RollerMug, Inc.

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Executive Summary

Roller Mug, Inc. was formed in June 1995 as the primary vehicle to exploit the opportunities created by the issuance of U.S. patent #9,096,535,053 for the RollerMug. Because of the uniqueness of the RollerMug, it gives RollerMug, Inc. the opportunity to penetrate the beer mug distribution industry by selling a novel product that will temporarily replace the existing beer mug. When the novelty of the RollerMug fades, RollerMug, Inc. will be ideally positioned (with established contacts) to sell the plastic beer mugs that will replace it. If adequate volume levels are attained, further market integration through the acquisition of plastic beer mug manufacturing facilities could be justified.

Currently, 3.5 billion beer mugs are sold annually in the United States. This market is divided between glass and plastic mugs with glass accounting for 39%. Restaurants and drinking establishments catering to higher income patrons primarily use the glass mug. The advantage of the glass beer mug is its appearance and the "suggestion" of the quality of the contents it holds. Its disadvantages are its price and its tendency to break. They are normally replaced on average after 275 uses.

Drinking establishments using plastic beer mugs account for 61% of beer mug sales and range from the low cost "corner bar" to the "weekend attraction" bar. The major advantage of plastic is its weight and economy. These advantages are offset by the tendency to scratch that degrades the mugs' appearance and they are normally replaced after approximately 150 uses. The RollerMug (being made of plastic) appeals mostly to the higher income patrons at the plastic beer mug drinking establishments as well as the lower income patrons at the glass beer mug drinking establishments.

The RollerMug is simply a plastic beer mug with wheels which when "rolled" down a bar counter requires a lower rate of speed which reduces the amount of beer spilled due to the gravitational effects of higher speed. The RollerMug was invented to solve the problem of created by increasing bar counter length coupled with drinking establishment patrons' desire that the bartender "throw" it to him. With a slower moving open container, spillage is reduced from the gravitational effects of speed, collision with other containers or "wild throws." As a replacement for glass mugs, the spills and hazards related to breakage are eliminated.

In order to measure the RollerMug's acceptance in area drinking establishments, 10,000 were produced in order to test them under "real world" conditions. In this trial run, the mugs were distributed to several drinking establishments in the Riverside-San Bernardino area of southern California. Aside from the improved design, patrons loved the novelty of a beer mug with wheels. They proved so popular with drinking establishment patrons that the drinking establishments suddenly prefer them to the generic beer mug they currently use.

The major benefits of the RollerMug to the drinking establishments that use them relate to the novelty of the item. Because drinking establishment patrons enjoy drinking from them, the "drinking experience" is enhanced. It is "fun" to drink beer from a mug with wheels. With a more memorable experience, the probability of repeat visits improves because the customer "...had fun." Since the RollerMug is so popular, drinking establishment customers will want to buy them at a substantial markup that will increase the profits of the drinking establishments who sell them.

Because of the RollerMug's patent protection, only RollerMug, Inc. can sell them. Therefore, the only obstacle is the ability to generate demand and production capacity to sell as many of them as possible before the novelty "wears off." Because of the need to set up a new production facility, initial sales volume will be hindered by the production capacity of that facility. Anticipated production of the RollerMug follows:

Year	**Production Units**	**Indicated Sales**
Year 1	2,200,000	$12,100,000
Year 2	9,900,000	54,450,000
Year 3	14,800,000	71,400,000
Year 4	21,100,000	116,050,000
Year 5	30,200,000	166,100,000

If the above estimates are attained, RollerMug, Inc. will have established itself as a major distributor of beer mugs. When the RollerMug novelty fades, the company will be positioned to begin selling the generic plastic mug the RollerMug replaced. With such significant volume, in-house production becomes a viable alternative to reselling mugs produced by other companies. Such a step would require funding of the magnitude generally pursued through an initial public offering.

In order to set up a fully functional production facility to produce RollerMugs, and build a sales organization to sell them, approximately $2,000,000 is needed. This amount will be used to both rent and tool a factory, as well as to provide the working capital required supporting the early stages of the company's development.

If the production and sales volumes outlined above are met, the investor will see a dramatic increase in the value of his/her investment. At the end of the RollerMug "craze," when RollerMug, Inc.'s pursuit of the ability to manufacture plastic beer mugs in-house requires an initial public offering, this investor will have the option of selling his interest in the open market, or continuing as an owner.

Table of Contents

The Company

Current Status

RollerMug, Inc. was started in June 1995 by Gary Capolino to exploit the opportunities created by the issuance of U.S. Patent #9,096,535,053 for the RollerMug.

In October 1995, Jim Mitsuoka was engaged as a marketing consultant in order to help RollerMug, Inc. transform its patented product into a marketable item. Through November and December 1995, Jim and Gary experimented with several materials in order to determine those most suitable for a high volume production run of RollerMugs.

In January 1995, 10,000 RollerMugs were produced for distribution to local drinking establishments in the Riverside-San Bernardino area of southern California for free with the intention of measuring the degree of customer acceptance at the drinking establishment level as 98% of beer mugs are purchased in volume by drinking establishments.

Aside from the customer response, valuable information was gathered regarding causes of product failure, suitability of component suppliers and a design modification to increase the reliability of the product as the finished product comes to market.

With the recent addition of Don Plamann as Vice President of Operations, RollerMug, Inc. is preparing to begin active assembly and distribution of its the RollerMug product throughout the United States.

Objectives, Near Term

Having completed a rather successful test market of the RollerMug, valuable information has been gathered and incorporated into an improved product. Certain modifications were made to the design and the list of suppliers has been shortened to include those who can produce components consistent with the product quality required.

The next step in bringing the RollerMug to market is to acquire suitable facilities to enable economic production of the quantities required to meet the anticipated demand. When production facilities have been acquired and the ability to produce significant quantities has been proven, a sales force will be employed to cultivate demand for the product.

Objectives, Long Term

Assuming successful introduction of the RollerMug in southern California, additional sales representatives will be employed to broaden the geographic market area. While it is difficult to estimate the degree of success of market penetration, it is anticipated that the production facility will need to be expanded, or additional facilities acquired. In identifying a suitable production facility those facilities which will provide adequate room for initial production as well as allow for increased production will be pursued. Additionally, the facility should allow for the possibility to increase the size of the operation without requiring relocation.

Depending on the success of the RollerMug, the possibility of eventually producing all of the components used in its assembly will be explored. This vertical integration would put RollerMug, Inc. in the position to use the market penetration of the RollerMug to become both a manufacturer and distributor of plastic beer mugs.

As with most novelty items, the appeal of the RollerMug will not last forever. Therefore, the success of the RollerMug will be exploited to acquire market share in the plastic beer mug industry, gain the financial resources to produce plastic beer mugs, and as the RollerMug market fades, be positioned to sell the plastic mugs which will ultimately be the replacement item.

The Management Team

Gary Capolino, President Mr. Capolino's background is in accounting. In the earlier part of his career, he gained valuable experience in the banking industry and then worked for a number of smaller companies where he assisted in bridging the gap between small and medium size. More recently, Gary has had his own consulting practice where he assisted small businesses by providing part-time chief financial officer services for companies lacking the volume or the resources to support a full time accountant.

With his earlier experience helping small businesses find success, Gary Capolino is well qualified to lead RollerMug, Inc. from this start-up phase through the product life cycle of the RollerMug and beyond as RollerMug, Inc. finds its place in the beer mug manufacturing and distribution business. His background in accounting/finance reduces the need to add additional financial expertise (and its inherent cost) while demonstrating the guiding principle of his consulting practice: ***small businesses need accounting support, but not on a full time basis!***

Jim Mitsuoka, Vice President, Sales, Marketing & Manufacturing Mr. Mitsuoka's diverse background in sales and marketing as well as his more recent research and development related to the manufacture of pens for a company in Taiwan ideally suit RollerMug, Inc. for the challenges ahead.

To date, Jim has spent a significant amount of time with Gary Capolino in perfecting the RollerMug in order to simplify the manufacturing processes while maintaining the quality of the product. Mr. Mitsuoka planned and executed the very successful test marketing of the RollerMug where 10,000 units were given to local drinking establishments for free in order that a rather comprehensive study of the products functionality and appeal could be better understood. As a result of this test market, the RollerMug has seen some design improvement, and a measure of the quality of the component manufacturers has been better understood.

As RollerMug, Inc. approaches full scale production of its RollerMug, Mr. Mitsuoka will play an integral role in the planning and building of a fully functional assembly operation.

Don Plamann, Vice President of Operations Mr. Plamann comes to RollerMug, Inc. after a rather successful career in the printing and banking industries. Initially working as a printer, Mr. Plamann demonstrated his early leadership abilities with several large printers in the Los Angeles Area. Approximately 15 years ago, Don headed the print shop for a major California bank and through his superior management ability attained the Senior Vice President level in the operations department where responsibilities ranged from check processing to the mailroom.

As Mr. Plamann approaches retirement, RollerMug, Inc. can greatly benefit from his many years of experience as well as his still sharp operational skills. With Don at the helm, meeting surging demand for the RollerMug will be a small challenge.

Management Objectives

In order to fully exploit the opportunities created by the patented RollerMug, both a sales and marketing organization as well as a high volume production facility must be built. The functional parts of the organization will be built incrementally with a continued emphasis on quality. Advancement to the next level of growth will be deferred until the executive committee is wholly satisfied that such advancement will not impair the health of the organization, the quality of the product, or the financial stability of the company.

When a production facility is obtained, the initial production runs will produce 100,000 RollerMugs a month. Based on the number of sales inquiries received to date, this level of production will not require any significant sales or marketing investment. When the operation is "whole," sales representatives will be hired to begin calling on prospective customers in southern California. Based on the results of this increased selling effort, production will be carefully increased to meet the increasing demand. Prospective new customers will normally require 30-60 days before they are prepared to receive the RollerMug as their current inventory of mugs will need to be consumed. This lead-time is very consistent with the amount of time required to plan for and execute increased production.

Regarding credit, industry practice dictates that payment cannot be expected until the product is delivered. While a deposit on a new order might seem prudent, such a requirement would be a heavy burden as existing relationships are replaced. Therefore, new customers will be qualified with the latest credit information and written purchase orders will be required. For customers who do not have high credit ratings, deposits will be required. The possibly of offering discounts for prompt payment is being explored.

Markets & Competition

The Present Market

Beer mugs are the container of choice for establishments serving beer for immediate consumption as 98% of all beer mugs are sold to food and beverage establishments. Of that 98%, 69% of the mugs sold to food and beverage establishments are made of plastic with glass accounting for the rest. The glass mugs are more expensive than the plastic mugs and this higher cost is justified by a longer useful life. While plastic presumably can last forever, in practice, it scratches and becomes unattractive for further use after approximately 150 uses. Glass on the other hand maintains its attractiveness (although subject to scratching after extended use), but is prone to breakage. In practice, glass mugs are replaced after 275 uses.

The determination of whether an establishment uses glass or plastic mugs generally lies with the economic level of the establishments' clientele. The higher the economic level, the more likely they are to use glass. The RollerMug will be an attractive replacement to the upper end of the plastic mug niche as well as the lower end of the glass mug niche. The RollerMug (while it has engineering advantages) appears to derive most of its popularity as a novelty item.

User Benefit

For years, bartenders have taken pleasure in filling a beer mug with beer, then sliding it on the bar surface to the customer who ordered the beer. The accuracy with which the bartender could slide the beer in addition to his ability to avoid collisions with other patrons' beer mugs reflected on both the skill and experience of the bartender.

Unfortunately, when glass mugs collide with other glass mugs, they frequently break. Aside from the loss of product (in this case beer), the broken glass can be a hazard to the health and safety of the patrons. In today's litigious society, such a hazard can end an establishment's existence.

Another problem in today's ever growing bars is that sliding a beer a long distance is becoming ever more necessary as patrons demand that their beer be "thrown" to them down the ever lengthening bar counters.

The RollerMug was designed to reduce the hazards associated with this long established amusement in America's drinking establishments. With the addition of wheels at the base of the beer mug, the RollerMug is capable of "sliding" longer distances at a lower speed which increases the bartenders' range as well as reducing the spillage of product that often accompanies a long "throw." Additionally, all RollerMugs are made of plastic that can eliminate the hazards associated with glass beer mugs thus assuring higher levels of safety for a drinking establishment's patrons.

Other Customer Benefits

In the market testing of the RollerMug, a number of the selected drinking establishments noticed an increase in the shrinkage of their mug inventory. Closer scrutiny determined that patrons were stealing them. Apparently the novelty of the RollerMug had people deciding that they would like one of their own.

While the RollerMug did not introduce theft into the drinking establishment business, the affected drinking establishment proprietors recognize that in many cases, patrons will willingly pay for something if it is available for sale. Petty theft of such items as the RollerMug normally results from circumstances that communicate that the mug is not available for sale.

Packaging the RollerMug for individual resale does not present any significant increase to the anticipated cost of production. Further, the RollerMug can be sold in drinking establishments at a markup of 200% (i.e. $15-16), a price consistent with expectations in the mail order market. Therefore, the RollerMug offers both the appeal of a novelty item in the drinking establishments that use them as well as a chance to significantly increase profits.

Market, Near-Term

Based on the successful test marketing in early 1996, the RollerMug should gain easy acceptance in the drinking establishment industry. The only remaining hurdle is acquiring suitable facilities to produce a quantity consistent with anticipated demand. In that interest, geographic marketing efforts will be slowly increased in order to both assure the ability to produce a quality product as well as to keep the demand at a level consistent with that production ability.

In the first year of operation, marketing efforts will be limited to southern California. Orders will be accepted from anywhere, but such “outside” demand is not expected to have a dramatic effect on production expectations.

Market, Long-Term

Based on a successful introduction of the RollerMug in southern California coupled with developing ability to produce it in sufficient quantity to meet the growing demand, it will be marketed beyond southern California in late 1997. Marketing efforts will be broadened geographically into northern California. This expansion is not intended to be at the expense of the established market base in southern California, but in addition to it. Additional salespeople will be employed to penetrate this new market.

In early 1998, this market will be broadened to include Oregon, Washington, Nevada and Arizona. Based on the successful penetration of these new markets, the RollerMug will be marketed in the major markets across the United States by the end of 1998. The ability to produce RollerMugs in sufficient quantity to meet this growing demand is the major growth-limiting component. As demand and usage become more widespread, mail order marketing will be exploited in order to increase sales to consumers who want to purchase them for personal use or collecting.

As the RollerMug market expands across the United States, the level of sales could become large enough to justify the production of plastic beer mugs and perhaps the axles and wheels currently purchased. As the novelty of the RollerMug begins to wear off, RollerMug, Inc. will be in a position to manufacture and distribute plastic beer mugs. These plastic beer bugs will replace the RollerMug as a cheaper alternative when drinking establishments return to the generic plastic beer mug used before their attraction to the novelty of the RollerMug.

Summary of the Projected Market

The beer mug is a staple in the food and beverage industry as the container of choice for serving beer. Before the proliferation of plastics, virtually all of them were made of glass. With the advent of plastics, 69% of the market has changed from glass to plastic. The major failing of the plastic mug is its tendency to scratch and thus lose its "glass-like" appearance. The major advantage of the plastic mug is weight (considerably lighter than glass) and the fact that it does not break. As a result of the plastic mug's tendency to scratch, it is usually replaced after approximately 150 uses. Regardless, the plastic mug is considerably cheaper than the glass mug.

The glass mug continues to be the beverage container of choice for serving beer. Those establishments catering to a more "up-scale" clientele as it appears cleaner and implies a finer product inside generally use it. The major failing of the glass mug is its tendency to break. Broken glass can be a hazard to the beverage servers as well as the patrons who use them. Normally, beer mugs average 275 uses before they are broken.

The RollerMug by definition is a new plastic mug with wheels. While it has considerable value as a novelty item, it will be marketed as a novel substitute for the beer mugs currently in use. While it costs a little more than the plastic mugs currently in the market, the novelty of the wheels should justify this cost. Currently, 3.5 billion beer mugs are used annually in the United States. With such a large market, coupled with the uniqueness of the RollerMug and its patent protection, profitably penetrating this market should not be difficult.

Competition

Because of the patent protection issued to the RollerMug product, no other manufacturer or distributor in the United States can produce a beer mug with wheels. In that sense, there is no competition.

Regardless, the marketing of the RollerMug will directly reduce the sales of other beer mug distributors and those beer mug distributors are expected to aggressively protect their market. While the novelty of the RollerMug should produce sales regardless of the efforts of such competitors to protect their market share, follow-up selling will be employed to assure that the replacement mug is also a RollerMug. Further, the RollerMug will be marketed to communicate the "quality" of the product to make customers feel good about their purchase when competitors prod for buyer remorse. Most importantly, the RollerMug must be free from defects in order that it doesn't turn into a new problem for the drinking establishment owner.

The only real weapon in the beer mug distributor's arsenal is price-cutting. The current price structure of the RollerMug allows some margin to respond to this tactic, but if the RollerMug is marketed as a novelty item, the price should be of little issue (within reason). If customers receive a novel, quality product that proves to be a suitable replacement for the product currently employed, RollerMug, Inc. will hold its newly acquired market share. Competition will force the production a high quality product. This will further benefit the customer.

Projected Sales and Market Share

Current annual beer mug sales:

Immediate Market Area:	
Greater Los Angeles Area	50,000,000
San Diego Area	28,000,000
Southern Central Valley	10,000,000
Greater Santa Barbara	15,000,000
Total Southern California	103,000,000
West Coast Region:	
California	250,000,000
Arizona	24,000,000
Nevada	13,000,000
Oregon	40,000,000
Washington	45,000,000
Total West Coast	372,000,000
Total United States	3,500,000,000

Of the above beer mug sales, glass mugs account for 31% or 1,008,500,000 nationally, 115,000,000 for the West Coast Region and 30,000,000 for southern California. Therefore, the size of the potential market for the RollerMug is as follows:

	Plastic (60%)	**Glass (10%)**	**Total**
Southern California	42,642,000	4,017,000	46,659,000
West Coast Region	154,008,000	14,508,000	168,516,000
United States	1,449,000,000	136,500,000	1,565,500,000

When the production facility is operational, initial production will be 100,000 units per month. Production capacity for an eight-hour shift will be 500,000 per month. This capacity translates into a market share of 9.7% for the southern California market.

Specific Target Markets

The beer mug industry is broken into two segments: plastic mugs, and glass mugs. The glass mugs are generally used by those drinking establishments with clientele at a higher economic level than those who use plastic mugs. The glass mugs account for 31% of the beer mug market.

Because the RollerMug is by definition a plastic mug, the sector of the market with the most potential will be those drinking establishments currently using plastic mugs. Within that market there exists a percentage interested in minimizing costs with little interest in the appeal of any specific beer mug. Also within that market there exists a percentage where the novelty of a new beer mug has considerable meaning, as customers will enjoy their drinking experience a little more. Likewise, while glass mugs have a certain "snob" appeal as being indicative of a higher quality product (the beer, not the mug), there exists a certain percentage of this user who would consider the plastic RollerMug as enhancing their patrons' drinking experience.

Therefore, without pre-classifying any drinking establishment, sales and marketing efforts will be targeted at all of the drinking establishments in the chosen market area. While the restaurant industry does have some potential, the addition of wheels on drinking utensils normally carried on trays would be less than optimal for these potential customers. However, the possibility of fixing the wheels for such applications is currently being investigated.

Sales Strategy to Reach Objectives

Based on the response to the test market of the RollerMug, numerous inquiries about the product as well as several purchase orders "...as soon as they are available" have been received. With such enthusiasm, a sensible level of production can be initiated without a significant sales and marketing investment.

As the production process is refined to enable significantly greater levels of production, a sales force will be enlisted to initially cover southern California. Because of the nature of the product (beer mugs are regularly replaced), recurring sales can be expected. As the ability to function at the new production level is proven, additional sales people will be hired to cover a larger geographic area to generate a higher level of sales.

Theory of Operation

The RollerMug is a plastic beer mug with wheels. When sliding a beer mug down a bar counter as bartenders generally do, beer tends to get spilled as a result of the speed required to reach the more distant patrons. When glass mugs are used, more speed is required and thus more beer gets spilled creating a condition that can increase the cost of the beer requiring replacement and the patron's level of dissatisfaction. Additionally, collision with other beer mugs can result in further spillage (and cost of replaced beer) as well as broken beer mugs (and even more replaced beer) when glass mugs are used.

The RollerMug was designed to increase the range of movement while requiring a lower rate of speed. When the conventional beer mug slides down a bar counter, the whole bottom is in constant contact (with resulting friction) with the bar counter surface. This creates drag which produces a constant braking effect which is contrary to the interest in sliding the beer mug longer distances as drinking establishments install longer and longer bar counters. Through the design and testing of the RollerMug, a plastic beer mug was created which with the addition of two wheels connected with an axle actually allows movement twice as far as the conventional beer mug sliding at the same speed. As a result, less beer is lost from the gravitational effect of higher speeds and collisions when they occur are at lower speeds and less beer is lost.

When the RollerMug was test marketed, its appeal had little to do with the laws of physics outlined above. Patrons love the concept of a beer mug having wheels. Therefore, the engineering talents outlined above have produced a novelty item with far greater appeal than the laws of physics can justify.

Applications

The primary application for a RollerMug is as a container to drink beer. While this application is not new, the novelty of drinking out of a mug with wheels is. As a result, customers love them and the "experience" of drinking beer at an establishment that uses them is enhanced by this novelty item.

Aside from the usage outlined above, the RollerMug has considerable potential as a promotional item. Since the RollerMug is used to drink beer and is considered to be a novelty item, virtually any advertiser that uses beer as a promotional vehicle could be attracted to this product. Further the use of wheels opens additional possibilities in the tire, automotive or any industry associated with wheels.

Since the RollerMug is a novelty item, it also has potential as a merchandising item to be sold by the establishments that use them to sell beer. Research indicates that they could be sold in drinking establishments at a 200% markup and become a significant contributor to increased profits for the drinking establishment owner. Another possibility would be to sell them while pledging the profits to go for charitable purposes.

Product Performance Data

During development prior to the patent application, the RollerMug was tested extensively to determine materials most suitable materials to allow a beer mug to slide on a bar counter or table surface with the least friction. This would to enhance its speed (and potential distance) and reduce the likelihood that the contents would spill from the mug. During this testing, it was determined that the effects of gravity that resulted from the speed of movement could not be reduced. Faced with the option of putting a lid on the container (which was not considered esthetically viable), a mug was designed which would slide for a longer period of time at a slower speed. After considerable experimentation with several materials, glass was determined to be the optimal low friction material. However, with glass comes the inherent risk of breakage. Through additional experimentation, most plastic mugs fitted with wheels were found to slide (roll) with less friction for longer distances at a lower speed than glass mugs. Therefore, the lowest friction plastic is used to produce beer mugs, which are then fitted with wheels to produce the optimal result.

In order to measure the performance of the RollerMug, a batch of 10,000 were manufactured and distributed (for free) to several drinking establishments in the Riverside-San Bernardino area of southern California. The major focus to the test was to determine whether users would prefer the RollerMug to the beer mugs currently in use. After two weeks, when the original mugs were returned, the response was universal. **The drinking establishments did not want their old mugs back!** Apparently, the issue of sliding and spillage that inspired the development of the product had little to do with their preference. Instead, the drinking establishment patrons liked the novelty of a mug with wheels. Additionally, customers were stealing them, which indicated significant potential in the possibility of selling RollerMugs to their patrons. One drinking establishment owner with several locations has ordered 25,000 RollerMugs with his logo on them. In the three months since that experiment, more than 50 inquiries have been received from potential customers in five states.

Product Economics and Advantages

Currently, plastic and glass beer mugs are manufactured and distributed throughout the world. The manufacturing process is widely understood and the only barriers to entry are the difficulty of attracting enough market-share to justify the economics of a manufacturing facility. The decision of using plastic or glass mugs is based on the economic level of the drinking establishment's clientele. The RollerMug tends to be attractive to the higher end of the "plastic mug" niche as well as the lower end of the "glass mug" niche. Therefore, the RollerMug should replace plastic beer mugs in the higher end of the "plastic mug" niche establishments that use plastic mugs as well as the lower end of the "glass mug" niche establishments that currently use glass beer mugs. The novelty of the item is its primary attraction as a substitute for an otherwise generic "staple."

Based on the early indications of interest in the drinking establishment industry, initial volume should allow purchase of plastic beer mugs directly from manufacturers to eliminate the costs of working though a distributor. This buying advantage coupled with the costs of installing wheels should allow the RollerMug to be sold at a price slightly higher than the current distributor price. Because of the novelty of the RollerMug, little resistance to the slightly higher price is expected.

As for useful life, the normal determinant with plastic mugs is the number of uses before the mug is so scratched that it is no longer considered fit for continued use. Currently, this useful life is 150 uses. At that time, the mug is normally sold for scrap back to the distributor who returns it to the manufacturer who then melts it down and the plastic is remanufactured into new beer mugs. For glass mugs, breakage is normally the end of the mugs' useful life. In practice, they generally average 275 uses before requiring replacement. This longer useful life offsets the higher price of glass. For the RollerMug to be a viable replacement for these mugs, the major hurdle is to manufacture them at a level of quality that the wheels will be functional beyond this normal useful life. That hurdle being overcome, the drinking establishment benefits from the attraction of customers who come to expect their beer in a RollerMug as well as the potential profits of merchandising for those establishments who take an interest in selling them to their customers. Additionally, drinking establishments can use the mugs as premium items to be given away with different manufacturer promotions.

Present Product Status

In January 1996, 10,000 mugs were assembled in order to produce an adequate quantity for distribution to several drinking establishments in the Riverside-San Bernardino area of southern California. For this production run, plastic mugs were purchased through distributors from seven different manufacturers. Similar quantities of axles and wheels were also purchased from different sources in order to make judgments about the comparable advantages of the various sample components.

The actual assembly took place in a barn owned by one of the principals. The work was performed by the principals and members of their families and was accomplished over three weekends. The total man(/woman) hours required for assembly was 202.5.

Through this trial run, a number of suppliers were identified as being suitable for future production runs. The higher quantities of future runs will provide significant unitary cost savings.

Being faced with the unexpected reluctance of drinking establishment owners to return the RollerMugs distributed in the test run, failed items (i.e. wheels fell off, etc.) were returned to us for analysis. While the failure rate was rather low (150 out of 10,000 distributed), there was significant concern about such a high rate after only one week of usage. However, analysis of the "failed" mugs indicated that axles produced by three of the five suppliers of that component caused the "failure". Interviews with the users who experienced a concentration of the "failures" indicated that when they placed the mugs on the bar counter, the wheels "...popped off." This "popping off" appears to be the result of the mugs being slammed on the bar counter which caused the axles to break at the ends thus causing a "popping off" effect.

In order to prevent such "failures" from recurring in the future, the suppliers of the "failed" axles have been removed from the "approved supplier list" pending some modification of the composition of the plastics employed. Additionally, the location of the axle hole drilled in the lower part of the mug has been raised slightly to allow the axle to flex slightly allowing the bottom of the mug to contact the bar counter in such "impact" situations.

Scale-Up Requirements

To economically produce the RollerMug, a minimum quantity of 100,000 must be assembled. This quantity is dictated by the manufacturers minimum quantity for direct sales. Quantities less than 100,000 would require purchases from a distributor that would increase the price to a level which would preclude profitable operation. By definition, the production and sale of mugs (of any kind) to drinking establishments is in direct competition with the mug distributors.

The production of 100,000 mugs would require a minimum of 4,000 square feet of space as the storage of one shipment of plastic mugs would require 1500 square feet. Allowing

for any sensible growth from initial production runs suggests the rental of a facility with 25,000 square feet.

Basing production capacity on the estimate of 50 units per man hour, and a break-even point which dictates that any production run should be accomplished in one month, 12 production workers should be hired with at least one having the ability to operate a forklift. A forklift operator is a requirement.

One person should be hired to handle administration as the initial level of production already dictates a significant payroll function. This person should be supplied with a computer in order to manage the billing and purchasing function. Additionally, computers should be acquired for each member of the management team.

Patents & Proprietary Know-How

The RollerMug in protected by U.S. Patent #9,096,535,053 that gives protection to any beer mug or drinking utensil with wheels. While there have been drinking utensils that fit into "carrier" types of wheeled "vehicles," none of the prior art actually includes an axle installed in the drinking utensil itself.

Selling

Current Selling Method

Since RollerMug, Inc. currently has no production facilities; no serious selling effort has been undertaken to date. However, as a result of the test marketing undertaken in the first quarter of 1996, approximately 77,000 units have been ordered "...when they are available." Additionally, inquiries have been received from more than 50 interested prospects that will be contacted when production is initiated.

Selling Methods, Near Term

The immediate hurdle in selling RollerMugs is obtaining the ability to produce them. Initially, they will be manufactured in quantities of 100,000, a process that should require one month. Based on the results of this initial run, the list of prospects obtained through the test market should consume the output from the next two runs. During the second and third production runs, a sales force will be organized. The initial geographic market will be southern California.

In order to produce sales, the salespeople will visit drinking establishments throughout southern California. Jim Mitsuoka, Vice President of Sales, Marketing and Manufacturing, will orchestrate this sales effort. During this initial period, Mr. Mitsuoka will have several integral responsibilities at the same time. However, if manufacturing problems require his time at the expense of his selling responsibilities, the executive committee is satisfied that he will not need to be generating sales.

Selling Methods, Long Term

As the RollerMug demonstrates its market acceptance and RollerMug Inc. proves its ability to produce RollerMugs in keeping with this demand, a national network of regional sales representatives will be put in place to establish and maintain business with drinking establishments throughout the United States.

While drinking establishment customers will sell a significant quantity of RollerMugs to their customers, the potential for selling directly to the retail customer will be pursued through mail order. Sales will be generated through advertisements in selected catalogs that are distributed throughout the world.

There is a considerable novelty aspect with the RollerMug which will wear off. However, in exploiting the novelty of this product, the establishment of a sales and distribution network can position RollerMug, Inc. as both a manufacturer and distributor of plastic beer mugs. The establishment of strong relationships with drinking establishments is an integral part of this strategy.

In-House Sales Support

While sales people will accomplish the actual selling of the RollerMug through onsite visits, a coordinated sales effort will be pursued. While the individual selling practices may vary from salesperson to salesperson, ultimately, the sales leadership will come from headquarters. Sales and marketing materials will present a beer mug that drinking establishments need to have, that their customers will demand and that the RollerMug will be of a quality consistent with industry expectations as well as the expectations of the patrons who ultimately use them.

Therefore, salespeople will be provided with adequate office space to function from the production facility as well as to provide the increased opportunity to communicate with manufacturing personnel about feedback regarding customer perceptions of the RollerMug.

Additionally, suitable sales and marketing materials will be provided for distribution to prospective customers in order to give the salespeople adequate materials to support their sales efforts. To assure that every customer receives adequate support from their salesperson, all orders will be channeled through the assigned salesperson.

In order to collect as much information about the acceptance of the RollerMug, regular sales meetings will be held with all salespeople. As the geographic market grows, such meetings will take place in regional offices.

Pre-Contract Sales Costs

The pre-contract cost of selling the RollerMug amounts to salespeople's salaries and the production of suitable marketing material to support their efforts. Contact management software will be acquired as well as adequate office space. Salespeople will be compensated on a base salary plus commission basis, as it is the belief of the executive committee that selling should not be a salesperson's only priority.

Custom Engineering Sales Requirements

Because of the novelty of the RollerMug, there is significant potential for it to be used as a promotional item. While some drinking establishments may prefer to have their name or logo imprinted on it, others may prefer certain types of wheels on it. Beer companies could use the RollerMug for specific promotional events. The potential for such opportunities seems limitless. The modification to manufacturing processes in order to accommodate such "opportunities" would be minimal. In many cases, it would require that the supplier modify their component part. Costs would be passed on to the customer. No other company can sell a RollerMug.

Product Pricing

Most drinking establishments buy their beer mugs at the distributor level unless they are large enough or have enough outlets to enable them to buy directly from the manufacturer. Normally manufacturers do not deal in quantities lower than 100,000. At the distributor level, the unit price for plastic mugs is approximately $5.00. Glass mugs are sold at the manufacturer level in lots of 50,000. At the distributor level, the unit price for a glass mug is $7.50.

At the intended production volume of 100,000 per month, plastic beer mugs will be purchased directly from the manufacturer at a price of $2.14. The tasks required to install wheels on the mug are as follows:

1) Drill a hole through the base
2) Place an axle in the hole
3) Install wheels on each end of the axle

When performed in quantity, a trained technician can assemble 50 mugs per hour. Assuming that the technician will be compensated at the rate of $10.00 an hour, the labor associated with the task costs 20 cents.

The plastic axles cost two cents each, the wheels cost five cents a pair.

Therefore, the direct costs associated with producing one RollerMug are as follows:

Plastic Mug	$2.14
Labor	.20
Axle	.02
Wheels	.05
Total	2.41

The RollerMug will be sold at a unit price of $5.50. The novelty of the item should justify a price slightly higher than the products currently in use.

Manufacturing

Facilities Needed

Production at a minimum quantity of 100,000 RollerMugs would require approximately 4,500 square feet. Additionally, the office space to support such an operation and the initial sales force would require another 1,500 square feet. Since this is a "minimum" capacity, room for sensible expansion dictates the need to acquire rental space of at least 25,000 square feet. Also, at least one loading dock would be required. This amount of space is necessary to allow for growth in production requirements as well as to limit financial commitments until a level of business is attained which would justify a higher rental expense.

Recognizing the potential of the market, expansion should not require relocation should the current rental space prove inadequate for production requirements. Therefore, a rental arrangement including provisions for additional space should it be required will be pursued. If potential tenants are found for such space, RollerMug will have the right of first refusal.

Make Buy Considerations

The basic components required to produce a RollerMug are a plastic beer mug with a hole drilled through its base, a plastic axle, and a set of wheels. While the assembly of these component parts is not difficult and could easily be jobbed out, RollerMug will assemble them in its own manufacturing facility because of the additional control over the process this arrangement would afford. Already, after the test run of 10,000 units, substandard vendor components were not detected until after the product was delivered. If the assembly were jobbed out (as well as the ultimate delivery), such defects might have been hidden from view in order to prevent dissatisfaction.

If the RollerMug is successful, the issue as to whether to buy components or make them will be revisited. At present, the initial projected sales volume is not sufficient to justify any component manufacture. In fact, the minimum production run is dictated by the manufacturer of the principle component (plastic beer mug) as not being economically sensible at a level below 100,000. In order to make the investment in the tooling required to produce beer mugs in the quantity required to justify such an investment, the sales volume must be consistent with that quantity.

Axles and wheels are not so difficult to manufacture, but for the moment, efforts will be concentrated on marketing the RollerMug to justify additional production. When suitable production levels are met, this area will be revisited.

Major Purchasing Issues

In order to obtain plastic beer mugs at a price that would justify profitable sales after any level of additional manufacturing, they must be purchased in quantities of at least 100,000. This minimum quantity appears to be an industry standard and is currently a significant barrier to entry in the beer mug distribution business. There is no shortage of plastic beer mug manufacturers, and the quality of their product does not seem to vary significantly.

The other components required to produce a RollerMug are the axles and wheels that test marketing demonstrated to be of vital importance in the success or failure of the product in the market. Currently, several vendors who can produce reliable parts have been identified. All of them will be employed while their performance is closely monitored.

Second, Third Sourcing Needs

Because of the generic aspect of all of the components in a RollerMug, finding multiple sources for them has been a very simple task. For the test marketing run of 10,000 RollerMugs, mugs from seven different plastic mug manufacturers, axles from five different plastics companies, and eight wheels from eight different toy companies were used. Oddly enough, the only component that caused a failure of the product (wheels popping off) was the plastic axles. Three of the five plastics companies proved inadequate in meeting our needs. This market is being researched to find additional suppliers.

Manufacturing Engineering Support

Because of the simplicity of the RollerMug, the technical expertise required to produce a reliable quality product is not great. Regardless, RollerMug, Inc. is fortunate to have the services of Jim Mitsuoka who easily meets any and all of our manufacturing engineering needs.

Quality Control Plans

Before our test marketing experiment, there was little understanding of how the RollerMug could fail. It was understood that the most significant hurdle would be the ability of wheeled axles to stay together through 200-250 trips to the dishwasher. While 200 washes is beyond the normal useful life of a plastic mug, the failure of the wheels to stay on the mug can never be the reason for discarding it. Regardless, that obvious problem was solved with the decision to use plastic axles instead of metal. Additionally, the axles were indented at the center of the wheel and a raised groove was added to the inside of the wheel in order to create a "snap" fit. In dishwasher tests, this modification proved adequate.

When the RollerMug was delivered to the local drinking establishments, user feedback communicated a tendency for the wheels to "...pop off." Investigating this condition, a bartender explained that when the bar was busy, it was not unusual for a bartender to fill several beer orders at the same time. In doing this, the bartender would frequently grab three or four mugs at the same time and as he placed them on the counter, one or two of them would land with some impact. On impact, the wheels popped off. Upon investigation, the axles were found to be breaking off at the ends when the mug was slammed on the counter.

In studying the mugs that failed due to this problem, all but two of the suppliers of that component were prone to this problem. As a result of this experience, the market will be further researched to find additional suppliers and the plastics involved will be studied further. Additionally, the location of the axle has been elevated to allow it to flex and to have the bottom of the mug absorb the impact when impact is an issue.

Because of the importance of the permanence of the wheels, slamming them on a hard surface will randomly test completed mugs. Since the mug bottom should absorb most of the impact, the wheels should stay on. After the impact, the mug should still roll and the axles should not crack.

Staffing Requirements

Currently, the staff consists of Gary Capolino, President, Jim Mitsuoka, Vice President of Sales, Marketing and Manufacturing and Don Plamann, Vice President of Operations. When factory space is acquired and production initiated, an initial need of 12 production workers is anticipated. At least one should be capable of operating a forklift. Additionally, one administrative person would be required to manage the payroll, bookkeeping and other administrative matters.

After production of the RollerMug is accomplished, three to five sales people will be employed. After they complete their initial training, a sales support person will be hired. As the size of the production runs increase, additional production workers will be required. As the sales potential of individual salespeople is better understood, a quantification of the number of production workers required to support each salesperson will be established.

Financial Data

Financial History

RollerMug, Inc. was incorporated on June 12, 1995. Since that time, all corporate expenditures have been covered by capital contributed by Gary Capolino with the exception of some of the services provided by Jim Mitsuoka which were exchanged for shares of stock. As of April 30, 1996, Gary Capolino's capital contribution (not counting the RollerMug patent) has amounted to $130,000. Services provided by Jim Mitsuoka, which were exchanged for stock, are valued at $29,000. The patent on the RollerMug is valued at $35,000.

Expansion Requirements, Budgets

In order to begin production of the RollerMug at an initial volume of 100,000 per month, the following expenditures will be required:

Deposit on Rental Space	$10,000
Six Months Rent	60,000
Tenant Improvements	60,000
Raw Materials (for Production)	1,125,000
Warehouse Equipment	30,000
Office Furniture	13,000
Office Equipment	39,000
Salaries	175,000
Six Months Utilities	4,500
Total Expansion Requirements	1,516,500

Current Stockholders, Number of Shares

Gary Capolino	20
Jim Mitsuoka	3
Don Plamann	1
Total Shares Outstanding	24

Investment

Use of Proceeds

The proceeds of the proposed investment will be used primarily to establish manufacturing facilities to produce the RollerMug in minimum quantities of 100,000 and to organize a sales organization to bring this product to customers throughout southern California.

Current estimates of the funds required to comfortably establish operations (outlined in the Financial Data section) amount to a little more than $1,500,000. Cash Flow projections (also outlined in the Financial Data section) anticipate a deficit of approximately $800,000 before the operation begins generating enough cash to cover the start-up costs and ongoing funding requirements of the organization.

Recognizing the element of optimism embraced by all projections, the cash flow estimate suggests funding needs of $2,000,000. The excess over the requirements outlined above will be used to cover unplanned contingencies.

Description of the Offering

RollerMug, Inc. is seeking equity capital in the amount of $2,000,000 that will acquire ownership of 30% of the company.

It is the objective of management to exploit the patent protection of the RollerMug to establish RollerMug, Inc. as a distributor of plastic beer mugs over the next five years. As the novelty of the RollerMug fades, the company's new found position as a distributor coupled with its sales volume should enable it to become a manufacturer of plastic beer mugs.

In furtherance of this objective, a public offering will be required to raise the funds required to obtain the manufacturing ability to produce plastic beer mugs. If sales projections are realized (outlined in the Financial Data Section), RollerMug, Inc. should have a net worth of approximately $170,000,000 after five years.