

**PENELOPE'S PIE SHOP, INC.**

**BUSINESS PLAN**

**NOVEMBER 15, 2002**

# **Penelope's Pie Shop, Inc.**

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## **EXECUTIVE SUMMARY**

Penelope's Pie Shop, Inc. is a highly successful business in Encinitas, California. From the opening day, July 1, 2000, the pie shop has shown a steady growth in monthly sales revenue of \$29,000 with a net income before taxes of \$5,000. Penelope's success is the result of high quality pies sold to mid-to-high income consumers who desire a special dessert. In addition to selling whole pies, Penelope's sells pie slices with coffee and offers free home delivery.

Penelope's will use the successful Encinitas model to expand into three additional San Diego County locations. The expansion will produce annual company sales of \$1,626,750 and net profit of \$101,297 for year 2005. Funding this expansion will require outside financing of \$500,000 consisting of \$300,000 debt and \$200,000 equity.

In addition to selling pies from company-owned retail shops, Penelope's will start distributing pies through specialty food stores in the San Diego area.

Penelope's is planning for rapid growth by increasing the number of retail outlets, implementing various promotions that will capitalize on its competitive advantages, and initiating sales to specialty food stores. Penelope's overall strategy is to "just get customers in the shop for the first time". Home-like, delicious quality of Penelope's pies will be emphasized. The strategy will be supported by creating the "highest quality" image and the image of a quaint, old fashioned pie confectionery owned by a talented pastry chef offering outstanding, delicious, fine pies. The target market is a mid-to-high income consumer. Penelope's stores will be located in areas with above average income, and customers will be reached through direct mail. Customers can also go to the retail location to try a piece of pie with coffee. Consumers can buy direct from retail stores, order home delivery, or purchase from a specialty food store.

The founder and sole stockholder is Penelope Thomson who worked eight years for Electric Glassware in several marketing and sales management positions before starting her own business.

## **MISSION STATEMENT**

Penelope's Pie Shop will produce and sell pies of recognized and superior quality to mid-to-high income consumers in San Diego County, Pies will be sold through Penelope's retail stores and specialty food stores.

## **COMPANY DESCRIPTION**

### **Summary**

Penelope's Pie Shop, Inc. opened its first retail pie shop in July 2000 in Encinitas, California. Revenue from that one pie shop has grown to an average of \$29,000 per month justifying the plan to add three additional stores. Penelope's pies have been rated the best in San Diego County by an independent survey. Daily pie selection is always ten different pies – six fruit pies and four others.

# Penelope's Pie Shop, Inc.

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## **Ownership**

Penelope's Pie Shop, Inc. is a "C" corporation. The sole shareholder is Penelope Thomson

## **Company History**

Penelope Thomson opened her first pie shop in July 2000 in Encinitas, California. She had spent eight years in marketing and sales management positions with Electric Glassware. Ms Thomson devoted the majority of her time during the first year to refining her pie recipes to the point where she was awarded the "Best Pies" award for San Diego County by Bon Gourmet Magazine in 2001. She has continued to receive that award each year since.

Ms Thomson decided to limit her pie selections to ten, which varies with the season of the year. Her best known pie is the San Diego Cheese Pie, which is similar to cheesecake except it is lighter with a refreshing aftertaste.

Ms Thomson financed the corporation, with \$50,000 from personal savings and \$140,000 bank loan secured by equity in her home and her parents' home.

## **Key Employees**

Currently Penelope's employs five: a head baker, two assistants, two retail clerks and Penelope Thomson, the owner and manager. For the expansion plan, four new bakers, an administrative manager, a computer operator, a bookkeeper, a sales representative, a secretary, three store managers, a director of retail sales, and eight retail clerks will be hired over the next 18 months.

Penelope Thomson, the President, will have seven people reporting to her: four store managers (until the director of retail stores is hired), an administrative manager, a sales representative, and a head baker. Longer-range plans call for hiring a director of retail stores.

Penelope Thomson is the most important member of the management team. Ms Thomson is a graduate of San Diego State University. At Electric Glassware she gained experience in sales and marketing. Her last position was director of marketing.

Jacque Luis Jones is the head baker. He has had 10 years of bakery experience. Before joining Penelope's, he was head baker for the San Diego Tastee Bakery where he supervised a staff of eight.

The personnel table on page 12 shows the future personnel plans by position.

Penelope Thomson's responsibility will increase as the business expands, and she will hire a director of retail store operations in January 2005.

## Penelope's Pie Shop, Inc.

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### Products

Penelope's always offers ten different pies for sales. Six are fruit pies, which change with the season. The best known pie is the San Diego Cheese Pie. The six fruit pies will vary with the season and may include any of the following:

- Peach
- Apple
- Strawberry
- Blackberry
- Marionberry
- Raspberry
- Apricot
- Nectarine
- Blueberry
- Banana

Other pies may include:

- San Diego Cheese (always available)
- Rhubarb
- Coconut cream
- Chocolate
- Pecan

Customers who buy Penelope's pies believe that they have the best pie on the market. Sales are currently through one company-owned retail store, but the market segment of specialty food stores will be added as a new distribution method to reach the desired target market.

### Company Locations and Facilities

Penelope's has one location in a commercial section of Encinitas, California. Three new retail pie shops will be opened in Rancho Bernardo, Del Mar Heights, and La Jolla. The three new locations will be retail-only stores with no kitchens except for large warming ovens and refrigerators to warm pies or keep them cool depending on the pie. The Encinitas store will bake pies for the other stores, with early morning delivery to each. As demand grows, a separate kitchen will be built to supply all outlets. All locations will have cash registers tied to a central computer in the Encinitas store, which will produce the pie baking schedule. This schedule along with orders from food stores will determine the pies to be made each night for delivery the next morning.

### Sources of Supply

Penelope's purchases pie ingredients from local restaurant supply companies; however, most fruits come from local growers. To minimize inventory Penelope's receives deliveries each day, which are determined by the central computer system.

## THE MARKET

### Size

Market research conducted by Penelope's shows that the potential market for pies is \$40 million in San Diego County. Penelope's believes that grocery stores account for 60% of the market with retail pie shops accounting for 40%. The growth rate has been flat over the past few years.

### Customers

There are two segments in the pie market. The low cost segment, in which quality is not a major consideration, buys pies at grocery stores. These customers are looking for an easy, inexpensive dessert. This low cost segment is not Penelope's target market. The other segment will go to pie shops looking for a high-quality pie for a special occasion. In this segment, which is mainly motivated by quality, Penelope's has a significant advantage over other pie shops. Penelope's customers are mid-to-high income individuals and families who buy pies for a special occasion, and do so repeatedly. Most customers will be females in the 33 – 55 age range.

### Competition

There are three groups of competitors in the retail pie market. Grocery chains sell mass-produced pies in the \$2 to \$4 range. The second group, pie shops attached to restaurants such as Marie Callenders, produces good pies but still not up to Penelope's quality, lightness, or freshness. These pie shops sell pies for \$8 to \$11. Penelope's sells pies for \$9 to \$14, which is \$1 to \$3 more than other pie shops. The third group, retail bakeries, is not an important part of this market. Penelope's makes pies of recognized superior quality with a lighter, thinner crust than any competitor. Penelope's also has an advantage with its unique pie, the San Diego cheese pie. The competitive analysis table identifies two competitive advantages for Penelope:

1. Recognized superior quality because of freshness and flavor.
2. Home delivery.

Potential future competition could come from specialty food stores that decide to bake their own pies. This is one reason why Penelope's will distribute through these stores thereby forming an alliance.

### Market and Industry Trends

Pie shops have been around for hundreds of years. Growth has been flat over recent years because pie shops have not upgraded their quality or product offerings to match other dessert products. With the emphasis on reducing calories, many pies seem too heavy. Penelope's has solved this problem by producing pies with a lighter crust. Also, the target customers have less free time for meal preparation and driving to buy a dessert. Penelope's is capitalizing on both trends. Her pies are lighter than competitive pies; she uses fresh fruits; and she never sells a pie that is more than two days old. Home delivery saves time for hurried customers. Penelope's success with one store indicates that the market will grow with Penelope's new concept.

Recent research on consumer habits shows that consumers want a "home-like" experience in purchasing take-out food. The look of the product and packaging will result in the product looking "just as if mom had made it."

## Penelope's Pie Shop, Inc.

### COMPETITIVE ANALYSIS

	Grocery Pies	Marie Callenders	Coco's	Penelope's
Products	Mr. Smith's & others 4-6; 2-3 fruit flavors	Own brand. 12-18 flavors	Own brand. 12-18 flavors	Own brand. 10 flavors, 6 fruit. SD Cheese Pie
Services	None	Restaurant	Restaurant	Home delivery. Pie & coffee at store
Quality	Low quality	Medium quality. Crust too thick	Medium quality	Highest. Award for best in SD county. 2 days old or less
Pricing	\$2 - 4 / pie	\$8 - 11 / pie	\$7.50 - 10.50 / pie	\$9 - 14 / pie
Location	Many. 2 within 1 mile of Penelope's. 8 in trading area	1 in Encinitas, 3 mi. away; 1 in Carlsbad, 8 mi.	1 in Encinitas, 4 mi. away from Penelope's	Busy commercial, near residential. Near Trader Joe's
Sales	Est. 8 / day / store	40 / day / restaurant	30 / day	75 / day
Years in Business		42; 9 local	27; 3 local	3
Ownership	Major grocery chains Vons, Ralps, Albertsons	Marie Callenders private corp.	Family Restaurants, Inc.	Penelope Thomson
Financial Strength	Very strong	Strong	Marginal	Average
Importance of Pies to Business	Low importance	Very important	Average importance	Very important
Advertising	Very little devoted to pies	Newspaper with discount coupons	Radio & discounts for diners	Newspaper ads & direct mail
Image	Low quality, quick dessert	Consistent product, crust too thick	Consistent product, too heavy	Highest quality, light dessert
Customer Profile	Low to mid income, working couples looking for quick meals	Mid income, older, less concerned about healthy eating	Mid income, older, less concerned about healthy eating	High income, average age 40, high interest in eating healthy foods
Strengths Summary	Lowest price. Convenience	Well known for pies. Sold at restaurants	Moderate price. Sold at restaurants	Recognized quality. Home delivery. Coffee and pie at store
Weaknesses Summary	Low quality	Crust too thick. Not keeping up with eating trends	Too heavy. Not keeping up with eating trends.	Highest price

Example for Worksheet 5

# Penelope's Pie Shop, Inc.

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## GOALS, STRATEGIES, TACTICS

### Marketing Strategy Summary

Penelope's overall strategy is to "just get customers in the shop for the first time". Home-like, delicious quality of Penelope's pies will be emphasized.

**Goal 1:** Increase sales to \$1.6 million by 2005

### Strategies and tactics:

1. Create and protect the "highest quality" image, and create an image of a quaint, old fashioned pie confectionery owned by a talented pastry chef offering outstanding, delicious, fine pies. All literature and advertising will stress "best pie" quality award. The appearance of the retail stores and the dress of the employees will reflect the "high quality" and the quaint, old-fashioned pie confectionery images.
2. Open three new retail stores -- Del Mar Heights, La Jolla, Rancho Bernardo -- by the end of 2004.
3. Introduce home delivery available between 5 and 7 PM in selected areas and initiate sales through at least four specialty food stores by the end of 2003. Hire a sales person to call on the food stores by September 1, 2003. Produce in-store displays.
4. Use advertising and promotion. Develop a colorful brochure that stresses quality to be used with specialty food stores. Promote pies to customers by
  - Direct mailing to selected consumers within a 15-mile radius of each store. The mailing will go to consumers based on their income levels and will reach approximately 5,000 people near each store. The mailing will include a value-added coupon to encourage first timers to come to the store.
  - The stores will collect home addresses and Email addresses of customers redeeming coupons that will be used to notify loyal customers of new pies and specials.
  - Start a birthday card list to send out offers for a "free birthday piece of pie" to build customer loyalty.
  - Advertising will stress benefits: "Taste Great!"; "Just like Grandma used to make"; "Saves time to be with the family"; "Impress everyone!"
  - Each retail store will have six tables with comfortable chairs for customers to sit and enjoy pie and coffee.
  - Penelope's will continue to stress the "best pie" award and home delivery in its mailings and at each store.
5. Specialty food stores expect excellent service. Orders will be baked the night of order placement and delivered the next day.
6. Individuals who order pies via telephone can expect delivery within an hour with ninety percent delivered within thirty minutes.
7. Develop one new unique pie by July 2004.
8. Conduct a test market starting in November 2003 where ready-to-bake pies will be offered at the Encinitas store. This will allow customers to claim that they baked their own pies for a fresher taste.

## Penelope's Pie Shop, Inc.

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**Goal 2:** Produce a net profit before taxes of \$180,000 for 2005.

**Strategies and tactics:**

1. Create and protect the "highest quality" image that will support a higher price than competition. Prices will be \$1 to \$ 3 above that offered by other pie shops. Prices to specialty food stores will be 30% less than the retail price. Quality, customer benefits under Goal 1, and home delivery will support the higher price strategy.
2. Open three new retail stores located in higher income areas.
3. The excellent service offered specialty food stores (pies ordered today will be baked tonight and delivered tomorrow) and the quality image will support the higher prices.
4. Develop one new unique pie by July 2004. This pie because of its uniqueness will support a higher price than other pies thereby increasing profit margins.
5. The Encinitas store will bake pies for the other stores with early morning delivery to each. The previous day's sales transmitted from the cash registers will direct the mix of pies produced. This consolidation will reduce manufacturing cost and increase profit margins.

**Goal 3:** Have four retail pie shops in operation by the end of 2004.

**Strategies and tactics:**

1. Open new retail stores in Del Mar Heights and La Jolla by July 2004 and in Rancho Bernardo by the end of 2004.
2. Hire managers for each of the new stores at least two months before starting operation. Train the new managers in the Encinitas store.
3. Hire a director of retail operations by January of 2005.
4. Establish a computer system that will link the retail stores with central production and accounting by April 2004.

**Goal 4:** To finance the expansion raise \$500,000 by February 2004.

**Strategies and tactics:**

1. Secure \$200,000 in equity financing from family and friends by November 2003 for 20% of the common stock.
2. Secure \$300,000 of bank debt by February 2004. Penelope's cash flow will repay the bank debt within five years.

**FINANCIAL PROJECTIONS**

Penelope's will be growing rapidly over the next 18 months reaching \$1,626,750 in sales for the year 2005

**Important assumptions**

- Account receivable days of 35.
- Account payable days of 30.
- Average inventory days of 3.
- Percentage of payroll for taxes and benefits is 18.
- Short and long term interest rates on loans are 9%.
- Tax rate is 30%.
- The cost of capital equipment for the expansion is \$510,000. The details are shown in the appendix.

**Sales forecast**

Sales to specialty food stores will start in October of 2003. Two additional retail stores will open by July 2004 and the fourth by the end of 2004. Sales and unit cost for the first 6 months of 2003 are actual numbers. Starting in July of 2003, the numbers are all projections.

**Advertising budget**

The \$17,500 advertising budget for 2004 and 2005:

- Quarterly direct mailer at \$3200 per quarter for annual cost of \$12,800. (Two mailings in 2003).
- Other advertising of \$4100.
- Email campaigns of \$600.

**Projected sales and profit**

Sales are projected to reach \$954,200 for 2004 and \$1,626,750 in 2005. Net profit before taxes and interest will climb to \$171,890 for 2005.

**Projected cash flow**

The cash flow statement shows the need for \$500,000 of debt and equity financing by the end of the first quarter of 2004.

**Projected balance sheet**

The projected balance sheet shows net worth growing from \$222,898 at the end of 2003 to \$331,979 by the end of 2005.

Beginning year for forecasting	2003	Enter the first year of your forecast					
% of sales in cash	100	Enter as a whole number, for example for 20%, enter 20.					
Average account receivable days	35	Enter the average number of customer credit days not to exceed 60.					
Average account payable days	30	Enter the average number of days, not to exceed 60, you wait to pay bills.					
% of purchases in cash	20	Enter as a whole number the % of non-payroll purchases paid immediately.					
% of payroll for taxes & benefits	18	Enter as a whole number the % of payroll for employee benefits and taxes, for example for 20%, enter 20.					
Inventory days	3	Enter the average number of days of inventory you plan to maintain.					
Short-term interest rate	9	Enter as a whole number, for example for 10%, enter 10.					
Long-term interest rate	9	Enter as a whole number, for example for 10%, enter 10.					
% tax rate, federal plus state	30	For corporations only; others leave blank. Enter as a whole number, for example for 25%, enter 25.					
<b>Current Balance Sheet:</b>		From your most recent balance sheet, enter the following items.					
Cash	\$14,000						
Accounts receivable	\$0						
Inventory	\$950						
Other current assets	\$0						
Capital assets	\$170,000						
Accumulated depreciation	(\$21,000)	Show as a negative number					
Other assets	\$0						
<b>Total assets</b>	<b>\$163,950</b>	This amount should equal that shown on line 30					
Accounts payable	\$10,500						
Short-term notes	\$14,004						
Other short-term liabilities	\$0						
Long term debt	\$112,000						
<b>Total liabilities</b>	<b>\$136,504</b>						
Net worth-beg of period	\$50,000						
Accumulated earnings	(\$22,554)						
Net worth-end of period	\$27,446						
<b>Total liabilities &amp; equity</b>	<b>\$163,950</b>	This sum should equal that shown on line 19					

## Sales Forecast

Sheet 2

	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	2003	2004	2005
<b>Unit sales (units):</b>															
Retail sales	2,330	2,332	2,410	2,405	2,415	2,412	2,421	2,415	2,425	2,430	2,720	3,000	29,715	65,000	110,000
Food store sales	0	0	0	0	0	0	0	0	0	200	400	700	1,300	12,000	15,000
Product 3													0		
Product 4													0		
Product 5													0		
Product 6													0		
Product 7													0		
<b>Unit prices (\$):</b>															
Retail sales	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	13.00	13.50
Food store sales	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	8.40	8.40	8.40	8.40	9.10	9.45
Product 3													0.00		
Product 4													0.00		
Product 5													0.00		
Product 6													0.00		
Product 7													0.00		
<b>Total sales (\$):</b>															
Retail sales	27,960	27,984	28,920	28,860	28,980	28,944	29,052	28,980	29,100	29,160	32,640	36,000	356,580	845,000	1,485,000
Food store sales	0	0	0	0	0	0	0	0	0	1,680	3,360	5,880	10,920	109,200	141,750
Product 3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Product 4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Product 5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Product 6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Product 7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total sales (\$)</b>	27,960	27,984	28,920	28,860	28,980	28,944	29,052	28,980	29,100	30,840	36,000	41,880	367,500	954,200	1,626,750
<b>Unit cost (\$):</b>															
Retail sales	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.15	4.20	4.30
Food store sales										4.35	4.35	4.35	4.35	4.40	4.60
Product 3													0.00		
Product 4													0.00		
Product 5													0.00		
Product 6													0.00		
Product 7													0.00		
<b>Total cost of sales:</b>															
Retail sales	9,670	9,678	10,002	9,981	10,022	10,010	10,047	10,022	10,064	10,085	11,288	12,450	123,317	273,000	473,000
Food store sales	0	0	0	0	0	0	0	0	0	870	1,740	3,045	5,655	52,800	69,000
Product 3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Product 4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Product 5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Product 6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Product 7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total cost of sales</b>	9,670	9,678	10,002	9,981	10,022	10,010	10,047	10,022	10,064	10,955	13,028	15,495	128,972	325,800	542,000
<b>% sales in cash</b>	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	94.55	90.67	85.96	97.03	88.56	91.29

Personnel	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	2003	2004	2005
<b>Production</b>															
Head baker	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,100	\$2,100	\$2,100	\$2,100	\$2,100	\$24,500	\$30,000	\$38,000
Bakers	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300	\$2,900	\$3,200	\$29,100	\$36,000	\$75,000
Cleaners													\$0	\$9,000	\$18,000
Name or title													\$0		
Name or title													\$0		
Other													\$0		
<b>Subtotal</b>	\$4,300	\$4,300	\$4,300	\$4,300	\$4,300	\$4,300	\$4,300	\$4,400	\$4,400	\$4,400	\$5,000	\$5,300	\$53,600	\$75,000	\$131,000
<b>Sales &amp; marketing</b>															
Sales rep									\$2,200	\$2,200	\$2,200	\$2,200	\$8,800	\$26,000	\$28,000
Dir retail sales													\$0	\$0	\$50,000
Retail store mangers									\$1,600	\$2,000	\$2,000	\$2,000	\$7,600	\$54,000	\$98,000
Retail clerks	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,500	\$1,500	\$1,500	\$14,400	\$45,000	\$80,000
Name or title													\$0		
Other													\$0		
<b>Subtotal</b>	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$4,900	\$5,700	\$5,700	\$5,700	\$30,800	\$125,000	\$256,000
<b>Administration</b>															
Administrative mgr										\$3,000	\$3,000	\$3,000	\$9,000	\$37,000	\$40,000
Computer operator													\$0	\$26,000	\$30,000
Bookkeeper													\$0	\$24,000	\$30,000
Secretaries								\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$6,000	\$18,000	\$20,000
President	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$36,000	\$60,000	\$70,000
Other													\$0		
<b>Subtotal</b>	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$3,500	\$4,700	\$4,700	\$7,700	\$7,700	\$7,700	\$51,000	\$165,000	\$190,000
<b>Total Headcount</b>	5	5	5	5	5	5	5	6	8	9	10	10		27	29
<b>Total payroll</b>	\$7,900	\$7,900	\$7,900	\$7,900	\$7,900	\$7,900	\$8,900	\$10,200	\$14,000	\$17,800	\$18,400	\$18,700	\$135,400	\$365,000	\$577,000
<b>Taxes &amp; benefits</b>	\$1,422	\$1,422	\$1,422	\$1,422	\$1,422	\$1,422	\$1,602	\$1,836	\$2,520	\$3,204	\$3,312	\$3,366	\$24,372	\$65,700	\$103,860
<b>Total payroll exp</b>	\$9,322	\$9,322	\$9,322	\$9,322	\$9,322	\$9,322	\$10,502	\$12,036	\$16,520	\$21,004	\$21,712	\$22,066	\$159,772	\$430,700	\$680,860

Pro-forma Income Statement

	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	2003	2004	2005
<b>Sales (\$)</b>	27,960	27,984	28,920	28,860	28,980	28,944	29,052	28,980	29,100	30,840	36,000	41,880	367,500	954,200	1,626,750
<b>Cost of sales (\$):</b>															
Material	9,670	9,678	10,002	9,981	10,022	10,010	10,047	10,022	10,064	10,955	13,028	15,495	\$128,972	\$325,800	\$542,000
Labor	5,074	5,074	5,074	5,074	5,074	5,074	5,074	5,192	5,192	5,192	5,900	6,254	\$63,248	\$88,500	\$154,580
Other															
<b>Total cost of sales</b>	14,744	14,752	15,076	15,055	15,096	15,084	15,121	15,214	15,256	16,147	18,928	21,749	\$192,220	\$414,300	\$696,580
<b>Gross profit (\$)</b>	13,217	13,232	13,845	13,805	13,884	13,860	13,931	13,766	13,844	14,694	17,072	20,131	\$175,280	\$539,900	\$930,170
Gross profit %	47	47	48	48	48	48	48	48	48	48	47	48	47.70	56.58	57.18
<b>Operating expenses (\$):</b>															
Payroll	4,248	4,248	4,248	4,248	4,248	4,248	5,428	6,844	11,328	15,812	15,812	15,812	\$96,524	\$342,200	\$526,280
Advertising/promotion	375	375	375	375	375	375	375	3,200	375	375	375	3,200	\$10,150	\$17,500	\$17,500
Rent	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	\$14,400	\$32,000	\$60,000
Leased equipment													\$0		
Utilities	510	525	543	568	570	564	566	560	560	575	580	590	\$6,711	\$16,000	\$34,000
Telephone	550	540	545	560	565	560	570	570	570	570	570	570	\$6,740	\$12,000	\$24,000
Insurance	1,600												\$1,600	\$4,100	\$6,500
Supplies	200	150	177	160	190	156	190	190	190	190	190	190	\$2,173	\$3,800	\$5,000
Travel													\$0		
Consultants													\$0		
Legal									500	500	500		\$1,500	\$3,000	\$3,500
Financial		700											\$700	\$1,300	\$1,500
Depreciation	1,417	1,417	1,417	1,417	1,417	1,417	1,417	1,417	1,417	1,417	1,667	1,792	\$17,625	57,500	68,000
Miscellaneous	350	210	1,080	390	230	220	250	250	250	250	250	250	\$3,980	\$6,800	\$12,000
<b>Total expenses (\$)</b>	10,450	9,365	9,585	8,918	8,795	8,740	9,996	14,231	16,390	20,889	21,144	23,604	\$162,103	\$496,200	\$758,280
Expenses/sales %	37	33	33	31	30	30	34	49	56	68	59	56	44.11	52.00	46.61
<b>Profit (\$)</b>	2,767	3,868	4,260	4,888	5,089	5,121	3,935	-465	-2,545	-6,195	-4,072	-3,473	\$13,177	\$43,700	\$171,890
<b>Interest exp. ST</b>	96	88	79	70	61	53	44	35	26	18	9	0	\$578	\$0	\$0
<b>Interest exp. LT</b>	840	840	840	840	840	840	840	840	840	840	840	840	\$10,080	\$32,580	\$27,180
<b>Taxes (\$)</b>	549	882	1,002	1,193	1,256	1,268	915	0	0	0	0	0	\$756	\$3,336	\$43,413
<b>Net profit (\$)</b>	1,281	2,058	2,339	2,784	2,931	2,960	2,136	-1,340	-3,412	-7,053	-4,920	-4,313	\$1,763	\$7,784	\$101,297
Net profit/sales %	5	7	8	10	10	10	7	-5	-12	-23	-14	-10	0.48	0.82	6.23
<b>Average A/R days</b>	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35

	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	2003	2004	2005
<b>Beginning cash</b>	14,000	16,578	18,023	21,014	23,500	26,612	29,768	32,241	33,388	28,396	20,547	185,904	\$14,000	\$168,290	\$128,633
<b>Cash in:</b>															
Net profit	1,281	2,058	2,339	2,784	2,931	2,960	2,136	-1,340	-3,412	-7,053	-4,920	-4,313	(\$4,548)	\$7,784	\$101,297
Depreciation	1,417	1,417	1,417	1,417	1,417	1,417	1,417	1,417	1,417	1,417	1,667	1,792	\$17,625	\$57,500	\$68,000
Change in accts payable	1,064	-861	435	-550	-65	-54	91	2,235	-1,827	725	1,663	3,842	\$6,696	\$10,957	\$18,913
Current borrowing													\$0		
Long-term borrowing													\$0	\$300,000	
Increase other liabilities													\$0		
Capital input											200,000		\$200,000		
<b>Total cash in</b>	3,762	2,613	4,190	3,651	4,283	4,322	3,643	2,312	-3,822	-4,911	198,409	1,321	\$219,773	\$376,241	\$188,210
<b>Cash out:</b>															
Change in A/R	0	0	0	0	0	0	0	0	0	1,681	1,678	2,521	\$5,880	\$4,733	\$3,163
Change in inventory	17	1	32	-2	4	-1	4	-2	4	89	207	247	\$600	\$1,166	\$1,802
Change other ST assets	0	0	0	0	0	0	0	0	0	0	0	0	\$0	\$0	\$0
Capital expenditures											30,000	15,000	\$45,000	\$360,000	\$105,000
Loan repayment (ST)	1,167	1,167	1,167	1,167	1,167	1,167	1,167	1,167	1,167	1,167	1,167	1,167	\$14,004		
Loan repayment (LT)													\$0	\$50,000	\$60,000
Dividends													\$0		
Owner withdrawal													\$0		
<b>Total cash out</b>	1,184	1,168	1,199	1,165	1,171	1,166	1,171	1,165	1,171	2,937	33,052	18,935	\$65,483	\$415,898	\$169,964
<b>Net cash flow</b>	2,578	1,445	2,991	2,486	3,112	3,157	2,473	1,148	-4,993	-7,848	165,357	-17,614	\$154,290	(\$39,657)	\$18,246
<b>Cash balance</b>	16,578	18,023	21,014	23,500	26,612	29,768	32,241	33,388	28,396	20,547	185,904	168,290	\$168,290	\$128,633	\$146,879

Projected Balance Sheet as of the end of:

	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	2003	2004	2005
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Current assets:</b>															
Cash	16,578	18,023	21,014	23,500	26,612	29,768	32,241	33,388	28,396	20,547	185,904	168,290	168,290	128,633	146,879
Accounts receivable	0	0	0	0	0	0	0	0	0	1,681	3,359	5,880	5,880	10,613	13,775
Inventory	967	968	1,000	998	1,002	1,001	1,005	1,002	1,006	1,095	1,303	1,550	1,550	2,715	4,517
Other	0	0	0	0	0	0	0	0	0	0	0	0	-	-	-
<b>Total current assets</b>	<b>17,545</b>	<b>18,991</b>	<b>22,014</b>	<b>24,498</b>	<b>27,614</b>	<b>30,769</b>	<b>33,246</b>	<b>34,391</b>	<b>29,402</b>	<b>23,324</b>	<b>190,566</b>	<b>175,719</b>	<b>175,719</b>	<b>141,960</b>	<b>165,171</b>
<b>Fixed Assets</b>															
Capital assets	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000	200,000	215,000	215,000	575,000	680,000
Less accum depre	22,417	23,833	25,250	26,667	28,083	29,500	30,917	32,333	33,750	35,167	36,833	38,625	38,625	96,125	164,125
Book value	147,583	146,167	144,750	143,333	141,917	140,500	139,083	137,667	136,250	134,833	163,167	176,375	176,375	478,875	515,875
<b>Other assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>165,128</b>	<b>165,158</b>	<b>166,764</b>	<b>167,831</b>	<b>169,531</b>	<b>171,269</b>	<b>172,329</b>	<b>172,057</b>	<b>165,652</b>	<b>158,157</b>	<b>353,732</b>	<b>352,094</b>	<b>352,094</b>	<b>620,835</b>	<b>681,046</b>
<b>Cirrent Liabilities</b>															
Accounts payable	11,564	10,702	11,137	10,587	10,522	10,468	10,559	12,794	10,967	11,692	13,354	17,196	17,196	28,153	47,067
Short-term notes	12,837	11,670	10,503	9,336	8,169	7,002	5,835	4,668	3,501	2,334	1,167	0	-	-	-
<b>Total current liabilities</b>	<b>24,401</b>	<b>22,372</b>	<b>21,640</b>	<b>19,923</b>	<b>18,691</b>	<b>17,470</b>	<b>16,394</b>	<b>17,462</b>	<b>14,468</b>	<b>14,026</b>	<b>14,521</b>	<b>17,196</b>	<b>17,196</b>	<b>28,153</b>	<b>47,067</b>
Long-term loans	112,000	112,000	112,000	112,000	112,000	112,000	112,000	112,000	112,000	112,000	112,000	112,000	112,000	362,000	302,000
<b>Total liabilities</b>	<b>136,401</b>	<b>134,372</b>	<b>133,640</b>	<b>131,923</b>	<b>130,691</b>	<b>129,470</b>	<b>128,394</b>	<b>129,462</b>	<b>126,468</b>	<b>126,026</b>	<b>126,521</b>	<b>129,196</b>	<b>129,196</b>	<b>390,153</b>	<b>349,067</b>
<b>Beginning capital</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>250,000</b>	<b>250,000</b>	<b>250,000</b>	<b>222,898</b>	<b>230,682</b>
<b>Profit or (loss)</b>	<b>(21,273)</b>	<b>(19,215)</b>	<b>(16,876)</b>	<b>(14,092)</b>	<b>(11,160)</b>	<b>(8,200)</b>	<b>(6,064)</b>	<b>(7,404)</b>	<b>(10,816)</b>	<b>(17,869)</b>	<b>(22,789)</b>	<b>(27,102)</b>	<b>(27,102)</b>	<b>7,784</b>	<b>101,297</b>
<b>Owner's withdrawals</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Capital-end of period</b>	<b>28,727</b>	<b>30,785</b>	<b>33,124</b>	<b>35,908</b>	<b>38,840</b>	<b>41,800</b>	<b>43,936</b>	<b>42,596</b>	<b>39,184</b>	<b>32,131</b>	<b>227,211</b>	<b>222,898</b>	<b>222,898</b>	<b>230,682</b>	<b>331,979</b>
<b>Total liab &amp; equity</b>	<b>165,128</b>	<b>165,158</b>	<b>166,764</b>	<b>167,831</b>	<b>169,531</b>	<b>171,269</b>	<b>172,329</b>	<b>172,057</b>	<b>165,652</b>	<b>158,157</b>	<b>353,732</b>	<b>352,094</b>	<b>352,094</b>	<b>620,835</b>	<b>681,046</b>
Proof	0	0	0	0	0	0	0	0	0	0	0	0	-	-	-

## Penelope's Pie Shop, Inc.

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### APPENDIX

#### Milestones

The following table list important milestones that need to be accomplished over the next 18 months.

<u>Milestone</u>	<u>Date</u>	<u>Responsibility</u>
Hire, sales rep	9/1/03	PT
Hire Encinitas store manager	9/1/03	PT
Hire administrative manager	10/1/03	PT
Raise equity financing	11/1/03	PT
Select sites for 2 new stores	1/1/04	PT
Secure bank loan	2/1/04	PT
Hire computer operator	3/1/04	AM
Establish computer system	4/1/04	AM
Develop direct mail program	4/1/04	PT
Hire managers for 2 new stores	4/1/04	PT
Open 2 new stores	7/1/04	PT
Develop new pie	7/1/04	HB
Hire director of retail stores	8/1/04	PT
Select location for 4th store	8/1/04	PT
Hire mgr. for 4th store	9/1/04	DRS
Open 4th store	11/1/04	DRS

(PT is Penelope Thomson, AM is the administrative manager, HB is the head baker, DRS is the director of retail stores.)

#### Planned capital equipment purchases

<u>Use</u>	<u>Date</u>	<u>Amount \$</u>
One delivery vehicle	11/1/03	30,000
New computer system	12/1/03	15,000
Leasehold improvements and equipment for Del Mar Heights and LaJolla	4/1/04	180,000
Two delivery vehicles	5/1/04	60,000
Leasehold improvement and equipment for Rancho Bernardo	10/1/04	90,000
One delivery vehicle	12/01/04	30,000
Equipment for new central kitchen	1/1/05	<u>105,000</u>
Total		510,000