air and backstage production, as well as overall promotion and building of hsn.com customer base. He oversaw an overall increase in hsn.com sales (\$45 million to \$128 million in 2001) as well as building and expansion of the Chat Café. His former job duties included supervising of Electronics (electronic gifts, including the Casio piano keyboards, computers, home theater) and Cooking (kitchen appliances, tabletop, storage, cookware). Shows launched under his supervision include Sunrise 2001 CES Remote (Most profitable to to-date), Tupperware (World's Largest Tupperware Party) Sunday Night, 2000 Gourmet Show Sue's Kitchen (Weekly Show), and House Beautiful Fall and Spring Home Days

In addition to the highest level contacts within both HSN and QVC, where he worked before HSN, Mr. Brown is well known and regarded with the various vendors such as Casio and Yamaha in the Consumer Electronics industry and CES Show circuit, having participated in them in an official capacity for QVC and then HSN for over 8 years.

**Alexey Pajitnov:** Mr. Pajitnov is the **creator of TETRIS**, one of the most popular and successful computer games ever, selling over 50 million copies worldwide. He is the author of numerous seminars on game design. A master game developer, he is currently working for Microsoft on X-Box games.

**Steven Corn:** With over 15 years experience in the music business, Mr. Corn has recently formed Corn Music Services, Inc., a consulting company specializing in new media, business development, and licensing for the music industry and related companies (e.g., karaoke, ring tone, etc.). Prior to creating CMS, he was the Executive VP in charge of sales, marketing and business development for LicenseMusic.com, a pioneering company in online music licensing. His diverse background also includes serving as the VP and General Manager of Megatrax, one of the most successful independent music production companies in the country, and executive in charge of the music department for LIVE Entertainment (now Artisan Entertainment) where he negotiated soundtrack deals and administered their catalog of publishing rights in over 60 films. His creative background features work as both film composer and music supervisor. A full list of credits is available at [www.cornmusicservices.com](http://www.cornmusicservices.com).

**Tony Cucci:** Mr. Cucci is the Chairman and CEO of Vircomm Technologies Inc. a fixed wireless broadband start up company providing high-speed Internet service and video streaming to the residential

and commercial marketplace. Formerly, he was the CEO of Global Intellicom, Inc., a multi-million dollar holding company which was on NASDAQ; CEO of Almo Electronics, Inc., a multi million-dollar distributor of electronic, computer and communication products; and EVP of Arrow Electronics, Inc., which today is a \$12 billion-dollar distributor of electronic, computer and communication products. Mr. Cucci attended the Wharton School at University of Pennsylvania and completed the NEDA MBA program specializing in distribution at Texas A&M University. He was the President and Chairman of the National Electronic Distributor Association.

**Richard Crawford, ONE Productions, Filmmaker/Videographer:** Richard Crawford's awards include four area Emmy Awards, Gold Cindy Awards for multimedia, and a New York Art Directors Award. He has extensive experience creating effective compelling infomercials. His work as a Multimedia consultant has been critical to the success of Allegro Rainbow's capital raising efforts. With more than 40 hours of video material of children and parents with the game as a base, Allegro Rainbow has already begun the scripting of the first infomercial with One Productions.

**Donald Beattie:** Mr. Beattie is a master piano teacher in his twenty-fifth year as director of piano pedagogy at Southern Illinois University at Carbondale. He is a Warner Brothers Artist and founder and director of the Beethoven Society for Pianists. His music compositions have been performed for two US Presidents and in broadcasts and performances throughout the world.

**Parviz Firouzgar – Business Consultant, AAA Business Plans:** Mr. Firouzgar has had a high profile and dynamic executive and leadership background in a variety of successful business enterprises. His prior background includes being the Founder and CEO of two successful start-ups. The first was a mail order company with first year revenues of over \$15,000,000. The company processed several million pieces of mail per month and operated at the very forefront of technological capability. The second was a marketing company for an existing charitable enterprise. It utilized innovative marketing techniques that became responsible for several thousand third-world children being supported through a Christian child sponsorship program. Most recently he has been writing business plans and consulting to start-up ventures. Raised in Europe, Mr. Firouzgar speaks four languages. He is an instructor at Income Builders International (IBI) and he is also an author with sales of his first book reaching over 200,000 copies. His achievements have earned him numerous awards and honorary citizenship in 16 cities across the United States.

**James Burk:** James Burk is a senior partner of the law firm of Burk & Reedy, LLP, and has been in the private practice of law for over 30 years. He specializes in assisting emerging companies in their initial stages of organization and then growing with the companies through the public offering stage. Mr. Burk began his career in 1969 as an attorney with the Federal Trade Commission investigating consumer protection matters. He then returned to his hometown of San Antonio, Texas where he served as Senior Law Clerk to the Chief Judge of United States District Court for the Western District of Texas. After completing his District Court clerkship, he was appointed Attorney-Advisor to a judge on the U.S. Tax Court in Washington, D.C. He has been a senior partner in law firms located in New York and Washington D.C., and his practice is national in scope. The firm is located in Washington, DC and has affiliate offices in Newport Beach, California. His practice includes general business matters including corporations, contracts, mergers, acquisitions, venture capital financings, tax, asset protection, securities and franchise law. He has also assisted companies in securing seed and mezzanine funding for emerging companies. He sits on the board of directors of several non-profit companies including: International Learning Trust, the American Preventive Medical Association Foundation and the Washington Studio School. He is a graduate of the University of Texas at Austin Law School and is a member of the bars of the District of Columbia and Texas.

## 12.4 Other advisors/consultants/service providers

**StreetMaker – marketing and strategy consultants:** StreetMaker, Inc. ([www.streetmaker.com](http://www.streetmaker.com)) was founded with the aim to provide entrepreneurs with the necessary knowledge, professional skills, intellectual and monetary capital, and accountability through a managed strategic business and marketing development process. Today, StreetMaker is a business and marketing strategy firm that facilitates an organized, systematic program that dramatically enhances a company’s ability to be successful and make more money. The StreetMaker team has assisted over 300 emerging companies since 2000. In addition, the team has raised, or postured companies to raise, a cumulative total of over \$40 million in venture funding.

**Cynthia Dominic Hall:** *In addition to Alexis Pajitnov*, another member of the team was previously involved on the other side of the table in one of the largest, most lucrative game licensing deals in video game history. Ms. Hall was instrumental in negotiating the landmark purchase by Nintendo of the worldwide licensing rights to TETRIS, and she has signed on as Allegro Rainbow’s exclusive licensing agent for Piano Commando. Ms. Hall was Senior VP of Licensing for Leisure Concepts, Inc. (LCI), where she oversaw all aspects of licensing sales. Sales of her deals represented well over \$200 million at retail, not to mention billions of consumer impressions. She has the honor of being listed in Jack Lander's How to Find an Honest Invention Broker report. As a board member and officer of the Licensing Industry Merchandisers' Association (LIMA) for four years, Cynthia She was instrumental in shaping the criteria now used to recognize outstanding contributors to the licensing profession.

**Nancy Nelson:** Known as the Infomercial Queen, she has won dozens of awards, including Minnesota’s Woman of the Year, American YWCA Outstanding Woman in Media Award, the GreenStreet Best Infomercial Host of the Year, and Best Female Infomercial Host of the Year by the National Infomercial Marketing Association. *Response TV* magazine named her one of America’s 25 most innovative people in infomercials. Audiences worldwide consider her as a “friend”, someone they would welcome into their home. Nancy is so enthusiastic about Piano Commando that she has offered to forego her normal upfront fees in return for a percentage of the profits.

**Howard Lim:** Howard Lim, the founder and CEO of How Studios ([www.howstudios.com](http://www.howstudios.com)) is an expert in visual branding, and runs a top-notch graphics firm whose clients include Disney, 20th Century Fox, Cirque du Soleil, DreamWorks, Cartoon Network, Apple Computers, Honda, Toshiba, DreamWorks, Hanna Barbara, Fujitsu and Sanwa Bank. Mr. Lim’s graphic and branding expertise help assure that Piano Commando will be an instant classic, with tight organic integration of the visuals and ensured branding. Mr. Lim pioneered solutions that enabled ABC to broadcast one of the first computerized off-line motion graphics on TV, allowed Zylan to launch one of the first graphically integrated effective websites, and reformatted an extended length interface design of MGM’s classic movie *The Great Escape* onto DVD – a first for the studio.

**Fresh Ground Software - Web Developers:** Originally founded in 1995 by Dave Rinell and Scott Herring, Fresh Ground Software provided network and Internet products and services, particularly for production music libraries, broadcast television networks, and music publishers. The Web team at Fresh Ground has produced over 100 Web sites, serving a wide range of industries. In October 2000, Fresh Ground was acquired by Counterpoint Systems, the world's leading rights and royalty software developer with its software now operating over 1,000 systems in 42 countries. Fresh Ground’s client list includes VolleySearch, Westar Music Library, UltimateFX, Sony/ATV Music Publishing, Downright Music etc.

**Jill Lublin:** Ms. Lublin, the coauthor of the best-selling *Guerrilla Publicity*, is on board as a consultant to help tap into the ocean of free publicity that a product like Piano Commando can generate. She is the

founder of Good News Media, Inc. and host of the nationally syndicated radio show, Do the Dream. Her upcoming book, *Networking Magic*, will be published in 2004. She is the CEO of the public relations consulting firm Promising Promotion. She has twenty years' experience working with ABC, NBC, CBS, and other national media. Her clients and those who have attended her seminars have been featured in major US newspapers, national magazines, television shows such as *The Today Show*, *Live with Regis and Kelly*, *Good Morning America*, *CNN*, and other nationally syndicated shows.

**Burk and Reedy:** The law firm of Burke and Reedy make up the team of experts that specialize in start-ups and take care of corporate structure, legal compliance, and creation of proper offering documents for Allegro Rainbow. Mr. Jim Burk also serves on the Advisory Board of Allegro Rainbow. The Burk & Reedy Law Firm specializes in corporate formation and planning for corporations, limited liability companies, partnerships and non-profits; corporate law including contracts, mergers, acquisitions, venture capital financings, tax, asset protection and estate planning, securities and franchise law; bankruptcy, business collections, criminal, domestic, employee, entertainment, estates, finance, immigration, intellectual property, real estate and trust law.

Jim Burk has been in the private practice of law for over 30 years. He assists emerging companies in their initial stages of organization and then growing with the companies through the public offering stage. He has been a senior partner in law firms located in New York and Washington D.C., and his practice is national in scope.

Alan Reedy is an Attorney at Law, a CPA, and a Certified Financial Planner. He received his JD degree from Boalt Hall School of Law, University of California at Berkeley, in 1964, with emphasis in taxation. He has drafted numerous business, corporate, estate planning partnership, real estate, tax and trust documents and handled related litigation. He has also been involved in the preparation of numerous merger and acquisitions, offering documents and the structuring and sale of securities issues for various corporate and partnership syndications, spanning the areas of business, financial, minerals, oil and gas, real estate, and other types for over twenty years. The accounting, business and planning background helps clients to define their goals and objectives. He understands business and professionals and their legal needs.

Richard Lehmann is an attorney with the law firm of Burk & Reedy, LLP. He assists clients with business matters including corporate formation, planning and governance, securities law, contracts, mergers and acquisitions and ongoing corporate support. . Mr. Lehmann graduated from American University's Washington College of Law in Washington, D.C. He also earned a Bachelor of Science degree in Criminal Justice from the SUNY College at Buffalo

**McDermott, Will and Emery:** They head the intellectual property team for Allegro Rainbow's software patents, along with Mike Starkweather of Utah Patent Law; formerly of Jones-Waldo. Established in 1934, McDermott, Will & Emery is a premier international law firm with a diversified business practice. Numbering more than 950 lawyers, they have offices in Boston, Chicago, Düsseldorf, London, Los Angeles, Miami, Munich, New York, Orange County, San Diego, Silicon Valley and Washington, D.C.

**Maria Speth of Grant, Williams, and Dangerfield:** Ms. Speth will help Allegro Rainbow with trademarks and copyrights issues. Grant, Williams, and Dangerfield was founded in 1993 by attorneys with large firm backgrounds who desired the efficiency and creativity fostered by a small firm setting. The firm's clients range from international companies to small business owners across the country. Ms. Speth practices in the areas of intellectual property, Internet law, and commercial litigation, representing clients throughout the United States. She received her J.D. in 1988 from the Hofstra University School of Law. In October of 2000, the readers of *Arizona Women's News* voted her the best business attorney in Arizona. She is a certified member of the Million Dollar Advocates Forum. She has

been on the faculty of the State Bar of Arizona Annual Convention, is currently on the faculty of the internationally acclaimed IBI Forum, and has been a guest speaker on television and radio shows addressing intellectual property

**Randolph Craft - Project Planning Coordinator:** Mr. Craft is the founder of the Pacific Planning Institute, Inc.; President of Advanced Management & Planning; COO and founder of the Pacific International Anti-Aging Center; and producer of Reawaken Your Genius and The Essence of Genius from The Fuller Edutainment Company, Inc., which he founded and directs.

**Froment John Gonzalez, III, CPA – Partner, Giunta, Ferlita & Walsh P.A.:** Practicing public accounting since February 1986 with Giunta, Ferlita & Walsh, P.A, he was named a partner in the same firm in 1996. His experience includes audits of various public and private companies, and tax preparation and planning services to corporations. He is a member of the American Institute of Certified Public Accountants (AICPA) and Florida Institute of Certified Public Accountants (FICPA)

**Dr. Serge Gravelle:** Dr. Gravelle created MyMall Network, the very first worldwide network of electronic shopping malls, today counting 22 malls and over 2,000 stores. He developed a system allowing the bridging of TV advertising to the Internet. Dr. Gravelle is also heavily involved in many of today's popular infomercials. Familiar artists that he has marketed include John Denver, Elvis Presley, Frank Sinatra, etc. along with TimeLife, Heartland Music and K-Tel products.

**Fernando Echeverria: DirectX and Multimedia expert:** Mr. Echeverria is an Electrical Engineer from the University of Chile. He also got there a Master degree in Physics and a Bachelor degree in Computer Sciences. After that, he attended Caltech (Pasadena) where he got his PhD in Physics. He worked for Knowledge adventures as the head of the Engine Team. Then he worked for TopTutors.com (online tutoring). Afterward, he went back to work for Idealab. He is currently working for NewNet, an Idealab affiliated web company, focused on search engines and domains management. He's currently living in Chile.

## 13 COMPANY STRUCTURE AND CAPITAL NEEDS

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### 13.1 Legal structure

Allegro Multimedia, Inc., DBA Allegro Rainbow, is a Florida based company.

### 13.2 Ownership structure

Shares gifted from Founder Stock	377,000	3.77%
Founder/CEO Chris Salter	4,623,000	46.23%
Reserved for Team/Stock Options	2,000,000	20%
Stock sold to date	1,950,000	19.5%
Available for sale	1,050,000	10.5%
Total Expected Issued Shares	10,000,000	100%

### 13.3 Use of funds

	<b>Amount</b>	<b>Percent</b>
Total Proceeds	2,000,000	100%
Less offering costs	120,000	6%
<i>Net Proceeds</i>	<i>1,880,000</i>	<i>94%</i>
<i>Operating Expenses:</i>		
Legal (Patents and Patent Defense Reserve)	\$641,000	32%
Consultants	\$48,000	2.4%
Travel	\$68,000	3.4%
Software/Product Development	\$396,000	19.8%
Sales & Marketing	\$376,000	18.8%
Working Capital	\$351,000	17.5%
<i>Total</i>	<i>\$1,880,000</i>	<i>94%</i>

### 13.4 Exit strategy

The Allegro Rainbow management team is striving to be acquired or go public (traditional or direct IPO) in the next two to three years.

## 14 UNIQUE COMPANY POSITION

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### 14.1 *Allegro Rainbow's unique company position*

Allegro Rainbow has a unique position in the market as its flagship product, Piano Commando, has very little direct competition and is the first product of its kind to teach music via compelling computer games linked directly to an actual keyboard. In addition, the student's favorite songs become the game making learning music addictive, easy and fun.

### 14.2 *Historical examples of logical buyout scenarios*

Two large companies have been active in purchasing businesses in the video game industry — Nintendo and Microsoft. Allegro Rainbow, with its extremely unique company position, could be a prime candidate for these or other large companies that seek to acquire new technology in the video game market.

Nintendo, for instance, has experienced extreme profits and success in the video game industry. It purchased the worldwide rights to TETRIS and sold 50 million copies. In 1994 profits exceeded Microsoft, Apple, and all Hollywood movie studios combined<sup>5</sup>.

Microsoft purchased 49% of Nintendo's RARE, the producer of Donkey Kong, in September 2002 for a whopping \$400 million, even though it represented less than 1% of Nintendo's revenue. Microsoft desperately needs exclusive hit games to drive customers to their Xbox platform. Microsoft is in a fierce turf battle with Sony and PlayStation and is willing to lose billions to gain a foothold in the market.

### 14.3 *Opportunities for Allegro Rainbow: Logical Buyout Scenario*

Piano Commando is a revolutionary video game concept. Allegro Rainbow's unique company position has already proven its "press" appeal, demonstrating that national publicity will be likely attained. Allegro Rainbow will have a sudden national presence with quick, large volume sales via Direct TV. The games are wholesome and are welcomed by family-oriented households and home schooling markets that shun current violent video games. Schools, libraries, senior wellness centers, churches, and many other institutional organizations will use Piano Commando giving it mass exposure. Residual income streams are planned through the company's subscriber website that will provide popular licensed MIDI files, free piano teacher lessons, and an online music community. Allegro Rainbow will have a large database full of enthusiastic and involved customers worldwide as a result of the company's business model being easily replicated and grown in countries around the globe. All of these elements, in combination with an endless deployment of new products, will combine to provide Allegro Rainbow with an attractive exit opportunity for its stakeholders.

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<sup>5</sup> Figures from classic book about Nintendo: *Game Over*

## 15 FINANCIAL PROJECTIONS

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Here is a summary of the financial projections in the first three years. Detailed projected financial statements and explanations are available in *Appendix 1* of the *Business Plan*.

### Summary of balance sheet:

	Year 1	Year 2	Year 3
<b>Assets</b>			
Total current assets	2,805,393	4,229,895	8,605,349
Total Fixed assets	307,651	650,813	999,475
Total other assets	515,075	1,037,800	1,727,225
<i>Total assets</i>	<i>3,628,119</i>	<i>5,918,508</i>	<i>11,332,049</i>
<b>Liabilities and Stockholders' Equity</b>			
<u>Liabilities:</u>			
Total current liabilities	352,988	324,217	376,325
Total long-term liabilities	1,679,965	1,068,903	-
<i>Total liabilities</i>	<i>2,032,953</i>	<i>1,393,120</i>	<i>376,325</i>
<u>Equity:</u>			
Paid-in-capital	2,102,000	2,102,000	2,102,000
Return on RPCs	(392,582)	(232,417)	-
Retained earnings	(1,029,237)	(506,834)	2,423,388
Net income	914,985	3,162,639	6,430,336
<i>Total equity</i>	<i>1,595,166</i>	<i>4,525,388</i>	<i>10,955,724</i>
<i>Total liabilities and equity</i>	<i>3,628,119</i>	<i>5,918,508</i>	<i>11,332,049</i>

**Summary of income statement:**

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Sales			
Software Sales	7,048,215	14,596,684	21,895,027
Hardware Sales Commissions	352,412	729,834	1,094,751
Midi Licensing Revenues	372,510	895,706	1,343,558
Subscription Revenues	64,281	408,975	833,533
Referral Fee Revenues	8,750	280,000	500,000
Affiliate Commission Revenues	5,500	331,750	892,000
Total sales	7,851,668	17,242,949	26,558,869
Total cost of sales	2,759,518	5,974,231	9,142,955
Gross profit	5,092,150	11,268,718	17,415,914
Total Operating Expenses	3,439,351	6,320,817	7,761,509
Income from Operations	1,652,799	4,947,901	9,654,405
<b>Net Income after Taxes</b>	<b>914,985</b>	<b>3,162,639</b>	<b>6,430,336</b>

**Summary of cash flow statement:**

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Cash flows from operating activities	(456,896)	3,301,629	6,440,168
Cash flows from investing activities	(864,637)	(1,102,000)	(1,426,000)
Cash flows from financing activities	2,437,880	(854,325)	(1,127,007)
Net increase (decrease) in cash	1,116,347	1,345,304	3,887,161
Beginning cash	21,205	1,137,552	2,482,856
Ending cash	1,137,552	2,482,856	6,370,017

# Allegro Rainbow Multimedia, Inc.

## PROJECTED BALANCE SHEETS

As of the End of the Next Fiscal Years One Through Three

	Year 1	Year 2	Year 3
<b><u>Assets</u></b>			
Current Assets:			
Cash	\$ 1,137,552	\$ 2,482,856	\$ 6,370,017
Accounts Receivable	1,168,487	1,154,526	1,496,562
Inventory	499,354	592,513	738,770
Total Current Assets	2,805,393	4,229,895	8,605,349
Fixed Assets			
Office furniture and equipment	73,192	169,192	289,192
Vehicles	160,000	320,000	480,000
Leasehold improvements	100,000	300,000	550,000
Less: Accumulated Depreciation	(25,541)	(138,379)	(319,717)
Total Fixed Assets	307,651	650,813	999,475
Other Assets			
Patents and related	60,600	130,600	250,600
Trademark applications and fees	6,000	12,000	18,000
Capitalized finder fees	108,725	108,725	108,725
Website and software development	110,000	260,000	410,000
Research & Development	144,000	444,000	944,000
Infomercials	120,000	240,000	360,000
Less: Accumulated Amortization	(34,250)	(157,525)	(364,100)
Total Other Assets	515,075	1,037,800	1,727,225
Total Assets	\$ 3,628,119	\$ 5,918,508	\$ 11,332,049
<b><u>Liabilities &amp; Stockholders' Equity</u></b>			
Current Liabilities:			
Accounts Payable	\$ 284,038	\$ 266,113	\$ 376,325
Payable to RPC holders	68,950	58,104	-
Total Current Liabilities	352,988	324,217	376,325
Long-term Liabilities:			
Notes Payable	1,679,965	1,068,903	-
Total Long-term Liabilities	1,679,965	1,068,903	-
Total Liabilities	2,032,953	1,393,120	376,325
Equity:			
Paid in Capital	2,102,000	2,102,000	2,102,000
Return on RPC's	(392,582)	(232,417)	-
Retained Earnings	(1,029,237)	(506,834)	2,423,388
Net Income	914,985	3,162,639	6,430,336
Total Equity	1,595,166	4,525,388	10,955,724
Total Liabilities & Equity	\$ 3,628,119	\$ 5,918,508	\$ 11,332,049

See the accompanying Key Assumptions and Notes.

**Allegro Rainbow Multimedia, Inc.**  
**PROJECTED INCOME STATEMENTS**  
For the Next Fiscal Years One Through Three

<b>Revenues</b>	Year 1		Year 2		Year 3	
<b>Sales</b>						
Software Sales	\$ 7,048,215	89.8%	\$ 14,596,684	84.7%	\$ 21,895,027	82.4%
Hardware Sales Commissions	352,412	4.5%	729,834	4.2%	1,094,751	4.1%
Midi Licensing Revenues	372,510	4.7%	895,706	5.2%	1,343,558	5.1%
Subscription Revenues	64,281	0.8%	408,975	2.4%	833,533	3.1%
Referral Fee Revenues	8,750	0.1%	280,000	1.6%	500,000	1.9%
Affiliate Commission Revenues	5,500	0.1%	331,750	1.9%	892,000	3.4%
<b>Total Sales</b>	<b>7,851,668</b>	<b>100.0%</b>	<b>17,242,949</b>	<b>100.0%</b>	<b>26,558,869</b>	<b>100.0%</b>
<b>Cost of Sales</b>						
Software Sales	2,595,025	33.1%	5,374,234	31.2%	8,061,350	30.4%
Hardware Sales Commissions	88,109	1.1%	182,459	1.1%	273,688	1.0%
Midi Licensing Revenues	55,875	0.7%	134,356	0.8%	201,534	0.8%
Subscription Revenues	16,070	0.2%	102,244	0.6%	208,383	0.8%
Referral Fee Revenues	3,063	0.0%	98,000	0.6%	175,000	0.7%
Affiliate Commission Revenues	1,376	0.0%	82,938	0.5%	223,000	0.8%
<b>Total Cost of Sales</b>	<b>2,759,518</b>	<b>35.1%</b>	<b>5,974,231</b>	<b>34.6%</b>	<b>9,142,955</b>	<b>34.4%</b>
<b>Gross Profit</b>	<b>5,092,150</b>	<b>64.9%</b>	<b>11,268,718</b>	<b>65.4%</b>	<b>17,415,914</b>	<b>65.6%</b>
<b>Operating Expenses</b>						
Amortization	34,000	0.4%	123,275	0.7%	206,575	0.8%
Depreciation	23,641	0.3%	112,838	0.7%	181,338	0.7%
Salaries and Wages	1,053,000	13.4%	2,026,704	11.8%	2,399,796	9.0%
Advertising and Marketing	1,592,000	20.3%	3,000,000	17.4%	3,500,000	13.2%
Insurance	7,600	0.1%	10,200	0.1%	12,000	0.0%
ISP	9,900	0.1%	15,000	0.1%	21,000	0.1%
Legal & Professional Fees	132,000	1.7%	200,000	1.2%	280,000	1.1%
Miscellaneous	51,000	0.6%	75,000	0.4%	100,000	0.4%
Office Lease & Utilities	91,000	1.2%	150,000	0.9%	200,000	0.8%
Office Supplies	8,100	0.1%	13,000	0.1%	19,000	0.1%
Postage and Shipping	12,630	0.2%	22,000	0.1%	30,000	0.1%
Printing and reproduction	16,650	0.2%	24,000	0.1%	36,000	0.1%
Training	45,000	0.6%	50,000	0.3%	100,000	0.4%
Taxes and Licenses	8,400	0.1%	10,000	0.1%	12,000	0.0%
Telephone	14,850	0.2%	34,800	0.2%	52,800	0.2%
Travel	56,580	0.7%	132,000	0.8%	246,000	0.9%
Trade Shows	63,000	0.8%	72,000	0.4%	115,000	0.4%
Public Relations	220,000	2.8%	250,000	1.4%	250,000	0.9%
<b>Total Operating Expenses</b>	<b>3,439,351</b>	<b>43.8%</b>	<b>6,320,817</b>	<b>36.7%</b>	<b>7,761,509</b>	<b>29.2%</b>
<b>Income from Operations</b>	<b>1,652,799</b>	<b>21.1%</b>	<b>4,947,901</b>	<b>28.7%</b>	<b>9,654,405</b>	<b>36.4%</b>
<b>Other Income (Expenses)</b>						
Interest Income	11,101	0.1%	36,204	0.2%	88,529	0.3%
Income Tax (Expense)	-	0.0%	(1,570,381)	-9.1%	(3,312,598)	-12.5%
<b>Total Other Expenses</b>	<b>(737,814)</b>	<b>-9.4%</b>	<b>(1,785,262)</b>	<b>-10.4%</b>	<b>(3,224,069)</b>	<b>-12.1%</b>
<b>Net Income</b>	<b>\$ 914,985</b>	<b>11.7%</b>	<b>\$ 3,162,639</b>	<b>18.3%</b>	<b>\$ 6,430,336</b>	<b>24.2%</b>

See the accompanying Key Assumptions and Notes.

**Allegro Rainbow Multimedia, Inc.**  
**PROJECTED STATEMENTS OF CASH FLOWS**  
As of the End of the Next Fiscal Years One Through Three

	Year 1	Year 2	Year 3
<b><u>Cash Flows From Operating Activities</u></b>			
Net Income	\$ 914,985	\$ 3,162,639	\$ 6,430,336
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation	23,641	112,838	181,338
Amortization	34,000	123,275	206,575
Change in operating assets & liabilities:			
Decrease (Increase ) in accounts Receivable	(1,168,487)	13,961	(342,036)
Decrease (Increase ) in inventory	(499,354)	(93,159)	(146,257)
Increase (decrease) in accounts Payable	248,331	(17,925)	110,212
Increase (decrease) in other current assets	(10,012)	-	-
Net Changes in Operating Assets & Liabilities	<u>(1,429,522)</u>	<u>(97,123)</u>	<u>(378,081)</u>
Net Cash (Used) Provided by Operating Activities	<u>(456,896)</u>	<u>3,301,629</u>	<u>6,440,168</u>
<b><u>Cash Flows From Investing Activities</u></b>			
Decrease(Increase) in Fixed Assets	(315,882)	(456,000)	(530,000)
Decrease(Increase) in Other Assets	(548,755)	(646,000)	(896,000)
Net Cash (Used) Provided by Investing Activities	<u>(864,637)</u>	<u>(1,102,000)</u>	<u>(1,426,000)</u>
<b><u>Cash Flows From Financing Activities</u></b>			
Increase (decrease) in Notes Payable	1,679,965	(611,062)	(1,068,903)
Proceeds from paid in Capital	1,081,547	-	-
Payments to RPC holders	(323,632)	(243,263)	(58,104)
Net Cash (Used) Provided by Financing Activities	<u>2,437,880</u>	<u>(854,325)</u>	<u>(1,127,007)</u>
Net Increase (decrease) in Cash	<u>1,116,347</u>	<u>1,345,304</u>	<u>3,887,161</u>
Beginning Cash	21,205	1,137,552	2,482,856
Ending Cash	<u>\$ 1,137,552</u>	<u>\$ 2,482,856</u>	<u>\$ 6,370,017</u>

See the accompanying Key Assumptions and Notes.

## Allegro Rainbow Multimedia, Inc.

### PROJECTED BALANCE SHEETS

For the First Twelve Months of the Next Fiscal Year

<u>Assets</u>	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
<b>Current Assets:</b>													
Cash	\$ 4,985	\$ 81,718	\$ 98,096	\$ 143,261	\$ 407,396	\$ 664,368	\$ 898,661	\$ 995,500	\$ 882,767	\$ 863,457	\$ 1,046,501	\$ 1,137,552	\$ 1,137,552
Accounts Receivable	-	-	-	256,641	384,962	426,458	499,925	605,722	734,827	890,353	1,078,021	1,168,487	1,168,487
Inventory	-	-	-	200,679	200,679	200,679	240,815	288,978	346,774	416,128	499,354	499,354	499,354
<b>Total Current Assets</b>	<b>4,985</b>	<b>81,718</b>	<b>98,096</b>	<b>600,581</b>	<b>993,037</b>	<b>1,291,505</b>	<b>1,639,401</b>	<b>1,890,200</b>	<b>1,964,368</b>	<b>2,169,938</b>	<b>2,623,876</b>	<b>2,805,393</b>	<b>2,805,393</b>
<b>Fixed Assets:</b>													
Office furniture and equipment	18,192	23,192	28,192	33,192	38,192	43,192	48,192	53,192	58,192	63,192	68,192	73,192	73,192
Vehicles	-	-	-	-	-	-	40,000	80,000	120,000	160,000	160,000	160,000	160,000
Leasehold improvements	-	-	-	-	-	-	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Less: Accumulated Depreciation	(2,203)	(2,590)	(3,060)	(3,613)	(4,250)	(4,970)	(6,857)	(9,494)	(12,881)	(17,018)	(21,238)	(25,541)	(25,541)
<b>Total Fixed Assets</b>	<b>15,989</b>	<b>20,602</b>	<b>25,132</b>	<b>29,579</b>	<b>33,942</b>	<b>38,222</b>	<b>181,335</b>	<b>223,698</b>	<b>265,311</b>	<b>306,174</b>	<b>306,954</b>	<b>307,651</b>	<b>307,651</b>
<b>Other Assets:</b>													
Patents and related	4,500	9,100	13,800	18,600	23,500	28,500	33,600	38,800	44,100	49,500	55,000	60,600	60,600
Trademark applications and fees	-	1,200	1,200	2,400	2,400	3,600	3,600	4,800	4,800	6,000	6,000	6,000	6,000
Capitalized finder fees	8,725	18,725	28,725	48,725	63,725	78,725	98,725	108,725	108,725	108,725	108,725	108,725	108,725
Website and software development	-	10,000	20,000	30,000	40,000	50,000	60,000	70,000	80,000	90,000	100,000	110,000	110,000
Research & Development	1,000	4,000	9,000	16,000	25,000	36,000	49,000	64,000	81,000	100,000	121,000	144,000	144,000
Infomercials	-	20,000	40,000	60,000	60,000	60,000	60,000	60,000	60,000	120,000	120,000	120,000	120,000
Less: Accumulated Amortization	(422)	(1,060)	(2,176)	(3,959)	(6,171)	(8,833)	(12,042)	(15,652)	(19,509)	(24,136)	(29,044)	(34,250)	(34,250)
<b>Total Other Assets</b>	<b>13,803</b>	<b>61,965</b>	<b>110,549</b>	<b>171,766</b>	<b>208,454</b>	<b>247,992</b>	<b>292,883</b>	<b>330,673</b>	<b>359,116</b>	<b>450,089</b>	<b>481,681</b>	<b>515,075</b>	<b>515,075</b>
<b>Total Assets</b>	<b>\$ 34,777</b>	<b>\$ 164,285</b>	<b>\$ 233,777</b>	<b>\$ 801,926</b>	<b>\$ 1,235,433</b>	<b>\$ 1,577,719</b>	<b>\$ 2,113,619</b>	<b>\$ 2,444,571</b>	<b>\$ 2,588,795</b>	<b>\$ 2,926,201</b>	<b>\$ 3,412,511</b>	<b>\$ 3,628,119</b>	<b>\$ 3,628,119</b>
<b>Liabilities &amp; Equity</b>													
<b>Current Liabilities:</b>													
Accounts Payable	\$ 12,804	\$ 36,568	\$ 101,788	\$ 121,238	\$ 106,748	\$ 207,888	\$ 259,258	\$ 262,418	\$ 264,918	\$ 276,278	\$ 277,858	\$ 284,038	\$ 284,038
Due to officer	10,012	10,012	10,012	10,012	10,012	10,012	10,012	-	-	-	-	-	-
Payable to RPC holders	-	-	-	25,664	51,328	27,247	60,023	99,429	47,359	104,320	172,875	68,950	68,950
<b>Total Current Liabilities</b>	<b>22,816</b>	<b>46,580</b>	<b>111,800</b>	<b>156,914</b>	<b>168,088</b>	<b>245,147</b>	<b>329,293</b>	<b>361,847</b>	<b>312,277</b>	<b>380,598</b>	<b>450,733</b>	<b>352,988</b>	<b>352,988</b>
<b>Long-term Liabilities:</b>													
Notes Payable	-	100,000	208,333	425,694	611,169	812,100	1,079,775	1,269,756	1,375,569	1,490,200	1,614,383	1,679,965	1,679,965
<b>Total Long-term Liabilities</b>	<b>-</b>	<b>100,000</b>	<b>208,333</b>	<b>425,694</b>	<b>611,169</b>	<b>812,100</b>	<b>1,079,775</b>	<b>1,269,756</b>	<b>1,375,569</b>	<b>1,490,200</b>	<b>1,614,383</b>	<b>1,679,965</b>	<b>1,679,965</b>
<b>Total Liabilities</b>	<b>22,816</b>	<b>146,580</b>	<b>320,133</b>	<b>582,608</b>	<b>779,257</b>	<b>1,057,247</b>	<b>1,409,068</b>	<b>1,631,603</b>	<b>1,687,846</b>	<b>1,870,798</b>	<b>2,065,116</b>	<b>2,032,953</b>	<b>2,032,953</b>
<b>Equity:</b>													
Paid in Capital	1,102,000	1,202,000	1,302,000	1,502,000	1,652,000	1,802,000	2,002,000	2,102,000	2,102,000	2,102,000	2,102,000	2,102,000	2,102,000
Return on RPC's	-	-	-	(25,664)	(25,664)	(27,247)	(32,776)	(39,406)	(47,359)	(56,961)	(68,555)	(68,950)	(392,582)
Retained Earnings	(1,029,237)	(1,090,039)	(1,184,295)	(1,388,356)	(1,282,682)	(1,195,824)	(1,281,528)	(1,297,449)	(1,289,032)	(1,201,051)	(1,046,597)	(754,605)	(1,029,237)
Net Income	(60,802)	(94,256)	(204,061)	131,338	112,522	(58,457)	16,855	47,823	135,340	211,415	360,547	316,721	914,985
<b>Total Equity</b>	<b>11,961</b>	<b>17,705</b>	<b>(86,356)</b>	<b>219,318</b>	<b>456,176</b>	<b>520,472</b>	<b>704,551</b>	<b>812,968</b>	<b>900,949</b>	<b>1,055,403</b>	<b>1,347,395</b>	<b>1,595,166</b>	<b>1,595,166</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 34,777</b>	<b>\$ 164,285</b>	<b>\$ 233,777</b>	<b>\$ 801,926</b>	<b>\$ 1,235,433</b>	<b>\$ 1,577,719</b>	<b>\$ 2,113,619</b>	<b>\$ 2,444,571</b>	<b>\$ 2,588,795</b>	<b>\$ 2,926,201</b>	<b>\$ 3,412,511</b>	<b>\$ 3,628,119</b>	<b>\$ 3,628,119</b>

See the accompanying Key Assumptions and Notes.

**Allegro Rainbow Multimedia, Inc.**  
**PROJECTED INCOME STATEMENTS**  
For the First Twelve Months of the Next Fiscal Year

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
<b>Revenues</b>													
Sales													
Software Sales	\$ -	\$ -	\$ -	\$ 488,840	\$ 488,840	\$ 488,840	\$ 586,608	\$ 703,930	\$ 844,716	\$ 1,013,659	\$ 1,216,391	\$ 1,216,391	\$ 7,048,215
Hardware Sales Commissions	-	-	-	24,442	24,442	24,442	29,331	35,197	42,235	50,683	60,820	60,820	352,412
Midi Licensing Revenues	-	-	-	-	-	29,997	35,996	43,196	51,835	62,202	74,642	74,642	372,510
Subscription Revenues	-	-	-	-	-	1,667	3,583	5,804	8,393	11,429	15,004	18,401	64,281
Referral Fee Revenues	-	-	-	-	-	-	-	-	-	1,250	2,500	5,000	8,750
Affiliate Commission Revenues	-	-	-	-	-	-	-	-	-	-	1,750	3,750	5,500
Total Sales	-	-	-	513,282	513,282	544,946	655,518	788,127	947,179	1,139,223	1,371,107	1,379,004	7,851,668
Cost of Sales													
Software Sales	-	-	-	179,982	179,982	179,982	215,979	259,174	311,009	373,211	447,853	447,853	2,595,025
Hardware Sales Commissions	-	-	-	6,111	6,111	6,111	7,334	8,800	10,560	12,672	15,205	15,205	88,109
Midi Licensing Revenues	-	-	-	-	-	4,500	5,399	6,479	7,775	9,330	11,196	11,196	55,875
Subscription Revenues	-	-	-	-	-	417	896	1,451	2,098	2,857	3,751	4,600	16,070
Referral Fee Revenues	-	-	-	-	-	-	-	-	-	438	875	1,750	3,063
Affiliate Commission Revenues	-	-	-	-	-	-	-	-	-	-	438	938	1,376
Total Cost of Sales	-	-	-	186,093	186,093	191,010	229,608	275,904	331,442	398,508	479,318	481,542	2,759,518
Gross Profit	-	-	-	327,189	327,189	353,936	425,910	512,223	615,737	740,715	891,789	897,462	5,092,150
<b>Operating Expenses</b>													
Amortization	172	638	1,116	1,783	2,212	2,662	3,209	3,610	3,857	4,627	4,908	5,206	34,000
Depreciation	303	387	470	553	637	720	1,887	2,637	3,387	4,137	4,220	4,303	23,641
Salaries and Wages	39,000	46,583	55,792	66,625	72,042	82,333	89,917	97,500	108,875	120,250	127,833	146,250	1,053,000
Advertising and Marketing	-	-	100,000	61,500	61,500	217,000	192,000	192,000	192,000	192,000	192,000	192,000	1,592,000
Insurance	400	400	400	400	650	650	650	650	850	850	850	850	7,600
ISP	600	600	600	600	600	600	1,050	1,050	1,050	1,050	1,050	1,050	9,900
Legal & Professional Fees	8,000	8,000	8,000	10,000	10,000	10,000	12,000	12,000	12,000	14,000	14,000	14,000	132,000
Miscellaneous	1,500	2,000	2,500	3,000	3,500	4,000	4,500	5,000	5,500	6,000	6,500	7,000	51,000
Office Lease & Utilities	3,000	3,000	3,000	2,000	3,000	8,000	8,000	8,000	8,000	15,000	15,000	15,000	91,000
Office Supplies	400	450	500	550	600	650	700	750	800	850	900	950	8,100
Postage and Shipping	640	715	790	865	940	1,015	1,090	1,165	1,240	1,315	1,390	1,465	12,630
Printing and reproduction	850	850	850	1,200	1,200	1,200	1,500	1,500	1,500	2,000	2,000	2,000	16,650
Training	2,500	2,500	2,500	2,500	2,500	2,500	5,000	5,000	5,000	5,000	5,000	5,000	45,000
Taxes and Licenses	-	1,300	-	1,300	-	1,300	-	1,500	-	1,500	-	1,500	8,400
Telephone	550	675	800	925	1,050	1,175	1,300	1,425	1,550	1,675	1,800	1,925	14,850
Travel	2,900	3,230	3,560	3,890	4,220	4,550	4,880	5,210	5,540	5,870	6,200	6,530	56,580
Trade Shows	-	3,000	-	6,000	-	9,000	-	12,000	-	15,000	-	18,000	63,000
Public Relations	-	20,000	15,000	15,000	15,000	15,000	15,000	25,000	25,000	25,000	25,000	25,000	220,000
Total Operating Expenses	60,815	94,328	195,878	178,691	179,651	362,355	342,683	375,997	376,149	416,124	408,651	448,029	3,439,351
Income from Operations	(60,815)	(94,328)	(195,878)	148,498	147,538	(8,419)	83,227	136,226	239,588	324,591	483,138	449,433	1,652,799
<b>Other Income (Expenses)</b>													
Interest Income	13	72	150	201	459	893	1,303	1,578	1,565	1,455	1,592	1,820	11,101
Interest (Expense)	-	-	(8,333)	(17,361)	(35,475)	(50,931)	(67,675)	(89,981)	(105,813)	(114,631)	(124,183)	(134,532)	(748,915)
Total Other Expenses	13	72	(8,183)	(17,160)	(35,016)	(50,038)	(66,372)	(88,403)	(104,248)	(113,176)	(122,591)	(132,712)	(737,814)
Net Income	\$ (60,802)	\$ (94,256)	\$ (204,061)	\$ 131,338	\$ 112,522	\$ (58,457)	\$ 16,855	\$ 47,823	\$ 135,340	\$ 211,415	\$ 360,547	\$ 316,721	\$ 914,985

See the accompanying Key Assumptions and Notes.

**Allegro Rainbow Multimedia, Inc.**  
**PROJECTED STATEMENTS OF CASH FLOWS**  
For the First Twelve Months of the Next Fiscal Year

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
<b><u>Cash Flows From Operating Activities</u></b>													
Net Income	\$ (60,802)	\$ (94,256)	\$ (204,061)	\$ 131,338	\$ 112,522	\$ (58,457)	\$ 16,855	\$ 47,823	\$ 135,340	\$ 211,415	\$ 360,547	\$ 316,721	\$ 914,985
Adjustments to reconcile net income to net cash provided (used) by operating activities:													
Depreciation	303	387	470	553	637	720	1,887	2,637	3,387	4,137	4,220	4,303	23,641
Amortization	172	638	1,116	1,783	2,212	2,662	3,209	3,610	3,857	4,627	4,908	5,206	34,000
Change in operating assets & liabilities:													
Decrease (Increase ) in accounts Receivable	-	-	-	(256,641)	(128,321)	(41,496)	(73,467)	(105,797)	(129,105)	(155,526)	(187,668)	(90,466)	(1,168,487)
Decrease (Increase ) in inventory	-	-	-	(200,679)	-	-	(40,136)	(48,163)	(57,796)	(69,354)	(83,226)	-	(499,354)
Increase (decrease) in accounts Payable	(22,903)	23,764	65,220	19,450	(14,490)	101,140	51,370	3,160	2,500	11,360	1,580	6,180	248,331
Increase (decrease) in other current liabilities	-	-	-	-	-	-	-	(10,012)	-	-	-	-	(10,012)
Net Changes in Operating Assets & Liabilities	(22,903)	23,764	65,220	(437,870)	(142,811)	59,644	(62,233)	(160,812)	(184,401)	(213,520)	(269,314)	(84,286)	(1,429,522)
Net Cash (Used) Provided by Operating Activities	(83,230)	(69,467)	(137,255)	(304,196)	(27,440)	4,569	(40,282)	(106,742)	(41,817)	6,659	100,361	241,944	(456,896)
<b><u>Cash Flows From Investing Activities</u></b>													
Decrease(Increase) in Fixed Assets	(882)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(145,000)	(45,000)	(45,000)	(45,000)	(5,000)	(5,000)	(315,882)
Decrease(Increase) in Other Assets	(13,655)	(48,800)	(49,700)	(63,000)	(38,900)	(42,200)	(48,100)	(41,400)	(32,300)	(95,600)	(36,500)	(38,600)	(548,755)
Net Cash (Used) Provided by Investing Activities	(14,537)	(53,800)	(54,700)	(68,000)	(43,900)	(47,200)	(193,100)	(86,400)	(77,300)	(140,600)	(41,500)	(43,600)	(864,637)
<b><u>Cash Flows From Financing Activities</u></b>													
Increase (decrease) in Notes Payable	-	100,000	108,333	217,361	185,475	200,931	267,675	189,981	105,813	114,631	124,183	65,582	1,679,965
Proceeds from paid in Capital	81,547	100,000	100,000	200,000	150,000	150,000	200,000	100,000	-	-	-	-	1,081,547
Payments to RPC holders	-	-	-	-	-	(51,328)	-	-	(99,429)	-	-	(172,875)	(323,632)
Net Cash (Used) Provided by Financing Activities	81,547	200,000	208,333	417,361	335,475	299,603	467,675	289,981	6,384	114,631	124,183	(107,293)	2,437,880
Net (Decrease) Increase in Cash	(16,220)	76,733	16,378	45,165	264,135	256,972	234,293	96,839	(112,733)	(19,310)	183,044	91,051	1,116,347
Beginning Cash	21,205	4,985	81,718	98,096	143,261	407,396	664,368	898,661	995,500	882,767	863,457	1,046,501	21,205
Ending Cash	\$ 4,985	\$ 81,718	\$ 98,096	\$ 143,261	\$ 407,396	\$ 664,368	\$ 898,661	\$ 995,500	\$ 882,767	\$ 863,457	\$ 1,046,501	\$ 1,137,552	\$ 1,137,552

See the accompanying Key Assumptions and Notes.

## **Allegro Rainbow Multimedia, Inc.**

### **KEY ASSUMPTIONS AND NOTES**

#### Note A: Forward Looking Statements and Projections

The financial statements are the Company's estimates of its financial performance for the future periods shown. The projections are based on assumptions made by the Company concerning future conditions and circumstances. Accordingly, the projections reflect management's judgment, based on present circumstances, on an assumed set of conditions and its most likely course of action. Some assumptions may not materialize and unanticipated events and circumstances may occur subsequent to the date that these projections were prepared. Therefore, the actual results achieved during the projections periods may vary from the projections and the variation may be material, because events and circumstances frequently do not occur as expected.

#### Note B: Scope of the Financial Projections

The current plan encompasses projections that are expected to take the Company through transition from start-up past break-even to full marketplace viability. Having already proven an ability to raise money from investors in three separate rounds of funding, the Company expects the fourth round to be the last necessary to cross the threshold to profitability.

Significant test marketing has already taken place in preparation for an aggressive marketing campaign and introduction on a much wider scale. The projections in these financial statements are based on management's best estimates of what they conservatively believe the Company will achieve during the three years projected.

#### Note C: Accounts Receivable / Payable

The Company anticipates that at least 50% of revenue will be received at the point of sale or within the first 30 days thereafter. An additional 25% is expected to be collected in the second month and 20% in the third month. A 5% allowance has been made for amounts uncollected after 90 days.

The Company conservatively projects 40% of the non-payroll, non-utility monthly expenditures to be in payable status at any time given the Companies plans to pay its obligations in a timely manner. However, where appropriate, management will likely be aggressive in finding ways to stretch its payables as long as possible as part of it efforts to soundly manage cash.

#### Note D: Depreciation and Amortization

The Company's fixed assets including Office Furniture and Equipment, and vehicles are shown depreciated straight-line over 5 years. Leasehold improvements are depreciated straight-line over 20 years. Intellectual property is shown amortized over 20 years. Other capitalized assets such as R &D, Software development and infomercials are amortized straight-line over 10 years. Start-up costs such as capitalized finder's fees have been shown amortized over 5 years.

It should be noted that tax and book depreciation often differ and that the Company plans to utilize the most aggressive methods of depreciation available for tax reduction purposes while letting the book depreciation be governed by that which appears most practical from a capital budgeting perspective and as allowed by GAAP. The depreciation and amortization methods used for these projections have been prepared according to a simple, straight-line calculation that does not necessarily reflect GAAP or accepted Tax reporting methods.

These Key Assumptions and Notes are an integral part of the Financial Projections.

#### Note E: Notes Payable

Notes Payable as projected are an integral part of the Company's 4<sup>th</sup> round of funding. Please see Note F for a more complete explanation of the Company's capitalization plans including the use of debt for partial financing.

#### Note F: Common Stock, Preferred Stock, and other Paid in Capital

Please refer to the Company's Private Placement Memorandum (PPM) for detailed information regarding capital formation and other disclosures of ownership and matters relating to the Company's securities and legal compliance. Information contained in this Key Assumptions and Notes document should not be relied upon as full or legal disclosure.

The following is a summary of funding activity to date as well as plans for future funding:

Round 1 (complete): \$125,000 in exchange for 500,000 shares of common stock at \$0.25 per share plus Revenue Participation Certificates that promise to pay 5% of gross revenues until the investor has received five times their original investment back.

Round 2 (complete): \$250,000 in exchange for 500,000 shares of non-voting Series A preferred stock at \$0.50 per share. The preferences include a 10% non-cumulative dividend and a first-in-line status in case of liquidation.

Round 3 (complete): \$727,000 in exchange for 727,000 shares of common stock at \$1.00 per share. As of the end of the third quarter 2003, only \$645,453 of the round 3 amount had been raised. The remaining \$81,547 is shown coming in during month one although month one does not coincide with the first month of the 4<sup>th</sup> quarter. The historical financial information was derived from a compilation prepared by the Company's accounting firm and was only current through September 30, 2003.

Round 4 (commencing): \$2,000,000 in exchange for part equity and part debt in equal proportions as follows: \$1,000,000 in exchange for one million shares of non-voting Series B preferred stock at \$1.00 per share. Preferences include an 8% non-cumulative dividend. The other \$1,000,000 in exchange for notes payable that promise to pay back twice the amount invested at the rate of 5% of gross revenues after the Company has exceeded \$6,500,000 in total revenues.

#### Note G: Beginning Retained Earnings

To date, nearly none of the expenses incurred have been capitalized. This explains the relatively large negative beginning retained earnings. In projecting future financial results, the Company has chosen to capitalize some of its development expenses for intangible assets in order to begin matching revenues with a better sense of the real costs of those revenues.

#### Note H: Units Sold

The Company's revenue streams as shown on the Projected Income Statements include Software Sales, Hardware Sales Commissions, Midi Licensing Revenues, Subscription Revenues, Referral Fee Revenues, and Affiliate Commission Revenues. Projected revenues are shown net of all merchant account/credit card fees. Each category is briefly highlighted below:

##### **Software Sales**

The company expects to sell its flagship product for \$99 retail (\$59 wholesale). For every one retail sale, the Company expects two wholesale sales. (See table on next page)

These Key Assumptions and Notes are an integral part of the Financial Projections.

	Number of Units		
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Piano Commando - Retail	32,037	66,349	99,523
Piano Commando - Wholesale	64,075	132,697	199,046
Totals	96,112	405,640	298,569

### Hardware Sales Commissions

The Company does not expect to inventory key boards but does expect to get a commission from the hardware makers every time a key board is sold in conjunction with a retail sale of the Piano Commando software. The Company assumes 45% of retail software sales will buy a basic keyboard for \$99; 20% will buy a midlevel key board for \$199; 5% will buy an advanced keyboard for \$499; and 30% will get a keyboard through some other way. The commission rate assumed equals 10% of the purchase price.

	Number of Units		
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Key Board - Basis	14,417	29,857	44,785
Key Board - Midlevel	6,407	13,270	19,905
Key Board - Advanced	1,602	3,317	4,976
Totals	22,426	46,444	69,666

### Midi Licensing Revenues

The Company assumes that for every buyer (retail and wholesale) at least 4.5 songs will be downloaded from the Company's web-site at an average cost of \$1 each beginning in month six.

	Number of Downloads		
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Midi Songs	372,510	895,706	1,343,558

### Subscription Revenues

The Company assumes that 5% of all buyers will subscribe to the Company's on-line service beginning in month six. The Company further assumes that each month, 5% of the total subscribers will drop out. The numbers in the table below represent total subscription months rather than total subscribers. Subscriptions can be purchased for \$5 per month.

	Number of Subscription Months		
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
On-line Service	12,856	81,795	166,707

### Referral Fee Revenues

The Company expects to be in a position to make referrals to piano teachers who agree to be listed in the Company referral database and who will pay \$25 per successful referral.

	Number of Referrals		
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Referral Fees	350	11,200	20,000

These Key Assumptions and Notes are an integral part of the Financial Projections.

### **Affiliate Commission Revenues**

The Company assumes affiliates will pay commissions for products sold by the Company on their behalf. This could be any number of related products that the Company advertises on its website or through bundled product offerings. Although not projected as a substantial revenue stream, an average of \$25 per sale has been used to represent this activity.

	Number of Affiliate Sales		
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Affiliate Commissions	220	13,270	35,680

### Note I: Cost of Goods Sold

The average Cost of Goods Sold is expected to be around 35% yielding a healthy gross profit margin of 65%. Direct costs, overhead, and commissions have all been factored into the Cost of Goods Sold projections.

### Note J: Personnel

The company expects to handle their business with a relatively small staff that will grow from a small beginning of three (3) to eighteen (18) by the end of the first year. The Company expects to be able to keep total payroll costs well below the standard 20% of gross revenues level due to the revenues generated that do not require a direct relationship with the Company (i.e. wholesale sales). A higher than average payroll burden (30%) is planned because a goal of management is to give salary and benefits that will attract and hold highly motivated and qualified people.

### Note K: Expenditures

The expenses projected are scaled to levels believed by management to adequately support the organization and growth of the Company as detailed in the business plan and financial projections.

### Note L: Income Taxes

Income taxes have been projected from tax table calculations with no attention to tax strategies and planning that most likely will occur with the success the Company projects. The projected losses during the first several months if realized will be carried forward along with the large negative retained earnings to offset earnings in future months. Although not included as an asset, this carry-forward loss implies a deferred tax benefit.

### Note M: Interest Income

As part of the Company's effort to present conservative estimates of its expected performance levels, interest income on excess cash balances has been projected at just 2% per annum. Considerable cash accumulation is projected which management expects to be able to invest at higher earning rates.

### Note N: Projected Breakeven Points and Burn Rate

As presently stated, the financial projections show an operating breakeven occurring as early as month 4 and a cumulative breakeven happening in the second quarter of year two. See the Projected Statements of Cash Flows for complete details of management's cash expectations.

These Key Assumptions and Notes are an integral part of the Financial Projections.