



LEARNING SYSTEMS, INC

BUSINESS PLAN

Volume 1
Confidential

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1. Executive Summary

Learning Systems Inc. (LSI) is the largest online educational provider on complementary alternative medicine (“CAM”) and Bible content.

Its rich market niche, characterized by corporate clients with large budgets, significant training needs and receptiveness to new technology, include Healthcare Providers, Academic institutions, Multilevel Network Marketing and Manufacturing Companies, Alternative Health Industries, Christian Seminaries and Clergy.

LSI delivers its unique CAM content via Internet-based courses on CLEGA University™, its full-service, centrally hosted, scalable remote proprietary virtual campus.

Its leadership position is based upon one of the largest CAM and Bible content library ever assembled. Developed by the Founders over a period of 22 years of research, the library includes over 180,000 proprietary abstracts, 704 disease monographs, 71 trace mineral and 22 amino acid monographs, 500 Nutritional/Herbal Therapeutic Remedy Monographs and 1100 Bible study courses. Founders themselves collectively have over 54 years experience in creating courses and books for the CAM market.

Modern technology has made possible to gather and present this information economically and efficiently and LSI is leading the effort to marry technology and information dissemination through three strategic technology alliances which allow to register, enroll, teach, test, grade and certify distance learners in a seamless fashion.

LSI is focusing its resources in the CAM and Bible e-learning business. E-learning is in fact the fastest-growing and most promising market in the education industry and corporate e-learning is expected to top \$7 billion by 2002, according to WR Hambrecht & Co..

By continuously developing and expanding its CAM and Bible database, relentlessly streamlining the process of delivering content and widening the range and variety of its e-learning educational products, LSI intends to maintain and strengthen its leadership position in this lucrative market niche while creating significant B2B and e-commerce opportunities.

Exploiting the latter to their fullest potential is a natural evolution for LSI: “E-Train-the Trainer” revenues, portal development revenues, e-mail marketing fees , royalty/commissions on sales (vitamins, herbs, skin care products, DVDs & video, magazines, newsletters, religious books) will provide a significant complementary revenue stream for the company that will increase market share, promote name recognition, and maximize efficiency.

1.1. Objectives

1.1.1. E-learning courses tuition revenues: \$36 million in 2002, \$60 million in 2003, \$105 million in 2004, corresponding, respectively, to an average of 6000 , 10,000, 17,000 clients paying at least \$ 500 dollars per month for 12 months.

1.1.2. Valuation, as measured in ability to bring in additional investment at economically feasible valuations. LSI needs to attract \$3 million immediately, and an additional \$3 million in a follow-up second round in 2002, with valuation performance that yields attractive internal rate of return (IRR) to investors. The financial section indicates IRR of more than 150%.

1.1.3. Acquisition or Initial public offering (IPO) in 2004, with a valuation of about \$35 million. This assumes of course the market valuations based on LSI’s sales and earnings, which have been kept purposely conservative as this plan is written.

1.2. Mission

LSI offers CAM and Bible online courses in its full-service, centrally hosted, scalable, remote proprietary virtual campus. It generates e-learning tuition revenues, content licensing, email marketing, e-commerce, valuation for investors and profits. It is the largest online educational provider on complementary alternative medicine (“CAM”) and Bible content.

1.3. Keys to Success

1.3.1. LSI must be able to acquire and retain corporate customers by providing e-learning solutions designed to address their strategic business training objectives, while significantly reducing their learning infrastructure costs.

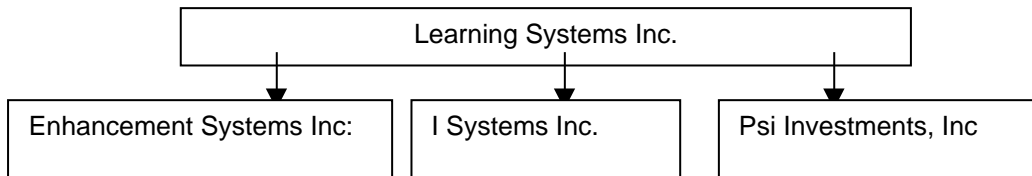
1.3.2. The online e-learning tools must be easy to use and fully interactive. User satisfaction and measurable results are ultimate priorities.

1.3.3. LSI will succeed if it can capitalize on its leadership position in CAM and Bible content know-how, turning it into e-learning courses and dollars through CLEGA University 's virtual campus.

1.3.4. The sales process must be easy to administer and flexible enough to accommodate the needs of LSI to keep a very lean organization. The e-learning courses offered on its CLEGA University 's virtual campus should further establish LSI presence as an e-learning technology leader in its market niche, not only retaining customers but actually bringing in new customers.

2. Company Summary

The present LSI is the successor to WA Online, Inc.(traded as XXXX on OTCBB) , a Delaware company with offices in East Clinton Ave., XXX, CA XXXX, USA), that succeeded a Nevada Corporation previously called Sontech. XXXX owns all the intellectual property described so far through fully owned subsidiaries: Enhancement Systems Inc., a Wyoming Corporation, I Systems Inc. , a Texas Corporation and Psi Investments, Inc. a Texas Corporation.



LSI offers complementary alternative medicine (“CAM”) and Bible online courses in its full-service, centrally hosted, scalable, remote proprietary virtual campus. It is the largest online educational provider on CAM and Bible content.

LSI has a total of 33 million shares outstanding. Its ownership structure is as follows:

- 50% Founder 15.4 million shares
- 20% Japanese VCs 6.6 million shares
- 30% 918 Current Shareholders 17.0 million shares

The company, currently traded as WA Online, Inc. on the Pink Sheets, has 918 shareholders owning publicly traded stock. Prior to completion of this venture round, the following events will take place:

- the Founder will retire all publicly traded stock and take the company private
- bylaws will be amended to increase the number of shares to 40, and the shareholder composition will be the following:
 - Founder : 20 million shares
 - Japanese VCs 4 million shares
 - Total 24 million shares

Of the remaining shares, 6 million will be used for this offering , the 2° round offering and employees stock options, while 10 million will be reserved for a future IPO.

2.1. First Year Budget Summary

- Capital Expenditures 1,110
- Participations 2,100
- Human Resources 925
- Research & Development 300
- Sales & marketing 1,600
- General & Adm 512
- Total Budget 6,547

Our first year’s budget come to \$6.5 million because of our commitment to dominate our market niche.

Of the \$6.5 million, \$2.1 million are earmarked for an acquisition. This is an extraordinary item that may or may not occur, and hence can be delayed or cancelled.

Of the remaining \$4.4 million in the budget for the first year completion, the most significant expenditures are in Sales and Marketing. Marketing expenses are necessary to promote our business and make this company a success. We plan to invest \$ 1.5 million in S&M activities over the next 12 months to firmly entrench our brand and to reach our sales objective of at least 6000 course sales per month at an average price of \$500.

Capital expenditure, at \$1.1 million, are also significant and are aimed, with almost an even split for 85% of the total, at significantly improving our web platform on one hand and at widening our course products range, on the other. The remainder is targeted for leasehold improvements, patent filing and other small material and immaterial assets expenses/purchases.

Our human resources costs also seem high, at \$ 925,000, in relation to the overall number of employees (6 in 2002) that the company has. However such figure includes all the human resources available to the Company, including the world class Scientific Advisory Board that we plan to set up, and compensation for the management team and the non-executive Directors.

Our development costs and overheads, at \$812,000 are relatively low thanks the strong focus on technology and third party sourcing.

Our location in Parlier, California leverages our partnering potential, even though we could find facilities in other states at more convenient rates.

2.2. Company Locations and Facilities

The company has its corporate and main operating office in Parlier, California. Its important web sites and Internet infrastructure situation is explained in detail in Chapter 5. The main web site is at www.XXXXXX.com.

3. Products

LSI offers a steadily increasing mix of three lines of CAM and Bible content products:

3.1. E-learning private label course products:

LSI develops and deploys on a remotely hosted Internet distribution platform - its CLEGA University 's virtual campus - private labeled courses in four unique vertical markets that it dominates thanks to its CAM and Bible content library:

- Alternative Medicine Courseware,
- Healthcare Professionals,
- Health Care Institutions and
- Bible/Theology markets.

In joint venture with academic and corporate partners, it has the ability to create proprietary academic and training courses and/or accredited courses in days instead of months and deliver revenue sharing marketing partnerships, with a revenue stream in under two weeks.

This generates revenues for its "partner – clients", helps it penetrate the market and creates barriers to entry.

1.2. "E-Train-the-Trainer™" sub-licensee:

LSI develops and deploys training courses for on-site and seminar training conducted by regional sublicenses affiliates (HealthCare Professionals and Clergy licensee's).

1.3. Other Products

Other Product revenues are derived from:

- development revenues for developing custom Portals based on its unique CAM and Bible content;
- sale of computer-based training ("CBT") courses delivered through traditional CBT format (e.g. CD-ROM – DVD) specially through Christian Missions with mass deployment programs;
- E-mail Marketing : a 0.20 \$US is charged per valid email address in email marketing campaigns done on behalf of clients.

1.4. Product Description

LSI develops, manages and hosts Internet-based training and education for corporations, government agencies and academic institutions. The Company offers its online courseware primarily through its proprietary virtual campus product, or CLEGA University™, a full-service, centrally hosted, scalable distance education platform. It allows for the registration, enrollment, teaching, testing, grading and certification of distance learners.

CLEGA University is accessible by virtually any Internet-ready PC. Enrolled students can access the courseware online, typically via a PC connected to the Internet or a corporate intranet. Once a student has completed a course, he or she receives credit or certification, as appropriate.

The CLEGA courseware platform allows the Company to offer replicating course portals, turnkey Universities and Virtual Campuses through Churches (Clergy) Physicians, and Hospitals. It also allows to offer private label and customizable training courses for Multi-Level-Marketing (“MLM”) Trainers as well.

Through its Enhancement Systems Inc, I Inc. and Psi subsidiaries, the Company also offers courseware through more traditional media, including on-site and classroom training, diskette, CD-ROM and printed formats.

1.5. Competitive Comparison

The e-learning market is evolving quickly and is subject to rapid technological change, shifts in customer demands and evolving learning methodologies. To succeed, LSI must retain its competitive and leadership edge in the CAM and Bible content market niche, continue to expand its course offerings, upgrade its technology and distinguish its solutions.

In both the CAM and Bible areas there are many suppliers of online information, including major players like WebMD, DrKoop, MedScape, Mediconsult, GNC, MotherNature, Women.com, iVillage, etc.. Many can be considered as potential strategic allies for LSI’s content . AOL, for instance, has LSI exclusive space on Instant Messenger, new member welcome message and search position, as well as e-zine partnership. AOL is also inquiring about having WA as a content provider. AltaVista and WebHelp are also interested.

What makes LSI better than the competition in its specific market niche? None of the current competitors are capable of combining LSI’s content with technology to create compelling e-learning courseware in under two weeks!

The e-learning market will undergo significant price competition. In LSI’s market niche, however, given also the leadership position that it enjoys, price competition is expected to be less aggressive.

The general e-learning market is highly fragmented with no single competitor accounting for a dominant market share, and competition is intense. In the CAM and Bible content market LSI will be competing with other “generic” suppliers of CAM and Bible courseware, third-party suppliers of instructor-led education and learning and internal education departments.

1.6. CAM Content

LSI’s CAM content is based upon the unique and proprietary Alternative Health Grid Matrix Technology. The uniqueness of this matrix is the horizontal human anatomy; each organ is virtually integrated horizontally from one single button to each of the 15 alternative healing modalities. In addition, each modality is supported by references from leading medical literature, not eastern philosophy.

LSI has taken the above system and then using the body-organ to disease-organ architecture, has created a duplicable, repeatable engine for every other modality. By linking the organ location for the modality and repeating the image, its system links 704 disease searches to one data encyclopedia. Pre-selected search queries provide 3 to 4 hours of research in a dramatic 3 to 5 *seconds*.

Alternative healing therapies in the database , cross-correlated by organ or by disease, are listed below:

Acupuncture	Aromatherapy	Auriculotherapy
Ayurveda	Bach Flower remedies	Chiropractic
Colon correlations	Dental correlations	Foot reflexes

Eye diagnosis	Herbology	Homeopathy
Lip & Tongue diagnosis	Magnet therapy	Nutrition

As Michael Crichton states: “The physician as lifestyle expert, as well as wellness advisor, has already begun to appear. And increasingly, as medicine develops predictive procedures and genetic profiles, the doctor will be able to use technology as a preventive rather than a curative measure to administer tests. For example, tailor preventive measures for individual patients with the same specificity with which he or she now dispenses medications for disease.”

This is the key, the missing link. Until now, physicians have lacked the implementation of this information, at least in a manner where they could prescribe with confidence. After 22 years of work and research, and thanks to modern technology, it is now possible to gather and present information on CAM economically and efficiently. And, most importantly, it can be used to create instant courseware for corporations, government agencies and academic institutions.

As a result of its products, services and alliances, LSI’s customers will be able to provide healthier, more educated sound choices about the treatments they offer or dispense. Health care Institutions will find their practices flourishing, as they are able to deliver to their patients alternative choices needed to stay well.

They will find they have moved into informed partnerships with their patients where each is responsible for their part and both are empowered and enlightened through information that is now available. Those who market supplemental nutritional products will find LSI’s collection of information invaluable in documenting research, which supports the validity of supplementing as well as alternative medicines.

4. Technology

LSI's e-learning environment consists of technologies that have taken over \$18 million to develop and are provided to it at favorable conditions by three strategic technology partners (IS for back end server side management; C.net as a courseware platform and J.com for replicating site and Hosting Partnership).

They have been designed and created to function as an integrated solution. By employing standard Internet technologies and a hosted content delivery model, LSI is able to provide customers with a high quality, efficient means to educate their extended enterprise.

4.1. Content Delivery System

LSI hosts the e-learning environments of its customers. By centralizing all infrastructure and hosting requirements, its customers derive significant benefits, such as the avoidance of hardware, software, content and technology installation and/or updates, and 24/7 access from anywhere there is a PC and an Internet connection.

4.2. System Architecture

LSI e-learning architecture is designed to scale rapidly to provide large student populations with tutor-supported e-learning content. Content delivery system uses standard Internet technologies such as Java and HTML, facilitating the delivery of content to customers' Web browsers.

4.3. Course Enrollment Options

There are several different methods for participants to access LSI's courses. Enrollments can be managed by authorized personnel using its corporate administration system. Alternatively, participants can self-enroll using an intranet or Internet e-commerce option. LSI's system can also be integrated with third-party enterprise software applications to allow automated enrollments using a learning management or other data base administration system.

4.4. Tracking and Reporting System

Each participant's learning activities are fully tracked in LSI's database.

The tracking ability allows a participant to start a course at work, and continue at home or while traveling. Regardless of their location, LSI's system recognizes each participant, tracks their course progress and records their performance. Using only a standard Web browser, managers can run both standardized and custom reports on participant enrollments and progress, gaining visibility into the learning status of their extended enterprise.

4.5. Course Tutoring

LSI's technology allows to increase the efficiency and scalability of tutoring resources. The ability of tutors worldwide to interact with participants through standard Internet communication methodologies significantly increases the pool of tutor candidates that can be recruited. In addition multiple tutors will be allowed to support the same course as grading and exercise submissions can be accessed and responded to by any tutor. Duplication of tutor work is prevented by message queuing technology.

4.6. Collaboration Tools

LSI hosts and makes available to customers proprietary and third-party collaboration tools, which currently include instant messaging software, e-mail solutions, chat rooms and discussion boards. These collaboration tools are designed to create a learning environment that fosters collaboration between peers and a high degree of interaction between participants and tutors.

4.7. Testing and Assessment

LSI's system offers comprehensive testing and assessment capabilities, which can be customized for specific learning solutions and customers. Assessment and testing capabilities include the full range of testing techniques (multiple choice, multiple answer quizzes with randomized question sets, tutor-scored and commented exercises, etc.).

4.8. Full Integration with Corporate Infrastructures

LSI's e-learning solutions can be fully integrated with customers' corporate information technology systems, including their Web sites and intranets. As a result, course participants do not necessarily realize that they are accessing content hosted from LSI's servers. Integration layer provides adapters for learning management systems. Course content is designed to be compatible with customer's security concerns and bandwidth limitations.

4.9. Scalable Architecture

LSI's system has been designed to scale rapidly and to consistently deliver content to large numbers of participants. It uses extensive load testing to measure system capacity and identify potential bottlenecks.

Constant improvements to the system architecture ensure increased system capacity well beyond current demands.

4.10. High-Availability Systems

LSI's systems have been designed to maximize availability, with redundancy in the areas in which failures are most likely to occur (network connections to the Internet, Web server, storage arrays). Servers are hosted with a leading Web-hosting firm which provides backup power, constant monitoring, physical security, seismic resistance, fire suppression and climate control systems.

4.11. Future Products

LSI's strategy for future development is to remain positioned with enough flexibility to quickly adapt to new technologies and courseware needs. CAM and Bible content courseware will be constantly adapted to changing environments within what is believed to be a positive market trend for LSI's products.

5. Market Analysis Summary

In 1993 the New England Journal of Medicine released a highly publicized national survey, which documented the high prevalence and expenditures of the use of alternative medicine in the United States in 1990. The report documents that one third of the population seeks some form of alternative care and is spending more than \$10 billion dollars annually.

Dr. David Eisenberg of Harvard Medical School conducted a follow up national survey and published his results in *The Journal of the American Medical Association, (JAMA)*, November 11, 1998. Entitled, "Trends in Alternative Medicine Use in the United States, " the article states that :

The prevalence and expenditures associated with alternative medical therapies in the U.S. have increased substantially from 1990 to 1997.

This increase appears to be primarily due to increases in the prevalence of use and in the frequency with which users of alternative therapy sought professional services.

In 1997, an estimated four in 10 Americans used at least one alternative therapy as compared with three in 10 in 1990.

For adults aged 35 to 49 years in 1997, it is estimated that one of every two persons used at least one alternative therapy.

The health care delivery system is in the midst of a dramatic paradigm shift. *The New England Journal of Medicine, Lancet, The Journal of the American Medical Association, The British Medical Journal*, and other leading mainstream medical journals are now acknowledging as pioneers, the same scientists whose works just a decade ago were being labeled by these journals as unproven and fraudulent.

The following data provides some general information relative to the market need which health oriented web sites specifically try to address:

- Drugless, surgery-less cures for over hundreds of ailments can now be found on the Internet.
- For every single ailment, there are new, medically-proven, scientifically valid, non-surgical and non-drug treatments that can relieve pain, restore complete function and let anyone start living life the way they want to, free of pain and worry.
- 20,000,000 surfers (and the number is growing) visit 1,100+ websites and pay hefty fees for downloading information as well as obtaining up to 1,000 articles per month from various libraries.
- Portals are continuously gathering information on the 704 medically classified diseases-- from Asthma to Zygomycosis—plus 387 herbs, 22 vitamins, and 71 trace minerals.

Proven alternative medical research is now available on ...

- cleaning out clogged arteries
- enhancing longevity
- reversing the aging process
- using safer, natural forms of hormone replacement
- reversing prostate problems
- treating cancer without chemo or radiation therapies
- powerful weight-loss strategies
- ending the pain of arthritis and rebuilding worn-away cartilage
- normalizing the glucose levels of diabetics

- high blood pressure, asthma, fatigue, insomnia and a host of other chronic conditions

The 1.2 million physicians and nurses in America today, until now, have lacked the time, training and staff resources to deal with alternative medicine in a sound medical fashion. Many health care providers have difficulty just keeping up with their professional reading let alone learning more about alternative medicines and their applications.

Patients have more time to learn about their diseases/symptoms through the Internet and are now better educated about alternative medicines than ever before, sometimes gathering knowledge over and above what professionals have to offer. The grass roots, patient-driven demand for alternative cures and prevention before the disease occurs has gained a strong momentum over the last decade. Leading futurists, like John Naisbitt, Patricia Aberdeen, Alvin Toffler, Harry Dent, Michael Crichton, and alternative medicine experts like Harvard Medical School's Dr. David Eisenberg all point to the following:

- Complementary alternative medicine is the next wave in health care.
- The demand for wellness is totally consumer driven.
- Complementary alternative medicine has all the signs of a social reform.

As a result of the demand and new supply of information, today's consumers are way ahead of their health care providers. Mainstream medicine is running at full speed to catch up.

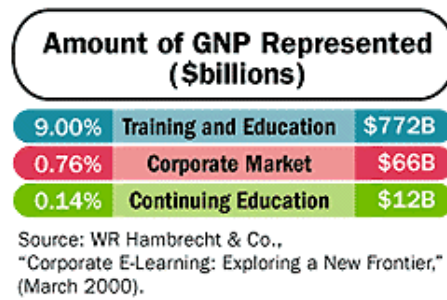
LSI is determined to become the key provider of information to corporations, government and academic institutions about CAM.

Internet and the World Wide Web are key to deliver information instantly and seamlessly throughout the world to B2B customers that have a need of their own to hurry in providing such information which consumers so eagerly seek.

E-learning courseware is the key delivery system to train professionals in corporations, government and academic institutions in providing accurate CAM information.

E-learning is the fastest-growing and most promising market in the education industry. According to WR Hambrecht & Co., e-learning is poised to explode, and the company anticipates the market to more than double in size each year through 2002. The training and education sector represents \$772 billion, or 9% of the GNP, second only to health care, according to WR Hambrecht & Co., a full-service brokerage and underwriting firm for high-tech and emerging-growth companies. Corporate e-learning represents \$500 million of that amount, with growth expected to top \$7 billion by 2002.

A 1999 benchmarking study of 501 U.S. companies conducted by the American Society of Training and Development (ASTD) shows not only a year-to-year increase in spending on e-learning, but also a direct relationship between company performance and spending on training. Companies that reported improvements in business performance also reported a higher level of spending on training measured as a percentage of payroll. Higher-performing companies also provided training to a greater percentage of their employees when compared with others.



5.1. Market Segmentation

The primary targets for LSI's e-learning products include these four vertical markets:

- Alternative Medicine Courseware Providers, i.e., corporate entities that provide corporate entities with CAM content and training courseware;
- Healthcare Professionals, i.e. the healthcare providers themselves who have a need to provide also CAM information to their patients or peers/associates
- HealthCare Institutions, i.e. all government and academic institutions that have a need to provide courseware on CAM to their staff, collaborators and patients
- Theological markets and Christian seminaries that wish to train and/or provide Bible content to members or sympathizers of their respective religious communities

5.2. Market Needs & Trends

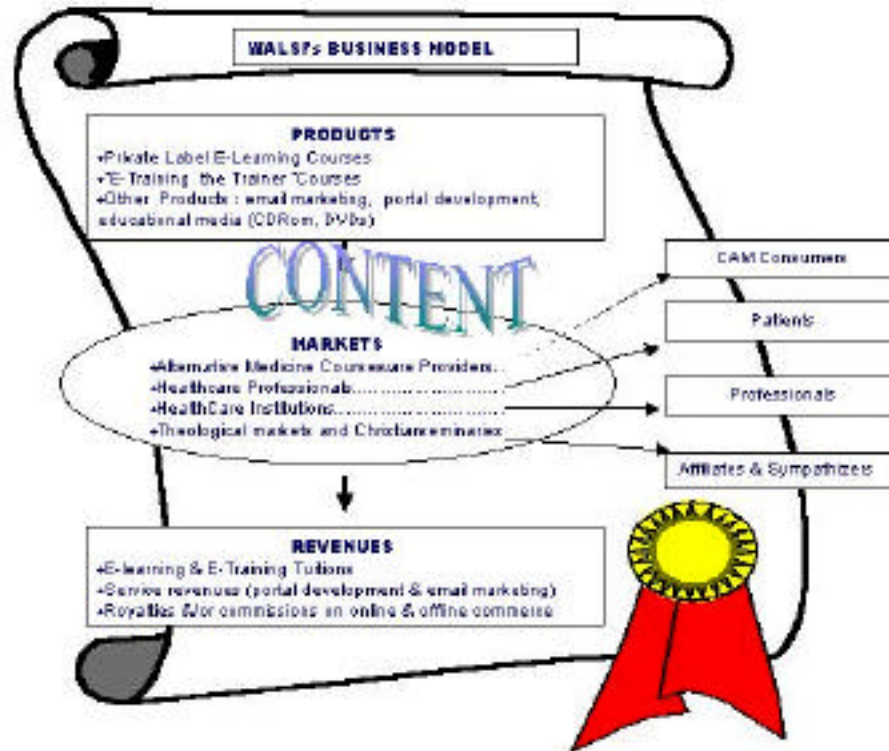
The market needs & trends is underlined by additional statistics from Dr. Eisenberg's research:

	1990	1997
Adults who used alternative medicine	34%	42%
Visits to Alternative medicine practitioners	427.1 million	628.8 million
Total spending on alternative medicine	\$14.6 billion	\$21.2 billion
Visits to primary care physicians	387.5 million	385.9 million

Dr. Eisenberg further states, "The magnitude of the demand for alternative therapy is noteworthy, in light of the relatively low rates of insurance coverage for these services." The study goes on to suggest that "federal agencies, private corporations, foundations and academic institutions adopt a more pro-active posture concerning the implementation of clinical and basic science research, the development of relevant dietary supplements.". Estimates indicate that dietary supplements have become a \$6 billion segment that is expected to grow at an annual compounded rate of 25% through 2000.

The growth of the market for CAM products and services is paralleled by the growth of the need that corporations, professionals, government and academic institutions have to disseminate information to consumers, and LSI is well positioned to dominate this market niche with its compelling content & courseware.

6. Business Model



LSI provides corporate e-learning courses and services that produce measurable results for corporate entities that address the strategic imperative of knowledge as a driver of business performance.

LSI online learning courses and services combine powerful Internet delivery technologies, customized content, dedicated tutors, and tools to track and report on course registrations and measure participant performance. LSI hosts and delivers all of its courses and hence it can be easily deploy them thousands of participants.

The advantages of LSI's solutions include:

- Central hosting and delivery: Central hosting and delivery keep customers expenses down to barest minimum
- e-Business Capability: LSI's highly scalable, configurable platform enables customers and strategic resellers to develop revenue generating businesses around their e-learning solutions.
- Compelling CAM & Bible content: LSI offers both our catalog and from custom courseware
- Engaging and compelling student experience: e-learning environment leverages the unique communications and interactive capabilities of the Internet (applets, discussion boards, online labs, simulations, e-mail and chat rooms)
- Tutor Support: Courses are supported by online tutors who respond to student queries through e-mail or monitored discussion groups.
- Open standards-based technology framework: courses can be accessed anytime from anywhere using standard Web browser software.

- Tracking and Reporting Tools.: each participant's progress can be measured for course completion and knowledge acquisition, click-by-click.

6.1. Strategy

Our objective is to be the leading provider of CAM and Bible content e-learning and e-training solutions to corporations, government agencies and academic institutions.

6.1.1. Key elements of the strategy include:

- Streamline delivery and facilitate data mining

LSI, in partnership with its strategic partners intends to continually streamline content delivery and integration of the technology platform with those of its customers to facilitate their ability to gather metrics on e-learning performance (sales per employee, customer satisfaction and manager evaluations).

- Boost & adapt courses menu

Continuously update the courses offerings to satisfy clients changing needs

- Develop long-term strategic relationships with customers.

E-learning will become increasingly critical to a business' ability to compete successfully. Thus as a provider, LSI is a strategic resource for customers and will capitalize on this to develop products aligned with customers' needs.

- Exploit strategic relationships to create new distribution channels.

The great flexibility of LSI's content and technology will allow it to quickly generate new products as new market opportunities surface as result of strategic relationships with customers, who are much more attuned to market needs.

6.2. Competitive Edge

LSI's competitive advantage is its CAM library, one of the most comprehensive and unique Complementary Alternative Medicine database of any kind, cross-linking hundreds of disease and health conditions to nutritional and herbal remedy abstracts.

The database, consisting of over 280,000 pages of text updated with all current material daily, is the largest database on alternative health in existence, and it represents an invaluable research and resource tool for health care providers as well as their patients.

The database allows search by 704 diseases, 387 herbs, 22 vitamins and 71 trace minerals and contains the references for dosage amounts obtained from a research base of over 20,000 studies published in last decade and are updated daily.

6.3. Website Strategy

First class web site design and product quality are critical to LSI's positioning as a leading e-learning company. LSI will distinguish itself from its generic competitors as a full learning & training center, rather than a traditional informational web site. Further development needs to match the overall business strategy as explained in the rest of the plan.

Because LSI's target customers are all corporate, it will have the luxury of using the latest technologies to impress them with excellent design and animation.

The back-end of the site will be built on latest server technology backed with bandwidth and organized around IS technology. IS specializes in Web-to-Enterprise integration, industry-specific solutions, and strategic outsourcing.

The courseware platform will be provided by C.net, an industry leader in web-based distance learning offering a world-class, fully-integrated web platform.

The replicating site and hosting partnerships will be provided by J.com, a company offering a robust content management system, complete E-commerce store front with instant order processing, events calendar, customer support and much more.

6.4. Sales Forecast

The sales forecast in the following table is based on conservative estimates on the number of courses that can be sold. Sales are projected to rise from \$36 million in 2002 to \$60 million in 2003 and \$105 million in 2004. The forecast obviously depends on healthy monthly growth rates in the average number of courses sold.

Sales Summary (\$ x000)	Year 1	Year 2	Year 3
Average No. of Courses Sold	6,000	10,000	17,000
Growth rate:		181%	181%
E-learning courses tuition revenues	29,845	52,642	95,317
<i>Additional revenues</i>			
E-Train-the Trainer Revenues	2,089	2,632	3,813
Portal Development Revenues	1,791	2,106	2,859
Email marketing fees	1,194	1,579	1,906
<u>Product sales revenues</u>	<u>895</u>	1,053	953
Total Sales	35,814	60,012	104,848
Cost of Sales	21,488	30,006	41,939
	60%	50%	40%
Gross Profit	14,325	30,006	62,909

7. Management Summary

Mr. xxxxxx : Chief Executive Officer.

xxxxxx is Developer Founder and CEO of LSI, and also the main VC fundraiser for the \$4 Million Seed Capital that was used to develop the original WA website.

Mr. xxxxxx is a passionate activist, an Alternative Health and Bible scholar, and a visionary entrepreneur. He has been labeled a walking encyclopedia, an alternative-medicine crusader, and Bible Scholar.

For Mr. Xxxxxx, two personal health crises turned what once was disbelief into a global crusade for health and wellness, with a relentless pursuit of “the truth told in every household” about drugs, surgeries, and the natural alternatives.

After two decades of researching and compiling a database of various healing modalities, Mr. Xxxxxx is much sought after by doctors and medical conferences as both a speaker and teacher on his health and wellness system.

Dr. Kue Yyyyyy, Chief Operations and Chief Financial Officer.

Dr. Yyyyyy is co-founder of Learning Systems, Inc.. He brings 14 years of experience as CEO of I systems, and holds an MBA in finance and a Ph.D. in Electrical Engineering. Dr. Yyyyyy brings the financial and medical expertise needed to successfully manage WA.com’s growth, blending the old economy model of “net-earnings” vs. “eyeballs” and the new economy of e-commerce based expansion into global markets.

Mr. Xxxxxx and Dr. Yyyyyy have been business partners or affiliates since 1986, and both bring complementary strengths to the organization. Mr. Xxxxxx provides the entrepreneurial spirit, and Dr. Yyyyyy executes the vision on a day to day basis.

7.1. Organizational Structure

LSI has an agile organizational structure that recognizes the need for a smooth flow of ideas and implementation between sales, marketing, and course development.

The CEO deals with three direct reports: admin/finance, sales/marketing, and development. However the company does not manage with a strict hierarchy, on the contrary, it emphasizes the team. Still, as it will grow, structure will be necessary and decision-making power and the ability to act, rather than trying to do everything by consensus, will be preserved.

7.2. Management Team Gaps

LSI will strive to secure seasoned professional management with experience, the "gray haired factor." The company will be looking to add more experience to the team as it builds its administrative and financial capabilities.

7.3. Personnel Plan

The following personnel plan details LSI’s plans for the ramp-up.

Human Resources	Yr 1	Yr 2	Yr 3
CEO-	1	1	1
President- Xxxxxx	1	1	1
Executive VP/COO -	1	1	1
COO - Dr Yyyyyy	1	1	1
CAO-	1	1	1
<u>Office Staff</u>	<u>1</u>	<u>2</u>	<u>4</u>
Total Headcount	6	7	9
Total HR costs	790	897	989
Scientific Advisory Board	75	83	45
Non-Executive Directors	60	66	36
Total HR costs	925	1,045	1,071

8. Financial Plan

This is an Internet and e-learning venture that, of course, depends on the developing financial prospects of the growing Internet & e-learning world. To make it work financially, LSI need to increase valuation on schedule to bring in substantial additional capital. The tables that follow define the investment offering for investors. Specifically the plan envisions

- a pre-money valuation of \$35 million, with IRR of about 180% for all investors of this round
- The exit strategy is an IPO at the of 2004, valuing the company at \$356 million or \$524 million, if valuation is based an very conservative earnings or sales multiples of , respectively 10 and 2.

8.1. Important Assumptions

The general assumptions are listed in the following table. Obviously these are LSI specific assumptions, trivial compared to the underlying critical assumptions, which include:

- Continued growth of e-learning market and Internet usage. Published forecasts that say 4% of the world's population presently uses the Internet, and that will grow to 11% by 2005. That's strong growth. E-learning is poised to explode, and according to WR Hambrecht & Co , the market will more than double in size each year through 2002. Corporate e-learning , at \$500 million in 1999, is expected to top \$7 billion by 2002.
- Continued support of financial markets, which means continued rise in valuations of e-learning companies, in spite of the Internet companies melt-down. The increase in valuation is critical to our financial strategy.

8.1.1. General Assumptions

APPENDIX 2: PLAN PERIOD: 3 YEARS KEY ASSUMPTIONS & SPECIFICATIONS	
Budget Assumptions	
All areas of budget	VAT & Retained taxation : 10%
Material Assets	
Leasehold Improvements	The improvements to be done i to adapt it to company's requirements
Laboratory Equipment	Assumes availability of centralized lab facilities
Immaterial	
Web Site & Corp. Image, Media Package	Costs relate to the creation of a web site, logo, brochure , presentation materials
Own Intellectual Property	Includes costs of preparing, national & international filing and maintaining patents . Av. Cost (\$) per major patent family : Yr 1: 15k; Yr2: 25k Yr3:40k) We are assuming an average of 2 new patents per each of the years in the plan period;
Corporate Software	Accounting, management and scientific software purchases/leases
Capitalizable R&D Expenses	None, all costed out.
Human Resources	
Board of Directors (non-executive)	Assumes that only non-executive officers will receive Board Compensation
Scientific Advisory Board	Assumes that Board of Directors and SAB membership compensations cannot be cumulated.
Salaries	Assume that salaries cost will equal 67% of all HR costs, with balance distributed among social, leaving indemnities and other costs.

Operating Costs	
R&D	
Gen. & Adm	
Leases laboratory & adm. facility	Leasehold expenses for the whole facility
Profit & Loss	
Sales	The plan assumes a 5% monthly growth in number of courses sold throughout the period.
No. Of Starting Courses sold per month	3,750
Monthly growth rate:	105%
E-learning courses tuitions revenues	Ave/Person \$500.00
<i>Additional revenues</i>	In aggregate 20% of E-learning tuition revenues in Yr 1, 15% in Yr 2 and 10% in Yr 3.
E-Train-the Trainer Revenues	Assumed to be 7% of E-learning tuition revenues in Yr 1, 5% in Yr 2 and 4% in Yr 3.
Portal Development Revenues	Assumed to be 6% of E-learning tuition revenues in Yr 1, 4% in Yr 2 and 3% in Yr 3.
Email marketing fees	Assumed to be 4% of E-learning tuition revenues in Yr 1, 3% in Yr 2 and 2% in Yr 3.
<u>Product sales revenues</u>	Assumed to be 3% of E-learning tuition revenues in Yr 1, 2% in Yr 2 and 1% in Yr 3.
Balance Sheet	
Accumulated Depreciaton	20% per year
Receivables & Payables	30 days and 90 days, respectively
Equity Offering	6,000,000
Retained Earnings	All losses are carried forward
VAT Payments & Credits	Done as they occur after balacing out with VAT credits; the latter are carried forward as a current asset.

8.2.Exit Strategy and Financing

We expect valuation for this round, based on pre-money net present value analysis (NPV) to be about \$35 million.

IRR	180%	
NPV Discounted at 15%	\$ 41 million	Value of company post money
<u>Less New Money Invested Pre-IPO</u>	<u>\$6 million</u>	
	\$35 million	Value of company pre-money

The table included below shows an ending valuation in the 3d year to be between \$356 and \$524 million depending on the multiples that are used (earnings or sales).

	Year 1	Year 2	Year 3
Earning multiples	10	10	10
Pre-IPO valuation (\$ million)	64	161,	356
Sales Multiples	2	2	2
Pre-IPO valuation (\$ million)	179	300	524

8.3. Projected Profit and Loss

LSI believes that it can turn a profit by Year 1 as it is shown in the financial pro-forma summary. The complete pro-formas can be found in the tables appended in Volume 2 of this plan.

Table A: Summary Pro-forma Financial Statements	Year1	Year2	Year3
(\$ x000)			
Budget			
<i>Human Resources Count (Year-End)</i>	6	7	9
Capital Expenditures	1,110	1,492	2,424
Human Resources	925	1,045	1,152
Research & Development	300	600	960
Sales & marketing	1,600	1,080	1,860
General & Adm	512	631	765
Total Budget	6,547	12,848	19,161
Profit & Loss			
Total Sales	35,814	60,012	104,848
Cost of Sales	21,488	30,006	41,939
Total Operating Expenses	3,754	3,774	5,155
Net Income After Taxes	6,452	16,097	35,597
Cash-Flow			
Cash-In Details			
Sale of Stock	3,000	-	-
Gross Profit from Sales	14,325	30,006	62,909
Interest Income	182	595	1,574
Total Cash In	17,507	30,601	64,483
Cash-Out Details			
Capital Expenditures	1,110	1,492	2,424
Participations	2,100	8,000	12,000
Human Resources	925	1,045	1,152
Research & Development	300	600	960
Sales & marketing	1,600	1,080	1,860
General & Adm	512	631	765
Taxes on Income	4,301	10,731	23,731
Payables(-)	-	-	-
	212	328	493
Net VAT Payments	-	-	-
	2,013	4,572	4,557
Balance at Year end	8,623	18,679	37,842
Balance Sheet			
Assets			
Current	6,881	20,695	49,471
Assets	692	1,766	3,773
Total Assets	7,573	15,876	39,706
Liabilities & Shareholder Equity			
Current	221	428	640
Stockholders Equity	3,000	3,000	3,000
Retained Earnings	4,352	12,448	36,066
Liabilities Plus Equity	7,573	15,876	39,706