



DigitalXplosion, Inc.
Durango, CO



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1.0 Executive Summary

DigitalXplosion is an on-demand digital media technology company. Our flagship media service and core technologies revolutionize both the way consumers acquire digital media and the way media owners distribute their products.

Prior to DigitalXplosion, consumers have basically had three ways to acquire digital media: expensive and inefficient download services, illegal file sharing programs and brick and mortar/mail order retailers. At the same time, media owners have suffered incredible losses due to distribution inefficiencies and illegal downloading. Media owners have lost out because they've failed to provide consumers what they want.

Enter DigitalXplosion. We've solved both sides of the digital media equation. We provide consumers access to digital media from anywhere at anytime and for mere pennies. Plus, we provide media owners a better system that legally distributes and better monetizes their products.

DigitalXplosion is the technology that can offer consumers real on-demand digital media. Better yet, consumers can 100% legally swap media. Another advantage is that consumers only pay for what they use. For example, instead of paying \$0.99 per song, DigitalXplosion offers a micropayment option where consumers only pay about a penny per use for all of today's hot music.

Media owners benefit from DigitalXplosion because we've created an every growing distribution system that best monetizes their products. When our users swap media with others, they become distribution points. And as the user base grows, the entire distribution system grows. Additionally, the micropayment option makes music affordable. Micropayments can compete and beat illegal downloads. Plus, micropayments allow more people to sample a wider range of digital media. Micropayments also build in a residual stream of revenue through repeat use.

DigitalXplosion's success is based on our strengths: providing the market what it wants, start-up marketing prowess, industry relationships, financial discipline, organizational design and management.

DigitalXplosion is the right solution at the right time. DigitalXplosion is innovation. And DigitalXplosion is positioned to be the on-demand digital media leader.



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2.0 What is DigitalXplosion?

DigitalXplosion is an on-demand digital media technology company.

DigitalXplosion can offer a limitless suite of downloadable digital media products – music, video, software and games - to B2C end users and we will offer private labeled products, technologies and service to third party B2B customers.

At the core of DigitalXplosion's offerings is a robust application platform that allows for the real time distribution and usage tracking of digital media.

2.1 Why DigitalXplosion?

DigitalXplosion's core technology will revolutionize both the way that consumers shop for digital media and the way media owners (artists, labels, networks, software manufacturers, etc.) distribute their products.

Our DigiDistribute® technology provides unlimited access points for users to obtain media, thus, creating an ever growing and unlimited distribution system for media owners.

For instance, the opportunity to download and transfer media is available to end users through the DigitalXplosion portal, approved resell vendors and an ever growing number of existing end users. End users can acquire and distribute (file share) media from any internet enabled device - computers, handhelds, mobile phones, mp3 players, etc.

For media owners, DigitalXplosion offers a distribution system that grows exponentially. In addition to the DigitalXplosion network of approved vendors, every new DigitalXplosion user becomes a distribution point by way of file transfer. In this fashion, media owners are harnessing the collective power of a growing community - end users that double as distribution points.

Additionally, DigitalXplosion offers a unique and appealing pricing model for end users and revenue model for media owners.

Instead of only offering end users the option to purchase digital media in full prior to use, DigitalXplosion's patented DigiTrax® technology allows users two options:

- Unlimited Use Purchase,
- Per Use Micropayments.

Unlimited use purchase offers a one time payment in exchange for unlimited usage of the media purchased.



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On the other hand, per use micropayments allow end users to only be charged fractional payments based upon actual usage parameters. In this fashion, an end user has access to unlimited amounts of digital media but is only charged for the media that he/she uses and enjoys. This pricing structure allows end users the opportunity to try more media products risk free.

Per use micropayments also allow media owners to realize the benefit of greater product monetization. Usage based pricing allows media owners to provide consumers the benefit of no upfront costs. This benefit can expose their products to a wider audience and builds in a residual revenue stream that capitalizes on repeat use.

2.2 Why Now? The Opportunity

Why now? There are many reasons.

Most importantly, the end user consumer market and media owners are ready for a faster, more efficient, mutually beneficial relationship.

The end user consumer market has been toying with the idea of gravitating to legal media downloads; however, price is often prohibitive and access is limited. DigitalXplosion's unparalleled ease of access and no-risk per use pricing will appeal to the masses as no other system has.

As for media owners, their interest is in expediting the monetization and development of their market. Legal media downloads are rapidly growing; however, the inefficiency of current systems and the continued overwhelming loss from illegal/pirated use are slowing down the rate of growth. This problem presents the perfect opportunity for innovation. DigitalXplosion is this innovation. DigitalXplosion's ease of distribution and micropayment pricing structure allow media owners to more effectively grow, monitor and capitalize on their products.

2.3 Strategic Vision

DigitalXplosion's strategic vision is to ultimately be the industry leader supplying the backend technology that powers online media.

We seek to bridge the current gap between end users and media owners. We seek to exponentially increase supply points and offer a greater variety of media to end users (initially music and then video, software, games, etc.). We seek to lower end user costs. We also seek to provide the vehicle that exponentially increases media owners' distribution and offers a viable and legal digital outlet that maximizes owners' revenue.



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2.4 Revenue Models

DigitalXplosion will employ the following revenue models:

B2C: End Users

Unlimited Use Purchase – One time purchase offering the end user unlimited usage.

Per Use Micropayment – Low cost micropayment based upon actual usage parameters.

While a lower priority initially, DigitalXplosion will also have to opportunity to capitalize on the B2B market.

B2B: Media Owners and Third Party Resellers

Software Licensing – DigitalXplosion will license our DigiDistribute® and DigiTrax® software products to choice media owners.

Customization and Consulting – For select partnerships, DigitalXplosion will make itself available for customization and consulting.

Advertising – We will monetize website space, community networks, newsletters and promotions with select advertisement opportunities. For instance, as the DigitalXplosion community grows, online content grows and opportunities similar to AdSense will present themselves.

2.5 Proprietary Technology

DigiDistribute®, our digital media delivery technology, secures digital media from piracy and enables any connected device to transfer and receive digital media.

DigiTrax®, our micropayment technology, tracks actual media usage, usage fees and payment processing. DigiTrax is a usage and payment gateway.

3.0 Situation Analysis

DigitalXplosion offers a robust application platform that: a) allows end users efficient means to acquire media with different payment options, b) allows corporate customers to distribute on-demand digital media efficiently and at a maximum profit.



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3.1 Market Summary

DigitalXplosion focuses on both the B2C and B2B markets:

- a) B2C: end users that are looking to both acquire high quality-digital media with peace of mind and looking for the opportunity to try more media products risk free,
- b) B2B: media owners and third party resellers seeking to offer on-demand access to digital media.

3.1.1 Target Markets Demographics

Target Markets for Initial Music Offering

Internet Savvy Consumer Market. DigitalXplosion's primary target market consists of sophisticated, internet savvy consumers. This includes 27% of Internet users that currently own one or more digital music players. 53% of this market is male and 37% is between the age of 18 to 34. Additionally, 37% have a household income above \$75,000.¹

This market of tech savvy individuals displays a willingness to pay for new products and services found online. For instance, 83% access the Internet seven days a week and these individuals are 58% more likely than the average Internet user to be the first among their peers to buy new gadgets. 94% report shopping online in the last 6 months and 49% agree that online shopping is the easiest way to shop.¹

This Internet Savvy Consumer Market can be further refined based upon simple demographics. For instance, if we look at this market based upon age, we can see unique and ample opportunity.

Youth Music Consumer Market. Of the approximate 44 million US downloaders, the under 23 youth market is the most active. Approximately 50% of all individuals under the age of 23 have downloaded music.¹ Unfortunately, in addition to being the most active group for downloading, the youth market is the most likely to pirate music.

Adult Music Consumer Market. Only 10% of all adults over the age of 23 have downloaded music.¹ This market is not currently as computer savvy as the youth market; however, there is a willingness to pay for media and an incredible opportunity to educate, penetrate and grow the adult market.

Independent Media Owners. Independent media owners produce their own media and typically distribute content online through social networking sites like MySpace, blogs like Blogger.com and message boards.

Independent Record Labels. Indie music labels, including those in the American Association of Independent Music (A2IM), account for 27.5% of music sales in the United States and up to one third of online listening.²



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Major Labels and Third Party Resellers. Major labels include Sony BMG Entertainment, Columbia Records, Epic Records, etc. Potential third party resellers include Yahoo Music, AOL Music and other large distributors.

Future Markets

While DigitalXplosion will initially target the audio music market, our future potential includes all forms of digital media and can include: consumers and producers of news, ebooks, blogs, video, video games, software, etc.

3.1.2 Market Needs/Growth

There is an overwhelming market need and enormous market potential for DigitalXplosion.

In the United States, 27 million people own one or more on-demand media devices¹, such as a TiVo digital video recorder, an Apple iPod or another portable music player. This reflects a growing trend – an on-demand media lifestyle.

While a significant portion of consumers are still using traditional media, there is great enthusiasm for the movement to on-demand media. Currently, people access content through a variety of digital channels and devices. For instance, people access video-on-demand services through cable or satellite providers, access on-demand news via the Internet and listen to Internet radio.

According to Joe Lenski, executive vice president at Edison Media Research, “Consumers are taking more control over the media that they use, how they use them and when they use them.”³

In addition, the continued growth and market penetration of high-speed Internet service through cable and DSL makes it possible for more and more people to go online and access multimedia content. According to the Arbitron/Edison survey, 48% of people with home Internet access now have broadband, and 48 percent have dial-up service³.

The digital market has grown exponentially and still has significant room to grow. This growth and these trends will lead to more users, more digital content, more connected devices, and more opportunities for wireless and wired connectivity.



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For instance, the recent LogicaCMG study of mobile phone users listed below illustrates the international market is already accessing media content through their mobile phones in mass. Furthermore, this study also shows that a great opportunity exists. There is a large portion of mobile phone users that already possess a media enabled device but have not yet begun to access media on their mobile phones.

Content that mobile phone users expect to be accessing this year ⁴				
	Asia Pacific	Europe	North America	South America
	(%)	(%)	(%)	(%)
Games	49	15	11	30
Ring Tones	73	20	27	25
News	55	15	13	28
Music	31	15	15	23
Sports Clips	29	12	10	13
Multimedia Images (images, screen savers)	56	16	13	13
Video clips or movie previews	25	7	7	10
Full feature films	11	8	3	8

Additionally, people need the ability to easily swap and pay for media content. 49% of the Asia Pacific market (the most advanced world market in terms of downloading mobile content) cite ease of payment as one of the most important factors when downloading mobile content. Additional figures are listed below.

Most important factors for mobile phone users when considering downloading mobile content ⁴				
	Asia Pacific	Europe	North America	South America
	(%)	(%)	(%)	(%)
Ease of payment	49	15	11	30

Lastly, according one of the latest reports from Adams Media Research, more than 4 million video-capable iPods have been sold since the product's 10/12/05 debut, along with 12 million TV shows, music videos and short films through the iTunes Music Store⁴. TV Networks have been aggressive in exploring Internet options for distribution of their content. Additionally, major studios have started to license films for download-to-own distribution through Movielink, and CinemaNow. From video capable iPods to tv networks and major studios, the evidence is clear – there is a huge market for digital media and on-demand is growing.



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3.2 SWOT (Strengths, Weaknesses, Opportunities, Threats) Analysis

We will analyze our strengths, weaknesses, opportunities and threats in detail.

3.2.1 Strengths

1. Superior Product: The core technologies that comprise DigitalXplosion's offerings make for a truly superior application. No one in the industry has remotely approached distribution, access and payment for digital content as DigitalXplosion has.
2. Unique Pricing and Revenue Models: Micropayments offer end users greater flexibility in payment options. On the other hand, the ability to provide a micropayment pricing structure allows corporate customers to expose their products to a wider audience and builds in a residual revenue model.
3. Industry Relationships: DigitalXplosion has financial backing and an agreement with Sony BMG Music Entertainment to distribute their complete catalog of music upon successful development and implementation of the DigitalXplosion technologies in the mass market. Negotiations are already underway with other large catalog holders.
4. First Mover Advantage: DigitalXplosion has a first mover advantage. By already having our core technologies developed and ready to implement, DigitalXplosion has a significant time advantage over any potential competitor.
5. True Technological and Marketing Expertise: Our team is built with very talented people who have in-depth knowledge, first rate experiences and a vested interest in DigitalXplosion's success.
6. Organizational Structure: Our organizational structure has been designed to effectively produce our technologies, effectively implement them and scale through technological efficiencies and organic growth.

3.2.2 Weaknesses

1. Barriers to Entry: The current marketplace has many potential barriers to entry. For instance, there is a current system in place to distribute music and agreements in place with many media owners that govern distribution. However, DigitalXplosion is aware of our potential barriers, has taken them into consideration and we certainly believe that we can successfully enter the market.
2. Unrecognized Brand: We are a start up business and will need to jump to the forefront and define ourselves.
3. New Business Model for Media Owners: Media owners may be hesitant to employ a usage based compensation revenue model. Additionally, we are aware that the concept of micropayments failed to gain traction in the online print content segment several years back. However, online print content is inherently different than digital media and our use of the micropayment model vastly improves upon past failures and better fits the digital media market.



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4. Competition. Online media is fierce and industry heavy weights and upstarts stand as potential competitors.

3.2.3 Opportunities

1. Be the Legal Media Solution: With pirated and illegal downloads prevalent in the market, both end users and media owners are looking for a legal media solution. DigitalXplosion is the legal media solution.
2. Inefficient Current System: The current media system is inefficient. By providing true innovation through our new access/distribution systems and pricing/revenue models, DigitalXplosion offers a new approach that is efficient and needed in the current market.
3. Overwhelming Market Growth/Potential. Digital content revenues in 2003 were \$2.3 billion. By 2008 revenues are expected to exceed \$15.1 billion.¹ This is phenomenal growth and DigitalXplosion is poised to capitalize on this wave of opportunity.

3.2.4 Threats

1. Illegal Music Downloads: A large portion of the digital media market still lacks respect for media rights. This problem is often prevalent in the younger generation. The fear is that if illegal music downloading achieves a certain critical mass, it could become a huge threat to industry growth. In attempting to be a legal media alternative, the threat of illegal downloads as a substitute is one we will have to overcome with education, innovation and differentiation.
2. 10,000lb Gorilla: When the larger, established rival companies recognize our niche, we will face increased competitive pressures.
3. Un-informed Adoption of Alternate Technology: Alternate technologies will spring up from both established companies and new entrants as competition to DigitalXplosion. DigitalXplosion must secure key industry alliances and a critical consumer mass to prevent the market from adopting alternate technologies.
4. Bargaining Power: The threat of suppliers and customers leveraging their bargaining power is a threat all companies face. In DigitalXplosion's case, we have significant differentiation of inputs and unlimited substitute inputs amongst the various individual, indie and traditional media owners. Also, our distribution model does not concentrate our services in the hands of only a few customers.

3.3 Competition

With the expected digital media explosion, competition is ripe. Currently, DigitalXplosion can expect competition from online distributors, brick and mortar (BAM) stores and illegal file sharing programs.

Online Distributors - Of the legal online distributors, iTunes is the hallmark of competition. Other competitors include: AOL Music, Napster, MP3.com, Music.com, Yahoo Music.



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Brick and Mortar Store – The music store is slowly becoming a thing of the past; however, Walmart, Target, Best Buy, Sam Goody and other BAMs still offer competition for the digital media dollar.

Illegal File Sharing Programs – Illegal file sharing programs offer pirated digital content and not only compete but actually drain the digital media dollar. Examples include Kazaa, Limewire, Bearshare and many more.

3.4 Keys to Success

1. Get the Word Out: We must hit the ground running and get the word out about DigitalXplosion.
2. Satisfy Customers' Needs: DigitalXplosion satisfies both sides of the digital media equation. We will provide the tools for B2B users to manage, protect, distribute, and sell digital media contents. And we will provide the tools for end user consumers to legally purchase high quality digital media easily and securely with different payment options according to their specific needs.
3. Provide an Easy to Use Platform: It is imperative for DigitalXplosion to understand all of its users and provide our technology in a fashion that is extremely user friendly. Use of our products will be intuitive for even the most technologically novice user.

3.5 Critical Issues

The most critical issue for DigitalXplosion is to start strong, offer a first class, ready to use product and establish a respected brand. In a market dominated by name brands, DigitalXplosion must be the superior product to develop a superior brand. Similar to the growth of Google, DigitalXplosion expects our innovation to drive momentum. We have solved the digital media problem better than any competitor. And we expect the DigitalXplosion full cycle experience to be superior to the competition.

4.0 Marketing Strategy

DigitalXplosion's initial marketing strategy hinges on successful guerilla marketing to end users and solid partnerships at the B2B level.

By implementing a phased multi-channel approach, DigitalXplosion can create buzz, lure customers from the competition and develop a loyal community of users. End user marketing will be based upon maximizing results and beating the competition with our wits. Creativity and innovation are staples of our product and they are both staples of our marketing strategy.



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At the B2B level, industry partnerships will be paramount to our success. DigitalXplosion offers a real value proposition to media owners and our industry contacts afford us the opportunity to quickly enter into several large scale partnerships.

4.1 Marketing Objectives

1. Create the Buzz. The launch of DigitalXplosion needs to be the buzz of the Internet. We will create buzz with pre-launch: a) joint promotions with established brands; b) PR campaign and media coverage; c) interactive advertising; d) traditional advertising.
2. Educate and Entice. We will educate end users and individual media owners about the benefits of DigitalXplosion and provide them with the incentive to try DigitalXplosion through the use of creative ideas - special promotions, product give-ways, etc.
3. Create a Community. Once a user has come to DigitalXplosion we want to provide each user with a friendly experience that effectively creates a sense of community. Our tools and technology help create these communities. For example, users can establish custom file sharing groups. Independent media owners have access to publishing and distribution tools. Our technology also harnesses the power of like-minded groups and produces a completely customized experience. The goal of this community based approach is to increase user involvement and provide them with yet another reason to continue to use DigitalXplosion.
4. Let Them Speak. When a product is so superior to the competition, word of mouth is a byproduct. Downloading music for pennies. Legal file transfers from anyone and everywhere. Tools to independently distribute media. The complete superiority of DigitalXplosion and targeted messaging will translate into solid word of mouth.
5. Targeted Advertising. From search and banner to email and blog marketing, DigitalXplosion will continue to build our brand and keep our name in front of a targeted audience.

4.2 Positioning

DigitalXplosion will position ourselves as the new alternative for digital media downloads. DigitalXplosion is about youth. We are mobile. We are easy to use. And we won't break your bank.

DigitalXplosion is also an industry pioneering technology firm that offers innovation and real monetization for media owners.



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4.3 Marketing Mix

1. Corporate Identity. DigitalXplosion will implement a corporate identity that consists of a unified outward presentation. We are young. We are hip. And we're in touch with the pulse of digital media. We definitely aren't your grandmother's download service.

Our logo is:



2. Joint Promotions. DigitalXplosion will target complimentary companies to engage in joint promotional opportunities. For instance, DigitalXplosion may seek a media owner like Sony and a push co-branded promotion. Or, DigitalXplosion may target a MP3 maker like RIO and push a co-branded promotion. In both instances, complimentary products promote each other and DigitalXplosion receives the benefit of being associated with a stronger brand.
3. Press. DigitalXplosion will use a powerful press release campaign to create buzz and maintain momentum through media attention and favorable news articles.
4. Incentive Based Promotion. DigitalXplosion will use incentive based marketing initiatives to provide users incentive to join DigitalXplosion. For instance, DigitalXplosion may use a complimentary product like a RIO MP3 for a sweepstakes promotion.
5. Interactive Marketing. Our interactive campaign will consist of:

Website – Both our website and mobile website will be designed in an organic search and user friendly format such that no desired action is more than one click away. Usability studies and customization will allow for the novice to easily use DigitalXplosion. And, pros have all the bells and whistles to keep them thoroughly engaged.

Search - Search engine advertising consists of purchasing text ad spots that appear in search engine result pages (SERPs). The benefit of advertising on SERPs is that search engine users pre-qualify their interest in our company and product. For instance, searchers that type in "mp3 download" or "music download" have a preexisting need for DigitalXplosion. By advertising on SERPs, DigitalXplosion can connect with potential customers at their exact point of interest.



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Example Search Terms - Monthly Search Count on Yahoo⁵

Volume	Search Term
7,351,048	music download
791,552	mp3
198,234	mp3 download

Options Include: Yahoo Search Marketing, Google's Adwords, MSN's Adcenter, and second tier PPC search engines including Ah-Ha, Kanoodle, Mamma, Miva, Enhance.

Email Marketing – DigitalXplosion will use its website as a tool to build an in-house email subscriber list. We will offer incentives (free downloads, sweepstakes) for users to join our email newsletter. Then, DigitalXplosion will use regular newsletters blasts as a tool of remarketing efforts.

Banner Advertising – DigitalXplosion will use banner advertising as a means to brand on the web. At first, we may simply target unsold inventory due to cost considerations and ROI.

Affiliate Programs - DigitalXplosion will use pay for performance based affiliate marketing. Affiliate networks match merchant sites and affiliate sites. Affiliate sites will promote DigitalXplosion and we will only be charged when a predetermined action occurs – an account signup.

Options include: Commission Junction, LinkShare.

YouTube Broadcasts – According to Nielsen/NetRatings, YouTube's web traffic grew at a rate of 75% week to week over the summer and its page views grew 515% from January to June 2006. June's page view total was 724 million.⁶ DigitalXplosion will capitalize on the YouTube buzz by producing low cost, hip YouTube broadcast commercials.

Blog Marketing: DigitalXplosion will target blogs. We will create and lead a blog community similar to Blogger or open source options like b2evolution or WordPress.

6. Radio. Targeted radio ads will be used to create buzz and embed our brand with an audience that has an interest in music. As the case with banners, we may initially target unsold inventory.
7. Print. DigitalXplosion will utilize a print campaign consisting of sales collateral, magazines and perhaps even billboards.



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5.0 Financials

The market strategy mentioned earlier is reflected in the assumptions used to build the financial model and corresponding pro-forma financial statements. DigitalXplosion believes these financials to be on the very conservative side and, therefore, very attainable.

5.1 Important Assumptions

The financial plan depends on important assumptions shown in the following table.

The key underlying assumptions are:

- A slow-growth economy, without major recession.
- There are no unforeseen changes in technology to make products immediately obsolete.
- Access to equity capital and financing sufficient to maintain our financial plan as shown in the tables.

General Assumptions			
	Year 1	Year 2	Year 3
Current Interest Rate	10.00%	10.00%	10.00%
Tax Rate	25.42%	25.42%	25.42%
Sales on Credit %	75.00%	75.00%	75.00%
Other	0	0	0

5.2 Financial Objectives

1. In year one, our unlimited use option will be set at an introductory price of \$ 0.5 per unit. This price is approximately half the current market price. In year one, we expect sales of 10 million unlimited use purchases and 500 million micro-payment units.
2. In year two we will implement a program to augment user value and explore the \$ 0.65 per unit price point for unlimited use downloads. Again, this price point is still significantly lower than the current market price.
3. We anticipate to achieve a 14.5% growth rate in sales of unlimited use purchases. This is very conservative and equals the annual growth rate in the industry.

DigitalXplosion seeks to increase profit margins as we scale and refine our offerings. We are currently forecasting a 22% growth in profits during the first two years.



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5.3 Breakeven Analysis

This break-even is a reflection of our first year, in which we are building our fulfillment based on average cost per dollar unit that is divided into the following proportion:

Media Owners: Receive 60 cents. This includes publishing rights of about 10 cents to 12 cents per song, which are bundled with the labels' cut in the kind of wholesale arrangement brokered by Apple.

Financial Transaction: Cost 10 cents. Credit card companies charge transaction minimums of up to 30 cents, making this one of the biggest line items for download retailers. We plan on offering two payment options – prepay and monthly billing. In this fashion, we limit transaction costs.

Marketing: 0.3 cent. Assume marketing budget of \$ 0.3 million dollars a year.

Staff: 0.7 cent. Assume 23 1040 employees and several 1099 employees at \$ 0.7 million dollars a year in compensation.

Bandwidth and Hosting: 2 cents. This includes the cost of delivering data to the customer and is highly sensitive to volume. Large numbers of downloads can mean a big savings, assuming rates have been locked in advance.

Start-up Costs: 0.1 cent. Assume a \$ 3 million investment to be amortized over 5 years.

Total: 73.1 cents

In the first year,

$$\begin{aligned}\text{Fixed Cost} &= \$ 0.3 \text{ million} + \$ 0.7 \text{ million} + \$ 3 \text{ million} / 5 \\ &= \$ 1.6 \text{ million per year}\end{aligned}$$

Variable Cost per unit

$$= \$ 0.6 + \$ 0.1 + \$ 0.003 + \$ 0.007 + \$ 0.02 + \$ 0.001 = \$ 0.731$$

From the revenue models illustrated in section 2, we know that our revenue is composed of end user unlimited use purchase, end user per use micropayment, third party licensing and advertising revenue. Here we assume our unlimited use purchase costs \$ 0.50 per song and if the unlimited use purchase is Q unit, then the typical person employing a micro-payment purchase uses the per use option at a rate of 50 per use uses for every 1 unlimited use usage. Therefore, the per use option can be calculated at 50(Q) units.



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When entering the market, we will offer our media content at a very competitive introductory price to capture customers and market share quickly. The rate would be \$ 0.50 per unit compared to the market price of \$ 0.99.

To reach the break-even unit, we need to set $TR = TC$, that is

$$0.5(Q) + 0.01(50Q) + 125,000 + 75,000 = 1,600,000 + 0.731(Q)$$

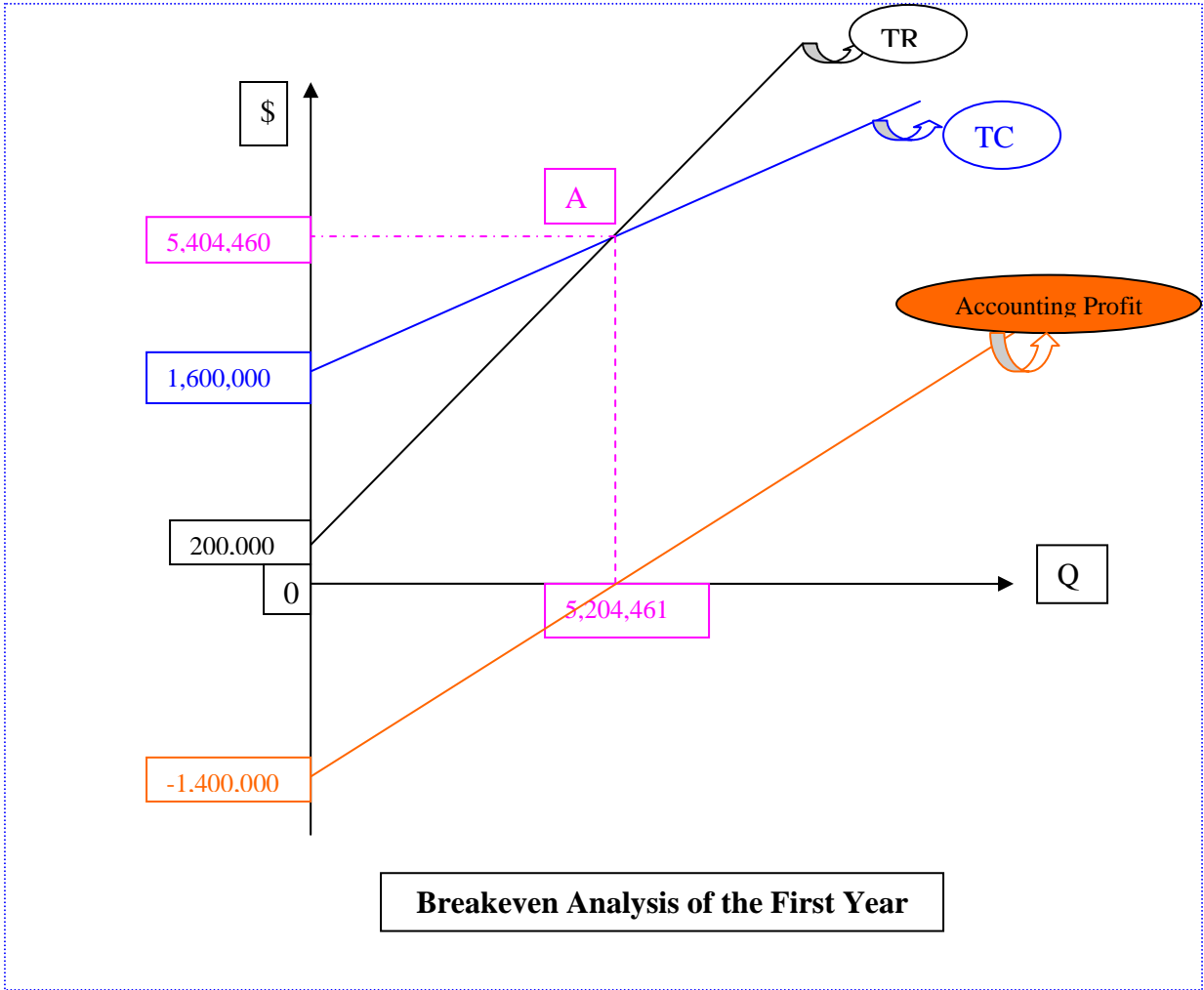
Then we get $Q^* = 5,204,461$ units

That is to say, when there are 5,204,461 units of unlimited use purchase and 260,223,050 units of micro-payments, we could get the break-even revenue of 5,404,460.991 dollars.



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Breakeven Analysis of the First Year

Break-even Analysis:	
Yearly Units Break-even	5,204,461
Yearly Revenue Break-even	\$ 5,404,460.991
Assumptions:	
Average Per-Unit Variable Cost	\$ 0.731
Estimated Yearly Fixed Cost	\$ 1.6 million



5.4 Sales Forecast

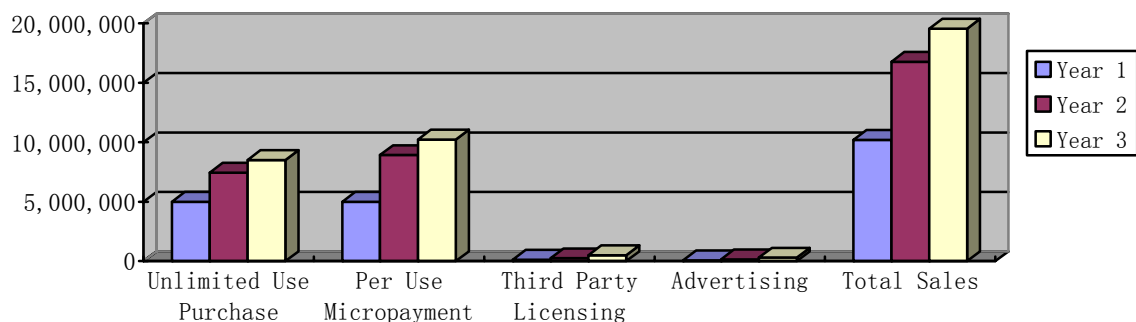
In the first year, the price is set to \$ 0.5 per unit and we will expect our sales to be 10 million units of unlimited use purchase and $10(50) = 500$ million units of micro-payments. We are expecting the licensing distribution agreement with Sony to be worth \$125,000 and our advertising revenue would be \$ 75,000.

In the second year, our plans include augmenting user value through the continual addition of first tier music catalogs allowing us to potentially price unlimited use purchases at \$ 0.65 per unit which is still lower than the market price. Additionally, we would expect the growth rate of our sales for unlimited use purchase to be 14.5% which is the annual growth rate in the industry. With the new micro-payment = $\$ 0.65 / 50 = \$ 0.013$, we are expecting the number of micro-payments to increase to $60(Q) = 60[(10,000,000) (1+14.5\%)] = 687,000,000$. We expect the licensing and advertising revenue to double.

In the third year, we are expecting the same price and same growth rate in sales as in the second year and the licensing and advertising revenue to double.

Sales	Year One	Year Two	Year Three
Ender User Unlimited Use Purchase	5,000,000	7,442,500	8,521,663
Ender User Per Use Micropayment	5,000,000	8,931,000	10,225,995
Third Party Licensing	125,000	250,000	500,000
Advertising	75,000	150,000	300,000
Total Sales Revenue	\$10,200,000	\$16,773,500	\$19,547,658

This is illustrated in the following graph:



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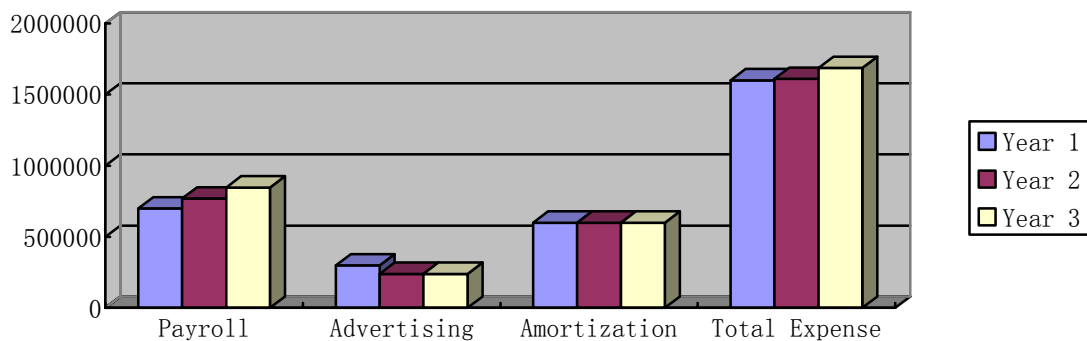


5.5 Expense Forecast

We will increase our payroll by 10% in year 2, and decrease the advertising expense by 20%. Remember, a strong suit of DigitalXplosion is our guerilla marketing and low cost interactive advertising. Also, as more name brands leverage DigitalXplosion, DigitalXplosion reaps the benefits from stronger brands.

Expense	Year One	Year Two	Year Three
Payroll	700,000	770,000	847,000
Advertising	300,000	240,000	240,000
Amortization	600,000	600,000	600,000
Total Expenses	1,600,000	1,610,000	1,687,000

This is shown in the following graph:





5.6 Projected Income Statement

For the Year Ended on Dec 31	Year 1	Year 2	Year 3
Sales Revenue	10,200,000	16,773,500	19,547,658
Cost of Sales	7,310,000	8,369,950	9,583,593
Gross Profit	2,890,000	8,403,550	9,964,065
Gross Margin %	28.33%	50.10%	50.97%
Total Expense	1,600,000	1,610,000	1,687,000
Percentage of Sales	15.69%	9.60%	8.63%
Contribution Margin	1,290,000	6,793,550	8,277,065
Contribution Margin/Sales	12.64%	40.50%	42.34%
Interest	129,000	679,355	827,706.5
Income before Tax	1,161,000	6,114,195	7449358.5
Tax	295,126.20	1,528,548.75	1,893,626.93
<u>Net Income</u>	<u>865,873.80</u>	<u>4,585,646.25</u>	<u>5,555,731.57</u>

The contribution margin should increase steadily during the first three years, because our sales and marketing expenses will stabilize. We don't expect to decrease the overall level of expenses, but they should decline in percentage terms as sales go up.



We project our contribution margin to increase from 12.64% the first year, to 40.50% the second year and 42.34% in the third year.

Due to the increase of our average price per unit and forecasted sales in the second year, net income would show a significant growth. And after year 2, we are expecting to maintain a steady growth which is demonstrated by the continued growth in net income.

5.7 Projected Balance Sheet

The table below shows our forecasted annual balance sheet results, with a healthy projected increase in net worth. For the Year Ended on Dec 31.

Assets			
	Year 1	Year 2	Year 3
Current Assets			
Cash	\$740,000	\$1,000,000	\$1,500,000
Accounts Receivable	\$60,000	\$300,000	\$400,900
Other Current Assets	\$400,000	\$650,000	\$750,000
Total Current Assets	\$1,200,000	\$1,950,000	\$2,650,900
Long-term Assets	\$800,000	\$900,000	\$900,000
Total Assets	\$2,000,000	\$2,850,000	\$3,550,900
Liabilities and Equity			
Current Liabilities	Year 1	Year 2	Year 3
Accounts Payable	\$28,330	\$109,669	\$120,606
Loan	\$460,000	\$540,000	\$540,000
Other Current Liabilities	\$411,670	\$699,023	\$733,562
Current Liabilities	\$900,000	\$1,348,692	\$1,394,168
Long-term Liabilities	\$100,000	\$240,000	\$250,000
Total Liabilities	\$1,000,000	\$1,588,692	\$1,644,168
Paid-in Capital	\$1,000,000	\$760,960	\$560,960
Retained Earnings	\$0	\$500,348	\$845,772
Total Equity	\$1,000,000	\$1,261,308	\$1,906,732
Total Liability/Equity	\$2,000,000	\$2,850,000	\$3,550,900



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6.0 Organizational Planning

DigitalXplosion is organized by a vision consisting of a set of common beliefs and goals.

6.1 Mission Statement

DigitalXplosion's mission is to bring on demand digital media to the world.

To accomplish our mission, DigitalXplosion adheres to three guiding principles: simplicity, empowerment and efficiency.

6.2 Operative Goals

Market Leadership: DigitalXplosion's aims to provide true market leadership. Our services, products and solutions are first-in-kind and revolutionize the digital media marketplace. To move to the forefront of our industry we must offer industry best solutions to the markets we already serve and expand into new markets that build upon our core competencies. DigitalXplosion does not aim to be average. We always aim to be the industry leader in each of our chosen fields.

Customer Commitment: DigitalXplosion has a commitment to provide our customers with best-in-class solutions that offer the greatest value proposition. DigitalXplosion listens to market needs. We listen to our customers and translate their needs into tangible solutions. DigitalXplosion's success is derived from our customers and customer loyalty is a core focus.

Financial Performance Goals: DigitalXplosion is committed to achieving responsible profits that drive the growth of our company, create value for stakeholders and provide the resources necessary to achieve our corporate goals. DigitalXplosion believes that profit is the responsibility of all members of our organization and one of the most important keys to profitability is our ability to balance short-term and long-term objectives.

Innovation Goals: To meet the needs of a marketplace that is ever changing, DigitalXplosion is committed to innovation. DigitalXplosion's entrance into the digital media market was based upon our innovative approach. DigitalXplosion will continue to innovate and lead the industry.

Management Goals: DigitalXplosion expects our leaders to be accountable for achieving measurable business results and also exemplify our core values. DigitalXplosion develops our leaders to inspire others and turn company vision into action. DigitalXplosion's leaders empower the organization as a whole, listen to feedback and make decisive, efficient action.

Employee Goals: DigitalXplosion is an environment that empowers at all levels of the organization and rewards employees based upon performance. DigitalXplosion expects our employees to take ownership of their work. We expect employees to be motivated and loyal.



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We expect employees to always take the ethical option. And we expect employees to create, innovate and work to make the company as a whole stronger.

Ethical Behavior: Ethical behavior is a cornerstone of DigitalXplosion. DigitalXplosion demands ethical behavior throughout the organization and in each and every decision made. DigitalXplosion believes that embracing the highest standards of honesty and integrity is a critical component of developing customer loyalty and maximizing stakeholder interests.

6.3 Design Principals

DigitalXplosion has been designed to utilize decentralized decision making and embraces a team culture. We embrace both low vertical complexity and low spatial complexity. However, the long term vision of DigitalXplosion certainly calls for more segmentation and a greater spatial complexity – we anticipate entering more international markets and servicing them closer to home.



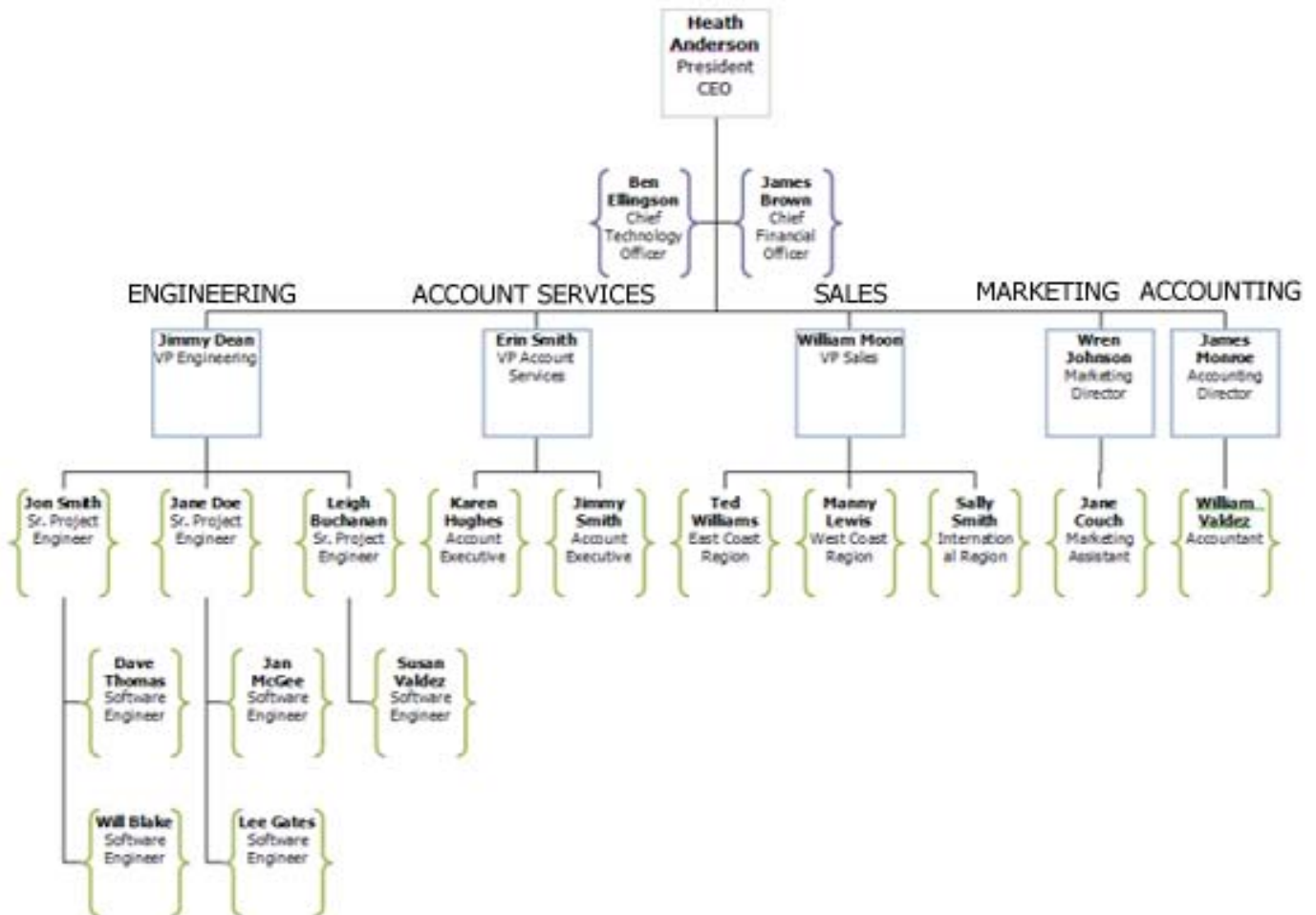
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6.4 Organization Chart

DigitalXplosion is organized into 4 departments: Engineering/Production, Account Services, Sales, Marketing and Accounting.





6.5 Schedule of Growth in the Organization

The organization is designed in a scalable fashion to accommodate expected employee growth and effectively manage an increased workload.

According to our projected financials presented above, DigitalXplosion anticipates a relatively modest amount of employee growth in the first three years. We anticipate this growth to occur in the engineering and account services departments and to be supplemented by independent contractors.

6.6 Controls

DigitalXplosion will feature both internal and external controls. These controls are implemented as to allow the company to track progress yet remain flexible enough as to allow us to respond to a dynamic market.

For instance, internally, DigitalXplosion will implement analytics and measure bottom line metrics. We will understand our customers, track and analyze their every action. Externally, we will illicit feedback from B2B customers as to better serve them with first-in-class solutions.

7.0 Board of Directors

The purpose of the Board is to oversee and provide general direction for the management of the company while working on behalf of the company and its stockholders.

The Board will be responsible for numerous activities. These include reviewing the operating, financial, and strategic plans along with the performance of the company. The Board will need to select and evaluate the company and senior executives. The Board will need to oversee appropriate policies of corporate conduct and compliance with the laws. Lastly, the Board must review how financial and non-financial information is made available to management, the board, and company's stockholders.

The board will start with the four basic officers.



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DIGITAL X PLOSION

ON DEMAND DIGITAL MEDIA



John S. Chen, 50, has been Chairman, Chief Executive Officer and President of Sybase, Inc., a software developer, since November 1998. From February 1998 through November 1998, he served as co-Chief Executive Officer. Mr. Chen joined Sybase in August 1997 as Chief Operating Officer and served in that capacity until February 1998. From March 1995 to July 1997, Mr. Chen was President of the Open Enterprise Computing Division, Siemens Nixdorf, a computer and electronics company, and Chief Executive Officer and Chairman of Siemens Pyramid, a subsidiary of Siemens Nixdorf.⁷



Judith L. Estrin, 51, is President and Chief Executive Officer of Packet Design, LLC, a company that she co-founded in May 2000 to develop networking technology. Ms. Estrin served as Chief Technology Officer and Senior Vice President of Cisco Systems Inc., a developer of hardware and software to link computer systems, from 1998 until April 2000, and as President and Chief Executive Officer of Precept Software, Inc., a developer of networking software of which she was co-founder, from 1995 until its acquisition by Cisco in 1998. She is also a director of FedEx Corporation, an international provider of transportation and delivery services.⁷



George J. Mitchell, 72, is Chairman of the law firm of DLA Piper Rudnick Gray Cary LLP. He previously served as Chairman of the law firm of Verner, Liipfert, Bernhard, McPherson & Hand in Washington, D.C., which merged with Piper Rudnick in October 2002. He served as a United States Senator from 1980 to 1995, and was Senate Majority Leader from 1989 to 1995. He is a director of Staples, Inc., an office supply company.⁷



Orin C. Smith, 63, was President and Chief Executive Officer of Starbucks Corporation from 2000 to 2005. He joined Starbucks as Vice President and Chief Financial Officer in 1990, became President and Chief Operating Officer in 1994, and became a director of Starbucks in 1996. Prior to joining Starbucks, Mr. Smith spent a total of 14 years with Deloitte & Touche. Mr. Smith is a director of Nike, Inc. and Washington Mutual and serves on the Advisory Board for the University of Washington School of Business, the University of Washington Medicine Board of Directors and the Board of Directors of Conservation International.⁷

The initial Board of Directors will add an additional five members. Each member's term will be for three to five years with no limitation on the number of terms each member is allowed to serve.

8.0 Funding Requirements

Second round financing is a funding priority for DigitalXplosion. DigitalXplosion is seeking financing in the amount of \$3,000,000 USD.

DigitalXplosion is seeking these resources to launch the client side business.

Additional information is available from:

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<http://corporate.disney.go.com/corporate/board_of_directors.html>.

Credits:

Section 5 Financials – Developed in conjunction with Nan Zahg, West Texas A&M MBA Student.