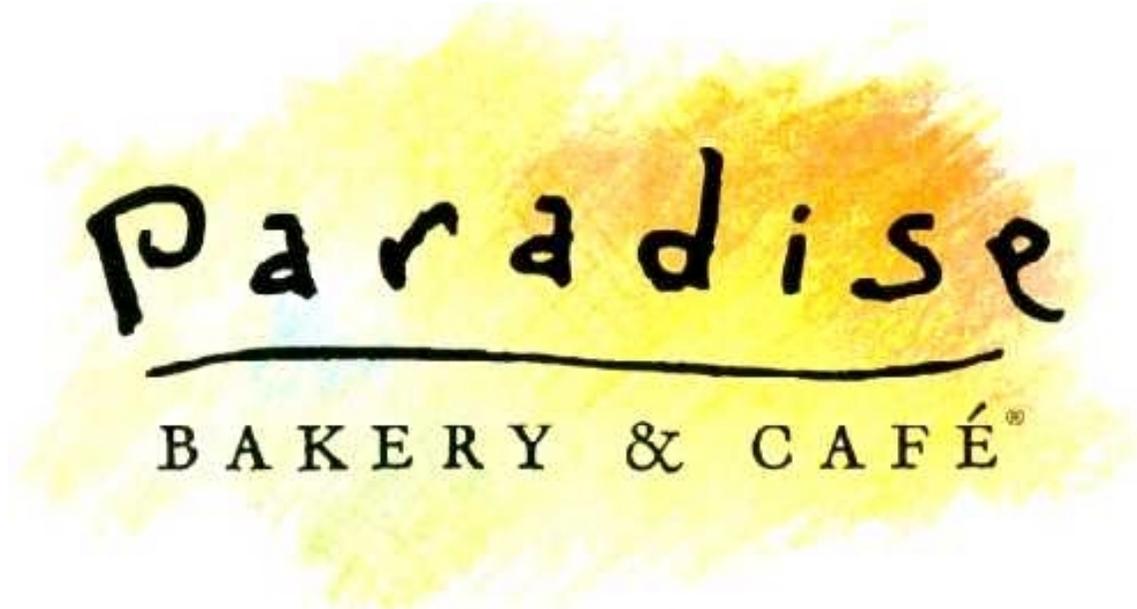


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# Java Centrale, Inc.<sup>TM</sup>

## Strategic Business Plan

May 1997

The logo for Paradise Bakery & Café features the word "Paradise" in a black, handwritten-style font, underlined with a thick black line. Below this, the words "BAKERY & CAFÉ" are written in a black, serif, all-caps font. The entire logo is set against a soft, yellow and orange watercolor-style background.

Paradise  
BAKERY & CAFÉ<sup>®</sup>

The logo for Java Centrale features the word "JAVA" in a bold, blue, sans-serif font with three vertical lines above it. Below "JAVA" is the word "Centrale" in a black, cursive script font, which is partially enclosed by a yellow rectangular background. The word "INC." is written in a small, black, sans-serif font at the bottom right of the logo.

JAVA  
Centrale<sup>®</sup>  
INC.

1610 Arden Way, Suite 145  
Sacramento, CA 95815  
(916) 568-2310 or (800) 551-5282  
Fax (916) 568-1240

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# PURPOSE OF THE PLAN

**Java Centrale Inc. ("JCI") is seeking \$8 million in private placement funds.**

***Company Motivation***

JCI's **motivation** for raising capital is to own and operate as many Paradise Bakery & Cafés as possible. These cafes make very attractive investments for the following reasons:

- 15% to over 25% annual pretax cash flow returns on investment (varies by location, operator skill, and overhead burdens imposed) are typically generated by Paradise™ cafes
- Limited risk due to the low front-end investment of about \$375,000 (average) to open each new cafe (including equipment, leasehold improvements, and initial supplies)
- 25% operating profit margins in new cafes typically achieved in well managed cafes

***Uses of Proceeds***

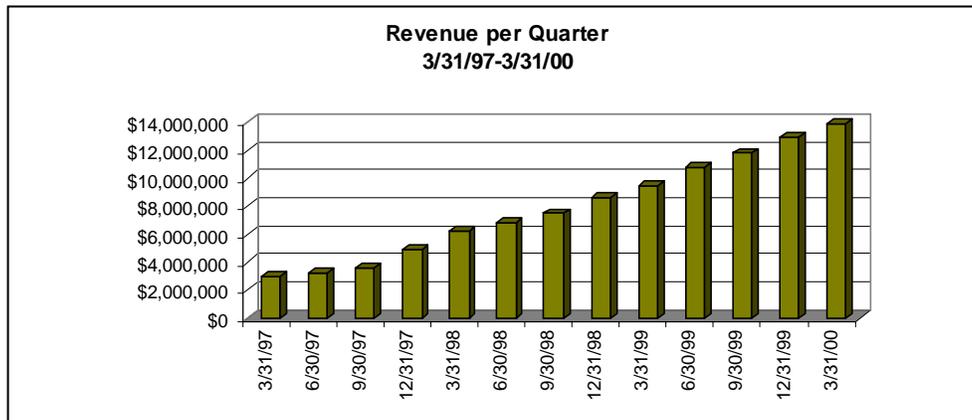
JCI intends to use the funds for the following purposes:

- \$2.5 million to retire prior debt
- \$5.5 million for growth investments, primarily in company-owned Paradise cafes
- \$8.0 million

***Attractiveness to Investor***

The primary attractiveness is the tremendous potential for significant returns, both in the near and long term.

One of the key points to keep in mind is that JCI has two growth concepts that participate in two distinct but complementary market segments—retail bakery (Paradise) and gourmet coffee (Java). This is a real strength from an investment point of view. Paradise has little competition in its targeted gourmet bakery/cafe niche. While there are many operators in the coffee segment, the strategic decision to make food an integral part of Java cafes sets it apart from its competitors.



*Forecasted revenue for the next three years*



JCI expects the majority of this revenue will come from its Paradise division. The investor that makes the strategic decision to invest in JCI will have the opportunity to share in this tremendous expected growth and realize significant profits.

## EXECUTIVE SUMMARY

### ***The Company***

#### ***Overview and Background of JCI***

**Java Centrale Inc.** (“JCI”; NASDAQ: “JAVC”) was incorporated in California in March of 1992 and has since established visibility as a rapidly expanding company in the food service operator and franchisor segments of the food service industry. These are two of the highest-growth segments in the food service industry.

Corporate headquarters are located at 1610 Arden Way, Suite 145, Sacramento, CA 95815. Telephone numbers are (916) 568-2310 or (800) 551-5282. Fax number is (916) 568-1240. Mr. Gary C. Nelson, one of the founders, is President and CEO.

#### ***Operating Segments:***

#### **Paradise Bakery & Café” (“Paradise”)**

Paradise is a 21 year old regional company purchased by JCI for \$7.2 million in December 1995 from Chart House Inc.

Paradise's founders sold the chain to Chart House in May 1987. At that time Paradise had 14 cafes. Subsequent to its December 1995 purchase, JCI acquired selected assets and operations of two of Paradise’s principal franchisees.

Paradise, a wholly owned subsidiary of JCI, has cafes at 52 locations in Hawaii, California, Arizona, Oregon, Washington, Colorado, Oklahoma and Texas. Of these, 16 are company-owned and 36 are franchised. Highly visible sites in upscale markets include Phoenix Airport, Scottsdale Fashion Square, Ala Moana Center in Hawaii, and in the ski resorts of Aspen and Snowmass. Company-owned cafes seek to capture “prime” high-traffic locations such as shopping malls, airports, and upscale recreational/tourist areas.



The Paradise concept is a proven winner with little competition in the upscale bakery cafe niche. The Paradise brand name is well established and synonymous with quality baked goods.



Excellent sales and high margins confirm the strength of the Paradise concept. For those reasons, JCI has chosen to focus its efforts on Paradise by aggressively expanding the number of franchises as well as the number of company-owned cafes.

**Java Centrale Gourmet Coffee Cafes ("Java")**

JCI began by introducing Java Centrale Gourmet Coffee Cafes in the market. By April 1993, JCI had opened one company-owned and two franchise-operated Java cafes. Today, there are 33 franchised cafes, carts, and kiosks in numerous locations nationwide, including Las Vegas, Los Angeles, El Paso, and Phoenix. These locations offer inviting meeting places with ample seating where unhurried customers are greeted with the aroma of fine roasted coffees. Java offers specialty coffees, “Food with a Flair”, and casual dining in upscale retail power centers.



***Products***

**Paradise**

Premier, freshly baked cookies, muffins and croissants have been, and will remain, the signature products at Paradise cafes. Paradise also offers brownies, cinnamon rolls and other bakery goods. All bakery goods are made from scratch, baked on the premises throughout the day to ensure freshness, and are made from the highest quality ingredients. Paradise cafes also feature freshly made specialty sandwiches, entree salads, pasta salads, and soups. These products are an integral part of the overall positioning of the concept, as they address the customer's desire to eat healthy food which is served quickly.

**Java**

Each Java cafe offers over 40 different varieties of whole bean and fresh ground coffee—made from carefully selected gourmet coffee beans, slowly roasted and blended to Java's proprietary specifications, and containing 100% class one Arabica mild high-grown hard beans. In addition to selling numerous coffees and other specialty beverages, the cafes also sell coffee-making equipment and accessories such as brewers, espresso makers, grinders, mugs and carafes.

***Market Analysis***

***Growth***

**Bakery/Cafe**

The bakery/cafe segment of the food industry is growing rapidly. In the ***On-Premises Baking*** portion of that segment—where Paradise is well positioned—industry experts expect robust growth of 25% to 30%. That is one of the highest growth rates in the entire food service



industry. Modern Baking magazine's February 1997 issue—which features Paradise Bakery on the cover—predicted that the *bakery/café* segment will experience 30% growth within a year, with growth over the next several years accelerating to explosive levels. The Gallup Organization, in a special report prepared for the International Dairy•Deli•Bakery Association, confirms the strong growth in the consumption of sweet goods, such as cookies, muffins, and danish or pastries, between 1990 and 1995.

**Coffee**

The coffee market is huge and continues to grow at a strong rate. Annual U.S. coffee sales have now reached \$8 billion. Specialty coffee consumption has increased 30% per year for the last three years. Find/SVP, a leading research organization, forecasts 20% to 25% compounded annual growth rates in sales of *specialty (gourmet) coffee* for many years to come. The Specialty Coffee Association trade group estimates that “coffee bar” outlets like Java’s will more than double from about 4,500 recently to over 10,000 by the year 2000. The growth of specialty coffee sold for home consumption has continued in the 1990's, with sales projected to double to an estimated \$3 billion by 1999. In 1983, gourmet coffee accounted for 10% of the total U.S. coffee market. Today, it accounts for an approximate 30% share of the coffee market. It is projected that by the end of the decade, it will account for 50% of all coffee sales.

***Consumer Characteristics***

JCI’s Paradise and Java outlets experience great popularity because they appeal to the tastes of today's specialty food consumers—who are better educated, more affluent, prefer high quality and good value, consider specialty food an affordable luxury, and are willing to spend more for better tasting food and beverage items.

***JCI's Market Share and Growth***

**Paradise**

Paradise Bakery & Cafe is now the second largest operator in the Bakery/Cafe segment, behind Au Bon Pain. Over the next four years JCI expects that its percentage business gains will be substantially higher than industry averages, reaching 50% to 90% year-on-year sales and number of cafes in both subsidiaries as reflected in the following figures and information prepared 3/31/97:

| <b>Brand Name:</b>                         | <b>Paradise</b>           |             |             |             | <b>Java</b>                     |             |             |             |
|--|---------------------------|-------------|-------------|-------------|---------------------------------|-------------|-------------|-------------|
|  | <b>On-Premises Baking</b> |             |             |             | <b>Specialty Gourmet Coffee</b> |             |             |             |
| <b>Fiscal Year Ended March 31:</b>         | <b>1997</b>               | <b>1998</b> | <b>1999</b> | <b>2000</b> | <b>1997</b>                     | <b>1998</b> | <b>1999</b> | <b>2000</b> |
| <b>Cafes: Co. Owned:</b>                   | 16                        | 30          | 42          | 58          | -                               | -           | -           | -           |
| <b>Franchises</b>                          | 38                        | 75          | 120         | 180         | 29                              | 57          | 94          | 134         |
| <b>Franchised Outlets:</b>                 |                           |             |             |             |                                 |             |             |             |
| <b>Total Operating Cafes:</b>              | 54                        | 105         | 162         | 238         | 29                              | 57          | 94          | 134         |
| <b>Cafe Growth Rate:</b>                   |                           | 88%         | 54%         | 47%         |                                 | 97%         | 65%         | 43%         |
| <b>Sales: Co. Cafes: (\$ millions)</b>     | \$ 9.7                    | \$15.5      | \$27.9      | \$41.3      | \$0.8                           | -           | -           | -           |
| <b>Fees &amp; Royalties: (\$ millions)</b> | \$ 1.0                    | \$ 2.5      | \$ 4.6      | \$ 7.7      | \$0.7                           | \$1.5       | \$2.8       | \$4.4       |
| <b>Total Revenues: (\$ millions)</b>       | \$10.7                    | \$18.0      | \$32.5      | \$49.0      | \$1.5                           | \$1.5       | \$2.8       | \$4.4       |
| <b>Revenue Growth Rate:</b>                |                           | 75%         | 81%         | 51%         |                                 | 0%          | 87%         | 57%         |

The forecasts in this business plan indicate a very strong financial performance for JCI driven



by its two growth vehicle concepts, Paradise and Java. JCI believes \$8 million total new capital—plus reinvestment of internal cash flows—will generate sufficient momentum to achieve these goals.

## ***Marketing/Sales/Operations***

JCI has taken the necessary steps to strategically position Paradise and Java for the future. Two highly regarded retail and food consultants, The Retail Group of Seattle, and Fessel International of Irvine, California, were hired to assist management in determining the future direction of both its concepts. Several of The Retail Group's clients include Baskin Robbins, Starbucks, Seattle's Best Coffee, and Sears. Some of Fessel International's clients include Disney, Sbarros, Panda Express, Taco Bell, and Cracker Barrel.

### ***Paradise Bakery & Cafes***

The Paradise concept is a unique and proven success with little competition in the upscale bakery cafe niche. The concept is now properly positioned to take advantage of the significant growth opportunities in both traditional as well as non-traditional sites nationwide. To exploit those opportunities the "new generation" Paradise model was developed with the objective of expanding the current site criteria and target the over 690 upscale shopping malls in the United States. The first two new generation Paradise cafes were developed and opened, in cooperation with the original founders of Paradise, in a new Nordstrom anchored mall in Littleton, Colorado, and at the Southwest Airlines terminal in the Phoenix Airport. The Littleton and Phoenix locations have been operating at an annual run rate of \$1,500,000 (\$1,852 per sq. ft.) and \$2,200,000 (\$2,326 per sq. ft.) respectively. In addition to mall locations, the cafe's new design will work well in power centers, office buildings, airports, as well as university and college campuses. JCI also sees a strong potential for international expansion..

### ***Java***

Java cafes offer convenient and comfortable indoor and outdoor seating which encourages the customers to relax and enjoy their visit to the cafe during business hours, evenings, or on weekends. This attracts customers into Java cafes during various parts of the day when they might not otherwise frequent the cafe exclusively for coffee.

## ***Franchising***

### ***Recruitment***

JCI has refined lead generation and recruiting through information seminars and various media, such as newspapers, periodicals, and trade magazines. The average time to qualify a prospective franchisee then award a franchise is between 60-90 days.

## ***Competitive Advantage/Strengths***

### ***JCI***

- JCI Management
- Profitability





- Franchise Appeal
- Growth
- Consumer Appeal
- Quality and Service
- Design/Menu/Cost Structure

***Paradise***

- Niche Market/Few Competitors
- Premier/High Visit Frequency Mall Locations
- Number 1 or 2 in Sales at Food Courts
- High Profit Items
- Total "Ideal Scene" Training

***Java***

- "Food With a Flair" Menu
- Differentiation
- Inviting Premises
- Strategic Locations
- Steady Stream of Customers

***Organization and Personnel***

JCI. has a talented group of food service professionals, with over 150 years of combined experience in all areas of franchising, food service, real estate, marketing, merchandising, and general business operations.

The franchise marketing program is headed by the President and chief executive officer utilizing proven concepts which have generated hundreds of franchise sales over the past eight years. Prospective franchise leads will be generated from a pool of entrepreneurs known to management who already own and operate franchised businesses through information packets in the prototype cafe, direct advertising in consumer publications and trade journals, and referrals.

Management has significant experience in putting together specially designed franchise sales advertising programs. This is accomplished by working with a proven network of professionals skilled in creation of highly effective advertising campaigns. Their areas of expertise include, creative skills, copy writing, layout and design, and media placement.



## Financial

### Income Statement (historical and projections)

|                         | Fiscal Year End<br>03/31/95 | Fiscal Year End<br>03/31/96 | Fiscal Year End<br>03/31/97 | Fiscal Year End<br>03/31/98 | Fiscal Year End<br>03/31/99 | Fiscal Year End<br>03/31/00 |
|-------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Total Revenue           | \$1,815,079                 | \$9,554,800                 | \$15,012,918                | \$17,877,444                | \$32,404,182                | \$49,398,522                |
| Cost of Sales           | 877,990                     | 3,490,452                   | 4,590,346                   | 4,438,402                   | 7,667,276                   | 11,303,820                  |
| Gross Profit            | \$937,089                   | \$6,064,348                 | \$10,422,572                | \$13,439,042                | \$24,736,906                | \$38,094,702                |
| Operating Expenses      | 2,912,789                   | 10,102,433                  | 13,201,334                  | 12,730,276                  | 20,223,602                  | 28,604,472                  |
| Operating Income (Loss) | <b>(\$1,975,700)</b>        | <b>(\$4,038,085)</b>        | <b>(\$2,778,762)</b>        | \$708,766                   | \$4,513,304                 | \$9,490,230                 |

### Balance Sheet

|                                 | Fiscal Year End<br>03/31/95 | Fiscal Year End<br>03/31/96 | Fiscal Year End<br>03/31/97 | Fiscal Year End<br>03/31/98 | Fiscal Year End<br>03/31/99 | Fiscal Year End<br>03/31/00 |
|---------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>ASSETS</b>                   |                             |                             |                             |                             |                             |                             |
| Cash                            | \$264,278                   | \$1,182,000                 | \$187,793                   | \$2,802,120                 | \$3,909,526                 | \$6,904,467                 |
| Cash - invested                 | 3,500,000                   | \$0                         | \$0                         | \$0                         | 0                           | 0                           |
| Ac/R                            | 297,140                     | 891,000                     | 790,944                     | 908,444                     | 1,040,944                   | 1,210,944                   |
| Inventory                       | 176,980                     | 418,000                     | 344,166                     | 679,166                     | 1,069,166                   | 1,573,166                   |
| Other current assets            | 272,347                     | 831,000                     | 306,773                     | 330,773                     | 346,773                     | 362,773                     |
| Total current assets            | 4,510,745                   | 3,322,000                   | 1,629,676                   | 4,720,503                   | 6,366,409                   | 10,051,350                  |
| Equipt & improvmts              | 1,491,460                   | 6,357,000                   | 4,074,856                   | 8,514,856                   | 12,954,856                  | 18,794,856                  |
| Accum depreciation              | (150,353)                   | (619,000)                   | (964,490)                   | (1,821,643)                 | (3,263,081)                 | (5,358,805)                 |
| Fixed assets, net               | 1,341,107                   | 5,738,000                   | 3,110,366                   | 6,693,213                   | 9,691,775                   | 13,436,051                  |
| Note receivable                 | 342,500                     | 1,099,000                   | 2,273,116                   | 1,582,500                   | 1,582,500                   | 1,582,500                   |
| Other assets                    | 134,381                     | 670,000                     | 1,601,479                   | 1,601,479                   | 1,601,479                   | 1,601,479                   |
| Intangible assets               | 1,234,893                   | 5,526,000                   | 4,180,122                   | 3,898,989                   | 3,617,856                   | 3,336,723                   |
| Other investments               | 0                           | 377,000                     | 176,982                     | 176,982                     | 176,982                     | 176,982                     |
|                                 | \$7,563,626                 | \$16,732,000                | \$12,971,741                | \$18,673,666                | \$23,037,001                | \$30,185,085                |
| <b>LIABILITIES &amp; EQUITY</b> |                             |                             |                             |                             |                             |                             |
| Cur LTD/notes payable           | \$0                         | \$747,000                   | \$1,111,883                 | \$200,000                   | \$200,000                   | \$200,000                   |
| Short term financing            | 0                           | 0                           | 0                           | 0                           | 0                           | 0                           |
| A/P & accrued liab.             | 584,390                     | 2,652,000                   | 1,443,469                   | 1,148,469                   | 1,408,469                   | 1,744,469                   |
| Total current liabilities       | 584,390                     | 3,399,000                   | 2,555,352                   | 1,348,469                   | 1,608,469                   | 1,944,469                   |
| Deferred revenue                | 689,000                     | 1,004,000                   | 691,000                     | 601,000                     | 541,000                     | 481,000                     |
| Convertible debt                | 0                           | 3,500,000                   | 1,405,750                   | 0                           | 0                           | 0                           |
| Long term debt                  | 859,180                     | 1,448,000                   | 1,092,836                   | 1,119,719                   | 879,719                     | 639,719                     |
| Total liabilities               | 2,132,570                   | 9,351,000                   | 5,744,938                   | 3,069,188                   | 3,029,188                   | 3,065,188                   |
| Preferred stock                 | 0                           | 0                           | 0                           | 0                           | 0                           | 0                           |
| Common stock                    | 9,576,860                   | 15,493,000                  | 18,309,387                  | 26,309,387                  | 26,309,387                  | 26,309,387                  |
| Retained earnings               | (4,145,804)                 | (8,112,000)                 | (11,082,584)                | (10,704,909)                | (6,301,574)                 | 810,510                     |
| Total equity                    | 5,431,056                   | 7,381,000                   | 7,226,803                   | 15,604,478                  | 20,007,813                  | 27,119,897                  |