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Shareholders' Agreements or Disagreements: A Case Study of Cobalt Telephone Technologies Ltd (Parts I & II)

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Abstract. This two part case outlines how this new technology company was founded with minimal financial assets in 1997. Cobalt grew through developing an innovative market penetration strategy for its automated telephone response technology ("piggy-backing" by supporting established sector sub-contractors), despite the creation of unnecessary 'financial risk' by an overly generous "kitchen-table" early share allocation, without a detailed share allocation agreement.

Keywords: entrepreneurship, partnerships, shareholder agreements, start-up valuations, ethical decisions.

Introduction

Part I details the early educational and army career of Harry Clarke, together with his work experiences and frustrations with the Mercury and Automobile Association companies which led to the creation of Cobalt. Harry and his partner Peter, with high ethical standards and little finance, agreed to a generous share split at the outset and preferred to avoid extra legal expense which could have been incurred with a more detailed shareholder agreement. The difficulties this decision created, relevant to many new companies, only became apparent when Peter decided to leave Cobalt in the middle of 'make or break' contract negotiations with the Manchester United Football Club. Students are invited to determine how shares in this still loss-making company should be valued and how all sides, inside and externally in the contract negotiations, should conduct themselves.

In Part II, the faster growth of Cobalt is detailed as the company benefited from the end of the 'Dot-Com' boom, by acquiring 'knock-down' computer and telephone assets from collapsed new technology enterprises. This enabled Cobalt

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1. This case has been prepared by Robert Brown, Visiting Fellow at the Bettany Centre for Entrepreneurial Performance & Economics with help from the MBA class of 2005 led by Joanna Miller, including Nick Williams, Bence Varady-Szabo, JP Lagesse and Peter Holm under the supervision of Professor Andrew Burke. The case represents neither good nor bad management practice but is intended for class room discussion purposes only.

to develop more constant revenue streams through 'the hosting' at its own premises of automated car-parking fines for local public authorities throughout the UK. In 2005, after 8 exhausting years, Peter, who had, six months after leaving, returned to help Cobalt complete the Manchester United contract, (for automated telephone ticket sales) once again decided he wanted to resign. With the company now profitable, students are again invited to decide how shareholdings should be valued and how both partners should prepare for a final settlement meeting.

A detailed Teaching Note is available, with analysis and 'role-playing' suggestions for students to undertake, and the Cobalt web-site can be consulted with the closing 'wrap-up' Teaching Slide.

PART ONE: THE ENTREPRENEURS

1. Harry Clarke, Entrepreneur

Harry was born in Brentwood in Essex, an entrepreneurial hotbed of South East England and came from a family line of people successfully running their own businesses. His maternal grandfather started and ran his own engineering business and similarly his father's parents owned a high street chemist shop. His father, who had grown up over the pharmacy, went on to found a separate engineering business regularly turning over £7m annually in the 1970's, whilst his mother was a self-employed artist.

Harry himself, having been schooled locally, studied Engineering at university, followed by four years as an officer in the Royal Engineers, seeing active duty in the 1990 Gulf Conflict. His parents both died separately during his period of service, leaving him with a legacy of guidance but no first hand mentors. He left the Army in 1991 for an MBA course at University. One of the few things that he admitted remembering from the course was the prediction that the Telecoms sector as being the "next big thing". He kept this in his mind as he struggled to get a job in the long six months after leaving College. This was during the early 90's downturn. Fortunately, having married Sarah, his girlfriend of then eight years standing, in the days following the end of the course, his spirits remained strong as he dispatched over 400 job applications.[2]

In 1992, Mercury Telecoms (British Telecom's only competitor at the time) was expanding aggressively. A stroke of luck, on what was to become his eventual path to success, occurred after having secured a job interview. An old friend from his 6th form college days, Garth, recognised his voice behind a partition as he was touring Mercury's offices, sought out and recommended Harry

2. CV of Harry Clarke is attached as Exhibit 1.

to the boss. Harry won the telecoms project manager job and this set him up with skills and knowledge that would prove formative in his later ventures.

2. Working for the AA[3]

Mercury's mercurial growth finally caught up with itself in 1995 and, disillusioned by a stagnant period of corporate deckchair shuffling, Harry jumped ship for the AA. Not realising the difference between a high growth company and a mutual, he was to be shaken by the difference in nature of the two company's core cultures. Hired by Mark Wood, a well known 'Turnaround Man' (now CEO of Paternoster) he was tasked, as one of four MBAs, to seek out excess staffing and inefficiency across the organisation and contribute as part of a board-led "culture-change team". Relatively fresh to the world of corporate politics, Harry disliked and couldn't respect the personal agendas and the way it all detracted from the real business of making profits. However he now saw this painful learning process as invaluable, and regarded this first hand experience of getting to grips with the machinations within larger companies as critical training for being a successful entrepreneur wishing to sell to big clients!

The AA had its own retail shops and its own insurance arm. One of the most obvious problems identified by Harry was that the big call centres of the insurance divisions were being inundated with telephone calls that they simply couldn't handle between the hours of 8:30 and 10:00 am. At these same times, the 258 shops of the AA retail network, staffed with over 500 trained insurance salespeople were largely idle. Harry saw the obvious opportunity to bring the phone calls to the idle shop staff using technology. He researched a means of directing these calls to the staff using an American Computer Technology software program called EASE, a move that would save the AA a fortune. Harry planned to engage Channelvox who were successful sellers of far less complex voicemail systems but, critically, held the UK distribution rights for EASE.

He confidently put a proposal to the AA board. The payback would occur within three weeks. All that was necessary was to commit to spending 20p on an otherwise unanswered telephone call, with the prize of a 22% conversion rate securing a £80 profit on an insurance transaction of around £250. Convinced that this was a "no-brainer" Harry found the board decision not to progress, on the grounds of being too risky, a damascene moment. He had enjoyed working as a change agent and seeing the levers of board control being used to change the direction of the company, but he was realistic and could see that he did not fit the corporate mould. He knew that his own route to P&L responsibility wasn't there, and the roles he wanted would, in due course, be given to "safer" choices. He

3. The Automobile Association is the largest auto breakdown recovery service in the UK and has its own insurance brokerage arm.

couldn't however let his drive go to waste. He concluded that his time as an employee was coming to an end.

Soon afterwards, he arrived at work to find that, overnight, his boss had gone, parachuted into a new role as CEO to turnaround the AXA Insurance Company. Recognising that his power base had gone, and having ruffled a few feathers as a change agent, Harry realised that he would have no future at the AA as the culture of change dissolved.

Determined to grasp the nettle, he made an appointment with the HR director to set out the facts as he saw them, namely that his position had been rendered untenable through no fault of his own and without warning. He asked what they were going to do about it! Having already decided that he was going to leave, and wanting some capital to help set up a new business he saw an opportunity and was determined to exploit the situation he found himself in. After due negotiations, Harry managed to walk away from the AA with £13,000 in compensation.

3. Going It Alone

It was now 1996, four years since leaving University and Harry realised he had a burning desire to start on his own. Stunned by the business cases that could be created from the thoughtful use of Computer Telephony Integration (CTI) technology such as EASE he knew he had found a winner. As Harry today acknowledged, automation of any process that cut out labour costs, in his words "the Henry Ford model", never went out of fashion. Almost for the first time, he thought about his parent's and grandparent's career choices and decided that he wasn't necessarily cut out for corporate life but surely had it within him to succeed in his own business. The liberating feeling came one evening whilst driving home from work as the words of his father rang in Harry's head . . . "Opportunity knocks rarely – firstly make sure you are listening and secondly open the door!"

To set the ball rolling, he arranged a schedule of meetings with three other friends to explore the possibilities of starting a new CTI business. The friends were James Gunn, head of Thames Valley AMBA[4], Garth Matthews, the individual who had heard his voice behind a partition, and Peter Tomlin, who had worked at the AA until six months before Harry left. Harry had a strong regard for Peter's project management ability and had admired his part in the rollout of an EPOS (Electronic Point of Sales) system to the AA retail shop network.

For four weeks, the group met every Saturday morning at 8.00 am in The George pub in Odiham, Hampshire for breakfast. This was followed by a brainstorming session until 11.00 am to see if they could agree on a way forward and a market that they could penetrate. At the fourth meeting, only Harry and

4. AMBA stands for the Association of MBAs.

Peter decided to go ahead and take the plunge. Peter's grandfather also had his own construction business but this gave him an altogether different motivation to succeed because he had seen his father subsequently lose it all in bankruptcy. This, and other life experiences, made Peter a naturally cautious character. A perfect foil to Harry's optimism, Peter's risk aversion was to play a key role in his later decision making. Each invested £10,000 in the new business. As Harry had the original idea, and was willing to mortgage his house, he received 55% of the equity and Peter the remaining 45%. (Cobalt's share capital of 1000 shares at £1 per value was split 407 shares to Harry, 333 to Peter, with 260 unallocated). As a man of integrity, Harry still does not believe in pre-nuptial contracts before marriage, nor in this case in a legal shareholder agreement accompanying the share split with Peter.

4. Cobalt – The Early Years

Although Harry had left the AA without having gained any sales experience and having limited knowledge of the principal market they were targeting, he believed in himself and his abilities. Critically too, having accepted that corporate success would be denied him, he was convinced he had nothing to lose. Importantly, Harry never thought of Cobalt as a small company, "it was only a small company at its' current growth stage" and having been a business analyst at the AA, as a poacher turned gamekeeper, his mindset was not that he was trying to sell technology – he was selling business solutions.

Knowing that Channelvox was the UK distributor for EASE and in keeping all set-up costs to a bare minimum, Cobalt formed their business in the most appropriate place, a rented Portakabin placed in the car park of Channelvox, at a price, Harry recalled, of £27 per week. Cobalt Telephone Technologies Ltd was born in early 1997!

A simple deal was forged in an agreement with Channelvox's Managing Director, John Lewis. Channelvox was already attracting, and discarding, suitable CTI sales opportunities through their sales channel, as a result of accidental association with their core, and similar, voicemail business. It was agreed that Channelvox would pass these to Cobalt, remaining the prime contractor and taking a margin, but the solution would be fulfilled by Cobalt using Channelvox's EASE product as a basis of the solution.

Weekly meetings were scheduled to share information about new prospects that had been found. But unbeknown to John Lewis, Harry used to invite Channelvox's returning salesmen to his car park cabin for tea and biscuits and subtly pump them for information before they went upstairs to report to their own MD! Cobalt used this depth of information from the horse's mouth both to learn more about the depth of the real opportunities (to allow them to sell directly in future) and to give them a negotiating edge with John.

Cobalt's first client was a supermarket refrigeration repair/maintenance company called NRC, which undertook repairs for Tesco. Despite being excellent and responsive engineers, NRC were terrible at reporting to Tesco when they had completed their repairs. This was causing Tesco major knock-on problems and was endangering the contract. In desperation NRC's solution was to purchase a fax and phone line for each of their 400 engineers across the country but the timely arrival of a Channelvox representative meant that a Cobalt CTI solution was purchased instead, coded heroically during Christmas and Boxing day by Peter. The reporting system delivered on 1 January 1998 became an instant success. NRC's successor MML retained their Tesco contract and is still a client of Cobalt's today. "The aim of Year 1 was not to make a profit, but to get to Year 2. Thanks to NRC, this we did" noted Harry!

In this way Cobalt was embarked on a strategy of delivering successive large projects, i.e. Customised computers, with voice processing cards, which by providing automatic voice responses and recording, reduced the number of call centre answering staff required. Nevertheless the ups and downs of the cash flow created by the occasional big project deliveries were causing regular financial stress[5]. As the company and working capital, grew, it only got worse. There had to be a better way . . .

Despite the inevitable pain of being a bootstrap start-up, within nine months Cobalt moved out of the Portakabin and into the main building. In the meantime Channelvox was beginning to suffer a drop in demand for their core product and the MD became sidetracked into becoming deeply involved in another business idea for selling top-ups for mobile telephones via the Internet.

Frankly, Cobalt was also struggling, although Harry could see enormous potential for the business. Luckily the property market had picked up since the stagnant years of the early 1990's and was growing steadily. On a tide of rising house prices Harry was fortunate in being able to successively re-mortgage his house, as Peter remained unwilling to do the same, in order to raise the necessary money to prop up the business.

Sinking deeper, but doggedly committed, Harry then turned a planned house move into an opportunity, to leverage a new mortgage on the new house as yet another method of raising finance for working capital in Cobalt. Already in too deep, taking subsistence salary, juggling lenders and credit cards and paying the mortgage interest payments from yet further borrowings, still Harry fully understood, if the business failed, he would not only lose his family's house but would also have a debt many thousands of pounds in excess of his assets.

One further incident in late 1999 confirmed Harry in his dislike of shareholder agreements. A former colleague from Mercury days offered to invest £25,000 in Cobalt, in return for 185 unallocated shares (20% of Cobalt share capital), if Cobalt staff would help him to develop a new product which could

5. See Exhibit 2, Cobalt Profit and Loss, Balance Sheets, 1996 - 2000.

potentially lead to cheaper telephone calls. Three months of collaboration proved fruitless, but the real sticking point was the new investor's call for a written shareholder agreement (see Exhibit 3 for key requirements). Neither Harry nor Peter saw the need for such an agreement, costing £2-3,000, and eventually the investor withdrew, accepting the loss of his investment in return for the work collaboration by the Cobalt team, and surrendering his shares back to the company.

5. March 2000 "The Crunch Point"

It was now 2000 and Harry was working flat out. His work/life balance had become non-existent. His second child, Eleanor, had just been born and was effectively being looked after by Sarah alone. Harry was sleeping in the spare room and spending every waking minute focused on work. The psychological effects of the continual stress and the physical effects of the very long hours of work were taking their toll.

Certainly Cobalt's strategy of "multi-niching"[6] was slowly working, but crucially the company had not secured a business model that led to significant recurring revenue streams and so remained on a permanent knife-edge.

Having had two previous bank managers who were both flexible and enthusiastic supporters of Cobalt, things were not helped by a marked change. At the time of the greatest pressure, Harry found himself saddled with a new manager, who blatantly didn't like Harry or his style. Grasping at the straw of a Small Companies Loan Guarantee scheme and investing many hours in preparing the documentation and justifications, Harry was later to learn that the manager, who had the role of gate keeper, never put forward Harry's application for consideration to the DTI.[7]

6. The Manchester United Contract

There was however hope on the horizon. Cobalt, now with four employees, had been negotiating (through a partner, Synchro Systems) with Manchester United to provide a service to sell tickets automatically over the telephone. One quarter of all tickets was forecast to be sold automatically and IVR[8] was the perfect technology to do this cheaply. Demand was greater than supply, with many members of the supporters club to manage and this was causing inefficiencies at Manchester United.

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6. "Multi-niching" for Harry meant solving 'one off' project problems using telephone technology.
7. UK Deparment of Trade and Industry.
8. Interactive Voice Response telephone technologies.

The lead itself came as a result of a very lucky break. Harry had been cold-calling a list of potential partners. When he initially called Synchro Systems on a Friday, they were not interested in what Cobalt had to offer. However, the person who took the call told a sales colleague about it later that day in the pub, who by chance was looking for a solution for their client, Manchester United. On Monday, when Harry resumed the process of working down his list, he had lost track of his place, and inadvertently once again called Synchro Systems, by sheer chance spoke to the same person who remembered Harry and transferred the call to his sales colleague.

Normally, Manchester United only dealt with service providers who were proven winners and "best of breed" – the whole culture was and remains about winning. Arriving under the coat-tails of Synchro's existing relationship however opened the doors and soon a potential requirement was placed on the table and Cobalt was in the picture.

After three months of discussions and scoping they seemed certain to buy, but Harry was faced with the critical pricing decision. "What does the largest sports club in the world expect?" he thought. He ran budgets and when he was comfortable that he could take a reasonable profit from the job, settled on an absolute minimum that he would accept. He then doubled this figure, walked around the garden and added another £50,000 and used it in the final tender document that he submitted to Manchester United.

Manchester United agreed to go with Cobalt and prepared themselves to give a purchase order for £250,000 to be payable in stages to support the build costs. Memorably, the Company Secretary asked Harry directly in the final meeting if Cobalt had tendered a high enough price adding that they would be very demanding clients. Harry realised this was a make or break moment for Cobalt. He didn't want to destroy any of his hard-earned credibility in front of his client and confirmed that the price was right. Harry returned to Cobalt with the confident expectation that the order as good as signed.

His return to the office was the opposite of the triumph that he had hoped. On receipt of the news, his partner, co-founder and Technical Director Peter dropped a bombshell, he would be leaving. Peter had been offered a job by Channelvox, poached in effect by John Lewis, to become the Technical Director of the new mobile phone top-up division. He stated he would assist in recruiting a replacement and handover but would accept the offer, leaving in two months time.

Questions

1) Putting yourself in Harry's shoes in March 2000 what would you do and, in particular, would you tell Manchester United, when and how?

2) How do you advise your company staff of Peter's departure and what do you propose in terms of his equity share from this point onwards? With no *shareholder agreement, how do you value his shares and do you offer to buy them back? At what price? (see Exhibit 2, Financial Results)*

Exhibit 1

Harry Clarke, BEng (Hons), MBA

Analytical, pragmatic, well-educated, relentless, self-starting entrepreneur with a broad track-record of success.

Aged 42 and married with three children living in Tangley, North of Andover.

Career Summary

<u>Commercial Director, Cobalt Telephone Technologies (Sep '97- to date)</u>

Founder, executive board member and majority shareholder of an automated service bureau (outsourced transaction handling). Primarily responsible for sales, strategy, culture and drive.
Founded in a Portakabin, and without external investment at any stage, Cobalt has grown, through reinvested profits and sweat to dominate several market niches.

<u>Previous roles</u>

AA Insurance	2 years as an internal consultant on a fast-track programme tasked with injecting business process efficiency and undertaking turnaround.
Mercury	3 years as a project manager leading telecom development teams.
British Army	4 years as an officer, rising swiftly to the rank of Captain, including wartime service in the Gulf.
Marks & Spencer	1 year, in total, as a warehouseman (during various university hols).

<u>Education / Qualifications</u>

Business	MBA, self financed 1991.
Marketing	Chartered Institute of Marketing (CIM) diploma '92.
Languages	LCC Intermediate Business German & 2 year's practice in Osnabruck.
Leadership	Royal Military Academy Sandhurst '87-'88.
First Degree	Engineering Design and Manufacture, Hull University (Winner of the Institute of Mechanical Engineers finalists' prize) '83-'87.
Foundation	3 A levels, 13 O levels, Brentwood School, Brentwood, Essex.

Life Themes
Widely travelled in the past, my limited free-time commitments now centre around my young family. First loves include: club tennis, alpine-skiing, Italian designed GT sports cars of the '60s – '70s, good company and gardening.

Exhibit Two

Cobalt Telephone Technologies Ltd: Profit and Loss Account

	31 Dec 2000	31 Dec 1999	31 Dec 1998	31 Dec 1997	31 Dec 1996
Billings	188,176				
Billing deferred to future periods					
Sales commissions					
Unbilled work					
Turnover	188,176	78,432	78,727	3,317	2,608
Service platforms					
Cost of sales	(36,181)	(3,990)	(18,725)	(2,489)	(1,096)
Gross profit	151,995	74,442	60,002	828	1,512
Overheads	(177,633)	(88,117)	(52,724)	(7,295)	(6,860)
Profit before tax	(25,638)	(13,675)	7,278	(6,467)	(5,348)
Interest (payable) /receivable	(2,176)	4	100	-	-
Taxation			(20)	-	-
Profit after tax	(27,814)	(13,671)	7,358	(6,467)	(5,348)
Accommodation	12,341	11,381			
Administration	1,276	1,328			
Advertising & promotion	10,552	9,267			
Answering	2,284	2,659			
Bank charges	1,306	647			
Depreciation	10,683	6,675			
Health & Safety	105	-			
Insurances	1,812	2,184			
Mobiles	1,113	-			
Postage	41	158			
Professional fees	5,214	11,426			
Salaries including NI	106,547	26,910			
Software licences	590	-			
Stationery	1,183	2,622			
Sundry	442	-			
Fax	-	-			
Telephone	5,155	3,552			
Training	2,000	-			
Travel Expenses	14,989	9,308			
	177,633	88,117			

Cobalt Telephone Technologies Ltd: Balance Sheet

		31 Dec 2000	31 Dec 1999	31 Dec 1998	31 Dec 1997	31 Dec 1996
Fixed Assets						
Costs		56,384	33,558	15,781	7,590	424
Acc Depreciation		(24,336)	(13,654)	(4,055)	(3,329)	(106)
Net Book Value		32,048	19,904	11,726	4,261	318
Current Assets						
Stock		-				
Debtors	Work in progress	-	-		2,437	4,484
	Trade Debtors	16,557	27,452	21,920	-	-
	Prepayments	2,586	1,000	2,166	-	98
Cash			2,224	2,854	9,278	2,843
		19,143	30,676	26,940	11,715	7,425
Creditors: amounts falling due within one year						
	Bank overdrafts	(23,757)	-	-	-	-
	Trade creditors	(3,157)	(8,206)	(6,338)	-	-
	Corporation tax	-	-	(21)	-	-
	Other taxation and social security	(15,822)	(7,579)	(227)	-	-
	Other creditors	(1,289)	(12,500)	(4,614)	-	-
	Advance income			-		
	Directors loans	(1,293)	(1,183)	(16,183)	(27,191)	(12,491)
		(45,318)	(29,468)	(27,383)	(27,191)	(12,491)
Net current liabilities		(26,175)	1,208	(443)	(15,476)	(5,066)
Creditors: amounts falling due after more than one year						
	Directors loans	(26,000)	(13,500)	(15,000)	-	-
Net Assets		(20,127)	7,612	(3,717)	(11,215)	(4,748)
Capital and Reserves						
Called up share capital		1,000	925	740	600	600
Share premium account		24,815	24,815	-	-	-
Profit and loss account bfwd		(18,128)	(4,457)	(11,815)	(5,348)	-
Profit and loss for the year		(27,814)	(13,671)	7,358	(6,467)	(5,348)
Profit and loss account cfwd		(45,942)	(18,128)	(4,457)	(11,815)	(5,348)
Net Assets		(20,127)	7,612	(3,717)	(11,215)	(4,748)

Exhibit 3

Extracts of Proposed Shareholder Agreement Checklist,
December, 1999

Transfer of Shares and Shares Generally

Must a director offer up his/her shares for sale on leaving?

Can a shareholder sell shares to any third party without first offering to existing shareholders?

1. If shares are offered to the existing Shareholders must this be pro-rata to existing holdings at a price agreed between the outgoing Shareholder and the existing Shareholders. Does the price have to be agreed by all the Shareholders or just a majority of them?

2. If a price cannot be agreed, then the shares should be valued. Please indicate whether the value will be determined by the Company's auditor or whether it should be an independent person.

3. On what basis will shares be valued? Will it be a "fair value" as determined by the Auditor/Independent Accountant i.e., the open market valuation as between a willing buyer and a willing seller without discounting or enhancing the value because of a minority or majority shareholding i.e., the value of the Company as a whole is divided equally between all the shares? Will a more complex formula apply i.e. linked to net assets and/or multiple of profits?

4. If an outgoing Shareholder is not happy with the price determined by the Auditor/Independent Accountant can he withdraw from the sale?

5. Should insurance arrangements such as cross-options be put in place, i.e., on the lives of individual Shareholders, to ensure that funds are available to purchase a deceased person's shares?

6. Can a Shareholder transfer part only of his shareholding to another Shareholder, to a third party, to a family member?

7. Should there be a limit on the number of shares held by any one person or that one person and family members or other connected parties?

8. Should shareholders be prevented from selling shares during an initial minimum period?

9. Will any of the Directors/Shareholders be subject to non-competition restrictions either during or after termination of employment or on selling all their shares?

If the majority want to sell does the minority have to sell too? (Drag along tag along).

Are minority shareholdings given equal weighting in any valuation or distribution of sale proceeds?

PART TWO: THE ETHICAL DILEMMA

1. Manchester United

Harry struggled with his next decision. The company was in desperate need to secure such a valuable and prestigious contract and quite probably would sink without it. Deep down, he knew what he should do and in the end decided that honesty was the best policy. The club would unavoidably find out sooner or later, and then feel they had been duped so it was better to take control of the situation by writing to Manchester United (Exhibit 1) on 12 February 2000 to break the news.

David immediately called Harry to attend a meeting at Old Trafford. Harry felt it likely that they would decide, on balance, to rescind the contract because of the depth of technical know how that the job required. Without Peter to head up the implementation of the project, might they, by backing only half the team they thought they had, be exposing themselves to potentially damaging PR if the new system failed to deliver? Rather than risk the lack of structure of a personal meeting, Harry wrote a second letter (Exhibit 2) in which he could put a clear and succinct case on 17th February 2000 to David Beswitherick, Manchester United' Company Secretary. As David was a Bradford MBA, Harry knew that a reasoned approach would suit his analytical nature.

Fortunately, Harry's luck was holding firm and to his huge relief, after due consideration, Manchester United decided to give Cobalt a chance to prove itself (Exhibit 3), but on significantly different terms to rebalance the risk. The payments would now be re-structured. Rather than receiving a lump sum up front, the new structure involved stage payments being made only once clear deliverables had unequivocally been shown to work in live operation. The last and largest payment would only be made after the system was installed, used and employed successfully, in support of three Manchester United games. Cobalt was to integrate the system in co-ordination with Synchro Systems whose software was used to process the tickets for Manchester United.

Despite the rebalancing of commercial risk, Manchester United nonetheless faced a huge potential banana skin. A failure could have been an operational and – not least – a PR disaster, but to their credit they stuck with Cobalt.

On this basis things progressed, with Peter duly leaving, as he had stated he would, and Harry correspondingly devoting himself to the delivery. Things ran well but by no means smoothly. One of the stipulations of the contract was that Manchester United required, and would pay for, two days of off site testing at Ericsson's telephone test labs in Burgess Hill, Sussex prior to delivery. The test facility, hired at £5,000 a day, involved major preparation. Things didn't look good as the fixed time approached and, despite all Cobalt staff working all through the night prior to driving down for the tests, the system failed completely.

Faced with another crisis, Harry met with David and proposed a retest at Cobalt's full expense of £8,000 a fortnight later (money of course Cobalt didn't have). Working all night, Harry and the team loaded the car at dawn for the second attempt. This had a limited success, but was still dogged with errors. Why! reasoned Harry, what on earth could it be! Having been assured by their trusted hardware supplier that the problem could not lie there, the £20,000 server on which the system was built was, as a last resort, torn apart and an obscure compatibility error finally resolved. At the last and final test (in more ways than one) the system was proved to work.

2. Reaction to Peter's Move

Peter's announcement came as a severe blow. Having however worked shoulder to shoulder with Peter for three years in Cobalt, Harry understood that the situation had been more gruelling than anyone deserved to endure, and that having been terribly torn by support for his colleague, with his own ambitions on the one hand and the future of his family on the other, Peter had made this awful decision in anguish.

Sincerely respectful of the trial that he too had endured, Harry worked with Peter to ensure that the parting was both respectful and clean for both parties. Peter left with an engraved decanter of thanks in Cobalt blue glass, and the sincere assurance that Cobalt's door was always open to him should he wish to return. It was agreed that Peter would give up 15% of his equity when he left Cobalt.

Six months later, Peter was not enjoying working with the individuals involved in this new Channelvox venture and Harry despite having achieved the delivery of most of the deliverables, desperately needed him back to add the defining layers of quality and polish that would cap the project. They met at the Wheatsheaf in Egham and the outcome was that it was agreed that Peter would return to Cobalt for two months as a contractor to assist the completion of the delivery. After six months he was still there and Harry unilaterally, in recognition, transferred back 5% of the equity.

3. Relations with Bank and Family

During all of this difficult time, the relationship with their bank remained unsupportive, the bank simply providing a wholly secured loan at 11% interest. Coincidentally, Harry's cousin was a director of the bank and he made this fact known to the bank manager in order to try and influence him. Although it was an implied threat, Harry never went as far as to involve his cousin. Harry's relationship with the bank in terms of disclosure remained in stark contrast to his very open relationship with both his employees and his customers.

Harry had never been short of family support, nonetheless, by his own admission, one of the hardest things Harry has ever had to do was to approach his father-in-law for a loan of £20,000 to enable Cobalt to keep going at the depths of the Manchester United delivery. He had exhausted all other avenues that he could think of and as he said himself “your father-in-law really is the lender of last resort”. At a practical level he needn’t have worried, his father-in-law agreed immediately, precisely as Harry knew he would – it was however a request that morally he would dearly like to have avoided. However, many entrepreneurs can point to instances where they have been reliant on one final decision going their way. This one, and all that has risen from it, has on balance become a positive outcome to celebrate Harry’s relationship with his father-in-law.

Unsurprisingly Harry and Sarah’s relationship suffered significantly during the bad times. Harry’s survival mechanism was to entirely shut down emotionally and become ever more focussed and insanely task obsessed. Now truly out of the other side of all that, Harry and Sarah live happily together and have three children. Harry attributes the survival of the marriage to the fact that he and Sarah had been together for thirteen years when Cobalt was formed, and that Sarah was a social worker by profession! He had no doubt that this gave her some extra understanding during the worst years of struggle and that most couples would not perhaps have survived such strain. Making your own business work does come at a price, however. Harry acknowledged that he missed many of the formative years of his first two children because of Cobalt.

4. A New Business Model

Having survived the delivery of Manchester United, Cobalt was still by the end of 2000 losing money, with a negative net worth of £20,000, but at least it had the old team of Harry and Peter back together, new confidence, a superb blue chip client to its name, and a recurring revenue stream of £32,000 per annum of system maintenance. If only the company could have more predictable cash flows like this Harry mused…

The pivotal answer to that question occurred during March 2001 as a consequence of Cobalt’s implementation of a system for the charter airline Airtours. Two weeks before site installation, Cobalt was told that the airline had just sacked their IT contracting company and hence had an immediate freeze on IT changes which would mean no equipment could be installed. Facing shared angst, the Operations Director of Airtours, agreed that Cobalt could retain custody of the Airtours hardware equipment and host the system in their own offices using Airtour’s actual computer server, the inbound calls being re-routed to Cobalt’s site by BT. After three weeks of successful operation in this manner, Cobalt realised that the Airtours server had been over specified and had a 75% spare capacity. Sensing an opportunity, Cobalt set about selling the same package to other competing airlines utilising the original hardware paid for, and indeed owned by Airtours. The Cobalt hosted model, which now accounts for 90% of all business, was begun.

5. The Dot.Bomb

At the end of 2001 and into early 2002 countless Internet businesses were running out of money, several in a spectacular fashion. They had been started with huge capital injections and had collapsed when no profits, and in some cases no revenues materialised. Investors lost huge sums overnight and the mood of the world turned against the whole IT and Telecommunications industries. This had to be bad news for Cobalt … didn't it?

Harry heard of the bankruptcy sale through a family friend. He had not particularly planned to purchase anything. He went along and could not believe what he saw, stacks of premium computing and telephony equipment from recently bankrupted Internet Startups, all at bargain basement prices. He began a buying frenzy and £12,000 later he had a nice pile of nearly new, high specification equipment worth hundreds of thousands of pounds. He had to hire a Luton van and make two trips with it to the Basingstoke office just to get it back. Harry's partner, Peter, did not immediately share Harry's enthusiasm. But they trusted each other enough to see what happened next.

A pile of high-tech equipment was not much use unless it could be put into service. Harry knew the Cobalt team were already working hard, so instead of foisting the equipment on them, it was all left in a locked room but he would leave subtle messages. Each night before he left the office, he would download and print out another manual for one of the items and leave it strategically placed for the curious to see next morning. The tactic worked and soon the team began to take up the challenge. The whole platform soon grew in sophistication and resilience. The team started the journey along the learning curve and the next generation platform was born.

This marked a step-change in the capacity of the Cobalt service platform, and meant that the pressure was back on Harry to sell the capacity he had created. He remarked of this time that the 'big bang' introduction of the equipment helped push Cobalt to new heights, selling a service from Cobalt's own computers, with their browser based control interface, which could be run across the internet, anywhere.

6. Parking Ticket Payment – The Big Break

Another key moment in Cobalt's evolution took place in December 1998, although it was to take until 2002 to reach fruition. Driving his TR7 convertible, Harry parked overnight in Lime Grove visiting a friend. Slow to get going, he found a parking ticket on his car the following day and noted that the only way offered to pay the fine was by post or at the Town Hall between the hours of 9:30 and 4:00, very inconvenient for anybody with a 9 to 5 job! With his experience of selling Manchester United tickets by credit card, he instantly knew that the local authority needed a Cobalt automated payment line! The rest is company history, and parking today makes up 80% of Cobalt's profits and an impressive 4% of national spend on parking tickets (£35m) is processed by Cobalt. Cobalt's charging mechanism is success based, with Cobalt retaining a few percent of any payment that is successfully processed.

The four years of gestation from 1998 to 2002 for this product to the first sale was notable. Cobalt had initially tried to sell directly to local authorities. Local government is however notoriously risk averse and only contracts with known entities. After banging his head against several brick walls, Harry recognised that the way into Local Authorities was by "Trojan horsing". In other words "get carried in to the feast , like a pilot fish carried, clamped by its sucker, beneath the jaws of a shark and be ready to catch the passing morsels".

He analysed the parking market and read all the trade press to get fully acquainted with it. He went to the annual trade show "Parkex" and realised that there were realistically only three companies in existence who were right for a partnership with Cobalt. It took three years to forge a relationship of trust with Sanderson (now Civica). He approached them as being the company that appeared most open to growth and offered them 20% of the gross income for doing absolutely nothing other than priming the contract. Harry had created a classic win-win situation. Cobalt would receive 80% of something they would not normally have had and the partner gained 20% of free money – and an income stream into perpetuity.

Cobalt secured its first contract with the London Borough of Wandsworth by contacting the Parking Managing who by chance was an ex-banker and therefore understood that card payments were the way forward. Harry told her what the Borough's needs were through a very professional report and bespoke presentation to them, highlighting how they could be helped by Cobalt.

Cobalt also charged a set up fee of £25,000 of which they immediately gave £8,000 to Civica to reinforce the partnership. "You are giving them a free revenue stream of £2000 per month in perpetuity. Then you are IN. What's more you are trusted and are then recommended to other customers and salesmen in other divisions etc. It is essentially outsourcing sales and it has usefully won us a multi-million pound slice of a growing market".

7. Repaying the Debt

Having made several sales of the new parking service, Cobalt was keen to secure Edinburgh City Council as a client (Edinburgh being the UK's largest unitary authority). After nine months of trying to close a standard ongoing revenue deal and several flights to Scotland nothing was happening.

In March 2003, Ian, a Civica salesman, telephoned Harry to let him know that Edinburgh Council had called saying they had three weeks to spend their remaining £400,000 budget, "and was there anything they needed to buy from Civica?" Needless to say, Ian and Harry thought of something. Revised terms were put before Edinburgh. The setup fee was ramped up from £25,000 to £145,000 and Cobalt agreed, in perpetuity, to take half their previously discussed percentage of the parking fine income. £25,000 went to Civica ensuring Ian his commission. The remainder completely wiped out Cobalt's last remaining debts.

8. Peter Prepares to Resign Again

As at June 2005, Cobalt traded profitably with the copper-bottomed assurance of its long term revenue streams. Turnover which has grown every year since its formation, was just under £1m in 2004 and was predicted to be £1.3m in 2005 (see Exhibit 4, company financials). The company retained Manchester United, NRC's successor MML and Airtours as customers. 60% of company revenue came from the parking market. The company had no debt and wholly owned its two transaction handling centres in Fareham and Basingstoke (and all the hardware has been purchased for a third planned for the Docklands). Peter and Harry continued to jointly hold all the equity and had high hopes for the new RingoGo mobile phones parking payment system being trialled at Bristol Parkway Railway Station as the first customer in July. Harry wouldn't and admits probably couldn't do anything else. Peter, however, wearied by approaching a decade of continuous stress and activity wanted to take early retirement and made it clear he was more than ready to hand in his resignation once again! Harry, by chance, at an MBA class presentation had just met Joanna, a young student who seemed to be an ideal Technical Director replacement. Harry wondered what he should do about his friend's 35% shareholding and realised he had better be prepared for a final meeting with Peter at the Wheatsheaf in Egham to finalise terms!

Exhibit 1

12 February 2000

Mark Hargreaves
The Manchester United Football Club PLC
Sir Matt Busby Way
Old Trafford
Manchester
M16 0RA

Dear Mark

I thought that I should write at the earliest opportunity and let you know that Peter Tomlin will be leaving Cobalt in the next few months. As you know Peter has been with Cobalt since its beginning and his work in founding, growing and, more recently, mentoring the technical team has been at the root of our success. His leaving will therefore naturally mean adjustments and changes in responsibilities for the rest of us here at Cobalt in the short term.

Peter has for many months indicated that he had come to find Cobalt's systems' developments insufficiently engaging and expressed a broad desire to move on at some point in order to further his professional development. I was however only made aware of his firm intent to leave and the fact that he had been negotiating the offer of another position early last week. You will understand that we have, since that revelation, been agreeing the terms of his leaving and that this letter has been awaiting the completion of that process.

Peter leaves to join a funded internet start-up of which one of Cobalt's partner companies, ChannelVox, is a founding subscriber. I know that he is strongly motivated by the technical challenge of his exciting new position within it and also that he will be an excellent addition to their team. I wish him well.

Cobalt has always had close links with ChannelVox and Peter is keen to minimise the disruption and potential risks both to Cobalt and particularly to yourselves as the transition takes place. His confirmed leaving date is April 6th but he has agreed to support Cobalt in a consultancy role should it prove useful for us to call on him in the following months. The implications of this obligation to provide medium term continuity are fully understood and accepted by his new employer.

I appreciate that this news will come as a surprise and will require your careful consideration in the coming days. As you would expect, we are managing this change openly, and with care, and, as a result of the changes and contingencies that we have put in place, I am confident in giving my assurance that we can deliver and support the system that we are currently working towards.

For Manchester United, the overall outcome will be that I will not disengage from the project, following the completion of the commercial stage, as would normally be the case. Instead, I will continue to project manage the technical delivery phase and thus remain your constant point of contact through to the completion of the project. Jocelyn Lomer, whom I know you have met, will backfill some of my other responsibilities in the meantime.

Having had several days to gauge the mood of the team at Cobalt, the surprise of Peter's departure has given way to a general view that the changes that are coming are a source of opportunity not concern. It is good to see this amongst my colleagues and I know that this augurs well.

Although we will be in contact in the course of business in the next week if you, or any of your colleagues, would like to telephone me or indeed Peter to talk about this development and its implications then obviously don't hesitate. I know you have my numbers, but let me also give you Peter's office number 01256 339196 and his mobile number which is 07887 648033.

With kind regards

Harry Clarke

Exhibit 2

David P Beswitherick
The Manchester United Football Club PLC
Sir Matt Busby Way
Old Trafford Manchester
M16 ORA

17 February 2000

Dear David

I tried to write a formal document to answer the questions that you raised in our phone conversation this afternoon. I didn't find that worked. I have therefore settled on writing a structured letter. I hope it frames the issues that are important both usefully and clearly.

In order to be brief I have divided it into three sections:

- Answers to the questions that you raised;
- The material facts, as I see them; and,
- A final section on risk and risk management.

Let me begin by addressing your questions directly.

Where would a decision not to progress leave Cobalt?

The honest answer must be, disappointed and on review (given a negative decision) considerably over-committed to the football market segment. Looking back in the diary, we made first contact with Steve Vernon of Synchro over two years ago, having analysed this niche as being ripe for IVR. It took 15 months of commercial development to build the relationship and a similar frustrating elapsed time to hit all of the frankly unstable and moving technical targets. Nonetheless, we persevered. I first visited Manchester United on the 19^{th} of May 1999, knowing full well that you would either open the market or, in the course of discussions, give us the reason why we should not progress.

Since then, we have, in total, had seven site meetings and I have written over 40 external documents to you in order to progress the business to this point. After our enjoyable meeting here in January, I have to admit to allowing myself to feel for the first time that we were getting somewhere with Football Your contract would be the first real fruit of the Synchro Partnership and a major turning point to realise our strategy of investing for the long term.

So, to answer your question, I think that inevitably both we and Synchro would review our partnership. My view is that Synchro would withdraw from us, and await the outcome of your supplier decision-making process. As for Cobalt, I am not sure that we would wait around. I think that we would have to review whether ploughing further resources into the ticketing market, given that this situation would put things back 15 months and could happen again, is worthwhile. There are a number of considerably faster moving niche areas within IVR and indeed Telecoms to review in which we could better apply our skills.

In short, my belief is that the Synchro Cobalt partnership would dissolve.

What is the future of Cobalt?

The medium term future of Cobalt undoubtedly lies in the successful prosecution of its existing partnerships When Cobalt was formed it was obvious that attempting to grow by carrying out increasing numbers of bespoke IVR software developments would lead nowhere It would not only demonstrate a lack of strategic focus but would also create a major support headache.

We therefore chose to develop *IVR* software that could be rolled out time and time again to successive similar sites. To that end we dug in and got on with the lengthy task of developing software and partnerships. As we went on, we did carry out the occasional bespoke development when the combination of cash, associated brand credibility and experience made the work worthwhile. Achieving an impressive turnover was not a major worry given that we recognised ourselves to be in a development phase.

The result today is that we have three partnerships :

The partnership with Synchro for stadium IVR applications (after two long years).
The partnership with Crown Computing for IVR timekeeping applications (after two years and a false start).
The nicely developing partnership with Datastream for remote reporting by site engineers (after only 8 months).

Cobalt is now moving to a new phase of actually milking the sales partnerships now that the development work is largely over. I say largely. There is a whole new explosion to come in the IVR market from speech recognition. As you will note from Alex's CV he has a deep knowledge of speech recognition technologies and I am actively exploring the powerful opportunities that lie in revisiting a number of existing areas of the IVR market.

The sales push will require expansion and so I have been, for the first time recently been going out to raise medium-term equity finance for this next phase. We have, as you know, some equity to sell and, at this point, a good story. I am pleased to find that it is playing very well.

What about Harry Clarke?

Before moving on I will answer a question that you didn't ask explicitly ask, but I know was in your mind: Where is Harry Clarke going? You and Mark have kindly said you were buying into the individuals in Cobalt, so let me tell you more. My father and my grandfather began and ran businesses and, now that I am doing it myself, I know that is what I am built to do.

In personal financial terms, it is true that I do not draw large amounts of cash currently, but to be entirely candid I am not without reserves. I thoroughly enjoy this work, am committed to it and have the fundamental backing of a supportive family Perhaps more important than all that I am neither short-termist or a quitter.

Taking a objective, personal view I think Cobalt has got off to a slow but steady start, has a fine team, a positive culture and is today on the verge of a good year. In short, we are beginning to go somewhere and are becoming bankable, I have few doubts that the turnover and operational profits that you rightly point out that we need are not far away.

Let me now move to my second area of thought, which centres around the practicalities of the current situation.

I think the issue of timing is very important. As you know Cobalt's decks are cleared, and that our team is mentally prepared, keen and ready to be deployed on this project. Talking to Harvey, Mark and Steve your own team is exactly the same, and even Synchro is pleasingly fired up and ready for the co-development. John, Ericsson, yourself and the Manchester United board are also in my view beginning to hone their focus

Although you mention that you are considering a delay of six months, as a pragmatist I would say that the search for an alternative supplier, and the associated loss of initiative will actually result in a loss, in real terms, of 15 to 18 months. In my own view, it will be extremely difficult for you to bring all the necessary parties to this start-line once again. The concepts and discussions that are currently fresh in all our minds will become clouded and to be frank a little jaded the next time around. Recapturing the depth of positive spirit that you have currently will be an extra challenge

The second point to make is that you have always expressed the view that you do not want a bespoke system. That suited Cobalt very well. It remains my firm intention. as soon as your system is established, to hire a football crazed salesman to sell exactly the same thing to as many clubs as possible. I know that Steve Pugh intends to do exactly the same.

If you were to choose a system through BT, or any heavyweight source, I doubt that more than possibly one other sale would ever be made. Very few other clubs could afford the high prices they would demand, and I also doubt whether the supplier would have the ambition or drive to create and market a horizontal product. You will, I fear end up with the very situation that you are concerned about, a forgotten system with no community or support.

My third point is that it should be remembered that we are a considerable way down this project track. Cobalt have arguably already delivered a pilot proof of concept system for you namely the West Ham United system. In doing that work we have undertaken a number of key tasks and put in place a great deal of the design and the coding that are fundamental to your proposed system. You would to get the same level of technical reassurance that you actually possess today, have to factor in the cost and risks of undertaking that whole process again.

My fourth point is perhaps that all suppliers are devils. I needn't remind you of your other project as an illustration of that fact. Cobalt is now a devil you know - intimately. To be frank your due diligence cannot possibly drill any further without rummaging through our bins. In practical terms we have a bond of trust and mutual respect that will, I think, be a source of great help to the system delivery as we go forward and will be hard, if not impossible, for you to replicate.

Let us now move on to my final area of thought which is risk, and its management.

It is generally accepted that, the management of any project is about the successful identification and management of risk. From that premise, making a decision on Cobalt's balance sheet strength or otherwise should not be the focus. Instead, it is right for us to concentrate on working together to understand, size and cover-off, the unhedged risks of this project.

In short, if we can agree a way by which you can extract the end result that you seek from Cobalt whilst reducing your risk to a level that is smaller than the risks of failing to progress at this point, then you have a sound case for going ahead.

Now is not the time to turn this letter into a risk analysis document, which is something I am sure Mark has already drafted, I would though just outline the decision making process undertaken by Lloyds UDT, who arguably faced a similar situation.

As you know we pitched for Lloyds UDT, and won against both BT and IBM. The decision was made on the basis of the fact that we were competitively priced, clearly knew what we were doing, were up-front and honest and would deliver in ten weeks.

Martin Head, the decision maker, later outlined the arguments as he saw them at the crucial point. They were these:

- It wasn't categorically proven that customers would use IVR in the way and in the volumes that were planned. So firstly he wanted a deft and flexible supplier, in case the scope shifted, and, secondly, he questioned the wisdom of paying three times as much for a BT or IBM system that might, in practice, never run to capacity.
- Time he argued is always of the essence. His experienced view was that delaying projects rarely ever changed the size of the basket of risks, it just altered its composition.
- Even were Cobalt to fail to deliver the full system, he saw that Lloyds UDT would have learnt so much about running and operating an IVR system from us, that when they came to approach another supplier almost all of the important work would have been done.
- If the project were successful then Lloyds could bank the business benefits a year early, made a considerable saving in project costs, and release resources to get on with the next job in hand. This was of course the outcome.

I admired that approach. It is, as you know, the way Americans do business and it does expedite the achievement of progress and success.

In closing. I feel that we face an involved but not insoluble discussion, mindful that it may indeed, as you said, have the nature of a self- fulfilling prophecy if we misjudge it. Given its importance I have cleared my diary and am now free to come to Manchester at any time you wish today or tomorrow. Please simply call me on my mobile.

I am, as always, completely open to discussing all of the ways that we can mutually reduce risk and remain hopeful that we can achieve an outcome that, taken in the round, allows us to proceed, is beneficial to all parties and is actually more prudent than discarding all of the significant advantages that you hold at this point

Warm Regards

Harry Clarke

Exhibit 3

MANCHESTER UNITED

Manchester United PLC, Sir Matt Busby Way, Old Trafford, Manchester M16 0RA

Mr H Clarke
Cobalt Telephone Technologies Limited
Intec 2
Wade Road
Basingstoke
Hampshire
RG24 8NE

1 March 2000

Dear Harry,

Further to our numerous discussions over the last few months I write to confirm our interest in ordering from Cobalt a 30-port digital IVR system capable of dealing with telephone calls from supporters wishing to purchase match tickets. The cost of this system (including SMS enhancement and backup hardware) is expected to be £204,255. We have also discussed the possibility of expanding the system up to 60-ports – the cost of this expansion would be £66,000.

I must stress that our interest is subject to obtaining Board approval. To this end a capital expenditure proposal has been submitted to our Board of Directors for consideration at the meeting to be held this Friday 3 March. I will let you know the outcome of this meeting as soon as possible next week.

Assuming Board approval is obtained, our order will also be subject to us entering into a Supply Contract and Escrow Agreement with Cobalt. As you know, in anticipation of a favourable outcome on Friday, we have arranged to meet next Wednesday (8 March) to discuss these two agreements.

Yours sincerely,

David P Beswitherick

David P Beswitherick
Company Secretary

Exhibit 4

Cobalt Telephone Technologies Limited
Profit and loss account (Dec 2001 - June 2003)

	30 June 2003 YTD	**31 Dec 2002**	**31 Dec 2001**
Billings	337,989	377,410	237,396
Billing deferred to future periods	(24,718)	-	-
Sales Commissions	(33,517)	(31,747)	-
Unbilled work	(71,500)	9,500	107,000
Turnover	208,254	355,163	344,396
Service Platform	(43,252)	-	-
Cost of sales	(761)	(43,389)	(43,911)
Gross profit	164,241	311,774	300,485
Overheads	(124,909)	(280,481)	(269,221)
Profit before tax	39,332	31,293	31,264
Interest (payable/receivable)	(15,139)	(9,008)	(4,322)
Taxation			
Profit after tax	24,193	22,285	26,942
Accommodation	8,384	21,960	20,876
Administration	1,527	1,941	474
Advertising & Promotion	4,185	10,078	8,239
Answering	1,179	2,211	2,401
Bank charges	75	2,259	2,036
Depreciation	9,373	16,205	15,608
Health & Safety	(16)	388	-
Installations	2,411	3,362	1,809
Mobiles	510	1,090	1,080
Postage	-	300	93
Professional fees	1,060	5,643	15,672
Salaries and NI	89,701	174,802	161,959
Software licences	-	-	1,784
Stationery	1,363	1,392	1,803
Sundry	250	400	200
Tax (corporate)	-	-	-
Telephone	1,523	17,358	11,767
Training	75	-	1,928
Travel expenses	3,309	21,092	21,492
	124,909	280,481	269,221

Cobalt Telephone Technologies Limited
Balance Sheet (Dec 2001 - June 2003)

		30 June 2003	31 Dec 2002	31 Dec 2001
Fixed Assets				
Costs		142,344	125,592	85,769
Acc Depreciation		(65,542)	(56,169)	(39,964)
Net Book Value		76,802	69,423	45,805
Current Assets				
Stock		-	-	-
Debtors	Work in progress	45,000	116,500	107,000
	Trade Debtors	76,935	40,710	14,564
	Prepayments	1,347	6,923	4,027
Cash				
		123,282	164,133	125,591
Creditors: amounts falling due within one year				
	Bank overdrafts	(14,915)	(110,017)	(82,372)
	Trade creditors	(4,401)	(7,607)	(11,770)
	Corporation tax	-	-	-
	Other taxation and social security	(31,339)	(16,165)	(12,221)
	Other creditors	(33,801)	(26,639)	(12,424)
	Advance income	(24,718)	-	-
	Directors loans	1,993	(4,418)	(5,683)
		(107,181)	(164,846)	(124,471)
Net current liabilities		**16,101**	**(713)**	**1,120**
Creditors: amounts falling due after more than one year				
	Directors loans	(39,610)	(39,610)	(40,110)
Net Assets		**53,293**	**29,101**	**6,815**
Capital and reserves				
Called up share capital		1,000	1,000	1,000
Share premium account		24,815	24,815	24,815
Profit and loss account bfwd		3,286	(19,000)	(45,942)
Profit and loss for the year		24,192	22,286	26,942
Profit and loss account cfwd		27,478	3,286	(19,000)
Net Assets		**53,293**	**29,101**	**6,815**