

VIEW FROM THE TOP

TREETOP VENTURES NEWSLETTER

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Treetop Portfolio Update

William Fisher

From time to time, we give a general update regarding the Treetop portfolio. For the most part, management of each of the companies provide frequent updates and this isn't meant to replace them. However, not all of you are investors in all of the various opportunities and so we felt it would be of interest.

We sold Scooters Coffee in late 2010 to a private equity group led by the original founder of Scooters. We sold the company for upfront cash and notes which allowed the new group to conserve cash in order to grow, but also to allow our investors to get a solid return on the notes. To date, two of the three notes have been repaid on schedule and a portion of the third note has been paid down early. We are pleased with the growth of Scooters (they recently opened their 100th location) and the assistance we provide in the early stages of developing their business model.

Over a year ago, one of our investors came to us with the idea of starting a subprime finance company. Interesting idea; pretty sure we didn't know anything about it! Tom Boje led the team as it investigated this business opportunity. After months of research, visiting with others in the business, digging into business regulations and evaluating the risks of the business, we initiated Prairie Finance LLC in late January of 2011. We anticipated returning 13-15% monthly return on capital invested and we raised \$1.7M to begin the business. Since we started, we have raised additional capital and originated loans of over \$3.7M as of the end of July and the return to the investors has exceeded our return estimates every month since we started. Tom has done a great job with this business.

As discussed in another article in this newsletter, FTNI has continued to grow, including their latest acquisition of RemitPro. Investors in their 2011 round received some of the state's first Nebraska Angel Tax Credit (40%) which was returned through their state income tax returns. They recently added the American Red Cross to their customer base and continue to add transactions to their SaaS offering.

Lodo Software and MeNetwork LLC both have been working the venture capital marketplace for the past 2 years without much success. Lodo decided to look for other sources for funding partners and found Arvest Bank in Arkansas as an investor and inaugural customer for their next product set. They are currently in negotiations with a second investor/customer for their solution. Their partner, Jack Henry, continues to implement their initial solution to their bank customers. MeNetwork is still working the investor world, but has

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The Budgeting and Forecasting Process

Pam Knutson

It's that time of year again! Preparing budgets and forecasts is an event that nearly all companies go through every year and, for those companies like my clients FTNI and LODO who follow a calendar year, late summer to early autumn is the time I go through this process with each of them. The goal? Establishing the financial targets which will help set the future direction of their organizations.

For many years, companies viewed their budgets simply as a mandatory estimate of the upcoming year's revenues and expenses. This attitude is changing as the marketplace becomes more competitive and organizations become more dynamic. Successful companies are constantly improving their ability to accurately predict their future operations and related resource requirements. In fact, a recent study by the Institute of Management and Administration shows that, when asked to identify their most critical job functions, 59% of controllers of both large and small companies rated budgeting as their key job function.

While many people use the terms budget & forecast to mean the same thing, there are definite differences.

A Budget is a detailed projection of expenses for a fixed period (usually 12 months) set before the start of the period. Budgets are based on a range of assumptions about external market conditions and internal performance. A reasonable budget allows you to use your resources where they're most needed, so your business will

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recently begun to look for customer partners who would benefit from having their consumer/merchant solution. They have done a great job getting an initial footprint in a number of cities and expanding with very little capital. We spend a lot of time supporting both and look for them to continue to make progress with their business models.

Sojern, our venture into the wonderful world of digital advertising, continues to grow and expand its horizons. Tom has been assisting them in finding a new Omaha location as they are growing out of their current digs. They continue to deliver record revenues and their creativity shows whenever you get an online boarding pass from one of the major airlines. The growth has kept Dwight very busy and there doesn't appear to be any relief in sight (thank goodness).

In 2011, USMPS became part of our portfolio. USMPS is a merchant processor that handles card payment activity for a variety of local businesses. They implement payment solutions for doctors, dentists, restaurants, automobile dealerships, etc ... if you take debit or credit card for payment, they can help you. They have grown their business in 2012 by 25% over 2011 and continue to sign new customers. Investors in USMPS like seeing the growth and the new merchants that are being added (June was a record month for boarding new merchants for USMPS).

Finally, Prism Technologies LLC continues to make progress acquiring, managing and licensing technology fundamental to internet security and e-commerce. This company has established itself as a player in the industry. Greg Duman and his team have done an incredible job establishing their reputation in this industry and continue to produce good results for their investors.

We also have investments in other companies like Contatta, Firehost, aNetOrder and Backjoy, but we do not have any local investors in these opportunities (we were not asked to introduce investors; we were given an opportunity to invest due to our relationship with other investors in other cities). Therefore, we won't discuss these businesses in this update.

We have spent a lot of time recently with a number of local companies and 3-4 have 'peaked' our interest. We will continue to work with them on their overall thesis and hope that one or more can develop into something we choose to invest in and can therefore share with you.

We appreciate our friendships with all of you. If you have any questions, please don't hesitate to contact any of the Treetop team.

FTNI Acquires RemitPro

William Fisher

In August, Kurt Matis of FTNI and his team completed the acquisition of RemitPro, a local provider that been around for over a decade. This was a huge win for Kurt and I was fortunate to witness it first hand and help him get it done.

[Click here to view the press release.](#)

But now ... the rest of the story. This is a story about persistency and the ability to understand what the sellers wanted and craft a deal that fit. Kurt wasn't the highest bidder. In addition, he was basically the last bidder in the mix. He had attempted to purchase the company a few years earlier; however, it wasn't of interest to the owners at that time. After hearing it was on the block, and finding out that the sellers had discounted FTNI as a buyer, he figured out a way to get to the banker representing the sellers and got involved. Although the deal specifics are confidential and the specific reasons for the sale are also confidential, Kurt and his team managed to figure out how to approach the sellers with a winning bid. Having been involved as the deal progressed, and watching the various times that certain negotiations threatened to kill the deal, it was very refreshing to see good old fashioned persistency at work. I like that I am involved with Kurt and his team.

head in the right direction. Throughout the year, actual results will be compared to the budget so variances can be identified and studied.

A Forecast is an iteration of the budget that is done intra-year to indicate what is likely to occur. It reflects the fact that actual performance is going to vary from budget (in both positive and negative ways) and it assists in predicting where the numbers will actually end up. Initially, the budget and the forecast are identical. As the year progresses, actual results replace budgeted/forecasted numbers, revealing new annual projected totals. Many companies are using 12-24 month rolling forecasts that combine actual results for completed months and revised forecasts of both revenue and expenses for the remainder of the projected period.

Both budgets and forecasts differ from **Projections** which are a set of numbers, both financial and operational, that you make about your business for various purposes, including raising capital. Projections are aspirational and are often done from a “what could be” perspective.

Budgeting & forecasting tips:

- Accumulate historical data, business plans and strategies;
- Set business targets that make sense;
- Match revenues to expenses in terms of timing;
- Work on one type of expense or revenue at a time (a good budget or forecast needs to be systematic);
- Document assumptions and special entries thoroughly;
- Regularly compare the budget to actual data using variance analysis.

In effect, budgets and forecasts are the detailed financial extensions to the business plan. They set out the financial expectations of the business. They also guide decision-making, help determine where the business will invest its resources, and assist in predicting business results.

For a business to grow and survive in today’s dynamic environment where profit margins are squeezed and companies are forced to operate with lower costs, budgeting and forecasting are important financial disciplines for business success. Creating these financial plans allows you to control your business’s cash flow instead of it controlling you.

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