

FAQ's Frequently Asked Questions: For the sale of the business known as LIP INK® International.

Ecommerce Business with Manufacturing Facility Building Lease

Lease and Business information

Made in America Cosmetic business founded January 1, 1995. Located at 225 Arena, El Segundo, Ca. 90245 Full-Service manufacturing facility includes, shipping dept, warehouse, conference room, lab, loading dock, 3 bathrooms one with a shower, 2 story Facility with plenty of storage, photo room, conference rooms, Sales office, Executive office, Kitchen, Front office & Showroom, 2 alarm system, Machinery, packaging, finished goods, equipment to do trade shows and a fully functioning monitored in the cloud computer network. Furniture, printers, refrigerators, microwave oven, security cameras, all electric 5900 sq ft building accommodates 11 cars for Parking.

The buyer needs to sign a new lease for \$8478. Approx. \$1.50 per sq foot this is subject to change at the time of signing the lease.

This is a Triple net Lease,
Office Building Insurance is paid twice annually \$1872=\$3744.
Property Tax paid twice annually \$1353.13=\$2706.26 annually in addition to the rent.

Financial information for the Buyer

Expenses will be approx.\$11,000 per month + lease payment and note payment to seller + payroll.

Income average is approx. \$23,000 per month, sometimes more – depends on the month.

We expense our supplies, ingredients, packaging as we buy them. The inventory is expensed the same way.

Our assets (finished goods + FF&E's do not appear on the balance sheet or the current tax returns because of this.

This sale is clearly not an EBITA sale because of this.

Finished goods cog total (\$9.50 per unit) "this is approximate" with an average sales price of \$28 per unit.

+ finished goods that we do not manufacture cog total (\$2.50 per unit) with approximately 272,500 units on hand. This is subject to change.

FF&E's, including lease hold improvements, furniture, machinery, printed graphics, trade show equipment, photo room equipment, packaging, chemicals, trademarked clothing, jewelry, and gear= total approximate value = \$1,162,000.00 Subject to change.

Our sale consists of three elements:

- Full asset sale consisting of (finished goods valued at cog pricing of \$9.50 on average per unit + FF&E's)
- Sign new Lease on building.

Intellectual property includes e-commerce web sites including amazon, eBay, Esty, bonanza, Walmart, lip.com and 13 other proprietary fully functioning ecommerce web sites, copywritten books, and a virtual eco museum & virtual vending machine.

No loans, leans, lawsuits of any kind.

All Licenses & Permits are up to date and active/current.

We have an outstanding lease for a printer that lot codes the products in our manufacturing facility. Monthly payments are \$377.39. The lease is for 60 months ending on 5/18/24 these payments are paid by.

credit card. Buyers will need to provide a credit card to take over the payments. The lease includes a maintenance service that comes to the factory monthly to maintain the machine. When the payments end you will own the machine.

We are a cash and carry company. - No Receivables.

We have never had any accounts in collections.

Our Payroll is every two weeks. We use a payroll service for the payroll, they charge two fees every two weeks. One is for printing and delivering the payroll check(s) and one for filing the Federal & State reporting on the payroll. We currently have only one employee. His rate is \$23 per hour. The monthly payroll is approximately \$2900-\$3000 monthly. We carry workers comp insurance which is \$173 a month.

Payment Gateways -We accept payments from PayPal, Amazon Pay, MasterCard, Visa, American Express, Personal and Business checks through lipink.com eBay accepts everything except, checks and Amazon Pay. We order through Amazon and eBay, Cogs, and supplies.

We use an American Express Credit Card, to pay for all the marketing applications online, shipping, business insurance, marketing, mail chimp, managing the network, URL renewals, etc. We get a discount on our Shipping using the Amex credit card. The Amex credit card pays for anything that we do not write a check for. The Amex credit card that is associated with the business is associated with Rosemarie Nichols and it will not be transferred with the business. The balance is paid off every month. Only the Bank Account at Bank of America will be transferred to the buyer at the time of the purchase through the new articles of incorporation showing you as the new owner of all the stock in the company.

The company is run on one credit card + one bank account for all incoming and outgoing payments. We write 14 checks monthly, on average.

Other facts related to the business.

1. We ship on average approximately 50,000 items annually – we manufacture approximately 50,000 items + annually.

2. We ship on average 137- 300 items daily within twenty orders daily.
3. Is there an economy of scale at a certain level of production? What are the levels of maximum profit at minimum cost? We only produce small batches to meet our daily needs- this information you request is not available or applicable to our status.
4. Are your sources of materials stable? Have you experienced any materials shortage during the worldwide economic crisis? Yes, they are stable. No material shortages.
5. Are the costs of the materials increasing during this inflationary period in the US? What percentage have they increased in cost? We have only had an increase in the cost of natural corn grain Alcohol, with a 25% increase, on average.
6. We place orders weekly mostly through Amazon and eBay for shipping, packing, cleaning, and office needs.
7. We purchase a chemical – once every 6 months for an average of \$1500 per order
8. We purchase packaging once every 2 years for approximately \$15,000 not including shipping.
9. Our COG price for producing the average product is approximately \$9.50 per unit not including labor or insurance. Some of our kits include as many as eight or more cogs to build the kit.
10. All the finished goods we sell are made in our factory located in El Segundo, CA.
11. All permits' licenses and tax fees are paid and are for the, El Segundo Fire department, City of El Segundo, Water Board, Firearms and Tobacco, Business tax, Sales Tax, shareholder filings and other related corporate requirements have been met, including all timely tax return filings.
12. How long does it take to make a product? If it is a documented formula that we have made in the past and the pigments are already pre blended, for a small batch of 150 units it takes 45 minutes to compound and formulate it. Filling time is extra. A larger batch takes at least one hour to compound and formulate, and the filling time depends on how many employees are working on filling + time to prep before manufacturing and time to clean up.
13. Do you ship internationally? Yes, and we ship using USPS, FED EX, and DHL
14. How much of your market is foreign? 3%
15. What mechanism of delivery to foreign clients? What is the average cost of international shipping? We use DHL customers to pay for their own shipping on international orders with an average price of \$120.
16. Most all our vendors are in the USA except for the company that we order packaging from, they are in Canada.
17. What is your labor cost? With all benefits – \$2900-3500 Monthly.

18. Are you having any problems obtaining and retaining labor? Not at all, we do not need more labor until marketing and distribution are achieved to create more demand for labor.
 19. How does the business breakdown between women and men percentage wise? In sales 98% women and 2% all other- in people that work here 50/50
 20. How long does it take from order of raw materials until the products are completed? Two weeks to 30 days approximately.
 21. Are you delivering to retail stores? How many? What general geographical location? No retail stores, however, we do have a boutique store in our front office that we can demonstrate and sell products from. We also ship to FBA Amazon. We do have a store there.
 22. How much of your business is walk-in versus on-line ordering? 99.9% are online sales versus walk-in sales.
 23. All our products have color charts; ingredient lists and directions with videos of how to use them.
 24. Do you have an independent laboratory to evaluate your product from time to time to ensure that the claims you are making on-line are accurate? Yes, we have MSDS (Material Safety Data Sheets) created using their results.
 25. We have SOP's documenting most functions in the business, including shipping, manufacturing processes, printing forms and labels, launching the company email blast and we have support for making changes on our websites.
 26. We are closed for 7 USA Holidays annually. Our hours of business are 8:00am to 2:00 PM M-F.
 27. We pay for full IT support and desktop monitoring 24/7 through an outside company.
 28. Our social media is all managed by an outside vendor.
 29. Currently there are two subcontract graphic artists that work remotely with the cost associated @ \$10,000 annually, they take care of all graphic art both digital and in print and all social media sites.
- We have SMS TEXT marketing to our double opt in customers- It piggy backs our email blast and is sent out two times weekly.
30. Part Time Employee duties – See attached SOP for Operations Manager
 31. Lip Ink supports sustainable programs - using recyclable packaging whenever possible. With a unique recycle program, customers send any (4) empty regular sized Lip ink vials and we will let you choose any (1) Lip Ink Liquid Lip Color for FREE! Free shipping for domestic customers. lipink.com. In 1995 we built the world's first online virtual eco museum with recycled returns from customers connecting artist with painting pictures with the return product.
 - 32 Lip Ink Business drivers include a Pay-per-a click marketing program with Google. And

FreeLipInk.com, which allows new customers to evaluate, and test drive our smear proof product for free for first time buyers. LIP-INK® International will send the new customer a free, trial kit size lip kit in our seasonal color in either Sandwood or Rosewood,

33. Also, I was wondering how many items can be packaged each day, given the current floor plan and equipment. What volume do you think you could manage if you only added more people and did not change the equipment or floor plan?

In the 28 years of running the company LIP INK® Intl, Inc. I have built three manufacturing facilities. In this last building I have all the equipment ever built for the company, still in existence with some new equipment.

In our last manufacturing facility, it was 2,000 sq ft smaller, but we had two storage units to store packaging on site, however we manufactured enough products daily, to satisfy \$12,000 in sales. We were shipping sixty-five orders daily with ½ of them being wholesale orders, and we were grossing \$6M annually. Our current facility can manufacture \$10M annually. The machinery would need some maintenance to ramp up, but it is entirely possible to make this happen with more employees.

34. Book (Trademarks Copyrights instructional video

35. How many products do you produce daily?

Lip Ink® manufactures approximately 1,000 unique SKU's. Some of those SKU's go into kits and count in that total. Of the 1,000 SKU's we compound and formulate about 4-6 products for production weekly. We produce products on approximately 220 business days a year. We set minimums at 50 units per product and for the products that are not big sellers, we keep 25 units on hand. Once those minimums go below that number, we make the product again. This helps to ensure that we keep up our minimums and reduce inventory counts to once a year. Packaging is one of the largest expenses in manufacturing. By producing only what is needed, we use our inventory of packaging only as needed, reducing the cost of packaging. We purchase packaging in bulk usually once every 3 or 4 years creating tremendous savings for the company. We have plenty of room for storage and we use it wisely.

36. What kinds of insurance do you maintain in the business?

We have a workman's comp policy that takes care of employees both for clerical and manufacturing. Our monthly payments are among the lowest you can find in the marketplace for cosmetic manufacturing. We also have a business insurance policy, that covers the building, contents, and liability across all selling areas, such as trade shows, that the company or an individual and or business that you wholesale to, as well as selling online through Amazon, Walmart, Etsy, eBay, MyStore and all the property Ecommerce websites Lip Ink® maintains and in on premise. The rates are the best in the market for Cosmetic manufacturing. They charge 1M of coverage and take 1% of sales. To date Lip Ink® has never had an infringement of any kind that the insurance company has had to defend.

37. What licenses does LIP INK® maintain annually?

Are there regulatory authorities who oversee the company, or this industry? (Similar to how FDA oversees the food industry)

Yes- all permits and certification are in place and up to date.

CTFA Cosmetic Toiletry & Fragrance association, as an arm of FDA - permits are not needed
However, the business insurance audits what we sell.

The Fire Department - permits needed and Annual inspections.
The Alcohol & Tobacco & Firearms association- permits needed.
Water Board- permits needed.
To sell online - the website needs certification.
To accept funds online payment gateways, need certification.
The URL hosting websites that sell on need certification

38. Cosmetic Startup Cost

Are there any specific insurance requirements in terms of experience in the industry? Must have Business Insurance that covers the inventory, the building and the wholesalers, tradeshow, etc.

Are there regulatory authorities who oversee the company, or this industry? (Similar to how FDA oversees the food industry)

Yes- all permits and certification are in place and up to date. See Following Permits needed.

City Business license, Sales Tax Permit, Business Tax Filing, City Tax Filing, Quarterly Sales Tax.

CTFA Cosmetic Toiletry & Fragrance association, as an arm of the FDA - permits are not needed
However the business insurance audits what we sell.

The Fire Department – 2 permits needed and Annual inspections. 2 back flow valves need to be inspected annually which requires a permit on file.

Fire Extinguishers are inspected annually.

The Alcohol & Tobacco & Firearms association- permits needed.

Water Board- permits needed.

To sell online - the website needs certification.
To accept funds online payment gateways, need certification.

The URL hosting websites that sell on need certification

Sellers Information

The New owner receives 30 free hours of Rosemarie Nichols time. Those hours will be used in training, on daily, weekly, monthly, and annually functions of the business, along with marketing & accounting practices, purchasing, shipping, payroll, SOP's, licenses and, in running the company.

All intellectual property related to formulations and or trade secret formulas + URL's, Trademarks, & Copyrights are available.

Rosemarie Nichols will agree to continue her services, in compounding and formulating existing products for the new corporate owners of Lip Ink® Intl. when the following conditions are met, she is paid at a rate of \$95 per hour as a sub-contractor to perform these duties and or any other preapproved (by her) services as needed unrelated to compounding & formulating products.

Any new products that Rosemarie Nichols develops for the new owners, of Lip Ink® Intl, that are offered for sale by the companies or brands of Lip Ink® Intl will result in her being paid 1% of the gross sales of those products in perpetuity. Or an agreement is made to compensate for the services, if needed.

She is given 5 business days' notice of when such services need to be performed. M-F regular Business hours.

She is paid weekly on the same day the current payroll takes place, in the form of an automatic deposit to her Bank of America account. (She will pre-invoice you for such services) as needed.

Lip Ink International retains a CPA Firm that takes care of all our Tax Returns, Financials, Sales Tax Filings & Business Tax Filings. We also have a Law Firm that takes care of all our minutes, shareholder filings and any Corporate Law that needs to be addressed, including Intellectual Property Law Firm that keeps all our Intellectual Property up to date and addressed. All these professional contracted companies can be made available to the new owner.

Your next step to move forward with the sale will be as follows: With the Buyers

1. We would need a firm bid on the purchase.
2. Then we can send over all the legal documents including the lease, for you and your associate(s) to review and make any requests for changes if needed.
3. You will need to complete a credit report for the lease on the building. It will need to be approved by the landlord.
4. The seller needs 3 months' bank statements/Business Plan and will need to run a credit report for seller carryback loan.
5. We schedule the signing of the lease with the owners of the building and fund it.

We will need a credit card to transfer all the accounts to your name at the time of signing the documents.

6. Lastly, the buyer will need to set up a new bank account at the bank of their choice. At that time a debit card, credit card and or line of credit and or (credit card can be applied for) and you are set to go. With the keys to the building
7. You and or your team will schedule the 30 free hours for training with Rose.
8. All in, this whole process needs to be completed before the end of the month.

Lastly you will receive the keys to the building once you have signed and funded your lease and funded the sale of the business, with all documents signed.

Marketing Ideas for success:

Ideas recommended by the Seller. Get a head start on expanding, either into tradeshow, on-line marketing and or distribution into stores. Time and money are needed for this type of expedited growth to increase revenue. Amazon distribution partnerships will bring in instant revenue utilizing the vast inventory of finished goods. They can become your sole distribution for Amazon. They buy products from you and manage your Amazon Store and all the cost of Amazon Marketing.

SOP For Lip Ink® Employee Operations Manager:

Name: Employee Operations Manager **Date:** _____

Signature: _____

Chief engineer in charge of employees and systems - Manage All functions of Volusion for all employees including training and order entry, changing pricing, changing sales tax, changing euro, pounds, **INVENTORY**, CHANGING ORDERS, CLEARING OUT ADMIN ORDERS, CREDITING BACK ORDERS, ENTERING TRACKING NUMBERS, changing shipping methods and changing shipping pricing, provide quarterly sales tax information for accountant. Do look ups for data searches in all areas of Volusion and work closely with webmaster to make sure pricing and sku numbers are accurate and functioning add something to an order, special sku numbers like the ones used for the recycle program, the upgrade your lip color program. How to enter an order that was processed offline on the merchant machine

1. Print orders from Volusion, Amazon, eBay Bonanza, Este, all day every day for the shipping department and manage the inventory and questions/returns and add new customers to the daily call back list on all these sites and add and remove products as needed.
2. Social Media- open each social media page and answer questions and add new customers to the mail chimp list daily. Keep the flow of new articles on each of these sites daily using Hootsuite (done by RJ)
 - I contact.
 - Face books
 - Bloggers
 - Twitter
 - Pinterest
 - Instagram
 - YouTube
 - WordPress 2 or3 of them
 - Linked in
 - Google Chrome 2
3. Keep a 30 day out calendar of email blasts weekly and email to Angela and RJ Weekly.
4. Liaison with Uncomplicated IT to make sure all desk top computers are working for employees, check test battery backup.
5. Take and enter orders as they come in by phone, fax mail in walk in etc.
6. Take care of walk-in customers as needed.
7. Work with Merchant Services on Fraudulent orders and chargebacks.
8. Manage trade show reports (none now).
9. Manage and print all company graphics including SOP's letters labels and artwork and excel sheets on server S drive reorder through Vista Print or Tora Grafix.
10. Manage all Coupon Codes and Promotional Discounts on Volusion.
11. Manage Negative Customer Feedback on all selling web sites including yelp!
12. Manage maintenance tab on the Volusion site daily!
13. Manage Authorize.net account!
14. Work with customers to correct bad shipping address/payment not received.
15. Manage and organize Retail Lead in the company excel sheets for all retailers and potential retailers.
16. Keep records of all log-in and password information for company for CEO and maintain online through Key Keeper.

17. Update Contacts to have current information for all resources in your outlook.
18. Send out all emails to Potential Retailers from I contact or website.
19. Sign up New Retailers and work with them on Basic Training
20. Work with Old Retailers to renew accounts if approved by the CEO.

21. Manage and Communicate with all current Retailers. (Testers, Tradeshow, Annual Minimums, contact them every 60 days by phone).
22. Get all the new Tradeshow information for current Retailers.
23. Open incoming mail for Returns and Recycle and upgrade program and follow through on the orders created from them.
24. Process all RMA numbers and manage returns.
25. Make CD's, labels and print out graphics as needed, reorder as needed.
26. Manage Fed ex account and USPS accounts, training shipping, changing pricing in Volusion as price changes take place, filing for credit, tracking packages, international pricing including vat.and other shipping charges that need to be adjusted when shipping internationally.
27. Maintain all Retailers files and manage and update monthly excel spreadsheets.
28. Keep enough blogs in Hoot suite for at least 30 days out for Blogger and all the other social media sites we post to.
29. Enter/Import new customers into I Contact from eBay stores and other means weekly to Mail Chimp.
30. Manage all product price changes in Volusion and all other sites we sell on
31. Create/Update/Manage all company letterhead letters and keep in "S" Drive on computer.
32. ☐ **Shipping File Tracking Numbers** – For Volusion, eBay and Amazon
33. Work with Endicia to download and import tracking numbers into Volusion.
34. ☐ Voicemail – Check and Answer ALL voicemail in the morning throughout the day. Personal Mailbox (x 120).
35. ☐ Answer **Phones** – Answer ALL Phone Calls, return messages promptly, and tend to all walk-in customers.
36. ☐ Track **All Orders via Daily Report to CEO**
37. ☐ Process **all refunds**
38. ☐ Any **additional tasks that the CEO needs you to do.**
39. ☐ Keep **Track of Daily Sales Report for Inside Sales Rep and assist with Returns and processing orders.**
40. **Work with and sign up potential Outside Sales Reps.**
41. ☐ **ANSWER AND RESPOND to ALL CUSTOMER SERVICE e-mails, phone calls, letters.**
42. **Manage all feeds and keep them funded daily with a report to CEO on Fridays on their progress.**
43. **Manage all commissions from inside salespeople, sales reps, retailers, coupons and provide a report to CEO on Fridays**
44. **Manage eBay and Amazon Infringements.**
45. **Manage and process email blast on Tuesday and Fridays.**
46. **Maintain all SOPs of the company for every process.**
47. **Cover for any employee that is absent from work.**
48. **Complete a daily form for every employee that is not here or late or leaves early and or requests time off and turn in to the HR/CEO daily.**
49. **Provide annual HR review of each employee for their files.**
50. Manage and coach all employees of the company per CEO instruction.
51. Keep all employees and interns trained and doing their job with task lists approved by the CEO.

52. Answer all Customer service emails daily.
53. Take care of all marketing functions daily and keep the CEO in the loop on all of them.
54. Look for new ways to make money online and offline with our product.
55. Take care of bloggers following company SOP
56. Terminate retailers/ sales reps per their agreement giving them notice at least 30 days out following the rules of their agreement.
57. Add retailers to the coupon codes as they sign up and take down their coupon code when they are terminated.
58. Assist CEO with quality control as needed.
59. Maintain employees being cross trained in all functions in the company following the SOP's.
60. Keep contingency plans in place if any function of the company goes down.
61. Maintain cleanliness in all aspects of the company.
62. Keep all databases backed up and in good order for the company and provide lists for the sales department as they are requested.
63. Maintain and create videos online and offline of all products in the company on all social sites.
64. Make sure all SEO /SEM is always for all selling sites.
65. Weekly test the voice mail on hold to make sure it is working. Answer all phone calls for Office@Hand. On the ATT Office@Hand App.

Tasks:

☒ annually enter Inventory numbers in excel and maintain report.

- **Shipping File** – Organize the Lip Ink Shipping file daily. All orders will be on the top shelf in the folder on the Customer Service Desk. This file is to be organized in the following order:
 - 1. eBay Orders (Any order) ○ 2. Amazon Orders (Any Order)
 - 3. Lip Ink International Orders (Chronological Order)

- **Shipping File Tracking Numbers** – This is a simple process that has many steps to it, but once you get the hang of it, it is VERY easy.
 - 1. Go to www.endicia.com and log in (Username: 549560 / Password:
 - 2. Scroll Down to the “Quick Links” Category ○ 3. Click on “Account Transactions” ○ 4. Check the bubble that says” Period” ○ 5. Check the “Export” Box ○ 6. Under the “Show” Dropdown box, choose “Trackable Items” ○ 7. Click Submit. ○ 8. Click on the

- “Download Spreadsheet” Button & Open this Excel file. ○ 9. Once the Excel file opens, erase line #1.
 - 10. Erase Columns with the exception of Tracking Number & Reference ID. ○ 11. Rename “Tracking Number” to “Tracking Number” (no space) & Rename Reference ID” to “ordered”.
 - 12. Then highlight the “ordered” Column and click the “Sort & Filter” Button in toolbar.
 - 13. Select “Sort Largest to smallest” as your option and then click “EXPAND THE SELECTION” button.
 - 14. Then erase ALL ROWS that contain a N/A in the ordered Section. ○ 15. Now save this CSV file to the desktop. ○ 16. Next, go into www.lipink.com/admin ○ 17. Click on the Inventory Tab, and then select the INPUT/OUTPT tabs. ○ 18. Click Data Import. ○ 19. Select the Tracking Numbers from The Table dropdown menu. ○ 20. Check the “Change order status to” shipped” ○ 21. Click “Upload Files”.
 - 22. Go back to “Order” Tab, then click “Overview.”
 - 23. Manually input any tracking numbers that are left over after the import/export has been done.
- **Answer Phones** – Answer ALL Phone Calls, return messages promptly, and tend to all walk-in customers.
- **Labels** – Any requests for Labels of Fliers/PDFs will be located on the top shelf of the desk of the shelf. All label templates will be located in the Customer Service Folder on the desktop under:
- **PDF’s** ○ **Labels** ○ **Microsoft Word Documents**
 - **Microsoft PowerPoint Documents**
- **Track All Orders via Daily Report:**
- 1. **eBay** – Go through your daily shipping files and manually add up the number of eBay orders in dollar amount & quantity.
 - 2. **Amazon** - Go through your daily shipping files and manually add up the number of Amazon orders in dollar amount & quantity.
 - 3. **Lip Ink.com** – In Volusion, just click on the Volusion logo in the top right corner of the page. Then that will give you the number of orders and the total dollar amount for the day.
 - 4. **RMA’s and Refunds.**
 - 5. **Upgrade Your Lip Color** – Go into Volusion, Orders Tab, then click “Overview”, then click “QUICK SEARCH” and type in the product code section SAE-30026-2. Then look up

how many Upgrade Your Lip Colors were done for today and add that number up. The total amount will always be \$0.00 because it's a FREE program.

- **6. Recycle Program** – Go into Volusion, Orders Tab, then click “Overview”, then click “QUICK SEARCH” and type in the product code section RFL-02. Then look up how many Recycle orders were done for today and add that number up along with the dollar total amount.
- **7. Retailer Sales, Purchase of Testers, Store Locator** ○ **8. Retail Registration Kits** ○ **Volusion Total Sales** ○ **Volusion new customer sales** ○ **Daily California Sales Tax**
- **Report on all wholesale sales.**