

CASE NO. 06 cv 5486

ATTACHMENT NO. 5

EXHIBIT 4 (Motion) - part 2

TAB (DESCRIPTION) _____

Spehar Capital, LLC
 Invoice Number: 22085
 Invoice Date: NOVEMBER 18, 2003
 Page 7

DATE	COST CODE	DESCRIPTION	AMOUNT
9/18/03	001	Air/Express Delivery Charges - FEDERAL EXPRESS CORP / 4-904-25898	23.40
9/18/03	10	Computer Research-LexisNexis	54.13
9/19/03	020	Messenger/Courier Service - TIME MACHINE NETWORK / 16179	17.50
9/19/03	024	Outside Photocopying Charges - OMNIDOX / LA13018	38.56
9/19/03	7	Facsimile (FAX) Facsimile @1.00/page (3 pages)	3.00
9/22/03	7	Facsimile (FAX) Facsimile @1.00/page (3 pages)	3.00
9/22/03	7	Facsimile (FAX) Facsimile @1.00/page (2 pages)	2.00
9/24/03	7	Facsimile (FAX) Facsimile @1.00/page (1 pages)	1.00
9/24/03	7	Facsimile (FAX) Facsimile @1.00/page (13 pages)	13.00
9/24/03	7	Facsimile (FAX) Facsimile @1.00/page (1 pages)	1.00
9/25/03	P	Postage POSTAGE	1.20
9/26/03	020	Messenger/Courier Service - TIME MACHINE NETWORK /16179	72.15
9/26/03	7	Facsimile (FAX) Facsimile @1.00/page (3 pages)	3.00
9/29/03	014	Filing Fee - L. A. Superior Court Clk. - No. Central Dist. (Burbank)	36.30
9/29/03	P	Postage POSTAGE.	0.60
10/1/03	020	Messenger/Courier Service - TIME MACHINE NETWORK / 16675	47.41
10/2/03	001	Air/Express Delivery Charges - FEDERAL EXPRESS CORP / 4-905-07008	13.99
10/2/03	021	SERVICE OF PROCESS - DELAWARE SECRETARY OF STATE	50.00
10/2/03	021	SERVICE OF PROCESS CHARGE - BRANDYWINE PROCESS SERVERS	75.00
10/2/03	10	Computer Research	43.75
10/2/03	11	Miscellaneous Expense-Parking	22.80
10/3/03	001	Air/Express Delivery Charges - FEDERAL EXPRESS CORP/ 4-904-25898	43.94
10/3/03	001	Air/Express Delivery Charges - FEDERAL EXPRESS CORP / 4-905-07008	13.72
10/3/03	7	Facsimile (FAX) Facsimile @1.00/page (13 pages)	13.00
10/3/03	P	Postage POSTAGE	0.74
10/6/03	001	Air/Express Delivery Charges - FEDERAL EXPRESS CORP / 4-905-07008	15.70

Spehar Capital, LLC
 Invoice Number: 22085
 Invoice Date: NOVEMBER 18, 2003
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DATE	COST CODE	DESCRIPTION	AMOUNT
10/6/03	021	SERVICE OF CIVIL BOND- DELAWARE SECRETARY OF STATE	50.00
10/6/03	021	Original service of Complaint & Summons/ service of Civil Bond - BRANDYWINE PROCESS SERVERS	170.00
10/7/03	020	Messenger/Courier Service - ACE MESSENGER & ATTORNEY SERVICE, INC. / 26909	54.75
10/7/03	P	Postage POSTAGE	0.60
10/9/03	P	Postage POSTAGE	2.40
10/10/03	7	Facsimile (FAX) Facsimile @1.00/page (9 pages)	9.00
10/10/03	7	Facsimile (FAX) Facsimile @1.00/page (9 pages)	9.00
Total Disbursements			\$2,092.41

Trust retainer to be applied (\$5,000.00)

TOTAL INVOICE AMOUNT DUE \$9,517.41

TOTAL AMOUNT DUE..... \$9,517.41

Less Fee Adjustment:..... (\$2,400.00)

Balance Due \$7,117.41

DEFREES & FISKE

Law Offices
200 South Michigan Avenue, Suite 1100
Chicago 80604
Telephone (312) 372-4000
Facsimile (312) 939-5617

NOV 20 2003

November 14, 2003

STEVEN A. KLEND A, LLC
600 GRANT ST. STE 300
DENVER, CO 80203

Invoice# 105247 LJT
Our file# 10074 03001
Billing through 10/31/2003

03001 REGISTRATION OF FOREIGN JUDGEMENT				
10/03/2003	DCG	TELEPHONE CONFERENCE WITH DUPAGE COUNTY CLERK REGARDING REGISTERING FOREIGN PRELIMINARY INJUNCTION; OFFICE CONFERENCE WITH LJT REGARDING SAME	0.60 hrs.	96.00
10/03/2003	LJT	CORRESPONDENCE RE PRELIMINARY INJUNCTION	0.30 hrs.	84.00
10/06/2003	DCG	TELEPHONE CONFERENCE WITH SUPERVISING CLERK AND JUDGE DUNCAN'S CLERK REGARDING REGISTERING PRELIMINARY INJUNCTION; OFFICE CONFERENCE WITH LJT REGARDING SAME	0.60 hrs.	96.00
10/09/2003	DCG	DRAFT MOTION TO FILE ORDER; TELEPHONE CONFERENCE WITH COURT CLERK AND CLIENT REGARDING SAME; OFFICE CONFERENCE WITH LJT REGARDING SAME	0.80 hrs.	128.00
10/09/2003	LJT	CORRESPONDENCE RE PRELIMINARY INJUNCTION	0.30 hrs.	84.00
10/10/2003	DCG	TRAVEL TO AND FROM DUPAGE COUNTY COURT; FILE PRELIMINARY INJUNCTION AND AFFIDAVIT REGARDING SAME; DRAFT AFFIDAVIT	2.00 hrs.	320.00
10/13/2003	LJT	CORRESPONDENCE AND TELEPHONE WITH KLEND A RE PRELIMINARY INJUNCTION, CONF DG	0.40 hrs.	112.00
10/14/2003	DCG	DRAFT AND SEND CORRESPONDENCE TO DELAWARE SPECIAL PROCESS SERVER ENCLOSING SUPPLEMENTAL ORDER; OFFICE CONFERENCE WITH LJT REGARDING SAME; SEND SAME TO CLIENT	0.60 hrs.	96.00

MATTER TOTAL	\$1,016.00
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CLIENT TOTAL	\$1,016.00
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GIESE, DOUGLAS C.	4.60	160.00	\$736.00
TODHUNTER, L. JUDSON	1.00	280.00	\$280.00

DISBURSEMENTS:

LONG DISTANCE CALLS

\$0.42

FILING FEE

\$50.00

MILEAGE

\$22.61

TOTAL DISBURSEMENTS

\$73.03Billing Summary

Total professional services

\$1,016.00

Total expenses incurred

\$73.03

Total of new charges for this invoice

\$1,089.03

Plus outstanding invoices

\$1,137.83

Total balance now due

\$2,226.86

BOND SERVICES OF CALIFORNIA, LLC

900 Wilshire Blvd., Suite 1400 Los Angeles, CA 90017-4700 (213) 628-2970 (213) 628-2977

INVOICE NO: 184252
INVOICE DATE: 10/03/2003
DUE DATE: Due Upon Receipt
BOND CLASS: CIVIL

BOND NO: 414297
CASE NO: EC037602
FILE NO: 1054065
ATTY PHONE: (213) 895-4900

ATTN: ANDREW W. BODEAU
RODI, POLLOCK, PETTKER, GALBRAITH & CAHILL
444 SOUTH FLOWER ST. STE. 1700
LOS ANGELES, CA 900172901

TO: SPEHAR CAPITAL, LLC.

Company: AMERICAN CONTRACTORS INDEMNITY COMPANY
Effective Date: 10/03/2003
Anniversary Date: 10/03/2004

BOND NO.	AMOUNT OF BOND	PREMIUM
414297	\$25,000.00	\$500.00

Description

1st Year Premium on Preliminary Injunction bond
Spehar Capital, LLC vs. CMGT, Inc., a Delaware Corp.
EC037602 500.00

*Paid 10/1/03
SC CK # 1008*

Total Due 500.00

TO ENSURE PROPER CREDIT, PLEASE DETACH THIS PORTION AND RETURN WITH REMITTANCE

Please Send Payment to:

BOND SERVICES OF CALIFORNIA, LLC
P.O. Box 51408 Los Angeles, CA 90051-5708

BOND NO: 414297
CASE NO: EC037602
FILE NO: 1054065

INVOICE NO: 184252
INVOICE DATE: 10/03/2003

TOTAL DUE: 500.00

AMOUNT ENCLOSE *\$500.00*

PRINCIPAL NAME: SPEHAR CAPITAL, LLC.

OBLIGEE NAME: CMGT, INC., A DELAWARE CORPORATION

If you have a new address or telephone number please provide us with the new information:

INVOICE

BOND SERVICES OF CALIFORNIA, LLC

900 Wilshire Blvd, Suite 1400 Los Angeles, CA 90017-4700 Phone: (213) 628-2970 - Fax: (213) 628-2977

INVOICE NO: 184252
 INVOICE DATE: 11/03/2003
 PAYMENT DUE DATE: 10/15/2003 - Past Due
 BOND CLASS: CIVIL

BOND NO: 414297
 CASE NO: EC037602
 FILE NO: 1054065
 ATTY PHONE: (213) 895-4900

ATTN: SPEHAR CAPITAL, LLC.,

Attorney: ANDREW W. BODEAU
 RODI, POLLOCK, PETTKER, GALBRAITH & CAHILL
 444 SOUTH FLOWER ST. STE. 1700
 LOS ANGELES, CA 900172901

SURETY COMPANY	BOND NO.	AMOUNT OF BOND	PREMIUM
AMERICAN CONTRACTORS INDEMNITY COMPANY	414297	\$25,000.00	\$500.00

Invoice Description

Check #:1008	-500.00
1st Year Premium on Preliminary Injunction bond	500.00
Spehar Capital, LLC vs. CMGT, Inc., a Delaware Corp.	
EC037602	
fed-ex charge	13.27
<p><i>pd SC # 1010 11/19/03 ✓</i></p>	

Summary of Current and Past Due Charges for this Invoice

CURRENT	31 to 60 Days	60 to 89 Days	90 to 119 Days	120+ Days	Total Amt. Due
\$13.27	\$0.00	\$0.00	\$0.00	\$0.00	\$13.27

Exhibit 5: Cash Success Fee

- **CMGT Funding Amount** **\$2,500,000**
- **Spehar Fee** **x 6%**
- **Spehar Cash Success Fee** **\$150,000**

- COMPENSATION, 1) a): A success fee, payable in cash, equal to 6% of the Accepted Capital (cash, liquid assets, assets to be used as collateral, Letter of Credit or other form of capital acceptable to CMGT) raised directly from any investor(s) either introduced by Spehar Capital or with whom CMGT has approved discussions with Spehar Capital.

Exhibit 6: Management Consulting Fee

▪ Spehar Cash Fee \$100,000

- Paid in installments over the first 8 months after funding
- COMPENSATION, 2) a): In consideration of certain services rendered by Spehar Capital prior to a successful closing transaction event of a minimum of \$1,000,000.00, exclusive of any bridge loan or other debt, subordinated debt or similar interim funding transaction ("Closing"), CMGT will pay Spehar Capital a management Consulting Services Fee of \$100,000.00. Such fee shall be paid to Spehar Capital as a monthly consulting fee commencing on the first calendar day of the first calendar month immediately following such Closing transaction date and continuing for successive calendar months, as shown in the "Schedule of Management Consulting Services Fee Payments"

CASH BASIS INCOME & CASH FLOW STATEMENTS

Year 1		
Operating Revenue	\$261,973	\$143,881
Incentive Grants	\$0	
Total Revenue	\$261,973	\$143,881
Relocation	\$104,000	
Call Center	\$622,109	
Marketing	\$149,043	
Personnel	\$480,500	
Prof Services & Fees	\$279,000	
Debt Service	\$0	
Existing Obligations	\$122,500	
Total Expenses	\$1,757,152	\$1,543,013
Pre-Tax Profit	(\$1,495,178)	(\$1,399,333)
Federal Tax	\$0	
State Tax	\$0	
Net Profit	(\$1,495,178)	(\$1,399,333)
Net Cash	\$1,100,667	

Year 2			Margins
Operating Revenue	\$9,542,711		100%
Incentive Grants	\$0		
Total Revenue	\$9,542,711		
Relocation	\$80,000		0.8%
Call Center	\$870,802		7.0%
Marketing	\$1,128,006		11.8%
Personnel	\$3,575,284		37.5%
Prof Services & Fees	\$701,000		7.3%
Debt Service	\$0		0.0%
Existing Obligations	\$80,000		
Total Expenses	\$6,245,101		
Pre-Tax Profit	\$3,297,609		35%
Federal Tax	(\$231,757)		
State Tax	(\$30,459)		
Net Profit	\$3,035,393		32%
Net Cash	\$4,136,060		
Return on Cash	178%		

Year 3			Margins
Operating Revenue	\$22,477,213		100%
Incentive Grants	\$0		
Total Revenue	\$22,477,213		
Relocation	\$150,000		0.7%
Call Center	\$1,346,037		6.0%
Marketing	\$2,283,201		10.1%
Personnel	\$7,520,733		33.5%
Prof Services & Fees	\$525,000		2.3%
Debt Service	\$0		0.0%
Existing Obligations	\$0		
Total Expenses	\$11,804,970		
Pre-Tax Profit	\$10,672,243		47%
Federal Tax	(\$3,735,285)		
State Tax	(\$480,923)		
Net Profit	\$6,446,035		29%
Net Cash	\$10,582,095		
Return on Cash	56%		

Year 4			Margins
Operating Revenue	\$31,897,205		100%
Incentive Grants	\$0		
Total Revenue	\$31,897,205		
Relocation	\$210,000		0.7%
Call Center	\$1,704,917		5.3%
Marketing	\$3,118,871		9.7%
Personnel	\$11,204,790		35.0%
Prof Services & Fees	\$800,000		2.1%
Debt Service	\$0		0.0%
Existing Obligations	\$0		
Total Expenses	\$16,808,578		
Pre-Tax Profit	\$15,088,628		47%
Federal Tax	(\$5,284,520)		
State Tax	(\$694,537)		
Net Profit	\$9,119,571		29%
Net Cash	\$18,701,868		
Return on Cash	120%		

Revenue	\$261,973	\$9,542,711	\$22,477,213	\$31,897,205
Expenses	\$1,757,152	\$6,245,101	\$11,804,970	\$16,808,578
Operating (pre tax) Earnings	(\$1,495,178)	\$3,297,609	\$10,672,243	\$15,088,628
Net Profit After Taxes	(\$1,495,178)	\$3,035,393	\$6,446,035	\$9,119,571
After-tax Margin		32%	29%	29%
Net Cash	\$1,100,667	\$4,136,060	\$10,582,095	\$18,701,868
Lowest Monthly Cash	\$1,100,667	\$1,018,425	\$4,648,132	\$11,461,147

	Month	March			
Pre-tax Profit		\$54,191			
Covered Employees		189,838	135,868	17,000	17,000

U.S. Headquarters:	Executives	5	5	5	5
Administration	3	1	1	1	
Sales	4	8	12	16	
Call Center	19	90	185	253	
Total	31	110	193	295	

	\$35,571	\$36,521	\$37,858
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Equipment	\$417,529	\$60,000	\$120,000	\$150,000
Teleco	\$2,580	\$135,902	\$378,637	\$599,597
Bandwidth	\$15,000	\$54,000	\$90,000	\$120,000
Total	\$435,109	\$250,902	\$588,637	\$869,597

NPV Valuation	\$12,766,234	36%	Discount Rate
Offering Valuation	\$4,801,861		
Risk Cushion	\$7,964,273		

Industry Buyout @ 3.5x Sales	ROI	364%	243%	161%
Cash in / Cash out	(\$2,500,000)	\$17,033,739	\$40,121,825	\$57,115,012
Investment multiple		6.8	16.0	22.8

IPO @ 20x E	ROI	327%	204%	137%
Cash in / Cash out	(\$2,500,000)	\$31,867,006	\$57,748,254	\$82,311,228
Investment multiple		12.7	23.1	32.9

SUMMARY

CMGT, INC.

City State	Revenue	31,668	410,648	700,669	880,648
Investment	2%	633	8,213	14,013	17,613
Operating	5%	1,583	20,532	35,033	44,033
Interest	8%	2,534	32,852	56,053	70,053
Management	10%	3,167	41,065	70,069	88,069
Total October Funding		\$0	\$2,800,000	\$2,800,000	\$2,800,000
Payback of Bridge Loan		\$0	\$0	\$0	\$0
Organization & Pre-operation Costs		\$122,500	\$0	\$0	\$0
Acquisition of Touch Speed		\$0	\$0	\$0	\$0
Offering Fees & Expense		\$150,000	\$0	\$0	\$0
Total Use of Funds		\$272,500	\$0	\$0	\$0
Working Capital		\$2,227,500	\$0	\$0	\$0

Investor	Percentage	Investor	Percentage
48% CMGT, Inc.	61.0%	Lou Franco	12.0%
Other Sr. Management	3.0%	Rob Crandall	3.0%
Management Total	4.0%	Other Sr. Management	4.0%
Existing CMGT Investors	19.9%	Management Total	19.9%
Spehr Capital	20.0%	Existing CMGT Investors	20.0%
Craig Jackson	6.0%	Spehr Capital	6.0%
Catherine Garner	0.0%	Craig Jackson	0.0%
Option Pool	4.0%	Catherine Garner	0.0%
TOTAL	100.0%	Option Pool	4.0%

Investor	Percentage	Investor	Percentage
48% CMGT, Inc.	61.0%	Lou Franco	12.0%
Other Sr. Management	3.0%	Rob Crandall	3.0%
Management Total	4.0%	Other Sr. Management	4.0%
Existing CMGT Investors	19.9%	Management Total	19.9%
Spehr Capital	20.0%	Existing CMGT Investors	20.0%
Craig Jackson	6.0%	Spehr Capital	6.0%
Catherine Garner	0.0%	Craig Jackson	0.0%
Option Pool	4.0%	Catherine Garner	0.0%
TOTAL	100.0%	Option Pool	4.0%

Revenue / ee	\$6.75	\$12.77	\$16.11	\$15.87
Revenue / ee	\$6.75	\$12.77	\$16.11	\$15.87

Revenue / ee	\$6.75	\$12.77	\$16.11	\$15.87
Revenue / ee	\$6.75	\$12.77	\$16.11	\$15.87

Client	Employees	Fee	Contract Date	Service Start Date	Managing Partner	Status
Gannone	3,500	\$0.88	May 2000	May 2000	CIGNA	In house as of 3/02
McCord Travel	900	per event	March 01	March 01	CIGNA	bought by World Travel 3/02
Keenan	850	1.25	Oct 01	March 02	Keenan/ICS	In house as of 1/03
AQ&L	2,718	\$1.25	April 01	April 01	CIGNA	Current Client
Howard Hughes	3,170	\$1.88	April 01	April 01	Liberty Mutual	Current Client
ZILOG	398	\$1.25	Jan 03	Jan 03	Keenan/ICS	Current Client
Ebay	3,153	\$1.25	Nov 01	Jan 02	Keenan/ICS	Current Client
MSB	3,500	\$1.25	Jan 01	Jan 01	Keenan/ICS	Current Client
Paycom	3,500	\$1.25	Jan 01	Jan 01	Keenan/ICS	Current Client
Ball	3,500	\$1.25	Jan 01	Jan 01	Keenan/ICS	Current Client
Blockbuster	3,500	\$1.25	Jan 01	Jan 01	Keenan/ICS	Current Client

From DC - Seasonally adjusted	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52
monthly growth	0.67%	-0.23%	0.04%	-0.42%	-0.380%																													

2002 Avg monthly growth rate	0.216%
Months since May 2002	16
Projected annual Industrial labor force	131,320,000
Projected annual Industrial labor force	136,318,345
Projected annual Industrial labor force	140,097,724
Projected annual Industrial labor force	145,270,971
Projected annual Industrial labor force	147,610,316

US Call Center	\$137,550
Toronto Call Center	\$41,080
Gross Total	\$178,630
Discount	100%
Net Total	\$178,630

\$137,550 disc price
\$41,080 disc price

U.S. Call Center IT Equipment

Description	Qty	Unit Price	Total	Make/Model	Comments
Production server h/w	1	\$32,000	\$32,000	DL 580 P4 Dual 2.0Ghz 8Gb RAM	Hosts AE, Sql server, supports 40 users
Development server h/w	1	\$3,200	\$3,200	DL 380 P4 2.4Ghz 512MB	Can be bought later
Test server h/w	1	\$3,200	\$3,200	DL 380 P4 2.4Ghz 512MB	Can be bought later
Proxy server h/w	1	\$2,000	\$2,000	DL 320 P3 1.266Ghz 128MB	
Backup Server h/w	1	\$4,500	\$4,500	DL 380 P3 1.4Ghz 512MB + Tape drive	
User Workstations	50	\$1,000	\$50,000	Dell P4 2.4Ghz 256MB 60GB	10 can be bought later
MS SQL Server s/w	1	\$3,500	\$3,500		
Terminal server s/w Lic	1	\$2,000	\$2,000		
Terminal server agent lic	50	\$100	\$5,000		
ArcServe Backup s/w	1	\$1,800	\$1,800		
Printer	4	\$1,500	\$6,000	HP Laserjet 4200	1 can be bought later
Firewall h/w or s/w	1	\$2,000	\$2,000		may be cheaper
Domain controller server h/w	2	\$2,000	\$4,000	DL 320 P3 1.266Ghz 128MB	
MS Exchange server s/w	1	\$4,000	\$4,000		
Networking Hubs	8	\$400	\$3,200		
Exchange Server h/w	1	\$4,500	\$4,500	DL-380 P3 Dual 1.4Ghz 512MB	may be cheaper
Misc. network equipments	1	\$2,000	\$2,000		may be cheaper
Rack	1	\$1,500	\$1,500		
KVM switch	1	\$1,000	\$1,000		
APC switch for power	3	\$50	\$150		
UPS	1	\$2,000	\$2,000		may be cheaper
Total U.S. Call Center			\$137,550		

Black = left unchanged as RC gave it to Bharat & Gerry - included in total
 Blue = changed (pricing, # users, etc.) from RC's original - included in total
 Red = Bharat thinks we don't need - not include in total
 Green = questionable - included in total

Toronto IT Buildout - 11 Bodies (RC 2nd draft after conversation with Bharat)
 All prices in Canadian \$ - converted to US \$ at end

Hardware: (all hardware is whatever Dell is currently offering)

Servers with Win2k OS -> good up to 25 operators

	Unit Price	Total	
1 Webservice / Customer File Transfer / Storage	\$3,000	\$3,000	old hardware will become backup and staging
1 dual CPU Terminal or Citrix Server	\$9,000	\$9,000	single server, not server farm
1 SQL Server	\$9,000	\$9,000	after 6 mo comes to US
1 Utility	\$3,000	\$3,000	may not be required

Users

8 Operator Workstations / Win XP Pro	\$1,600	\$12,800	Dimension 2350 includes Win XP Pro, MS Office, 17" screen, wireless
2 Sales / management workstations	\$2,100	\$4,200	
1 Primary Development Workstation	\$3,500	\$3,500	Dimension 8250
10 operator UPS: CPU and monitor	\$250	\$2,500	

Other

1 Firewall / VPN Appliance	\$1,000	\$1,000	
1 HP Laserjet 4000 series printer	\$2,000	\$2,000	
1 Automated recording system	\$0	\$0	central unit, burns DVDs - built into VOIP system?
1 misc hardware - cables, parts, tools, etc		\$1,000	
1 Wireless Access Point	\$300	\$300	wireless network only way to go now
1 Server UPS	\$2,500	\$2,500	already have 1 - good enough per Bharat
		\$41,100	

Software:

1 Network antivirus or SystemWorks		\$800	\$80 a head?
1 10 user Citrix Subscription Advantage		\$3,000	not necessary for Terminal Server install
10 SQL Server & CALS		\$4,500	maybe only 10 needed
1 Windows 2000 Licence		\$1,250	to use on the older hardware
1 Misc Network utilities		\$500	
15 Windows 2000 TS CALs		\$2,300	necessary for Terminal S, not necessary for Citrix install
1 server backup software		\$2,250	ArcSoft by CA
1 Delphi 7 upgrade and supporting libs		\$1,500	more internet enabled goodies
1 misc development software		\$2,000	most SQL Server utilities are expensive
12 Internet Connectivity - T1 Data / Voice	\$1,840	\$22,080	\$1k US monthly plus taxes (monthly charge)
		\$15,100	

Connection to Scottsdale:

1 Remote office access	\$3,800	24 port Cisco 3550 switch
T1 interface	\$2,300	2621 Cisco router

Consulting & Other:

Network Rebuild under Win 2k	\$4,000	Hardware setup charge using US employee (go to Brampton)
Development Books and materials	\$1,000	
SQL Server admin course for RCC?	\$2,000	
Noble House Citrix Setup	\$0	
	\$7,000	

GRAND TOTAL Cdn \$ \$63,200
 Conversion to US \$ 0.65
GRAND TOTAL US \$ \$41,080

MATERIALS (IP Telephony)	
Call Manager	\$20,000
Unity VoiceMail	\$17,000
Analog Gateway	\$7,000
IP Telephones (No Spares)	\$15,000
WAN Routers/Voice Gateways	\$27,000
TOTAL MATERIALS	\$97,000
CONTACT CENTER (Software & Equipment)	
IPCC Server	\$35,000
Application Gateway License	\$14,000
Historical Database Svr Add on	\$3,080
ICM Server For IPCC Redundancy Option License	\$10,500
Media Routing PG for CIS and CEM	\$21,000
Cisco Agent Desktop Supervisor For IPCC License	\$5,800
CEM Agent License	\$560
CIS Agent License	\$560
Blended Agent	\$560
Cisco Agent Desktop Recording Option	\$105
CONTACT CENTER TOTAL	\$115,200
GROSS TOTAL	\$212,374
Est. Discount	80%
NET TOTAL	\$169,899

Model Number	Description	Qty	Unit Price	Disc. Price	Total
Call Manager					
MCS-7835-1266	Media Convergence Server 7835 PIII 1266 MHz Top Level Part	2	\$0	\$0	\$0
MCS-7835-1268-TD	MCS-7835-1268 Server w/ Tape Drive-No Software-No Spares	2	\$14,595	\$10,217	\$20,433
SW-CCM-3.3-7835	CallManager 3.3 Software for MCS-7835 Servers	2	\$5,995	\$3,897	\$7,794
Unity VoiceMail					
UNITY-SVR7847-2A=	MCS 7847 rack, 1GB; RAID 5, 2nd CPU (W2K included)	1	\$18,995	\$12,347	\$12,347
UNITYV40-100USR8	Unity Voice Messaging, 100 users (includes 8 sessions)	1	\$8,000	\$5,200	\$5,200
Analog Gateway					
VG248	48 Port Voice over IP analog phone gateway	0	\$11,995	\$7,197	\$0
IP Telephones					
CP-7940G	Cisco IP Phone 7940G, Global	45	\$315	\$205	\$9,214
SW-CCM-UL-7940	CallManager Unit license for single 7940 IP phone 5 of these phones are designated as spares	45	\$150	\$98	\$4,388
WAN Routers / Voice Gateways					
CISCO3745	Cisco 3700 Series 4- Slot Multiservice Access Router	2	\$12,000	\$7,620	\$15,240
S3740CP-12213T	Cisco 3745 Series IOS IP PLUS	2	\$900	\$572	\$1,143
MEM3745-32U64CF	32 to 64MB Compact Flash factory upgrade for the Cisco 3745	2	\$300	\$191	\$381
MEM3745-32CF-EXT	32MB External Compact Flash factory upgrade for Cisco 3745	2	\$300	\$191	\$381
NM-2V	Two-Slot Voicefax Network Module	2	\$1,000	\$635	\$1,270
VIC-2FXO-M1	Two-port Voice Interface Card - FXO w/ Reversal (for US+)	2	\$400	\$254	\$508
NM-HDV-2T1-48	Dual-Port 48 Channel T1 Voice/Fax Network Module	2	\$8,800	\$6,223	\$12,446
NM-1HSSI	Single port HSSI network module for 3700 series	2	\$5,000	\$3,175	\$6,350
MATERIALS \$97,000					
Cisco IP Contact Center Software Release 6.0					
IPC-SVR	IPCC Server	1	\$35,000	\$24,500	\$24,500
ICM-GTWAPP-L	Application Gateway License	0	\$20,000	\$14,000	\$0
ICM-HDSSVR	Historical Database Svr Add on	1	\$4,400	\$3,080	\$3,080
IPC-SVRRDNT-L	ICM Server For IPCC Redundancy Option License	1	\$15,000	\$10,500	\$10,500
CIS-CEM-SVR-W	Media Routing PG for CIS and CEM	0	\$30,000	\$21,000	\$0
IPC-SUPCSD-L	Cisco Agent Desktop Supervisor For IPCC License	2	\$4,000	\$2,800	\$5,800
CEM-AGT-T1-L	CEM Agent License	0	\$800	\$560	\$0
CIS-AGT-T1-L	CIS Agent License	40	\$800	\$560	\$22,400
ICM-BLEAAG-T1-L	Blended Agent	0	\$800	\$560	\$0
IPC-AGTCADCTH-L	Cisco Agent Desktop Recording Option	40	\$150	\$105	\$4,200
IP Contact Center Server Hardware Estimate					
	4 Enterprise Class W2000 Servers				\$40,000
	1 Enterprise Class W2000 Administrative Workstation				\$5,000
IVR Hardware and Software					
MCS-7835-1266	Media Convergence Server 7835 PIII 1266 MHz Top Level Part	2	\$0	\$0	\$0
MCS-7835-1268-TD	MCS-7835-1268 Server w/ Tape Drive-No Software-No Spares	0	\$14,595	\$10,217	\$0
IVR-3.0	IVR 3.0 SW and 5 IVR Ports for Cisco Approved Platforms	0	\$4,995	\$3,497	\$0
IVR-3.X-PORT1	15 IVR 3.X Ports at \$1195 each	0	\$17,925	\$12,548	\$0
CAB-AC	Power Cord,110V	4	\$0	\$0	\$0
CONTACT CENTER TOTAL \$115,200					
GRAND TOTAL					
NET TOTAL					
est. @ 80% \$169,899					
Implementation and setup	1000 hours @ \$65 per hour	1000	\$65	\$65,000	

ITEM	OPERATING MONTH											
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Debt												
Equity												
TAT (Total Absence Mgmt) - New Bus Covered employees Revenue	\$4.00											
TAT (Total Absence Mgmt) - New Bus Covered employees Revenue	\$2.39											
Absence Management - New Bus Covered employees Revenue	\$1.61											
FML Management - Projected New Covered employees Revenue	\$1.25											
ASP (App. Service Provider) - New Bus Covered employees Revenue	\$1.19											
IDM Consulting/Training/Integration - Eas Revenue	\$1.00											
IT Consulting												
TOTAL COVERED EMPLOYEES OPERATING REVENUE	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144
REVENUE x CAPITAL INFLOW	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144	\$13,144

Category	Item	Amount	Rate	Notes
MOVING EXPENSE	U.S. CALL CENTER/CCRP FACILITY	4,800		
	Rent	20,000		
	Equipment	2,500		
	Utilities	3,000		
	Phone	3,000		
	Internet	3,000		
	Bandwidth	3,000		
	TORONTO CALL CENTER	2,000		
	Rent	2,000		
	Other	2,000		
TOTAL FACILITIES COST		50,000		
	Marketing	50,000		
	Travel	50,000		
	Employee Leave Pay & Hiring	50,000		
	TOTAL MARKETING COST	50,000		
	PERSONNEL			
	EXECUTIVES			
	CEO & CFO (Loan Finance)	250,000		
	SVP National Sales (Bill Walker)	150,000		
	SVP Software Dev. (Rob Crandall)	150,000		
SVP CTO (Brent Sney)	150,000			
VP IT Operations Manager	85,000			
ADMINISTRATION				
Operations Manager	50,000			
Executive Assistants (1)	27,000			
Mail Clerk	17,000			
SALES PERSONNEL				
Regional Sales Manager	45,000			
Account Executive	45,000			
Account Manager	45,000			
Sales Assistant	30,000			
U.S. CALL CENTER				
Dist Base Manager	45,000			
HR Manager	45,000			
Site Supervisors	50,000			
Registered Nurses	45,000			
In-House Operators	30,000			
40 hrs per wk for 52 wks @ 12hr	30,000			
TORONTO PAYROLL				
TOTAL PAYROLL	1,000,000			
BENEFITS @ 25% of U.S. Payroll	250,000			
TOTAL PAYROLL + BENEFITS	1,250,000			
PROFESSIONAL SERVICES				
Legal & Professional	100,000			
IT Consulting (Cable Connections)	100,000			
Network Fee	100,000			
DEBT SERVICE				
Principal	100,000			
Interest (Prime + 3%)	100,000			
Loan Fees	100,000			
EXISTING OBLIGATIONS (see Tab)				
Touchpoint Purchase	100,000			
Ron Holman & Lyric Capital Notes	100,000			
Might Funded Operating Expenses	100,000			
REPAIR CAPITAL CONTRACT				
TOTAL EXPENSES	2,000,000			
PROFIT LOSS (Pre Tax)	(100,000)			
CASH FLOW (Pre Tax)	(100,000)			
REMAINING CASH (Pre Tax)	(100,000)			

ITEM	OPERATING MONTH											
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Debt												
Equity												
TAT (Total Absentee Mgmt) - New Bus	12,000	7,500	7,500	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Covered employees	111,000	116,500	126,000	128,000	128,000	148,000	161,000	161,000	171,000	181,000	181,000	200,000
Revenue	\$446,335	\$458,270	\$458,808	\$532,170	\$536,920	\$596,820	\$696,346	\$696,346	\$867,746	\$866,186	\$872,846	\$908,546
TAT (Total Absentee Training) - New Bus	12,000	7,500	7,500	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Covered employees	111,000	116,500	126,000	128,000	128,000	148,000	161,000	161,000	171,000	181,000	181,000	200,000
Revenue	\$254,151	\$258,841	\$254,117	\$277,811	\$285,346	\$285,346	\$326,454	\$319,561	\$344,354	\$344,354	\$326,454	\$420,874
Absentee Management - New Bus	12,000	7,500	7,500	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Covered employees	114,170	121,670	128,170	138,170	148,170	154,170	154,170	164,170	174,170	184,170	184,170	200,170
Revenue	\$182,132	\$180,700	\$208,121	\$227,150	\$242,364	\$242,364	\$248,268	\$297,812	\$282,454	\$362,852	\$310,910	\$341,396
FIM Management - Projected New	50,000	26,000	26,000	30,000	30,000	26,000	10,000	10,000	20,000	20,000	20,000	20,000
Covered employees	50,000	26,000	26,000	30,000	30,000	26,000	10,000	10,000	20,000	20,000	20,000	20,000
Revenue	\$60,888	\$62,868	\$60,888	\$70,888	\$70,888	\$60,888	\$25,888	\$25,888	\$51,888	\$51,888	\$51,888	\$51,888
ASP (App. Service Provider) - New Bus	4,000	2,000	2,000	3,000	3,000	1,600	2,000	2,000	4,000	4,000	4,000	5,000
Covered employees	40,600	42,800	44,500	47,500	50,000	50,000	54,000	56,000	60,000	64,000	66,000	70,000
Revenue	\$42,864	\$42,864	\$44,821	\$48,817	\$51,568	\$53,676	\$53,676	\$55,906	\$61,850	\$65,548	\$69,401	\$75,164
IDM Consulting/Training/Immigration - New Bus	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000
Revenue	\$26,000	\$26,000	\$26,000	\$26,000	\$26,000	\$26,000	\$26,000	\$26,000	\$26,000	\$26,000	\$26,000	\$26,000
IT Consulting - New Bus	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Revenue	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
TOTAL COVERED EMPLOYEES	796,638	844,338	891,638	931,638	971,638	1,011,638	1,051,638	1,091,638	1,131,638	1,171,638	1,211,638	1,251,638
TOTAL COVERED REVENUE	\$1,490,842	\$1,480,750	\$1,571,031	\$1,636,715	\$1,602,666	\$1,602,666	\$1,622,645	\$1,690,649	\$1,822,645	\$1,822,645	\$1,822,645	\$2,000,649
REVENUE + CAPITAL INFLOW	\$1,490,842	\$1,480,750	\$1,571,031	\$1,636,715	\$1,602,666	\$1,602,666	\$1,622,645	\$1,690,649	\$1,822,645	\$1,822,645	\$1,822,645	\$2,000,649

Year 8 Cash Flow Projection		MOVING EXPENSE		TEMP LIVING EXPENSE (Cash)		\$100,000		\$25,000	
U.S. CALL CENTER/CORP FACILITY	20,000	\$33,353	\$33,353	\$33,353	\$33,353	\$33,353	\$33,353	\$33,353	\$33,353
Rent	\$20,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Tenant Improvements	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Utilities	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000
Vehicle	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Travel	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Telephone	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Insurance	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
TORONTO CALL CENTER		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Rent	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Utilities	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Travel	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Telephone	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Insurance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL FACILITY COST	\$107,188	\$107,188	\$107,188	\$107,188	\$107,188	\$107,188	\$107,188	\$107,188	\$107,188
MARKETING									
Travel	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000
Employee Leasing (Per & Leasing)	\$0.85	\$78,188	\$78,188	\$78,188	\$78,188	\$78,188	\$78,188	\$78,188	\$78,188
TOTAL MARKETING COST	\$78,848	\$78,848	\$78,848	\$78,848	\$78,848	\$78,848	\$78,848	\$78,848	\$78,848
PERSONNEL									
Executive Rates	7.0%	\$22,292	\$22,292	\$22,292	\$22,292	\$22,292	\$22,292	\$22,292	\$22,292
Pres & CEO (Low Firm)	\$87,500	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000
CFO	\$107,000	\$8,917	\$8,917	\$8,917	\$8,917	\$8,917	\$8,917	\$8,917	\$8,917
VP National Sales (RM Whelan)	\$12,000	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800
VP National Sales (Ron Chisholm)	\$12,000	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800
VP CTO (John)	\$12,000	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800
VP IT Operations Manager	\$80,000	\$7,578	\$7,578	\$7,578	\$7,578	\$7,578	\$7,578	\$7,578	\$7,578
ADMINISTRATION									
General Office Manager	\$42,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
Executive Assistants (4)	\$25,350	\$1,456	\$1,456	\$1,456	\$1,456	\$1,456	\$1,456	\$1,456	\$1,456
Mail Clerk	\$17,650	\$1,456	\$1,456	\$1,456	\$1,456	\$1,456	\$1,456	\$1,456	\$1,456
SALES PERSONNEL									
Sales Manager	\$40,200	\$17,083	\$17,083	\$17,083	\$17,083	\$17,083	\$17,083	\$17,083	\$17,083
Account Executive	\$57,750	\$14,438	\$14,438	\$14,438	\$14,438	\$14,438	\$14,438	\$14,438	\$14,438
Account Executive	\$47,250	\$11,813	\$11,813	\$11,813	\$11,813	\$11,813	\$11,813	\$11,813	\$11,813
Sales Assistant	\$31,000	\$7,875	\$7,875	\$7,875	\$7,875	\$7,875	\$7,875	\$7,875	\$7,875
U.S. CALL CENTER									
General/Supervisor Manager	\$42,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
Manager/HR	\$47,250	\$3,508	\$3,508	\$3,508	\$3,508	\$3,508	\$3,508	\$3,508	\$3,508
HR Supervisors	\$37,000	\$12,800	\$12,800	\$12,800	\$12,800	\$12,800	\$12,800	\$12,800	\$12,800
Registered Nurses	\$47,250	\$27,858	\$27,858	\$27,858	\$27,858	\$27,858	\$27,858	\$27,858	\$27,858
Inkjet Operators	\$35,750	\$2,625	\$2,625	\$2,625	\$2,625	\$2,625	\$2,625	\$2,625	\$2,625
40 hrs per wk for 52 wks @ 12/24	\$32,750	\$2,625	\$2,625	\$2,625	\$2,625	\$2,625	\$2,625	\$2,625	\$2,625
TORONTO PAYROLL	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
BENEFITS @ 20% of U.S. Payroll	\$48,774	\$9,755	\$9,755	\$9,755	\$9,755	\$9,755	\$9,755	\$9,755	\$9,755
TOTAL PAYROLL + BENEFITS	\$87,774	\$87,774	\$87,774	\$87,774	\$87,774	\$87,774	\$87,774	\$87,774	\$87,774
PROFESSIONAL SERVICES									
Legal & Professional	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
IDM Consulting (Double Overhead)	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000
Richard Ross	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000
TOTAL PROFESSIONAL COST	\$44,000	\$44,000	\$44,000	\$44,000	\$44,000	\$44,000	\$44,000	\$44,000	\$44,000
DEBT SERVICE									
Principal	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
Interest (Year 2 @ 0.8%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Loan Fees	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
EXISTING OBLIGATIONS (see Tab)									
Touchpoint Partners	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Ron Holman & Lynn Capital Works	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Right Pointed Operating Expenses	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
BPEWAR CAPITAL CONTRACT									
TOTAL EXPENSES	\$985,470	\$985,470	\$985,470	\$985,470	\$985,470	\$985,470	\$985,470	\$985,470	\$985,470
PROFIT/LOSS (Pre Tax)	\$15,072	\$15,072	\$15,072	\$15,072	\$15,072	\$15,072	\$15,072	\$15,072	\$15,072
CASH FLOW (Pre Tax)	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
REMAINING CASH (Pre Tax)	\$1,250,000	\$1,250,000	\$1,250,000	\$1,250,000	\$1,250,000	\$1,250,000	\$1,250,000	\$1,250,000	\$1,250,000

FINANCIAL RATIOS

% Operating Profit	1.4%
ROI	21.4%
ROI @ 18 P/E	21.4%
ROI @ 20 P/E	21.7%

INVESTOR EXIT

% Ownership	91%
ROI	21.4%
ROI @ 18 P/E	21.4%
ROI @ 20 P/E	21.7%

EXISTING OBLIGATIONS

Touchpoint Partners	\$15,000
Ron Holman & Lynn Capital Works	\$10,000
Right Pointed Operating Expenses	\$5,000
TOTAL	\$30,000

TOTAL EXPENSES

Facility	\$107,188
Marketing	\$78,848
Personnel	\$87,774
Professional	\$44,000
Debt Service	\$251,000
Existing Obligations	\$30,000
BPEWAR Capital Contract	\$0
TOTAL	\$699,810

PROFIT/LOSS (Pre Tax)

Revenue	\$1,000,000
Expenses	(\$985,470)
Profit	\$14,530

REMAINING CASH (Pre Tax)

Start	\$1,250,000
Profit	\$14,530
Expenses	(\$30,000)
End	\$1,234,530

CONFIDENTIAL INFORMATION

4th YEAR CASH FLOW PROJECTIONS

DATE	OPERATING MONTH											
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
TOTAL AGENCY REVENUE	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600
TOTAL AGENCY EXPENSES	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
NET CASH FLOW	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200
CUMULATIVE NET CASH FLOW	11,200	22,400	33,600	44,800	56,000	67,200	78,400	89,600	100,800	112,000	123,200	134,400
INITIAL INVESTMENT	(134,400)											
NET CASH POSITION												
OPERATING ASSETS	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600
OPERATING LIABILITIES	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
NET OPERATING ASSETS	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200
INITIAL INVESTMENT	(134,400)											
NET INVESTMENT POSITION												
OPERATING ASSETS	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600	13,600
OPERATING LIABILITIES	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
NET OPERATING ASSETS	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200
INITIAL INVESTMENT	(134,400)											
NET INVESTMENT POSITION												

Not Applicable		
September		
Year 1		
Operating Revenue	\$13,144	
Bridge	\$0	
Total	\$13,144	
Use of Funds		
Temporary Living	\$0	
Toronto Call Center	\$17,600	
Marketing	\$6,193	
Managers' Salary & Benefits	\$0	
Debt Service & Fees	\$0	
Offering Fees	\$0	
Existing Obligations	\$0	
Total	\$23,793	
Net Cash (Remaining Bridge)		(\$10,650)

CMGT Existing Obligations

Managers have not taken any salaries since October 2000 and have been funding operations on their personal credit cards since that time. The totals listed below reflect this credit card debt. Receipts are available.

Management Credit Cards	Total ¹	Funding Payment	Subsequent Payment
Lou Franco	\$180,000	\$100,000	\$80,000
Craig Jackson	\$30,000	\$20,000	\$10,000
Rob Crandall	\$2,500	\$2,500	\$0
TOTAL	\$212,500	\$122,500	\$90,000

Investor Notes			
Dr. Ron Holman Note ²	\$0	\$0	\$0
Lyric Capital Demand Note	\$0	\$0	\$0
Touchspeed Purchase ³	\$0	\$0	\$0

Professional Services			
Spehar Capital	\$100,000		\$100,000
Wong & Knowles	\$100,000		\$100,000
Mayer Brown Rowe & Maw ⁴	\$200,000		\$200,000
TOTAL	\$612,500	\$122,500	\$490,000

¹ Payment to be made based on substantiating receipts
² Holman note incl. interest + warrants; Mgt. suggests \$100 payment to satisfy note in full with Holman agreement/waiver of claims.
³ \$200K + interest + add'l payments = \$450K overdue; Mgt. suggests \$150K & negotiated agreement (convert to equity and/or payment schedule TBD)
⁴ Est. billable hours; MBR&M agreeable to payments & 50% forgiveness if retained for future

COMPANY	SERVICE	PARTNER	RFP DATE	STATUS as of 5/22/02	Employees
Orade Corporation	FILA/LOA	ESIS/Marsh	3/1/2001	• CMT named as finalist bidder against Merrit - no decision on FILA; FILA to be held Q1 2003; UNUM best CIGM; UNIC, Hartford	20,800
Salomon, Smith Barney	FILA/LOA	CIGNA/Hawitt Associates	1/31/2002	• Decision expected in Q1 2003; CMT has direct contact with Phyllis Wade at 538	50,000
Dentsply International, Inc.	FILA/LOA	CIGNA	2/4/2002	• Decision expected in Q1 2003	3,093
Levi Strauss & Co.	FILA/LOA	CIGNA & Hartford	2/1/2001	• Quote pending decision - no timetable	8,600
SCT Corporation	FILA/LOA	CIGNA & Merrit	8/9/2001	• CIGNA did not make final - CIGNA rep did not pursue CMT quotes; Disability & FILA to be held in Q3 2003	2,500
CSAA - AAA clubs in CA, AZ, NV, NH	FILA/LOA	CIGNA	8/9/2001	• Quote pending decision - no timetable	5,800
Colgate-Palmolive Co.	FILA/LOA	CIGNA	8/10/2001	• Quote pending decision - no timetable	4,800
ADVO, Inc.	FILA/LOA	CIGNA	9/4/2001	• Decision expected in Q2 2003	8,800
Tedron Corporation	FILA/LOA	CIGNA	3/30/2001	• Decision delayed until Q2 2003 - may involve rebid	51,120
AT&T Broadband	FILA/LOA	CIGNA	4/1/2001	• CMT named as finalist bidder - Quote pending broker's analysis & report; no timetable	25,000
United Space Alliance (USA)	FILA/LOA	CIGNA	4/6/2001	• CIGNA retained for disability; CMT named as finalist; FILA decision postponed to Q2 2003	10,000
Coors Brewing Company	FILA/LOA	CIGNA	2/7/2001	• CIGNA retained for disability; CMT named as finalist; FILA decision postponed to Q1-Q3 2003	5,400
Large Corporation	FILA/LOA	CIGNA	3/29/2001	• Decision expected in Q2 2003	66,000
Newport News Shipbuilding	FILA/LOA/TAM	CIGNA & Merrit	5/22/2001	• Decision expected in Q1 2003	8,442
City of Arlington, TX	FILA/LOA	CIGNA	8/6/2001	• Decision expected in Q1 - Q3 2003	1,975
Wendell Universal	FILA/LOA	CIGNA/Towers Perrin	8/9/2001	• CIGNA lost disability - no decision on FILA; FILA to be held by Towers Perrin in Q2 2003	8,442
US West Corp.	FILA/LOA	CIGNA	6/30/2000	• Quest merged with US West in 2001	59,000
Quest Communications	FILA/LOA	CIGNA & Hartford	7/6/2000	• CIGNA & Hartford did not make final; CMT informed it was selected as winning bidder. August 2001 - due to US West/Quest sever losses 4% budget will delay est. date until 2003; CMT has direct contact with Maria Henderson of Quest.	10,000
NRT, Inc.	FILA/LOA	CIGNA	8/17/2001	• FILA proposal accepted 09/20/2001 - implementation delayed - no timetable due to NRT switching insurers	5,500
American Airlines	FILA/LOA/TAM	CIGNA & Hartford/Pacific Resources	2/13/2002	• CMT/Hartford presented a joint proposal for AA for consideration in Q3 2002; CIGNA presented CMT quote 2/13/02 & did not make final; decision pending	99,000
United Health Care	FILA/LOA	Hartford	1/30/2002	• Quote pending decision - no timetable; United Health Group released RFP; Hartford in contention - FILA under	28,000
Turner Broadcasting System, Inc.	FILA/LOA	Hartford/Merrit	7/24/2001	• Hartford/CMT named finalists; Merrit planned for 1/1/02 effective date - delayed due to TRC business planning priorities	8,000
Petroleum Equity	FILA/LOA	Hartford/Merrit/Marsh	11/1/2001	• Hartford/CMT selected as winning bidder; FILA effective date 4/1/02; Hartford servicing in-house pending CMT funding	6,000
Ball Corporation	FILA/LOA	Hartford/Merrit/Marsh	11/28/2001	• Hartford/CMT selected as winning bidder on 11/16/01; FILA effective date is 7/1/02; Hartford will service in-house pending CMT funding	6,000
Consolidated Freightways	FILA/LOA	Hartford	7/23/2001	• Hartford/CMT proposal under consideration - no timetable; C' deciding on union vs. non-union plans & services; decision expected Q3 2002	22,000
Honda Manufacturing of Ohio	FILA/LOA	Hartford	10/26/2001	• Honda Mfg. of AL was awarded to CMT est. 7/1/02 2002 - decision on OH expected in Q2 - Q3 2002; Hartford will service in-house pending CMT funding	13,500
Honda Manufacturing of Alabama	FILA/LOA	Hartford	10/26/2001	• Honda Mfg. of AL was awarded to CMT est. 7/1/02 2002; Hartford will service in-house pending CMT funding	2,800
Midco USA	FILA/LOA	Hartford	9/18/2001	• Quote pending decision	18,000
Alstate	FILA/LOA	Hartford	2/16/2001	• Scheduled for rebid Q2 2003	86,000
J. P. Morgan	FILA/LOA	Hartford	4/16/2001	• Quote pending decision	12,000

37,000	Proposals outstanding & pending decision						<ul style="list-style-type: none"> Prospects Include: Zimmer (2,000+ Est) Alliant Energy (2,000+ Est) AppliedMedical/Carvita (1,100 Est) Waltec Computer (7,800 Est) Medica Health (4,000 Est) Franklin Covey (2,000+ Est) KB Home (2,700 Est) WRUS (6,000 Est) Sea Micro Systems (8,000 Est)
200,000	Unrealizable						
15,000	Partnership with ICS						
14,000	Partnership with ICS						
600	Partnership with ICS						
1,600	Partnership with ICS						
5,000	CMGT named trustee in late July 2001; Liberty Mutual not a trustee as of Q1 2002; CORE providing partial FELA trading - 653 expiring service; Mutual on insurer & FELA delayed to Q3 due to Boeing's move to Chicago & layoffs expedited Q3 2002						
76,000	CMGT named as trustee with Hartford; Liberty Mutual not a trustee; UNUM provided also a trustee; CMGT quote & FELA decision pending choice of insurer (UNUM will keep part of STD/LTD - poss. 2nd carrier involved)						
30,000	Liberty not a trustee; CMGT FELA quote pending decision - Watson Wyatt investigating poss. Attribution VTR transfer to CMGT trustee						
30,000	Insurer & FELA decision delayed until Q3 2003 to accommodate TCA reorganization of clients; Willis						
6,101	Quote pending decision						
10,000	Quote pending decision - CMGT only bidder; STD/LTD clients - Discussions underway						
3,500	CMGT only bidder - DVD client; PEC awaiting decision pending PEC's financial restructuring & law dept. option re: necessity for municipal utility to comply with FELA						
2,800	Result of Q3 & Q4 2001 TAM Seminars; quote pending decision until Q1 2003						
30,000	Result of Q3 & Q4 2001 TAM Seminars; quote pending decision until Q1 2003						
13,000	Result of Q3 & Q4 2001 TAM Seminars; quote pending decision until Q1 2003						
11,000	Result of Q3 & Q4 2001 TAM Seminars; quote pending decision until Q1 2003						
2,700	Result of Q3 & Q4 2001 TAM Seminars; quote pending decision until Q1 2003						
7,000	Result of Q3 & Q4 2001 TAM Seminars; quote pending decision until Q1 2003						
3,000	Result of Q3 & Q4 2001 TAM Seminars; quote pending decision until Q1 2003						
9,000	Quote pending decision until Q1 2003						
2,000	Quote pending decision until Q3 2003						
1,200	Quote pending decision until Q3 2003						
9,000	Felton. Proposal delivered 2/9/2003; CMGT. Result & will held in Q2-Q3						
6,000	Quote pending decision until Q2 2003						
6,000	Quote pending decision until Q2-Q3 2003						
8,000	Quote pending decision until Q1-Q2 2003 - CMGT's funding with Sealaska key issue						
32,000	Felton. Proposal delivered 1/31/03; pending decision until Q2-Q3 2003						
1,500							
Total 1,171,873							

Color Codes for Monthly & Tax Sections:

Blue: Input cells that drive other cells formulas

Orange: Cells that are driven by corresponding blue cells (BE SURE BEFORE INPUTTING THESE CELLS)

All specific Revenue & Expense projections per CMGT management

TOTAL COVERED EMPLOYEES excludes ASP in the Monthly section because ASP shouldn't affect Nurses or Operators

Year 1: Financing Options

Bridge, Debt & Equity amounts can be input into the appropriate cells to assess various financing alternatives.

CMGT Valuation: NPV Calculation

To calculate an NPV for CMGT using your own "what if" revenue forecast & Required Return:

- a) Input % of projections (in Year 1 or for each Year) or build month-by-month revenue as desired;
- b) Input 4 yr Treasury and Risk Premium to get "Required Return" discount rate.
- c) Input Residual multiple (which covers all years past 2006). This should be at least "4" for reasons listed below.

"Required Return" discount rate:

By comparison to any sustainable measure of average annual Venture Capital returns since the 1970s - or expected returns - that we've seen, a 35 - 40% Required Return seems generous. The CFA publication "Investing in Venture Capital" calculates VC Long Term Equilibrium and Expected Returns under 20%. VCs with a significant "startup" component seem to target around 25-30% compounded ROI on their invested portfolio. In that light, a 38% Required Return discount rate would seem more than fair.

Residual Value Term:

Quotes are from CFA publication: "Valuation of Closely Held Companies & Inactively Traded Securities"

- "The Discounted Cash Flow approach is theoretically the most correct valuation approach."
- "In a DCF approach it is not uncommon to see 50 to 80 percent of the calculated value come from the residual value term."
- "...normally over half of the ultimate appraised value comes from the terminal value."
- "Typically, we estimate 5 or 10 years of individual cash flows" before a terminal / residual value is established. Since we are only estimating 3.75 years of individual cash flows before establishing a residual value, our residual value should be a greater than normal percentage of total value.

Derivation of Market Growth:

The U.S. civilian industrial labor force for 2004 through 2006 is derived using the May 2002 labor force and average monthly growth for Jan through May 2002. These numbers were taken from the U.S. Dept. of Labor's Bureau of Labor Statistics website (<http://www.bls.gov/news.release/empst.101.htm>). The average monthly growth rate can be re-calculated on a rolling basis to keep market estimates current.

Exhibit 8: Value of Stock Compensation

■ CMGT Market Value	\$187,560,453
■ Spehar %	X <u>6%</u>
■ Spehar Stock Value	\$ 11,253,627

- COMPENSATION. 1) b): "Stock Compensation" of either common stock in CMGT or, if Spehar Capital so chooses, Warrants exercisable into common stock in CMGT.
 - i. At such time as CMGT receives and accepts a Term Sheet or other commitment from an investor(s) (an "Accepted Commitment") for a minimum of \$1,000,000.00 Accepted Capital, CMGT will award Spehar Capital Stock Compensation equal to six percent (6%) of the total common shares and common share equivalents (as detailed in "iii" of this subparagraph "1.b)" herein) issued to all shareholders.

Exhibit 9: CMGT Market Value

CMGT Cash Flows and Present Values

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006 IPO</u>
Cash Flow	\$(1,495,178)	\$3,035,393	\$6,446,035	\$377,465,693
PV Formula	$CF/(1.25^{n0.25})$	$CF/(1.25^{n1.25})$	$CF/(1.25^{n2.25})$	$CF/(1.25^{n3.25})$
PV of CF	\$(1,414,052)	\$2,296,558	\$3,901,621	\$182,776,326

■ **CMGT Value: \$187,560,453**

- Value = the sum of Cash Flow NPVs
- Value is as of Valuation Date: October 3, 2003

Exhibit 9: GMGT Market Value

- **NPV Calculation: $PV = CF/(1+i)^n$**
 - PV = Present Value
 - CF = Cash Flow
 - i = Discount Rate
 - n = Time Period (from Valuation Date)

Exhibit 10: CMGT IPO Value

- CMGT 2006 Operating Earnings \$15,098,628
- Market Multiple X 25
- CMGT 2006 IPO Value \$377,465,693

Exhibit 1: Market Multiple

<u>Market Index</u>	<u>2003 avg. P/E</u> Oct. 9, 2003	<u>Avg. Market Cap</u>	<u>P/E</u> Feb 24, 2004
S&P 500	29.58	19.2 billion	23.36
S&P 600 Small Cap	31.5	\$672 million	29.58
Russell 3000	32.98	\$3.7 billion	25.2
Administaff (Company)	52.67	\$294 million	31.5

Source: Bloomberg

- **Multiple used for Valuation: 25** (conservative: lower = lower IPO value)

Exhibit 12: Value of Investment Banking Fee

Investment Banking Cash Flows and Present Values

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006 IPO Fees</u>
Cash Flow	\$0	\$0	\$0	\$11,323,971
PV Formula	$CF/(1.25^0.25)$	$CF/(1.25^1.25)$	$CF/(1.25^2.25)$	$CF/(1.25^3.25)$
PV of CF	\$0	\$0	\$0	\$5,483,290

■ Spehar IB Rights: \$5,483,290

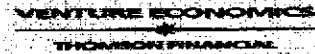
- Value = the sum of Cash Flow NPVs
- Value is as of Valuation Date: October 3, 2003

Exhibit 13: Investment Banking Fee

▪ CMGT 2006 IPO Value	\$377,465,693
▪ Spehar %	X <u>3%</u>
▪ Spehar Fee	\$ 11,323,971

▪ COMPENSATION, 1)b)

i. In addition, at such time as CMGT receives and accepts such commitment for said \$1,000,000, this agreement will convert to an exclusive agreement under all the same terms and conditions, and CMGT will grant Spehar Capital an exclusive right of first refusal to any future debt and/or equity financing, sale merger or acquisition, including an IPO.



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Short-Term Private Equity Performance Begins to Improve in Q2 2003 With Little Movement in Venture Capital Performance

The Private Equity Asset Class Remains a Strong Long Term Investment

October 14, 2003—Newark, NJ— One-year private equity returns improved slightly from historically low levels, as the one-year private equity return was -6.9% for the period ending June 30, 2003 compared to a -15.5% for the period ending March 31, 2003, according to Thomson Venture Economics and the National Venture Capital Association. Venture capital performance for Q2 was virtually unchanged at -27.4% from the previous quarter. Distributions back to limited partners approximately doubled from the prior quarter, but total realizations remain below traditional levels.

Long-term performance figures, the best indicator of fund performance, remained strong at 26.2% and 14.2% respectively. These figures are most relevant because they best match the life span of venture capital and private equity funds. By spreading the risk over multiple phases of the business cycle, venture capital and private equity funds have been able to consistently outperform the public markets over the long term.

Positive indicators for future improvements in private equity fund performance were led by the NASDAQ's strong showing in Q2, with a one-year return of 10.8%. NASDAQ is an important indicator of the future health of the venture capital market as most venture-backed companies either go public on NASDAQ or are acquired by NASDAQ listed companies. In addition, the number of private equity backed IPO's has also been increasing, with most of them currently trading above their offering price.

Figure 1. Venture Economics' US Private Equity Performance Index (PEPI)

Investment Horizon Performance through 06/30/2003

Fund Type	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr
Early/Seed VC	-26.1	-21.7	47.9	35.7	19.8
Balanced VC	-13.6	-16.5	18.6	21.4	13.9
Later Stage VC	-45.1	-22.0	7.3	19.5	14.3
All Venture	-27.4	-20.0	24.2	26.2	16.1
All Buyouts	2.6	-6.1	0.6	8.8	12.1
Mezzanine	3.7	1.7	6.1	8.4	9.8
All Private Equity	-6.9	-9.9	6.1	14.2	13.8
NASDAQ	10.8	-25.8	-3.1	8.7	12.7
S&P 500	-1.5	-12.5	-3.0	8.0	11.6

Source: Thomson Venture Economics/National Venture Capital Association

*The Private Equity Performance Index is based on the latest quarterly statistics from Thomson Venture Economics' Private Equity Performance Database analyzing the cashflows and returns for over 1600 US venture capital and private equity partnerships with a capitalization of \$534 billion. Sources are financial documents and schedules from Limited Partners investors and General Partners. All returns are calculated by Thomson Venture Economics from the underlying financial cashflows. Returns are net to investors after management fees and carried interest.

Mark Heesen, president of the National Venture Capital Association explained, "It's too early to claim that a recovery is in the near future. However, it is encouraging to see that exit activity is on the rise. Recovery of venture capital performance will lag the public markets considerably. It will take some time for venture-backed companies to build their customer and revenue base. As they grow and reach profitability, an IPO or acquisition will then become possible and will lead to the realization of returns for investors."

According to Jesse Reyes, Director of Thomson Venture Economics' US Branch, "As we entered the second quarter this year, you have to remember that the entire financial community was affected by the volatile geopolitical environment surrounding the war in Iraq. The venture and buyouts industries are not totally immune to these factors. As a result the rebound we saw in the second quarter in performance as well as investments was probably delayed by these events. Given the general trends in the economy and new found optimism in the technology sector, we expect performance to continue to improve in the coming months. The good news is that the distribution spigot began to flow again, albeit at levels below a year ago, but at least some exits are being realized."

Figure 2. Distributions of Capital to Limited Partners During Recent Quarters

Period	Private Equity* (\$Mil)	Venture Capital (\$Mil)
	Total Dist	Total Dist
2002-1	6,574.112	1,656.826
2002-2	8,844.059	1,543.051
2002-3	3,183.769	691.044
2002-4	5,711.136	2,495.240
2003-1	3,260.203	634.968
2003-2	6,203.418	1,123.387

Source: Thomson Venture Economics/National Venture Capital Association

*Private Equity = Venture Capital + Buyouts + Mezzanine + Other Private Equity

Distributions are the cash or value of stock disbursed to the limited partners of a fund.

An analysis of the Cumulative Paid in to Committed Capital (PICC) shows that venture capital takedowns have increased at a slow rate, which illustrates that venture capitalists are making a cautious effort in investing their limited partners' capital. As shown below the PICC for the combined last five vintage years has increased at a steady pace showing that the dry powder, albeit at a small rate, is starting to be taken down and invested. The PICC is a determinate of the total available capital. An increase in the PICC will signal that the total amount available will decrease.

Figure 3. Cumulative PICC For Venture Capital Vintage Year 1999-2003 Funds

Inception To	PICC
	Pooled Avg
06/30/2002	0.47
09/30/2002	0.49
12/31/2002	0.50
03/31/2003	0.52
06/30/2003	0.53

Source: Thomson Venture Economics/National Venture Capital Association

Thomson Venture Economics, a Thomson Financial company, is the foremost information provider for equity professionals worldwide. Venture Economics offers an unparalleled range of products from directories to conferences, journals, newsletters, research reports, and the Venture Expert™ database. For over 35 years, Venture Economics has been tracking the venture capital and buyouts industry. Since 1961,

it has been a recognized source for comprehensive analysis of investment activity and performance of the private equity industry. Venture Economics maintains a long-standing relationship within the private equity investment community, in-depth industry knowledge, and proprietary research techniques. Private equity managers and institutional investors alike consider Venture Economics information to be the industry standard. For more information about Venture Economics, please visit www.ventureeconomics.com.

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The National Venture Capital Association (NVCA) represents 450 venture capital and private equity organizations. NVCA's mission is to foster the understanding of the importance of venture capital to the vitality of the U.S. and global economies, to stimulate the flow of equity capital to emerging growth companies by representing the public policy interests of the venture capital and private equity communities at all levels of government, to maintain high professional standards, facilitate networking opportunities and to provide research data and professional development for its members. For more information visit www.nvca.org.

Investing in Venture Capital



**The Institute of Chartered
Financial Analysts**

Setting Realistic Expectations for Potential Returns—Part I

T. Bondurant French, CFA

The process of setting expectations for asset returns involves analyzing historical risk and return data for all asset classes in the investable capital market, and then extrapolating into the future. In this presentation, I am going to discuss the data necessary for setting expectations for venture capital returns.

HISTORICAL RETURNS AND RISK

The process of setting realistic expectations for venture capital returns must be done within the context of all the other asset classes in the investable capital market. Table 1 shows 10-year annualized returns and standard deviations for eight asset classes and inflation, for December 1977 through December 1987. The table indicates that the compound return for venture capital was 23.2 percent over the period. The spread between venture capital and small-capitalization stock returns was 610 basis points, and the return spread between venture capital and large-capitalization stocks, in a particularly good period for large capitalization stocks, was 900 basis points. The return over inflation during this period was an enormous 1,680 basis points.

This period may be characterized as a "good" period for venture capital, but it should actually be divided into two subperiods. The first half of the period, from 1977 to 1983, was particularly good for venture capital; compound rates of return on limited partnerships were 35 to 45 percent, and sometimes higher. Returns in the period since 1983 have been flat. Therefore, one should be careful in drawing investment expectations about venture capital from historical data. The period of the late 1970s and early 1980s should not be considered a full cycle, so return expectations should be somewhat lower than the 25 percent that many people expect.

Table 2 shows the investable capital market's performance characteristics over a much longer period, from December 31, 1959, to December 31, 1987. Over this 28-year annualized period, returns to venture capital were 15.3 percent. Over this period, venture capital returned about 410 basis

points more than small-capitalization stocks and 640 basis points more than large-capitalization stocks. Venture capital had a 1,030 basis-point real advantage over inflation.

While the venture capital results versus equities during this period may appear narrow, remember that these are 28-year compound returns. The investment of \$1.00 at a 15.3 percent compound rate of return over 28 years becomes \$53.85. One dollar invested at the small capitalization stock return of 11.2 percent becomes \$19.54 over the same period.

SOURCES OF VENTURE CAPITAL DATA

The venture capital data comprise a combination of data series. Since 1983, the data are based on the results of the partnerships in which First Chicago participated (with a 70 percent weighting) and the results of the Wilshire \$10-\$100 million market capitalization index (with a 30 percent weighting). From 1959 to 1983, the data are a composite of the publicly traded venture capital companies—not the companies backed by venture capitalists, but the venture capital companies in corporate rather than partnership form. Approximately 25 or 30 of these companies were formed in the 1960s. Because of the changing tax laws and low stock prices, most of these companies were liquidated, and only about five remain in existence today. Consequently, these data do not measure many of the very successful private partnerships that were formed, so the returns shown may be low; nor do the data measure some of the partnerships that were formed and did poorly. We believe our long-term return number of 15.3 percent is probably about right as an historical measure.

EXPECTED RETURNS AND RISK

For each of these asset classes, Table 3 shows what the long-term equilibrium return, expected return, and risk are expected to be over the next five years.

TABLE 1. Investable Capital Market Performance Characteristics (12/31/77-12/31/87)

	Annualized Return	Standard Deviation ¹
Venture Capital	23.2%	23.1%
International Equity	21.7	17.6
Small-Capitalization Equity	17.1	21.9
Non-Dollar Bonds	14.3	14.2
Large-Capitalization Equity	14.2	16.7
Real Estate	12.6	2.8
Domestic Fixed-Income	10.4	10.0
T-Bills	9.2	1.3
Inflation	6.4	2.1

¹Calculated using quarterly logarithmic returns and then annualized.

Source: First Chicago Investment Advisors

Note that venture capital has the highest equilibrium and expected return: 18.5 percent for an equilibrium return and 17.0 percent for an expected return. The difference between the two is pretty much noise for venture capital, so there is no reason to be underweighted or overweighted in the asset class based on these numbers. For some of the other asset classes, for example dollar bonds or U.S. equities, the percentage points have more significance. We are assuming 5 percent inflation in these forecasts. The 45 percent standard deviation attached to venture capital is really a "fudged" number. We have never experienced volatility that high, but it is important to include something in the risk measure that captures the significant illiquidity risk in the venture capital business. The 17 percent expected return for venture capital is lower than has been experienced in the past 10 years, but it seems to be in line with the long-term results, and would be a very satisfying future long-term return versus other asset classes.

Table 4 presents long-term asset-class equilibrium return correlation forecasts. The standard deviation of venture capital alone is very high, at 45 percent. The venture capital asset class is not highly correlated with the other asset classes, however. Therefore, when venture capital is added to a portfolio, it does not add much incremental risk. The data indicate that venture capital returns are not highly correlated with inflation over long time periods; therefore, there is no positive correlation between venture capital results and that of real estate, nor any negative correlation with bonds. Venture capital results have not been highly correlated with movements in currencies either, nor

TABLE 2. Investable Capital Market Performance Characteristics (12/31/59-12/31/87)

	Annualized Return	Standard Deviation ¹
Venture Capital	15.3%	35.8%
International Equity	12.6	16.5
Small-Capitalization Equity	11.2	22.9
Non-Dollar Bonds	9.3	12.2
Large-Capitalization Equity	8.9	16.6
Real Estate	8.5	2.4
Domestic Fixed-Income	6.5	8.2
T-Bills	6.3	1.4
Inflation	5.0	1.8

¹Calculated using quarterly logarithmic returns and then annualized.

Source: First Chicago Investment Advisors

have they been highly correlated with movements in the general economy and, therefore, movements in large-capitalization stocks. Venture capital results have been most highly correlated with movements in small-capitalization stocks, but still not to the same degree that a small-capitalization stock is to the equity market.

The result of this analysis is that even with return expectations of 18 to 20 percent, venture capital is an attractive asset class for investors. It is an excellent diversifier and can improve the total portfolio's risk-return profile.

Where are we today in terms of returns? Table 5 shows the average cumulative internal rate of return (IRR) to the limited partner for a series of venture capital funds. This table includes all the data for our 74 partnerships, plus a survey of partnership data

TABLE 3. Long-Term Asset Class Equilibrium and Expected Returns (9/30/88)

Asset Class	Equilibrium Return	Expected Return ¹	Risk
U.S. Equity	12.0%	11.2%	17.5%
Non-U.S. Equity	11.8	6.9	19.5
Venture Capital	18.5	17.0	45.0
Dollar Bonds	8.1	9.9	7.5
Non-Dollar Bonds	8.2	6.6	9.0
Real Estate	10.2	8.0	14.0
Cash Equivalents	6.4	6.7	1.5
Multiple Markets Index	11.1%	9.9%	11.9%

¹Annualized five-year return; assumes 5 percent inflation.

Source: First Chicago Investment Advisors

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TABLE 4. Long-Term Asset Class Equilibrium Returns Correlation Forecasts¹

	1	2	3	4	5	6	7
1. U.S. Equity	1.00						
2. Non-U.S. Equity	0.60	1.00					
3. Venture Capital	0.35	0.15	1.00				
4. Dollar Bonds	0.45	0.25	0.15	1.00			
5. Non-Dollar Bonds	0.25	0.60	0.10	0.30	1.00		
6. Real Estate	0.35	0.30	0.25	0.20	0.15	1.00	
7. Cash Equivalents	-0.10	-0.15	-0.10	-0.05	-0.10	0.25	1.00

¹Annualized returns

Source: First Chicago Investment Advisors

from other limited partners. These data show that partnerships formed in 1979 had a one-year return of 18 percent; partnerships formed in 1979 had a two-year compound return in 1980 of 26 percent; and so on. The older partnerships have had a chance to mature; the companies in their portfolios have had a chance to grow so that they are interesting enough to be acquired or to go public. The resulting returns are evident. The younger partnerships are showing poorer returns. It takes three or four years for most venture capitalists to find investments, so it is meaningless to look at results for very short time periods. In addition, the "lemons" seem to ripen early, so there is a stronger potential for negative results in the early years, with the more positive results taking place in later years. These data also reflect a certain amount of cyclicity. Because of the high valuations in the 1982 and 1983 period, funds formed in that period are probably going to be a disappointment, achieving results of less than 20 percent. Funds formed since 1984 are getting better results, particularly in terms of the quality of the

companies in their portfolio.

It is important to report performance statistics for the venture capital industry in a useful format. A good reporting format lists the partnerships in chronological order to illustrate the performance of the older partnerships relative to the newer funds. We calculate the returns of our partnerships on a quarterly basis. On an interim basis, we are not as concerned with the number itself as the change in the number from quarter to quarter. This type of report is a good exceptions report. If a particular IRR jumps up or down compared to the previous quarter, something significant is happening in that partnership and attention should be focused on it.

In summary, we believe that venture capital is an excellent diversifier for a plan sponsor's portfolio, improving the portfolio return without adding significant incremental risk. Venture capital results should continue to provide above-average returns in the future—comparable to those achieved over the past several decades, but not equivalent to the spectacular results of the late 1970s and early 1980s.

TABLE 5. Average Cumulative IRR to the Limited Partner For Venture Capital Funds

Year of Fund Formation	Year of Calculation									
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
1979	18%	26%	35%	30%	40%	29%	28%	26%	23%	20%
1980	-	2	10	23	34	26	20	20	20	20
1981	-	-	2	2	20	10	11	8	9	9
1982	-	-	-	0	17	5	3	2	6	6
1983	-	-	-	-	0	7	4	5	5	5
1984	-	-	-	-	-	2	-2	-1	3	3
1985	-	-	-	-	-	-	3	3	7	7
1986	-	-	-	-	-	-	-	-1	1	1

Source: First Chicago Investment Advisors