Minibox Games Business Plan

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November 24, 2009

DMBA6215: Managing the Organization

1.0   Executive Summary

Minibox Games will be formed as a developer and publisher of mobile device video games. Its founders are MBAs with backgrounds and passions for gaming and the gaming industry. They are founding the company in order to sell high quality mobile games.

1.1 Objectives

Minibox Games has set a high sales figure goal of $447,500 in the first year for its first product, *Graffiti Groove*. Setting a goal of high market share for a game sharing space with 100,000 other Apps is a foolish one. Additionally, a goal of high profit for an upstart video game developer is a bit overambitious. Also, gaming companies do not become profitable for many, many years, so profit will not the starting focus for Minibox Games. Minibox is projected to make one game in the first year, one game in the second year, and two games in the third year. In the third year, Minibox will generate a profit.

As a measure of success, *Graffiti Groove* will break into the top 100 iPhone games. Differentiate this from appearing in the top 100 iPhone Apps, which is a loftier, more unnecessary goal. Breaking into the top 100 iPhone games will help achieve the sales objective Minibox seeks.

An additional objective for Minibox involves the digital size of *Graffiti Groove*. *Graffiti Groove* will not exceed a size of 10mb in order to meet the required size for being able to download the game over the 3G network as opposed to a wireless connection. We feel that it is important that *Graffiti Groove* be available to the 3G network because impulse buyers will be more likely to buy a game over 3G (which is to say they can download the game almost anywhere they have service) instead of having to find a Wi-Fi hotspot in order to connect to the App Store.

On the marketing side of things, Minibox will forge working relationships with advertisers that fit the aesthetic of *Graffiti Groove* in order to create a cohesive and relevant gameplay experience for mobile gamers. Minibox will pursue tie-ins with companies like Scion and Red Bull – companies that mesh well with *Graffiti Groove's* target market. On top of the advertiser relationships, Minibox will promote *Graffiti Groove* with stencil street teams, paid graffiti ads in five majors US cities, and extensive web advertising.

Graffiti Groove will be reviewed by reputable sources before the release of the game in order to generate buzz as well as showcase the game as a quality product.

1.2 Mission

Minibox Games makes the most interactive, innovative, and flat-out fun mobile games on the planet. Minibox Games combines industry knowledge, passion for gaming, and business experience in order to create a unique gaming experience for popular mobile platforms. Minibox Games also provides unique advertising opportunities for digitally savvy companies

who wish to advertise in mobile gaming.

1.3 Keys to Success

1. Create quality games at affordable prices for savvy gamers.

2. Create an aesthetic in every game that appeals to niche and wide audiences alike.

3. Create a working environment that focuses on quality, innovation, overall gaming experience, and customer satisfaction.

2.0 Company Summary

Minibox Games is a new games developer and publisher creating, publishing, and marketing high quality games for mobile devices. As Minibox grows, it will take on the creation of multiple games a year for multiple platforms.

2.1 Company Ownership

Minibox Games will be a Limited Liability Company (LLC). The three founders will split ownership evenly. Minibox Games will be based in Austin, TX. As of this writing, Minibox Games has not been chartered yet and is still considering alternatives of legal formation.

2.2 Start-up Summary

At the start of Minibox Games, Total Costs will be **$67,400** while our Total Internal Investment will be **$330,000**. Outside Investments, including loans from institutions other than friends and family, will not be available to Minibox until well into the life of the business. When Minibox Games opens its doors, the company will be operating with **$264,600**.

Start-up Expenses
-- Legal $1,000
-- Stationary $500
-- Insurance $600
-- Web Design Service $3,000
-- Other Design Service $1,500
Total Start-up Expenses $6,600

Assets Needed
-- Cash Assets $30,000
-- Network Hardware $5,500
-- iPod Touches $1,800

-- Office Computers $13,500
-- Office Furniture $9,000
-- Office Supplies $1,000
Total Start-up Assets $60,800

Total Start-up Costs $67,400

Start-up Investment
-- John Warren $110,000
-- Mike Metzler $110,000
-- Todd Simmons $110,000
Total Start-up Investment $330,000

Outside Investment $0

2.3 Company Services

Minibox Games creates products, not services, for its customers. However, one service that Minibox Games provides is a way for companies who wish to advertise in mobile games a platform to do so. Minibox offers industry experience and knowledge that will aid in any given advertiser's transition into putting their ads in mobile games.

2.4 Locations and Facilities

The initial office for Minibox Games will be established in a small, quality office space in Austin, TX. Austin is one of the major cities involved in the game developer studio boom being seen in the United States.

3.0 Products

Minibox Games creates innovative, high quality, fun games for mobile devices by feeding from gaming industry knowledge and experience. Successful marketing of these games will draw from extensive marketing experience and education.

3.1 Product Description

Graffiti Groove will be a rhythm-based graffiti drawing game for the iPhone platform. The core game will sell at $1.99 on the iPhone App Store. Customers who purchase the game will have access to further downloadable content (including new songs/levels and other features) at a minimal price point ($.99). A *Graffiti Groove* demo will also be available through the App Store. This demo will be free of charge to the consumer.

Players would need an iPhone or iPod Touch with either 3G or wireless internet access to

download the game, as well as an iTunes account to actually access the App Store. There are no real manufacturing costs since this is a digital product, but obviously there would be costs associated with the development of the game (programmers, designers, sound engineers, licenses, etc.). Distribution would be handled completely over the iTunes App Store. Apple gets a 30% cut of each sale on the App Store.

The game would include levels with variable difficulty where the player will use his/her fingers to draw scripted paint strokes in rhythm with a corresponding licensed song. These finger gestures would not be limited to a select few, but rather would change depending on the song. Successful gestures would yield points added to a running total, while missed gestures would not add to the running total, but the final drawing would look far worse as compared to a largely successful drawing. The four difficulty settings (Easy, Medium, Hard, and Expert) would vary in terms of gesture difficulty and speed of gestures. Easy would involve more simple gestures at a slower pace, while Hard would be at a frenzied pace with complicated gestures. If the player hits a number of gestures in a row, the player will enter "Graffiti Groove Mode," where the player will earn extra points for continued successful gestures. To activate the mode, the player will shake the iPhone. The shaking will be coupled with the sound effect of a spray paint can being shaken.

Graffiti Groove will also allow companies to advertise within the game. Potential target advertisers include Red Bull and Scion. In-game advertisements could be as simple as a banner in the corner of the screen or as complex as, for example, putting graffiti on the side of a Scion car.

The full version of the game will include five levels with all four difficulty settings, while the free demo will only feature one level with two difficulty settings (Medium and Hard).

3.2 Competitive Comparison

Tap-based rhythm games are available for iPhone (Tap Tap Revolution, Tapulous, etc.) at prices ranging from $0-$4.99. Our game priced at $1.99, while pricier than some of our competition, will have a competitive advantage in terms of quality.

The aesthetic of *Graffiti Groove* will be much more pleasing to the eye than competitors – an urban, street art style. Some gamers might shy away from many rhythm-based games because they lack any cohesive or differentiating aesthetic characteristic, a feature that will be at the forefront of emphasis for *Graffiti Groove*.

The intricacy of *Graffiti Groove*'s gesture system is more interactive than the simple taps of our competitors. *Graffiti Groove* will also have the advantage of gaining support from important advertisers, which could attract more attention than your average rhythm tapping game.

3.3 Sales Literature

Minibox will sell ad space in the games to various consumer products companies that match

the aesthetic of the game. The company will develop mainly electronic and web-based sales literature for communicating with these companies. These web-based documents will replace the brochure-based sales literature many companies still use. The digital presence of Minibox means that most sales literature will appear on the website. For example, a page on the Minibox website might go into detail about what steps advertisers need to take to get their ads in our games. Since our sales literature will be web-based, this cost will be included in our web design costs.

3.4 Sourcing

Ongoing costs of our company (the overhead) would include rent, utilities, taxes, wages, outsourced administrative fees, interest on loans, supplies, advertising costs, and travel expenses. During the initial start-up, we will also need to hire an outside designer (unless our internal game artist can fulfill this need) to design an aesthetic and logo for Minibox Games.

3.5 Technology

Technology will obviously play a large role in the success of Minibox Games. We need Macs for design purposes, PCs for administrative & financial purposes, and networking hardware to connect the components of our company. We also need to invest in the license for Objective-C, the development software needed to create games for the App Store. With this software, we will be able to create and upload our finished product into the App Store, where Apple will then take over the digital distribution of the game.

3.6 Future Products

Assuming the success of our first game, Minibox Games will go forth and create more mobile games. Likely, Minibox Games will focus on App Store games until the market for mobile devices like Android come into their own.

Minibox Games, ideally, will grow into a company that makes games for (but not limited to): App Store, Android phones, Nintendo DS, Playstation Portable, etc. Not only will we stretch to platforms other than the iPhone, but we will expand our games in terms of genre. Rhythm-based games will not be the only focus of Minibox Games going forward, nor will we forsake the genre if *Graffiti Groove* is a successful game.

The plan as it stands is to release *Graffiti Groove* in the first year, one game in the second year, and two years in the third year. After the third year, Minibox plans to release two games per year and eventually expand to other platforms with a larger employee base. Minibox Games will also continue to support *Graffiti Groove* with additional downloadable content until either a sequel is created or demand has died.

4.0 Market Analysis

4.1 Market Segmentation

The first segmentation would be to target smartphone users. Smartphone owners continue to be predominantly male, and are 65% more likely than the average mobile subscriber to be between the ages of 25 and 34. The market segmentation is then narrowed to only iPhone users. The estimated number of active U.S. iPhone users through the 3rd quarter of 2009 is 7.68 million. Due to the fact that the iPod Touch has similar capabilities and demographics to the iPhone, its users will also be included in the target market.

• iPhone users are younger. 30 percent of iPhone users in 2008 were of Generation Y, a larger portion than the rest of the smartphone market.
• iPhone users are more educated and affluent. 49 percent of iPhone users have a college education, and 67 percent earn more than $70,000 a year.
• iPhone customers spend more on their service. The average monthly phone bill for an iPhone user was $87, compared to $76 for the smartphone market, and $66 for traditional mobile phone users.
• New data from ComScore shows that 32.4% (estimated 2.5 million for Q3 of 2009) iPhone owners have downloaded at least one game — compared with only 3.8% for the average cell phone owner.

In conclusion, the segment we are targeting includes anyone aged 20-35, college educated, male, has disposable income, lives in cities, plays games on their iPhone or iPod Touch, familiar with electronic music and those who consider themselves hip or trendsetters.

4.2 Target Market Segment Strategy

We chose the segment listed above because of their higher income, their interests and the fact that this group games more than any other group.

iPhone/iTouch gamer demographics:
18-24 → 22%
25-34 → 29%
35-44 → 19%

Our ideal target market will target more of a mix between casual and hardcore gamers. Our game will not be for casual gamers because it will be more complex than most casual iPhone games, however, it will not be too complex that the learning curve might prevent people from playing. The varying levels of difficultly will provide significant depth and replay value. As of Q3, the number of iPod Touches sold is estimated to be around 15 million worldwide with the percentage of users that have downloaded a game being 50%. Using the estimated Q3/2009 active iPhone user results, our target market, including iPhone and iPod touch gamers, would total to 2.3 million people in the U.S. That is roughly 1.3 million iPod touch gamers and 1 million iPhone gamers.

4.2.1   Market Needs

This group will want to buy our product because of the themes our game presents. Graffiti Groove will be designed to look hip and urban. Furthermore, it will be sent out to numerous mobile game review sites pre-release. Good early reviews will further entice any iPhone/iTouch gamer to purchase the game or, at the very least, download the lite version. Early buzz from YouTube videos and review sites will be important in creating interest for the game. The need for games with high replay value will also drive sales. Graffiti Groove will feature multiple difficulty and multiple songs with the option to download additional songs.

4.2.2   Market Trends

Games such as Guitar Hero, DJ Hero, and Rock Band are currently very popular. Our game will seek to add a new element to this trend. The increased popularity of social networks is also a current trend. Marketing on these social networks will be an important factor in our overall marketing strategy.

Another trend is the increase in electronic music found in mainstream culture. The hardware and software once necessary to create electronic music has only recently become available to the average consumer. The increase in the number of DJ's and electronic artists in the 2000's is primarily due to the increase and availability of cheap hardware and software.

4.2.3   Market Growth

Mobile game sales to reach $11.7B by 2014, led by iPhone. The report contends that iPhone and iPod touch devices are together expected to account for about 24 percent of total portable game sales five years from now.

Revenue from iPhone and iPod Touch games is expected to rise from $46 million in 2008 to more than $2.8 billion in 2014. That's a lot of downloads.

GIA thinks that java-based games, 3D games and Bluetooth games are gaining audience, and that new delivery models will improve access to users. "Globally, Europe is the largest wireless gaming market and is estimated to account for about 43 percent share of the global market by the year 2007. Rest of World comprising Canada, Asia-Pacific, Middle East, and Latin American regions is projected to be the fastest growing wireless gaming market, with a compounded annual rate of about 77 percent during the ten-year analysis period."

Earlier this month Gartner predicted that the global mobile games market would hit $9.6 billion by 2011, and iSuppli predicted the total mobile content market would hit $44 billion by 2011. New data from ComScore showing that 32.4% iPhone owners have downloaded at least one game — compared with only 3.8% for the average cell phone owner – sparked some fresh analysis of the booming iPhone (and iPod touch) game market. As of Febuary 3rd, 2009, 148Apps reported there were 18,737 applications on the App Store and 4,078 of them — nearly 22% — were games. (need to find updated number) There have been over 1.5 billion downloads already from the app store as of July 2009.

4.3 Industry Analysis

4.3.1   Industry Participants

There are the three different groups of industry participants. The first is the cell phone carriers, whose main participants include Sprint, Verizon, AT&T. The cell phone carriers provide the actual cell phone service to consumers for their mobile device.

The second industry participants are the creators of the operating systems installed on the smartphones. This would include Apple for the iPhone, Google for any phone using the Android O/S and Blackberry for all Blackberry phones. When any mobile game or application is created it must be made to the specifications on the specific O/S. To develop a game for the iPhone, a developer has to buy the dev kit from Apple for 99 dollars before starting the process. Once the game is finished it must be submitted to Apple for approval before being available for purchase. While Blackberry and Android games are both free to develop, unlike Android, Blackberry does not approve every game for their app marketplace.

The third industry participants are the established mobile game developers such as Jamdat Mobile, EA, Gameloft, and Glu Mobile. These developers have an established presence on the iPhone game marketplace and a reputation for quality. While independent game developers produce the majority of games included in the Apple app store, the established developer's games receive the majority of downloads.

4.3.2   Distribution Patterns

Games will either be downloaded from iTunes and transferred to the iPhone or iPod Touch when connected with a computer or downloaded directly to the iPhone. In a recent survey consisting of mobile game developers, 43 per cent say digital download sales are up vs. 29 per cent saying they are down. The Apple app store is revolutionizing how games are distributed, this is a trend that will most likely continue in the future and will be adapted by other devices.

4.3.3 Factors of Competition

Minibox Games will have to compete with the thousands of other games that are released each year. To be successful the biggest factor will be making it into the top 100 apps.

4.3.4 Main Competitors

Similar games such Dance Dance Revolution and Tap Tap Revolution will be the biggest competitors. Other competitors would include any application that allows for the creation of art or music. The possibility exists that if someone is looking for a music based game they might choose to download a free music radio application such as Pandora instead.

5.0 Strategy and Implementation

5.1 Strategy Pyramids

Minibox Games will get relatively well known graffiti artists who are known on a street level, to be the inspiration or creators for a lot of our art we use in our game. The enticement of getting their name out there will be an incentive to let Minibox Games use their art for a low licensing fee. The same goes for the electronic music that will be used. No big name electronic artists will be used because the licensing fees will be too expensive. We will focus on finding local unsigned electronic artists for the music in Graffiti Groove.

5.2 Value Proposition

When playing Graffiti Groove players will get to listen to good music and become a part of the art that they enjoy. Consumers also get a quality game with significant replay value with the option to expand the game with further downloadable content.

5.3 Competitive Edge

Graffiti Groove will feature hip music and cool art. It will be the first game to combine the two. Furthermore, it will give the option for additional downloadable content which will increase the game's replay value. Graffiti Groove will also be the first rhythm based game to feature drawing motions instead of only finger taps. Graffiti Groove will incorporate both methods in standard gameplay.

5.4 Marketing Strategy

5.4.1 Positioning Statement

Our product is for college educated Males in their 20's and 30's interested in urban art and electronic music who want a quality game with good replay value. Graffiti Groove provides users with a high caliber game with and an option for additional downloads to expand the game. Unlike other mobile games that utilize the touch screen while matching it with a song, our game will create urban art from notable underground artists trying to get their name out.

5.4.2 Pricing Strategy

Graffiti Groove will initially be free to download and will include one track. Further song/art downloads will be priced at $1.99 for five songs and one dollar for each additional two songs. This price point was chosen because previous studies have shown that the most popular iPhone games average around two dollars.

5.4.3 Promotion Strategy

Minibox Games will look to brand the company as being on the cutting edge of mobile gaming technology. All art for our website and advertisements will be created individually to look urban and high tech. Our game will hopefully brand the company as a quality producer of mobile games. However, the branding of the game is far more important than the actual branding of the company. Our advertisements for Graffiti Groove will use lots of colors to attract attention and will be in graffiti style. Advertisements will brand the game as a new type of game combining music and art, and something that gamers have never experienced before. Our slogan will be "Graffiti never sounded so good," will seek to reinforce this. YouTube demos of the game will show the game as being relatively difficult. We would like to brand the game as being somewhat difficult because of the target market we are tying to capture. If the game is seen as too easy there is the potential that it would turn away the casual/hardcore gamers that make up our target market. Our company website will feature blog posts and updates about the game as they happen. The overall great quality of game will be the driving factor in the acceptance of the game across the gaming community.

Graffiti Groove will be sent to be reviewed by mobile game review websites before the initial release to generate interest. Banner ads will also be placed on urban art websites and mobile game website the month before and after the release of the product. Further information for the game will be given in press

releases and YouTube videos. The YouTube videos will show demos of the game being played on multiple difficulties. A demo of the game will be uploaded to YouTube as soon as a demo is available to create early interest. Experts agree, distinguishing your game in a morass of 27,000 apps is a recurring theme in iPhone game development. The big goal, they unanimously agreed, is getting your game in Apple's top 100 apps. Once there, it gains self-sustaining momentum. Getting our game into the Apple top 100 apps will be the goal of our promotion.

5.4.4   Marketing Programs

The Minibox Games website will allow users to join the Graffiti Groove street team by submitting their e-mail. The street team will be sent downloadable posters, stencils created by our in house game artist. The stencils can then be used to tag (spray paint) outside areas. This will be a cheap way of gaining the awareness of people interested in graffiti and urban art.

Minibox Games will Hire mural/graffiti artist for street art somewhere in 5 major cities. The mural will be constructed one month prior to the release of the game and will stay up till one month after.

Minibox Games will buy banner ads on urban art websites, electronic music blogs and mobile game review websites that will link to iTunes app store, or our website. The banner ads will run for one month prior and after the release of the game.

In game ads will also be available for purchase via our website. Companies will have the ability to either place a banner ad on our website or sponsor a complete song and graphic. An example of this would be Red Bull sponsoring or paying for the license for a song and the ending graffiti result would be the Red Bull logo. In exchange, Red Bull could allow for a Graffiti Groove banner ad on their highly visited website for free or at discounted price.

5.5 SWOT Analysis

Strengths

o   Experience in the Industry. Previous knowledge of the gaming industry adds value to the company. Our management is able to analyze gaming trends and take advantage of them.

o   Company founded by individuals with graduate level business degrees, with undergraduate degrees in marketing, media communications, psychology, and recording technology.

o   Capital invested by owners provides safety net for an unstable industry.

- There is no other game like Graffiti Groove on the market.

Weaknesses

- We have to hire outside talent for the actual programming of the game. None of the there founders of the company have any actual programming experience.

- Founders of the company have a lack of experience with mobile gaming.

- Insufficient funds to market the game to the fullest creative extent.

Opportunities

- The mobile game industry is expecting large growth within the next five years.

- Potential relationships with advertisers could create significant revenue and publicity in upcoming months.

- Graffiti Groove could be favorably reviewed pre-release increasing the amount of sales within the first month of release.

- If Graffiti Groove makes it into the Apple top 25 apps, the game will turn profitable within the first month of release.

Threats

- If Graffiti Groove does not make it into the Apple top 100 apps our game might not gather all the sales we need to break even

- Graffiti Groove could get bad reviews from the mobile game review websites that we have submitted the game to before the game is released.

- Programming the game could possibly take longer than expected, forcing us to increase spending

6.0 Management

The management structure will initially feature only the three company founders. When the company begins production on the first game title, a small number of additional staff members will

be added to cover programming, art, and design functions.

6.1 Organizational Structure

The team includes 6 employees, with 3 management/administrative positions and 3 technical/project positions. The employee breakdown is:

• Producer / Audio Director
• VP of Marketing
• VP of Operations / Creative Lead
• Game Programmer
• Game Artist
• Game Designer

6.2 Management Team

Todd Simmons: 34 years old, has many years of experience as a manager and in the video game industry. Served as Executive Director at the Austin Museum of Digital Art for 5 years. Previously, he was the founder and director of AMODA's most popular program. Also, has 9 years of experience as a sound designer for video games, working at Human Code, Ion Storm, and Retro Studios. Todd graduated from Texas State University with a degree in Sound Recording Technology and is currently pursuing an MBA in Digital Media Management at St. Edward's University.

John Warren: 24 years old, worked as a grant proposal writer and event coordinator for The Warren Center, a non-profit organization in Richardson, TX. Also worked for venture capital firm Warren Properties, Ltd. in Plano, TX where he researched and analyzed various media-related investment opportunities. John earned a degree in Communications Media and Psychology from Austin College, where he served as an entertainment writer, Entertainment Editor, and Editor-in-Chief for the college newspaper. He is currently pursuing an MBA of Digital Media Management at St. Edward's University.

Mike Metzler: 22 years old, during previous internships with Morrison and Head, LP and Illios Lighting Company, Michael has gained substantial marketing and project management experience. His ad for *Editor and Publisher* magazine created during his internship with Morrison and Head, LP created tens of thousands of dollars in new revenue for the company and was very successful. Michael received his undergraduate degree from St. Edward's University in Marketing in May of 2009. He was also accepted in the Kappa Gamma Pi Honor Society. Currently he is in his first year in the Digital Media Management MBA program at St. Edward's University.

6.3 Management Team Gaps

The team has minimal experience in the area of financial management. This will be

compensated for by hiring outside contractors for payroll, accounting, and other admin functions (like Administaff). Also, accounting software such as Quickbooks will be utilized. Another gap in the management team is the lack of experience with legal contracts. This will be addressed by hiring legal consultants and lawyers for contractual negotiations.

6.4 Personnel Plan

	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec
Producr	3400	3400	3400	3400	3400	3400	3400	3400	3400	3400	3400	3400
Mrktng	3400	3400	3400	3400	3400	3400	3400	3400	3400	3400	3400	3400
Ops / Creative	3400	3400	3400	3400	3400	3400	3400	3400	3400	3400	3400	3400
Prgrmr			8000	8000	8000	8000	8000	8000	8000	8000		
Artist			5000	5000	5000	5000	5000	5000	5000	5000		
Designr			5000	5000	5000	5000	5000	5000	5000	5000		
TOTAL	10200	10200	28200	28200	28200	28200	28200	28200	28200	28200	10200	10200

	2011	2012
Producr	40800	43200
Mrktng	40800	43200
Ops / Creative	40800	43200
Prgrmr	96000	100800
Artist	60000	63000
Designr	60000	63000
TOTAL	338400	356400

NOTE: Figures in this table represent base salary only. Additional income will ideally accrue from sales royalties.

7.0 Financial Plan

7.1 Important Assumptions

1. We assume an economy that is slowly recovering from recession, where people are looking for entertainment experiences at an affordable price.

2. We assume that there will be continued growth in the number of iPhone and smartphone users.

General Assumptions:

|	**2010**	**2011**	**2012**
Short-term Interest Rate	8.00%	8.00%	8.50%
Long-term Interest Rate	9.00%	9.00%	9.50%
Payment Days Estimator	30	30	30
Collection Days Estimator	45	45	45
Tax Rate	15.00%	15.00%	34.00%
Expenses in Cash %	85.00%	85.00%	85.00%
Sales on Credit % (ads)	10.00%	10.00%	10.00%
Personnel Burden	12.8%	12.8%	12.8%

7.2 Key Financial Indicators

The benchmark chart below indicates our key financial indicators for the first three years. We estimate that the company will experience significant growth in sales during the third year, due to the release of multiple game titles.
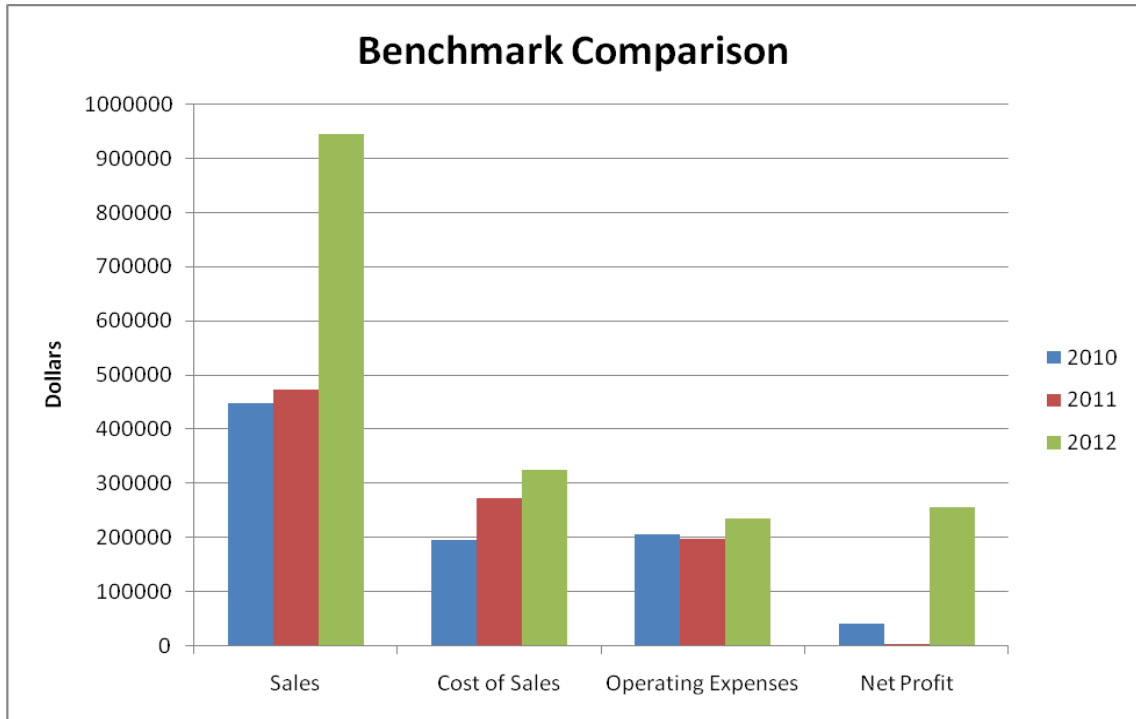
7.3 Break-even Analysis

The table and chart below summarize our break-even analysis, including monthly units and sales break-even points.

Break-even Analysis:	
Monthly Units Break-even	17689.00
Monthly Sales Break-even	24765.07
Assumptions:	
Average Per-Unit Revenue	1.40
Average Per-Unit Variable Cost	0.44
Estimated Monthly Fixed Cost	17046.82
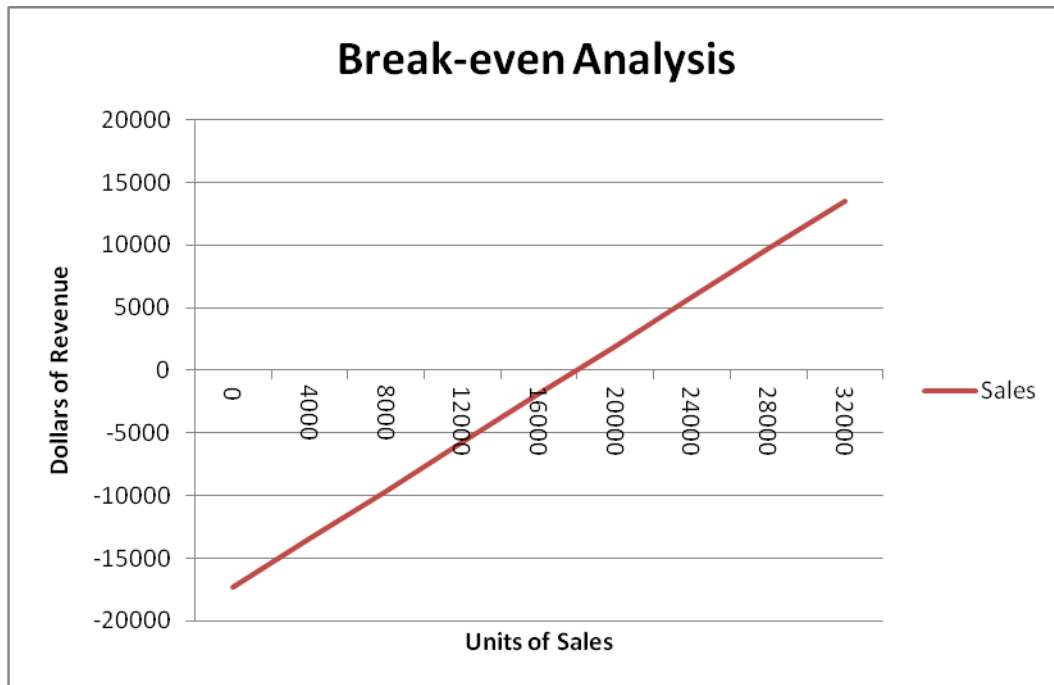
7.4 Projected Profit & Loss

The key figure in the Profit & Loss Statement is the Gross Margin, which should ideally increase over time. As you can see in the chart below, our Gross Margin increases significantly in the third year of operations when we release multiple game titles.

	2010	2011	2012
Revenues			
Sales	447500.00	472000.00	944000.00
Production Wages	144000.00	216000.00	226800.00
Production Wages Burden	11254.20	16762.20	17588.40
Licensing Fees	40000.00	40000.00	80000.00
Total Cost of Sales	195254.20	272762.20	324388.40
Gross Margin	252245.80	199237.80	619611.60
Gross Margin %	56.37%	42.21%	65.64%
Operating Expenses			
Advertising/Promotion	28000.00	28000.00	56000.00
Public Relations	0.00	0.00	0.00
Travel	0.00	0.00	0.00
Admin Payroll Expense	122400.00	122400.00	129600.00
Admin Payroll Burden	9601.80	9601.80	10152.60
Depreciation	3760.00	3760.00	3760.00
Leased Equipment	0.00	0.00	0.00
Utilities	3000.00	3000.00	3000.00
Internet	1800.00	1800.00	1800.00
Web Hosting	360.00	360.00	360.00
Insurance	2400.00	2400.00	2400.00
Rent	30000.00	30000.00	30000.00
Supplies	750.00	500.00	500.00
Legal Fees	1000.00	0.00	0.00
Design Services	4500.00	0.00	0.00
Other	0.00	0.00	0.00
Total Operating Expenses	207571.80	201821.80	237572.6
Profit Before Interest & Taxes	44674.00	-2584.00	382039
Interest Expense Short-term	0.00	0.00	0.00
Interest Expense Long-term	0.00	0.00	0.00
Taxes Incurred	6701.10	0.00	129893.3
Net Profit	37972.90	-2584.00	252145.7
Net Profit/Sales	8.49%	0.55%	26.71%

7.5 Projected Cash Flow

The cash flow depends on a number of assumptions. One important assumption is the

projected 45-day collection period. This is based on the contractual obligation of Apple Inc. to send payment to App Store developers within 45 days of the end of the month. It is also reasonable to assume that collection for ad sales accounts could occur within 45 days. Below is a breakdown of cash flows for the first year of operations.

	Net Cash Flow	Cash Balance
Jan	315000.00	315000.00
Feb	-33530.15	281469.85
Mar	-24280.15	257189.70
Apr	-41286.93	215902.78
May	-31036.93	184865.85
Jun	-31036.93	153828.93
Jul	-16036.93	137792.00
Aug	-31036.93	106755.08
Sept	-16036.93	90718.15
Oct	-31036.93	59681.23
Nov	94963.08	154644.30
Dec	58869.85	213514.15
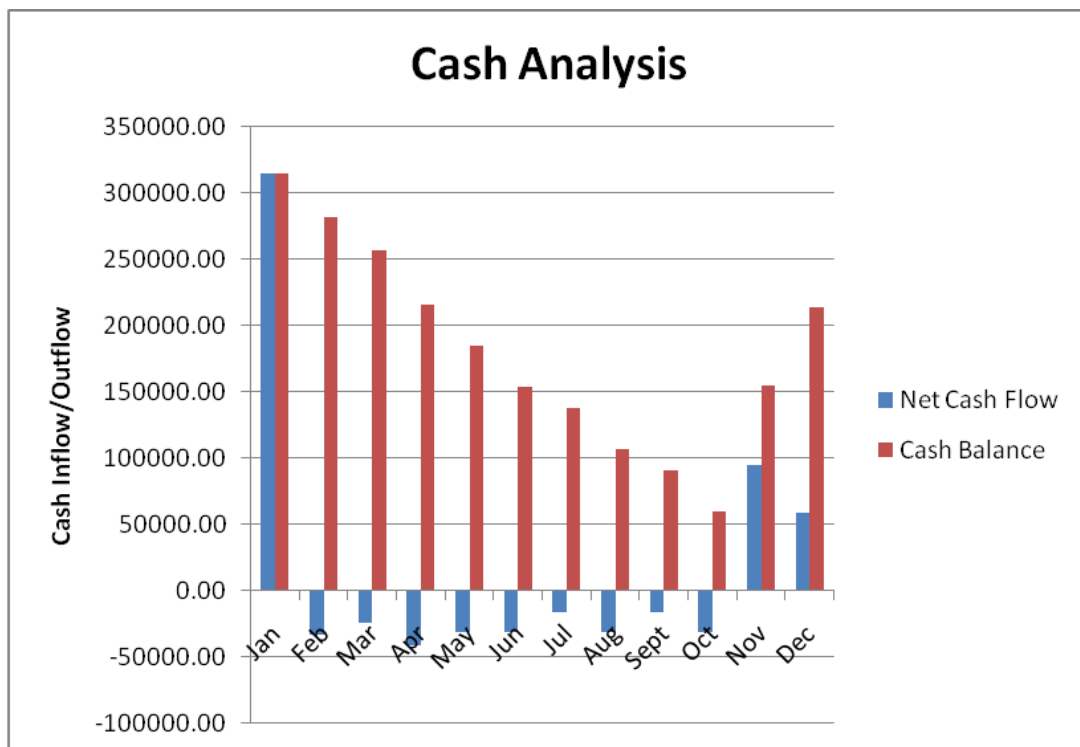
7.6 Projected Balance Sheet

Our projected balance sheet looks very solid thanks to several key factors: 1) since we are developing a mobile game, it has a short development cycle, meaning we can release it in the first year of operations and get significant revenue, and 2) the 330000 investment provided by the founders' families has a flexible due date and no interest payments.

	2010	2011	2012
Assets			
Short-term Assets			
Cash	213514.15	220385.90	609799.65
Accounts Receivable	140000.00	147000.00	147000.00
Supplies	750.00	750.00	750.00
Total Short-term Assets	354264.15	368135.90	757549.65
Long-term Assets			
Network Hardware	5500.00	5500.00	5500.00
Office Computers	13500.00	13500.00	13500.00
iPod Touches	1800.00	1800.00	1800.00
Accum Depreciation	-3760.00	-7520.00	-11280.00
Office Furniture	9000.00	9000.00	9000.00
Software	8000.00	8000.00	8000.00
Total Long-term Assets	34040.00	30280.00	26520.00
Total Assets	388304.15	398415.90	784069.65
Liabilities			
Accounts Payable	13630.15	33027.00	36641.75
Income Tax Payable	6701.10	0.00	129893.26
Notes Payable	330000.00	330000.00	330000.00
Total Liabilities	350331.25	363027.00	496535.01
Owner's Equity			
Retained Earnings	0.00	37972.90	35388.90
Net Profit	37972.90	-2584.00	252145.74
Total Owner's Equity	37972.90	35388.90	287534.64
Total Liabilities and Owner's Equity	388304.15	398415.90	784069.65

7.7 Business Ratios

The table below outlines our primary business ratios. Due to the nature of the company, some ratios related to inventory and debt do not apply and are omitted.

Profitability Ratios:	2010	2011	2012
Gross Margin	56.37%	42.21%	65.64%
Net Profit Margin	8.49%	-0.55%	26.71%
Return on Assets	9.78%	-0.65%	32.16%
Return on Equity	100.00%	-7.30%	87.69%
Activity Ratios:	**2010**	**2011**	**2012**
Collection Days	45	45	45
Total Asset Turnover	1.15	1.18	1.20
Debt Ratios:	**2010**	**2011**	**2012**
Debt to Net Worth	9.23	10.26	1.73
Short-term Liability to Liabilities	0.06	0.09	0.34
Liquidity Ratios:	**2010**	**2011**	**2012**
Current Ratio	17.42	11.15	4.55
Quick Ratio	17.42	11.15	4.55
Net Working Capital	333932.90	335108.90	591014.64
Additional Ratios:	**2010**	**2011**	**2012**
Assets to Sales	0.87	0.84	0.83
Debt/Assets	90.22%	91.12%	63.33%
Current Debt / Total Assets	5.24%	8.29%	21.24%
Acid Test	17.39	11.12	4.54
Sales / Net Worth	11.78	13.34	3.28