

Financial Plan

*Ideally, we would want to bring in some equity investment from investors compatible with our growth plan, management style, and vision, in return for some equity ownership. We are not going to talk about specifics of a deal until we have met the right partners. This plan does not call for equity from outside investors.

If and when the time for outside investors comes, we want compatible investors or no investors at all. Compatibility means:

1. A fundamental respect for giving our customers value, and for maintaining a healthy and happy workplace.
2. Respect for realistic forecasts, and conservative cash flow and financial management.
3. Cash flow as first priority, growth second, profits third.
4. Located in Oregon or the Northwest.
5. Willingness to follow the company carefully and contribute valuable input to strategy and implementation decisions.

Of these, only the last two are flexible.

We want to establish a mechanism for employees to acquire fair stock options that can become valuable as the company grows.

The most crucial issue affecting our financial plan is the receipt of start-up fees for the customization and installation of the software and extranet solution. This drives our cash flow, and all other aspects of our operation.

7.1 Important Assumptions

The financial plan depends on important assumptions, most of which are shown in the following table. The key underlying assumptions are:

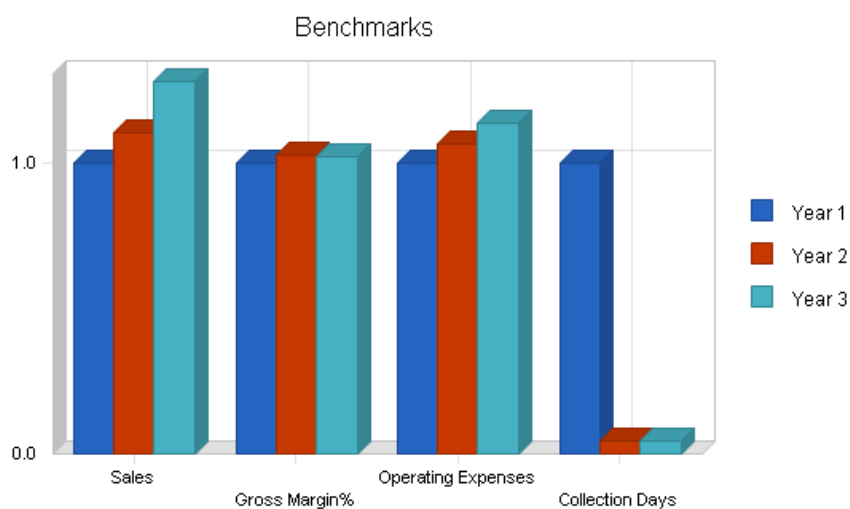
- We assume a slow-growth economy, without major recession.
- We assume of course that there are no unforeseen changes in technology to make products immediately obsolete.
- We assume access to equity capital and financing sufficient to maintain our financial plan as shown in the tables.

General Assumptions

	Year 1	Year 2	Year 3
Plan Month	1	2	3
Current Interest Rate	10.00%	10.00%	10.00%
Long-term Interest Rate	8.00%	8.00%	8.00%
Tax Rate	30.00%	30.00%	30.00%
Other	0	0	0

7.2 Key Financial Indicators

The chart below shows the relative relationships, year-to-year, of four business indicators; sales, gross margin, operating expenses, collection days of accounts receivable.



7.3 Break-even Analysis

We have a break-even point in sales/month for year one as shown below.



Break-even Analysis

Monthly Revenue Break-even

\$8,450

Assumptions:

Average Percent Variable Cost

11%

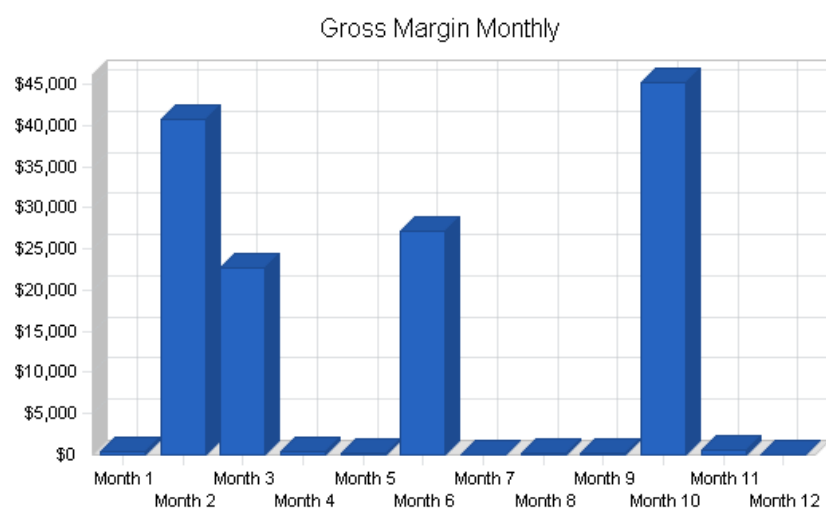
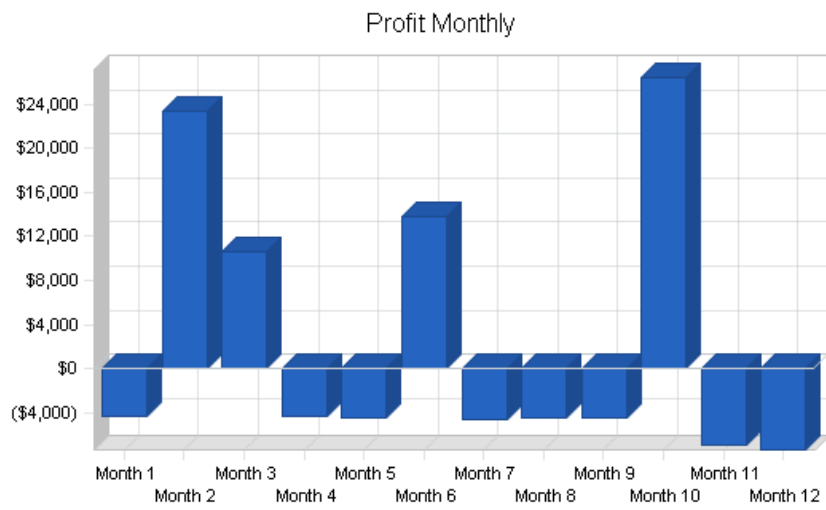
Estimated Monthly Fixed Cost

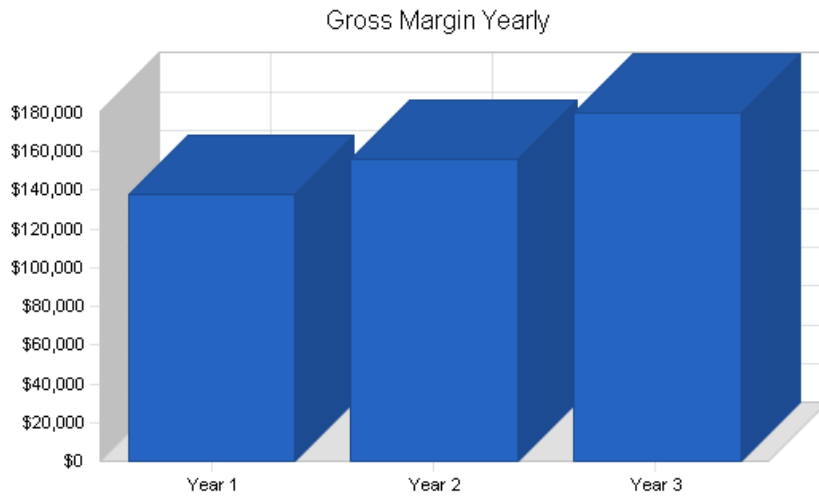
\$7,510

7.4 Projected Profit and Loss

Monthly P&L fluctuate drastically due to the work required before a sale is closed. One to two months prior to closing a sale, we will incur travel costs and other miscellaneous expenses associated with our consulting service. Expenses are approximately 40% of fees. Set-up costs to the client (our commission) drive revenue in the period a sale is made, as do training fees. Associated direct costs are 10% and 50% respectively; however, as we anticipate a learning curve in training costs, these decrease to a flat rate in year two of eight percent.

The direct cost of start-up fees is our major expense. As the client prepares to go live with the product, we will need to travel more frequently to the site, bring in their key end-customers, and travel to the manufacturer more frequently as well. We have anticipated that start-up fees will grow 10% in year two and 15% in year three. Consulting fees are projected to grow at a steady rate of 20% and training fees at 30%. As a result, net profit is projected to grow at a conservative and realistic rate for the first three years.





Pro Forma Profit and Loss

	Year 1	Year 2	Year 3
Sales	\$154,950	\$171,180	\$198,096
Direct Cost of Sales	\$17,235	\$15,516	\$18,300
Other	\$0	\$0	\$0
Total Cost of Sales	\$17,235	\$15,516	\$18,300
Gross Margin	\$137,715	\$155,664	\$179,796
Gross Margin %	88.88%	90.94%	90.76%

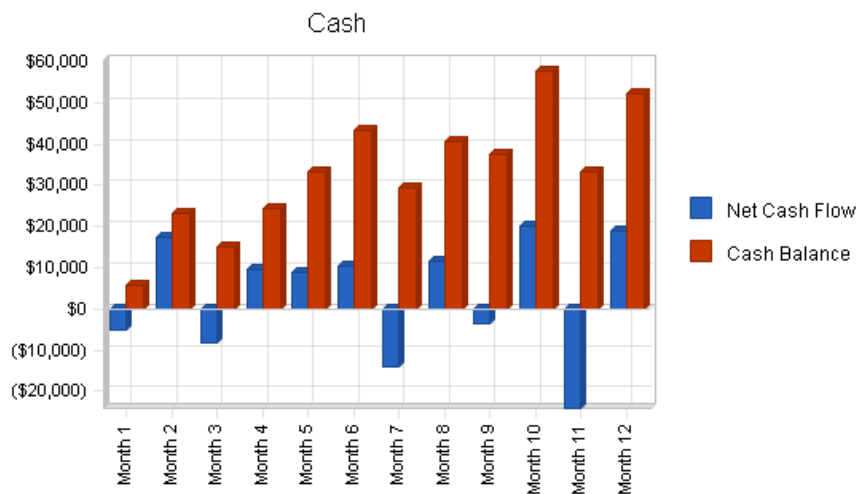
Expenses

Payroll	\$80,000	\$85,000	\$90,000
Marketing/Promotion	\$4,000	\$5,000	\$6,000
Depreciation	\$0	\$0	\$0
Utilities	\$480	\$500	\$550
Insurance	\$1,440	\$1,440	\$1,440
Rent	\$4,200	\$4,200	\$4,350
Payroll Taxes	\$0	\$0	\$0
Other	\$0	\$0	\$0
 Total Operating Expenses	 \$90,120	 \$96,140	 \$102,340
 Profit Before Interest and Taxes	 \$47,595	 \$59,524	 \$77,456

EBITDA	\$47,595	\$59,524	\$77,456
Interest Expense	\$0	\$0	\$0
Taxes Incurred	\$14,279	\$17,857	\$23,237
Net Profit	\$33,317	\$41,667	\$54,219
Net Profit/Sales	21.50%	24.34%	27.37%

7.5 Projected Cash Flow

Our cash flow assumptions are dependent on the start-up fee. We will receive 15-20% of the total fee in commission. Historical values of start-up fees are from \$150K to \$200K and the accounts have taken from one to four months to close. Conservative estimates lead us to believe that we can attain sales revenue from start-up fees of between \$135K and \$140K in year one.



Pro Forma Cash Flow

Year 1 Year 2 Year 3

Cash Received

Cash from Operations

Cash Sales	\$77,475	\$85,590	\$99,048
Cash from Receivables	\$76,895	\$85,529	\$98,947
Subtotal Cash from Operations	\$154,370	\$171,119	\$197,995

Additional Cash Received

Sales Tax, VAT, HST/GST Received	\$0	\$0	\$0
New Current Borrowing	\$0	\$0	\$0
New Other Liabilities (interest-free)	\$0	\$0	\$0
New Long-term Liabilities	\$0	\$0	\$0
Sales of Other Current Assets	\$0	\$0	\$0
Sales of Long-term Assets	\$0	\$0	\$0
New Investment Received	\$0	\$0	\$0
Subtotal Cash Received	\$154,370	\$171,119	\$197,995

Expenditures	Year 1	Year 2	Year 3
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Expenditures from Operations

Cash Spending	\$80,000	\$85,000	\$90,000
Bill Payments	\$33,015	\$49,973	\$53,107

Subtotal Spent on Operations	\$113,015	\$134,973	\$143,107
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Additional Cash Spent

Sales Tax, VAT, HST/GST Paid Out	\$0	\$0	\$0
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Principal Repayment of Current Borrowing	\$0	\$0	\$0
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Other Liabilities Principal Repayment	\$0	\$0	\$0
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Long-term Liabilities Principal Repayment	\$0	\$0	\$0
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Purchase Other Current Assets	\$0	\$0	\$0
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Purchase Long-term Assets	\$0	\$0	\$0
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Dividends	\$0	\$0	\$0
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Subtotal Cash Spent	\$113,015	\$134,973	\$143,107
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Net Cash Flow	\$41,355	\$36,146	\$54,888
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Cash Balance	\$52,355	\$88,501	\$143,389
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7.6 Projected Balance Sheet

Balance sheet is a result of key assumptions and estimated sales/cash flows.

Pro Forma Balance Sheet

	Year 1	Year 2	Year 3
Assets			
Current Assets			
Cash	\$52,355	\$88,501	\$143,389
Accounts Receivable	\$580	\$641	\$742
Other Current Assets	\$0	\$0	\$0
Total Current Assets	\$52,935	\$89,142	\$144,131
Long-term Assets			

Long-term Assets	\$0	\$0	\$0
Accumulated Depreciation	\$0	\$0	\$0
Total Long-term Assets	\$0	\$0	\$0
Total Assets	\$52,935	\$89,142	\$144,131

Liabilities and Capital	Year 1	Year 2	Year 3
Current Liabilities			
Accounts Payable	\$9,119	\$3,659	\$4,428
Current Borrowing	\$0	\$0	\$0
Other Current Liabilities	\$0	\$0	\$0
Subtotal Current Liabilities	\$9,119	\$3,659	\$4,428
Long-term Liabilities	\$0	\$0	\$0
Total Liabilities	\$9,119	\$3,659	\$4,428

Paid-in Capital	\$13,550	\$13,550	\$13,550
Retained Earnings	(\$3,050)	\$30,267	\$71,933
Earnings	\$33,317	\$41,667	\$54,219
Total Capital	\$43,817	\$85,483	\$139,703
Total Liabilities and Capital	\$52,935	\$89,142	\$144,131
Net Worth	\$43,817	\$85,483	\$139,703

7.7 Business Ratios

The following table outlines important business ratios for pre-packaged software, as described by the standard industry classification (SIC) index, 7372.

Ratio Analysis

	Year 1	Year 2	Year 3	Industry Profile
Sales Growth	0.00%	10.47%	15.72%	9.70%

Percent of Total Assets

Accounts Receivable	1.10%	0.72%	0.51%	21.50%
Other Current Assets	0.00%	0.00%	0.00%	45.70%
Total Current Assets	100.00%	100.00%	100.00%	70.20%
Long-term Assets	0.00%	0.00%	0.00%	29.80%
Total Assets	100.00%	100.00%	100.00%	100.00%

Current Liabilities	17.23%	4.10%	3.07%	42.40%
Long-term Liabilities	0.00%	0.00%	0.00%	19.20%
Total Liabilities	17.23%	4.10%	3.07%	61.60%
Net Worth	82.77%	95.90%	96.93%	38.40%

Percent of Sales

Sales	100.00%	100.00%	100.00%	100.00%
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Gross Margin	88.88%	90.94%	90.76%	100.00%
Selling, General & Administrative Expenses	65.84%	64.01%	60.68%	79.40%
Advertising Expenses	0.00%	0.00%	0.00%	1.30%
Profit Before Interest and Taxes	30.72%	34.77%	39.10%	2.20%

Main Ratios

Current	5.81	24.36	32.55	1.51
Quick	5.81	24.36	32.55	1.16
Total Debt to Total Assets	17.23%	4.10%	3.07%	61.60%
Pre-tax Return on Net Worth	108.62%	69.63%	55.44%	3.50%
Pre-tax Return on Assets	89.91%	66.77%	53.74%	9.20%

Additional Ratios	Year 1	Year 2	Year 3
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Net Profit Margin	21.50%	24.34%	27.37%	n.a
Return on Equity	76.04%	48.74%	38.81%	n.a

Activity Ratios

Accounts Receivable Turnover	133.58	133.58	133.58	n.a
Collection Days	60	3	3	n.a
Accounts Payable Turnover	4.57	12.17	12.17	n.a
Payment Days	67	52	27	n.a
Total Asset Turnover	2.93	1.92	1.37	n.a

Debt Ratios

Debt to Net Worth	0.21	0.04	0.03	n.a
Current Liab.to Liab.	1.00	1.00	1.00	n.a

Liquidity Ratios

Net Working Capital	\$43,817	\$85,483	\$139,703	n.a
Interest Coverage	0.00	0.00	0.00	n.a

Additional Ratios

Assets to Sales	0.34	0.52	0.73	n.a
Current Debt/Total Assets	17%	4%	3%	n.a
Acid Test	5.74	24.19	32.38	n.a
Sales/Net Worth	3.54	2.00	1.42	n.a
Dividend Payout	0.00	0.00	0.00	n.a