

**POP STARZ INC.**

**(OTC PK:PSRZ)**

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**Websites:** <http://www.popstarzinc.com>  
<http://www.popstarzrecords.com>  
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**Recent Price: \$0.08**

**Target Price: \$0.30**  
 (12-month)

**SPECULATIVE POSITIVE RATING**

**Main Headquarters**

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**Hip Hop Dance & Entertainment Training Center for All Ages**

*Company Overview*

Pop Starz, Inc. (OTC PK:PSRZ) is engaged in the business of operating high energy dance training centers, currently concentrating on the musical genre popularly referred to as "Hip Hop" and "Pop". Pop Starz' ultimate goal is the development and operation of dance and talent development programs (dance, acting, modeling and voice) throughout Florida and nationally, combining the functions of traditional dance & exercise facilities with training in modeling, drama and voice development & providing participants of all ages with an opportunity to participate in professional entertainment opportunities. It also owns 85% stake in Pop Starz Records Inc. (PSR).

- Pop Starz Inc. has **strategically transformed itself** over the past 2 years from an operator of children's leisure centers to a **dynamic entertainment and fitness brand**. This transition has gained momentum from key alliances that now position **POP STARZ™** to expand onto the **national spotlight**, and **grow exponentially**.
- Pop Starz' current operations **do not rely on fixed centers or personnel**; rather, **facilities are rented** on an hourly basis, as required, and personnel are engaged to teach classes, on an hourly basis, as required. Management believes that such arrangements provide **Pop Starz with the flexibility to maximize the quality and diversity of the services offered while keeping costs carefully contained**.
- Several **key alliances** with reputable companies (e.g. **Bally Total Fitness**) & influential individuals will enable Pop Starz to **quickly penetrate the dance & talent development market, increase visibility, brand awareness & generate revenues**.
- Pop Starz' offers a variety of classes focusing on "Hip Hop" and "Pop" dance styles. There are 6 separate, 8-week class sessions per year. The Company has already begun to establish a loyal client base and is **expecting to see rising levels of attendance**.
- Up until now, **Pop Starz™ commerce has been limited to South Florida** in class/workshop formats. From a growth standpoint, the **two most available avenues for expansion** are into **new geographic markets** and through **products that teach and enhance the Hip Hop dance experience**. To speed and facilitate such growth in market penetration, revenues and profits, management has **identified licensing and direct marketing** as the straightest lines.
- We estimate that **revenues can climb to over \$4.5 million in FY2007\*\*** from only \$109,000 expected in FY2006, and that the Company can produce an **after-tax net income of \$350,000\*\* in FY2007** (contingent on a cash infusion of \$1 million in Q1 FY2007) versus an expected net after tax loss in FY2006 of (\$130,000).
- Our **DCF-Model** yields an intrinsic value of **\$17.8 million** or **\$0.29 per share**.
- **The Company is well poised to take advantage of the society's changing trends and the meteoric rise of Hip Hop music, we anticipate Pop Starz Inc. can implement its strategy to expand and we believe the potential exists to reap rewards for long-term investors. Class enrollments are rising and access to additional capital resources, should dramatically increase the size and scope of POP STARZ™ through licensing agreements, related product marketing, and talent management contracts that can establish it as the leading national brand in its field. We view current levels as an opportunity to enter PSRZ on ground level while the company is still in pioneering phase and building its revenue line and presence, which together with management's expertise & track record heralds' great promise of building shareholder value. See INVESTMENT THESIS & RECOMMENDATION for more in-depth discussion (Page 16-19).** **\*\* Pro Forma Figures inclusive of Pop Starz Records.**



Pop Starz Inc.	
<i>(all figures in millions)</i>	
52 Week Hi/Lo Range	0.125/0.001
Fiscal Year End	31-Dec
Shares Outstanding (09/30/2006)	36.902
Float (04/05/2006)	1.470
Share price (01/26/2007)	0.080
Market Capitalization	2.952
Average Volume (30-day)	NA
Insider Ownership	NA
Institutional Ownership	NA
Enterprise Value (EV)	3.142
Long Term Debt (10/30/2006)	0.200
Total Cash (09/30/2006)	0.010
<b>12/31/2006 12/31/2007</b>	
<b>FY2006 E FY2007 E</b>	
Earnings Per Share (EPS)	-0.004 0.007
Book Value (\$/share)	-0.004 0.004
<b>FY2006 E FY2007 E</b>	
Total Revenue	0.109 4.500
Cost of Sales	0.064 1.816
Gross Profit/Loss	0.046 2.684
Operating expenditures	0.172 2.225
Profit/Loss from Operations	-0.126 0.459
Other Expenses	0.004 0.000
Tax Items	-0.130 0.110
Net Income	-0.130 0.350
NA = Not applicable/Not Available. A = Actual Reported figures E = Estimates	
Balance Sheet & Financial Statement Extracts (09/30/2006)	
Current Assets	0.001
Current Liabilities	0.160
Total Assets	0.014
Total Shareholders Deficit	0.146
Operating cashflow (9mo to 9/30)	-0.037
Capital Structure (04-05-2006)	
Authorized Common Stock	100 000 000
Authorized Preferred Stock	1 000 000

*See Appendix A-1 for Analyst Certification and Important Disclosures.*

## THE COMPANY

**Pop Starz Inc. (OTC PK:PSRZ)** was incorporated in 1996 as a Florida corporation. Explorations Group Inc. (OTC BB:EXGI), was incorporated on February 12, 2001, to operate as a Delaware holding company with Pop Starz, as its Florida subsidiary. In February 2002, Explorations Entertainment decided to pursue a new direction and its name was changed to Pop Starz, Inc. On July 5, 2006, the Company formed three wholly owned subsidiaries in the State of Florida. The three subsidiaries are Pop Starz Records, Inc. (PSR – 85% held), Pop Starz Model and Talent Corp., and Pop Starz Productions, Inc. As of January 24, 2007, there were approximately 79 holders of record of common stock of the Company.

Pop Starz Inc., is engaged in the business of operating high energy dance training centers, currently concentrating on the musical genre popularly referred to as "Hip Hop" and "Pop". Pop Starz' **ultimate goal is the development and operation of dance and talent development programs** (dance, acting, modeling and voice) **throughout Florida and nationally**, combining the functions of traditional dance and exercise facilities with training in modeling, drama and voice development, and **providing participants of all ages** with an opportunity to participate **in professional entertainment opportunities**.

Pop Starz' current operations are in the growth stage and follow approximately 7 years of operations by its predecessors and their affiliates involving large children's entertainment and physical fitness centers, one of which was owned and operated by the Company's president in Palm Beach County, Florida, and others that were owned and operated by third parties under licenses or franchises from an affiliate of Pop Starz Inc. Pop Starz' current operations **do not rely on fixed centers or personnel**; rather, **facilities are rented** on an hourly basis, as required, and personnel are engaged to teach classes, on an hourly basis, as required. Management believes that such arrangements provide **Pop Starz with the flexibility to maximize the quality and diversity of the services offered while keeping costs carefully contained**.

Pop Starz Inc. has strategically transformed itself over the past two years from an operator of children's leisure centers to a dynamic entertainment and fitness brand. This transition has gained momentum through consistent innovation, high profile marketing and key alliances that now position **POP STARZ™** to expand onto the national spotlight, and grow exponentially through market licensing and exclusive entertainment products:

- In alliance with **Bally Total Fitness** (NYSE:BFT), POP STARZ™ conducts classes in Hip Hop dancing and has grown to **offer classes in 12 centers and hold classes in 3 centers in South Florida**, generating approximately \$82,000 in first 9 months FY2006 revenues. Bally Total Fitness operates **over 400 such centers in 29 states**, and is offering a high-margin growth opportunity that offers a clear pathway to national presence with the number one fitness club brand.
- In alliance with **Brice Vick**, Artistic Director and Hip Hop superstar Dancer-Choreographer, POP STARZ™ has attracted a team of industry **renowned instructor-innovators such as Ray "Sho-Tyme" Johnson, Shane Sparks, Marty Kudelka, Bobby Newberry, Laurie Ann Gibson, Robert Hoffman and others** who bring bankable credibility, market competitiveness and creative energy to drive a cutting edge training program for performance-level students.



These **valuable alliances** are key factors in the immediate growth strategy for POP STARZ™. They are strengths in dealing with crucial aspects of operations and marketing that will confront any competition. Widespread market access through Bally Total Fitness centers together with endorsement by Brice Vick allows POP STARZ™ to overcome major hurdles in expanding its products brand footprint and service categories beyond Hip Hop dance:

- **Operating costs** are sharply reduced because no fixed facilities are required for classes thanks to **Bally Total Fitness locations**, and their **usage availability** to POP STARZ™ and its licensees for **only \$25 per hour**.
- **Marketing Performance:** A star-powered Artistic Staff led by Brice Vick eclipses the competition and establishes POP STARZ™ brand preeminence in its category, creating a Buzz that attracts the most talented students and best Production Company clients.
- **Licensee Recruitment:** Associated with the fitness sector leader (BTF) and the hottest young talent, POP STARZ™PP has created a high quality business opportunity for qualified individuals who seek entertainment industry experiences and solid ROI.
- **Industry Acceptance:** POP STARZ™ has aligned its stars through four years of management persistence and financial investments, earning an entertainment world entry pass, media respectability and partner-able qualifications.

A two pronged expansion plan will enlarge POP STARZ™ market penetration and operations:

- **Growth through widespread licensing** in BTF markets of a winning dance training and production company formula;
- **Acquisition of qualified businesses** that provide entry into other categories of talent development in music, modeling, dance and acting and management of performers who pass through the POP STARZ™ system.

*See Appendix A-1 for Analyst Certification and Important Disclosures.*

POP STARZ™ has a goal to combine the functions of traditional dance and exercise facilities with training in acting, modeling and voice, opening the door for participants of all ages to professional entertainment opportunities throughout Florida and the nation. The following sections present information of the strategic planning that, with additional capital resources, will dramatically **increase the size and scope of POP STARZ™ through licensing agreements, related product marketing, and talent management contracts** that establish it as the leading national brand in its field.

## OPERATIONS & RELATIONSHIPS/ALLIANCES

Classes are offered in the **aerobic workout rooms of 12 existing health clubs**, rented by Pop Starz on an hourly basis.

Pop Starz currently has arrangements with **Bally Total Fitness** for use of facilities at designated health clubs in **Dade, Broward and Palm Beach counties in Florida** on an hourly basis. Generally, facility use is on an hourly basis at up to \$25 per hour and no competing events may be held at facilities used by Pop Starz.

The arrangement Pop Starz has with these facility providers is solely for the use of space. Pop Starz is **permitted**, however, to **place promotional flyers** within each facility. Participants also enroll in the classes as a result of Pop Starz' **advertisements in local newspapers** and on **radio** as well as through **word of mouth** from satisfied class participants and their parents.

Pop Starz' offers a **variety of classes** currently focusing on **"Hip Hop" and "Pop" dance styles**. There are 6 separate, 8-week class sessions per year. Class times depend on the availability of aerobics rooms at each location where classes are offered. Classes are currently being offered at 14 locations in South Florida in Dade, Broward and Palm Beach counties.

Pop Starz started its first classes on May 20, 2002. Pop Starz offices are closed and no classes are scheduled during the following holidays: Memorial Day, May 27; Independence Day, July 4; Thanksgiving Break, November 28 and 29; Winter Holiday Break, December 24 thru January 1.

Classes are divided into three groups, based on goals:

- Recreational and Exercise Classes;**
- Performance Level Classes;** and
- Production Troupe Classes.** Classes are further subdivided in each group by age and experience levels.

(1) Recreational and Exercise Classes are divided into the following 3 subgroups: "Lil Pop Starz," Ages 3 to 5; "Pop Starz I" (beginners), Ages 6 to 9; and "Pop Starz II" (intermediate), Ages 6 to 12. Classes are taught by pre-qualified independent contractors in the aerobic facilities of the health clubs discussed above. Each class is **expected to include at least 20 participants. Each participant attends two, one-hour classes per week.**

(2) Performance Level Classes are divided into the following 3 subgroups:

Ages 8 to 12, ages 13 to 17, and ages 18 through Adult. Classes are limited to not more than thirty participants per 60 minute session, with attendance at 2 sessions per week required. Classes are currently taught by Pop Starz' instructors in the aerobic facilities of the health clubs discussed above.

(3) Production Troupe Classes are divided into the following subgroups:

Ages 9 to 13 and Ages 14 to 17. Classes are **limited to not more than 25 participants per 90 minute session**, with attendance at 2 sessions per week required. Registration is by invitation only or auditioned by Brice D. Vick, exclusive choreographer to Ashanti and Remi Ma. All production troupe classes are currently taught by **Brice D. Vick, Pop Starz' artistic director**. The **production level is designed for participants who seek to prepare for careers in dancing.**

**Tuition** (in addition to a \$40 registration charge) is \$195 per recreational & exercise session, \$195 per performance group session and \$250 per production troupe session. Registration and tuition payments are due 10 days prior to the new session, with a \$20 charge assessed for late payments. In the recreational & exercise sessions, a tuition discount of \$30 is granted to the first additional sibling in the same class. Normally, partial session enrollment is not permitted.

Due to the number of new applicants who are enrolling, currently enrolled students are given priority, with waiting lists established until there are a sufficient number of children to add classes (usually 10 children minimum per class required).

The following information concerning Pop Starz' classes also currently appear at its website, [www.popstarzinc.com](http://www.popstarzinc.com):

**Open Registration Classes** - *classes in which anyone may enroll* - include the following:

Li'l Pop Starz™, 3 years - 5 years; Pop Starz™ I, 6 years - 9 years (beginners); Pop Starz™ II, 6 years - 12 years (intermediate); Pop Starz™ Performance Teenz, 13 years - 17 years; and Pop Starz™ Performance Adultz, 18 years - Adult.

**Class Registration by Invitation** - this class requires that, because of their age, participants be screened for skill levels to determine if this class is appropriate for them:

Pop Starz™ Production Kidz, 8 years - 12 years. Participants **Auditioned by Brice D. Vick** - a prerequisite to enrollment is a successful audition with Brice Vick:

Pop Starz™ Production Troupe Kidz, 9 years - 13 years; Pop Starz™ Production Troupe Teenz, 14 years - 17 years; and Pop Starz™ Production Troupe Adultz, 18 years - Adult.

### Pop Starz™ Class Descriptions:

These classes are all described more fully immediately below.

**Li'l Pop Starz™**, 3 years - 5 years. Length of Class: 55 minutes. Prerequisites: None. Class Description: This beginner's class provides an *introduction to Hip Hop music and movement, incorporating basic combos into games*. Lil Pop Starz provides children with the fundamentals of pop dance and performance.

**Pop Starz™ I**, 6 years - 9 years (Beginners). Length of Class: 55 minutes. Prerequisites: None. Class Description: This beginner's class is open to elementary students with little or no hip-hop dance training. Children are given *fundamental combos as well as basic routines to introduce the core movements of today's pop artists*.

**Pop Starz™ II**, 6 years - 12 years (Intermediate). Length of Class: 55 minutes. Prerequisites: None. Class Description: An intermediate level class, Pop Starz II is a high-energy fusion of hip hop/pop dance routines, preparing young stars for performance level classes. This class is designed both for children considering going into the entertainment field and for children just looking for fun with learning hip hop moves.

**Pop Starz™ Performance Kidz**, 8 years - 12 years. (By invitation only) Length of Class: 120 minutes. Class Description: These classes serve as "Prep School" for Pop Starz Production Kidz. Under the direction of Pop Starz' instructors, dancers work with top level choreographers and instructors, giving the starz a chance to shine. Technique is emphasized while students learn challenging routines. They are offered the opportunity to perform in community venues, as well as local shows. This class is a must for anyone searching for professional level training.

**Pop Starz™ Performance Teenz**, 13 years - 17 years. (By invitation only) and **Pop Starz™ Performance Adultz**, 18 years - Adult. Length of Class: 120 minutes. Prerequisites: None. Class Description: Although these classes are open-registration, they do **serve as training for Pop Starz Production Troupes**. Students are also given the opportunity to audition every September for the Company's Production Troupes, judged by **Brice D. Vick**. Mr. Vick choreographed for Ashanti, R. Kelly, Cristina Aguilera, Rah Digga, Lenny Kravitz, Destiny's Child, Mobbs Deep Prodigy, Sticky Fingaz, and Lauren Hill, just to name a few. He will be judging all of the Production Troupe dancers. This performance level is also great for teenz and adultz not interested in performing, but who enjoy learning from top choreographers and instructors in the industry. Students will have the opportunity, if they choose, to perform in community venues as well as local fairs and festivals.

**Pop Starz™ Production Troupe Kidz**, 9 years - 13 years. **Pop Starz™ Production Troupe Teenz**, 14 years - 17 years, and **Pop Starz™ Production Troupe Adultz**, 18 years - adult. Length of Class: 120 minutes. Prerequisites: Auditioned by Brice Vick. Class Description:

Top level super starz, Pop Starz Production Troupes are headed by Artistic Director Brice D. Vick. His innovative choreography has gained him acclaim as outstanding choreographer for the All Star Salute to the King of Pop, Michael Jackson through such venues as the nationally televised Hip Hop Source Awards, as well as a featured spot in the Brice Vick's Dance Grooves Tour. Pop Starz Productions, through its agency affiliates, not only tour, audition and perform with artists, but it's also featured in music videos, TV spots and national commercials.

Talent participants are given the tools and avenues to actually work within the industry. Participating in castings, shows and celebrity events, Pop Starz Productions cultivates and supports the careers of up and coming starz.

*See Appendix A-1 for Analyst Certification and Important Disclosures.*

## Instructors

Fees paid to class instructors range from \$25 to \$50 per class. All instructors are treated as independent contractors. Fees paid celebrity choreographers are negotiated on a case-by-case basis.

## INDUSTRY

Pop Starz Inc. has tremendous growth opportunity as America is waking up to the fascinating world of Hip Hop culture and music and entertainment and pop culture is as vibrant as ever in modern society.

The term hip hop (also spelled "hip-hop" or "hip hop") refers both to a musical (see hip hop music) and cultural genre or movement (hip hop culture) that was developed predominantly by African Americans and Latinos (primarily of Puerto Rican ethnic heritage) in urban communities, starting in the 1970s. Since first emerging in New York City in the seventies, hip hop has grown to encompass not just rapping, but an entire lifestyle that consistently incorporates diverse elements of ethnicity, technology, art and urban life. There are **four fundamental elements in hip hop: hip hop dance** (notably breakdancing), **urban inspired art** (notably graffiti), **DJing** and **MCing** or Rap (a form of rhythmically delivered rhyming lyrics).

Hip Hop music and culture is becoming a mainstream force with a global appeal. Hip Hop culture has influenced the lifestyle and culture of the American youth. **According to Forbes.com, Hip Hop generates over \$10 billion in revenues, every year. Hip Hop music and culture has captured the imagination of 45 million Americans, aged 13 – 34. This demographic** of approximately 45 million Americans between the ages of 13 to 34 is estimated to represent **\$1 trillion** of spending power. Our view is that the **size and scope of these consumer spending dollars** provides **ample room for a Company like Pop Starz Inc. to establish a foothold and realize its' immediate and near term objectives.** The market share of Hip Hop music has increased to 13.5% and it has replaced traditional Pop music from the number two position. While it has grown far beyond its music roots, Hip Hop is fundamentally a media-based industry targeting a media-centric audience. Hip Hop is the **second largest selling music category, trailing only Country** (for which, by comparison, there **are already three dedicated cable networks**). There are **at least two Hip Hop radio stations ranked among the top 10** (based on listenership) in nine of the ten largest U.S. markets.

Hip Hop CD sales hit \$5.5 billion in 2003, and in 2004, Hip Hop music saw a number of Grammy nominations. **Hip Hop is the most popular genre on BET's African-American lineup and MTV's general music menu.** Pop Starz' offers a **variety of classes** currently focusing on **"Hip Hop" and "Pop" dance styles and and talent development programs** (dance, acting, modeling and voice). The Company is well poised to take advantage of the society's changing trends and the meteoric rise of Hip Hop music, dance and culture by **providing training to people of all age groups looking for career opportunities within this vibrant and multi-faceted industry.**

## The Trends

Pop Starz has positioned itself at the convergence of three massive trends transforming America:

- ❑ The **explosion of Hip Hop music and culture** into the **mainstream,**
- ❑ The **mobility of media,** and
- ❑ The expansion of **urban influence in suburban culture.**

Driving this trend are the Hip Hop artists at the forefront of a new force in musical commerce – the "One Man Brand". This transforms individual artists into global entrepreneurs. No longer satisfied with recording contracts that give up control, artists are producing their own music and parlaying their talent into global brands offering and endorsing everything from clothing to fragrances, credit cards to cars, make-up to movies. The mention of a product in a song can skyrocket sales overnight and hip hop inspired fashion brands such as Phat Pharm, FUBU and Sean John can be found in department stores right alongside standbys such as Ralph Lauren and Tommy Hilfiger.

Hip Hop has become the new American melting pot, simultaneously appealing to African-American, Hispanic, Asian and White demographics. Urban markets, critical sites of cultural production and consumption, have a tremendous impact on consumption patterns outside urban areas.

Urban-originated trends in music, video, film and fashion constitute the elements of culture that are transmitted by traditional media, cable television and the Internet to legions of viewers with sufficient discretionary income to indulge their passions. Programming and events designed and created by skilled talent and dance and entertainment professionals, in all age groups, to satisfy such passions, will draw new class enrollment and generate licensing, merchandising and other revenue opportunities for Pop Starz Inc. and Pop Starz. Records Inc.

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## CULTURAL PHENOMENON

Hip Hop's cultural presence extends well beyond its status as a popular music format:

- In recent years, Hip Hop's musical influence has expanded to cover rock, classical and even country genres:
  - ❑ Rock bands including Limp Bizkit, Papa Roach and Sublime have incorporated Hip Hop elements into their music.
  - ❑ "Rap violinist" Miri Ben-Ari and the group ONO blend classical music with Hip Hop.
  - ❑ Finally, and perhaps most indicative of Hip Hop's broad appeal, popular country band BigNRich continues to feature Hip Hop elements through its "rapper" Cowboy Troy.
- Hip Hop theatre has achieved consistent exposure and substantial success on Broadway, from the early Bring in 'Da Noise, Bring in 'Da Funk to the Tony Award winning Def Poetry Jam.
- The "Street Life" book genre and urban magazines including The Source, Vibe and Blaze also reflect Hip Hop's influence and the cultural appeal of the urban lifestyle.
- The 2002 film 8 Mile, starring Eminem and chronicling the Hip Hop culture and lifestyle, generated more \$116 million in box office sales. Other films including Bringing Down the House, Barbershop and 2005's Crash and Hustle and Flow illustrate the popularity of Hip Hop and its personalities.
- Numerous Hip Hop artists including Will Smith, Queen Latifah, Ice Cube and most recently 50 Cent have "crossed over" into starring roles in television series' and major films.

The cultural influence of Hip Hop is also reflected in the enormous marketing impact of Hip Hop artists and music. The entrepreneurial spirit and savvy of leading Hip Hop artists initially transformed the marketing landscape by establishing the "One Man Brand." More recently, Hip Hop entrepreneurs have increasingly intertwined their own initiatives with the activities of major advertisers and Fortune 500 companies. Examples that illustrate both the evolution of Hip Hop's marketing influence and the current market environment include:

- In 2003, four of the 5 largest selling clothing brands (measured by gross sales) were owned/developed by Hip Hop artists or Hip Hop-inspired – including **Sean John, Rocawear, FUBU and Phat Farm**.
- **Reebok International's S. Carter sneaker, named after Hip Hop artist Jay Z**, was the fastest selling and highest grossing shoe in the company's history – until it was surpassed in 2005 by a new shoe line from 50 Cent (Curtis Jackson).
- Def Jam Recordings co-founder Russell Simmons subsequently established the Simmons Lathan Media Group (SLMG). SLMG has produced network television series' (The Steve Harvey Show, The Parkers), Broadway's Def Poetry Jam, Showtime's Def Comedy Jam and the feature film **Gridlock'd**.
- Major consumer brands including **Cadillac, Nike, Gillette, Sprite, Courvoisier and Western Union** have all experienced substantial increases in sales as a result of marketing tie-ins with Hip Hop artists and/or product mentions in Hip Hop songs.

Hip Hop music programming and programming with Hip Hop themes have emerged as a major force in cable television content:

- Hip Hop is the **most popular music video** genre on **MTV**, and music videos are **BET's** most popular programming category.
- **The Source Awards**, the Hip Hop awards program sponsored by RHN-owned Source Magazine, was the most watched program on BET in 2004 – generating a 2.5 rating and an average audience of nearly two million viewers.
- **Pimp My Ride**, a reality series starring Hip Hop artist Xzibit, is one of MTV's highest rated series' – achieving average ratings in the 0.9 to 1.3 range throughout 2004.
- The new reality sitcom **Run's House**, starring Rev Run, debuted this fall on MTV. In addition, Bring It To The Table, a poker series matching teams of rappers, debuted on Spike TV in the Spring of 2005.
- In addition to the popularity of Hip Hop programming itself, the sustained popularity of music-centered programming networks and networks targeting African-American audiences illustrates potential appeal for new hip hop dance and music talent:
  - ❑ During 2004, Country Music Television (CMT) achieved an average prime time rating of 0.34 and an average total day audience rating of 0.22.
  - ❑ BET's 2004 prime time rating averaged 0.58, with a total day average rating of 0.38.
  - ❑ Ratings for early stage music networks MTV2 and FUSE averaged 0.10 in 2004 – with the rating for FUSE having doubled in comparison with 2003.

The Hip Hop market is large and still growing; with an extraordinary cultural influence that transcends music. Both Hip Hop music programming and programming inspired by Hip Hop culture are prevalent and popular on television today, and quickly becoming even more so. Finally, while mainstream in the breadth of its appeal, the Hip Hop culture retains a fierce independence that is **uniquely suited to an independent player such as Pop Starz who can find, train cultivate new talent and deliver the stars of tomorrow that will shape music, dance, singing and performance.**

## COMPETITION

The Company assumes that direct competitors for Pop Starz' services exist and anticipates that they will increase. As of the date of this Report, it believes that Pop Starz' **principal local competitors are Hip Hop Kidz, Inc., and Street Jam, Inc. Indirect competition is intense in the form of traditional dance studios, modeling agencies and aerobic classes.** Pop Starz will indirectly compete against a wide variety of concepts vying for family leisure time and recreational spending. These competing concepts encompass a broad spectrum of child recreational opportunities, including school programs, after-school athletic programs and specialty children's and young adults' social programs (e.g., scouting, etc.). Many of Pop Starz' competitors will have longer operating histories, substantially greater name recognition and more extensive financial, technical, marketing, sales and distribution resources than Pop Starz.

Pop Starz initially expects to concentrate on the "Hip Hop" and "Pop" performance segment of the children's and young adults' entertainment and recreational industries, **targeting children ages 8 to 18.** Those industries are highly fragmented and consist largely of **local individually owned and operated dance and aerobic studios and modeling agencies.** Pop Starz' future revenues will to a significant extent depend upon its ability to anticipate and **respond to changes in consumer tastes, government regulations and technology, and to assemble instructional teams that can implement responses to such factors** for its participants effectively and on a reliable and cost efficient basis. The performance of its instructional programs may be affected by a variety of local factors such as the location of competing facilities, labor and employee benefit costs and the availability of experienced instructors and hourly employees.

## BUSINESS STRATEGY & MARKETING PLAN

The rapid and quality growth of Pop Starz™ to date has been driven by a management team that is both **totally committed to product improvement, and smart at promotion.** Virtually every move in marketing has resulted in an increase in **enrollments and market-wide awareness.** The objective to greatly expand the Pop Starz™ brand will put to use the promotion know-how acquired over the past 18 months, by refining it into a replicable model for markets across the U.S. Additional lines of revenue contribution include direct marketing of Pop Starz™ merchandise, and talent agency services, all combining to capture a lucrative niche in the popular entertainment marketplace. First and foremost, the product is already the market leader, and getting better. **Management has attracted Brice D. Vick to Pop Starz™, and his impact on Hip Hop dance is evidenced by the high-visibility media attention.**

His have genuine enthusiasm for dancing, and teaching others the steps and moves that international pop culture superstars have made famous. Unlike other forms, **Hip Hop is primarily performance dancing.** So, in addition, students are learning stage presence and confidence. Pop Starz™ training and motivation techniques have an encouraging and energizing influence on students and parents, alike. As "genre leader" Brice D. Vick develops hybrid dance forms, Pop Starz™ is first to introduce them to the public through its classes and workshops. This leadership position is why Pop Starz™ is able to attract young and talented new choreographers, and students. This category of commerce known as "experience goods" is, in this case, a **transfer of intellectual capital** to the consumer:

- (1) **Cutting-edge dance steps and presentations;**
- (2) **Successful training and motivation techniques.**

Up until now, **Pop Starz™ commerce has been limited to South Florida,** and class/workshop formats. From a growth standpoint, the **two most available avenues for expansion** are into **new geographic markets** and through **products that teach and enhance the Hip Hop dance experience.** To speed and facilitate such growth in market penetration, revenues and profits, management has **identified direct marketing and licensing as** the straightest line.

### Direct Marketing (Advertising & Promotion):

To achieve the level of student participation projected above, Pop Starz™ will continue to follow an active promotional plan that includes **Advertising, Public Relations, Networking and Web Marketing.** Management has an enthusiasm for promotion, and has benefited from increased performance with every effort.



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Regular advertising covers a spectrum of activities, including:

- (1) Posting and Distributing fliers at Bally Total Fitness Clubs, and other high traffic venues;
- (2) Advertising in community newspapers and newsletters reaching parents and youngsters;
- (3) Contacting and working with local media, radio stations, newspapers and TV stations, to build Awareness of events and position Pop Starz™ within the media as a leader in Hip Hop Dance.

The Web site at [www.popstarzinc.com](http://www.popstarzinc.com) has evolved into an effective marketing communications tool for prospective dance students, current students, parents and promotional partners. The site tells everything a visitor needs to know about Pop Starz™, including session information, registration forms, events, media publicity and costs. Plus, there are photo and video galleries, cool links and more. Future development of the Web site will include online registration; merchandise sales, and additional promotion tie-ins with its partners.

#### New Dance Video Product:

The **first new planned initiative by Pop Starz™ into direct marketing of proprietary products** is a **new Hip Hop Dance training video venture** contingent on financing to be produced **in conjunction with Brice D. Vick**.

This further extension of the relationship of the leading Hip Hop choreographer and the leading dance training brand will accelerate national awareness, and assist with creating new licensing markets.

Hip Hop DVD	Expenses*		Revenues	
	Production	\$ 100,000	DVD Units Sold	100,000
	Disks & Packaging	300,000		
	Artist Royalties	200,000	Retail Price*	\$ 19.95
	Performer Royalties	100,000		
	Advertising	\$ 600,000		
	<b>TOTAL</b>	<b>\$ 1,300,000</b>	<b>TOTAL</b>	<b>\$ 1,995,000</b>
<b>GROSS PROFIT</b>			<b>\$695,000</b>	

\* An additional Customer-paid Shipping & Handling fee will cover all fulfillment and postage costs.

The new production will take place immediately following this funding stage, and combine Brice D. Vick's choreography with Pop Starz™ dancers.

This **project will follow the very successful first video of Mr. Darrin Henson** entitled "Darrin's Dance Grooves" which **sold 1.3 million copies that has been marketed online, in retail stores, at events and via TV**. Production of the POP STARZ™ Hip Hop DVD will follow this proposed funding stage, and combine Brice Vicks choreography with hit Recording Artists such as Ashanti's hit "Only You" or Remi Ma's "Conceited" featuring POP STARZ™ dancers.

An investment, up to \$100,000, will be made in promotion and video production through Kevin Layne [www.fortilayne.com](http://www.fortilayne.com). Revenues shall be shared with Brice Vick (\$1.00 per copy sold) and hit Recording Artists such as Ashanti or Remi Ma (\$1.00 per copy sold) in return for their creative input and use of hit songs such as "Only You" or "Conceited" in the production and access to sales via their websites, appearances, public relations, workshops and promotions etc. Contingent on the success of the initial Hip Hop DVD, a second and third production DVD are planned to follow to expand the volume of this category of sales, build a stronger brand franchise with consumers and increase profitability.

#### Licensing:

Pop Starz™ is currently seeking to initiate its **first licensees in Florida, with several Bally Total Fitness Clubs** in the area. This will be a **model for future licenses** throughout the U.S., wherever Bally has club locations. This will provide a clear pathway to national growth for all licensees, and helps make the financial decision to join Pop Starz™ easier. The key to such expansion is attracting individuals with the energy, enthusiasm and entrepreneurial spirit to fuel success in their market.

*See Appendix A-I for Analyst Certification and Important Disclosures.*

Potential licensees will be recruited through introductions and "business opportunity" advertisements in the local markets. The managers of Bally Total Fitness club locations will be a ready source of prospects through their network of contacts in personal training, dance and youth fitness. As market growth dictates, **Pop Starz™ will appoint to a field management team including a Director of Marketing and 3 Regional Directors of Programs**, who are experienced in sales, promotion, field operations and fitness programs to spearhead the Licensing Program and supervise market development.

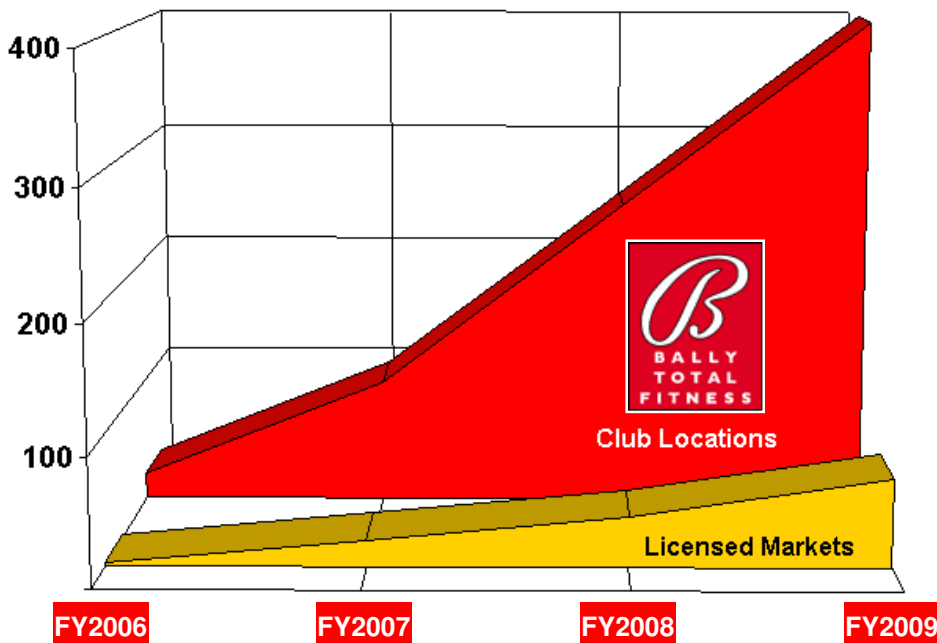
Dividing the country into three regions, East, Central and West, and assuming rough equivalency of qualified population, the estimated growth potential of Pop Starz™ Hip Hop dance class programs are as follows:

Bally Total Fitness has **73 metropolitan markets in the 29 states** in which they operate **over 400 clubs**.

**Pop Starz™** is currently in **3** of those metros and **12 Ballys clubs in the state of Florida**.

These estimates of Pop Starz™ licensing growth are based on projections from current operations in South Florida weighed against the Bally Total Fitness network of club locations.

The diagram on the immediate right hand side illustrates the **growth projections of future licensees of Bally Total Fitness Clubs for FY2006 through FY2009**.



The **initial licensing agreement paid a \$2,500 upfront fee, equal to \$500 per club**, and a minimum monthly \$1,000 fee (to be increased to \$1,250), equal to \$250 per club, in the Orlando area. Applying the same licensing model, projections of future licensing fees are:

Year End Totals	FY 2007	FY2008	FY2009
Licensed Markets	20	40	70
Bally Total Fitness Centers	100	250	400
Upfront Licensing Fee @ \$500 per club	\$ 50,000	\$ 75,000	\$ 75,000
Annualized Licensing Fees @ \$250 per club per month	\$ 300,000	\$ 750,000	\$ 1,200,000

South Florida operations are the base of the Company's business, and this region has steadily improved in performance. In the first 9 months of FY2006, revenues grew to approximately \$82,000. Its **current revenue streams include Licensing, Dance Classes, Workshops, and merchandise sales that PSRZ proposes to expand decisively with new funding** as proposed later in this section.

Projections are based on year to date FY2006 results that reflect classes in only 10 or 14 available Bally Total Fitness clubs in the metro. The availability of many additional class sessions at Bally Total Fitness, and the increasing popularity of Pop Starz™ with all participating age groups lead to the following un-audited projections:

*See Appendix A-I for Analyst Certification and Important Disclosures.*

South Florida Operations	FY 2007	FY2008	FY2009
Total Class Sessions	1,500	1,750	2,000
Average Session Charge	\$ 160.00	\$ 180.00	\$ 185.00
Dance Classes	\$ 240,000	\$ 315,000	\$ 370,000
Workshops	\$ 50,000	\$ 75,000	\$ 75,000
<b>Total Revenues</b>	<b>\$ 290,000</b>	<b>\$ 390,000</b>	<b>\$ 445,000</b>

### Branded Merchandise Sales:

The popularity of Pop Starz™ among its students and families has created a market **for branded merchandise sales, such as t-shirts, caps, sweats, workout gear, etc.** This category of sales is already expanding for the company, averaging \$500 per active center over the past quarter. This will continue to be an area of focus for revenue growth, **estimated at a Pro forma average of \$2,000 per active center, per year.** Anticipated availability of retail shelf space in selected Bally Total Fitness clubs, transactions via Web site sales and live events, will make the distribution of such products universal. Gross margins are estimated at 30%, allowing for a 50/50 split with licensees. Premium pricing, based on student loyalty, and creative new branded designs, will help maintain solid margins. We believe the logo is on-target for kids & teens, and is adaptable to many different types of goods, e.g. book covers, lunch boxes and backpacks. These logo items become walking Pop Starz™ billboards that build additional awareness by other kids & teens at school and at play.

### Talent Agency Management:

Through either becoming a talent agency by filing the appropriate application for licensing or by making an acquisition of an existing established talent agency, the Company plans to begin the process of representing top dancers for dance and modeling through print, commercials and videos. Through this subsidiary, it **will receive up to 20% in management fees** from performances booked through its offices. During the year, the Company meets many fine young artists who can benefit from expertise in training, appearance, wardrobe, fee negotiation, planning, and more. POP STARZ™ will provide a **central booking resource for entertainment to serve corporations and others.** Going forward, plans are to expand beyond dance, into other forms of performance: singing, acting, commercial appearances, etc.

This access to talented young people through POP STARZ™ programs offers yet another opportunity for future growth. In Year One, the Company plans on starting representation of 100 models projected at on average \$10,000 each in bookings, and growing rapidly in Years 2-3. **A 20% fee should equate to \$237,500 in additional Y1 income growing to \$525,000 in Y3.**

### Acquisition Targets:

POP STARZ™ is currently exploring acquisition candidates that offer talent agency capabilities and sound business practices that will facilitate immediate entry into targeted new categories, such as:

- a Performance Dance and Entertainment Service,
- a Modeling and Talent Agency.

These potential acquisitions, as well as others in targeted categories, offer a complementary range of services and talent pool with many possible cross-marketing synergies.

For emerging young companies that fit the model, a POP STARZ™ acquisition provides a fast-track national expansion opportunity with a quality brand name backed by a publicly traded corporation.

This summary on the following page projects a combined revenue picture as set forth by management, **for only 3 streams of volume: Licensing, South Florida Operations & Branded Merchandise sales.** These estimates are based on the performance of licensing opportunities, current operations, and video sales experience of Brice Vick, and the video distribution alliance of Pop Starz Inc. For our DCF Model calculations we have included revenues and profits from PSR and from Talent Agency Management provided in pro-forma income statements provided.

*See Appendix A-1 for Analyst Certification and Important Disclosures.*

Revenue Projections	FY 2007	FY2008	FY2009
Licensing	\$ 350,000	\$ 825,000	\$ 1,275,000
South Florida Operations	290,000	390,000	445,000
Hip Hop Dance Videos	1,995,000	2,250,000	2,750,000
Branded Merchandise	60,000	187,500	360,000
<b>Total Revenues</b>	<b>\$ 2,695,000</b>	<b>\$ 3,652,500</b>	<b>\$ 4,830,000</b>

### Pop Starz Records Inc (PSR):

In addition to the above projections the Company also owns an 85% stake in Pop Starz Records Inc (PSR) which is seen to have an accretive impact on future profitability and top line growth, subject to funding requirements explained below.

Pop Starz Records, Inc. a Florida corporation, is in process of offering for sale at a price of \$0.40 per share up to 3,000,000 shares of its common stock, \$0.01 par value on a "best efforts" basis for total maximum gross offering proceeds of \$1,200,000.

**The projection below is based on an equity investment of \$1,000,000.** Increasing funding to the \$5-\$8 million dollar range would allow the company to acquire established record companies; publishing companies or master/music publishing catalogues (a collection of record masters/songs) as well as expedite the technology development and would change the projections.

### Pro forma Income Statement

Pro forma (unaudited)	2007	2008	2009	2010
Unit Sales	1,300,000	2,650,000	5,450,000	7,000,000
Sales Revenues	\$ 2,226,844	\$ 4,871,498	\$ 11,046,422	\$ 15,562,310
Gross Margin	\$ 630,837	\$ 1,389,227	\$ 3,211,114	\$ 4,679,718
Operating Profits	\$ 50,177	\$ 357,427	\$ 998,474	\$ 1,370,618

### FINANCIAL STATEMENTS

The company has not made any Form 10-QSB or Form 10-KSB filings with the SEC with regards to financial performance and developments. The company is however in the process of improving its financial reporting in order to become a fully reporting company. Pop Starz, Inc. has its fiscal year-end on December 31.

The following policies reflect specific criteria for the various revenues streams of the Company:

**(1) Pop Starz, Inc. Classes:** Revenues are recognized pro rata over the number of classes in a class term. The term of a class is approximately two months. Student payments are required to be paid in full prior to the start of a term and are deferred until earned. Such unearned payments are shown as a deferred revenue liability on the accompanying balance sheet. As of September 30, 2006, the Company has reflected **deferred revenue of \$5,281.**

**(2) Merchandise and Special Events:** Merchandise revenues are recognized upon delivery of the product. Special events revenue, which includes such activities as birthday parties, field trips, corporate events, etc., are recognized as earned upon completion of services.

*See Appendix A-1 for Analyst Certification and Important Disclosures.*

The Company published financial statements for the 9 months ended September 30, 2006. The accompanying financial statements were prepared assuming that the Company will continue as a going concern. The Company has a stockholders' deficit of \$146,177, an accumulated deficit of \$774,516 and a working capital deficiency of \$150,042 as of September 30, 2006 and had a net loss and cash used in operations of \$98,877 and \$36,775, respectively, for the nine months ended September 30, 2006. Revenues for the first 9 months of FY2006 were \$82,078; gross profit was \$34,312 and Total operating expenses were \$129,490. No directly comparable figures were available for first 9 months of FY2005. For FY2005 as a whole the company generated revenues of \$171,736; gross profit of \$44,221 and total operating expenses were \$202,025. For the first 9 months of FY2006 the Loss from operations was \$95,178 that resulted in a net loss of \$98,877 or 0c EPS loss for the period after Interest expense of \$3,699. For FY2005 the loss from operations was \$157,804 that resulted in a net loss of \$161,613 or 3c EPS loss for the period after accounting for net interest expense of \$3,809.

All of these conditions raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on achieving profitable operations, its ability to generate positive cash flows from operations, and the obtaining additional equity and/or debt financing to pay off outstanding debt obligations. There can be no assurance that the Company's efforts will be successful. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. No estimate has been made should management's plan be unsuccessful.

The following Financial Summary is un-audited, and includes pro forma estimates and projections based on the growth and marketing plans presented in earlier sections for **FY2007 through FY2009**.

Income Statement	FY 2007 **	FY2008 **	FY2009 **
<b>Revenue Projections</b>			
Licensing	\$ 350,000	\$ 825,000	\$ 1,275,000
South Florida Operations	290,000	390,000	445,000
Hip Hop Dance Videos	1,995,000	2,250,000	2,750,000
Branded Merchandise	60,000	187,500	360,000
<b>Revenue Total</b>	<b>\$ 2,695,000</b>	<b>\$ 3,652,500</b>	<b>\$ 4,830,000</b>
<b>Expenses</b>			
Advertising	\$ 750,000	\$ 1,000,000	\$ 1,500,000
Compensation	600,000	\$ 650,000	\$ 750,000
Other Selling, General and Administrative	400,000	\$ 500,000	\$ 600,000
Studio Rental	75,000	\$ 100,000	\$ 125,000
Professional fees	50,000	75,000	100,000
Merchandise Production	350,000	500,000	650,000
<b>Expense Total</b>	<b>\$ 2,225,000</b>	<b>\$ 2,825,000</b>	<b>\$ 3,725,000</b>
<b>NET INCOME</b>	<b>\$ 470,000</b>	<b>\$ 827,500</b>	<b>\$ 1,105,000</b>

\*\* Projected

In our opinion management remains conservative in its financial outlook as provided above and we highlight these projections also **excludes the contribution of PSR and Talent Agency**. Management strongly believes in under-promising and over-delivering. Further the Company does not subscribe to corporate high spending and lavish perks as capital-raising activities thus far has taught the Company to prudently manage its resources.

*See Appendix A-I for Analyst Certification and Important Disclosures.*

On October 30, 2006, the Company issued a **convertible note payable amounting to \$200,000** to an unrelated party. The note payable bears 8% interest per annum and matures on October 30, 2008. The note payable together with the accrued interest is convertible at the option of the holder into shares of the Company's common stock at a conversion price equal to \$0.05 if such closing market price of the Company's common stock on the date of conversion is at least \$0.075 per share. However, if the closing market price is below \$0.075 per share, this will cause a proportionate reduction to the conversion price of \$0.05, but in no event the conversion price will be less than \$0.01 per share. On October 30, 2006, the Company issued convertible notes payable amounting to \$37,500 to the Company's President for accrued compensation and \$75,000 in exchange for a related party debt. These notes payable bear 8% interest per annum and mature on October 30, 2008. These notes payable together with their accrued interest are convertible at the option of the holders into shares of the Company's common stock at a conversion price equal to \$0.05 if such closing market price of the Company's common stock on the date of conversion is at least \$0.075 per share. However, if the closing market price is below \$0.075 per share, this will cause a proportionate reduction to the conversion price of \$0.05 but in no event the conversion price will be less than \$0.01 per share.

Additionally, in connection with the 8% convertible notes above, the Company recorded a beneficial conversion since the conversion price was lesser than the fair market value. The total beneficial conversion feature included in these convertible notes payable resulted in an initial debt discount of \$156,250 to be amortized over the term of the notes.

**Noteworthy financial and per share statistics are listed in the table found on page 1 of this report.**

### Liquidity and Capital Resources

Up until now, the Company has relied on loans, stock sales and debt conversions to finance POP STARZ™. Initial capitalization from Explorations Group Inc. its parent company to date has been approximately \$150,000, of which \$30,000 is an extraordinary event lawsuit (Pop Starz vs. Hip Hop Kidz & Suzy Stone) dating back to 2003. These transactions are detailed in the SEC filings of Explorations Group Inc. (OTC PK:EXGI) the former parent Company.

Now, to fund its growth plan, PSRZ is initiating a new private equity round of financing. The objective is to **raise \$1,200,000, through a private equity round of financing for the purposes presented in the table on the following page.**

USE OF PROCEEDS		
Salaries	Michelle Tucker	\$ 75,000
	Administrative Assistant	30,000
	Talent Agency Booker	60,000
	Regional Sales Manager and Staff (4)	300,000
Office Expenses	General: Phone, Auto, etc.	36,000
Travel Expenses	Choreographer & Performer Travel	24,000
Marketing	Advertising & Publicity	100,000
	Trade Shows & Displays	50,000
Hip Hop DVD	Production	100,000
	Proprietary Music	50,000
	Inventory	50,000
Acquisition	Talent Agency	100,000
Working Capital	General	25,000
<b>TOTAL</b>		<b>\$ 1,000,000</b>

The initial \$ 1,000,000 is for internal growth, production and distribution of an instructional Hip Hop dance DVD, national expansion of POP STARZ™ Hip Hop dance programs through licensing and creation and/or acquisition of a talent/modeling Agency. Terms for the new round of private financing will be detailed in a Private Placement Memorandum, and are subject to mutual agreement by the parties.

On September 30, 2006 the Company had cash and cash equivalents on hand amounting to \$10,025 which increased from \$2,514 on December 31, 2005.

This rise of \$7,511 in the Cash balance was as a result of \$44,286 net cash provided from Financing Activities due to advances from related parties, which was partly offset by negative operating cashflow during the first 9 months of FY2006 of \$36,775.

### RISK FACTORS /CONCERNS

The business model, and longer-term consistency of revenue and income potential, remain uncertain and is not fully proven. Pop Starz Inc. currently has agreements that will produce licensing fee revenues, merchandising sales etc. and present projections of income and revenues generated from operations may differ substantially from reality. Furthermore, it cannot provide assurance that management will be successful in negotiating further deals and contracts and deliver on all of its estimates used in financial modeling. PSRZ is **substantially dependent on the expertise of its management team and directors**, the loss of which could materially adversely affect future anticipated results.

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The company is still considered to be a **development stage company** and has generated limited revenues since inception. The Company may not be able to generate sufficient funds to operate its business, which, could harm results and force the Company to curtail or cease its present business plan. There can be **no assurance the company will be successful in its effort to secure additional financing, if needed** to support operations that will necessitate achievement of near and medium term goals.

The Company's current operations rely significantly on the limited number of its instructors and participants; however, as its marketing efforts increase, the Company anticipates that no client will account for more than 5% of its income, expenditures or time. The Company is new in the hip-hop dance training and professional talent development and entertainment business, which make evaluating its prospects difficult. There are significant challenges involved in growing the business and executing the Company's business plan. This genre of the music and cultural market is rapidly evolving and Pop Starz Inc. must act aggressively to establish a foothold. Current Shareholders interest is in a deficit and shareholders may not be rewarded for allocating investment capital towards this Company. Although management has provided forecasts regarding FY2007 and FY2008 revenues and profits, there is no guarantee the Company will achieve profitability next year or the following year, or thereafter.

In a development stage company, management devotes most of its activities to establishing a new business. Planned principal activities have not yet produced major revenues and the Company has suffered recurring operating losses as is normal in development stage companies. These factors raise doubt about the Company's ability to continue as a **going-concern**. The ability of the Company to emerge from the development stage with respect to its planned principal business activity is **dependent upon its successful efforts to raise additional equity financing, receive funding from affiliates and controlling shareholders, and achieve market penetration with its services and offerings**.

PSRZ profitability and survival will depend upon its ability to partner with entertainment giants, hip hop artists, record companies and industry players etc. to **license intellectual property** for the entertainment business, including **television programming e.g. music videos, events, merchandising** and related ancillary markets. As part of this intellectual property, PSRZ seeks to **create training videos** that form the basis for sequels, product merchandising, talent management and placement fee income and other ancillary opportunities.

If the Company is unable to achieve this or if it doesn't remain competitive, innovative and fresh in building market presence, brand awareness and customer loyalty, it may be unprofitable and its investors could lose their entire investment. There can be no assurance that PSRZ will be able to achieve and maintain acceptance and draw interest and popularity of hip hop followers and the entertainment public vis-à-vis similar products, services and offerings that is available from its competitors.

The Company's future growth will depend on its success in negotiating agreements and partnerships. If the Company is unable to sustain these agreements or is unsuccessful in securing new contracts, its growth prospects may be adversely affected. PSRZ will be primarily dependent on partners to assist in production functions and to provide the requisite marketing and distribution expertise and to contribute either capital or recognition and popularity from his/her celebrity status for each project. There is no assurance that such persons or institutions will be available when needed at favorable terms. There is no assurance that PSRZ will be successful in meeting or overcoming its current or future competition to create its own specialized niche in the hip hop dance, music, entertainment talent training and ancillary marketplace that has perpetual value for the company.

Its business depends on the protection of intellectual property and may suffer if PSRZ is unable to adequately protect its intellectual property. Pop Starz has obtained a Florida trademark in the Education & Entertainment Class 0041, covering the name "Pop Starz" for a number of its services. The application, dated March 7, 2002, was filed on March 12, 2002 and was registered for use on March 21, 2002. This provides protection from unauthorized use for a period of ten years, subject to renewal for an additional ten years. Florida Trademark Application Number T0200000333. First use of the mark was February 20, 2002. Under certain circumstances courts may decline to enforce it against a party infringing it that overcomes the presumptions under which it was granted. Pop Starz was also approved for a federal trademark on February 4, 2003, covering the name "Pop Starz" for a number of its services in the Education & Entertainment International Class 041.

In the future, the Company believes that it will probably develop proprietary intellectual property. In case of development of any such intellectual property, the Company's management anticipates that it will promptly file for and obtain available protection under state, federal and international regulatory processes and procedures; however, no assurances can be provided that any such intellectual property will be developed by or for the Company, or that if developed, intellectual property rights will be obtained, or that if obtained, they will be effectively protected.

The Company does not believe that its anticipated services will be subject to any government regulation specific to such services. The Company's operating subsidiaries were previously subject to regulation by the United States Federal Trade Commission, the Federal Communications Commission, the Justice Department, the Department of the Interior and comparable state agencies because of its subsidiary's franchise-related activities. However, all operations involving such activities have been terminated without ever having experienced associated regulatory problems other than the costs of monitoring and complying with existing regulations, which was expensive and time consuming.

*See Appendix A-1 for Analyst Certification and Important Disclosures.*

In addition, the operating subsidiary's managements were required to expend significant resources to obtain required regulatory clearance and the delays incident thereto may have deprived such operating subsidiaries of potential opportunities. Because such regulations also applied to competitors of such operating subsidiaries, however, they merely tended to make all participants in the industry less effective, rather than affecting these operating subsidiaries' competitive business posture.

The operations of the Company and its operating subsidiaries are subject to regulations normally incident to business operations (e.g., occupational safety and health acts, workers' compensation statutes, unemployment insurance legislation, and income tax and social security related regulations). Other than those regulations, the Company does not anticipate that its operations will be subjected to any special regulatory requirements. The Company is also subject to laws governing its relationship with employees, including minimum wage requirements, overtime, working and safety conditions and citizenship requirements. Formerly, our operating subsidiary's operations were subject to federal and state franchise, licensing and business opportunity sale regulations. **Pop Starz' operations are expected to eventually involve state regulation as a modeling and talent representation agency.** To the best of management's knowledge, the Company has not and will not be required to directly incur material expenses in conjunction with federal, state or local environmental regulations; however, like all other companies, there are many incalculable indirect expenses associated with compliance by other entities that affect the prices paid by the Company for goods and services.

Its present officers and advisors have other unrelated full-time positions or part-time employment. Some officers and advisors/instructors will be available to participate in management and operational decisions on a part-time or as-needed basis only. Management may devote time to other companies or projects, which may compete directly or indirectly with that of Pop Starz Inc. Insiders control a high stake of the company - representing **control of the majority of the total voting power**. Accordingly, the present insiders will continue to elect all of our directors and generally control its affairs. The Company's areas of business may be affected from time to time by such matters as changes in general economic conditions, changes in laws and regulations, taxes, tax laws, prices and costs, and other factors of a general nature which may have an adverse effect on the business of Pop Starz Inc. At present, only a limited public market exists for the common stock on the Pink Sheets market maintained by the National Association of Securities Dealers (NASD) and there is no assurance that a more active trading market will develop, or, if developed, that it will be sustained.

Trading in the shares will continue to be subject to major fluctuations for the foreseeable future. The **stock is thinly traded at prices below \$1.00 and selling of small positions could have a negative impact on the share price in absence of sufficient liquidity**. The reverse is true if one or more large investors decide to acquire a block of PSRZ shares that would result in demand outstripping supply and result in an upward squeeze in the price given the scant liquidity and daily trading volume. **We caution that historical volume activity on PSRZ rank it within a category of relatively illiquid securities** and we are unable to determine the direction of trading volumes in the coming months with any degree of certainty.

Major dilution of common stock can occur if the Company issues large blocks of common stock or convertible securities are converted/warrants exercised into common stock, that can negatively impact on the value of the shares either theoretically, or if sold outright in the open market. NASD and SEC Regulations covering rules on Penny Stocks apply for PSRZ, subjecting NASD broker-dealers to additional sales practice and disclosure requirements.

Further elaboration on these above-mentioned and other risk factors are necessary and will be contained in future company filings in Form(s) 10-KSB or 10-QSB with the SEC and readers should take note that these risk factors are just some factors they should consider when making an investment decision.

## MANAGEMENT TEAM & BOARD OF DIRECTORS

POP STARZ™ is guided and managed by highly competent and dedicated individuals who have acquired knowledge and know-how in developing leisure-fitness programs for young people, and marketing the services they have designed.

### Michelle Tucker – President, Chief Executive Officer and Director

Michelle Tucker, serves as the Company's president, chief executive officer and as a director since February 12, 2001, and has served as an officer and director of Pop Starz since the Company was incorporated in October 1996. From 1992 to 1996, she served as president and director of Explorations Entertainment Group, Inc., a Florida corporation, headquartered in Boca Raton, Florida. She was also involved with several different entities involved in the operations of Pop Starz. From 1979 until 1995, Mrs. Tucker worked for the State of Florida as a probation officer in Broward County.

Prior to founding Pop Starz, she provided volunteer services to the community such as working with the crisis line at the Shelter Home for Abused Women and various other community programs. Mrs. Tucker received a Bachelor of Science Degree in Criminal Justice from the University of Florida in 1979. From 1984 to 1986, She continued her education toward a Masters Degree by attending Florida Atlantic University and Florida International University.

*See Appendix A-1 for Analyst Certification and Important Disclosures.*

**Brice D. Vick – Artistic Director**

Mr. Vick is responsible for developing new Hip Hop dance steps and routines for exclusive introduction through POP STARZ™ including training instructors and students, conducting workshops and other creative collaborations such as the new DVD.

Mr. Vick, as has been already noted, is one of the soaring stars of the Hip Hop entertainment segment having choreographed for and danced with top musical performers including Ashanti, Remi Ma, R. Kelly, Christina Aguilera, Lenny Kravitz, Destiny's Child, and Lauren Hill. He was in-house choreographer for The Inc. Records, and choreographed Ashanti's stage shows, television appearances and award shows including the Lady of Soul, Soul Train Music Awards, The American Music Awards, The BET Music Awards and the MOBO Awards in London, as well as performances on MTV, ESPN, ABC, NBC and British television.

**Jeffrey Klein – Director**

Jeffrey Klein was elected a director in October 2004. Prior thereto, from January 2003, he held a similar position with Explorations Group, Inc. He is a partner with the Boca Raton, Florida based law firm of Newman, Pollock & Klein, LLP.

Prior to joining Newman, Pollock & Klein, Mr. Klein, from 1990 worked as a practicing attorney in Boca Raton, Florida for the law firm of Jeffrey G. Klein, P.A., a firm concentrating in corporate, transactional and securities matters. Mr. Klein has also worked as general counsel for several private and public companies including Bernard Haldane Associates, Inc., a nationwide organization offering clients career consulting services.

Mr. Klein received his Bachelor of Arts from Boston University in 1977. He also received his J.D. degree from the University of Pittsburgh in 1980 and earned a Masters degree in Business Administration in 1981 from the University of Pittsburgh.

**Adam Wasserman – Chief Financial Officer & Controller**

Adam Wasserman, was elected as our Company's Chief Financial Officer and Controller on June 14, 2002. Mr. Wasserman holds the degree of Bachelor of Administration from the State University of New York at Albany. He is a Certified Public Accountant (New York), and a member of The American Institute of Certified Public Accountants. Mr. Wasserman currently serves as the chief executive officer and director of CFO Oncall, Inc., a firm specializing in financial consulting services that he founded in 1999, which is located in Weston, Florida. From 1991 to 1999, he was an audit manager at American Express Tax & Business in Fort Lauderdale, Florida, where he served as an outsourced CFO and advisor to a diversified clientele in the technology, medical, retail, and service industries in both the private and public sectors.

Mr. Wasserman has also served with Deloitte & Touche, LLP in New York City; where he conducted audits of public and private companies, tax preparation and planning, management consulting, and systems design. He currently serves as the Treasurer of Gold Coast Venture Capital Club, was a former officer of Toastmasters International, and is a member of the Florida Venture Forum, and Weston Chamber of Commerce. Since March 26, 2002, he has also served as the chief financial officer and controller for Colmena Corporation, Inc., a Delaware corporation, and iGames Entertainment, a Nevada Corporation, and Genesis Technology Group, Inc., a Florida corporation.

**INVESTMENT THESIS AND RECOMMENDATION**

**Pop Starz Inc. Pop Starz, Inc. (OTC PK:PSRZ) is engaged in the business of operating high energy dance training centers, currently concentrating on the musical genre popularly referred to as "Hip Hop" and "Pop". Pop Starz' ultimate goal is the development and operation of dance and talent development programs (dance, acting, modeling and voice) throughout Florida and nationally, combining the functions of traditional dance and exercise facilities with training in modeling, drama and voice development, and providing participants of all ages with an opportunity to participate in professional entertainment opportunities. Our analysis suggests that PSRZ Inc. is a very interesting speculative play among nano-cap companies offering access to the investor to a large, young, demographically diverse audience with substantial spending power, which is specifically drawn towards hip-hop dance, music, events and culture.**

**Pop Starz' ultimate goal is the development and operation of dance and talent development programs (dance, acting, modeling and voice) throughout Florida and nationally, combining the functions of traditional dance and exercise facilities with training in modeling, drama and voice development, and providing participants of all ages with an opportunity to participate in professional entertainment opportunities. With strong alliances and collaborations with top-notch companies (such as Bally Total Fitness) and influential people such as renowned events choreographer, Brice Vick, the Company is in a good position to penetrate the Hip Hop dance and talent development and professional entertainment training markets, with its full suite of hosted classes that is uniquely tailored towards all skill levels and age groups.**

The growing popularity of Hip Hop music and culture in America provides the perfect backdrop for the Company to take advantage of the changing trends, increasing popularity and subsequently increase its market share in this exciting space. Hip Hop is the second most listened to music genre (behind Country), accounting for roughly 25% of gross record sales. But Hip Hop is far more than music – it is a cultural phenomenon claiming more than 100 million fans worldwide, and 50 million in the U.S. alone, Hip Hop has expanded beyond its urban roots to appeal to a large segment of suburban American youth.

The Company has already begun the process of securing a Talent Agency license in the state of Florida to greatly expand its representation of top dancers. With this license, PSRZ is enabled to receive up to 20% in management fees from performances booked through its offices. During the year, meetings are held with many fine young artists who can benefit from the Company's expertise in training, appearance, wardrobe, fee negotiation, planning, and more. Pop Starz™ will provide a central booking resource for entertainment to serve corporations and others. As time goes on, Pop Starz Inc. is planning on expanding beyond dance, into other forms of performance: singing, acting, commercial appearances, etc. This access to talented young people through the Pop Starz™ programs offers yet another opportunity for future growth. The Company is now initiating the process of building out its public company personae and building shareholder relationships and investor relations.

PSRZ is aggressively establishing Pop Starz branded Hip Hop dance, music and talent development culture; we see the Company's class enrollment trends and penetration into Bally Total Fitness Licensing opportunities on a nationwide level as a clear validation of its business model and rational. Management believes that its demographic is the most vital in today's youth market, with clear revenue possibilities as PSRZ exploits and ill-addressed need for more hop-hop focused dance and talent training. The Company believes it has the deepest network of friends and business associates and the most dedicated management team on board to realize its objectives of becoming the most prominent training center and Talent Agency Management in its market segment.

The popularity of Pop Starz™ among its students and families has created a market for branded merchandise sales, such as t-shirts, caps, sweats, workout gear, etc. This category of sales is already expanding for the company, averaging \$500 per active center over the past quarter. This will continue to be an area of focus for revenue growth, estimated at a Pro forma average of \$2,000 per active center, per year. Anticipated availability of retail shelf space in selected Bally Total Fitness clubs, transactions via Web site sales and live events, will make the distribution of such products universal. Gross margins are estimated at 30%, allowing for a 50/50 split with licensees. Premium pricing, based on student loyalty, and creative new branded designs, will help maintain solid margins. We believe the logo is on-target for kids & teens, and is adaptable to many different types of goods, e.g. book covers, lunch boxes and backpacks.

These logo items become walking Pop Starz™ billboards that build additional awareness by other kids & teens at school and at play. Under the assumption that our forecasts of revenues and net income for FY2007 through FY2009 prove to be accurate we believe that the shares offer value for shareholders willing to take at least a 2-3 year view on such investment, but we acknowledge the risk of financial loss is greater than compared to investing in larger more established companies.

Both operating and financial risks involved in investing in a young training and entertainment company are typically high and should be considered by investors. In this case the financial and commercial risks associated with investing in such companies include, risks associated with project collaboration efforts, partnership agreements, and time to build brand recognition, licensing revenues and draw increasing numbers of students to enroll in classes all of which requires a huge amount of time, access to capital and effective marketing. Indirect competition is intense in the form of traditional dance studios, modeling agencies and aerobic classes. Pop Starz will indirectly compete against a wide variety of concepts vying for family leisure time and recreational spending. These competing concepts encompass a broad spectrum of child recreational opportunities, including school programs, after-school athletic programs and specialty children's and young adults' social programs (e.g., scouting, etc.). Many of Pop Starz' competitors will have longer operating histories, substantially greater name recognition and more extensive financial, technical, marketing, sales and distribution resources than Pop Starz.

Based on the assumptions made by management in its business plan projections, PSRZ could require up to \$500,000 needed for its video project and for working capital needs in the coming year. It is still questionable at this point in time, if the company can successfully raise such funds for the necessary projects and on its ability to convert its intellectual property and its intended business plan into hard dollars through various targeted revenue streams etc., but once the company becomes profitable, it can utilize many financial vehicles to raise the money for new projects. There is also no assurance that PSRZ will achieve commercial success with its scheduled group training programs, talent management agency strategy and video and merchandising plans, most of which are currently in development phase. All of PSRZ's training themes and concepts are relatively new to its audience; hence the market acceptance and future growth in enrollment and other ventures may be lower than we currently anticipate.

Readers should understand that there can be no assurance that the company will be able to fast-track its path towards making inroads into the target market for its hip hop dance, talent training, music and other entertainment projects e.g. merchandising, events and talent management/placement agency revenues, that will flow through directly to the top and or bottom line to build a consistent longer term profitable track record to enrich shareholder value. The level of popularity and acceptance of new dance, voice, performance training concepts and themes created by PSRZ is one of the biggest unknowns and does and will play a material role in the financial performance of PSRZ in the short, medium and long term. Having said that, PSRZ has seen a high level of interest from several companies and new Bally's clubs in other regional markets outside Florida looking to host classes or form a partnership with PSRZ.

We therefore only recommend investors that have a high tolerance for risk that are able and willing to forfeit either most or all of their capital in search for extraordinary returns, to consider investing in the shares. Also, in our view investors willing to commit capital to PSRZ should do so with absolute minimum 2 year investment horizon, but preferably longer, to allow ample opportunity for growth to emerge until broader price discovery can materialize within the investment community that will allow the value behind this novel new specialized hip hop dance and talent training programs, licensing fee and other revenue opportunities, be unlocked and reflected in the stock price. Medium term we expect PSRZ stock to advance from its present price level.

We have developed a valuation model for Pop Starz Inc. based on the present value of the expected future cash flows (DCF model). The key assumptions for the DCF model are as follows:

- Pop Starz Inc. is still in the development stage and plans to close more licensing deals in early 2007. The Company projects revenues of approximately \$4.5 million in 2007 and \$8.2 million in 2008. The Company expects its revenue from the launch of its new hip hop dance videos, will contribute the bulk of this revenue surge from present levels. *These net income & revenue figures include contributions of PSR & Talent Agency.*
- The business model assumes the Company will to generate significant revenues in 2009 from multiple sources that include revenues from South Florida Operations, as well as Hip Hop Dance Video Sales and Branded Merchandise and additional licensing. We conservatively estimate the Company to generate FY2009 revenues of at least \$15.0 million with more than \$9 million in revenue attributable to PSR.
- Beyond 2009, Free Cash Flow growth is estimated to grow at 4.5% per annum.
- The Weighted Average Cost of Company (WACC) is calculated below and used to discount our Cash Flows to Equity at a rate of 12.9%.
- A Federal tax rate of 35% is assumed for the Company from FY2008 onwards.
- The Company plans to spend \$1,000,000 in the next 2 years on capital expenditures followed by another \$1000,000 in FY2009.

Our DCF (Discounted Free Cashflow) model is presented in the table below:

FREE CASH FLOW (DCF MODEL)				
	FY2006E	FY2007E	FY2008E	FY2009E
Net Income	-\$130,000	\$350,000	\$1,636,050	\$3,167,450
(+) Depreciation & Amortization	\$1,860	-\$10,015	-\$26,040	-\$35,290
EBIT	-\$128,140	\$339,985	\$1,610,010	\$3,132,160
(+) Interest x (1-t) [t = 35% Federal Tax Rate]	\$3,800	\$16,000	\$16,000	\$0
(Increase)/Decrease in Working Capital	\$55,000	-\$300,000	-\$510,000	-\$765,000
(-) Capital Expenditures	\$0	\$400,000	\$600,000	\$1,000,000
Free Cash Flow to Firm	-\$69,340	-\$344,015	\$516,010	\$1,367,160
WACC	12.9%			
PV of CF to Equity	-\$69,340	-\$304,776	\$405,007	\$950,662
Enterprise Value (EV) = Total PV of CF	\$981,553			
Terminal Value (Gordon Growth Model)	\$17,058,891			
Value of Firm	\$18,040,445			
Value of Equity (deduct net debt) (in \$ million)	17.84			
Shares Outstanding (in millions)	61.90			
Intrinsic Value (in \$US)	0.2882			
Assumptions	Beta	2.30	R <sub>m</sub>	8.0%
Cost of Equity=R <sub>f</sub> +(R <sub>m</sub> -R <sub>f</sub> )*Beta	R <sub>f</sub>	4.25%	k	12.9%
Long term Cash Flow Growth Rate	4.5%			

See Appendix A-I for Analyst Certification and Important Disclosures.

We assume that the Company will seek to raise capital through the issuance of private placements and convertibles debentures involving \$2 million capital funding for PSR and PSRZ. Our model assumes a figure of 61.9 million, representing an increase in the fully diluted share count over the next two to three years from the present level of 36.9 million shares outstanding. Based on this share count, our model calculates an intrinsic value of \$0.29 per share. Our model suggests significant appreciation potential for Pop Starz Inc. shares over the medium-term from the current \$0.08 share price. We acknowledge that our 12-month price target of \$0.30 appears optimistic at first glance, but we believe it is attainable and PSRZ will be propelled higher if our assumption is correct that FY2007 will produce a ramp in revenues as the company recognizes additional revenue from licensing deals its new video launch and PSR and Talent Agency Revenue contributions, that will act as a tailwind for additional revenue growth. Given these facts and our bottom up analysis, which is also qualitative in nature and against the backdrop of the recent deals and early market acceptance indications and optimistic revenue projections set forth for the next 24-36 months, we set a 12-month target price for the security of \$0.30. Our 12-month target price implies a market capitalization of approximately \$18 million on 61.9 million shares outstanding, representing a price to sales multiple of 2.3x our FY2008 revenue projection of \$8.2 million. This price to sales multiple is not unduly demanding in light of its life-cycle, its industry peers and rate of revenue growth to come beyond FY2008 which is certainly attainable if the current market penetration rate persists as expected. All factors weighed, we anticipate a stake in PSRZ still has compelling upside potential in the coming 12-24 months in light of the fact that negligible value is assigned to the probability of a successful nationwide expansion of its licensing strategy and commercialization of its franchise that will attract plenty of tuition income for its dance and talent development classes and consumer dollars from a video launch and merchandising.

We HIGHLIGHT to the reader that our bullish view and forecasts for PSRZ is made under the assumption that the company is able to generate AT LEAST \$4.5 million in FY2007 through licensing and other agreements and AT LEAST \$8.2 million in FY2008 (both include contributions from PSR and talent agency management set forth in pro forma projections). Moreover, we believe that the present market for PSRZ shares is far from efficient, does not fully reflect the leverage possible from a ramp in revenues that we expect and developments that can result in further agreements with Bally's clubs and entertainment companies, event organizers and hip hop and dance industry players who require talented new dancers and performance artists/musicians specializing in hip hop genre. On the business development side this company is making tremendous inroads. They have a number of contracts/deals under consideration and a stellar management team with proven track records of creating, producing and licensing hip hop dance and entertainment content and catering towards the needs of a targeted audience. The current audience for Hip Hop music includes approximately 45 million Americans between the ages of 18 and 34 and represents purchasing power estimated at \$1 trillion who is highly receptive to new music videos, artists, hosted events, dance talent and records and merchandise. Pop Starz is developing the first dance and talent training centers dedicated exclusively to Hip Hop music, lifestyle and culture. The Company is currently hosting classes at 14 clubs in Florida and expects its market penetration to increase exponentially in 2007 and 2008 as it benefits from partnerships with other leading Hip Hop entertainment companies, artists and health and exercise facilities such as Bally's, that enables it to spread its wings into other regional markets within the continental United States. Pop Starz Inc. anticipates revenues exceeding \$15 million in FY2009 and the achievement of modest profits of over \$3.8 million that implies a resolutely lucrative net operating margin of 25%. Under these assumptions we initiate coverage on PSRZ with a SPECULATIVE POSITIVE rating. We see a lot of room for growth off a low base. We believe the stock is currently undervalued should our assumptions be correct and that this situation could eventually be arbitrated away by value investors with the intention to apply patience once the company becomes fully reporting and disclose financial performance that reflects this anticipated progress.

*Risk to our recommendation include amongst other: failure of class content and programs to transit into fully captivate and capture the intended market share and attract further nationwide levels of enrollment that will result in inflow of tuition dollars, video and merchandise sales and licensing revenues, unforeseen difficulties or delays in the near or medium term from development phases and negotiations with potential partners for distribution etc., slow market acceptance of dance concepts, classes and training and talent development and training themes and concepts or low market penetration in other states and regions after commercial launch that will lead to lower than expected revenues and profits and a contraction in forward PE multiple assumptions and lead to overly optimistic inputs used in our Free Cash Flow model that dampen the valuation, a steep rise in operating and other production costs and or capital expenditures or unanticipated problems to maintain favorable terms negotiated with partners under such or other conditions, new fees/costs and/or any adverse regulatory changes in the markets it conducts operations. New competition in its market by other larger better capitalized rivals with more popular content and training classes/programs that appeal to its audience, accounting changes that has an adverse impact on the market's perception of shareholder value, any inability to obtain necessary financing from capital markets when needed, to continue its business projects and/or major share dilution that can occur, if large quantities of shares are issued to extinguish debt, paid for services or if warrants are exercised that dilutes common shareholder interest, are some additional factors that will counteract price appreciation potential or cause shares to decline in value.*

*We would caution that given the size of the company (nano-cap) and risks involved, overall we advise positions be limited below 5% of the client's total portfolio size.*

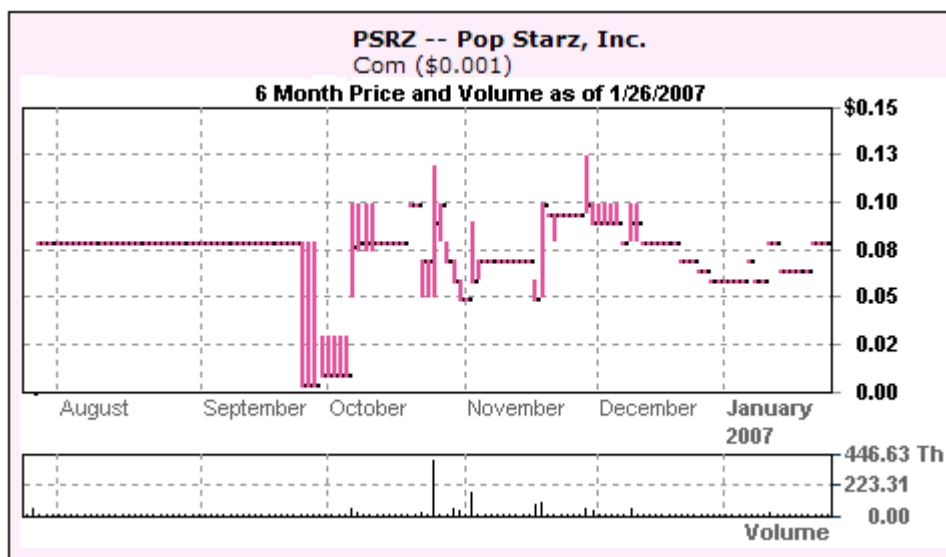
*See Appendix A-I for Analyst Certification and Important Disclosures.*

Our rating system, for stocks we rate, is divided into four main classifications: **Buy**, **Positive**, **Neutral**, and **Sell/Avoid**. Our Buy rating is divided into sub classifications by our analysts to reflect the degree to which the analyst believes the shares are undervalued in relation to the market and its peers, and the degree of financial risk represented by an investment in the shares. These Buy sub classifications include: **SPECULATIVE BUY** and **SPECULATIVE STRONG BUY**. The analyst will comment in the company reports on any of the perceived risk factors underlying the assigned rating.

Classification	Sub Classification	Description
BUY RATINGS	Speculative Strong Buy	The current price of the company reflects a substantial discount from the market and from the valuation accorded its peers. The analyst believes the stock at current levels represents a compelling opportunity for capital gains over the time period to its target price. <b>Speculative</b> means the company does have significant financial or other risks, while the <b>Strong Buy</b> category means <b>at least 100% gain indicated over 12 months</b> between current and analyst target price. Speculative Buy means <b>at least a 50% appreciation</b> indicated over 12 months between current and analysts' target price.
	Speculative Buy	
POSITIVE	Speculative Positive	The current price reflects a discount from the market, and from its peers. The analyst believes the stock at current levels will provide an opportunity for capital gains over the period of its target price. Speculative means the company does have significant financial or other risks. <b>Speculative Positive means 0% up to 50% appreciation indicated over 12 months</b> between current and analysts' target price.
NEUTRAL	Neutral Rating	The analyst is <b>unable to assign a speculative buy/positive rating</b> due to a number of specified factors noted in the report. These include the stock being fairly valued relative to its peers and the market, or the company may have risks that make it potentially unsuitable for investment. Finally, there may be actions or financings the company must accomplish before being considered for raising the investment rating or <b>alternatively the stock has little or no recent financial disclosure or delinquent in SEC filings.</b>
SELL/AVOID	Avoid	The analyst believes that the risks of investment in the company are too severe, and an investment in the company has a substantial probability for loss of all invested capital.
	Sell	We believe that the Company may be fairly valued or overvalued based on its current price, and that an investment in the company should produce below market returns.

The table below contains a summary of ratings awarded by Bridge IR to covered companies in its universe during the past 12-18 months:

RATINGS Universe Distribution		SPECULATIVE NEUTRAL	SPECULATIVE POSITIVE	SPECULATIVE BUY	SPECULATIVE STRONG BUY
Percentage:	100%	16%	40%	22%	22%
TOTAL COMPANIES	55	9	22	12	12



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## ANALYST CERTIFICATIONS

## APPENDIX A-1

The research analyst, who upon request wrote this report, certifies that the views expressed in this research report, accurately reflects his personal view about the subject company. The analyst also certifies that he does not own or have any beneficial interest in shares of the covered company, also that no part of his compensation was, is or will be directly or indirectly related to the specific recommendation or view expressed in this report. Tri-State Capital received \$6,000 in compensation for work on the subject company from a third party.

Based on the facts that were provided, the industry trends present and sources of information used to produce this report, it is my best opinion and reflection of what the companys rating and share appreciation potential could be once research coverage is widely adopted. Investors are urged to consider this report as only a single factor in making their investment decision. Information, opinions or recommendations contained in this report or research note are submitted solely for advisory and information purposes and we also do not accept any obligation to provide updates to this report in future.

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