

Questions for the Owners of TSI Tailored Systems Inc.

Revenue

✂ What happened between 2003 and 2004 to increase sales by over \$200,000?

1. New AdDept users bring a large one-time boost to revenue. In late 2002 Belk started using AdDept. In 2003 and 2004 Dick's Sporting Goods and Marshall Fields (now Macy's North) began using the system.
2. AxN was implemented in 2003. Revenues from this product have increased monotonically since then.

✂ The information package has projected revenue figures for 2006 and 2007. Were the actual results in line with these projections?

✂ Do you have updated financial statements through 2006 or 2007?

Only one year was projected. All other data were actual. TSI's last fiscal year (2006) ended on November 30, 2007. Total revenue was \$700K.

✂ The package states that the client list is "postured for expansion". Please describe what you mean.

Nothing written or approved by TSI used that term.

✂ Please describe the revenue mix.

○ AdDept vs. AxN revenue

In the latest fiscal year AxN produced about 30% of the company's revenue.

○ Ongoing software leases and maintenance vs. new software sales

○ Amount of revenue for custom software development?

In the latest fiscal year, maintenance was 45.6% of AdDept revenue, training/consulting was 4.8%, and custom programming and new modules accounted for 49.6%. No new systems were sold in the most recent year.

✂ What is the revenue structure for the AxN product?

Over 90% of AxN revenue comes from newspaper subscriptions. One advertiser pays for some of its smaller newspapers.

✂ Do new clients pay upfront fees on AdDept lease agreements?

Yes.

✂ Do you sell the hardware on new installations?

IBM no longer authorizes small companies like TSI to sell hardware directly. TSI sometimes earns a commission for putting the deal together.

Sales & Marketing

✂ How much are current sales dependent on personal relationships between you and your clients?

If "current sales" means orders for custom programming, then the personal relationships are important because the customers know that TSI's personnel has the ability to analyze their needs and deliver precisely what they require. If "current sales" means installation of new systems, then there may or may not have been a prior relationship between TSI employees and employees at the retailer. References are critical; personal relationships are less so.

✂ How do you currently market your products?

Direct mail to advertising department, IT departments, and accounting departments. AxN is marketed to newspapers advertiser by advertiser in a two-step process that involves direct mail packages, telephone follow-ups, and a test period.

✂ Provide a brief description of the typical sales process.

After the AdDept prospect contacts TSI, a conference call determines the scope of the project. If the prospect is uncertain of the goals, materials are sent and follow-up calls are made. If the prospect seems serious, one or more trips are made to the prospect's site to scope out the project and to do a demonstration. A written proposal that includes a detailed design document of proposed custom software is sent.

λ How long does the sales process typically take?

It could be as little as a month or last several years. This is largely determined by how great the perceived need is.

λ Do potential clients tend to view the AS400 platform as an advantage or as a shortcoming?

AdDept prospects are generally very large retailers. Many already have applications running on AS/400's. If so, they are enthusiastic about being able to implement a new application with little or no hardware expense. If not, it may be difficult to get them to agree to use a new platform. It may soon be possible to run OS/400 on other platforms. TSI's owners also think that a long-range solution to this difficulty is to offer AdDept as a service over the Internet.

Customers

λ Total number of clients/users for each product?

AxN: seven advertisers and 437 newspapers.

AdDept: thirteen retailers.

λ Percent of sales represented by each of your top 3 clients?

In the latest year: 9.8%, 9.0%, 9.0%.

λ Number of new clients/users in the past year? Past 2 years?

One new AdDept user; about 100 new newspapers subscribing to AxN.

λ Do client leases for the AdDept product have established terms, or may clients end the lease contract at any time?

The lease is perpetual. The maintenance agreement can be cancelled at any time. At one time a couple of clients asked for annual maintenance agreements, but all current maintenance agreements are ongoing.

Personnel

λ Please provide Employee list, including

- **Title**
- **Short job description**
- **Number of years with company**
- **Total expense (wages + benefits)**
- **How likely to stay after business is sold?**
- President, manages everything not overseen by VP of application development, 29, \$151K, willing to work for several years.
- VP application development, manages programming, support, payroll, and 401(k), 25, \$173K, willing to work through transition.
- Secretary and treasurer, silent partner, 29, \$33K, irrelevant.
- Contract programmer, programming and support, 3, \$61K, likely.
- Programmer, programming and support, 1, \$42K, likely.
- Part-time programmer, programming and support, 1, \$24 per hour, unknown.
- Administrative person, 1, \$31K, very likely.
- AxN marketing rep, 5, \$0 (commission only), likely.

The salary figures do not include benefits, the dollar values of which are not readily available.

Transition

λ How do you currently spend most of your work time?

President: Accounting, administration, on-site training and consulting, sales, research, whatever comes up.

VP Application Development: Support, programming, payroll, research, whatever comes up.

λ What is the maximum length of time you are willing to work with the new owner to ensure a successful transition?

President: a few years.

VP Application Development: Six months; part-time remote programming support for a limited time thereafter may be an option if required to complete successful transition.

Compensation for the transition period would obviously need to be negotiated.