

# **KnowPro, Inc.**

*“Building Knowledge Leading Companies”*

Series B Offering  
\$10,000,000

October, 2002

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KnowPro, Inc., 11198 W. 120<sup>th</sup> Ave., Suite 300, Broomfield, CO 80020  
[www.KnowPro.com](http://www.KnowPro.com)

## **Executive Summary**

KnowPro, Inc. was founded in July 2000 to create software to capitalize on the urgent need modern companies have in capturing and leveraging their knowledge assets. With the rapid turnover in employment on the increase, companies must find a way to retain vital information and disseminate this information throughout the enterprise. KnowPro's product: KnowledgeMaster has the ability to capture, store and assemble this knowledge into for rapid retrieval and thereby save this vital information that would otherwise be wasted. KnowPro's work with several customers, combined with their knowledge of the latest software technology, has not only given them the expertise to address a company's knowledge management issues, but has resulted in a well developed software product that can be quickly installed and adapted to any company's knowledge network.

KnowPro's approach to acquiring customers and gaining market share is three pronged:

1. Offer a hosted application that can be easily connected to a customer's network. This can be offered as a subscription service, providing the customer with a quick way to evaluate the product at low cost.
2. Offer an enterprise version of the product that can be purchased as licensed software for full enterprise wide deployment.
3. Offer professional services to modify the product for specific applications and support services to maintain the software and enhance customer satisfaction.

KnowPro's KnowledgeMaster software is unique among knowledge management systems in using recently developed software technology to link all databases within an enterprise's network. By linking the databases in this manner, KnowledgeMaster can connect to the entire store of enterprise knowledge.

The company's management has deep and broad understanding of both the technology and the market. The CTO has served on a variety of industry standards boards and introduced and applied for patents in the field. The CEO has experience in developing and implementing a wide variety of IT products for Fortune 1000 companies. Together they have been successful in developing the first versions of the product to two major customers.

KnowPro has raised a seed round of \$1.2 million which closed in August, 2001. KnowPro is currently offering a \$10 million Series B round of financing to institutional investors. It is anticipated that this round will close in Q1 of 2003.

## Summary Financial Projections

	2002	2003	2004	2005	2006
Total Revenue	\$500,000	\$2,823,600	\$8,100,000	\$15,715,000	\$27,025,000
Total Cost of Revenue	185,000	670,000	1,500,000	2,500,000	6,500,000
Net Revenue	315,000	2,153,600	6,600,000	13,215,000	20,525,000
Total Expenses	1,200,000	2,909,600	5,349,235	6,802,750	9,800,000
Income from Operations	(\$885,000)	(\$756,000)	\$1,250,765	\$6,412,250	\$10,725,000

## Use of Proceeds

The proceeds of the Offering will be used to further develop the sales and marketing strategy of the KnowledgeMaster product, to acquire the necessary hardware for application hosting and to continue build out of the product features. Series B Funds are expected to sustain the company through to profitability. No additional rounds of private funding are anticipated.

	Sources			Uses	
	2003	2004		2003	2004
Working Capital Beginning	\$421,400	\$7,746,000	Cost of Revenues	\$670,000	\$1,500,000
Series B Proceeds	10,000,000		PP&E	455,000	1,475,000
Revenue	2,823,600	8,100,000	R&D	909,600	1,800,000
			G&A	1,000,000	1,400,000
			Sales & Marketing	1,000,000	2,149,235
			Working Capital Reserve	\$7,746,000	\$6,560,652
				\$1,464,400	\$961,113
Total	\$13,245,000	\$15,846,000	Total	\$13,245,000	\$15,846,000

## **Marketing Plan**

### **I. Situation Analysis**

#### **A. Description of business-internal environment**

KnowPro was founded in July of 2000 by a software engineer and business manager who were employed at IdeaScene, a provider of IT services. The founders had developed the initial version of the product while on contract to a Fortune 500 company who were implementing an internal knowledge management system. The founders saw a potential market in this type of knowledge management technology that was currently not being filled by any other products on the market. The idea of commercializing the software was first presented to the management IdeaScene. IdeaScene found the idea of to be very compelling and offered to fund a start-up company to commercialize and promote the product.

A total of \$1.2 million dollars was raised by the founders for a Series A round of financing. The Series A round of financing was closed in August, 2001. Investors included IdeaScene and a number of partners.

As of July 2000, KnowPro began operating as an entity separate from IdeaScene. Separate offices, books and computer network were established and a web site was created. Hiring of employees began.

The founders assumed the roles of CEO and CTO. A search began for other elements of the management team. A CFO/HR position was sought as well as a VP of Sales and Marketing. The CTO began the selection of the product development team. This would consist of a Director of Software Engineering and ten developers. Two to three project managers will be hired to manage projects at customer sites.

At the time of the separation from IdeaScene, KnowPro was working on projects with two major customers. Since that time, two more customers were brought in with knowledge management projects. These customers have provided needed revenue to develop the product and grow the business as well as serving as advisors in developing a practical and well thought out product.

The intent is to continue to develop the product and simultaneously search for three more major customers/sponsors that would serve as advisors/early adopters. An early adopter program has been established to locate such customers and offer them attractive advantages in being in the program. These advantages consist of an assigned customer contact, a project manager, that would closely monitor and drive the progress of their project. This would be similar to a professional services type contract at a much reduced rate.

## B. Industry changes

### 1. Economic Factors

The target market for the KnowledgeMaster product are IT departments at large and mid-sized corporations. The current economic downturn has caused an across the board reduction in IT spending. With this business climate, it is essential that the sales strategy show a quick return on investment. Only by showing and proving that the product can reduce the costs of customer support/help desk in a three to six month period, can sales be made in this market. By offering a subscription based service, users can try out the product for minimal risk and eliminate capital expenditures and implementation costs.

2. Very few regulations on this industry, could be some User Interface requirements dealing with America's with Disabilities Act compliance.
3. Barriers to entry into the market are relatively low in terms of capital compared to what they are in other industries. This is in keeping with the monopolistic competition model. There is a barrier in terms of technology, however. But because some of this technology has been provided by the major software suppliers, this lowers the costs of developing this technology. In many cases, technology is not simply a matter of paying for developers, an entire organizational structure must be provided to enable software development. The cost barriers that exist include:
  - Costs of labor to create and develop product.
  - Costs of software development kits
  - Costs of development hardware
  - Costs of sales and marketing
  - Costs of administration
  - Costs of facilities
4. The technology barriers can be overcome by purchasing the appropriate development software and by hiring experienced developers. This is not as easy as it sounds. Experienced developers will only work in an environment in which there is a perception of success and they must be managed correctly in order to produce software of any value.

## C. SWOT analysis

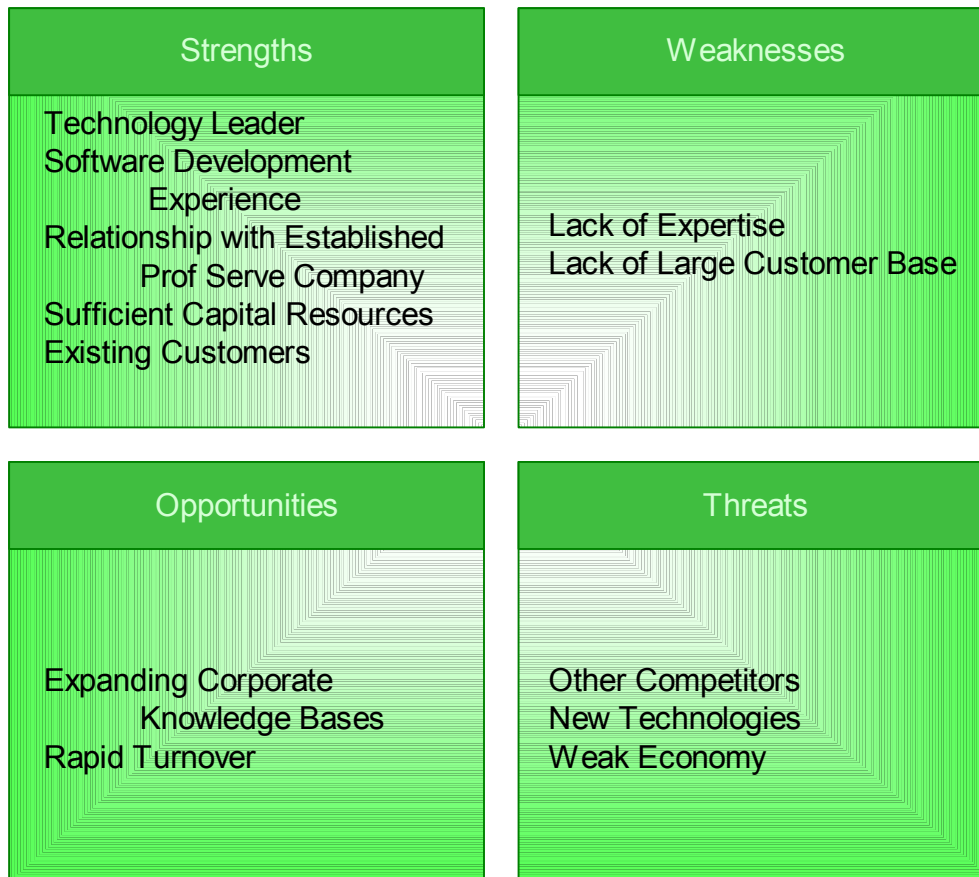


Figure 1. SWOT analysis chart.

*Strengths*

The biggest strength of the KnowledgeMaster product is its technology. Due to the founders' experience and vision, they were able to pull together computer technology more advanced than that which is currently on the market. Because of their knowledge of computer application development, they were able to draw these various technologies together into a fully functional, robust product with a wide range of applicability. In addition to this, these computer technologies allow KnowledgeMaster to be easily incorporated into any corporate IT system with only minor adjustments to the software. Once installed, however, an intuitive interface allows the IT staff to configure the application in numerous ways that can customize the application to the user's specific needs.

The computer technologies used offer numerous upgrade paths for the developers to use to continue improving and growing the product. Once a technological advantage has been established by KnowPro, they will be able to sustain it by both the upgrading of pre-built components and the continued evolution of organically developed code.

Despite the use of pre-built modules to rapidly develop their software product, knowledge of the software development process is vital to the effective production of usable software. Between them, the founders have fifteen years of experience with software development and are seasoned at putting together and driving software development teams.

Having a close relationship with IdeaScene has been a major strength for KnowPro. IdeaScene has a client base of over 100 qualified corporations through which KnowPro can gain introductions thereby reducing the normal sales cycle. Having IdeaScene as a major investor in KnowPro also serves to validate IdeaScene's belief in KnowPro's management and business model. Additionally, KnowPro can leverage IdeaScene's talented and experience staff when professional services are required by the customer for implementation and customization of KnowledgeMaster.

The founders of KnowPro had the foresight, ability and professional contacts to raise an amount of capital in their Series A round to see them through a difficult period in the economy when corporate IT departments were cutting back on outside spending. By using this period of low spending to focus on specific customers and product development when IT spending returns KnowPro will be ideally positioned to take advantage of opportunities created in the market by the demise of its competitors and the need of corporations to leverage their vast amounts of unmanaged knowledge.

In addition to being able to continue to develop the product throughout this period of industry turndown, other possibly competitive start-ups will be hampered by the lack of venture capital for start-ups. Because KnowPro was able to raise a Series A round of sufficient capital they are now in a position to take advantage of a pool of venture capital only available to experienced, later stage start-ups.

KnowledgeMaster was born out of a compelling need in the industry to manage a burgeoning and ever increasing amount of knowledge created within the corporation. The proof of this the amount of funding KnowPro has received to fund product development by existing customers. Because of the lack of an existing viable knowledge management product, customers have been willing to commit funds to develop such a product, a sometimes expensive and risky proposition. KnowPro has based all development around the satisfaction of real customer and market needs. By developing the product around the market, as opposed to developing it around the technology, KnowPro has built a more relevant and practical product.

### *Weaknesses*

Although seasoned IT professionals, the founders are not experts in the field of knowledge management. As a separate discipline, knowledge management can be quite extensive. Initial versions of KnowledgeMaster have been built to solve relatively simple problems in knowledge management, the software's main strengths are primarily on the computer science side; it's ability to penetrate and retrieve information from all sectors of

the IT infrastructure. With the maturation of the product, more sophisticated knowledge management problems will be encountered and solved.

The lack of experience in knowledge management may be addressed by hiring an acknowledged expert in the field as a consultant. The company would benefit from the name recognition of this expert and also solutions that he or she could provide. A search is underway for such an expert consultant. This expert may also have contacts that could bring in additional professional services revenue.

KnowPro has established relationships with four main customers, two with which they have a current working relationship. These relationships do not produce revenues required to maintain the company at its current size. To show both the validity of the market and KnowledgeMaster's acceptance in Both for revenue sake and to show a continuing penetration into the market, further customer acquisition is required. The acquisition of five more customers are targeted for the current fiscal year.

### *Opportunities*

With the speed at which corporations are growing and expanding their products and markets, it becomes imperative that they find some way to manage their expanding knowledge bases. CIO's are acutely aware of the amount invested, not only in their human resources, but the knowledge created by those resources. With the advent of modern, (semi) integrated IT infrastructures it has become possible to access the vast amount of knowledge compiled by companies on a daily basis.

Current knowledge management systems acquire their resources either manually or by accessing a single database within the corporation. By utilizing new technology, KnowledgeMaster can tap into any IT resource; e-commerce, CRM, e-mail, ERP, thereby providing a much greater coverage of corporate knowledge.

Corporate strategy has changed from the time when large companies offered employees jobs for life. Today's corporation must rapidly increase and decrease human resources as required by external economic and market factors. It is therefore even more critical to capture and manage the knowledge developed by those human resources before they are lost when the employee leaves the company.

### *Threats*

Although KnowledgeMaster is the technological leader in the field, other competitors are larger, better funded and have larger customer bases. In an industry that is characterized by transience, a company with longeviyety has certain advantages over a relative newcomer, regardless of technical advantage. By focusing on technical advantages in their marketing efforts, KnowPro may be able to surmount the problem of lack of experience. If KnowPro can last another two years, the experience acquired during this time will turn this into a moot point.

The major software component suppliers are always researching new ideas and technologies and may very well come up something that would surpass KnowledgeMaster. Although KnowPro's CTO watches the technology closely and can plan for new developments, it is not always possible to anticipate all technologies and the effects that they may have on the market. Continuing to monitor the technology, respond to customer requirements, and forming strategic partnerships with other thought leaders will be the best strategy to deal with possibly disruptive technologies that may arise.

If the economy remains in its current state of low IT spending, maintaining present systems and not spending on new systems, very little progress can be made toward market penetration and business development. Although IT spending has been down for the second straight year and must recover at some point, it is conceivable that the current economy could continue indefinitely.

#### D. Competitive analysis

The number of players in the knowledge management field is quite large due to the early stage of market and the rapidly expanding technologies that can take advantage of the problems. This is indicative of a monopolistic competitive structure where there are many small firms selling slightly differentiated products but capable of setting their own prices. The field of knowledge management players can be quite extensive, if one includes simple search engines. Many of the search engine producers do position their products as knowledge management engines when in fact, they do not rise to this level. .

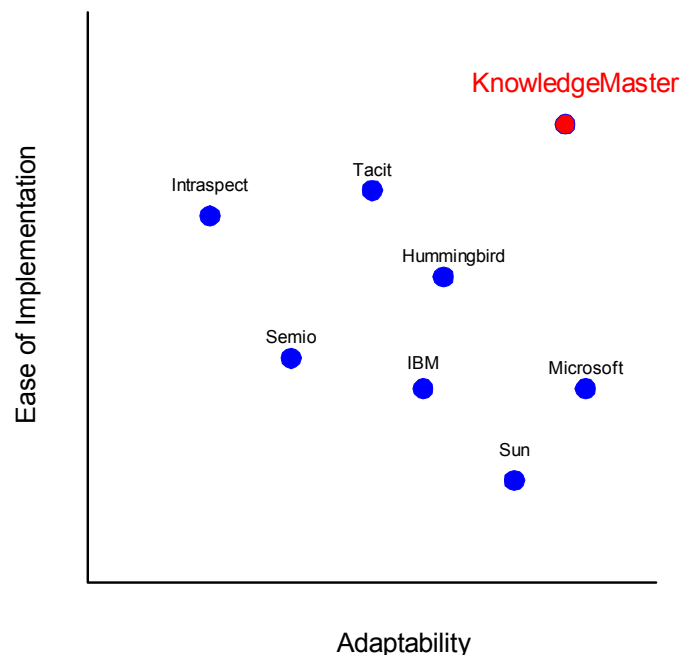


Figure 2. Competitive map. This figure shows how KnowledgeMaster's features of ease of implementation and adaptability compare with those of its competitors.

In this analysis, only those producers that had developed a product that had knowledge management technology were considered.

Products were broken down according to ease of implementation verses adaptability. In general products that were more adaptable were more difficult to implement. The products that offered more versatility required trained developers to configure them at a customer site. These products are usually preferred by professional services companies because customers usually don't have the resources or expertise to implement them, yet they offer many opportunities for customization that customers want.

Easily implemented, drop in applications are usually known as "solutions" and do not require teams of engineers for their implementation. They have fixed features and are not easily adapted to the customers requirements. Because there are little or no implementation costs the total costs are less than the more adaptable versions.

Because of the superior technology of KnowledgeMaster, it is capable of being both easy to implement and readily adaptable to a variety of applications. This is due in part from its intuitive user interface which guides the customer through the configuration process. Additionally, built in agents can scout the customers IT infrastructure to determine the appropriate configuration for the system.

Company Name	Product	Price	Category
Introspect	Introspect 4	\$100,000	Enterprise License
Semio	Tagger	100,000	Enterprise License
Tacit	ESP	125,000	Enterprise License
Hummingbird	KM	150,000	Enterprise License
Microsoft	Knowledge.NET	150,000	SDK
IBM	Lotus Discovery	400	Per user
Sun	NKnowledge	500	Per user

Table 1. Competitive matrix

## II. Target Market Analysis

The target market for KnowledgeMaster are IT departments at large and mid-sized companies. These companies are the ones that will gain the most benefit from the product and therefore find the most value. In particular companies with help desk/tech support requirements will be targeted as the ones which have the most acute need to reduce costs using a knowledge management system.

Although selecting IT departments does provide us with a market with abundant resources, this is a huge market and does not offer a target small enough to focus the limited marketing resources of a start-up. In order to reduce the size of the market to the point where it can be reasonably approached, three vertical markets have been selected. The selection of these verticals has been based on:

1. Previous management experience
2. Vertical has a demonstrable need
3. Vertical has sufficient resources

The initial vertical markets that have been selected are: software development, health care and telecom. Also in keeping with our relationship to IdeaScene, these verticals are well represented within their clientele.

With the selection of these three verticals, targeted customer acquisition strategies and product mixes will be developed. Software development has been chosen due to our management's close ties to the software development community and their need to reduce their technical support costs. An effective knowledge management solution could reduce technical support costs from 10 to 20 percent. In addition, with an effective knowledge management system, user interfaces for software applications would not be required to be quite as robust, reducing development costs. The knowledge management system could be linked directly to the product, providing the user easy access to the knowledge base stored on the product. An advantage here is that software users are already using a computer and may in fact be online.

Health care is another market which has high customer support costs which could be reduced by an effective knowledge management system. Although not every user has a computer or is online, growing number of users have been shown to use the Internet to search for health care information. The percentage of customer support costs may not be reduced as much in health care as they will be in software development, but because customer support costs in health care are so high, even a small percentage will be a significant savings.

Telecom is another very large market which has come under severe pressure recently to reduce costs. At the same time, telecom companies are in an extremely competitive market for new customers to their new wireless and broadband and want to attract and keep these customers with effective customer support systems. Current systems are usually voice based CRM's and tend to cause more aggravation than they do solve customer problems. Initially, telecoms may use a knowledge management system more for their wireless data and broadband products, but this will expand to provide knowledge management for their voice products as well.

Because software is so universal, the target market could be worldwide, however, we have focused on the domestic U.S. market due in part because of greater ease of access to this market geographically, and the lack of a multilingual feature to the product.

Multilingual functionality will be added, but not until sufficient penetration has been made into the domestic market.

We can again access the clients of Ideascene as mentioned previously. Their customers have been screened to select those who fit the above criteria. Additionally, they have been screened to select the first adopters among them that would be interested in developing a knowledge management solution at their site.

### III Objectives

At this point in the business model, customer acquisition is critical to the success of KnowPro. Customer acquisition will prove market validity and product feature mix as well as integrate real customer response and provide a revenue stream for sustaining the business. With the target market well defined, our objective is to acquire three new customers by the end of Q1, 2003, and a total of ten new customers in 2003.

It is not anticipated that breakeven will be achieved in the near term, even with customer acquisition, so it will be important that another round of venture capital be raised. Although this is a responsibility of the executive team, preparing a strategy for marketing the company to potential investors will be considered part of the marketing team's responsibilities. The objective is to close on a Series B round of venture financing by the end of Q1, 2003. The Series B round is anticipated to bring in \$10 million.

With our two existing customers and revenues from one of the three new ones, we have set as our revenue objective a target revenue of \$500,000 for the year ending Q4, 2002. We have generated \$300,000 for the year to date, so this number is a reasonable target. From the year ending Q4, 2003, we will set a much more ambitious target of \$2,000,000, a fourfold increase over the current year. This will be accomplished by a combination of license fees from OEM's, ASP fees and professional service fees.

### IV Marketing Mix Strategy

#### *Product Pricing*

The product KnowPro is selling is KnowledgeMaster. KnowledgeMaster will be available in two different forms: as an enterprise software license or as a hosted application. The full price for the enterprise software license will be \$150,000 for a global, enterprise-wide license. There will be a maintenance fee of \$15,000, or 10% per year. Included in the software license is 40 hours of professional services to assist with implementation. After that period, professional services will be billed at \$250 an hour. 40 hours for implementation is considered conservative, so no additional professional services will be necessary for the standard implementation.

The price of \$150,000 was based on what the competition is currently charging. This price was chosen to meet the price of the competition. What is critical to the success of the business is to sell this product to large number of customers and to keep software

production costs low. It will be necessary to keep sales to a maximum of three customers over the next two quarters until final development of the software is completed since adding additional customers may put a strain on development resources before the product is fully complete.

Included with the maintenance fee are all upgrades for the first five years. After that, upgrades will be provided at a discount to the retail price. For early adopters, customers that sign a contract in the next calendar year, a discount of 10% will be offered (or a free maintenance contract for the first year). In addition, 500 hours of professional services will be offered at a 50% discount (\$125 an hour). This will be give the customer the opportunity to add additional, custom features at a very low price. The standard maintenance contract entitles the customer to free 12 x 5 technical support. Currently no, customers require 24 x 7 technical support, so it is not offered.

The hosted application pricing will be \$7,500 per month, or 5% of list price per month. There is no separate maintenance fee associated with the hosted price. All implementation of the application will be done at KnowPro. Bandwidth restrictions can be placed on usage, but initially the hosted application will be limited to 1,000 simultaneous users. 12 x 5 technical support will be included with the hosted price.

It is anticipated that many customers will request additional features to their KnowledgeMasters. As many of these customer's requests will be honored as possible (as long as they are technically feasible. It is anticipated that each sale will be accompanied by an additional 20%, or \$30,000 worth of professional services. Originally this will be provided by the same developers working on the product. Eventually, an independent and distinct professional services group will be created which will handle all of the special customer requests. Product management will use these special requests as part of their mix of possible features to be included on production software releases.

### *Distribution channels*

Our original channels will be through IdeaScene and a direct channel from KnowPro to the customer. IdeaScene will act as an agent in the distribution channel, earning a commission on the sale of the product, but not earning recurring revenue afterwards. However, it is anticipated that IdeaScene will be selling the product in conjunction with their professional services offering, so that they may add value to KnowledgeMaster. Their commission for the sale of the KnowPro's products and services will be 15% of the total amount of sales to the customer for the first year. This will include maintenance and professional services fees in the first year. If the contract is for a hosted application, the commission will be for all hosting fees for the first year.

IdeaScene will be encouraged to help with sales of KnowledgeMaster and related services. IdeaScene will be a source of many of the prospects that KnowPro will contact in the next several months. Besides earning a commission on the sales of KnowPro's products and services, IdeaScene is the major investor in KnowPro and so shares in the

profits of KnowPro. It may be to KnowPro's advantage to develop other channel partners. This must be done without upsetting our relationship with IdeaScene. If these partners are developed for customers outside of IdeaScenes partners, they may be more tolerant.

### *Promotions*

In order to promote the sales of the KnowledgeMaster product we will implement the following sales strategies:

1. Personal selling – salesmen will be used to make contact and form relationships with targeted prospects.
2. Advertising – a Web site will be developed, marketing collateral will be produced and a direct email campaign will be used to drive traffic to our Website.
3. Trade shows – targeted trade shows will be attended, and booths will be displayed and manned at selected shows.
4. Free products demos – subscriptions to our hosted application will be provided for a limited period of time so that prospects can understand the value.
5. Analysts – market analysts will be contacted and briefed on our product and its value. We will buy the services of one or more analysts in return for there publicizing the product.
6. Public Relations – trade publications will be contacted to publish articles about KnowPro and KnowledgeMaster. Advertising may be purchased if required to get an article published.

Many of the promotional activities are dependent upon when the Series B round of financing is closed. Current budgeting for promotional activities is limited due to constraints on spending. The following amounts will be increased if the target amount of the Series B round is met.

Promotional Activity	Budget in 2003
Personal Selling	\$250,000
Advertising	\$250,000
Trade Shows	\$50,000
Free Product Demos	\$0
Analysts	\$25,000
Public Relations	\$25,000

*Schedule*

Activity	Start Date	Completion Date
Acquire three new customers	Q2, '02	Q1, '03
Acquire ten new customers	Q2, '02	Q4, '03
Close Series B round	Q2, '02	Q1, '03
Generate Revenue of \$500k	Q1, '02	Q4, '02
Generate Revenue of \$2M	Q1, '03	Q4, '03
Personal Selling	Ongoing	
Advertising	Q1, '03	Q4, '03
Trade Shows	Q1, '03	Q4, '03
Analysts	Q1, '03	Q4, '03
Public Relations	Q1, '03	Q4, '03

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## Management Team

- **Anne Schaefer – Founder, President and Chief Executive Officer**

Ms. Schaefer was the founder and CEO of iaauthentic.com, a consumer Internet portal that was acquired by WholePeople.com. While at WholePeople.com, Ms. Schaefer served as the VP of Strategy and participated on the executive leadership council. WholePeople.com, merged with Gaiam Inc.'s (GAIA) web property- Gaiam.com. Ms. Schaefer joined IdeaScene, an ebusiness professional services firm, originally leading the WholePeople.com transition into Gaiam.com, and then assuming responsibility for business development and strategy at ccgenesis. Prior to Ms. Schaefer's entrepreneurial activities, she was the manager of Silicon Graphics' Corporate eBusiness Strategy implementing several eBusiness systems in B2B, B2C, SFA, and lead management. Ms. Schaefer received an MBA from the Darden Business School at the University of Virginia. Previous to Darden, Ms. Schaefer received over six years of operations management and manufacturing experience in the automotive industry.

- **Mike Randolph- Founder, Chief Technology Officer**

Mr. Randolph was a founder and CTO of IdeaScene, an ebusiness services firm with \$7M in revenues and profitable. Prior to ccgenesis, Mr. Randolph served as the senior architect of Corporate Express' eBusiness initiative. Mr. Randolph also was the chief architect and director of development at Requisite Technology. Prior to Requisite, Mr. Randolph was the senior engineer and co-author of Inter.net h++ class libraries while at Rogue Wave Software in its pre-IPO days. Mr. Randolph has over thirteen years in technology architecture and management along with a wealth of experience in C++, Java, XML, and Internet Protocols that defines him as an industry leader in web-based ordering systems and procurement application integration.

## **Financing**

### Series A Financing

KnowPro closed a seed stage, Series A round involving angel investors in August 2001. KnowPro is using these funds to complete its first production release (1.0) and second production release (2.0), as well for working capital needs as we take on our first set of client engagements. This round of financing can support the KnowPro through Q2 2003.

### Series B Financing

KnowPro expects to move aggressively to close a Series B round of venture capital financing of \$10M in early 2003. KnowPro will use these funds to aggressively begin its market definition phase of its business model. KnowPro has begun to initiate financing conversations with several respected venture capital firms.

In the case that Series B financing takes longer than predicted, KnowPro will aggressively move towards a monitoring professional services model to sell its production ready software to date, until such financing can be obtained.

### Exit Strategy

There are two potential possibilities for an exit strategy for KnowPro, based on anticipated industry trends.

- Within 24 – 36 months, be acquired by one of the first or second generations knowledge management companies that desire KnowPro's new set of technologies and knowledge management approach that when combined with their existing business, would provide a better client value proposition
- Within 36 – 54 months, a possible IPO based on KnowPro's client base, revenue growth and profitability

## Financial Projections

The following projections (The “Projections”) were not prepared with a view towards compliance with published guidelines of the American Institute of Certified Professionals or Generally Accepted Accounting Principles and have not been examined, reviewed or compiled by the Company’s independent certified public accountants. The projections represent management estimates as of October, 2001 of the Company’s projected operations based on certain hypothetical assumptions. The Company believes that it has a reasonable basis in making the following Projections.

The Projections include forward-looking financial information that is based upon a variety of estimates and assumptions that are subject to significant business, economic and competitive uncertainties and contingencies. The degree of uncertainty inherent in the Projections increases significantly with each year covered by the Projections. The Projections do not assume the occurrence of any period of recession that might adversely affect demand for the Company’s products and services.

The Projections assume three distinct growth periods: 1) product definition in the first year of operations, 2) market definition in the second year of operations, 3) market expansion during the third, fourth and fifth years of operations.

### Break-even Analysis

Knowpro has calculated the minimum break-even point based on reduced management staff, Sales and Marketing, and R&D budgets. This would reduce the time to profitability, but would also negatively impact the future earnings of the company. By assuming revenues would remain as forecast, and keeping the above mentioned budgets to 2002 maintenance levels, i.e.:

R&D	\$300,000
Sales & Marketing	\$600,000
General & Administrative	\$300,000

This results in a fixed overhead cost of \$100,000 per month. The fixed costs of the hosting service are \$150,000 per year, or \$12,500 per month, and the variable costs of maintaining the software, professional services and hosting services are \$520,000 for revenues of \$3,023,600.

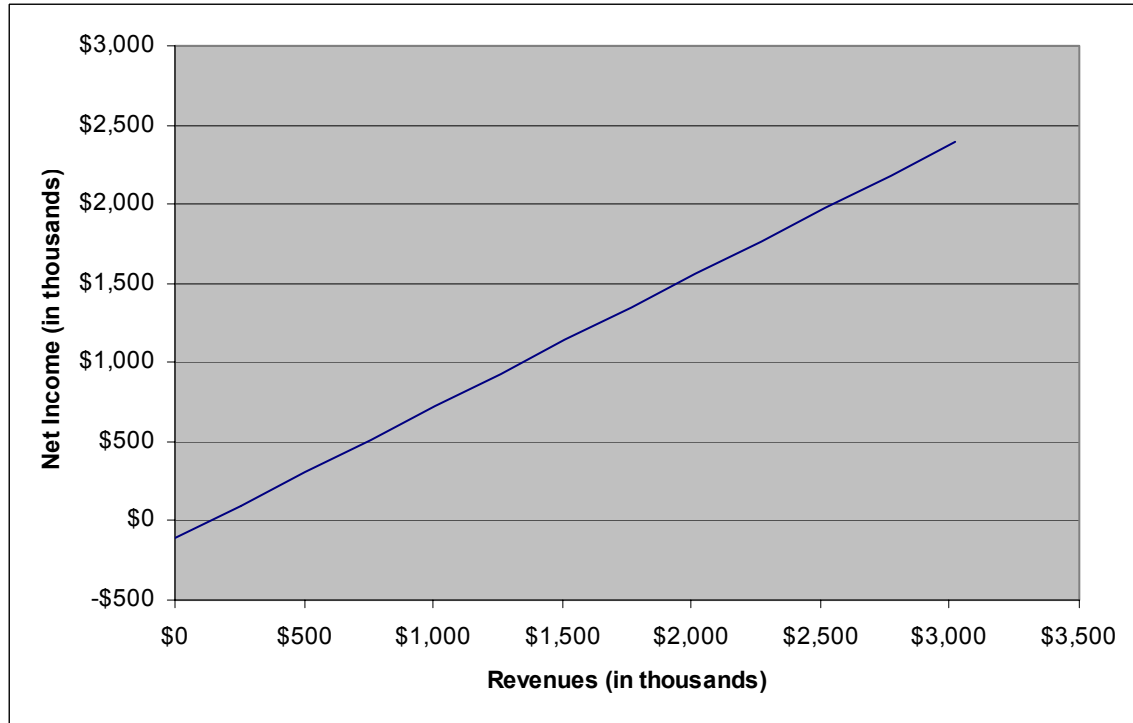


Figure 3. Break-even analysis

If we assume that the predicted revenues are spread evenly throughout the year, then the break-even point will occur in very early the first quarter of 2003 at the point sales reach \$135,870. This is equivalent to less than one software license per month.

## Projected Income Statement

	2002	2003	2004	2005	2006
<b>Revenue</b>					
License Sales	\$300,000	\$1,550,000	\$4,200,000	\$7,800,000	\$16,510,000
SW Maintenance Sales	30,000	133,600	250,000	415,000	1,015,000
Application Hosting	70,000	590,000	1,700,000	3,700,000	5,500,000
Professional Services	200,000	750,000	1,950,000	3,800,000	4,000,000
Discount	(100,000)	(200,000)			
<b>Total Revenues</b>	<b>500,000</b>	<b>2,823,600</b>	<b>8,100,000</b>	<b>15,715,000</b>	<b>27,025,000</b>
<b>Cost of Revenues</b>					
License Maintenance Costs	100,000	250,000	500,000	1,000,000	3,500,000
Professional Service Costs	50,000	125,000	400,000	500,000	1,000,000
Application Hosting Costs	35,000	295,000	600,000	1,000,000	2,000,000
<b>Total Cost of Revenues</b>	<b>185,000</b>	<b>670,000</b>	<b>1,500,000</b>	<b>2,500,000</b>	<b>6,500,000</b>
<b>Gross Profit</b>	<b>315,000</b>	<b>2,153,600</b>	<b>6,600,000</b>	<b>13,215,000</b>	<b>20,525,000</b>
<b>Operating Expenses</b>					
R & D	300,000	909,600	1,800,000	2,200,000	2,800,000
Sales & Marketing	600,000	1,000,000	2,149,235	2,802,750	4,800,000
General & Administrative	300,000	1,000,000	1,400,000	1,800,000	2,200,000
<b>Total Operating Expenses</b>	<b>1,200,000</b>	<b>2,909,600</b>	<b>5,349,235</b>	<b>6,802,750</b>	<b>9,800,000</b>
<b>Income (Loss) from Operations</b>	<b>(885,000)</b>	<b>(756,000)</b>	<b>1,250,765</b>	<b>6,412,250</b>	<b>10,725,000</b>
Interest Income	61,400	272,100	184,652	172,450	267,650
Interest Expense					
<b>Net Income (Loss) before Taxes</b>	<b>(823,600)</b>	<b>(483,900)</b>	<b>1,435,417</b>	<b>6,584,700</b>	<b>10,992,650</b>
Taxes	0	0	574,167	2,633,880	4,397,060
<b>Net Income</b>	<b>(\$823,600)</b>	<b>(\$483,900)</b>	<b>\$861,250</b>	<b>\$3,950,820</b>	<b>\$6,595,590</b>

## Projected Balance Sheet

	2002	2003	2004	2005	2006
<b>Assets</b>					
Cash and equivalents	\$75,000	\$2,672,150	\$4,483,450	\$5,079,820	\$5,864,542
Marketable securities	335,000	6,452,850	3,886,550	5,236,000	7,426,868
Accounts receivable	111,400	660,000	1,459,500	3,334,500	7,054,500
Total Current Assets	521,400	9,785,000	9,829,500	13,650,320	20,345,910
<b>Property, Plant and Equipment</b>					
Purchased software	25,000	150,000	750,000	1,000,000	1,600,000
Computer equipment	35,000	250,000	1,000,000	1,500,000	2,000,000
Furniture and fixtures	10,000	25,000	100,000	150,000	200,000
Leasehold improvements	0	25,000	100,000	200,000	250,000
Total Property, plant and equipment	70,000	450,000	1,950,000	2,850,000	4,050,000
Less accumulated depreciation	15,000	142,500	682,500	1,140,000	1,820,000
Net Property, plant and equipment	55,000	307,500	1,267,500	1,710,000	2,230,000
Total Assets	576,400	10,092,500	11,097,000	15,360,320	22,575,910
<b>Liabilities</b>					
Current Liabilities					
Accounts Payable	100,000	100,000	243,250	555,750	1,175,750
Total Current Liabilities	100,000	100,000	243,250	555,750	1,175,750
Total Liabilities	100,000	100,000	243,250	555,750	1,175,750
<b>Equity</b>					
Owners' Equity					
Contributed Capital					
Paid-In Capital	1,200,000	11,200,000	11,200,000	11,200,000	11,200,000
Common Stock	100,000	100,000	100,000	100,000	100,000
Total Contributed Capital	1,300,000	11,300,000	11,300,000	11,300,000	11,300,000
Retained Earnings	(823,600)	(1,307,500)	(446,250)	3,504,570	10,100,160
Total Owners' Equity	476,400	9,992,500	10,853,750	14,804,570	21,400,160
<b>Total Liabilities and Equity</b>	<b>\$576,400</b>	<b>\$10,092,500</b>	<b>\$11,097,000</b>	<b>\$15,360,320</b>	<b>\$22,575,910</b>

## Projected Cash Flow

	2002	2003	2004	2005	2006
<b>Cash Flows from Operating Activities</b>					
Cash Received from Customers	\$460,000	\$1,650,000	\$5,950,000	\$12,625,000	\$24,952,000
Cash Paid to Suppliers	75,000	625,000	1,920,000	2,954,200	4,210,000
Payments for compensation of employees	650,000	1,350,000	2,800,000	4,890,000	11,249,350
Other operating expenses paid	100,000	220,000	510,000	780,000	920,000
Interest paid	0	0	0	0	0
Taxes paid	0	0	0	1,154,980	4,397,060
Net cash provided by operating activities	(365,000)	(545,000)	720,000	2,845,820	4,175,590
<b>Cash Flows from Investing Activities</b>					
Investment in plant and equipment	(20,000)	(405,000)	(1,475,000)	(900,000)	(1,200,000)
(Purchases) Sales of investments	(335,000)	(6,452,850)	2,566,300	(1,349,450)	(2,190,868)
Net cash from investing activities	(355,000)	(6,857,850)	1,091,300	(2,249,450)	(3,390,868)
<b>Cash Flows from Financing Activities</b>					
Change in Common stock	0	0	0	0	0
Change in paid-in capital	0	10,000,000	0	0	0
Total cash from financing activities	0	10,000,000	0	0	0
<b>Net increase (decrease) in cash and equivalents</b>	<b>(\$720,000)</b>	<b>\$2,597,150</b>	<b>\$1,811,300</b>	<b>\$596,370</b>	<b>\$784,722</b>