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Abazias, Inc. (ABZS-OTC:BB)

The Many Facets of Abazias, Inc..

Recent Price: \$0.09

Market Data

Market Capitalization (mln)	\$7.00 mln
Enterprise Value (mln)	\$6.20 mln
Fully Diluted Shares (mln)	78 mln
Float (mln)	4 mln
Ave. Volume (90 day, approx.)	48,832
Institutional Ownership	0.0%
Insider Ownership	65%
Exchange	OTC-BB

Company Overview

Abazias, Inc. is an on-line retailer of loose diamonds and fine jewelry featuring diamond settings. The company showcases over 70,000 diamonds valued at \$350 million on its website: www.abazias.com. Most of the diamonds are independently certified. Abazias manufactures 100 styles of fine jewelry including rings, wedding bands, earrings, necklaces and bracelets. Founded in October 2001 and headquartered in Gainesville, Fla., the Company trades on the Over the Counter Bulletin Board under the symbol "ABZS."

Company Contact Information

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Summary and Investment Opportunity

- **Highly Scalable Business Model**

Abazias, Inc. is an early-stage company that specializes in direct sales of diamonds to the public on the Internet at discount prices. There are three key facets to the Company's business strategy: exceptional customer service, favorable arrangements with diamond suppliers and strong operating leverage. The Company's sales force is equipped to educate customers and build trust, thanks to an extensive in-house, on-going training program. Abazias has relationships with 100 diamond suppliers, 20 of which are primary. Suppliers provide credit to the Company in the range of \$0-\$100,000. Low capital costs, extensive diamond offerings and favorable credit arrangements add up to a highly scalable business model.

- **Large Market Potential with On-Line Buying Gaining Momentum**

According to the Company, the size of the total jewelry market approximates \$51 billion. Diamond jewelry accounts for about \$27.5 billion of that total, and diamond engagement rings, \$4.5 billion. On-line buying continues to gain momentum, and for high ticket items.

- **Strong Management with Solid Industry Relationships**

Abazias was the brainchild of founder and CEO, Oscar Rodriguez. After nearly twenty years in the diamond business, Mr. Rodriguez enjoys strong relationships with diamond wholesalers and deep knowledge of the industry. This team has the right experience to execute its business strategy.

- **Share Price Performance**

At this writing, ABZS shares closed at \$0.09 (October 19), on the lower end of its 52 week trading range of \$0.05-\$0.20. At current levels, we believe the downside risk for ABZS shares is limited. Nevertheless, given its early stage of development, there is little quantitative evidence to determine the likelihood of success. Investors must be satisfied before buying shares that Abazias has the right management team, the right industry experience and the right technology to succeed.



Company Overview

Business Description

Abazias, Inc. (the “Company”) specializes in direct sales of diamonds to the public on the Internet at discount prices. The Company boasts a database of over 70,000 certified diamonds, provided at discounts of up to 50%. Abazias also incorporates their diamonds into fine jewelry settings for earrings, bracelets, wedding bands and engagement rings.

Originally incorporated in 1994 under the name Biologistics, the corporation went through a series of reverse mergers from 1997-2002 in order to become an operating company. A reverse acquisition is one way for a company to become publicly traded, by acquiring a public company and then installing its own management team and renaming the acquired company. In October 2003 the Company, then called Skintek Labs., Inc., acquired Abazias, Inc. and the corporate name was changed to Abazias, Inc.

The decision to start out as a publicly traded company has both benefits and drawbacks. In the short-run, it will be expensive and time-consuming for this early stage company to comply with SEC reporting requirements. In the long-run, the financial transparency and discipline that comes from being public will benefit both shareholders and customers. With trust being such a critical success factor in the diamond business, going public at the outset sends a signal of management’s willingness to accept public financial scrutiny and build Abazias for the long-run.

The Company name, while somewhat cumbersome to remember and spell, was originally chosen at a time when Internet search engines sorted results alphabetically. Search engine optimization is an important technique to attract customers. Abazias continually strives to enhance its visibility via search engine optimization. Abazias, Inc. trades under the symbol “ABZS” on the Over the Counter Bulletin Board.

Products

Abazias provides a broad array of loose diamonds on its website: www.abazias.com. With an offering of over 70,000 diamonds, Abazias has one of the largest databases available on the Internet. In addition to wholesale diamonds, Abazias creates a variety of fine jewelry settings for its stones, including earrings, bracelets, necklaces and rings.



Diamond stones sold by the Company are certified by major and minor laboratories, including the Gemological Institute of America (GIA), the American Gem Society (AGS) and the European Gemological Laboratories (EGL). A diamond certificate, or grading report, contains characteristics of the diamond that make up its value. Grading laboratories like those cited will measure and grade diamonds sent to them by wholesalers and retailers and provide certificates. Certification is a crucial element to buying diamonds safely on-line.

Producing high quality, fine jewelry is another important offering the Company emphasizes. Abazias constructs a variety of tailor-made settings to ensure a full-service experience for the consumer. This product line offers wider margins and recurring revenues.

According to the Company, the pricing of stones is formulaic. Each aspect of a diamond – cut, clarity, carat weight and color —commands a specific price point. Consequently, all competitors in the industry are affected equally when market prices rise and fall. It is the Company’s sound business model and supplier arrangements that make it possible to provide deep price discounts regardless of fluctuating diamond values.

Business Strategy

Abazias was the brainchild of founder and CEO, Oscar Rodriguez. After nearly twenty years in the diamond business, Mr. Rodriguez enjoys strong relationships with diamond wholesalers and deep knowledge of the industry. He viewed the Internet as a powerful additional channel, along with retail stores, through which high quality diamonds could be sold to the public. In October 2001, Abazias was launched.

The three key facets to the Company's business strategy are: 1) exceptional customer service focused on trust, 2) favorable arrangements with diamond suppliers, and 3) strong operating leverage.

Exceptional Customer Service: The typical Abazias customer profile is male, 25-45 years old. These are Internet savvy, highly knowledgeable consumers who perform significant research on diamonds, and seek better selection at lower prices on-line. Unlike a female shopper, who may prefer a more tactile shopping experience, the Abazias customer usually is most interested in detailed specifications and whether the diamonds are genuine. Virtually all stones are certified by the GIA, AGS and EGL. The Company's sales force is equipped to educate customers and build trust, thanks to an extensive and continuous in-house training program. Customer service staff answers about 85% of all calls to the call center within 10 seconds. Abazias also extends a ten day unconditional return policy to all its customers, and offers a lifetime trade up of 80% of the price of the original diamond purchase.

Early indications suggest the Company is succeeding at high quality customer service. With an average sale of \$5,500, Abazias exceeds that of its larger competitor Blue Nile, at \$1,400.

Favorable Arrangements with Diamond Suppliers: Close relationships with diamond suppliers are a critical success factor and barrier to entry in this industry. Abazias enjoys relationships with 100 suppliers, 20 of which are primary. The arrangement is a win-win. For diamond wholesalers, Abazias provides incremental revenue by selling their stones over the Internet, accelerating inventory turns. For Abazias, vast numbers of diamonds are available to customers, but the Company's capital is not tied up in holding physical inventory, producing operating leverage.

Strong Operating Leverage: Low capital costs and extensive diamond offerings give the Company a highly scalable business model. Greater top line growth consequently can fall quickly to the bottom line because operating costs are low. There is no physical inventory to carry and no stores to maintain. In this way, Abazias has a competitive advantage over jewelry stores, which cannot achieve the wide margins at discount prices due to higher overhead.

Also contributing to strong operating leverage are the credit arrangements Abazias has with suppliers. In the typical transaction, Abazias gets paid by its customer first, before a diamond is shipped. The Company, however, has net 30 days to pay their suppliers. Between 20 and 30 diamond and fine jewelry suppliers provide credit to the Company in amounts ranging from \$0-\$100,000. Thanks to these arrangements, Abazias buys only those diamonds that are actually ordered and paid for by customers. If a customer returns an item, shipping and insurance costs are borne by the customer. The Company will then refund the customer and ship the item back to the dealer. In most cases, the 30 day credit window is still open and no monetary exchange is needed; if not, the dealer will refund the Abazias by bank wire transfer. These arrangements minimize working capital levels, and benefit cash flow.

One risk factor to the Company's operations is if key relationships with diamond suppliers were somehow jeopardized or credit not extended. This risk is offset, however, by the diverse number of suppliers that work with Abazias.

Market Potential and Competitors

According to the Company, the size of the total jewelry market approximates \$51 billion. Diamond jewelry accounts for about \$27.5 billion of that total, and diamond engagement rings, \$4.5 billion. The market opportunity, therefore, is great.

This industry is highly competitive, very fragmented and characterized by seasonality. (The Company's fourth quarter usually accounts for 25%-35% of yearly sales). The competitive landscape includes other on-line diamond and jewelry retailers, as well as jewelry and department stores, on-line auctions like eBay, catalogue and television shopping channels like QVC, discount retailers, and others. Blue Nile is the Company's most comparable and largest competitor, with a similar on-line business model. At a market value of \$577.9 million, Blue Nile currently enjoys greater capital resources and financial flexibility than Abazias.

According to the Company, it is the low cost leader in the market, providing up to 50% discounts compared to offline retail competition and 25% discounts compared to other on-line competitors.

On-line buying continues to gain momentum, particularly for high ticket items. According to IDC Research, on-line buying increased 42% in 2003 compared to 2002. On-line sales for jewelry and watches were \$900 million in 2003, up 36% (source: Consumer Internet Barometer). The penetration of the Internet as a channel for specialty retail sales is likely to accelerate as more consumers move towards on-line shopping.

Management

Oscar Rodriguez, Chief Executive Officer and Director: Founder of Abazias, Mr. Rodriguez began his career in the jewelry industry in 1987, developing his expertise in gemology at Gause & Sons, one of the largest jewelry firms in the Gainesville, Florida metro area. He received a certification in Diamonds and Diamond Grading from the Gemological Institute of America in 1990. In 1997, Mr. Rodriguez started his own retail store, OR Jewelry, which he still owns and operates. In October 2001, he launched the on-line business, Abazias, Inc.

Jesus Diaz, Chief Financial Officer, Company Secretary, and Director: Mr. Diaz joined the Company in June 2002. He assists in all aspects of the firm's operations, with an emphasis on systems management and finance administration. A graduate of the University of Florida, Mr. Diaz is an expert in internet marketing systems, having held the position of Chief of Operations at National WLD Techmark, Inc., an internet administration and marketing firm.

Aaron Taravella, Chief Information Officer and Director: Mr. Taravella is a software and database specialist responsible for implementing cutting-edge technology for Abazias. His prime focus is to implement software and hardware solutions that maximize productivity for the Company's proprietary systems. The overall reliability of the Company's website, including ease of use, is Mr. Taravella's responsibility. Since the age of 15, Mr. Taravella wrote computer programs, later designing and writing software for various finance companies. With the development of the Internet, he gained experience in html and perl, and created web-enabled backend administrative software for various e-commerce sites.

Officers and directors beneficially own approximately 65% of the Company's outstanding common stock. Consequently, liquidity in this stock is very limited and price volatility is high. Only investors who can tolerate risk and shoulder loss should buy shares.

The table below provides more detail on inside ownership:

Name	Number of Shares	Percentage of Shares Issued
Oscar Rodriguez	35,000,000	46.4%
Jesus Diaz	10,000,000	13.3%
Aaron Taravella	5,000,000	3.6%
Rob Rill	7,000,000	9.3%
Doug Zemsky	6,500,000	8.6%
Marc Baker	6,500,000	8.6%
All officers and directors as a group [3 persons]	50,000,000	66.3%

Recent Results

Because Abazias is an early-stage company, financial data are limited and not very relevant. During the first half of 2005, the Company posted sales of \$1.1 million, a 25% increase over the same period last year. A “guerrilla” marketing campaign and improved search engine optimization increased the on-line visibility for the Company, generating higher sales volumes. The Company’s operating loss position improved 95% to \$(49,954) from an operating loss in the first six months of 2004 at \$(1,002,683) million. Lower general and administrative expenses from stock issued to management and consultants contributed to the improvement. During the first half of 2005, Abazias narrowed its net loss to \$(53,303) or \$0.00 per share from a net loss of \$(1,005,278) or \$(0.01) per share in the same period of 2004.

Table I: Selected Income Statement Items (US Dollars)

	6 months ending June 30, 2005	6 months ending June 30, 2004
Sales	\$1,149,271	918,918
Operating Profit (loss)	(49,854)	(1,002,683)
Interest expense	3,449	2,595
Net profit (loss)	(53,303)	(1,005,278)
Basic & diluted earnings (loss) per share	\$0.00	(\$0.01)
Weighted average shares outstanding	75,847,098	72,421,505

Looking forward, we believe the Company’s highly scalable model has the prospect of reaching profitability in the near-term, assuming sales volumes continue to accelerate. Profitability will further benefit from the Company’s shifting revenue mix emphasizing fine jewelry sales, characterized by higher volumes and wider margins.

Table II: Selected Balance Sheet Items (US Dollars)

	June 30, 2005	December 31, 2004
Cash	\$104,203	\$60,732
Accounts Receivable	152,853	74,500
Inventory	89,441	14,234
Total Current Assets	346,497	149,466
PP&E	3,840	4,321
Total Assets	\$350,337	\$153,787
Current Liabilities:		
Accounts Payable	\$336,915	\$155,963
Notes Payable	8,000	8,000
Loans from Stockholders	78,235	78,235
Total Current Liabilities	423,150	242,198
Common Stock	76,287	75,470
Paid in Capital	3,151,657	3,083,574
Accumulated Deficit	(3,300,757)	(3,247,455)
Total Stockholders Deficit	(72,813)	(88,411)
Total Liabilities and Stockholders' Deficit	\$350,337	\$153,787

Abazias has a net stockholders deficit of \$(72,813) as of June 30, 2005 and negative working capital of \$(76,653). This represents a significant improvement over year-end December 31, 2004, when the net stockholders deficit was \$(88,411) and negative working capital was \$(92,732). Typical of early stage companies, Abazias has incurred losses since its inception. To date, operations have been funded by issuing shares. Because theirs is not a capital-intensive business, we believe Abazias can eliminate its deficit fairly quickly. In October 2005, Abazias announced the completion of the first tranche of an anticipated two tranche private placement with Famalom, LLC, in the amount of \$500,000. This private placement will shore up the Company's weak capital base, permitting Abazias to continue to execute its business plan.

Table III: Cash Flow Highlights (US Dollars)

	6 months ending June 30, 2005	6 months ending June 30, 2004
Net Loss	(\$53,303)	(\$1,005,278)
Shares issued for services	65,450	970,000
Imputed interest on loan	3,449	2,596
Depreciation	480	480
Change in Accounts Receivable	(78,352)	(72,932)
Change in Accounts Payable	180,953	73,234
Inventory	(75,206)	-
Net Cash Provided by (Used In) Operating Activities	43,471	(31,900)

The Company generated positive cash flow from operations in the first six months of 2005, versus a net use of cash of \$(31, 900) in the same period a year ago. A narrower net loss accompanied by faster receivables turnover and higher accounts payable from improved sales growth, was behind the improvement.

Stock Performance

At this writing, ABZS shares closed at \$0.09 (October 19, 2005), on the lower end of its 52 week trading range of \$0.05-\$0.20. At current levels, we believe the downside risk for ABZS shares is limited. Nevertheless, given its early stage of corporate development, there is little quantitative evidence to determine the likelihood of success. Investors must be satisfied before buying shares knowing that Abazias has a strong management team with solid industry experience and the right technology to succeed.

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Analyst Highlight

**Stephanie Loiacono, CFA, Senior Research Analyst
 Banks and Specialty Retail**

Stephanie Loiacono, CFA has nearly twenty years of investment experience, with an emphasis during the last six years on equity research in the small and micro cap market. Ms. Loiacono’s industry expertise includes U.S. and non-U.S. financial institutions and retailing companies. She previously served as chief investment officer for a start-up investment management company and as co-founder of a venture capital firm. In addition to her position as Senior Research Analyst for Harbinger Research, Ms. Loiacono is an international advisor for the U.S. Department of the Treasury, serving at the Ministries of Finance in emerging countries around the world. She also develops and teaches courses on finance and investments.

Ms. Loiacono has a Master’s degree in International Affairs from George Washington University and received her Chartered Financial Analyst designation in 1994. She is a member of the CFA Institute and the Financial Executives Networking Group.

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