

3. FINANCIAL STATEMENTS

We have developed the following pro forma financial statements to project the financial performance of Virtual Ink Corporation through the first five years of operation: Assumptions and Summary, Pro-Forma Income Statements, Balance Sheet and Statement of Changes of Cash Flow, Sales & Projected Revenue Model, Other Operating Expenses, and Hiring Plan and Wages. These statements may be found in our appendices.

Below we have summarized the pertinent facts. Given our gross profit margin of 87%, marketing strategy and anticipated product demand, we project break-even within the first 16 months of operation, or Spring 1999. We will require \$320,000 in seed funding and a first round investment of \$2.0 million. Based on first year projected sales revenue of \$2.4 million, we estimate our pre-money valuation to be 3 times that, or \$7.3 million by the end of the first year of operation and growing to \$353.7 million by the end of year four. This is equivalent to a return to our initial investors of 5.9 times at the end of the second year, 17.41 times at the end of the third year, and 31.28 times at the end of the fourth year.

Figure 2 Financial Statements Summary

Sales Initiate	Sep-98					
First Month Sales:			<u>Cost of Goods</u>	<u>Retail Price</u>	<u>Discount</u>	<u>Wholesale</u>
Consultants Tool	103 Units per month		\$ 80.00	\$ 1,095.00	0%	\$ 1,095.00
Mass Market Product	850 Units per month		\$ 45.00	\$ 599.00	30%	\$ 419.30
Teleconferencing	10% of Mass market product		\$ 25.00	\$ 199.00	40%	\$ 119.40
Web Direct Transcription	30% of Mass market product		\$ 25.00	\$ 199.00	40%	\$ 119.40
Data Management	50% of Mass market product		\$ 25.00	\$ 199.00	40%	\$ 119.40
Developers Tool Kit - 3D	1% of Mass market product		\$ 35.00	\$ 259.00	40%	\$ 155.40
	<u>Year 0</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Annual Sales	-	4,093	28,396	82,850	169,635	323,639
Monthly Growth		5%	11%	8%	5%	5%
Revenues	\$ -	\$ 2,435,532	\$ 18,309,751	\$ 54,002,897	\$ 97,037,332	\$ 173,430,531
Gross Profit	\$ -	\$ 2,151,966	\$ 16,312,162	\$ 48,162,144	\$ 85,368,578	\$ 151,419,149
Total Expenses	\$ 569,188	\$ 2,258,813	\$ 5,587,804	\$ 9,454,838	\$ 13,447,676	\$ 17,365,030
Pre-tax Profit	\$ (569,188)	\$ (106,848)	\$ 10,724,359	\$ 38,707,307	\$ 71,920,902	\$ 134,054,119
<u>Valuation</u>		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Pre-Money Valuation		\$ 7,306,596	\$ 43,124,881	\$ 127,192,804	\$ 228,551,633	\$ 408,480,226
Amount Invested/Worth		\$ 2,000,000	\$ 11,804,371	\$ 34,815,887	\$ 62,560,362	\$ 111,811,369
Post-Money Valuation		\$ 9,306,596	\$ 54,929,252	\$ 162,008,692	\$ 291,111,995	\$ 520,291,594
Percentage Dilution		21.49%	21.49%	21.49%	21.49%	21.49%
V.C. Equity Value		\$ 2,000,000	\$ 11,804,371	\$ 34,815,887	\$ 62,560,362	\$ 111,811,369
V.C. ROI		1.00 x	5.90 x	17.41 x	31.28 x	55.91 x
<u>Investors</u>						
Seed Funding	\$ 320,000	Seed Funding received: 10/1/1997				
First Round V. C.	\$ 2,000,000	First Round Funding received: 1/1/1998				
<u>Equity Plan</u>						
Founder's Stock	40%					
Investors	40%					
Reserved for Employees	15%					
Reserved for Directors	5%					

* Pre-money valuation = 3 times revenues