

OFFERING CIRCULAR



\$5,000,000

SOFTWARE USA, INC.
a California corporation
9909 Huennekens Street,
Suite 200
San Diego, CA 92121
(619) 455-6200

A maximum of 1,000,000 shares
of no par value common stock offered at \$5.00 per share

Software USA, Inc. (the "Company" or "Software USA") is offering 1,000,000 shares of the Company's common stock (the "Shares") at a per share offering price of \$5.00 (the "Offering"). The minimum subscription is 100 shares. The offering price has been determined by the Company without any reference to the fair market value of the Shares as would be determined by a liquid trading market for the Shares. There is no public market for the Shares and none is expected to develop as a result of the Offering. The Offering is being made on a "best efforts" basis directly to the public by the Company. The Offering is not contingent upon subscriptions for any minimum number of shares. The portion of the Offering made in the United Kingdom will be made on a "best efforts" basis. The Company may not spend the funds raised in the United Kingdom until the Offering is terminated in the United Kingdom. The Offering will terminate at 5:00 p.m., San Diego, California time, on November 30, 1998, unless extended by the Company for up to an additional 180 days.

See "RISK FACTORS" beginning on page 10 for a discussion of certain risks that should be considered by prospective purchasers of the Shares offered hereby.

Within ten days of its receipt of a subscription agreement accompanied by a check or wire transfer for the purchase price, the Company will send by first class mail or by electronic mail a written confirmation to notify the subscriber of the extent, if any, to which such subscription has been accepted by the Company. The Company reserves the right to reject orders for the purchase of Shares in whole or in part. Not more than thirty days following the mailing of its written confirmation, a subscriber's Common Stock certificate will be mailed by first class mail.

March 18, 1998

NOTICE TO UNITED STATES INVESTORS

THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION DOES NOT PASS UPON THE MERITS OF OR GIVE ITS APPROVAL TO ANY SECURITIES OFFERED OR THE TERMS OF THE OFFERING, NOR DOES IT PASS UPON THE ACCURACY OR COMPLETENESS OF ANY OFFERING CIRCULAR OR ANY OTHER SELLING LITERATURE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THESE SECURITIES ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE COMMISSION; HOWEVER, THE COMMISSION HAS NOT MADE AN INDEPENDENT DETERMINATION THAT THE SECURITIES OFFERED HEREUNDER ARE EXEMPT FROM REGISTRATION.

THIS OFFERING HAS BEEN REGISTERED UNDER THE SECURITIES LAWS OF A LIMITED NUMBER OF STATES, AND THE SHARES OFFERED HEREBY MAY BE SOLD ONLY IN THOSE STATES. SUCH REGISTRATIONS, HOWEVER, DO NOT CONSTITUTE AN ENDORSEMENT OR APPROVAL BY ANY PARTICULAR STATE SECURITIES COMMISSION OF ANY SECURITIES OFFERED OR THE TERMS OF THIS OFFERING. NO STATE SECURITIES COMMISSION HAS PASSED UPON THE ACCURACY OR COMPLETENESS OF THIS OFFERING CIRCULAR OR ANY OTHER SELLING LITERATURE.

NOTICE TO CALIFORNIA RESIDENTS: IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFORE, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES.

NOTICE TO COLORADO RESIDENTS: THESE SECURITIES ARE OFFERED PURSUANT TO A LIMITED OFFERING REGISTRATION WITH THE COLORADO DIVISION OF SECURITIES. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE COLORADO DIVISION OF SECURITIES NOR HAS THE DIVISION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE STATE OF COLORADO HAS INSTITUTED THIS LIMITED OFFERING REGISTRATION PROCEDURE IN AN EFFORT TO SIMPLIFY AND EXPEDITE THE SMALL BUSINESS CAPITAL FORMATION PROCESS. INVESTORS ARE ENCOURAGED TO ASK QUESTIONS OF AND SEEK ADDITIONAL INFORMATION FROM THE ISSUER AND UNDERWRITER OF THE SECURITIES.

NOTICE TO GEORGIA RESIDENTS: ANY PERSON WHO PURCHASES THE SECURITIES OFFERED HEREBY SHALL HAVE THE UNQUALIFIED AND UNWAIVABLE RIGHT TO RESCIND SUCH PURCHASE WITHIN 72 HOURS OF THE EXECUTION OF THE WRITTEN AGREEMENT TO PURCHASE ANY SECURITIES OFFERED HEREBY, THE DELIVERY OF A CONFIRMATION OF SALE, OR THE PAYMENT FOR ANY SECURITIES OFFERED HEREBY, WHICHEVER SHALL OCCUR FIRST. RESCISION MAY BE ACCOMPLISHED BY SENDING A REQUEST TO THE ISSUER.

NOTICE TO ILLINOIS RESIDENTS: THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECRETARY OF STATE OF ILLINOIS OR THE STATE OF ILLINOIS, NOR HAS THE SECRETARY OF STATE OF ILLINOIS OR THE STATE OF ILLINOIS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NOTICE TO NORTH CAROLINA RESIDENTS: IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE HIGHLY SPECULATIVE, INVOLVE A SUBSTANTIAL DEGREE OF RISK, AND SHOULD BE CONSIDERED ONLY BY PERSONS ABLE TO BEAR THE ECONOMIC

RISK OF THE INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. SEE “RISK FACTORS”. OFFERS ARE PERMITTED ONLY TO RESIDENTS OF CERTAIN STATES. SEE “PLAN OF DISTRIBUTION - LIMITED STATE REGISTRATIONS”. NO ESCROW ACCOUNT HAS BEEN ESTABLISHED AND INVESTORS’ FUNDS ARE TO BE PAID DIRECTLY TO THE COMPANY. AT THE TIME OF ITS SUBSCRIPTION, AN INVESTOR WILL NOT BE ABLE TO ASCERTAIN HOW MANY SHARES WILL BE PURCHASED BY OTHER INVESTORS.

NOTICE TO UNITED KINGDOM INVESTORS

THIS DOCUMENT HAS BEEN DRAWN UP IN ACCORDANCE WITH SUCH REGULATIONS AND WITH THE COMPANIES ACT OF 1985.

IF YOU ARE IN DOUBT ABOUT THE CONTENT OF THESE DOCUMENTS YOU SHOULD CONSULT A PERSON AUTHORIZED UNDER THE FINANCIAL SERVICES ACT 1986 WHO SPECIALIZES IN ADVISING ON THE ACQUISITION OF SHARES AND OTHER SECURITIES.

TO THE BEST OF THE DIRECTORS’ KNOWLEDGE THE INFORMATION CONTAINED IN THIS DOCUMENT IS IN ACCORDANCE WITH THE FACTS AND MAKES NO MENTION LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. ALL OF THE DIRECTORS WHOSE NAMES, FUNCTIONS AND ADDRESSES ARE SET OUT ON PAGE 38 OF THE OFFERING CIRCULAR ACCEPT RESPONSIBILITY ACCORDINGLY.

Price to the Public⁽¹⁾

Underwriting Discount and Commissions⁽²⁾

Proceeds to the Company⁽³⁾

Per Share

\$5.00

-

\$5.00

Total Maximum⁽⁴⁾

\$5,000,000

-

\$5,000,000

The date of this Offering Circular is March __, 1998

- ⁽¹⁾ The offering price has been determined by the Company without any reference to the fair market value of the Shares as would be determined by a liquid trading market for the Shares. There is no public market for the Shares and none is expected to develop as a result of the Offering.
- ⁽²⁾ The Shares will be offered by the Company and sold by its management. No commission or other compensation will be paid to the Company or its management in connection with the Offering. No broker or dealer has been retained or is under any obligation to purchase any Shares. The Company may, however, retain registered brokers or dealers during the course of the Offering, in which case such registered brokers or dealers will be compensated pursuant to negotiations with the Company.
- ⁽³⁾ Before deducting offering expenses payable by the Company estimated to be \$295,000 if all of the Shares are sold, including, among other expenses, legal and accounting fees, printing, mailing, and marketing expenses. If all of the Shares being offered are not sold, the proceeds to the Company will be reduced accordingly.
- ⁽⁴⁾ There is no minimum number of shares which must be sold in order for the Company to have access to the subscription proceeds. Therefore, the proceeds will be deposited directly into the Company's operating accounts and will be disbursed by the Company. See "Use of Proceeds."

In connection with this Offering, no person has been authorized to give any information or to make any representations other than those contained in this Offering Circular and, if given or made, such other information or representations should not be relied upon as having been authorized by the Company. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy Shares in any state or country where the offer and sale of the Shares are not lawful. The delivery of this Offering Circular at

any time does not imply that the information herein is correct as of any time subsequent to the date hereof.

Prospective investors are not to construe the contents of this Offering Circular or any prior or subsequent communications from the Company or any of its officers, employees or agents, as legal or tax advice. Prior to investing in the Shares, a prospective investor should consult with his or her attorney and personal business and tax advisors to determine the consequences of an investment in the shares and arrive at his or her own evaluation of the investment.

For investors who access this Offering Circular via the Internet, the Company agrees to provide without charge to each prospective investor, upon written or oral request of such prospective investor, a paper version of this Offering Circular. The address and telephone number to which such request may be directed is as follows: Software USA, Inc., 9909 Huennekens Street, Suite 200, San Diego, California 92121 USA, Attention: Investor Relations, telephone (619) 455-6200, telecopy (619) 455-0038, e-mail: invest@softusa.com or Internet at <http://www.softusa.com>.

The Company has filed with the Securities and Exchange Commission (the "Commission") an Offering Statement on Form 1-A pursuant to Regulation A of the Rules and Regulations under the Securities Act of 1933, as amended (the "Securities Act") in connection with the Shares offered hereby. This Offering Circular omits certain information contained in the Offering Statement, and reference is hereby made to the Offering Statement and exhibits thereto for further information with respect to the Company and the Shares to which the Offering Circular relates. Copies of the Offering Statement may be obtained from the Public Reference Section of the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices located at 7 World Trade Center, Suite 1300, New York, NY 10048, and 1400 Citicorp Center, 500 West Madison Street, Chicago, IL 60661, upon payment of prescribed fees.

SUMMARY

This Offering Circular contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this Offering Circular. The following summary is qualified in its entirety by the more detailed information and the consolidated financial statements, including the notes thereto, appearing elsewhere in this Offering Circular. Except as otherwise noted, all information in this Offering Circular reflects the approximately 3,300-for-one stock split of the Company's common Stock effected on August 25, 1997.

Software USA is a direct telemarketer of software club memberships throughout North America and Europe, providing members with a selection each month of computer shareware products on CDs or diskettes. Members are required to pay an initiation fee of \$39.95 using a major credit card, and the subsequent monthly fees of between \$14.95 and \$29.95 are automatically charged to members' credit cards. The shareware programs provided by the Company to its members are fully interactive software programs licensed by the program authors to the Company free of charge. The program author subsequently benefits if club members register the program directly with the author, paying a fee and receiving the complete version of the program. The Company reviews computer shareware available on the Internet, as well as those programs sent to the Company by program authors, and carefully evaluates the selections for content and ease of use, and, in the case of educational products, academic value. Up to 50 programs are selected by the Company each month to be included on CDs specially prepared for distribution to members. The Company believes that the combination of software distribution, telemarketing and the direct automatic debiting of members' credit cards are central factors in the Company's continued growth.

The Computer Owner's Dilemma. The media paints a picture that the entire world is full of technologically sophisticated computer software that is accessible to educated consumers. The reality is that most software remains difficult to evaluate. Most computer software is purchased from retailers who provide computer users limited information about the product and minimal support from their retail sales persons. The result of this unsatisfactory exchange is that the customer often gets something they do not want and cannot use, with limited rights of return.

Shareware Advantages. Shareware is a marketing method for software programs. The shareware marketing method allows software authors who have developed excellent programs, but lack the marketing and financial resources to market them, to make a program available on the Internet free of charge. These programs are fully functional, but are typically not complete. After trying the program and liking it, users may contact the author and pay a nominal fee for the complete version of the program or a version with added features. The author will generally provide telephone technical support and a printed manual. This approach allows users to try a fully interactive program before paying the registration fee to the author, which is usually much less than a comparable retail program. In return, the author receives income without incurring marketing expenses and users may "Try before they Buy." Imagine a retail store that would allow unlimited use of their product for 30 days, with an option to stop using the product without returning it, or even contacting the retailer. Only software can be marketed this way because the cost of providing the program on the Internet to one person or 20 million people is the same.

Shareware programs are usually designed for a specific task, much in the same way a craftsman's tools are designed for a specific use, and are often easy to use because of this fact. Software programs designed for complex business and scientific tasks, sold by large computer software companies, while powerful, are generally much more complex and harder to use than programs designed for a specific task. Technical support for these programs rarely comes directly from the program author, and almost always must be paid for, particularly after the first 30 days. Shareware authors, however, usually support their product by talking directly to users and most questions can be answered almost immediately. Shareware is not paid for until the user is fully satisfied with the programs' capabilities and ease of use.

Shareware Disadvantages. Traditional shareware distribution methods have some drawbacks, including lengthy downloading times from the Internet of an hour or more for a single program, which causes the user to incur substantial telephone charges. The program quality is impossible to determine initially as there are tens of thousands of low-quality, non-functioning programs on the Internet, some of which contain computer viruses. Computer users typically do not have the time, patience or the resources to

perform the rigorous testing necessary in order to determine the quality and usefulness of a program.

The Software USA Solution. Software USA provides an ideal solution to the member by downloading and reviewing hundreds of programs over high speed data links every month, selecting only the programs that meet the Company's standards for content, academic value and ease of use. All selected programs are certified virus-free and separated into areas of interest called "Special Interest Groups." The programs are then duplicated and distributed to the Company's members each month. These members are also provided with free, unlimited technical support. Additionally, Software USA's interface allows direct execution of the programs from the CD, thus eliminating the need for full installation on the hard drive, saving valuable storage space.

People often ask, "How can anyone use that many programs?" The answer is quite simple - no one can. On the CD, members of the club are given the opportunity to use and evaluate up to 50 programs monthly. The Company considers the subscription to be a bargain, even if the member selects only two programs each month. This is similar to a magazine subscription where a subscriber may only read a few articles each month. The Company's experience is that children (whose educational interests are considered paramount for most parents) utilize many more programs than the average adult, so this approach works particularly well for them. Most parents are also very concerned about allowing their children free access to the Internet, due to the inappropriate and questionable nature of much of the information available on the Internet.

Telemarketing. The Company believes that outbound telemarketing is a superior method of marketing its memberships as potential members are more accessible through telemarketing. Telemarketing, as a marketing and customer service tool, is being used by companies worldwide. Some of the benefits of outbound telemarketing include high response rates, low cost per transaction due to the Company's superior telecommunications and computer systems, direct interaction with prospective members and on-line access to detailed member and product information. Transacting business over the telephone is now considered acceptable, if not preferable, by many consumers, particularly educated computer users who make up the Company's membership.

The Company believes that U.S. residents for whom English is a second language represent a potential market that can be reached through telemarketing contact in their first language. The Company is currently offering memberships to this segment of the market. Additionally, the Company's experience indicates that telemarketing is a highly effective marketing strategy in international markets. For example, the Company is successfully adding members in the United Kingdom, Ireland and Canada. The Company also intends to use telemarketing to contact computer users in non-English speaking countries. The Company believes that many international computer users are able to utilize English based software programs due to the pervasive use of English in the computer community, and those that are not will be offered programs in their native languages, as they become available.

Terms of the Offering

Common Stock Offered 1,000,000 Shares

Offering Price \$5.00 per Share

Minimum Purchase 100 Shares (\$500) per investor

Common Stock to be outstanding after the Offering 7,000,000 shares⁽¹⁾

Dividend Policy The Company does not anticipate paying dividends on its capital stock in the foreseeable future.

Use of Proceeds

The Company expects the maximum net proceeds of the Offering to be \$4,705,000 after deduction of estimated offering expenses of \$295,000. If all of the Shares offered hereby are sold, the net proceeds will be used for expansion of the Company's outbound calling capacity to 135 stations, expansion of its Membership Services Department to 22 stations, and for a variety of other expenses related to

the expansion. If fewer than all of the Shares offered hereby are sold, the net proceeds from the Offering would be reduced. See “Use of Proceeds.”

Best Efforts Offering

The Offering is being made on a “best efforts basis,” and there is no minimum number of shares that must be sold in the Offering. The Company can give no assurance that all or any of the Shares will be sold. No escrow account has been established, and all subscription funds will be paid directly to the Company. Subscriptions are irrevocable.

Risk Factors

The Offering involves substantial risks to the investors. See “Risk Factors.”

Limited State Registrations

The Offering has been registered and the Shares may be offered and sold only in a limited number of states. See “Risk Factors” and “Plan of Distribution.”

⁽¹⁾ Assumes all of the Shares offered hereby are sold.

The Company’s principal office address is Software USA, Inc., 9909 Huennekens Street, Suite 200, San Diego, California 92121 USA, telephone (619) 455-6200, telecopy (619) 455-0038, e-mail: invest@softusa.com. The Company maintains a web site at <http://www.softusa.com>. The Company, formerly Harvest Analysts, Inc., was incorporated in California on November 3, 1993.

RISK FACTORS

In addition to other information set forth in, or incorporated by reference into, this Offering Circular, the following risk factors should be considered carefully in evaluating the Company and its business before purchasing any of the Shares offered hereby to the public.

New Business Venture

Software USA has been operating since April 1996 and thus has a limited operating history. Product development, marketing and operations are in a growth stage, and the potential success of the Company will depend upon the ability of management to overcome problems often encountered in the establishment and expansion of any business venture. The Company has expended considerable resources during the “start-up” period; purchasing its products, developing distribution methods and perfecting its consumer marketing approach.

Factors Affecting Ability to Manage and Sustain Growth

The Company is currently experiencing a period of rapid growth and anticipates growth to continue in the future. The continued growth of the Company will depend upon a number of factors, including the continued expansion of its membership base, opening of new call-centers, and the recruitment, motivation and retention of qualified personnel. Members may cancel their membership at any time. In order to sustain growth, it will be necessary for the Company to enhance both its operational and financial systems. The proposed expansion program will require additional management, operational and financial resources. There can be no assurance that the Company will be able to manage its expanding operations or achieve planned growth on a timely or profitable basis. If the Company is unable to manage growth effectively, this will have a material adverse affect on the Company’s business and financial condition. Furthermore, the Company’s continued growth will depend on various factors, including but not limited to the Company’s ability to obtain quality shareware and the successful implementation of its marketing plans.

Best Efforts Offering

The Offering is being made on a “best efforts basis,” and there is no minimum number of shares that must be sold in the Offering. The Company can give no assurance that all or any of the Shares will be sold. No escrow account has been established, and all subscription funds will be paid directly to the Company. Subscriptions are irrevocable. Therefore, investors who purchase the Shares at the beginning of the Offering may experience limited growth in the Company as compared to the growth experienced if the full \$5,000,000 is raised in the Offering.

United Kingdom Offering

The Offering into the United Kingdom is being made on a “best efforts basis”, and there is no minimum number of shares that must be sold in the offering. The Company may not spend the funds raised in the United Kingdom until the offering is terminated in the United Kingdom. There is a risk that the Company will be forced to terminate its offering in the United Kingdom prior to the date it would otherwise have terminated the offering in order to gain access to the funds due to this restriction under the laws of the United Kingdom.

Discontinuation of Memberships

The Company is subject to a high percentage of members discontinuing their membership within the first several months after joining the Company’s shareware club. As is typical within the industry, approximately 50% percent of members cancel their memberships within the first 120 days after joining the club. Because of the high rate of members discontinuing their memberships, the future success of the Company is dependent on the Company’s ability to attract new members. Additionally, the Company’s future success is dependent upon retaining as many members as possible. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Computer Shareware Authors

The Company places considerable reliance on independent authors to supply computer shareware programs to its members. While the Company currently experiences considerable benefits from utilizing the shareware programs written by such authors, there can be no assurance of the continued availability of these programs or that the quality of these programs will be sufficient to meet the Company’s requirements, and as such, the Company’s inability to obtain quality programs will cause a material adverse affect on the Company’s business.

Competition

The industry in which the Company operates is competitive. Aside from retail stores selling shareware, the Company believes that at present there are three key competitors. It is likely that as the industry evolves, additional competitors with greater marketing and financial resources will enter the marketplace. Therefore, no assurance can be given that the Company will be able to compete effectively in this new environment. In addition, the Company's future success will also be highly dependent upon its ability to enhance existing services and introduce new services or products to respond to rapidly changing technological developments. Also, there can be no assurance that the Company can successfully develop and bring to the market new services or products in a timely manner, or that such services or products will be commercially viable, or that competitors' technologies will not render the Company's products or services uncompetitive or obsolete. See "Business - Competition."

Reliance on Technology

The computer industry is subject to rapid changes in technology and consequent obsolescence. In order for the Company to compete effectively in this rapidly changing marketplace, it must be able to obtain and offer the latest in products and services that receive customer acceptance. There can be no guarantee that the Company will be able to respond to advances in technology in a commercially viable manner. The Company has invested in sophisticated and specialized telecommunications and computer technology, and the Company believes that it will be necessary to continue to invest in enhanced technology in order to maintain its competitive edge. The Company's business is highly dependent on its computer and telecommunications equipment and software systems, and the temporary or permanent loss of such equipment or systems will have a material adverse effect on the Company's business. See "Business - Operations."

Dependence on Third-Party Telecommunications

The Company's business is materially dependent on service provided by third party local and long distance telecommunications companies. Although the Company believes that it currently has sufficient access to transmission facilities and long-distance telecommunications networks on favorable terms, any significant increase in the rates charged could have a material adverse effect on the Company's operating margins. In addition, the Company's access facility, and its long-distance telecommunications network, may, from time to time, experience interruptions or equipment failures, which may have a material adverse effect on the Company's business operations.

Risk of Business Interruption

The Company's operations are dependent upon its ability to protect its call center, computer and telecommunications equipment and software systems against damage from fire, power loss, telecommunications interruption or failure, natural disaster and other similar events. In the event the Company experiences a temporary or permanent interruption at its call-center, through casualty, operating malfunction or otherwise, this interruption may have a material adverse affect on the Company's business. While the Company maintains property and business interruption insurance, such insurance may not adequately compensate the Company for all losses that it may incur. See "Business - Operations."

Government Regulations

The Company's business is subject to various federal and state laws and regulations. The Company's industry has become subject to increasing federal and state regulation in the last five years. The Federal Communications Commission's (The "FCC") rules under the Federal Telephone Consumer Protection Act of 1991 (the "TCPA") limit the hours during which telemarketers may call consumers and prohibits the use of automated telephone dialing equipment to call certain telephone numbers. The Federal Telemarketing and Consumer Fraud and Abuse Prevention Act of 1994 (the "TCFAPA") broadly authorizes the Federal Trade Commission (the "FTC") to issue regulations prohibiting misrepresentation in telephone sales. In August 1995, the FTC issued regulations under the TCFAPA which, among other things, require telemarketers to make certain disclosures when soliciting sales. The Company's operating procedures comply with the solicitation rules of the FCC and FTC. However, there can be no assurance that additional federal or state legislation, or changes in regulatory implementation, would not limit the activities of the Company in the future or significantly increase the cost of regulatory compliance.

The Company also is subject to regulations in various countries throughout the world where the Company

offers its memberships. The Company believes that it is currently complying with all applicable regulations.

Determination of Offering Price

The Company determined the offering price of the Shares by considering the following factors: Management's estimate of the future cash flows of the Company, the comparable multiples of the common stock of public companies in similar industries, the proceeds to be raised by the Company, the percentage of ownership of the Company to be held by investors after the Offering, and the experience of Management. Because the offering price of the Shares was not determined by reference to a liquid trading market, the offering price may not bear a relationship to the fair market value of the Shares.

Credit Card Processors

The Company currently utilizes the services of a credit card processor specializing in direct marketing to process card payments from both domestic and overseas customers. In the event that the Company should experience problems in obtaining the necessary clearance of funds in a timely manner, this may have a material adverse affect on the Company's business.

Management Discretion for Use of Proceeds

The net proceeds from this offering will be used for the purposes described under "Use of Proceeds." The Company reserves the right to use funds obtained from this Offering for other purposes, not presently contemplated, which it deems to be in the best interests of the Company and its shareholders, in order to address changed circumstances and opportunities. As a result of the foregoing, the success of the Company will be substantially dependent upon the discretion and judgment of management with respect to the application and allocation of the net proceeds of the offering. Investors will be entrusting their funds to the Company's management, upon whose judgment and discretion the investors must depend, with only limited information concerning management's specific intentions.

Lack of Dividends

The Company has not paid any dividends on its common stock since its formation, and by reason of its present financial status and its contemplated financial requirements, does not anticipate paying any dividends upon its common stock in the foreseeable future. In this regard, the Company intends to retain earnings for the foreseeable future for use in the operation and expansion of its business. See "Dividend Policy."

No Public Market for the Securities and Penny Stock Regulation

The Shares are being offered pursuant to the Regulation A exemption under the Securities Act. It is not anticipated that a public market will develop for the securities of the Company. Investors will have difficulty selling the Shares, and may be prohibited by applicable state law from selling the shares for a substantial period of time. Although it is anticipated that the Shares will not be deemed restricted securities under federal securities laws, it is expected that under applicable state securities laws, the Shares may not be sold, transferred or otherwise disposed of except under certain limited circumstances and conditions. Furthermore, it is unlikely that a lending institution will accept the Company's securities as pledged collateral for loans.

Following the Offering, the Company will be considered a "non-reporting" issuer whose securities are not listed or subject to regulation under the Securities Exchange Act of 1934 (the "Exchange Act"). The vast majority of broker-dealers generally do not engage in the sale or trading of securities of a "non-reporting" issuer. Further limitations upon the development of a trading market are likely by virtue of regulations under Rule 15c2-11 of the Exchange Act which require that before broker-dealers can make a market in the Company's securities and thereafter as they continue making the market the Company must provide these broker-dealers with current information about the Company. The Company presently has formulated no specific plans to distribute current information to broker-dealers and probably will only do so if there appears otherwise to be adequate interest in making a market in the Company's securities. Furthermore, in view of the absence of an underwriter, the relatively small size of the Offering and the nature of the Company as a "non-reporting" issuer, there is virtually no likelihood that a regular trading market will develop in the near term, if at all, or that if developed it will be sustained. Accordingly, an investment in the Company's Common Stock should be considered highly illiquid.

If in the future the Company exceeds \$10 million in assets and 500 shareholders of record, it would have to register as a reporting issuer under Section 12(g) of the Exchange Act. In such event, the Company is

prepared to register as a reporting company and thereafter to comply with the reporting requirements of the Exchange Act.

In addition, if a public market for the Shares were to develop and the Company's common stock were not to qualify for trading on NASDAQ and the trading price of the common stock were to be below \$5.00 per share, trading in the common stock would also be subject to the requirements of certain rules promulgated under the Exchange Act, which require additional disclosure by broker-dealers in connection with any trades involving a stock defined as a "penny stock" (generally, any non-NASDAQ equity security that has a market price of less than \$5.00 per share, subject to certain exceptions). Such rules require the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith, and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally defined as an investor with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 together with a spouse). For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. The broker-dealer also must disclose the commissions payable to the broker-dealer, current bid and offer quotations for the penny stock and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Such information must be provided to the customer orally or in writing prior to effecting the transaction and in writing before or with the customer confirmation. Monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. The additional burdens imposed upon broker-dealers by such requirements may discourage them from effecting transactions in the common stock, which could severely limit the liquidity of the Shares and the ability of purchasers in this offering to sell the Shares in the secondary market.

Issuance of Additional Shares of Common stock; Substantial Dilution

Investors will experience immediate and substantial dilution to the net tangible book value of the shares purchased in the Offering. The power of the board of directors to issue shares of common stock is subject to shareholder approval in only limited instances. Shareholders have no preemptive rights. Any additional issuance of the Company's Common stock from its authorized but unissued shares after this offering may have the effect of further diluting the equity interest of shareholders. See "Dilution."

Control by Principal Stockholder

Following completion of the Offering, James Clelland, the Company's Chairman and Chief Executive Officer, and his family will beneficially own approximately 85% of the outstanding shares of common stock. As a result, Mr. Clelland will continue to be able to elect the majority of the board of directors of the Company and to control substantially most corporate actions. See "Dilution" and "Principal Shareholders."

Directors' and Officers' Limited Liability

The Company's Amended and Restated Articles of Incorporation provides that the directors and officers of the Company generally may not be held liable to the Company or its stockholders for monetary damages upon a breach of a director's or officers fiduciary duty. See "Management - Indemnification of Officers and Directors."

Dependence Upon Key Personnel

The Company's success is heavily dependent on the continued active participation of its current executive officers. The Company does not currently have any employment agreements with its executive officers, which may allow such executive officers to leave the employ of the Company more readily than if the Company had such employment agreements. Loss of the services of one of these officers could have a material adverse effect upon the Company's business, results of operations or financial condition. The Company's success and achievement of its growth plans depend on its ability to recruit, hire, train and retain other highly qualified technical and managerial personnel. The inability of the Company to attract and retain the necessary technical and managerial personnel could have a material adverse effect on the Company's business, results of operations or financial condition. See "Management."

Dependence on Labor Force

Growth in the Company's business will require it to recruit and train qualified personnel. There can be no assurance that the Company will be able to hire, train and retain a sufficient labor force of qualified

employees. A significant portion of the Company's costs consist of wages and commissions. An increase in wages, commissions, employee benefits or employee taxes, would cause a material adverse effect on the Company. See "Business - Human Resources Management."

Compliance With Securities Regulations

If the Company should fail to comply with the requirements of the federal and state securities law, including compliance with all regulations required in order to offer and sell the Shares pursuant to an exemption from registration with the Securities and Exchange Commission and certain of the states, investors may have the right to rescind their purchases. Since compliance with exemptions from the federal and state securities laws is highly complex, it is possible that if an investor were to seek rescission, the investor may succeed. If a significant number of investors were to successfully obtain rescission, the Company would face severe financial demands that could have a material adverse effect on the Company and the non-rescinding investors. The Company intends to use its best efforts to comply with all necessary federal and state securities regulations applicable to the Offering.

Need for Financing to Expand Operations

The Company believes that the proceeds from this Offering, together with projected cash flow from operations, should be sufficient to meet the anticipated cash requirements of the expansion of the Company's operations for at least 18 months from the date of this Offering Circular. If the Company fails to raise the maximum net proceeds, the Company may not be able to significantly expand its operations in an expeditious manner. In the future, the Company may be required to seek financing or additional investments in order to continue its planned expansion of its operations. There is no assurance that the Company will be able to obtain sufficient additional investment or that the Company will have sufficient funds to conduct its planned expansion. The inability of the Company to attract such additional investment may significantly curtail the Company's ability to significantly expand its operations. See "Use Of Proceeds."

Shares Available for Resale

All of the Company's currently outstanding common stock is held by James Clelland, the Chairman and Chief Executive Officer of the Company, and his family members. These shares have not been registered under the Securities Act, and are "restricted securities" under Rule 144 of the Securities Act. In general, under Rule 144, a person (or persons who agree to act in concert) who owns "restricted securities" or who is an affiliate of the company, after holding such securities for a period of one year, will be able to sell within any three month period an amount of shares equal to the greater of (i) 1% of the number of outstanding shares of common stock of the Company, or (ii) the average weekly reported trading volume of the shares of common stock for the four weeks preceding such sale. In addition, Rule 144 requires that the Company provide current information to the market. A person who is not an affiliate for three months prior to the sale may, after holding "restricted securities" for two years, sell such securities without being subject to Rule 144. Except for nonaffiliates who have held the shares for two years, Rule 144 also requires that the Company provide information to the public. The Company does not presently intend to provide this information to the public. Sales of a substantial number of shares of the Company's common stock pursuant to Rule 144 could have a material adverse effect on the market or market price of the Company's common stock should such a public market develop.

Limited State Registrations

For United States residents, only residents of the following states in which the Shares have been qualified for applicable securities or Blue Sky laws or for which the Shares are exempt from qualification may purchase the Shares in the Offering: California, Colorado, District of Columbia, Georgia, Illinois, Indiana, Kansas, New York, and North Carolina. The Offering will also be made in the United Kingdom on a best efforts basis. Each potential investor will be required to execute a subscription agreement which, among other things, discloses his or her state of residence. A potential investor who is a resident of a state other than a state in which the Shares have been qualified for sale may request that the Company register the Shares in the state in which such investors resides. The Company may accept or refuse any such request, in its sole discretion. The Company may apply for registration of the Offering in certain other states.

DIVIDEND POLICY

The Company intends to retain all earnings for use in the business and does not expect to pay cash dividends in the foreseeable future.

USE OF PROCEEDS

The maximum gross proceeds expected to be received by the Company from the sale of the Shares in the Offering will be \$5,000,000. The maximum net proceeds to the Company from the Offering will be approximately \$4,705,000, after deducting offering expenses of approximately 6% of the maximum gross proceeds (or \$295,000), which includes accounting and legal fees, "Blue Sky" fees, printing and other related expenses. The estimated expenses do not include the commissions, if any, that the Company may pay to registered broker-dealers or placement agents for their services in this Offering, the amount of which cannot be estimated as of the date of this Offering Circular. To the extent that the Company pays any commissions to broker-dealers or placement agents in connection with this Offering, the net proceeds to the Company will be reduced.

If the Company receives the maximum net proceeds from this Offering, the Company will expand its outbound calling capacity from its current 20 outbound stations to 135, and will expand its Membership Services Department from the current 7 stations to 22. In addition to opening one more call center, the Company intends to add call stations at its present facility by exercising an exclusive option under its current lease.

The Company also intends to use the net proceeds for marketing, product development, Internet applications and working capital. The Company intends to undertake extensive feasibility and market research studies in foreign markets. Furthermore, the Company intends to continue development of a more sophisticated web site. As part of its product development efforts, the Company intends to develop more proprietary software in house, which will be sold to the public over the web as well as to the Company's members. The Company also intends to improve the technology in the CD by adding multimedia content and internet accessibility. The Company believes that should it receive less than the maximum net proceeds, this will only slow expansion and not eliminate it altogether. Fewer call stations will be added and, instead of performing feasibility studies for marketing worldwide, the Company will limit itself to fewer countries. The Company will develop proprietary software at a slower rate, and will develop a less extensive web site.

If the Company receives net proceeds of \$2,245,000 from this Offering, the Company will expand its outbound calling capacity from its current 20 outbound stations to 70, and will expand its Membership Services Department from the current 7 stations to 15. The Company will maintain one larger call center by negotiating additional space beyond that available under its current lease or by relocating to a larger facility.

If the Company receives net proceeds of \$810,000 from this Offering, the Company will expand its outbound calling capacity from its current 20 outbound stations to 50, and will expand its Membership Services Department from the current 7 stations to 15. The Company will maintain one larger call center by negotiating additional space beyond that available under its current lease or by relocating to a larger facility.

If the Company receives net proceeds of \$360,000 from this Offering, the Company will expand its outbound calling capacity from its current 20 outbound stations to 30, and will expand its Membership Services Department from the current 7 stations to 10.

In each case, the Company intends to use any remainder of the net proceeds received in the Offering for working capital and general corporate purposes. The Company also may use a portion of the net proceeds to fund acquisitions of companies in the direct marketing and software industry. Although the Company has no present agreements or commitments and is not currently engaged in any negotiations with respect to any such transactions, the Company from time to time evaluates such opportunities. In the event of any such acquisition, the Company's board of directors and management will have broad discretion as to the use of the proceeds described above.

Because the Offering is being made on a "best efforts" basis, the Offering is not contingent upon subscriptions for any minimum number of shares. Therefore, upon receipt of the first net proceeds, the Company currently intends to first expand the outbound stations and its Membership Services Department at a ratio of five outbound stations for each additional membership services representative. Excluding any costs related to additional space, the Company estimates that an additional six outbound call stations will cost approximately \$100,000. An outbound call station consists of a computer monitor and a device designed to accept telephone calls from a main UNIX server, which is constantly dialing telephone

numbers. The furniture supporting the device is generally a modular furniture cubicle and a chair for the sales person. Typically, the whole area consists of approximately 40 square feet, but the Company budgets 80 square feet to allow for corridors. Additionally, each outbound call station incurs costs related to the Company's telecommunications equipment software license.

The following table sets forth the estimated application by the Company of the net proceeds from the sale of Shares in the Offering. The figures represent the best estimate of the Company and are not a prediction of the actual use of proceeds.

Use of Offering Proceeds

- Scenario 1
- Scenario 2
- Scenario 3
- Scenario 4

Gross Proceeds

- \$5,000,000
- \$2,500,000
- \$1,000,000
- \$500,000

Printing

30,000
20,000
15,000
10,000

Distribution

65,000
35,000
20,000
10,000

Advertising

100,000
100,000
55,000
20,000

Legal and Accounting

100,000
100,000
100,000
100,000

Total Offering Expenses

295,000

255,000

190,000

140,000

Net Proceeds

4,705,000

2,245,000

810,000

360,000

Call Center Expansion

	2,400,000
	900,000
	420,000
	185,000
Web Site Development	
	200,000
	170,000
	120,000
	60,000
Product Development	
	1,400,000
	800,000
	120,000
	40,000
Miscellaneous Working Capital	
	<u>705,000</u>
	<u>375,000</u>
	<u>150,000</u>
	<u>75,000</u>

Total Use of Proceeds Net of Offering Expenses

\$4,705,000

\$2,245,000

\$810,000

\$360,000

The Offering is being made on a “best efforts” basis directly to the public by the Company and the Offering is not contingent upon subscriptions for any minimum number of shares. Upon receipt of the first net proceeds, the Company currently intends to first expand the outbound stations and its Membership Services Department at a ratio of five outbound stations for each additional membership services representative. Excluding any costs related to additional space, the Company estimates that an additional six outbound call stations will cost approximately \$100,000.

DILUTION

After the completion of this Offering, the present shareholders of the Company will own 6,000,000 shares of common stock, which will represent approximately 85% of the issued and outstanding common stock assuming that the maximum number of Shares offered hereby is sold. The Company received total consideration of \$151,000 for such shares of common stock or approximately \$.03 per share. Those investors purchasing common stock in this Offering will acquire a maximum of 1,000,000 shares of common stock, and will pay \$5.00 per share.

The net tangible book value of the Company's Common Stock at October 31, 1997 was (\$122,487), or (\$.02) per share. "Net tangible book value per share" represents the amount of the Company's total tangible assets less total liabilities divided by the number of shares of Common Stock outstanding. Without taking into account any other changes in net tangible book value after October 31, 1997, other than to give effect to the sale by the Company of the shares offered hereby at an assumed offering price of \$5.00 per share and after deducting of estimated offering expenses, the net tangible book value per share would result in an immediate increase to current shareholders and an immediate dilution per share to new investors, as illustrated by the following table:

Assuming shares sold of 1,000,000

Assumed	offering	price	per	share				
\$5.00								
Net	tangible	book	value	per	share	before	the	offering
(\$0.02)								
Increase	per	share		attributed	to	new		investors
\$0.67								
Net	tangible	book	value	per	share	after	the	offering
\$0.65								
Dilution	per	share		to		new		investors
\$4.35								

Assuming shares sold of 500,000

Assumed	offering	price	per	share				
\$5.00								
Net	tangible	book	value	per	share	before	the	offering
(\$0.02)								
Increase	per	share		attributed	to	new		investors
\$0.35								
Net	tangible	book	value	per	share	after	the	offering
\$0.33								
Dilution	per	share		to		new		investors
\$4.67								

Assuming shares sold of 200,000

Assumed		offering		price		per		share
\$5.00								
Net	tangible	book	value	per	share	before	the	offering
(\$0.02)								
Increase	per	share		attributed	to	new		investors
\$0.13								
Net	tangible	book	value	per	share	after	the	offering
\$0.11								
Dilution	per	share		to		new		investors
\$4.89								

Assuming shares sold of 100,000

Assumed		offering		price		per		share
\$5.00								
Net	tangible	book	value	per	share	before	the	offering
(\$0.02)								
Increase	per	share		attributed	to	new		investors
\$0.06								
Net	tangible	book	value	per	share	after	the	offering
\$0.04								
Dilution	per	share		to		new		investors
\$4.96								

CAPITALIZATION

The following table sets forth the capitalization of the Company at October 31, 1997, and the capitalization of the Company as adjusted to give effect to the sale of 1,000,000; 500,000; 200,000; and 100,000 of the Shares offered hereby, after deducting the estimated expenses associated with such sale. Reference should be made to the financial statements and notes thereto for a full presentation and explanation of the Company's current balance sheet.

Capitalization Table

October 31, 1997

	<u>As Adjusted for shares sold:</u>
	Actual
	1,000,000
	500,000
	200,000
	100,000
Current Obligations under Capital Lease and Current portion due to shareholder	
	\$179,922
	\$179,922
	\$179,922
	\$179,922

	\$179,922
Long-term Obligations under Capital Lease and Long-term portion due to shareholder, net current portion	
	\$103,048
	\$103,048
	\$103,048
	\$103,048
	\$103,048
Stockholders' equity:	
Common stock - 10,000,000 authorized; 6,000,000 outstanding actual; 7,000,000 outstanding as adjusted	
	\$151,000
	\$4,856,000
	\$2,396,000
	\$961,000
	\$511,000
Accumulated Deficit	
	(\$273,487)
	(\$273,487)
	(\$273,487)
	(\$273,487)
	(\$273,487)
Total Stockholders' Equity (Deficit)	
	(\$122,487)
	\$4,582,513
	\$2,122,513

	\$687,513
	\$237,513
Total Capitalization	
	(\$19,439)
	\$4,685,561
	\$2,225,561
	\$790,561
	\$340,561

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Software USA, formerly Harvest Analysts, Inc., was incorporated in November 1993 and conducted business as a consulting firm to the entertainment and direct marketing industry. The company ceased operations and in April of 1996 commenced the operations of Software USA. Any residual amounts from Harvest Analysts, Inc. contained in the financial statements are immaterial and unrelated to the current operations. Software USA is a direct marketer of software club memberships throughout North America, Europe, and Australasia, providing members with a monthly selection of computer shareware products on CDs or diskettes. The Company generates its revenues by attracting and retaining members in its shareware products club. Software USA bills the member for the initial membership by debiting the credit card of the member and subsequently bills the member for the monthly shareware products delivered. The Company's revenues are significantly influenced by its ability to attract new members and to retain its current members.

Results of Operations

The Company commenced the shareware distribution operations in April 1996, and the results for the fiscal year ended October 31, 1996, represented the first year of operations in the Company's current line of business. These initial seven months of operations are compared to the year ended October 31, 1997 for discussion purposes.

Net Sales were \$3,122,384 in 1997 and \$1,526,636 in 1996. The \$1,595,748 increase in net sales is due to a full year of operations in 1997 compared to seven months in 1996 and to the growth in the number of members. The Company sales are recorded net of refunds. The Company made refunds of \$411,630 in 1996 and \$789,084 in 1997. Gross profit was 78% in 1997 and 77% in 1996. Selling expenses were \$1,461,372 in 1997 and \$957,764 in 1996; the increase of \$503,608 is due to a full year of operations in 1997 compared to seven months in 1996, an increase in salaries and commissions, and a revised commission structure. General and administrative expenses were \$904,222 in 1997 and \$553,467 in 1996; the increase of \$350,755 is attributable primarily to a full year of operations in 1997 compared to seven months in 1996, salaries and occupancy costs. The Company had net income of \$61,336 in 1997 compared to a net loss of \$336,496 in 1996. The increase in net income is attributable to the factors discussed above along with improved operating efficiencies, and increase in the Company's membership base. The Company has experienced a 72% increase in its active membership at October 31, 1997 compared to October 31, 1996. Typically, approximately 50 percent of members discontinue their club memberships within the first 120 days after joining the Company's shareware club. The discontinuance rate of members within the first 120 days has remained constant at October 31, 1997 compared to October 31, 1996. The percentage of net revenue related to the initiation fee for active members is approximately 16% and 9% as of October 31, 1997 and 1996, respectively.

Liquidity and Capital Resources

Deferred compensation decreased to \$103,333 in 1997 from \$119,664 in 1996. The decrease is due to a reduction in salary for the Company's Chief Executive Officer. Accounts receivable decreased by \$37,204 to \$18,789 in 1997 from \$55,993 in 1996 due to the Company's switching to a more efficient credit card processing company in 1997.

Deferred offering costs and others increased by \$115,002 in 1997 from \$31,346 in 1996, consisting of attorney and accounting fees associated with the Offering and will be offset against the gross proceeds of the Offering. Accounts payable increased by \$69,339 in 1997 from \$99,772 in 1996 due to greater vendor costs associated with the Company's increased membership base. Accrued liabilities increased by \$64,261 in 1997 from \$94,834 at October 31, 1996; the increase is due to a higher accrual for payroll, commissions, and sales return reserves. Sales returns were \$57,219 at October 31, 1997 and \$52,452 at October 31, 1996. During 1997 the Company implemented an improved system to monitor and retain the Company's members.

Net cash provided by operating activities during 1997 was \$262,934, compared to net cash used in operating activities during 1996 of \$72,862; this change is due to the reasons discussed above. Property,

plant, and equipment purchases were \$65,665 in 1997 and \$66,227 in 1996. Leasehold improvements remained the same while computer and equipment increased to \$229,523 in 1997 from \$165,095 at October 31, 1996, due to the purchase of additional equipment as the business expanded. Repayments of a shareholder note were \$103,959 in 1997 and borrowings from a shareholder were \$30,306 in 1996. Borrowings from a related party to the shareholder decreased \$150,000 during 1996 due to the conversion of notes into 2,699,670 share of common stock. Restricted cash increased \$10,156 during 1997 due to cash deposited with the credit card processor. Net cash used in financing activities during 1997 was \$132,376 compared to cash provided by financing activities of \$180,306 during 1996 due to the reasons discussed above.

Net cash increased by \$64,893 during 1997 from \$29,890 at October 31, 1996.

The Company is involved in a legal dispute with a credit card processing company. The Company claims that the credit card processing company improperly billed and processed refunds during the period of September 1996 through March 1997, in the amount of \$150,000. Of this amount, less than \$30,000 was credited to the cardholder by the credit card processor in error. This amount was taken into account in the refund reserve established by the Company. The approximate balance of \$120,000 represents sales that were never processed by the credit card processor. The Company has not reflected these unprocessed sales as revenues in the financial statements and does not have any liability with respect to refunds improperly processed by the credit card processor. The Company, based upon advice of counsel, believes that it will be successful in recovering all or a portion of its damages related to the outcome of this matter. Management believes that all other current claims or litigation will not have a material adverse effect on the Company's financial statements.

The Company believes that the maximum net proceeds from the Offering, together with cash from operations, and existing lease agreements, will be sufficient to finance the Company's current operations, planned capital expenditures, and planned growth at least through 1998. If the Company fails to raise the maximum net proceeds contemplated in this Offering, the Company's planned growth will be reduced to the level that the net proceeds from this Offering will support. The Offering is being made on a "best efforts" basis directly to the public by the Company. The Offering is not contingent upon subscriptions for any minimum number of shares. Therefore, investors who purchase the Shares at the beginning of the Offering may experience limited growth in the Company as compared to the growth experienced if the full \$5,000,000 is raised in the Offering. If the Company, however, increases its anticipated rate of growth, it may be necessary for the Company to obtain additional debt or equity financing. Any sale of additional equity or equity-related securities could result in dilution to the Company's stockholders.

BUSINESS

Software USA is a telemarketer of software club memberships throughout North America, Europe, and Australasia providing members with a selection each month of computer software products on CDs or diskettes. Members are required to pay an initiation fee of \$39.95 using a major credit card, and a subsequent monthly fee of between \$14.95 and \$29.95 automatically charged to the members' credit card. The shareware programs provided by the Company to its members are fully interactive software programs licensed by the program authors to the Company free of charge. The program author subsequently benefits if club members register the program directly with the author, paying a fee and receiving the complete version of the program. The Company reviews computer shareware available on the Internet, as well as those programs sent to the Company by program authors, and carefully evaluates the selections for content, ease of use, and, in the case of educational products, academic value. Up to 50 programs are selected by the Company each month to be included on the CDs sent to members. The Company believes that the combination of software distribution, direct marketing and the automatic debiting of members' credit cards are central factors in the Company's continued growth.

Industry Background

The Software Industry

The market for shareware club memberships includes the users of an estimated 250 million personal computers worldwide. The Computer Industry Almanac reports that by the year 2000, over 535 million computers will be in use worldwide. Currently, 110 million personal computers are in use in the United States, Canada, the United Kingdom and Ireland, which represents most of the countries where the Company currently offers memberships. In the United States, an estimated 38 million households have a personal computer, representing about one in every three households. Software sales worldwide for personal computers has increased from approximately seven billion dollars in 1993 to nine billion dollars in 1996, representing a 28% increase in sales in three years. The same report predicts that by 1999, sales will reach approximately \$11.2 billion.

According to *The American Learning Household Survey*, 12.8 million family households, which represent about 38% of all families in the United States with children under 18, now own a personal computer. Over eight in ten families planning a personal computer purchase in the next year cite "children's educational use" as the reason for the purchase. Among personal computer owners, parents in 90% of households report their children actively using the personal computer; usually instead of watching television. It is estimated that children use personal computers an average of 5.5 hours per week.

Management believes that as Internet security improves, data transfer technology becomes faster and easier to use, and graphical presentations become more sophisticated, computer owners will use the Internet for many diverse commercial purposes. International Data Corporation estimates that there were 56 million Internet users worldwide at the end of 1995, and forecasts approximately 200 million users by the end of 1999. A recent study by FIND/SVP indicated that 59% of Internet users were interested in shopping on-line.

The Telemarketing Industry

The Company believes that telemarketing is a highly effective domestic and international marketing method. *Direct Marketing News*, a direct marketing trade publication, estimates that telemarketing is a \$400 billion dollar industry and that the number of adults using the telephone to order products or services rose to one hundred million people worldwide in 1996, a 52% increase over 1995. Declining telecommunications costs, unlike advertising and direct mail costs, continue to contribute to the growth in telemarketing.

Today more than 90% of Americans use the telephone to transact business and a recent report indicates that 84% of the population in the United Kingdom currently uses the telephone as an easy and convenient way to buy products and services, access information and seek help from businesses. Management believes that acceptance of telemarketing by international consumers is increasing as more companies transact business over the telephone.

Until the mid 1980's, telephone-based services were primarily performed in single center, low technology environments. With the aid of significant developments in computer and telecommunications technologies, independent companies have emerged and grown by developing multi-location, high volume telecommunications operations.

Business Strategy

The Company's business strategy is designed to attract and retain significant numbers of new members in the Company's shareware club.

Software USA Solution. Software USA provides an ideal solution for computer users who want access to quality software programs, but do not have the time to identify and evaluate the large amount of software available in today's market. Software USA provides a valuable service to the member by downloading and reviewing hundreds of programs over high speed data links every month, selecting only the programs that meet the Company's standards for content, academic value and ease of use. The Company believes that this allows it to provide superior quality shareware products that distinguish it from its competitors, and which contributes significantly to the attraction and retention of new members. The Company's members value the shareware products for content and ease of use. The Company's technical department strives to identify superior educational shareware selections and to identify popular shareware, such as games and home office utilities. The technical department also develops and implements superior product presentations and user friendly interfaces for the Company's CDs and diskettes. Additionally, Software USA's interface allows direct execution of the programs from the CD, thus eliminating the need for full installation on the hard drive, saving valuable storage space.

Telemarketing. The Company believes that outbound telemarketing is a superior method of marketing its memberships. Management believes transacting business over the telephone is now considered acceptable, if not preferable, by most consumers, particularly educated computer users who make up the majority of the Company's membership. It has been the Company's experience that the benefits of outbound telemarketing include high response rates, low cost per transaction (due to the Company's superior telecommunications and computer systems), direct interaction with prospective members and on-line access to detailed member and product information, all of which allows for efficient interaction with potential members.

The Company's experience has been that U.S. residents for whom English is a second language are typically more comfortable speaking in their native language, and therefore represent a potential market that can be reached through telemarketing contact. Currently, the Company is successfully operating a foreign language membership sales department, with Spanish and Chinese speakers contacting potential members within the United States in their native languages.

The Company's experience also has been that telemarketing is a highly effective marketing strategy in international markets; potential members overseas are accessible through telemarketing due to its growing worldwide acceptance as a marketing and customer service tool. Because of this, the Company plans to continue its international expansion using telemarketing.

As part of its international marketing strategy, the Company intends to use telemarketing to contact computer users in non-English speaking countries. In countries where most computer users speak English, Software USA intends to contact potential members in English. In countries where computer users do not speak English, the Company intends to contact potential members in their native languages. The Company believes that many international computer users are able to utilize software programs written in English due to the pervasive use of English in the computer community, and for those who cannot speak English, the Company will offer programs in their native language, as they become available.

Internet. The Company believes that the continued development of the Internet will provide the Company additional opportunities to identify and attract new members. Currently, the Company maintains an Internet web site to promote the Company and encourage web browsers to become members. The increased use of the Internet has created more consumer interest in shopping on-line, and therefore the Company intends to develop a more sophisticated web site. Management believes that as more sophisticated Internet technology becomes commercially available, the Company will be able to attract new members by utilizing this new technology. For example, the Company plans to allow members to process payments via the Internet, and intends to begin e-mail solicitations of potential members. Furthermore, management believes that this improved Internet technology can be used to create additional revenue streams. For example, the Company intends to charge authors a fee for facilitating registration of the author's shareware. Currently, members must contact shareware authors independently to register a program. Many shareware authors have indicated they are interested in the Company accepting payment

on their behalf for program registrations, using the member's credit card number held in the Company's secure database. Members will be able to register shareware of their choice through the Company's web site without having to leave credit card information on the web, which is currently an insecure method of transmitting such sensitive information. Authors and publishers will be charged a fee for this service, generating another source of revenue for the Company. The Company also intends to develop internet accessibility through its CDs.

Everyone likes to get something free. When that "something" is useful, informative and relevant, the Company believes that there is a greater likelihood of influencing the potential member to join the club. With this in mind, the Company offers a free CD to web browsers who provide their address and telephone number at the site. The Company mails a recent CD of its regular offering of shareware to them, allowing a potential member to try the product before joining the club. The information left by potential members is added to the Company's database for later telephone contact. Many requests for CDs are coming from foreign locations, confirming management's belief that the international interest for memberships is strong.

Human Resources Management. Software USA's success in recruiting, hiring and training large numbers of skilled telemarketing and membership services representatives is critical to its ability to attract and retain members. The management of Software USA is experienced in the recruiting and retention of effective telemarketing and membership services personnel. Management believes that the identification of employees who possess the skill and motivation to interact with the public in a telemarketing environment is essential to the success of the Company. Software USA's call center is located in San Diego, a metropolitan area with a well educated work force. Software USA offers competitive pay, hires primarily full-time employees who are eligible for a full range of employee benefits, and provides employees opportunity for promotion within the Company. Software USA is committed to the continued education and development of its employees and believes that providing the staff with access to new opportunities produces job satisfaction, ensures a higher quality labor force and fosters loyalty. Although the telemarketing industry as a whole has experienced significant personnel turnover, the Company believes that its quality-of-life initiatives and its high percentage of full-time employees has contributed to the stability in its employee base.

Membership Profile. The Company's current membership consists principally of educated home computer users, although the Company does offer shareware for small business users. Providing top quality educational software for children and adult students alike continues to be a major focus of the Company's marketing efforts. Management believes that a significant attraction for potential and current members to the Company's product is its emphasis on educational software. Members recognize and appreciate that the Company's service is a great benefit to their children's formal education, and as such the Company has found that its dedication to fine educational products increases member retention and satisfaction.

Technology. The Company's state-of-the-art call center houses sophisticated telecommunications and computer systems that provide a highly effective and efficient method of contacting potential members by telephone. A computerized call management system, utilizing a predictive dialer, automatically dials the telephone numbers of known computer users, and presents the connected call to the next available membership representative. A specific script is then presented on the computer screen, which the representative uses to solicit the potential member. All members join by charging their credit card, and the members continue to be shipped software and billed in this manner. This billing method facilitates ease of accounting, and also creates a billing environment beneficial to the Company and the member. The automatic charging of the member's credit card account is more convenient for the member than mailing a check, and therefore fewer members are likely to discontinue their membership. Sophisticated call monitoring of membership telephone calls ensures a consistent level of service. The Company also operates a fully computerized membership service network in which all incoming calls pass through an agent call distribution network to ensure caller priority. The technical support department operates its own stand alone network, enabling all technicians to work on the same document or program simultaneously. All departments have access to high speed ISDN and T-1 digital telephone lines.

Identification of Potential Members. The Company develops and maintains a proprietary database on key population segments. The Company develops the database by researching geographical locations, household income and occupations of families with computers. Management is highly skilled in the

acquisition of information regarding computer users who are a key part of the Company's proprietary database and who have a high probability of interest in becoming members.

Growth Strategy

The Company believes that the 250 million computers in use today, along with the estimated growth to 550 million computers by the year 2000, is a large and growing market for the Company's memberships. In order to penetrate this market, the Company intends to expand the number of call stations and enter more geographic markets.

Expansion of Call Stations. If the Company receives the maximum net proceeds, the Company intends to expand the number of call stations it operates from 20 to 135 by the end of the second quarter of 1998. The Company intends to achieve this by installing more call stations at its current premises, as well as by opening a second call center. The second call center, like the current one, will have state-of-the-art technology and be staffed by highly skilled telemarketing personnel. See "Use of Proceeds."

Expansion into New Geographic Markets. Software USA has successfully solicited members in the United Kingdom, Ireland and Canada since October 1996. Additionally, the Company has recently expanded into the Australasia region. Based on its experience in these markets, management believes that there are growth opportunities in these and other international markets for memberships. The Company plans to undertake extensive feasibility and market research studies to identify the best international markets. The Company intends to expand its efforts to attract new members in additional markets where computer users speak English. The Company also intends to contact potential members in non-English speaking markets in their native language. The Company believes that these potential members will be able to use the English language shareware because most international computer users are functionally literate in English. The Company also intends to provide products in additional languages, as they become available.

Proprietary Software The Company plans to increase its development of proprietary software products. The Company recently became aware of the lack of mathematical shareware programs and developed a proprietary algebra tutorial. The Company is distributing this in a series of proprietary programs to current members and intends to use it to attract and retain new members. The Company plans to develop additional proprietary software which eventually will be offered to members and the public for sale.

Advertising Billboards on CD. "Billboard" advertising is very popular on CDs and the Internet. The Company intends to solicit advertisers to place appropriate advertisements on the Company's CDs and web site in order to develop this as a source of revenue. Given that the Company has a targeted demographic audience of computer users, the Company believes that advertisers will find this opportunity attractive.

Registration of Shareware Programs. The Company intends to register shareware programs on behalf of shareware authors. A shareware author derives income when an interested party "registers" as a user and pays the author a fee. Many authors have expressed an interest in having Software USA accept the registration fee from the interested party, for which Software USA would be paid a fee. Given that the Company is already a high volume credit card processor, this is a natural area for revenue enhancement. See "Business-Internet."

Operations

The Sales Department is responsible for offering memberships in the Company's shareware club over a telephone-based marketing system. Membership typically originates when a membership representative calls a computer user selected as an individual likely to benefit from club membership. The member is charged a one time initiation fee of \$39.95. This fee is charged to cover the administrative costs of establishing the membership account information. This fee is not intended to provide any additional services to members.

The Sales Department identifies potential members by using the Company's proprietary database of probable computer users, which is being continually developed through the compilation of information about computer users worldwide. The Company retains information gathered in its contacts with potential members, which the Company believes is a valuable proprietary database.

A high speed UNIX multi-user system, utilizing predictive dialing equipment and automated dialing

services, automatically dials the telephone numbers, filters out any mechanical answering devices and presents the connected call to a trained membership representative with appropriate linguistic abilities. When a call is presented to a membership representative seated at an outbound call station, the potential member's name, as well as other relevant information, simultaneously appear on the membership representative's computer screen. The membership representative then uses a script to solicit the person to join the Company's shareware club. Under the current configuration, the system dials approximately 30,000 telephone numbers a day and permits on-line monitoring to ensure a consistent level of service. Because all members join the Shareware Club by using a major credit card, the Company also utilizes technology which ensures that each potential member's credit card has sufficient available credit before that person is accepted as a member.

The Company's Membership Service Department is designed to provide timely customer service to its members. The Department was established during the past year to improve member retention. The Department functions as a customer service department by providing customer services to members who are dissatisfied with some aspect of the product. The Department is authorized to modify delivery terms, authorize cancellations, and authorize and process refunds. The Department's main goal is to address customer complaints and encourage members to remain in the club. The Department also solicits referrals for the Sales Department. Membership services representatives are the first line encounter of members who are dissatisfied with the product. To date, the Department has been successful in addressing customer complaints and in increasing the member retention rate.

The Company's Membership Services Department employs state-of-the-art technology that incorporates digital switching technology, object-oriented software modules, relational database management systems, proprietary call tracking and workforce management systems. Utilizing industry standard tools, the Company has created a relational database management system that tracks the details of each member interaction and consolidates that information into a member file, which can be accessed and referred to by representatives as they deliver services. Software USA's digital switching technology enables calls to be routed to the next available membership services representative. Call tracking and work force management systems generate and track historical call volumes, enabling the Company to schedule personnel efficiently to accommodate anticipated fluctuations in call volume. This technology base enables Software USA to provide single call resolutions and decrease customer hold times, thereby enhancing member satisfaction. The Membership Services Department utilizes Pentium-based workstations with inbound and outbound calling capabilities. All workstations have computer telephone interface ("CTI") technology, which allows the system to identify the member by recognizing the telephone number of the inbound call, and displaying that member's file on the computer screen of the Company's representative. The telecommunications technology that supports the CTI technology is currently only available in a limited number of markets. By using simple and intuitive interfaces, which utilize easy to understand workflow tools, Software USA enables its representatives to focus on assisting the member. The system also allows representatives to obtain member information using significantly fewer keystrokes. The user-friendly interface also helps to decrease training time and increase the speed of call handling.

The Company's Technical Support Department is responsible for testing and evaluating the shareware products sent to members. In addition, the Technical Department has begun to develop proprietary software products for distribution to the Company's members, and has completed proprietary mathematical, foreign language and life science interactive programs. Costs of the programs have not been significant to date. The Company's Technical Support Department operates a fully computerized network, utilizing a Windows NT® Server, with Microsoft® Windows 95®, Microsoft® Windows for Workgroups®, and Apple® Macintosh®, as well as a high speed ISDN data link to the Internet. This advanced technology allows technicians download new software, develop proprietary software products simultaneously, and to respond to member inquiries. The Technical Support Department also operates its own stand alone computer network, enabling multiple technicians to work on the same shareware or proprietary software product simultaneously. The Technical Support Department also operates its own stand alone computer network, enabling multiple technicians to work on the same shareware or proprietary software products simultaneously. The Technical Support Department also provides assistance to members with technical questions regarding the Company's products by telephone, e-mail,

and facsimile. Only members who continue to receive the monthly product are able to utilize the Technical Support Department for inquiries related to the product. Virtually all technical support inquiries are made by telephone. Due to the user-friendly nature of the product, the inquiries to the Technical Support Department have not been significant to date.

The Company's Shipping Department sends CDs or diskettes to members each month by using workforce management systems, flow chart integration and rapid build shipping containers. This maximizes efficiency in the first class and bulk mail shipping of the Company's CDs and diskettes to members.

Internet

The Company internally develops and maintains an Internet web site that encourages web browsers to become members. The Internet has become well established and is generally expected to support a growing number of commercial applications. The increased use of the Internet has created more consumer interest in shopping on-line, and therefore the Company intends to continue to develop a more sophisticated web site. The Company currently offers a free CD to web browsers who visit the site. The Company then mails a recent CD of its regular offering of shareware, allowing a potential member to try the product before joining the club. The information left by the potential members enables the Company to solicit that person by telephone at a later date to purchase a membership.

Management believes that as more sophisticated Internet technology becomes commercially available, the Company will be able to attract new members by utilizing this new technology. The Company intends to deliver shareware to members over the Internet. Currently, the telecommunications technology does not permit efficient delivery of large amounts of data, so the Company provides CDs to members. The Company also intends to allow members to process credit card payments over the Internet. Because the Company already has member's credit card numbers, this Internet processing will not cause the public release of this sensitive information. Finally, the Company intends to solicit new members through e-mail.

The Company is in the planning stages of implementing shareware "tele-registration" over the Internet. Currently, members must contact shareware authors independently to register a program. Many shareware authors have indicated an interest in having the Company accept payment on their behalf for program registrations. Using the member's credit card already in the Company's secure database, members will be able to register the shareware of their choice through the Company's web site without providing credit card information. Authors and publishers will be charged an annual set-up and maintenance fee, as well as a percentage of the program registration fee.

Human Resources Management

Software USA's success in recruiting, hiring and training large numbers of skilled telemarketing and membership services representatives is critical to its ability to attract and retain members. The management of Software USA is experienced in the recruiting and retention of effective telemarketing and membership services personnel. Management believes that the identification of employees who possess the skill and motivation to interact with the public in a telemarketing environment is central to the success of the Company. The Software USA call center is located in San Diego, a metropolitan area with a well educated work force. Software USA offers competitive pay, hires primarily full-time employees who are eligible for a full range of employee benefits and provides promotional opportunities within the Company. Software USA is committed to the continued education and development of its employees and believes that providing its employees with access to new learning opportunities produces job satisfaction, ensures a higher quality labor force and fosters loyalty.

Before taking member calls, employees receive on-site training in Software USA's facilities to learn about the Company's corporate culture, specific product offerings and the Software USA member care program. Employees also receive on-going training in member solicitation and service, and product support. As of October 31, 1997, Software USA had 65 employees, of which 58 were full-time, and though the telemarketing industry has experienced significant personnel turnover, the Company believes that its quality-of-life initiatives and its high percentage of full-time employees has resulted in the relative stability of its employee base. A significant increase in the Company's employee turnover rate, however, could increase the Company's recruiting and training costs and decrease operational effectiveness. None

of Software USA's employees are subject to a collective bargaining agreement and Software USA believes relations with its employees are good.

Shareware Products

Shareware is a marketing method for software programs that allows software authors who have developed excellent programs, but lack the marketing skill and financial resources to market them, to make a program available on the Internet free of charge. Software USA provides members with the best of these software programs, which are easily accessed through the Company's interface software. These programs are fully functional, but are typically not complete. Users may contact the author and pay a nominal fee for the complete version of the program. The author will also generally provide telephone technical support and a printed manual. This allows users to try a program before paying the registration fee to the author, which is usually much less than the retail price of a comparable commercial program. The author receives income without incurring marketing expenses and users may "try before they buy." Imagine a retail store that would allow unlimited use of their product for 30 days, with an option to stop using the product without returning it, or even contacting them. Only software can be marketed this way because the cost of providing a program on the Internet to one person or 20 million people is the same.

The Company's shareware programs are tested and evaluated by the Company based on several factors. The program must function properly and efficiently. The content must be of superior entertainment or academic value. Finance and business programs must provide superior and reliable performance. The selected programs are thoroughly tested to identify and eliminate viruses, and are divided into groups by areas of interest. To confirm a program's quality, it is distributed to many beta test sites. This extensive testing and evaluation allows the Company to provide its members with shareware products that management believes are of a superior quality to its competitors and which are superior to programs randomly downloaded from the Internet.

The Company's technological expertise allows it to adapt software applications to add flexibility and responsiveness to its products. The Company utilizes software that provides an easy to use interface for its monthly shareware selections. This software allows members to easily access the shareware by area of interest and, more importantly, allows members to preview shareware by direct execution of the program from the CD, thus eliminating the need for full installation on the hard drive, which wastes valuable storage space.

Most members receive CDs, and this trend is expected to continue, resulting in higher profits for the Company due to lower CD duplication and shipping costs.

Government Regulation

The Company's business is subject to various federal and state laws and regulations. The Company's industry has become subject to an increasing amount of federal and state regulation in the last five years. The Federal Communications Commission's (the "FCC") rules under the Federal Telephone Consumer Protection Act of 1991 (the "FTCPA") limit the hours during which telemarketers may call consumers and prohibit the use of automated telephone dialing equipment to call certain telephone numbers. The Federal Telemarketing and Consumer Fraud and Abuse Prevention Act of 1994 (the "FTCFAPA") broadly authorizes the Federal Trade Commission (the "FTC") to issue regulations prohibiting misrepresentation in telephone sales. In August 1995, the FTC issued regulations under the FTCFAPA which, among other things, require telemarketers to make certain disclosures when soliciting sales. In addition, the FCC rules require the maintenance of a list of residential consumers who have stated that they do not want to receive telephone solicitations and avoidance of making calls to such consumers' telephone numbers. A number of states have enacted or are considering legislation to regulate telephone solicitations. For example, telephone sales in certain states cannot be final unless a written contract is delivered to and signed by the buyer and may be canceled within three business days. At least one state also prohibits telemarketers from requiring credit card payment and several other states require certain telemarketers to obtain licenses and post information. The FTCFAPA broadly authorized the FTC to issue regulations prohibiting misrepresentation in telephone sales. In August 1995, the FTC issued rules under the FTCFAPA. These rules generally prohibit abusive telephone solicitation practices and impose disclosure and record keeping requirements.

The Company believes that it is in compliance with the FTCFAPA and the FCC rules thereunder and with the FTC's rules under the FTCFAPA. The Company trains its membership representatives to comply with

the FTC and FCC rules and programs its call management system to avoid telephone calls during restricted hours or to individuals maintained on the Company's "do-not-call" list. However, there can be no assurance that additional federal or state legislation, or changes in regulatory implementation, would not limit the activities of the Company in the future or significantly increase the cost of regulatory compliance.

The Company also is subject to regulations in various countries throughout the world where the Company offers its memberships. The Company believes that it is currently complying with all applicable regulations.

Competition

The industry in which the Company operates is competitive. Aside from retail stores selling shareware, the Company believes that at present there are at least three key competitors; Software of the Month Club, Microstar and Software 2010. It is likely that as the industry evolves, additional competitors with greater marketing and financial resources will enter the marketplace. The Company believes the principal competitive factors in its industry are work environment for membership representatives, a reputation for quality shareware, price, ease of use, and customer service. Although the Company strongly believes it can compete, there is no assurance that the Company will be able to compete effectively with its current or future competitors. In addition, the Company's future success also will be highly dependent upon its ability to enhance existing services and introduce new services or products to respond to rapidly changing technological developments. There can be no assurance that the Company can successfully develop and bring to the market new services or products in a timely manner, or that such services or products will be commercially viable, or that competitor's technologies will not render the Company's products or services uncompetitive or obsolete.

Facilities

The Company's headquarters and operations are located in a 7,100 square foot facility in the Sorrento Valley area directly north of San Diego. The area is known for its high technology companies, and has been called the Silicon Valley of Southern California. The Company occupies this facility under a lease that expires in April 2002.

Legal Proceedings

From time to time the Company is involved in litigation, most of which is incidental to its business. In the Company's opinion, no litigation to which the Company currently is a party is likely to have a material adverse effect on the Company's results of operations or financial condition.

MANAGEMENT

Executive Officers And Directors

The following table sets forth certain information with respect to the executive officers and directors of the Company:

<u>Name</u>	<u>Age</u>	<u>Position</u>
James Clelland	45	Chairman of the Board, President, and Chief Executive Officer
Bradford Lefton	43	Executive Vice President, Chief Operating Officer, and Director
Karen Lesko	39	Vice President - Finance and Director
David Garber	26	Vice President - Public Affairs and Director
Rolando Alvarez	26	Vice President - Marketing and Director
Dominic Cefalu	37	Vice President - Technical Development and Director
David Rose	48	Vice President - Public Affairs and Director
David Torkington	48	Director

Mr. Clelland founded Software USA and has served as its Chairman of the Board of Directors, President and Chief Executive Officer since its inception in April 1996. Prior to that, from November 1993, Mr. Clelland was Chief Executive Officer of the predecessor, Harvest Analysts, Inc., a consulting firm to the direct marketing and entertainment industry. Before that, Mr. Clelland was the Chief Executive Officer of Alliance Management Group, Inc., a business management firm handling the interests of a portfolio of specialized clients, predominantly in the entertainment and direct marketing field. Mr. Clelland served in the British Royal Air Force.

Mr. Lefton co-founded Software USA and has served as its Executive Vice President and Chief Operating Officer, and as a Director, since its inception in April 1996. Prior to that, Mr. Lefton was the Regional Director of Asia for Transworld Media Corporation, an advertising company, from September 1993 to August 1995. From February 1991 to July 1993, Mr. Lefton was a Senior Lending Representative for Reliable Mortgage Corporation, a mortgage lender. Mr. Lefton has lived in Japan and Taiwan. He has extensive business experience in Asia, having participated in several business ventures in Japan and Taiwan. Mr. Lefton received his undergraduate degree from the University of Southern California in 1977 and his law degree from the Southwestern University School of Law in 1982.

Ms. Lesko has served as Chief Financial Officer and as a Director of the Company since July 1997. From August 1996 to July 1997, Ms. Lesko was the principal in a financial consulting firm, KWL Consulting. From February 1996 to July 1996, Ms. Lesko was an Audit Manager at Ernst & Young, a national public accounting firm. Prior to that, Ms. Lesko was a Staff Accountant with the Securities and Exchange Commission in Washington, D.C. for five years. Ms. Lesko also served as a member of the internal audit staff of Mobil Corporation, a major oil company, and was a member of the audit staff of Deloitte & Touche, a national public accounting firm. Ms. Lesko will devote approximately twenty hours a week to the Company.

Mr. Garber has served as a Director of the Company since July 1997. From the inception of the Company to the present, Mr. Garber has been a telemarketing representative for the Company. In May 1997, Mr. Garber also became Vice President - Public Affairs. Prior to the inception of the Company, Mr. Garber was, from December 1995 to April 1996, a telemarketing representative for Software of the Month Club, Inc., a shareware club. From May 1993 to April 1996, Mr. Garber held various positions in the sports and recreation industry. From January 1993 to May 1993, he was a quality control officer for IBM

Corporation. Prior to that, Mr. Garber attended the State University of New York.

Mr. Alvarez has served as Vice President - Marketing, as a Director of the Company, and as a telemarketing representative since July 1997. From December 1996 to July 1997 Mr. Alvarez was a telemarketing representative for the Software of the Month Club. Mr. Alvarez has served as a Securities Account Executive for Cohig & Associates, Inc. from July 1995 to November 1996, and for Robert Scott Securities, Inc. from November 1994 to June 1995, and for Thomas James & Associates, Inc. from July 1993 to November 1994, and Chatfield Dean & Co., Inc. from July 1992 to July 1993, each of which are registered securities broker-dealers.

Mr. Cefalu has served as Vice President - Technical Development and as a Director of the Company since July 1997. In addition, since February 1996, Mr. Cefalu has been a Senior Programmer and Systems Analyst for Software USA. For more than the past five years, Mr. Cefalu has been responsible for the computer and accounting systems for Solunto Baking Co., Inc., a family owned baking business. Mr. Cefalu received a Masters of Science in Computer Science from the University of California at San Diego in 1989. Mr. Cefalu also is a candidate for certification as a Microsoft certified solutions developer.

Mr. Rose has served as Vice President - Public Affairs since December 1996. Mr. Rose has served as a Director since March 1998. From November 1995 to the present, Mr. Rose has been Regional Training Director overseeing more than 4,000 representatives for Excel Communications, a publicly-owned telecommunications company. From July 1992 to November 1995, Mr. Rose developed, implemented, and conducted market research and target marketing programs for several direct marketing companies. Mr. Rose was also director for Osprey Trophies, an international trophy manufacturing company, responsible for arranging industry shows and developing the USA market. Prior to this, Mr. Rose was also a manager on the London Stock Exchange for six years.

Mr. Torkington has served as a Director of the Company since July 1997. From late 1996 to the present, Mr. Torkington has been employed by Sky Entertainment Services, a communications and entertainment concern, as its Chief Financial Officer. Prior to that, Mr. Torkington was employed by AT&T Corporation in various capacities, including Chief Financial Officer of NCR UK Holdings, a subsidiary of AT&T, Controller of its Caribbean and Latin America operations, and Chief Financial Officer of one of the divisions of its Network Systems Group. Mr. Torkington is a graduate of the University of Liverpool.

There are no family relationships among the officers and directors except that Messrs. Clelland and Torkington are cousins.

Advisory Board

The Company has an advisory Board that provides informal advice to management.

Harry Seager was an engineer in the British Royal Air Force for over 30 years. Mr. Seager also served in various technical positions including Deputy Minister for Transportation for the government of Zambia for seven years. Mr. Seager co-founded his own transportation business in the United Kingdom in 1979. Currently, Mr. Seager is retired.

Alan Simpson is the author of over 60 computer books. His books are published throughout the world in over a dozen languages, and have sold millions of copies. Many of his books include a CD-ROM offering shareware, so Mr. Simpson is well-versed in the shareware market. Prior to writing full time, Mr. Simpson was a programmer, consultant, and teacher. Alan has created custom software for many types of businesses. As a teacher, Mr. Simpson taught both introductory and advanced programming courses at the University of California at San Diego Extension, and at San Diego State University. Mr. Simpson's current focus is on developing interactive sites for the World Wide Web.

Andrea Doyle is a Senior Management Consultant with a portfolio of international clients, whom she advises on competitive analysis, corporate strategy and marketing initiative. Ms. Doyle has over 25 years experience in the world of International Financial Services, and was a Senior Executive with the Thomas Cook Group, one of the leading and most respected companies in the world of travel and financial services, who operate in over 100 countries throughout the world. She was responsible for all aspects of the management and development of their business throughout Eastern and Western Europe.

Douglas Johnston is presently Senior Vice President and Regional Manager of Western Bank located in Los Angeles, California. Mr. Johnston has twenty years of experience in the banking industry, having

worked for Wachovia Bank, Banc Texas Houston and Riverway Bank. Mr. Johnston is a graduate of Washington & Lee University.

Committees of the Board of Directors

The Board of Directors has standing Audit and Compensation Committees, which assist the Board in the discharge of its responsibilities. Members of each committee are elected by the Board at its first meeting following the annual meeting and serve for a one year term.

The Audit Committee reports to the Board regarding the appointment of the independent public accountants of the Company, the scope and fees of the prospective annual audit and the results thereof, compliance with the Company's accounting and financial policies and management's procedures and policies relative to the adequacy of the Company's internal accounting controls. The current members of the Audit Committee are James Clelland and David Torkington.

The Compensation Committee reviews and approves the annual salary and bonus for each executive officer (consistent with the terms of any applicable employment agreement), reviews, approves and recommends terms and conditions for all employee benefit plans (and changes thereto) and administers the Software USA, Inc. 1997 Stock Option Plan and such other employee benefit plans as may be adopted by the Company from time to time. The current members of the Compensation Committee are James Clelland and David Torkington.

Executive Compensation

The following table sets forth information regarding all cash compensation paid by the Company during the year ended October 31, 1997, to the Chief Executive Officer and each of the three highest paid persons who are officers or directors.

Aggregate		
<u>Name</u>	<u>Title</u>	<u>Remuneration</u>
James Clelland	President, Chief Executive Officer and Director	\$40,963 ⁽¹⁾
Three Various Officers ⁽²⁾		\$70,219

⁽¹⁾ The Company has accrued salary for the Chief Executive Officer in the amount of \$149,344 and \$134,664 as of October 31, 1997 and October 31, 1996, respectively. The Chief Executive Officer has agreed to accept periodic payments of his salary when sufficient cash generated by operations is available.

⁽²⁾ The Company has not provided any remuneration to the directors of the Company.

Software USA, Inc. 1997 Stock Option Plan. The Company adopted the Software USA, Inc. 1997 Stock Option Plan on December 22, 1997. All employees, non-employee directors, and service providers are eligible to participate in the Plan. Under the terms of the Plan, the Company has reserved 900,000 shares of common stock. Options issued under the Plan may be either incentive stock options ("Incentive Options") under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or non-qualified stock options ("Non-Qualified Options").

Incentive Options and Non-Qualified Options granted under the Plan expire on such date as is determined by the Plan Administrator, unless earlier terminated as provided in the Plan; provided, however, that options granted under the Plan must expire within five years after the grant date. An option is exercisable at such times as are determined on the grant date by the Plan Administrator. A Participant may exercise a part of the option from the date that part first becomes exercisable until the option expires or is otherwise

terminated.

The purchase price for shares to be issued to a Participant with respect to an Incentive Option will be not less than 100% of the fair market value (as defined in the Plan) of the Common Stock on the grant date (110% of the fair market value in the case of Incentive Options granted to a person who on the grant date owns or is considered to own more than 10% of the outstanding Common Stock). The purchase price for shares issued with respect to a Non-Qualified Option will be not less than 85% of the fair market value of the Common Stock on the grant date. The exercise price of an option, plus an applicable withholding tax, is payable in full at the time of delivery of the shares, in cash or, at the option of the Plan Administrator, in shares of the Common Stock.

Options granted under the Plan are not transferable or assignable other than by will or by the laws of descent and distribution. Upon the termination of a Participant's relationship with the Company by reason other than death or disability, any options granted to Participant shall terminate 30 days from the date on which such relationship terminates unless such Participant has resumed or initiated a relationship and has a relationship on such date. During such 30-day period, the Participant may exercise any option granted to him to the extent such option was exercisable on the date of termination of Participant's relationship and provided that such option has not expired or otherwise terminated. Except as the Plan Administrator may expressly determine otherwise, upon the termination of a Participant's relationship by reason of death or disability, any option granted to him shall terminate six months after the date of termination of his or her relationship, unless by its terms the option shall expire before such date. The option shall only be exercisable to the extent exercisable on the date of termination of the Participant's relationship. In the case of termination by reason of death, the option may be exercised by the person to whom the Participant's rights under the option shall pass by will or by the laws of descent and distribution. These and other terms and conditions of the options will be set forth in an agreement entered into between the Company and the Participant at the time an option is granted to such Participant.

If the number of outstanding shares of the Company's common stock is increased or decreased, or if such shares are exchanged for a different number or kind of shares or securities of the company through reorganization, merger, recapitalization, reclassification, stock dividend, stock split, combination of shares or other similar transaction the aggregate number of shares of common stock subject to the Plan and the shares of common stock subject to issued and outstanding options under the Plan will be appropriately and proportionately adjusted by the Plan Administrator. Any such adjustment in the outstanding options will be made without change in the aggregate purchase price applicable to the unexercised portion of the option but with an appropriate adjustment in the price for each share or other unit of any security covered by the option.

Notwithstanding the foregoing, upon the dissolution or liquidation of the Company or upon any reorganization, merger or consolidation with one or more corporations as a result of which the Company is not the surviving corporation, or upon a sale of all or substantially all of the assets of the company to another corporation or entity, the Plan and each outstanding option will terminate; provided, however, that: (i) each option for which no option has been tendered by the surviving or acquiring corporation, if any, in accordance with all of the terms of provision (ii) immediately below will become fully exercisable immediately before the effective date of such dissolution, liquidation, merger, consolidation, or sale of assets in which the Company is not the surviving or acquiring corporation; (iii) in its sole and absolute discretion, the surviving or acquiring corporation may, but will not be obligated to, tender to any Participant holding an option, an option or options to purchase shares of the surviving or acquiring corporation, and such new option or options will contain such terms and provisions as shall be required substantially to preserve the rights and benefits of any option then outstanding under the Plan.

Compensation of Directors

The Company does not pay its directors a fee for their services; however, all directors are reimbursed for travel expenses incurred in attending board and committee meetings. Non-employee directors are also eligible to participate in the Software USA, Inc. 1997 Stock Option Plan.

Indemnification of Officers and Directors

Section 317 of the California General Corporation Law provides for the indemnification to officers and directors of the Company against expenses, judgments, fines, and amounts paid in settlement under certain conditions and subject to certain limitations.

Article V of the Amended and Restated Article of Incorporation of the Company provides that the Company has power to indemnify any person who is or was an agent of the Company as provided in Section 317 of the California General Corporation Law. The Amended and Restated Articles of Incorporation also provide that such indemnification is not exclusive of any additional rights to indemnification such person may have pursuant to contract, vote of shareholders or disinterested directors or otherwise. The rights to indemnity thereunder continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of the person. In addition, expenses incurred by a director or officer in defending a civil or criminal action, suit or proceeding by reason of the fact that he or she is or was a director or officer of the Company (or was serving at the Company's request as a director or officer of another corporation) shall be paid by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the Company as authorized by the relevant section of the California General Corporation Law.

Article IV of the Company's Amended and Restated Articles of Incorporation provides that the liability of the directors of the Company for monetary damages shall be eliminated to the fullest extent permissible under California law. Accordingly, a director will not be liable for monetary damages for breach of duty to the Company or its shareholders in any action brought by or in the right of the Company. However, a director remains liable to the extent required by law (i) for acts or omissions that involve intentional misconduct or a knowing and culpable violation of law, (ii) for acts or omissions that a director believes to be contrary to the best interests of the Company or its shareholders or that involve the absence of good faith on the part of the director, (iii) for any transaction from which a director derived an improper personal benefit, (iv) for acts or omissions that show a reckless disregard for the director's duty to the Company or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of serious injury to the Company or its shareholders, (v) for acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the Company or its shareholders, (vi) for any act or omission occurring prior to the date when the exculpation provision became effective and (vii) for any act or omission as an officer, notwithstanding that the officer is also a director or that his or her actions, if negligent or improper, have been ratified by the directors. The effect of the provisions in the Amended and Restated Articles of Incorporation is to eliminate the rights of the Company and its shareholders (through shareholders' derivative suits on behalf of the Company) to recover monetary damages against a director for breach of duty as a director, including breaches resulting from negligent behavior in the context of transactions involving a change of control of the Company or otherwise, except in the situations described in clauses (i) through (vii) above. These provisions will not alter the liability of directors under Federal securities laws.

Pursuant to authorization provided under the Amended and Restated Articles of Incorporation, the Company has entered into indemnification agreements with each of its present directors. Generally, the indemnification agreements attempt to provide the maximum protection permitted by California law as it may be amended from time to time. Moreover, the indemnification agreements provide for certain additional indemnification. Under such additional indemnification provisions, however, an individual will not receive indemnification for judgments, settlements or expenses if he or she is found liable to the Company (except to the extent the court determines he or she is fairly and reasonably entitled to indemnity for expenses), for settlements not approved by the Company or for settlements and expenses if the settlement is not approved by the court. The indemnification agreements provide for the Company to advance to the individual any and all reasonable expenses (including legal fees and expenses) incurred in investigating or defending any such action, suit or proceeding. In order to receive an advance of expenses, the individual must submit to the Company copies of invoices presented to him or her for such expenses. Also, the individual must repay such advances upon a final judicial decision that he or she is not entitled to indemnification. The Company's Bylaws contain a provision of similar effect relating to advancement of expenses to a director or officer, subject to an undertaking to repay if it is ultimately determined that indemnification is unavailable.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information as of January 31, 1998, with respect to those persons or groups known to the Company who beneficially own more than five percent (5%) of the Company's Common stock, for each officer and director and for all officers and directors as a group:

Name and Address of Owner⁽¹⁾

Number of Shares

Percent Before Offering

Percent After Offering⁽²⁾

James Clelland

3,300,330
55%
47%

Lori Clelland⁽³⁾

3,300,330
55%
47%

Dorothy Clelland

2,699,670
45%
39%

Bradford Lefton

0
*
*

Karen Lesko

0
*
*

David Garber

0
*
*

Rolando Alvarez

0
*
*

David Torkington

0
*
*

Dominic Cefalu

0
*

*

All Officers and Directors as a Group⁽⁷⁾

3,300,330

55%

47%

*Represents less than one percent of the outstanding shares of common stock.

- ⁽¹⁾ The address for all persons listed is 9909 Huennekens Street, San Diego, California 92121.
- ⁽²⁾ Assumes that the maximum number of 1,000,000 shares will be issued and outstanding following the Offering.
- ⁽³⁾ Includes 600,660 shares of common stock held by the ALJAMMA Trust for the benefit of the minor children of James and Lori Clelland, of which Ms. Clelland is the trustee. Mr. Clelland disclaims beneficial ownership of the 600,660 shares held in the trust. James and Lori Clelland are married.

CERTAIN TRANSACTIONS

In October 1996, Dorothy Clelland, a relative of the Chief Executive Officer, who had loaned the Company \$150,000, exchanged the principal amount of this debt for 2,699,670 shares of the Company's common stock.

At October 31, 1996, the Company had a loan from the Chief Executive Officer in the amount of \$30,306. The loan required no interest and was payable on demand. It was paid during 1997.

The Company has accrued salary for the Chief Executive Officer in the amount of \$103,333 and \$119,664 as of October 31, 1997 and 1996, respectively. The Chief Executive Officer has agreed to accept periodic payments of his salary when sufficient cash generated by operations is available.

The Company intends to seek approval of all material affiliated transactions and loans from non-interested directors and all these transactions will be on terms no less favorable than can be obtained from unrelated third parties.

PLAN OF DISTRIBUTION

General

The Company is offering up to 1,000,000 Shares of its Common stock on a "best efforts" basis directly to the public. The minimum subscription is 100 Shares (\$500). The maximum investment, subject to waiver by the Company, is 10,000 shares (\$50,000). There are no other restrictions on the number of shares that may be purchased by investors. The subscriptions will be honored on a first come, first served basis until all 1,000,000 Shares are sold or until the Company terminates the offering. THE OFFERING IS NOT CONTINGENT UPON SUBSCRIPTIONS FOR ANY MINIMUM NUMBER OF SHARES.

While the sale of shares will be available to the general public, the Company intends to offer shares for sale primarily to the members and potential members of Software USA's shareware club. Offering materials will be made available to these and other prospective investors by publicizing the Offering on the Internet, the Angel Capital Electronic Network, and the Direct Stock Market and through newspaper and magazine articles, advertisements, and media coverage. The promotional efforts will invite these and other persons interested in the Offering to obtain a copy of the Offering Circular by downloading it from the Company's web site on the Internet or by contacting the Company for a printed copy. The Company also intends to contact additional potential investors by direct solicitation.

In addition, the Company may use broker-dealers registered with the National Association of Securities Dealers, Inc. ("NASD") as placement agents. If broker-dealers are used by the Company, they will receive commissions based on negotiations with the Company. The Company will amend this Offering Statement to identify any broker-dealer when that broker-dealer sells at least five percent of the Offering. The Company understands that it is the view of the Securities and Exchange Commission's Division of Corporation Finance that any broker-dealer who participates in the Offering will be deemed an underwriter under Section 2(11) of the Securities Act of 1933, as amended. Additionally, the Company intends to obtain a no objection position from the NASD regarding the underwriting compensation, if required.

Determination of Offering Price

The offering price for the Shares was determined by the Company based on a variety of factors and does not bear any direct relationship to the fair market value of the Shares as would be determined by a liquid trading market for the Shares. There is no public market for the Shares and none is expected to develop as a result of the Offering. In determining such price, consideration was given to, among other things, the Company's initial and projected operating results, its prospects and earnings potential, its management, and the risks associated with an investment in the Shares. Additional consideration was given to the general state of the economy, the shareware industry, and other factors which management deemed material.

Sales Representatives

The Company will only effect offers and sales of the Shares through directors, officers and certain employees, and the designated sales representative, presently, Rolando Alvarez, who serves as Vice President - Marketing and is also a director in compliance with federal and state law. Mr. Alvarez is not subject to any of the statutory disqualifications set forth in Section 3(a)(39) of the Exchange Act, nor is he an associated person (partner, officer, director, or employee) of a broker or dealer. In connection with the sale of the Shares offered by this Offering Circular, Mr. Alvarez will not receive, directly or

indirectly, any commissions, remuneration, or any other compensation. Mr. Alvarez has successfully passed the Series 63 – Uniform Securities Agent State Law Examination and is registered as a “sales representative of the issuer” for the Offering in those jurisdictions in which such registration is required. Initially, offers and sales may be made by James Clelland, Bradford Lefton, David Garber, Dominic Cefalu, and David Rose, in addition to Mr. Alvarez.

Subscription Procedure

The Shares are offered by the Company on a “best efforts” basis. The Offering will terminate upon the earlier of (a) the date on which all of the Shares have been sold; (b) November 30, 1998, unless such date is extended up to 180 days by the Company; or © the date on which the Company terminates the offering.

The Company reserves the right to terminate the Offering at any time before the sale of all 1,000,000 Shares.

To subscribe, investors must mail (a) the Subscription Agreement (or a photocopy thereof), properly completed and signed, and (b) a check or money order payable to the order of “Software USA, Inc.” for the purchase price of \$5.00 per share (minimum purchase of 100 Shares for \$500). Investors may also wire the purchase price to Union Bank of California, Rancho Santa Fe, California, Routing Number 122000496, Account Number 6440005711, Beneficiary: Software, USA, Inc. Subscription documents should be mailed or delivered to Software USA, Inc., 9909 Huennekens Street, Suite 200, San Diego, CA 92121. Investors should not include any other documents or correspondence. Since the number of Shares available is limited and subscriptions will be accepted on a first come, first served basis, subscribers are advised to forward the Subscription Agreement, and payment for the Shares, as soon as possible. To subscribe for shares offered in the United Kingdom, investors must post the Subscription Agreement (or a photocopy thereof), properly completed and signed, together with the appropriate remittance of the full amount payable on acceptance, in accordance with the instructions thereon, either by post or by hand to the Company so as not to arrive later than the termination of the offering, which will forward the funds to the Royal Bank of Scotland, London City Office.

Acceptance Procedure

The Company will process properly completed subscriptions received from investors in the order in which they are received. Subscription Agreements received on the same date will be processed in the order in which they are opened. Subscriptions are irrevocable. Subscriptions that are not accepted for any reason will be returned without interest or any deduction for expenses within 30 days. Subscriptions accompanied by an overpayment otherwise properly completed will be accepted and a check will be mailed to the subscriber for the amount of the overpayment.

Upon acceptance of a subscription, the Company will forward to the subscriber a copy of the accepted subscription agreement and a copy of the Offering Circular (unless the Subscription Agreement indicates that the subscriber has already received the Offering Circular or the subscriber elects to take delivery of the Offering Circular electronically over the Internet). At the same time, the Company will prepare and forward a stock certificate directly to the subscriber. Subscribers will not be deemed holders of the Shares purchased until the stock certificate has been issued. All monies received from subscribers in the United Kingdom will be held by the Royal Bank of Scotland, London City Office prior to the termination of the offer when the net proceeds will be paid to the Company.

Limited State Registrations

For United States residents, only residents of the following states in which the Shares have been qualified for applicable securities or Blue Sky or for which the Shares are exempt from qualification laws may purchase the Shares in the Offering: California, Colorado, District of Columbia, Georgia, Illinois, Indiana, Kansas, New York, and North Carolina. The Offering will also be made in the United Kingdom on a best efforts basis. Each potential investor will be required to execute a subscription agreement which, among other things, discloses his or her state of residence. A potential investor who is a resident of a state other than a state in which the Shares have been qualified for sale may request that the Company register the Shares in the state in which such investors resides. The Company may accept or refuse any such request, in its sole discretion. The Company may apply for registration of the Offering in certain other states.

DESCRIPTION OF CAPITAL STOCK

Common Stock

The purpose of the Company is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of California other than banking business, trust company business, or the practice of a profession permitted to be incorporated by the California Corporations Code. The Company is authorized to issue 10,000,000 shares of one class, designated common stock, no par value. All outstanding shares of stock will, when issued, be fully paid and nonassessable. As of December 31, 1997, 6,000,000 shares were issued and outstanding. The securities being offered hereby is common stock, no par value. The Common Stock will be issued for such consideration, and will be fixed from time to time by the Board of Directors. In the absence of fraud, the judgement of the Directors as to the value of any property for shares will be conclusive. When shares are issued upon payment of the consideration fixed by the Board of Directors, the shares will be taken to be fully paid stock and will be non-assessable.

Holders of shares of common stock are not entitled to preemptive rights to subscribe for additional shares of stock. The liability of the holders of the common stock is limited to the amount of their investment. Each share of common stock is entitled to one vote on all matters submitted to a vote of shareholders, except in connection with the election of directors, in which case shareholders may cumulate their votes and cast them all for one or more of the director candidates. Holders of common stock have no subscription or redemption rights, and the stock has no sinking fund provisions. In the event of liquidation, dissolution or winding up of the Company, holders of common stock are entitled to share ratably in all assets remaining after payment of all creditors of the Company and any holders of outstanding shares of preferred stock. All outstanding shares of common stock are, and those outstanding upon completion of this Offering will be, duly authorized, validly issued, fully paid and nonassessable.

Shareholders are entitled to receive such dividends, if any, that are declared by the Company's Board of Directors out of funds legally available therefore and, upon the liquidation, dissolution or winding up of the Company, are entitled to share ratably in all net assets available for distribution to such holders after satisfaction of all obligations of the Company, including stock preferences. The Company's Board of Directors presently does not intend to pay any dividends, but to retain and use any earnings to finance the growth of its business for an indefinite period. Future dividend policies will depend upon the Company's earnings, financial needs, among other factors.

Transfer Agent

The Company intends to act as its own transfer agent.

LIMITATION ON TRANSFER OF SHARES

The Shares offered hereby have been qualified with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, and Regulation A promulgated thereunder and, as such, the Shares are freely transferable under the federal securities laws. The Shares, however, have been registered in a limited number of states and may not be sold or otherwise transferred to persons who are residents of any state in which the Shares have not been registered unless they are subsequently registered or there exists an exemption from the applicable states' registration requirements with respect to such sale or transfer.

Prior to the Offering, there has been no public market for the common stock of the Company and the Company does not anticipate the development of a public market for the Shares. Should a public market develop, future sales of substantial amounts of common stock in the public market could adversely affect prevailing market prices of the common stock. Upon completion of sale of the maximum number of shares in the Offering, the Company will have outstanding 7,000,000 shares of common stock (excluding the shares of common stock issuable upon exercise of outstanding options and warrants). Of such shares, the 1,000,000 shares of common stock sold in the Offering will be freely tradeable without restrictions under the Securities Act, except for any shares held by an "affiliate" of the Company, which will be subject to the resale limitations of Rule 144 under the Securities Act ("Rule 144"). The remaining 6,000,000 shares, which were issued by the Company in private transactions in reliance upon one or more exemptions under the Securities Act, are "restricted securities" under Rule 144 and may be sold in compliance with such Rule, pursuant to registration under the Securities Act or pursuant to an exemption

therefrom. Generally, under Rule 144, each person holding restricted securities for a period of one year may, every three months after the expiration of such one-year holding period, sell an amount of shares equal to the greater of (i) one percent of the Company's then outstanding common stock or (ii) the average weekly trading volume during the four weeks prior to the proposed sale. In addition, sales under Rule 144 may be made only through unsolicited brokerage transactions or to market makers and are subject to various other conditions. None of these rules applies to restricted securities sold for the account of a person who is not and has not been an "affiliate" of the Company (as that term is defined in the Securities Act) during the three months prior to the proposed sale and who has beneficially owned the securities for at least two years. Currently, 6,000,000 of the outstanding shares are tradeable under Rule 144 but all of the shares are held by affiliates and are therefore subject to the volume limitations of Rule 144.

Any employee, officer or director of or consultant to the Company who purchased, or will purchase, his or her shares pursuant to a written compensatory plan or contract is entitled to rely on the resale provisions of Rule 701, which permit, 90 days after a public offering by the Company, (i) nonaffiliates to sell their Rule 701 shares without compliance with the public information, holding period, volume limitation or notice provisions of Rule 144 and (ii) affiliates to sell their Rule 701 shares without compliance with Rule 144's holding period restrictions. No holders of currently outstanding shares of common stock have received shares of common stock pursuant to Rule 701.

CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS FOR NON-UNITED STATES HOLDERS OF COMMON STOCK

The following is a discussion of certain United States federal income and estate tax consequences of the ownership and disposition of common stock by a "Non-United States Holder." A "Non-United States Holder" is a person or entity that, for United States federal income tax purposes, is a non-resident alien individual, a foreign corporation, a foreign partnership, or a foreign estate or trust. An alien individual may be deemed to be a resident alien (as opposed to a non-resident alien) by virtue of being present in the United States on at least 31 days in the calendar year and for an aggregate of 183 days during a three-year period ending in the current calendar year (counting, for such purposes, all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year). In addition to the "substantial presence test" described in the immediately preceding sentence, an alien may be treated as a resident alien if he (i) is a lawful permanent resident at any time during the year, or (ii) elects to be treated as a United States resident and meets the "substantial presence test" in the immediately following year. Generally, resident aliens are subject to United States federal tax as if they were United States citizens and residents.

This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), and administrative and judicial interpretations as of the date hereof, all of which may be changed either retroactively or prospectively. This discussion does not address all aspects of United States federal income and estate taxation that may be relevant in light of any Non-United States Holder's particular facts and circumstances (such as being a United States expatriate) and does not address any tax consequences arising under the laws of any State, local or foreign taxing jurisdiction.

Prospective holders are urged to consult their tax advisors with respect to the particular United States federal, state, local and non-United States income and other tax consequences of holding and disposing Common stock.

Dividends

Dividends paid to a Non-United States Holder of common stock generally will be subject to withholding tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. For purposes of determining whether tax is to be withheld at a 30% rate or at a reduced rate as specified by an income tax treaty, the Company ordinarily will presume that dividends paid to an address in a foreign country are paid to a resident of such country absent knowledge that such presumption is not warranted. However, under recently proposed United States Treasury regulations which have not yet become effective, a Non-United States Holder of common stock would be required to file an appropriate withholding certificate (generally Form W-8) in order to claim the benefits of a tax treaty.

Upon the filing of an Internal Revenue Service Form 4224 with the payor, there will be no withholding tax on dividends that are effectively connected with the Non-United States Holder's conduct of a trade or business within the United States. Instead, the effectively connected dividends will be subject to regular United States income tax in the same manner as if the Non-United States Holder were a United States resident. A non-United States corporation receiving effectively connected dividends also may be subject to an additional "branch profits tax" which is imposed under certain circumstances, at a rate of 30% (or such lower rate as may be specified by an applicable treaty) of the non-United States corporation's effectively connected earnings and profits, subject to certain adjustments.

Gain on Disposition of Common stock

A Non-United States Holder generally will not be subject to United States Federal income tax with respect to gain realized on a sale or other disposition of common stock unless (i) the gain is effectively connected with a trade or business of such holder in the United States (which gain, in the case of a foreign corporation, must also be taken into account for branch profits tax purposes), (ii) in the case of certain Non-United States Holders who are non-resident alien individuals and hold the Shares as a capital asset, such individuals are present in the United States for 183 or more days in the taxable year of the disposition and (a) have a "tax home" in the United States for such year or (b) the gain is attributable to an office or other fixed place of business maintained in the United States by such individual, or (iii) the Company is or has been a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code at any time within the shorter of the five-year period preceding such disposition or such Non-United States Holder's holding period. The Company believes that it currently is not a United States real property holding corporation and does not anticipate that it will become one in the future. Further, even if the Company were to become a United States real property holding corporation, any gain recognized by a Non-United States Holder still would not be subject to United States tax if the shares were considered to be "regularly traded" (within the meaning of applicable United States Treasury regulations) on an established securities market (e.g., the Nasdaq National Market System), and the Non-United States Holder did not own, directly or indirectly, at any time during the five-year period ending on the date of the disposition, more than five percent of the common stock.

Non-United States Holders should note that legislation has been proposed on several occasions that would subject certain Non-United States Holders owning a specified percentage of the stock of the Company to United States tax on the gain realized from the sale (or other disposition) of the common stock. Although to date this legislation has not been enacted, it is not possible to predict whether such legislation will be enacted in the future, and, if so enacted, in what form.

Information Reporting Requirements and Backup Withholding

Generally, the Company must report to the United States Internal Revenue Service the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the holder. Pursuant to tax treaties or other agreements, the United States Internal Revenue Service may make its reports available to tax authorities in the recipient's country of residence. Dividends paid to a Non-United States Holder at an address within the United States may be subject to 31% backup withholding if the Non-United States Holder fails to establish that it is entitled to an exemption or to provide a correct tax payer identification number and other information to the payor. Dividends paid to a Non-United States Holder at an address outside the United States generally will not be subject to backup withholding.

Information reporting and 31% backup withholding will apply to the proceeds of a disposition of common stock paid to or through a United States office of a broker unless the disposing holder certifies its non-United States status or otherwise establishes an exemption. A Non-United States Holder may establish non-United States status by filing an Internal Revenue Service Form W-8 with the broker. Generally, United States information reporting and backup withholding will not apply to a payment of disposition proceeds if the payment is made outside the United States through a non-United States office of a non-United States broker. However, United States information reporting requirements (but not backup withholding) will apply to a payment of disposition proceeds outside the United States if (i) the payment is made through an office outside the United States of a broker that is either (a) a United States person, (b)

a foreign person which derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States or © a “controlled foreign corporation” for United States federal income tax purposes, and (ii) the broker fails to maintain documentary evidence that the holder is a Non-United States Holder and that certain conditions are met, or that the holder otherwise is entitled to an exemption.

Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is furnished to the United States Internal Revenue Service.

Federal Estate Tax

An individual Non-United States Holder who is treated as the owner of, or has made certain lifetime transfers of an interest in, the Common stock will be required to include the value thereof in his gross estate for United States federal estate tax purposes, and may be subject to United States federal estate tax unless an applicable estate tax treaty provides otherwise.

REPORTS TO SHAREHOLDERS

The Company currently intends to furnish its shareholders with annual reports that will describe the nature and scope of the Company’s business and operations for the prior year, and will contain a copy of the Company’s audited financial statements for its most recent fiscal year.

INDEPENDENT PUBLIC ACCOUNTANTS

The financial statements of the Company for the years ended October 31, 1997 and 1996, included in this Offering Circular, have been audited by Arthur Andersen LLP, independent public accountants.

LEGAL MATTERS

The validity of the Common stock offered hereby will be passed upon for the Company by Foley & Lardner, San Diego, California. Certain matters as to the laws of the United Kingdom will be passed upon for the Company by Richards Butler, London, England.

SOFTWARE USA, INC.
INDEX TO FINANCIAL STATEMENTS

Report

F-2

Financial Statements

Balance Sheets as of October 31, 1997 and 1996

F-3

Statements of Operations for the years ended October 31, 1997 and 1996

F-5

Statements of Shareholders' Deficit for the years ended October 31, 1997 and 1996

F-6

Statements of Cash Flows for the years ended October 31, 1997 and 1996

F-7

Notes to Financial Statements

F-8

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Software USA, Inc. (formerly Harvest Analysts, Inc.):

We have audited the accompanying balance sheets of Software USA, Inc. (formerly Harvest Analysts, Inc.) (a California corporation) as of October 31, 1997 and 1996, and the related statements of operations, shareholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Software USA, Inc. (formerly Harvest Analysts, Inc.) as of October 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

San Diego, California

December 22, 1997

SOFTWARE USA, INC.
(FORMERLY HARVEST ANALYSTS, INC.)

BALANCE SHEETS
AS OF OCTOBER 31, 1997 AND 1996

ASSETS

	1997	1996
CURRENT ASSETS:		
Cash \$ 94,783	\$ 29,890	
Restricted cash 10,156	-	
Accounts receivable 18,789	55,993	
Deferred offering costs and other	139,594	31,346
	-----	-----
Total current assets	263,322	117,229
	-----	-----

PROPERTY AND EQUIPMENT:

Furniture and fixtures 51,616	7,694	
Leasehold improvements	2,640	2,640
Computers and equipment	229,523	165,095
	-----	-----
	283,779	175,429
Less accumulated depreciation and amortization	(65,166)	(22,703)
	-----	-----
Net property and equipment	218,613	152,726

OTHER ASSETS	6,754	-
	-----	-----
\$ 488,689	\$ 269,955	
=====	=====	

The accompanying notes are an integral part of these financial statements.

SOFTWARE USA, INC.
(FORMERLY HARVEST ANALYSTS, INC.)

BALANCE SHEETS
AS OF OCTOBER 31, 1997 AND 1996

LIABILITIES AND SHAREHOLDERS' DEFICIT

	1997	1996	
CURRENT LIABILITIES:			
Accounts payable	\$ 169,111	\$ 99,772	
Accrued liabilities	159,095	94,834	
Current portion of capital lease obligations		30,578	24,122
Due to shareholder - current portion (Note 4)		149,344	134,664
	-----	-----	
Total current liabilities	508,128	353,392	
CAPITAL LEASE OBLIGATIONS, net of current portion		103,048	85,080
DUE TO SHAREHOLDER, net of current portion		-	15,306
	-----	-----	
Total liabilities	611,176	453,778	
	-----	-----	
SHAREHOLDERS' DEFICIT:			
Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 6,000,000 shares		151,000	151,000
Retained deficit	(273,487)	(334,823)	
	-----	-----	
Total shareholders' deficit	(122,487)	(183,823)	
	-----	-----	
Total liabilities and shareholders' deficit	\$ 488,689	\$ 269,955	
	=====	=====	

The accompanying notes are an integral part of these financial statements.

SOFTWARE USA, INC.
(FORMERLY HARVEST ANALYSTS, INC.)

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED OCTOBER 31, 1997 AND 1996

	<u>1997</u>	<u>1996</u>
NET SALES	\$ 3,122,384	\$ 1,526,636
COST OF SALES	692,854	351,101
	-----	-----
	2,429,530	1,175,535
	-----	-----
OPERATING EXPENSES:		
Selling expenses	1,461,372	957,764
General and administrative expenses	904,222	553,467
	-----	-----
Total operating expenses	2,365,594	1,511,231
	-----	-----
Income (loss) before provision for income taxes	63,936	(335,696)
Provision for income taxes	2,600	800
	-----	-----
Net income (loss)	\$ 61,336	\$ (336,496)
	=====	=====
Net income (loss) per share	\$.01	\$ (.10)
	=====	=====

The accompanying notes are an integral part of these financial statements.

SOFTWARE USA, INC.
(FORMERLY HARVEST ANALYSTS, INC.)

STATEMENTS OF SHAREHOLDERS' DEFICIT
FOR THE YEARS ENDED OCTOBER 31, 1997 AND 1996

	Retained Common	Earnings	<u>Shares</u>	<u>Stock</u>	<u>(Deficit)</u>
<u>Total</u>					
BALANCE, October 31, 1995		3,300,330 \$ 2,673	\$ 1,000	\$ 1,673	
Conversion of note payable		2,699,670 150,000	150,000	-	
Net loss		- (336,496)	-	(336,496)	
-----		-----	-----	-----	
BALANCE, October 31, 1996		6,000,000 (183,823)	151,000	(334,823)	
Net income		- 61,336	-	61,336	
-----		-----	-----	-----	
BALANCE, October 31, 1997		6,000,000 \$ (122,487)	\$ 151,000	\$ (273,487)	
		=====	=====	=====	
		=====			

The accompanying notes are an integral part of these financial statements.

SOFTWARE USA, INC.
(FORMERLY HARVEST ANALYSTS, INC.)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 1997 AND 1996

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net		
\$		
\$ (336,496)		
Adjustments to reconcile net income (loss) to net cash provided by		
(used in) operating activities:		
Depreciation	42,463	22,703
Deferred compensation	103,333	119,664
Changes in assets and liabilities:		
Accounts receivable	37,204	(55,993)
Deferred offering costs and other	(115,002)	(31,346)
Accounts payable	69,339	99,772
Accrued liabilities	64,261	94,834
	-----	-----
Net cash provided by (used in) operating activities	262,934	(86,862)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(65,665)	(66,227)
	-----	-----
Net cash used in investing activities	(65,665)	(66,227)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from (payments to) shareholder	(103,959)	30,306
Borrowings from other related party	-	150,000
Increase in restricted cash	(10,156)	-
Payments on capital leases	(18,261)	-
	-----	-----
Net cash provided by (used in) financing activities	(132,376)	180,306
	-----	-----
NET INCREASE IN CASH	64,893	27,217
CASH, beginning of year	29,890	2,673
	-----	-----
CASH, end of year	\$ 94,783	\$ 29,890
	=====	=====
SUPPLEMENTAL NON-CASH INVESTING AND		
FINANCING ACTIVITIES:		
Capital asset and lease obligation additions	\$ 42,685	\$ 119,664
	=====	=====
Conversion of related party borrowings to equity	\$ -	\$ 150,000
	=====	=====

The accompanying notes are an integral part of these financial statements.

SOFTWARE USA, INC.
(FORMERLY HARVEST ANALYSTS, INC.)

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 1997

1. *Organization*

Software USA, Inc. (the Company), publishes, distributes and markets shareware software for use with both Macintosh and IBM-compatible computers. The Company downloads and reviews a broad range of shareware software titles from the Internet, primarily in the educational and entertainment segments, and distributes monthly selections to subscribers. Membership initiation and subscription sales are generated through direct marketing to consumers who agree to receive the monthly editions of the Company's software. Prior to April 1996, the Company's business consisted of consulting to companies in the direct marketing and entertainment industry, and such activities were immaterial. In April 1996, the Company commenced the business activities discussed above and the accompanying financial statements reflect the results of these new operations as of that date. The Company's fiscal year ends on October 31.

Effective August 27, 1997, the Company's Board of Directors approved a change in the Company's legal name from Harvest Analysts, Inc. to Software USA, Inc. As of the same date, the Board authorized a stock split of 3,300.33 shares for every share of common stock. The name change and all amounts related to common stock in the accompanying financial statements have been retroactively restated to reflect these changes.

2.

Business Risk and Concentration of Risk

The Company is subject to a number of risks associated with companies at a similar stage of development including the need for funding its future growth, acceptance in the marketplace, competition, retention of members, technological obsolescence, and the retention of and reliance on key personnel. If the Company were to experience an interruption of its phone service or lose the ability to legally telemarket, the Company would experience significant decreases in revenues.

Furthermore, the Company relies on unrelated third parties to

produce the shareware software the Company provides to its subscribers. If the supply of available shareware software were interrupted, the Company would experience significant decreases in revenues.

All sales are credit card sales and the majority of sales are to individual domestic consumers. The Company utilizes a single credit card processor to transact and collect cash from sales. Management continually monitors the financial condition and performance of the processor to reduce the risk of loss.

3. *Significant Accounting Policies*

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Revenue Recognition

Revenue from the one-time initiation fee is recorded upon credit card confirmation, net of any refunds. Revenue from product sales is recognized upon shipment, net of refunds. There are no significant post-contract support obligations and collection of the resulting receivable is probable. Memberships and the product fees are refundable within a forty-day period. The Company has accrued for refunds in the amount of \$57,220 and \$52,452, as of October 31, 1997 and 1996 respectively.

Cost of Goods Sold

Cost of goods sold consists primarily of labor costs associated with downloading and reviewing shareware, costs of the disks and shipping costs. The Company expenses the cost of all disks at the time of purchase as the costs have not been material, and quantities maintained in inventory at any point in time are not significant.

Net Income (Loss) Per Share

The number of shares used in computing net income (loss) per share equals the total of the weighted average number of shares outstanding during the years.

Accounts Receivable

Accounts receivable consists of credit card receivables in-transit from the Company's credit card processor. The Company typically receives payment, net of processing fees, within a five day period.

Restricted Cash

Restricted cash consists of a deposit held by the Company's credit card processor. As an industry practice, credit card processors require deposits to cover any disputed charges

processed.

Deferred Offering Costs

The Company has deferred certain accounting and legal costs totaling \$123,165 associated with an offering statement that the Company plans to file in December 1997. Under the offering statement, the Company plans to raise up to \$5,000,000 in a Regulation A offering. The deferred costs will be reflected as a reduction to the proceeds received from the Regulation A offering.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is determined using the straight line method for all assets based on the estimated useful lives of the assets, which range from two to five years.

Income Taxes

The Company uses the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS No. 109), "Accounting For Income Taxes."

Deferred income taxes are recognized based on the differences between financial statement and income tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The provision for income taxes represents the total of income taxes paid or payable for the current year, plus the change in deferred taxes during the year.

Recent Authoritative Pronouncements

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128 "Earning per Share" and SFAS No. 129 "Disclosure of Information About Capital Structure." SFAS No. 128 revises and simplifies the computation of earnings per share and requires certain additional disclosures. SFAS No. 129 requires additional disclosure regarding the Company's capital structure. Both standards will be adopted in fiscal 1998. Management does not expect the adoption of these standards to have a material effect on the Company's financial position or results of operations.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130 "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting of comprehensive income and its components in a full set of general purpose financial statements. Management does not expect the adoption of this standard to have a material effect on the Company's financial position or results of operations.

4. Related Party

In fiscal 1996, the Company received a \$150,000 loan from a party related to the Company's president. The loan had no stated interest rate and was payable upon demand. On October 31, 1996, the loan was converted into 2,699,670 shares of common stock.

At October 31, 1996, the Company had a note payable to its president in the amount of \$30,306. This

note was interest free and was paid in full during the year ended October 31, 1997.

For the years ended October 31, 1997 and 1996, the Company's president agreed to defer compensation payments in the amounts of \$103,333 and \$119,664, respectively. The aggregate amounts of these deferrals are reflected in the caption due to shareholder in the accompanying balance sheet. These amounts bear no interest and are payable upon demand.

5. *1997 Stock Option Plan*

On December 22, 1997, the Company adopted an incentive stock option plan (the Plan), under which options may be granted to employees, officers, directors, consultants or advisors of the Company. No options granted under the Plan may have a term greater than 5 years. The exercise price is fixed by the Plan administrator but cannot be less than 85% of the common stock's fair value on the date of the option grant. As of October 31, 1997, 900,000 common shares have been reserved for issuance under the Plan and no options had been granted.

6. *Income Taxes*

The following is a reconciliation of the expected income tax provision to the actual tax provision:

	<u>1997</u>	<u>1996</u>
Expected federal provision (benefit)	\$ 21,700	\$(114,400)
Expected state provision (benefit), net of federal benefit	3,900	(21,600)
Change in valuation allowance	(23,000)	136,800
	-----	-----
	\$ 2,600	\$ 800
	=====	=====

The components of the income tax provision are:

	<u>1997</u>	<u>1996</u>
Current provision (benefit)	\$ 36,600	\$(115,000)
Deferred provision (benefit)	(11,000)	(21,000)
Valuation allowance	(23,000)	136,800
	-----	-----
Total tax provision	\$ 2,600	\$ 800
	=====	=====

As of October 31, 1997, the Company had net operating loss carryforwards of approximately \$195,000 and \$97,500 for federal and California reporting purposes, respectively. The difference between the federal and California tax loss carryforwards is primarily attributable to the 50 percent limitation of California loss carryforwards. The federal net operating losses will begin expiring in 2011, unless previously utilized, while the California tax carryforwards will begin expiring in 2001. The realization of the net deferred tax assets is dependent upon the Company generating sufficient taxable income prior to expiration of net operating loss and credit carryforwards. Accordingly, due to the uncertainty regarding realization of the deferred tax asset, the Company has provided a full valuation allowance against the deferred tax asset.

7. *Commitments and Contingencies Leases*

The Company leases office space under an operating lease agreement. The monthly rent amount is \$6,755 and the agreement expires in May 2002. Rent expense totaled \$81,054 and \$43,426 for the years ended October 31, 1997 and 1996, respectively.

Future minimum lease payments under operating leases are as follows:

	1998	\$	81,054
1999	81,054		
2000	81,054		
2001	81,054		
2002	33,773		

\$	357,989		=====

Computer equipment and furniture under capital leases are included in the accompanying balances sheets at cost of \$169,972 and \$125,287, less accumulated depreciation of \$49,418 and \$24,361, at October 31, 1997 and 1996, respectively.

Future minimum lease payments under capital leases are as follows:

	1998	\$	30,578
1999	35,027		
2000	40,240		
2001	17,111		
2002	10,670		

\$	133,626		=====

Litigation

The Company is involved in a legal dispute with a credit card processing company. The Company claims that the credit card processing company improperly billed and processed refunds during the period of September 1996 through March 1997, in the amount of \$150,000. Of this amount, less than \$30,000 was credited to the cardholder by the credit card processor in error. This amount was taken into account in the refund reserve established by the Company. The approximate balance of \$120,000 represents sales that were never processed by the credit card processor. The Company has not reflected these unprocessed sales as revenues in the financial statements and does not have any liability with respect to refunds improperly processed by the credit card processor. The Company, based upon advice of counsel, believes that it will be successful in recovering all or a portion of its damages related to the

outcome of this matter. Management believes that all other current claims or litigation will not have a material adverse effect on the Company's financial statements.

No person has been authorized to give any information or to make any representation in connection with this offering other than those contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or any other person. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any security other than the securities to which it relates, or an offer to or a solicitation of any person in any jurisdiction where such an offer or solicitation would be unlawful. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstance, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information herein is correct as of any time subsequent to the date hereof.

Table of Contents

	<u>Page</u>
Summary	6
Risk Factors	10
Dividend Policy	17
Use of Proceeds	18
Dilution	21
Capitalization	23
Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Business	27
Management	38
Principal Shareholders	45
Certain Transactions	46
Plan of Distribution	46
Description of Capital Stock	49
Limitation on Transfer of Shares	49
Certain United States Federal Tax Considerations for Non-United States Holders of Common Stock	50
Reports to Shareholders	53
Independent Auditors	53
Legal Matters	53
Index to Financial Statements	F-1

1,000,000 SHARES

SOFTWARE USA, INC.

Common stock



Offering Circular
