

# PRODUCE IT YOURSELF: REMODELING THE MUSIC INDUSTRY

by

Hélène Ponty

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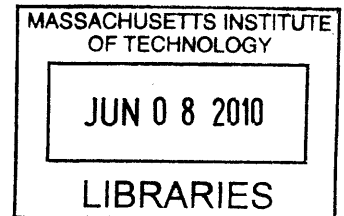
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Signature of author:

\_\_\_\_\_

Hélène Ponty  
MIT Sloan School of Management  
May 7, 2010

Certified by:

\_\_\_\_\_

William Aulet, Thesis Supervisor  
Senior Lecturer, MIT Sloan School of Management  
Managing Director, MIT Entrepreneurship Center

Accepted by:

\_\_\_\_\_

Michael A. Cusumano  
SMR Distinguished Professor of Management  
MIT Sloan School of Management



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## **ABSTRACT**

In this thesis, I develop a business plan for a music label allowing people to invest in bands and to be paid back when the bands makes some money. The idea is based on a new business model developed by several companies in Europe and particularly MyMajorCompany in France. Bands are promoted on Produce-It-Yourself's website and investors can decide to put their money in the bands they like or believe in.

First, I analyzed the market opportunity for the company, targeting people between 18 and 35 belonging to the digital generation. I then explain the idea of Produce-It-Yourself and how this idea could solve the threats the music industry is currently facing, particularly with piracy and illegal downloading. I also develop the marketing and sales strategy of the company, showing how we are going to focus our efforts on digital albums in order to keep our manufacturing costs low and to take advantage of the trend showing a decrease in physical CDs sales and an increase in digital sales. Finally, I made some financial projections to estimate the potential of the venture on a five-year period.

The conclusion of the plan shows the composition of the team and of the board of advisors, since the success of the venture will be mainly due to the team and its ability to execute the idea properly.

Thesis Advisor: William Aulet  
Senior Lecturer, MIT Sloan School of Management



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# Executive Summary

## Product Description

Our online operated label is designed to address the needs of musicians and enthusiasts by creating an **investment community to promote popular bands and produce their albums.**

Selected artists will post their songs and a bio online. Anyone who visits the website can stream the songs and invest in artists they like or believe will be successful. Each artist is worth 6,000 shares and each share is worth \$10. The total amount of \$60,000 will cover all the costs incurred to produce and market a full-length album.

Once an artist reaches the \$60,000 threshold, the company uses the funds to produce one album and one music video and to market the artist. As co-producers, the fans will be involved in this process through online surveys (choice of artwork, track listing, etc.) and will be able to interact with the artist.

The net income from the album sales and the concerts is divided into three equal parts between the artist, the online producers and the company. The company will sell the albums for \$7 to the distributors so each party will receive \$2.33 for each sale. Produce It Yourself will also own half the copyrights, which is another profitable source of income.

The success of this business model is based on the fact that:

- The label bears no cost to produce the artist besides starting and administrative costs;
- The fans decide which artists should be produced;
- The artist has a more profitable and simpler deal than with regular labels: more royalties and a straightforward contract.

## Market Opportunity

“There will be a slight shift in market share towards smaller, independent firms, as the internet provides consumers with greater choice, and more forums from which to find music. This will diversify the demand for music away from the traditional core of major artists, giving smaller labels some small measure of increased share.” (IBISWorld 2009 Report on Major Labels)

The current business model of the music industry is not viable anymore. Major labels, which account for 77% of the music market, bear skyrocketing administrative and marketing costs, independent labels are facing high financial risks and both are suffering from illegal downloading and file-sharing. Meanwhile, consumers tend to be more demanding and the ease of access provided by the Internet and social networks has sustained a do-it-yourself mentality that keeps on growing.

Bands signed on major labels have to waive most of their rights and their artistic freedom to achieve some success. Independent labels on the other hand struggle to be profitable. Furthermore, the current arbitrary selection process is very frustrating for talented artists. On the consumer side, music enthusiasts complain about high prices and the lack of originality. Social networks such as MySpace or Facebook have initiated a trend to bring artists closer to their fans. Add to that the success of games such as Rock Band and Guitar Hero and many people lacking deep musical knowledge or talent are looking for alternative ways to make music.

**Thus, there is a critical need for an artist-friendly business model that would further involve customers in the music production process and that would eliminate the financial risks borne by the label.**

Several companies have successfully adopted a similar business model in Europe and we strongly believe that we need to act fast in order to be the first player in the US market.

### **Marketing Strategy**

First, we need to market our services to artists, to attract the talent. Second, we need to market both our services and our artists to music lovers, in order to boost our artists' popularity and to draw investment capital.

Our marketing efforts will mostly be deployed online through social networks in order to create a buzz around this groundbreaking concept. We will involve artists and fans in the marketing process providing them with materials such as banners and widget applications.

We choose to focus on artists with relevant experience, but will include some newer artists as well. Experienced artists will help drive traffic to the website, will reach the threshold more quickly, and will be ready to go in the studio when the time comes. For example, we will attract former American Idol participants as well as successful artists looking for a new label. We will also implement partnerships with music agencies. In scouting newer artists we will enter into partnerships with renowned musical school and colleges.

### **Sales Strategy**

RIAA statistics show that the size of the physical and digital market is more than 7 billions dollars per year. In 2008, the digital albums sales grew at a 33.9% rate while physical albums sales continued decreasing (27.6%). Following this trend, we will focus our sales strategy on digital sales. Offering physical albums would highly increase our production costs for a marginal return. Moreover, the vast majority of our targeted audience (young professionals between 25 and 45) own iPods and mp3 players.

We will sell the albums as a corporate seller on iTunes, Amazon.com and similar websites, using TuneCore services to be present in the largest online platforms. We will also offer our catalogue on our own website. This cost efficient distribution model will allow us to offer digital albums at a \$9.99 retail price.

Due to our constant pursuit of innovation, we will implement a new distribution system. Instead of releasing one full album at once, the band would release one song per month. Due to the very low price of one song (99cts) we consider we will be able to attract more customers, and thus capture much more value than with the traditional distribution system.

Our objective is to sell on average the equivalent of 20,000 albums per artist (15) for the first year up to 35,000 per artist the fifth year of our operations.

### **Financial Projections**

Net income for Produce It Yourself is expected to expand from \$400,000 in 2010 to \$1.8 million in 2012 sustained by a 65.20% compound annual growth rate.

The goal of PIY is to be the leader of a new business model designed to bring artists and fans closer in an attempt to sell more records with lower costs. In order to reach this goal we are seeking seed funding of \$400,000. This will allow us to design an attractive website, recruit a web-master and a marketing manager and to cover the legal and accounting fees.



	FY 2010	FY 2011	FY 2012
Revenue	4,200,000	6,400,000	7,150,000
Publishing Royalties	600,000	700,000	700,000
Producers and Artists Royalties	2,400,000	2,800,000	2,800,000
Expenses and Taxes	800,000	1,480,000	1,846,500
<b>Net Income</b>	<b>400,000</b>	<b>1,420,000</b>	<b>1,803,500</b>

#### Team Bios

**Helene Ponty** is a Master of Science in Management student in the MIT Sloan School of Management. Prior to Sloan, Helene studied business law and management at HEC Paris. Helene then worked as a bankruptcy lawyer before working for a start up company helping the founder to market his concept and find his customer target in Paris, France.

**Guillaume Paquier** is a lawyer with a real passion for music. While earning his J.D. in France, he was a member of several rock bands and he worked closely with music producers and promoters. He is also a co-founder of a non-profit organization in charge of promoting local bands. He was working as a transfer pricing lawyer for Ernst & Young.

**Justin Burkhart** is a master's degree candidate in electrical engineering at MIT. With a background in web design he is proficient with scripting languages and online databases. Justin has designed and manages web sites for local small businesses including [www.cookiecreatives.com](http://www.cookiecreatives.com). Justin is also the owner of a boutique guitar amplifier company.

**Ben Schlesinger** is a second-year MBA student in the MIT Sloan School of Management, where he is a VP of the Entertainment, Media and Sports Club. Prior to Sloan, Ben was a Senior Research Analyst at McKinsey & Company, working on the Media & Entertainment team. Ben brings music industry knowledge from his earlier days as General Manager and Broadcast Advisor of WBRS 100.1 FM Waltham (MA).

**Ehern Wong** has three years experience as a developer at OfferOfTheDay.com, with over 300 pageviews a day. In 2009 he was part of Simprint Nanotech, a semi-finalist in the MIT 100k business plan competition. He received his masters in Electrical Engineering from Stanford University and is currently a PhD candidate in Mechanical Engineering at MIT.

#### Board of Advisors

**Dave Kusek** is an associate professor of music business at Berklee College of Music in Boston and also runs Digital Cowboys, a consulting firm focused on the music industry. Kusek is writing a book on the Future of the Music Business.

**Siegfried Paquet** is Managing Director of Brunhild Media and currently a MBA Sloan Fellow at MIT Sloan School of Management. Prior to that Siegfried was general manager and CFO of BMG Music Publishing France.

**Joey Cape** is the lead singer and frontman of rock band Lagwagon, guitarist of Me First and the Gimme Gimmes. He sold more than 1 million records and toured the world extensively. He founded his own independent label called My Records in 1996.

**David Gammell** is co-chair of Brown Rudnick law firm's Emerging Technologies practice and advises entrepreneurial companies in all stages of development, from formation to liquidity. He has extensive experience in venture capital.

# 1. Market Analysis

## 1.1. Introduction

American music producers are facing considerable turmoil. The Internet has created a seismic shift in the way that the public consumes music, the way artists promote themselves, and the avenues through which the big players - the record labels - can make money. The industry is suffering from a decrease in physical CDs sales, which leads to a decrease in the whole industry revenue.

**Figure 1 - Industry trends, IBISWorld (inflation adjusted prices):**

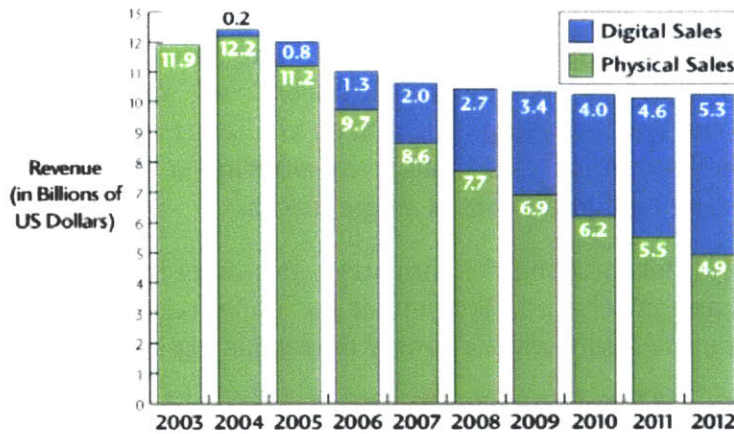
(in \$Mil)	2005	2006	2007	2008	2009
<b>Industry Revenue</b>	12,314.9	11,605.2	10,888	10,137.8	9,505.8
<b>Industry Gross Product</b>	2,844.8	2,553.2	2,384.4	2,220.5	1,966.4
<b>CD Sales</b>	10,520.2	9,372.6	7,452.3	5,471.3	n/a

Consumers, who now have the opportunity of downloading from an almost limitless list of music via peer-to-peer (P2P) and file-sharing for free, subsequently value their music less than ever, despite listening to it more than ever.

Also, live music is burgeoning across the US, as consumers attend concerts after illegally obtaining music. As a consequence, industry players are increasingly incorporating revenue from ticket sales and merchandising into artists' contracts, whereas traditionally, those revenues have gone to the artist directly. Some labels are attempting to generate revenue from their artists in new ways, rather than the traditional means of receiving royalties from album sales. The most common of these is to have contracts with artists who grant some revenue from live performances and merchandising on top of album sales. However, all of these efforts pale into insignificance besides the challenge of digital music.

The first label to develop a business model that can successfully create revenue and profit growth from digital music sales stands to dominate the market for some time.

**Figure 2 - Digital sales are fast overtaking physical sales (The Yankee Group):**



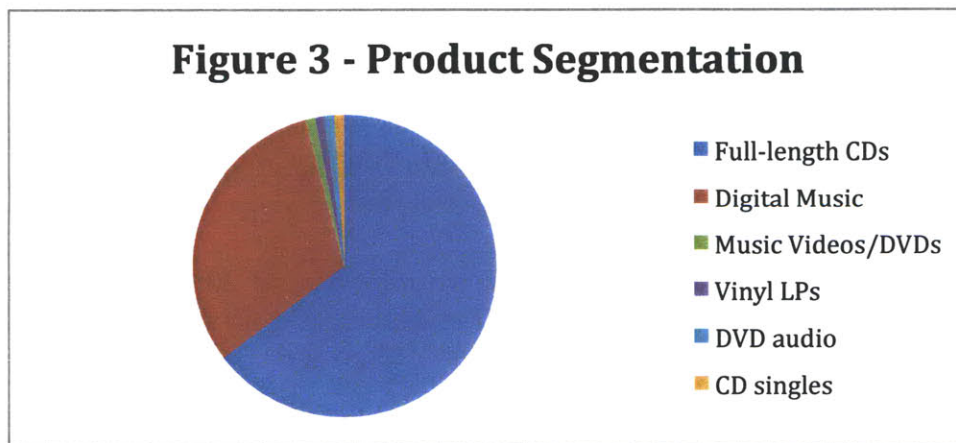
**“The industry’s future is not much brighter. (...) The best hope for the industry is that a label, any label, manages to concoct a winning formula for turning music to money in the 21<sup>st</sup> century”<sup>1</sup>.**

The key elements of success and possible barriers of entry in this industry will be:

- the ability to attract great artists
- a strong brand recognition
- high investment in capital for traditional labels

## 1.2. Market Segmentation

The industry can be segmented by products sold.



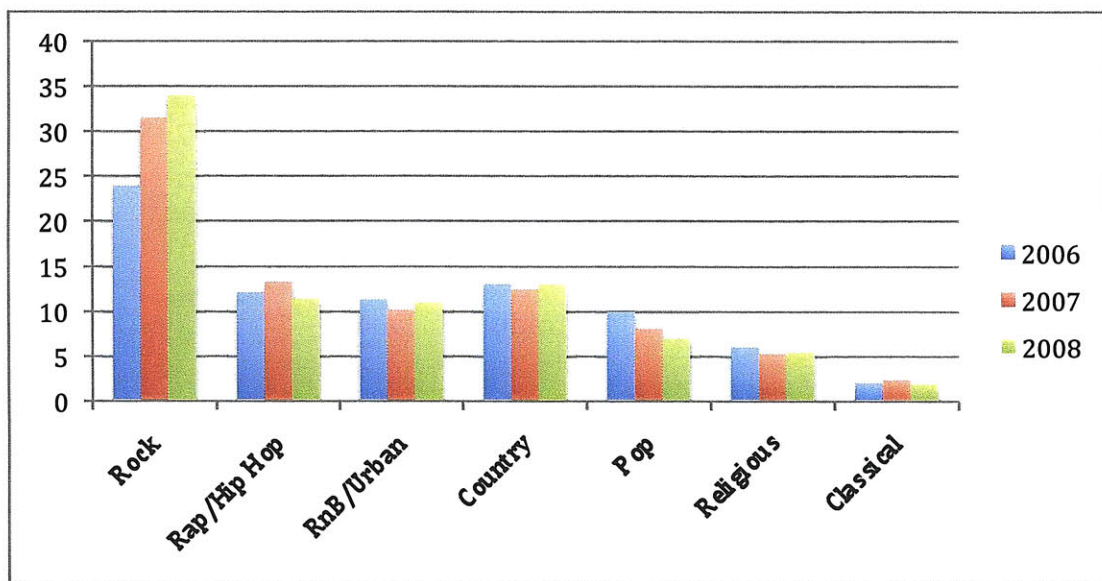
Digital music is increasing its market share every year. Digital sales have increased from 0% of the industry in 2003 to 32% in 2008, as consumers enthusiastically embrace the new format. The bulk of these sales are single tracks, as opposed to the trend in CDs for album sales to dominate. In 2008 there were around 1.03 billion

<sup>1</sup> IbisWORLD Report on Major Labels 2009

digital singles sold, compared to 56.9 million albums, at less than \$1 per song and \$10 per album. The lower costs mean that even though sales volumes are increasing overall, the revenue generated from them is falling markedly for existing labels, forcing them to adapt to a rapid change. These trends are almost certain to continue into 2010 and beyond, causing sustained challenges for traditional music companies. PIY will embrace this change by offering a whole new distribution system, concentrating on digital sales of single tracks.

Another means of differentiating the industry's products is by the genres of music that are recorded and purchased. Rock music has gone from 24.4% of the market to 34% in the five years to 2008, while country music has experienced a similar boom.

**Figure 4 - Segmentation of the industry by genre in percentage, (IbisWORLD):**



This segmentation will allow our label to focus on recruiting artists from the five most popular genres: Rock, Rap/Hip Hop, RnB, Country and Pop.

### 1.3. Our Targeted Customers

In order to get to know our customers, we interviewed 20 people who might be interested in our concept, half artists half investors, and we built a typical profile of each of them.

**Mike** is 27. He's single. He works in marketing for a Fortune 500 company. He has always been interested in music but never learnt how to play an instrument. He just bought Guitar Hero World Tour to play on his Wii and really likes it. He has always been a big music listener, but is even more so now with everything easily accessible on the Internet. He often downloads ring tones from his favorite bands for his iPhone and iPod. Mike thinks the music offered by traditional labels is too commercial. However he also feels overwhelmed when he tries to discover a band on MySpace because there are just too many of them. Told by a friend of our

website, he will **invest** in bands he likes and receive their album for free. He will then be able to listen to it on his iPod and iPhone, on which he has more than 1,000 different songs.

**Zebulon** is 23. He is the singer and front-man of a **rock band**. They already have good songs and frequently play shows in clubs in the Boston area. Zebulon and his band mates think they can make it, but they don't know how to reach the public nationally. They doubt an indie label can promote them efficiently throughout the USA. They tried to be produced by a major label, but none of these accepted their demo. Today, they think they don't want to go through a major label deal anymore because they want to keep their artistic freedom. One day, during a show, Zebulon notices a prospectus from PIY, an artist-friendly label, which allow artists to be produced by their fans. He decides to submit an application. One week later, he has been selected to be promoted on the website. Thrilled, Zebulon checks the other artists on the website. He discovers a really good rock band. Zebulon decides this band deserves some help and he **invests** \$10.

## 1.4. Competition

### 1.4.1. European Precedents

We have identified several successful community-based labels in Europe.

**Sellaband** has been launched in August 2006 and is currently the largest one with more than 12,000 pageviews a day. In October 2009 the website announced a partnership with Hip-Hop act Public Enemy raising an exceptional \$250,000 for the band. Only 6 days after this news \$31,000 had been raised. With a \$50,000 threshold, Sellaband has already produced 34 artists coming from all over the world.

**MyMajorCompany** is based in France and made a huge buzz in the country while its first artist - Grégoire - sold more than 600,000 albums. Thanks to this large success, 347 online producers maximized their investment with a 16x return after the invested a total of €60,000. Grégoire has recently decided to stay with the label for his follow-up full-length album. So far, 15 artists have been produced by MyMajorCompany in various genre such as Pop, Rock, Folk, Hip-Hop, Rhythm & Blues and Electro. Stéphane Courbit, former CEO of Endemol France recently bought 49% of the company investing 3 million euros.

**Spidart** is also a French-based investment community and even if it is a smaller player than MyMajorCompany, it has already produced 11 artists since 2007. The company launched a dedicated service for DJs in October 2009 with a €30,000 threshold, smaller than their usual €50,000 one.

**SliceThePie** is incorporated in the United-Kingdom and offers a supplementary service besides the usual investing possibility. Members are offered the chance to act as Artist & Repertoire for bands thus getting paid for their service. The website operates as a real marketplace since investors can trade their shares on the website.

An average of £2,000 is traded every day. With a smaller threshold than the other European players (£15,000), it has produced 23 artists since 2007 ranging from Blues, Jazz, Acoustic, Alternative and even Punk.

**Akamusic**, a Belgium venture has been launched in March 2008 following the large success of its European peers. Despite its relatively young age, the website has already produced 25 artists also in a wide variety of music genders. They offer three different levels of production. A short playing album with a €15,000 threshold, a full-length album linked to a €50,000 threshold and finally experienced artists - who have sold more than 50,000 albums so far - can raise up to €80,000 to produce a full-length album.

All of these labels are successful in their own markets and bigger players such as Sellaband or SliceThePie are even reaching foreign markets. However, due to the specific regulations in the United States, none of these companies are accepting investment from the USA. Thus, it makes us even more confident of our chances to enter successfully the North-American market, the largest by far in the world. Nevertheless we know that several of these companies contemplate the idea of entering the US market so we need to act fast and strong to be the first player.

#### 1.4.2. Major labels

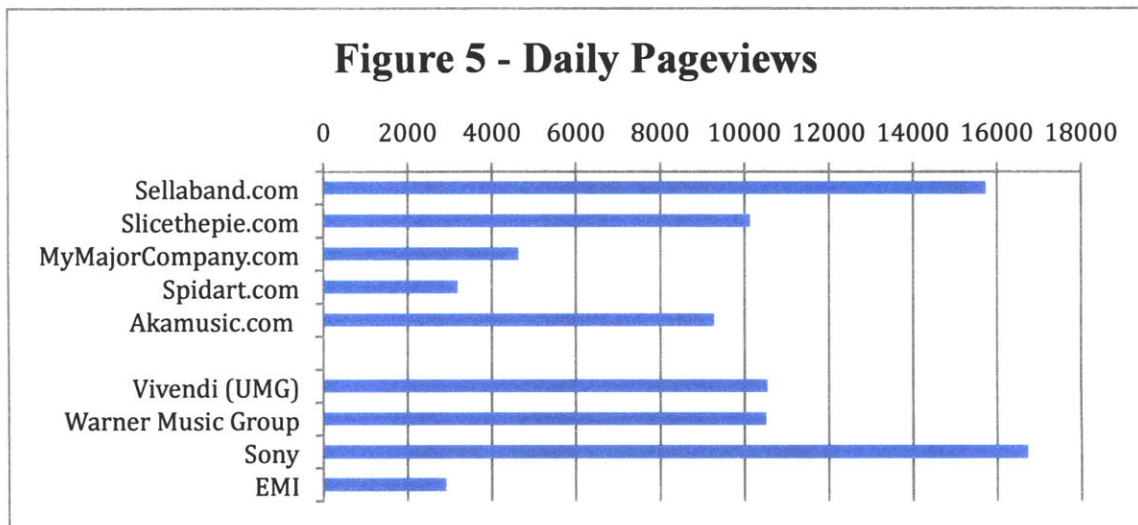
The major labels in the market today are Vivendi (UMG), Warner Music Group, Sony Corporation, and EMI Group. Together, these companies make up 77% of the market. The industry is thus highly concentrated. However, there are signs that the changing nature of the music industry may lead to a mild reduction in the industry's concentration in future. This reduction will not be sufficient to alter its status as highly concentrated, but increasing prevalence of digital technology is expected to reduce the effectiveness of the economies of scale possessed by the major players. Also, consumers' access to a broader variety of music and artists thanks to internet technology means that smaller labels with more obscure artists on their rosters will benefit.

We do not consider major labels as competition since we will be signing artists that do not have the opportunity to get access to the this kind of label. Most of these labels do "not accept material unless requested". This policy allows the labels to approach select artists, who have proven themselves with smaller independent labels. We contemplate the opportunity that a major label might approach our most successful artist, but we do not consider this as a threat, since we would keep the rights on the first album of this artist. This would also be a sign that PIY gained some brand recognition in the industry and it would even be a good promotion for our label.

Having met executives from EMI, we know that major labels do not contemplate the idea to release their own investment community and therefore will not be competing directly with PIY. Major labels see this trend as a niche market that would require them to change their model too much.

## Web Presence

Web traffic collected from Cubestat.com indicates that our major European counterparts attract nearly as many visitors as the big four labels today.



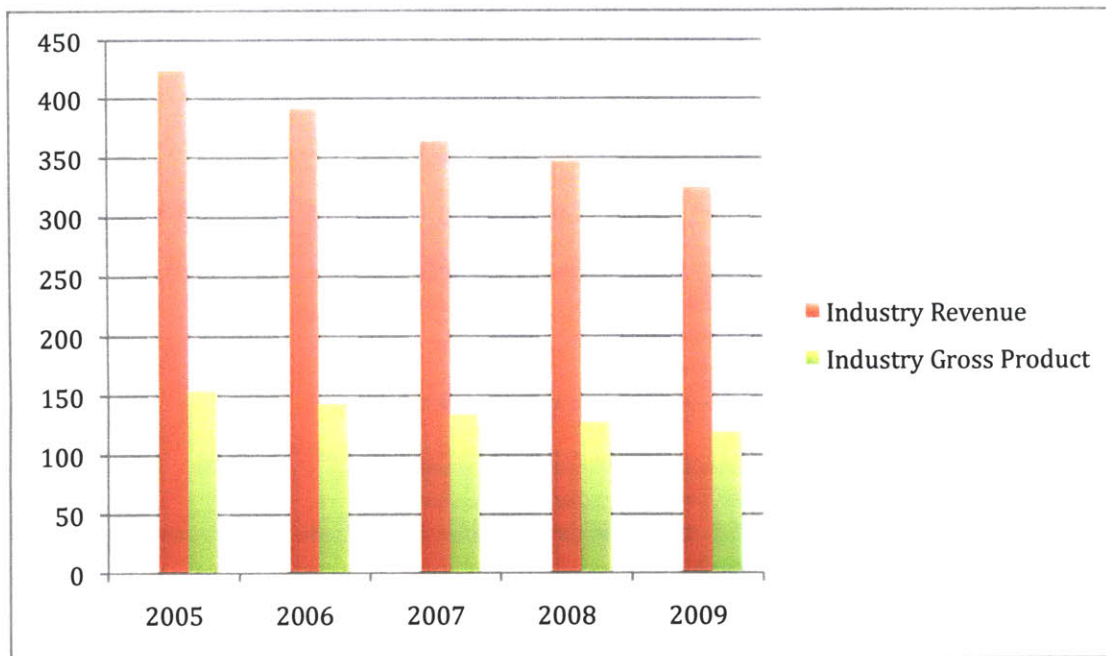
Sony has the largest presence with [www.yourmusic.com](http://www.yourmusic.com), a legacy of BMG's online music distribution service. However, all other big four sites are designed more towards promotion rather than distribution. Sites which can integrate the two and attract a new type of visitor can be much more successful with inbound marketing techniques that are better suited for the web.

### 1.4.3. Independent Labels

The indie record label market has about 3.5% of the overall record production market.

There are more than 2,300 indie labels operating in the US. The top 4 indie labels account for less than 15% of the market share. The market is made up of many very small labels that often operate at a loss or with no profit. They are run by music enthusiasts or artists themselves who are trying to produce their own work. This is enabled by the advancement of technology that has reduced the cost of digital recording equipment and introduced new online distribution channels that are more accessible to small labels. In general, the industry is characterized by a few artists that generate a profit, making up for the losses derived from less successful artists.

**Figure 6 - Independent labels industry statistics (in \$Mil), IBISWorld:**



While illegal downloading has primarily hurt major record labels that sign the most popular artists, it has indirectly hurt indie label revenues since it has effectively devalued music to the consumer.

### Key Players

**Wind-Up Entertainment:** Wind-Up Records, The Island Def Jam Group, Interscope Records, MCA Records, Inc. Genre: Multiple.  
Market Share: 5% - Formed in 1997

**Aftermath Entertainment:** Genre: Hip-Hop  
Market Share: 2% - Formed in 1996

**Sub Pop:** Genre: Grunge  
Market Share: 2% - Formed in 1986

**Artemis Records:** Genre: Pop/Alternative  
Market Share: 2% - Formed in 1999

## 1.5. Produce-It-Yourself vs. Existing Models

In most cases, direct competition will be with indie labels, but in the future, PIY may have to compete with major labels to produce albums for larger artists.

### 1.5.1. Competitive Strengths

PIY will realize cost advantages over traditional labels. These advantages will be achieved in three ways:

- **Investment Cost:** Since PIY will raise investment capital to produce albums, it will not need to invest its own assets into album production.



- **Risk:** Risk will be minimized in two ways—since PIY will have a minimal capital investment in each album, its risk will be minimized; also, since an artist will need a proven and invested fan base in order to produce an album, there will be a reasonable expectation that no album will fail catastrophically.
- **Marketing Expenses:** Given the high level of engagement and the communal nature of fan involvement, PIY expects viral marketing to be a major driver of sales, reducing the need for paid advertising and promotion. Marketing will be much stronger and more customer-driven thanks to the personal investment of the fan base. Every fan who invests will feel a personal interest in seeing the artist succeed. Some ‘superfans’ will likely make extraordinary effort to drive album sales. All of these actions will serve as free marketing, driving the artists’ revenue and PIY’s profitability.

In addition, PIY will have a unique value proposition to artists that will allow them greater control over their music and a higher share of their album sales revenues.

### 1.5.2. Competitive Challenges

Competitors maintaining existing business models will present many challenges. The first set of challenges will be in attracting artists to join the PIY label. Artists are largely drawn to labels based on their reputations and the money they are promising to spend on production; in the early stages, PIY will have no reputation and will not be promising any money toward record production, which will be a very foreign and uneasy concept to many artists.

The second set of challenges will be in drawing users to the investment community. PIY needs to appear to investors as a professional label to make sure they feel confident enough to make a payment on our website. This goal will mainly be achieved through great work on our website design with our web developer.

These first two challenges focus on PIY’s attempt to penetrate the industry. If penetration is achieved, competitors will be likely to respond, creating a new set of challenges. It is possible that major indie labels will launch their own versions of this model both to bands already on their labels and to unsigned bands. Given that these labels will have the advantages of established reputation and existing cash flows, their encroachment onto the PIY business model will be a threat. European competitors could also be willing to launch US operations. Given the expertise and capital they have developed from their experiences in Europe, they will be formidable competitors and it will be necessary for PIY to establish itself in this space before these competitors can gain a foothold. For this reason, it will be important for PIY to move quickly to generate network effects and establish a true first-mover advantage. PIY will need to become synonymous with fan-sponsored music before any other labels foray into the market.

## **2. Product description**

### **2.1. Overall Description**

Produce It Yourself brings a unique concept to the music industry: an online-operated label designed to turn fans into investors by raising money for its artists. The concept of PIY involves different steps described below.

#### **2.1.1. Artist Selection**

At the beginning of our operations we will need to find artists to be promoted on the day we launch the website. To do so, we will have to scout them by contacting management companies and representatives, attending concerts and following trends on social networks. We will focus on medium-sized bands with a solid fan base (at least 1000 fans). As soon as the website is launched, new artists will be able to fill an application online and we will select our pool of bands through these submissions.

Thanks to our website, bands will be able to directly upload their music and other relevant materials such as biography, videos and pictures. We will just filter the content to ensure that it matches our standards of quality. To garner trust in our investors, we need to control the quality of all material and particularly the recording quality of posted tracks, to keep the highest standards of professionalism. We know that many people would be reluctant to pay online if the website or its content did not look professional.

We will not act as a traditional label, since our roster will include many more artists than a traditional label would carry. We will let the fans decide which artists are best and should be produced. Though we plan on producing 10 bands for the first year, we will accept up to 100 bands on our website, split in 6 music genres (Rock, Country, Rap/Hip Hop, R&B, Pop and Blues/Jazz). Including too many bands could prevent us from raising enough money to produce 10 bands, as the investments would be spread across artists. On the other hand, we need a critical mass of bands in order to offer an adequate choice to the fan-investors and to drive more traffic on the website.

#### **2.1.2. Artist Funding**

As soon as we accept the artist's submission, we will post all the materials they have submitted on our website. Each artist will have a dedicated space on the website on which they will be required to blog and post frequent updates. Our integrated search engine will allow investors to look for artists that best match their musical tastes.

The fans will be able to invest in the artist they like best or believe will be profitable. To do so they will buy one or several shares of the artist, each share costing \$10. If they invest at least \$250 they have a gold account giving them access to exclusive content such as video-chat with artists, pre-sale tickets etc. If they invest at least \$1,000 they become platinum members and have even more access to the artists.

Benefits include access to the studio during the recording process, they will have V.I.P. backstage passes for shows, etc.

The funding process ends as soon as the band reaches its pre-determined threshold (\$30,000, \$60,000 or \$100,000 depending on needs and current notoriety).

### **2.1.3 Artist Production**

We will actually start working on the production process before the artist is fully funded in order to anticipate its needs, but without spending any substantial money yet. This will allow us to get in touch with the third parties involved in the production process such as the recording studio. The time we start this pre-production step will depend on how fast the money is raised and the specific requirements needed by the artist.

Once the threshold is reached the production process effectively begins. The first step will be to meet with the band to sign all the legal documents securing our relationship. The contractual relationship will be handled by the law firm Brown Rudnick in Boston. We will also define a strategy and a specific budget along with the artist to decide how to use the money raised.

Next, we will book a studio. We will try to accommodate artists' needs as much as we can but it will be limited by the budget allocated to the recording costs. While the artist records the album we will work with a tour agency to build a tour to support the album release in a limited area or in the whole United States depending on the offer chosen by the artist and on the cost allocation decided.

Fans will be involved in the production process through online surveys asking them to give their point of view on topic such as the artwork, different versions of a song, etc.... As with a corporation, one share will mean one vote. This is a way to involve fans in the production process. In all cases, fans will have to choose between different options submitted by the artists in order to preserve artistic freedom. This step is a real asset for PIY to attract investors. Contributors will also have their name in the album sleeve as co-producers. This is a unique chance for most of the people to be really involved in the production of an artist.

PIY will also play a big role all along the production process with a close monitoring of the bands activities and milestones achieved. PIY will assign a band manager to each band who will work as a project manager. The band manager will be in charge of overseeing the whole production process and verify that the band performs its obligation to record a full-length album that meets our quality standards in the time frame allocated. The band manager will also make sure artists uphold our company values and image, using contractual agreements, bonuses and withheld earnings.

### **2.1.4. Royalties**

Every party (Artist, Fans, PIY) will receive one third of the net income generated by album sales and concerts revenues. Nevertheless as co-producers, the fans will recoup their investment first. The production costs are traditionally seen as an

advance to the artist. The artists only begin to profit once the fans have first been reimbursed of their initial investment.

For legal and accounting purposes we will create a specific company (hereafter ArtCo) for each band we produce. PIY (HoldCo), the band and the investors will each own a third of the ArtCo. Then every ArtCo will distribute all of its revenue through dividends to its shareholders.

The share allocated to the fans will be divided between them in accordance with the number of shares they hold.

## **2.2. The first American music community**

PIY is the first American music community that brings artists and fans together. We provide a unique tool for artists to be in touch with their fan base and to expand their audience in order to raise even more money. On the other hand, fans are rewarded for backing the bands they like and they earn “bragging rights” in addition to a potentially high return on investment. Each band will be asked to maintain a blog designed especially for its investors. They will have to describe the evolution of the production process so that investors don’t feel ignored after giving their money. Besides the community created between an artist and its fans, PIY will also create a wider community made of all the users of our website. Thanks to our unique algorithm designed to group artists and fans with each other we will expand the fan base of our artists even further. Artists will be linked into the fan bases of similar artists from across the country.

Artists and fans will also be able to interact in discussion forums on every music related topic they are interested in and especially on the ways to shape the future of the music industry. This will be a very powerful source of information for PIY in order to remain at the forefront of this new music era.

## **2.3. Intellectual Property Strategy**

### **2.3.1. Produce-It-Yourself**

Our service itself is solely based on an idea and as such cannot be protected by a patent. Nevertheless, so as to avoid competition, we will patent our unique algorithms used to bring fans and artists together. We will also protect our applications designed for mobile devices.

Produce It Yourself is still a project name and as soon as we are fixed on the company name we will register it as a trademark. This will also include the logo and a tagline.

### **2.3.2. Masters and Copyrights**

As producers we will be granted the ownership of the masters from the recording sessions of our artists. This will allow us to control the distribution and this is also a valuable asset to monetize if a successful artist decides to leave PIY for another record label.

PIY (Mother company) will also directly own 50% of our artists' copyrights. This is the maximum stake we can have in the copyrights ownership since a songwriter cannot have less than 50% of the rights. This ownership will provide us an important revenue stream that will not be shared with the investors:

- Mechanical royalties when the master is reproduced. This will also lower our cost to reproduce it since the Artist Company will have to give us half of the copyrights monies to reproduce the CDs
- Performance royalties when a song is performed or broadcasted live
- Broadcasting or Synchronization royalties when a song is reproduced onto a television program, film, video, commercial, radio, or even an 800 number phone message
- Print royalties based on sales of printed sheet music (not included in the financials since it is usually residual).

## **2.4. Development Resources**

The development of our company will be mostly based on the success of our website. As such, it is very important for PIY to have a website that looks highly professional, and which allows a number of functionalities while being very intuitive for new users.

Being aware of the crucial importance of this tool, we plan to outsource the development of the website to professional web-designers. As soon as the website is up and running, we will have to hire a website manager to take care of the website operations daily. This person should have a background combining technical skills and creativity skills. He will take care of our artist and investors database and implement design changes. He would also be in charge of creating new pages when a new band is selected to be promoted on our website. We plan on creating a unique web environment for each band, reflecting its own taste and feelings. We will nonetheless have a high level of standardization for the content even if the graphic design will differ from band to band. Every artist's page will also include links to their MySpace page, Facebook profile and any other official website.

We will need to define a graphic chart for PIY and a logo. The website needs to include several functionalities such as:

- Payment tool for investors
- Audio player
- Video player
- Artist pages
- Forum for fans
- Blogging tool for artists

The website would be divided into several sections: one to present the artists, one to present the investors in which they could interact as in a social network, one to explain how PIY works, one to present PIY's team.

On the homepage, visitors will be able to see a sample of our artists and we will stream songs from our most popular acts. We will also have a space dedicated to a chart of our top ten artists (i.e.: the ones who have raised the largest amount of money and the ones who have the most songs played). Finally we will briefly explain our concept and provide a link for investors and another one for artists. It is very important that the front page conveys the idea of a community and that visitors can see at the first glance that the idea is to produce bands. They also should be able to listen to music easily from the front page thanks to an audio player link.

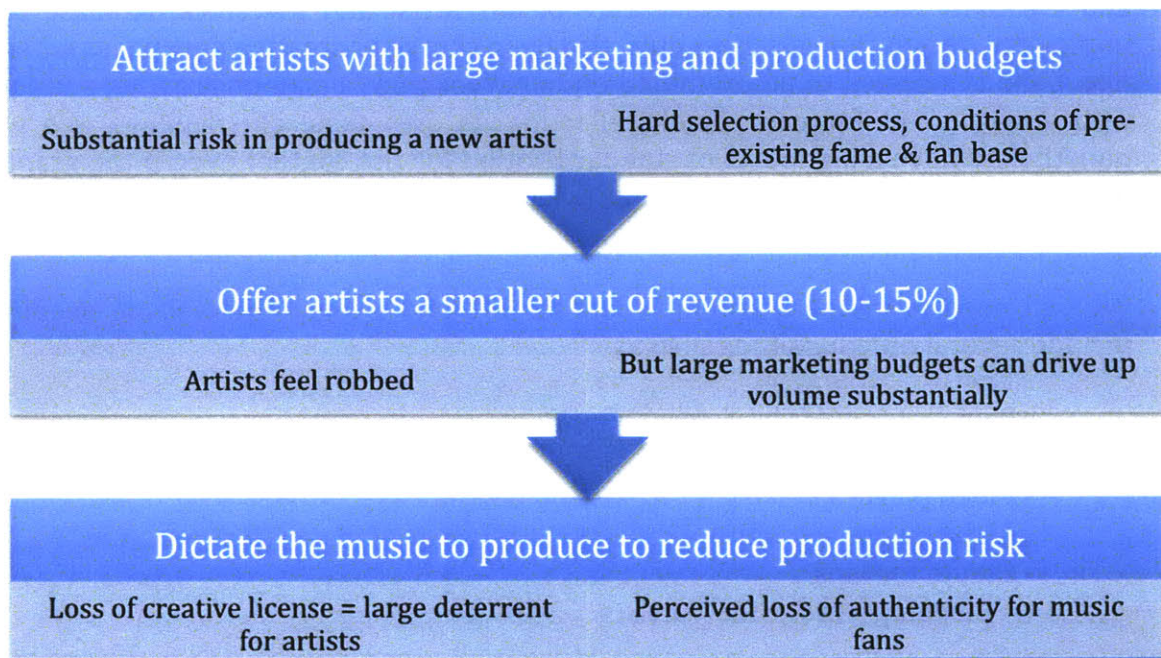
The development of our concept will also be very dependent of our capacity to drive traffic to our website. This is why a member of our team would be responsible for the inbound marketing strategy to bring the highest traffic at the lowest cost (see Marketing section).

### 3. Marketing Strategy

#### 3.1. Overall Strategy

##### 3.1.1 Artists

Major labels production process:



Independent labels, on the other hand, operate on much smaller budgets and are not able to offer the large marketing budget of the majors. Thus, to attract artists, independent labels offer a larger cut of the revenue since they cannot typically provide the volume that a major can. Independent labels attract artists by operating in niche markets in which they are well known, and by offering artists more creative freedom.

PIY is able to offer features from both independent and major labels by leveraging web techniques and social marketing tactics. We will focus on the use of social media marketing, allowing us to spread the word about our pool of artists very fast without having to spend large amounts of money in marketing. This strategy will be supported by our pool of investors willing to increase the awareness about the artists they produced. Artists will be attracted to PIY because we give them a largest revenue share than anywhere else (33%), they keep their artistic freedom, and they can reach a national exposure.

For the beginning of our operations we will scout artists with significant experience and a relevant fan base, to be able to drive more traffic from potential investors. Once again we will be able to use the social networks to detect artists that match our profile. For instance, MySpace is still a great tool for artists and we can easily know if an artist drives a lot of fans thanks to the number of pages viewed. We will also scout artists in a more traditional way attending their concerts, the best time to assess their potential. Once the website is launched with a few artists we will create a specific web page for artists allowing them to submit an application for PIY. We will then be able to choose among all the submissions we receive which artists best fit our model. Then we will let the fans decide which artist deserves to be produced.

### **3.1.2. Investors**

To market effectively to investors, we target to music enthusiasts and mostly people between 18 and 45. We will focus on college students and young professionals less risk adverse and more likely to embark on this new adventure. We would focus on high school students to spread the word about PIY, but they would not be allowed to invest. Indeed high school students have a great impact on today's society with the way they know how to relate new information and new concepts notably thanks to social networks. They could also be a great mean to market PIY's concept to their parents. Music forums and bulletin boards will also be effective tools to reach artists' fans. Furthermore, artists themselves will help us to market our business model to their own fans who are the most likely to support the band.

Our main target is a young professional or student very interested in music and in gaming. He would love to be involved in the production process of an artist but would also be thrilled by the gambling component of PIY. The personal nature of music allows our investors to be engaged and benefit from a mutual interest in succeeding.

PIY's marketing will heavily rely upon the use of inbound marketing techniques. We will create Facebook fan page, a Twitter account and a blog for PIY and each artist who already has gathered some investment. According to inbound marketing expert

Brian Halligan, CEO of Hubspot, building upon the infrastructure of MySpace can effectively generate additional leads for PIY musicians. This will be accomplished by creating applications that will allow users to discuss and share favorite artists, and tools that will redirect friends to the PIY site. These will be available for artists and investors alike, to integrate into their social networking pages. Creating a wealth of user-generated content will intrigue friends to visit, and help search engines learn about the artists. Moreover, integration of YouTube videos into MySpace and Facebook pages, and cross references to more focused music sites has the dual effect of generating interest in the artist, and converting more casual users to sophisticated users likely to invest.

In the physical world, initial investors will be drawn from a pool of local fans that a band has independently generated through friends and local performances. Once published on our site, their fan base is allowed to expand, through the network of similar bands with similar fans from across the country. This cross-pollination of fans is proliferated by a PIY search algorithm to help artists and fans find music that best suits their tastes.

### 3.1.3. Music Buyers

The average buyer spends \$100 annually on music purchases. Over 39% of the US population now pays for digital downloads, with 56% under the age of 35. These users spend 10.4 hours per week online, with 1.4 hours devoted to online video. Only half of music sales is from offline physical media, and this number is shrinking rapidly. We will focus on selling digital content because of lower distribution costs.

Aficionados account for 16% of online adults, and include those who actively participate in social networking to learn about or discuss music. Approximately 33% of these users influence the musical decision of their friends, making them ideal targets for viral marketing campaigns. These aficionados spend half their time listening to music on a PC or mp3 player, and almost half as much time as casual listeners on the radio. Because 10% of aficionados discover new music through blogs, compared with only 3% of casual listeners, blogging is vital, and we will help funded artists with effective blogging to capitalize on the aficionados segment.

Artist marketing will be split into online and offline marketing. Initial offline marketing will be restricted to the local geographical region of the artist. Successfully raising funds through PIY will combine with the initial artist fan base to help with local bookings.

Online marketing will be targeted broadly across the United States through internet radio and music stations. Online tracking and conversion tools are available from Google Analytics and allow PIY to determine geographical distribution of the artists biggest fans. This will allow PIY to effectively focus marketing capital to key regions, and schedule tours accordingly. Furthermore, similar geographical overlap of multiple artists will also allow PIY to schedule tours together and effectively cross-pollinate fans from different groups. According to a professor from Berklee's School of Music, Motown bands did this quite successfully. We plan to use online analytics



to be more successful at grouping together musicians, adding additional value unavailable to self-managed artists.

## 3.2. Production Pricing

### 3.2.1. Adapted offers

Every band has different needs. This is why we choose to adapt ourselves by offering both several thresholds and different possibilities to spend the money raised.

After meeting with several bands we have learned that some of them have their own professional studios and are just looking for a greater exposure and a better distribution network. Having a smaller threshold can also be useful for our company in order to test the waters for newer bands and not spend too much money at the beginning. Thus, if a band choose the first option, it will be able to raise a larger amount of money later on to produce a full-length album and to receive a larger support for marketing and touring.

<b>\$30,000 (2 options)</b>	<ul style="list-style-type: none"><li>• Record an E.P (5 tracks) &amp; receive marketing and tour support regionally</li><li>• Use the funds only for marketing &amp; tour if the band already has a good quality album</li></ul>
<b>\$60,000</b>	<ul style="list-style-type: none"><li>• One full-length album</li><li>• One music video</li><li>• Marketing &amp; tour support nationally</li></ul>
<b>at least \$100,000</b>	<ul style="list-style-type: none"><li>• Bands already established willing to use PIY's services to skip the traditional label</li><li>• Use of funds determined in collaboration with the band</li></ul>

### 3.2.2. Costs justification

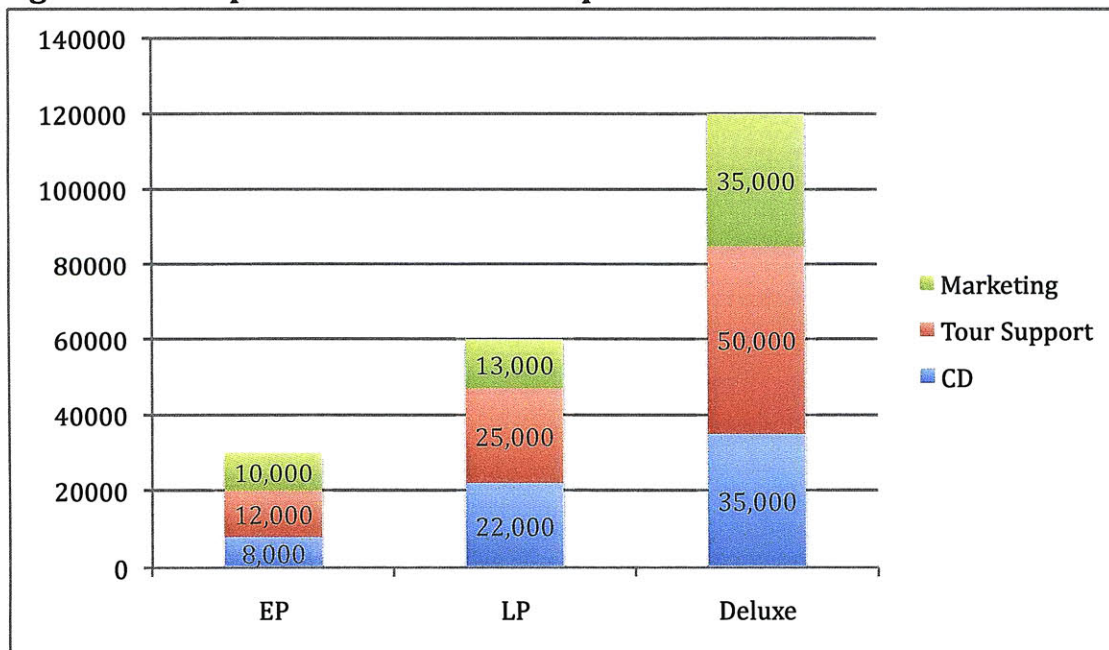
In order to come up with realistic figures we are using the rates of a real studio called the Blasting Room located in Fort Collins, Colorado. This renowned studio has produced many artists mostly in the rock gender. Here is a table detailing the various costs incurred by the production.

**Figure 7 - Production Costs at the Blasting Room Studios in USD:**

Expenses	Rate per Day (10 hours)	EP (5 days)	LP (15 days)
Studio	600	3,000	9,000
Engineer	450	2,250	6,750
Staff	150	750	2,250
Editing	150	450 <sup>(1)</sup>	750 <sup>(3)</sup>
Mixing	225	675 <sup>(1)</sup>	1,125 <sup>(3)</sup>
Extra	-	325	1,325
Mastering	-	550 <sup>(2)</sup>	800 <sup>(2)</sup>
<b>Total</b>	<b>1,575</b>	<b>8,000</b>	<b>22,000</b>

(1)For 3 days (2)Flat rate fee (3)For 5 days

**Figure 8 - Example of Costs Breakdown per offer in USD:**



### 3.3. Product Distribution and Pricing

As discussed before, in order to anticipate the market trends and control distribution costs, PIY will focus its distribution efforts on the online digital channel.

To reach the major Digital music retailers we will first use the services of TuneCore. TuneCore ([www.tunecore.com](http://www.tunecore.com)) is a respected provider of outsourced digital music distribution. Through TuneCore, we will be able to quickly offer our artists' work through the major digital channels. Once we have gained scale and visibility, we will be able to distribute our products directly on these websites without any middlemen. As for the music sold on our own website we will not bear any cost. Thanks to the TuneCore services our products will be available for download on 17 platforms and particularly iTunes (7 Stores)

- Amazon MP3
- Napster
- MusicNet
- eMusic
- Sony Connect
- Nokia
- GroupieTunes/imvu/SonicTap
- Lala.com
- ShockHound
- Amie Street

TuneCore's fees are fixed based on the number of tracks distributed and the number of storefronts utilized, plus a yearly subscription. There is no per-unit cost for the TuneCore service, so every album sold drives down the per-unit cost of the service. The following tables details the actual figures of the product's pricing.

**Figure 9 - TuneCore Services Pricing in USD:**

Expenses	EP	LP
Yearly subscription	19.98	19.98
Price per song	0.99 x 5 <sup>(1)</sup>	0.99 x 14 <sup>(3)</sup>
Price per store	0.99 x 15 <sup>(2)</sup>	0.99 x 15
<b>Total</b>	<b>39.78</b>	<b>48.69</b>

(1) We assume an average of 5 tracks per EP

(2) 2 of the iTunes stores work together

(3) We assume a number of 14 tracks per LP

Spreading this cost over a base of thousands of album sales reduces it to nearly nothing. Per-unit costs are incurred, however, in the digital retail storefronts (e.g., iTunes). These storefronts retain 30% of all revenue. The retail price of a digital LP is fixed by most of the platforms at \$9.99 and the retail price of a single song is \$0.99, so retailers retain \$3.00 of every album sale and \$0.30 of every individual song sale.

Since our primary offer will feature one full-length album we used this model for the following table. Furthermore, given that TuneCore charges a flat rate fee to distribute the products we used our goal of 15,000 digital albums sold per artist<sup>2</sup> to calculate our gross margin per product. Most of the digital sales come from single tracks sales but for simplicity we use a full-length album for our pricing model.

**Figure 10 - Pricing Table in USD and Gross Margin per product:**

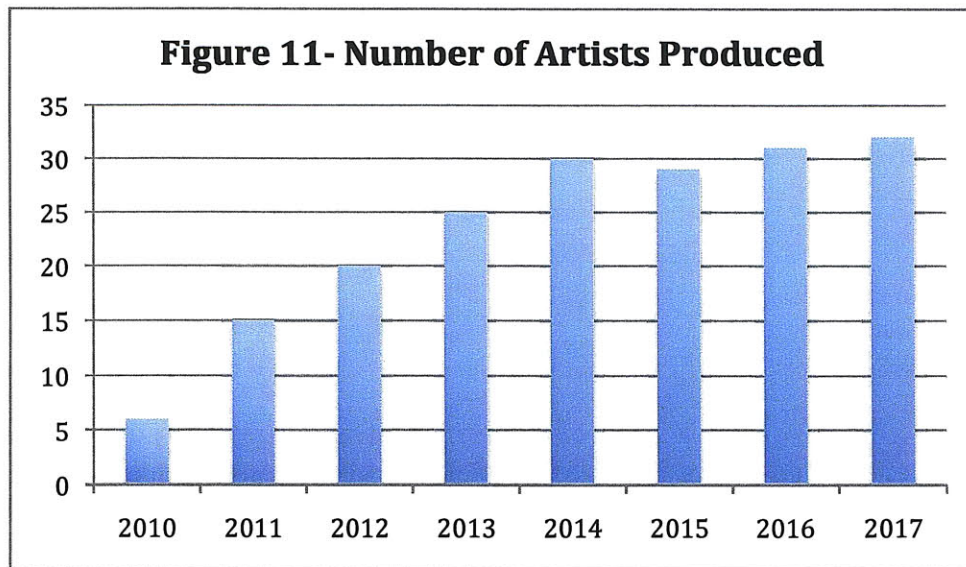
Retail Price	9.99
TuneCore fee per album	0.001623
Digital Retailer fee <sup>(1)</sup>	3
Revenue	6.99
<b>Gross Margin</b>	<b>69.95%</b>

(1) Since fees vary slightly between the various retailers we used the fees charged by the major player: iTunes.

### 3.4. Sales Projections

#### 3.4.1. Number of Artists Produced

We plan on producing an increasing number of artists during the first 5 years. The starting year we plan to fund 12 artists and to produce 6 of them. The delta between the amount of artists funded and produced can be explained by the fact that we need approximately 3 months to produce the album of an artist. The rather low number of artists produced will allow us to focus on every single one of them to ensure their success. Beginning in year 5 we will produce an average of 30 artists per year thanks to a larger staff and a greater experience.



<sup>2</sup> Calculation for a full-length album, other sales come from single track sales

### **3.4.2. Number of Albums Sold**

The music industry is hard to anticipate and the sales forecasts are highly uncertain. Nevertheless, we will try to avoid this uncertainty by choosing bands with a significant fan base. The essence of our model will also help us to reach greater figures since we need several hundreds of people (a rather large panel) to produce the artist. Thus, it is more likely that an artist will be successful than with a more discretionary business model based on assumptions of a single person: the traditional A&R.

As each artist will not sell the same amount of albums we anticipate an average of 20,000 units per artist for the first year. Our goal is also to manage to sell 100,000 units for one of our artist every year. Of course this goal is not limited and we will try to reach even greater figures. As we will gain a greater exposure and larger bands, we plan to reach an average of 40,000 units per artist in year 6. We will also be able to sell more units as previously released albums will keep on selling.

### **3.4.3. Concerts**

As shown in the financial statements, the revenues generated by concerts performed by our artists will also be split between the three parties. We will act as an agent and producer providing some cash for tour support. However, we will not take care ourselves of the whole touring process. This area is very specific and complicated. We will thus outsource the touring to an experimented touring agency. We anticipate we will be able to provide about a third of the touring support needed by our artists. This is why we will also take a third of the revenues generated by the concerts. This amount will be equally split between the artist, the investors and PIY as we do it for the album sales.

We chose to include in our contract with the artists a minimum of 100 shows per year. Though this figure might seem high, it is very reasonable. Actually the concerts will be part of a tour right after the album release date. A 4-month tour is very usual for bands notably when this can represent the largest part of their income. It is not rare that a band trying to work hard to reach its audience tours all year long. This requirement will also help us to ensure the marketing of the artist since playing shows remain the most efficient marketing for a long-term career.

As for the albums sales, it is hard to anticipate the exact figures for the concerts' revenues. Nevertheless we estimate that our artists should be able to generate \$2,000 per show on average for the first year, \$3,000 for the second year, \$4,000 for the third year and \$5,000 for the following years.

## **3.5. Sales Force**

Being a B2C company in the music industry, our sales force will be limited. Our products will be available for purchase through the major retailers (Amazon.com, iTunes) that anyone can operate on. The main task of the sales force will be to open and run our own physical store on Amazon.com and to handle the direct distribution through our website. Most of the work dedicated to increase our sales

will be focused on the marketing of the artists and our services in order to create a buzz around this new concept.

In the first year, in order to keep our costs low, our sales force would consist of two interns whose work would consist of opening our stores on our retailers' websites, managing the upload of the digital albums, reporting the sales for each artist to the top management and the artist manager. Beginning in year 2, we would hire two sales representatives with a significant experience of online distribution in the music industry for our two axes of distribution:

- 1 for the US digital market
- 1 for the international digital market

The sales objectives on the long run are to maintain our average of 40,000 albums sold per artist. This is obviously an average and the sales objectives will be reassessed depending on each artist and the evolution of its career.

Given the specificities of our environment, our sales people would be remunerated only with a fixed income, since they cannot be as accountable for the increase in sales as the marketing staff is.

## 4. Manufacturing and Logistics

### 4.1. Production and Distribution

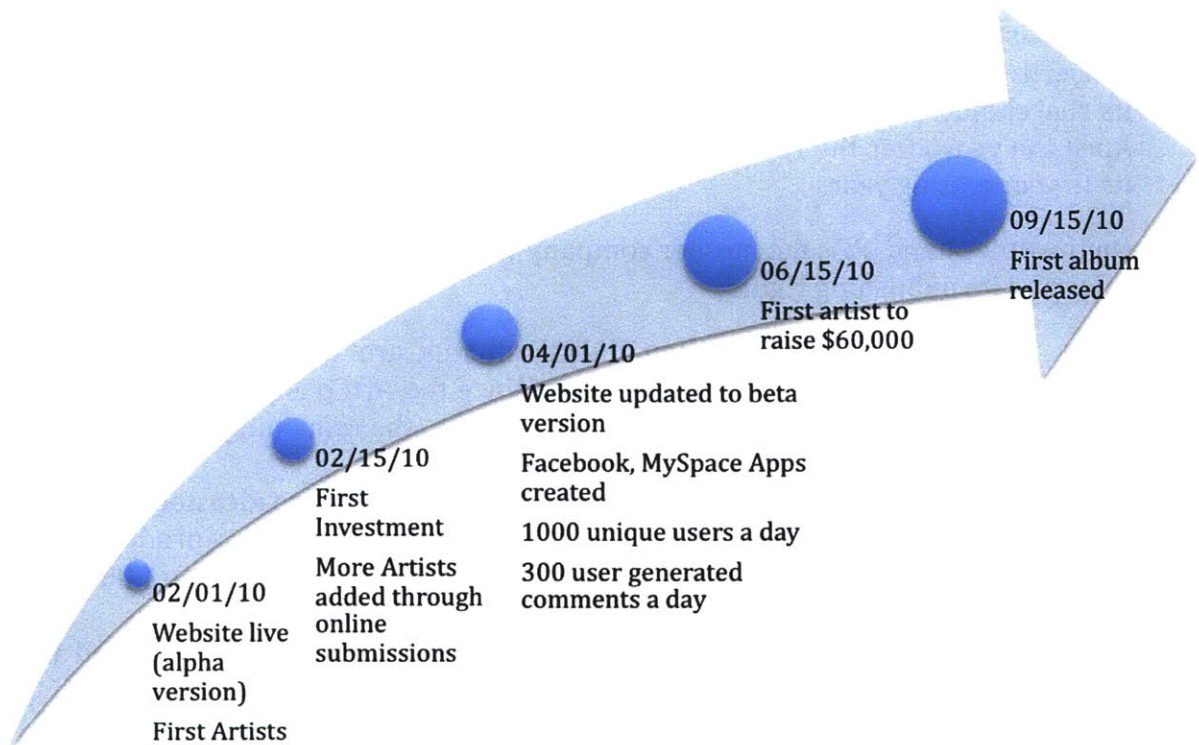
Considering the decline in physical sales and the cost of manufacturing and distributing a CD, we decide to focus our distribution on digital sales. Indeed, physical sales would lower our margin because of the numerous intermediaries we would need to go through before reaching a retailer. We would also need a warehouse to keep the stock. With digital sales, we only need one intermediary and there is no physical support to manufacture or to stock.

The first step is for the artists to record a "master" in the recording studio. This is the original recording of the artist's work and it will remain PIY's property.

As for the **digital release** of the album, as explained below in the sales section we plan to distribute on iTunes and other major digital content providers through TuneCore. We will just need to upload the digital files from the master onto our TuneCore account so that TuneCore can provide our files to every digital retailer.

The artwork of the album would be created by a marketing agency specialized in the music industry. We will work to keep this cost as low as possible.

## 4.2. Timeline



## 5. Financials and Ownership

### 5.1. Company Structuring

Produce-It-Yourself will be incorporated as a C Corporation. Each of the bands will have to incorporate as a separate entity. Our current plan is that each band will incorporate either as a C Corporation or a Limited Partnership (ArtCo), with ownership split 33% to Produce-It-Yourself, 33% to the band members, 33% to the fan-investors. However, if we are not able to find a mechanism to enable fans to invest for equity due to securities regulations, this structure might change. Our legal team is investigating options including considering fan investments as contingent-interest debt, as charitable donations, or as purchases of merchandising considerations.

The Artist companies will receive the revenue generated by the album sales and the concerts. Then each Artist company will distribute all of its revenue as dividend to its shareholders (PIY, the band, the fan-vestors). Since dividends are distributed in April the year after the revenue is generated PIY does not have a lot of revenues in its first operating year.

On the other hand, PIY, the mother company will receive the revenues from the ad sales and its publishing rights:

- Mechanical royalties when digital albums are created from the master recording. This will lowers our cost since the ArtCo is paying PIY half of the copyrights monies to reproduce the albums (the remaining half being paid to the songwriters)
- Performance royalties when a song is performed or broadcasted live
- Broadcasting or Synchronization royalties when a song is reproduced onto a television program, film, video, commercial, radio, or even an 800 number phone message
- Print royalties based on sales of printed sheet music (not included in the financials since it is usually residual).



## 5.2. Financial Summary

<b>PIY Income Statement Summary</b>			
	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
<b>Revenue</b>			
Performance & Broadcasting Copyrights Band FY 2010	13 647	6 824	4 550
Performance & Broadcasting Copyrights Band FY 2011		54 588	27 294
Performance & Broadcasting Copyrights Band FY 2012	-	-	63 686
Mechanical Copyrights	65 520	262 080	305 760
Ad Sales	11 102	25 602	31 120
<b>Other Revenue</b>			
ArtCo Aggregate Revenue		1 266 413	7 498 753
Dividend		422 138	2 499 584
<b>Total Revenue</b>	<b>90 269</b>	<b>771 231</b>	<b>2 931 993</b>
<b>Expenses</b>			
Payroll(1)	300 000	511 000	652 220
Rent	20 000	36 000	44 000
Accounting fees	7 500	10 000	10 000
Legal Fees	12 000	12 000	12 000
Telephone Plans	6 000	10 800	13 200
Travel	12 000	12 000	12 000
Depreciation	6 667	8 333	10 000
Other expenses	12 000	7 200	8 800
<b>Total Expenses</b>	<b>376 167</b>	<b>607 333</b>	<b>762 220</b>
<b>Income before Income Taxes</b>	<b>(285 899)</b>	<b>163 898</b>	<b>2 169 773</b>
<b>Income Taxes</b>	<b>0</b>	<b>57 364</b>	<b>759 421</b>
<b>Net Income</b>	<b>(285 899)</b>	<b>106 534</b>	<b>1 410 353</b>

<b>PIY Cash Flow Statement Summary</b>			
	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
<b>Cash Flow from Operating Activities</b>			
Income before Income Taxes	(285 899)	163 898	2 169 773
Income Taxes	0	(57 364)	(759 421)
Adjustments to reconcile net income to net cash		0	0
Increase in accounts receivable	(13 647)	(17 059)	(17 058)
Increase in Income Taxes payable		57 364	702 057
Depreciation Expense	6 667	8 333	10 000
<b>Net Cash Provided By Operating Activities</b>	<b>(292 879)</b>	<b>155 172</b>	<b>2 105 351</b>
<b>Cash Flow from Investing Activities</b>			
Purchase of Equipment	(20 000)	(5 000)	(5 000)
Acquisition of Trademark	(5 000)		
Subsidiaries	(6 000)	(20 000)	(20 000)
Acquisition of Copyrights	(6 000)	(20 000)	(20 000)
<b>Net Cash Used By Investing Activities</b>	<b>(37 000)</b>	<b>(45 000)</b>	<b>(45 000)</b>
<b>Cash Flow from Financing Activities</b>			
Equity (founders)	50 000		
Equity (other investors)	400 000		
<b>Net Cash Provided By Financing Activities</b>	<b>450 000</b>		
<b>Net Increase In Cash</b>	<b>120 122</b>	<b>110 172</b>	<b>2 060 351</b>
<b>Cash At Beginning Of The Period</b>	<b>0</b>	<b>120 122</b>	<b>230 294</b>
<b>Cash At End Of The Period</b>	<b>120 122</b>	<b>230 294</b>	<b>2 290 646</b>

## PIY Balance Sheet

<b>Assets</b>	<b>June 2010</b>	<b>December 2010</b>	<b>December 2011</b>	<b>December 2012</b>	<b>December 2013</b>
<b>Current Assets</b>					
Cash	245 427	120 122	230 294	2 290 646	4 755 428
Accounts receivable	0	13 647	30 706	47 765	72 217
Inventory	0	0	0	0	0
<b>Total current assets</b>	<b>245 427</b>	<b>133 769</b>	<b>261 000</b>	<b>2 338 411</b>	<b>4 827 645</b>
<b>Fixed (Long-Term) Assets</b>					
Long-term investments	0	6 000	26 000	46 000	71 000
Property, plant, and equipment (Less accumulated depreciation)	20 000 (3 333)	20 000 (6 667)	25 000 (15 000)	30 000 (25 000)	55 000 (34 000)
Intangible assets					
Trademark	5 000	5 000	5 000	5 000	5 000
Copyrights	0	6 000	26 000	46 000	71 000
<b>Total fixed assets</b>	<b>21 667</b>	<b>30 333</b>	<b>67 000</b>	<b>102 000</b>	<b>168 000</b>
<b>Other Assets</b>					
Deferred income tax	0	0	0	0	0
<b>Total Other Assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Assets</b>	<b>267 094</b>	<b>164 102</b>	<b>328 000</b>	<b>2 440 411</b>	<b>4 995 645</b>
<b>Liabilities and Owner's Equity</b>					
<b>Current Liabilities</b>					
Accounts payable					
Income taxes payable	0	0	57 364	759 421	1 335 129
Accrued salaries and wages	0	0	0	0	0
Unearned revenue	0	0	0	0	0
<b>Total current liabilities</b>	<b>0</b>	<b>0</b>	<b>57 364</b>	<b>759 421</b>	<b>1 335 129</b>
<b>Long-Term Liabilities</b>					
Long-term debt	0	0	0	0	0
Deferred income tax	0	0	0	0	0
<b>Total long-term liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Owner's Equity</b>					
Owner's investment	50 000	50 000	50 000	50 000	50 000
Other investment	400 000	400 000	400 000	400 000	400 000
Retained earnings	(182 906)	(285 899)	(179 365)	1 230 990	3 210 516
<b>Total owner's equity</b>	<b>267 094</b>	<b>164 102</b>	<b>270 636</b>	<b>1 680 990</b>	<b>3 660 516</b>
<b>Total Liabilities and Owner's Equity</b>	<b>267 094</b>	<b>164 102</b>	<b>328 000</b>	<b>2 440 411</b>	<b>4 995 645</b>

## **5.3. Financial Statements and Assumptions**

### **5.3.1. Balance Sheet**

As stated previously, PIY is a holding company that will have a stake in each of the Artists companies. In order to enforce GAAP's cost principle and conservatism we have evaluated our stake in the subsidiaries for their acquisition costs meaning in our case, the legal costs to settle each company. The same rules apply for the copyrights valuation whose market value is actually higher than the one stated in the balance sheet, which is only the costs borne to register the copyrights.

Moreover PIY does not have any inventory since we will focus on digital sales. Similarly PIY will not produce directly the artists so it does not have any account payable. Only the Artists companies will have some accounts payable. As for the salaries, they will be paid on a monthly basis so they will not appear as salaries payable in the balance sheet.

### **5.3.2. Income Statements**

#### **Artist Companies Statements**

There will be as many ArtCo as bands produced and the aggregate revenue appears in PIY's income statements to calculate our share of dividends.

#### **Publishing Revenues**

As described in the company structuring section, PIY will also receive the revenue from the advertising and from its publishing rights. The publishing rights figures are based on the year a band is produced. We assume that the bands produced in 2011 will generate more rights than the ones produced in 2010 and so forth. On the other hand, a band produced in 2010 will keep on generating publishing rights in the following years but we assume that those figures will decline. This can be explained by the fact that a band usually reaches a peak following the release of its album.

#### **Employees**

For the first year of PIY's operations the five team-members will be the only employees of the company. We will all be involved in various operations of PIY but we will also have specific roles:

- Helene will act as CEO and will oversee the legal and financial matters
- Guillaume will mostly act as an artist manager and will oversee the production process as a project manager
- Ben will manage PIY's overall strategy and will also be closely involved with the marketing strategy
- Eehern will manage PIY's online marketing strategy
- Justin will design the website and act as a website manager

PIY Income Statement FY 2010													
	M01	M02	M03	M04	M05	M06	M07	M08	M09	M10	M11	M12	Total
<b>Revenue</b>													
Performance & Broadcasting Copyrights												13 647	13 647
Mechanical Copyrights										65 520			65 520
Pageviews per day	100	250	500	2 000	5 000	8 000	12 000	15 000	17 500	20 000	21 000	22 000	-
Ad Sales	9	23	45	180	450	720	1 080	1 350	1 575	1 800	1 890	1 980	11 102
<b>Other Revenue</b>													
ArtCo Aggregate Revenue													
Dividend													
<b>Total Revenue</b>	9	23	45	180	450	720	1 080	1 350	1 575	67 320	1 890	15 627	90 269
<b>Expenses</b>													
Payroll	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	300 000
Rent	1 667	1 667	1 667	1 667	1 667	1 667	1 667	1 667	1 667	1 667	1 667	1 667	20 000
Accounting fees												7 500	7 500
Legal Fees	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	12 000
Telephone Plans	500	500	500	500	500	500	500	500	500	500	500	500	6 000
Travel	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	12 000
Depreciation	556	556	556	556	556	556	556	556	556	556	556	556	6 667
Other expenses	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	12 000
<b>Total Expenses</b>	30 722	30 722	30 722	30 722	30 722	30 722	30 722	30 722	30 722	30 722	30 722	38 222	376 167
<b>Total</b>	(30 713)	(30 700)	(30 677)	(30 542)	(30 272)	(30 002)	(29 642)	(29 372)	(29 147)	36 598	(28 832)	(22 595)	(285 899)

Then, beginning in year two we will hire more employees with greater knowledge and experience of the music industry:

- In 2011, we will hire an artist manager, a website manager, a VP marketing and a controller
- In 2012, we will hire another artist manager and a VP finance
- In 2013, we will hire a CEO with great knowledge of the music industry and a third artist manager
- In 2014, we will hire a media marketing manager and a fourth artist manager. We also anticipate that only 3 of the original founders will still be working with PIY.

#### **Taxes**

To calculate the taxes due by PIY we used a 35% tax rate for all of our revenues. Nevertheless we believe that we could benefit from lower rates on the dividends we receive from our subsidiaries. Thus the effective taxes paid should be smaller than what is stated in the income statements and our net income should correlatively be higher. Moreover we should have a tax credit for the losses pertaining to FY 2010.

#### **Breakeven Point**

Thanks to our business model and the few costs we have to bear, PIY will reach its breakeven point in 2012 the third year of its operations.

<b>PIY Income Statement FY 2011</b>					
	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>	<b>Total</b>
<b>Revenue</b>					
Performance & Broadcasting Copyrights Band FY 2010	1 706	1 706	1 706	1 706	6 824
Performance & Broadcasting Copyrights Band FY 2011	13 647	13 647	13 647	13 647	54 588
Mechanical Copyrights	65 520	65 520	65 520	65 520	262 080
Pageviews per day	22 000	23 100	24 255	25 468	-
Ad Sales	5 940	6 237	6 549	6 876	25 602
<b>Other Revenue</b>					
ArtCo Aggregate Revenue		1 266 413			1 266 413
Dividend		422 138			422 138
<b>Total Revenue</b>	<b>86 813</b>	<b>509 247</b>	<b>87 422</b>	<b>87 749</b>	<b>771 231</b>
<b>Expenses</b>					
Payroll	127 750	127 750	127 750	127 750	511 000
Rent	9 000	9 000	9 000	9 000	36 000
Accounting fees				10 000	10 000
Legal Fees	3 000	3 000	3 000	3 000	12 000
Telephone Plans	2 700	2 700	2 700	2 700	10 800
Travel	3 000	3 000	3 000	3 000	12 000
Depreciation	2 083	2 083	2 083	2 083	8 333
Other expenses	1 800	1 800	1 800	1 800	7 200
<b>Total Expenses</b>	<b>149 333</b>	<b>149 333</b>	<b>149 333</b>	<b>159 333</b>	<b>607 333</b>
<b>Income before Income Taxes</b>	<b>(62 520)</b>	<b>359 914</b>	<b>(61 912)</b>	<b>(71 584)</b>	<b>163 898</b>
<b>Income Taxes</b>					<b>57 364</b>
<b>Net Income</b>					<b>106 534</b>

<b>PIY Income Statement FY 2012</b>					
	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>	<b>Total</b>
<b>Revenue</b>					
Performance & Broadcasting Copyrights Band FY 2010	1 137	1 137	1 137	1 137	4 550
Performance & Broadcasting Copyrights Band FY 2011	6 824	6 824	6 824	6 824	27 294
Performance & Broadcasting Copyrights Band FY 2012	15 922	15 922	15 922	15 922	63 686
Mechanical Copyrights	76 440	76 440	76 440	76 440	305 760
Pageviews per day	26 741	28 078	29 482	30 956	-
Ad Sales	7 220	7 581	7 960	8 358	31 120
<b>Other Revenue</b>					
ArtCo Aggregate Revenue		7 498 753			7 498 753
Dividend		2 499 584			2 499 584
<b>Total Revenue</b>	<b>107 542</b>	<b>2 607 488</b>	<b>108 283</b>	<b>108 681</b>	<b>2 931 993</b>
<b>Expenses</b>					
Payroll	163 055	163 055	163 055	163 055	652 220
Rent	11 000	11 000	11 000	11 000	44 000
Accounting fees				10 000	10 000
Legal Fees	3 000	3 000	3 000	3 000	12 000
Telephone Plans	3 300	3 300	3 300	3 300	13 200
Travel	3 000	3 000	3 000	3 000	12 000
Depreciation	2 500	2 500	2 500	2 500	10 000
Other expenses	2 200	2 200	2 200	2 200	8 800
<b>Total Expenses</b>	<b>188 055</b>	<b>188 055</b>	<b>188 055</b>	<b>198 055</b>	<b>762 220</b>
<b>Income before Income Taxes</b>	<b>(80 513)</b>	<b>2 419 433</b>	<b>(79 772)</b>	<b>(89 374)</b>	<b>2 169 773</b>
<b>Income Taxes</b>					<b>759 421</b>
<b>Net Income</b>					<b>1 410 353</b>



<b>PIY Income Statement FY 2013</b>					
	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>	<b>Total</b>
<b>Revenue</b>					
Performance & Broadcasting Copyrights Band FY 2010	853	853	853	853	3 413
Performance & Broadcasting Copyrights Band FY 2011	4 550	4 550	4 550	4 550	18 198
Performance & Broadcasting Copyrights Band FY 2012	7 961	7 961	7 961	7 961	31 843
Performance & Broadcasting Copyrights Band FY 2013	22 745	22 745	22 745	22 745	90 980
Mechanical Copyrights	109 200	109 200	109 200	109 200	436 800
Pageviews per day	30 956	32 504	34 129	35 836	-
Ad Sales	8 358	8 776	9 215	9 676	36 025
<b>Other Revenue</b>					
ArtCo Aggregate Revenue		12 484 330			12 484 330
Dividend		4 161 443			4 161 443
<b>Total Revenue</b>	<b>153 667</b>	<b>4 315 528</b>	<b>154 523</b>	<b>154 984</b>	<b>4 778 702</b>
<b>Expenses</b>					
Payroll	211 012	211 012	211 012	211 012	844 046
Rent	11 000	11 000	11 000	11 000	44 000
Accounting fees				15 000	15 000
Legal Fees	3 750	3 750	3 750	3 750	15 000
Telephone Plans	3 300	3 300	3 300	3 300	13 200
Travel	3 750	3 750	3 750	3 750	15 000
Depreciation	2 250	2 250	2 250	2 250	9 000
Other expenses	2 200	2 200	2 200	2 200	8 800
<b>Total Expenses</b>	<b>237 262</b>	<b>237 262</b>	<b>237 262</b>	<b>252 262</b>	<b>964 046</b>
<b>Income before Income Taxes</b>	<b>(83 595)</b>	<b>4 078 266</b>	<b>(82 738)</b>	<b>(97 278)</b>	<b>3 814 655</b>
<b>Income Taxes</b>					<b>1 335 129</b>
<b>Net Income</b>					<b>2 479 526</b>

<b>PIY Income Statement FY 2014</b>					
	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>	<b>Total</b>
<b>Revenue</b>					
Performance & Broadcasting Copyrights Band FY 2010	682	682	682	682	2 729
Performance & Broadcasting Copyrights Band FY 2011	3 413	3 413	3 413	3 413	13 650
Performance & Broadcasting Copyrights Band FY 2012	5 308	5 308	5 308	5 308	21 231
Performance & Broadcasting Copyrights Band FY 2013	11 373	11 373	11 373	11 373	45 490
Performance & Broadcasting Copyrights Band FY 2014	30 706	30 706	30 706	30 706	122 823
Mechanical Copyrights	147 420	147 420	147 420	147 420	589 680
Pageviews per day	35 836	37 627	39 509	41 484	-
Ad Sales	9 676	10 159	10 667	11 201	41 703
<b>Other Revenue</b>					
ArtCo Aggregate Revenue		15 609 386			15 609 386
Dividend		5 203 129			5 203 129
<b>Total Revenue</b>	<b>208 576</b>	<b>5 412 189</b>	<b>209 568</b>	<b>210 102</b>	<b>6 040 435</b>
<b>Expenses</b>					
Payroll	264 090	264 090	264 090	264 090	1 056 359
Rent	13 000	13 000	13 000	13 000	52 000
Accounting fees				15 000	15 000
Legal Fees	3 750	3 750	3 750	3 750	15 000
Telephone Plans	3 900	3 900	3 900	3 900	15 600
Travel	5 000	5 000	5 000	5 000	20 000
Depreciation	5 000	5 000	5 000	5 000	20 000
Other expenses	2 600	2 600	2 600	2 600	10 400
<b>Total Expenses</b>	<b>297 340</b>	<b>297 340</b>	<b>297 340</b>	<b>312 340</b>	<b>1 204 359</b>
<b>Income before Income Taxes</b>	<b>(88 763)</b>	<b>5 114 849</b>	<b>(87 772)</b>	<b>(102 238)</b>	<b>4 836 076</b>
<b>Income Taxes</b>					<b>1 692 627</b>
<b>Net Income</b>					<b>3 143 450</b>

<b>PIY Income Statement FY 2015</b>					
	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>	<b>Total</b>
<b>Revenue</b>					
Performance & Broadcasting Copyrights Band FY 2010	569	569	569	569	2 275
Performance & Broadcasting Copyrights Band FY 2011	2 729	2 729	2 729	2 729	10 918
Performance & Broadcasting Copyrights Band FY 2012	3 981	3 981	3 981	3 981	15 925
Performance & Broadcasting Copyrights Band FY 2013	7 583	7 583	7 583	7 583	30 330
Performance & Broadcasting Copyrights Band FY 2014	15 353	15 353	15 353	15 353	61 412
Performance & Broadcasting Copyrights Band FY 2015	30 706	30 706	30 706	30 706	122 823
Mechanical Copyrights	163 800	163 800	163 800	163 800	655 200
Pageviews per day	41 484	43 558	45 736	48 023	-
Ad Sales	11 201	11 761	12 349	12 966	48 277
<b>Other Revenue</b>					
ArtCo Aggregate Revenue		19 498 332			19 498 332
Dividend		6 499 444			6 499 444
<b>Total Revenue</b>	<b>235 921</b>	<b>6 735 925</b>	<b>237 069</b>	<b>237 687</b>	<b>7 446 602</b>
<b>Expenses</b>					
Payroll	316 908	316 908	316 908	316 908	1 267 631
Rent	13 000	13 000	13 000	13 000	52 000
Accounting fees				17 500	17 500
Legal Fees	4 375	4 375	4 375	4 375	17 500
Telephone Plans	3 900	3 900	3 900	3 900	15 600
Travel	5 000	5 000	5 000	5 000	20 000
Depreciation	5 000	5 000	5 000	5 000	20 000
Other expenses	2 600	2 600	2 600	2 600	10 400
<b>Total Expenses</b>	<b>350 783</b>	<b>350 783</b>	<b>350 783</b>	<b>368 283</b>	<b>1 420 631</b>
<b>Income before Income Taxes</b>	<b>(114 862)</b>	<b>6 385 143</b>	<b>(113 713)</b>	<b>(130 596)</b>	<b>6 025 972</b>
<b>Income Taxes</b>					<b>2 109 090</b>
<b>Net Income</b>					<b>3 916 881</b>

### 5.3.3. Cash Flow Statements

The Artist companies will sell the albums through Amazon and digital retailers. Thus, PIY does not have any account receivable pertaining to such revenues. Nevertheless, the publishing rights (except the mechanical rights) are collected by a third-party agency (eg: ASCAP or BMI) and there is a six-month delay to receive the monies generated by those rights which explains the increase in accounts receivable in the following cash flow statements.

PIY Cash Flow Statement FY 2010												
	M01	M02	M03	M04	M05	M06	M07	M08	M09	M10	M11	M12
<b>Cash Flow from Operating Activities</b>												
Net Income	(30 713)	(30 700)	(30 677)	(30 542)	(30 272)	(30 002)	(29 642)	(29 372)	(29 147)	36 598	(28 832)	(22 595)
Adjustments to reconcile net income to net cash												
Increase in receivable												(13 647)
Depreciation Expense	556	556	556	556	556	556	556	556	556	556	556	556
<b>Net Cash Provided By Operating Activities</b>	<b>(30 158)</b>	<b>(30 144)</b>	<b>(30 122)</b>	<b>(29 987)</b>	<b>(29 717)</b>	<b>(29 447)</b>	<b>(29 087)</b>	<b>(28 817)</b>	<b>(28 592)</b>	<b>37 153</b>	<b>(28 277)</b>	<b>(35 687)</b>
<b>Cash Flow from Investing Activities</b>												
Purchase of Equipment	(20 000)											
Acquisition of Trademark Subsidiaries	(5 000)											
Acquisition of Copyrights							(1 000)	(1 000)	(1 000)	(1 000)	(1 000)	(1 000)
<b>Net Cash Used By Investing Activities</b>	<b>(25 000)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2 000)</b>	<b>(2 000)</b>	<b>(2 000)</b>	<b>(2 000)</b>	<b>(2 000)</b>	<b>(2 000)</b>
<b>Cash Flow from Financing Activities</b>												
Equity (founders)	50 000											
Equity (other investors)	400 000											
<b>Net Cash Provided By Financing Activities</b>	<b>450 000</b>											
<b>Net Increase In Cash</b>	<b>394 842</b>	<b>(30 144)</b>	<b>(30 122)</b>	<b>(29 987)</b>	<b>(29 717)</b>	<b>(29 447)</b>	<b>(31 087)</b>	<b>(30 817)</b>	<b>(30 592)</b>	<b>35 153</b>	<b>(30 277)</b>	<b>(37 687)</b>
<b>Cash At Beginning Of The Period</b>	<b>0</b>	<b>394 842</b>	<b>364 698</b>	<b>334 577</b>	<b>304 590</b>	<b>274 873</b>	<b>245 427</b>	<b>214 340</b>	<b>183 523</b>	<b>152 932</b>	<b>188 085</b>	<b>157 808</b>
<b>Cash At End Of The Period</b>	<b>394 842</b>	<b>364 698</b>	<b>334 577</b>	<b>304 590</b>	<b>274 873</b>	<b>245 427</b>	<b>214 340</b>	<b>183 523</b>	<b>152 932</b>	<b>188 085</b>	<b>157 808</b>	<b>120 122</b>

<b>PIY Cash Flow Statement FY 2011</b>				
	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>
<b>Cash Flow from Operating Activities</b>				
Income before Income Taxes	(62 520)	359 914	(61 912)	(71 584)
Income Taxes				(57 364)
Adjustments to reconcile net income to net cash				
Increase in accounts receivable	(15 353)	(1 706)	0	0
Increase in Income Tax payable				57 364
Depreciation Expense	2 083	2 083	2 083	2 083
<b>Net Cash Provided By Operating Activities</b>	<b>(75 790)</b>	<b>360 292</b>	<b>(59 828)</b>	<b>(69 501)</b>
<b>Cash Flow from Investing Activities</b>				
Purchase of Equipment	(5 000)			
Subsidiaries	(5 000)	(5 000)	(5 000)	(5 000)
Acquisition of Copyrights	(5 000)	(5 000)	(5 000)	(5 000)
<b>Net Cash Used By Investing Activities</b>	<b>(15 000)</b>	<b>(10 000)</b>	<b>(10 000)</b>	<b>(10 000)</b>
<b>Cash Flow from Financing Activities</b>				
Equity (founders)				
Equity (other investors)				
<b>Net Cash Provided By Financing Activities</b>				
<b>Net Increase In Cash</b>	<b>(90 790)</b>	<b>350 292</b>	<b>(69 828)</b>	<b>(79 501)</b>
<b>Cash At Beginning Of The Period</b>	<b>120122</b>	<b>29 332</b>	<b>379 624</b>	<b>309 795</b>
<b>Cash At End Of The Period</b>	<b>29 332</b>	<b>379 624</b>	<b>309 795</b>	<b>230 294</b>

<b>PIY Cash Flow Statement FY 2012</b>				
	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>
<b>Cash Flow from Operating Activities</b>				
Income before Income Taxes	(80 513)	2 419 433	(79 772)	(89 374)
Income Taxes				(759 421)
Adjustments to reconcile net income to net cash				
Increase in accounts receivable	(8 529)	(8 529)	0	0
Increase in Income Tax payable				702 057
Depreciation Expense	2 500	2 500	2 500	2 500
<b>Net Cash Provided By Operating Activities</b>	<b>(86 542)</b>	<b>2 413 404</b>	<b>(77 272)</b>	<b>(144 238)</b>
<b>Cash Flow from Investing Activities</b>				
Purchase of Equipment	(5 000)			
Subsidiaries	(5 000)	(5 000)	(5 000)	(5 000)
Acquisition of Copyrights	(5 000)	(5 000)	(5 000)	(5 000)
<b>Net Cash Used By Investing Activities</b>	<b>(15 000)</b>	<b>(10 000)</b>	<b>(10 000)</b>	<b>(10 000)</b>
<b>Cash Flow from Financing Activities</b>				
Equity (founders)				
Equity (other investors)				
<b>Net Cash Provided By Financing Activities</b>				
<b>Net Increase In Cash</b>	<b>(101 542)</b>	<b>2 403 404</b>	<b>(87 272)</b>	<b>(154 238)</b>
<b>Cash At Beginning Of The Period</b>	<b>230294</b>	<b>128 752</b>	<b>2 532 156</b>	<b>2 444 884</b>
<b>Cash At End Of The Period</b>	<b>128 752</b>	<b>2 532 156</b>	<b>2 444 884</b>	<b>2 290 645</b>

<b>PIY Cash Flow Statement FY 2013</b>	
	<b>2013</b>
<b>Cash Flow from Operating Activities</b>	
Net Income	2 479 526
Adjustments to reconcile net income to net cash	
Increase in accounts receivable	(24 452)
Increase in Income Tax payable	575 709
Depreciation Expense	9 000
<b>Net Cash Provided By Operating Activities</b>	<b>3 039 782</b>
<b>Cash Flow from Investing Activities</b>	
Purchase of Equipment	(25 000)
Subsidiaries	(25 000)
Acquisition of Copyrights	(25 000)
<b>Net Cash Used By Investing Activities</b>	<b>(75 000)</b>
<b>Cash Flow from Financing Activities</b>	
Equity (founders)	
Equity (other investors)	
Dividends	(500 000)
<b>Net Cash Provided By Financing Activities</b>	<b>(500 000)</b>
<b>Net Increase In Cash</b>	<b>2 464 782</b>
<b>Cash At Beginning Of The Period</b>	<b>2 290 646</b>
<b>Cash At End Of The Period</b>	<b>4 755 428</b>



## 5.4. Ownership

Produce-It-Yourself will initially issue 1,500,000 shares. Each founder will invest \$10,000 and we will seek \$400,000 of angel investment. 11.7% of these shares will vest immediately to the five founders who have developed the product. Helene and Guillaume who came up with the idea will start with twice the amount of shares allocated to the other co-founders. The share split will be:

<b>Founder</b>	<b>Shares Vested</b>
Helene Ponty	50,000
Guillaume Paquier	50,000
Justin Burkhart	25,000
Ben Schlesinger	25,000
Ehern Wong	25,000

The same distribution will occur after 1 year of operation, if all five founders are still actively involved with the business, meaning that at this stage 350,000 shares will have been vested with the ownership team. Additional shares will vest each month over the next 36 months according to the following distribution:

<b>Founder</b>	<b>Additional Shares Vested</b>
Helene Ponty	4,028
Guillaume Paquier	4,028
Justin Burkhart	3,333
Ben Schlesinger	3,333
Ehern Wong	3,333

The result of this distribution schedule will be that, if at the end of four years all five founders are still actively involved with the company, they will own the following numbers of shares:

<b>Founder</b>	<b>Total Shares Owned</b>
Helene Ponty	245,000
Guillaume Paquier	245,000
Justin Burkhart	170,000
Ben Schlesinger	170,000
Ehern Wong	170,000

In this situation, there would be 500,000 additional shares, which would be held by our investors and an employee options pool. However, we expect that some of the founders will leave the company before the four-year vesting period, thus freeing up additional shares to be sold to future investors or entered into the employee stock option pool.

## 6. Team and Advisors:

### 6.1. Team Bios:

**Hélène Ponty** is a Master of Science in Management student in the MIT Sloan School of Management. Prior to Sloan, Helene studied business law at Poitiers law school on France and management at HEC Paris. After law school, Hélène worked as a bankruptcy lawyer and she was in charge of helping companies facing financial risks to reorganize. She also worked for a start-up company helping the founder to market his concept and find his customer target in Paris, France.

**Guillaume Paquier** is a lawyer with a real passion for music. While earning his J.D. in France, he was a member of several rock bands and he worked closely with several music producers and promoters. He is also a co-founder of a non-profit organization in charge of promoting local bands. He then took an LL.M in Canada focusing on intellectual property with a thesis on music downloading. Guillaume was working as a transfer-pricing lawyer for Ernst & Young in Paris before relocating to the USA to start his own company.

**Justin Burkhart** is a master's degree candidate in electrical engineering at MIT. With a background in web design he is proficient with scripting languages and online databases. Justin has designed and manages web sites for local small businesses including [www.cookiecreatives.com](http://www.cookiecreatives.com). Justin is also the owner of a boutique guitar amplifier company.

**Ben Schlesinger** is a second-year MBA student in the MIT Sloan School of Management, where he is a VP of the Entertainment, Media and Sports Club. Prior to Sloan, Ben was a Senior Research Analyst at McKinsey & Company, working on the Global Telecom, Information, Media & Entertainment Research team. Ben brings music industry knowledge from his earlier days as General Manager and Broadcast Advisor of WBRS 100.1 FM Waltham (MA), a class D all-genre station. At WBRS, Ben worked with both independent and major labels and produced station-sponsored concerts.

**Ehern Wong** has three years experience as a developer at OfferOfTheDay.com, with over 300 pageviews a day. In 2009 he was part of Simprint Nanotech, a semi-finalist in the MIT 100k business plan competition. He received his masters in Electrical Engineering from Stanford University and is currently a PhD candidate in Mechanical Engineering at MIT.

### 6.2. Board of Advisors

**Dave Kusek** is an associate professor of music business at Berklee College of Music in Boston and also runs Digital Cowboys, a consulting firm focused on the music industry. In 1980, he founded the first music software company, Passport Designs, which made it possible for musicians to record and produce their music at home

with its award-winning software. He leads Berklee's major initiative to expand music education worldwide, through an online music school at [Berkleemusic.com](http://Berkleemusic.com). Kusek is writing a book on the Future of the Music Business.

**Siegfried Paquet** is Managing Director of Brunhild Media and currently a MBA Sloan Fellow at MIT Sloan School of Management. Prior to that Siegfried was general manager and CFO of BMG Music Publishing France.

**Joey Cape** is the lead singer and frontman of rock band Lagwagon, guitarist of Me First and the Gimme Gimmes, and part of several other bands. He sold more than 1 million records and toured the world extensively. He founded his own independent label called My Records in 1996.

**David Gammell** is co-chair of Brown Rudnick law firm's Emerging Technologies practice and advises entrepreneurial companies in all stages of development, from formation to liquidity. He has extensive experience in venture capital.