

rockGRIPS

climb=home

David Larson | Gregory Loomis | Scott Rennak

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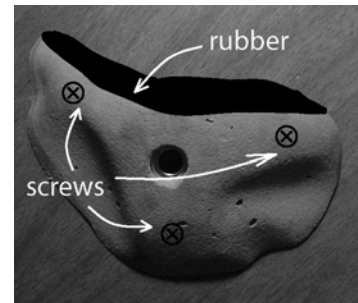


EXECUTIVE SUMMARY

Climbing is booming in popularity. The number of participants has grown 94% in the past 5 years, and the number of climbing walls and amount of media exposure has mirrored that growth. This increase in popularity has led many parents to install climbing walls in their backyard, basement or garage to enable their children to climb at home.

rockGRIPS plans to capitalize on this growing trend by marketing the first line of climbing grips specifically designed for children. Through careful market testing and manufacturing innovations, rockGRIPS is poised to become the biggest player in the climbing grip industry. This \$11 million industry is fairly traditional, and current business models have prevented our competitors from realizing the innovations that rockGRIPS will bring to the market.

rockGRIPS innovations are three-fold: injection mold production, a rubber grip surface, and attachment via woodscrews. All three elements combine to create the best possible grips for children's home climbing walls, while providing high profitability and best-in-industry quality. Injection mold production allows us to step away from the industry standard of manual production, and yields much lower long-term costs. The rubber grip is a completely new concept, has massive appeal to children and their parents, and is being patented. The woodscrew attachment greatly facilitates installation and improves safety since they can't spin.



Our roll-out plan is fairly simple. rockGRIPS will first focus on gaining OEM contracts with key playground manufacturing companies, most notably Swing-N-Slide, who has products on the shelf at both Home Depot and Lowe's. These companies will purchase rockGRIPS because they are superior products and are offered at the same price as the competition. After penetration of the playground industry, we will focus on gaining distribution through adventure sports retail chains like REI, Galyan's and EMS. These retailers will purchase rockGRIPS because they have greater appeal to many of their customers, and because we offer excellent profit margins. After pursuing these two channels and with the help of outside sales reps, rockGRIPS will begin the process of gaining distribution through the myriad independent retailers in the playground, hardware and adventure sports industries.



rockGRIPS is fortunate to have experienced and dedicated management. Our CEO, Scott Rennak, has vast experience in the climbing industry and has previously owned an award-winning climbing grip company. His contacts will get rockGRIPS in front of key buyers, and his knowledge will be instrumental when implementing marketing plans. In addition, Gregory Loomis and David Larson both have entrepreneurial experience and both will be major assets to rockGRIPS.

Thanks to our initial OEM-driven sales strategy rockGRIPS will quickly gain revenues and surpass our \$400,000 break-even mark. We anticipate over \$1 million in sales in Year One, growing to almost \$4 million by Year Five. Our high gross profit margins (45%) and solid net profits (18%) make rockGRIPS an incredible business opportunity. For 38% of the business and a 50% annual return, we plan to raise \$400,000. In Year Five rockGRIPS will be sold to the

highest bidder, either to management or to a firm in the playground or adventure sports industries.

COMPANY OVERVIEW

rockGRIPS is currently moving from the development to start-up phase. We're seeking start-up financing to enable prototype creation and sales trips, and anticipate production to begin within 6 months. rockGRIPS is organized as a C Corporation in the State of Colorado and 100% of the shares are currently owned by Scott Rennak.

PRODUCT

Description

rockGRIPS markets artificial climbing grips designed specifically for children's use at home. The grips can transform any solid wood surface into a climbing wall and are easily attached using three wood screws and a standard household drill. The product also features unique molded rubber grip surfaces which significantly reduce skin damage and provide a more comfortable grip. The designs are created by the most prolific and recognized grip-shapers in the country who, coupled with our extensive market research at ABC Kids, will carefully craft the most "kid-friendly" designs on the market. rockGRIPS are produced using injection-molding techniques to ASTM standards, achieving industry-leading quality control and great cost savings. Last but not least, rockGRIPS have engaging and interactive packaging, providing great shelf-appeal and easy storage.



<u>Features</u>	<u>Benefits</u>
Rubber Texture	Comfortable, easy to grab, no skin damage
Durable Materials	Safe (won't break), long product life
3-Screw Attachment	Safe (won't spin), no special tools, save time
Wide Range of Uses	Purchase appeal, interchangeability
Modern Production	Production consistency, low cost
"Kid-Tested" Designs	Fun, comfortable, easy to grab
Wide Distribution	Readily available, easy to obtain
Replacement Warranty	Reduce purchase anxiety
Owner's Manual	Ideas for use, safety guidance

Additional Services

Beyond the actual product, rockGRIPS offers a variety of supplementary services to improve our customer's experience.

- *Owner's Manual* – Comprehensive source of installation ideas and instructions, games and activities, safety tips, proper uses and misuses, and climbing and playground resources.
- *Website* – Includes typical details (products, pricing, ordering, retailers), but also features a gallery of customer installations and an expanded version of the Owner's Manual (constantly updated ideas, games and tips).
- *Customer Service* – Available via email, website submissions and a toll-free phone number. There is always a service agent available during regular business hours.
- *Warranty* – Thanks to our unique production method, rockGRIPS can offer the best warranty in the industry: 3-year replacement for breakage or failure (not normal wear).

Differentiation

Climbing grips have been in the marketplace for over 20 years, with the basic design and production methods remaining virtually unchanged. Most grip manufacturers pride themselves on

extensive lines, often featuring over 1,000 unique designs. This strategy is necessary because those companies sell primarily to “real” climbers and commercial facilities, both of which demand wide variety to keep the climbing experience interesting. This causes companies to have a very wide line of “one-size-fits-all” products that try to appeal to all consumers at once. In addition, virtually all climbing grips are produced using traditional single-cavity silicone molds and hand-poured casting. The human element in these two operational methods makes production very tedious, costly, and can easily contribute to bad batches of poor quality. By focusing on designing climbing grips for children’s play sets rockGRIPS is able to differentiate itself in a variety of ways.

Innovations

- *Rubber Grip* – Climbing grips have never used rubber surfaces before, so this attribute is absolutely a key point of differentiation. rockGRIPS’ patentable rubber grip is more comfortable with less skin damage than any competitor, which has high appeal to both children and parents.
- *Injection-Molding* – Since the play set market requires fewer unique designs than the “real” climber market, rockGRIPS can utilize injection-molding techniques. These techniques are widely used in larger industries and will give rockGRIPS a lower per-unit cost with higher quality control than any other climbing grip manufacturer.
- *Installation* – rockGRIPS utilize three screws rather than the typical bolt and t-nut. This makes them easier to install (no special tools), safer (since they can’t spin), and less expensive (screws are cheaper than bolts).
- *Product Design* – Before finalizing any design rockGRIPS will perform extensive market research and testing at ABC Kids (a Boulder-area children’s climbing facility within the Boulder Rock Club). Throughout the design process we survey panels of children and parents about issues like shapes, images, textures, colors and degree of in-cut. This testing will yield designs that are not only superior to the competition, but are exactly what children want.

Per Design Production Cost Comparison

	<u>Silicone Molds</u>	<u>Injection Molds</u>
Mold Cost	\$50	\$15,000
Mold Longevity (# of parts)	50	Millions
Part Cost	\$2	\$1.25
Total Cost (1,000 parts)	<u>\$3,000</u>	<u>\$16,250</u>
Total Cost (100,000 parts)	<u>\$300,000</u>	<u>\$140,000</u>

Testing These Innovations

In order to gauge the acceptance of these new innovations rockGRIPS has held several market tests in the Boulder area and has spoken with many industry experts. Our market tests have taken place on the Pearl Street Mall, at ABC Kids and at The Spot Bouldering Gym, and surveyed the reactions of both parents and children to such things as grip design, pricing and installation. Our interview research includes discussions with Presidents of playground, climbing wall and climbing grip manufacturers, as well as a wide variety of retailers, industry activists and suppliers.



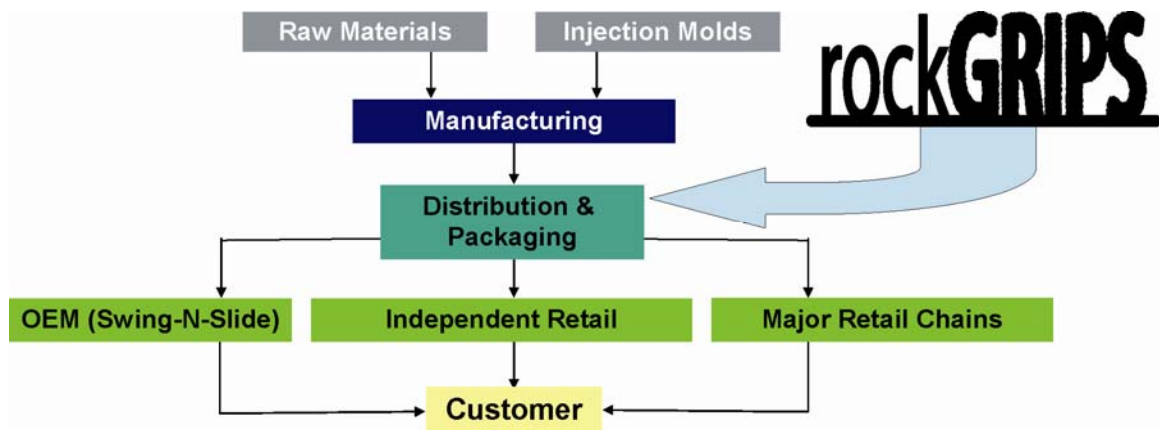
Altogether these surveys and interviews have led us to one conclusion: we're onto something. Parents and kids absolutely loved the new rubber grip and nearly 100% thought it was the best texture for young children's climbing grips. Parents also widely recognized the benefits of screw-on attachment versus the traditional bolt and t-nut. The only major concern for 80% of parents had to do with product safety, but most recognized that proper installation was their own responsibility and only 30% see climbing as a dangerous activity. 100% of respondents said their kids climbed outside on playgrounds and trees, with an average of 6.5 hours per week spend outdoors. From the parents, the average acceptable price for a climbing grip was \$8, and 75% thought rockGRIPS was a cool or interesting idea.

MARKET

Consumer Market

Children have an innate desire to climb. Backyard climbing walls are a unique form of healthy recreation, testing motor skills and building strength. Parents recognize this, which is why play sets now often feature climbing walls.

Individuals who install play sets with climbing walls are almost exclusively parents, or grandparents, of 5 to 12 year old children. There are over 8.4 million U.S. households with children between 5 and 12, and over 3.1 million of them have yards. Many parents who install play sets are 25 to 40 year old "Do-It-Yourself-Dads/Moms" who spend enormous amounts of time and money to fix-up the house and yard (over \$14.5 billion was spent on "outdoor improvements" in 2003, increasing at 6.5% annually for the past 8 years). These consumers enjoy physical activities like running, skiing, golf and tennis, and they are technologically connected by owning computers, video cameras and MP3 players.



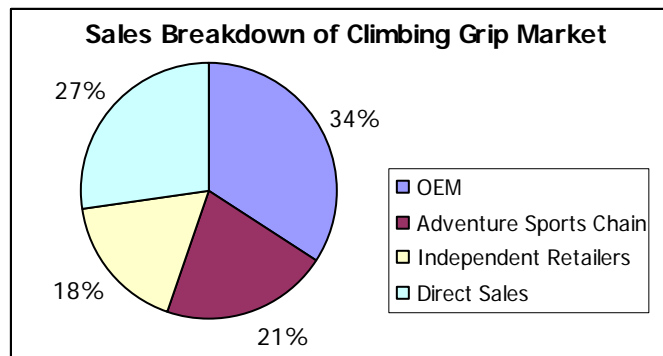
Channel Structure

Climbing grips are currently available for sale at most adventure sports stores, many playground retailers, some hardware stores (including Home Depot and Lowe's) as well as a variety of websites and catalogs. Retailers that sell climbing grips range from tiny one-man shops to multi-billion dollar retail chains. Price is often the determining purchase attribute for most channels, although most adventure sports chains and independent retailers also want to see supportive consumer-oriented promotions. Climbing grips are distributed through a variety of channels:

- *OEM Contracts* – Large OEM contracts are the initial market penetration point for rockGRIPS. This channel includes \$220 million playground industry behemoth Swing-N-Slide (who is exclusively distributed at both Home Depot and Lowe's), as well as its competitors such as Rainbow and Woodplay. The majority of playground manufacturers now offer climbing walls and together they represent approximately \$3.9 million in sales. New accounts are handled by in-house management through personal direct selling and

there is a 6 to 18 month sales lead time. These companies are most concerned with price and durability and they will purchase rockGRIPS because they are superior products and priced the same as their existing suppliers.

- *Adventure Sports Chains* – Adventure sports chains will be the secondary market penetration point for rockGRIPS and includes REI, Galyan’s and EMS. All three chains currently retail climbing grips and they represent about \$2.4 million in grip sales. Like with OEM contracts, account management will be handled in-house and there is a 6 to 12 month sales cycle. Companies in this channel purchase based on price and consumer demand. These chains will purchase rockGRIPS because they have great appeal to many of their customers and because we offer excellent profit margins.
- *Independent Retailers* – Because of the large cost of obtaining and maintaining accounts in this channel, rockGRIPS will not initially focus on independent retailers. This channel includes a wide variety of smaller retailers in the playground, hardware and adventure sports industries. Their purchasing is based primarily on market demand and many do not currently sell climbing grips. This channel represents the area with the largest potential for growth, although it currently is only responsible for about \$2 million in sales. New accounts will be pursued using outside sales representatives from the appropriate industry and sales lead times are generally much shorter than the previous channels.
- *Website and Catalog* – This is the direct-from-manufacturer channel and is widely available from all competitors. For smaller companies the vast majority of sales are through their website and catalog, or approximately \$3.1 million annually. While rockGRIPS will not spend much marketing the website we expect it to generate sales. The website will be enabled prior to any other sales efforts.



INDUSTRY

Structure

The U.S. climbing grip industry has \$11.4 million in annual sales. The industry is over 20 years old, however very few manufacturers are more than 10 years old. As playground installations, climbing walls and grips are a fairly new concept, with only 2 years of widespread adoption. As a product category, climbing grips are in the growth stage evidenced by the high level of competition and the numerous small companies. Over 30 manufacturers compete for business from climbing gyms and “real” climbers with home walls. As mentioned before, companies in the industry pride themselves on expansive lines, often with 300 to over 1,000 different grips. Production and molding is done in-house, by hand, and virtually every climbing grip company operates a significant production facility. Marketing is usually handled through intermittent magazine advertisements, athlete and event sponsorships, and trade show booth space. The more savvy companies also perform direct selling to key accounts although most do not.

Growth

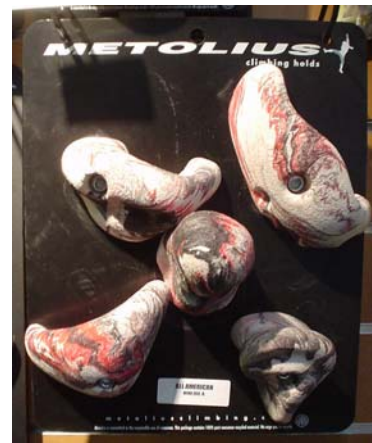
The climbing grip industry has been growing tremendously, mirroring the 94% increase in climbing participation over the past 5 years. Climbing walls are now being built all over the world in schools, recreation centers, camps and backyards. In the words of Ryan Fablich, salesman for Rainbow, "climbing walls are a natural part of any play set and beginning in 2005 every Rainbow play set will have one". Similar reactions were voiced from virtually everyone we spoke with regardless of their geographic location. Of course every new climbing wall needs a large cache of grips and owners of older climbing walls like to periodically refresh their walls with new grips. These factors combined point to long-term growth in climbing grip sales.

The climbing grip industry tends to be slow, traditional and stagnant. While new designs are constantly being introduced, few real innovations have taken place since the first grips. In addition, most climbing grip manufacturers are managed by poorly trained climbers who view the job as a way to perpetuate their lifestyle.

Competitors

There are a wide variety of competitors for climbing grips:

- *Metolius* – The leading climbing grip manufacturer and most widely-distributed company in the adventure sports retail channel. Metolius has produced climbing grips for over 15 years, has above average management (for the climbing industry) and manufactures a variety of other climbing-related products. Metolius has a fairly large marketing budget and their full-page advertisements are seen regularly in industry magazines.
- *Entre Prises, Nicros and e-Grips* – These three companies follow Metolius as the most widely available climbing grips in the adventure sports retail stores. Both Entre Prises and Nicros are primarily climbing wall manufacturers who also sell climbing grips, and both have the best management in the industry. E-Grips only produces climbing grips, however they use a unique material that greatly improves their durability over competitors. All three companies have reasonable marketing budgets and their sponsorships and advertisements can be seen all over climbing media.
- *Other Companies* – There are many smaller and less-distributed climbing grip manufacturers. Both these and the previously listed companies have very similar production methods and product quality. Management ability tends to be questionable with these competitors and marketing budgets are small.
- *Indirect Competition* – Beyond climbing grip manufacturers there are other areas of competition for rockGRIPS. The largest force is the "Do-It-Yourself-Dad" who might try to make his own climbing grips from stone or wood. There is also competition from existing climbing walls in the local community which may prevent parents from building their own backyard climbing wall. Last, there is competition from other sports (baseball, football) and backyard recreational activities (trampolines, pools).



Competition Matrix

	rockGRIPS	Metolius	Entre Prises, Nicros and e-Grips	Other Companies
Designed for Kids	*****	***	***	<i>varies</i>
Product Durability	*****	***	****	<i>varies</i>
Customer Service	*****	****	****	<i>varies</i>
Distribution Reach	*****	*****	***	<i>varies</i>
Ease of Installation	*****	**	**	**
Management	*****	****	****	<i>varies</i>
Access to Capital	***	****	****	*
Promotional Support	***	*****	****	<i>varies</i>
Depth of Product Line	*	*****	*****	<i>varies</i>

OPPORTUNITY

Innovative Designs

All industries go through tumultuous technology shifts when someone figures out a way to make a cheaper, better product. That's where climbing grips are now and rockGRIPS has found a way to capitalize on this. By combining rubber grip surfaces with modern materials and manufacturing techniques rockGRIPS will produce climbing grips unlike anything seen before. And, according to our market surveys, these new designs are very appealing to our target consumer.

Existing Market

While rockGRIPS are wildly different than the competition they are not a new product category. There are currently about \$11 million in climbing grip sales every year and over 70% is directly from our target market. Our business model is simply to penetrate this existing market with a superior innovation, and we will penetrate quickly if our market tests are any indicator.

COMPETITIVE ADVANTAGE

Unlike many start-ups rockGRIPS has several true competitive advantages. Certainly some carry more weight than others but altogether rockGRIPS has a strong position for a start-up.

- *Process Patent* – This protects our rubber grip production method which is the only profitable method available for at least the near future.
- *Innovative Designs* – While fleeting, rockGRIPS will capitalize on this advantage early in the sales and marketing process.
- *Scott Rennak* – Limited in the playground industry but widespread in adventure sports, Scott's reputation and contacts will provide rockGRIPS with credibility and buyer appointments.
- *Keystone Margins* – rockGRIPS financial plans are built around a 50% retailer profit margin which easily beats out the industry standard of 35% to 45%. This gives us a significant price advantage, at least initially.

Entry Barriers

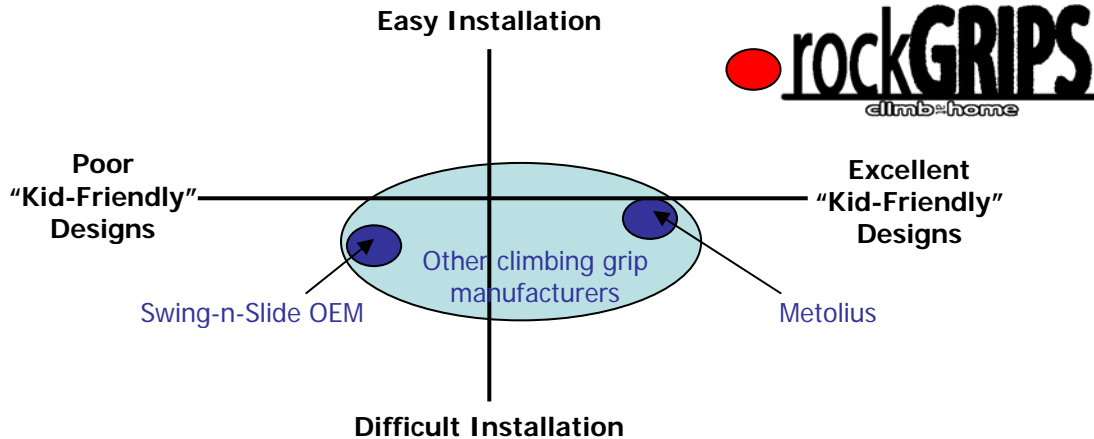
- *Existing Contracts* – Undoubtedly there are existing supplier contracts and it will take time, money or both to persuade a supplier to switch.
- *High Start-Up Costs* – With a minimum investment of \$100,000 to get production underway, the sheer capital requirement puts the concept out-of-reach for most climbing grip manufacturers.

MARKETING

Positioning Strategy

rockGRIPS is the only company that designs and manufactures climbing grips specifically for children. The primary benefit of rockGRIPS is a fun and safe experience facilitated by easy installation. In addition, rockGRIPS provide a healthy means for children to exercise and a unique way for families to spend time together at home. Our positioning statement:

"rockGRIPS markets artificial climbing grips to parents of 5 to 12 year olds for use at home. The kid-friendly screw-on designs provide a fun, safe and easy way to create climbing surfaces on almost any solid wood structure."



Promotional Strategy

All rockGRIPS promotional elements feature bright, colorful images and designs with lots of photos of children having fun climbing with our products. The messages will focus on having fun while experiencing easy installation. The promotional implementation strategy for rockGRIPS can be split into two general categories:

- *Initial Promotions* – Packaging, the Owner's Manual, website, brochure and sales materials will be needed prior to pursuit of any sales contracts. rockGRIPS also pledges to spend 5% of gross profits on efforts that increase the visibility of climbing to the mainstream such as product donations, key event sponsorships, and support of the US Climbing Teams. In addition, rockGRIPS will hold an annual contest where \$1,000 is awarded to the customer with the most interesting and unique product installation. All of these programs are handled by our VP of Marketing, who will also create and manage all public relations campaigns (consumer reviews, product placement).
- *Later Promotions* – After signing at least one contract with REI, Galyan's or EMS, rockGRIPS will initiate more traditional marketing efforts. This will also coincide with the beginning of a sales campaign to increase independent retailer accounts. Promotional elements will include booths at important trade shows, increased sponsorships and public relations, targeted advertising, and eventually a portable, traveling climbing wall for demonstrations at our retailer locations.

Pricing Strategy

The climbing grip industry has fairly standard pricing (below) and few companies price themselves much higher or lower. rockGRIPS will be no exception and will price its grips similarly in order to gain market share and reach sales quotas. However, our prices leave room for keystone margins (industry standard is 35-45%) making rockGRIPS more attractive to retailers than the competition. Prices for the initial three sets:

Quantity	rockGRIPS (50% margin)	Comparable (40% margin)
4-Pack	\$30 retail / \$15 wholesale	\$27 retail / \$16 wholesale
10-Pack	\$60 retail / \$30 wholesale	\$55 retail / \$33 wholesale
25-Pack	\$140 retail / \$70 wholesale	\$125 retail / \$75 wholesale

Sales Strategy

rockGRIPS will employ aggressive and rapid sales tactics. We have been in touch with purchasers at Swing-N-Slide, Rainbow, REI, Galyan's and EMS, and they all want to hear more about rockGRIPS. We plan to pursue these and other large accounts once working prototypes have been produced and prior to investing in injection molds. Our tactics will include personal visits to company headquarters, presentations including videos and product samples, and deep contract negotiations. Our sales force will be divided into two groups:

- *In-House Sales* – All OEM contracts and adventure sports chains will be handled in-house by rockGRIPS management. There will be no commission, since sales will be part of the job description and management will be on salary.
- *Outside Sales* – Independent reps or rep agencies will be contracted for each retail market (hardware, playground and adventure sports). These reps and agencies will be paid standard industry commissions of 7% to 10% of net revenues.

OPERATIONS

Our Facility

A small warehouse with an office is needed to market and distribute rockGRIPS. A location in Boulder is convenient for management and adds credibility to the brand, Boulder being the climbing capitol of America. Both the warehouse and office must be equipped with the typical assortment of shelving, shipping tables, desks and file cabinets, office electronics and other equipment.

Information Systems

All customer and supplier ordering information, shipping details, billing and accounting will be integrated into a single software application. In addition, remote access will be available through online interfaces.

Order Handling

Generally orders from OEM playground companies and adventure sports chains are placed months in advance, although there will be many smaller orders for re-stocking and independent retailers. Orders are processed once they are received and pre-orders are immediately added to production schedules. We will maintain a sizeable inventory for smaller orders and shipping takes place within one business day through UPS or FedEx. If the product is not immediately available the order is added to the production schedule and delivered within three weeks. When orders are received from production an in-house team assembles, packages and shelves the product. The same team handles shipments to customers.

Production Process

1. Design grip by hand (2-3 weeks)
2. Get grip modeled in 3D-CAD program (1-2 weeks)
3. Submit CAD rendering to engineering stress tests (1-2 weeks)



4. Create some prototypes via CNC machining
5. Identify improvements
6. Update CAD designs
7. Repeat steps 4-6 until "perfect" (2-3 weeks)
8. Create molds (7-8 weeks)
9. Produce small quantities of finished parts
10. Identify improvements
11. Re-tool molds
12. Repeat steps 9-11 until "perfect" (1-2 weeks)
13. Place and receive orders (2-3 weeks)
14. Assemble substrate and rubber application
15. Package orders for final shipment

Suppliers

- *Designs* – Louie Anderson, Ty Foose and Ian Powell, who together have designed over ¼ of the climbing grips currently on the market, have all expressed interest in this project.
- *Molds* – Front Range Tooling (frtm.com) which has over 20 years experience with creating and modifying injection molds.
- *Substrate Production* – Caroba Plastics (caroba.com) who is certified ISO 9001-2000.
- *Rubber Production* – Rocky Mountain Rubber Manufacturing (rmmfg.com) who has over 30 years experience with rubber products.
- *Packaging* – Colorado Containers (coloradocontainers.com) is Denver's leading packaging supplier with over 40 years experience.

Staffing

- *Assembly* – Essentially this is gluing the rubber application onto the plastic substrate. This work will come in batches as parts are received from the factories. Initially the assembly staff will also work in packaging and shipping, but by Year Two there will be dedicated staff for each area.
- *Packaging* – Packing the finished product and other parts for final delivery.
- *Shipping* – Shipping and storing all supplier and customer orders.
- *Service* – Providing all front-end supplier and customer communications. rockGRIPS will always have at least one dedicated customer service rep.
- *Sales and Marketing* – Recruiting accounts and promoting the product and brand. Greg and Scott, as VP of Marketing and CEO, will handle these responsibilities. As sales and marketing grow independent reps and agencies will be contracted.
- *Finance* – Accounting and financial planning. David will handle these responsibilities.
- *Product Development* – Conceptualizing and creating new products. All technical aspects will be outsourced and Scott will orchestrate the progress.
- *Administration* – Strategy, planning, staffing and all other responsibilities of the corporation. Scott will handle most administrative functions.

MANAGEMENT

Scott Rennak, *President and CEO*

Since 1997 Scott has been one of the most prolific entrepreneurs in the climbing industry, and has been responsible for some of the biggest things to hit artificial climbing. He pioneered award-winning climbing grip designs, created the largest US grassroots climbing event series ever, and has owned and lived in a climbing gym for over three years. Through it all Scott has amassed an immense list of professional contacts and has built a rock-solid reputation for hard work, high productivity and deep integrity. In Year One Scott will earn a salary of \$42,000.

David Larson, *CFO*

David started his first company in November of 2002 when he was just 18. David previously worked as CFO and Project Manager for PocketChange Productions, an adventure sports production company. David has further shown his passion and internal drive by completing his undergraduate degree in finance in just two and a half years while maintaining a 3.9 overall GPA. In Year One David will be a consultant to the company until he is hired on fulltime in Year Two, earning a salary of \$36,000.

Gregory Loomis, VP of Marketing

Like many children, Greg began climbing when he was very young, and transitioned to rock climbing at age 12. Greg has first-hand experience with the growing popularity of the sport after growing up on the East coast and traveling around America to pursue climbing. Planning for a career in the outdoor industry, Greg has interned with four major climbing companies and gained a large number of contacts within the industry. In Year One Greg will earn a salary of \$36,000.

Board of Directors

The rockGRIPS Board of Directors will include Scott, David and Greg as well as key investors. All Directors will receive year-end bonuses of 1% of net income, split evenly among Directors.

Board of Advisors

During our business plan research we encountered a variety of individuals who expressed interest in being involved with rockGRIPS as an advisor, investor or both. These people have not committed, but we believe most will.

- *Louie Anderson* – Freelance climbing wall builder, award-winning grip-shaper and prolific guidebook writer
- *Robyn Erbesfeld-Raboutou* – President of ABC Kids (youth climbing facility) and 4-time sport climbing World Champion
- *Ty Foose* – President and CEO of Monolithic Sculptures (climbing wall manufacturer) and nationally acclaimed grip-shaper, route-setter and competition organizer
- *Dan Howley* – President and General Manager of The Spot Bouldering Gym
- *Scott Wilson* – Sales Manager of Front Range Tooling
- *David Wolf* – Private Fund Manager for Baydush Simon Weaver asset management firm

DEVELOPMENT

Development Strategy

The plan is quite simple. First, raise \$400,000 in capital. Next, produce prototypes, packaging and sales literature, and travel to meet the biggest potential customers and secure orders. With orders in hand we'll create molds, start production, rent a warehouse, hire staff and expand marketing and sales efforts.

Key Events

1. Acquire financing
2. Create prototype product and packaging
3. Obtain sales contracts
4. Develop molds
5. Start production



Development Timeline

(months)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
Administrative																								
Legal																								
Funding																								
Staffing																								
Sales and Marketing																								
Graphic Design																								
Pursuit of OEMs																								
Pursuit of Mass Retailers																								
Pursuit of Independent Retailers																								
Trade Promotions																								
Trade Shows and Ads																								
Consumer Promotions and Ads																								
Public Relations																								
Research and Development																								
Prototypes and Designs																								
Market Tests																								
Mold Creation																								
Production																								

RISKS

Legal Action

It's easy to see the potential for lawsuits with a product like this. To mitigate this risk rockGRIPS has both a product liability insurance policy and ASTM certification to show our compliance with standards, and packaging and inserts will carefully and obviously delineate proper uses and misuses.

Competitor Response

Our competitors will notice quickly once rockGRIPS has obtained their playground industry contracts. However, there are a variety of reasons why rockGRIPS is defensible:

- *Patent Protection* – rockGRIPS has filed for a process patent to protect our production method and there is no other profitable alternative in sight. This will sufficiently protect us against current climbing grip manufacturers who are historically cautious with patents and can't afford litigation. Swing-N-Slide could be our major concern here, but they favor outsourcing components over internal production.
- *High Development Cost* – A minimum investment of \$100,000 is necessary to effectively produce grips like ours. The concern is that perhaps Swing-N-Slide would undergo their own grip production and steal the idea knowing they can outspend us in court. We believe this is unlikely because climbing grip production is not their line of business and they prefer outsourcing. By keeping a tight relationship with Swing-N-Slide we believe this risk is minimized.
- *Constant Innovation* – Each year new designs will be launched and we will continue to push the envelope. Through consistent and dedicated R&D rockGRIPS will stay ahead of the pack.
- *Strong Branding* – We know branding doesn't hold much weight for investors, but with Scott's intimate knowledge of the climbing industry we're confident that rockGRIPS will become a household name and that consumer demand will help keep us in place.

Bad Batches or Delayed Deliveries

In any production facility things can go wrong. To guard ourselves from the occasional supply-side problem rockGRIPS will carry a two-month inventory. We will also have back-up production facilities ready and will institute careful post-production quality control procedures.

New Industry Regulations

While possible, we believe this risk is very small. Playground equipment ASTM standards (American Society of Testing Materials) have only been in place for two years, and people on the committee don't think they'll be changing soon. However, to stay current and influence policy, Scott will represent rockGRIPS on the ASTM playground equipment standards committee (a right of any company with certified products).

FINANCES

Revenue Model

rockGRIPS used a bottom-up assessment of market size divided among the four main distribution channels. This means estimated sales by individual companies have been calculated, yielding a total market size of \$11.4 million. With its aggressive sales tactics and keystone margins rockGRIPS plans to pursue major OEM contracts first. The largest by far is Swing-n-Slide representing over 25% of the OEM channel. rockGRIPS expects to secure the Swing-n-Slide contract quickly giving rockGRIPS an immediate 25% OEM market share. In addition, rockGRIPS will be entering the adventure sports retail channel with expectations of capturing at least two sizeable contracts giving rockGRIPS a 5% penetration.

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Market Potential			
OEMs	\$3,900,000	\$4,095,000	\$4,299,750
Adventure Sports Chains	\$2,400,000	\$2,520,000	\$2,646,000
Independent Retailers	\$2,000,000	\$2,100,000	\$2,205,000
Direct Sales	\$3,100,000	\$3,255,000	\$3,417,750
<u>Total Market Potential</u>	<u>\$11,400,000</u>	<u>\$11,970,000</u>	<u>\$12,568,500</u>
Market Penetration			
OEMs	25%	40%	50%
Adventure Sports Chains	5%	10%	15%
Independent Retailers	0%	5%	10%
<u>Total Sales</u>	<u>\$1,095,000</u>	<u>\$1,995,000</u>	<u>\$2,767,275</u>

Financial Summary

rockGRIPS will be profitable in Year One while realizing a net profit margin of 13%. In Year Two, rockGRIPS expects the net profit margin to jump to 19% for the foreseeable future. This profitability stems from three main drivers.

1. Using modern manufacturing techniques rockGRIPS can reach economies of scale
2. Switching to screw-on installation reduces hardware costs (5c per pack, versus 52c)
3. Our top-down distribution strategy requires less marketing, sales and service expenses

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Revenue	\$1,092,000	\$1,987,440	\$2,762,542	\$3,453,177	\$3,971,154
Gross Profit	\$488,160	\$932,739	\$1,260,007	\$1,580,021	\$1,839,393
EBIT	\$221,413	\$574,362	\$802,776	\$1,016,290	\$1,164,847
EBITDA	\$235,080	\$601,778	\$844,030	\$1,069,807	\$1,230,640
Net Earnings	\$143,919	\$373,335	\$521,804	\$660,588	\$757,151
Net Cash from Operating Activities	\$31,350	\$237,616	\$659,282	\$636,846	\$741,822
Capital Expenditures	\$65,000	\$65,250	\$65,513	\$65,788	\$66,078
Interest Income/(Expense)	\$0	\$0	\$0	\$0	\$0
Dividends	\$0	\$0	\$0	\$0	\$0
Cash	\$266,350	\$438,716	\$1,032,486	\$1,603,544	\$2,279,288
Total Equity	\$143,919	\$517,254	\$1,039,058	\$1,699,647	\$2,456,797
Total Debt	\$0	\$0	\$0	\$0	\$0

Growth

Revenue Growth Rate - CAGR:	82%	39%	25%	15%
Net Earnings Growth Rate - CAGR:	159.4%	39.8%	26.6%	14.6%

Ratios

Current Ratio	7.0	4.1	7.8	8.5	9.1
Debt to Capital (LT Debt + Equity)	0.0	0.0	0.0	0.0	0.0

Profitability

Gross Profit %	44.7%	46.9%	45.6%	45.8%	46.3%
Operating Expenses %	18.0%	18.0%	16.6%	16.3%	17.0%
Net Earnings %	13.2%	18.8%	18.9%	19.1%	19.1%

Returns

Return on Assets	28.2%	35.6%	34.4%	29.4%	24.6%
Return on Equity	32.4%	45.7%	39.0%	33.0%	27.5%
Return on Capital (LT Debt + Equity)	32.4%	45.7%	39.0%	33.0%	27.5%

OFFERING**Funding Requirements**

Phase One	Legal (form corporation, obtain trademark, patent) Prototypes (develop product, packaging) Staffing (Scott's salary for 3 months) Sales (trips to secure contracts)	\$50,000
Phase Two	Initialize mold construction and production Establish warehouse and office Hire and train staff More sales and marketing Build inventory Working capital	\$350,000

Valuation

rockGRIPS is an attractive investment opportunity, providing immediate profitability and a great return on investment. Utilizing a price-to-net-income multiple methodology, rockGRIPS will be valued at \$3 million during Year Five.

Net Income (Y5)	\$757,151
Valuation (4 x Y5 NI)	\$3,028,603
IRR	50%
Initial Investment	\$400,000
Percent of Company	38.0%
Cost of 1%	\$10,517

Offering and Exit Strategy

rockGRIPS is offering 38% of its equity share in exchange for \$400,000 in capital in Year Zero. In Year Five rockGRIPS will be sold, either to a business in the playground or outdoor industry or to the management. We expects the purchase to yield its investors a 50% IRR during the five-year holding period. This return has been calculated using a sale price of \$3 million and a Year Five net income multiplier of 4, which is appropriate for the industry.

APPENDIX 1: Income Statement

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
NET REVENUES	1,092,000	1,987,440	2,762,542	3,453,177	3,971,154
COST OF REVENUE	603,840	1,054,701	1,502,535	1,873,156	2,131,761
% of Revenues	55.3%	53.1%	54.4%	54.2%	53.7%
GROSS PROFIT	488,160	932,739	1,260,007	1,580,021	1,839,393
% of Revenues	44.7%	46.9%	45.6%	45.8%	46.3%
OPERATING EXPENSES					
Sales & Marketing	100,040	194,732	269,568	354,700	446,885
Research & Development	25,920	34,874	42,625	49,532	54,712
General and Administration	70,787	128,771	145,038	159,499	172,949
Total Operating Expenses	196,747	358,377	457,231	563,731	674,546
% of Revenues	18%	18%	17%	16%	17%
EARNINGS FROM OPERATIONS	291,413	574,362	802,776	1,016,290	1,164,847
EXTRAORDINARY INCOME / (EXPENSE)	(70,000)	0	0	0	0
EARNINGS BEFORE INTEREST & TAXES	221,413	574,362	802,776	1,016,290	1,164,847
INTEREST INCOME / (EXPENSE)	0	0	0	0	0
NET EARNINGS BEFORE TAXES	221,413	574,362	802,776	1,016,290	1,164,847
TAXES	(77,495)	(201,027)	(280,972)	(355,701)	(407,697)
NET EARNINGS	143,919	373,335	521,804	660,588	757,151
% of Revenues	13.2%	18.8%	18.9%	19.1%	19.1%

APPENDIX 2: Balance Sheet

	<u>Begin</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
ASSETS						
CURRENT ASSETS						
Cash	400,000	366,350	538,716	1,132,486	1,703,544	2,379,288
Accounts Receivable		109,200	298,116	230,670	322,938	419,819
Inventories		76,440	198,744	123,024	172,234	223,903
Other Current Assets		6,552	23,849	18,454	25,835	33,586
Total Current Assets	400,000	558,542	1,059,425	1,504,633	2,224,550	3,056,596
PROPERTY & EQUIPMENT		51,333	89,167	113,425	125,696	125,981
TOTAL ASSETS	400,000	609,875	1,148,592	1,618,058	2,350,247	3,182,577
LIABILITIES & SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES						
Short Term Debt	0	0	0	0	0	0
Accounts Payable & Accrued Expenses		59,405	207,489	160,546	224,765	292,194
Other Current Liabilities		6,552	23,849	18,454	25,835	33,586
Current portion of long term debt	0	0	0	0	0	0
Total Current Liabilities	0	65,957	231,338	179,000	250,600	325,780
LONG TERM DEBT (less current portion)	0	0	0	0	0	0
STOCKHOLDERS' EQUITY						
Common Stock	0	0	0	0	0	0
Preferred Stock	400,000	400,000	400,000	400,000	400,000	400,000
Retained Earnings		143,919	517,254	1,039,058	1,699,647	2,456,797
Total Equity	400,000	543,919	917,254	1,439,058	2,099,647	2,856,797
TOTAL LIABILITIES & EQUITY	400,000	609,875	1,148,592	1,618,058	2,350,247	3,182,577

APPENDIX 3: Cash Flow Statements

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
OPERATING ACTIVITIES					
Net Earnings	143,919	373,335	521,804	660,588	757,151
Depreciation	13,667	27,417	41,254	53,517	65,793
Working Capital Changes (Increase)/Decrease Accounts Receivable	(109,200)	(188,916)	67,446	(92,268)	(96,881)
(Increase)/Decrease Inventories	(76,440)	(122,304)	75,720	(49,210)	(51,670)
(Increase)/Decrease Other Current Assets	(6,552)	(17,297)	5,396	(7,381)	(7,750)
Increase/(Decrease) Accts Pay & Accrd Expenses	59,405	148,084	(46,942)	64,219	67,429
Increase/(Decrease) Other Current Liab	6,552	17,297	(5,396)	7,381	7,750
Net Cash Provided/(Used) by Operating Activities	31,350	237,616	659,282	636,846	741,822
INVESTING ACTIVITIES					
Property & Equipment	(65,000)	(65,250)	(65,513)	(65,788)	(66,078)
Other					
Net Cash Used in Investing Activities	(65,000)	(65,250)	(65,513)	(65,788)	(66,078)
FINANCING ACTIVITIES					
Increase/(Decrease) Short Term Debt	0	0	0	0	0
Increase/(Decrease) Curr. Portion LTD	0	0	0	0	0
Increase/(Decrease) Long Term Debt	0	0	0	0	0
Increase/(Decrease) Common Stock	0	0	0	0	0
Increase/(Decrease) Preferred Stock	0	0	0	0	0
Dividends Declared	0	0	0	0	0
Net Cash Provided / (Used) by Financing	0	0	0	0	0
INCREASE/(DECREASE) IN CASH					
	(33,650)	172,366	593,770	571,058	675,744
CASH AT BEGINNING OF YEAR					
	400,000	366,350	538,716	1,132,486	1,703,544
CASH AT END OF YEAR					
400,000	366,350	538,716	1,132,486	1,703,544	2,379,288

APPENDIX 4: Break-Even Analysis

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Revenue	1,092,000	1,987,440	2,762,542	3,453,177	3,971,154
Cost of Revenue					
Variable	535,160	937,703	1,294,033	1,619,129	1,841,994
Fixed	25,000	37,500	98,000	115,900	130,920
Total	560,160	975,203	1,392,033	1,735,029	1,972,914
Operating Expenses					
Variable	32,760	119,246	179,565	241,722	297,837
Fixed	163,987	239,131	277,666	322,009	376,709
Total	196,747	358,377	457,231	563,731	674,546
Total Costs & Expenses					
Variable	567,920	1,056,950	1,473,598	1,860,851	2,139,831
Fixed	188,987	276,631	375,666	437,909	507,629
Total	756,907	1,333,581	1,849,264	2,298,760	2,647,460
Variable Costs/Revenue Ratio	0.52	0.53	0.53	0.54	0.54
Break-Even Point Revenues	393,782	590,858	805,149	949,665	1,100,775

APPENDIX 5: CASH FLOWS MONTHS

APPENDIX 5: CASH FLOWS MONTHS

APPENDIX 6: Customer Survey Results

- Conduct on 20 potential customers: parents of children aged 5-15
- Performed on September 25th and October 5th in the outdoor mall of Pearl Street Boulder, CO

1. Do your children climb on playgrounds or trees?

Yes = 95%
No= 0%

Specific response:

Used to when they were younger (currently 12): 1 respondent

2. What are you initial thoughts on RockGrips?

Nice idea: 20%
Interesting: 20%
Cool: 15%
Too slippery: 15%
I like the soft texture: 10%

Specific Responses:

OK
Sounds dangerous
I do not have room/space
That would be perfect for my kids
How many would I need?
I'd rather have them use these to go up the trees than how they climb them now.
Alright idea, but I do not climb
If I was a climber I would buy them
I would be interested

3. Would you consider purchasing RockGrips? For how much?

Yes: 45%
No: 35%

Specific Responses:

I do not think my child would be interested: 3 respondents
I have no need for them
I'd rather them just climb on the trees, it's less dangerous
If I had a boy maybe but not for my girl

Predicted price: % of respondents

\$2-3:	25%
\$2:	5%
\$5:	25%
\$5-6:	5%
\$5-10:	5%
\$10:	10%

Average predicted price = \$8

4. Where would you expect to see RockGrips available?

Sporting goods store: 60%
Outdoor stores: 30%
Playground stores: 15%

REI:	15%
Climbing Stores:	10%
McGuckins:	5%
Toy Shop:	5%

5. If you were given some RockGrips as a gift, where / how would you use them?

On our playground:	15%
Trees:	30%
On our deck:	15%
I would not use them:	15%
Backyard:	10%
Fence:	10%
On our house:	10%

Specific Responses:

My climbing wall
 Give them to my handicapped friend
 I do not know

6. What additional features would increase your interest in Rockgrips (colors, shapes, textures)

Different colors:	30%
More natural colors:	25%
More interesting shapes:	15%
Different textures:	15%
No idea:	5%
Juggier, bigger holds:	5%

7. What concerns do you have about RockGrips? How might your concerns be resolved?

Safety:	80%
None:	20%

Specific safety concerns:

Children using w/o supervision: 2 respondents
 Liability for other children using 2 respondents
 My child falling off from high up: 2 respondents
 How much weight will it hold? 1 respondent

Suggestions for easing concerns:

Proper installation instructions: 6 respondents
 Free trials: 2 respondents
 Organizational approvals: 1 respondents

8. Do you view climbing as dangerous? Why?

Yes:	30%
No:	60%

Specific Responses:

Safety of this product would be user based, you can't really make the product safer.
 You do not know when your going to fall
 If they are not supervised 2

9. Approximately how much average time per week do your children spend outside?

In which activities do they participate?

Not much:	5%
2 hrs:	5%
5 hrs:	35%
5-7 hours:	10%
4-6 hrs a week:	5%
7-10:	5%
10:	15%
15:	10%

Average time spent outdoors: 6.5 hrs

Activities participated:

Playing:	30%
Organized sports:	10%
Basketball:	5%
Soccer:	5%

10. Do you or have your climbed (indoors or rock)?

Yes:	45%
No:	55%

11. What age and gender are your children?

Age # of Children of that age included in survey

5:	2
6:	1
7:	6
8:	1
9:	3
10:	2
11:	5
12:	3
13:	3
14:	2

Gender :

M:	16	66.6%
F:	8	33.3%

APPENDIX 7: Industry Interviews Summary

People we interviewed:

- Playground Equipment Manufacturer/Distributors
 - Swing-N-Slide
 - Rainbow Playsets
- Playground Equipment Retailers
 - Rainbow
 - Playnix
- Home Depot Distribution Manager
- Home Depot ProDesk Associates at 12 nation-wide locations
- REI Purchasing Agent
- IPEMA Staff (International Playground Equipment Manufacturer's Association)
- ASTM and IPEMA Committee Members
- Climbing Gyms
 - The Spot Bouldering Gym
 - Boulder Rock Club (with ABC Kids)
 - Climb Max
 - Touchstone Climbing
- Climbing Wall Manufacturer
 - Monolithic Sculptures
- Production and packaging suppliers
 - Caroba Plastics
 - Rocky Mountain Rubber Manufacturing
 - Front Range Tooling
 - Colorado Container Corporation
- Hardware Manufacturer's Representative
- Off-shore Production Specialist
- Engineering Design Firm
- Lawyer
- Insurance Agent
- Angel Investor
 - David Wolf, fund manager for Baydush Simon Weaver