APPENDIX B

Business Plan for a High-Tech Company Seeking Financing for Growth

The following business plan is for a high-tech company looking for a second round of financing to enable it to market and distribute its product nationwide. The strongest parts of this plan are the industry analysis and management sections. Management is clearly experienced enough to achieve the objectives set in its plan. Two other positive indicators are the industry's strong growth and trends favoring the introduction of this company's product.

The plan's weakness relates to the amount of money being requested. The $750,000 that the owners are asking for reduces the expected return, based purely on net income projections, to a rate below that at which most venture capitalists are likely to be interested.

It's possible that another company might be interested in buying out Software Solutions or that the company may go public after a few more years. For now, the owners need to make a stronger case for an enticing cash-out or to ask for less money.

Software Solutions

Helping to Make
Automobile Dealerships More Productive

26209 Fairfax Ave.
Cincinnati, OH 45207
513-555-7272
Bradley Regent, CEO

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Executive Summary

Software Solutions is a one-year-old software manufacturer. Our initial product is an inventory management system for automobile dealers on customizable websites that will be accessible through a brand new app compatible with most popular smartphones. The system will be Cloud-based for safe storage.

Many automobile dealers complain about the lack of good inventory-management systems. Even today, many dealerships use paper stock cards, sales slips, and invoice books. However, these are frequently out-of-date and inaccurate and always time-consuming to maintain.

Additional problems with existing inventory management systems include employees' inability to access inventory records while on the showroom floor or away from the office. This can result in missed sales opportunities, as employees must return to the office or call a prospect later to provide information about the availability of a particular model.

Software Solutions's DriversSeat inventory management system is designed specifically for mobile usage, running on smartphones

Software Solutions was created specifically to produce the web-based format with the app that would work on all smartphones.

The founder and CEO, Bradley Regent, spent ten years as an information systems manager for automobile dealerships in Ohio and Pennsylvania. Mr. Regent understands dealership information issues and has many contacts with those responsible for purchasing information technology for dealerships. Other members of his team include a marketing manager, a programmer, and an office assistant.

Nine months were spent developing the DriversSeat product, including market research, programming, and testing. Initial sales of the product have been encouraging. Several of the largest dealers in the Cincinnati area have tested the programs, and at least two regional chains are also trying them out.

Software Solutions was launched with $80,000 provided by the founder and is now seeking an additional $750,000 to market and distribute DriversSeat nationwide. The company anticipates no difficulty raising this sum through a private equity placement of preferred stock, based on strong initial acceptance of the product and numerous pending sales.

Software Solutions's Management Team

One of Software Solutions's strengths is its management team's industry experience.

Bradley Regent, CEO

Prior to founding Software Solutions, Mr. Regent worked for several large automobile dealerships as a programmer, systems analyst, and information systems manager. A native of Cincinnati, Mr. Regent graduated from Ohio State University with a degree in computer science. After two years with a large systems integrator in Cincinnati, Mr. Regent began working in the automobile dealership industry.

Mr. Regent has extensive experience in analyzing, developing, and maintaining inventory management systems for automobile dealerships. He has received professional training and certification as a developer in Oracle, SAP, Microsoft SQL, and DB2 database environments and has managed information systems departments of up to seven people.

Mr. Regent's primary responsibilities at Software Solutions will be long-term planning, participating in product development, managing company growth, and meeting with investors, customers, and suppliers. Mr. Regent is now the primary owner of Software Solutions and holds 80 percent of the corporation's stock.

Wanda McIntire, Vice President of Marketing

Ms. McIntire has worked for five years as a marketing specialist for two companies serving automobile dealerships' information-systems needs in Kentucky and Indiana. Ms. McIntire has experience positioning and marketing new information systems products geared to automobile dealers. She developed the initial marketing plan for Parts Perfect, a parts inventory management system created by Autosoft Systems that is now used by more than 500 dealerships nationwide. Ms. McIntire graduated from Tulsa University in 1999 with a degree in business.

Ms. McIntire's responsibilities at Software Solutions are formulating and implementing marketing strategy, participating in product development, and working with customers and prospects. She holds 5 percent of the corporation's shares.

Perry Honeywell, Program Developer

Mr. Honeywell was one of the first 20 employees of Helping Hand Systems, a Palo Alto, California, company that was the largest third-party supplier of software for the PalmPilot computer system during Mr. Honeywell's tenure. He led the team that designed and produced Third Hand, a data -collection system running on the PalmPilot that is now used in ISO 9000 quality-control programs around the world. He received computer science degrees from San Francisco University and the University of California at Berkeley.

Mr. Honeywell's responsibilities at Software Solutions are overseeing program operation and interface design and creating and testing code. He holds 10 percent of the corporation's shares.

Steven Wise, Human Resources and Administrative Manager

Mr. Wise has expertise in interviewing, screening, and hiring applicants for positions with information-systems firms. For the past three years, he has been in charge of staffing and administration for Staple Systems, a Cincinnati electronic commerce software firm that grew from three to more than 40 employees during the time that the leading-edge software became well received in the marketplace.

Mr. Wise's responsibilities at Software Solutions are managing office operations, including bookkeeping and accounts receivables and payables, as well as dealing with outside suppliers. As the company grows, he'll be responsible for recruiting and hiring program designers, programmers, testers, and other employees. Mr. Wise holds 5 percent of the corporation's shares.

The DriversSeat Product

DriversSeat is a web-based inventory system that works through mobile devices to make managing inventory from anywhere a reality. The program was created in the mobile environment. The following table summarizes DriversSeat features and benefits to customers.

DriversSeat Features and Benefits

Features	Benefits
• Thoroughly tested app using iOS and Android app platforms	• Enables salespeople, whether they're offsite or away from their desk, to quickly and easily provide customers with accurate information on the availability of specific automobile models
• A customizable website that allows each auto dealership to easily input its data or transfer data from another online location	• Design reflects thorough understanding of the needs of automobile dealerships

DriversSeat Marketing Strategy

Software Solutions's marketing strategy takes advantage of two trends: the rapid growth of mobile systems for industrial and commercial applications and the increasing need for more sophisticated and flexible inventory management as the automobile dealership industry consolidates and grows in size.

Recent figures from the National Automobile Dealers Association show:

- Total sales for auto dealerships are almost $700 billion annually and growing.
- More than 17,850 new-car dealerships exist, as of 2013 a number that has grown slightly (.055) over the previous two years.
- Mobile information systems have become increasingly important to the industry.
- Apps and mobile devices have become a part of our culture. The numbers don't lie. Nearly 103 billion apps were downloaded in 2013, which was up by 59 percent from the previous year. It is estimated that by the end of 2014, mobile will have surpassed desktop internet usage.
- According to IDC, the smartphone market is now larger than the PC market.

Software Solutions is using email marketing to auto dealership information systems managers, followed up with telemarketing and personal sales calls as its primary marketing method. This approach takes maximum advantage of the company principals' reputations and visibility in the Ohio automobile dealership community.

As marketing for the DriversSeat is rolled out nationwide to all 21,650 prospective auto dealer customers, additional marketing dollars will be required to produce conduct telemarketing follow-up calls, arrange for personal sales calls to prospects, and staff these functions with appropriately skilled personnel.

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Software Solutions believes it can achieve a 9 percent market share within four years. Sales of systems to approximately 2,000 dealerships, at an average purchase price of $10,000, indicates total sales through 2018 of approximately $2 million, with more than half that amount occurring in the final year as the effect of prior marketing efforts begins to be felt.

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Program Development and Operations

One of Software Solutions's biggest advantages is the expertise of its principals in the design, development, and maintenance of software for portable applications, particularly those in the automobile dealer industry.

The principal technologists, Bradley Regent and Perry Honeywell, combine years of experience in, respectively, auto dealership information systems and portable platform software development. In addition to extensive training in industry-standard database management systems, which allows Mr. Regent to effectively interface DriversSeat data with existing dealership computer systems, he maintains a network of beta testers, consisting primarily of auto dealership IS managers, sales managers, salespeople, and inventory management personnel, to help with testing, product development, feature refinement, and other tasks.

Mr. Honeywell is recognized as an expert in app development. He serves on the advisory board for developing and maintaining standards for mobile applications for smartphones. His contacts and experience ensure that Software Solutions will have ongoing access to the latest and best technology for developing its products.

Management believes its combination of industry-specific and technical expertise makes it unique among companies addressing the inventory management needs of automobile dealerships. Other competitors include EDS, Digital Dealership, Microsoft, and SAP. All these companies are much larger than Software Solutions and capable of bringing much greater resources to bear on the market. However, Software Solutions's management believes that its lead time in developing applications for this market, plus the market segment's small size relative to those its competitors are primarily interested in, will provide the company with an opportunity to secure a solid foothold.

Software Solutions operates out of offices at 26209 Fairfax Avenue in Cincinnati, Ohio. The offices measure approximately

5,000 square feet and offer adequate room for expansion over the next five years. Leasing terms are flexible, and management believes rent is competitive with comparable office space in the city.

In addition to office furniture and fixtures, Software Solutions's primary physical assets consist of five computer workstations used for application development.

Historical Financial Statements and Projections

Software Solutions's startup was financed by $80,000 from Bradley Regent. The current financial plan anticipates raising an additional $750,000 to market and distribute DriversSeat nationwide. Following this financing, equity ownership would be distributed as shown below.

Pro Forma Statement of Equity Ownership

Owner	Stock Class	Shares	Amount
Mr. Regent	Common	350,000	$660,000
Ms. McIntire	Common	2,000	44,000
Mr. Honeywell	Common	4,000	88,000
Mr. Wise	Common	2,000	44,000
Investors	Preferred	100,000	500,000
Total		**458,000**	**$1,336,000**

The proceeds of this financing will allow Software Solutions to distribute and market DriversSeat nationwide.

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Software Solutions's Income Statement

	2015	2016
Net Sales	$0	$83,400
COGS	0	48,713
Gross Margin	$0	$34,687
Operating Costs		
Development	$41,799	$20,831
SG&A	7,253	26,478
Other	1,985	2,694
Total Operating Costs	$51,037	$50,003
Operating Earnings	–51,039	–15,315
Interest Expense	–1,479	–2,138
Pretax Earnings	–52,518	–17,453
Income Tax	0	0
Net Income	–$52,518	–$17,453

Notes to income statement: Software Solutions's income statement for the first two years of operation reflects no sales revenues the first year, when the founder's efforts were devoted to developing the product. Development costs that year were correspondingly high. Sales the second year took off nicely, and gross margin was also in line. However, heavy marketing expenses took their toll, and the company has produced a net loss of more than $66,000 for its first two years in operation.

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Software Solutions's Current Balance Sheet

December 31, 2014

ASSETS	
Cash	$54,000
Accounts Receivable	17,780
Inventory	1,181
Prepaid Expenses	4,194
Other Current Assets	1,674
Total Current Assets	$78,829
Fixed Assets	$26,346
Intangibles	1
Other Noncurrent Assets	0
Total Assets	**$105,175**
LIABILITIES	
Notes Payable	$11,435
Accounts Payable	3,411
Interest Payable	1,175
Taxes Payable	978
Other Current Liabilities	2,376
Total Current Liabilities	**$19,375**
Long-Term Debt	0
Other Noncurrent Liabilities	3,182
Total Liabilities	**$22,557**
Net Worth	**$82,618**
Total Liabilities & Net Worth	**$105,175**

Note to balance sheet: Assets included $54,000 in cash from the founder's $80,000 initial capitalization.

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Software Solutions's Cash Flow Statement

Sources of Cash	
Sales	$83,400
Total Cash In	**$83,400**
Uses of Cash	
COGS	$48,713
SG&A	26,478
Other	2,694
Interest	2,138
Taxes	0
Equipment Purchase	6,480
Total Cash Out	**$86,503**
NET CHANGE IN CASH	**–$3,103**
Beginning Cash on Hand	**$55,801**
Ending Cash on Hand	**$52,698**

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Software Solutions's Pro Forma Income Statement

INCOME PROJECTION				
	2015	2016	2017	2018
INCOME				
Net Sales	$191,250	$286,875	$788,907	$1,577,814
Cost of Sales	95,625	137,700	362,897	788,907
Gross Profit	$95,625	$149,175	$426,010	$788,907
OPERATING EXPENSES				
General & Administrative Expenses				
Salaries and Wages	$116,288	$143,438	$236,672	$263,063
Sales Commissions	9,562	14,344	39,445	78,891
Rent	4,800	5,040	5,292	5,556
Maintenance	1,913	2,009	2,109	2,214
Equipment Rental	1,687	1,771	1,860	1,953
Furniture and Equipment Purchase	9,000	3,333	2,343	3,960
Insurance	2,280	2,394	2,514	2,998
Interest Expenses	1,875	1,970	2,068	3,909
Utilities	1,650	1,732	1,819	1,911
Office Supplies	975	1,239	3,266	1,466
Marketing and Advertising	150,225	98,250	120,000	135,000
Travel	15,750	18,750	22,500	26,250
Entertainment	900	450	640	830
Bad Debt	750	287	789	485
Depreciation and Amortization	2,700	4,050	6,075	9,113
TOTAL OPERATING EXPENSES	**$320,355**	**$299,057**	**$447,392**	**$537,599**
Net Income before Taxes	–$224,730	–$149,882	–$21,382	$251,308
Provision for Taxes on Income	0	0	0	37,697
NET INCOME AFTER TAXES	**–$224,730**	**–$149,882**	**–$21,382**	**$213,610**

Notes to income projections: Sales projections reflect assumptions of progressively greater rollout into the national market, with accordingly higher levels of sales. Heavy first-year marketing expenses level off as national distribution is achieved. Sales increase in subsequent years as the effect of initial marketing efforts is felt. Wage and salary increases reflect need to hire additional programmers, salespeople, and administrative personnel to cope with higher sales.

Sustained profitability is achieved in 2015. Projected income tax reflects effects of applying net operating loss from prior years to 2015 profits.

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Software Solutions's Pro Forma Balance Sheet

	2015	% Sales	2016 (projected)
Sales	$83,400		$191,250
ASSETS			
Cash	$54,000	64.7%	$123,739
Accounts Receivable	17,780	21.3%	40,736
Inventory	1,181	1.4%	2,678
Prepaid Expenses	4,194	5.0%	9,563
Other Current Assets	1,674	2.0%	3,825
Total Current Assets	**$78,829**	**94.5%**	**$180,541**
Fixed Assets	26,346	31.6%	60,435
Intangibles	1	0.0%	0
Other Noncurrent Assets	0		0
Total Assets	**$105,175**		**$240,976**
LIABILITIES			
Notes Payable	$11,435	13.7%	$26,201
Accounts Payable	3,411	4.1%	7,841
Interest Payable	1,175	1.4%	2,678
Taxes Payable	978	1.2%	2,295
Other Current Liabilities	2,376		2,506
Total Current Liabilities	**$19,375**		**$41,521**
Long-Term Debt	0		0
Other Noncurrent Liabilities	3,182		4,833
Total Liabilities	**$22,557**		**$46,354**
Net Worth	**$82,619**		**$194,622**
Total Liabilities & Net Worth	**$105,176**		**$240,976**

Note to balance sheet projection: Balance sheet projections were based on relationships among various items reflected in 2014 actual results. Intangibles include goodwill, proprietary technology, and long-term service and maintenance contracts.

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Software Solutions's Pro Forma Cash Flow Statement

Projected Cash Flow for 2015

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	TOTAL
CASH RECEIPTS													
Income from Sales													
Sales	$11,475	$11,475	$13,387	$13,388	$15,300	$15,300	$17,212	$17,213	$17,213	$19,125	$19,125	$21,037	$191,250
Total Cash from Sales	11,475	11,475	13,387	13,388	15,300	15,300	17,212	17,213	17,213	19,125	19,125	21.037	$191,250
Financing Income													
Net Offering Proceeds	649,500	0	0	3,750	0	0	0	0	0	0	0		$653,250
Interest Income	5,250	5,250	3,750	3,750	3,000	3,000	2,625	2,625	2,250	2,250	1,875	1,875	$37,500
Total Cash Receipts	**666,225**	**$16,725**	**$17,137**	**$20,888**	**$18,300**	**$18,300**	**$19,837**	**$19,838**	**$19,463**	**$21,375**	**$21,000**	**$22,912**	**$882,000**
CASH DISBURSEMENTS													
Expenses													
COGS	5,738	5,737	6,693	6,693	7,648	7,649	8,605	8,606	8,605	9,561	9,561	10,518	$95,614
SG&A	18,150	15,832	13,842	9,037	13,125	12,333	14,336	14,287	12,333	15,750	13,125	14,258	$168,178
Taxes	0	0	0	0	0	0	0	0	0	0	0	0	$0
Equipment Purchase	12,000	0	0	0	0	0	6,000	0	0	0	0	0	$18,000
Dividends	0	0	0	0	0	0	0	0	0	0	0	0	$0
Total Cash Disbursements	**35,888**	**21,569**	**20,535**	**15,730**	**20,773**	**19,982**	**28,941**	**22,893**	**20,938**	**25,311**	**22,686**	**24,776**	**$281,792**
Net Cash Flow	$630,337	–$4,844	–$3,398	$5,158	–$2,473	–$1,682	–$9,104	–$3,055	–$1,475	–$3,936	–$1,686	–$1,864	$600,208
Opening Cash Balance	54,000	684,337	679,493	676,095	681,253	678,780	677,098	667,994	664,939	663,464	659,528	657,842	$0
Cash Receipts	666,225	16,725	17,137	20,888	18,300	18,300	19,837	19,838	19,463	21,375	21,000	22,912	$882,000
Cash Disbursements	–35,888	–21,569	–20,535	–15,730	–20,773	–19,982	–28,941	–22,893	–20,938	-25,311	–22,686	–24,776	-$281,792
Ending Cash Balance	**$684,337**	**$679,493**	**$676,095**	**$681,253**	**$678,780**	**$677,098**	**$677,994**	**$664,939**	**$663,464**	**$659,528**	**$657,842**	**$655,978**	

Note to cash flow projection: Cash flow projections for 2015 reflect offering proceeds, net of fees, of $649,500. Interest income is generated from investing excess proceeds of offering.