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ONCOURSE TECHNOLOGIES INC  
Form 10KSB  
May 14, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2001

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: ----- to -----

Commission File Number: 0-31813

ONCOURSE TECHNOLOGIES, INC.  
(Name of Small Business in its charter)

NEVADA  
(State or other jurisdiction of  
incorporation or organization)

91-1922441  
(I.R.S. Employer Identification  
No.)

3106 South 166th Street  
New Berlin, WI 53151  
(Address of principal executive offices)

Issuer's telephone number: (262) 860-0565  
Issuer's facsimile number: (262) 860-0561

Securities registered under Section 12(b) of the Exchange Act: NONE  
Securities registered under Section 12(g) of the Exchange Act: COMMON STOCK;  
COMMON STOCK  
PURCHASE WARRANTS

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy of information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Revenues for its most recent fiscal year: December 31, 2001: \$4,914,767

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days: 2,190,582 shares of \$0.001 par value common stock at \$0.53 per share as of March 31, 2002 for a \$1,161,008 market value. Shares of common stock held by any executive officer or director of the issuer and any person who beneficially owns 10% or more of the outstanding common stock have been excluded from this computation because such persons may

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be deemed to be affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

Number of shares outstanding of each of the issuer's class of common equity, as of March 31, 2002: 18,431,560 shares of \$0.001 par value common stock

Transitional Small Business Disclosure Format (Check one): Yes [  ]; No [  ]

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PART I

ITEM 1. DESCRIPTION OF THE BUSINESS

COMPANY BACKGROUND

OnCourse Technologies, Inc. (the "Company" or "OnCourse") is a Nevada

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corporation organized on May 28, 1998 to develop internet based business-to-business ("B2B") electronic-commerce sites for use in the procurement of raw materials and tooling for metalworking industries, to acquire specific other businesses, and to raise capital. Metalworking is defined as the process or art of shaping things out of metal. OnCourse currently has five wholly owned subsidiaries. OnCourse subsidiaries develop and/or sell and distribute CAD/CAM/CAE software. Computer-Aided Engineering (CAE) is the integration of design and manufacturing into a system under the direct control of digital computers. Software systems written by "the subsidiaries" combine the use of computers in industrial-design work, computer-aided design (CAD), with their use in manufacturing operations, computer-aided manufacturing (CAM). This integrated process is commonly called CAD/CAM. CAD systems generally consist of a computer with one or more terminals featuring video monitors and interactive graphics-input devices; they can be used to design such things as machine parts, patterns for clothing, or integrated circuits. CAM Systems involve the use of numerically controlled machine tools. In a CAE system, drawings developed and revised during the design process are converted directly into instructions for the production machines using computer-assisted part programming that will manufacture the desired object. CAD/CAM systems can create or import the geometrical profile of a required component as, for example, a series of connected points. The position of each point, and the ways in which it can be reached by movements of the tool, is calculated by the computer. After calculating the necessary tool movements, the computer develops a complete machining program for the part to be manufactured on a computer numerical control (CNC) machine tool. CNC is when a computer is used as the controller in an NC (numerical control) machine tool with the program actuated from computer memory. CNC systems are controlled by dedicated mini- or microcomputers developed to enable machine tools to be readily adapted to different jobs by altering the control program or software.

Wholly-owned subsidiaries of OnCourse and the dates of their acquisition or incorporation by OnCourse include: Micro Estimating Systems, Inc, a Wisconsin corporation ("Micro Estimating") - July 31, 1998; CAM Solutions, Inc., a Minnesota corporation ("CAM Solutions") - January 1, 1999; Cimtronics, Inc., an Arizona corporation ("Cimtronics") - October 1, 1999; TekSoft, Inc, an Arizona corporation ("TekSoft") - January 31, 2000; and Tools4Mfg.com, a Nevada corporation (Tools4Mfg) - December 6, 2001.

Micro Estimating designs, develops, and markets computer-aided-engineering ("CAE") software consisting of Windows-based estimating software products and services, including estimating, process planning and layout software for and to customers in diverse manufacturing businesses. Micro Estimating also distributes under an exclusive arrangement in the U.S.A. and Canada the AutoTAS tool management software of a Swedish developer and supplier.

CAM Solutions distributes computer-aided-design/computer-aided-manufacturing ("CAD/CAM") products developed by TekSoft and other CAD/CAM software developers; and Machine Shop Estimating, FabPlan and LayOut Pro products developed by Micro Estimating. CAM Solutions also sells and installs Direct Numerical Control ("DNC") systems for machine tools and systems integration between Micro Estimating's software and other manufacturing enterprise systems. A DNC system is another variation of a CNC system in that a DNC system involves sending part programs over telecommunications lines from a central computer to individual machine tools in the factory, thus eliminating the use of storing programs on the machines.

Cimtronics distributes CAD/CAM products developed by TekSoft and other CAD/CAM software developers; and Machine Shop Estimating, FabPlan and LayOut Pro products developed by Micro Estimating. Cimtronics also sells and installs DNC systems for machine tools and systems integration between Micro Estimating's software and other manufacturing enterprise systems.

TekSoft designs, develops and markets proprietary CAD/CAM software products used

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in metal manufacturing. TekSoft distributes its products using distributors both domestically as well as internationally. TekSoft's distributors include CAM Solutions and Cimtronics.

Tools4Mfg is a business-to-business electronic-commerce service web site. Tools4Mfg, a worldwide web site, is the cornerstone in OnCourse's strategy to offer the functionality of all the Company's proprietary software products to the worldwide metal working community. This web site will also generate revenues in the markets of electronic-commerce and supply chain management such as raw material and perishable tooling.

### EMPLOYEES

OnCourse and Micro Estimating have headquarters in New Berlin, Wisconsin. Micro Estimating has a sales office in North Carolina and other subsidiaries have headquarters and operations in Arizona, Minnesota and California. The Company has 43 full-time employees. In addition, TekSoft uses 10 full-time contract programmers.

### BUSINESS OF THE COMPANY

Subsidiaries of OnCourse develop and/or sell CAD/CAM/CAE software to the metalworking industries. TekSoft has developed and marketed CAD/CAM software since 1981. Micro Estimating has developed and marketed CAE software since 1982. CAM Solutions has been selling CAD/CAM/CAE software since 1989. Cimtronics has been selling CAD/CAM/CAE software since 1993. Both CAM Solutions and Cimtronics have had meaningful CAD/CAM/CAE sales since the years referenced above. The principal market for the Company's software products consists of an estimated 500,000 small to medium sized metalworking manufacturers. These manufacturers include but are not limited to, Original Equipment Manufacturers (OEM), independent machine shops, contract manufacturers, manufacturers of aerospace, automotive, appliance, and high technology equipment, electronics industry components, as well as other tool and die makers. Tool and die making is the industrial art of manufacturing stamping dies, plastics molds, and fixtures to be used in the mass production of solid objects. The Company only had one customer that made up at least 10% of net sales for the years ended December 31, 2001 and 2000, with sales of 13% and 14%, respectively. Sales are made by direct sales force and subsidiaries and through distributors. Sales made by direct sales force and the Company were 39% and 45% for the years ended December 31, 2001 and 2000, respectively. Sales made by distributors were 61% and 55% for the years ended December 31, 2001 and 2000, respectively. Sales in North America for the years ended December 31, 2001 and 2000 were 76% and 87%, respectively, and sales in Europe for the years ended December 31, 2001 and 2000 were 16% and 7%, respectively.

### PRINCIPAL PRODUCTS AND MARKETS

#### CAD/CAM

TekSoft develops and markets Windows and Windows-NT based, CAD/CAM software used in the metal working industries. This subsidiary's flagship CAD/CAM product, ProCAM, has a customer base in excess of 15,000 users in its nine available languages. TekSoft has a total of over 23,500 users for all its products installed at facilities serving the aerospace, computer, and automotive and mold-making industries, among others. According to the 2001 Software Market Assessment by CIMdata Inc., an independent research firm specializing in the NC industry, TekSoft is ranked in the top eight based on installed users for CAM companies worldwide.

#### PROCAM

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ProCAM is a CAD/CAM solution designed for use in manufacturing or machining products for the manufacturing industry. The ProCAM for Windows product provides a fully integrated solution for two dimension (2D) CAD/CAM applications and three dimension (3D) applications requiring complex surface modeling and machining. Based on past awards, ProCAM is one of the fastest, easiest to use CAD/CAM products on the market. For example, ProCAM received a 1998 Excellence in Manufacturing Technology Achievement Award for "Innovation" in the software classification by the readers of American Machinist Magazine. ProCAM was also voted a year 2000 Excellence in Manufacturing Technology Achievement Award winner in the software classification titled "User Friendliness" by the readers of American Machinist Magazine. Since 1877, American Machinist has covered significant developments in manufacturing technology. The magazine is dedicated to serving the machine tool market completely and offers readers the most up-to-date information in the methods and practices of metalworking. American Machinist has a monthly subscription base of 80,000 readers consisting of company management and manufacturing/production managers and engineers in the Metalworking industries.

### CAMWORKS

CAMWorks is a CAM application that is seamlessly integrated into, and is operated from within a third party application called SolidWorks. According to SolidWorks' website, SolidWorks is a CAD package developed by the SolidWorks Corporation, a Dassault Systems S.A. (NASDAQ:DASTY) company. The SolidWorks Corporation develops and markets 3D mechanical design solutions. CAMWorks incorporates CAM technologies pioneered by TekSoft such as: Associative Machining which allows a user to change the CAD drawing of a part and automatically update the machining parameters without additional user input; and Knowledge Based Machining which allows users to edit or update a predefined set of operational instructions for machining a specific type of feature on a part. This allows the CAMWorks system to automatically select the correct machining parameters for a given feature on a part, therefore dramatically reducing the input required by the end user.

CAMWorks is currently available for Milling and Turning applications. CAMWorks addresses the needs of today's sophisticated manufacturing engineers by delivering CAM solutions critical to success. OnCourse believes it's the most advanced tool available for mainstream engineers to get products to market faster, efficiently and within budget.

### COMPUTER-AIDED-ENGINEERING ("CAE")

Micro Estimating offers estimating and process planning software for a broad spectrum of the manufacturing industries.

### MACHINE SHOP ESTIMATING ("MSE")

MSE is an engineering based cost estimating system for manufacturing companies. MSE calculates machining times and total product costs according to company specific estimating procedures. The software is comprised of 72 machine tool and operation specific software modules to emulate actual machine tool and production cycles. The machine emulation modules will produce calculations within 1% of true production time. The software provides process planning, machine process layouts and comprehensive management functions. It incorporates on-line supplier links, graphical reports, and interfaces seamlessly to numerous factory management and CAD/CAM programs. MSE libraries contain over 1,150 raw materials specifications and incorporate 2 million speeds and feed tooling combinations. The typical customer is a factory owner, estimator or an engineering department in a larger facility. MSE received a 1998 Excellence in Manufacturing Technology Achievement Award as "Readers Choice for User Friendliness" in the software classification by the readers of American

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Machinist Magazine.

### LAYOUT PRO ("LP")

LP serves as a process planning and machine process layout system, which allows users to easily calculate machining or fabrication times for product production. LP offers users the same basic functionality of the MSE product without the pricing or quoting features. The typical customer is a process planning engineer or manufacturer of metal working equipment. LP is a subset of MSE and contains no manufacturing pricing functions, and is typically purchased by machine tool builders.

### FABPLAN ("FP")

FabPlan is an engineering based cost estimating system designed for manufacturers that operate fabrication equipment. FP calculates fabrication times and total product costs according to company specific estimating procedures and shop equipment by simulating actual machine tool cycles. The software facilitates process planning and machine tool process layouts, which provides calculations for fabrication times used for production. The system incorporates supplier links, provides graphical reports, and interfaces with numerous factory management and CAD/CAM programs. The typical customer is a factory owner, estimator or an engineering department in a larger facility.

### AUTOTAS

Micro Estimating is the exclusive U.S. and Canadian distributor and systems integrator for AutoTAS, a software product offered by Sandvik/Coromant of Sweden. AutoTAS is a tooling management program that was previously only available in Europe. Tool management software assists companies in the control and replenishment of tooling used in the manufacturing process.

## NEW PRODUCTS AND SERVICES

### PROCAM II

ProCAM II is a complete rewrite of TekSoft's original ProCAM product. ProCAM's already easy-to-use Windows interface has received a complete facelift with a modernized look and feel. In this newest release in December 2001, TekSoft has introduced Machining Intelligence for Automation, a suite of tools that automates the generation of machine tool path based on a customizable database. ProCAM II now incorporates these tools in the optional Solids Machining package to generate tool path directly from the solid model. Solids Machining generates the G-code or the program required for the CNC machine to make the part for solid models created in any solid model design program that supports exporting files in Parasolid ASCII (x\_t) or Binary (x\_b) format. Features include:

#### Feature Recognition -

- o Automatic (AFR) - Automatically identifies prismatic machinable features.
- o Interactive (IFR) - Interactively create machinable features for solid models.
- o Automatically or interactively create patterns of identical features.
- o Automatically creates work planes.
- o Knowledge-based Machining (KBM).

The Technology Database (TechDB) captures a company's methodology and applies this information to further automate the NC programming process. The TechDB contains a complete tooling library in metric and inches. The Machine Tool and

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Controller database provides the ability to incorporate specific machine parameters. The Technology Database also encourages facility-wide consistency and rules-based manufacturing.

Solids Machining is available for Mill or Turning applications with a choice of machining modules: 2 Axis Mill, 3 Axis Mill and Turn. Each module provides an advanced collection of cutting strategies and timesaving features to help automate the machining process. This new Solids Machining module is not included in the annual maintenance contracts and will offer significant revenue potential to TekSoft. Based on a customer's software configuration this upgrade will be sold for between \$750 and \$3,200 per user.

### CAMWORKS 2001

Leading the list of more than 52 enhancements within this release in May 2001 is the ability of CAMWorks to operate in the SolidWorks Assembly Mode. Assembly Mode functionality more closely represents the actual machining environment through the definition and display of the work-piece, machined part, clamps, fixtures, and tooling.

CAMWorks™ is the only CAM solution designed to work exclusively within the SolidWorks environment. As the only SolidWorks Certified Gold Product for CAM, CAMWorks provides state-of-the-art machining capabilities seamlessly integrated into the SolidWorks design software. Management believes that CAMWorks is the only CAM application that incorporates Automatic Feature Recognition (AFR), Interactive Feature Recognition (IFR), and Knowledge-Based Machining in one package to automate and expedite the machining process. Available for Mill or Turning applications, CAMWorks is the closest thing to point and click machining available today. CAMWorks addresses the needs of today's sophisticated manufacturing engineers by delivering intelligent CAM solutions critical to success. Management believes that CAMWorks is one of the most advanced tools available to get products to market faster, efficiently, and within budget.

Enhanced Automatic Feature Recognition - CAMWorks continues as the leading innovator of CAM automation with numerous enhancements to the AFR process including a new Mill Face and Open Pocket algorithm that automatically creates these features based on other features identified by AFR. In addition to the numerous enhancements to existing features and operations, CAMWorks 2001 has added many new capabilities to tool path generation, manipulation and optimization including: Ramp Finish Machining, Rough Spiral Entry, User Defined Tool Shapes, Rough Pocket Wedge Machining, and 2-Axis Spiral Rough. For 3-Axis machining CAMWorks 2001 includes new Rough Spiral Entry and Rough Processing Order by Area operations. Several new features have been added to Simulation to aid in the definition and display of tools, tool holders, clamps and fixtures. In addition to many improvements to existing capabilities, the TechDB now allows the user to define and add Mill Tools, and Tool Holders to the tool library and tool crib.

### TOOLS4MFG.COM

In addition to its software products, OnCourse has established Tools4Mfg.com, a web site for use by businesses that produce, process, or purchase custom fabricated and machined products. The Company intends to develop Tools4Mfg.com into an internet-based purchasing system for smaller manufacturers that have not been able to implement the expensive and labor intensive supply chain enterprise systems used by the largest industrial firms, such as the big three automotive companies. The business will focus principally on the sale of raw material and consumable industrial products, such as steel and metal cutting tools. The Company would receive transaction fees for managing the system. The Company released the metal raw material portion of the site in December 2001.

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The site currently provides manufacturing users with the ability to calculate material requirements using a material calculation system and to locate manufacturing facilities based on geographic and manufacturing capabilities when using its Machine Shop Selector. Machine Shop Selector, which has been in operation for over two years, assists purchasers of component parts in finding new suppliers and manufacturers. Capabilities of suppliers of component parts are searchable, enabling purchasing agents to execute multiple and automatic requests for quotes (RFQ) that will be delivered in real-time via an online agent that continually forwards opportunities for new business to those manufacturers that match required manufacturing parameters.

The site also provides links to obtain metal raw material and industrial fluids pricing and to place orders for these products. Currently, two vendors are utilizing this site. In 2001, the Company agreed to allow Central Steel & Wire, ("Central") a steel distributor, exclusive use of Tools4Mfg.com for metal material price quotes and orders. No other metal service centers or other metal sellers can use this site without prior written consent of Central. Under this agreement, the Company will earn a transaction fee ranging from one-half percent to one and one-half percent on pro-rated sales figures mutually agreed-upon by both companies. The agreement also provides the Company, upon Central election to continue exclusivity on a month-to-month basis for a three-month period, a transaction fee structure that pays the Company monthly the greater of one and one-half percent on mutually agreed upon sales or \$83,000. The review dates in which Central can extend exclusivity for the months of April 2002, May 2002 and June 2002 are January 31, 2002, February 28, 2002 and March 31, 2002, respectively. Central's exclusive use of this site for metal price quotes and orders terminates June 30, 2002 unless both companies amend the agreement to further extend the exclusivity. The Company intends to expand this site to additional metal service centers and sellers upon termination of the exclusivity provisions. The Company also has a non-exclusive agreement with an industrial fluids manufacturer that provides for transaction fees as a percent of orders placed through the site. The Company expects transaction fees to increase upon the addition of other manufacturing based products as well as multiple vendors offering competing products and services.

A number of material and tool companies have direct interfaces with the Company's estimating software, allowing direct electronic access to each vendor's main databases for pricing information - providing raw material pricing in seconds instead of hours or days. The Company has also interfaced its estimating software with Tools4Mfg.com that provides the user the vehicle to obtain online metal material quote pricing as well as purchasing the material electronically and that transfers the pricing information into its estimating software. Shipments at the end of 2001 of the Company's Machine Shop Estimating and FabPlan software products included an imbedded internet interface to the Tools4Mfg.com portal, delivering a value to customers. The Company plans to imbed all its current Windows-based software with integrated access to Tools4Mfg.com. This coordinated approach is designed to continue to build brand identify by focusing on the strengths of the OnCourse product lines.

Management does not believe that any of the existing transaction processing systems or custom component procurement systems offers the metalworking market a satisfactory electronic purchasing solution. The opportunity for Tools4Mfg.com is to offer the speed and cost savings that a viable electronic purchasing solution provides. OnCourse has developed Tools4Mfg.com internally with revenues from Central.

Until separate financing is obtained, the Company expects to continue to fund, on a limited basis, the development of the site from a combination of internally generated funds and capital contributed by industry partners.



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Several revenue streams are projected from Tools4Mfg.com. Revenues will be derived from transaction fees on raw materials, component parts, and industrial tooling. The Company also expects to add transaction fees, subscription fees, and online sales of manufacturing software. However, there is significant risk in that the Company may not be able to generate any significant revenue or profits from this business strategy.

According to an article in the October 5, 2000 edition of Purchasing magazine, it is estimated that the annual market for production-grade and metalworking metals is at least \$900 billion. Net penetration is estimated at less than 1/100 of 1% of the estimated \$900 billion annual global marketplace for production-grade and metalworking metals. The management of OnCourse feels that even a very small percentage of this market earned as commissions and transactions cost would generate \$90 million of material transactions in which the Company would receive commissions and transaction fees. In addition, the Company also believes it will be able to generate revenues from tooling and auction sales as well.

The Company continues to believe that revenues and transaction fees could exceed \$25 million annually within the next five years. The following table shows the revenue stream for the \$25 million of revenues and transaction fees based on management's belief. However, there is significant risk in that the Company may not be able to generate any significant revenue or profits from this business strategy.

### RAW MATERIAL AND PERISHABLE TOOLING REVENUES (MILLIONS)

| Revenue Source | Total Estimated Market | Tools4mfg Captures 1/100% of the Market (.001%) | Average Transaction Fee of 2.75% |
|----------------|------------------------|---|----------------------------------|
| Raw Materials  | \$900,000              | \$900.0   | \$24.8                           |
| Tooling        | 4,000                  | 4.0   | 0.6                              |
| Total          | \$904,000              | \$904.0   | \$25.4                           |

### RESEARCH AND DEVELOPMENT

During years ended December 31, 2001 and 2000, the Company expended \$300,000 and \$593,000, respectively, for research and development. Research and development expended during the year ended December 31, 2000 includes \$270,000 for the purchased in-process research and development that was written off on January 31, 2000. In addition, the Company expended \$1,277,000 and \$1,268,000 for its capitalized software during the years ended December 31, 2001 and 2000, respectively. There have been no material customer sponsored research activities or expenditures.

### GOVERNMENTAL REGULATION AND APPROVAL

The Company does not require governmental approval for any of its activities and has incurred no cost or expense with respect to compliance with federal, state and local environmental laws. Some of the Company's customers may incur expenses for environmental compliance, but there has been no effect of any such compliance on the Company. The Company only has one customer that may have a material effect on the Company's operations with sales of 13% and 14% of net sales for the years ended December 31, 2001 and 2000, respectively. No single supplier has a material effect on the Company's operations.

### TRADITIONAL METAL WORKING MANUFACTURERS AS THE COMPANY'S SOFTWARE MARKET

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Domestic manufacturers are estimated to conduct approximately \$3.8 trillion in annual business and these manufacturers employ 17 million people. According to the National Institute of Standards (NIST), 75% of manufacturers employ 50 people or less. OnCourse subsidiaries individually have for up to twenty years provided that market with software to make job shops more efficient. The information referenced below provides historical summaries of the products sold by the OnCourse subsidiaries of Micro Estimating and TekSoft:

### LICENSED USERS SOLD SINCE SUBSIDIARY WAS ESTABLISHED (UNAUDITED)

| Subsidiary       | Year        |            |
|------------------|-------------|------------|
|                  | Established | Users Sold |
| TekSoft          | 1981        | 23,500     |
| Micro Estimating | 1982        | 2,700      |

### CURRENT ENVIRONMENT IN THE COMPANY'S SOFTWARE MARKET

A dramatic shift in supply chain management is underway in which manufacturers are looking to electronic-commerce solutions for sourcing and supply. Addressing those trends, the Company is developing an Internet-based purchasing system for use by manufacturing firms involved in producing, processing, or purchasing custom fabricated and machined products. The Tools4Mfg site will be positioned as an electronic middleman fulfilling orders for component parts manufacturers. This electronic-commerce system will process electronic Requests for Quotes ("RFQ") and Electronic Purchase requisitions for raw materials, component parts, and related tooling products and ultimately be paid with electronic funds transfers. Coupling this trend with use of the Internet as a software delivery and maintenance mechanism will provide new opportunities and a more efficient means for OnCourse to increase its value to customers.

### THE COMPANY'S BUSINESS STRATEGY

The OnCourse strategy is to build a recognized and respected brand name as the leader in providing software and services that make component manufacturers more efficient and profitable. The Company's products, such as the award winning software systems referenced above under the ProCAM and Machine Shop Estimating ("MSE") headings, are the base of this strategy and will be built upon to create a broader position.

In concert with OnCourse products is an electronic-commerce strategy. OnCourse is expanding its business-to-business electronic-commerce site for the metals working industry to purchase products, services, and trade.

OnCourse will use the Internet as a key part of this strategy to deliver software, provide applications while providing a focused trading site to build a loyal customer base. Integrating OnCourse applications with the OnCourse Internet site will lead users to take advantage of the business-to-business electronic-commerce site. Three core internet concepts will be used:

- o INTEGRATING APPLICATIONS WITH ONCOURSE PORTAL

OnCourse's products will have seamless interfaces to the web portal. One of the first integrations has been done with Micro Estimating's software. The MSE and FabPlan software can, via modem or internet, dial out or access to a supplier of raw materials, access their database and receive current raw material pricing. When possible all OnCourse products will integrate with those areas of the portal that perform similar or complimentary tasks.

- o DRAW CUSTOMERS WITH CONTENT

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OnCourse will draw customers with content by offering current industrial news pertaining to the metal working industries, and by providing user forums to exchange manufacturing ideas and problems, post questions, create topics, check employment listings and find ideas for innovations and improvements. There also will be several databases developed by OnCourse allowing easy calculations and allowing the look up of common metal working information. Customers will also be given the technology to easily exchange or share drawings and relevant manufacturing files. Customers will also be given the opportunity to create and use individual mailboxes and filing systems to organize any communications and file exchanges done through the site.

### o VALUE ADDED TRADING SITE

The proposed value added functionality at the OnCourse portal, Tools4Mfg.com, is in several areas. There will be an online area for shopping for industry leading software and finding information about software companies serving the metal working industry. Online calculators will be provided that run in an internet browser that will simplify some routines and time consuming manufacturing calculations. Online databases will allow the look up of common metal working information. There will be an online auction for selling and buying both new and used manufacturing items. Customers will be able to shop online for the best prices and delivery from several raw material suppliers in real time. A facilities locator named "The Machine Shop Selector" allows for detailed and specific production facilities searches both geographically and by specific production capabilities and provides the communication technologies to contact multiple manufacturers for pricing or information. Manufacturers of custom components will have the ability to receive Requests for Quotations (RFQ's) pre-defined that match their capabilities and preferred type of work and online forums will allow the exchange of manufacturing ideas and problems.

## THE COMPANY'S MARKETING STRATEGY

The Company's principal market is small to medium size manufacturers. This universe includes original equipment manufacturers (OEMs), independent machine shops (job shops), contract manufacturers, tool and die makers, and component suppliers to the aerospace, automotive, appliance, and electronics industries. The Company estimates this market is in the range of 500,000 businesses, some of which have multiple manufacturing facilities. Within this market, the Company's CAM products are directed toward slightly larger and more product oriented (versus job or made to order shops) customers than are the process planning and estimating products.

The Company generally does not actively market to the largest industrial firms since these businesses tend to purchase high-end integrated systems, such as offered by Dassault/IBM. The Company has been successful in selling to individual facilities of large manufacturers, however, where the operation desires a cheaper and easier to use solution and has the ability to purchase its software independently. As an example, three John Deere plants utilize OnCourse products. Other large manufacturers that use OnCourse systems include General Electric, Honda, Honeywell, IBM, Lockheed Martin, and TRW.

Management has developed a focused strategy to aggressively grow the business both in the North American market as well as manufacturing centers worldwide. This focused strategy will be the first opportunity the Company has had to develop the market for CAMWorks since the introduction of all of the product's modules. The strategy has the following principal elements:

- o Develop a Broader Network of Value-added Resellers (VAR) and Other Distributors

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The OnCourse distribution network in the U.S. is nationwide, but certain manufacturing centers, such as Chicago, do not have a geographically proximate VAR for all of the Company's products. The Company intends to add to its distribution network to fill these geographic gaps, including opening direct sales offices in Chicago and Detroit. The Company also seeks to upgrade its distribution capabilities by developing relationships with VARs that are able to operate multi-office distributorships, and may do so by acquiring one or more additional VARs.

While MSE is a market leader for estimating software in the US and OnCourse does have one successful MSE distributor in the UK, the Company has not had the resources to sell overseas. Since potential customers often prefer to buy from a vendor of local nationality, developing a network of non-US distributors will speed sales in manufacturing centers around the world. The Company expects to utilize certain TekSoft foreign distribution relationships to represent MSE outside the US.

As a part of the effort to strengthen its distribution, the Company has reached an agreement in principle with one of the largest European industrial distributors to market TekSoft products. This distributor has local offices in most European countries and maintains its own translation department - with more than twenty translators - to speed translation of new software releases. The Company has also had preliminary discussions with this distributor regarding marketing of Micro Estimating's products in Europe, a relationship that would also facilitate translation of the Micro Estimating products.

While there is some overlap, the MSE and TekSoft VAR networks are for the most part distinct, and the Company plans to provide additional support to the VAR networks to maximize opportunities cross sell OnCourse products. Since the TekSoft installed base is larger than that of MSE, the Company also plans to promote MSE to existing TekSoft CAM users. VARs and other distributors are compensated based on an established commission percentage for each VAR and distributor multiplied against its respective commission-eligible software sales and services.

- o Expand and Strengthen Relationships With the SolidWorks Distribution Channel

The integration of CAMWorks into the SolidWorks design software (as the only fully integrated CAM solution operating in the SolidWorks environment) has provided the Company with an additional distribution channel. SolidWorks is the fastest growing solids based design system, with 26,000 users licensed in 2001, up 19% over 2000. SolidWorks distributes through a network of 300 resellers operating in 70 countries worldwide. The Company, however, has established a relationship with only 60 to 70 of the SolidWorks resellers and seeks to develop a relationship with a large number of the resellers that it does not currently have a relationship. This will in part be addressed by strengthening the TekSoft distribution support effort, since the largest investment in securing additional VAR relationships is the time it takes to familiarize a new VAR with the Company's products.

- o Expand CAD/CAM General Marketing Activities

The Company has long employed marketing programs for its estimating products, but has not had the resources to conduct extensive marketing for the (larger market) CAD/CAM products. In view of the technology "window" that OnCourse has for CAMWorks, the Company intends to greatly increase its advertising and promotion of this product to capitalize on this opportunity.

- o Integrate CAMWorks With Other Solids Based CAD Products

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While SolidWorks is the acknowledged market leader and fastest growing provider of solids based CAD systems, there are a number of other vendors with competitive solids based systems. SolidEdge, Designwave and Autodesk are examples of such potential solid modeling partners. By integrating CAMWorks into these systems, the Company would gain additional distribution platforms. Management believes sales through such additional distribution channels could increase CAM revenues 15-20% with each additional relationship.

- o Promote an Enterprise Version to Larger Customers and Pursue Follow-on Sales to Existing Large Customers

OnCourse has integrated MSE with ProCAM (and is in the process of integrating CAMWorks) and solids based CAD software, to create a complete engineering based enterprise version of its products. This version, with a comparatively low price point, is a solution that can be marketed to larger companies that would not be prospects for OnCourse's products on a standalone basis, but can benefit from a robust estimating system.

A large multinational company will usually have multiple production facilities. While the Company has not targeted large firms for sales on a company-wide basis, it has been successful in selling individual plants. Following implementation and a customer's realization of the system's benefits, the Company has a strong rationale for repeat sales covering that customer's other sites. The Company believes this will be especially evident in the case of CAMWorks, which offers greatly reduced design to manufacturing time using less highly trained personnel at a cost that is 25-50% of comparable systems.

- o Develop a Suite of Integrated Manufacturing Software

The integration of MSE and CAMWorks is the first step in OnCourse's longer-term goal of developing a suite of integrated manufacturing software applications. The Company has found that many of its customers desire a one-stop shop solution for their manufacturing software applications. The reasons most often cited are that there is greater reliability in the compatibility of the applications and therefore ease of use, and that there is a single point of contact in the event of a problem. No other company offers fully integrated software for the entire manufacturing process, except in expensive high-end enterprise type systems that are economically unavailable to all but the largest manufacturers.

Applications such as direct numerical control, statistical process control, and manufacturing execution systems would fill out the suite concept. Developers of these specialized applications, and particularly those that have the most advanced technologies, tend to be small companies.

In addition to its target market of small to mid-size manufacturers, the Company believes such a suite would be attractive to the lower tier of the largest manufacturers that utilize complex integrated enterprise systems. The reason is that such a suite could provide the same or superior manufacturing functionality and interfaces as the complex system, but at substantially lower cost.

### ALTERNATIVE DISTRIBUTION STRATEGIES

The Company continually evaluates additional strategies and methodologies that might be employed to get its products to market. Strategies that would enable the Company to penetrate market segments in which it does not compete receive

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special attention. As examples, the Company has considered renting its products on a per use basis (as an ASP or application service provider) to reach smaller manufacturers, and embedding its products or technologies in large, integrated systems marketed to the very largest manufacturers. Integrating MSE into a larger system would dramatically increase the estimating market for the Company because management believes that MSE has the most extensive functionality of any estimating application.

### MANUFACTURING SOFTWARE: THE MARKET AND TRENDS IN TECHNOLOGY

#### THE MARKET

In a 2001 industry report, CIMdata, Inc., an independent research organization, estimated that 2001 sales of numerical control software and services (including CAE, CAD and CAM software) were \$1.27 billion, with \$806 million received by software suppliers and balance by resellers, distributors, and other business partners. The market grew 4.4% in 2000, as the U.S. economy slowed and manufacturing equipment sales declined, but doubled from 1993 to 2000 (a compounded annual growth rate of 10.5%). Approximately 30% of CAD users also have CAM software requirements. The CAM market is well penetrated and mature, but continues to grow at an average rate of 10% per year according to CIMdata.

OnCourse estimates that the CAM segment of the manufacturing software market on which it is focused - i.e., excluding the CAM component of high-end integrated systems sold to the largest manufacturers - is in the range of \$90-120 million. The Company believes that this segment of the market is growing at 15-25% per year, faster than the CAM market generally, as newer, more robust systems replace existing systems. The estimating software market is much smaller, approximately \$9 million overall, and \$3.5 million exclusive of high end integrated systems. While MSE sales have historically grown an average of 35% per year as OnCourse has taken share from its principal competitor, management estimates the market has been growing in the range of 10% per year.

OnCourse believes that the market available to it will effectively expand as OnCourse begins to sell the estimating and CAD/CAM products on an integrated basis. This is because the integrated product can be marketed to somewhat larger manufacturers that may not have previously been an attractive market segment for the Company's products on a standalone basis.

A number of significant trends have contributed to the growth of manufacturing software, even during an economic downturn. The first is demand by manufacturers in a fast-changing, highly competitive business environment to reduce design time to get products to market more quickly ("time to market"). Secondly, as competition makes it increasingly difficult for companies to achieve revenue growth, businesses continue to focus on manufacturing efficiency and lower production costs as a means to increase profits. As a result, many companies not only seek new software applications, but also will replace manufacturing software with enhanced versions if the replacement furthers the company's productivity.

#### TRENDS IN TECHNOLOGY

Demand has also been fueled by technological improvements that have enhanced the functionality and value of the software. Notable among these improvements has been the development of solid modeling and the introduction of feature recognition. Software developers incorporating these improvements into their products are able to offer systems that reduce time, costs, and errors in manufacturing.

Solid modeling is a computer generated three-dimensional depiction of a product. Solid computer models permit designers to better understand how their products will look and function before committing to preparing manufacturing documents

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and making production tools. The geometry from solid models can also be used in a variety of analytical systems to evaluate performance or other physical attributes of a product before it is manufactured. As a result, costly mistakes can be avoided in taking a design into production.

Feature recognition is the identification of the design geometry of a feature that can be machined (e.g., a hole). Software incorporating feature recognition automatically analyzes the part model and identifies machinable features based on the part's geometry and topology (automatic feature recognition), or queries the user as to areas not recognized automatically until the system has enough information to define the area as a feature (interactive feature recognition). Each feature can then be linked to a corresponding machining routine stored in a database. By automating the interpretation of design data, manufacturing programs can be prepared more quickly and with fewer opportunities for error.

### RISK FACTORS THAT MAY IMPACT THE SHAREHOLDERS INVESTMENT

Shareholders of the Company should be aware that the ownership of the Company's shares involves certain investment considerations and risk factors, including those described below and elsewhere in this annual report, which could adversely affect the value of their holdings. The Company can't make any representations as to the future market value of the Company's stock.

Any forward-looking statements contained in this annual report should not be relied upon as predictions of future events. Such statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realized. Investors are hereby notified that such information reflects the opinions of Company management as to the future. Investors should use their own judgment as to the significance of this information to their individual investment decisions.

Investment in the Company's Common Stock must be considered speculative due to a number of risk factors including, but not limited to, the limited history of trading in the Company's Common Stock in any Public Market.

### IMPACT OF POLITICAL UNREST MAY FURTHER WEAKEN THE DOMESTIC AND GLOBAL MARKETPLACE

The United States economy was shaken as a result of the events that took place on September 11, 2001. The terrorist activities coupled with a recession in the United States economy has reduced software sales and profitability in the manufacturing marketplace. The Company was also negatively impacted as sales were less than projected and lower than needed to support the infrastructure established to market and support the Company's new technologies. As a result, the Company experienced higher than planned operating losses in which caused the Company to increase its borrowings under its line of credit agreements. The Company may not be able to absorb additional losses if another terrorist activity further eroded the manufacturing and United States economy.

### CONTROL BY THE MANAGEMENT MIGHT LIMIT INDEPENDENT, PUBLIC SHAREHOLDER INFLUENCE

The Chief Executive Officer and the President of the Company beneficially own approximately 52% of the outstanding common stock of the Company. The remaining directors and other executive officers beneficially own approximately 36% of the outstanding common stock of the Company. Accordingly, the Chief Executive Officer and President together, or along with the Board of Directors and other executive officers, will exercise control over the Company, including control over the election of directors, the appointment of officers, and the business policies, investments and future acquisitions, if any, of the Company. Public shareholders' interests may not be fully represented alongside the differing

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interests of management shareholders, if any. The large percentage of shares owned by these persons will have a limiting effect on the number of shares available for trading in the secondary market, which could have an adverse effect on price and liquidity.

### ABSENCE OF NECESSARY FINANCING COULD DISRUPT OPERATIONS, PRODUCT DEVELOPMENT AND GROWTH PLANS

The Company will need to obtain interim and long-term financing to continue operations, to repay outstanding indebtedness, to fund present and future product development, and to maintain the competitive position of its software products in their manufacturing markets. There is no guarantee that the Company will have the financial ability to meet all of those goals. The Company expects to raise additional capital from time to time by private placements of the Company's securities and capital contributed by industry partners. In 2001 the Company received \$192,000 of preferred stock proceeds from an industry partner that supplies software development and programming resources to TekSoft. There can be no assurances that there will be any market for the Company's securities or that sufficient capital can be raised by any such private placements. If capital is not available, it may not be possible for the Company to develop new products, to grow existing product revenues or to operate profitably in any market. In such event, shareholders could lose their entire investment. See "MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS - Liquidity and Capital Resources".

### ANTICIPATED REVENUES FROM PURCHASED IN-PROCESS RESEARCH & DEVELOPMENT MAY NOT BE REALIZED

The Company acquired \$270,000 of CAMWorks in-process research and development as part of the TekSoft acquisition on January 31, 2000. It is possible that the Company will not reap the benefits related to the CAMWorks development project or that such development does not provide the Company with any competitive advantages or that there will be technology changes in the market place that may render the technology obsolete. As a result, the Company may not realize the expected revenues that management believes will result from this acquired in-process technology.

### COMPETITORS'S STRENGTHS COULD FORCE PRICE REDUCTIONS AND DAMAGE PROFIT PROSPECTS

The markets for the Company's products are intensely competitive. The CAM industry has more than 200 competitors in which TekSoft is referenced as one of the top eight worldwide software providers based on installed seats according to the above-mentioned CIMdata research. The estimating products offered by Micro Estimating have only one competitor, Manufacturers Technologies, Inc. Limited information is available on this company as it is a privately held organization. The Company may also face competition from new entrants in its markets. Many of the Company's present or prospective competitors have or may have substantially greater financial, technical, marketing and sales resources than the Company. There can be no assurance that the Company will be able to compete effectively in the future. If the Company is unable to compete effectively, shareholders could have a lower return on their investment or lose their entire investment.

### LIMITED PRIOR PUBLIC MARKET AND RESTRICTION ON FREE SALE OF STOCK MAY ADVERSELY AFFECT STOCK VALUE AND LIQUIDITY

There is presently a limited public market for the Company's common stock and there can be no assurance that an active market will develop. The prices at which the shares trade will be determined by the market place and could be subject to significant fluctuations in response to many factors, including, among others, variations in the Company's quarterly operating results, changing



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economic conditions in the industries in which the Company participates, and changes in government regulations. In addition, the general stock market has in recent years experienced significant price fluctuations, often unrelated to the operating performance of the specific companies whose stock is traded. Market fluctuations, as well as economic conditions, may adversely affect the market price of the Company common stock. In the event of declining stock values and diminished liquidity, shareholders could lose their entire investment. See "MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS."

### DEPENDENCE ON OPERATING ENVIRONMENTS IMPOSES OBSOLESCENCE, DIMINISHED REVENUES AND PROFIT EXPOSURES

The Company's software is designed for use with computers running on Microsoft platforms. The successful introduction of new operating systems or significant changes in existing operating systems could adversely affect the Company's operating results. Failure by the Company to develop new products for any such changed operating environments could result in the Company's inability to maintain sufficient margins in which to continue its business.

### RAPID TECHNOLOGICAL CHANGE EXPOSES THE COMPANY TO COMPETITIVE DISADVANTAGES, REDUCTIONS IN SALES, PROFITS, GROWTH RATES AND MARKET ACCEPTANCE

The market for the Company's products is characterized by rapid technological advances, evolving industry standards, changes in end-user requirements and frequent new product introductions and enhancements. The introduction of hardware or software products embodying new technologies and the emergence of new standards could have an adverse effect on the Company's present products or any products under development. For instance, the Company believes that TekSoft's CAMWorks product is an example of rapid technological change. CAMWorks' ability to analyze a solid model and generate machine code to produce the piece part automatically will change the way parts will be manufactured in the future. The Company's future success will depend upon its ability to enhance its present products as well as introduce new products that are responsive to technological developments and end-user requirements and development market appeal. Any failure by the Company to develop new products and enhancements in a timely manner will have an adverse effect on the results of the Company's operations and could result in the Company's failure and the loss of shareholders' investment.

### ABSENCE OF A MARKET FOR THE COMPANY'S ELECTRONIC-COMMERCE PRODUCTS INCREASES RISKS OF LOSS ON INVESTMENT, FAILURE TO ACHIEVE GROWTH TARGETS, DIFFICULTY IN MEETING DEBT SERVICE REQUIREMENTS AND DIMINISHED INVESTOR CONFIDENCE

A market for the Company's electronic-commerce and other business-to-business products may not develop. If a significant market for internet-based electronic-commerce and business-to-business products does not develop, the Company's business may not grow according to the Company's expectations and shareholder's prospects for capital gain will be diminished.

### COMPETITIVE PRICING PRESSURES MAY INCREASE THE RISK OF LOSS OF INVESTMENT

Competitive pricing pressures might bring about a reduction in the average price of the Company's products, resulting in a decrease in revenues and gross margins. Changes in product mix and other factors might also influence prices. If price reductions occur, the Company's revenues will decline unless it is able to offset these decreases by increasing its sales volumes or by changing its current revenue model. In addition, in order to maintain its gross margins, the Company must develop and introduce new products and product enhancements, and it must continue to reduce the development and distribution costs of its products. There is no assurance that the Company will succeed in implementing corrective action if any of these declines occur. Failure by the Company to implement successful pricing strategies and/or to develop new products to meet these

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competitive pressures and/or to increase unit volumes could result in the Company's failure and the loss of shareholder's investment.

### NEW PRODUCTS MAY CONTAIN UNDETECTED HARDWARE AND SOFTWARE ERRORS

New products the Company develops may contain undetected hardware and software errors, which could require significant expenditures of time and money to correct, harm its relationships with existing customers and negatively impact its reputation in the industry. In addition, the Company's products are combined with products from other vendors. If such problems occur, it may be difficult to identify the source of the problem. If such problems should occur, and if the Company is unable to rapidly correct any such problems, there may be consequences such as:

- o Delay or loss of market acceptance of the Company's products
- o Significant warranty or other liability claims
- o Diversion of engineering and other resources from product development efforts
- o Significant customer relations problems
- o Loss of credibility in the market
- o Inability to sell its products until any errors are corrected

Any one or any combination of these consequences could result in a significant loss in value of shareholders' investment.

### QUARTERLY FLUCTUATIONS MAY PLACE ADDITIONAL BURDEN ON WORKING CAPITAL, NEED FOR ADDITIONAL INVESTMENT

Management believes that OnCourse's sales will fluctuate based on the manufacturing community's purchasing trends. The Company's quarterly revenues and operating results have varied significantly in the past and are likely to vary significantly in the future. For example using an average of the last seven years sales activity, Micro Estimating's sales on a quarterly basis has ranged from approximately 19% of annual sales to as high as 33% of annual sales. TekSoft's average quarterly sales for the same seven-year period have fluctuated from approximately 23% of annual sales to 27% of annual sales. A typical sales pattern will start the year with new budget spending through the first four months. Then there will be a three-month slowdown during the summer months, which reflects reduced production and plant shutdowns. This is then followed by an increase in sales volume through the end of the year as companies complete their fiscal years, typically spending remaining budgetary monies and in some cases, based on taxation issues, purchase smaller capital expenditures to reduce tax liabilities. Other factors that may affect quarterly results include the following:

- o Expansion and recession of the United States and Global economies.
- o Significant events caused by Global political events.
- o The overall strength of the economy, timing, size and terms of customer orders
- o Changes in customer buying patterns
- o Uncertainties associated with the introduction of any new product or product enhancement
- o The timing of the announcement and introduction of new products by the Company or its competitors
- o The mix of products sold and the mix of distribution channels through which products are sold
- o Deferrals of customer orders in anticipation of new products, services or product enhancement introduced by the Company or its competitors
- o Technological developments affecting the electronic-commerce, business-to-business, and manufacturing software markets

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Any failure by the Company to obtain sufficient lines of credit to support these quarterly fluctuations, if any, could result in a decline in profitability and a loss of shareholder value.

MANAGEMENT OF FUTURE ACQUISITIONS AND GROWTH WILL REQUIRE ADDITIONAL INVESTMENT, MAY EXCEED COMPANY'S ABILITY TO MANAGE THIS GROWTH

The Company has embarked upon an ambitious growth plan including the acquisition of one or more businesses and the accumulation of capital to finance existing and acquired businesses. It will be necessary for the Company to attract, hire and maintain new employees at many levels, including senior management in order to achieve and support growth. The Company expects to include the public market for its securities as a basis for the development of key employee incentive compensation, savings, investment and retirement plans. There can be no assurance that the Company will be successful in any of these efforts, the failure of which could result in slower growth, a decline in profitability and a loss of shareholder value. See "MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS."

LOSS OF KEY PERSONNEL OR INABILITY TO HIRE ADDITIONAL QUALIFIED PERSONNEL MIGHT RESULT IN FAILURE OF THE COMPANY TO IMPLEMENT ITS PLANS

Loss of the services of key management employees or inability to attract and retain qualified personnel or delays in hiring required personnel, particularly programmers and sales personnel, could delay the development and introduction of, and negatively impact the Company's ability to sell its products. In addition to key management personnel, the Company's success depends on its ability to attract and retain highly skilled technical, managerial, marketing and other personnel. Competition for these personnel is intense. In recent years, there has been a strong demand for qualified skilled and unskilled employees in the Wisconsin, Minnesota and Arizona areas, where the Company's main operations are located, and in other areas where it operates. There is a risk that it will be unsuccessful in attracting and retaining the personnel it needs for its business. Failure to attract and retain such personnel could result in a decline in the Company's revenues and profits and a loss of investment by shareholders.

RELIANCE ON CONTRACT PROGRAMMERS FOR DEVELOPMENT OF THE COMPANY'S SOFTWARE PRODUCTS

The Company uses domestic and foreign contract programmers to program its software products. Competition for these resources may cause a shortage of contract programmers or increase the cost of these services to the point where the Company's profitability declines. This decline in profitability could slow product development efforts, which in turn could prevent the Company from being competitive in its markets.

RELIANCE ON DISTRIBUTION CHANNEL, INCREASED EXPOSURE FROM COMPETITORS STRENGTHS, AND THE COMPANY'S FINANCIAL CONSTRAINTS

The Company relies on direct sales and independent distributors to sell its products. For the years ended December 31, 2001 and 2000, 61% and 55%, respectively, of the Company's total revenues were generated by its independent distributors when excluding sales of the Company that were previously independent distributors. Distributors also represent other products that may either complement or compete directly with those of the Company. Independent choices by distributors concerning which products receive their principal attention, the development of new or enhanced products by competitors, the Company's relative ability to compete effectively with others in time-to-market comparisons and a large number of factors under the control of competitors and independent distributors may adversely effect the Company's future operating

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results. Failure to attract and retain good distributors and/or to implement more direct marketing efforts could result in a decline in the Company's revenues and profits and a loss of investment by shareholders.

### ASSET ENCUMBRANCES, OPERATING LOSSES AND CONTINGENT STOCK ISSUANCES MIGHT INCREASE SHAREHOLDER DILUTION WHILE VALUES COULD DECLINE

Substantially all of the Company's assets are pledged to secure bank indebtedness. The bank debt is subject to compliance with certain financial ratio covenants. The Company's earned surplus deficit and continuing operating losses might reduce the availability of such credit facilities in the future under those covenants or may cause the Company to default on its credit facilities, which would permit the bank to accelerate the payment of principal and interest under the credit facilities. At the same time, revenue and net income increases, if any, will obligate the Company to issue additional shares under acquisition agreements. Taken as a whole, these factors increase the risk of dilution in shareholder value and impose a risk of complete loss of shareholder value unless those trends are reversed or offset by the infusion of new capital.

### COMPANY'S BANK INDEBTEDNESS HAS FLOATING INTEREST RATES

The Company's existing line of credit facility has interest rate pricing that fluctuates with changes in the bank's prime rate. Significant increases in the bank's prime interest rate could reduce the Company's operating profits. A reduction in profitability will make it more difficult to implement the Company's growth plans and to develop the products necessary to remain competitive.

### FORWARD-LOOKING STATEMENTS

This annual report of OnCourse Technologies, Inc. includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the "1934 Act"). These statements are based on management's beliefs and assumptions, and on information currently available to management. Forward-looking statements include statements in which words such as "expect," "anticipate," "intend," "plan," "believe," "estimate," "consider," or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. The Company's future results and stockholder values may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond the Company's ability to control or predict. For these statements, the Company claims the protection of the safe harbor for forward-looking statements contained in Section 21E of the 1934 Act.[CWB1]

### REPORTS TO SECURITY HOLDERS

The public may read and copy any materials that the Company has on file with the Securities and Exchange Commission ("SEC") at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC's Internet site address is <http://www.sec.gov>

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The Company's Internet site address is <http://www.oncoursetechnologies.com>.  
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### ITEM 2. DESCRIPTION OF PROPERTY

All of the operations of the Company and its subsidiaries are conducted from office space leased from non-related party landlords except as noted for TekSoft. TekSoft leases office space with a related party that is renewable in five-year increments for a period of twenty-five years. See "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS."

The following table sets forth information concerning the operating facilities:

| TENANT  | SIZE IN<br>SQUARE FEET | LEASE EXPIRES | MONTHLY RENT<br>AS OF<br>JANUARY 1, 2002 |
|---|------------------------|---------------|--|
| -----   | -----                  | -----         | -----                                    |
| OnCourse Technologies, Inc./<br>Micro Estimating Systems, Inc.<br>3106 South 166th Street<br>New Berlin, WI 53151 | 4,672                  | 11/30/2002    | \$3,435                                  |
| CAM Solutions, Inc.<br>1631 East 79th Street<br>Suite 134<br>Bloomington, MN 55425                                | 1,122                  | 2/28/2003     | \$1,372                                  |
| Cimtronics, Inc. (1)  |                        |               |  |