

**NAMM**   
idea center

**"Selling Yourself  
to your Bank"**

*Presented by*  
Alan Friedman  
& Daniel Jobe  
Friedman, Kannenberg & Company, P.C.



**NAMM**   
idea center

**Al-Dan's House of Rock, Inc.**

Loan Request Presentation  
to

**Haywood Jalendmie, V.P.**  
**Last National Bank  
of Hartford**

Discussion Points **NAMM**   
idea center

1. Loan Request & Proposed Loan Terms
2. Background on Al-Dan's House of Rock
3. Background on music retailing industry
4. Background on rental programs
5. Why we are seeking a bank loan
6. Financial documents we are providing
7. Available collateral and security

**1. Loan Request and  
Proposed Loan Terms** **NAMM**   
idea center

- \$200,000, 5-year (60 month) fully amortizing note at 8% interest per annum
- Loan needed for acquisition of band & orchestral rental instruments
- Funding Needed by April 1, 2009

## 2. Background information on Al-Dan's House of Rock ("AHR")



- AHR is a single store, "full line" music retailer located in Hartford, CT
- AHR is an "S" Corporation, owned and operated by Alan Friedman & Daniel Jobe
- AHR occupies 6,000 sq/ft of retail space on Main Street in downtown Hartford, CT

## 3. Background information on the Music Retailing Industry



- There are approximately 7,500 musical instrument and product retailers in the U.S. Most of these stores are family-owned businesses, and only one (Guitar Center with Music & Arts and Musician's Friend divisions) has a true national presence
- There are 5 types of music retailing designations (full line, keyboard, school music, MI/combo & print), each one having unique financing issues
- Key profit centers for most music stores include sales, rental, music lesson and repair activities

## 4. Background information on Instrument Rental Programs



- Many full-line and school music retailers rent musical equipment, primarily band and orchestral instruments, under a "rent-to-own" type of agreement. This agreement allows a customer to rent a band or orchestral instrument on trial basis, instead of being forced into buying their child (a school music student) an instrument they may not enjoy playing or continue with shortly after the instrument is bought.
- AHR is a retailer that provides these types of rental agreements, and has been doing so since 1990.

## 4. Background information on Instrument Rental Programs



- Under AHR's rent-to-own agreement, a customer signs a contract to rent a musical instrument for a period of time up to 36 months. Title to a rented instrument passes to the customer if & when the final contracted pmt is made.
- Until the final payment is made, (1) title remains with AHR, (2) all payments received by AHR under the rent-to-own agreement are recorded as rental income, and (3) the rental assets are depreciated by AHR over their useful life (usually 3 years, in accordance with tax reporting rules).
- Upon receipt of the final payment, the Company removes the related rental asset cost and accumulated depreciation from their accounts and any resulting difference is reflected in cost of goods sold.

#### 4. Background information on Instrument Rental Programs



- AHR's rental agreements comply with Internal Revenue Code Rev.Proc. 95-38. Accordingly, these contracts provide for level rental payments which, in the aggregate, do not exceed \$10,000, but do exceed the normal retail price of the rental asset, plus interest. Additionally, these contracts do not extend beyond 36 months and there is no legal obligation for the customer to make all of the payments set forth in the contract.
- At the end of each monthly rental period, AHR's customer may either continue to use the property by making the next rental payment via auto-deduction or check, or return the rental asset to AHR. If the rental asset is returned, the customer has no further obligation under the contract and is not entitled to the return of any rental payments previously made.

#### 4. Background information on Instrument Rental Programs



- On December 31, 2008, AHR had 3,000 instruments in their rental pool at a total cost of \$1,000,000, along with \$800,000 of accumulated depreciation, resulting in a net book value of \$200,000. These instruments have been depreciated over an accelerated 3-year MACRS depreciation method for both book and income tax reporting purposes.
- On December 31, 2008, AHR had \$1,800,000 in contracted future rental income on its outstanding rental pool, and has historically experienced a 25% return rate each year. Because of the quick depreciation taken on its rent-to-own instruments, AHR believes the fair market value on the rental pool is substantially higher than the net book value reported on the 12/31/08 balance sheet.

#### 5. Why AHR is Seeking a Bank Loan



- AHR has contracted two new school districts which represent approximately 500 new students who wish to join school sponsored band and music programs and will need to rent band & orchestral instruments
- Based on the lucrative nature of rental instrument programs (that also spur related accessory sales and instrument repairs), we at AHR would like to expand our instrument rental pools to meet expected customer demand for the 2009-2010 school year
- Given the time lag between pmts to vendors for these instruments and receipt of the monthly rental income once they are rented, there is an imperative need for bank financing for AHR's rental pools.

#### 6. Documents Provided in Support of Our Loan Request



- Product Invoices from our B&O vendors
- Compiled Financial Statements of AHR for the years ended December 31, 2006, 2007 & 2008
- December 31, 2008 Personal Financial Statements for Alan Friedman & Daniel Jobe
- AHR's 2009 Business Plan
- 5-Year Forecast of Income, Expense and Cash Flow for the years ending December 31, 2009 - 2013
- NAMM 2009 Cost of Doing Business Survey
- Music Trade's Annual Report of Top 200 Dealers and Suppliers, and MMR's "Profile of the American Music Dealer"

## 7. Availability of Collateral for Loan Request



- All corporate assets, including fixed assets, accounts receivable and inventory (other than those inventory assets specifically pledged to certain suppliers and floor plan finance companies)
- Personal guaranty of Alan Friedman & Daniel Jobe
- Alan's primary residence, with \$200,000 of equity
- Daniel's vacation home, with \$150,000 of equity

## 8. For additional information, please contact:



Alan Friedman & Daniel Jobe, Officers  
Al-Dan's House of Rock, Inc.  
4-12 Marshall Stack Street  
Hartford, CT 06105  
Tel – (800) 123-4567  
Fax – (800) 123-6789  
Web: [www.ahr.com](http://www.ahr.com)  
Email: [info@ahr.com](mailto:info@ahr.com)