



Walnut Venture Associates (A): RBS Group Investment Memorandum

Ralph Wagner pulled his file on the RBS Group, a young company that developed and sold accounting software specifically targeted to software companies. Wagner was a private investor—an “angel”—and a member of an informal group of other investors known as Walnut Venture Associates. (See **Exhibit 1** for background information on Walnut) RBS was seeking to raise \$2 million in equity capital to fund its growth. Wagner had agreed to take the lead role in evaluating RBS as an investment opportunity for Walnut. While Wagner would spearhead the process, each individual would make his own decision about whether to invest in the company.

It was December 26, 1997 and Bob O’Connor, RBS’s founder and CEO, had presented to the Walnut group one week ago. The group had been impressed with O’Connor, with RBS’s business focus, and with the fact that the company had a product, sales and even earnings.

Based on this positive first impression, the group had decided to take the next step and begin a more in-depth investigation of the company and its prospects. Half a dozen or so “Walnuters” had indicated an interest in possibly investing, and it was up to Wagner to come up with a due diligence agenda for these individuals. He pulled out RBS’s plan (See **Exhibit 2**) and began to sort through the issues the group should investigate during this phase, as well as an agenda for the meeting where they would get together, share their efforts, and decide whether to proceed.

Background - Walnut

Angel investing has long been a popular source of financing for entrepreneurial ventures. Researchers estimated for instance, that nearly \$30 billion of angel financing was raised in 1996, compared to approximately \$10 billion or so of “professional” venture capital. A recent survey of the *Inc. 500* (see: “Bootstrap Finance: the Art of Start-ups” by Amar Bhidé, HBR reprint# 92601) estimated that only 5% of these top-tier entrepreneurial growth companies had received venture capital financing compared to almost 15% that had received angel financing.

In the late 1990’s two forces were exacerbating the trend towards the increasing prominence of angel financing:

- A generation of entrepreneurs had “cashed out” and were looking to recycle their wealth—and expertise—by investing in entrepreneurial start-ups.

Lecturer Michael J. Roberts prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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- Professional VC firms were raising larger pools of capital, and deploying that capital in increasing large “bites,” leaving what some observers termed a “capital chasm” at the \$1 million and below investment level.

In an effort to harness some efficiencies in the deal sourcing and screening process, as well as in post-investment monitoring, individual angels had come together in groups of varying size and formality. The best-known of these was a group of 100 or so Silicon Valley entrepreneurs who operated as the “Band of Angels” (see HBS Case No. 898-188, The Band of Angels).

Walnut Venture Associates had come together in the summer of 1997 as a group of a dozen or so individuals who had all had their own entrepreneurial success, had made investments on an individual basis, and desired to pool their efforts. Said one member:

Each of us had worked with other private investors in a variety of deals, and enjoyed working with other “value-added” investors. We’d heard about other “angel groups” and thought it made sense as a way to expand our collective deal flow and share due diligence effort and expertise. We also thought it made sense to share the governance effort any investment requires. Finally, it seemed like - with the right group - it would be fun!¹

The group met once per month to hear from 2 or 3 entrepreneurs, and subsets of members had follow-up meetings on individual deals that they were interested in. The members agreed on the following ground rules:

We agreed we would try to focus on information technology (and related) deals, given our backgrounds and expertise and where we felt the opportunities were. We decided it made sense to have two of the groups who were interested visit with the company and agree to sponsor them before the entire group, as a way of using our time efficiently. We also felt we should only work with companies where we could legitimately add value. Finally, we were hopeful that—if we were interested—that the entire funding could be accomplished within our group, which we translated into roughly \$1 million of funding required.²

Background: RBS Group Investments Opportunity

Wagner explained how the RBS Group and Walnut had connected:

Bob O’Connor made a presentation to the MIT Enterprise Forum in October. One of our members—Paul Rosenbaum—attended. He was impressed with Bob and the Company’s progress, and he gave us an overview at the next Walnut meeting in late October. We all thought it was interesting, and we agreed to invite Bob to present to our group in mid-December.

Members of our group had made investments and shared opportunities with other “Walnuters” but this looked like the first deal that we might do where no one was involved with the company prior to our potential investment. Someone had to raise his hand and say, “I like this, and I’ll work on this deal.” Because I had a background that was a pretty good fit, and because I *did* like it, I agreed to spearhead the work.

¹ Source: Casewriter Interview

² Source: Casewriter Interview

I went out to RBS's office in November, and took a friend who is a real expert on software company operations—Jeff Tarter. Tarter is the publisher of Softletter, a well-respected newsletter focusing on the operations issues of software companies. Bob took us through his presentation, and we each asked some tough questions. Bob gave us good answers, and we left more excited than when we had walked in the door.³

O'Connor presented to the Walnut group on December 19th. He recalled his impressions:

I felt as though the presentation had gone well. There were 9 or 10 folks there, and their approach seemed unique, at least in my experience. They asked as good a set of questions as anyone, and they definitely "got it." For instance, I remember that—when I was done—Steve Gaal said, "If your product is so unique, why don't you charge twice as much?" I confess I had some questions in my own mind about how an entrepreneur would work with a more informal group like this, and figured that there was time to sort all this out if and when we proceeded.⁴

* * *

Wagner opened the file and began to reread RBS's business plan, looking for the issues where he and his colleagues should focus their energies in the coming weeks.

³ Source: Casewriter Interview

⁴ Source: Casewriter Interview

Exhibit 1 Walnut Venture Associates Background Information

WALNUT

Venture Associates

Walnut Venture Associates is a group of experienced entrepreneurs and investors seeking investment opportunities in *early-stage* and emerging companies in the *New England* area. We are focused on information technology companies addressing *rapidly growing markets*. We will consider investments at any stage but prefer seed-stage, first round, or recapitalizations. We will consider partial liquidity for founders as part of a financing. We can commit \$250,000 to \$1,000,000 to a single financing. Our objective is to help talented entrepreneurs build lasting businesses of significant value and to participate as active investors.

Walnut Venture Associates consists of Boston-area entrepreneurs/investors who have joined forces to fund and aid the development of local companies through their collective business experience and contacts. Individuals in the group have been the founders of 12 companies, the CEO of more than 15 companies, have invested in over 150 private companies, and have been members of the Board of Directors of over 50 companies. Skill sets include depth in all functional areas including general management, marketing, sales, product development, marketing communications, and finance. Companies this group have been involved with as founders, CEOs, and/or investors include: *Concord Communications, Stratus Computer, Axon Networks, Miller Communications, MicroSource Financial, Keyfile, Avid Technology, First Call, ComputerLand, Fenwick Partners, Xyplex, Morris Decision Systems, Applix, Natural MicroSystems, Microcom*, and many others.

Walnut Venture Associates can help your company by working with you to refine your business plan, helping to fill out the management team, developing financing strategies in concert with management, making key contacts for strategic partnerships, configuring the company for a public offering or acquisition, or helping to grow by acquisition. For more developed companies, we can aid management in a recapitalization of the business. A single member of the group will normally serve on the Board of Directors of your company, but the resources of the entire group are available to you.

Walnut Venture Associates looks for *exceptional people with exceptional ideas*. We prefer to become involved at a very early stage where we can contribute to strategy formulation and completing the recruitment of the team. Although we prefer to be the first outside investors in a company, we will consider investments at a later stage. In those cases we look for a proven business idea. We can also be helpful in cases where management is currently a minority investor and would like to buy out the business and increase its ownership.

WALNUT

Venture Associates

Principals

Edward Belove: technology and business development consultant for greenhouse and start-up companies including Interval Research Corporation and idealab!. Previously, he held a series of executive positions in technology and product development for Ziff Davis Interactive (responsible for *Interchange Online Service*), Lotus Development (*Agenda, Improv, Magellan*, multimedia products, HP-95LX software, etc.), Microcom (email software, intelligent modems, MNP protocol) and Data General Corporation (operating systems, networking and systems architecture). Ed has a AB in Applied Mathematics from Harvard.

Joseph J. Caruso: President of Bantam Group, Inc., a consulting and investment company specializing in turnarounds and mentoring of entrepreneurs. Joe has served as interim CEO for companies in need of strategic change and as personal advisor to numerous company presidents. Joe is a Director and active investor in Metrisa, Inc, Micro-e, Zentox Corporation, Boston Restaurant Associates, and the Haymarket Bank. He is a member of the board (New England Chapter) of the National Association of Corporate Directors, the Association for Corporate Growth, and the Turnaround Management Association and is an arbitrator for the American Arbitration Association. BSEE, Northeastern University; MBA, Harvard Business School.

Bill Foster: Thirty years in the computer business, with Hewlett Packard, Data General and Stratus Computer. Founded Stratus in 1980 with \$1.7 million venture capital. President and CEO until 1997, now Chairman. Stratus has grown to about \$700 million, specializes in fault tolerant computing, primarily for the telecommunications industry. Educated in mathematics (BA & MS) and business (MBA).

Stephen J. Gaal: A venture capital investor in early-stage technology companies for 15 years, the last ten at TA Associates. Prior he spent thirteen years at Data General most recently as VP Software Development. He started his career at Bell Labs. He has invested in nearly 50 software and communications companies including Applix, Banyan, Microcom, VMX, Wall Data, Natural MicroSystems, Epoch Systems, MicroGrafx, Versant Object Technology, WorkGroup Technology, FTP Software, Axon Networks, and Netics. BS EE Princeton, MS EE&CS Berkeley, Harvard Business School (PMD)

Anthony M. Helies: Entrepreneur and investor in the high tech industry. Founder and former CEO of Concord Communications, Inc., with 20 years experience running high tech ventures, including general management and senior marketing/sales positions with Analog Devices and Data General. Started career as an engineer for the Apollo program. Board Director for three Boston based early staged companies and a national wine marketer. Adds value in marketing, sales and business strategy. BSEE Lehigh, MSEE Northeastern, MBA Harvard.

James P. Masciarelli: President of Archer Consulting, Inc. an organizational and business development firm serving high technology and service sectors. Previously, CEO and cofounder of Fenwick Partners, a leading high technology retained executive search firm. Grew Fenwick nationally over 12 years and sold his majority interest in 1995. Former human resource executive in the electronics and computer industry. BA Psychology, Holy Cross and MBA Babson College.

John A. Miller, Jr. (Andy): A pioneer in the field of high technology public relations, Andy is the founder of Miller Communications (now Miller/Shandwick Technologies). He grew the firm into a global, nine-office \$20 million industry leader. In January 1997, he formed the Miller Consulting Group, a strategic communications firm that uniquely links corporate and product positioning strategies to winning perceptions in the IT marketplace. Formerly served in various editorial capacities at Little, Brown & Company and as Associate Editor of the *Harvard Business Review*.

Anthony P. Morris: Involved in the PC industry since 1979 as entrepreneur, investor, and consultant. He founded Morris Decision Systems, an early "value added" PC reseller, ranking #9 in the *Inc. 500* when it was sold. Morris consults to PC industry companies and investors, focusing on strategy, marketing, and multi-channel, multi-tier distribution. He also invests in emerging software, content, and Internet ventures. He is a Director of several companies including Phoenix Technologies Ltd. AB from the University of Pennsylvania and MBA from Stanford University

Peter Palmer: Started his career with ICL (International Computers Ltd) in UK in computer system development and management. In 1983, he founded Spider Systems Ltd, which became the largest independent networking company in Europe. In 1991, he founded AXON Networks Inc. in the US. AXON was a market leader in the distributed monitoring and management of networks. Spider was successfully sold to Shiva and AXON successfully sold to 3Com in 1996. Strong international general management experience. Peter has a Ph.D. in Mathematics.

Paul Rosenbaum: Managing Partner of Wayland Partners Ltd., a firm helping technology companies raise early stage capital. He has been President and CEO of Scitex America, Proteon Inc., and Xyplex Inc. Previously, he was Vice President, International Operations for Motorola's subsidiary, Codex Corporation. Later in his career, he was a General Partner for the venture capital firm American Research & Development. He has made over a dozen investments in technology companies including Active Control eXperts, Tau Tron, CERJAC and many other private companies. He has a BSEE and an Advanced Engineering Certificate from Cornell University and an MBA from Harvard University.

Ralph B. Wagner: Principal at Wagner Resources, a consulting and investment company specializing in the requirements of early stage information technology companies. He was founder of MicroSource, one of the pioneering microcomputer resellers in New England. He also cofounded KeyFile Corporation, one of the first document management software products. Wagner has been involved in several high-tech start-ups both as principal as well as investor. He sits on the board of KeyFile, PureSpeech and Netegrity. Wagner received his BS and MBA from Columbia University.

Stephen L. Watson: Active private investor in early-stage companies for the past fifteen years. An experienced entrepreneur, he has founded and managed three successful companies. He is currently Chief Executive of ScanCenters of America and Chairman of the Board of Netegrity, Inc. In the past, he was Sr. Vice President of ComputerLand Corporation and spent eight years with Digital Equipment Corporation in various management positions. He is on the Executive Board of the MIT Enterprise Forum, on the Enterprise Board of the Photonics Center at Boston University and is the Chairman of the Industrial Advisory Board of the College of Engineering at Iowa State University.

Allyn C. Woodward, Jr.: President of Adams, Harkness & Hill, Inc., the largest independent institutional research, brokerage and investment banking firm headquartered in New England whose primary focus is directed toward the Technology, Healthcare and Consumer industries. Prior he was Senior EVP and COO of Silicon Valley Bank, a \$2 billion bank and SVP, cofounder and manager of the technology group at Bank of New England where he worked for more than 25 years. He is a director of Viewlogic Systems and Cayenne Software and several private industrial and investment companies. He received his BA from Babson College and currently serves on the Advisory Board of the Olin Graduate School at Babson.

Exhibit 2 RBS Group Business Plan**EXECUTIVE SUMMARY****The Company**

RBS Group, Inc. (RBS) develops and markets *the* industry-leading software package that allows software companies to manage their operations and financial systems. *SOFTRAX* is the *only* fully integrated software system specifically designed for software companies to manage their customer database, installations, order processing, inventory, assembly, fulfillment, and financial functions. *SOFTRAX* provides a unique and comprehensive business solution for software companies, as illustrated below:

SOFTRAX

The Operations, Financial, and Web Application for Software Companies

Operations Suite	Financial Suite	WWW Suite
Installations	General Ledger	Web Order
Order Management	Accounts Receivable	Web Installations
Inventory Management	Accounts Payable	Web Query
Renewal Processing	Purchasing	Web Renewals
Deferred Revenue	Project Accounting	Web Time & Billing

Why are Software Companies Unique?

Software companies have considerably different information requirements and business processes than companies in other industries. The rapid growth that software companies often experience intensifies the need for strong scalable internal information systems. Software companies need to maintain a comprehensive database of customer information including installations, licenses, versions, registered users, operating systems, hardware platform, media, maintenance dates, and much more. Software companies process unique orders such as trials, upgrades, updates, and renewals. They also price, package and distribute their products, and recognize revenue in highly specialized ways.

The Opportunity

A convergence of several factors presents a strong opportunity for RBS and the *SOFTRAX* line of products:

- The software industry is *the* fastest growing segment of the U. S. economy. With the industry growing at 2.6 times the rate of the overall U.S. economy, annual revenues exceed \$102 billion. The market consists of over 30,000 companies. Given business' ravenous appetite for emerging software technologies - such as the Internet, intranets, distributed computing, client/server tools and applications - the outlook for growth is substantial.
- Software companies have unique business requirements. RBS is the only company that delivers an integrated information system to meet these needs. Without *SOFTRAX*, software companies are forced to cobble non-integrated software systems together or build custom internal systems in an attempt to solve their business management problems.
- Testimonials from *SOFTRAX* customers highlight RBS as market-driven and capable of high and durable profit margins. To gain dominant market share, RBS answered the market with the introduction of the next generation of *SOFTRAX*. This new generation of *SOFTRAX* includes client/server, object-oriented, database-independent technology that meets the demanding

technical requirements of the software industry. This technology transformation allows *SOFTRAX* to run on the world's leading databases like Microsoft, Sybase, and Oracle.

The World Wide Web (the Web)

The growth and acceptance of the Internet and the Web represent significant business opportunities for the company and *SOFTRAX*. Software companies are quickly moving towards processing sales orders and initiating other transactions through the Web. In order to do so, they require a sophisticated back-office business system to integrate with a Web browser and process orders, collect customer data, and manage financial transactions. RBS has recently developed its *SOFTRAX* Web Suite that enables *SOFTRAX* to connect to the Web. The company's vision is for *SOFTRAX* and Web Order, a product in the Web Suite, to serve as the "core back-office business system" that software companies require to meet their electronic commerce needs. Web Order has met with immediate success. Although only recently introduced, Web Order has enjoyed several purchases from leading Web-centric, software companies.

Present Status

RBS Group, Inc. has been distributing *SOFTRAX* to the software industry since 1994. Product development began in 1992 using the most robust and proven technology at the time, a 4GL language, with relational database technology and the Unix operating system. The company has completed a highly successful technology transformation to a client/server, object oriented, open database environment. Since early 1997, RBS has achieved sales that more than tripled its installed-base, including a worldwide purchase agreement from *Sterling Software*, *Cincom Systems* and *Sterling Commerce*. Software companies such as *Computer Associates*, *The MathWorks*, *Texas Instruments Software*, and others currently use *SOFTRAX* to manage their businesses.

Sales at year-end March 31, 1998 are expected to be over \$3.2 million, a 65% increase over the previous year. Based on the most recent quarter, the company's current annual revenue rate is approximately \$5 million. RBS employs 37 people and is headquartered in Braintree, Massachusetts.

The Team

The company has a strong management team of three seasoned software executives.

Robert D. O'Connor, Jr., President and CEO, has over 12 years of software management experience with expertise in software management, finance, sales and marketing.

Lane W. Ford, Director of Software Development, has over 10 years of software development experience including similar positions with Lewtan Technologies and BancWare, software developers of client/server, object-oriented business applications.

David J. Milligan, Vice President of Software Services, has over 15 years of industry experience and successfully manages the company's consulting and implementation team.

Competition

RBS faces competition from two primary sources:

- 1) In-house Development – Due to the lack of industry-specific software to address their unique needs, some software companies may opt to build the solutions they need themselves.
- 2) Generic Distribution and Accounting - Several generic application vendors such as Platinum, Lawson, Solomon, Great Plains, and others provide an option for software companies. These vendors lack any software industry-specific functionality and are purchased solely for their *financial* functionality. All of these vendors require time-consuming and expensive customization to meet the needs of a software company. The software industry-specific *SOFTRAX* Operations suite and integrated Financial suite provide both unique industry functionality coupled with robust financial software.

Competitive Advantages

RBS has the following competitive advantages in the marketplace:

- A customer-centric development process with a strong *SOFTRAX* Advisory Group.
- The first entrant into a rapidly growing market.
- Unique functionality exclusively developed for software companies.
- Advanced, industry-standard technologies including object-oriented design and client/server architecture.
- Cross-platform and multiple relational database support.
- Successful installations and strong acceptance by software companies who use *SOFTRAX* to run their growing businesses.
- A staff of software-industry and financial experts who understand software companies, their information systems, processes, and operational procedures.

Strategic Alliances

In 1996 and 1997, RBS formed strategic relationships with Microsoft, Powersoft, Sybase, and PowerCerv Technologies Corporation. RBS became a Microsoft Solutions Provider and a Commercial Application Partner of both Powersoft and Sybase. RBS developed the new series of *SOFTRAX* in PowerBuilder, a leading client/server development tool. Through an OEM agreement with PowerCerv Technologies Corporation, RBS obtained the rights to modify source code and distribute their financial applications that seamlessly integrate with the *SOFTRAX* Operations suite. This relationship provides RBS with the benefit of more than 2 years of development efforts. PowerCerv has 10 sales offices throughout the U.S. and these offices often involve RBS when an opportunity exists at a software company. Additional strategic alliances with complementary software companies are in process.

Market Penetration

RBS markets and sells *SOFTRAX* through its direct sales force and strategic partners. The company has a three-phase plan for the new version of *SOFTRAX*: (1) establish an Advisory Group of software companies, deliver *SOFTRAX* 4.x and secure early buyers. *This phase has been successfully completed with agreements for over 40 new customer installations.* (2) Sell directly and with partners, to software companies throughout the U.S. *The company plans to increase its sales force as a result of this business plan and related financing.* (3) Establish an indirect channel and international distributors to market and sell the product.

Business Model

The company derives revenue from four sources:

- 1) Initial license fees from *SOFTRAX* software - priced on a per-user basis.
- 2) Additional user fees - as software companies grow, they hire more people who utilize *SOFTRAX*. As *SOFTRAX* is based on user pricing, ongoing revenue is generated by additional users.
- 3) Consulting and implementation service revenue - a customer requires a 2:3 ratio of services to licensed product in order to bring the software "live". With *SOFTRAX* in production, customers often utilize the RBS consulting staff for ongoing integration or additional software services. Over the first two years, a typical customer will purchase ongoing services that match or exceed the initial services budget. There exists a strong ongoing consulting revenue stream from *SOFTRAX* customers.
- 4) Maintenance revenue - customers pay 18% of the license fees every year on a recurring basis to receive product upgrades and telephone support. All RBS customers have a maintenance agreement.

Funding and Financial Projections

To date, the company has grown through internally generated profits, through an SBA loan of \$295,000, through a working capital line of \$600,000 with the Bank of Boston, and through an equity investment by UST Capital of \$400,000 in November of 1996. RBS is seeking secondary financing of \$2,000,000 to be used for sales expansion, global marketing, and product development to achieve the following financial projections:

(Years Ending 3/31)	1998	1999	2000	2001	2002
Revenue	3.2M	6.6M	13M	19M	35M
Profit Before Tax	-	-	1.7M	2.7M	4.2M
Total Customers	50	103	219	381	600

Harvest and Returns to Investors

The company's vision is to become the global leader in business applications for software companies, and perhaps other related industries. We are seeking to harvest the company within a three to five-year time frame. The most likely scenario is that one of our strategic partners, customers or another software company will find us a very attractive acquisition in this fast growing market. With fourth-year sales of \$35 million and profits of \$4.9 million, RBS would also be positioned for a high-multiple initial public offering. The rapidly growing software industry will provide even more opportunities for growth for RBS and *SOFTRAX*.

THE COMPANY

Current Status

In 1995, RBS committed to develop *SOFTRAX* in a client/server, object-oriented, open database environment. *SOFTRAX* 4.0, the first version under this environment, shipped in October 1996.

RBS Group, Inc. is currently shipping *SOFTRAX* version 5.0 to customers. *SOFTRAX* 5.0 is the second major release of *SOFTRAX* to use the client/server, open database architecture.

The company has outlined a three-phased approach to success. The first phase had the following key components:

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| <ul style="list-style-type: none"> • Develop <i>SOFTRAX</i> 4.x in the new development environment using knowledge gained from previous versions and a new <i>SOFTRAX</i> Advisory Group. |
| <ul style="list-style-type: none"> • Secure market acceptance and early buyers. |
| <ul style="list-style-type: none"> • Invest heavily in R&D and minimize sales expense until the product is installed and referenceable. |
| <ul style="list-style-type: none"> • Maintain a satisfied base of <i>SOFTRAX</i> 3.x customers and maximize service revenue. |
| <ul style="list-style-type: none"> • Obtain initial venture capital funding to assist in this first phase of the plan. <i>In November of 1996, RBS received \$400,000 in funding from UST Capital. This investment was used to help fund product development.</i> |

RBS has been very successful in the execution of the first phase of the plan. The company has invested heavily in *SOFTRAX* research and development. A *SOFTRAX* Advisory Group was established that meets regularly to review the functionality and technology of *SOFTRAX*. Members include Powersoft, The MathWorks, Parametric Technology, FTP Software, Sterling Software, Segue Software and others. RBS' product managers meet regularly with *SOFTRAX* end users to ensure that future versions meet industry business requirements. The company believes strongly in the benefits of a *customer-centric* approach to software development.

The size of the development staff at RBS has tripled over the past year. Additions have been made to software engineering, product management, quality assurance, technical support, and documentation.

The company has enjoyed unparalleled sales success since the introduction of *SOFTRAX* 4.0. For the past four quarters, RBS has met its sales objectives by having five or more new customers agree to license *SOFTRAX* per quarter. In the quarter ending March 31, 1998, ten (10) new customers licensed *SOFTRAX*. These initial purchases totaled over \$1M in new sales. The following companies have recently licensed *SOFTRAX*: Sterling Software, Sterling Commerce, Texas Instruments Software, CADIS, Synergex International, Taxware International, PictureWorks Technology, Talarian Corp., Exa Corp., Allaire Corp., Summit Design, Credence Systems Corp., Macro 4, Spatial Technology, Cincom Systems, SQRIBE Technologies and Blackbaud Software. RBS is also working with the existing *SOFTRAX* 3.x customers to upgrade them to the new *SOFTRAX* 5.0 product-line.

The RBS Consulting and Implementation staff maintains the existing *SOFTRAX* 3.x customers. Additional revenue is continually generated from ongoing software services. These customers have proved valuable references. They are also future *SOFTRAX* 5.0 customers.

Most of these new customers were brought on board with only one part-time salesperson managing the sales opportunities. Since the plan called for heavy investment in R&D, it was determined that management would handle the initial sales efforts. Now that the results of the R&D investment have been proven successful - *SOFTRAX* 5.0 is shipping and referenceable - the time has arrived to launch the company's second phase of the plan.

The second phase of RBS' plan is to capitalize on the first phase success and expand the sales and marketing functions of the company. The company plans to open regional sales offices in the areas where software company concentration is highest. In order to maximize sales coverage, sales people need to be close to the prospective customers. This proximity enhances the sales processes and expedites the sales cycle. As part of the planned growth, implementation personnel will be added to the regional offices to provide services. The goal of the second phase is to become the dominant leader in operations and financial, and Web applications for software companies throughout the United States.

The third phase of RBS' plan is to capitalize on the U.S. success and expand into international markets. RBS is currently working with international subsidiaries of U.S. software companies and is gearing the product for international distribution. This phase requires a direct presence for international opportunities and establishment of international distributors to sell and support *SOFTRAX*.

Objectives, Near-Term

The company plans to deliver two major releases of *SOFTRAX* during the coming year. The first major release, code-named Dakota, is scheduled to be released in July 1998. Thereafter, product development has formulated plans for the Athens project scheduled for late-1998 and ongoing improvements to *SOFTRAX* functionality and technology.

RBS plans to secure 55 new *SOFTRAX* customers this year. This will be accomplished by the opening of regional sales offices. In late 1997, the company opened two regional sales offices, in Northern California and in Colorado. In just over one quarter, these offices have contributed seven (7) new customers and over \$600,000 in revenue.

The consulting and implementation team's objectives are to maximize services revenue and ensure customer satisfaction. The success of the customers is imperative as they provide ongoing product and services business and references for new buyers of *SOFTRAX*.

RBS is actively seeking this second round of financing to assist in its sales expansion and growth plans. These funds will be primarily used to open regional sales offices and provide the infrastructure to support the company's resultant growth.

Objectives, Long-Term

RBS plans to make *SOFTRAX* the "industry standard" as the operations and financial business application for software companies. *SOFTRAX* is already "on the way" towards this market leadership position. The company is confident in the market's growth, its dynamics, *SOFTRAX* and its position. RBS will establish and grow several offices across the country to provide sales and services to customers.

RBS is proactively evaluating expansion opportunities. These opportunities could be either more products into the target market or expanding *SOFTRAX* into other target markets. The *SOFTRAX* Web Order product is an example of an add-on product into the target market. RBS embraces the Web as a sales vehicle for software companies and has built Web Order to address this need. Also, other companies including those that market hardware, content or information as their products are likely industries for *SOFTRAX*. Their business processes closely mirror those of software companies.

The company understands the rapid changes taking place in the underlying technologies. It sees the future for *SOFTRAX* as a series of components that companies can choose to license. These components, as true business objects, will be packaged to be easily absorbed into existing systems. The company sees the Web as business transformation for software companies and will continue to incorporate Web advances into future versions of *SOFTRAX*.

While 75% of the world's software revenues are based in the United States, the international market offers additional opportunity for *SOFTRAX* and RBS. By targeting U.S. companies with international subsidiaries, RBS has won several international installations. RBS intends to broaden its scope to include an international-channels group to target this market. This strategy will ensure that *SOFTRAX* is a global leader in business applications for software companies.

RBS views itself as an attractive acquisition target. The company sells to software companies and works with other software companies who market complementary products. It is likely that one of these companies will view *SOFTRAX* as a strong addition to its product line. RBS expects that *SOFTRAX* would realize greater market share from a larger software company with a large sales force. Management anticipates that an acquisition will take place within a 3-5 year time frame.

Management Team

Three experienced and successful software executives manage the company. They have proven themselves in their ability to manage growth and transitional situations. There exists good chemistry and a shared vision among the management team. The company realizes that growth entails the addition of seasoned sales and marketing executives.

Over the past year, these executives have devised and executed their strategy. They have evaluated the market, technology and product to produce a plan for sustained growth. According to plan, *SOFTRAX* 5.0 has achieved a highly successful technology transformation. Customer satisfaction and consulting revenues are high. New *SOFTRAX* sales have reached record-levels. The company is poised to execute phase two of the plan.

Robert O'Connor, Jr. – President

Robert O'Connor, Jr., is the President and Chief Executive Officer of The RBS Group, Inc. With over 12 years of software management experience, Mr. O'Connor has expertise in management, finance, sales and marketing. Under Mr. O'Connor's leadership over the past few years, RBS has grown from a reseller of software and hardware into a software developer whose flagship product is *SOFTRAX*, the leading software/customer administration application for software companies. Most recently, Mr. O'Connor has executed the strategy of technology and product transformation and served as the company's principal revenue generator.

Mr. O'Connor has written articles and white papers on the topic of integrated systems for software companies for publications including *Software Publisher Magazine* and *The Culpepper Letter*. Additionally, he has addressed the Software Manufacturer's Association, the Massachusetts Software Council, SoftExpo, and the Culpepper Forum on the importance of integrated information systems for software companies. He is an active member of the Software Manufacturer's Association, the Massachusetts Software Council, the Software Publisher's Association and the American Electronics Association.

A graduate of Georgetown University, Mr. O'Connor received his MBA from the University of Connecticut. He also serves on the Board of Directors for a number of business and educational institutions.

David Milligan – Vice President of Software Services

David Milligan serves as Vice President of Software Services for The RBS Group. In his capacity, Mr. Milligan is responsible for all customer relations, consulting and implementation services, and is an expert on the software industry and its operational practices. As a result of this expertise, Mr. Milligan has been the principal software architect of *SOFTRAX*, and continues to evaluate and determine the functional requirements of the *SOFTRAX* product.

Mr. Milligan is a graduate of Boston College, and has attended numerous technical and software industry related educational offerings over the years.

Lane Ford – Director of Software Development

Lane Ford oversees the research and development activities for the company. He has over 10 years of business and frontline software engineering experience, with 6 years in designing, developing and managing Windows-based products, decision support systems, and client/server applications. Mr. Ford has proven technical leadership in the fields of project management, quality assurance and software development in both vertical and financial software. He retains a successful track record in shortening development cycles and increasing the productivity of development teams and team members.

He is an active member of the IEEE, ACM, and Massachusetts Software Council. He received his MBA from the University of Chicago and holds a CPA from the State of California.

THE MARKET

The Present Market

The Software Industry Outperforms the US Economy

The U.S. software industry grew over five times, and increased employment seven times faster, than the rest of the economy over the past seven years, according to a report by the Business Software Alliance. Software companies closed out 1996 with the strongest revenue and earnings growth for a broad cross-section of the entire information technology industry.

The Internet, IPOs, and a strong continuation of the client/server movement dominated the trends in the 1996 software industry. Infusions of IPO capital were primarily used to make strategic investments in technology infrastructure. During 1996, *Software and Information* was the leading industry selected for venture capital investment, capturing 24% or \$2.2 billion of a \$10 billion dollar investment pool.

Superior Profits in Vertical Solutions

The verticalization of the software market continued during 1996 with vertical applications becoming the most profitable category. Vertical application software became the second most popular product line produced. *SOFTRAX* targets the software-company vertical where demand continues to be exceedingly strong for packaged financial and operational solutions to replace outdated internal systems.

Summary of the Projected Market

The market outlook for the *SOFTRAX* target industry looks exceptional. We are uniquely positioned to leverage industry-spending priorities on technology investments, packaged software, and electronic commerce. The higher profit trends in the vertical software market validate the "narrow and deep" vertical strategy we employ in our business model. Regulatory developments and the "Year 2000" issue provide increasing opportunities for the *SOFTRAX* product line. *SOFTRAX* is the only product in the industry that is specifically designed to address the unique revenue recognition issues that confront most software companies.

Market Segmentation and Sizing Analysis

The software industry consists of over 30,000 public and privately held companies. Many of these companies are fast growth companies that will continue to provide a steady stream of emerging prospects for *SOFTRAX* for the foreseeable future. Many software companies are start-ups that are not captured in informational surveys and industry data. This is true for the data in the tables below. Table 1 is designed to size the total market for packaged financial and operations software in the industry within North America. Table 2 identifies the geographic concentrations of software companies.

Software Segment by Number of Employees	Size - # of Firms	Avg. \$ Spending Per Firm	Total Product \$	*Total Consulting \$	Total Market Size
Under 10	3,263	NA	NA	NA	NA
10-24	2,213	NA	NA	NA	NA
25-49	1,295	\$25,000	\$32,375,000	\$21,583,333	\$53,958,333
50-99	917	\$50,000	\$45,850,000	\$30,566,667	\$76,416,667
100-149	922	\$75,000	\$69,150,000	\$46,100,000	\$115,250,000
250-499	408	\$100,000	\$40,800,000	\$27,200,000	\$68,000,000
500-99	197	\$150,000	\$29,550,000	\$19,700,000	\$49,250,000
1000-2499	168	\$250,000	\$42,000,000	\$28,000,000	\$70,000,000
2500-4999	68	\$350,000	\$23,800,000	\$15,866,667	\$39,666,667
Over 5000	116	\$450,000	\$52,200,000	\$34,800,000	\$87,000,000
Totals	9,567		\$335,725,000	\$223,816,667	\$559,541,667

*Industry average is a 2:3 consulting-to-product revenue ratio for client/server products. This table does not include any consideration for ongoing services or maintenance revenue.

Table 1. Total Market Size for Packaged Financials/Operations Software – North America

SOURCE: Corporate Technologies Information Services

While software companies are located throughout the country, areas of the highest concentration exist in Silicon Valley of Northern California and the Route 128 belt of Boston where RBS is headquartered. Other pockets of concentration are clustered, to a large extent, in major cities such as Dallas, New York, Toronto, and Chicago.

Location	Number	% of 100
1. CA	1,898	18%
2. MA	971	10%
3. TX	656	6%
4. Canada	560	5%
5. NY	543	5%
6. PA	477	5%
7. IL	392	4%
8. CT	374	4%
9. FL	344	3%
10. NJ	342	3%

Table 2. The Top Ten Geographic Concentrations of Software Companies

SOURCE: Computer Select

Regional Sales Offices

Our planned strategy for the regional expansion of the company includes the addition of at least four new regional sales offices located in the Mid-Atlantic region, Texas, Chicago-area and in the South-eastern United States. This strategy is designed to leverage proximity in areas where software company concentration is highest.

Domestic Segments

The target territory for *SOFTRAX* is primarily U.S. software companies or foreign subs of U.S. software companies that has approximately 50 to 2500 employees. The RBS strategy is validated by currently available software segmentation data. U.S.-developed software dominates world markets, with U.S. firms holding 75% of the global market for prepackaged software. Revenue from international sales grew slightly faster at 30% while revenue obtained from the US market increased 27%.

International Segments

Although the domestic market presents the major opportunities for RBS, an increasing number of international opportunities are emerging. The RBS marketing strategy includes increased attention to international segments.

Conclusions

The data suggest that market segments that provide the largest number of opportunities are companies with revenues between **\$5MM - \$250MM** and companies that have between **50 to 2500** employees. This conclusion follows the distribution of our current installed base.

According to the geographic data, California dominates as the mecca for software company concentration, with Massachusetts placing a distant second. The data indicate that our marketing and support strategy recognize the significance of the West Coast as the dominating geographic influence.

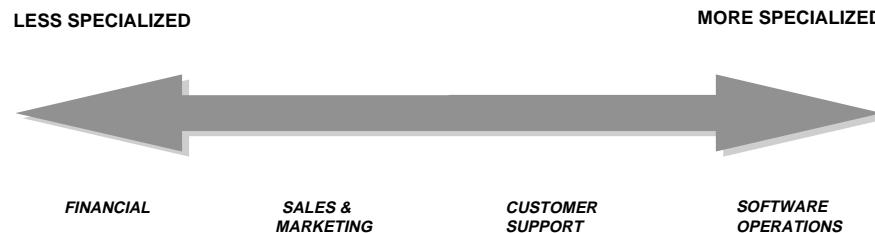
Our current weight given to the U.S. market appears to be a sound strategy that is consistent with the level of opportunity expressed in statistical data. The pressure to support international subs and internationally headquartered software companies will increase. RBS will meet this pressure with a parallel strategy.

COMPETITION

Application Vendors for Software Companies

Software companies require an array of applications to meet the complex nature of their daily operations. The applications they require must span many functional areas: including sales, marketing, contract administration, order processing, manufacturing, shipping, license tracking, accounting, customer support, and installations.

Competing application vendors (for the software industry) have traditionally positioned themselves as specialists within the different functional areas. The figure below illustrates the areas of application specialization and the segments traditionally occupied by software-company vendors.



Application segments available to competing vendors

At the less specialized end of the continuum lies the **financial** application segment. This is the widest segment on the continuum, containing the most competition. Except for issues such as **deferred revenue and software capitalization**, a software company's needs for a financial or accounting system are not as specialized. With some stretching and bending, a number of generic financial packages on the market today can be adapted to meet the accounting needs of a software company.

The two middle application segments contain the **sales-automation** and **customer support** application vendors. To address the needs of a software company, applications for these functional areas need to contain more specific functionality than do the financial applications. Recently, there has been a surge of growth and a number of success stories (like Vantive and Scopus) in the packages targeted towards these software company segments.

The most specialized application segment is software **operations**. A software company's information processes for managing customers, products, installations, order processing, renewal processing, and fulfillment are unique. *SOFTRAX* is currently positioned to answer the highly specialized needs involved in running a software company's operations. RBS brings additional value to this segment by providing the only financial module (the embedded PowerCerv product) that seamlessly integrates with the software Operations suite.

Due to the magnitude and complexity involved in an enterprise-wide system, no one vendor currently offers a complete solution that spans the entire continuum. Most vendors focus on one or two of the functional areas and market their products as *departmental* solutions. To achieve a fully integrated

solution, a customer will often buy *SOFTRAX*, along with other specialized applications, and then fund the integration through consulting services. The needs of a software company can be segmented as follows:

Software Operations <i>SOFTRAX</i> Primary Focus	Financials <i>SOFTRAX</i> Secondary Focus	Customer Support	Sales/Marketing
Customer Database	General Ledger	Call Tracking	Contact Management
Installations/Sites	Accounts Receivable	Bug Tracking	Prospect Database
Order Management	Accounts Payable	Knowledge Base	Sales Management
Inventory Management	Purchasing	Quality Tracking	Forecasting
Deferred Revenue	Fixed Assets	Source Control	Direct Marketing
Bill of Materials	Project Accounting	Search Engine	Quotations
Renewal Processing			
Web Operational Needs			

Largest Competition

Internal systems - most of the systems that *SOFTRAX* replaces are internal systems. The replacement market for internal systems is gigantic. The use of in-house application development is declining sharply as a result of improvements in commercially available software. According to a survey of CIOs, conducted by Deloitte & Touche, there has been a significant decrease in the percentage of staff devoted to internal application development. The decrease is directly correlated to the increase in the use of commercially available software. Software companies prefer to use commercial applications that are available now, rather than wait for an internal system to be developed or brought up to date. The "Year 2000" issue creates additional opportunities for RBS to replace internal systems. Many of these systems are too antiquated to continue to patch and fix. The "Year 2000" issue represents an unacceptable liability for most companies with internal systems that contain this design flaw.

This trend of increased use of commercial software not only indicates expanded opportunities for RBS, but also suggests that other commercial software vendors are aware of this trend and may be positioning themselves to step in. It could very well be that in the near future, the competitive landscape will change, and internal systems may no longer be our largest competition.

Strengths of internal systems

- System can be highly customized to the individual needs of the company.
- Costs often can be spread out over a longer period of time than the costs of commercial software.
- Project can utilize excess IS capacity.
- Support staff is located on-site.

Weaknesses of internal systems

- Internal development team often possesses little domain knowledge of cross-company software operation requirements or standard industry requirements for managing operations.
- Implementation time is too long.
- Costs and risks are too high.
- Results are often unsatisfactory.
- Internal software cannot be capitalized according to GAAP should the company wish this treatment.
- Many carry with them a host of "Year 2000" issues that make them a pending liability.
- Information is often held captive and not accessible to the people who need it.
- Scalability. The customer outgrows the capacity of the system.
- Multi-user access and shared databases are not always available.
- Shelf life of solution is very short. Difficult to maintain and to keep functionality current.

Major Players

Financial Niche Participants

The financial niche is intensely competitive and rapidly changing. Some of the financial niche competitors have larger technical staffs, more established and larger marketing/sales organizations, and significantly greater financial resources than RBS.

The financial accounting niche can choose to target their products to one or more of four segments: (1) the *small business* segment with revenues from \$1 to \$5MM, (2) the *workgroup* segment with revenues between \$5 and \$50MM, (3) the *corporate* segment with revenues from \$50 to \$500MM, and (4) the *enterprise* segment with revenues greater than \$500MM.

RBS competes in two different market segments in the client/server financial accounting niche. These two segments are the *workgroup* segment and the *corporate* segment. Together these segments make up the *middle market*. Although RBS does not target customers in the *enterprise* segment, characterized by high transaction volumes and highly customized applications, it may occasionally compete with vendors from this segment.

In the *middle market* segment, ranging in revenue-size from \$5 million to \$500 million, customers desire proven client/server software solutions that are easy to install, manage and use, yet are flexible enough to address the challenges of a specific organization. Customers in this market segment

require strong price-performance metrics. This segment is relatively new, and as a result, the competitive landscape is still forming. The principal competitors in this segment include Platinum, Solomon, and Great Plains.

SAP, Oracle, and JD Edwards are major participants in the *enterprise-level* market segment, but are presently selling an existing enterprise segment product downstream to the middle market segment. Others are in the process of developing a client/server solution targeted towards middle market requirements. The recent trend has been for vendors to start targeting small to midsize companies now that the large-accounts market is mature.

A customer can typically purchase and implement a typical single-site, *middle market* financial solution for under \$100,000. In contrast, just *one module* of an enterprise-level system usually costs much more than that, not including implementation fees. The middle market segment usually applies to groups of 50 seats or fewer, and is sold, installed, and supported by VARs who are part of the vendor resale channel.

The segment where we have the most strength (within the financial niche) is the *workgroup* or LAN-based segment - a subset of the middle market. In the workgroup segment, RBS competes with:

- Platinum SQL
- Great Plains
- Solomon IV
- Macola

Products in this market are principally sold through VARs and solution-oriented computer retail stores with the purchasing decision often influenced by accounting professionals providing consulting services. Primary factors often considered by customers before purchasing are functionality, performance, Windows compatibility, price, and quality.

Strengths of Financial Workgroup Competitors

- Leading edge technologies including intelligent agents that monitor for specific conditions, drill-down capability, wizards, and cue cards.
- Ease of use. Wizards and cue cards make it easy to use.
- Ties to the Big Six accounting firms that provide repeat referral business.
- VAR channel sales that position them to reach many vertical markets.
- Strong international features.
- Powerful reportwriting features including integration with Crystal Reports, FRx, and ad-hoc reporting and data manipulation capabilities.
- Specific applications targeted to reach many vertical markets.

Weaknesses of Financial Workgroup Competitors

- No specific features for software companies. Fail to address the industry's specific needs.
- Generic feature set, geared for some adoption to vertical markets, gives them a wide, but superficial focus. Horizontal market orientation. Lack of vertical market value-added.
- Lack of focused marketing and sales strategy. Keep switching selling methods and strategy.
- Little control over consistent delivery of products and services with a 3rd party distribution channel.
- Spend considerable development effort on international features.
- High price means that software companies pay for features not specifically geared to their needs.
- A history of significant delays in the introduction of new products and enhancements.
- Few of these vendors support Microsoft SQL Server - the fastest growing database in the market.

Emerging Competition

Currently, we have identified no direct competitor that is focused on developing a comparable software operations solution exclusively for software companies. We have discovered two small VARS that are interested in entering this market but their current efforts have yet to produce any significant market impact.

Strategies to Maintain Competitive Advantage

- 1) Gain dominant market share through revenue growth.
- 2) Continue to identify and include more software company-specific features that signal clear value-added to our vertical market. Continue to focus major development efforts on the software operations segment.
- 3) Leverage our size and capacity to alter direction quickly by moving faster than competitors to incorporate new technologies and platform shifts. Be there first with a Web solution and the adoption of newer technologies.
- 4) Be cautious of moving upstream to capture more of the enterprise-wide segment. This strategy presents a number of significant risks and obstacles that could play out unfavorably, notably:
 - slower sales and implementation cycles.
 - increased IS resistance.
 - mature market - most competitors are moving downstream where we already have a foothold.
 - attracts the attention of larger players with superior resources.
 - dilutes our focus and expertise in the software operations niche.
- 5) Look for relationship-building opportunities with consultants like the Big Six (or other software consultants), that can provide regular referrals for our products.
- 6) Incorporate an off-the-shelf reportwriter like Crystal Reports, that has broad market acceptance and ease of use. New reportwriting features will be key to our ability to maintain a competitive advantage. We need to provide ad-hoc reporting capabilities, a standard library of reports, and reports that can be changed or produced by a consultant without the help of an engineer.
- 7) Drill-down features will become increasingly important with the growth and popularity of OLAP products on the market and the ability of our competitors to deliver this feature. We need to continually look for opportunities to incorporate OLAP-like functionality within the product where it is appropriate.
- 8) Since Microsoft owns the desktop, providing a tighter integration to Microsoft Office is a high demand feature with immediate payback.
- 9) Partner with complementary application vendors like customer support, sales automation, and financials.

PRODUCT

Distinctive Competence

We understand the operational and financial needs of a software company better than any other vendor.

Product Description

SOFTRAX provides an integrated system to track installations, orders, licenses, products and fulfillment called the Operations Suite. The *SOFTRAX* Operations Suite includes four key modules:

Features and Benefits

- 1) **Installations** - tracks all software and hardware installed at the site level. The site level has contact, address, and other location data. From the site level, users can drill-down to the product level. It stores data on the license type, maintenance type, start and end dates, and seat count. As orders are processed. Installations are automatically updated by Order Processing and Inventory Control.
- 2) **Order Processing** - this module permits user-defined order-and-line types including regular sales order, credit orders, evaluations, upgrades and conversions. A traditional order processing flow includes packing list production for order fulfillment and full invoicing capability. The order processing cycle updates all integrated areas including User Base, Sites/Installations, A/R, and G/L.
- 3) **Renewal Processing** – the system will identify maintenance renewal candidates for you, based on contract start and end dates. Proformas and quotes are easily revised; multiple versions can be saved before automatically converting these to actual invoices.
- 4) **Deferred Revenue** - allows the user to create custom or global schedules to recognize revenue consistent with their internal policies. This module correctly allocates and manages the revenue collected in advance for maintenance and support contracts.

Patents and Proprietary Technologies

Most of the value-added in the product is found in the Installations, Renewal Processing, Deferred Revenue and Order Processing modules. The Model Maker also represents unique functionality. In the near future, we are moving towards patents for these modules. The *SOFTRAX* name is a registered trademark.

SELLING

Current Selling Methods

The company's selling model is a direct, consultative sale. As a mission critical business solution, *SOFTRAX* needs to be sold by a direct sales force. The sales process entails qualification of the prospect, needs analysis, *SOFTRAX* demonstration, follow up questions, proposal and close. The process typically takes approximately three months.

Currently, each sales rep is producing 3-4 new customers per quarter totaling \$350,000 per quarter. Sales reps are being hired to add 4 new customers per quarter with an annual quota of \$1.4 million in product, services and maintenance revenues. These sales reps will be located in the areas of highest software companies concentration such as Northern California, New England, Colorado, Atlanta, Chicago, New York, and Canada.

While the company sells direct, it believes in establishing relationships with other companies who service the same industry. RBS has established relationships that have been successful and intends on devoting more resources on these affiliate relationships. Companies, who are software developers, hardware companies, consultants and fulfillment companies are examples of *SOFTRAX* affiliates.

SOFTRAX provides a complementary application for those software companies selling sales/marketing and customer support applications. RBS has established informal relationships with companies such as Vantive, Scopus, PowerCerv and Onyx. As software companies look for a total business solution, these companies can recommend *SOFTRAX* as the operations and financial solution. One recent customer, Exa Corp., was a result of a lead from Scopus. Another recent *SOFTRAX* sale, Summit Design, was prompted by an initial inquiry to PowerCerv, who forwarded the lead to RBS after understanding their requirements.

Hardware companies have people who are dedicated to managing relationships with software companies. IBM has recently learned of the uniqueness of *SOFTRAX*. They have sales and services people throughout the U.S. who manage relationships with software companies. They view *SOFTRAX* as a product that they can promote to software companies and provide complementary products such as hardware, software and services. IBM has recently offered to fund a seminar series promoting *SOFTRAX*.

In addition, as RBS grows and these relationships strengthen, these companies provide a group of companies who are possible acquirers of the company.

PRICING AND PACKAGING

Current Pricing Strategy and Maintenance Fees

SOFTRAX Operations and Financials

SOFTRAX Operations is priced at \$3,000 per seat. There is a 10-seat minimum. Operations includes Installations, Contacts, Order Management, Inventory, Renewal Processing, and Deferred Revenue.

SOFTRAX Financials is priced at \$2,000 per seat per module. Each module (AR, AP, GL, PO, PA, FA) has a minimum of 5 seats for \$10,000.

With each new sale, we provide a service package that includes implementation planning, installation, application training, some conversion assistance, etc. Detailed conversion and integration projects are usually extra. We price our services at \$1,000 per day.

A typical installation of 10 Operations seats and 5 seats for AR, AP, GL costs \$60,000 in license fees, \$25,000 in services and has an annual maintenance fee of \$10,000 (18% of license fee list). The average new deal is between \$80,000 and \$100,000.

While customers frequently request Customer Support and the Sales/Marketing modules, we do not currently offer these modules.

SOFTRAX Web Order

The pricing of the Web Order add-on is estimated to be between \$25,000 and \$30,000 plus implementation fees.

USE OF PROCEEDS

In order to realize its business growth, RBS must establish and grow regional sales offices throughout the United States in the areas of the greatest concentration of software companies. Phase 2 of the company's business plan has 5 new sales reps in these regional offices. Two offices have been established in Colorado and Northern California. Thereafter, the next highest concentrations exist in New York, Chicago, the Southeast and Mid-Atlantic States.

The company requires \$1,000,000 to hire a V.P. of Sales, Director of Marketing and to open and operate the four regional sales offices for the first year. These costs include personnel, equipment, travel, office and other operating costs.

The impact of these sales and marketing people will be dramatic revenue growth for the company. In order to be successful, the company must add the necessary implementation, customer support and development personnel. These resources will require another \$1,000,000 to ensure that the explosive growth that the company realizes is successful and sustainable.

FINANCIAL DATA

Financial History

The company has been profitable every year. Some of the highlights for the year ending March 31, 1997 are below:

- Cash and Accounts Receivable of \$745,777
- Accounts Payable, Accrued Expenses and Short Term Debt of \$177,086
- Deferred Taxes (Accrual vs. Cash Basis) of \$257,662
- Property, Equipment & Software Net of \$766,106
- Long Term Debt of \$177,555
- Stockholders' Equity of \$895,773
- Sales of \$2,033,907 (Please note that software sales occurred for only the second six months of year)
- Operating Income of \$123,442
- Cash Flow from Operations of \$248,794

The Company has a strong relationship with the Bank of Boston. The Bank also provided a line of credit of \$250,000 that had no balance due at year-end. The line of credit was subsequently increased to \$600,000.

The financial statements are prepared by BDO Seidman for the year ending March 31, 1997 and are available upon request.

Financial Projections

This section contains the following financial documents:

- Exhibit A: Historical Financials
- Exhibit B: Revenue Plan that details the expansion of the sales force, number of new customers, new business and recurring business.
- Exhibit C: Company Financial Projections including revenue from the Revenue Plan, operating expenses and capital expenditures.

Exhibit A Historical Financials

The RBS Group, Inc.

Statements of Income

	8 Months Ending Nov. 30 1997	Year Ending March 31	
		1997	1996
Sales	\$1,743,741	\$2,033,907	\$1,721,502
Cost of sales	966,975	1,172,037	947,813
Gross profit on sales	776,766	861,870	733,689
Operating expenses	721,128	738,428	670,003
Operating income	55,638	123,442	103,686
Interest expense, net of interest income	28,751	35,492	17,876
Income before taxes on income	26,887	87,950	85,810
Taxes on income	0	27,333	48,326
Net income	\$26,887	\$60,617	\$37,484

Exhibit A (continued)

	March 31		
	Nov. 30 1997	1997	1996
Assets			
Current:			
Cash	\$32,519	\$ 29,176	\$ 9,054
Accounts receivable	781,677	716,601	606,585
Total current assets	814,196	745,777	615,639
Property and equipment, net	264,926	205,312	156,384
Other:			
Software, net	745,549	560,794	304,748
Financing fees, net	4,318	4,318	5,421
Security deposits	4,600	4,600	4,600
Total other assets	754,467	569,712	314,769
Total assets	\$1,833,589	\$1,520,801	\$1,086,792
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	\$89,485	\$95,915	\$101,745
Accrued expenses	0	5,500	5,086
Loan payable - officer	11,500	11,500	11,500
Long-term debt - current maturities	59,185	59,185	59,185
Bank L.O.C.	355,000	0	0
Deferred revenue	0	12,725	26,610
Income tax payable	0	4,986	0
Deferred income taxes	235,434	235,434	211,132
Total current liabilities	750,604	425,245	415,258
Long-term liabilities:			
Long-term debt, less current maturities	138,097	177,555	211,739
Deferred income taxes	22,228	22,228	24,639
Total long-term liabilities	160,325	199,783	236,378
Total liabilities	910,929	625,028	651,636
Commitments and contingencies:			
Stockholders' equity			
Common stock	401,912	401,912	1,912
Retained earnings	520,748	493,861	433,244
Total stockholders' equity	922,660	895,773	435,156
Total liabilities and stockholders' equity	\$1,833,589	\$1,520,801	\$1,086,792

Exhibit B Sales/Revenue Plan

	1998-1999					1999-2000					2000-2001					
	Q1	Q2	Q3	Q4	YRLY	Q1	Q2	Q3	Q4	YRLY	Q1	Q2	Q3	Q4	YRLY	
V.P. Sales	0	1	0	0		0	0	0	0		0	0	0	0		
President	1	0	0	0		0	0	0	0		0	0	0	0		
Rep 2	0	1	1	1		1	1	1	1		1	1	1	1		
Rep 3	1	1	1	1		1	1	1	1		1	1	1	1		
Rep 4	0	1	1	1		1	1	1	1		1	1	1	1		
Rep 5			1	1		1	1	1	1		1	1	1	1		
Rep 6			1	1		1	1	1	1		1	1	1	1		
Rep 7			0.5	1		1	1	1	1		1	1	1	1		
Rep 8			0.5	1		1	1	1	1		1	1	1	1		
Rep 9									1		1	1	1	1		
Rep 10											0.5	1	1	1		
Rep 11												0.5	1	1		
Rep 12												0.5	1	1		
Rep 13																
Rep 14																
Rep 15																
Total Selling Units	2	4	6	7		7	7	7	8		8.5	10	11	11		
New Customers	4	9	10	14	20	53	28	28	28	32	116	34	40	44	44	162
Cuml. # of Customers	50	59	69	83	103		131	159	187	219		253	293	337	381	
New Business																
Software License	61%	549	610	854	1220	3233	1708	1708	1708	1952	7076	2074	2440	2684	2684	9882
Services	28%	252	280	392	560	1484	784	784	784	896	3248	952	1120	1232	1232	4536
Maintenance	11%	99	110	154	220	583	308	308	308	352	1276	374	440	484	484	1782
New Business Revenue	100K	900	1000	1400	2000	5300	2800	2800	2800	3200	11600	3400	4000	4400	4400	16200
						0					0					0
Recurring Service Rev		210	225	255	270	960	221	244	277	324	1066	289	354	420	494	1557
Recurring Maintenance Rev		75	75	75	75	300	174	185	229	295	883	482	493	537	647	2159
Total Recurring		285	300	330	345	1260	395	429	506	619	1949	771	847	957	1141	3716
Total Revenue		1185	1300	1730	2345	6560	3195	3229	3306	3819	13549	4171	4847	5357	5541	19916

Exhibit C Financial Projections

	FY 1998 - 1999					FY 1999 - 2000				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
REVENUE:										
New Business:										
Software License	549,000	610,000	854,000	1,220,000	3,233,000	1,708,000	1,708,000	1,708,000	1,952,000	7,076,000
Services	252,000	280,000	392,000	560,000	1,484,000	784,000	784,000	784,000	896,000	3,248,000
Maintenance	99,000	110,000	154,000	220,000	583,000	308,000	308,000	308,000	352,000	1,276,000
Total	900,000	1,000,000	1,400,000	2,000,000	5,300,000	2,800,000	2,800,000	2,800,000	3,200,000	11,600,000
Recurring Business:										
Recurring Service	210,000	225,000	255,000	270,000	960,000	212,000	223,000	249,000	291,000	975,000
Rec. Maint. Rev	75,000	75,000	75,000	75,000	300,000	130,000	130,000	196,000	273,000	729,000
Total	285,000	300,000	330,000	345,000	1,260,000	342,000	353,000	445,000	564,000	1,704,000
Total Revenue	1,185,000	1,300,000	1,730,000	2,345,000	6,560,000	3,142,000	3,153,000	3,245,000	3,764,000	13,304,000
Cost of Sales:										
Royalty 25% Prod.	137,250	152,500	213,500	305,000	808,250	427,000	427,000	427,000	488,000	1,769,000
Commission 6%	63,000	70,000	98,000	140,000	371,000	196,000	196,000	196,000	224,000	812,000
Total Cost of Sales	200,250	222,500	311,500	445,000	1,179,250	623,000	623,000	623,000	712,000	2,581,000
Salaries:										
Payroll	640,468	813,153	987,891	1,062,257	3,503,769	1,212,405	1,510,000	1,645,010	1,693,570	6,060,985
Payroll Taxes	64,047	81,315	98,789	106,226	350,377	121,241	151,000	164,501	169,357	606,099
Health Insurance	51,237	65,052	79,031	84,981	280,302	96,992	120,800	131,601	135,486	484,879
Total	755,752	959,521	1,165,711	1,253,463	4,134,447	1,430,638	1,781,800	1,941,112	1,998,413	7,151,962
Debt Service	40,000	40,000	40,000	40,000	160,000	40,000	40,000	40,000	40,000	160,000
Operating Exp:	177,300	244,600	235,500	245,600	903,000	310,000	366,000	408,000	412,000	1,496,000
Cap. Expenditures:	31,000	67,000	75,000	15,000	188,000	130,000	95,000	95,000	60,000	380,000
Total Expenses:	1,204,302	1,533,621	1,827,711	1,999,063	6,564,697	2,533,638	2,905,800	3,107,112	3,222,413	11,768,962
Profit/(Loss)	(19,302)	(233,621)	(97,711)	345,937	(4,697)	608,362	247,200	137,888	541,587	1,535,038