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Bill Owens / President

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Page 1 of 33

Steel Valley Distillery Business Plan

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Page 2 of 33

I. Table of Contents

I. Table of Contents.....	
. 2	
II. Executive Summary	
.....	3
III. Highlights and General Company Description	
.....	5
IV. Products.....	
.....	7
V. SWOT Analysis and Marketing Plan	
.....	10
VI. Operational Plan.....	
.....	19
VII. Management and Organization	
.....	24
VIII. Personal Financial Statement	
.....	25
IX. Startup Expenses and Capitalization.....	
.....	26
X. Financial Plan	
.....	27

II. Executive Summary

Steel Valley Distillery will be a craft distillery of ultra premium and small batch spirits that will

include vodka's (flavored and neutral), rums (light, dark, and spiced), and a locally themed, high

quality, copper-pot distilled WV corn based moonshine.

Our primary goal will be to become a locally based leader in the rapidly growing trend of craft

distilled spirits. The current trend in distiller spirits towards ultra premium products manufactured

in small batches and an increase in the number of entrepreneurs, or craft distillers and competition amongst existing companies presents an opportunity for Steel Valley Distillery to

penetrate the market. Bill Owens of American Distiller states that there are over 10 craft distilleries opening in the US every year.

Our products will need to be positioned very carefully within this growing market. They will be of

extremely high quality in order to ensure total customer satisfaction, supported by impeccable

service to our customers and a marketing program that reflects the quality and image of the

products. The product image of ultra premium quality and uniqueness is an absolute requirement in order for Steel Valley Distillery to be successful in this market.

Initial plans are to produce three main product lines, primarily focusing on the following, a locally

themed moonshine (distilled from corn using a copper pot still), light and dark rums (double

distilled), and ultra premium vodkas (plain and flavored: TBD). These products will be sold in the

standard 5th sized containers of 750ml; a 1.75 liter version would be made available if requested. The immediate channels for distribution will include state controlled beverage distributors in OH, PA, and WV. We would also capitalize sales and marketing to tie into the

increasing local tourist trade brought in by legalized table gaming and a future nationally advertised theme park and luxury resort destination.

Quality will be Steel Valley Distillery's mantra: From the selection of the finest organically

growing potatoes and grains to the freshness of the fruits and spices that we use for flavoring

the suppliers that we chose to conduct business with will mirror Steel Valley Distillery in their

dedication to providing ultra premium products. This along with our superior quality stills will

allow us to promote the image of quality and redefine the definition of an ultra premium spirit.

Image is everything...

In order to prosper there is need for Steel Valley Distillery to be flexible and responsive, to

delight customers by providing them with what they want, when they want it and before

the competition. From product concept to goods dispatch we intend to ensure that every policy and procedure, system and process must have the objective of improving the flexibility and response of the whole company. There is a need for interaction between all functional areas, particularly between marketing and manufacturing, if the organization is to realize its full potential, with marketing and ultra quality controlled manufacturing being employed as a strategic weapon. Our marketing strategy will be based mainly on ensuring that customers know what need the product is able to fulfill, and making the right product and information available to the right target customer. Hence we intend to implement a market penetration strategy that will ensure that we are well known and respected in our respective industry. We will ensure that our products' prices take into consideration people's budgets and that these people appreciate the product and know that it exists, including where to find it. However these prices will also take into consideration the cost of production and distribution so as to ensure that we remain viable and operational. An initial goal of 40-45% gross margin would be the initial target with distilling process improvements possibly allowing for and increase in margins from the second year.

Page 4 of 33

Marketing effort will convey the sense of quality and satisfaction in every picture, every promotion, and every publication. Our promotional strategy will involve integrating advertising, events, personal selling, public relations and direct marketing. In the long term Internet marketing shall also be undertaken, details of which are provided in the marketing section of the following plan.

Our target market(s) and consumers will primarily constitute the corporate class who appreciate good quality premium spirits. The corporate or managerial segment will constitute those who are aware of their image and reputation and order cocktails equal to this. Our primary focus will be to make Steel Valley Distillery products the recommended, premium liquors of the ultra exclusive lounges and clubs throughout the US. Steel Valley Distillery will pride itself on its production ability, ultra premium quality and reputation, and its adaptability to changes in the market and in the method of its practice.

It is important to recognize that we do not intend that our tangible resources alone will make us potent competitors but more so our intangibles, such as our ability to relate to our target

consumers, our modern management style and corporate culture, and commitment to cutting edge products and production procedures. These elements will differentiate us from our competitors and contribute towards the development of a sustainable competitive advantage. Our compensation will include health care, generous profit sharing, plus a minimum of three weeks vacation. As an equal opportunity employer, we respect the diversity and human rights of our people, and strive to achieve optimal productivity, while realizing each employee's full potential. Awards will be given out to outstanding individuals and groups so as to instill a sense of fun and promote the maintenance of high standards. By encouraging all employees close to our customers to think tactically about what Steel Valley Distillery's service offerings should be, and by having enthusiastic, capable and empowered people interacting with our customers, we build the competitive advantage of being able to meet our customers' needs better than anyone else.

Page 5 of 33

III. Highlights and General Company Description

Steel Valley Distillery will be a craft distiller of ultra premium spirits with manufacturing headquarters in Wheeling, WV.

The benefits of operations based in Wheeling, WV include;

- Location to major interstate – reduced transportations cost for raw materials and final product.
- Lower then national average cost for leasing and/or purchasing commercial property.
- Reduced utility cost.
- Low cost of local labor.
- Central location for immediate distribution to WV, PA, and OH.
- Ease and reduced cost for obtaining state licensing to produce distilled spirits.
- Growing local tourist trade due to the recent legalization of table gaming the development of the Highlands shopping and entertainment area that will include a nationally advertised 60 acre theme park and resort.

Mission Statement

Steel Valley Distillery intends to provide only the highest quality, ultra premium spirits that always exceed the drinker's expectations. Hence we intend to assist in the creation of a welcoming and relaxed ambiance reflective of people enjoying themselves. We are sensitive to the taste, look and feel of premium spirits, as well as affordable prices depending on the market. We intend to provide the best possible value to our customers who care about quality products at affordable prices, and we want every dollar spent on our products to be well spent. Internally we intend to create an environment, in which our employees are fairly compensated

and encouraged to respect the customer and the quality of the product we produce. We seek a fair and responsible profit, enough to keep the company financially healthy for the short and long term, and to fairly compensate owners and investors for the money and risk.

Keys to Success

The keys to Steel Valley Distillery success will undoubtedly be effective market segmentation through identification of several niche markets and implementation strategies. Along these lines the company intends to implement advertising, personal selling and direct marketing strategies aimed at the target markets. Our advertising marketing strategies will rotate around. Hence our key success factors will include the following:

Excellence in Fulfilling the Promise: We intend to produce and provide products of uncompromised quality to our customers. This is so as to meet the needs and high standards of our target customer segment.

Page 6 of 33

Effective and Efficient Distribution Network: The importance of such cannot be overemphasized in our line of business. We intend to establish an excellent distribution network that will enable us to rapidly respond to customers' orders and provide us with ample opportunities for growth.

Distillery Technology: To ensure quality distilled beverages it is essential to utilize the latest and most efficient distillery technology. Keeping abreast with technological developments will ensure we gain, and maintain, a competitive advantage utilizing the latest production techniques.

Loyalty and Dedication: The loyalty and dedication of our employees shall be essential to the prosperity of the organization. We recognize that corporate commitment to success should lead to the survival and prosperity of the products, and ultimately the organization as a whole.

Marketing Know-how: In an increasingly competitive market there is need to aggressively market our business so as to be continuously at the top of our prospective and current client's minds. We intend to establish and dominate our presence on the World Wide Web, which will increase the knowledge of our products to the various market segments we shall be targeting.

Web presence is a natural objective in reaching the appropriate potential customers. Well-done

brochures, company profiles and business cards often have a triggering effect on clients contemplating on ordering our products. Hence this will undoubtedly generate increased sales of our products

Adherence to Stringent Values and Principles: Steel Valley Distillery needs to

acknowledge
the fact that the financial and strategic management of the business will ultimately determine its
prosperity and success. Hence we intend to adhere to stringent values and principles that will
enable such to be achieved.

Ownership: The proposed legal form of ownership for Steel Valley Distillery will be a Corporation (S or C class – TBD) with 51% of the outstanding shares being held by Sam Matheny and the additional 49% of shares available to investors.

Page 7 of 33

IV. Products

Steel Valley Distillery's initial product lines will include the following three families of ultra premium spirits. Although we intend on producing small batches of other ultra premium spirit,

these three main product lines will be the primary focus for Steel Valley Distillery due their

current popularity among our targeted customer base.

Term "ultra premium" is a term created solely by marketing companies; it does not have any

specific set of government rules, regulations or requirements to use it within description and

labeling.

Steel Valley Distillery will have the ability to react to changing taste and new product request

from our primary market and be the leader in providing ultra premium spirits in emerging categories and or emerging market segments.

Vodkas - Currently vodkas remain the number one spirit of choice in the US for the premium

cocktail. Steel Valley Distillery will produce an ultra premium neutral vodka spirit from 100%

organically grown US potatoes and a line of naturally and organically flavored vodkas that will

utilize the neutral spirit as the base.

As mentioned in the market section of the business plan ultra premium vodka has been the

highest growth segment for distilled spirits for the last three years and is expected to continue

this growth trend in the future.

Flagship line of ultra premium vodka produced

using

only the finest organic potatoes grown within the US – 90 proof. This vodka will be filtered a

minimum of three times through activated carbon to create the purest, most drinkable vodka

available today.

Final suppliers of raw materials TBD.

Bottle design will reflect a signature logo and desired marketing message within the design.

Label design TBD.

Steel Valley Distillery's line of flavored vodkas

will
provide the drinker with subtle exotic flavors (final flavors TBD). These flavors will come only
from the highest quality natural and organic exotic fruits and spices from around the world.
Final flavors and suppliers TBD.
Bottle design will reflect the brand identity created by the Flagship product.
Label design TBD.

Page 8 of 33

Rums - Following the current popularity of pirates and rums, mainly spiced Steel Valley Distillery will produce three premium rums utilizing 100% organic blackstrap molasses. The

initial offering for the first year will include white rum and spiced rum with aged rum to follow
after one year.

Rums are another high growth area for distilled spirits as can be seen from the number of

advertisements for Captain Morgan's spiced rum. Which is now, through the implementation

and execution of a fantastic market program considered a premium, top-shelf liquor.

Flagship line of premium double distilled,

blackstrap

molasses white rum – 90 proof.

Final suppliers of raw materials TBD.

Bottle design will reflect a signature logo in design.

Label design TBD.

A premium spiced rum utilizing the white rum

base

product. The spiced version will differentiate itself of the other current lines of spice rums on the

market today by allowing the sweetness, caramels and vanilla flavorings to come from the

molasses itself and providing a spicy/hot kick from small amount scotch bonnet pepper.

(Final

recipe is being developed and refined currently).

Final suppliers of raw materials TBD.

Bottle design will reflect a signature logo in design.

Label design TBD but to suggest the more spicy hot side of the rum.

Steel Valley Distillery's line of aged or

“experienced”

rum will be barrel aged for a minimum of one year in used American White Oak bourbon barrels

sourced from bourbon distilleries in KY.

Final suppliers of raw materials TBD.

Bottle design will reflect a signature logo in design.

Label design TBD but to suggest the more experienced or refined subtleties of our rum.

Page 9 of 33

Moonshine - With Steel Valley Distillery being a WV based company it would only be proper

for us to offer a premium version of an American classic – pure, copper pot distilled corn liquor.

Ultra premium and filter for a smooth but fiery taste. This will be more than just a novelty based product but will be offered locally in touristy locations including Wheeling Island Gaming Center, selected retailers and restaurants located at the Highlands and other locations TBD. Moonshine will be available in two proofs for drinking and mixing.

90 proof pure corn moonshine.

Final suppliers of raw materials TBD.

Bottle design will reflect a signature logo in design.

Label design TBD.

151 proof pure corn moonshine – the highest

proof

allowed by law.

Final suppliers of raw materials TBD.

Bottle design will reflect a signature logo in design.

Label design TBD.

–Distillers Select, Barrel Aged: Selected

“hearts of the

hearts” runs from the copper pot still will be cut to 110 proof then barrel aged in new and used

American White Oak bourbon barrels. This product will be tested at the one year, two year and

five year marks to determine proper time for sale. A minimum of 110 gallons per year will be

tagged and aged for 10 years.

Final suppliers of raw materials TBD.

Bottle design will reflect a signature logo in design with an area for batch numbering and hand

signing by the master distiller.

Label design TBD.

Page 10 of 33

V. SWOT Analysis and Marketing Plan

We foresee our strengths as the ability to respond quickly to what the market dictates and to

provide an ultra premium, craft distilled spirit in a growing market. In addition, through aggressive marketing and quality management we intend to become a well-respected and

known entity in our respective industry. However we acknowledge our weakness of a small sized

company without a lot of experience, and the threat of new competition taking aim at our niche. Below are the summarized strengths, weaknesses, opportunities and threats.

Strengths

- o Strategic market segmentation and implementation strategies.

- o Diversified market segments: ensuring the lack of dependency on one particular market.

- o An aggressive and focused marketing campaign with clear goals and strategies.

- o Clear-cut channels of distribution.

- o An ultra premium product that capitalizes on the current growing trend of craft or boutique spirits.

Weaknesses

- o Lack of a reputation in comparison to our competitors.
- o A limited financial base compared to the major players in the industry.
- o Establishment on the Internet will produce technological challenges.

Opportunities

- o Specific niche: Appreciation for ultra premium spirits, enjoyment, and refreshment (and integration therein).
- o The new generation of individuals and families has a far greater appreciation of attractive packaging (image conscious).
- o Internet marketing and sales.
- o Increasing number of craft distilleries looking at penetrating the market.

Threats

The present growth in the market may result in market saturation, through competition.

This

competition could emerge from a variety of given sources including:

- o New marketing strategies and tactics by established products and companies.
- o Existing competition (Anheuser-Busch is currently working on a plan to step into the distilled spirits market by working with craft and local distillers nationwide to offer ultra premium products).
- o Other start-up companies nationwide.

Page 11 of 33

Target Market Segment Strategy

Our marketing strategy will be based mainly on making the right product available to the right

target customer. We will ensure that our products' prices take into consideration our target

markets' financial situations and that these people appreciate the product and know that it

exists, including where to find it. The marketing will convey the sense of quality in every picture,

every promotion, and every publication. There is already a sense of segment strategy in the way

we define our target market. We are choosing to compete in areas that lend themselves to

competition, service and channel areas that match our strengths, and avoid our weaknesses.

Our strategy calls for the development of relationships with suppliers, distributors and retailers

to support our business. Regular visits will be undertaken to these areas so as to ensure that we

are meeting their expectations. The quality of raw materials and distillery technology will be

evident in our products will serve to enhance the appearance of our customers, in turn adding to

their status.

Market Trends

Our target markets are increasingly growing towards recognizing the difference between poor

quality spirits and those of high quality. This development is an important trend for us as it

represents our target market. We now are having an increasing number of people who appreciate the availability of craft distilled, small batch premium spirits. With this in mind

we

intend to ensure that our packaging is attractive to our target market consumer.

The term “ultra-premium” is a marketing term that was created several years ago to differentiate

brands of competing premium vodkas. Thus the term ultra premium has been used to allow

some premium vodkas to increase their retail price and appeal to those consumers that find the

image associated with the distilled spirit that they order to be important. Steel Valley Distillery

will use our marketing program to ask the consumer to define what makes a brand of vodka and

“ultra-premium” vodka.

Strategy and Implementation Summary

Our marketing strategy emphasizes focus on our target consumer. This will be the key.

We will

be the new company and hence must focus on certain kinds of products with certain kinds of

consumers. Initially Steel Valley Distillery will focus on the local markets in WV, PA and OH.

Hence the form of growth that shall be initially pursued will be that of organic growth mainly due

to limited resources and the need to instill confidence in our products. The target customers will

include key decision-makers in the retail and clubs and lounges who often order or recommend

on behalf of the whole organization, the aim being to obtain an initial order and fully satisfy the

customer from then on.

o We are currently building image and awareness through consistency and distinctiveness

in our product provision.

o We intend to focus on delivering quality products that in turn produce good referrals, which can then generate revenue. We intend to always be active in personal

relationships with clients and strategic allies keeping abreast of their needs and wants.

o We are focusing advertising on several key media.

Page 12 of 33

Image Proposition

Our proposition is offering our customers an ultra premium distilled spirit that matches the image

that they convey. Hence we intend to:

o Market the image of the product.

o Ensure customer satisfaction.

o Develop long relationships.

o Market the company.

This image proposition shall be communicated through advertisements, personal selling, sales

literature and catalogues, and referrals that emphasize how the company is able to provide ultra

premium, craft distilled, and small-batch products to the customers.

The most important aspect of the image proposition will be to ask the targeted consumer

to define “ultra-premium”. This will be done by asking them if a certain manufacturing process, equipment, refinement, or other item or process makes the final product “ultra-premium”. All of this will be focused around the process whereby Steel Valley Distillery creates our ultra premium distilled spirits. The use of a Pittsburgh base PR/Market Research firm is under investigation to assist in product naming focus groups. With retail market appearance of the highest priority it could aid in our success and positioning of products. Cost for 3-4 focus groups is estimated at \$10k.

Marketing Strategy

One core element of our marketing strategy will be that of differentiation from our competitors. In terms of promotion, we intend to sell our company as a differentiated strategic ally, not just our products. In price, we intend to offer reasonable prices in line with the competition and we need to be able to sustain that. Market penetration through lower prices shall be undertaken where need be, while premium pricing will be the case of the upper-end of the market.

Product Marketing

Our product marketing will emphasize the image of consuming our products, including the quality and refinement our spirits. We intend to sell the opportunity to enjoy oneself amongst friends, family and/or colleagues. This will come out in our advertising, delivery and collateral such as sales literature and business cards. Our product marketing's most important challenge will be the problem of being accepted and appreciated on the market as a provider of quality products. Hence we intend to not only meet customers' expectations but to exceed them. We intend to focus on the individual or a group who wants to enjoy themselves through the consumption and appreciates what they're drinking says about them. However, not wanting to limit our horizons in the initial period, we intend to be continually looking out for opportunities that we may exploit. In all cases we intend to provide a thorough understanding and appreciation of the products to the customer and the benefits of consuming them.

Page 13 of 33

Product Packaging

Our product packaging shall be of utmost importance, as it will definitely influence our potential customers on whether to try out our products or not. As such we shall ensure that it is not only attractive to consumers but conveys an image of refinement. Continuous improvement on packaging will also be undertaken so as to maintain, if not improve product appeal. Currently the plan includes products are sold in 750 ml bottles. However depending on

the dictates of the market, there might be a need to introduce 1.75 ml sizes. Hence we intend to ensure that we are flexible if such changes are to occur.

Service Provision

The service aspect of Steel Valley Distillery marketing mix shall constitute an important element in delivering total quality. This is due to the high degree of exposure our competitors already have. As such we intend our customer service to be key to the retention of customers. We shall follow-up with our clients on a regular basis so as to ensure they are satisfied with our products and delivery times. This is mainly because we intend our customers not to be one-time buyers but regular order seekers. The establishment of a rapport and understanding between our customers and ourselves is going to be an ongoing process. We intend to implement database marketing whereby we shall be targeting customers based on their previous purchases, in terms of size, frequency and actual products, so as to forecast their demands and establish long beneficial relationships. Customer service shall be enhanced through infrastructure support in the form of merchandising and credit facilities, and alternative distribution facilities where possible and viable.

Pricing Strategy

We intend the price will accommodate the mark ups prevailing in the industry, as well as our own costs. To be competitive in the market we intend to offer discounts to customers making bulk orders, which are in competition with the industry. This will also assist in the establishment of customer loyalty. Hence our prices shall be as follows:

Retail List Distributor

Vodka – Plain, 750 ml - \$25.95 \$15.50

Vodka – Flavored, 750 ml - \$27.95 \$16.50

Rum – Plain, 750 ml - \$23.95 \$14.00

Rum – Spiced, 750 ml - \$25.95 \$15.50

Double X Moonshine, 750 ml - \$19.95 \$12.00

Triple X Moonshine, 750 ml - \$23.95 \$14.00

We intend our income structure to match our cost structure, so as to ensure that the salaries we

pay to assure good workmanship is balanced by the price we charge. We will make sure that we

charge for the product, workmanship and delivery with our aim being to achieve a gross profit

margin of at least 35% - 40% in our initial two years of operation.

Page 14 of 33

Future, aged products including a barrel aged rum and whisky will be priced and

released as they become available. Pricing will be evaluated at that time based on multiple market factors.

Promotion Strategy

Our promotion strategy will be based primarily on informing potential customers of our existence and making the right information available to our target customer. Since we shall be targeting different segments (distribution, retail, and consumers), the promotional tools and messages may vary slightly to match the intended market. However in all cases the marketing will convey the sense of ultra premium quality and refinement in every picture, every promotion and every publication.

Promotional campaigns will seek to promote the “image” of the spirit, and customers drinking these products in groups. Our promotional activities shall be focused towards driving the organization's overall strategy relentlessly, developing internal consistency and prepare it to confront any radical changes that may arise. In such a market we cannot afford to appear in, or produce, second-rate material that make our products look less than they are. We intend to

leverage our presence using quality brochures and other sales literature, including promotional material such as pens, shot glasses, t-shirts, hats, and stickers. Due to the fact that our products will be in the introductory phase on the market, promotional expenses are high in order to generate customer attention and knowledge of our products existence. We intend to spread the word about our business through the following:

Advertising

In view of the fact that we are entering a market largely dominated by national brands we intend to undertake extensive advertising of our products in addition to our brand name--company name. This is so as to instill awareness and knowledge of our existence in the market place, which hopefully shall convert into market share. Hence the need to ensure that our products are constantly available to our target market, and of consistent high quality.

Events

Steel Valley Distillery aims to participate in trade shows (where applicable) (including Wine and Spirits Wholesalers of American convention in April, 2008) local events in our target market areas, and local and national quality taste tests. Not only will these increase awareness of the products, but if a particular product were to gain recognition, for example through being chosen #1 at a taste test, the organization will be able to take advantage of this in all its

promotional campaigns, adding leverage to its reputation and image. Communicating such achievements often gives customers a feeling that they can rely on the product, and this builds strong customer loyalty.

Public Relations

Recognizing that we are relatively new on the market there will be a need to organize an event,

of grandeur nature, introducing ourselves onto the market.

We also intend to experiment with a road show in the various target market areas at various

events giving out shirts, and other such prizes to individuals who answer questions correctly.

Page 15 of 33

This will also enable our business name and products to be better known by the respective

communities. However we are extremely confident that these road shows if well planned will be

a success as they encourage community participation.

The distillery will be open daily from 11 AM until 7 PM for tours and tasting. This is so as to

increase awareness of our facilities and products and also showing confidence in our production

process and standards. Hopefully visitors will leave impressed and confident in our products,

adding to the possibility of positive referrals. These same tours will also be arranged with prospective clients/order-takers.

Another idea would include making a portion of our facility available for rent for parties and

corporate events. During which the bar would include a variety of cocktails made using Steel

Valley Distillery products at a low cost per person. Relationships could also be created with local

caterers to provide a limited menu for these events.

Developing and maintaining strong relationships with radio personalities will be a mainstay in

low cost brand promotion. Also strong ties to the ownership of target market clubs and lounges

where Steel Valley Distillery could be promoted as the house premium brand is important.

Personal Selling

This shall be undertaken in the form of sales calls whereby a sales person (mainly myself) will

go out to potential customers and distributors and educating them to what products we are able

to offer them. In addition the sales person will listen to client's needs at close hand, so as to

ensure that the product is delivered timely and that it is the right product as demanded by the

surrounding community. Close analysis shall also be undertaken of the consumption patterns of

the respective communities. Market research will be preformed within the targeted cities to look for local events where there would be an opportunity to convey our message to our target consumer.

Direct Marketing

This will be used, but only to a limited extent, in the form of telemarketing, direct mail and informing potential customers and obtaining referrals where possible. In the case of telemarketing it will involve our targeting potential customers/distributors of our products and informing them of our existence and the products we offer. We may then arrange for an appointment with the respective decision-maker/order-maker, with the intention being to lure them into ordering one or more of our product lines.

Internet Marketing

The increasing growth of the Internet as an information source provides an opportunity that we may exploit. However this will require adequate planning and research so as to establish a professionally done website.

In all the above we intend to communicate our ability to manufacture ultra premium spirits that will satisfy the customers needs. Hence our messages will influence the buying decision of prospective customers and distributors by emphasizing our unique selling proposition, and persuade prospective buyers that we are different from our competitors. All the above promotional tools shall be well integrated and utilized in tandem so as to maximize their effect.

Page 16 of 33

Distribution Strategy

We believe that through our obsession for improvement, and commitment to a leadership position in our respective markets, we can overcome the traditionally binding constraints of resource base, firm size and narrow conceptualization of our business domain. This shall be undertaken through coordination and logical integration of our distribution operations.

Trade Channels:

- o Wholesale Distribution Channels including state controlled and privately owned distributors of wines and spirits.

We intend to ensure that our distillery is located close to our major distribution centers not only to minimize costs but also to enable our products to be easily available, in the best condition, in the different markets nationwide.

Sales Strategy

We intend to focus on improving our implementation, by working on key objectives and coordination of marketing efforts. For the short term at least, the selling process will depend on

personal selling and advertising to lure and inform potential clients about the products we offer

and the benefits of consuming our products. Our marketing does not intend to affect the perception of need as much as knowledge and awareness of the product categories.

Economics

Source: DISCUS – Distilled Spirits Council of the United States

- Current US market for distiller spirits = \$18.1 billion for 2007 (up 6.4% over 2006)
- 6.3% market growth in 2006
- \$60 million market growth to \$1.4 billion for the ultra premium vodka market alone in 2006
- Premium vodkas account for over 18% of all spirits consumed globally
- The other top growth categories for distilled spirits include; premium vodka, cordials, rums, and high-end bourbon.
- “The loss of beer volume to wine and hard liquor has accelerated in recent years,” company president August Busch IV told a liquor industry group in 2007. – *Source Associated Press.*

• Barriers to market entry:

- High production costs
- High marketing costs when competing with nationally recognized brands
- Consumer acceptance and brand recognition

Page 17 of 33

• Overcoming the barriers to market entry:

- Sourcing of locally produced raw materials, location that allows for lower than national average cost for utilities and production space, and the purchasing of used equipment where possible
- Utilization of various lower cost PR methods within our target markets and to our target consumer
- Targeted market and consumer related advertising and promotion of the boutique brands of Steel Valley Distillery's products

Competition

Current direct competition in the “craft distilled” premium spirit market is limited to local markets.

None of which currently overlap the main target market focus area for Steel Valley Distillery.

Current other competition in the ultra premium vodka and spirit market includes the larger brand

distilleries – list does not include current craft distilled vodkas as they are not considered competition:

Ultra Premium Brand(s) Only

Diageo Plc – Brands include: Cîroc,

Pernod Ricard – Brands include: Stolichnaya, Wyborowa

Fortune Brands – Brands include: VOX

Brown-Forman – Brands include: Finlandia

Other smaller but still national and internationally marketed ultra premium vodkas would include:

Gray Goose

Belvedere

Level

Three Olives

Chopin

Pravda

Hanger 1

Anheuser-Busch is currently working on a plan to step into the distilled spirits market by working with craft and local distillers nationwide to offer ultra premium products.

Page 18 of 33

Vodka is the only spirit where marketing has created numerous top tier categories including a premium and an ultra premium classification. The difference between these brands in taste is almost un-discernable by human standards and sales are driven by image only. Labels, bottles, sneak peeks into the distillery where only the finest grains, potatoes, and filtered waters are used to manufacture.

The primary goal and marketing effort driving Steel Valley Distillery would be the ultra boutique style of small batch distilling that goes into each and every bottle. However Steel Valley Distillery is a small distillery that cares and can control the process better than the big boys and provide a true ultra premium product to the consumer.

Niche Market

Steel Valley Distillery will be at the forefront of the craft distillery movement, and will be one of the first in this group to provide an ultra premium line of products to the consumer on a national market.

Initial Estimated Promotional Budget

During the 3 – 6 month start phase marketing will begin a pre-launch direct mail piece to be sent to the buyers for the major US distributors. PR will begin sending out informational updates to the industry focused, small business, and other magazines. In April of 2008 the WSWA, Wine and Spirits Wholesalers of America holds a trade show in Las Vegas where Steel Valley Distillery would have the opportunity to begin building relationships with the buyers for all of the major US distributors. Pre-show activities would include a mailer to the individuals attending this show to generate a buzz regarding our brand.

Estimated cost for a six month pre-launch marketing and PR program - \$45,000. (below is the cost breakdown)

- o Direct mail announcing the creation of Steel Valley Distillery to the leading industry leaders and influencers and publications - \$15,000

(Includes the cost of mailer creation and postage)

- o Internally managed PR campaign - \$5,000

- o WSWA trade show - \$3,500 attending only - \$10,000 if exhibiting + \$5,000 pre-show mailer

- o Follow up direct mail and personal visits - \$10,000

- o PR – contacting industry publications with press releases - \$0

Ongoing promotional activities will include personal visits to local distributors. Market

specific promotions at the club and lounge level. As mentioned earlier, ultra premium spirits are products of a strong marketing and PR campaign and require heavy initial investment. Promotions via sponsorships in market specific community events and support of organizations will be reviewed and decided upon as identified. Ongoing estimated cost to support the Steel Valley Distillery first year launch marketing and PR program, \$45k - \$65k. Certain aspects of materials creation will be outsourced to Elsico Advertising as required.

Page 19 of 33

VI. Operational Plan

Outlined is the preliminary operational plan. All operational procedures will be outline in the

Operational Handbook – which will be developed and maintained based upon ISO 9001 standards.

Production

All distillation will occur within the initial Wheeling, WV facility with future product possibly being

produced at a second facility to be named later.

- Production will be outline in the Operational Handbook and will include detailed instructions for the following procedures:

- o Incoming raw material quarantine for quality inspection
- o FIFO (First In, First Out) inventory procedures
- o Equipment inspection, sanitization and setup
- o Raw materials and ingredients preparation
- o Recipe procedures
- o Distillation procedures and spirit testing
- o Cutting, storage, blending and bottling
- o Aging – and barrel rotation

- Inventory control will be handled with a limited ISO base procedure for inventory control with the use of an accounting software package TBD.

- Production control and finished product inventory will be tracked and controlled based upon Federal Government procedures for distilleries.

- Product research and development for new products will be handled on a small batch, 25 - 50 liter column/pot still – already owned. New products and recipe refinements would be ongoing to improve upon the products that we would already offer and remain inline with our consumer's requirements.

- o Market research projects and marketing, including consumer polls, taste test, and ongoing surveying would provide new product direction and current product refinements.

Page 20 of 33

Location

Steel Valley Distillery will be a craft distiller of ultra premium spirits with manufacturing headquarters in Wheeling, WV.

The benefits of operations based in Wheeling, WV include;

- Location to major interstate – reduced transportations cost for raw materials and final

product.

- Lower than national average cost for leasing and/or purchasing commercial property.
- Reduced utility cost.
- Low cost of local labor.
- Central location for immediate distribution to WV, PA, and OH.
- Ease and reduced cost for obtaining state licensing to produce distilled spirits.
- Growing local tourist trade due to the recent legalization of table gaming the development of the Highlands shopping and entertainment area that will include a nationally advertised 60 acre theme park and resort.

Physical requirements:

- A minimum of 6,500 square feet will be required to handle manufacturing (mashing room, distilling, bottling). With an additional 2,500 square feet available for offices, labs, and a tasting/general functions room.
- Steel Valley Distillery facility must include a dock, store front (if possible), parking, and storage.
- All areas of the facility must be handicap accessible including a public restroom. A private restroom and shower facility would be located in the executive offices.
- Additional facilities requirements including necessary power, water, HVAC and other items will be included in facility design and planning.
- Building (TBD) and location will be zoned commercial in compliance with the Wheeling WV zoning board.

Access:

- Steel Valley Distillery must be located within easy access to interstate 70.
- Store front location with parking for 5 cars and additional on street parking would be desirable.
- Easy access in a non-threatening location would also be desirable for onsite functions and tasting.

Page 21 of 33

Legal Environment (licensing and taxation)

• Licensing and taxation occur at both the state and federal level. WV is one of the easiest

states in which to obtain a license for a distillery with several levels of distillery licensing available and relatively easy to apply for. All communication with the WVABCA has been quick and surprisingly simple.

o WV License Requirements

☐ WV licensing is a yearly licensing fee of \$50 as a mini distillery. WV licensing is a fairly quick and easy process requiring a minimum of paperwork in order to obtain a license.

☐ Mini distillery classification and licensing allows a distiller to produce up to 50,000 gallons of a distilled spirit per year and also allows for onsite tasting and sales. Onsite sales requires selling into distribution, purchasing back with a minimum of 10% increase and 2% back to the liquor retailers located in our zone. Onsite sales tax is 6% state and 5% locality.

☐ Mini distillery license requires that an owner or partner (any percentage) within the business to grow or produce 25% of the used product with an additional 50% source from WV farmers.

☐ 50,000 US gallons = 189,270,590ml or 252,361 750ml bottles or 21,030 cases (12 bottles per case).

☐ State distribution charges 28% GM and a \$2.10 delivery fee per bottle.

(Example, \$25.95 retail, price to state distribution \$18.70 + \$2.10 delivery fee or \$16.60 or almost 35%)

o Federal License Requirements

□□ Currently in process – assessing requirements and if retaining an attorney would make the process go more quickly. Cost, requirements and taxation will be included an exhibit A1.

- All local permits for State, county (if required), and city will be applied for and obtained.
- Insurance coverage – insurance coverage would be provided via a local representative TBD and would include building and additional coverage for retail location.
- Trademarks and copyrights for Steel Valley Distillery brand protection and advertising slogans will be applied for via our legal counsel (TBD).

Page 22 of 33

Personnel

- Month 1 thru Month 3 – two full-time: Me, handling set up, basic remodeling (if required) and the initial mashing, distilling, and bottling (first full scale bottling will be an invitation event for friends and family). Leigh Matheny, handling all book keeping and general office tasks.
- Month 3 thru Month 6 – adding 1 to 2 full or part time employees as demand requires (one should be hired to promote to assistant distiller)
- Month 6 thru Month 12 – 1 fulltime assistant distiller (promoted from within), 1 part time laborer, 1 full time accounting and office manager (Leigh Matheny), 1 part time marketing and design assistant.
- Job descriptions TBD and will be provided to all full and part time employees.
- Marketing will be handled internally in conjunction with a contracted design and marketing firm as required.

Inventory – Raw Materials

- All stocked inventory including both raw materials and finished goods will be stored and used based on the FIFO principal. The majority of raw materials inventory will be handled as just-in-time once vendor lead and shipping times have been established and verified.
- Some raw materials will require specialized storage including grains, potatoes, yeast, fresh fruit and juices and tanks for molasses to prevent spoilage and the infiltration of rodents and pest.
- Average value in stock of raw materials should be equal to a 30-45 day supply. Some more perishable items including fresh fruits may only equal a 2 weeks on hand supply. Total value of raw material inventory should not exceed \$15,000.
- Seasonal buildups will be planned for as demand requires. Marketing plans for product releases will define timeframes where demand for products will increase.

Inventory – Finished Goods

- Finished goods inventory will be stocked for all non-aged products based upon a 30 – 45 day run rate for distribution.
- All aged rums and moonshines will be stocked based on marketing research suggestions (MRD)
- Tracking will be based upon federal requirements.

Suppliers

Key suppliers:

Page 23 of 33

- TBD – currently being investigated

Credit Policies

- 30/60 credit terms shall be extended to all state controlled distribution as required.
- Non-state run distribution and other privately held customers will be extended 30 day credit terms after credit worthiness is established. Credit to non-state controlled distribution and privately held establishments will be at \$2,500 and \$5,000 levels. Additional credit can be offered on a case by case basis.
- Credit worthiness will be established using D&B, bank, and additional references.
- 1% discounts will be offer to all accounts that pay invoices in full within tens days of invoice date.
- Credit costs have been included into the final pricing structure.

Accounts Receivable

- Collection calls will be made weekly after 30 days and will be handled by the general office manager.
- Letters will be mailed after 45 days.
- Credit hold will be placed after 60 days of non-payment and without having a payment plan established.
- Accounts will be turned over for collection after 90 days of non-payment.

Accounts Payable

Vendor negotiation including cost, payment terms and discounts, and all other details will be

handled by me or the general office manager.

Page 24 of 33

VII. Management and Organization

Day to day management of the organization will initial be handled by Sam Matheny.

During this

time initial start up time (six months) Leigh Matheny would be brought in to assist in the day to

day accounting and materials control as required. A production manager will be brought on

board and fully trained in production procedures within six months of initial start up. Front office

staff will be hired and trained as required.

Initial marketing materials, direct mail, and press releases will be handled by Sam Matheny with

certain materials (graphics, logo's, business card design) outsourced to Elisco

Advertising in

Pittsburgh as required.

Professional and Advisory Support

- Board of directors
 - o TBD – Owners and investors
- Management advisory board
 - o Charles Graham – President, Ice House Incorporated
- Attorney
 - o TBD – Payton Fireman, Morgantown, WV
- Accountant
 - o TBD
- Insurance agent
 - o Consultants and/or key advisors
 - o Chris Slue – Master Distiller, Old New Orleans Rum