

GENERAL BUSINESS STRATEGY OF THE COMPANY

Cedarwood Productions, LLC (the "Company") and Lightning Rod Studios, LLC, an experienced independent motion picture production company based in Milwaukee, Wisconsin will Co-Produce the animated feature film entitled, A Fairy Tale. A Fairy Tale will be produced over a twelve-month period of time as follows: Pre-production, Production, Post-production, Delivery, U.S. Theatrical Release, and Ancillary.

- 1.Pre-production -- during this phase, the screenplay will be polished and Drew Maxwell (Director) will begin to create what is known as the "concept bible." The concept bible will contain concept artwork for all of the characters appearing in the film, concept artwork for the backgrounds and landscapes appearing in the film and storyboards for key scenes. Drew has experience producing concept materials for Warner Brother's Animation and Lightning Rod Studios.
- 2.Production -- Upon completion of the pre-production phase, the Company will commence production with Lightning Rod Studios at Lightning Rod's studios in Milwaukee Wisconsin. Unlike live action films, production will consist of working with several actors in a motion capture environment. Actors will wear motion capture suits and act out the script. Lightning Rod's motion capture system will also track "virtual cameras" which will be used to make the film appear as though it was shot in the same manner as a live action film. The crew (Approximately 40 hired employees) needed to produce A Fairy Tale will be very small because there is no need for a lighting crew, electricians, gaffers, grips, make-up artists or other crew members typically found on a live action set. Unlike other animation productions, Lightning Rod's motion capture system captures data in real time, allowing Lightning Rod to track the facial features of the actors and record their voices as they act. This will substantially reduce the need to have actors come in separately to record the voices of the animated characters.
- 3.Post-production -- After the production phase, the Company will commence post-production and work with Lightning Rod to edit the data captured by the motion capture system in the same way a live action film is edited. Lightning Rod's 2-D and 3-D artists will generate all of the virtual sets, backgrounds, props and landscapes appearing the film, which will be composited with the animated characters captured during production. The audio, sound effects and music will be created and mastered during this time. During post-production, the Company will conduct test screenings and polish the film to derive the final film ready for distribution.

4. Delivery -- Once the film is ready for distribution, it will produce one or more trailers and other marketing material. The finished film and marketing material will be delivered to the Company's distributor who will complete delivery on pre-sales and begin selling the film to remaining markets and territories on a worldwide basis.
5. U.S. Theatrical Release -- The Company will begin to release the completed Picture theatrically in the United States on a limited basis.¹ The Company will also enter the completed Picture into domestic and foreign film festivals, which will assist with marketing the film and increasing awareness of the film.
6. Ancillary Rights -- The Company and Lightning Rod Studios will begin to develop and commercialize the ancillary rights associated with the Picture, such as video games, merchandise and sequels.

The Company will directly benefit from the experience of Lightning Rod Studios to produce a marketable genre motion picture based on proven movie concepts. Both companies will share in the responsibilities of producing the Picture in accordance with the terms of a co-production agreement entered into by the parties.

The Company intends to manage the financial risk inherent in the development of a single motion picture by entering into clearly defined domestic distribution agreements, international distribution agreements and selected international output agreements by implementing strong fiscal controls over the various phases of production, distribution and marketing.

During the pre-production phase of the project, Lightning Rod Studios will work with distribution companies to ensure that the plot and screenplay for A Fairy Tale are marketable. By working with distribution companies during the pre-production phase of the project, the Company will increase the likelihood that these distribution companies will be able to hit solid sales in both domestic and foreign markets once the film is delivered and ready for distribution.

The Company may also enter into a sales agreement with distribution companies that allows them to begin pre-selling² A Fairy Tale at various film markets, such as the American Film Market, Cannes, MIPCOM, NAPTE and others.

¹ It is now possible for independent production companies to release a film theatrically. However, theatrical distribution for independent films typically is done only for increasing the marketability of the film in home video and cable markets and should not be viewed as a viable means to derive profit.

² Pre-sales are typically sales made by a sales agent to foreign television and cable distributors prior to the completion of the film. The distributor may make an advance payment, but in most instances, the distributor will agree to pay a pre-determined amount upon delivery of the completed picture. Pre-sales will help the Company and its investors determine the profitability of the film prior to its completion and ensure a faster return on investments upon delivery of the completed picture.

Cedarwood Productions, LLC intends to complete the Picture and grant exclusive licenses to reputable distributors and sales agents for domestic and foreign markets.³ The Company will likely retain U.S. theatrical rights, video game rights, merchandising and the right to produce television series or sequels based on the project.

GENERAL COMPANY BACKGROUND

Cedarwood Productions, LLC (the "Company") was founded by Jim and Stacy Ellis (the "Founders"). The Founders are the Managing Members of the Company. The Company was organized on September 25, 2006, with the filing of Articles of Organization with the Wisconsin Department of Financial Institutions. The Company was formed to produce and commercialize A Fairy Tale (the "Picture") and all intellectual property associated with the Picture, including all related ancillary rights including but not limited to sequels, adaptations, merchandise, soundtracks and video games in all mediums known or created in the future (the "Business"). The Company intends to produce a motion picture and exploit all of the ancillary rights associated with a franchise based on the Picture. The Company's current principal office is located at 906 Cedarwood Court, Waukesha, WI 53188. The Company's fiscal year-end is December 31.

OWNERSHIP OF THE PICTURE AND INTELLECTUAL PROPERTY ASSETS

The film will be owned by Cedarwood Productions, LLC. Cedarwood Productions, LLC will be the sole and exclusive owner of the screenplay for A FAIRY TALE, all edited and unedited footage and the final edited feature film, and all sequel and ancillary rights associated with the Picture.

USE OF PROCEEDS

The Company will use the proceeds from contributors to pay for all phases of production and post-production and related operational expenses.

The preceding uses represent the Company's best estimate of its use of the proceeds based on present planning and business conditions. The Company may change its use of the proceeds as unanticipated events or occurrences, such as increased expenses, rapid growth, increased competition, business opportunities, new product opportunities or acquisition opportunities, may cause the Company to redirect its priorities and reallocate the use of the net proceeds.

³ The Company will likely enter into an exclusive domestic home video/cable deal with one company, and an exclusive sales agreement with a sales agent for foreign theatrical, home video and television rights. It is possible that both forms of license will be granted to one company, depending on the terms of the deal and the distributor's particular experience and track record with domestic and/or foreign sales.

REFUND OF PROCEEDS

If the Company does not secure the minimum amount of proceeds needed, \$ 2,500,000, within a reasonable amount of time, to commence production of A Fairy Tale, all monies received by its contributors, through loans, plus interest accrued, shall be refunded to its contributors. A reasonable amount of time shall be defined as three (3) years (three hundred sixty five (365) calendar days) from the date of inception, of the contributor's initial loan.

FINANCING AND PROFITABILITY OVERVIEW

The Company does not anticipate that the total cost to produce and deliver the Picture will exceed \$3,500,000. Once the Company has secured at least \$2,500,000, the Company will commence production of the Picture. This amount is sufficient to complete production and the majority of post-production of the Picture. Additional amounts will be necessary for marketing and distribution. These additional amounts will be used for the prints and advertising of the Picture in theaters across various markets as well as cover the cost of DVD duplication. If the Company is only successful with raising the Minimum, the Company may revise the budget to reduce the cost of certain elements of the production budget, including the cast and allocations for distribution.

The budget analysis contained in this document is based upon what the Company anticipates will be required to produce and deliver A Fairy Tale. The Company can provide no assurance that such budget prediction will in fact be accurate or that the Company will not need more than the minimum budget to produce and deliver Fairy Tale.

The budget for the film will cover the general out-of-pocket expenses of the Company and Lightning Rod Studios.

Estimated Production Budget

1	STORY AND SCRIPT RIGHTS	<i>Time/Quantity</i>		<i>Rate</i>	<i>Total</i>
	STORY RIGHTS	1	allow	\$50,000.00	\$50,000.00
	WRITER	1	allow	\$25,000.00	\$25,000.00
	TOTAL STORY AND SCRIPT			\$0.00	\$75,000.00
2	CONCEPT DEVELOPMENT	<i>Time/Quantity</i>		<i>Rate</i>	<i>Total</i>
	2-D Artwork, Story Boards, Environment Concepts ("Animation Bible")	3	months	\$5,000.00	\$15,000.00
	TOTAL PRODUCER AND DIRECTOR				\$15,000.00
3	PERFORMERS	<i>Time/Quantity</i>		<i>Rate</i>	<i>Total</i>
	VOICE OVER TALENT (Including Casting Fees and Withholdings)	1	allow	\$750,000.00	\$750,000.00
	TOTAL PERFORMERS				\$750,000.00
4	PRODUCTION STAFF	<i>Time/Quantity</i>		<i>Rate</i>	<i>Total</i>
	A.J. (3-D Animation/Modeling/Rigging/MoCap)	9	months	\$4,000.00	\$36,000.00
	Matt Fisher (3-D Animation/Modeling/Rigging/MoCap)	9	months	\$4,000.00	\$36,000.00
	Jim Ellis (Co-Director/Producer)	12	months	\$6,000.00	\$72,000.00
	Stacy Ellis (Co-Producer)	12	months	\$6,000.00	\$72,000.00
	Drew Maxwell (Co-director / Art Director)	12	months	\$6,000.00	\$72,000.00
	Dan Kattman (Business Affairs /VFX Coordinator /VFX Producer)	12	months	\$6,000.00	\$72,000.00
	Amy Dowd (Production Manager)	12	months	\$2,500.00	\$30,000.00
	Assistant Animator	12	months	\$2,500.00	\$30,000.00
	Assistant Animator	12	months	\$2,500.00	\$30,000.00
	Assistant Modeler/Texturer	6	months	\$2,500.00	\$15,000.00
	Assistant Modeler/Texturer	6	months	\$2,500.00	\$15,000.00
	Tech Support	12/29	months/allow	\$2,500.00	\$870,000.00
	TOTAL PRODUCTION STAFF				\$1,350,000.00
5	STUDIO, LOCATIONS, PROPS, WARDROBE AND SET	<i>Time/Quantity</i>		<i>Rate</i>	<i>Total</i>

		Studio Rental	12	months	\$3,250.00	\$39,000.00
		TOTAL LOCATIONS AND STUDIO				\$39,000.00
6	PRODUCTION EQUIPMENT		<i>Time/Quantity</i>		<i>Rate</i>	<i>Total</i>
		MoCap System	1	allow	\$100,000.00	\$100,000.00
		Jibs/Dollies/Tripods/Camera Support	1	included	\$0.00	\$0.00
		TOTAL PRODUCTION EQUIPMENT				\$100,000.00
7	EDITING AND FINISHING		<i>Time/Quantity</i>		<i>Rate</i>	<i>Total</i>
		Editing Suites (FCP, RAID, KONA, SOFTWARE)	2	included	\$0.00	\$0.00
		Animation Workstations	2	included	\$0.00	\$0.00
		Shake Compositing Suite	1	included	\$0.00	\$0.00
		Audio FX Library	1	included	\$0.00	\$0.00
		Color Correction Suite	1	included	\$0.00	\$0.00
		Audio Sound Libraries	1	included	\$0.00	\$0.00
		Microphones (condensor/shotgun), Mixer	1	included	\$0.00	\$0.00
		Screening Room	1	included	\$0.00	\$0.00
		Additional Workstations, Render Farm and Licenses	1	allow	\$175,000.00	\$175,000.00
		TOTAL EDITING AND FINISHING				\$175,000.00
8	MISCELLANEOUS		<i>Time/Quantity</i>		<i>Rate</i>	<i>Total</i>
		Contingency	1	allow	\$50,000.00	\$50,000.00
		Petty Cash	45	days	\$250.00	\$11,250.00
		General Liability Insurance	1	allow	\$10,000.00	\$10,000.00
		Craft Services	45	days	\$250.00	\$11,250.00
		E&O Insurance	1	allow	\$5,000.00	\$5,000.00
		Legal (Corporate)	200	hours	\$200.00	\$40,000.00
		Accounting	50	hours	\$100.00	\$5,000.00
		TOTAL MISCELLANEOUS				\$132,500.00
9	SOUND AND MUSIC		<i>Time/Quantity</i>		<i>Rate</i>	<i>Total</i>
		SOUNDTRACK	1	month	\$175,000.00	\$175,000.00

		TOTAL SOUND AND MUSIC				\$175,000.00
10	MARKETING		<i>Time/Quantity</i>		<i>Rate</i>	<i>Total</i>
		MARKETING/FESTIVALS/WEBSITE/ PROMOTION	1	allow	\$250,000.00	\$250,000.00
		Theatrical	1	allow	\$350,000.00	\$350,000.00
		TOTAL EDITING AND FINISHING:				\$600,000.00
11	LAB		<i>Time/Quantity</i>		<i>Rate</i>	<i>Total</i>
		DIGIBETA MASTERS (3 NTSC/3 PAL/HD- Cam)	1	allow	\$5,000.00	\$5,000.00
		DVD Screeners	2,500	discs	\$1.50	\$3,750.00
		TOTAL LAB				\$8,750.00
					Budget Total	\$3,420,250.00

MARKETING AND DISTRIBUTION STRATEGY

The Company will sell or license the Picture to a reputable independent sales company. In most cases, a distributor will only purchase a motion picture or commit to sell the film after the picture has been completed.

Because Lightning Rod Studios has developed a strong and successful business relationship with a Los Angeles based distribution company, the Company anticipates that the distribution company will be interested in acquiring the right to sell and distribute the Picture. The Company may choose to retain certain rights, such as U.S. theatrical rights, or sell certain rights to different distributors other than the Los Angeles based company.

Regardless, prior to entering into a distribution deal with a distributor, the Company will assess the reputation of the distributor and seek to determine the likelihood that the distributor will successfully distribute and represent the film in the territories and media markets in which the distributor wishes to market the film. The Company will also seek to obtain various financial guarantees from the distributor. These guarantees consist of a commitment from the distributor not to

sell or sublicense the film for less than a minimum value. The guarantee may also be in the form of a defined cash advance against future royalties. Unless the distributor purchases all rights to the film for a onetime cash payment, the Company will retain the right to receive, on an ongoing basis, royalties and proceeds from the distribution of the film in other media. To date, the Company has not entered into any distribution arrangements for A Fairy Tale.

MISCELLANEOUS

Proceeds to Cedarwood Productions, LLC (the "Company"), a Wisconsin limited liability Company, for the production of A Fairy Tale should be suitable only for persons of financial means who have no need for immediate liquidity in their contribution. Prospective contributors should carefully consider, in addition to matters set forth elsewhere in this document, and in any other information furnished in connection therewith, the following factors relating to the business of the Company.

THE COMPANY HAS A LIMITED OPERATING HISTORY

The Company has a limited operating history on which to base an evaluation of its business and prospects. Accordingly, you should consider the experience of the Company's Members the Company's prospects in light of the risks, expenses and difficulties frequently encountered by companies in an early stage of development. Because of the Company's limited operating history, it is difficult to assess whether it will succeed in executing its business strategy, managing growth and addressing the market risks it will face. There can be no assurance that the Company will be successful in addressing such risks, and the failure to do so would likely have a material adverse effect on the Company's business, operating results and financial condition. There can be no guarantee the Company will be profitable or that its business strategy will succeed. To reduce this risk, the Company will enter into an exclusive co-production agreement with an experienced independent film production company.

THE COMPANY PLANS ITS EXPENSES IN PART ON FUTURE REVENUE PROJECTIONS

The Company commenced operations in 2006 (inception), and, as a result of its limited operating history, has limited meaningful historical financial data upon which to estimate revenues and operating expenses. The Company's ability to accurately forecast its revenues is further limited because film productions have long production cycles that make it difficult to predict when the film will be completed, and in turn, released for distribution. The Company does not have ultimate control over the release schedule of A Fairy Tale. Since its operating expenses are fixed in the short-term, the Company may not be able to quickly reduce spending, if its revenues are lower than projected. If the Company does

not achieve its expected revenues, its operating results will be below its expectations.

THE COMPANY'S REVENUES COULD DECLINE IF IT FAILS TO MEET ITS PRODUCTION GOALS AND RELEASE SCHEDULE

The production and distribution of A Fairy Tale is subject to numerous uncertainties, including financing requirements, the availability of desired talent to finish production, the distribution release schedule and the films of the Company's competitors. If the Company fails to meet its production goals and release schedule, its revenues could decline. The Company cannot assure you that its production goals will be met. The Company also cannot assure you that the film will be completed on budget, or at all, or released following completion.

RISK ASSOCIATED WITH DEPENDENCE ON ITS MANAGERS

The Company relies heavily on its Managers and its co-producer Lightning Rod Studios for its success and the loss of any of these individuals could disrupt the Company's business. Virtually all decisions concerning the conduct of the Company's business, including the development, production and marketing of A Fairy Tale, are made or significantly influenced by the Managers.

RISK ASSOCIATED WITH DEPENDENCE ON ITS TALENT

The Company will rely heavily on the actors and talent hired to perform principal characters. The success of a film is often dependent on the popularity of its "stars" and it is impossible to predict whether a particular actor that is popular or marketable now, will remain popular by the time the film is ready for distribution. It is also impossible to predict the ability of the Company to attract such talent and, if attracted, to ensure the actor's willingness to support release of the film theatrically. Further, there is the possibility that a principal actor will not continue to enjoy a positive working relationship with the Company in the future. Should a key actor cease to enjoy a positive working relationship, that actor's performance or inability to complete certain scenes could disrupt the Company's business operations and/or possibly harm the overall quality of the film resulting in a reduction in revenues.

THE COMPANY'S REVENUES AND RESULTS OF OPERATIONS MAY BE ADVERSELY AFFECTED BY RISKS INHERENT IN THE INTERNATIONAL DISTRIBUTION OF THE COMPANY'S PRODUCT

The Company's business is subject to risks inherent in international trade, many of which are beyond its control. These risks include:

- changes in laws and policies affecting trade, investment and taxes, including laws and policies relating to the repatriation of funds and to withholding taxes;
- differing degrees of protection for intellectual property;
- the instability of foreign economies and governments; and
- fluctuating foreign currency exchange rates.

To the extent any of these risks materialize, the Company's revenues and results of operations may be adversely affected.

FILM PIRACY MAY ADVERSELY AFFECT THE COMPANY'S ABILITY TO MAXIMIZE ITS REVENUES

Film piracy is extensive in many parts of the world, including South America, Asia (including Korea, China and Taiwan), the countries of the former Soviet Union and other former Eastern bloc countries. In the past, various trade associations have enacted voluntary embargoes on film exports to certain countries in order to pressure the governments of those countries to become more aggressive in preventing film piracy. In addition, the United States government has publicly considered implementing trade sanctions against specific countries which, in the opinion of the United States government, do not prevent copyright infringement of United States produced films. There can be no assurance, however, that voluntary industry embargoes or United States government trade sanctions will be enacted. If enacted, such actions could impact the amount of revenue that the Company realizes from the international exploitation of A Fairy Tale depending upon the countries subject to such action and the duration of such action. If not enacted or if other measures are not taken, the film industry (including the Company) may continue to lose an indeterminate amount of revenue as a result of film piracy.

IF THE COMPANY DOES NOT RECOUP THE PRINT AND ADVERTISING COSTS IT INCURS, THE COMPANY'S PROFIT MARGINS MAY DECLINE

The Company is generally responsible for costs associated with print and advertising in markets where A Fairy Tale is distributed. The vast majority of these costs are incurred prior to the release of the film in a particular market area. These costs can be substantial and the size and scope of an advertising campaign can have a significant effect on revenues derived from the release of A Fairy Tale. As the Company cannot guarantee the commercial success of A Fairy Tale in any market, the Company cannot assure you that the revenue it receives will exceed its print and advertising costs and, consequently, its profit margins may decline.

THE COMPANY'S REVENUES AND RESULTS OF THE OPERATION MAY FLUCTUATE UNEXPECTEDLY DUE TO FACTORS SUCH AS THE TIMING OF THE RELEASE OF THE COMPANY'S FILM, PUBLIC ACCEPTANCE OF THE COMPETITION IN THE MARKETPLACE AND OTHER FACTORS THAT THE COMPANY CANNOT CONTROL

The Company's revenues and results of operations may fluctuate significantly and unexpectedly from period to period, and the results of any one period may not be indicative of the results for any future period. The Company cannot assure the economic success of A Fairy Tale because the production, completion and distribution of the film are subject to numerous uncertainties, including financing requirements, the availability of creative production and marketing talent, the release schedule of competing films, acceptance by the public and other factors. The Company's ability to obtain a distributor, which then successfully distributes the film, is closely tied to the Company's ability to demonstrate the film's commercial appeal and its capacity to generate significant revenue. The Company does not, however, exclusively control the timing and manner of the release of the film, and release schedules may be subject to other uncertainties. The timing and manner of these releases directly impacts the timing of the Company's receipt of revenues and its result of operations in any period.

THE COMPANY CAN GIVE NO ASSURANCE THAT ITS PRODUCTION AND RELEASE GOALS WILL BE MET IN ANY PERIOD OR THAT COMPLETION WILL OCCUR IN ACCORDANCE WITH THE ANTICIPATED SCHEDULE OR BUDGET. THEREFORE, IT IS DIFFICULT TO PREDICT WHEN THE FILM WILL BE COMPLETED, AND IN TURN, WILL BE AVAILABLE FOR RELEASE

In addition, the commercial success of A Fairy Tale also depends upon the quality and acceptance of other competing films released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions and other tangible and intangible factors, all of which can change and cannot be predicted with any certainty.

Therefore, there is a substantial risk that A Fairy Tale will not be commercially successful, resulting in costs not being recouped and anticipated profits not being realized. If A Fairy Tale is not commercially successful this will have a material adverse effect on the Company's business and its results of operations.

MANY OF THE COMPANY'S COMPETITORS ARE ABLE TO DEVOTE GREATER FINANCIAL RESOURCES TO THE ACQUISITION AND PRODUCTION OF THE FILM. CONSEQUENTLY, THE COMPANY MAY BE UNABLE TO SUCCESSFULLY COMPETE AGAINST THOSE FIRMS

The Company competes with the major studios, large diversified entertainment companies, independent motion picture and television production and distribution companies, companies in other industries which create alternative forms of leisure activities and other companies. The Company's principal competitors are companies that are part of large diversified corporate groups with a variety of operations, including studios, television networks and cable channels and distribution divisions. These competitors include Universal Pictures, Warner Bros., Fox Entertainment Group, Inc., Sony Pictures Entertainment, Paramount Pictures, The Walt Disney Studios, and MGM. The Company also competes with independent distribution companies, including, among others, Artisan Entertainment, Lions Gate Films, and independent producers including New Regency, Imagine Entertainment, Village Roadshow, Icon Productions, Jersey Films, Mandalay Pictures, Phoenix Pictures, and MacGillivray Freeman. Many of these companies have a variety of operations in addition to the production of films including television network libraries and cable channels that can provide a means of distributing their products and providing a stable source of revenues to offset fluctuations in the financial performance of their film operations. The Company relies exclusively on its film operations for its revenues.

THE COMPANY COMPETES WITH THE MAJOR STUDIOS, INDEPENDENT DISTRIBUTION AND PRODUCTION COMPANIES FOR:

- advertising space and time;
- distribution, including release dates, and available theatrical locations;
- ticket sales;
- airtime or time slots; and
- availability of marketable talent

Film production and distribution are highly competitive businesses, and the Company cannot assure you that it will compete effectively in these businesses. If the Company is unable to compete effectively, it will have an adverse effect on its business as a whole. In addition, the Company's competitors may have more success in producing and distributing films due to their greater name recognition, size and financial resources. A Fairy Tale will compete for, among other things, viewers and public interest with other filmed entertainment product in the marketplace. If the Company is unable to compete effectively, its business may decline, lowering or eliminating its revenues and results of operations.

INCREASING PRODUCTION COSTS COULD ADVERSELY AFFECT THE COMPANY'S MARGINS

The costs of producing, marketing and distributing films, both for the major studios and independent companies, have increased dramatically in the past decade. The production costs, also referred to as negative costs, are the various costs, charges and expenses incurred in the production of a film. Production costs may continue to increase in the future, thereby increasing the capital required for the operations of film production and distribution. If negative costs incurred in the production of A Fairy Tale are greater than the amounts budgeted, this would likely have a substantial negative impact on the Company's financial condition and results of operations.

THE COMPANY MAY NEED ADDITIONAL FINANCING

The Company may require substantial additional funding to produce, market and distribute A Fairy Tale. Adequate funds may not be available when needed or on terms acceptable to the Company. Insufficient funds may require the Company to delay, scale back or eliminate some or all of its market development plans.

THE COMPANY'S SUCCESS IS DEPENDENT ON ITS ABILITY TO IMPLEMENT ITS BUSINESS STRATEGY

The Company's business strategy is dependent upon its ability to produce, market and distribute A Fairy Tale to appropriate media outlets. Successful implementation of the Company's business strategy requires obtaining sufficient capital to meet operating requirements and will depend on the Company's ability to produce, market and distribute A Fairy Tale within the projected project budget and in accordance with its planned release schedule. There can be no assurance that the Company will be successful in the implementation of its business strategy. See "Business" and "Marketing Strategy and Distribution."

IF THE COMPANY INCORRECTLY PROJECTS REVENUES OF A FAIRY TALE, INDUSTRY ACCOUNTING METHODS WILL REQUIRE THE COMPANY TO ACCELERATE THE AMORTIZATION OF FILM COSTS AND RECOGNIZE UNANTICIPATED LOSSES

The Company's results of operations depend on its ability to project revenues of A Fairy Tale because, in accordance with United States Generally Accepted Accounting Practices (GAAP) and industry practice, the Company must amortize film costs using the "individual-film-forecast" method. Under this method, costs are amortized for each film in the ratio that revenues earned in the current period for a particular film bear to the Company's estimate of the total revenues to be realized from all media and markets for that film. The Manager of the Company will regularly review, and revise when necessary, the Company's total revenue

estimates for A Fairy Tale, which may result in a change in the rate of amortization and/or a write-down of the film asset to net realizable value. As a result, in the event the Company's initial total revenue estimates for the film are too high, under the industry's accounting method, the Company will immediately recognize the entire loss in instances where the Company expects that it will not recover its investment on the film. Comparatively, the profit of a successful film must be deferred and recognized over the entire revenue stream generated by the individual film. Accordingly, the Company's revenues and results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future period.

DISCRETION IN THE USE OF PROCEEDS

While the Company's intentions with regard to the use of proceeds are set forth under "Use of Proceeds," no assurance can be given that the proceeds will be used as described. If the proposed use of the proceeds ultimately proves not to be in the best interests of the Company, the Manager will decide how the proceeds will be used. See "Use of Proceeds."

Estimated Domestic and Foreign Sales Figures

ITEM	Minimum	Maximum
Production Budget	\$2,500,000	\$3,500,000
LESS STATE TAX CREDITS (IF AVAILABLE)	-500,000	-\$700,000
TOTAL CASH OUTLAY	\$2,000,000	\$2,800,000
US THEATRICAL SALES		
US Box Office Gross ¹	\$6,000,000	\$35,000,000
Less Fees and Expenses (Assumptions: Assuming the standard 45% distribution fee and approximately 20% for P&A, and related distribution expenses, we will assume that 35% of Box Office Receipts are returned to the producer from theatrical distribution.)	-\$3,900,000	-\$22,750,000
US THEATRICAL NET PROCEEDS	\$2,100,000	\$12,250,000
US CABLE/TELEVISION NETWORK SALES		
Pay Cable Revenue	\$150,000	\$250,000
Network TV Revenue	\$50,000	\$150,000
PPV/VOD/Non-theatrical Venues	\$50,000	\$50,000
US HOME VIDEO (Less Commissions and expenses)	\$500,000	\$2,000,000
US Cable/Television/Home Video NET PROCEEDS	\$750,000	\$2,450,000
FOREIGN MARKETS (Less Commissions and expenses)	\$500,000	\$2,500,000
WORLDWIDE GROSS PROFIT	\$3,350,000	\$17,200,000

PRODUCER'S GROSS PROFIT	\$2,650,000	\$14,400,000
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