



# SYN(HR)GY™

7324 SW Frwy. Ste. 1400 Houston, TX 77074  
P.O. Box 742328 Houston, TX 77274-2328  
tel 713.596.1700 | fax 713.316.4189  
www.synhrgy.com

To: BURT GRAD

Company: BURTON GRAD

Fax: (203) 222-8728

Tel (203) 222-8821

Pages: 2 INCLUDING COVER SHEET

Date: 12/31/01

From: KEITH ANDERSON

Notes: This is the P.O. that we discussed  
last week. Happy New Year!

*Keith*

This fax is intended for private use only and is to be read by the person stated above only. If you have received this fax in error, please notify the above sender. Thank you.

002/002

# PURCHASE ORDER

PURCHASING USE ONLY

Requester	Keith Anderson
Date	12/21/2001

P.O. Number	0112-064
Date Ordered	
Expected Delivery Date	

Synhrgy HR Technologies, Inc. 7324 SW Frwy, Suite 1400 Houston, TX 77074  
 PH: (713) 596-1700 FX: (713) 316-4189

Vendor	Burton Grad Associates, Inc
Address	5 Saint John Place
	Westport, Connecticut 06880
Contact	Burt Grad
Phone	(203) 222-8821

Ship to	Synhrgy HR Technologies, Inc.
Address	7324 SW Frwy, Suite 1400
	Houston, Tx 77074
Attn	

Special Restrictions (To Purchasing)

Particulars	Quarterly Business Valuation Services

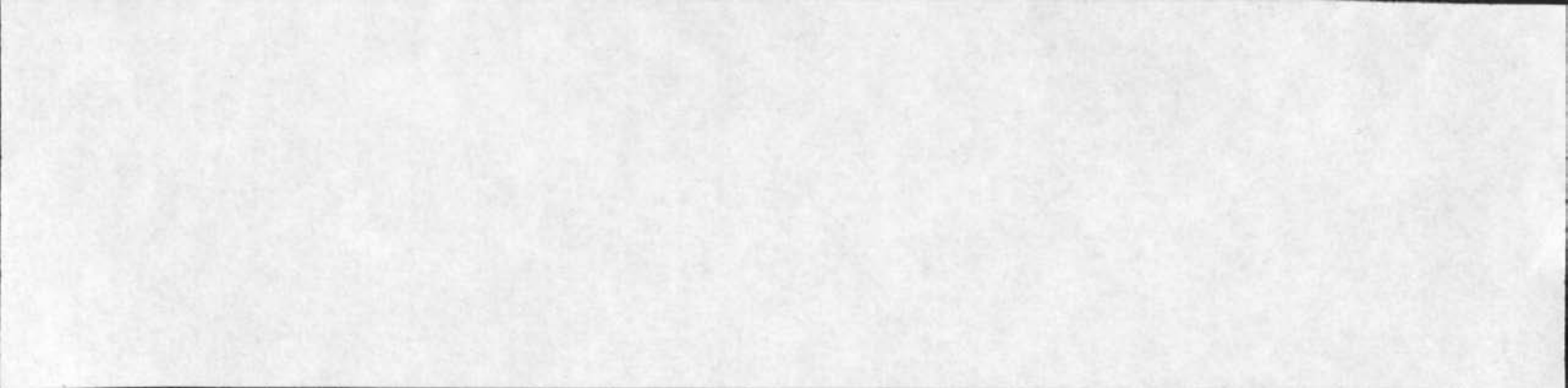
PURCHASING USE ONLY

QTY	Quantity/Unit	Description	Unit Price	Extended Amount	Asset Number
1		2001 Forth Quarter Business Valuations (1 x \$5,000)		5,000.00	

ORDER STATUS		Purchasing Use Only	
Complete	Date	<input type="checkbox"/>	<input type="checkbox"/> Net <input type="checkbox"/> Other
Partial	Date	SHIP VIA	
Budget Year		UPS	<input type="checkbox"/>
Capital Expenditure		FED EX	<input type="checkbox"/>
Expense		Vendor Truck	<input type="checkbox"/>
Other		Motor Freight	<input type="checkbox"/>
Budgeted For	YES <input type="checkbox"/> NO <input type="checkbox"/>	Other	<input type="checkbox"/>
Taxed by Vendor	<input type="checkbox"/> Not Taxed <input checked="" type="checkbox"/> By Vendor	FCB	
Re-billable to Client	YES <input type="checkbox"/> NO <input type="checkbox"/>	Dest	<input type="checkbox"/> Shipping Point <input type="checkbox"/>

Sub Total		
Tax		
Shipping		
TOTAL	5,000.00	
Approved By	SIGNATURE REQUIRED BELOW	Date
Requester	<i>Keith Anderson</i>	
Senior Accountant	<i>[Signature]</i>	12/31/01
Dept. Director		
Vice President		
Director of CFO		

12/31/2001 14:16 FAX 713 316 4189 AAC GROUP



equity detail

options granted -

<u>date</u>	<u>#</u>	<u>price</u>	
2/1/00	268,290	6.00	
7/1/00	27,000	6.00	
11/1/01	30,000	4.47	
3/1/01	160,000	4.47	<del>4.26</del>
7/1/01	109,600	4.78	
1/1/02	213,250		
MISC	574,180	4.26, 4.47, 4.78, 6.00	

1,348,020 AW  
 - 213,250  
 1,134,770

Sum table

1161540      1,177,870 - for equity  
 43,100  
 1,177,870

warrants/options - not employees

72,916  
 52,083  
 25,200  
 109,240  
 -----  
 259,939

150,699

1,573,570 - emp.  
 259,939 - non-emp  
 -----  
 1,833,509  
 495,810 - unallocated  
 -----  
 2,329,319



*Synhrgy*  
*D-3*  
*Balance*  
*for 12/31/01*  
*report*

Subj: **Internally Developed Software**  
Date: 2/6/2002 10:13:21 AM Eastern Standard Time  
From: kanderson@synhrgy.com  
To: burtgrad@aol.com  
Sent from the Internet (Details)

Below is the internally developed software summary you requested:

2000 Ending Balance  
Asset 1,501,547  
Accum. 72,404  
Net EB 1,429,143

2001 Roll Forward  
BB 1,429,143  
Cap. 750,000  
Amort. 772,000  
EB 1,407,143

Please let me know if you have any questions.

Keith Anderson  
Synhrgy HR Technologies  
(713) 316-4131 wk

for 2-3

Subj: **RE: Capitalized Development Costs**  
Date: 2/5/2002 4:27:39 PM Eastern Standard Time  
From: kanderson@synhrgy.com  
To: Burtgrad@aol.com  
Sent from the Internet (Details)

I inserted a table from an Excel file. Sounds like AOL didn't convert it properly. The numbers are as follows:

2001  
Capitalization \$750,000  
Amortization \$772,000

2002  
Capitalization \$850,000  
Amortization \$815,000

These amounts are built into the most recent forecast that you have from us. Please let me know if you need anything else.

Keith

Keith Anderson  
Synhrgy HR Technologies  
(713) 316-4131 wk

- > -----Original Message-----
- > From: Burtgrad@aol.com [mailto:Burtgrad@aol.com]
- > Sent: Tuesday, February 05, 2002 3:16 PM
- > To: kanderson@synhrgy.com
- > Subject: Re: Capitalized Development Costs
- >
- >
- > What did you send me? It says OLE...obj.
- >
- > Burt Grad
- > 203-222-8821
- > fax 203-222-8728
- >

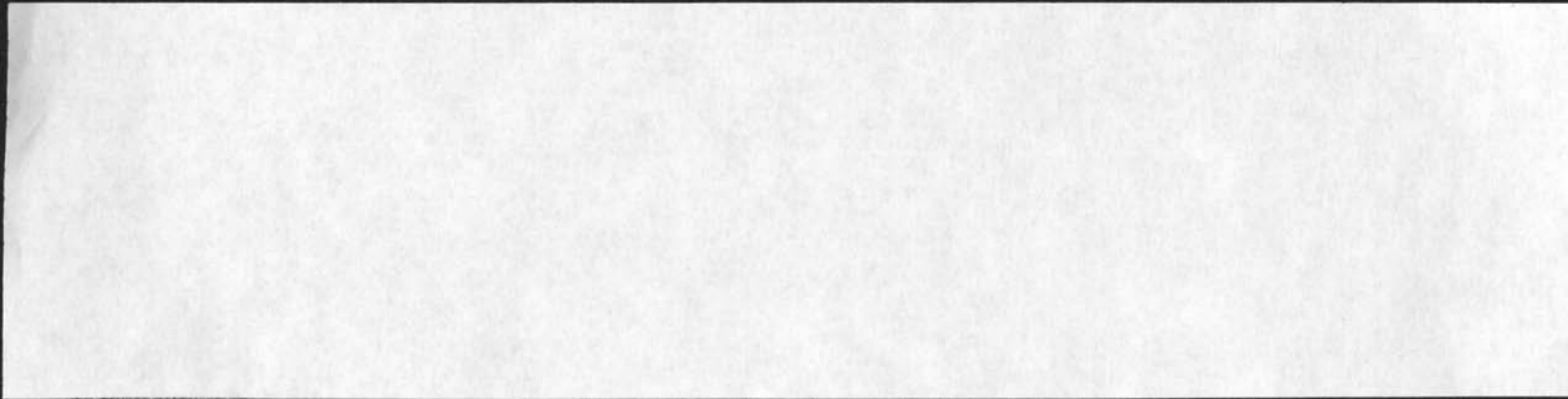


**Synhrgy HR Technologies**  
**Depreciation & Amortization Internal Allocation**

<b>Depreciation &amp; Amortization</b>						
	<u>2000</u>	<u>Q1-01</u>	<u>Q2-01</u>	<u>Q3-01</u>	<u>Q4-01</u>	<u>YTD 2001</u>
Client Services	778,188	386,917	522,424	812,849	1,059,221	2,781,411
Sales & Marketing	89,826	45,495	50,043	69,337	79,522	244,397
Technology	228,806	117,315	111,764	89,087	115,964	434,130
Administration	8,840,488	230,067	196,545	1,467,581	92,141	1,986,334
<b>Total</b>	<b>9,937,308</b>	<b>779,794</b>	<b>880,776</b>	<b>2,438,854</b>	<b>1,346,848</b>	<b>5,446,272</b>

<b>Depreciation</b>						
	<u>2000</u>	<u>Q1-01</u>	<u>Q2-01</u>	<u>Q3-01</u>	<u>Q4-01</u>	<u>YTD 2001</u>
Client Services	778,188	386,917	522,424	812,849	1,059,221	2,781,411
Sales & Marketing	89,826	45,495	50,043	69,337	79,522	244,397
Technology	228,806	117,315	111,764	89,087	115,964	434,130
Administration	70,124	41,983	51,294	78,696	92,141	264,114
<b>Total</b>	<b>1,166,944</b>	<b>591,710</b>	<b>735,525</b>	<b>1,049,969</b>	<b>1,346,848</b>	<b>3,724,052</b>

<b>Amortization</b>						
	<u>2000</u>	<u>Q1-01</u>	<u>Q2-01</u>	<u>Q3-01</u>	<u>Q4-01</u>	<u>YTD 2001</u>
Client Services	0	0	0	0	0	0
Sales & Marketing	0	0	0	0	0	0
Technology	0	0	0	0	0	0
Administration	8,770,364	188,084	145,251	1,388,885	0	1,722,220
<b>Total</b>	<b>8,770,364</b>	<b>188,084</b>	<b>145,251</b>	<b>1,388,885</b>	<b>0</b>	<b>1,722,220</b>



Q's for Mackey -

shareholdings -

add options/warrants

(App C-5)

$\frac{536}{\text{unity}}$   
x

# at what prices  
other conditions

price of shares undiluted is ~~7.3~~ 6.31

diluted would be \_\_\_\_\_

\$6/share for options

2.76 for ~~two~~ options for SBC

~~comparables are causing high price -~~

---

- options - # at what prices

- subject for deval cap + amortization

---

waiting for new cap table

✓ + resolution of cap/amount.

calculation

\$6.31/share (based on \$50,200,000 co. val + 7,951,024 shares)

SBC - 109,240 <sup>options</sup> shares @ 2.746/share = 300,000

Emp/Exec options # @ 6.00/share

Other options + warrants are not dilutive at this time

2,329,319 options + warrants - Unallocated of ~~495,810~~ <sup>495,810</sup>  
 = ~~7,610,599~~ 1,833,509

SBC <sup>warrant</sup> 109,240 @ 2.746

Emp/Exec ~~1,573,570~~ ~~915,290~~ <sup>1,573,570</sup> @ ?

Rich/Val warrants, 25,000 \$6 - /shr

Clarite warrants 25,700 \$8 - /shr

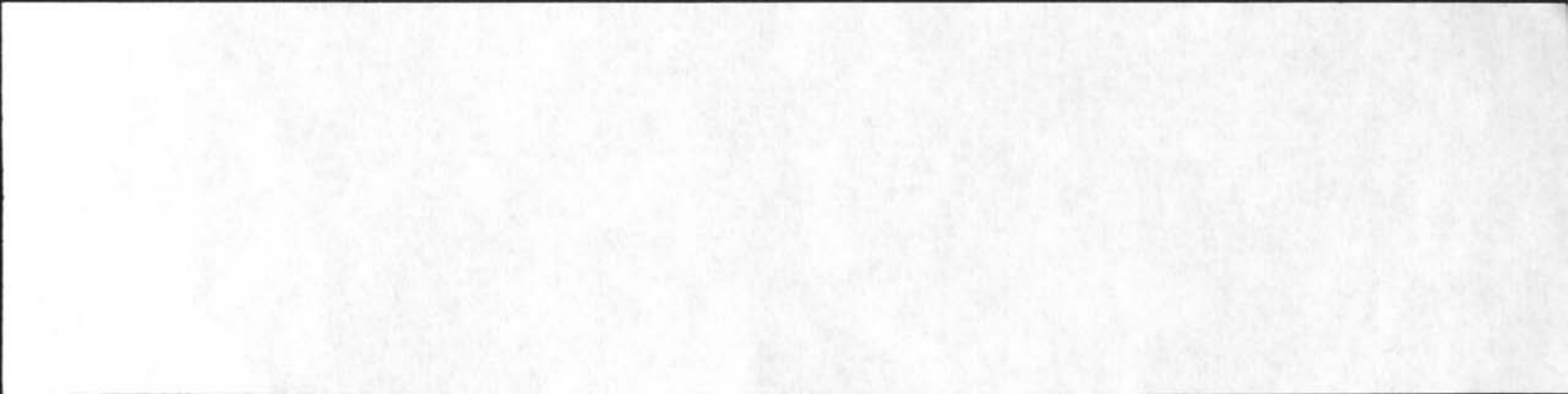
FR Price

~~SBC options 495,810 ?~~

VS 1,161,540 @ \$6

VS 1,161,540 @ \$6

+ per ~~1,161,540~~ <sup>1,161,540</sup> report



BURTON GRAD ASSOCIATES, INC.  
5 SAINT JOHN PLACE  
WESTPORT, CT 06880  
(203) 222-8821  
(203) 222-8728 FAX  
BURTGRAD@AOL.COM

December 31, 2001

Mr. Michael J. Mackey  
Synhrgy HR Technologies, Inc.  
10700 Northwest Freeway  
Houston, TX 77092

Dear Mike:

At the request of Synhrgy HR Technologies, Inc. (Synhrgy), Burton Grad Associates, Inc. (BGAI) would be pleased to perform a series of common stock valuation studies beginning with March 31, 2002 and updated each quarter through December 31, 2002. The purpose of these valuations is for Synhrgy to be able to establish appropriate prices for options on shares of stock granted to various employees and officers at different times and, if necessary, to support discussions by Synhrgy with its auditors and with the SEC and IRS.

BGAI will provide independent valuations using generally accepted valuation procedures similar to those it has previously applied to valuing privately held companies, taking into consideration all relevant business factors including revenues, costs, margins, technology, infrastructure, competition, private company value adjustments and minority stock discounts as appropriate.

BGAI will use its extensive experience in valuing computer software and services companies over 20 years to carry out these valuation studies for Synhrgy.

#### **Work Plan**

BGAI will perform each valuation study following these steps:

1. Synhrgy will collect materials as specified by BGAI which will provide the basis for each valuation study. A list of the materials requested will be provided each quarter.
2. BGAI will examine these materials and conduct phone interviews with selected Synhrgy executives as necessary to obtain information not available from the source materials or to amplify or clarify these materials.

3. BGAI will use the selected valuation methodologies (net present value of projected profit; fair market value based on comparable companies) and analyze materials and interview notes so as to construct the valuation models needed.
4. For these models, key valuation factors will be determined including expected customer life, NPV factors, market valuation ratios, projected tax rates, etc. Using these factors, the recommended company valuation will be developed.
5. The company value will then be analyzed using standard shareholder valuation procedures to establish the per share value for the various shareholder categories.
6. A report will first be delivered in draft form to ensure that all information is accurate and complete and that the logic and calculations used are clear. The final report will then be prepared and submitted, including appropriate appendices.

### **Staffing**

All of the valuation work will be performed by Burton Grad. No other BGAI Associates will be used without prior agreement by Synhrgr by including approval of assignments and rates. Grad's professional profile is enclosed as Appendix A.

Synhrgr will assign a liaison person to work with BGAI to provide financial, market, organizational and technical information as required.

### **Schedule**

Synhrgr and BGAI will agree on the specific schedule for each of the valuations. Meeting the agreed to schedules will depend upon timely availability of the source information and prompt interview responses.

Generally, if the needed information is available by the 15<sup>th</sup> of the month after the end of the quarter, then the study can be completed by the first of the following month, assuming that key management personnel are available in a timely fashion to answer business, marketing and technical questions.

### **Confidentiality**

BGAI will treat all information received and developed as confidential to Synhrgr and not disclose this information to any third party without prior written authorization from Synhrgr.

### **Costs and Payments**

The Synhrgr valuation projects will be performed on a fixed price basis of \$20,000 for the four studies. If additional work is required for any study because of significant changes in Synhrgr's business situation, then Synhrgr will be notified in advance and this added time will be charged at

Burton Grad's current rate of \$3,000 per day. Authorized expenses including travel and accommodations, if needed, will be billed in addition to the fixed price. These expenses should be minimal since there are no trips planned to Houston or elsewhere.

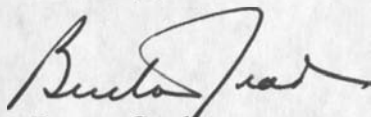
Payments are due as follows:

On signing this contract:	\$5,000
On completion of each of the first three studies:	\$5,000 plus expenses
On completion of the final study:	Expenses only

The initial invoice is enclosed and is payable within fifteen days of receipt, as are the other invoices when sent.

If the above project description is satisfactory, please sign below and return a signed copy to BGAI.

Sincerely,



Burton Grad

**Accepted for Synhrgy HR Technologies, Inc.**

by \_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

Enclosure  
5453pro



## Professional Summary of Burton Grad

Burton Grad, President of Burton Grad Associates, Inc. (BGAI), has a long record of significant contributions to the computer software and services industry. He has experience both as a user and developer of application and systems products and as consultant, innovator, businessman and leader in the computer software and services industry.

Since 1978 he has been a consultant to companies providing software products, software professional services, processing services and other computer software and services offerings:

- Strategic planning, management and organizational consulting, and product analysis, evaluation and review
- Company and product acquisition studies including due diligence and business valuations
- Planning, assessment and analysis of business operations including quality and productivity measurements

Work is performed personally or with the assistance of experienced specialists in market analysis, customer services, systems programs and industry applications on mainframe and departmental computers as well as on client/server and Internet/based systems.

This is a partial list from the more than 200 BGAI clients:

Artesyn Technologies  
Broadview Associates  
CIBER, Inc.  
DA Consulting Group  
Decision Consultants, Inc.  
Elron Software, Inc.  
Discount Investment Corporation  
First Dallas, Ltd.  
Geocapital Partners

Grace Consulting and Technologies  
i2 Technologies, Inc  
Keane, Inc.  
Mediware, Inc.  
Sterling Commerce, Inc.  
Sterling Software, Inc.  
Summit Partners  
Synhrgy HR Technologies  
TSI International

## Work Achievements

### **Burton Grad Associates, Inc. (1978 - Present)**

- \* Strategic planning, management and organizational consulting, and product analysis, assessment and review
- \* Company, product and technology valuation studies for financial, tax, capitalization and acquisition purposes
- \* Due diligence studies on acquisitions of computer software/services companies
- \* Business assessment studies and implementation projects for product strategy, development, quality management and customer service

### **Customer Care, Inc. (1992 - 1996)**

- \* Published *CustomerCare Newsletter* and *CustomerCare Survey* directed at software companies' customer services activities: support, documentation, training and product-related consulting
- \* Provided consulting on customer service processes and training for customer service personnel

### **Heights Information Technology Service (1979 - 1983)**

- \* Performed professional services for applications and systems development
- \* Used professionals on a remote, work at home basis with effective project management

### **International Business Machines Corporation (1960 - 1978)**

- \* Definition, design and implementation of application development systems strategy resulting in release of IBM's development management systems
- \* Development of application programs for every major industry
- \* Establishment of joint planning and programming development with European operations
- \* Announcement, development and initial support of CICS
- \* Management of application development for small business and process control systems
- \* Responsibility for the production, release and maintenance of almost 200 programs
- \* Conception of approach to and programs for text processing and office automation systems
- \* Development and expansion of computer based training systems
- \* Development of management science and scientific programs

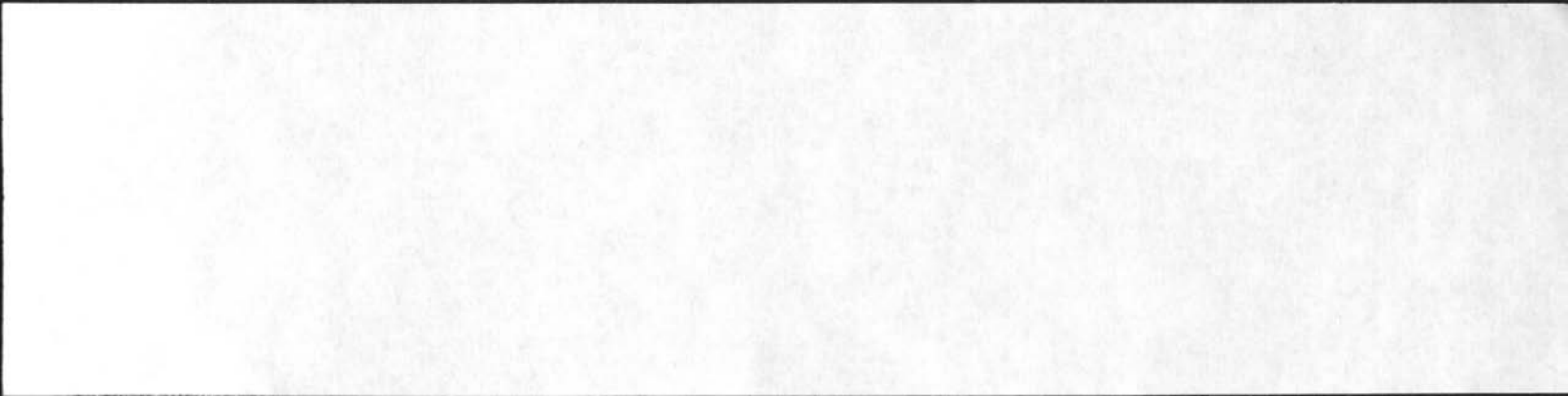
- \* Participation in the structuring and unbundling of IBM program products
- \* Creation of the Study Organization Plan for specifying and designing application systems

### **General Electric Company (1949 - 1960)**

- \* Programming of the first commercial computer (Univac I in Louisville)
- \* Development of discrete simulation techniques for manufacturing planning and control
- \* Invention of decision tables
  
- \* Study of automated factory design and implementation
- \* Initiation and use of advanced techniques for production, inventory and quality control

### **Other Professional Activities**

<b>1972-1996</b>	<b>ITAA</b> <ul style="list-style-type: none"><li>* Computer Software and Services Trade Association</li><li>* President, Treasurer and Board member of American Software Association Division of ITAA</li><li>* Member of ITAA Board</li><li>* Chair and member of various committees (Industry Relations, Software Capitalization, Software Openness, Technology Information Services, Quality Management)</li><li>* Executive Committee of Information Technology Foundation (Project Office)</li></ul>
<b>1968 and 1979</b>	Principal author of <i>Management Systems</i> , published by Holt, Rinehart and Winston. Used for colleges and businesses for computer application system methodology and design.
<b>1950-Present</b>	Speaker and chair at conferences and workshops and contributor to professional journals on various information technology subjects including decision tables, quality control, systems engineering and software capitalization
<b>1997-Present</b>	Founder and Treasurer of the Software History Center, a non-profit organization aimed at preserving and communicating the legacy of the software industry



Subj: **FW: Synhrgy Comps**  
Date: 1/30/2002 10:47:46 AM Eastern Standard Time  
From: [mjmackey@synhrgy.com](mailto:mjmackey@synhrgy.com)  
To: [burtgrad@aol.com](mailto:burtgrad@aol.com)  
File: **SynhrgyComps(1-29-02).pdf** (6516 bytes) DL Time (32000 bps): < 1 minute  
*Sent from the Internet (Details)*

Updated comp info for our discussion. I will call you before noon my time.  
If I miss you please call me on my cell 832 264 7828 when you can talk.

-----Original Message-----

From: [TMB@wmblair.com](mailto:TMB@wmblair.com) [mailto:[TMB@wmblair.com](mailto:TMB@wmblair.com)]  
Sent: Wednesday, January 30, 2002 9:43 AM  
To: [mmackey@synhrgy.com](mailto:mmackey@synhrgy.com)  
Subject: Synhrgy Comps

Mike,

Kelley is on the road today, but he asked me to pass along the updated comps analysis. This page is updated as of last night's close and we have added a column that shows the price change since your last meeting with Kelley.

Let me know if you have any questions.

Todd Buehl

<<Synhrgy Comps (1-29-02).pdf>>

Todd M. Buehl  
William Blair & Company, L.L.C.  
222 W. Adams Street, 34th Floor  
Chicago, IL 60606

Phone: 312.364.8046  
Fax: 312.368.9418

## Consumer Health Practice

Synhrgy recently added to our service offering by creating a Consumer Health Practice. This group will deliver a solution for the consumer health market (i.e. - defined contribution) including design services, technology and operational services. Fifteen consultants were hired in the fourth quarter who are considered the thought leaders in this emerging space (they are leading the design for a total replacement for a health care of a Fortune 100 company – the first company to do this in the United States). The group is expected to drive the market and the solutions offered by Synhrgy.

The Consumer Health Practice's first Synhrgy client is expected to save about 20% on their total healthcare costs. This relationship will result in additional consulting fees to Synhrgy of approximately \$3M in 2002.

long-term  
potential.

January 18, 2002

Mr. Burton Grad  
625 Nerita Street  
Sanibel, FL 33957

Dear Mr. Grad:

Enclosed please find the documents you requested for the forth quarter valuation. You should have the following documents:

**Forth Quarter Information**

- Employee Summary by Location C-1
- Organization Chart C-1
- Most Recent Business Plan B-3, C-2
- • Most Recent President's Report to Board ?
- Quarterly and YTD Financial Statements C-6 (2001)
- Quarterly Financial Forecast D-1, D-2 (2002-2004)
- Revenue by Business Type and Customer E-1 (2001)
- Forecasted Revenue by LOB and Type 2001-2002-~~2004~~ E-2
- Revenue Assumption Model E-3
- Depreciation & Amortization Internal Allocation D-3B
- Sales Pipeline C 3A
- Ongoing Revenue Backlog C 3B
- Win Report > C-4
- Loss Report
- Market valuations for comparable companies F2

If you have any questions, please do not hesitate to call me (713) 316-4131.

Sincerely,

*Keith Anderson*

Keith Anderson

*Capitalization 12/31/01*

Enclosures

## President's Report December 2001

### •New Business Activity

Sales and marketing opportunities have remained at very high level for November and December, with activity far in excess of the activity in the 4<sup>th</sup> quarter of 2000 and 1999. See the attached pipeline charts for a detailed summary of the activity.

#### New business closed:

- Procter & Gamble – we won the bid to provide EVMS (vendor eligibility administration, billing and payment) services to P&G's 56,000 US employees, with a go-live date of May 1, 2002. Annual ongoing fees will exceed \$600k before the inclusion of the recently acquired Clairol operations. Competition for the business was from Towers Perrin (P&G is a Towers consulting client) and from eBenX (these services are eBenX's main line of business).
- Franklin County Ohio – we won the H&W administrative work through our partnership with United Healthcare. Franklin County includes the city of Columbus and has over 4,000 employees.
- Temple-Inland – we have won the H&W administration services for TIN's approximately 12,000 non-union employees (TIN was already a client for H&W consulting). Annual fees for this work, which includes the implementation of the Authoria KB (effective January 2003) will be approximately \$1,400k with an initial go-live date of May 1, 2002. We were selected over ADP, which was the incumbent administrator. There are significant additional opportunities at TIN, as they have announced the acquisition of Gaylord Container, which will add about 4,500 employees. In addition, TIN has about 3,000 union employees and 3,000 retirees who are not included in the initial H&W project.

See attached detail for pipeline and pre-proposal activity

### • Channel Partner Activities

Overall, we have made significant progress with our marketing partners during 2001 and part of the increased marketing activity is due to the opportunities from these efforts.

**Uniprise** – We completed the initial training sessions for the Uniprise SAEs during November, with meetings in San Francisco, Houston, Hartford and Atlanta.



- Marketing activity through the SAEs has begun to gain momentum, although at a slower pace than we had expected. Several SAEs, have been proactive in introducing Synhrgy to clients, including:
  - Carol deStephanis (Denver) – introductions to Qwest (as a result of this meeting in November, we have already received an RFP for H&W administration services), Teletech
  - Jim Woodward (Seattle) – introductions to Airborne Express and Nike (we are on the list for an RFP covering H&W administration in the 1<sup>st</sup> quarter of 2002)
  
- Marketing activity through the SVPs is also picking up, with several meetings held or set up with search consultants.

**Intelitarget** – This is a direct marketing firm that we have engaged on a limited basis to see if telephone marketing could be useful in uncovering prospective clients. To date, we are very pleased with the activity. Intelitarget has turned up a significant number of qualified prospects and this activity has increased considerably during November, as the Intelitarget staff have become more familiar with Synhrgy's services. We have developed a qualification methodology with Intelitarget, where the top categories are a "Tier 1" prospect - an organization that plans to seek outsourcing services within 6 months, and a "Tier 2" prospect plans to use outsourcing services within 6 to 12 months.

- See the attached report showing the activity summary.
- We are considering using Intelitarget for additional marketing activities, specifically targeting public sector employers (large Counties, Cities, Universities) and also for the "bundled" administrative services.

**T Rowe Price** – We have revised our channel management with TRP. TRP activity has been slow over the past couple of years, but TRP has committed to make a greater effort during 2002. In particular, TRP feels they can be successful in marketing the "bundled" DB administration services – they have stated that they should be able to produce 10 – 15 qualified prospects for this product in 2002.

**Watson Wyatt** – Our relationship with WW has blossomed over the past year, both in working with WW in their capacity as a search consultant and as a partner for co-bidding on outsourcing. In the US, we believe we are at this point WW's preferred partner for outsourcing opportunities - as evidence, in December WW asked us to co-bid on the Bell South and Aramark H&W administration projects. WW also acted as the search consultant on the Cooper Tire and Abbott Labs projects that Synhrgy won during 2001 as well as partnering with us on the Tenet Health project. WW has also expressed interest in introducing the Health Care Estimator tool to their clients and a meeting is set for later in December.

We have an opportunity to propose ASP services for 12,000 Astra Zeneca employees in Europe through WW. In the UK, WW continues to encourage Synhrgy to examine opportunities for expanding our outsourcing to Europe.

Search consultant firms - Overall, we have made considerable progress in expanding our relationships with the key search consultants. In coordination with Uniprise, Synhrgy is concentrating directly on the relationships with the HR search consultants and supporting Uniprise in leveraging any existing relationships Uniprise has with H&W consultants.

- Mercer – Our activity with Mercer has been set back by the events of September 11 – we were scheduled to make presentations to the regional HR practices in the South and West – both meetings were canceled and have not been rescheduled. Because of Mercer’s regional structure, our relationship varies to a large extent by office – for example, we have a strong relationship with the Chicago HR practice, but have not been able to make the same contact with the New York HR consultants.
- Gildner Associates and Hagar Strategic – we have made some headway in establishing our relationship with these firms, both of whom focus on the very large employer market and frequently work together. We still have some way to go before they are completely comfortable in viewing us as being fully competitive with Hewitt, Fidelity, etc. Gildner is scheduled to come to the HSC for an on-site visit in December/January.
- Cursio Webb – we believe we have established a very strong relationship with CW during 2001 and expect several major opportunities from them in 2002.
- Deloitte & Touche – we have halted our discussions with D&T regarding the possibility of partnering for benefits/HR outsourcing work, primarily due to D&T’s position as the search consultant on AT&T and other outsourcing RFPs. At this point, we are more focused on building our relationship with D&T as a search consultant than as an outsourcing partner.

**Payroll providers** – During 3<sup>rd</sup> quarter, we were approached by ADP, Ceridian and ProBusiness about the possibility of establishing a partnership for new business. Both ADP and Ceridian were interested in having Synhrgy engage their Cobra/HIPAA/FAS services as our preferred vendor. The talks with ADP have not been actively pursued, due to the direct competition with ADP’s H&W outsourcing business. In continuing our discussions with ProBusiness and Ceridian, we do not intend to enter into an exclusive relationship with either, but rather to build the relationship to the point where we have opportunities to co-bid with both.

- Ceridian – we have held several discussions regarding using Ceridian as a preferred payroll partner in pursuing HR outsourcing, both for large companies and for the “bundled” program. Ceridian has a paperless payroll product (using a eCash card with features similar to a debit card) that has been very well received by companies where many employees do not have bank accounts. This may be an attractive feature for the “bundled” product.
- ProBusiness – we have had similar conversations with PRBZ and have asked them to co-bid on the HR outsourcing opportunity at Textron.

for 12/01 next  
A-31  
C-2  
G-7



BUSINESS PLAN

Synhrgy HR Technologies, Inc.

CONFIDENTIAL

This Business Plan is subject to the following:

## **CONFIDENTIALITY STATEMENT**

This Business Plan is provided to you under the terms of the Confidentiality Agreement previously signed by you or a representative of your firm. This Business Plan and any associated attachments or additional information provided to you or your firm in conjunction with this Business Plan is to be considered Confidential Information. By accepting delivery of this Business Plan, the recipient agrees that, without the prior written permission of the Company, such recipient will not release this document or discuss the information contained herein, reproduce or make use of this Business Plan for any purpose other than to familiarize you and your firm with Synhrgy or make an evaluation of a potential investment in the Company. Distribution of this Business Plan to any person other than the recipient and those persons, if any, retained to advise such recipient with respect, thereto, is unauthorized, and any disclosure of any of its contents, without the prior written consent of the Company, is prohibited.

At the Company's request, the recipient, by accepting delivery of this Business Plan, agrees promptly to return to the Company this Business Plan and any other documents or information furnished to it.

## **FORWARD-LOOKING STATEMENTS**

We have included in this Business Plan forward-looking statements that are based on our expectations, estimates, projections and assumptions. These statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Our actual results may differ significantly from the results discussed in these forward-looking statements.

Synhrgy has not assumed any responsibility for independent verification of the information contained in this Business Plan or otherwise made available to you and makes no representations or warranties as to the accuracy or completeness of such information. Nothing contained herein is, or should be relied on as, a promise or representation as to the future performance of the Company.

## **FINANCIAL PROJECTIONS**

We prepared the financial projections included in the Business Plan based on certain assumptions that we consider reasonable at this time. An accountant or independent third party consultant has not reviewed the financial projections. The financial projections are based on our assumptions about our business and its market. Differences between assumptions and actual results could cause the Company's financial performance to differ significantly from the projections.

## INQUIRIES

Any inquiries are to be directed to:

Michael J. Mackey  
CFO & EVP, Finance and Administration  
Synhrgy HR Technologies, Inc.  
7324 Southwest Freeway, Suite 1400  
Houston, Texas 77074  
Tel: (713) 934-1811  
Fax: (713) 316-4199  
E-mail: mmackey@Synhrgy.com

We ask that you do not contact any Synhrgy employees, customers or Board members without the express, prior written consent of Dave Carlson, CEO or Michael Mackey, CFO.

Your cooperation and interest in Synhrgy is greatly appreciated.

## TABLE OF CONTENTS

CONFIDENTIALITY STATEMENT.....	i
FORWARD-LOOKING STATEMENTS.....	i
FINANCIAL PROJECTIONS.....	i
EXECUTIVE SUMMARY.....	1
COMPANY HIGHLIGHTS.....	6
BUSINESS OVERVIEW.....	7
OUR COMPETITION.....	14
CLIENTS.....	17
TECHNOLOGY OVERVIEW.....	19
EMPLOYEES.....	23
LEGAL PROCEEDINGS.....	23
FACILITIES.....	24
MANAGEMENT.....	24
FINANCIAL INFORMATION.....	28
APPENDIX	
DETAILED FINANCIAL RESULTS/PROJECTIONS	
AUDITED FINANCIAL STATEMENTS	
RECENT PRESS RELEASES	

### **Reduced Costs**

One of the basic value propositions of any type of business process outsourcing is reducing costs, if not in the first year of transition, soon after. For an organization to continue to provide world class HR, the need exists to keep reinvesting in people, processes and technology. This effort requires significant reinvestment each year. An outsourcing firm must also do the same thing, but can spread that investment over many clients which almost always results in lower long-term costs for the employer. Our first value proposition is to lower the HR delivery costs of our clients over time. We commit to significant investments in technology, which drives our staffing levels down over time. An example of this lies in our decision support tools, such as the Synhrgy Health Care Estimator, that reduce employee call volume to the service center, resulting in lower contract costs for our clients.

### **Better Service to HR Constituents**

Constituents of most HR departments today feel under-served. Employee groups (actives/retirees, dependents and business managers) are often making significant decisions about healthcare, life, AD&D, savings and retirement, and career pathing and development without enough information to make the best decision. Different constituents within the group have varying issues. Our technology and outsourcing provides more information that is easily accessible, so they can make better decisions. This fulfills HR's obligation to provide these services, improves employee perception of their employer, adds loyalty and a sense that HR is "pushing the envelope" in providing for their needs.

The second group, business managers, often needs information in real time about their most important resource which is human capital. These information needs can range from the new manager who needs the tools to manage pay and performance, to a business leader that must evaluate core competencies for a new business line. If you believe human capital is the ultimate strategic differentiator, or competitive advantage, then the right information in a business manager's hand can have a large effect in a firm's value. An example of this is the manager that uses the web to provide a 360° degree review for a star employee, and the HR delivery technology then ties that information to compensation and career pathing within the organization. That type of information and guidance of an employee can affect long-term performance.

### **Improved management of human capital through integrated, accessible information**

The final value proposition is that HR and business leadership can use strategic information that is easily accessed and modeled to affect the long-term performance of the company. This is the ultimate value proposition where HR can have a strategic affect on their organization through better human capital management. This availability of information can change the value of an organization through higher productivity, greater innovation and new market analysis, all of which can affect a firm's value. This proposition does not focus on cost reduction, but rather value creation.

We are providing tools to management so that the human capital of their organization can achieve their potential. Examples of this value proposition follow.

- A business unit is seeing high turnover in a job type. Using integrated data, they determine those who stay and those likely to leave. This information ties back to the recruiting effort. Which competencies are we seeing in those who stay and are successful? What competencies are we seeing in those who leave? How can we tie those competencies back to the recruiting process to make sure we are getting "good fits"?
- HR is seeing a high number of issues around harassment and compliance within a business unit. Centralized historical data along with a 360° feedback and employee surveys allows HR to provide additional management training for that group and to mitigate risk around a critical issue.
- An organization is going to expand into a different business line. Easy access to information on performance, skills and competencies allows management to "mine" for the right internal leader. If that person does not exist, an external search is initiated.



These are just 3 examples of how HR can help an organization change their value and allow HR to be a strategic business partner. Each of these examples has a strategic affect on organization value. Today this information is either disparate or does not exist. If it does exist, access is cumbersome. Synhrgy's value proposition and vision is to provide the platform to achieve these value propositions within an organization. In addition Synhrgy can provide a single access point for delivery and to do so while keeping the other value propositions in tact.

## SELECTED DATA

(Dollars in Thousands)

	1999 Audited	2000 Audited	2001 Fest	2002 Fcst	2003 Fest	2004 Fest
<b>Revenue</b>	<b>\$5,818</b>	<b>\$16,827</b>	<b>\$32,541</b>	<b>\$42,444</b>	<b>\$61,021</b>	<b>\$90,289</b>
% Growth	271%	189%	93%	30%	44%	48%
<b>Gross Margin</b>	<b>1,914</b>	<b>4,632</b>	<b>10,075</b>	<b>17,937</b>	<b>24,620</b>	<b>40,083</b>
% Margin	33%	28%	31%	42%	40%	44%
<b>Adj EBITDA <sup>(1)</sup></b>	<b>(2,564)</b>	<b>(13,808)</b>	<b>(3,931)</b>	<b>4,308</b>	<b>7,149</b>	<b>15,133</b>
% Margin	-44%	-82%	-12%	10%	12%	17%
<b>EBITDA</b>	<b>(4,255)</b>	<b>(14,354)</b>	<b>(4,536)</b>	<b>3,738</b>	<b>7,149</b>	<b>15,133</b>
% Margin	-73%	-85%	-14%	9%	12%	17%
<b>Pretax Net Income</b>	<b>(\$2,800)</b>	<b>(\$24,178)</b>	<b>(\$11,591)</b>	<b>(\$1,927)</b>	<b>(\$443)</b>	<b>\$5,884</b>
% Margin	-48%	-144%	-36%	-5%	1%	7%
Cumulative Ongoing Rev at 1/1	NMF	\$3,744	\$22,200	\$32,772	\$44,355	\$65,172
Clients (Ongoing Relationship)	6	30	36	55	78	107
Ending Headcount	95	322	405	434	604	806
Stock Comp Expense	\$1,691	\$546	\$605	\$570		

(1) Adjusted for Stock Compensation Expense - Cash Basis.  
NMF - not meaningful

## Share Ownership

	<u>Number</u>	<u>Percent</u>
Preferred Stock	6,081,764	60.0%
Warrants	150,699	1.5%
Purchase Option	109,240	1.1%
Common Stock (Employees)	1,718,364	17.0%
Stock Options		
Awarded	1,161,540	11.5%
Available	907,840	9.0%
<b>Total</b>	<u><u>10,129,447</u></u>	<u><u>100.0%</u></u>

## Dividend Policy

To date no individuals have been declared or paid. We anticipate that we will retain all of our future earnings, if any, for use in the expansion and operation of our business and do not anticipate paying cash dividends in the foreseeable future.

## **COMPANY HIGHLIGHTS**

### **Strong Business and Financial Growth**

As evidenced from the company's growth in new Business Process Outsourcing (BPO) clients from 6 in CY99 to 50 in CY01 while total revenue grew from \$5.8 million in CY99 to approximately \$31.8 million in CY01, Synhrgy continues to succeed in the HR outsourcing market. Another attractive aspect of Synhrgy is the recurring revenue derived from the long-term relationship the company has with its customers. Once Synhrgy's solution has been implemented, a customer pays Synhrgy a fee per employee per year for the services and technology delivered where the average contract length is 3 to 4 years. For CY01, over 70% of the revenue is expected from providing these recurring services and this trend is expected to continue in subsequent years.

### **Proven Management Team**

Synhrgy's management has extensive and in-depth experience in the human resources and technology industry. Several members of Synhrgy's senior management team have held national leadership positions with major HR service and technology firms or Fortune 500 organizations.

### **Large and Growing Market Niche**

According to Dataquest, a division of the Gartner Group, the worldwide HR outsourcing market is projected to grow from approximately \$26.2 billion in 1999 to approximately \$76.4 billion in 2004.

### **Strategic Relationships**

We have completed strategic relationships with Uniprise Strategic Solutions, a subsidiary of UnitedHealth Group (UHG), which is responsible for managing UHG's relationship with its large national clients. Additional strategic relationships are in place with major institutional asset management firms, including T. Rowe Price (TRP) and SEI Investments (SEI) where we manage the administration of all defined benefit retirement and/or health and welfare plans for clients serviced by TRP and SEI. In addition, we have an exclusive alliance with Hackett Benchmarking & Research, the leading HR benchmark service firm.

### **Demonstratable Customer Value**

The Hunter Group estimates that by using the functionality of the internet to move HR delivery to a largely self-service mode, organizations can achieve annual HR cost reductions of approximately 25% to 30%. In addition, we have client case studies that show a strong ROI for single functions like benefits administration to full HR transformation/outsourcing projects.

### **Diverse Client Base**

Relative to its size, Synhrgy has a diverse client base with over 50 clients in CY01. Synhrgy's largest client accounts for approximately 20% of the projected revenue for 2002.

### **Market Leading, Technology Enabled Solutions**

As evidenced by Synhrgy's continued growth and competitive wins against larger, established firms our web enabled solutions are a distinct advantage in the marketplace. The sophisticated technology that Synhrgy has to offer is a combination of its own internal development and various other companies' products utilizing a best of breed, speed to market approach.

## **BUSINESS OVERVIEW**

Synhrgy is a leading provider of HR outsourcing technology and solutions to large corporations. We offer a comprehensive range of solutions that allow employers to more effectively manage HR processes, reduce the cost of providing HR services, improve the efficiency and performance of the HR function, enhance the productivity of the company's human capital and support the company's business strategy. We refer to our solutions as integrated-HR because our solutions allow our clients to transform their HR departments into global, knowledge based organizations focused on supporting the corporate strategy rather than transaction processing and administration.

Our solutions are highly flexible and can be configured in a variety of ways, depending on our clients' business needs and preferences. We deliver our solutions through our proprietary software at our service centers utilizing our service center staff and through a combination of internal and client resources. Our services and technology can be integrated with legacy, ERP and other technology systems.

### **Industry Background**

Traditional human resources departments within large, multinational corporations struggle with the challenges of managing HR processes across multiple operating units spanning multiple countries. According to the Global 500 List for the Year 2000 published by Fortune Magazine, Global 500 corporations employed more than 37 million people in 1999. In addition, Hackett's annual survey including two-thirds of the Fortune 500 shows HR delivery costs increases by 19% in 2000 with an average cost per employee of \$1,850 per year. Managing an employee base of this magnitude presents numerous operating problems, which are principally due to:

- the complexity of the issues associated with managing the human resource function in a large corporation
- the large number of third party vendors used by a human resources department to handle discrete functions
- the lack of capital spending for HR departments, resulting in antiquated technology support for HR management

As a result, the HR processes of large, multinational corporations are typically inefficient and excessively costly. By necessity, HR departments predominantly have focused on administrative functions and typically have neither the time nor the resources to devote to strategic planning. At the same time, the senior management of many corporations is demanding that HR departments focus on helping the corporation add value through human capital management. These demands and the concurrent need to reduce the administrative processing costs will continue to force HR departments to reengineer existing HR service delivery processes and seek new alternatives for HR support.

Many large corporations have begun to recognize the value of outsourcing discrete, non-core functions of their operations, such as payroll and benefits administration, in order to address the problems found in traditional human resources departments. According to Dataquest, the worldwide HR outsourcing market is projected to grow from approximately \$26.2 billion in 1999 to approximately \$76.4 billion in 2004. However, the market for comprehensive HR outsourcing is relatively new.

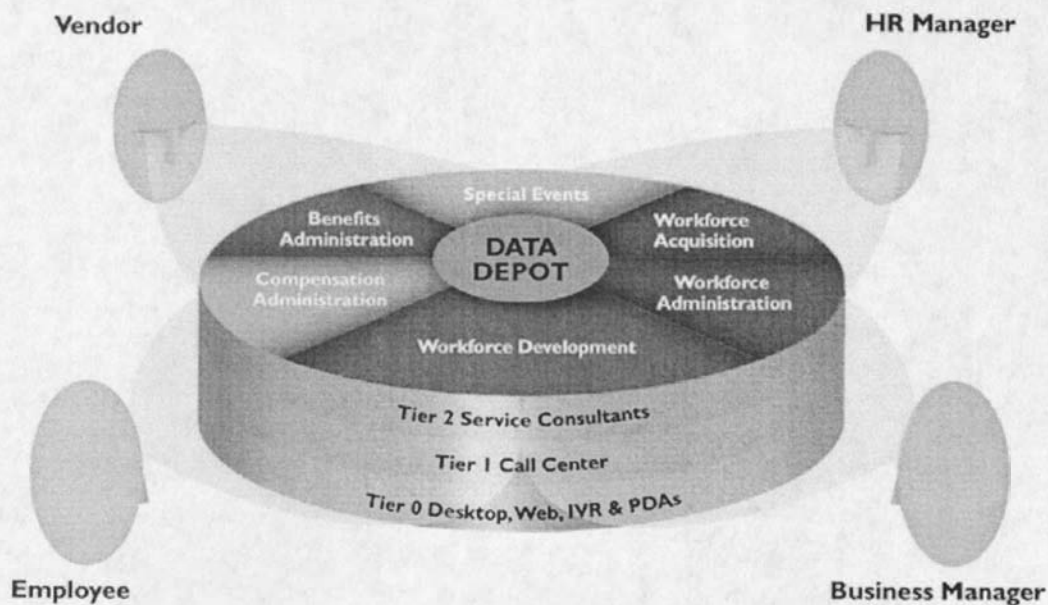
Outsourcing a large portion of the HR organization of a large multinational corporation is a complex project due to the size of the organization and the multiplicity of divisions and third party vendors. Also, in order to manage an entire HR organization effectively, the provider must have significant expertise in analyzing, providing and managing HR best practices. HR best practices refer to those HR policies, procedures, operations and technologies that yield superior performance as measured by productivity, cost, quality and service metrics.

The Internet makes our comprehensive service delivery model possible by facilitating interactive communications among large groups of individuals in multiple geographic locations. The Hunter Group estimates that by using the functionality of the Internet to move HR delivery to a largely self-service mode, organizations can achieve annual HR cost reductions of approximately 25% to 30%. To date, however, HR organizations have not fully utilized the Internet because they have not broadly implemented any mechanism for effectively centralizing and organizing the large amount of information and electronic transmissions generated by processes within the HR organization. Accordingly, the Internet's current use in HR departments has been largely limited to one-on-one e-mail communications or process-specific internal networks.

### Our Services

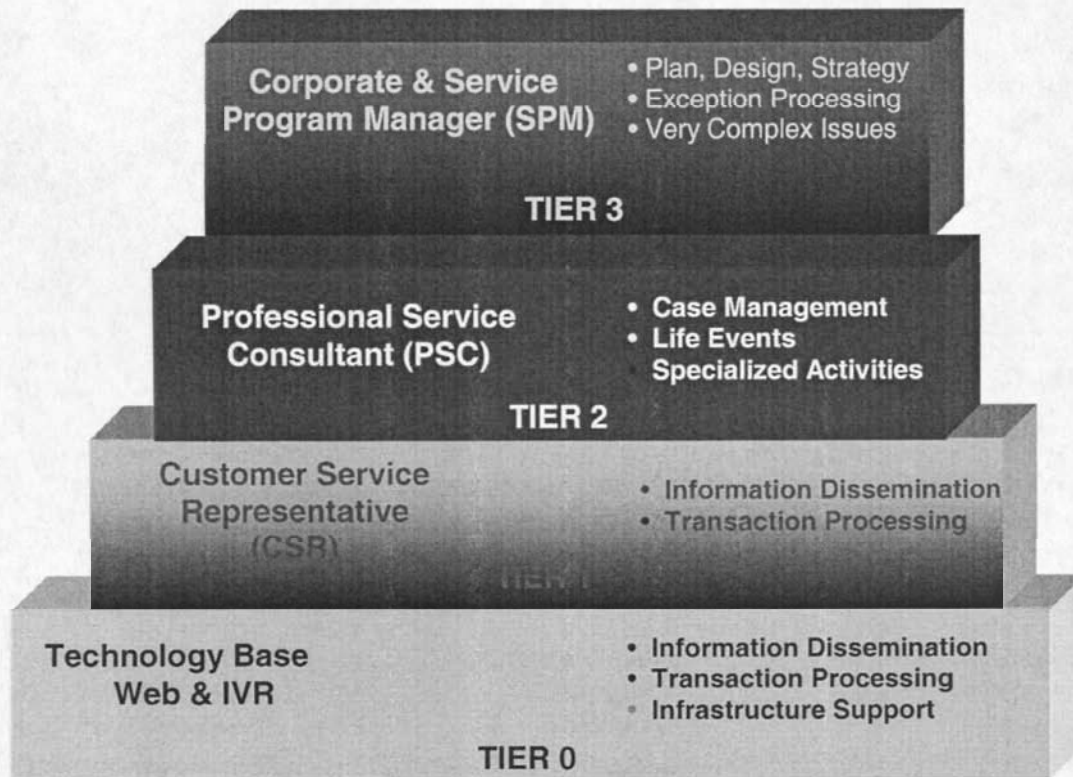
Our capabilities encompass the full range of HR services and we provide a comprehensive set of web and service center solutions. We collaborate with our clients to design and reengineer HR processes to increase productivity, service and quality, while reducing overall HR costs. We then rely on our transition and change management specialists to manage the transformation of our clients' existing systems to our operational infrastructure. Once we have identified the appropriate HR practices and processes for our clients, we implement our comprehensive HR solutions, which include capitalizing on our shared resources. These shared resources include our client service centers, centers of expertise, third party vendors and other systems and applications. By leveraging shared resources, we facilitate the delivery of HR best practices while achieving economies of scale, which we believe will enable us to deliver improved HR solutions at a reduced cost.

Our internet based HR systems and applications allow us to deliver the full range of HR information needs to employees and managers at a significantly lower cost than internal systems, while at the same time improving a manager's satisfaction with service levels. Our solution delivery technology is based on organizing the information and applications needed by HR departments by tiers of service in the manner shown in the following chart:



## Service Delivery Model

We organize the delivery of HR services around an operations model that focuses on providing information and application support at the most efficient level. Our operational approach is summarized in the chart below:



Each of these service delivery tiers and various integration capabilities are discussed more fully below.

As an organization, our goal for technology is to move as much of the Tier 1 and 2 work to Tier 0 (technology). This not only increases user satisfaction, it also drives down employer costs and increases our margin.

Tier 0 - Technology Applications. - We support the full range of HR program administration through our proprietary technology platforms and application programs. We either build business function software or integrate applications from niche providers of HR services into our operations in order to offer employers the ability to select "best in class" niche providers.

Tier 1 - Customer Service Centers. - We manage our clients' transaction, production and call center requirements from our client service centers. These centers serve multiple clients and are responsible for all administrative and transactional HR activities.

- The primary purpose of the Tier 1 center is to handle routine inquiries and requests from employees, retirees, and managers. The customer service representatives are supported by an extensive knowledgebase (KB) that contains extensive information on the client's HR policies and programs. By applying the KB as the basis for answering client calls, we can deliver a consistent service and answer routine inquiries in the most efficient manner.
- Tier 1 centers are staffed with customer service representatives and production operations staff to administer functions such as benefits and compensation administration, recruiting, staffing and training administration, employee workforce administration as well as IT support and maintenance.
- Tier 1 centers also contain systems and technology, such as call/case management systems, imaging and workflow, and HR application software and databases. Employees are able to communicate with the client service centers online through our HR portals or by phone and fax.

We currently operate client service centers in Houston and Dallas, Texas. We expect to add additional client service centers as our business grows and we anticipate that these client service centers will allow us to realize economies of scale and scope by leveraging the functionality, staff and technology of centralized processes and services across many business units for multiple clients. We also expect to be able to realize additional efficiencies by locating these centers in areas that have competitive labor and real estate costs and offer access to a large pool of qualified employees.

Tier 2 - Centers Of Expertise. - To address the total range of HR support issues, we provide an expert level of client services, which we refer to as the Professional Service Center.

- Tier 2 professional service centers consist of individuals with in-depth expertise in specific HR processes and best practices. As a group, their role is to understand and resolve the more complex issues of our clients and their employees, and to introduce improved HR processes and procedures, in each of the major categories of HR processes.
- Tier 2 service representatives can work from a variety of locations globally, including the Synhrgr service centers, client sites and home offices. Our Tier 2 service representatives are linked together and accessible to clients through the Internet and also by more conventional modes of communication. These subject matter experts will be responsible for analyzing trends, conducting benchmarking and best practices assessments, developing appropriate metrics for HR service delivery, designing and developing HR programs, policies and services, and ensuring the web enablement of all of our products.
- Through our professional service centers, we plan to leverage our HR expertise and knowledge of industry best practices in each specific HR function across multiple lines of business and across multiple clients. In addition, our experts within this group regularly will assess each HR function using HR industry metrics and employee cost benchmarks to ensure that best practices are continually being applied and improved.

Tier 3 - Corporate HR Strategy & Policy - While we would typically assist with the planning, designing and strategy of various HR services, this tier of services and capabilities is typically retained by our clients.

## **Systems Integration**

We manage the conversion and/or integration of existing client systems into Synhrgr's HR platform. As part of our service implementation capabilities, we provide complete integration of our systems with client systems.

## **Third Party Vendor Integration**

As part of our HR solutions, we consider whether third party vendors can more effectively and efficiently handle certain discrete HR services, such as COBRA administration and relocation administration. Among large employers, there is a preference for using "best in class" service providers to deliver specific niche services for HR programs. Our business model incorporates these niche providers into a single delivery system, thereby giving the client organization the ability to use niche providers while maintaining a simplified administration structure through the use of Synhrgr's services. If the client is already outsourcing services, we evaluate the providers they currently are using and recommend changes or integrate the provider into our platform. At the time we become responsible for a client's HR organization, we will assume and administer the third party contracts and manage the relationships with these third party vendors. We will continuously evaluate the level of service being provided by the third parties and change vendors or provide the service directly as appropriate. We believe our familiarity and experience with HR best practices and with the market for third party HR vendors puts us in a unique position to be able to evaluate whether the services being provided by a third party meet the needs of a given client and comply with HR best practices. In addition, we believe we will be able to negotiate better service levels and greater cost savings on behalf of our clients for the delivery of these services than an individual client would be able to attain on its own because of the large volume of business we expect to manage.

## **Our Strategy**

Our objective is to become the leading provider of comprehensive, integrated HR solutions that enable large, multinational corporations to reduce their HR costs and increase the productivity of their human capital. We believe that our services will result in long-term contracts with clients under which we will assume broad responsibilities for the management of our client's HR programs, HR staff resources, internal business processes, technologies and third party vendor relationships. The result of our solutions is expected to deliver measurable improvements in the productivity of our clients' human capital, at a substantial reduction in cost. The key elements of our strategy are:

- Enhance our technology and service capabilities
- Continue to focus on Fortune 1000 and Global 500 organizations both directly and in concert with our strategic partners
- Leverage our HR solutions to reach mid-size organizations
- Continue to attract highly talented HR, service delivery and technology staff
- Establish additional long-term alliances with leading organizations

## **Enhance our technology and service capabilities through integration of third party technology and services.**

We will continue to enhance our technology and services through internal development and integration of "best of breed" offerings from third parties. With most of the business function software in place for integrated-HR, our focus has turned to building decision support tools on the web. These tools are the next generation of web technology and allow employees and business managers to work through complicated issues without involvement from the Synhrgr service center. This will allow us to move Tier 1 and 2 services into Tier 0. These products run the gamut from healthcare selection tools to an employee relations web case management tool.

**Continue to focus on Fortune 1000 and Global 500 organizations, both directly and in concert with our strategic partners.**

These corporations generally have operations spread across multiple business units. We believe the magnitude and complexity of these corporations and their resulting HR needs make them ideal candidates for our comprehensive, web-enabled HR solution. We have established a sales presence in each region of the United States to reach our target markets directly. In addition, we have co-marketing agreements in place with UHG, TRP, SEI and Hackett to jointly market services to their respective client bases.

We pursue long-term contracts (typically 3 to 5 years) with our clients to manage their HR processes and implement HR best practices by successfully reengineering and redesigning our clients' HR departments and incorporating them into our infrastructure. We believe contracts of multi-year duration assist with the transformation of our clients' HR organizations, which further demonstrates our mutual commitment and shared goals. The long-term nature of our contracts helps us by providing greater visibility of future revenue streams and obtain better information for determining future investment decisions.

**Leverage our HR solutions to reach mid-size organizations through distribution alliances with additional strategic partners.**

Our HR solutions are designed for large corporations where the complexity and scope of delivering HR services is greatest. From our existing capabilities we intend to develop a simpler, more standardized set of HR solutions that can be efficiently delivered to smaller organizations (in the 1,000 to 5,000 employee range) on an economical basis. It is our intent to enter into strategic relationships with organizations that can distribute our solutions to mid-size employers and provide additional value added services. We are in discussions with several organizations that have extensive distribution networks in the mid-size employer market.

Through our strategic partners we will provide a comprehensive, integrated technology solution that will serve as a platform for the delivery of all HR information and services. Our platform can integrate various sub-functions such as payroll, health and welfare benefits in a seamless manner. The access point for all constituents will be a web portal, or call center when needed, with access to all HR information and services with the same "look and feel" approach.

**Continue to attract highly talented HR, service delivery and technology staff.**

To date we have been successful in recruiting leading HR professionals to our company because HR is our core business and not merely a support function. We offer employees and advisors access to state-of-the-art HR technologies and resources, cutting edge projects and processes, and enhanced career opportunities. We are committed to hiring the highest quality HR and technical personnel in order to implement HR best practices for our clients.

**Establish additional long-term alliances with leading organizations.**

Large corporations are increasingly seeking to contract with "best in class" solution providers while at the same time attempting to simplify the management of such relationships. We believe that developing mutually beneficial relationships with organizations providing such services as healthcare, financial services and on-line training enhances our solutions. Through alliances with these firms, we are able to provide a range of solutions to employees and retirees at a lower cost than employers could, expand the range of services provided to employees and offer efficient administration of the delivery of the services. At the same time, these alliances offer us the chance to leverage the business relationships of our partner companies and gain a greatly expanded access to corporations to introduce our solutions while lowering our cost of marketing and sales. In addition to developing new alliances, we will leverage our existing strategic partnerships



- **Uniprise Strategic Solutions (Uniprise)** - a subsidiary of UnitedHealth Group responsible for managing UHG's relationship with its large national clients. Uniprise has approximately 270 clients, with an average client size of 14,300 employees. We have responsibility for the delivery and management of health and welfare administrative services and integrated-HR services to Uniprise customers through a long-term management contract with Uniprise.
- **T. Rowe Price** - a leading manager of institutional assets for corporate retirement plans. Our relationship with T. Rowe Price provides for Synhrgy to manage the administration of all defined benefit retirement plans and health and welfare plans for clients serviced by T. Rowe Price.
- **SEI Investments** - a leading manager of institutional assets for corporate retirement plans. Our relationship with SEI provides for Synhrgy to manage the administration of defined benefit retirement plans and health and welfare plans for clients served by SEI.
- **Hackett Benchmarking & Research (Answerthink)** – Synhrgy has an exclusive arrangement with Hackett (the leading firm in HR benchmarking). Our arrangement allows us to share best practices across all HR functions and to cross-sell each other's services.

## OUR COMPETITION

The market for our solution is competitive, subject to change and significantly affected by new product introductions and other market activities of industry participants. Competitors vary in size and in the scope and breadth of the products and services offered. We encounter competition with respect to different aspects of our solution from a variety of vendors of employee self-service and manager self-service applications, from web-based technology companies whose products include HR solutions and from major enterprise software developers. We expect additional competition from other established and emerging companies as the HR self-service market continues to develop and expand.

Our major competitors among software vendors focus on specific applications within the employee self-service or manager self-service categories. Our major competitors among web-based companies that offer HR products focus on Internet technology and employ an acquisition strategy that encompasses acquiring functional expertise in HR, as well as other areas in which the Internet may offer efficiencies and savings. Our major competitors among ERP providers are often capable of delivering some HR solutions through web-only extensions of their proprietary back-office systems. Most of the major ERP providers have a significant installed client base and have the opportunity to offer additional products to those clients as additional components of their respective ERP application suites. Additionally, we increasingly face competition from other benefits administrators and consultants, human resource information systems vendors, payroll administrators, and employer benefits enrollment firms. Many of these companies have web-based functionality.

We believe that the principal competitive factors considered in selecting HR solutions are cost, breadth of HR solutions offered, seamless integration with current enterprise systems and call centers, "anytime, anywhere" access through multiple media, scalability, easier workforce management through automation, improved worker productivity and satisfaction and broad web-based functionality. Although we believe that our broad suite of products currently competes favorably with respect to these factors and that no one competitor offers comparable breadth and depth of solutions, our market is relatively new and evolving rapidly. The competition assessment on the following page summarizes the current perspective of management.

## Competitive Analysis

Competitors	Breadth of Services	Technical Platform	Subject Expertise	Cost Structure
Benefit consulting firms	Benefits	Built internally	Strong in benefits	Higher
Payroll/HRIS	Payroll/HRIS but expanding	Built internally	Strong in payroll/HRIS	Comparable
HR BPO firms	Full range	External	Developing strength across areas	Higher
Enterprise solution	Focused on install or ASP; limited functionality beyond payroll/HRIS	Internal	HRIS/payroll	Higher
Technology/web only	Limited primarily to data management	Web without much business function software	Limited	Lower
Synhrgy	Compensation benefits, workforce administration / development and staffing	Proprietary platform integrating best in class	Strong across HR functions	See above

We believe that our competitive advantage in the marketplace derives from the following factors:

- Fully functional total HR solution
- Deep functional competencies in full spectrum HR, BPO and technology
- Lower cost structure than primary competitors
- Flexibility in service delivery approach
- Agility to move innovative solutions quickly to market
- Vendor integrator philosophy

## SALES AND MARKETING

Our sales and marketing organization is comprised of regional sales and account management offices supported by a central marketing staff. Regional managers develop new business with target corporations and existing clients throughout the geographic region. We also have industry specific marketing support to focus on corporations within targeted industries. In addition to our internal sales and marketing staff, we work with our alliance partners to leverage their existing client relationships and marketing efforts.

- Our alliance with Uniprise allows us to leverage the sales and marketing efforts of the Uniprise sales and account management staff. The Uniprise sales staff markets our solutions to current and prospective clients of Uniprise. Through the Uniprise alliance, we are able to leverage these relationships and the services of Uniprise's approximately 120 client managers and sales staff. This alliance was responsible for obtaining 10 major client relationships, including Fujitsu America, Clorox Corporation, Enron, Sabre and Delta Airlines.
- Our alliance with T. Rowe Price and SEI provides us with access to their current and prospective clients. We coordinate sales and marketing efforts with their sales teams and jointly develop proposals in situations where corporations are seeking comprehensive employee benefit plan services. Our relationship with T. Rowe Price has resulted in several clients including Aventis, Consolidated Freightways and Bcom3 (Burnett/McMann merger).
- Our alliance with Hackett gives us access to Hackett's broad range of clients including approximately 23 of the Fortune 500 that contribute to their annual study. The relationship is relatively new but we expect to sell many of our services/technology to their client base.

We believe we will be able to secure other alliances with large organizations providing HR related services to corporations meeting our target criteria.

Decisions to implement our solutions are typically made by senior management and we focus our marketing efforts on meeting the specific requirements of the senior executives, HR and IT management personnel of our potential clients. In many instances, organizations engage highly specialized consultants to assist in the evaluation of potential HR service solutions. We have been successful in working with a number of such consultants and we believe that we will continue to be successful in obtaining clients from this important channel.

Our marketing efforts are focused on creating awareness of the comprehensive nature of our HR solutions, establishing Synhrgy as the leader in this new market and building the Synhrgy brand. We use a broad mix of programs to accomplish these goals, including market research, brochures, information pieces published for industry forums, written articles published for industry trade press, public relations activities, marketing programs, advertising, seminars, speaking engagements and web site marketing. The goal of these activities is to promote Synhrgy as the leading provider of comprehensive, integrated HR solutions and to publicize the advantages of adopting our solution.

## CLIENTS

Our target market segment is large employers, which we define as organizations with more than 5,000 employees. We focus on these clients because our solutions are specifically designed to address the complexity of their HR needs. Clients in a variety of industries including high technology, manufacturing, telecommunications, financial services and pharmaceuticals have selected our applications.

A representative list of our clients includes:

Alliance Data Systems	Fujitsu
BAE Systems, Inc.	Reliant Energy
Bell Helicopter Textron	Sabre, Inc.
City of Dallas	Stryker Corp.
City of Los Angeles	Temple-Inland
Clorox	UnitedHealth Group
Delta Airlines	US Airways
Eastman Kodak	Veridian
Enron	Williams Companies

Synhrgy provides solutions to these and other industry-leading companies reaching over 670,000 employees.

### Largest Client Relationships – 2001

Client	Total Participants	Participants served by Synhrgy	Status of Synhrgy services
US Airways	45,000	45,000	<ul style="list-style-type: none"> <li>• Web and IVR enrollment for H&amp;W plans</li> </ul>
UnitedHealth Group	29,000	29,000	<ul style="list-style-type: none"> <li>• Integrated HR services – Web, IVR, service center</li> <li>• Benefits, compensation and workforce administration</li> </ul>
BAE SYSTEMS	17,000	17,000	<ul style="list-style-type: none"> <li>• H&amp;W administration – Web, IVR, service center</li> <li>• Workforce development in 2002</li> </ul>
Textron	40,000 active 30,000 retired	7,000 active 7,000 retired	<ul style="list-style-type: none"> <li>• Bell Helicopter H&amp;W – Web, IVR, service center</li> <li>• Discontinued operations retirees</li> </ul>
Reliant Energy	15,000 active 5,000 retired	15,000 active 5,000 retired	<ul style="list-style-type: none"> <li>• H&amp;W administration – cosourcing</li> </ul>

### Selected New Client Relationships – 2001

Client	Total Participants	Participants served by Synhrgy	Status of Synhrgy services
Abbott Laboratories	40,000	40,000	<ul style="list-style-type: none"> <li>• H&amp;W plan administration services beginning fall 2001</li> </ul>
City of Los Angeles	23,000	23,000	<ul style="list-style-type: none"> <li>• H&amp;W plan administration services beginning 2Q 2001</li> </ul>
Tyco International	140,000	12,000	<ul style="list-style-type: none"> <li>• Special event center for acquisitions</li> <li>• Proposed expansion for total H&amp;W plan administration for company wide plans</li> </ul>
CSR America	9,000	9,000	<ul style="list-style-type: none"> <li>• H&amp;W administration services beginning 3Q 2001</li> </ul>
Revlon	20,000	20,000	<ul style="list-style-type: none"> <li>• Pension technology services – cosourcing</li> </ul>

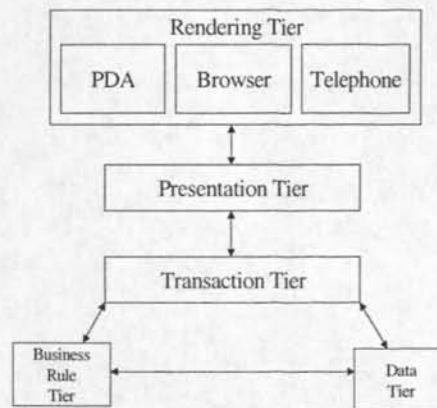
# TECHNOLOGY OVERVIEW

## Technical Application Framework

Our application framework contains a mix of existing technologies and proprietary software components that together form a patent-pending process for building and delivering highly scalable human resource self-service solutions.

Object oriented design concepts are used to construct reusable software components and also to partition applications across multiple servers. This allows us to scale our applications horizontally by adding hardware incrementally to the environment.

The logical tiers that define the framework are described below:



### Rendering Tier

This tier is responsible for rendering information to the end user. It includes technologies such as a web browser, telephone, fax machine, or e-mail application. It is through this medium that a user interacts with their information and transacts changes. Supported rendering tools include Internet Explorer 4.01 (and higher), Netscape Navigator 4.0 (and higher), any touch-tone telephone, and any e-mail application.

### Presentation Tier

The presentation tier consists of software that produces data in such a way that it can be rendered to the end user. Logically, the presentation layer can be divided into two functional groups: (1) software that produces the data specific to a rendering tool's specifications, and (2) user interface state management components. For example, when an employee accesses HR information using a web browser, our system produces HTML and JavaScript that is then sent to the browser. The Active Server Pages use internally developed state management components to render the page requested. The employee uses the dynamically generated content, enters or changes data, and then saves the information. The web browser receives the request, executes the Active Server Page that in turn calls upon the state management components to save the information to persistent storage.

## **Transaction Tier**

In the transaction tier, proprietary components receive requests from user interface state management components and coordinate the reading and writing of information to the database tier. Transactional tier can coordinate updates across multiple data sources. Real-time or near real-time integration to ERP systems can be achieved at this tier. Microsoft Active Data Objects in conjunction with Oracle's SQL\*NET are used to read and write data to our primary data store. Many data access methods can be used to transaction data in third party systems, such as ODBC, JDBC, OLE DB, and DLLs. Transaction tier components utilize components within the business rule tier to edit and process information in a client specific manner.

## **Business Rule Tier**

The business rule tier contains proprietary components that encapsulate the business logic for processing HR transactions. Separating business logic into its own tier allows us to customize business processing according to each client's individual needs without re-writing the entire application. The rule engine tier is separated into two logical components: (1) the rule engine dispatcher, and (2) the rule engine workers. The rule engine dispatcher consists of a send and receive queue that centrally collects and dispatches requests to execute business rules. The rule engine worker receives the dispatched message, processes the request, and returns the result back to the dispatcher. This design is highly scalable by adding rule engine workers to the environment.

## **Database Tier**

We use Oracle database technology to store and retrieve data for our HR applications. Oracle is the leading vendor of database technology, providing support for a wide variety of platforms and operating systems. We operate Oracle in a clustered environment on Compaq Proliant hardware running the Microsoft NT operating system. This environment provides us a highly reliable and scalable database platform that forms the foundation of our computing environment. We use a combination of stored procedures, triggers, and referential integrity rules within Oracle to maintain data consistency. Combined with the business rules and transactional components, these techniques insure that only relationally valid transactions make it into the database.

## **Data Center Operations**

We provide the entire hardware and software infrastructure to initiate, process, and maintain human resource programs for our clients. We offer self-service access for our client's employees to access and maintain their own HR information through two means: (1) a high capacity voice response system, and (2) via a web browser. We also operate a high volume call center to collect transactions and distribute information to employees when self-service access alone is insufficient to complete transactions.

## **Strategy**

Today, we host our entire data and telecommunications facilities in Houston and Dallas, Texas. This strategy has served us well while developing our platforms and technologies. As our business moves into a new phase of growth, we are reviewing an outsourced option for web and data hosting. We will still keep voice response systems, back office productivity tools such as e-mail and telecommunications in the Houston and Dallas data centers. We currently provide change control, escalation procedures, help desk, monitoring, security, hardware configuration management, and bandwidth management.



## **Access**

Access to our applications is accomplished several ways depending on the requirement and the constituent. Client employees that desire self-service access to HR information have three avenues to access information: (1) web via the Internet, (2) automated voice response, and (3) customer service center. Access to the web voice response system and customer service center will be handled by the Houston and Dallas centers. Redundant wide area frame-relay connections connect the Houston and Dallas data centers. Voice response systems access and transact data directly to the data hosted in the USF over the wide area network link.

Client business and HR managers access HR information via three methods: (1) web via the Internet; (2) thin-client delivered Citrix Terminal Server sessions; and (3) the customer service center. We deliver all native administrative applications via a Windows NT Terminal Server and Citrix Metaframe operating environment. This has tremendous benefit to our clients both from a cost savings and convenience standpoint. Thin client application delivery allows us to deliver native Windows applications over the Internet without requiring complicated software setups on the client end. Finally, we have standardized on Cisco for end-to-end network solutions. We are positioned to accommodate Intranet connectivity with our clients that desire a more secured connection to our services.

## **Security**

We aggressively protect our client's information against unauthorized access. There are many fronts that one must defend against to prevent unauthorized access. As a policy, we only grant employees access to client information on an as needed basis, and we have a robust security model implemented to execute the policy. On other fronts, we use physical and electronic means to protect physical computing resources, including card key access to data center facilities, firewalls, intrusion detection and reporting devices, encryption, and virtual private networks. In addition, we monitor vendor web sites for software vulnerabilities as they are encountered and take corrective action when necessary by installing patches.

## **Redundancy**

We have made significant hardware investments to guarantee no single point of failure within the configuration. This means that every component in the environment has a redundant counterpart in the event of failure. This enables us to achieve high levels of availability for our web and data environment. Within our Houston and Dallas data centers, we apply several techniques to guarantee high availability. In some cases like our voice response systems, we use redundant servers such that if any one server goes down, others are still available to handle requests. Our PBX platform contains redundant processors that operate in warm fail-over mode such that if the primary processor fails, the unit will fail over to the secondary processor automatically. We also maintain spare kits for all critical production equipment so that parts do not become a bottleneck for repairing equipment.

Finally, we are installing wide-area network links between Houston and Dallas to prevent single points of failure within the WAN.

## **Backup, Environmental Controls, and Business Resumption**

We use enterprise backup software from Network Integrity called Live Vault that provide us centralized, automated, and near real-time, point-in-time recovery capabilities for all servers in the Houston and Dallas data centers. We have offsite procedures in place within the Live Vault scheduling package that automatically create tapes which we rotate offsite. Oracle servers require special attention to insure backup procedures yield a recoverable database. Part of our Oracle DBA's responsibility is to set up, configure, and test the backup procedures for the Oracle server environment.

To protect against environmental conditions, the Houston and Dallas data centers have centralized Liebert uninterruptible power supplies (UPS) to condition and provide battery backup power in the event of brownouts or brief blackouts. Diesel generators supplement the UPS in the event of long-term power outages. Both data centers are protected with their own air conditioning and fire suppression systems. In the event of natural or man-made disaster, we have a documented disaster plan that contains the necessary information to rebuild or alter alternate data center environments to resume processing. Houston and Dallas serve as backup environments for each other today.

## **PRODUCT DEVELOPMENT**

### **Strategy**

When assembling our HR delivery platform, we use a buy or build strategy for business functions. For every human resource business area where software is required in our delivery platform, a rigorous functional specification is written by a product manager. This is used as a guideline to determine the functionality required for any software to implement. The functional specification is then put forth to the product development group to estimate the level of effort required to build the software. At the same time, the product manager surveys the industry to find competing products that could potentially provide a commercial software solution. In this way, we can form comparisons between internal development effort and external products and weigh the cost benefit analysis of buying the technology versus building it. This gives us a competitive advantage to bring our products to the market quickly, at the lowest cost possible. If a product is ultimately purchased, we then spend our product development energy integrating that product within our delivery model, at the point of delivery. In this way, we spend more time focusing on the end user experience and the delivery of information rather than on building the engine to process transactions.

### **History**

We began our product development activities late in 1998. We devoted 1998 to selecting the tools, technologies, and the platform for call center and benefits administration. We use a series of integrated tools for call center, interactive voice response (IVR) and business functions. In 1999, we began building the self-service platform for our HR business. The first self-service platform to be built was the voice response system. We have continued to refine the voice response platform and began building the web self-service platform at the end of 1999. In 2001, we developed products to support compensation, workforce administration and workforce development. In addition, we continued to add high-level functions to our existing technology. We continue to improve and expand our technology in response to our customer needs.

### **Patent Pending Integration Process**

Because of our buy or build strategy, integration is key to delivering the platform. We believe strongly in this. Integration must appear seamless to the end user and must update back office systems in real-time. We have developed and are currently patenting our integration process to protect this valuable, intellectual property. We feel this provides a level of protection against vendors that could take the products that we have used and integrate them in a similar way.

## **EMPLOYEES**

As of September 2001, we employed 362 people, including 250 in client services, 22 in sales and marketing and account management, 65 in IT and research and development, and 25 in general and administrative. We believe that we maintain good relations with our staff.

## **LEGAL PROCEEDINGS**

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of the date of this business plan, we are not a party to any material legal proceedings.

## **Venture Capital Investors**

Validus Partners manages \$175 million in venture capital funds and invests in private health technology, healthcare and wellness companies.

Richland Ventures has raised over \$300 million and invests in health care, communications, media and information services technology companies with a proven business model and large target market.

## FINANCIAL INFORMATION

An annual summary for the years CY99-03, in addition to quarterly summaries for CY99-03 has been provided for your review. The revenue and expense levels are considered to be reasonably achievable based on our current sales pipeline and prospects for growth. An adjusted EBITDA figure has been shown because of the magnitude of the stock compensation expenses for the years CY99-02 which is non-cash. The stock compensation adjustment relates to the compensation expense associated with the granting of stock to employees and is determined by the difference between the fair market value and grant price. When reviewing our financial forecast, it is important to note that management, with the concurrence of our investors, decided to accelerate our regional branch structure (Sales & Marketing impact), building of our technology solutions (Technology impact) and the general infrastructure of the company (General & Administrative impact) ahead of our anticipated revenue growth in CY00. This deliberate accelerated investment was only undertaken once management was sure that the appropriate funding was available and it will not need to be repeated in future years since the various targets have been achieved in CY00.

A summary of our financial forecast is outlined below:

Financial Model Summary \$ in 000s	CY 99 (Act)	CY 00 (Fcst)	CY 01 (Fcst)	CY 02 (Fcst)	CY 03 (Fcst)	CY 04 (Fcst)
<b>Revenue</b>	<b>\$5,818</b>	<b>\$16,827</b>	<b>\$32,541</b>	<b>\$42,444</b>	<b>\$61,021</b>	<b>\$90,289</b>
% Growth	271%	189%	93%	30%	44%	48%
Cost of Sales	3,904	12,195	22,466	24,507	36,401	50,206
% of Rev	48%	72%	69%	58%	60%	56%
<b>Gross Margin</b>	<b>1,914</b>	<b>4,632</b>	<b>10,075</b>	<b>17,937</b>	<b>24,620</b>	<b>40,083</b>
% of Rev	33%	28%	31%	42%	40%	44%
Other Departments						
Sales & Marketing	1,767	5,349	5,582	5,290	4,318	5,772
% of Rev	30%	32%	17%	12%	7%	6%
Technology	876	4,702	4,731	4,781	9,238	14,032
% of Rev	15%	28%	15%	11%	15%	16%
General & Administrative	1,835	8,388	3,692	3,558	3,915	5,147
% of Rev	32%	50%	11%	8%	6%	6%
<b>Adj EBITDA</b>	<b>(2,564)</b>	<b>(13,808)</b>	<b>(3,931)</b>	<b>4,308</b>	<b>7,149</b>	<b>15,133</b>
% Margin	-44%	-82%	-12%	10%	12%	17%
<b>EBITDA</b>	<b>(4,255)</b>	<b>(14,354)</b>	<b>(4,536)</b>	<b>3,738</b>	<b>7,149</b>	<b>15,133</b>
% Margin	-73%	-85%	-14%	9%	12%	17%
Depreciation & Amortization	138	9,937	6,803	5,299	6,965	8,423
<b>Operating Income(Loss)</b>	<b>(4,393)</b>	<b>(24,291)</b>	<b>(11,339)</b>	<b>(1,561)</b>	<b>183</b>	<b>6,710</b>
% of Rev	-75%	-144%	-35%	-4%	0%	7%
Other Income(Expense)	(98)	124	(252)	(366)	(626)	(826)
<b>Pretax Net Income</b>	<b>(\$4,491)</b>	<b>(\$24,167)</b>	<b>(\$11,591)</b>	<b>(\$1,927)</b>	<b>(\$443)</b>	<b>\$5,884</b>

## Revenue

Our revenue projections can be summarized as follows:

\$ in 000s	CY 99 (Audited)	CY 00 (Audited)	CY 01 (Fcst)	CY 02 (Fcst)	CY 03 (Fcst)	CY 04 (Fcst)
Revenue Sources						
Implementation/Consulting <sup>(1)</sup>	\$1,255	\$10,220	\$7,719	\$7,576	\$12,855	\$16,849
Ongoing	4,305	6,263	23,982	34,100	47,197	72,472
Other	258	344	840	769	968	968
<b>Total</b>	<b>\$5,818</b>	<b>\$16,827</b>	<b>\$32,541</b>	<b>\$42,444</b>	<b>\$61,021</b>	<b>\$90,289</b>
Cumulative Ongoing Rev <sup>(2)</sup>	NMF	\$3,744	\$22,200	\$32,772	\$44,355	\$65,172
% of Total			68.2%	77.2%	72.7%	72.2%

(1) Due to the impact of adopting SAB101 we now combine our revenue categories for implementation and consulting. For CY00 – CY04 only approximately \$1.0 to 1.5 million of the revenue in this combined category is related to traditional time and material consulting.

(2) Represents ongoing revenue derived from existing customers as of January 1 of that year.

The forecasted growth in revenue is due to several factors. First, the company's ongoing revenue component of its financial model continues to grow each year. For example, because of the client relationships established during CY00 and before, we have an approximately \$31.8 million base of revenue as we enter CY01 even if we did not sign one more new contract.

During CY00 and CY01, most of our clients had employee populations in the 5,000 to 20,000 range. During the last half of CY01, the average range of our prospective clients' employee populations increased to a range of 10,000 to 45,000 employees. This increase in the average range can be attributed to the efforts of our strategic partners, our expanded technology offering and increased market acceptance. We also anticipate the current trend of our prospect base shifting to larger employers to continue.

Implementation revenue is a result of fees charged to our clients for transforming their current HR practices and delivering methods to those utilized by us so that our clients can leverage our services and technology. The ongoing revenue is attributable to the long-term relationship (typically 3 to 4 years) with our clients where fees are typically based on the services and technology provided, a client's number of employees and complexity of HR services. Consulting revenue results from various services we provide our clients such as health and welfare benefits consulting, or pension plan design.

## Cost of Sales

The primary element of this line item is the costs of staff necessary to deliver our services to customers. Third party royalties are also included as well. Over time, as the ongoing revenue stream continues to grow we should be able to leverage the technology and client services teams over a wider base of clients resulting in the cost of sales decreasing from an estimated 72.5% in CY00 to 55.5% in CY04.

## Sales & Marketing

Sales and marketing expenses are forecasted to be approximately \$5.6 million (17.5% of revenue) in CY01 and decrease to \$5.3 million in CY02 (12.5% of revenue). This decrease as a percentage of revenue can be attributed to us more effectively leveraging various distribution channels provided by our strategic partners and a maturing of our regional offices from cost structure standpoint.

## **Technology**

The forecast expenses of \$4.7 million (14.6% of revenue) for CY01 include both the Development and Information Technology group. The staff in the Development group is responsible for delivering additional products and enhancements for our product and services suite. Our core technology will be substantially completed by CY00 and the remaining development efforts for CY01 through CY04 will be focused on modest additions and enhancements to our technology platform.

## **General & Administration**

We are currently in the process of quickly leveraging our G&A infrastructure that was substantially enhanced during CY00. In addition to hiring a number of experienced staff in the finance and internal human resources functions, we have also made the appropriate investment in information systems. These investments will allow us to reduce G&A costs as a percentage of revenue to approximately 5.7% by CY04.

## **Depreciation and Amortization**

We currently depreciate our computer equipment and software primarily over 3 to 5 years and office furniture and fixtures over 5 years. As part of the IBM relationship completed in August 2000, a \$10.0 million intangible asset related to the exchange of equity for a technology license and marketing arrangement was recorded. During 2001 the relationship with IBM was ended and these intangibles were written off in 2000 and 2001.

## **Liquidity and Capital Resources**

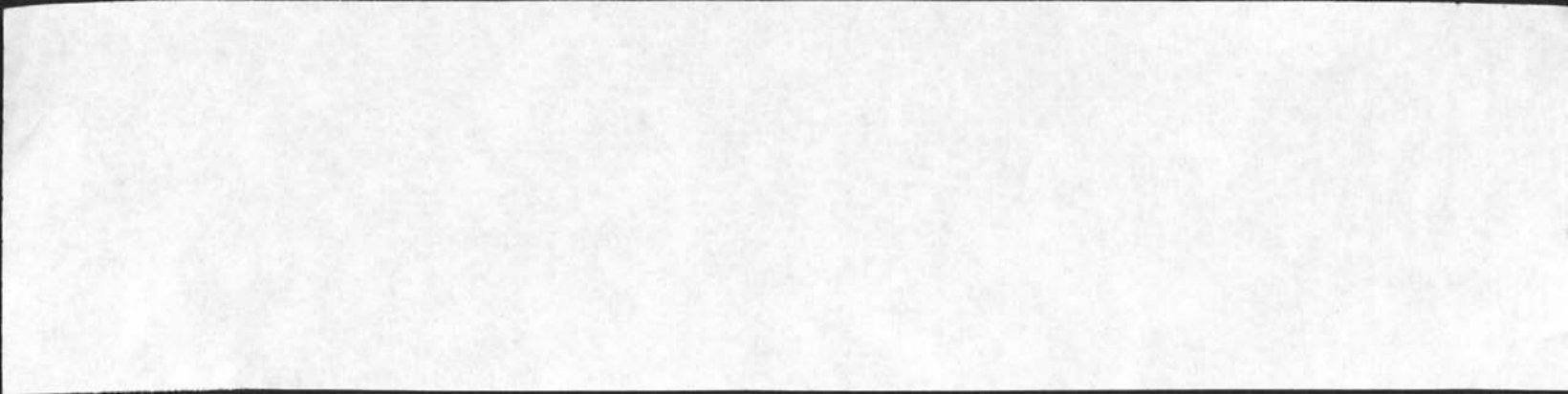
Since our inception in 1996 and through September 30, 2000, we have financed operations primarily through the use of financing such as a SBA loan, a bank line of credit and the sale of preferred stock. In December, 1999 we raised \$12.0 million from our current investors, Richland Ventures and Validus Partners, through the sale of convertible and redeemable preferred stock. During 2000, \$9.0 million of financing was obtained in the form of a bridge loan that was converted into Series B Preferred Stock in February 2001 when an additional \$16.0 million was raised bringing the B round of financing to a total of \$25.0 million.

Net cash used in operating activities through December 2001 is expected to be \$7.6 million while \$5.0 million is expected to be expended to acquire various fixed assets. For 2002 we expect to generate \$3.3 million of cash from operations while \$3.7 million is expended to acquire fixed assets. During CY00 we substantially upgraded the technology infrastructure in Houston and opened a fully functional service and technology center in Dallas.

We anticipate a significant growth in our operating expenses for the foreseeable future in order to execute our business plan. As a result, management anticipates that operating expenses and planned capital expenditures will constitute a material use of its cash resources. In addition, although not included in financial projections currently presented, we may utilize cash resources to pursue an initial public offering, fund acquisitions or investments in other businesses, technologies or product lines. We believe that available cash and cash equivalents, the proceeds from the bridge financing, anticipated receivables based line of credit, other borrowings and the net proceeds from the second round of financing will be sufficient to meet our working capital and operating expense requirements for at least the next 12 months. Currently we are in discussions with a number of banks and equipment leasing firms to secure the appropriate financing. We may require additional funds to support our working capital and operating expense requirements or for other purposes and may seek to raise additional funds through public or private debt or equity financings.

**APPENDIX**

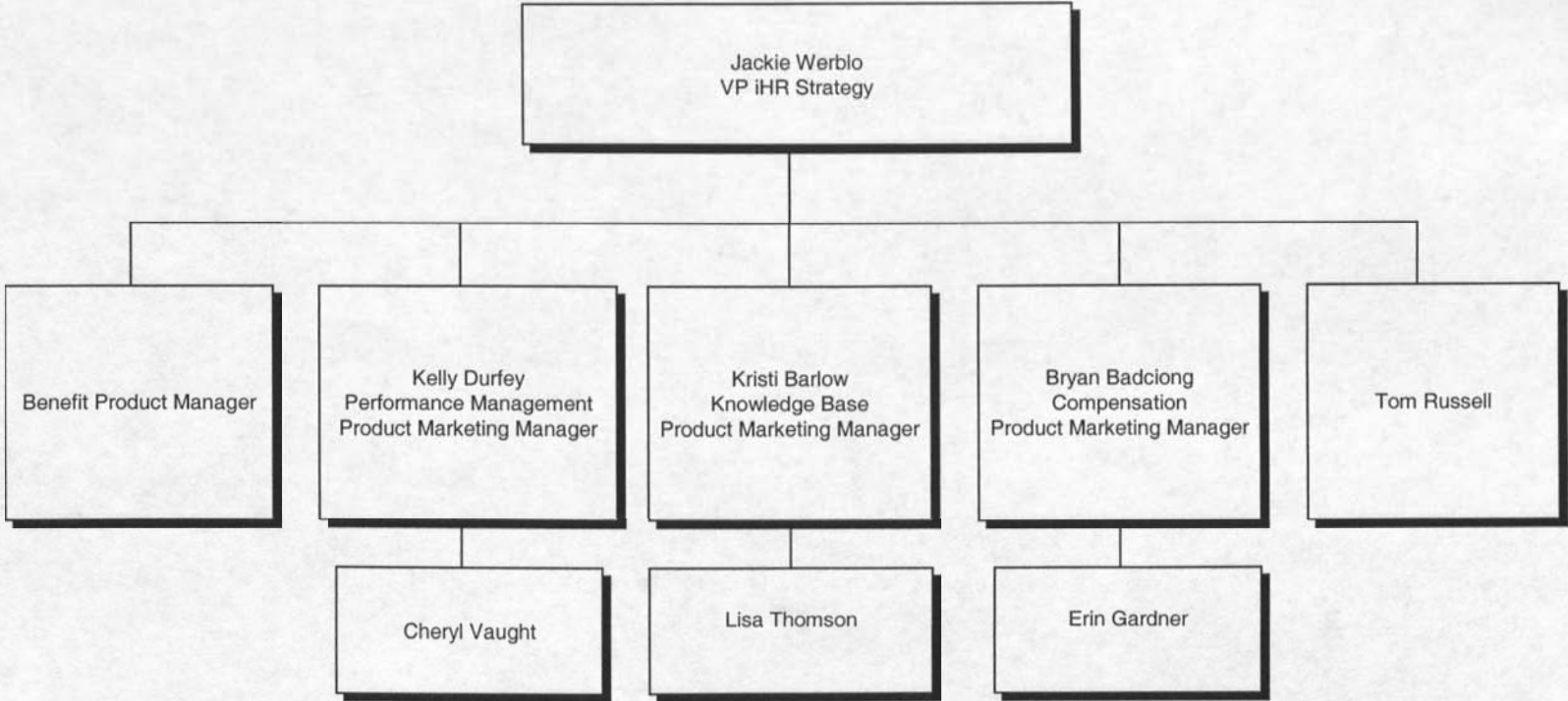




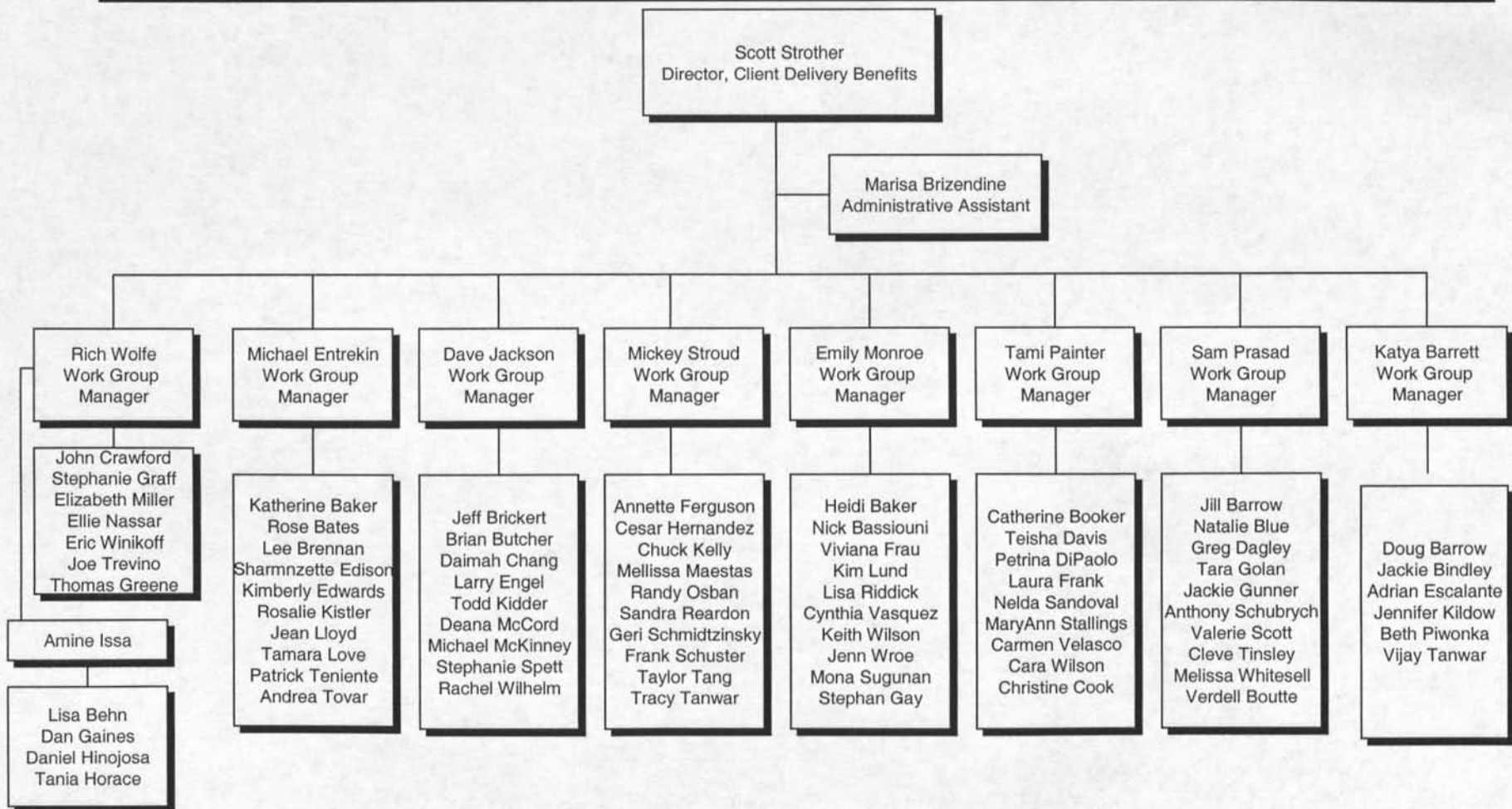
# Synhrgy Organization Chart

iHR Unbundled Market Group	Page 3
Bundled Services Market Group	Page 5
Sales & Marketing – Overview	Page 6
Service/Technology	Page 7
Finance & Administration	Page 18

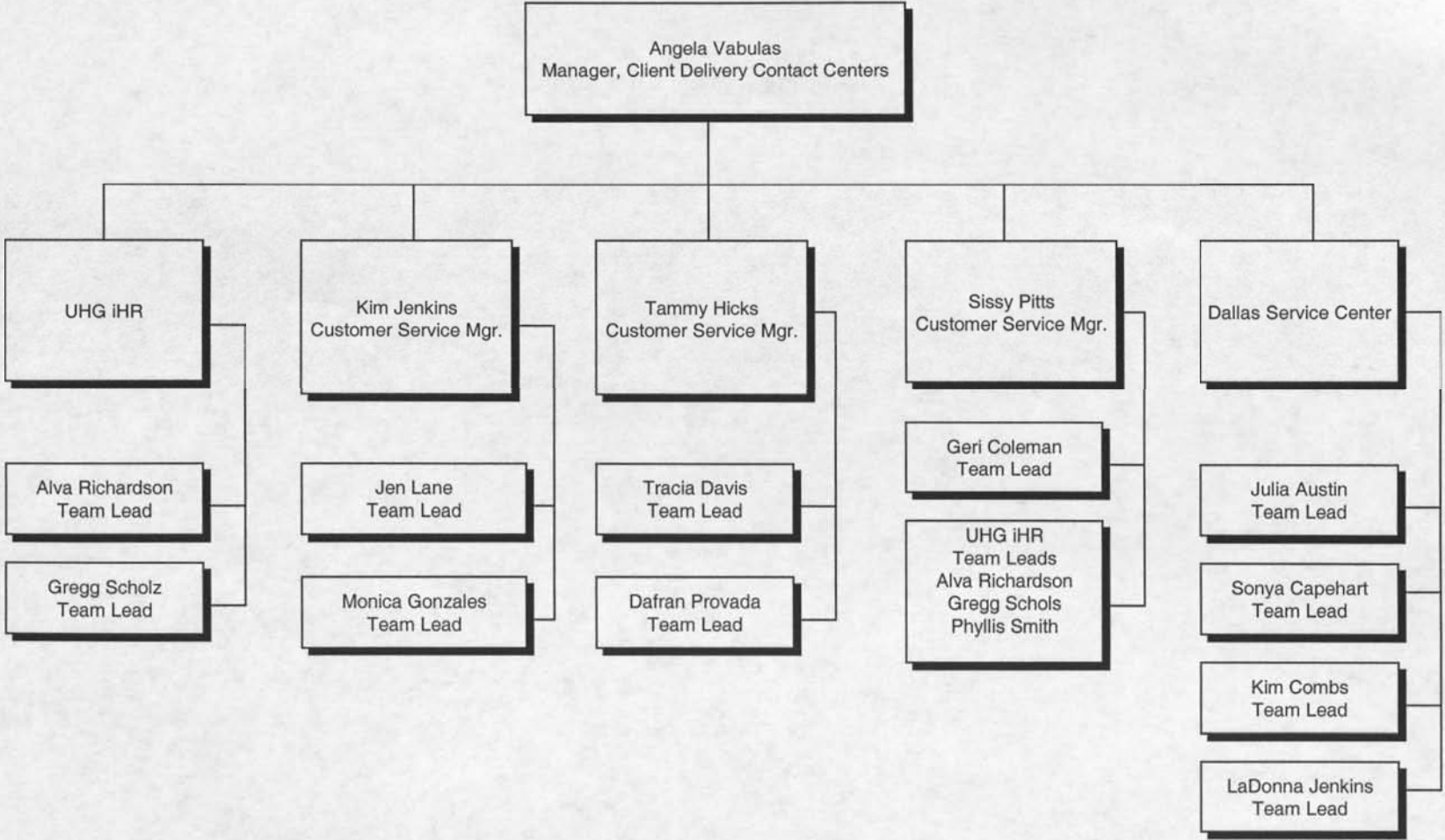
# iHR Unbundled



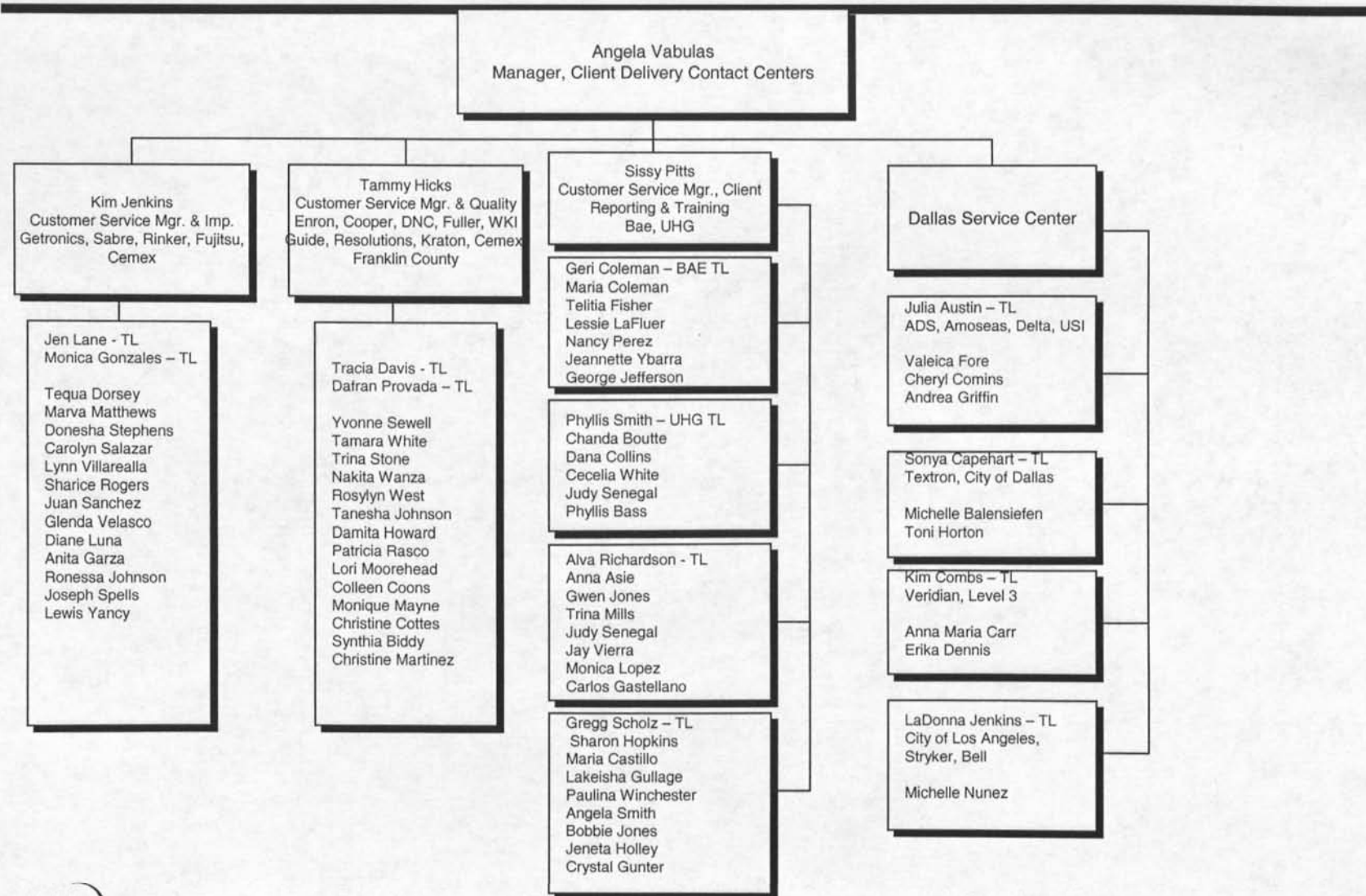
# Client Delivery Benefits



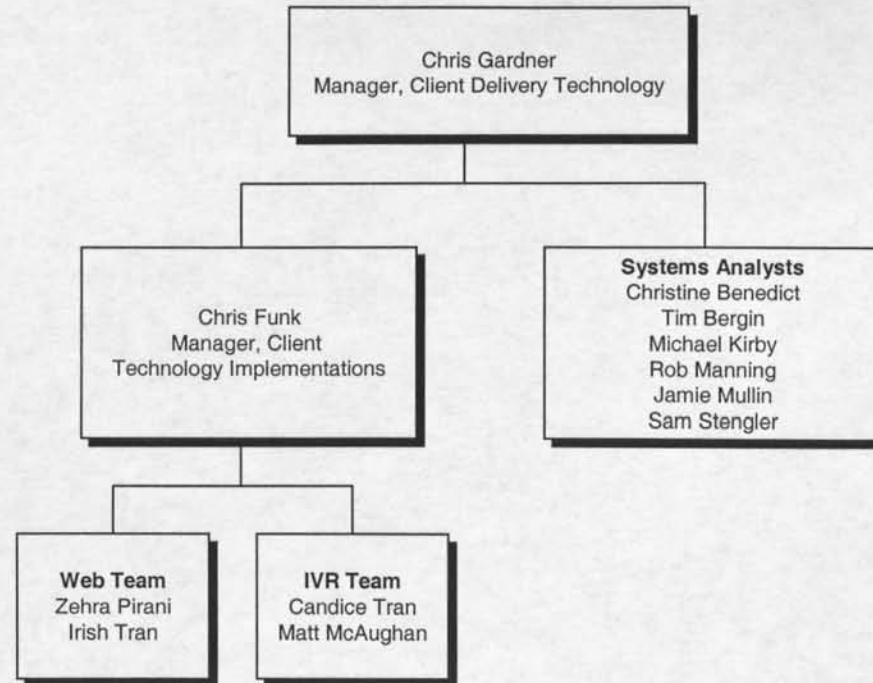
# Client Delivery Contact Centers



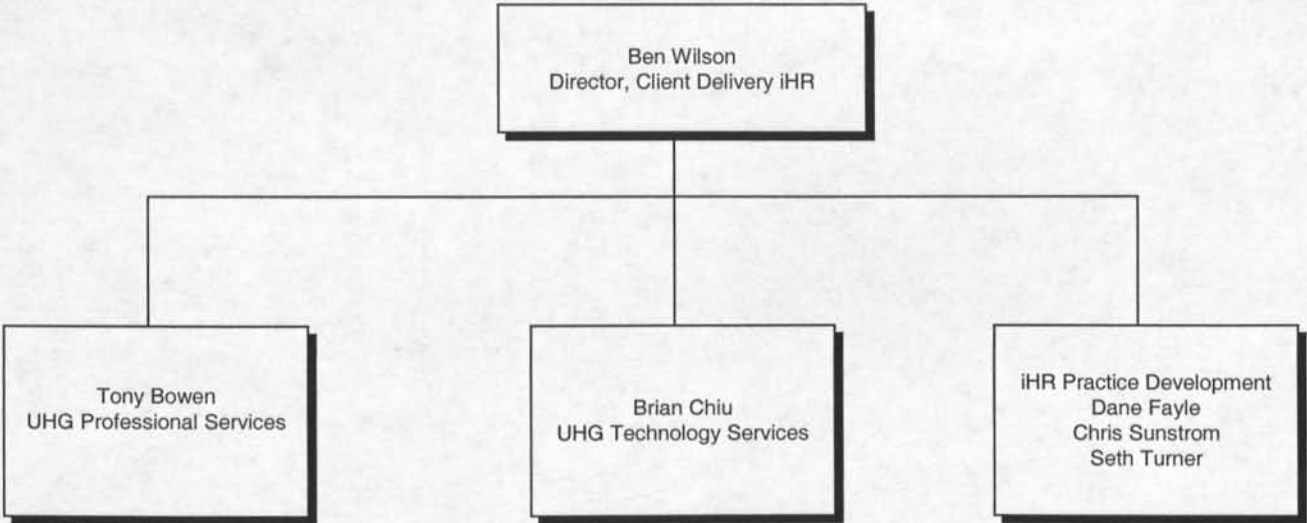
# Client Delivery Contact Centers



# Client Delivery Technology

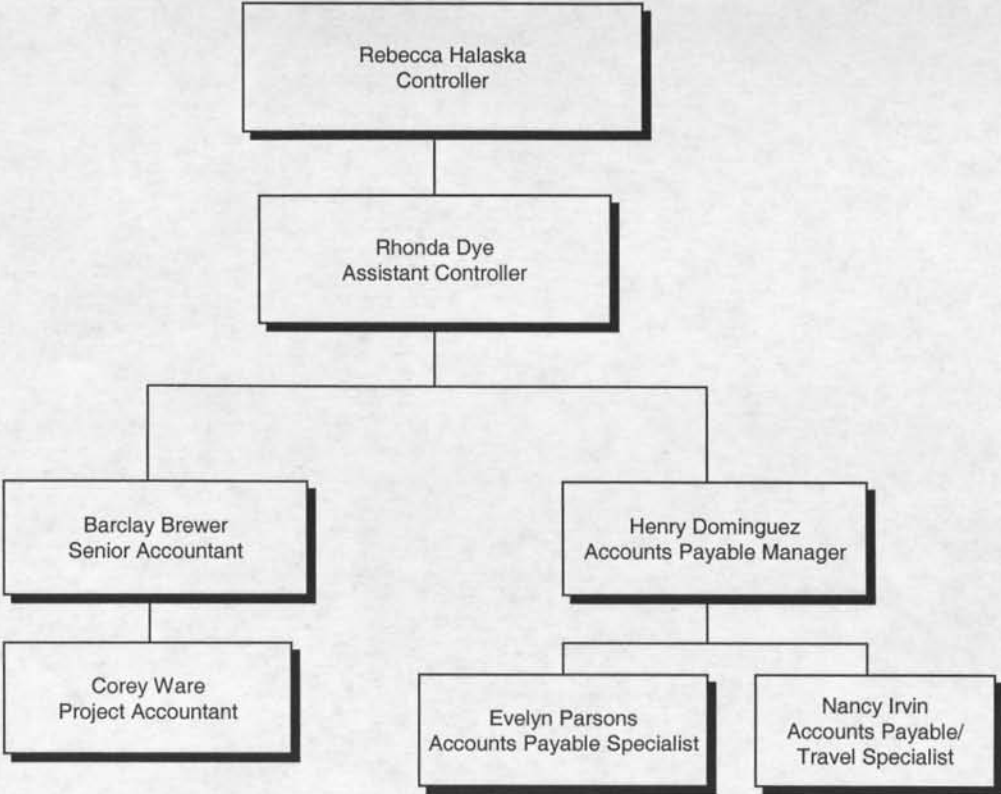


# Client Delivery Integrated Human Resources



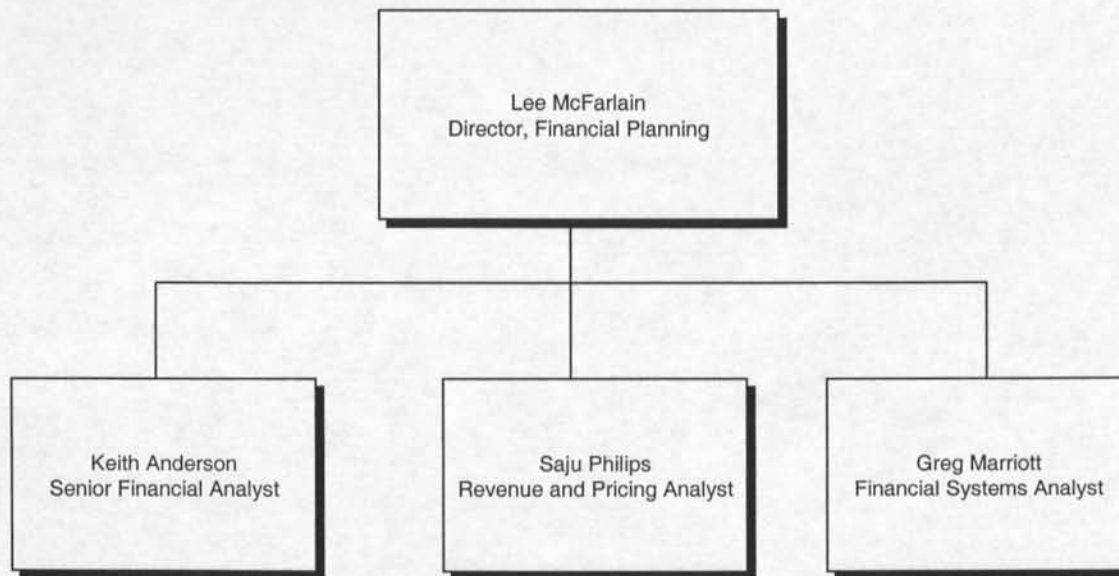


# Accounting

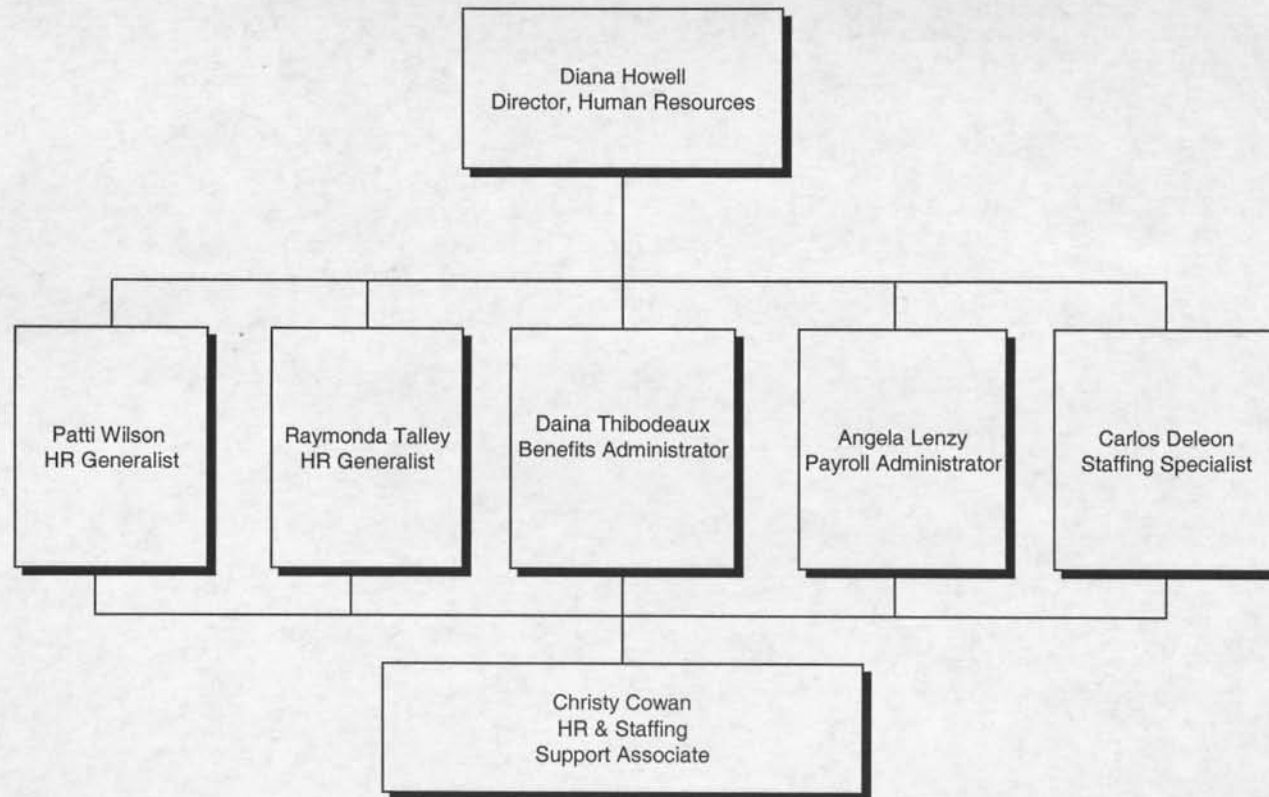


# Finance

---

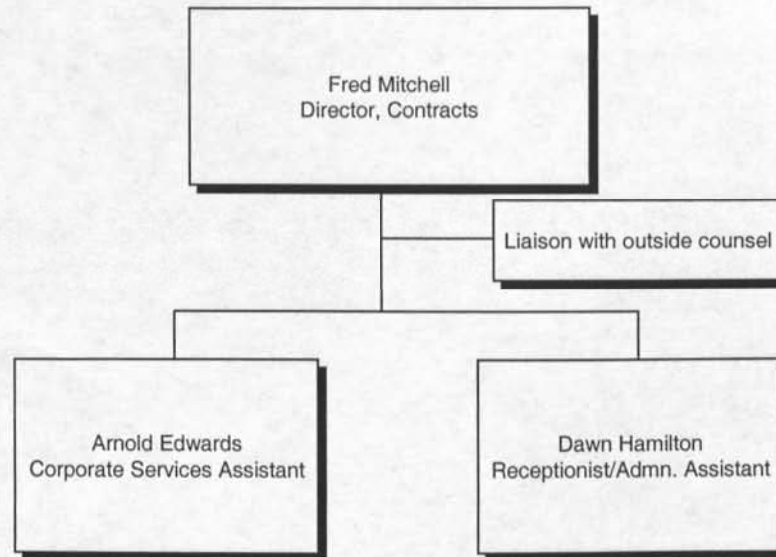


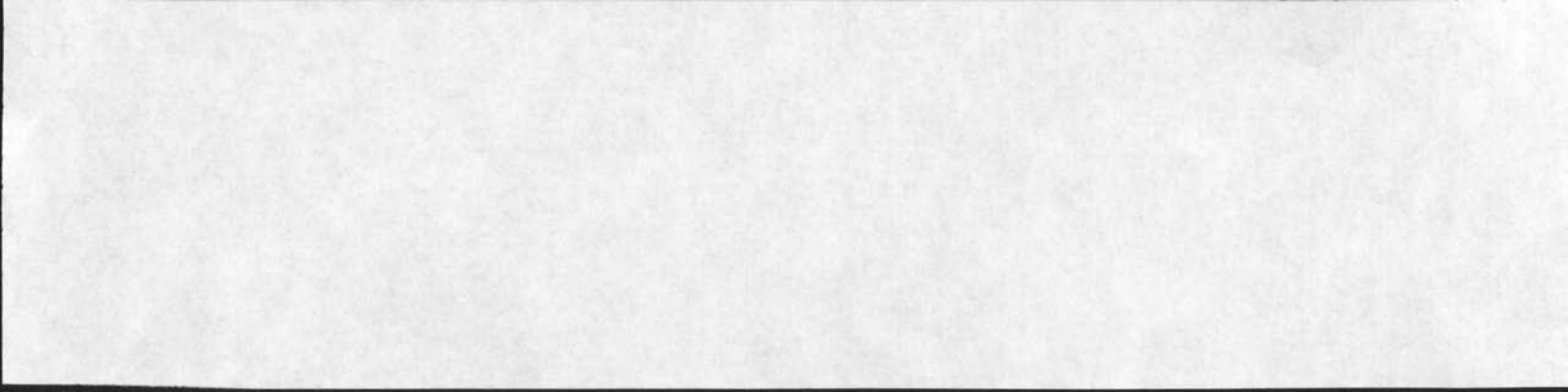
# Human Resources



# Corporate Services

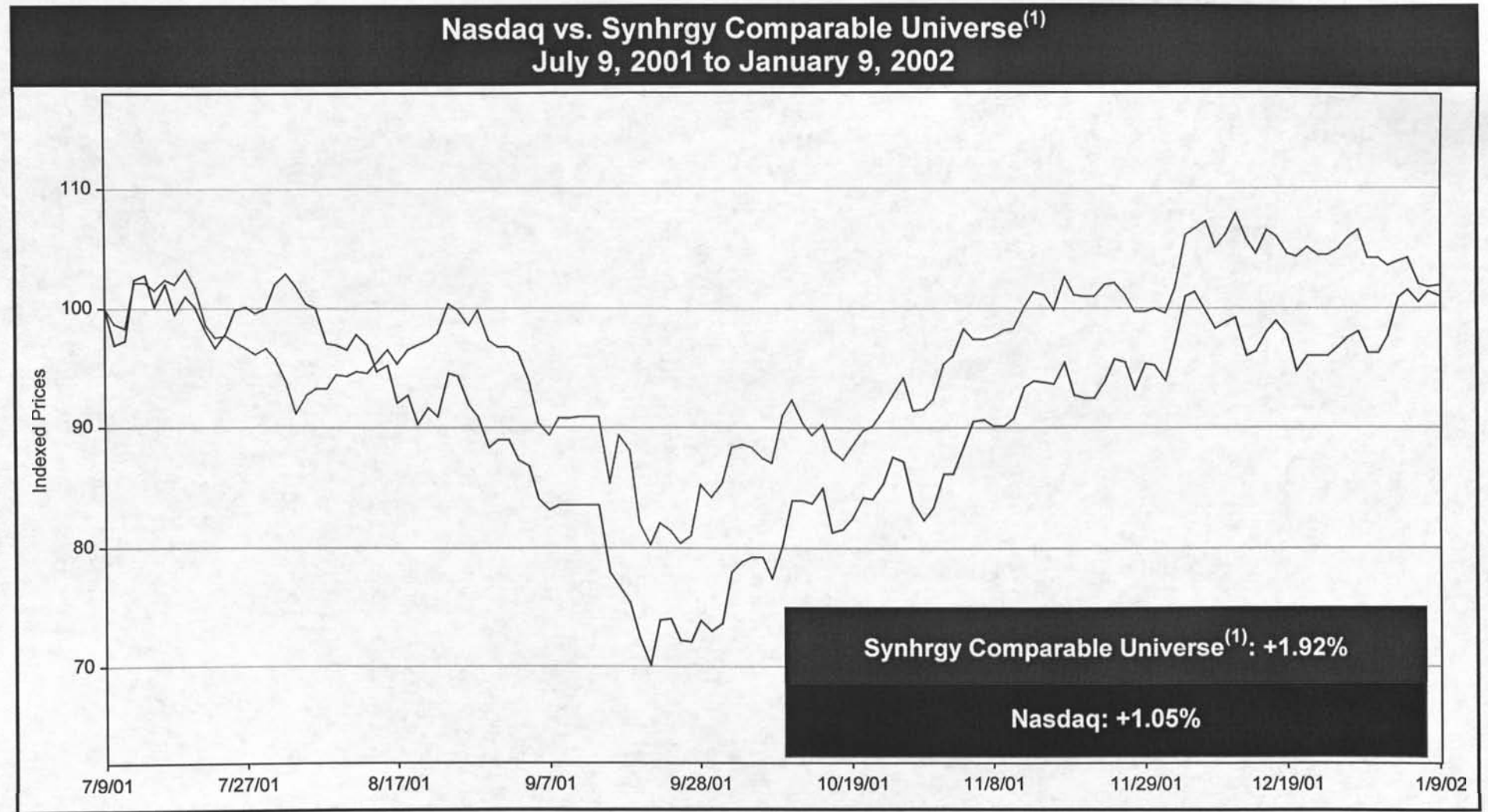
---





# SECTOR OVERVIEW

## Index Graph



(1) Synhrgy Comparable Universe Index includes: Automatic Data Processing, Ceridian, Exult and Paychex.



Sector Overview

January 2002

Keith

713-316-4131

- Explain what happened to G&A in 3Q01
- How was remaining value of IBM agreement treated (written off? where? how much?)
- Why was D&A so high in 3Q01?
- Explanation of what Synergy is doing to replace IBM code + IBM manufacturing
- Discuss update of D-4 (relate to D-5)  
(IBM, R+V)

IBM Stock -  
Apr 06  
\$16,667 shares were bought by  
Synergy - and then retained  
\$33,333 A purchase to Rich + Val.  
138,589 to Richland  
671,285 to Valides  
23,159 to Valides Exec Fund  

---

833,333

Common shares -

~ 100K shares were bought back  
from employees who left the  
company at fair market value.



**FedEx** USA AirbillFedEx  
Tracking  
Number

8153 8232 9905

Form  
I.D. No.

0215

SPH43

Sender's Copy

1 From *Please print and press hard.*  
 Date 12/6/01 Sender's FedEx Account Number 1084-0812-0  
 Sender's Name BURTON GRAD Phone (203) 222-8221  
 Company BURTON GRAD ASSOCIATES INC  
 Address 5 ST JOHN PLACE  
~~7 WHITNEY ST EXT.~~  
 City WESTPORT State CT ZIP 06880

2 Your Internal Billing Reference *OPTIONAL*  
 First 24 characters will appear on invoice.

3 To  
 Recipient's Name MICHAEL MACKAY Phone (713) 690 8880  
 Company Syngy HR Technologies  
 Address 2 ARENA PLACE SUITE 1400  
 We cannot deliver to P.O. boxes or P.O. ZIP codes.

To "HOLD" at FedEx location,  
 print FedEx address here.

City HOUSTON State TX ZIP 77074

NEW Peel and Stick FedEx USA Airbill

See back for application instructions.

Questions? Call 1-800-Go-FedEx® (800-463-3339)

Visit our Web site at [www.fedex.com](http://www.fedex.com)

By using this Airbill you agree to the service conditions on the back of this Airbill  
 and in our current Service Guide, including terms that limit our liability.

4a Express Package Service  
 FedEx Priority Overnight *Next business morning*  FedEx Standard Overnight *Next business afternoon*  FedEx First Overnight *Earliest next business morning delivery to select locations*  
 FedEx 2Day\* *Second business day*  FedEx Express Saver\* *Third business day*  
 \* FedEx Letter Rate not available  
 Minimum charge: One-pound rate

4b Express Freight Service  
 FedEx 1Day Freight\* *Next business day*  FedEx 2Day Freight *Second business day*  FedEx 3Day Freight *Third business day*  
 \* Call for Confirmation

5 Packaging *\* Declared value limit \$500*  
 FedEx Letter\*  FedEx Pak\*  Other Pkg.  
*Includes FedEx Box, FedEx Tube, and customer pkg.*

6 Special Handling  
 Saturday Delivery *Available for FedEx Priority Overnight and FedEx 2Day to select ZIP codes*  Sunday Delivery *Available for FedEx Priority Overnight to select ZIP codes*  HOLD Weekday at FedEx Location *Not available with FedEx First Overnight*  HOLD Saturday at FedEx Location *Available for FedEx Priority Overnight and FedEx 2Day to select locations*

Does this shipment contain dangerous goods?

No  Yes *As per attached Shipper's Declaration*  Yes *Shipper's Declaration not required*  Dry Ice *Dry Ice, 6, UN 1845* x \_\_\_\_\_ kg  
 Dangerous Goods cannot be shipped in FedEx packaging.  Cargo Aircraft Only

7 Payment Bill to: \_\_\_\_\_  
 Enter FedEx Acct. No. or Credit Card No. below.  
 Sender *Acct. No. in Section 1 will be billed.*  Recipient  Third Party  Credit Card  Cash/Check

FedEx Acct. No. Credit Card No.	Exp. Date	Total Packages	Total Weight	Total Declared Value <sup>†</sup>	FedEx Use Only
		1		\$ .00	

<sup>†</sup>Our liability is limited to \$100 unless you declare a higher value. See back for details.

8 Release Signature *Sign to authorize delivery without obtaining signature.*

By signing you authorize us to deliver this shipment without obtaining a signature  
 and agree to indemnify and hold us harmless from any resulting claims.

359

0118866679

<b>Subj: Synhrgy Report</b> <b>Date:</b> 11/28/2001 12:09:01 PM Eastern Standard Time <b>From:</b> kanderson@synhrgy.com (Anderson, Keith) <b>To:</b> burtgrad@aol.com (Burt Grad (E-mail))
--

I spoke with Mike. Friday December 7th is fine for the Q3 report delivery date. Going forward, we are planning on giving you the standard information by the 15th of the month following the quarter end. We would like to have a finished report by the start of the next month. For example, we will provide you with the Q4 information by 1/15/02 and hope to get the report by 2/1/01. Please let me know if there you foresee an issue with this timetable guideline.

Keith Anderson  
Synhrgy HR Technologies  
(713) 316-4131 wk

----- Headers -----

Return-Path: <kanderson@synhrgy.com>  
Received: from rly-yh05.mx.aol.com (rly-yh05.mail.aol.com [172.18.147.37]) by air-yh03.mail.aol.com (v82.22) with ESMTTP id MAILINYH31-1128120900; Wed, 28 Nov 2001 12:09:00 -0500  
Received: from hou-mail-gw-01.synhrgy.com ([206.65.192.171]) by rly-yh05.mx.aol.com (v82.22) with ESMTTP id MAILRELAYINYH55-1128120837; Wed, 28 Nov 2001 12:08:37 -0500  
Received: by HOU-MAIL-GW-01 with Internet Mail Service (5.5.2653.19)  
id <XH3FV6MX>; Wed, 28 Nov 2001 11:08:33 -0600  
Message-ID: <588FB4FF706DD411AFDD0008C786DCAA01E2633D@hou-exch-01>  
From: "Anderson, Keith" <kanderson@synhrgy.com>  
To: "Burt Grad (E-mail)" <burtgrad@aol.com>  
Subject: Synhrgy Report  
Date: Wed, 28 Nov 2001 11:09:59 -0600  
Return-Receipt-To: "Anderson, Keith" <kanderson@synhrgy.com>  
MIME-Version: 1.0  
X-Mailer: Internet Mail Service (5.5.2653.19)  
Content-Type: text/plain;  
charset="iso-8859-1"

BURTON GRAD ASSOCIATES, INC.  
5 SAINT JOHN PLACE, WESTPORT, CONNECTICUT 06880  
(203) 222-8821 FAX: (203) 222-8728  
E-MAIL: BURTGRAD@AOL.COM

FAX TRANSMISSION

fax 713 316 4199

Date: 11/28/01

No. Pages including cover page:

To: Mike Mackey

1 + 1

From:

Burton Grad

B.

---

The report will be ready  
on 12/7. I'd appreciate  
receiving payment by  
mid-December. Thanks.

Burt. 11/28

**BURTON GRAD ASSOCIATES, INC.**

5 SAINT JOHN PLACE  
WESTPORT, CONNECTICUT 06880  
(203) 222-8821  
(203) 222-8728 FAX  
BURTGRAD@AOL.COM

Synhrgy HR Technologies, Inc.  
2 Arena Place  
Suite 1400  
Houston, Texas 77074

Invoice #3022

November 30, 2001

Project: #279-1

Attention: Michael Mackey

**INVOICE**

**Project: Preparation of Company Valuation for 9/30/01**

**Consulting Services:** 11/1/01 - 11/30/01

Burton Grad      2 days @ \$3,000/day      \$6,000.00

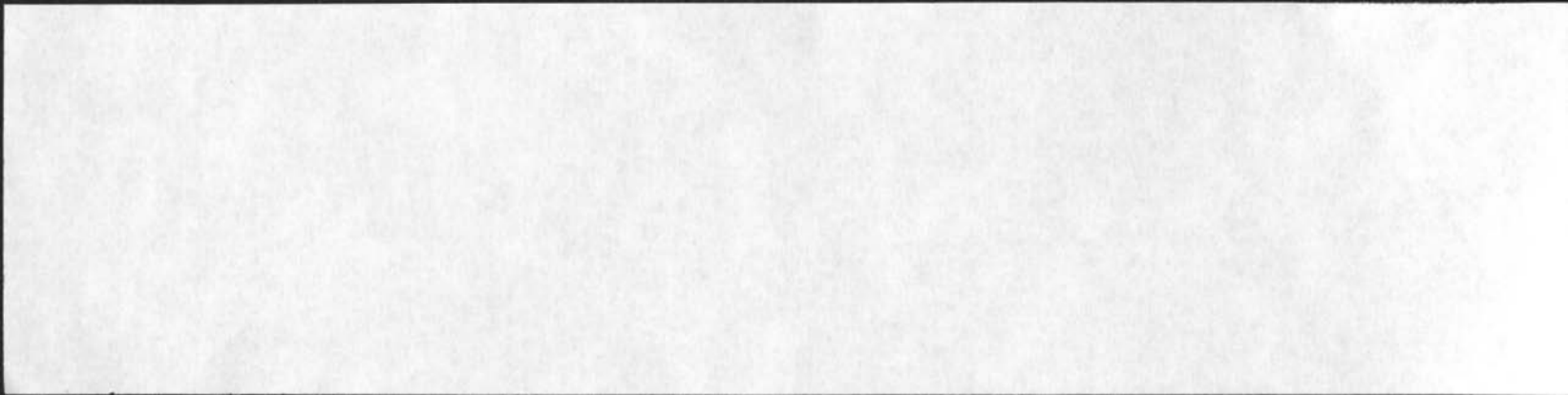
**Total Fees:**      \$6,000.00

**Expenses:**

None Billed

**Total Invoice**      **\$6,000.00**

***Payment is due within 15 days of receipt of this invoice***





BUSINESS PLAN

Synhrgy HR Technologies, Inc.

CONFIDENTIAL

This Business Plan is subject to the following:

## **CONFIDENTIALITY STATEMENT**

This Business Plan is provided to you under the terms of the Confidentiality Agreement previously signed by you or a representative of your firm. This Business Plan and any associated attachments or additional information provided to you or your firm in conjunction with this Business Plan is to be considered Confidential Information. By accepting delivery of this Business Plan, the recipient agrees that, without the prior written permission of the Company, such recipient will not release this document or discuss the information contained herein, reproduce or make use of this Business Plan for any purpose other than to familiarize you and your firm with Synhrgy or make an evaluation of a potential investment in the Company. Distribution of this Business Plan to any person other than the recipient and those persons, if any, retained to advise such recipient with respect, thereto, is unauthorized, and any disclosure of any of its contents, without the prior written consent of the Company, is prohibited.

At the Company's request, the recipient, by accepting delivery of this Business Plan, agrees promptly to return to the Company this Business Plan and any other documents or information furnished to it.

## **FORWARD-LOOKING STATEMENTS**

We have included in this Business Plan forward-looking statements that are based on our expectations, estimates, projections and assumptions. These statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Our actual results may differ significantly from the results discussed in these forward-looking statements.

Synhrgy has not assumed any responsibility for independent verification of the information contained in this Business Plan or otherwise made available to you and makes no representations or warranties as to the accuracy or completeness of such information. Nothing contained herein is, or should be relied on as, a promise or representation as to the future performance of the Company.

## **FINANCIAL PROJECTIONS**

We prepared the financial projections included in the Business Plan based on certain assumptions that we consider reasonable at this time. An accountant or independent third party consultant has not reviewed the financial projections. The financial projections are based on our assumptions about our business and its market. Differences between assumptions and actual results could cause the Company's financial performance to differ significantly from the projections.

## INQUIRIES

Any inquiries are to be directed to:

Michael J. Mackey  
CFO & EVP, Finance and Administration  
Synhrgy HR Technologies, Inc.  
7324 Southwest Freeway, Suite 1400  
Houston, Texas 77074  
Tel: (713) 934-1811  
Fax: (713) 316-4199  
E-mail: [mmackey@Synhrgy.com](mailto:mmackey@Synhrgy.com)

We ask that you do not contact any Synhrgy employees, customers or Board members without the express, prior written consent of Dave Carlson, CEO or Michael Mackey, CFO.

Your cooperation and interest in Synhrgy is greatly appreciated.



## TABLE OF CONTENTS

CONFIDENTIALITY STATEMENT .....	i
FORWARD-LOOKING STATEMENTS.....	i
FINANCIAL PROJECTIONS .....	i
EXECUTIVE SUMMARY .....	1
COMPANY HIGHLIGHTS.....	7
BUSINESS OVERVIEW.....	8
OUR COMPETITION.....	15
CLIENTS .....	18
TECHNOLOGY OVERVIEW .....	20
EMPLOYEES .....	24
LEGAL PROCEEDINGS .....	24
FACILITIES .....	25
MANAGEMENT .....	25
FINANCIAL INFORMATION.....	29
APPENDIX	
DETAILED FINANCIAL RESULTS/PROJECTIONS	
AUDITED FINANCIAL STATEMENTS	
RECENT PRESS RELEASES	
ROI CASE STUDIES	

## EXECUTIVE SUMMARY

Synhrgy HR Technologies, Inc. (Synhrgy) is a leading provider of comprehensive human resources (HR) technology and outsourcing solutions for Fortune 1000 and Global 500 corporations. Synhrgy provides technology and services that enable employers to streamline traditional HR delivery processes, achieve substantial cost reductions in HR functions and access integrated HR data for strategic value, thereby improving the level of HR services provided to employees, retirees, managers and other constituents of the particular corporation.

**Market Overview** – The market for providing integrated HR solutions is characterized by extremely rapid growth and a lack of established service firms capable of providing comprehensive, integrated HR solutions. According to Dataquest, a division of the Gartner Group, the worldwide HR outsourcing market is projected to grow from approximately \$26.2 billion in 1999 to approximately \$76.4 billion in 2004. The rapid growth in HR outsourcing services among large employers is due to a number of factors, including:

- Recognition that the internal systems or non-integrated multi-vendor systems traditionally used to support the HR staff are inadequate to deal with the complexity and critical nature of today's HR functions
- Need to reduce total administrative costs of delivering HR services
- Recognition of the strategic value of developing the corporation's human capital

These drivers, coupled with the increasing desire of organizations to outsource non-core business functions, are expected to create strong demand for integrated HR solutions over the next decade.

**Business Overview** – Synhrgy has a systematic approach to implementing our technology and service solutions that has been proven to deliver significant value to our clients. Our ability to successfully compete in the market for delivering total HR services requires that we continue to demonstrate market leadership in each of the following areas:

- Technology Leadership - Through our internally developed technology, Synhrgy currently has the ability to provide comprehensive technology applications that support the entire range of HR functions. A key component of our strategy is our web portals and service centers, which were developed to provide self-service delivery of information to business managers, HR managers, employees, retirees, and third party service providers. These portals constitute a critical element of a corporation's global HR information systems and allow users to access information and process transactions. Our portals operate on a 24/7 basis, and eliminate the numerous organizational, transactional and communication barriers that exist within large corporations. Our services allow clients to achieve substantial reductions in the cost of administering HR programs.
- Human Resource Expertise - HR domain expertise is a requirement for organizations seeking to provide outsourced services to large corporations. Synhrgy's senior management team and staff have extensive expertise across all areas of HR functions and includes several individuals recognized nationally as leaders in the HR services field. In addition, our vendor integrator approach to outsourcing allows us to integrate providers of niche HR services, thus allowing us to deliver "best in class" expertise to our clients across the full range of HR functions.
- Business Process Outsourcing (BPO) Expertise - We collaborate with our clients to design and reengineer HR processes to increase productivity, service and quality while significantly reducing overall HR costs. Our transition and change management specialists manage the transformation and/or integration of our clients' existing systems to our operational infrastructure. Our extensive implementation experience includes the installation of our self-service web-based applications at the client site.

**Strategic Partnerships** – To provide the comprehensive range of HR solutions required by large organizations and meet the strong demand for these services and technologies, Synhrgy has completed several strategic alliances with leading firms, including:

- UnitedHealth Group (UHG – December 1999) – Synhrgy became the exclusive provider of HR technology and services to clients of Uniprise, the subsidiary of UHG that provides services to Fortune 1000 companies. Under the agreement, Uniprise will distribute Synhrgy's services and technology to its clients' 250+ organizations averaging 14,300 lives each.
- T. Rowe Price (TRP – June 1999) - Synhrgy became the exclusive provider of pension administration technology and services for clients of TRP. We are currently in discussion to expand the scope of the alliance to encompass all health and welfare plan administration services to TRP clients.
- SEI Investments (SEI – September 2000) – Synhrgy manages the administration of defined benefit retirement plans and health and welfare plans for clients served by SEI.
- Hackett Benchmarking & Research (Answerthink-April 2001) – Synhrgy has an exclusive arrangement with Hackett, the leading firm in HR benchmarking, which arrangement allows us to share best practices across all HR functions and to cross-sell each other's services.

**Growth Strategy** – With an existing client base of over 50 firms, Synhrgy has an established business and is well positioned for rapid growth. Our future growth will be based on the following strategies:

- Expanding our relationships with existing clients. From our current ongoing client base, we provide HR services for over 735,000 employees both active and retirees. These existing clients have a total employee population in excess of 1.5 million (including retired employees) and in most cases; we are not yet providing the complete range of HR services possible. We therefore have significant opportunities to expand the range of services provided to our clients and we expect to gain additional revenue from existing clients in the near term.
- Leverage our strategic relationships. Our strategic partners represent an important distribution channel for reaching the large (over 5,000 employees) employer market. We have demonstrated the value of these strategic alliances through the acquisition of new clients such as Sabre, US Airways, Clorox, Bcom3 (Leo Burnett) and Enron.
- Continue our leadership position in the application of technology to support HR functions. Our technology architecture is based on an open design that allows us to integrate pre-built technologies with proprietary software components that together support a patent-pending process for delivering highly scalable human resource self-service solutions. We currently have proprietary technology for benefit administration, comp administration, performance management and e-learning, workforce administration and special event services. This technology includes web and IVR solutions plus the business function software. In addition, we have a full suite of call center technology to support our service centers.
- Extend our services to target Global 500 companies. We currently provide services to the US operations of global corporations such as BAE Systems, Fujitsu, Textron and others. We are in discussions with global HR consulting firms to secure alliances that would allow us to work jointly on global opportunities for these clients and others with Synhrgy providing the technology and outsourcing services as well as certain consulting services.
- Extend our services to middle market employers. We are currently developing simplified and standardized versions of our services for application to middle market employers with 1,000 to 5,000 employees. We believe there are major opportunities to provide standardized services in this market segment, which has been underserved by the traditional providers of HR service.

Our objective is to become the leading provider of comprehensive, integrated HR solutions on a BPO basis that enable large, multinational corporations to reduce their HR costs and increase the productivity of their human capital while also addressing the needs of middle market employers. We believe that our

existing client base, technology capabilities, and strong partnerships with leading firms give us the basis for meeting our objective over the next three to five years.

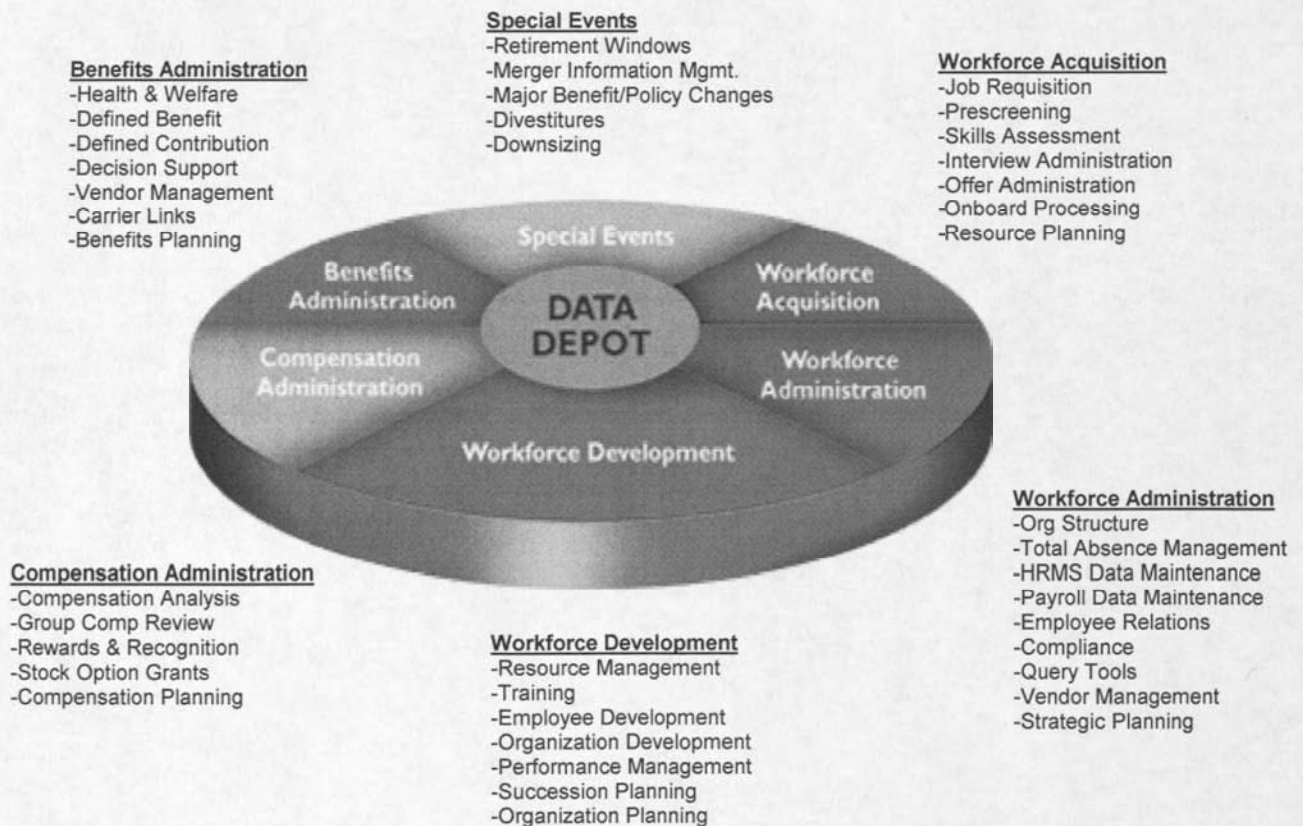
## Value Proposition to our Clients

### The Synhrgy Vision

Our vision identifies three value propositions for our clients. The three value propositions are:

- Reduced costs as evidenced by a strong ROI (a case study can be found in the appendix)
- Better service to HR constituents (employee and retirees groups along with business managers)
- Improved management of human capital through integrated, accessible information

Most organizations are just beginning to focus on all three propositions with the first two being the primary focus today. As companies move from the first value to the third value, centralized data and web-enabled access across HR functions becomes more critical to gain value. That is why Synhrgy's vision is to provide a single point of access that integrates data across HR functions, thereby maximizing value to the organization, by offering the following:



### **Reduced Costs**

One of the basic value propositions of any type of business process outsourcing is reducing costs, if not in the first year of transition, soon after. For an organization to continue to provide world class HR, the need exists to keep reinvesting in people, processes and technology. This effort requires significant reinvestment each year. An outsourcing firm must also do the same thing, but can spread that investment over many clients which almost always results in lower long-term costs for the employer. Our first value proposition is to lower the HR delivery costs of our clients over time. We commit to significant investments in technology, which drives our staffing levels down over time. An example of this lies in our decision support tools, such as the Synhrgy Health Care Estimator, that reduce employee call volume to the service center, resulting in lower contract costs for our clients.

### **Better Service to HR Constituents**

Constituents of most HR departments today feel under-served. Employee groups (actives/retirees, dependents and business managers) are often making significant decisions about healthcare, life, AD&D, savings and retirement, and career pathing and development without enough information to make the best decision. Different constituents within the group have varying issues. Our technology and outsourcing provides more information that is easily accessible, so they can make better decisions. This fulfills HR's obligation to provide these services, improves employee perception of their employer, adds loyalty and a sense that HR is "pushing the envelope" in providing for their needs.

The second group, business managers, often needs information in real time about their most important resource which is human capital. These information needs can range from the new manager who needs the tools to manage pay and performance, to a business leader that must evaluate core competencies for a new business line. If you believe human capital is the ultimate strategic differentiator, or competitive advantage, then the right information in a business manager's hand can have a large effect in a firm's value. An example of this is the manager that uses the web to provide a 360° degree review for a star employee, and the HR delivery technology then ties that information to compensation and career pathing within the organization. That type of information and guidance of an employee can affect long-term performance.

### **Improved management of human capital through integrated, accessible information**

The final value proposition is that HR and business leadership can use strategic information that is easily accessed and modeled to affect the long-term performance of the company. This is the ultimate value proposition where HR can have a strategic affect on their organization through better human capital management. This availability of information can change the value of an organization through higher productivity, greater innovation and new market analysis, all of which can affect a firm's value. This proposition does not focus on cost reduction, but rather value creation.

We are providing tools to management so that the human capital of their organization can achieve their potential. Examples of this value proposition follow.

- A business unit is seeing high turnover in a job type. Using integrated data, they determine those who stay and those likely to leave. This information ties back to the recruiting effort. Which competencies are we seeing in those who stay and are successful? What competencies are we seeing in those who leave? How can we tie those competencies back to the recruiting process to make sure we are getting "good fits"?
- HR is seeing a high number of issues around harassment and compliance within a business unit. Centralized historical data along with a 360° feedback and employee surveys allows HR to provide additional management training for that group and to mitigate risk around a critical issue.
- An organization is going to expand into a different business line. Easy access to information on performance, skills and competencies allows management to "mine" for the right internal leader. If that person does not exist, an external search is initiated.

These are just 3 examples of how HR can help an organization change their value and allow HR to be a strategic business partner. Each of these examples has a strategic affect on organization value. Today this information is either disparate or does not exist. If it does exist, access is cumbersome. Synhrgy's value proposition and vision is to provide the platform to achieve these value propositions within an organization. In addition Synhrgy can provide a single access point for delivery and to do so while keeping the other value propositions in tact.

## SELECTED DATA

(Dollars in Thousands)

	1999 Audited	2000 Audited	2001 Fcst	2002 Fcst	2003 Fcst	2004 Fcst
<b>Revenue</b>	<b>\$5,818</b>	<b>\$16,827</b>	<b>\$31,842</b>	<b>\$41,282</b>	<b>\$60,820</b>	<b>\$90,089</b>
% Growth	271%	189%	89%	30%	47%	48%
<b>Gross Margin</b>	<b>1,913</b>	<b>4,632</b>	<b>9,539</b>	<b>15,912</b>	<b>24,696</b>	<b>40,082</b>
% Margin	33%	28%	30%	39%	41%	44%
<b>Adj EBITDA <sup>(1)</sup></b>	<b>(2,564)</b>	<b>(13,809)</b>	<b>(3,995)</b>	<b>4,132</b>	<b>9,654</b>	<b>19,363</b>
% Margin	-44%	-82%	-13%	10%	16%	21%
<b>EBITDA</b>	<b>(4,255)</b>	<b>(14,355)</b>	<b>(4,600)</b>	<b>3,812</b>	<b>9,654</b>	<b>19,363</b>
% Margin	-73%	-85%	-14%	9%	16%	21%
<b>Pretax Net Income</b>	<b>(\$2,800)</b>	<b>(\$24,178)</b>	<b>(\$9,983)</b>	<b>(\$2,243)</b>	<b>\$1,754</b>	<b>\$9,954</b>
% Margin	-48%	-144%	-31%	-5%	3%	11%
Cumulative Ongoing Rev at 1/1	NMF	\$3,744	\$22,200	\$31,400	\$47,500	\$70,300
Clients (Ongoing Relationship)	6	30	41	64	84	109
Ending Headcount	95	322	405	484	538	729
Stock Comp Expense	\$1,691	\$546	\$605	\$320		

(1) Adjusted for Stock Compensation Expense - Cash Basis.  
NMF – not meaningful

## Share Ownership

	Number	Percent
Preferred Stock	6,081,764	60.0%
Warrants	150,699	1.5%
Purchase Option	109,240	1.1%
Common Stock (Employees)	1,718,364	17.0%
Stock Options		
Awarded	1,161,540	11.5%
Available	907,840	9.0%
<b>Total</b>	<b>10,129,447</b>	<b>100.0%</b>

**Dividend Policy**

To date no individuals have been declared or paid. We anticipate that we will retain all of our future earnings, if any, for use in the expansion and operation of our business and do not anticipate paying cash dividends in the foreseeable future.

## COMPANY HIGHLIGHTS

### **Strong Business and Financial Growth**

As evidenced from the company's growth in new Business Process Outsourcing (BPO) clients from 6 in CY99 to 50 in CY01 while total revenue grew from \$5.8 million in CY99 to approximately \$31.8 million in CY01, Synhrgy continues to succeed in the HR outsourcing market. Another attractive aspect of Synhrgy is the recurring revenue derived from the long-term relationship the company has with its customers. Once Synhrgy's solution has been implemented, a customer pays Synhrgy a fee per employee per year for the services and technology delivered where the average contract length is 3 to 4 years. For CY01, over 70% of the revenue is expected from providing these recurring services and this trend is expected to continue in subsequent years.

### **Proven Management Team**

Synhrgy's management has extensive and in-depth experience in the human resources and technology industry. Several members of Synhrgy's senior management team have held national leadership positions with major HR service and technology firms or Fortune 500 organizations.

### **Large and Growing Market Niche**

According to Dataquest, a division of the Gartner Group, the worldwide HR outsourcing market is projected to grow from approximately \$26.2 billion in 1999 to approximately \$76.4 billion in 2004.

### **Strategic Relationships**

We have completed strategic relationships with Uniprise Strategic Solutions, a subsidiary of UnitedHealth Group (UHG), which is responsible for managing UHG's relationship with its large national clients. Additional strategic relationships are in place with major institutional asset management firms, including T. Rowe Price (TRP) and SEI Investments (SEI) where we manage the administration of all defined benefit retirement and/or health and welfare plans for clients serviced by TRP and SEI. In addition, we have an exclusive alliance with Hackett Benchmarking & Research, the leading HR benchmark service firm.

### **Demonstratable Customer Value**

The Hunter Group estimates that by using the functionality of the internet to move HR delivery to a largely self-service mode, organizations can achieve annual HR cost reductions of approximately 25% to 30%. In addition, we have client case studies that show a strong ROI for single functions like benefits administration to full HR transformation/outsourcing projects.

### **Diverse Client Base**

Relative to its size, Synhrgy has a diverse client base with over 50 clients in CY01. Synhrgy's largest client accounts for approximately 23% of the projected revenue for 2002 while no other client accounts for more than 24% of the forecasted revenue for 2001.

### **Market Leading, Technology Enabled Solutions**

As evidenced by Synhrgy's continued growth and competitive wins against larger, established firms our web enabled solutions are a distinct advantage in the marketplace. The sophisticated technology that Synhrgy has to offer is a combination of its own internal development and various other companies' products utilizing a best of breed, speed to market approach.



## **BUSINESS OVERVIEW**

Synhrgy is a leading provider of HR outsourcing technology and solutions to large corporations. We offer a comprehensive range of solutions that allow employers to more effectively manage HR processes, reduce the cost of providing HR services, improve the efficiency and performance of the HR function, enhance the productivity of the company's human capital and support the company's business strategy. We refer to our solutions as integrated-HR because our solutions allow our clients to transform their HR departments into global, knowledge based organizations focused on supporting the corporate strategy rather than transaction processing and administration.

Our solutions are highly flexible and can be configured in a variety of ways, depending on our clients' business needs and preferences. We deliver our solutions through our proprietary software at our service centers utilizing our service center staff and through a combination of internal and client resources. Our services and technology can be integrated with legacy, ERP and other technology systems.

### **Industry Background**

Traditional human resources departments within large, multinational corporations struggle with the challenges of managing HR processes across multiple operating units spanning multiple countries. According to the Global 500 List for the Year 2000 published by Fortune Magazine, Global 500 corporations employed more than 37 million people in 1999. In addition, Hackett's annual survey including two-thirds of the Fortune 500 shows HR delivery costs increases by 19% in 2000 with an average cost per employee of \$1,850 per year. Managing an employee base of this magnitude presents numerous operating problems, which are principally due to:

- the complexity of the issues associated with managing the human resource function in a large corporation
- the large number of third party vendors used by a human resources department to handle discrete functions
- the lack of capital spending for HR departments, resulting in antiquated technology support for HR management

As a result, the HR processes of large, multinational corporations are typically inefficient and excessively costly. By necessity, HR departments predominantly have focused on administrative functions and typically have neither the time nor the resources to devote to strategic planning. At the same time, the senior management of many corporations is demanding that HR departments focus on helping the corporation add value through human capital management. These demands and the concurrent need to reduce the administrative processing costs will continue to force HR departments to reengineer existing HR service delivery processes and seek new alternatives for HR support.

Many large corporations have begun to recognize the value of outsourcing discrete, non-core functions of their operations, such as payroll and benefits administration, in order to address the problems found in traditional human resources departments. According to Dataquest, the worldwide HR outsourcing market is projected to grow from approximately \$26.2 billion in 1999 to approximately \$76.4 billion in 2004. However, the market for comprehensive HR outsourcing is relatively new.

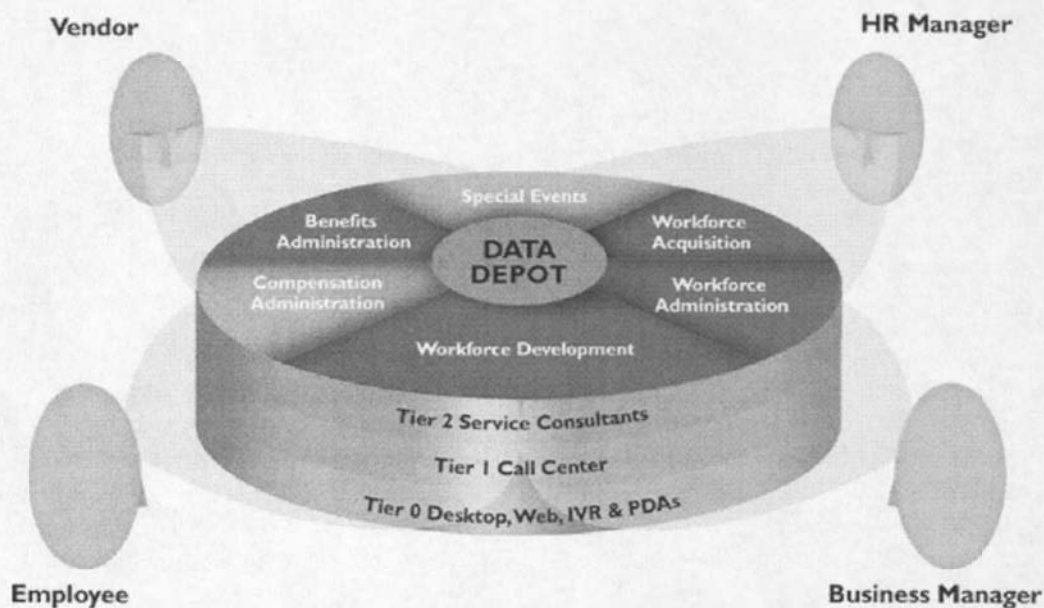
Outsourcing a large portion of the HR organization of a large multinational corporation is a complex project due to the size of the organization and the multiplicity of divisions and third party vendors. Also, in order to manage an entire HR organization effectively, the provider must have significant expertise in analyzing, providing and managing HR best practices. HR best practices refer to those HR policies, procedures, operations and technologies that yield superior performance as measured by productivity, cost, quality and service metrics.

The Internet makes our comprehensive service delivery model possible by facilitating interactive communications among large groups of individuals in multiple geographic locations. The Hunter Group estimates that by using the functionality of the Internet to move HR delivery to a largely self-service mode, organizations can achieve annual HR cost reductions of approximately 25% to 30%. To date, however, HR organizations have not fully utilized the Internet because they have not broadly implemented any mechanism for effectively centralizing and organizing the large amount of information and electronic transmissions generated by processes within the HR organization. Accordingly, the Internet's current use in HR departments has been largely limited to one-on-one e-mail communications or process-specific internal networks.

## Our Services

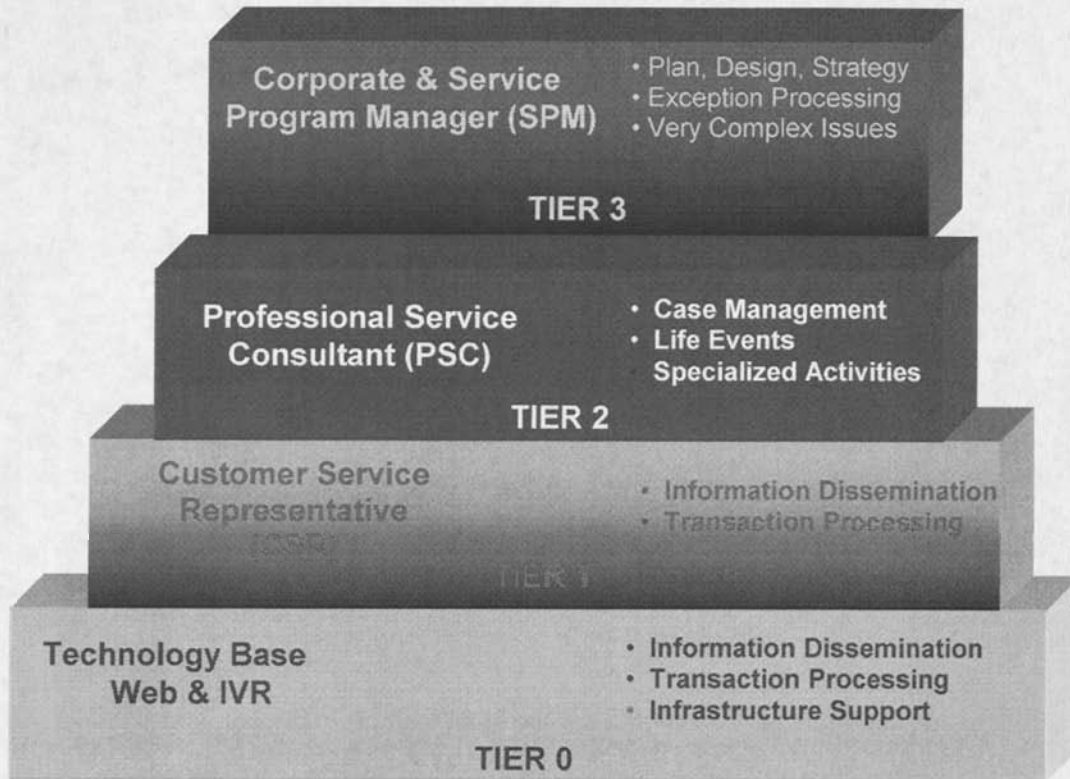
Our capabilities encompass the full range of HR services and we provide a comprehensive set of web and service center solutions. We collaborate with our clients to design and reengineer HR processes to increase productivity, service and quality, while reducing overall HR costs. We then rely on our transition and change management specialists to manage the transformation of our clients' existing systems to our operational infrastructure. Once we have identified the appropriate HR practices and processes for our clients, we implement our comprehensive HR solutions, which include capitalizing on our shared resources. These shared resources include our client service centers, centers of expertise, third party vendors and other systems and applications. By leveraging shared resources, we facilitate the delivery of HR best practices while achieving economies of scale, which we believe will enable us to deliver improved HR solutions at a reduced cost.

Our internet based HR systems and applications allow us to deliver the full range of HR information needs to employees and managers at a significantly lower cost than internal systems, while at the same time improving a manager's satisfaction with service levels. Our solution delivery technology is based on organizing the information and applications needed by HR departments by tiers of service in the manner shown in the following chart:



## Service Delivery Model

We organize the delivery of HR services around an operations model that focuses on providing information and application support at the most efficient level. Our operational approach is summarized in the chart below:



Each of these service delivery tiers and various integration capabilities are discussed more fully below.

As an organization, our goal for technology is to move as much of the Tier 1 and 2 work to Tier 0 (technology). This not only increases user satisfaction, it also drives down employer costs and increases our margin.

Tier 0 - Technology Applications. - We support the full range of HR program administration through our proprietary technology platforms and application programs. We either build business function software or integrate applications from niche providers of HR services into our operations in order to offer employers the ability to select "best in class" niche providers.

Tier 1 - Customer Service Centers. - We manage our clients' transaction, production and call center requirements from our client service centers. These centers serve multiple clients and are responsible for all administrative and transactional HR activities.

- The primary purpose of the Tier 1 center is to handle routine inquiries and requests from employees, retirees, and managers. The customer service representatives are supported by an extensive knowledgebase (KB) that contains extensive information on the client's HR policies and programs. By applying the KB as the basis for answering client calls, we can deliver a consistent service and answer routine inquiries in the most efficient manner.
- Tier 1 centers are staffed with customer service representatives and production operations staff to administer functions such as benefits and compensation administration, recruiting, staffing and training administration, employee workforce administration as well as IT support and maintenance.
- Tier 1 centers also contain systems and technology, such as call/case management systems, imaging and workflow, and HR application software and databases. Employees are able to communicate with the client service centers online through our HR portals or by phone and fax.

We currently operate client service centers in Houston and Dallas, Texas. We expect to add additional client service centers as our business grows and we anticipate that these client service centers will allow us to realize economies of scale and scope by leveraging the functionality, staff and technology of centralized processes and services across many business units for multiple clients. We also expect to be able to realize additional efficiencies by locating these centers in areas that have competitive labor and real estate costs and offer access to a large pool of qualified employees.

Tier 2 - Centers Of Expertise. - To address the total range of HR support issues, we provide an expert level of client services, which we refer to as the Professional Service Center.

- Tier 2 professional service centers consist of individuals with in-depth expertise in specific HR processes and best practices. As a group, their role is to understand and resolve the more complex issues of our clients and their employees, and to introduce improved HR processes and procedures, in each of the major categories of HR processes.
- Tier 2 service representatives can work from a variety of locations globally, including the Synhrgy service centers, client sites and home offices. Our Tier 2 service representatives are linked together and accessible to clients through the Internet and also by more conventional modes of communication. These subject matter experts will be responsible for analyzing trends, conducting benchmarking and best practices assessments, developing appropriate metrics for HR service delivery, designing and developing HR programs, policies and services, and ensuring the web enablement of all of our products.
- Through our professional service centers, we plan to leverage our HR expertise and knowledge of industry best practices in each specific HR function across multiple lines of business and across multiple clients. In addition, our experts within this group regularly will assess each HR function using HR industry metrics and employee cost benchmarks to ensure that best practices are continually being applied and improved.

Tier 3 - Corporate HR Strategy & Policy - While we would typically assist with the planning, designing and strategy of various HR services, this tier of services and capabilities is typically retained by our clients.

## **Systems Integration**

We manage the conversion and/or integration of existing client systems into Synhrgy's HR platform. As part of our service implementation capabilities, we provide complete integration of our systems with client systems. Application server management and hosting is provided by Synhrgy through our redundant service centers in Houston and Dallas.

## **Third Party Vendor Integration**

As part of our HR solutions, we consider whether third party vendors can more effectively and efficiently handle certain discrete HR services, such as COBRA administration and relocation administration. Among large employers, there is a preference for using "best in class" service providers to deliver specific niche services for HR programs. Our business model incorporates these niche providers into a single delivery system, thereby giving the client organization the ability to use niche providers while maintaining a simplified administration structure through the use of Synhrgy's services. If the client is already outsourcing services, we evaluate the providers they currently are using and recommend changes or integrate the provider into our platform. At the time we become responsible for a client's HR organization, we will assume and administer the third party contracts and manage the relationships with these third party vendors. We will continuously evaluate the level of service being provided by the third parties and change vendors or provide the service directly as appropriate. We believe our familiarity and experience with HR best practices and with the market for third party HR vendors puts us in a unique position to be able to evaluate whether the services being provided by a third party meet the needs of a given client and comply with HR best practices. In addition, we believe we will be able to negotiate better service levels and greater cost savings on behalf of our clients for the delivery of these services than an individual client would be able to attain on its own because of the large volume of business we expect to manage.

## **Our Strategy**

Our objective is to become the leading provider of comprehensive, integrated HR solutions that enable large, multinational corporations to reduce their HR costs and increase the productivity of their human capital. We believe that our services will result in long-term contracts with clients under which we will assume broad responsibilities for the management of our client's HR programs, HR staff resources, internal business processes, technologies and third party vendor relationships. The result of our solutions is expected to deliver measurable improvements in the productivity of our clients' human capital, at a substantial reduction in cost. The key elements of our strategy are:

- Enhance our technology and service capabilities
- Continue to focus on Fortune 1000 and Global 500 organizations both directly and in concert with our strategic partners
- Leverage our HR solutions to reach mid-size organizations
- Continue to attract highly talented HR, service delivery and technology staff
- Establish additional long-term alliances with leading organizations

**Enhance our technology and service capabilities through integration of IBM and other third party technology and services.**

We will continue to enhance our technology and services through internal development and integration of "best of breed" offerings from third parties. With most of the business function software in place for integrated-HR, our focus has turned to building decision support tools on the web. These tools are the next generation of web technology and allow employees and business managers to work through complicated issues without involvement from the Synhrgy service center. This will allow us to move Tier 1 and 2 services into Tier 0. These products run the gamut from healthcare selection tools to an employee relations web case management tool.

**Continue to focus on Fortune 1000 and Global 500 organizations, both directly and in concert with our strategic partners.**

These corporations generally have operations spread across multiple business units. We believe the magnitude and complexity of these corporations and their resulting HR needs make them ideal candidates for our comprehensive, web-enabled HR solution. We have established a sales presence in each region of the United States to reach our target markets directly. In addition, we have co-marketing agreements in place with UHG, TRP, SEI and Hackett to jointly market services to their respective client bases.

We pursue long-term contracts (typically 3 to 5 years) with our clients to manage their HR processes and implement HR best practices by successfully reengineering and redesigning our clients' HR departments and incorporating them into our infrastructure. We believe contracts of multi-year duration assist with the transformation of our clients' HR organizations, which further demonstrates our mutual commitment and shared goals. The long-term nature of our contracts helps us by providing greater visibility of future revenue streams and obtain better information for determining future investment decisions.

**Leverage our HR solutions to reach mid-size organizations through distribution alliances with additional strategic partners.**

Our HR solutions are designed for large corporations where the complexity and scope of delivering HR services is greatest. From our existing capabilities we intend to develop a simpler, more standardized set of HR solutions that can be efficiently delivered to smaller organizations (in the 1,000 to 5,000 employee range) on an economical basis. It is our intent to enter into strategic relationships with organizations that can distribute our solutions to mid-size employers and provide additional value added services. We are in discussions with several organizations that have extensive distribution networks in the mid-size employer market.

Through our strategic partners we will provide a comprehensive, integrated technology solution that will serve as a platform for the delivery of all HR information and services. Our platform can integrate various sub-functions such as payroll, health and welfare benefits in a seamless manner. The access point for all constituents will be a web portal, or call center when needed, with access to all HR information and services with the same "look and feel" approach.

### **Continue to attract highly talented HR, service delivery and technology staff.**

To date we have been successful in recruiting leading HR professionals to our company because HR is our core business and not merely a support function. We offer employees and advisors access to state-of-the-art HR technologies and resources, cutting edge projects and processes, and enhanced career opportunities. We are committed to hiring the highest quality HR and technical personnel in order to implement HR best practices for our clients.

### **Establish additional long-term alliances with leading organizations.**

Large corporations are increasingly seeking to contract with “best in class” solution providers while at the same time attempting to simplify the management of such relationships. We believe that developing mutually beneficial relationships with organizations providing such services as healthcare, financial services and on-line training enhances our solutions. Through alliances with these firms, we are able to provide a range of solutions to employees and retirees at a lower cost than employers could, expand the range of services provided to employees and offer efficient administration of the delivery of the services. At the same time, these alliances offer us the chance to leverage the business relationships of our partner companies and gain a greatly expanded access to corporations to introduce our solutions while lowering our cost of marketing and sales. In addition to developing new alliances, we will leverage our existing strategic partnerships

- **Uniprise Strategic Solutions (Uniprise)** - a subsidiary of UnitedHealth Group responsible for managing UHG’s relationship with its large national clients. Uniprise has approximately 270 clients, with an average client size of 14,300 employees. We have responsibility for the delivery and management of health and welfare administrative services and integrated-HR services to Uniprise customers through a long-term management contract with Uniprise.
- **T. Rowe Price** - a leading manager of institutional assets for corporate retirement plans. Our relationship with T. Rowe Price provides for Synhrgy to manage the administration of all defined benefit retirement plans and health and welfare plans for clients serviced by T. Rowe Price.
- **SEI Investments** - a leading manager of institutional assets for corporate retirement plans. Our relationship with SEI provides for Synhrgy to manage the administration of defined benefit retirement plans and health and welfare plans for clients served by SEI.
- **Hackett Benchmarking & Research (Answerthink)** – Synhrgy has an exclusive arrangement with Hackett (the leading firm in HR benchmarking). Our arrangement allows us to share best practices across all HR functions and to cross-sell each other’s services.

## OUR COMPETITION

The market for our solution is competitive, subject to change and significantly affected by new product introductions and other market activities of industry participants. Competitors vary in size and in the scope and breadth of the products and services offered. We encounter competition with respect to different aspects of our solution from a variety of vendors of employee self-service and manager self-service applications, from web-based technology companies whose products include HR solutions and from major enterprise software developers. We expect additional competition from other established and emerging companies as the HR self-service market continues to develop and expand.

Our major competitors among software vendors focus on specific applications within the employee self-service or manager self-service categories. Our major competitors among web-based companies that offer HR products focus on Internet technology and employ an acquisition strategy that encompasses acquiring functional expertise in HR, as well as other areas in which the Internet may offer efficiencies and savings. Our major competitors among ERP providers are often capable of delivering some HR solutions through web-only extensions of their proprietary back-office systems. Most of the major ERP providers have a significant installed client base and have the opportunity to offer additional products to those clients as additional components of their respective ERP application suites. Additionally, we increasingly face competition from other benefits administrators and consultants, human resource information systems vendors, payroll administrators, and employer benefits enrollment firms. Many of these companies have web-based functionality.

We believe that the principal competitive factors considered in selecting HR solutions are cost, breadth of HR solutions offered, seamless integration with current enterprise systems and call centers, "anytime, anywhere" access through multiple media, scalability, easier workforce management through automation, improved worker productivity and satisfaction and broad web-based functionality. Although we believe that our broad suite of products currently competes favorably with respect to these factors and that no one competitor offers comparable breadth and depth of solutions, our market is relatively new and evolving rapidly. The competition assessment on the following page summarizes the current perspective of management.



## Competitive Analysis

Competitors	Breadth of Services	Technical Platform	Subject Expertise	Cost Structure
Benefit consulting firms	Benefits	Built internally	Strong in benefits	Higher
Payroll/HRIS	Payroll/HRIS but expanding	Built internally	Strong in payroll/HRIS	Comparable
HR BPO firms	Full range	External	Developing strength across areas	Higher
Enterprise solution	Focused on install or ASP; limited functionality beyond payroll/HRIS	Internal	HRIS/payroll	Higher
Technology/web only	Limited primarily to data management	Web without much business function software	Limited	Lower
Synhrgy	Compensation benefits, workforce administration / development and staffing	Proprietary platform integrating best in class	Strong across HR functions	See above

We believe that our competitive advantage in the marketplace derives from the following factors:

- Fully functional total HR solution
- Deep functional competencies in full spectrum HR, BPO and technology
- Lower cost structure than primary competitors
- Flexibility in service delivery approach
- Agility to move innovative solutions quickly to market
- Vendor integrator philosophy

## SALES AND MARKETING

Our sales and marketing organization is comprised of regional sales and account management offices supported by a central marketing staff. Regional managers develop new business with target corporations and existing clients throughout the geographic region. We also have industry specific marketing support to focus on corporations within targeted industries. In addition to our internal sales and marketing staff, we work with our alliance partners to leverage their existing client relationships and marketing efforts.

- Our alliance with Uniprise allows us to leverage the sales and marketing efforts of the Uniprise sales and account management staff. The Uniprise sales staff markets our solutions to current and prospective clients of Uniprise. Through the Uniprise alliance, we are able to leverage these relationships and the services of Uniprise's approximately 120 client managers and sales staff. This alliance was responsible for obtaining 10 major client relationships, including Fujitsu America, Clorox Corporation, Enron, Sabre and Delta Airlines.
- Our alliance with T. Rowe Price and SEI provides us with access to their current and prospective clients. We coordinate sales and marketing efforts with their sales teams and jointly develop proposals in situations where corporations are seeking comprehensive employee benefit plan services. Our relationship with T. Rowe Price has resulted in several clients including Aventis, Consolidated Freightways and Bcom3 (Burnett/McMann merger).
- Our alliance with Hackett gives us access to Hackett's broad range of clients including approximately 23 of the Fortune 500 that contribute to their annual study. The relationship is relatively new but we expect to sell many of our services/technology to their client base.

We believe we will be able to secure other alliances with large organizations providing HR related services to corporations meeting our target criteria.

Decisions to implement our solutions are typically made by senior management and we focus our marketing efforts on meeting the specific requirements of the senior executives, HR and IT management personnel of our potential clients. In many instances, organizations engage highly specialized consultants to assist in the evaluation of potential HR service solutions. We have been successful in working with a number of such consultants and we believe that we will continue to be successful in obtaining clients from this important channel.

Our marketing efforts are focused on creating awareness of the comprehensive nature of our HR solutions, establishing Synhrgy as the leader in this new market and building the Synhrgy brand. We use a broad mix of programs to accomplish these goals, including market research, brochures, information pieces published for industry forums, written articles published for industry trade press, public relations activities, marketing programs, advertising, seminars, speaking engagements and web site marketing. The goal of these activities is to promote Synhrgy as the leading provider of comprehensive, integrated HR solutions and to publicize the advantages of adopting our solution.

## CLIENTS

Our target market segment is large employers, which we define as organizations with more than 5,000 employees. We focus on these clients because our solutions are specifically designed to address the complexity of their HR needs. Clients in a variety of industries including high technology, manufacturing, telecommunications, financial services and pharmaceuticals have selected our applications.

A representative list of our clients includes:

Alliance Data Systems	Fujitsu
BAE Systems, Inc.	Reliant Energy
Bell Helicopter Textron	Sabre, Inc.
City of Dallas	Stryker Corp.
City of Los Angeles	Temple-Inland
Clorox	UnitedHealth Group
Delta Airlines	US Airways
Eastman Kodak	Veridian
Enron	Williams Companies

Synhrgy provides solutions to these and other industry-leading companies reaching over \_\_\_\_ employees.

### Largest Client Relationships – 2001

Client	Total Participants	Participants served by Synhrgy	Status of Synhrgy services
US Airways	45,000	45,000	• IVR enrollment for H&W plans expanding to Web, IVR support for 2001
UnitedHealth Group	29,000	29,000	• Integrated HR services – Web, IVR, service center – benefits, compensation and workforce administration
BAE SYSTEMS	17,000	17,000	• H&W administration – Web, IVR, service center • Workforce development in 2002
Textron	40,000 active 30,000 retired	7,000 active 7,000 retired	• Bell Helicopter H&W – Web, IVR, service center • Discontinued operations retirees
Reliant Energy	15,000 active 5,000 retired	15,000 active 5,000 retired	• H&W administration – cosourcing

**Selected New Client Relationships – 2001**

Client	Total Participants	Participants served by Synhrgy	Status of Synhrgy services
Abbott Laboratories	40,000	40,000	<ul style="list-style-type: none"> <li>• H&amp;W plan administration services beginning fall 2001</li> </ul>
City of Los Angeles	23,000	23,000	<ul style="list-style-type: none"> <li>• H&amp;W plan administration services beginning 2Q 2001</li> </ul>
Tyco International	140,000	12,000	<ul style="list-style-type: none"> <li>• Benefits administration for acquisitions</li> <li>• Proposed expansion for total H&amp;W plan administration for company wide plans</li> </ul>
CSR America	9,000	9,000	<ul style="list-style-type: none"> <li>• H&amp;W administration services beginning 3Q 2001</li> </ul>
Revlon	20,000	20,000	<ul style="list-style-type: none"> <li>• Pension technology services – cosourcing</li> </ul>

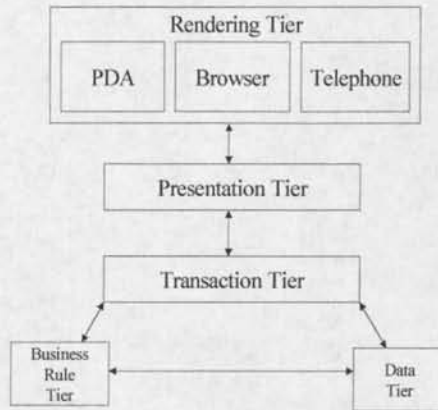
# TECHNOLOGY OVERVIEW

## Technical Application Framework

Our application framework contains a mix of existing technologies and proprietary software components that together form a patent-pending process for building and delivering highly scalable human resource self-service solutions. In addition, we have begun the integration of IBM's ESIT technology into our platform and expect a Phase 1 operational model in 2001.

Object oriented design concepts are used to construct reusable software components and also to partition applications across multiple servers. This allows us to scale our applications horizontally by adding hardware incrementally to the environment.

The logical tiers that define the framework are described below:



### Rendering Tier

This tier is responsible for rendering information to the end user. It includes technologies such as a web browser, telephone, fax machine, or e-mail application. It is through this medium that a user interacts with their information and transacts changes. Supported rendering tools include Internet Explorer 4.01 (and higher), Netscape Navigator 4.0 (and higher), any touch-tone telephone, and any e-mail application.

### Presentation Tier

The presentation tier consists of software that produces data in such a way that it can be rendered to the end user. Logically, the presentation layer can be divided into two functional groups: (1) software that produces the data specific to a rendering tool's specifications, and (2) user interface state management components. For example, when an employee accesses HR information using a web browser, our system produces HTML and JavaScript that is then sent to the browser. The Active Server Pages use internally developed state management components to render the page requested. The employee uses the dynamically generated content, enters or changes data, and then saves the information. The web browser receives the request, executes the Active Server Page that in turn calls upon the state management components to save the information to persistent storage.

## **Transaction Tier**

In the transaction tier, proprietary components receive requests from user interface state management components and coordinate the reading and writing of information to the database tier. Transactional tier can coordinate updates across multiple data sources. Real-time or near real-time integration to ERP systems can be achieved at this tier. Microsoft Active Data Objects in conjunction with Oracle's SQL\*NET are used to read and write data to our primary data store. Many data access methods can be used to transaction data in third party systems, such as ODBC, JDBC, OLE DB, and DLLs. Transaction tier components utilize components within the business rule tier to edit and process information in a client specific manner.

## **Business Rule Tier**

The business rule tier contains proprietary components that encapsulate the business logic for processing HR transactions. Separating business logic into its own tier allows us to customize business processing according to each client's individual needs without re-writing the entire application. The rule engine tier is separated into two logical components: (1) the rule engine dispatcher, and (2) the rule engine workers. The rule engine dispatcher consists of a send and receive queue that centrally collects and dispatches requests to execute business rules. The rule engine worker receives the dispatched message, processes the request, and returns the result back to the dispatcher. This design is highly scalable by adding rule engine workers to the environment.

## **Database Tier**

We use Oracle database technology to store and retrieve data for our HR applications. Oracle is the leading vendor of database technology, providing support for a wide variety of platforms and operating systems. We operate Oracle in a clustered environment on IBM RS6000 hardware running the AIX operating system. This environment provides us a highly reliable and scalable database platform that forms the foundation of our computing environment. We use a combination of stored procedures, triggers, and referential integrity rules within Oracle to maintain data consistency. Combined with the business rules and transactional components, these techniques insure that only relationally valid transactions make it into the database.

## **Data Center Operations**

We provide the entire hardware and software infrastructure to initiate, process, and maintain human resource programs for our clients. We offer self-service access for our client's employees to access and maintain their own HR information through two means: (1) a high capacity voice response system, and (2) via a web browser. We also operate a high volume call center to collect transactions and distribute information to employees when self-service access alone is insufficient to complete transactions.

## **Strategy**

Today, we host our entire data and telecommunications facilities in Houston and Dallas, Texas. This strategy has served us well while developing our platforms and technologies. As our business moves into a new phase of growth, we are reviewing an outsourced option for web and data hosting. We will still keep voice response systems, back office productivity tools such as e-mail and telecommunications in the Houston and Dallas data centers. We currently provide change control, escalation procedures, help desk, monitoring, security, hardware configuration management, and bandwidth management.

## **Access**

Access to our applications is accomplished several ways depending on the requirement and the constituent. Client employees that desire self-service access to HR information have three avenues to access information: (1) web via the Internet, (2) automated voice response, and (3) customer service center. Access to the web voice response system and customer service center will be handled by the Houston and Dallas centers. Redundant wide area frame-relay connections connect the Houston and Dallas data centers to the IBM USF. Voice response systems access and transact data directly to the data hosted in the USF over the wide area network link.

Client business and HR managers access HR information via three methods: (1) web via the Internet; (2) thin-client delivered Citrix Terminal Server sessions; and (3) the customer service center. We deliver all native administrative applications via a Windows NT Terminal Server and Citrix Metaframe operating environment. This has tremendous benefit to our clients both from a cost savings and convenience standpoint. Thin client application delivery allows us to deliver native Windows applications over the Internet without requiring complicated software setups on the client end. Finally, we have standardized on Cisco for end-to-end network solutions. We are positioned to accommodate Intranet connectivity with our clients that desire a more secured connection to our services.

### **Security**

We aggressively protect our client's information against unauthorized access. There are many fronts that one must defend against to prevent unauthorized access. As a policy, we only grant employees access to client information on an as needed basis, and we have a robust security model implemented to execute the policy. On other fronts, we use physical and electronic means to protect physical computing resources, including card key access to data center facilities, firewalls, intrusion detection and reporting devices, encryption, and virtual private networks. In addition, we monitor vendor web sites for software vulnerabilities as they are encountered and take corrective action when necessary by installing patches.

### **Redundancy**

We have made significant hardware investments to guarantee no single point of failure within the configuration. This means that every component in the environment has a redundant counterpart in the event of failure. This enables us to achieve high levels of availability for our web and data environment. Within our Houston and Dallas data centers, we apply several techniques to guarantee high availability. In some cases like our voice response systems, we use redundant servers such that if any one server goes down, others are still available to handle requests. Our PBX platform contains redundant processors that operate in warm fail-over mode such that if the primary processor fails, the unit will fail over to the secondary processor automatically. We also maintain spare kits for all critical production equipment so that parts do not become a bottleneck for repairing equipment.

Finally, we are installing wide-area network links between Houston and Dallas to prevent single points of failure within the WAN.

## **Backup, Environmental Controls, and Business Resumption**

We use enterprise backup software from Network Integrity called Live Vault that provide us centralized, automated, and near real-time, point-in-time recovery capabilities for all servers in the Houston and Dallas data centers. We have offsite procedures in place within the Live Vault scheduling package that automatically create tapes which we rotate offsite. Oracle servers require special attention to insure backup procedures yield a recoverable database. Part of our Oracle DBA's responsibility is to set up, configure, and test the backup procedures for the Oracle server environment. Our DBA will be working with IBM to insure that Oracle and ADSM integrate properly.

To protect against environmental conditions, the Houston and Dallas data centers have centralized Liebert uninterruptible power supplies (UPS) to condition and provide battery backup power in the event of brownouts or brief blackouts. Diesel generators supplement the UPS in the event of long-term power outages. Both data centers are protected with their own air conditioning and fire suppression systems. In the event of natural or man-made disaster, we have a documented disaster plan that contains the necessary information to rebuild or alter alternate data center environments to resume processing. Houston and Dallas serve as backup environments for each other today, and we have plans to open another center in another part of the country in 2001 to further our disaster recovery capabilities.



## **PRODUCT DEVELOPMENT**

### **Strategy**

When assembling our HR delivery platform, we use a buy or build strategy for business functions. For every human resource business area where software is required in our delivery platform, a rigorous functional specification is written by a product manager. This is used as a guideline to determine the functionality required for any software to implement. The functional specification is then put forth to the product development group to estimate the level of effort required to build the software. At the same time, the product manager surveys the industry to find competing products that could potentially provide a commercial software solution. In this way, we can form comparisons between internal development effort and external products and weigh the cost benefit analysis of buying the technology versus building it. This gives us a competitive advantage to bring our products to the market quickly, at the lowest cost possible. If a product is ultimately purchased, we then spend our product development energy integrating that product within our delivery model, at the point of delivery. In this way, we spend more time focusing on the end user experience and the delivery of information rather than on building the engine to process transactions.

### **History**

We began our product development activities late in 1998. We devoted 1998 to selecting the tools, technologies, and the platform for call center and benefits administration. We use a series of integrated tools for call center, interactive voice response (IVR) and business functions. In 1999, we began building the self-service platform for our HR business. The first self-service platform to be built was the voice response system. We have continued to refine the voice response platform and began building the web self-service platform at the end of 1999. In 2001, we developed products to support compensation, workforce administration and workforce development. In addition, we continued to add high-level functions to our existing technology. We continue to improve and expand our technology in response to our customer needs.

### **Patent Pending Integration Process**

Because of our buy or build strategy, integration is key to delivering the platform. We believe strongly in this. Integration must appear seamless to the end user and must update back office systems in real-time. We have developed and are currently patenting our integration process to protect this valuable, intellectual property. We feel this provides a level of protection against vendors that could take the products that we have used and integrate them in a similar way.

## **EMPLOYEES**

As of September 2001, we employed 362 people, including 250 in client services, 22 in sales and marketing and account management, 65 in IT and research and development, and 25 in general and administrative. We believe that we maintain good relations with our staff.

## **LEGAL PROCEEDINGS**

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of the date of this business plan, we are not a party to any material legal proceedings.

## FACILITIES

Our corporate headquarters are located in Houston, Texas and we will have leased an aggregate of over 88,488 sq. ft. in Houston, Dallas, Boston, Columbus and Chicago.

The Houston and Dallas service centers are designed to house our personnel engaged principally in call center and other support activities necessary to meet our service commitments to our current clients.

## MANAGEMENT

### Executive Officers, Selected Employees and Directors

The following table provides information with respect to our executive officers and key employees as of September 2000:

Name	Age	Position(s)
Dave Carlson	44	Chairman, CEO, Co-Founder, and Board Member of Synhrgy HR Technologies, Inc.
Michael Taggart	48	President, Co-Founder and Board Member of Synhrgy HR Technologies, Inc.
Edward S. Wolyniec	43	CFO & EVP, Finance and Administration
Michael Mackey	43	Chief Operating Officer
John Imrie	44	Executive Vice President and Co-Founder of Synhrgy HR Technologies, Inc.
Ken Polk	54	Executive Vice President and Co-Founder of Synhrgy HR Technologies, Inc.
Steve Allison	31	VP Client Operations
Chuck Benedict	33	Chief Technology Officer
Tim McMullan	54	Director IT Operations

### Selected Management Biographies

**Dave Carlson, Chairman, CEO and Co-Founder of Synhrgy HR Technologies, Inc.**, drives the vision, thought leadership and strategic initiatives behind the company's innovative HR solutions. With 20 years of experience in the human resources industry, Carlson has acquired a broad and in-depth knowledge of the HR industry with expertise in business process outsourcing for benefit programs, human resource programs and information systems implementation. Prior to co-founding Synhrgy, Carlson served as Principal and Director of outsourcing at Hewitt Associates, where he led the development and operation of a national service center in Houston. He received his Bachelor's of Science degree in Business from Taylor University, and a Master's degree in Management, and Management Information Systems from Northwestern University.

**Michael Taggart, President and Co-Founder**, leads the company's strategic business development unit, bringing extensive expertise in both the healthcare and HR industries to Synhrgy. Previously, Taggart served as the Executive Director for MethodistCare, the HMO and managed care subsidiary of the Methodist Health Care System. Prior to that, he was the Principal and regional healthcare practice leader for the Southwest region of William M. Mercer, an international benefits and healthcare consulting firm. Taggart received his Bachelor's of Business Administration from the University of Texas at Austin, and is a Fellow of the Society of Actuaries and Member of the American Academy of Actuaries.

**Edward S. Wolyniec, Chief Operating Officer**, brings more than 20 years of technology experience to his role at Synhrgy HR Technologies, Inc. Wolyniec (pronounced Vo-win-yetz) is responsible for managing all aspects of operations as they relate to Synhrgy's core business and financial objectives, including service delivery, information technology and product development. Wolyniec is currently focused on refining the company's technology and service delivery infrastructure to achieve greater efficiencies and to ensure client satisfaction across all functions. Prior to joining Synhrgy, Wolyniec leveraged his business and technology expertise as president and chief operating officer of MyWay.com, a provider of customizable portal solutions for online businesses. He also spent 10 years with Compaq Computer Corporation, most recently as vice president of the Worldwide Business Application unit. Wolyniec was the driving force behind Compaq's strategic partnerships with major ERP, CRM and supply chain partners, developing bundled product solutions to reduce delivery and support costs. He received a bachelor's degree in electrical engineering from the Lawrence Institute of Technology in Southfield, Michigan.

**Michael Mackey, Chief Financial Officer and Executive Vice President of Finance and Administration**, brings extensive experience to Synhrgy in accounting, finance, mergers and acquisitions, and oversees the financial, human resources and administrative organization of the company. Mackey joined Synhrgy from FastWeb.com, a leading online provider of direct marketing services targeting college or college bound students with over 5 million registered users. Previously he was CFO of DA Consulting Group, a leading end user education services firm, and was instrumental in the company's IPO. His experience is further enhanced by his role as CFO at Global Software in Raleigh, NC and financial roles at other companies and was with the auditing practice of PricewaterhouseCoopers. Mackey holds a Masters of Business Administration and a Masters in Accounting from the University of Central Florida and has a Bachelor's degree in Accounting from the University of Florida. He is also a Certified Public Accountant.

**John Imrie, Executive Vice President and Co-Founder**, provides leadership to project teams in the areas of marketing, consulting, design, development and implementation of tailored HR business process outsourcing solutions. Imrie served as National Marketing Director of benefit outsourcing services for Buck Consultants, an international human resources consulting firm. Prior to that, he was the Southwest Region Manager for defined benefit administration services at Hewitt Associates, where he was responsible for marketing and managing all client activity for defined benefit administration and outsourcing services. He received his Bachelor's of Science degree in Business and Management Information Systems from Taylor University.

**Ken Polk, Executive Vice President and Co-Founder**, provides expertise in the design and implementation of HR and benefits programs, particularly in the areas of funding and financial reporting for pension plans. He is also an author and frequent speaker on various employee benefits issues. Polk served as Southwest Region Manager at Buck Consultants before joining Synhrgy. He is an enrolled actuary with memberships with the Fellow of the Society of Actuaries, the Conference of Consulting Actuaries and the American Academy of Actuaries. He received his Bachelor's of Business Administration in Actuarial Science from the University of Texas at Austin.

**Steve Allison, Vice President – Client Operations**, specializes in the implementation and management of business process outsourcing. Allison's responsibilities include client delivery management - focused on delivering technology, quality assurance, system analysis and design, and integrating voice response and web technologies. Prior to joining Synhrgy, Allison worked for Hewitt Associates implementing outsourcing solutions for large clients. Allison received his Bachelor's of Science in Management from Purdue University.

**Chuck Benedict, Chief Technology Officer**, leads Synhrgy's technology team. Benedict is a recognized IT strategist who is pioneering the company's HR technology vision through his expertise in system design, development, and integration relating to software and hardware solutions for service centers – specifically in the areas of data warehousing, middleware, interactive voice response (IVR), advanced web solutions, telephony, case management and workflow applications. Prior to joining Synhrgy,

Benedict owned a software development firm. He received his Bachelor's of Business Administration in Business Analysis and Management Information Systems from Texas A&M University.

**Tim McMullan, Director of Information Technology Operations**, brings 31 years' experience to his position at Synhrgy HR Technologies, Inc. McMullan oversees Synhrgy's IT infrastructure, including the management of multiple data centers and the servers within these centers, the wide area network, the local area network and telephony services. Prior to joining Synhrgy, McMullan worked for a non-profit organization where he managed a Houston data center that supported IT services for 32 hospitals. McMullan received his Bachelor of Arts degree in public relations from California State – Fullerton.

## **Board Members**

Mr. David A. Carlson, CEO  
Mr. Kelly DeKeyser, Uniprise  
Mr. Robert Newkirk, Validus Partners  
Mr. W. Partick Ortale III, Richland Ventures  
Mr. Michael Taggart, President

## **Board Member Biographies**

### **Kelly DeKeyser, Senior Vice President Business Process Outsourcing, Uniprise**

Mr. DeKeyser is Senior Vice President of business process outsourcing for Uniprise, a United Health Group (UNH) company, which specializes in large account relationships, high volume transaction processing, and leading edge technology. Before joining Uniprise in December 2000, Mr. DeKeyser was chief operating officer of Vivra, Inc., a progressive healthcare technology and services company. Prior to that, Mr. DeKeyser held senior executive positions with venture-backed First Physician Care, and with managed care concerns CIGNA and FHP, International. Mr. DeKeyser has a Bachelor's and Master's of Business Administration from Arizona State University.

### **Robert G. Newkirk, Partner, Validus Partners**

Mr. Newkirk has served as Partner of Validus Partners, a venture capital fund manager, since October 1998. Validus Partners manages the Validus venture capital funds, of which UnitedHealth Group is the sole limited partner. Prior to joining Validus, Newkirk practiced corporate law at UnitedHealth Group, a national law firm, the Securities and Exchange Commission, and worked in the entrepreneurial services group of an international accounting firm. Newkirk currently attends as a director or observes board meetings of several companies in the Validus portfolio. Mr. Newkirk holds a Juris Doctorate from the University of Chicago Law School and a Bachelor's of Science in Accountancy and a Bachelor's in Science in Economics from the University of Illinois.

### **W. Patrick Ortale, Managing Partner, Richland Ventures**

Mr. Ortale co-founded Richland Ventures in 1994, Richland Ventures II in 1996 and Richland Ventures III in 1999. These three venture capital funds have combined committed capital of \$340 million. Prior to Richland Ventures, Mr. Ortale was a founding general partner of Lawrence, Tyrrell, Ortale & Smith I and II, venture capital funds formed in 1985 and 1990, respectively. Mr. Ortale currently serves on the board of directors of Network One Communications, Synhrgy HR Technologies, Inc., Swell, Inc. and Televox Software. He holds a B.A. degree from Hanover College and a J.D. degree from the Nashville School of Law.

## **Venture Capital Investors**

Validus Partners manages \$175 million in venture capital funds and invests in private health technology, healthcare and wellness companies.

Richland Ventures has raised over \$300 million and invests in health care, communications, media and information services technology companies with a proven business model and large target market.

## FINANCIAL INFORMATION

An annual summary for the years CY99-03, in addition to quarterly summaries for CY99-03 has been provided for your review. The revenue and expense levels are considered to be reasonably achievable based on our current sales pipeline and prospects for growth. An adjusted EBITDA figure has been shown because of the magnitude of the stock compensation expenses for the years CY99-02 which is non-cash. The stock compensation adjustment relates to the compensation expense associated with the granting of stock to employees and is determined by the difference between the fair market value and grant price. When reviewing our financial forecast, it is important to note that management, with the concurrence of our investors, decided to accelerate our regional branch structure (Sales & Marketing impact), building of our technology solutions (Technology impact) and the general infrastructure of the company (General & Administrative impact) ahead of our anticipated revenue growth in CY00. This deliberate accelerated investment was only undertaken once management was sure that the appropriate funding was available and it will not need to be repeated in future years since the various targets have been achieved in CY00.

A summary of our financial forecast is outlined below:

Financial Model Summary \$ in 000s	CY 99 (Act)	CY 00 (Fcst)	CY 01 (Fcst)	CY 02 (Fcst)	CY 03 (Fcst)	CY 04 (Fcst)
<b>Revenue</b>	<b>\$5,818</b>	<b>\$16,827</b>	<b>\$31,842</b>	<b>\$41,282</b>	<b>\$60,820</b>	<b>\$90,089</b>
% Growth	271%	189%	89%	30%	47%	48%
Cost of Sales	2,805	12,195	22,303	25,369	36,125	50,007
% of Rev	48%	72%	70%	61%	59%	56%
<b>Gross Margin</b>	<b>3,013</b>	<b>4,632</b>	<b>9,539</b>	<b>15,913</b>	<b>24,695</b>	<b>40,082</b>
% of Rev	52%	28%	30%	39%	41%	44%
Other Departments						
Sales & Marketing	1,736	5,349	5,561	3,584	4,363	5,870
% of Rev	30%	32%	17%	9%	7%	7%
Technology	834	4,702	4,653	4,789	6,764	9,702
% of Rev	14%	28%	15%	12%	11%	11%
General & Administrative	1,316	8,388	3,319	3,408	3,915	5,147
% of Rev	23%	50%	10%	8%	6%	6%
<b>Adj EBITDA</b>	<b>(873)</b>	<b>(13,807)</b>	<b>(3,994)</b>	<b>4,132</b>	<b>9,653</b>	<b>19,363</b>
% Margin	-15%	-82%	-13%	10%	16%	21%
<b>EBITDA</b>	<b>(2,564)</b>	<b>(14,353)</b>	<b>(4,599)</b>	<b>3,812</b>	<b>9,653</b>	<b>19,363</b>
% Margin	-44%	-85%	-14%	9%	16%	21%
Depreciation & Amortization	138	9,937	5,225	5,492	6,965	8,423
<b>Operating Income(Loss)</b>	<b>(2,702)</b>	<b>(24,290)</b>	<b>(9,824)</b>	<b>(1,680)</b>	<b>2,688</b>	<b>10,940</b>
% of Rev	-46%	-144%	-31%	-4%	4%	12%
Other Income(Expense)	(98)	124	(159)	(563)	(934)	(986)
<b>Pretax Net Income</b>	<b>(\$2,800)</b>	<b>(\$24,166)</b>	<b>(\$9,983)</b>	<b>(\$2,243)</b>	<b>\$1,754</b>	<b>\$9,954</b>

## Revenue

Our revenue projections can be summarized as follows:

\$ in 000s	CY 99 (Audited)	CY 00 (Audited)	CY 01 (Fcst)	CY 02 (Fcst)	CY 03 (Fcst)	CY 04 (Fcst)
<b>Revenue Sources</b>						
Implementation/Consulting <sup>(1)</sup>	\$1,255	\$10,220	\$7,636	\$7,219	\$12,856	\$16,849
Ongoing	4,305	6,263	23,416	33,293	46,997	72,272
Other	258	344	790	770	967	968
<b>Total</b>	<b>\$5,818</b>	<b>\$16,827</b>	<b>\$31,842</b>	<b>\$41,282</b>	<b>\$60,820</b>	<b>\$90,089</b>
Cumulative Ongoing Rev <sup>(2)</sup>	NMF	\$3,744	\$22,200	\$31,400	\$47,500	\$70,300
% of Total			70%	76%	78%	78%

(1) Due to the impact of adopting SAB101 we now combine our revenue categories for implementation and consulting. For CY00 – CY04 only approximately \$1.0 to 1.5 million of the revenue in this combined category is related to traditional time and material consulting.

(2) Represents ongoing revenue derived from existing customers as of January 1 of that year.

The forecasted growth in revenue is due to several factors. First, the company's ongoing revenue component of its financial model continues to grow each year. For example, because of the client relationships established during CY00 and before, we have an approximately \$31.8 million base of revenue as we enter CY01 even if we did not sign one more new contract.

During CY01 and CY04, most of our clients had employee populations in the 5,000 or 20,000 range. During the last half of CY00, the average range of our prospective clients' employee populations increased to a range of 10,000 to 45,000 employees. This increase in the average range can be attributed to the efforts of our strategic partners, our expanded technology offering and increased market acceptance. We also anticipate the current trend of our prospect base shifting to larger employers to continue.

Implementation revenue is a result of fees charged to our clients for transforming their current HR practices and delivering methods to those utilized by us so that our clients can leverage our services and technology. The ongoing revenue is attributable to the long-term relationship (typically 3 to 4 years) with our clients where fees are typically based on the services and technology provided, a client's number of employees and complexity of HR services. Consulting revenue results from various services we provide our clients such as health and welfare benefits consulting, or pension plan design.

## Cost of Sales

The primary element of this line item is the costs of staff necessary to deliver our services to customers. Third party royalties are also included as well. Over time, as the ongoing revenue stream continues to grow we should be able to leverage the technology and client services teams over a wider base of clients resulting in the cost of sales decreasing from an estimated 72.5% in CY00 to 55.5% in CY04.

## Sales & Marketing

Sales and marketing expenses are forecasted to be approximately \$5.6 million (17.5% of revenue) in CY01 and decrease to \$3.6 million in CY02 (8.7% of revenue). This decrease as a percentage of revenue

can be attributed to us more effectively leveraging various distribution channels provided by our strategic partners and a maturing of our regional offices from cost structure standpoint.

## **Technology**

The forecast expenses of \$4.6 million (14.6% of revenue) for CY01 include both the Development and Information Technology group. The staff in the Development group is responsible for delivering additional products and enhancements for our product and services suite. Our core technology will be substantially completed by CY00 and the remaining development efforts for CY01 through CY04 will be focused on modest additions and enhancements to our technology platform. This approach will allow us to reduce our technology costs to approximately 10.8% of revenue by CY04.

## **General & Administration**

We are currently in the process of quickly leveraging our G&A infrastructure that was substantially enhanced during CY00. In addition to hiring a number of experienced staff in the finance and internal human resources functions, we have also made the appropriate investment in information systems. These investments will allow us to reduce G&A costs as a percentage of revenue to approximately 5.7% by CY04.

## **Depreciation and Amortization**

We currently depreciate our computer equipment and software primarily over 3 to 5 years and office furniture and fixtures over 5 years. As part of the IBM relationship completed in August 2000, a \$10.0 million intangible asset related to the exchange of equity for a technology license and marketing arrangement was recorded. During 2001 the relationship with IBM was ended and these intangibles were written off in 2000 and 2001.

## **Liquidity and Capital Resources**

Since our inception in 1996 and through September 30, 2000, we have financed operations primarily through the use of financing such as a SBA loan, a bank line of credit and the sale of preferred stock. In December, 1999 we raised \$12.0 million from our current investors, Richland Ventures and Validus Partners, through the sale of convertible and redeemable preferred stock. During 2000, \$9.0 million of financing was obtained in the form of a bridge loan that was converted into Series B Preferred Stock in February 2001 when an additional \$16.0 million was raised bringing the B round of financing to a total of \$25.0 million.

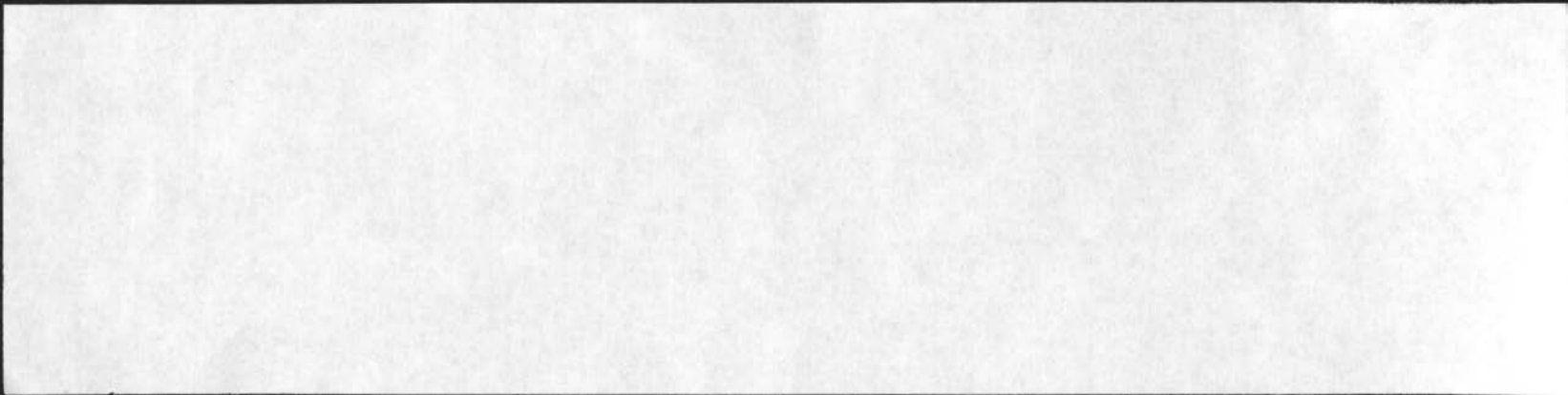
Net cash used in operating activities through December 2001 is expected to be \$7.5 million while \$5.0 million is expected to be expended to acquire various fixed assets. For 2002 we expect to generate \$2.4 million of cash from operations while \$4.9 million is expended to acquire fixed assets. During CY00 we substantially upgraded the technology infrastructure in Houston and opened a fully functional service and technology center in Dallas.

We anticipate a significant growth in our operating expenses for the foreseeable future in order to execute our business plan. As a result, management anticipates that operating expenses and planned capital expenditures will constitute a material use of its cash resources. In addition, although not included in financial projections currently presented, we may utilize cash resources to pursue an initial public offering, fund acquisitions or investments in other businesses, technologies or product lines. We believe that available cash and cash equivalents, the proceeds from the bridge financing, anticipated receivables based line of credit, other borrowings and the net proceeds from the second round of financing will be sufficient to meet our working capital and operating expense requirements for at least the next 12 months. Currently we are in discussions with a number of banks and equipment leasing firms to secure the appropriate financing. We may require additional funds to support our working capital and operating



expense requirements or for other purposes and may seek to raise additional funds through public or private debt or equity financings.

~~APPENDIX~~



Subj:	<b>Re: Valuation Information Summary</b>
Date:	11/3/2001
To:	kanderson@synhrgy.com

Keith—I have used your list from the spreadsheet as the starting point and adding clarifying comments and a few additional items that you have provided in the past. Thanks for your help.

Valuation Information requested:

A. Company Information

- ✓1. Employee Summary-Location and Major Department
- ✓2. Organization Chart
- ✓3. Most recent business plan
- ✓4. Most recent presidents report to the Board

B. Financial Information

- 1. Quarterly and YTD financial statements
- ✓2. Quarterly financial statement forecasts for current and future years
- ✓3. Revenue by customer by LOB for quarter and YTD
- ✓4. Forecasted revenue by type and by LOB for current and future years
- ✓5. Revenue model
- ✓6. Depreciation and Amortization internal allocation by department.

C. Sales Information

- ✓1. Sales Pipeline
- ✓2. Backlog report for signed contracts
- ✓3. Win report
- ✓4. Loss report

D. Equity Information

- ✓1. Cap Table at end of quarter
- 2. Summary of stock related transactions during quarter
- 3. List of stockholders and holdings at end of quarter

E. Market Information

- ✓1. Market valuations for comparable companies

I recognize that this is a busy time for you, but if you can start sending me whatever you can during the week, I can get started on the report.

Burt Grad 11/3/01

6/25/01

713-316-4189 (fax)

To: Keith Anderson ←  
Elvis Foster  
cc: Mike Mackey

The following information is required for BGA3 to perform a valuation of Synergy and its common stock as of 3/31/01:

- Not Req'd X 1. 10K for 12/31/00
- Not Req'd X 2. 10Q for 1Q01/2Q01
- Emp by location? X 3. Employee Summary as of 6/30 3/31/01
- ~~still?~~ X 4. Organization Chart as of 3/31/01 6/30
- X 5. Pipeline as of 3/31/01
- X 6. Orders closed 1Q01; Orders lost 1Q01
- X 7. Income Statement 2Q01, Forecast by quarter '01
- X 8. Balance Sheet 6/30/01 and cash flows 2Q01
- X 9. Revenue by customer for 2Q01 by type of revenue
- X 10. Projected Revenue by type of business 2001-2003  
by quarter
- X 11. Projection models for various services  
by type of income
- X old plan 12. Most recent business plan
- 13. Most recent report to Board on business  
results and projections
- 14. Current contracts for implementation and  
operations
- X 15. List of all Synergy shareholders as of 6/31/01
- X 16. Synergy capitalization as of 6/31/01
- X 17. Summary of stock-related agreements with  
details on 2Q01 transactions
- X 18. Information on comparable public companies -  
market value ratios as of 3/31/01
- 19. Dept Amount Allocation - 2Q01

Burt Quad  
6/26/01

## Info required for 12/31/00 Valuation

- ✓ - Revised typical project estimates
  - H&W Benefits - Fixed + Oper
  - Full HR - Fixed + Oper

- - Qtr to date public co. mkt data
  - Private funding update
  - ✓ - Employees on Board - by categories

→ - 4Q<sup>00</sup> Pipeline - worked for offerings

→ - 4Q<sup>00</sup> Win/loss - worked for offerings

✓ - Projections for 2001 by Qtr  
revenue, costs, EBITDA / by product line

✓ - Projections for 2001-2003  
revenue, costs, EBITDA / by offering

- Customer Analysis <sup>worked for</sup> by offerings +  
separated between implen, oper, cons.

✓ Emap  
Business Plan

Pipeline 4Q  
Win/loss 4Q

→ 2000 Income/total sheet  
cash flow  
✓ P&L Projections - Qtr  
2001-2002-2003

K ANDERSON

8/6/01

Implementation →	Implementation	15%
	Consulting	85%
Rebillable/Billable		

Other Expenses - matches deferred revenue

Schedule for Depreciation

Comp & Equip

Wearables - net EBITDA

deprec - into EBITDA

Prod Debt >

Royalties --  
Benefit  
work flow

Actual Impln Projections --



6/30/01

August 13, 2001

Mr. Burton Grad  
575 Leisure Lee Drive  
East Lee, MA 01238

Dear Mr. Grad:

Enclosed please find the documents you requested for the second quarter valuation. You should have the following documents:

**Second Quarter Information**

- Employee Summary as of 6/30/01
- Pipeline as of 6/30/01
- Won/Loss Report as of 6/30/01
- Current Forecast with actual results through 6/30/01
- Forecasted Balance Sheet and Cash Flow Statement
- Forecasted Revenue by Type of Business

If you have any questions, please do not hesitate to call me 713-316-4131.

Sincerely,

A handwritten signature in cursive script that reads "Keith Anderson".

Keith Anderson

Enclosures





August 23, 2001

Mr. Burton Grad  
5 St. John's Place  
Westport, CN 06880

Dear Mr. Grad:

Enclosed please find the documents you requested for the second quarter valuation. You should have the following documents:

**Second Quarter Information**

- Employee Summary by Location as of 6/30/01
- Ongoing Backlog Report as of 6/30/01
- Depreciation & Amortization Internal Allocation as of 6/30/01
- Revenue By Type and Customer as of 6/30/01

If you have any questions, please do not hesitate to call me 713-316-4131.

Sincerely,

A handwritten signature in cursive script that reads "Keith Anderson".

Keith Anderson

Enclosures

November 8, 2001

Mr. Burton Grad  
5 St. John's Place  
Westport, CN 06880

Dear Mr. Grad:

Enclosed please find the documents you requested for the third quarter valuation. You should have the following documents:

**Third Quarter Information**

- ✓ • Employee Summary by Location
- Quarterly and YTD Financial Statements
- ✓ • Quarterly Financial Forecasts
- Revenue by Business Type and Customer
- Forecasted Revenue by LOB and Type
- Revenue Assumption Model
- Depreciation & Amortization Internal Allocation
- Sales Pipeline
- Ongoing Revenue Backlog
- Win Report
- Loss Report

If you have any questions, please do not hesitate to call me (713) 316-4131.

Sincerely,



Keith Anderson

Enclosures

Synhrgy HR Technologies  
Forecast Summary

	FCST					
	Total-99	Total-00	Total-01	Total-02	Total-03	Total-04
Rev	5,818,126	16,826,846	31,841,759	41,281,763	60,820,508	90,089,228
New Rev	5,818,126	7,361,619	5,548,737	8,117,850	12,022,024	19,638,690
CS	3,904,301	12,195,094	22,302,277	25,369,237	36,124,762	50,007,196
GM	1,913,825	4,631,751	9,539,482	15,912,526	24,695,746	40,082,032
GM %	32.9%	27.5%	30.0%	38.5%	40.6%	44.5%
SM	1,766,949	5,349,196	5,561,274	3,584,447	4,362,853	5,869,967
Tech	875,631	4,702,310	4,653,392	4,789,340	6,763,672	9,702,068
GA	1,834,882	8,388,325	3,319,468	3,407,068	3,915,381	5,147,166
SG&A	4,477,462	18,439,831	13,534,134	11,780,855	15,041,905	20,719,201
EBITDA	(2,563,637)	(13,808,079)	(3,994,652)	4,131,671	9,653,841	19,362,831
Depr/Amort	138,473	9,937,307	5,224,912	5,491,969	6,965,041	8,423,096
OI	(2,702,110)	(23,745,386)	(9,219,564)	(1,360,298)	2,688,800	10,939,735

Synhrgy HR Technologies  
Forecast Summary

	% of Rev					
	Total-99	Total-00	Total-01	Total-02	Total-03	Total-04
Rev	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
New Rev	100.0%	43.7%	17.4%	19.7%	19.8%	21.8%
CS	67.1%	72.5%	70.0%	61.5%	59.4%	55.5%
GM	32.9%	27.5%	30.0%	38.5%	40.6%	44.5%
GM %						
SM	30.4%	31.8%	17.5%	8.7%	7.2%	6.5%
Tech	15.1%	27.9%	14.6%	11.6%	11.1%	10.8%
GA	31.5%	49.9%	10.4%	8.3%	6.4%	5.7%
SG&A	77.0%	109.6%	42.5%	28.5%	24.7%	23.0%
EBITDA	-44.1%	-82.1%	-12.5%	10.0%	15.9%	21.5%
Depr/Amort	2.4%	59.1%	16.4%	13.3%	11.5%	9.3%
OI	-46.4%	-141.1%	-29.0%	-3.3%	4.4%	12.1%

Synhrgy HR Technologies  
Forecast Summary

	% Growth				
	00 vs. 99	01 vs. 00	02 vs. 01	03 vs. 02	04 vs. 03
Rev	189.2%	89.2%	29.6%	47.3%	48.1%
New Rev	26.5%	-24.6%	46.3%	48.1%	63.4%
CS	212.4%	82.9%	13.8%	42.4%	38.4%
GM	142.0%	106.0%	66.8%	55.2%	62.3%
GM %					
SM	202.7%	4.0%	-35.5%	21.7%	34.5%
Tech	437.0%	-1.0%	2.9%	41.2%	43.4%
GA	357.2%	-60.4%	2.6%	14.9%	31.5%
SG&A	311.8%	-26.6%	-13.0%	27.7%	37.7%
EBITDA	438.6%	-71.1%	-203.4%	133.7%	100.6%
Depr/Amort	7076.3%	-47.4%	5.1%	26.8%	20.9%
OI	778.8%	-61.2%	-85.2%	-297.7%	306.9%

**President's Report  
October 2001**

- Sales Activity

See attached detail for pipeline and pre-proposal activity

- Existing Channel Management Activities

Addition of Jon Andrews to manage Uniprise channel activity

- Restructure of NST responsibilities

- Strategic Partner activities

- Search Consultant Activities

- Marketing Budget for 2002

## **Uniprise Channel Management Update**

### **Activity with Uniprise Sales Team**

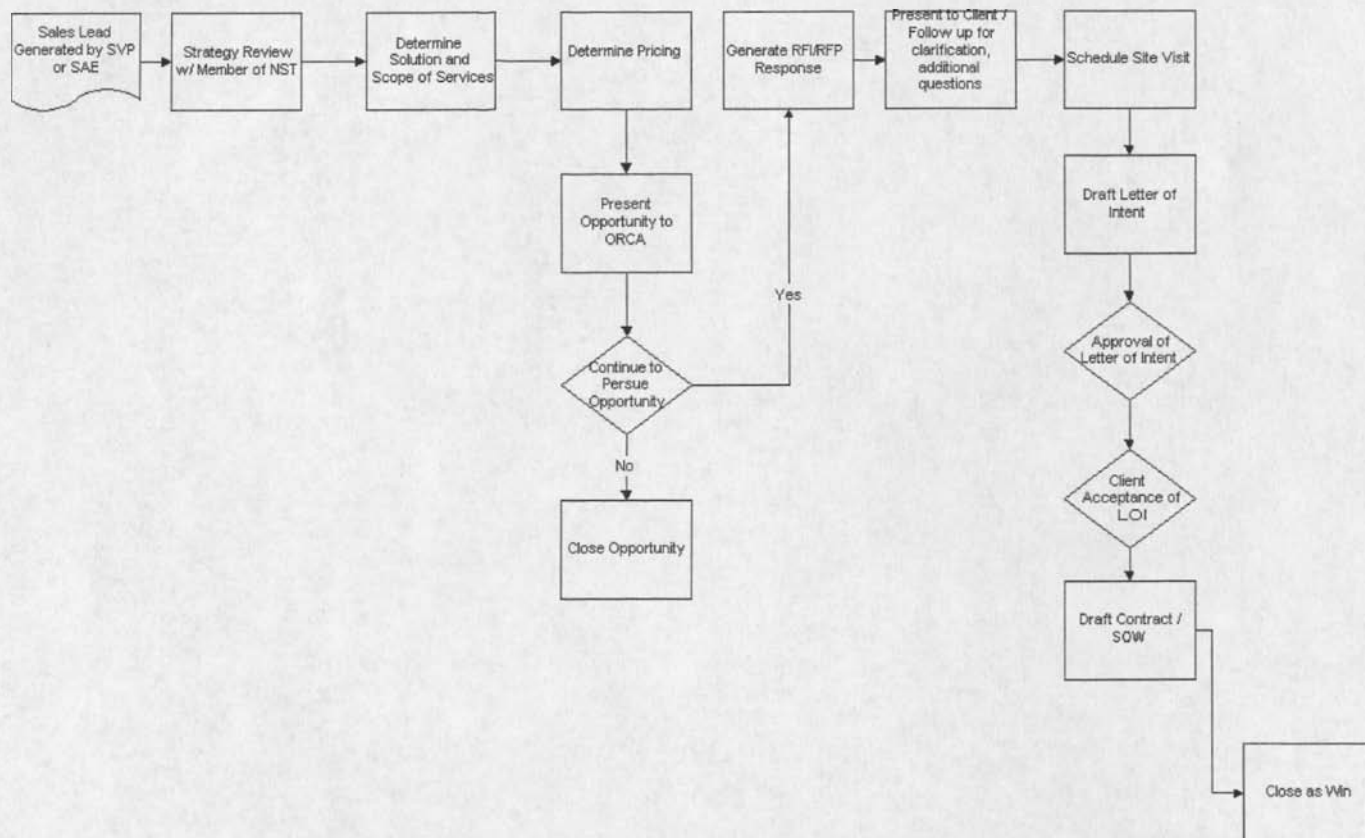
- Developed “Rules of Engagement” for defining coordination with Uniprise  
Reviewed with Kelley DeKeyser, Dawn Owens, John Anton  
Final acceptance and distribution ready
  
- Comparing lists of Consultant Relationships (SVP and NST)  
Assignments made based on existing relationships
  
- Set regional training dates for SVPs  
San Fran 11/7, Hartford 11/14, Houston 11/27, Atlanta 11/28  
Topics:
  - Sales Process
  - Target Client Characteristics
  - Product and Services Overview
  - Key contacts within Synhrgy
  
- Shared Pipeline Analysis to review active prospects

### **Activities with Uniprise SAEs**

- Target List for Existing Uniprise Clients  
Focused on SAEs  
Report Activity of Meetings to Dawn Owens and RVPs  
Attend RVP meetings going forward
  
- UHC Key Accounts Target List
  
- Quarterly Activity Review with SVPs, NST, Kelly DeKeyser, Michael Taggart, John Anton, Dawn Owens, Jon Andrews  
Will be participating in bi-monthly RVP conference calls  
Will be participating in regional SAE conference calls

# Uniprise Channel Management Update

## Synhrgy Sales Process Flow





## **Channel Management Update**

### **Hackett/Answerthink**

- Hackett 2002 Book of Numbers completed and in process of distribution
- Free Hackett benchmarking offer has not been well utilized  
Use of Hackett data in the Synovous HR assessment very positive
- Joint Synhrgy/Answerthink HR transformation presentation near completion  
Approach is to deliver HR Transformation on a “product” basis
- Answerthink target client list developed

### **Payroll providers**

- Synhrgy has been approached by ADP, Ceridian, ProBusiness to explore possible alliance

### **Watson Wyatt**

- Meetings held with Watson Wyatt (UK) in September – several WW clients invited to sessions
- Discussions with WW in the US continue on an informal basis

### **Deloitte & Touche**

- D&T ready to proceed with alliance – held up due to D&T role on AT&T outsourcing project
- Opportunity to work with D&T on 3M outsourcing

**Subj: RE: Synhrgy Information**  
**Date:** 11/14/2001 2:12:02 PM Eastern Standard Time  
**From:** kanderson@synhrgy.com (Anderson, Keith)  
**To:** Burtgrad@aol.com ('Burtgrad@aol.com')  
**File:** A1-EESum.zip (9659 bytes) DL Time (32000 bps): < 1 minute

Attached are two items requested in the first paragraph below. I forwarded the equity request to Mike. Please let me know if you need anything else.

Keith Anderson  
 Synhrgy HR Technologies  
 (713) 316-4131 wk

-----Original Message-----

**From:** Burtgrad@aol.com [mailto:Burtgrad@aol.com]  
**Sent:** Tuesday, November 13, 2001 1:36 PM  
**To:** kanderson@synhrgy.com  
**Subject:** Re: Synhrgy Information

I have reviewed all the stuff that you sent me. We're in good shape. I only am missing two items that would make my job a little easier: a separate financial statement (income/expense only) for the third quarter; you only sent me the YTD statement; and a more detailed personnel report by department, not by location like Appendix C-1 from the 6/30 report. You can email both of these to me.

I also need input from Elvis on the changes to the stock position during 3Q01. He can call me to discuss this if he prefers or email information to me.

Incidentally, in the Business Plan, Mike's title has been switched with the VP of Operations.

Burt Grad  
 203-222-8821  
 fax 203-222-8728

----- Headers -----

Return-Path: <kanderson@synhrgy.com>  
 Received: from rly-yd02.mx.aol.com (rly-yd02.mail.aol.com [172.18.150.2]) by air-yd04.mail.aol.com (v82.22) with ESMTMP id MAILINYD42-1114141202; Wed, 14 Nov 2001 14:12:02 -0500  
 Received: from hou-mail-gw-01.synhrgy.com ([206.65.192.171]) by rly-yd02.mx.aol.com (v82.22) with ESMTMP id MAILRELAYINYD24-1114141131; Wed, 14 Nov 2001 14:11:31 -0500  
 Received: by HOU-MAIL-GW-01 with Internet Mail Service (5.5.2653.19) id <WYK2WKMK>; Wed, 14 Nov 2001 13:11:25 -0600  
 Message-ID: <588FB4FF706DD411AFDD0008C786DCAA01E262CA@hou-exch-01>  
 From: "Anderson, Keith" <kanderson@synhrgy.com>  
 To: "'Burtgrad@aol.com'" <Burtgrad@aol.com>  
 Subject: RE: Synhrgy Information  
 Date: Wed, 14 Nov 2001 13:12:47 -0600  
 Return-Receipt-To: "Anderson, Keith" <kanderson@synhrgy.com>  
 MIME-Version: 1.0  
 X-Mailer: Internet Mail Service (5.5.2653.19)  
 Content-Type: multipart/mixed;

Wednesday, November 14, 2001 America Online: Burtgrad