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\_\_\_\_\_  
Date

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*This is a business plan and does not imply an offering of securities.*

# Palmtop Innovations

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## Organizational Structure

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## **1. Executive Summary**

After a successful year of testing, programming, and market research, Palmtop Innovations is ready to penetrate its target market. The PalmPal software package will provide automobile dealerships with a state-of-the-art method of inventory management. Palmtop Innovations is seeking private equity capital to fund its initial marketing and distribution efforts.

### **1.1 Business Opportunity**

Many automobile dealerships complain about the lack of good inventory management systems. Current solutions involve paper stock cards, sales slips, and invoice books, which are frequently out-of-date, inaccurate, and time-consuming to maintain.

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

### **1.2 Product/Service Description**

The PalmPal inventory management system produced by Palmtop Innovations, Inc. runs on PalmPilot portable computers. These pocket-sized machines have become the best-selling product in the history of the computer industry, producing sales of more than 3 million units since they were first introduced in 1996 by what is now a division of 3Com. Many successful industry-specific software solutions have been introduced that run exclusively on the PalmPilot-platform.

### **1.3 Current Business Position**

Palmtop Innovations was formed as a C Corporation to design, manufacture, and market Palm Pilot-based software solutions for automobile dealerships. The founder and CEO, Bradley Regent, spent approximately 10 years in information systems manager roles for automobile dealerships in Ohio and Pennsylvania. Mr. Regent has considerable expertise in information systems, understanding of dealership information issues, and contacts with the individuals responsible for purchasing information technology for dealerships.

### **1.4 Financial Potential**

After spending approximately nine months developing the PalmPal system, including market research, programming, and testing, initial reviews of the product have been encouraging. Two of the largest dealers in the Cincinnati area, along with two regional chains, have tested the programs with positive results. All four companies plan on purchasing the PalmPal system for continued use in their operations.

Palmtop Innovations believes it will sell over 400 dealerships its PalmPal system by the end of its third year of operation. With over 22,500 dealerships in the United States alone, this projection is extremely conservative.

New product sales are forecasted to be \$580,000, \$1,060,000, and \$2,380,000 in years one, two, and three, respectively. In addition, Palmtop Innovations projects additional maintenance revenue of \$87,000 and \$246,000 in years two and three. Even though Palmtop Innovations projects a net loss for its first year (\$97,290), after tax profits of \$219,440 and \$1,082,592 are expected for years two and three, respectively.

### **1.5 The Request**

Palmtop Innovations is seeking an equity investment of \$175,000 in exchange for a 10 percent stock ownership position. These funds will be used primarily to market and distribute the PalmPal system nationwide.

## 2. Company Background

Mr. Bradley Regent founded Palmtop Innovations approximately one year ago. After spending over 10 years in information systems management in the retail automobile industry, Mr. Regent saw the need for a better method of inventory management. After almost a full-year of in-depth research and development, Palmtop Innovations is ready to market and distribute its hardware and software system, the PalmPal.

### 2.1 Business Description

Palmtop Innovations was founded as an Ohio C Corporation with its goal to produce software-based productivity solutions for retail automobile dealers. The company's initial product is an inventory management system for portable hand-held computers. The initial target market for the PalmPal system is automobile dealerships in the United States. No similar technology exists at this time, but PalmPal will be competing with traditional methods of inventory management, including invoice books, paper stock cards, and other manual inventory management techniques.

### 2.2 Company History

Palmtop Innovations was formed to produce software solutions for automobile retailers, through the use of the PalmPilot hand-held PC. The company was initially funded with a cash investment by its founder and CEO, Mr. Bradley Regent. The first fiscal year of the company's operations was spent researching, developing, and testing the PalmPal software system. Initial tests of the product indicate that it has strong potential in the retail automobile sales market.

### 2.3 Current Position and Business Objectives

Now that Palmtop Innovations has successfully developed and test marketed its software product, the company is ready to market and distribute the PalmPal nationwide. The company's primary business objective is to acquire over 400 automobile dealerships by the end of its third year of operation.

Palmtop Innovations' mission statement follows:

*"Palmtop Innovations' goal is to become the market leader in portable, hand-held hardware and software systems for automobile dealerships. The company will continually satisfy its customers through an intimate understanding of the industry, resulting in favorable financial returns for our investors."*

### 2.4 Ownership

Mr. Bradley Regent, founder and CEO of Palmtop Innovations, currently owns 80 percent of the company's stock. Three executives in the company own the remaining 20 percent of the company's stock: Wanda McIntire, VP of Marketing (5 percent); Perry Honeywell, Program Developer (10 percent); and Steven Wise, HR/Administrative Manager (5 percent).

In exchange for a cash investment of \$175,000, Palmtop Innovations is willing to relinquish an equity position equal to a 10 percent stock ownership. The 10 percent ownership would come from Mr. Regent's stock holdings.

### 3. The PalmPal Product

The PalmPal inventory management system will revolutionize the automobile inventory management industry. PalmPal will eliminate the need for manual, labor-intensive, inventory management systems. The software system is designed for use with the pocket-sized PalmPilot PC, the best-selling product in the history of the computer industry.

#### 3.1 Product Overview

PalmPal is a compact, rugged, flexible, and cost-effective software solution to the mobile inventory management needs of automobile dealerships. The software is designed exclusively for the PalmPilot OS environment, the operating system of the computing industry's most popular hand-held computing device. A detailed product brochure is located in the Appendix. Below is a picture of the PalmPal:



A typical user package will consist of a five-user site license of the PalmPal software, five PalmPilot III computers, and several training manuals. The following summarizes the PalmPal's features and benefits.

#### ***Features:***

The PalmPal system consists of thoroughly-tested software residing in a shock-resistant hardware device that is pocket-sized and battery-operated. The software is a highly customized

application for quickly and easily transferring inventory information and updates both to and from desktop systems to a portable PalmPilot device. The PalmPal system has the ability to interface with desktop-based inventory management systems from EDS, Dealer Solutions, ATP, Reynolds & Reynolds, and others.

***Benefits:***

The PalmPal system offers the user a ready supply of inventory data in a portable, rugged, and inexpensive package. It gives salespeople a mechanism to provide customers with accurate availability information on specific automobile make and models even when off-site or away from a terminal. The PalmPal system's design reflects intimate understanding of the needs of automobile retailers.

### **3.2 Competitive Analysis**

Current competitive inventory management solutions include the use of paper stock cards, sales slips, and invoice books, which are frequently out-of-date, inaccurate, and time-consuming to maintain. Additional problems with existing solutions include employees' inability to access inventory records while on the showroom floor or away from the office. This leads to 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.

Palmtop Innovations believes that no alternative products, which are based on older laptop hardware designs or outdated paper systems, can match the PalmPal's combination of flexibility, convenience, and integration.

### **3.3 Suppliers and Inventory**

Palmtop Innovation's inventory is limited to prepackaged versions of its software, and a small number of PalmPilots that are maintained in ready inventory for use in customer installations requiring immediate response. For most customers, PalmPilots will be ordered from Ingram Micro, an international distributor of the Palm Pilot for 3Com. This practice minimizes inventory-carrying costs while maintaining an acceptable level of responsiveness in the majority of situations.

### **3.4 Research and Development**

One of Palmtop Innovation's prime advantages is the combined expertise of its principals in the design, development, and maintenance of software for portable applications and for the retail automobile industry.

The principal technologists, Mr. Bradley Regent and Mr. Perry Honeywell, combine years of expertise 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 PalmPal 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.

This network will help Palmtop Innovations with research and development, feature refinement, testing, and other tasks.

Mr. Honeywell is a recognized expert in third-party PalmPilot software development. He serves on the advisory board for developing and maintaining standards for vertical industry software applications for the PalmPilot. His contacts and experience within this software field ensures that Palmtop Innovations will have continual access to the latest and greatest technology for developing its products.

## **4. The Industry, Competition and Market**

The retail automobile industry has for years relied on time-consuming, inefficient, and often inaccurate methods to manage their inventories. The PalmPal inventory management system will completely change the automotive inventory management process. The following sections discuss the opportunities for the PalmPal system.

### **4.1 Industry Definition**

Palmtop Innovations' core product will be the PalmPal inventory management system. It will target this system to the more than 20,000 U.S. automobile dealers. Currently, there are many companies that offer hardware and software packages to automobile dealers, but none that compare to the PalmPal.

In order to create the most complete product package possible, the PalmPal system will include PalmPilot III computers, the PalmPal software, and training information. Currently, no other software company has an inventory management software system available for sale.

### **4.2 Primary Competitors**

Management believes the combination of industry-specific expertise and broad Palm application development experience make Palmtop Innovations unique among companies addressing the inventory management needs of automobile dealerships.

Competitors include EDS, Digital Dealership, Microsoft, and SAP. All of these companies are much larger than Palmtop Innovations and capable of bringing much greater resources to bear on the market. However, it is the opinion of management that the company's lead time in developing applications for this market, plus the niche's small size in relation to the markets its competitors are primarily interested in, will provide the company with a long-lasting opportunity to secure a solid market edge in the field.

### **4.3 Market Size**

There is a significant market opportunity for the PalmPal system. Below are some recent figures from the National Automobile Dealers Association show:

1. Total auto dealership sales are more than \$500 billion annually and growing.
2. There are more than 22,500 new-automobile dealerships in the United States.
3. The industry has consolidated drastically, with the number of smaller automobile dealerships selling fewer than 150 vehicles annually, shrinking from 13,100 in 1977 to 4,540 in 1997.
4. Information systems have become steadily more important to the remaining larger dealerships, with special concern being paid to the need for open systems for information interchange and dealer purchase of hardware.

5. The PalmPilot computing platform has become the fastest-selling computer device in the history of the industry. More than 3 million units have been sold in approximately two years. Thousands of third-party software developers have written applications for many niche uses based on the PalmPilot computer.

#### **4.4 Market Growth**

While the number of automobile dealerships is slowly shrinking, the number of automobiles sold is continuing to grow. The importance of efficient inventory management methods is becoming critical as dealerships consolidate and grow larger. Palmtop Innovations believes it can sell 400 automobile retailers in the next three years.

#### **4.5 Customer Profile**

Purchasers of the PalmPal system will be automobile dealerships of moderate to large size, with primary contact being made with information systems managers. Initial correspondence will be made through direct mail marketing, with follow-up telephone calls and personal sales calls. The initial target market will be dealerships in the Ohio area, in order to capitalize on management's strong reputation as experts in this region.

## 5. Marketing Plan

Palmtop Innovation's marketing strategy takes advantage of two concurrent trends: The rapid growth of acceptance of palmtop-computing systems in industrial and commercial vertical industry applications, and the increasing need for more sophisticated and flexible inventory management as the automobile dealership industry consolidates and grows in size.

### 5.1 Competitive Advantage

One of Palmtop Innovation's prime advantages is the combined expertise of its principals in the design, development, and maintenance of software for portable applications and for the automobile dealer industry. It is the opinion of management that the company's lead time in developing applications for this market, plus the niche's small size in relation to the markets its competitors are primarily interested in, will provide the company with a long-lasting opportunity to secure a solid market edge in the field.

The principal technologists, Mr. Bradley Regent and Mr. Perry Honeywell, combine years of expertise 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 PalmPal 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. This will help Palmtop Innovations in the areas of research and development, feature refinement, and testing.

### 5.2 Pricing

Palmtop Innovations has priced its system to compete with both off-the-shelf, general-purpose database and inventory management systems for the Pilot and with existing laptop-based inventory management systems specific to the auto dealership industry.

Pricing is set at \$10,000 per PalmPal system. Each system will include all the hardware, software, and training information necessary to implement the system. A typical user package will consist of a five-user site license of the PalmPal software, five PalmPilot III computers, and several training manuals.

The cost of goods for each PalmPal system is estimated to cost \$2,500. This includes \$400 for each of the five PalmPilot units and \$500 to cover software duplication, printing, and packaging.

In order to provide Palmtop Innovations with a residual revenue stream, plus keep the customer's system up and running, the company will charge an annual maintenance fee of 15 percent of the purchase price, or \$1,500, which will be billed to the customer annually.

This pricing for the system and its maintenance has proved acceptable to dealerships and is far below what competing products based on larger systems are selling for.

### **5.3 Distribution Channels**

Palmtop Innovations will market the PalmPal product line directly, through its own marketing representatives. Ms. Wanda McIntire, Vice President of Marketing, has worked for over 5 years as a marketing specialist, serving the information systems needs of the auto dealership industry in Kentucky and Indiana. Ms. McIntire's responsibilities at Palmtop Innovations consist of formulating and implementing the company's marketing strategy, participating in product development, and working with customers and prospects.

### **5.4 Promotional Plan**

Palmtop Innovations will use direct mail to reach auto dealership information systems managers. These direct mail pieces will be followed up with telemarketing and personal sales calls as its primary marketing modality. This approach takes maximum advantage of the company principals' reputation and visibility in the Ohio automobile dealership community. Once all the dealerships in Ohio have been targeted, marketing efforts will expand to a national level.

As marketing for the PalmPal is rolled out nationwide to all 22,500 potential auto dealer customers, additional marketing dollars will be spent to produce and deliver direct mail marketing materials, conduct telemarketing follow-up calls, and arrange for personal sales calls to especially promising prospects. A significant concern will be staffing these functions with appropriately skilled personnel.

### **5.5 Feedback**

Palmtop Innovations believes that competing products, all of which are based on older laptop hardware designs or outdated paper systems, cannot match the PalmPal's combination of flexibility, convenience, and integration. Palmtop Innovations has the ability to sell both prepackaged and custom PalmPal packages, to allow for maximum satisfaction of its customer's needs. Ongoing contact with its customers, through maintenance agreements and customer inquiries, will help the company to gauge how the product is accepted in the market and how it can be improved.

## 6. Operating Plan

The company's offices are located in a single facility in Cincinnati, Ohio. In addition to the four-person management team, two other full-time employees are currently with the company. As the PalmPal software product is ramped up for full entry into the market, additional staffing may be required. The following sections will review the operations of Palmtop Innovations in greater detail.

### 6.1 Location

Palmtop Innovations operates out of offices located at 26209 Fairfax Avenue in Cincinnati, Ohio. The offices, comprising approximately 5,000 square feet, offer adequate room for anticipated expansion over the next five years. Lease terms are flexible and management believes the rate is competitive with comparable office space in the area.

### 6.2 Operating Equipment

In addition to office equipment already owned, the company needs to acquire five computers, estimated to cost \$15,000, and office furniture and fixtures, estimated to cost \$10,000. A detailed description of Palmtop Innovations' equipment needs is listed in the appendix.

### 6.3 Suppliers and Vendors

The company's inventory is limited to prepackaged versions of its software, and a small number of PalmPilots that are maintained in inventory for use in customer installations requiring immediate response. Most customer installations involve PalmPilots ordered from Ingram Micro, a prominent distributor of the PalmPilot, specifically for customers. This practice minimizes inventory-carrying costs while maintaining an acceptable level of responsiveness in the majority of situations.

Once a customer places an order, Palmtop Innovations would order the PalmPilot units and have them shipped to its offices. The company has completed a credit application with Ingram Micro and all orders will be billed on net 30 terms. Upon receipt of the hardware, it would be repackaged with the PalmPal software and training manuals, and then shipped to the customer.

### 6.4 Personnel Plan

In addition to the four-person management team, the company currently employs two full-time sales managers. These individuals are involved with product testing and development, product sales, and the establishment of sales territories. A staffing service is used for administrative assistant and janitorial tasks on an as-needed basis.

#### Annual Compensation for Palmtop Innovations Team Members:

Bradley Regent, CEO (80 percent stockholder) - \$60,000

Wanda McIntire, Vice President of Marketing (5 percent stockholder) - \$55,000

Perry Honeywell, Program Developer (10 percent stockholder) - \$50,000

Steven Wise, HR and Administrative Manager (5 percent stockholder) - \$35,000

Sales Managers - \$40,000 + Potential Bonus of \$10,000

## 7. Management, Organization and Ownership

One of the strong points of Palmtop Innovations is the industry experience possessed by members of its management team. The members bring information systems as well as automobile industry management and marketing experience to the company. This specialized experience should give the company an edge over potential competitors in the software industry.

Follows is a description of the company's key management team. In addition to their background and experience, their respective company stock ownership is listed. Mr. Regent's 80 percent stock ownership will be reduced to 70 percent upon the addition of an equity partner.

### 7.1 Management/Principals

#### **Bradley Regent, President/CEO** - 80 percent stockholder

Prior to founding Palmtop Innovations, Mr. Regent worked for several large automobile dealerships as a programmer, systems analyst, and information systems manager. Mr. Regent, a native of Cincinnati, graduated in 1985 with a degree in computer science from Ohio State University. Following two years with a large systems integrator in Cincinnati, Mr. Regent began working in the automobile dealership industry.

Mr. Regent has extensive experience in specifying, 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. He has managed information systems departments of up to seven persons.

#### **Wanda McIntire, Vice President of Sales & Marketing** - 5 percent stockholder

Ms. McIntire has worked for five years, as a marketing specialist for two different companies serving the information systems needs of the automobile dealership industry in Kentucky and Indiana. Ms. McIntire has specialized experience in positioning and marketing new information systems products intended for automobile dealers. She was responsible for developing the initial marketing plan for Parts Perfect, a parts inventory management system developed by Autosoft Systems that is now in use by more than 500 dealerships nationwide. Ms. McIntire graduated from Tulsa University in 1992 with a degree in business.

#### **Perry Honeywell, Program Developer** - 10 percent stockholder

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

#### **Steven Wise, HR and Administrative Manager** - 5 percent stockholder

Mr. Wise has particular expertise in the interviewing, screening, and hiring of 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 period while producing leading-edge software that has been well received in the marketplace.

**7.2 Organizational Structure**

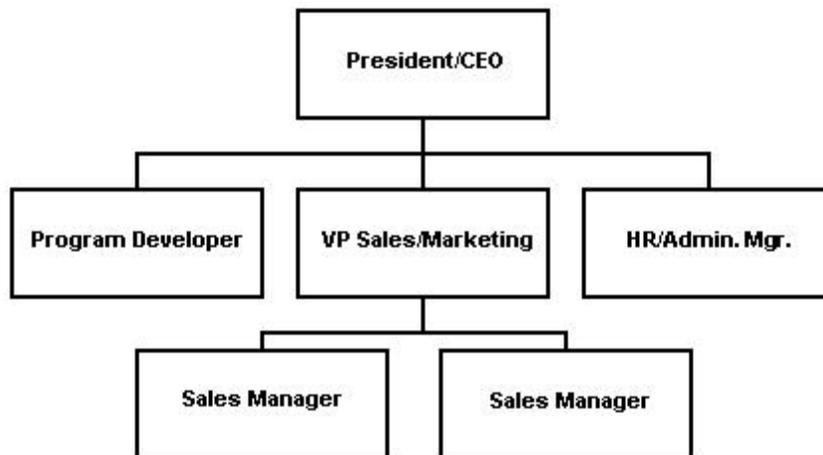
Mr. Regent's primary responsibilities will be formulating its long-range strategy, participating in product development, managing the anticipated growth of the company, and interfacing with investors, customers and suppliers.

Ms. McIntire's responsibilities consist of formulating and implementing the company's marketing strategy, participating in product development, and working with customers and prospects.

Mr. Honeywell's responsibilities consist of overseeing program operation, interface design, and creating and testing code.

Mr. Wise's responsibilities consist of managing office operations, including bookkeeping, accounts receivables and payables, as well as dealing with outside suppliers. As the company grows, he will be responsible for recruiting and hiring program designers, programmers, testers, and other employees.

Below is Palmtop Innovations' organizational chart:



## 8. Goals and Strategies

Palmtop Innovations is well on its way to success. Now that the research and development stage of PalmPal's life cycle is complete, it is time to introduce the product to its target market.

### 8.1 Business Goals

With more than 22,500 new car dealerships in the United States generating more than \$500 billion annually, Palmtop Innovations has great potential for success.

Palmtop Innovation's goal is to sell over 400 dealerships its PalmPal system by the end of its third year. With the large number of dealerships in the U.S., this projection is extremely conservative.

New product sales are forecasted to be \$580,000, \$1,060,000, and \$2,380,000 in years one, two, and three, respectively. In addition, Palmtop Innovations projects additional maintenance revenue of \$87,000 and \$246,000 in years two and three. Even though Palmtop Innovations projects a net loss for its first year (\$97,290), after tax profits of over \$219,440 and \$1,082,542 are expected for years two and three, respectively.

### 8.2 Keys to Success

A few significant critical items are crucial to the success of Palmtop Innovations. The company has priced its system to compete with both off-the-shelf general-purpose database and inventory management systems for the Pilot and with existing laptop-based inventory management systems specific to the auto dealership industry. While no other product with PalmPal's attributes currently exists, the company must remain competitive with inventory management software packages currently on the market.

Another key to the success of the company exists in the area of marketing and customer service. Palmtop Innovations is entering the market in a territory they are familiar with - the state of Ohio.

This approach takes maximum advantage of the company principals' reputation and visibility in the Ohio automobile dealership community. In addition, this strategy will allow the company to sharpen its sales and service processes. When Palmtop Innovations enters the national market, the successful expansion of the marketing and sales department will be critical.

### 8.3 Future Plans

Palmtop Innovation's current plans for the long-term horizon include a few different options. Management has already identified other areas within the information management aspect of the automotive industry that would welcome new software solutions. The planned success of the PalmPal system should result in excellent opportunities for product expansion within the industry.

Tailoring the PalmPal system to other industries in need of inventory management solutions is another option for the firm. Finally, management expects to be faced with the opportunities of either going public or selling out completely to a larger software company as future options.

## 9. Financial Assumptions

The enclosed financial projections are based on the assumption of a cash infusion of \$300,000. These funds will be used to market and distribute the PalmPal system to automobile dealerships nationwide.

Follows is a summary of the assumptions used to forecast the next 36 months of Palmtop Innovation's planned operations.

### 9.1 Beginning Balance Sheet

<b>Beginning Balance Sheet</b> <i>For year beginning January, 2001</i>		
Assets:		
Current assets:		
Cash	150,000	
Inventory	2,500	
Total current assets	152,500	
Property, plant and equipment (net)	43,000	
Total assets		195,500
Liabilities:		
Current liabilities:		
Accounts payable (inventory)	2,500	
Total current liabilities	2,500	
Total liabilities		2,500
Equity:		
Contributed cash	175,000	
Assets transferred in	18,000	
Total equity		193,000
Total liabilities and equity		195,500
Debt-to-equity ratio		0.01

Cash - The remaining balance after the \$175,000 equity investment and the purchase of \$25,000 of computer and office furniture. The company has set its minimum cash balance at \$5,000.

Property, Plant & Equipment (net) - The \$18,000 of equipment the company already has in its possession, plus the new computer and office furniture purchase of \$25,000.

Accounts Payable (inventory) - The company requires 10 days of inventory on-hand at all times. The amount of \$2,500 is one-third of the first month's cost of goods (3 units at \$10,000 with cost of goods of \$2,500 per unit).

Contributed Cash - The amount of the equity investment.

**9.2 Profit & Loss**

<b>Profit &amp; Loss Statement</b>			
<i>For year beginning January, 2001</i>			
	Year 1	Year 2	Year 3
Sales	580,000	1,147,000	2,626,000
Less cost of sales:			
Material	145,000	265,000	595,000
Total cost of sales	145,000	265,000	595,000
Gross profit	435,000	882,000	2,031,000
Operating expenses:			
Salaries & Wages	349,995	349,995	349,995
Sales Manager Bonus	25,000	25,000	25,000
Marketing/Advertising	102,000	204,000	306,000
Maintenance	1,500	1,500	1,500
Equipment Rental	1,200	1,200	1,200
Telephone	12,000	12,000	12,000
Insurance	1,800	1,800	1,800
Rent	12,000	12,000	12,000
Utilities	1,200	1,200	1,200
Office Supplies	682	887	1,154
Travel & Entertainment	12,244	14,218	16,536
Bad debts	4,640	9,176	21,008
Depreciation	8,029	8,029	8,029
Total operating expenses	532,290	641,005	757,422
Operating income	(97,290)	240,995	1,273,578
Net income before taxes	(97,290)	240,995	1,273,578
Estimated taxes	0	21,556	191,037
Net income	(97,290)	219,440	1,082,542

Sales - Each unit will sell for \$10,000. The company expects to sell 58, 106, and 238 systems in years one, two, and three, respectively. The company will charge on-going annual maintenance charges amounting to 15 percent of the system selling price or \$1,500. In year two, the company will collect 58 maintenance fees. These are from the 58 year one system sales. In year three, the company will collect 164 maintenance fees. These are from the 58 year one and the 106 year two system sales.

Cost of Sales - The cost of goods for each PalmPal system is estimated to cost \$2,500. This includes \$400 for each of the five PalmPilot units and \$500 to cover software duplication, printing, and packaging. There is no cost of goods for maintenance revenues.

Salaries & Wages - This assumes the current six-person team of CEO, VP Marketing, Program Developer, HR and Administrative Manager, and two Sales Managers. For each position(s), respective salaries will be \$60,000, \$55,000, \$50,000, \$35,000, and \$40,000. This equates to an annual expense of \$280,000 plus 25 percent to cover payroll taxes and benefits.

Sales Manager Bonus - Each of the two Sales Managers will be eligible for \$10,000

performance bonus assuming the company reaches its annual sales goal. This equates to an annual expense of \$20,000 plus 25 percent to cover payroll taxes and benefits.

Marketing/Advertising - Marketing and advertising is projected to be a significant portion of the company's expenses. The amounts budgeted for year one, two, and three are \$102,000, \$204,000, and \$306,000, respectively. These funds will be used for direct mail, telemarketing, and personal visits to promising customers.

Estimated taxes - No corporate taxes are expected until the company's second year of operation. Year two and three estimated taxes total \$21,556 and \$191,087, respectively.

### 9.3 Balance Sheet

<b>Balance Sheet</b>			
<i>For year beginning January, 2001</i>			
	Year 1	Year 2	Year 3
<b>Assets:</b>			
Current assets:			
Cash	17,966	212,104	1,170,793
Accounts receivable (net)	55,440	95,436	258,984
Inventory	5,833	10,000	25,000
Total current assets	<u>79,239</u>	<u>317,540</u>	<u>1,454,777</u>
PPE (net)	34,971	26,943	18,914
Total assets	<u>114,210</u>	<u>344,483</u>	<u>1,473,692</u>
<b>Liabilities and equity:</b>			
Current liabilities:			
Accounts payable	18,500	29,333	76,000
Total current liabilities	<u>18,500</u>	<u>29,333</u>	<u>76,000</u>
Total liabilities	18,500	29,333	76,000
Equity	95,710	315,150	1,397,692
Total liabilities and equity	<u>114,210</u>	<u>344,483</u>	<u>1,473,692</u>

Accounts Receivable (net) - Of the company's sales, 80 percent of sales are anticipated to be made on a net 30 basis. An allowance of 1 percent has been set to cover bad debt.

Inventory - A minimum of 10 days sales in inventory is assumed.

Accounts Payable - Net 30 terms are expected from suppliers.

#### 9.4 Cash Plan

<b>Cash Plan</b>			
<i>For year beginning January, 2001</i>			
	Year 1	Year 2	Year 3
Cash receipts	519,920	1,097,828	2,441,444
Operating cash expenses:			
Inventory purchases	133,333	258,333	563,333
Other expenses	518,621	623,800	728,385
Estimated taxes	0	21,556	191,037
Total operating cash exp.	651,954	903,689	1,482,755
Cash from operations	(132,034)	194,139	958,689
Change in cash	(132,034)	194,139	958,689
Beginning cash	150,000	17,966	212,104
Ending cash	17,966	212,104	1,170,793

Cash Receipts - Sales to customers will be on net 30 credit terms. Palmtop Innovations expects that 80 percent of its sales will be on credit. The forecast assumes that cash will be received in the month following the sale. A bad debt equal to 1 percent of credit sales is expected.

Inventory Purchases - Palmtop Innovations anticipates having 10 days' worth of inventory on-hand at all times. Supplier terms of net 30 days have been established.

Other Expenses - This is the sum of all operating expenses.

<b>Expense Budget</b>			
<i>For year beginning January, 2001</i>			
Expense Category	Year 1	Year 2	Year 3
Salaries & Wages	349,995	349,995	349,995
Sales Manager Bonus	25,000	25,000	25,000
Marketing/Advertising	102,000	204,000	306,000
Maintenance	1,500	1,500	1,500
Equipment Rental	1,200	1,200	1,200
Telephone	12,000	12,000	12,000
Insurance	1,800	1,800	1,800
Rent	12,000	12,000	12,000
Utilities	1,200	1,200	1,200
Office Supplies	682	887	1,154
Travel & Entertainment	12,244	14,218	16,536
Total Expenses	519,621	623,800	728,385

Estimated Taxes - No corporate taxes are expected until Palmtop Innovation's second year of operation. Year two and three estimated taxes total \$21,556 and \$191,037, respectively. To remain conservative, the amount of taxes is expensed monthly.

## **10. Appendix**

This section contains the following information and supporting documentation:

- Beginning Balance Sheet
- Profit & Loss (Years 1,2,3)
- Balance Sheet (Years 1,2,3)
- Cash Plan (Years 1,2,3)
- Product Brochure
- Auto Industry Journal Articles
- Equipment List