

ILinc: The ILinc-LearnLinc-Plan

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Software Seeks to Breathe Life Into Corporate Training Classes

Workers Avoid Long Courses—And Long Trips

By REBECCA QUICK
Staff Reporter of THE WALL STREET JOURNAL

THE INTERNET promises a lot of miracles, but here's one thing even it can't do: make corporate training classes actually enjoyable.

But maybe it can make them a little less painful.

A handful of Web companies are designing software packages that allow workers, sitting at their own desks, to learn everything from basic computer skills to accounting methods from live instructors. With just a computer and an Internet connection, these software applications allow you to dial in to a virtual classroom—along with colleagues from around the globe. The instructor can call on students, lead them through a presentation or throw out a pop quiz to make sure the class is paying attention.

For businesses, the biggest advantage is that cyberspace training cuts out the expense of getting the instructor and students in the same place. It also means that training classes can be pared into shorter sessions and spread out over a number of days or weeks—meaning you don't lose an employee for entire days at a time. Even better, instructors can train employees in multiple locations at one time, allowing for rapid deployments of, say, new software being rolled out to a corporate empire.

The no-travel-required aspect may also be the biggest benefit for the folks who actually have to endure corporate training classes. That means more time at home and less on the road—no more trips to headquarters to learn how to make a spreadsheet. Shorter training sessions are also a plus for

students: Studies show that retention levels drop (and doodling, no doubt, rises) significantly after two hours.

Of course, some things can't readily be learned over the Internet. Teaching presentation skills, for example, is largely about eye contact, voice projection and body language, skills that don't translate well in the digital realm. And some critics argue that on-line training will never replace the good old-fashioned way of learning.

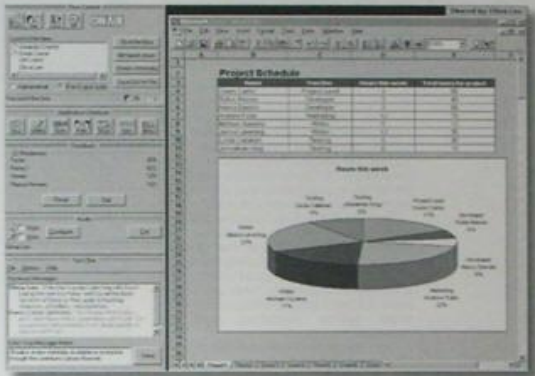
Still, demand is clearly growing. One interactive-software supplier, Centra Software Inc. of Lexington, Mass., says its revenue has doubled each quarter for the past year. And earlier this year, International Business Machines Corp. acquired Data-

Beam Corp., a Lexington, Ky., firm that sells distance-learning software.

Here's how the software packages work: Students go to a special Web site, on either the Internet or a corporate intranet, and sign in. Once on-line, their screens split in two: On the left side are a set of controls for communicating with the instructor and other students, while the right side shows an application such as a browser, whiteboard or word processor.

Anything the instructor does on the right side of the screen automatically appears on the right side of the students' screens. So, if the instructor, say, moves to a Web site, the entire class is automatically dragged along. Speakers and microphones on the computers

(over please)



Here is what an instructor using ILinc software sees. The left side displays a list of students logged on, command buttons for turning the floor over to a student, and a dialog box for typing messages to an individual student. The right side is where the teacher guides the students through presentations via an application like a browser.

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DOW JONES

From the research lab to widely adopted product.
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(This is an actual confidentiality statement adapted from one of ILinc's funding prospectuses.)

(This ILinc hybrid business plan and business model canvas is adapted from several past ILinc documents)

(Some data has been fictionalized)

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Executive Summary

ILinc was founded in 1993 by a Dr. Jack M. Wilson, Degerhan Usluel, and Mark Bernstein, at Rensselaer Polytechnic Institute as a spin off from Wilson's research at Rensselaer Polytechnic Institute in the early 90's and at the University of Maryland in the 80's. This research focused on the development of multimedia based educational and training materials and on network delivery of the education/training to the learner. The plan was to bring the learning to the learner over the internet rather than to bring the learner to the learning.

While the technologies developed for and by ILinc could be, and were, used in traditional education settings such as high schools and universities, the founders determined that the initial market segment to be focused upon would be the corporate training market. The school and college market would take longer to develop and was less likely to invest scarce funding in distance learning technologies until others of their peers began to do so. Corporate training markets would be faster to deploy these solutions since the new technologies made further training more necessary to remain economically competitive and training in traditional setting was expensive and took employees away from their jobs during training. We particularly focused upon large (Fortune 500) corporations because the pain of intense competition and the cost of training were most severe. Many large corporations would fly employees to central training sites where they were trained and housed.

This has proven to be beneficial to both the corporations and to the employees. For the corporations, it reduces cost and downtime. For the employees, it helps them avoid trips to training centers and long mind-numbing training sessions.

Since founding, ILinc has worked with Microsoft, Intel, AT&T, and CISCO to deploy the ILinc LearnLinc internet based educational systems. ILinc LearnLinc's list of significant customers include: Aetna/US Healthcare, Chase Manhattan Bank, MCI Worldcom, American Airlines, Office Depot, Computer Associates, and DaimlerChrysler. Franklin Covey, whose learning and performance solutions customers include 80 of the Fortune 100, more than three quarters of the Fortune 500, thousands of smaller and mid-sized businesses, as well as numerous government entities, is a LearnLinc ASP client.

The Company has spent the last four years building, perfecting, and validating (with demanding customers) the most advanced online learning environment in the distance education market. Now the Company seeks a strategic partner and investor to catalyze the marketing and sales of its software products and training ASP services. ILinc has the largest market share in this newly emerging market which they created.

ILinc currently has two venture investors, Exponential Investors and GeoCapital Investors that hold about 20% of the company. This request is for our second round of venture funding.

Revenues in 1998 were \$2,028,000 and \$1,508,000 in 1997 -an annual growth rate of over \$25%.

We are seeking an investment of \$2 million for 20% of the company. We expect the investor to be a partner who will work with ILinc to help take advantage of this rapidly growing and changing market. We particularly seek an investor/partner that can help us access the latest technologies and also provide entrance into other Fortune 500 customers.

Business Model Canvas.

Key Partners Microsoft – Early OS Intel – ProShare Video and Capital AT&T – Early OEM Customer CISCO – Router software	Key Activities Create multi-cast video and audio conferencing to large #s Screen sharing Training Development tools Market to Fortune 500	Value Proposition Allow customer to provide “just in time training to large numbers of employees at a very low cost. Reduce employee down time (cost) for training. Improve quality and quantity of training. Reduce cost of training programs by eliminating travel and ending large corporate training centers.	Customer Relationships Close partnerships with companies that want our software and are willing to help development. Early relationships with AT&T, IBM, Intel, News Corp. Business model is sales and customization of software for Fortune 500	Customer Segments Our most important customers are Fortune 500 companies with large training needs, large training expenses, and a recognition that success required the deployment of new technologies. A challenge in selling to trainers since this sidelined them and reduced their budget. Qui Bono? Executives with bottom line responsibility
	Key Resources Early access to new hardware and software tech. Solving the video multicast problem. Deployment of networks with sufficient bandwidth. Customers who buy and test and fund early products.		Channels Direct sales to Fortune 500. First addressed the Corporate training dept. Pivot: Sell to CEO/COO/CFO Use Wilson’s extensive corporate contacts to gain an audience. Presentations at large conferences like ComDex, Educom, etc.	
Cost Structure Costs are primarily personnel costs for a development team, a quality assurance team, and a sales/marketing team. Smaller expenses for leased office space, tech. acquisition (some provided by partners for free) Business is primarily value driven. Costs small in comparison to the saving of corporate expense. Because we have very low variable expenses, the ability to achieve scale will quickly lead to profits. Building ten thousand units of software is only marginally more expensive than building ten.			Revenue Streams Sales of software in the form of corporate licenses to Fortune 500 firms. Software costs are small in comparison to training costs. We want revenue now in return for software later. .	

Value proposition:

The rapid changes in technology and the need to educate employees as the markets and the technologies for addressing those markets changed is a major problem for corporations at this time (the mid 90's). There is a need to transform organizations from static corporations to The Learning Corporation. Rapid changes in technology, computers, the internet, globalization, and intense economic competitiveness are forcing companies to adapt. Employees educated only a few years before now need to sue technologies that did not exist at the time they were trained. To adapt, their employees had to learn many new things. This employee training is expensive –especially for large geographically distributed firms. There is a need to provide rapid learning opportunities to employees without breaking the bank at a time when economic competition was ferocious.

The ILinc Corporation has developed software tools that will allow large corporations to train their employees at their worksites without having to transport them to central training sites (and potentially house them there). ILinc brings the learning to the learner, rather than bringing the learner to the learning. This allows the customer to provide “just in time training to large numbers of employees at a very low cost. It also reduces employee down time (cost) for training.

LearnLinc's online training solutions consistently demonstrate verifiable cost-effectiveness among its customers. Significantly reducing travel and facility related expenses, LearnLinc provided MCI WorldCom with a tangible return on investment ("ROI") of 237% (\$5.6 M) in the first year alone. LearnLinc users have also experienced 25% greater retention rates over asynchronous training delivery, in part, because the instructor-led training environment encourages greater student engagement and accountability.

Key activities of the venture:

We create multi-cast video and audio-conferencing tools to enable large scale internet delivered training and educational programs. These tools allow instructors to share their screen with students/employees over the internet to allow them to be trained at their work locations.

Development and testing of these software tools requires an outstanding programming and quality control/testing staff. We also develop training and development tools for use with our system and occasional help produce the training materials that the company needs to create their online training program. The technology team had to research and solve several issues with multicast video and audio that had not been previously solved by other companies. The technology team is led by co-founder and Vice President for Technology Degerhan Usuel, who was trained as an Electrical Engineer and also holds an MBA. Jack M. Wilson, the founder was the original developed of the software prototype and continues to consult with the team on future software development and products.

Marketing to Fortune 500 corporate training programs is one of our largest and most important activities at this time. In the first year of our companies existence, we sold licenses to companies

The Team:

Strong Management and Technical Team: LearnLinc's executive team brings over 190 years of aggregate software, education and training industry experience to the Company and, in concert with the expertise of its Board, brings a clear vision for maintaining and enhancing the market dominance that LearnLinc enjoys.

LearnLinc is further distinguished as having the most experienced virtual classroom technologists, the original team that created and launched the virtual classroom industry in 1994.

Jack Wilson, Degerhan Usluel, and Mark Bernstein founded ILinc in 1993 in Wilson's basement and then incorporated the Company in 1994. Jack Wilson served as President and CEO while Usluel became Vice-President for Technology and Bernstein became Vice President for Sales, Marketing, and Business Development. They created a Founder's agreement that granted 40% of the founder's stock to Wilson and 30% each to Usluel and Bernstein. Wilson later stepped up to Chairman of the Board when he returned to RPI full time and hired James O'Keefe as President and CEO. O'Keefe did an excellent job growing the company and arranging the first round of Venture funding. He was then replaced by Degerhan Usluel.

The team was expanded over time with the additional of software developers, software quality engineers, administrative staff, and a marketing team. Mike Marvin representing Exponential Investors and Steve Clearman representing GeoCapital Investors have joined the board with Mike taking a partial operating role mentoring Degerhan Usluel the current CEO.

Form of Business

We began the business as S -Corporation which gave us the flexibility that will provide the liability protections of a corporation but treat profits more like a partnership. The S-Corp does not pay taxes, but passes along profits/losses to the stockholders for their personal tax returns. As the business grows, we may convert to a C-Corp which is taxed at the corporate level, but allows a wider range of ownership options for stockholders.

Financing Plan

We plan to raise our initial funding by contracting with large companies for future delivery of software and consulting to help them implement online corporate training. We were looking at contracts between \$100,000 and \$300,000 for six-month delivery. We were able to execute that strategy to bring us to this point. Early customers included IBM, Harper Collins (News Corp), Sprint, GTE, and Aetna/United Healthcare. As the company grows there is a need for additional working capital, and we hope to work with angel investors and eventually venture capitalists. The ultimate goal for the ILinc leadership is to go public in 3-7 years by either doing an IPO or by being acquired by a larger enterprise. We are currently looking for an investment of \$ 2 Million for 20% of the company.

Key Partners:

ILinc sought partners who would be technology partners, customers, and potential connections to other customers.

- Microsoft provided us access to the early versions of the networked Microsoft Windows Operating System as well as to insider insight into future products and features in existing products.
- Intel provided hardware for their ProShare Video system and Capital
- AT&T and Bell Labs had partnered with Wilson in the development of what later became the AT&T World Works product. Once ILinc launched LearnLinc, AT&T became an early OEM Customer.
- CISCO worked with us on configuring their routers to accommodate the delivery of video, audio and screen sharing. Their new router software had been designed to accommodate this, but few customers had configured the networks properly to take advantage of these technologies. ILinc had to develop some ability to help customers configure their networks to take maximum advantage of the network. CISCO assisted ILinc in that process.

Customer segments:

Our most important customers are Fortune 500 companies with large training needs, large training expenses, and a recognition that success required the deployment of new technologies. For them the pain is twofold: First, they need to compete with others in a world where markets and technologies are changing very rapidly. Second, they spend many millions of dollars annually on training of the employees and they lose employee productivity when they need to send them to educational/training programs. For large corporations, this might include moving employees from job sites across the country, or even in international locations, to central training sites. For example, Xerox brings employees to a conference center and hotel site in northern Virginia and Verizon brings them to a similar site in Marlborough, Massachusetts.

One of our current customers, Office Depot, would fly employees to their Florida site for training, but now trains them in their workplace using the ILinc LearnLinc suite of tools. The Wall Street Journal¹ describes their experience this way:

"It's great -- by using it, we've cut our travel expenses substantially," says Gary Schweikhart, a spokesman for Office Depot, an office-supply company in Delray Beach, Fla. Office Depot first took its corporate training sessions on-line in May 1996. It was one of the first customers of Interactive Learning International Inc., or ILINC, a Troy, N.Y., maker of distance-learning software. Since then, about 1,500 Office Depot employees have completed on-line training, on everything from how to write a business letter to how to use the company's proprietary order-taking system. 'We were in a situation where we were doing a lot of training of trainers' in order to have enough qualified instructors to teach employees at 629 stores and 68 sales offices across the country, says Doug Kendig, the company's manager of training technology. 'We had to deputize a lot of people [to train employees], and you don't always get the best results that way.' But now Office Depot uses the ILINC software for about 20% of its training, with classes in Florida, California and Texas using just six instructors. 'I think it's fantastic,' says Jeannette Perez, who works in Office Depot's commercial credit-card department. 'It just holds my attention more, because you're interacting with the computer.'²

These corporations recognize that software costs are small in comparison to training costs. The return on investment can be very large.

During our customer discovery process, we learned a valuable lesson in addressing this market. Initially we had targeted corporate training directors as potential customers. We were surprised to learn that they did not seem terribly interested in changing the way they trained and almost cringed when we pointed out the potential savings. We found that they raised objections that were often seen as conventional wisdom in their training community, but which did not seem to be supported by evidence. Eventually we realized that the ILinc LearnLinc system was seen as a threat to their profession and to their jobs. Put yourself in their place: If you are the training director of a major corporation that is running a huge training center with hotel rooms, fitness centers, class rooms, and hundreds of trainers, you may not see the elimination of those centers, much of your budget, and most of your experience to be a positive thing. Eliminating power and financial control is not to their advantage.

Pivot: We realized that we had learned something very important about the market and we decided to pivot. We asked ourselves "Qui Bono? -Who benefits?" The corporate training staff certainly did not benefit, they

¹ Wall Street Journal; Aug. 6 1998.

² Wall Street Journal –Thursday August 6, 1998.

lost power and money. However, the corporation certainly DID benefit. We needed to address the executives with bottom line responsibility. The task of the marketing department, assisted by CEO Jack Wilson, was to find a way to get to the senior executives with bottom line responsibility and convince them that ILinc LearnLinc could help their bottom line.

This pivot proved effective and sales began to grow steadily.

The Technology-Based Training Market: The development and introduction of new training delivery systems, coupled with increased willingness to adopt alternative learning solutions, have fueled an incredible rate of growth in the TBT market. TBT use is increasing by a growing number of enterprises because it conquers historical logistical challenges and better addresses accelerating change. Between 1998 and 2003, IDC expects TBT to experience *a compound annual growth rate ("CAGR") of approximately 33%*. IDC believes that the extraordinary growth levels found in TBT can be attributed, in part, to the growth of intranet and Internet delivery (E-Learning), which IDC believes will experience a *CAGR of 62% and 140%*, respectively. Although the dominance of traditional ILT is assumed to decline gradually in the face of TBT alternatives, IDC still estimates it will represent 51% of all US IT education and training revenues in 2003. LearnLinc is well positioned to capitalize on both trends: its unique approach links all of the time-proven learning tools of ILT with all of the cost-effective benefits of TBT delivery.

The Information Technology Market: LearnLinc believes that the IT market evidences the fastest adoption rate for TBT solutions and therefore, represents initially the most rapidly exploitable and largest growing market for the Company's product and service mix. With an estimated CAGR of 10.3%, IDC anticipates that the global market for IT-related products and services will reach \$1.1 trillion by 2001. The explosion of the overall IT market has also served to drive the U.S. domestic IT training market, as evidenced by IDC's estimate of an 11.6% CAGR. By 2003, IDC predicts 46% of all US IT training will be technology-based, with the web-based online segment (E-learning) accounting for more than 79%, or \$5.3 billion.

By coupling the best educational features of Instructor-Led Training with the anywhere, anytime, scalable efficiencies of Technology-Based Training, and initially focusing its resources on the substance of Information Technology, LearnLinc is poised to exploit a reliably growing, early-adopting market.

Large Target Market: Because ILinc's online learning environment preserves and enhances many of the pedagogical strengths of ILT, it is useful for scaling and extending training for a wide variety of subject matter, from soft skills to technology training. However, because enterprises require information technology ("IT") training throughout the organization to stay competitive and have been quicker to adopt TBT solutions to meet these needs, LearnLinc is emphasizing the IT market initially to grow rapidly. In 1998, US corporations spent *\$20 billion on IT training*, with *83% of the courses* taught by live instructors. By 2003, International Data Corporation ("IDC") predicts 46% of all US IT training will be technology-based, with the web-based online segment (E-learning) *accounting for \$5.5 billion*.

There are many other markets that we considered, and we have addressed some of them and intend to address others, but the Fortune 500 target market segment is our first priority.

We recognize that the educational market is also a very large market, but it is also well known to be a market that is hard to address, and which is slow to react. In many cases, educational customers expect to receive products for free and the sales cycle is long. The educational market is also somewhat resistant to change and does not have the same economic motivations that one sees in the corporate market. We have several

educational customers including Kent State University and believe that this market will eventually be an added target market.

Customer Relationships:

We have benefited from many close partnerships with companies that wanted our software and were willing to help development. Many of our earliest companies paid hundreds of thousands of dollars for software licenses in anticipation of later development of the software.

Early relationships with AT&T, IBM, Intel, News Corp.

Business model is sales and customization of software for Fortune 500

LearnLinc is the recognized leader in the virtual classroom software market. Worldwide, more companies, governments, and universities depend on LearnLinc to deliver cost-effective training than any other live Internet learning software. LearnLinc's list of satisfied customers include financial services giant Aetna/US Healthcare ("Aetna"), Chase Manhattan Bank, MCI WorldCom, American Airlines, Office Depot and DaimlerChrysler. Aetna, MCI WorldCom, and Office Depot, among others, have attested to the enormous cost savings and increased effectiveness of their respective training programs and have attributed it to their use of LearnLinc software.

These demanding, well-recognized customers validate LearnLinc's technology, business concepts and ultimately, the Company's value proposition. In 1998, the Company's top five customers delivered over 1,000,000 student-hours of live training; in 1999 the Company anticipates that the top five customers will deliver 3,000,000 student-hours.

In late 1996, Aetna decided to disperse its service representatives out of headquarters and into regional offices. The company hired 800 new employees and overhauled work assignments for 400 others. Employees previously assigned to performing a single task, such as inputting new enrollment information for all customers, would now be required to handle multiple functions. In all, 1,200 employees had to be oriented and re-trained. David Blair, Aetna's Training Director, estimated that traditional ILT would cost \$5 million in travel expenses alone. Ultimately, Aetna chose LearnLinc and ended up saving \$3 million in training-related expenses. MCI WorldCom has reported savings of \$5.6 million using LearnLinc over traditional training, with a reported ROI of over 230% in the first year. Based on these savings, both of these companies have deployed the LearnLinc learning solution to thousands of their employees.

Office Depot employees taught via LearnLinc scored 25 percentage points higher on training achievement tests than those taught by traditional face-to-face ILT because the LearnLinc environment permits hands-on application sharing and exploits the newest multimedia features of the Internet to fully engage the learner.

Channels to reach the customer:

ILinc is focusing on direct sales to Fortune 500 companies using its own sales staff. As discussed earlier, we first addressed the Corporate training dept and then pivoted to sell to the senior executive team - CEO/COO/CFO.

We were able to use Wilson's extensive corporate contacts to gain an audience with the senior executives who proved very responsive to the value proposition.

ILinc also attended, exhibited, and made presentations at large conferences like ComDex, Educom, etc.

ILinc is the dominant player with high brand recognition: LearnLinc is the dominant player in the ILT/TBT market. LearnLinc was first to market and now enjoys high brand awareness as the leading innovator in the virtual classroom software arena. After four years of development and active service with demanding customers, LearnLinc has fielded the best ILT/TBT product and service mix for the enterprise training market. In 1998 LearnLinc's top five customers delivered over 1,000,000 student-hours of live training and they are expected to deliver 3,000,000 in 1999.

Revenue streams:

ILinc obtains its revenue from sales of software in the form of corporate licenses to Fortune 500 firms and also in providing customized solution to clients. There is also revenue from maintenance contracts and uncontracted maintenance. In the early days, ILinc sought revenue now in return for software later. This was a successful model in spite of the difficulty of executing such a model.

Revenues in 1998 were \$2,028,000 and \$1,508,000 in 1997 -an annual growth rate of over \$25%.

Table 1: Selected Historical Income and Cash Flow Statement Items

	1996 Actual	1997 Actual	1998 Actual	6 Mo. Ended
Revenues	\$1,333	\$1,508	\$2,028	\$1,163
Gross Profit	1,126	1,385	1,927	1,077
Operating Expenses	<u>1 694</u>	<u>2 905</u>	<u>2 939</u>	<u>1 485</u>
EBIT	(568)	(1,520)	(1,012)	(408)
Other (expense)	31	32	59	10
Net Income	<u>(\$537)</u>	<u>(\$ 1,488)</u>	<u>(\$953)</u>	<u>(\$399)</u>
Operating CF	(\$596)	(\$ 1,204)	(\$748)	(\$501)
Cash From Inv.	(\$880)	\$45	\$467	(\$10)
Cash From Fin.	\$1,714	\$1,962	(\$10)	\$12

Table 2: Selected Historical Balance Sheet Info
(\$000s)

1996 FYE	1997 EYE	1998 FYE	6/30/99
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Cash	\$304	\$1,107	\$816	\$317
Total Assets	1,808	2,523	1,585	1,188
Current Liabilities	398	630	594	586
Total Liabilities	405	630	599	600
Total Redeemable Preferred	2,003	4,343	4,939	5,235
Owners' Equity	(600)	(2,450)	(3,953)	(\$4,647)

(Please note that this level of financial detail --In Red --is not required for the PIE 300 Course Project)

Cost Structure:

Costs are primarily personnel costs for a development team, a quality assurance team, and a sales/marketing team. Smaller expenses for leased office space, tech. acquisition (some provided by partners for free) Business is primarily value driven. Costs small in comparison to the saving of corporate expense. Because we have very low variable expenses, the ability to achieve scale will quickly lead to profits. Building ten thousand units of software is only marginally more expensive than building ten.

Key Resources:

ILinc needed early access to new hardware and software tech for networking, computing, and software operating systems.

ILinc needed a team and partners to resolve the video multicast problem.

ILinc needed to facilitate deployment of networks with sufficient bandwidth.

ILinc needed customers to buy and test and fund early products.

ILinc relied upon a very talented and cutting-edge software development team.

ILinc developed a creative and persistent marketing team that could access senior executive customer.

The Ask.

We are seeking an investment of \$2 million for 20% of the company. We expect the investor to be a partner who will work with ILinc to help take advantage of this rapidly growing and changing market. We particularly seek an investor/partner that can help us access the latest technologies and also provide entrance into other Fortune 500 customers.