

## Info needed for projections -

	HPS	Falcon HQ	Geneva
Discount rates			
Tax rate			
installed base -			
HPS -			
Falcon HQ -			
Sales history			
HPS			
Falcon HQ			
Operating <del>costs</del> / income ratios			
<del>same for all</del>			
HPS			
Falcon HQ			
Geneva			
Revenue Forecasts			
HPS			
Falcon HQ			
Geneva			
Add on ratios			
HPS			
Falcon HQ			
Geneva			
Consulting -			
HPS			
Falcon			
Geneva			
Maint ratios			
HPS			
Falcon			
Geneva			

/ Cost  
Revenue Worksheet -- Sev \* HPS

Revenues (4000) 1999 2000 2001 2002 2003 2004 2005 Total

licenses  
 new sales -  
 ratio (to prev yr)  
 rev 3000

1.5 1.0 .75 .50 .25 0

add-ons -  
 ratio (to ~~prev~~ base)  
 rev 2000

.2 ↑ .2 ↑ .2 ↑ .15 ↑ .15 ↑ .10 ↑

consulting  
 services  
 \* maint  
 ratio (to prev yr)  
 rev 20000

1.2 1.0 .9 .8 .7 .6

Maint  
 rev

Total rev

Maint Calc

Prev yr maint  
 retention rate .95 .95 .90 .90 .85 .85

or in maint  
 new license + add-ons

Maint / lic price ratio ~~1.0~~ .18

Initial maint rate ~~1.0~~ 1.0

new lic/add-on maint

Total maint 14000

Cost Calc

Cost of sales rate <sup>10%</sup> ~~10%~~ 9%

Sales, Mktg, Supt rate 25%

R+D rate 20%

G+A rate 15%

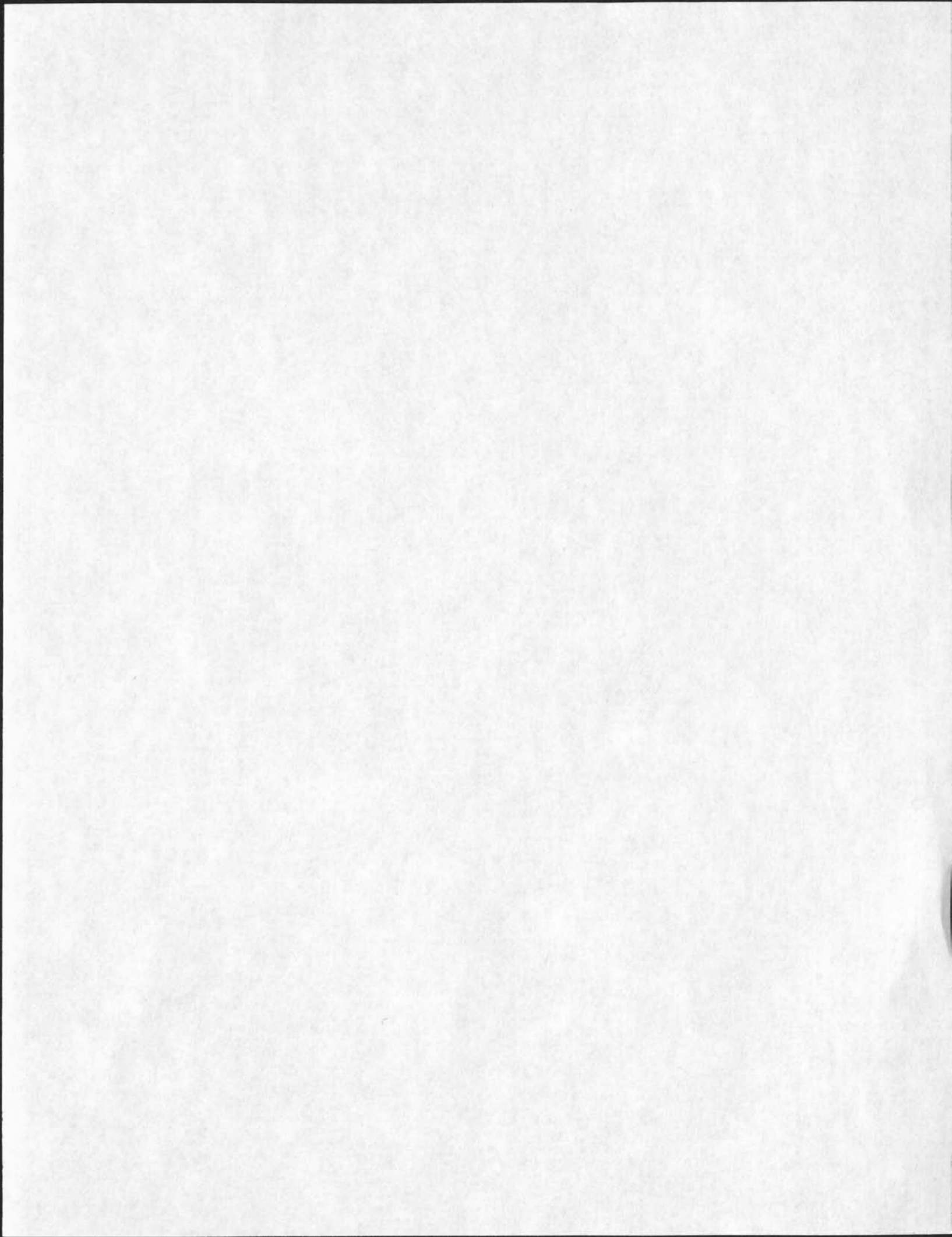
Oper cost ratio

1999

Revenue	<u>HP Falcon</u>	<u>Geneva</u>	<u>GPS</u>	<u>Total</u>
New Lic	597	407	1627	2712
Maint			3495	3883
Serv			5618	6610
			<u>10740</u>	<u>13205</u>

BGAT Projections for 1999

New Lic	incl add-ons	6000
Maint		14000
Serv		20000
		<u>40000</u>



BURTON GRAD ASSOCIATES, INC.

101 POST ROAD EAST  
WESTPORT, CONNECTICUT 06880  
(203) 222-8718  
(203) 222-8728 FAX  
BURTGRAD@AOL.COM

DIC Finance and Management Corp.  
14 Beth Hashoeva Lane  
P.O. Box 1688  
Tel Aviv, Israel 61016

Invoice #2934

June 2, 1999

Project: #272-2

Attention: Mr. Lenny Recanati

**INVOICE**

**Project: Perform Analysis of the Value of Level 8 Systems, Inc.**

*Consulting Services:* May 18-25, 1999

Burton Grad	3 days @ \$2,500/day	\$7,500.00
Sid Dunayer	1.25 days @ \$1,500/day	1,875.00
Marty Silberberg	1 day @ \$1,500/day	<u>1,500.00</u>
<b>Total Fees</b>		<b>\$10,875.00</b>

*Expenses Incurred:*

Telephone/fax	\$90.00
<b>Total Expenses</b>	<b>\$90.00</b>

**Total Invoice Amount** **\$10,965.00**

**Less: Advance Payment (not received as of June 3, 1999)** **5,000.00**

**Balance Due** **\$5,965.00**

*Payment is due within 15 days and should be paid  
by check in U.S. dollars drawn on a U.S. bank.*

AP  
PFF  
BG

**SIDNEY J. DUNAYER, INC.**

418 Tenth Street  
Brooklyn, New York 11215-4009

(718) 768-9089

1 June 1999

Mr. Burton Grad  
Burton Grad Associates, Inc.  
101 Post Road East  
Westport, Connecticut 06880

Dear Burt:

For services rendered:

Technical review of <u>Level 8/Seer</u> (1 day)....	\$1,500.00
Total Due .....	\$1,500.00

Payment is expected within 15 days from the date of this invoice.

Our tax I.D. number is 11-2666620.

If you have any questions about this invoice, please feel free to call me.

Sincerely Yours,



Sidney J. Dunayer  
President

OK  
BG 6/3/99

HRT 20 1000 10735 HRT MARTIN T SILBERBERG 718 549 4825 P. 01

# MYS MANAGEMENT SERVICES

AD  
PFF  
BG

Burton Grad Associates, Inc.  
101 Post Road East  
Westport, Connecticut 06880  
Attention: Mr. Burton Grad

Invoice #: 116  
Date: May 28, 1999  
Project: Level 8

Reference: Verbal agreements in May, 1999  
Activity: Analysis of Level 8 Products and Strategies via interviews

## INVOICE

### CONSULTING SERVICES

<u>Dates</u>	<u>Hours</u>
0 5/20/99 - 05/24/99	10.0
<b>TOTAL HOURS</b>	<b>10.0</b>

TOTAL SERVICES: 10.0 hours @ \$1500/8 hours \$1,875.00

### EXPENSES

sundry telephone calls to UK and U.S. locations \$50.00

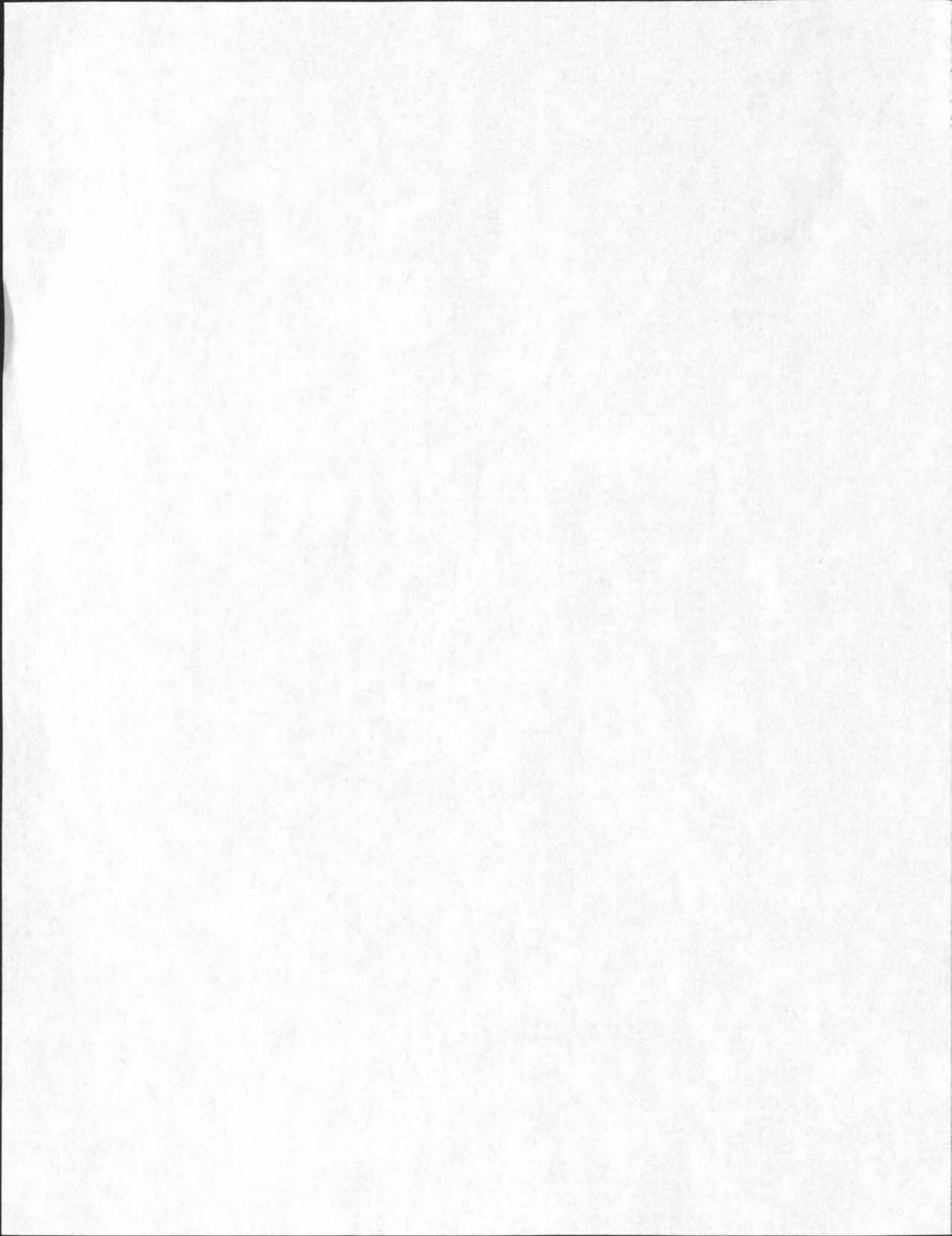
TOTAL EXPENSES 50.00

TOTAL INVOICE (SERVICES & EXPENSES): \$1,925.00

dw  
PS 5/29/99  
DJC/Level 8

Note: Please make check payable to MYS Management Services. Thank you.

INV116





BURTON GRAD ASSOCIATES, INC.

101 POST ROAD EAST  
WESTPORT, CONNECTICUT 06880  
(203) 222-8718  
(203) 222-8728 FAX  
BURTGRAD@AOL.COM

May 25, 1999

Mr. Lenny Recanati  
DIC Finance and Management Corp  
14 Beth Hashoeva Lane  
P.O. Box 1688  
Tel Aviv, Israel 61016

Dear Lenny:

At the request of DIC, Burton Grad Associates, Inc. (BGAI) has conducted a limited valuation study of Level 8 Systems, Inc. (Level 8) as of May 25, 1999.

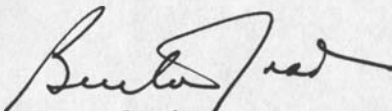
This study is based on a limited review of Level 8's products and technologies along with an examination of its marketing, sales, consulting, customer service, development and maintenance activities.

The enclosed report provides the information and logic used in determining the company value. The appendices provide detailed back-up materials as well as including the spreadsheets used in performing various product forecasts and NPV calculations.

Certain Level 8 managers and other personnel have contributed by describing the current and planned products. They have also assisted BGAI in understanding the market potential, along with Level 8's strategic plans. However, all projections of revenues and costs are the sole responsibility of BGAI and do not necessarily correspond with Level 8's own projections.

Contributing to this analysis for BGAI were Sid Dunayer and Marty Silberberg.

Sincerely,



Burton Grad

Enclosure  
5046

**BUSINESS VALUATION REPORT ON  
LEVEL 8 SYSTEMS, INC.  
AS OF MAY 25, 1999**

**Prepared for:**

DIC Finance and Management Corp  
14 Beth Hashoeva Lane  
P.O. Box 1688  
Tel Aviv, Israel 61016

**Prepared by:**

Burton Grad Associates, Inc.  
101 Post Road East  
Westport, Connecticut 06880

Burton Grad  
Sidney J. Dunayer  
Martin Y. Silberberg

**Date:**

May 25, 1999

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## EXECUTIVE SUMMARY

Based on various ways of viewing the potential investment by DIC of \$6,000,000 in Level 8 common stock, Burton Grad Associates, Inc. (BGAI) recommends that DIC proceed with this investment, subject to certain concerns.

The market capitalization of Level 8 on a fully diluted basis (with the additional private placement shares) at \$10/share would be \$130 million. The additional cash from the private placement would counterbalance the Level 8 debt, hence no balance sheet value adjustment would be needed.

DIC would be, in effect, a majority stockholder of Level 8, so only the full company value can be used without any minority discount.

The key questions are:

1. Is Level 8 currently worth \$130 million?
2. What are the downside risks?
3. What is the upside potential?

Based on the five elements of value (FalconMQ, Geneva, Seer\*HPS, CoreBank and Infrastructure/Synergy), the company is probably worth over \$100 million but less than \$150 million. This valuation depends on expecting to make Seer\*HPS quite profitable quickly so that it can generate enough cash to fund the investments needed to grow Geneva at a brisk rate.

Using market ratios, the value of Level 8 is very speculative because the history of severe losses dampens the price/revenue ratio, and since the only substantial 1999 revenue will be from Seer\*HPS maintenance and consulting. Unless Level 8 can obtain reasonably high revenues from Seer\*HPS while reducing the operating costs, then the downside risk would be possible bankruptcy or the need to sell the company to a buyer of last resort.

The upside potential is quite strong because of the Geneva Integration Server, which appears to be a significant product in a potentially substantial marketplace. If Level 8 is able to build up this new market for its new product at a reasonable cost, then this would radically change the applicable p/r and p/e ratios as well as provide a dramatically increased revenue base.

One further significant upside opportunity is IBM's CoreBank and IRIS offerings. Their major European banking products have been written using Seer\*HPS. Therefore, each CoreBank and IRIS customer will need to license Seer\*HPS and may well want to use Level 8 for consulting as well as maintenance activities. This is a very high margin opportunity with each sale being worth \$.5 million or more in revenues to Level 8. This would not just help revenues and operating income, but could also help revive interest in Seer\*HPS for other applications, in financial institutions and even other industries.

In summary, the current market price is reasonable, the downside risk limited and the upside potential large.

However, there are serious concerns that BGAI cannot measure which need to be considered by DIC before proceeding with its planned investment:

- Almost the entire management team is new to Level 8, and it will take time to determine whether they can function well individually and as a group.
- Since there has been a radical reduction in personnel, many new people will need to be hired and existing people retrained to provide the new skills needed, particularly for Geneva. Experience says that a number of these people will not succeed and that there will be further employee churning.
- The remainder of 1999 and the first half of 2000 are apt to be quite weak in terms of customers acquiring any new software systems (because of Y2K problems or anxiety). This may delay the acceptance of Geneva by many customers.
- Technically, Geneva is still unproven and immature. While the initial feedback from customers has been supportive, it is too early to know whether its performance, reliability and extendibility can meet the demands of large, sophisticated customers with complex application integration requirements.

## **SECTION I. Objectives and Work Process**

DIC wanted to have an independent valuation study performed prior to making an investment in Level 8. This will help ensure that there are no marketing, sales, customer service, customer support, development, technical or financial issues which would reduce the current market value or Level 8 projections of future revenues and profits.

BGAI, an independent consulting firm with extensive experience in computer software and services company valuations, was retained to perform this valuation study so that DIC can proceed with its potential investment decision in an informed and timely manner.

### **Work Process**

1. BGAI requested certain information from Level 8 for the areas to be examined. The initial request list is attached as Appendix B-1.
2. BGAI conducted limited telephone interviews with executives and key managers of Level 8 and obtain other relevant Level 8 materials. Appendix B-2 lists the people interviewed.
3. BGAI analyzed the investment values relating to current position and future revenues and operating income and identified what it believes to be the principal opportunities and risks.
4. BGAI prepared a report to DIC summarizing its valuation findings and recommendations.

### **Staffing**

The project was managed by Burton Grad, president of BGAI, with BGAI Associates Sid Dunayer and Marty Silberberg as consultants on this project. The assignments are noted below:

- Business Analysis (Markets, Competition, Customer Base, Strategic Plans, Financial Projections) -- Grad
- Operations (Sales and Marketing, Customer Service and Support) -- Silberberg
- Technical (Product Development, Technical Assessment) -- Dunayer

Professional profiles for the BGAI participants are enclosed as Appendices A-1, A-2 and A-3.

## **SECTION II. Overview of Level 8 Business**

Level 8 Systems specializes in delivering solutions that help companies integrate their computer applications and equip these applications for E-commerce. This specialization is called enterprise application integration or "EAI." Level 8's products and services are designed to enable organizations to address information system integration and management problems in a simple and cost-effective way. Level 8 provides customers with solutions which link their critical business applications internally across the enterprise and externally with strategic business partners. Their products and services also enable organizations to link applications to the Internet in order to engage in E-commerce.

The Level 8 product family consists of three major software products: FalconMQ, Geneva Integration Server and Seer\*HPS.

FalconMQ is a simple, reliable, cost-effective solution for connecting enterprise applications. Falcon MQ, first introduced in early 1998, replicates Microsoft Corporation's Message Queue Server ("MSMQ") capability on non-Microsoft systems, thereby enabling non-Microsoft systems to communicate freely with Windows NT systems using MSMQ. The use of FalconMQ not only links these systems but also provides the full functionality of Microsoft's MSMQ message queuing technology on other platforms such as UNIX systems, MUS operating systems for IBM mainframe computers, IBM AS/400 systems, Sun Microsystems' SOLARUS systems and LINUX systems.

The new Geneva Integration Server, introduced on April 13, 1999 is expected to become one of Level 8's leading products; it is designed to provide comprehensive, secure and reliable interoperability between applications running on disparate and otherwise incompatible computer systems. Because different computer systems and the applications developed for them vary widely in the ways in which they send, receive, view and process information, information generally cannot be readily exchanged between diverse applications running on different systems. The Geneva Integration Server, which runs on Windows NT server systems, will enable the sharing of information between disparate or otherwise incompatible systems by automatically transforming the data from one system into formats and representations that can be used by other systems. As a result, Geneva Integration Server can enable timely access to enterprise-wide critical business information without the need for complex and costly ongoing software program modifications. Geneva Integration Server's extensive message transformation capabilities also allow Geneva Integration Server to collect messages from existing systems and transform them into forms that can be exchanged via the Internet and vice versa, which makes it well-suited to enable existing applications for E-commerce.

Seer\*HPS is a set of application development tools that assists customers in developing, adapting and managing enterprise-wide computer applications for client/server networks. The product enables users to define in a high level, simplified language the tasks and operations the users would like an application to perform. Users can then simply "push a button" and Seer\*HPS automatically generates the necessary software programming to perform the tasks and operations defined. This significantly accelerates the development and deployment of highly complex, large-scale, custom enterprise applications and greatly enhances the productivity of programming resources.

Level 8 also provides a full spectrum of consulting services as part of its commitment to providing its customers industry leading EAI solutions. The worldwide consulting team has in-depth experience in development successful enterprise-class solutions as well as valuable insight into the business information needs of customers in global 5000-size companies. Level 8 offers consulting services in project management, applications and platform integration, application design and development, application renewal and Web and E-commerce enablement, along with expertise in a wide variety of development environments and programming languages.



### **SECTION III. Analysis of Level 8 Operations**

This analysis is taken from two reports by Marty Silberberg which are included as Appendix D.

#### **Sales and Consulting – North America**

The combined staff of Seer and Level 8 prior to merger was 450 total; it is now 300. The new company has 25 sales reps in the field worldwide. Territory assignments are geographic. Three of the five North American regions are staffed now.

Falcon was and will be sold via telemarketing. It will be integrated in Windows 2000.

Geneva will be sold directly by Level 8 and via System Integrators and OEM's. Level 8 OEM's to embed Geneva in their products. Key competitors for Geneva are New Era of Networks (NEON), TSI and TIBCO. They have similar products for specific environments. Seer\*HPS will be sold directly by Level 8.

Consulting activity at present is primarily for the existing Seer\*HPS and pilot Geneva installations. They have about 150 consultants worldwide now, primarily from Seer. There are about 60 in the U. S. and 90 in EMEA. They are currently being trained on Geneva.

#### **Marketing**

Leads will be developed by participating in shows/conferences and buying lists to identify enterprises with large/complex NT-centric environments. Prospects will be qualified via telephone. Information on the leads will then be given to the appropriate sales team. Finance, Retail and Manufacturing will be key industry segments for Geneva.

#### **Customer Service and Maintenance**

The maintenance/customer support responsibility will be centralized for all products, level 1 through level 3. This organization was put in place just two weeks ago. The only exception will be the Geneva pilot installations which will continue to be supported by the New York staff with which they are familiar.

In EMEA, Seer\*HPS level 1 and 2 calls will continue to go to IBM per the contract Seer had with IBM. Level 3 is and will be handled by a group in Dublin, Ireland that reports to the centralized maintenance organization.

The current maintenance staff consists of 28 people from Seer and one new hire. The people are currently being trained on Geneva and Falcon.

No current Falcon customer satisfaction issues were identified. There are some pockets of issues in the Seer\*HPS installations, but these appear to be under control. The current HPS base is firm, albeit nervous about the future under Level 8. Maintenance revenues from Seer\*HPS are estimated at about \$13 million per year worldwide.

### **Sales and Consulting – International**

Y2K concerns still continue to impact new sales in EMEA and will continue to do so until the fourth quarter 2000. With one or two exceptions, the base is firm, albeit nervous about the future. However, it is not easy to break away from using Seer\*HPS. Erosion, at most, will be 10%. They are selling some upgrades to existing users. Revenue from this source was \$1.5 million in 1Q99 and will total about \$3.5 million in 1999.

CoreBank and IRIS will also provide some revenue in 1999. Level 8 expects general availability of CoreBank from IBM in September and believes there is latent demand. IRIS, a similar product to CoreBank, was developed by a bank in Spain. Level 8 has an agreement with them.

Consulting revenue from Seer\*HPS has already declined and will decline further. Except for Australia, Seer EMEA lost its best consultants, many of whom went to system integrators or set up their own companies.

The primary competitor for Geneva is NEON, which has visibility through its close relationship with IBM and current presence in the marketplace. To sell the product, Level 8 must first generate excitement and then architect and demonstrate a solution (or part of a solution) for the customer. Given that NEON is entrenched in the Finance industry, initial focus will be on Retail industry opportunities. In particular, the strategy will be to initially sell relatively smaller packages to franchisees in large chains. With these as references, Level 8 believes it will be able to win others in the chain as well as other such chains.

A gating factor for this plan is the lack of NT skills in his current staff. Experience shows that customers ask questions about Windows, NT and competitors, as well as the EAI product.

International may not be able to make a profit selling the FalconMQ product via telemarketing. Possibly the use of channels could sell a variety of low-end products. The inclusion of a FalconMQ demo in Windows 2000 will be significant.

#### **SECTION IV. Analysis of Level 8 Products and Technologies**

Based on a very limited review of three principal products, there did not appear to be any significant technical issues which would preclude Level 8 from effectively marketing these products.

FalconMQ is a straightforward implementation which will use message-oriented middleware to provide asynchronous message connections.

Geneva is new and has only seen limited use with beta-type customers. The architecture and approach seem sound.

Seer\*HPS is stable and its network enhancement seems satisfactory.

## **SECTION V. Valuation of Level 8 Products**

BGAI was not informed of any detailed financial information except that represented in Level 8's 12/31/98 10K, its published 1Q99 results and certain overall Level 8 revenue and cost projections for 1999 and 2000. BGAI constructed its own assumptions regarding each of Level 8's products and related services. These may not be accurate as to starting points (e.g. installed base, historic revenues, previous maintenance renewal rates, cost ratios, etc.) because that information was not provided.

BGAI prepared a 7 year forecast for each product (FalconMQ, Geneva and Seer\*HPS) by establishing an expected revenue for new licenses, consulting services and maintenance on a world-wide basis for 1999. BGAI then estimated: the rate it would expect for new licenses compared to the previous year revenues; a rate for add-on licenses (related to the installed base); and a consulting services rate compared to the previous year consulting services revenue. Next, the projected maintenance was computed considering new and add-on licenses, retention rates, initial sign up rates and expected maintenance fees.

Similarly, costs were projected to consider: costs of revenue (separately for new and add-on licenses, consulting and maintenance); marketing, sales and support; research and development; and general and administrative.

Finally, the net present value was computed for each product using an estimated world-wide tax rate and a risk-adjusted discount rate. The tax rate was reduced for the first three years to consider to some extent the tax loss carryforward that Level 8 had as of 12/31/98.

### **FalconMQ**

<refer to Tables 11,21>

### **Geneva Integration Server**

<refer to Tables 11,21>

### **Seer\*HPS**

<refer to Tables 11, 23>

## **SECTION VI. Assessment of Level 8 Valuation**

Based on the product calculations in Section V, the net present value of the projected Level 8 cash flow over the next seven years is \$75,240,000. Note that this value does not include any consideration of residual values or any consideration of new products or acquisitions. It does include the assumption that Level 8 will pursue each area of business in a professional manner, investing in enhancements and market relationships to realize opportunities.

The closing stock price (as of May 24, 1999) for Level 8 was \$9.375 per share. According to a Level 8 executive, there were 10.8 million shares outstanding as of that date with an additional 2 million shares committed on options and warrants. The striking price on these options and warrants were \$12.50 or greater. The 52-week price range has been \$5.00 to \$16.25 per share. In addition, Level 8 proposes to issue another 2.2 million shares to a few private investors at \$10 per share with certain adjustments in the number of shares if the stock price falls below \$10 per share over a period of time. This would mean that there would be approximately 13 million shares outstanding.

Based on a price/share of \$10 the value of the 12.8 million shares which would be outstanding is \$128,000,000.

Assuming that \$2.2 million additional shares are issued at \$10 per share, this would provide added cash of \$22,000,000. In our opinion, this does not change the value per share whether it is used for debt reduction or working capital.

We view DIC as a majority stockholder of Level 8, since it owns a controlling interest in Liraz and Liraz has a controlling interest in Level 8. Therefore, no minority stockholder discount is required. And, since level 8 is a publicly traded company, no private company discount is required for the valuation.

The present market value of Level 8 justifies the price per share offered to DIC. However, on both an NPV and a trailing twelve month EBITDA basis, the price per share is very high. If the Seer revenues for 1998 are considered for the trailing twelve month revenue base then the proposed price per share looks reasonable at two times p/r ratio.

This company represents an unusual situation. It will have substantial recurring-type revenues from the previous Seer products and customers, very uncharacteristic of what is essentially a start-up situation. At the same time, the built in costs for much of the Seer revenue (consulting and maintenance) may make this only a marginally profitable recurring revenue stream. More significant, the financial market views this business area without excitement and will consider it a low growth opportunity, at best. As a result, the price/revenue and price/EBITDA ratios will be low and the operating margins will also be low, leading to a low market capitalization.

FalconMQ is a minor league product which will not lead to significant financial analyst interest and will not influence the p/r or p/e ratios.

This leaves Level 8 with one product which could produce strong financial market interest--Geneva Integration Server. The Enterprise Application Integration market has received some significant press from various market research firms, some of whom are predicting substantial growth in the requirements for tools which will permit easy tying together of application systems running on different platforms: Microsoft's NT, UNIX, IBM's MVS and possibly others. These applications need to share data and communicate with each other in a seamless manner, since it is unlikely in the next 5-10 years that major business customers will spend the time or money needed to redesign and rewrite their now Y2K compliant mission critical and core applications.

So, the key questions are whether the EAI approach taken by Level 8 in producing Geneva is the technically right way to go and, if so, whether the particular design and implementation can be effectively marketed and supported. Clearly, Geneva is just now being used by its first real customers and Level 8 is just starting to build a meaningful pipeline.

Since Level 8 is really depending upon the Seer marketing and sales infrastructure to move Geneva in the marketplace, one has to raise a number of concerns regarding its ability to sell a high priced product (\$200K license plus \$200K in consulting) to enterprise customers on a world-wide basis. Seer's strong European position for Seer\*HPS was almost entirely related to its co-marketing with IBM. Seer has not had a strong recent sales history in North America. In addition, there was a great deal of attrition of sales people as a result of Seer's weak financial condition in 1998. Level 8 has hired a new sales VP for North America and has given its former Far East sales executive responsibility for its international sales and consulting services. Combined with bringing in a new marketing executive, this means that Level 8 is facing the challenge of a new product in a new market with a new, untested marketing and sales organization.

Further, the operations management is a blend of anew hires with few carryover Seer executives and an amalgam of technical talent from three different sources: Momentum, Level 8 and Seer. This may be viewed as a very high risk scenario by financial analysts. The only way that the current market price is a bargain is if Geneva can sell substantial quantities quickly enough to avoid serious losses which would overwhelm the Seer\*HPS cash flow and require additional financing, making the return on investment less attractive.

The forecast for Geneva is strictly speculative, both as to revenues and as to costs. There is no track record on sales and only an abysmal track record on costs for Seer. Nevertheless, BGAI has produced a positively valued picture, assuming that the product will meet significant customer requirements, that competition will remain limited (e.g. no big players) and that the new management team at Level 8 will perform well on both the sales side and the cost management side.

**Information Requested for Company Valuation**

1. Analysis of Level 8 installed customer base for each product by country, platform, maintenance status
2. Current financial statements for Level 8
3. Organization chart for Level 8, with number of employees by function
4. Marketing materials for current Level 8 products
5. List, description, size and market share of principal competitors to Level 8 for each product area
6. Level 8 business and strategic plans including planned products, types of services, pricing, new development projects, etc.
7. Sales, marketing and support plan for products, services and customers
8. Analysis of Level 8 products in terms of program size, language, documentation
9. Analysis of Level 8 product maintenance in terms of reported problems, time to fix, open problems
10. Most recent 10K and 10Q

**Interviews Conducted**

Peter Cousins

Steve Dmiszewicki

Yoram Forscher

Renee Fulk

Eileen Ibenhard

Arik Kilman

Dennis McKinnie

Bill McMurray

Al Nisbet

Mike Palmer

Rick Phelps

Danny Schwartz

Rich Scocoza (Bear Stearns)

Eric Singer

Tom Trogdon



LEVEL 8 SYSTEMS, INC.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share and per share amounts)

	December 31, 1998	December 31, 1997
	-----	-----
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,078	\$ 7,062
Trade accounts receivable, less allowance for doubtful accounts	16,992	6,455
Note receivable for sale of subsidiary	2,000	--
Due from related party	271	--
Income taxes receivable	--	406
Inventory	--	336
Prepaid expenses and other current assets	2,606	421
Net assets from discontinued operations	--	3,577
	-----	-----
Total current assets	27,947	18,257
Property and equipment, net	2,682	974
Goodwill and other intangibles, net	32,217	1,793
Capitalized software costs, net	6,753	2,168
Other assets	1,171	290
	-----	-----
Total assets	\$ 70,770	\$ 23,482
	-----	-----
	-----	-----
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Notes payable, due on demand	\$ 12,275	\$ --
Current maturities of loan from related party	628	128
Current maturities of long-term debt	799	7
Accounts payable	3,691	1,936
Accrued expenses:		
Compensation	318	82
Commissions	1,021	17
Restructuring	973	--
Merger - related	4,803	--
Other	8,275	125
Due to related party	82	--
Customer deposits and deferred revenue	13,075	42
Deferred taxes	--	94
Income taxes payable	1,7871	--
	-----	-----
Total current liabilities	47,721	2,431
Deferred revenue	97	--
Long-term debt, net of current maturities	1,541	16
Loan from related party, net of current maturities	12,519	202

	December 31, 1998	December 31, 1997
	-----	-----
Deferred income taxes	--	462
	-----	-----
Total liabilities	61,878	3,111
	-----	-----
Commitments and contingencies (Notes 16 and 17)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized; no shares issues or outstanding at December 31, 1998 and 1997	--	--
Common stock, \$0.01 par value, 15,000,000 shares authorized; 8,708,231 and 7,044,634 shares issued and outstanding at December 31, 1998 and 1997, respectively	87	70
Additional paid-in-capital	34,045	20,603
Accumulated deficit	(25,240)	(184)
Accumulated other comprehensive income	--	(118)
	-----	-----
Total stockholders' equity	8,892	20,371
	-----	-----
Total liabilities and stockholders' equity	\$ 70,770	\$ 23,482
	-----	-----
	-----	-----

The accompanying notes are an integral part of the consolidated financial statements.

LEVEL 8 SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share amounts)

	For the Years Ended December 31,		
	1998	1997	1996
	-----	-----	-----
Operating revenue:			
Software products	\$ 1,552	\$ 4,354	\$ 1,485
Services	9,133	10,171	5,521
Other	--	155	266
	-----	-----	-----
Total operating revenue	10,685	14,680	7,272
Cost of revenue:			
Software products	2,060	2,554	1,422
Services	5,973	4,995	3,056
Other	--	40	39
	-----	-----	-----
Total cost of revenue	8,033	7,589	4,517
Gross profit	2,652	7,091	2,755
Operating expenses:			
Research and product development	2,111	1,057	531
Selling, general and administrative	9,777	4,473	2,966
Amortization of goodwill and other intangibles	1,933	422	422
Purchased in-process research and development	5,892	--	--
Write-off of goodwill and other intangibles	4,601	--	--
Restructuring charge	1,540	--	--
	-----	-----	-----
Total operating expenses	25,854	5,952	3,919
Income (loss) from operations	(23,202)	1,139	(1,164)
Other income (expense):			
Interest income	283	410	170
Gain on sale of ASU	--	60	--
Interest expense	(364)	(20)	(25)
	-----	-----	-----
Other income (expense), net	(81)	450	145
Income (loss) from continuing operations before provision for Income taxes	(23,283)	1,589	(1,019)
Income tax provision (benefit)	405	553	(174)
	-----	-----	-----
Income (loss) from continuing operations	(23,688)	1,036	(845)
Income (loss) from discontinued operations, net of tax	(135)	53	(40)
Gain (loss) on disposal of discontinued operations, net of tax	(1,233)	--	(1,484)
	-----	-----	-----
Net income (loss)	\$ (25,056)	\$ 1,089	\$ (2,369)
	-----	-----	-----

LEVEL 8 SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)
	Share	Amount		
Balance as of 12/31/95	5,922	\$ 59	\$ 10,371	\$ 1,096
Common Stock				
Private investor	247	2	2,607	
Public offering	705	7	6,470	
Stock option exercises	81	1	58	
Cumulative translation adjustment				
Adjustment of unearned compensation				
Net loss				(2,369)
Balance as of 12/31/96	6,955	69	19,506	(1,273)
Stock option and warrant exercise	90	1	507	
Additional public offering costs			(137)	
Net income			464	
Unearned compensation related to issuance of non- Employee stock options			263	
Adjustment of unearned compensation				
Net income				1,089
Balance as of 12/31/97	7,045	70	20,603	(184)
Shares issued for Momentum	595	6	6,480	
Shares issued for Seer	1,000	10	6,088	
Warrants issued for Momentum			654	
Warrants issued for Seer			280	
Stock option and warrant exercises	68	1	58	
Adjustment of unearned compensation			(118)	
Net loss				(25,056)
Balance as of 12/31/98	8,708	\$ 87	\$ 34,045	\$(25,240)

	Accumulated Other Comprehensive Income -----	Total -----
Balance as of 12/31/95	\$ (28)	\$ 11,498
Common Stock		2,609
Private investor		6,477
Public offering		59
Stock option exercises		(5)
Cumulative translation adjustment	30	30
Adjustment of unearned compensation		(2,369)
Net loss	-----	-----
Balance as of 12/31/96	(3)	18,299
Stock option and warrant exercises		508
Additional public offering costs		(137)
Net income		464
Unearned compensation related to issuance of non-employee stock options	(263)	--
Adjustment of unearned compensation	148	148
Net income	-----	-----
Balance as of 12/31/97	(118)	20,371
Shares issued for Momentum		6,486
Shares issued for Seer		6,098
Warrants issued for Momentum		654
Warrants issued for Seer		280
Stock option and warrant exercises		59
Adjustment of unearned compensation	118	--
Net loss	-----	(25,056)
Balance as of 12/31/98	\$ ---	\$ 8,892
	-----	-----
	-----	-----

The accompanying notes are an integral part of the consolidated financial statements.

The following table sets forth, for the periods indicated, the Company's unaudited results of continuing operations expressed as a percentage of revenue:

	Three months ended March 31,	
	<u>1999</u>	<u>1998</u>
Revenue:		
Software products	20.5%	6.9%
Maintenance	29.3%	17.5%
Services	<u>50.2%</u>	<u>75.6%</u>
Total	100.0%	100.0%
Cost of revenue:		
Software products	6.3%	13.8%
Maintenance	12.1%	3.3%
Services	<u>45.6%</u>	<u>53.8%</u>
Total	64.0%	70.9%
Gross profit	36.0%	29.1%
Operating expenses:		
Sales and marketing	19.8%	6.5%
Research and product development	12.7%	13.8%
General and administrative	13.3%	30.6%
Amortization of goodwill and intangibles	12.9%	3.4%
Purchased research and development	<u>---</u>	<u>38.8%</u>
Total	58.7%	93.1%
Other income (expense), net	<u>(4.7%)</u>	<u>2.3%</u>
Loss before taxes	(27.4%)	(61.7%)
Income tax provision (benefit)	<u>1.5%</u>	<u>(13.0%)</u>
Loss from continuing operations	<u>(28.9%)</u>	<u>(48.7%)</u>

The following table sets forth unaudited data for total revenue by geographic origin as a percentage of total revenue for the periods indicated:

	Three months ended March 31,	
	<u>1999</u>	<u>1998</u>
United States	35 %	99 %
Mexico / Canada	1 %	---
South America	1 %	---
Europe	57 %	---
Middle East / Africa	1 %	1 %
Asia Pacific	<u>7 %</u>	<u>---</u>
Total	100 %	100 %

TO: BURTON GRAD  
 RE: LEVEL 8 SYSTEMS  
 1-203-222-8728

P. 1/2

P. 01/02  
 FAX NO. 9193809369  
 SEER ACCOUNTING  
 MAY-21-99 FRI 17:36

		FY 1999				
		1QActual	2QE	3QE	4QE	Total
<b>Revenue:</b>						
Software		\$2,712.0	\$3,200.0	\$3,500.0	\$4,250.0	\$13,662.0
Maintenance		3,833.0	3,685.3	3,581.5	3,725.1	14,874.9
Services		6,610.0	6,000.0	6,250.0	6,750.0	25,610.0
<b>Total Revenues</b>		<b>\$13,205.0</b>	<b>\$12,885.3</b>	<b>\$13,331.5</b>	<b>\$14,725.1</b>	<b>\$54,146.9</b>
<i>Quarterly Growth Rate</i>			-2.42%	3.46%	10.43%	
<b>Cost of Revenues:</b>						
Software		\$229.4	\$260.0	\$260.0	\$260.0	\$1,009.4
Maintenance	20%	1,519.4	1,394.1	1,173.5	1,037.5	5,124.6
Services	25%	5,917.3	5,000.0	5,025.0	5,232.5	21,174.8
<b>Total Cost of Revenues</b>		<b>\$7,666.0</b>	<b>\$6,654.1</b>	<b>\$6,458.5</b>	<b>\$6,530.0</b>	<b>\$27,308.7</b>
<b>Gross Profit</b>		<b>\$5,539.0</b>	<b>\$6,231.2</b>	<b>\$6,873.0</b>	<b>\$8,195.1</b>	<b>\$26,838.2</b>
<i>Gross Margin</i>		41.9%	48.4%	51.6%	55.7%	49.6%
<b>Operating Expenses</b>						
Sales	10%	\$1,930.7	\$2,033.0	\$2,328.0	\$2,772.0	\$9,063.7
Marketing	5%	628.9	687.5	850.0	850.0	3,016.4
Research and Product Development	20%	2,141.4	1,970.9	1,541.5	1,577.5	7,231.2
Capitalized Software		(543.0)	(200.0)	(100.0)	0.0	(843.0)
General and Administrative	20%	1,671.4	1,506.0	1,506.0	1,506.0	6,189.4
<b>Total Operating Expenses</b>		<b>\$5,829.4</b>	<b>\$5,997.4</b>	<b>\$6,125.5</b>	<b>\$6,705.5</b>	<b>\$24,657.7</b>
<i>Operating Expense as % of Total Revenues</i>		44.1%	46.5%	45.9%	45.5%	45.5%
<b>EBITDA</b>		<b>(\$190.4)</b>	<b>\$133.8</b>	<b>\$747.5</b>	<b>\$1,489.6</b>	<b>\$1,180.6</b>
<i>% of Revenues</i>		-2.2%	1.0%	5.6%	10.1%	4.0%
<b>IPR&amp;D Write-off (acquisition of 31% of Seer)</b>		\$0.0	\$2,000.0	\$0.0	\$0.0	\$2,000.0
<b>Depreciation</b>		403.0	400.0	400.0	400.0	1,603.0
<b>Amortization - Cap Software</b>		608.6	667.2	862.3	851.6	2,989.8
<b>Amortization - Goodwill/Intangibles (excl. Cap SW)</b>		1,697.2	1,794.9	1,843.7	1,843.7	7,179.4
<b>Total Depreciation &amp; Amortization and Noncash writeoffs</b>		<b>\$2,708.9</b>	<b>\$4,862.1</b>	<b>\$3,106.0</b>	<b>\$3,095.3</b>	<b>\$13,772.3</b>
<b>EBIT</b>		<b>(\$2,999.2)</b>	<b>(\$4,628.3)</b>	<b>(\$2,358.5)</b>	<b>(\$1,605.7)</b>	<b>(\$11,591.7)</b>
<b>Interest Expense (net)</b>		626.8	496.7	466.6	456.5	2,046.6
<b>Pretax Income</b>		<b>(\$3,626.0)</b>	<b>(\$5,125.0)</b>	<b>(\$2,825.1)</b>	<b>(\$2,062.2)</b>	<b>(\$13,638.2)</b>
<b>Income Tax at:</b>		202.0	300.0	300.0	300.0	1,102.0
<b>Net Income</b>		<b>(\$3,828.0)</b>	<b>(\$5,425.0)</b>	<b>(\$3,125.1)</b>	<b>(\$2,362.2)</b>	<b>(\$14,740.2)</b>
<b>Shares Outstanding (million)</b>		0.000	0.000	0.000	0.000	0.000

	FY 2000				
	1QE	2QE	3QE	4QE	Total
<b>Revenue:</b>					
Software	\$5,000.0	\$8,000.0	\$12,350.0	\$15,400.0	\$40,750.0
Maintenance	3,867.6	4,038.9	4,263.9	4,623.9	16,794.3
Services	7,250.0	7,500.0	7,750.0	8,000.0	30,500.0
<b>Total Revenues</b>	<b>\$16,117.6</b>	<b>\$19,538.9</b>	<b>\$24,363.9</b>	<b>\$28,023.9</b>	<b>\$88,044.3</b>
<i>Quarterly Growth Rate</i>	9.46%	21.23%	24.69%	15.02%	
<b>Cost of Revenues:</b>					
Software	\$287.5	\$326.0	\$353.5	\$349.4	\$1,316.4
Maintenance	1,085.3	1,136.7	1,204.2	1,350.6	4,776.7
Services	5,343.8	5,343.8	5,331.3	5,554.3	21,573.0
<b>Total Cost of Revenues</b>	<b>\$6,716.5</b>	<b>\$6,806.4</b>	<b>\$6,888.9</b>	<b>\$7,254.2</b>	<b>\$27,666.0</b>
<b>Gross Profit</b>	<b>\$9,401.1</b>	<b>\$12,732.5</b>	<b>\$17,475.0</b>	<b>\$20,769.7</b>	<b>\$60,378.2</b>
<i>Gross Margin</i>	58.1%	65.2%	71.7%	74.1%	68.6%
<b>Operating Expenses</b>					
Sales	\$3,418.5	\$4,054.5	\$4,647.0	\$5,181.2	\$17,301.2
Marketing	915.3	1,078.3	1,078.3	1,087.9	4,159.6
Research and Product Development	1,782.2	1,858.3	1,855.8	1,813.7	7,320.1
Capitalized Software	0.0	0.0	0.0	0.0	0.0
General and Administrative	1,640.0	1,657.5	1,675.0	1,713.4	6,685.9
<b>Total Operating Expenses</b>	<b>\$7,756.0</b>	<b>\$8,658.6</b>	<b>\$9,256.1</b>	<b>\$9,796.2</b>	<b>\$35,466.8</b>
<i>Operating Expenses as % of Total Revenues</i>	48.1%	44.3%	38.0%	35.0%	40.3%
<b>EBITDA</b>	<b>\$1,645.1</b>	<b>\$4,073.9</b>	<b>\$8,218.9</b>	<b>\$10,973.5</b>	<b>\$24,911.4</b>
<i>% of Revenues</i>	10.2%	20.9%	33.7%	39.2%	28.3%
IPR&D Write-off	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Depreciation	375.0	375.0	375.0	183.0	1,308.0
Amortization - Cap Software	825.0	825.0	825.0	825.0	3,300.0
Amortization - Goodwill/Intangibles (excl. Cap SW)	1,843.7	1,843.7	1,843.7	1,843.7	7,374.7
<b>Total Depreciation &amp; Amortization and Noncash writeoffs</b>	<b>\$3,043.7</b>	<b>\$3,043.7</b>	<b>\$3,043.7</b>	<b>\$2,851.7</b>	<b>\$11,982.7</b>
<b>EBIT</b>	<b>(\$1,398.5)</b>	<b>\$1,030.2</b>	<b>\$5,175.2</b>	<b>\$8,121.9</b>	<b>\$12,928.7</b>
<b>Interest Expense (net)</b>	<b>441.9</b>	<b>440.1</b>	<b>130.7</b>	<b>224.7</b>	<b>1,237.4</b>
<b>Pretax Income</b>	<b>(\$1,840.5)</b>	<b>\$590.1</b>	<b>\$5,044.5</b>	<b>\$7,897.2</b>	<b>\$11,691.3</b>
<b>Income Tax at:</b>	<b>400.0</b>	<b>500.0</b>	<b>500.0</b>	<b>500.0</b>	<b>1,900.0</b>
<b>Net Income</b>	<b>(\$2,240.5)</b>	<b>\$90.1</b>	<b>\$4,544.5</b>	<b>\$7,397.2</b>	<b>\$9,791.3</b>
<b>Shares Outstanding (million)</b>	<b>9.9600</b>	<b>9.9600</b>	<b>9.9600</b>	<b>9.9600</b>	<b>9.9600</b>

% of Depr. Stripped
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To: Burt Grad  
From: Martin Y. Silberberg  
Copy To: Sid Dunayer  
Date: May 23, 1999

Subject: Level 8

The content of this memo is based on telephone discussions with (1) Steven Dmiszewicki and Tom Trogdon (2) Rick Phelps and Eileen Ibenhard and (3) Mike Palmer. To date I have not been able to make contact with Bill McMurray, but will again be trying to reach him on Monday, May 24. If I do, I will provide a second report covering that discussion. Key findings/conclusions from the conversations and my reading of the materials provided are summarized below.

Steven Dmiszewicki & Tom Trogdon

- The combined staff of SEER and Level 8 prior to merger was 450 total; it now is 300.
- The new company has 25 sales reps in the field world-wide. They are hiring and are seeking people with 5 to 10 years of experience selling software. Sales reps are combined with system engineers to form a territory team. New hires are being trained by product managers.
- Territory assignments are geographic. Three of the five North American regions are staffed now.
- Falcon was and will be sold via telemarketing. A typical sale is about \$10,000 to \$20,000. They noted that Falcon will be integrated in Windows 2000. Interested parties will be directed to call Level 8.
- There is some expectation that some leads for Geneva will be uncovered during the Falcon sales activity.
- Geneva will be sold directly by Level 8 and via System Integrators and OEM's. They expect OEM's to embed Geneva in their products. One staff person at HQ supports their OEM activity at present. Deals will take many forms; they were not specific.
- Geneva clearly is the key product at this point. They do not expect any additional HPS sales until Y2K issues have been resolved in the early part of next year.

(note: The Level 8 prospectus indicates that a typical sales cycle for HPS and Geneva averages nine to twelve months. Significant new revenue from both products therefore should not be expected before mid-2000 at the earliest. Until then Level 8 will derive its revenue from Falcon sales and ongoing maintenance and consulting revenue from existing HPS installations. There is also potential revenue from CoreBank which they expect IBM to, at last, launch later this year.)

- In future, they expect, Geneva sales will open the door for additional HPS sales as well.
- Sales of Geneva will be to CIO's etcetera.

- A typical E-commerce application would be for a sale via an online catalog. Level 8's customer's customer would place an order; the order information would go (using Geneva) to an inventory/warehouse system which would confirm availability and delivery date for the product ordered; that information would be sent (using Geneva) to the online system for display to the person placing the order.

- Key competitors are New Era of Networks (NEON), TSI and TIBCO. They have similar products for specific environments. Level 8 has won in a few head-to-head situations already.

(note: Attached are pages obtained from web site [www.MESSAGEQ.com](http://www.MESSAGEQ.com) that show the extensive list of competitors, a typical News page from that site and the current information it provides on Level 8. Rick and Eileen steered me to this site. Rick provided more information on competitors; please see below.)

- As the prospectus indicates, they see a very large market opportunity for Geneva-like (EAI) products. They said they were precluded from giving me any forecast, backlog or pipeline data. They would convey only information that was "public domain".

- Consulting activity at present is primarily for the existing HPS and pilot Geneva installations. They have about 150 consultants world-wide now, primarily from SEER. There are about 60 in the U.S. and 90 in EMEA. They are currently being trained on Geneva.

#### Rick Phelps & Eileen Ibenhard

- Basically confirmed information from conversation with Steve and Tom.

- Geneva sale will typically be \$200,000 for the product plus \$200,000 in consulting fees. Geneva evolved as a product from Level 8's experience as a system integrator.

- Leads will be developed by participating in shows/conferences and buying lists to identify enterprises with large/complex NT-centric environments. Prospects will be qualified via telephone. Information on the leads will then be given to the appropriate sales team.

- Finance, Retail and Manufacturing will be key industry segments for Geneva. For Retail the focus will be on use in E-commerce as described above.

- Geneva is positioned by being NT-centric, and a product for a well-known, defined problem. The opportunity has been validated by the competition, which primarily has focused on other environments. Level 8's attention to other environments will be governed by prospect interest.

- There is no dominant competitor at present. A current report from Wintergreen Research shows the following market shares:

NEON	18.5%
Logica	12.6%
TSI	7.9%
STC	6.6%
Active	5.3%
TIBCO	4.8%
HIE	3.4%

- Eileen agreed with a comment I made that the descriptions of Geneva in the announcement letter and the prospectus gave two different impressions of the product. She said they currently are working hard on their website material.

#### Mike Palmer

- His maintenance/customer support responsibility will be all products, level 1 through level 3. This organization was put in place just two weeks ago.

- The only exception will be the Geneva pilot installations which will continue to be supported by the New York staff with which they are familiar.

- In EMEA, HPS level 1 and 2 calls will continue to go to IBM per the contract SEER had with IBM. Level 3 is and will be handled by a group in Dublin that reports to Mike.

- Mike joined SEER, from IBM, four years ago. His current maintenance staff consists of 28 people from SEER and one new hire. His people are currently being introduced to Geneva and Falcon. He has no concerns about their ability to handle these products.

- All customer calls for all products will come to the same level 1 desk and will be routed from there to the proper support person. He will support CoreBank and IRIS as well.

- The maintenance contract will provide 24 hours/day, 7 days/week support. The center will be open and staffed weekdays from 0830 to 1730. Other times, calls will come to an answering service that will direct the call to a service rep via pager. The commitment is for some response within 30 minutes.

- He is not aware of any current Falcon customer sat issues. There are some pockets of issues in the HPS installations but these are under control. To his knowledge, the current HPS base is firm, albeit nervous about the future under Level 8. He made a rough estimate that maintenance revenue from HPS is about \$13 million per year world-wide.

To: Burt Grad  
From: Martin Y. Silberberg  
Copy To: Sid Dunayer  
Date: May 24, 1999

Subject: Level 8

Reference: My memo on this subject of May 23, 1999

The content of this memo is based on my telephone discussion with Bill McMurray this morning. His comments are summarized below.

HPS

- Still the best of breed for large-scale enterprises.
- Y2K concerns continue to impact new sales in EMEA, and will until 4th quarter, 2000.
- With one or two exceptions, the base is firm, albeit nervous about the future. It is not easy to break away from using HPS. Erosion at most will be 10%.
- They are selling some upgrades to existing users. Revenue from this source was \$1.5 million in 1Q99 and will total about \$3.5 million in 1999.
- CoreBank and IRIS will also provide revenue in 1999. He expects general availability of CoreBank from IBM in September and believes there is latent demand. He conservatively estimates one sale in 1999 that will yield \$0.5 million to Level 8 and six more such sales by June, 2000. IRIS, a similar product to CoreBank, was developed by a bank in Spain. Level 8 has an agreement with them. He expects one sale in 1999 yielding \$0.5 million to Level 8 and more in 2000.
- Consulting revenue from HPS has already declined and will decline further. Except for Australia, SEER EMEA lost its best consultants, many of whom went to system integrators or set up their own companies. Consulting revenue was \$5 million in 1998 and will be \$2.5 million in 1999. Bill feels that the right direction for Level 8 is to provide high-level consulting skills but to rely on the customer or third parties for the more extensive consulting. The third parties have previously bid lower than SEER/Level 8 in any case. In the UK, the rate for consultants is \$1000 to \$1500 per day; in France, Italy and Spain it is only \$600 to \$900 per day.
- He believes they should repackage HPS, get rid of the SEER label and rename it as part of the GENEVA family.

## GENEVA

- This is where the current excitement is. He believes it is the best EAI offering available today.
- The primary competitor is NEON, which has visibility through its relationship with IBM and current presence in the marketplace.
- Bill describes the product as a workflow manager for complex environments as well as a translator and agreed that their descriptive material must be improved.
- To sell the product, Level 8 must first generate excitement and then architect and demonstrate a solution (or part of a solution) for the customer. Given that NEON is entrenched in the Finance industry, he plans to focus initially on Retail industry opportunities.
- In particular, his strategy will be to initially sell relatively smaller packages to franchisees in large chains such as Burger King, BMW dealerships, etcetera. With these as references, they will be able to win the others in the chain as well as other such chains. He is thinking of packages priced about \$75,000 to \$100,000, with related consulting of about \$50,000 to \$100,000. Maintenance would be the standard 18%. With this strategy he believes the sell cycle could be reduced to under 6 months, especially if they control their commitments to piloting.
- He is hoping for some sales this year, anticipates some delays from lingering Y2K problems early in 2000 and real progress late 1Q, 2000.
- A gating factor for this plan is the lack of NT skills in his current staff. Experience shows that customers ask questions about Windows, NT and competitors, as well as the EAI product. His plan is to acquire a small consulting business that already has such skills; he is actively investigating possibilities. He believes that is the U.S. plan as well.

## FALCON

- Bill does not think Level 8 can make a profit selling this product via telemarketing. He is currently evaluating the use of channels that would sell a variety of low-end products, including Falcon.
- The inclusion of a Falcon demo in Windows 2000 will be significant.

## OTHER

- Except for Australia, sales reps as well as consultants were lost last year. They are in the process of hiring, training on Geneva, cross-training HPS staff on Geneva, etcetera. They have a strong technical support group with staff that will travel to support activity throughout EMEA.

- The areas where Level 8 is well represented and has the best opportunity are Australia, UK and the Nordic countries. Germany, France and Italy are in the second tier. He plans to sell via channels in the other countries.

- Japan represents an opportunity that Level 8 must pursue in the next 12 months.

*Appendix E*

	A	B	C	D	E	F			
1	<b>Net Present Value -- Level 8 Products (Worldwide)</b>								
2									
3	<b>(\$000)</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>			
4	<b><u>Falcon MQ</u></b>								
5	Revenue	3500	5866	7792	8777	9537	8514	6180	50166
6	Operating Income Ratio	.32	.31	.35	.35	.37	.43	.42	
7	Operating Income	1105	1808	2745	3036	3537	3688	2585	18504
8	Tax Rate	.38	.38	.38	.38	.38	.38	.38	
9	Operating Income After Tax	685	1121	1702	1883	2193	2287	1602	11472
10	NPV Factors	.917	.764	.637	.530	.442	.368	.307	
11	NPV	628	856	1083	999	969	842	492	5870
12	Discount Rate	.20							
13									
14	<b><u>Geneva Integration Server</u></b>								
15	Revenue	2800	11033	25011	43892	62490	74664	80169	300059
16	Operating Income Ratio	.25	.30	.31	.33	.36	.36	.37	
17	Operating Income	694	3351	7672	14301	22533	26629	29648	104828
18	Tax Rate	.38	.38	.38	.38	.38	.38	.38	
19	Operating Income After Tax	430	2078	4757	8866	13971	16510	18382	64994
20	NPV Factors	.900	.720	.576	.461	.369	.295	.236	
21	NPV	387	1496	2740	4086	5150	4869	4337	23065
22	Discount Rate	.25							
23									
24	<b><u>Seer*HPS</u></b>								
25	Revenue	40000	41749	40440	35256	30132	26381	22650	236608
26	Operating Income Ratio	.28	.34	.37	.41	.43	.45	.46	
27	Operating Income	11100	13998	14937	14455	12968	11862	10492	89813
28	Tax Rate	.20	.20	.20	.20	.20	.20	.20	
29	Operating Income After Tax	8880	11199	11949	11564	10375	9490	8394	71850
30	NPV Factors	.935	.813	.707	.615	.534	.465	.404	
31	NPV	8301	9103	8446	7108	5545	4410	3392	46305
32	Discount Rate	.15							
33									
34	<b><u>Grand Total</u></b>								
35	Revenue	46300	58648	73242	87924	102159	109560	108998	586832
36	Operating Income	12899	19158	25353	31792	39039	42179	42725	213145
37	Operating Income After Tax	9995	14397	18408	22313	26538	28286	28378	148316
38	NPV	9316	11455	12269	12192	11664	10122	8221	75240
39									
40									
41									
42									
43									
44									
45									
46									
47									
48									
49									
50									

	A	B	C	D	E	F	G	H	I
51		<b>Falcon MQ Revenues and Costs (WorldWide)</b>							21
52									
53	<b>(\$000)</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Total</b>
54									
55	<b>New Product Licenses</b>								
56	New license rate		1.50	1.20	1.00	1.00	0.75	0.50	
57	New license revenue	3000	4500	5400	5400	5400	4050	2025	29775
58									
59	<b>Services</b>								
60	Services rate		0	0	0	0	0	0	
61	Services revenue	0	0	0	0	0	0	0	0
62									
63	<b>Add-Ons</b>								
64	Add-ons rate		0.20	0.20	0.20	0.15	0.15	0.10	
65	Add-ons revenue	0	90	230	389	403	476	339	1927
66									
67	<b>Maintenance revenue</b>	500	1276	2162	2988	3734	3988	3816	18463
68									
69	<b>Total revenue</b>	3500	5866.2	7792	8777	9537	8514	6180	50166
70									
71	<b>Maintenance Calculations</b>								
72	Previous year maint.		500	1276	2162	2988	3734	3988	
73	Retention rate		0.90	0.90	0.90	0.90	0.85	0.85	
74	Remaining maint.		450	1149	1946	2689	3174	3390	12797
75	New license + add-on rev.		4590	5630	5789	5803	4526	2364	
76	Maint./license rate		0.18	0.18	0.18	0.18	0.18	0.18	
77	Initial maintenance rate		1.0	1.0	1.0	1.0	1.0	1.0	
78	New license maint. revenue		826	1013	1042	1045	815	426	5166
79	<b>Total Maintenance</b>	500	1276	2162	2988	3734	3988	3816	18463
80									
81									
82	<b>Costs</b>								
83	Revenues	3500	5866	7792	8777	9537	8514	6180	50166
84									
85	Cost of rev - licenses rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
86	cost	300	459	563	579	580	453	236	3170
87	Cost of rev - maint rate	0.20	0.20	0.20	0.20	0.20	0.20	0.20	
88	cost	100	255	432	598	747	798	763	3693
89	Cost of rev - service rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
90	cost	0	0	0	0	0	0	0	0
91	Marketing and sales rate	0.30	0.30	0.25	0.25	0.25	0.20	0.20	
92	cost	1050	1760	1948	2194	2384	1703	1236	12275
93	R and D rate	0.15	0.15	0.15	0.15	0.12	0.10	0.10	
94	cost	525	880	1169	1317	1144	851	618	6504
95	G and A rate	0.12	0.12	0.12	0.12	0.12	0.12	0.12	
96	cost	420	704	935	1053	1144	1022	742	6020
97	<b>Total Costs</b>	2395	4058	5047	5740	6000	4826	3595	31662
98	<b>Cost/Revenue Ratio</b>	0.68	0.69	0.65	0.65	0.63	0.57	0.58	0.63
99									
100									



	A	B	C	D	E	F	G	H	I
101	<b>Geneva Integration Revenues and Costs (WorldWide) 22</b>								
102									
103	<b>(\$000)</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Total</b>
104									
105	<b>New Product Licenses</b>								
106	New license rate		4.00	2.00	1.50	1.25	1.00	1.00	
107	New license revenue	1500	6000	12000	18000	22500	22500	22500	105000
108									
109	<b>Services</b>								
110	Services rate		3.50	2.50	2.00	1.50	1.25	1.00	
111	Services revenue	1000	3500	8750	17500	26250	32813	32813	122625
112									
113	<b>Add-Ons</b>								
114	Add-ons rate		0.50	0.50	0.50	0.50	0.50	0.50	
115	Add-ons revenue	0	143	661	1620	3047	4812	6543	16825
116									
117	Maintenance revenue	300	1391	3600	6772	10693	14540	18314	55609
118									
119	<b>Total revenue</b>	<b>2800</b>	<b>11033</b>	<b>25011</b>	<b>43892</b>	<b>62490</b>	<b>74664</b>	<b>80169</b>	<b>300059</b>
120									
121	<b>Maintenance Calculations</b>								
122	Previous year maint.		300	1391	3600	6772	10693	14540	
123	Retention rate		0.95	0.95	0.90	0.90	0.90	0.90	
124	Remaining maint.		285	1321	3240	6094	9624	13086	33650
125	New license + add-on rev.	1500	6143	12661	19620	25547	27312	29043	
126	Maint./license rate		0.18	0.18	0.18	0.18	0.18	0.18	
127	Initial maintenance rate		1.0	1.0	1.0	1.0	1.0	1.0	
128	New license maint. revenue		1106	2279	3532	4599	4916	5228	21659
129	<b>Total Maintenance</b>	<b>300</b>	<b>1391</b>	<b>3600</b>	<b>6772</b>	<b>10693</b>	<b>14540</b>	<b>18314</b>	<b>55609</b>
130									
131									
132	<b>Costs</b>								
133	Revenues	2800	11033	25011	43892	62490	74664	80169	300059
134									
135	Cost of rev - licenses rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
136	cost	150	614	1266	1962	2555	2731	2904	12183
137	Cost of rev - maint rate	0.15	0.15	0.15	0.15	0.15	0.15	0.15	
138	cost	45	209	540	1016	1604	2181	2747	8341
139	Cost of rev - service rate	0.70	0.70	0.70	0.65	0.65	0.65	0.65	
140	cost	700	2450	6125	11375	17063	21328	21328	80369
141	Marketing and sales rate	0.25	0.20	0.20	0.20	0.15	0.15	0.15	
142	cost	575	1857	4127	7028	7405	8739	9564	39295
143	R and D rate	0.20	0.20	0.18	0.15	0.15	0.15	0.15	
144	cost	300	1229	2279	2943	3832	4097	4356	19036
145	G and A rate	0.12	0.12	0.12	0.12	0.12	0.12	0.12	
146	cost	336	1324	3001	5267	7499	8960	9620	36007
147	<b>Total Costs</b>	<b>2106</b>	<b>7682</b>	<b>17338</b>	<b>29591</b>	<b>39957</b>	<b>48035</b>	<b>50521</b>	<b>195230</b>
148	<b>Cost/Revenue Ratio</b>	<b>0.75</b>	<b>0.70</b>	<b>0.69</b>	<b>0.67</b>	<b>0.64</b>	<b>0.64</b>	<b>0.63</b>	<b>0.65</b>
149									
150									

	A	B	C	D	E	F	G	H	I
151		<b>Seer*HPS Revenues and Costs (WorldWide)</b>							23
152									
153	<b>(\$000)</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Total</b>
154									
155	<b>New Product Licenses</b>								
156	New license rate		1.50	1.00	0.75	0.75	0.75	0.50	
157	New license revenue	3000	4500	4500	3375	2531	1898	949	20754
158									
159	<b>Services</b>								
160	Services rate		1.0	0.9	0.8	0.8	0.8	0.8	
161	Services revenue	20000	20000	18000	14400	11520	9216	7373	100509
162									
163	<b>Add-Ons</b>								
164	Add-ons rate		0.20	0.20	0.20	0.15	0.15	0.15	
165	Add-ons revenue	3000	2660	2772	2730	1991	1902	1804	16860
166									
167	<b>Maintenance revenue</b>	14000	14589	15168	14750	14089	13365	12524	98485
168									
169	<b>Total revenue</b>	40000	41749	40440	35256	30132	26381	22650	236608
170									
171	<b>Maintenance Calculations</b>								
172	Previous year maint.		14000	14589	15168	14750	14089	13365	
173	Retention rate		0.95	0.95	0.90	0.90	0.90	0.90	
174	Remaining maint.		13300	13859	13651	13275	12680	12028	78795
175	New license + add-on rev.	6000	7160	7272	6105	4523	3801	2753	
176	Maint./license rate		0.18	0.18	0.18	0.18	0.18	0.18	
177	Initial maintenance rate		1.0	1.0	1.0	1.0	1.0	1.0	
178	New license maint. revenue		1289	1309	1099	814	684	496	5690
179	<b>Total Maintenance</b>	14000	14589	15168	14750	14089	13365	12524	98485
180									
181									
182	<b>Costs</b>								
183	Revenues	40000	41749	40440	35256	30132	26381	22650	236608
184									
185	Cost of rev - licenses rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
186	cost	600	716	727	611	452	380	275	3761
187	Cost of rev - maint rate	0.15	0.15	0.10	0.10	0.10	0.10	0.10	
188	cost	2100	2188	1517	1475	1409	1336	1252	11278
189	Cost of rev - service rate	0.80	0.70	0.70	0.65	0.65	0.65	0.65	
190	cost	16000	14000	12600	9360	7488	5990	4792	70231
191	Marketing and sales rate	0.15	0.15	0.15	0.15	0.15	0.15	0.15	
192	cost	4500	4762	4716	4208	3656	3266	2845	27953
193	R and D rate	0.15	0.15	0.15	0.15	0.12	0.10	0.10	
194	cost	900	1074	1091	916	543	380	275	5179
195	G and A rate	0.12	0.12	0.12	0.12	0.12	0.12	0.12	
196	cost	4800	5010	4853	4231	3616	3166	2718	28393
197	<b>Total Costs</b>	28900	27750	25504	20800	17164	14519	12158	146795
198	<b>Cost/Revenue Ratio</b>	0.72	0.66	0.63	0.59	0.57	0.55	0.54	0.62
199									
200									

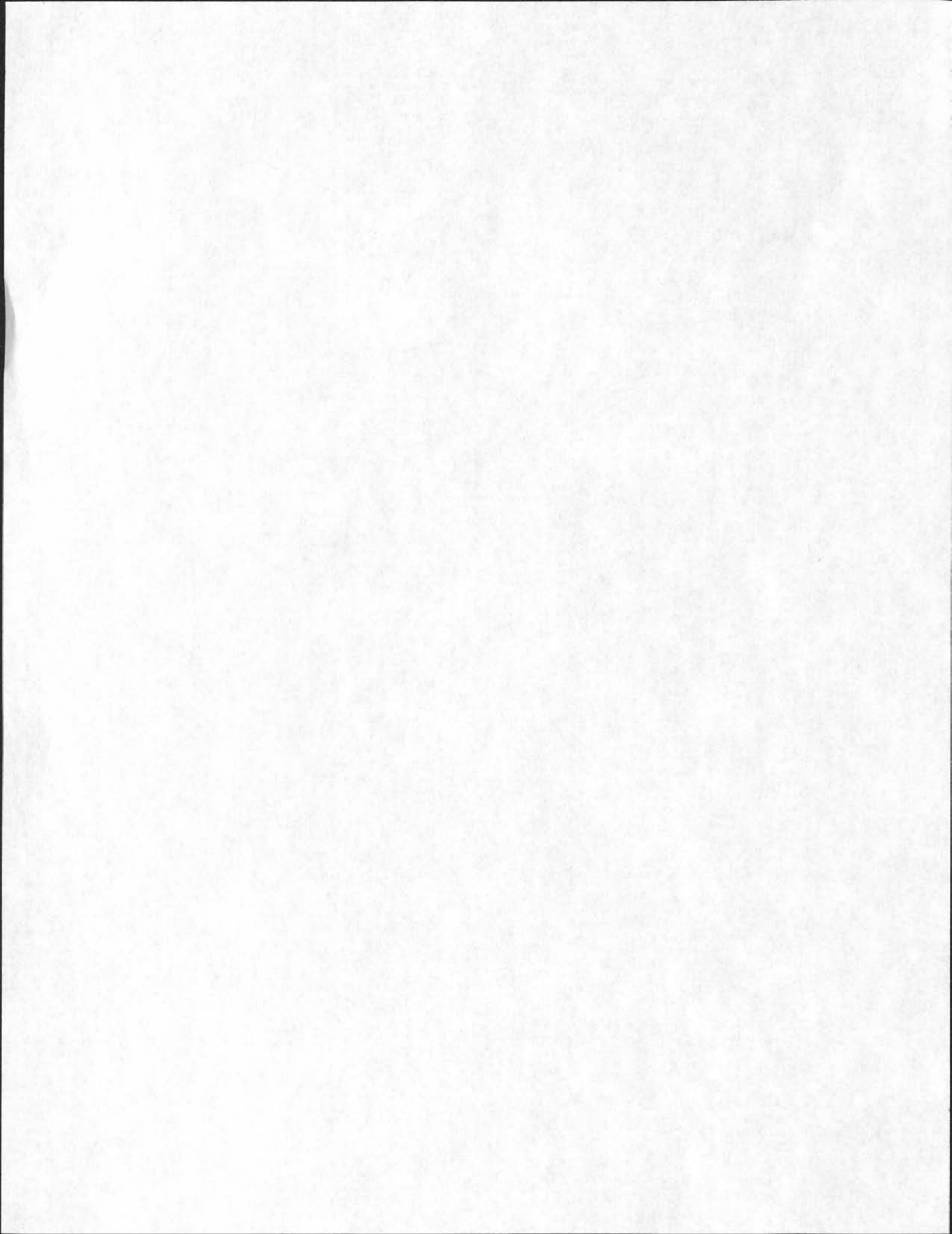


Frank Klein @  
MSN.COM

212-  
551-8813

Frank Klein

FAX 212 599 6281



May 18, 1999

Mr. Lenny Recanati  
DIC Finance and Management Corp.  
14 Beth Hashoeva Lane  
P.O. Box 1688  
Tel Aviv, Israel 61016

Dear Mr. Recanati:

Burton Grad Associates, Inc. (BGAI) proposes to perform an analysis of the value of Level 8 Systems, Inc. (Level 8) for DIC Finance and Management Corp. (DIC).

### **Objectives**

DIC wants to have an independent valuation study performed prior to making an investment in Level 8. This will help ensure that there are no marketing, sales, customer service, customer support, development, technical or financial issues which would reduce the current market value or Level 8 projections of future revenues and profits.

BGAI, an independent consulting firm with extensive experience in computer software and services company valuations, is pleased to perform this valuation study so that DIC can proceed with its potential investment decision in an informed and timely manner.

### **Work Plan**

1. BGAI will request certain information from Level 8 for the areas to be examined. The initial request list is attached as Appendix B.
2. BGAI will conduct limited telephone interviews with executives and key managers of Level 8 and obtain other relevant Level 8 materials.
3. BGAI will analyze the investment values relating to current position and future revenues and profit and identify what it believes to be the principal opportunities and risks.
4. BGAI will prepare a report to DIC summarizing its valuation findings and recommendations.

### **Staffing**

The project will be managed by Burton Grad, president of BGAI, with BGAI Associates Sid Dunayer and Marty Silberberg as consultants on this project. The assignments are noted below:

- Business Analysis (Markets, Competition, Customer Base, Strategic Plans, Financial Projections) -- Grad
- Operations (Sales and Marketing, Customer Service and Support) -- Silberberg
- Technical (Product Development, Technical Assessment) -- Dunayer

Professional profiles for the BGAI participants are enclosed as Appendices A-1, A-2 and A-3.

DIC and Level 8 will designate liaisons for BGAI to work with.

### **Schedule**

The initial list of the items needed (Appendix B) will be sent to Level 8 on May 18, 1999. The key response materials should be sent to BGAI and its Associates by May 19, 1999 for review.

The telephone interviews will be scheduled for May 19-May 25, 1999.

An oral report covering the principal conclusions will be available to DIC by May 26, 1999. A written report will be delivered by May 28, 1999.

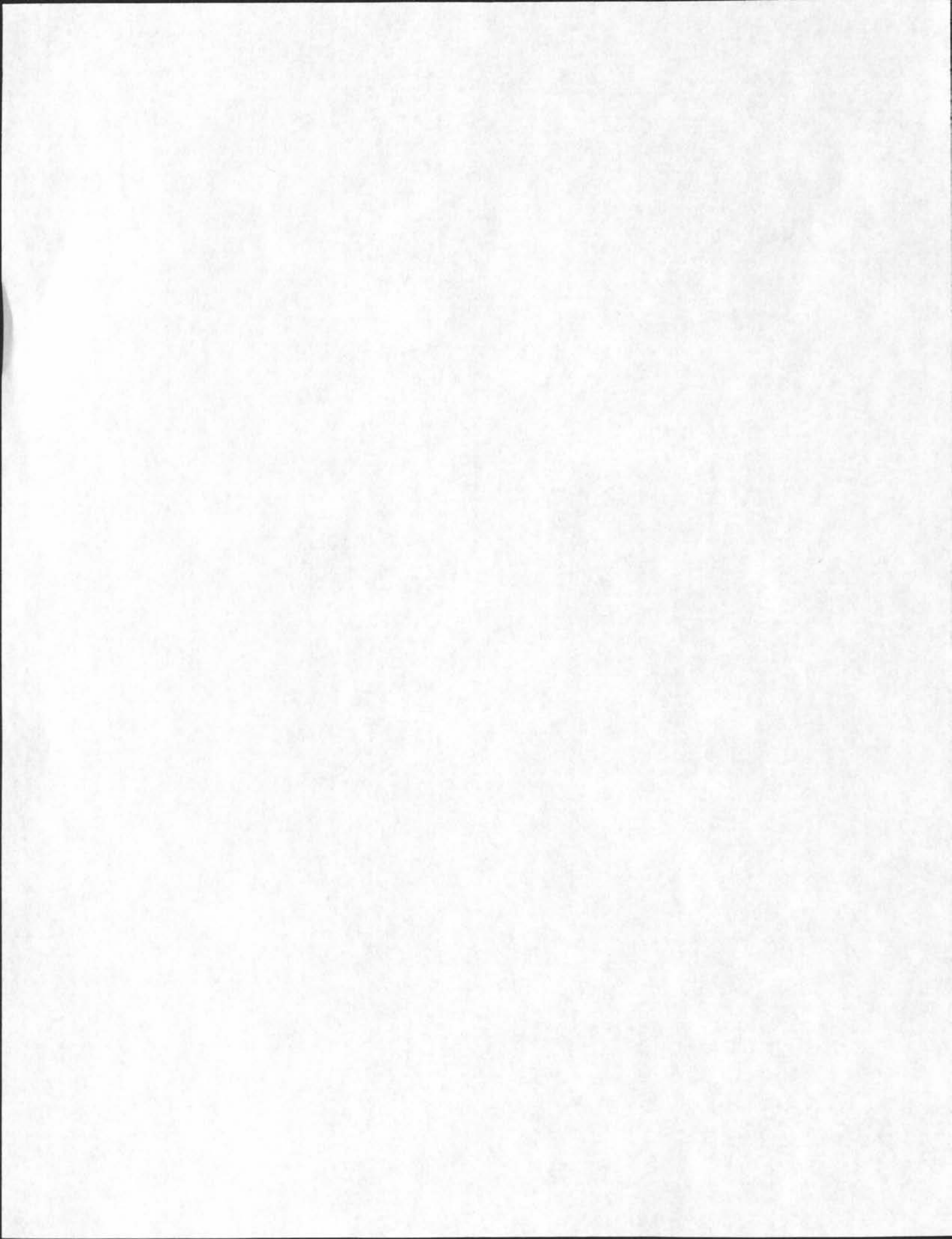
### **Confidentiality**

All information received and work performed will be treated as confidential and not disclosed to any third party without prior written consent from Level 8 and DIC.

**Information Requested for Company Valuation**

1. Analysis of Level 8 installed customer base for each product by country, platform, maintenance status
2. Current financial statements for Level 8
3. Organization chart for Level 8, with number of employees by function
4. Marketing materials for current Level 8 products
5. List, description, size and market share of principal competitors to Level 8 for each product area
6. Level 8 business and strategic plans including planned products, types of services, pricing, new development projects, etc.
7. Sales, marketing and support plan for products, services and customers
8. Analysis of Level 8 products in terms of program size, language, documentation
9. Analysis of Level 8 product maintenance in terms of reported problems, time to fix, open problems
10. Most recent 10K and 10Q







8000 Regency Parkway  
Cary, NC 27511

<b>To:</b>	Burton Grad
<b>Company:</b>	Burton Grad & Associates, Inc.
<b>Phone:</b>	203-222-8718
<b>Fax:</b>	203-222-8728
<b>From:</b>	Dennis McKinnie
<b>Phone:</b>	919-380-5005
<b>Fax:</b>	919-380-5121
<b>Date:</b>	5-19-99
<b>Pages including this cover page:</b>	16

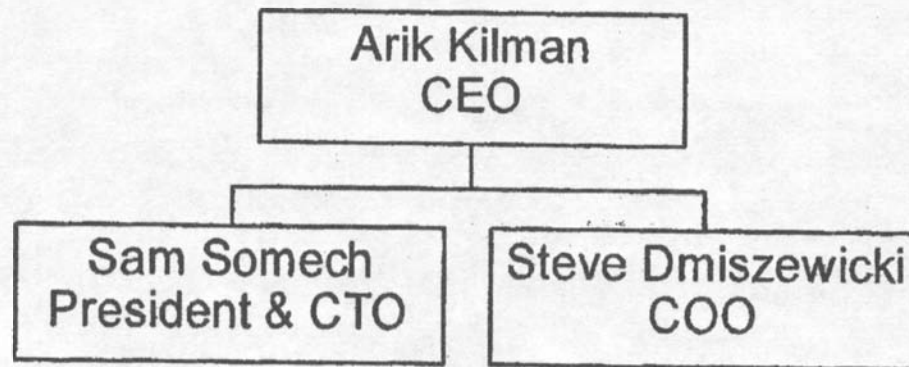
**Comments:**

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# Executive Team

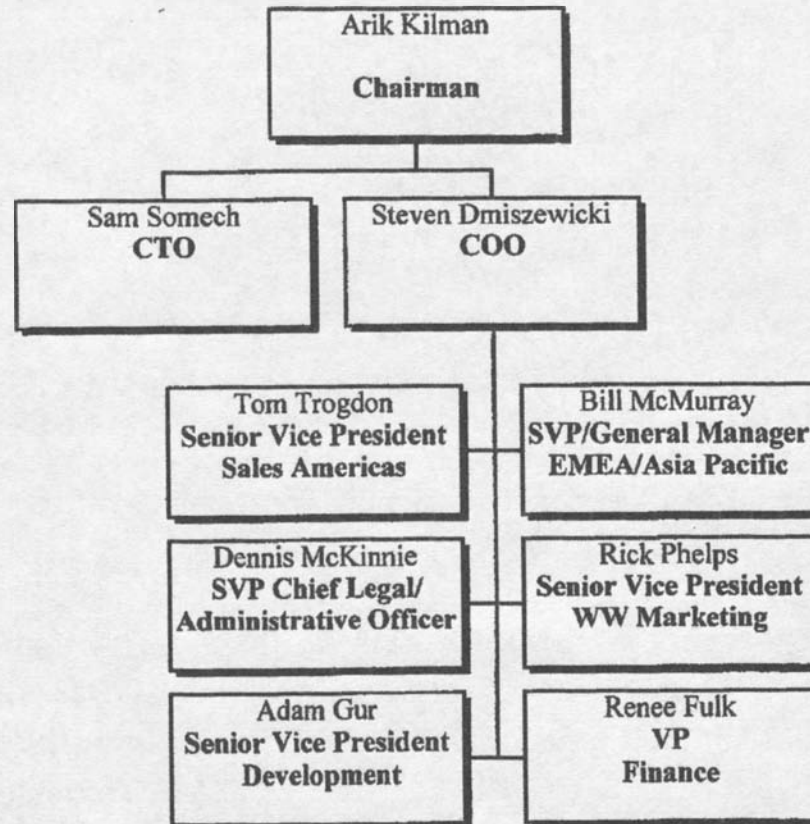
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# Level 8 Systems, Inc.

## Senior Management Team



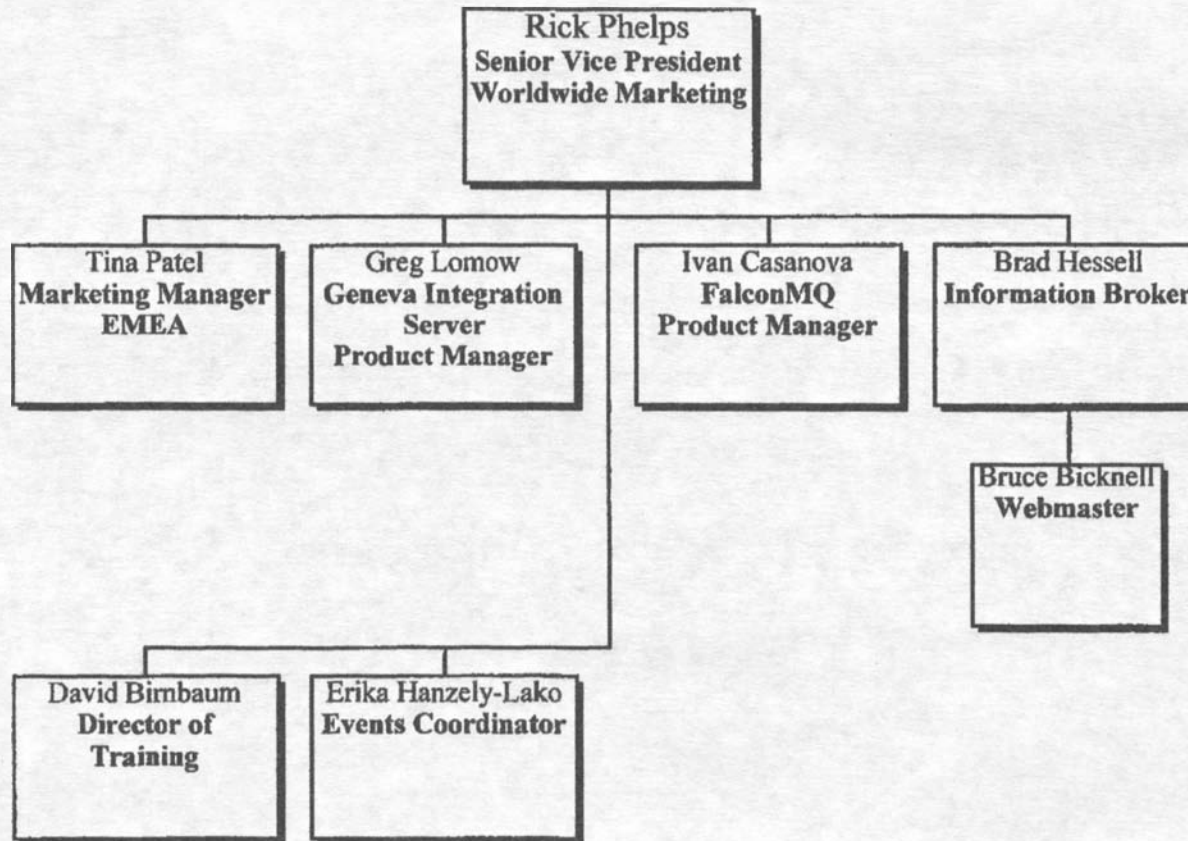
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Level8Mgmt chart 2

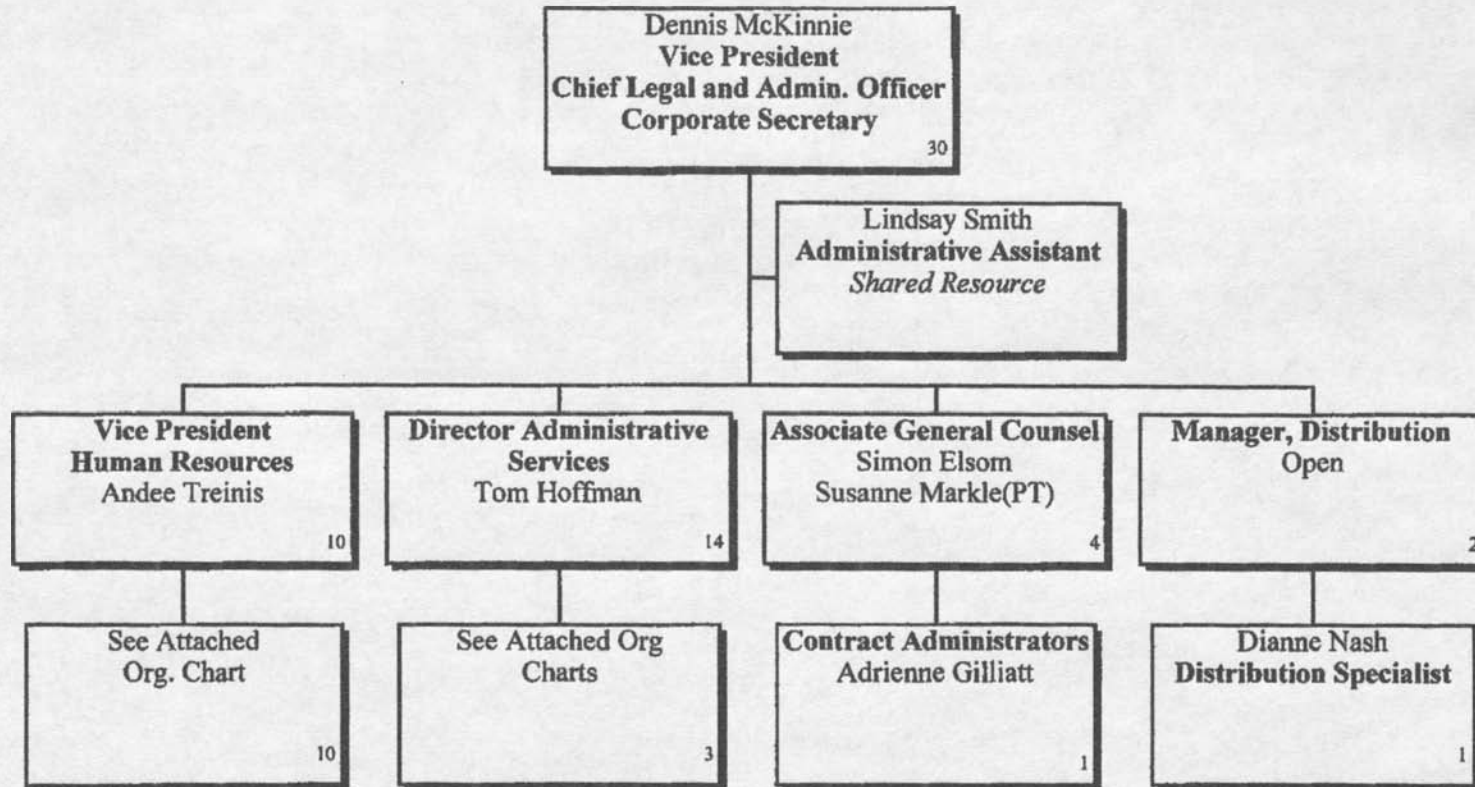
Level 8 Systems, Inc. - CONFIDENTIAL

# Marketing Organization



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# HR, Legal, Facilities, CIS & Distribution



19-May-99 lhs

LEGAL

Level 8 Systems, Inc.. - CONFIDENTIAL

05/19/99

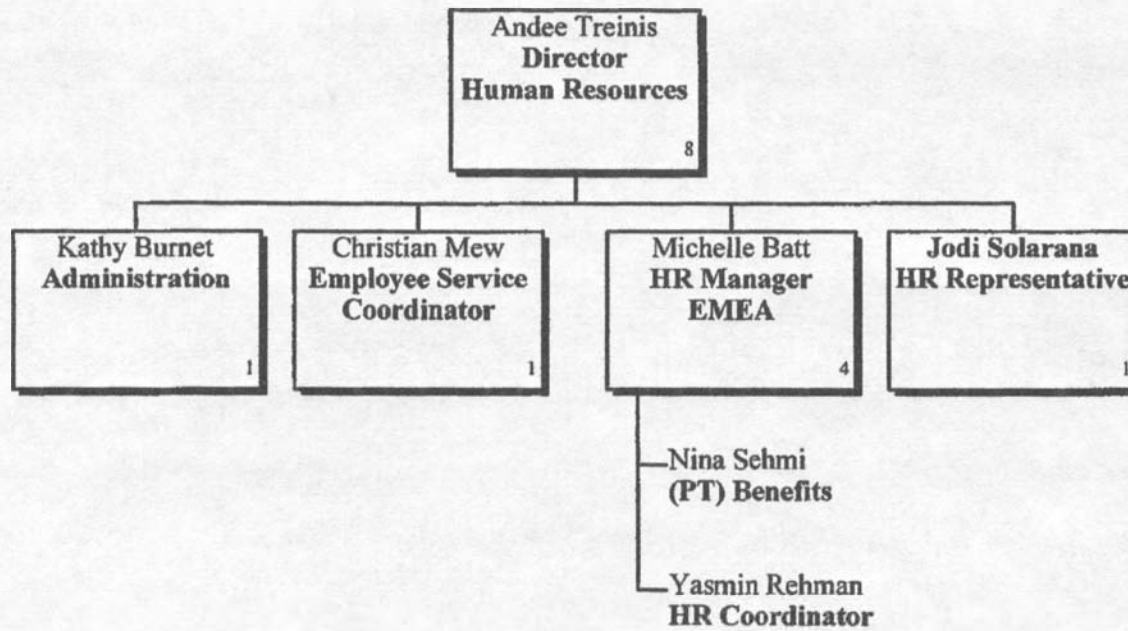
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# Human Resources



12-Jan-99 lhs

HR

Level 8 Systems - CONFIDENTIAL

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SEER TECH

006

# EMEA HUMAN RESOURCES



05/19/99

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SEER TECH

CARY

**EMEA HUMAN RESOURCES**  
Michelle Batt  
*HR Manager - EMEA*  
AH-EZ<sup>4</sup>

**EMEA HR**  
Nina Sehmi  
*HR Representative*  
*UK/SA/Benelux*

**EMEA HR**  
Yasmin Rehman  
*HR Administrator*  
*Italy/Germany/Spain/Nordic*

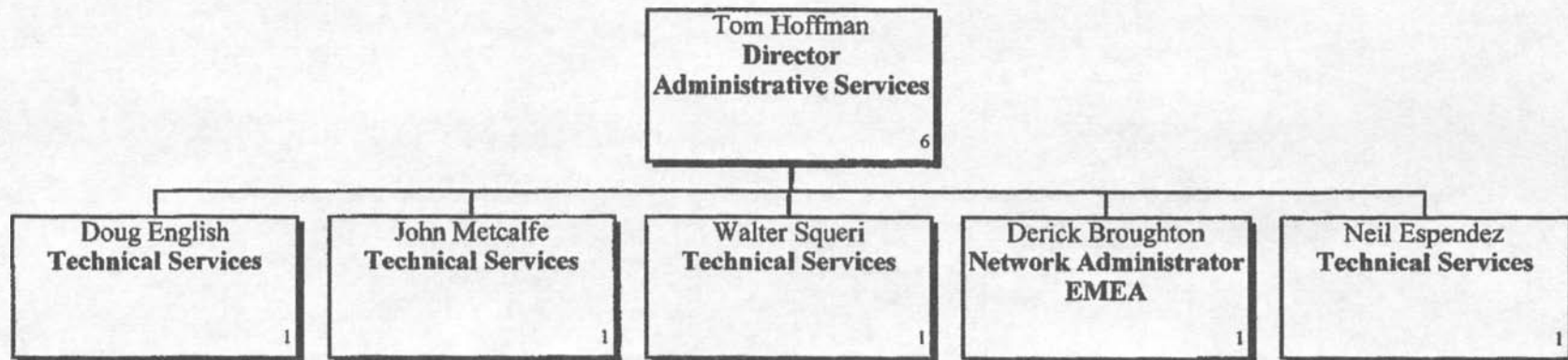
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# Computer Information Services

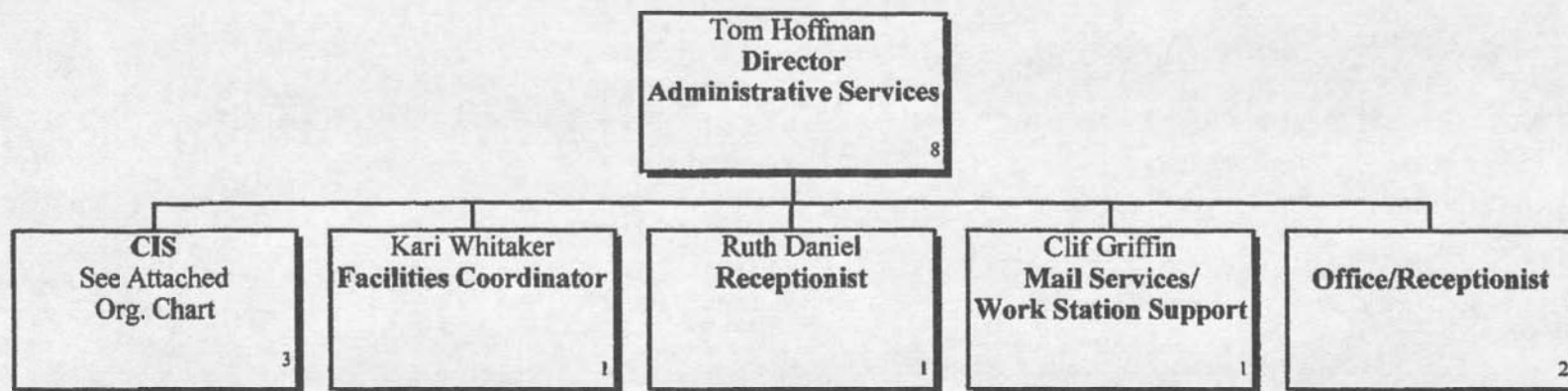


12-Jan-99 lhs

CIS

Level 8 Systems, Inc.

# Facilities Organization Chart

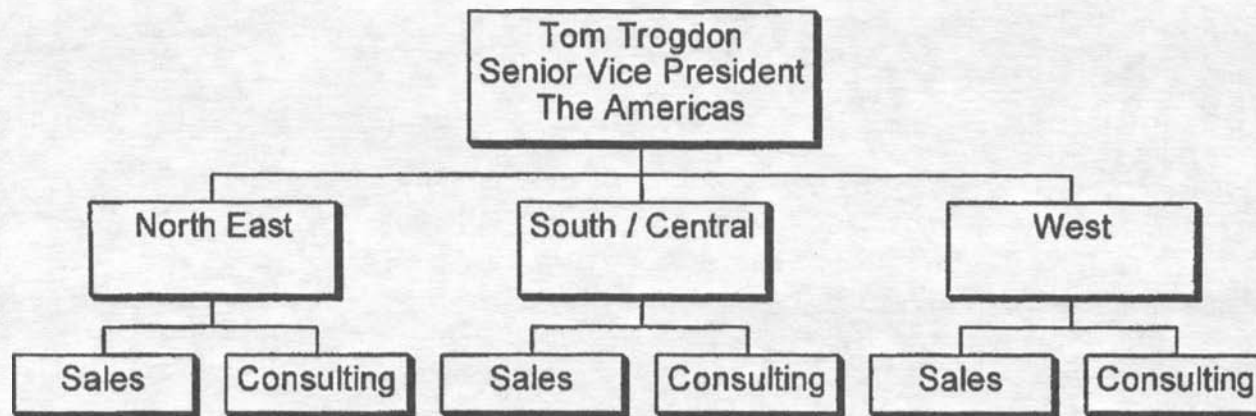


12-Jan-99 lls

FACILITIES

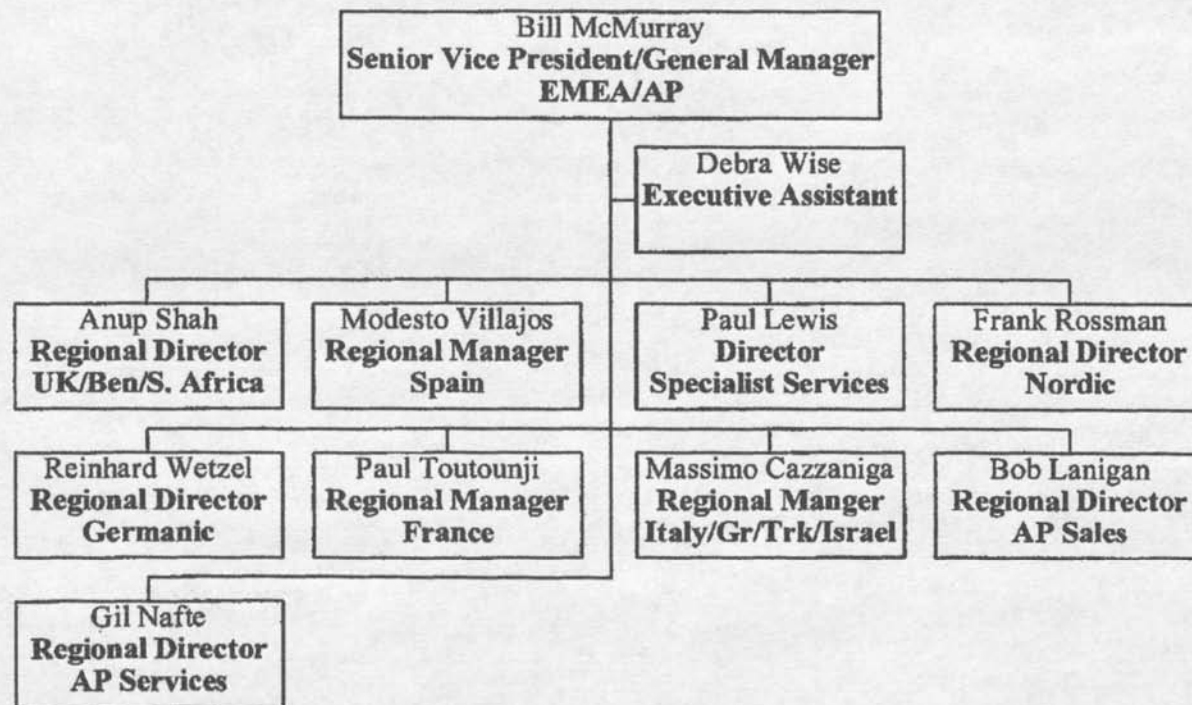
Level 8 Systems, Inc. - CONFIDENTIAL

# Americas Operational Model



- ❖ Each regions territories have their own sales and consulting resources reporting to a regional manager

# EMEA/AP Operational Model

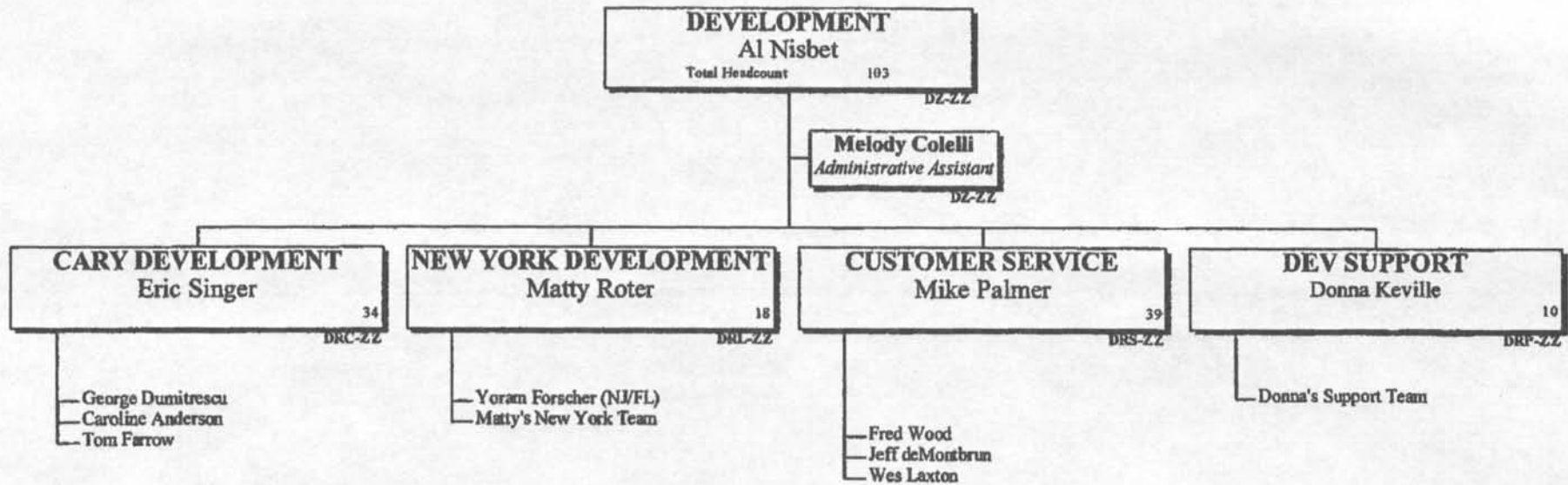


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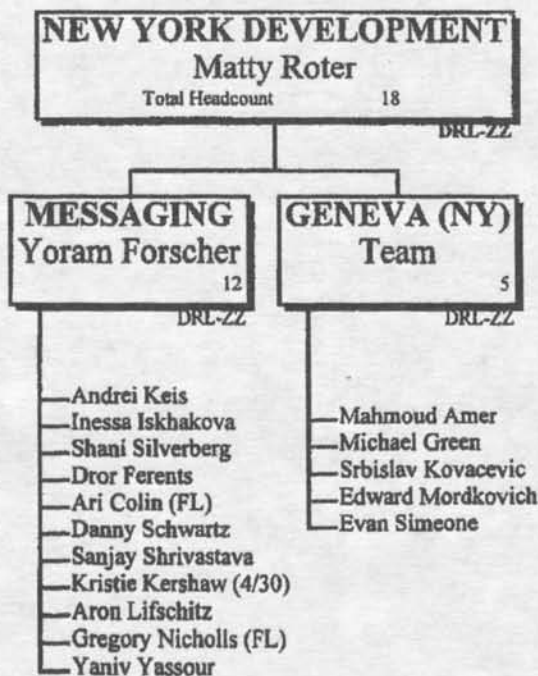
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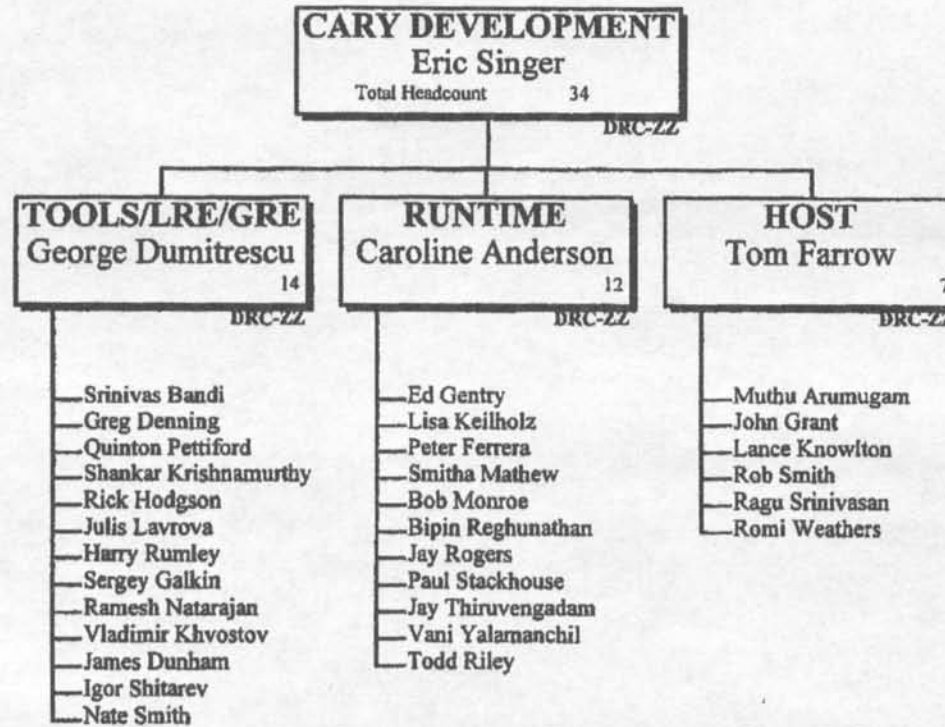
# PRODUCT DEVELOPMENT



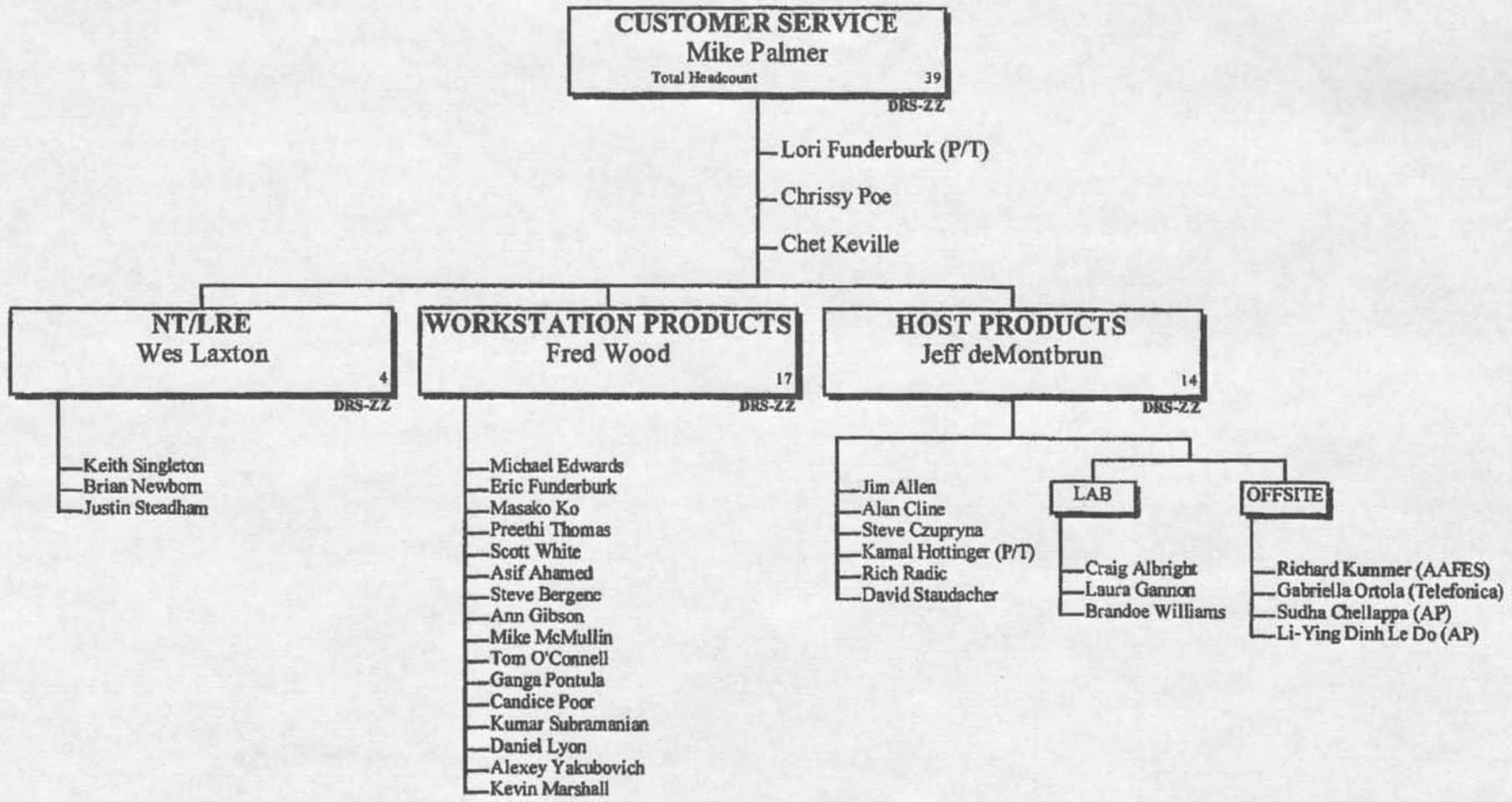
# PRODUCT DEVELOPMENT



# PRODUCT DEVELOPMENT



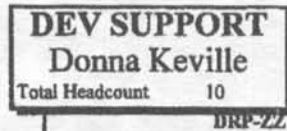
# PRODUCT DEVELOPMENT





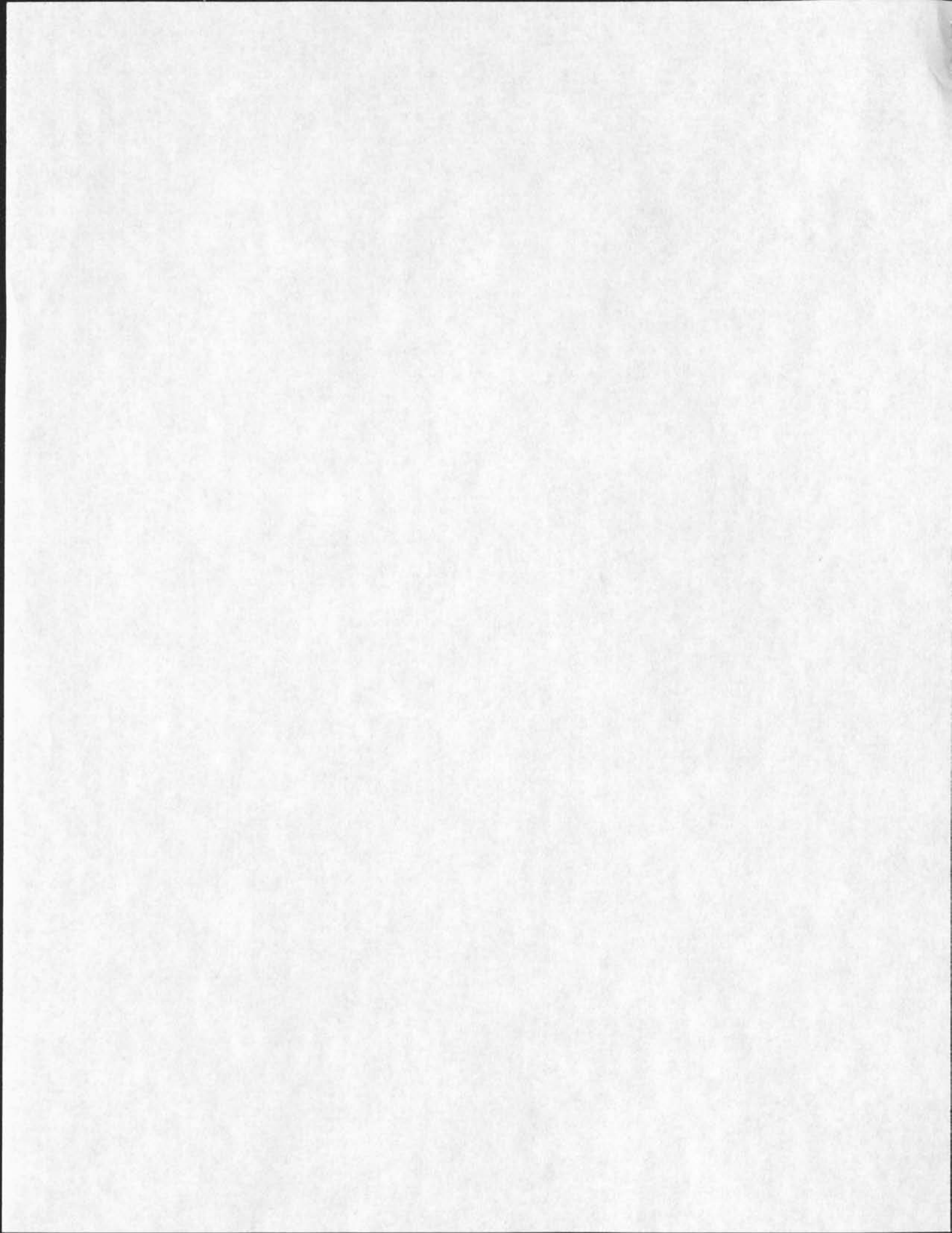
# PRODUCT DEVELOPMENT

05/19/99 15:03 3805121



- Lisa Dunham(P/T)
- Joel Lieurance
- Andy Rogers
- Saomi Okamoto
- Jason Adkins
- Nick Cariello
- Jerry Parker
- Winston Yates
- Jenna Austin

SEER TECH



Steve Duiszewick:

5/24/99

- Merrill Lynch, Lucent, Wards
- may start smaller + then grow
- want to get rd by indie customers but keep the rights
- OEM channels for Geneva whtgy

Niskit 919 319 2158

~~5/24/99~~

Avik Kilman -

5/24/99

HQ reduction in 1Q99 to 366  
now 311  
about 2Q99 - " will be 285 people  
\$55M in 1999

Strategic plan -

- infrastructure
- cost base
- cash flow
- offices

use HPS as funding source for rest of  
business - cost + maint \$48-50M/yr

Core Bank is major new opportunity

Geneva - EAI ~~EAII~~  
high interest level  
strong pipeline

Falcon HQ --

client dependent (XICT)  
independent client

How many  
customers

additional acquisitions - EAI

> FS001 \$10K - 100K

will be shipped with Windows 2000 (NT)

Rich Scocozza

5/24/99

EA7

Communications (messaging)

Data Transformation

Business Process Integration (work flow)

Fin  
Telecom

whg  
retail

Neon - Rev \$220M - 4<sup>r</sup> 2000  
F1B

1998 -  
Rev \$65M  
'99 - \$130M

TSI -

Web to legacy connections

---

Aid Dunayer --

5/24/99

Geneva

10 customers for Geneva  
(Prudential, McDonalds)

Fortune 1000

needs major consulting to be used  
performance issues

NT/MVS as primary platform.

will need ongoing level investment  
to have product meet  
change customer req't

per Sid Demayon  
FALCON MQ  
C, C++

5/24/99

all popular UNIX platforms

has it been released yet?

may be related to previous  
level 8 base

what was previous product  
from level 8

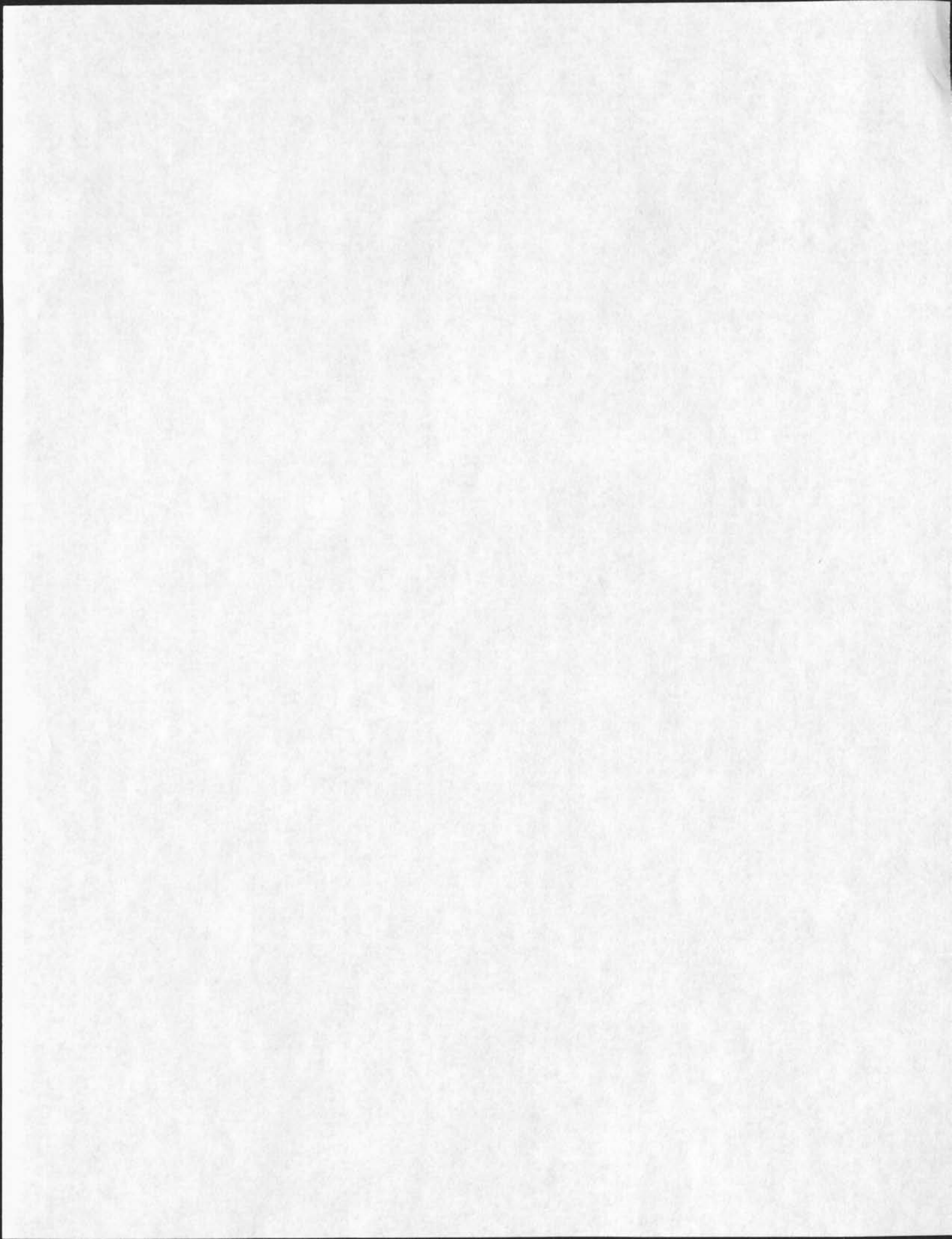
Passes messages back + forth between  
applications

MQM (message oriented middleware)

reliable transport.

connect to non-Windows platform

Asynchronous message connection





Subj: **L8 information**  
Date: 5/21/99 3:09:49 PM Pacific Daylight Time  
From: rfulk@level8.com (Renee Fulk)  
To: burtgrad@aol.com

Burton,

I have sent you a fax which should prove useful in your analysis.  
Please contact me if you would like to discuss.

Additionally, I thought some further information on the Q1 '99 revenue  
may be helpful:

Software Breakdown:

60% HPS  
15% Geneva  
22% Falcon  
3% Other

Maintenance

Approximately 90% of the maintenance revenue is HPS-related

Service

Approximately 85% of the services revenue is HPS-related

Regards,  
Renee Fulk

----- Headers -----

Return-Path: <rfulk@level8.com>  
Received: from rly-yh03.mx.aol.com (rly-yh03.mail.aol.com [172.18.147.35]) by air-yh03.mail.aol.com (v59.11) with SMTP;  
Fri, 21 May 1999 18:09:49 -0400  
Received: from seermail.seer.com ([206.138.37.18])  
by rly-yh03.mx.aol.com (8.8.8/8.8.5/AOL-4.0.0)  
with ESMTP id SAA19629 for <burtgrad@aol.com>;  
Fri, 21 May 1999 18:09:48 -0400 (EDT)  
Received: from SMTP ([192.168.1.237]) by seermail.seer.com  
(Netscape Messaging Server 3.6) with SMTP id 328  
for <burtgrad@aol.com>; Fri, 21 May 1999 18:08:43 -0400  
Received: from level8.com ([160.1.23.55]) by 192.168.1.237  
(Norton AntiVirus for Internet Email Gateways 1.0) ;  
Fri, 21 May 1999 22:08:42 0000 (GMT)  
Message-ID: <3745D7AC.C50AFCAA@level8.com>  
Date: Fri, 21 May 1999 18:01:16 -0400  
From: Renee Fulk <rfulk@level8.com>  
X-Mailer: Mozilla 4.04 [en] (Win95; I)  
MIME-Version: 1.0  
To: burtgrad@aol.com  
Subject: L8 information  
Content-Type: text/plain; charset=us-ascii  
Content-Transfer-Encoding: 7bit

TO: BURTON GRAD  
 RE: LEVEL 8 SYSTEMS  
 1-203-222-8728

P. 1/2

	FY 1999				
	1Q Actual	2QE	3QE	4QE	Total
<b>Revenue:</b>					
Software	\$2,712.0	\$3,200.0	\$3,500.0	\$4,250.0	\$13,662.0
Maintenance	3,883.0	3,685.3	3,581.5	3,725.1	14,874.9
Services	6,610.0	6,000.0	6,250.0	6,750.0	25,610.0
<b>Total Revenues</b>	<b>\$13,205.0</b>	<b>\$12,885.3</b>	<b>\$13,331.5</b>	<b>\$14,725.1</b>	<b>\$54,146.9</b>
<i>Quarterly Growth Rate</i>		-2.42%	3.46%	10.45%	
<b>Cost of Revenues:</b>					
Software	\$229.4	\$260.0	\$260.0	\$260.0	\$1,009.4
Maintenance	20% 1,519.4	1,394.1	1,173.5	1,037.5	5,124.6
Services	25% 5,917.3	5,000.0	5,025.0	5,232.5	21,174.8
<b>Total Cost of Revenues</b>	<b>\$7,666.0</b>	<b>\$6,654.1</b>	<b>\$6,458.5</b>	<b>\$6,530.0</b>	<b>\$27,308.7</b>
<b>Gross Profit</b>	<b>\$5,539.0</b>	<b>\$6,231.2</b>	<b>\$6,873.0</b>	<b>\$8,195.1</b>	<b>\$26,838.2</b>
<i>Gross Margin</i>	41.9%	48.4%	51.6%	55.7%	49.6%
<b>Operating Expenses</b>					
Sales	10% \$1,930.7	\$2,033.0	\$2,328.0	\$2,772.0	\$9,061.7
Marketing	5% 628.9	687.5	850.0	850.0	3,016.4
Research and Product Development	20% 2,141.4	1,970.9	1,541.5	1,577.5	7,231.2
Capitalized Software	(543.0)	(200.0)	(100.0)	0.0	(843.0)
General and Administrative	20% 1,671.4	1,506.0	1,506.0	1,506.0	6,189.4
<b>Total Operating Expenses</b>	<b>\$5,829.4</b>	<b>\$5,997.4</b>	<b>\$6,125.5</b>	<b>\$6,705.5</b>	<b>\$24,657.7</b>
<i>Operating Expense as % of Total Revenues</i>	44.1%	46.5%	45.9%	45.5%	45.3%
<b>EBITDA</b>	<b>(\$190.4)</b>	<b>\$133.8</b>	<b>\$747.5</b>	<b>\$1,489.6</b>	<b>\$1,180.6</b>
<i>% of Revenues</i>	-2.2%	1.0%	5.6%	10.1%	4.0%
IPR&D Write-off (acquisition of 31% of Seer)	\$0.0	\$2,000.0	\$0.0	\$0.0	\$2,000.0
Depreciation	401.0	400.0	400.0	400.0	1,603.0
Amortization - Cap Software	608.6	667.2	862.3	851.6	2,989.8
Amortization - Goodwill/Intangibles (excl. Cap SW)	1,697.2	1,794.9	1,843.7	1,843.7	7,179.4
<b>Total Depreciation &amp; Amortization and Noncash writeoffs</b>	<b>\$2,708.9</b>	<b>\$4,862.1</b>	<b>\$3,106.0</b>	<b>\$3,095.3</b>	<b>\$13,772.3</b>
<b>EBIT</b>	<b>(\$2,999.2)</b>	<b>(\$4,628.3)</b>	<b>(\$2,358.5)</b>	<b>(\$1,605.7)</b>	<b>(\$11,591.7)</b>
Interest Expense (net)	626.8	496.7	466.6	456.5	2,046.6
<b>Pretax Income</b>	<b>(\$3,626.0)</b>	<b>(\$5,125.0)</b>	<b>(\$2,825.1)</b>	<b>(\$2,062.2)</b>	<b>(\$13,638.2)</b>
Income Tax at:	202.0	300.0	300.0	300.0	1,102.0
<b>Net Income</b>	<b>(\$3,828.0)</b>	<b>(\$5,425.0)</b>	<b>(\$3,125.1)</b>	<b>(\$2,362.2)</b>	<b>(\$14,740.2)</b>
Shares Outstanding (million)	8,700	8,800	8,800	8,800	8,800

P. 01/02

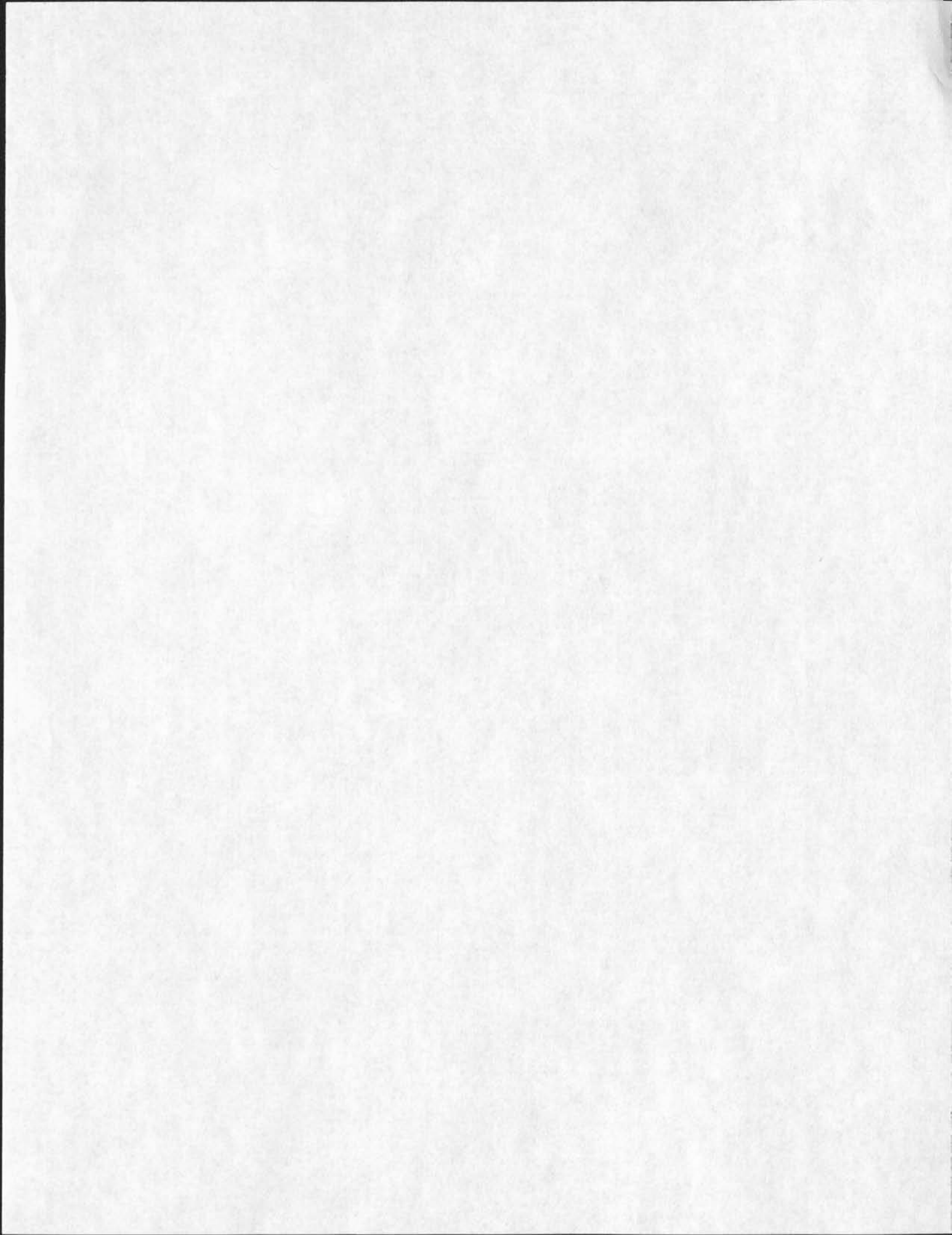
FAX NO. 9193809369

SEER ACCOUNTING

MAY-21-99 FRI 17:36

	FY 2000				
	1QE	2QE	3QE	4QE	Total
<b>Revenue:</b>					
Software	\$5,000.0	\$1,000.0	\$12,350.0	\$15,400.0	\$40,750.0
Maintenance	3,867.6	4,038.9	4,263.9	4,623.9	16,794.3
Services	7,250.0	7,500.0	7,750.0	8,060.0	30,500.0
<b>Total Revenues</b>	<b>\$16,117.6</b>	<b>\$19,538.9</b>	<b>\$24,363.9</b>	<b>\$28,023.9</b>	<b>\$88,044.3</b>
<i>Quarterly Growth Rate</i>	9.46%	21.23%	24.69%	15.02%	
<b>Cost of Revenues:</b>					
Software	\$287.5	\$326.0	\$353.5	\$349.4	\$1,316.4
Maintenance	1,085.3	1,136.7	1,204.2	1,350.6	4,776.7
Services	5,343.8	5,343.8	5,331.3	5,554.3	21,573.0
<b>Total Cost of Revenues</b>	<b>\$6,716.5</b>	<b>\$6,806.4</b>	<b>\$6,888.9</b>	<b>\$7,254.2</b>	<b>\$27,666.0</b>
<b>Gross Profit</b>	<b>\$9,401.1</b>	<b>\$12,732.5</b>	<b>\$17,475.0</b>	<b>\$20,769.7</b>	<b>\$60,378.2</b>
<i>Gross Margin</i>	58.3%	63.2%	71.7%	74.1%	68.6%
<b>Operating Expenses</b>					
Sales	\$3,418.5	\$4,054.5	\$4,647.0	\$5,181.2	\$17,301.2
Marketing	915.3	1,078.3	1,078.3	1,087.9	4,159.6
Research and Product Development	1,782.2	1,868.3	1,855.8	1,813.7	7,320.1
Capitalized Software	0.0	0.0	0.0	0.0	0.0
General and Administrative	1,640.0	1,657.5	1,675.0	1,713.4	6,685.9
<b>Total Operating Expenses</b>	<b>\$7,756.0</b>	<b>\$8,658.6</b>	<b>\$9,256.1</b>	<b>\$9,796.2</b>	<b>\$35,466.8</b>
<i>Operating Expenses as % of Total Revenues</i>	48.1%	44.3%	38.0%	35.0%	40.3%
<b>EBITDA</b>	<b>\$1,645.1</b>	<b>\$4,073.9</b>	<b>\$8,218.9</b>	<b>\$10,973.5</b>	<b>\$24,911.4</b>
<i>% of Revenues</i>	10.2%	20.9%	33.7%	39.2%	28.3%
IPR&D Write-off	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Depreciation	375.0	375.0	375.0	183.0	1,308.0
Amortization - Cap Software	825.0	825.0	825.0	825.0	3,300.0
Amortization - Goodwill/Intangibles (excl. Cap SW)	1,843.7	1,843.7	1,843.7	1,843.7	7,374.7
<b>Total Depreciation &amp; Amortization and Noncash writeoffs</b>	<b>\$3,043.7</b>	<b>\$3,043.7</b>	<b>\$3,043.7</b>	<b>\$2,851.7</b>	<b>\$11,982.7</b>
<b>EBIT</b>	<b>(\$1,398.5)</b>	<b>\$1,030.2</b>	<b>\$5,175.2</b>	<b>\$8,121.9</b>	<b>\$12,928.7</b>
Interest Expense (net)	441.9	440.1	130.7	224.7	1,237.4
<b>Pretax Income</b>	<b>(\$1,840.5)</b>	<b>\$590.1</b>	<b>\$5,044.5</b>	<b>\$7,897.2</b>	<b>\$11,691.3</b>
Income Tax at:	400.0	500.0	500.0	500.0	1,900.0
<b>Net Income</b>	<b>(\$2,240.5)</b>	<b>\$90.1</b>	<b>\$4,544.5</b>	<b>\$7,397.2</b>	<b>\$9,791.3</b>
Shares Outstanding (million)	9.9600	9.9600	9.9600	9.9600	9.9600

	% of Depr. Stripped
Software	
Maintenance	20%
Services	25%
Total Cost of Revenues	
Gross Profit	
Gross Margin	
Operating Expenses	
Sales	10%
Marketing	5%
Research and Product Development	20%
Capitalized Software	
General and Administrative	20%





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## Vendor Directory

### Enterprise Integration Vendors

- ATB, Inc.
- Active Software
- Affinity Media, Inc.
- Aller
- BEA Systems
- Bluestone Consulting, Inc.
- Bluestone Software, Inc.
- Braid
- CSK
- Cambridge Information Technology Ltd (CITL)
- Candle
- Cel Corporation
- Computer Network Technology Corp.
- Conextions, Inc.
- Constellar Corporation
- CrossTier
- CrossWorlds Software
- Darc Development Corporation
- FRONTEC AMT
- Fujitsu
- FusionWare
- GE Information Services
- HIE
- HiServ Australia Pty Ltd
- IBM
- InConcert
- Information Builders, Inc.
- Integrated Design, Inc.
- Integrion
- International Middleware Association (IMWA)
- Level 8 Systems, Inc.
- Lingwood Software
- Lingwood Software
- Logica
- Lorac, Inc.
- MINT Communication Systems Inc.
- MITEM
- MicroTempus

*from  
Marty  
Silberberg*

Microsoft  
Missat Consulting  
N-Able Group International  
NC.Focus  
Net Dynamics  
Netik  
New Era Of Networks (NEON)  
OnDisplay  
Oracle  
PRL Scotland Ltd.  
Primus  
Progress Software  
QAD  
S2 Systems  
SAGA  
Scribe Software Corporation  
Selectica  
Sequoia  
SilverStream  
SmartDB Corporation  
Software Technologies Corporation (STC)  
SuperNova, Inc.  
Systems & Computer Technology (SCT)  
TIBCO  
TSI Software Inc  
Template Software  
Tivoli  
TopTier Software  
VIESystems  
Vitria Technology  
Whittman-Hart, Inc.  
Xing  
eFORCE

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## News

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News Search by Company

05/20/99	E-Business from CrossWorlds
05/19/99	Prospero Integrates SAP Order Systems
	Saga Partner Concept Five
05/18/99	Constellar and BMC Aim for Legacy Integration
05/17/99	Amazon.com Bookmarks BMC
05/14/99	TIBCO Teams with Yahoo!
	Oberon Ships EAI Solution for OneWorld
	NASA Director to Keynote TSI Event
05/12/99	STC Delivers NT Integration
	Sterling Commerce Expands Solution
05/11/99	Forte Announce Fusion
05/06/99	NEON Awarded EAI Patent
05/05/99	Geneva Supports Windows DNA
05/04/99	Talarian Launches MQexpress
	TSI Expands in Europe
04/30/99	Talarian Announce EAI Webcast
	Alier Releases DataBridge 4 EJE
04/29/99	eFORCE Enters EAI Market
04/28/99	Open Integration Framework Announced
04/27/99	Oberon Releases MQSeries Solution
	Virtual Conferencing Announced
	QPasal Supports Commerce Integrator
04/23/99	e-Adapter Launched
	TSI Announce Record Results
	MessageQuest Appoint New CEO
04/20/99	EAI Crossfire Launched
04/19/99	Oracle Delivers XML-based Integration
	Constellar Targets Oracle Integration
	IONA Revenues Up 20%
04/15/99	IBM Launches Commerce Integrator
04/14/99	Geneva Provides NT Integration
	Seven Steps to e-Success
04/13/99	Active Alliance with Staffware
	Peerlogic Acquires i500
04/12/99	Active Synergy with Oberon
04/09/99	BEA in \$100m Alliance with HP
	Neon Acquires VIE
	Constellar Partner Cross Access
03/31/99	Enterprise Integration Council Formed
03/30/99	Convoy Supports MQSeries

- 03/26/99 Parlay Server Released**
- 03/24/99 MQIntegrator Wins Best of Show**
- 03/24/99 Constellar Hub 3.0 Released**
- webMethods B2B 2.1 Launched**
- 03/22/99 Fujitsu Launch INTERSTAGE**
- Logica become NEON Reseller**
- Template Announces Record Revenues**
- 03/18/99 TSI Buys Braid**
- EAI 99 Announced**
- 03/17/99 NEON and Forte Form Alliance**

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Are You Scrambling to Get a Handle on Your Integration Plan?

May 24-26, 1999, Palm Springs, CA

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### Vendor Directory

#### Level 8 Systems, Inc. :

About Level 8 Systems, Inc.

Level 8 is a leading provider of distributed middleware for enterprise applications based upon transactional messaging and object technology. The Company's products utilize such state-of-the-art middleware technologies as publish/subscribe infrastructures and distributed object architectural frameworks in integrating multi-platform applications and legacy systems. In addition, Level 8 provides products that link Windows(r) NT/95, IBM and distributed systems using messaging middleware technology. The Company provides high value software products and consulting services that solve enterprise-wide integration problems associated with linking client-server networks, the desktop and the Internet. Widely recognized as an expert in transactional messaging and distributed objects, Level 8 has worked with IBM as the first Premier Partner for support of MQSeries and Microsoft to develop messaging gateways between MSMQ and non-Microsoft enterprise environments.

- Products:
- FalconMQ
  - MonitorMQ
  - EventWorks
  - XIPC

Where To Now?

Join

Download

Make

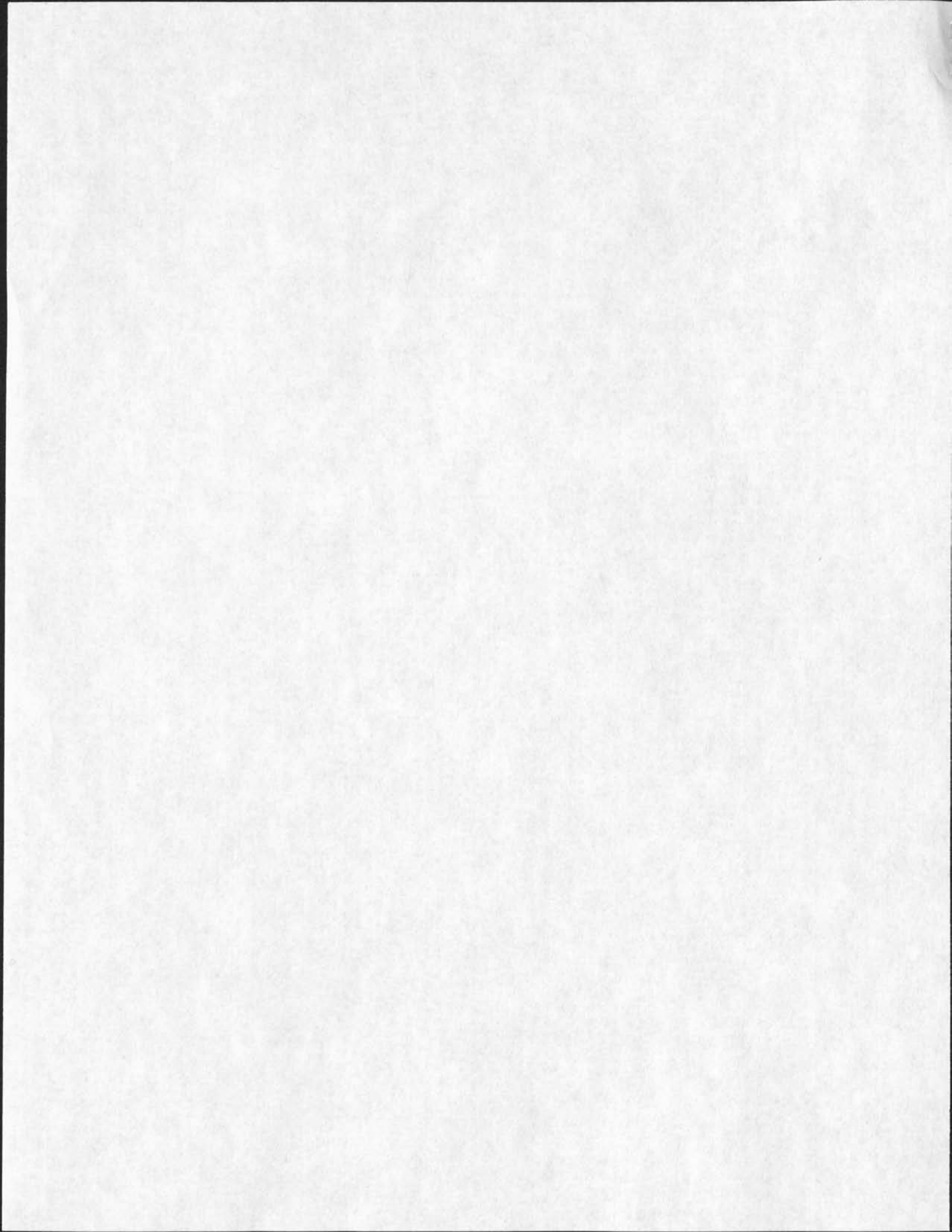
Letters

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Phone calls

Dunayer

Thu -

NOWG

Silkenberg

1<sup>st</sup> - Tragden / Steve D Thu

2<sup>nd</sup> - Steve D

3<sup>rd</sup> - Phelps / Zbenbrand

FRI - 11<sup>th</sup> Eric Singer - 919-380-5044  
AI Nabet -- [Mon] 4

Danny Schwartz /  
Yobant Fowker

1<sup>st</sup> - Mc Murray

10<sup>30</sup> - Palmer ← MYS

1250 Broadway  
32<sup>nd</sup> + B'way

35<sup>th</sup> floor (Matty Rader) NY  
Peter Cousins  
Greg Lomo - Camp  
Greg Lomo - Camp

MON -

1 pm Joe Schwartz?

→ 10<sup>30</sup> am.

BG -

Renee Fulk - 919-461-2523  
Anik

Coul Bank  
HDS  
Falcon HQ  
Geneva

customers ?

Steve D

Sam Souch

Subj: [Fwd: Schedule]  
Date: 5/19/99 6:42:26 PM Eastern Daylight Time  
From: dmckinnie@seer.com (Dennis McKinnie)  
To: burtgrad@aol.com

130

McKinnie  
919-380-5005

I forgot to give you the telephone numbers.

Steve D 919-380-5225 - Thu - MYS  
Tom Trogdon 919-380-5025 - Thu - MYS  
Rick Phelps 919-380-5447 - Thu - MYS - SD  
Al Nesbit 919-380-2158  
Joe Schwartz 212-244-1234 (New York office) - Monday - SD  
Yoram Forscher 201-288-5373 x-393 Danny Schwartz 201-288-5373 x-337 MON - Thursday SD  
Bill McMurray 011-44-189-520-6700 (general number for London office - MYS  
his assistant is Deborah Wise)

I hope this is okay.

<sup>1030</sup>  
FRI Mike Palmer - Cary. MYS  
919-380-5068

Dennis  
Sam Somech -

Return-Path: <dmckinnie@level8.com>  
Received: from SMTP ([192.168.1.237]) by seermail.seer.com  
(Netscape Messaging Server 3.6) with SMTP id 389;  
Wed, 19 May 1999 17:58:05 -0400  
Received: from seer.com ([160.1.53.59]) by 192.168.1.237  
(Norton AntiVirus for Internet Email Gateways 1.0);  
Wed, 19 May 1999 21:58:05 0000 (GMT)  
Message-ID: <374333F8.4BE19774@seer.com>  
Date: Wed, 19 May 1999 17:58:16 -0400  
From: Dennis McKinnie <dmckinnie@seer.com>  
X-Mailer: Mozilla 4.04 [en] (Win95; I)  
MIME-Version: 1.0  
To: burtgrad@aol.com  
CC: dmckinnie@seer.com  
Subject: Schedule  
Content-Type: text/plain; charset=us-ascii  
Content-Transfer-Encoding: 7bit

Burton,  
I have managed to get in touch and nail down almost everyone. Here is the jest of what I have so far.

Steve D and Tom Trogdon  
Available all day Thursday. We should confirm a time as soon as we can to lock it in their schedules.

Rick Phelps and Eileen Ibenhard  
Available all day Thursday. Let me know the time and we will lock it in.

Joe Schwartz  
In Denmark the rest of the week. Is availabel all day Monday.  
Let me know when Sid wants to meet with him and we can confirm a time.

## Information Request List

### **A. General**

1. Organization chart and staffing levels
2. Business strategy and operation plans

### **B. Sales**

1. Revenue and unit history by product line, geographic territory and types of revenue
2. Mix of new sales, maintenance, add-ons, upgrades and services
3. Sales organization - location and territories
4. Sales quotas and performance
5. Sales training procedures and status
6. Backlog and current pipeline
7. Methods of forecasting sales
8. Selling policies and expenses
9. Pricing and discount plans
10. Win/loss records and analyses

### **C. Marketing**

1. Advertising and promotional programs in place
2. Budgets for trade shows, ads, promotions
3. Customer references
4. Volume and sources of leads
5. Resellers, alliances and partnerships
6. Product and service descriptions

### **D. Customer Service and Support**

1. Organization of service and support staff
2. Customer expectations for support
3. Outstanding customer problems
4. Past year history of problems and time to resolve
5. Statistics and reports on product reliability and support requirements
6. Any customer satisfaction surveys or data
7. Customer base, growth and erosion

**E. Development**

1. Organization and training of development people
2. Development methodology
3. Scheduled enhancements/customer commitments
4. Current maintenance activities
5. Current development projects
6. Testing and quality assurance procedures
7. Effort and cost records for development
8. Product release and update procedures
9. Installation procedures
10. Availability and procedures for international usability and service

**F. Technical Review**

1. Supported platforms and systems for each product
2. Major features of the products -
  - functions performed
  - ease of installation and use
  - maintainability
  - audits and controls
  - security
3. Development languages and special tools used
4. Number of programs per product and lines of code
5. Provenance of all program modules (where did code come from)
6. Inclusion of proprietary notices in source and object modules, both current and previous releases
7. Method of change control
8. Volume and magnitude of change history
9. Number of product releases being supported
10. Structure of the code
11. Internal system documentation level and updates
12. Documentation of specifications and design
13. Prerequisites for running the products
14. Access to source code
15. Access to usage/demo of operational code
16. Unit and system test cases

**G. Market and Competitive Review**

1. Primary markets for each product line in terms of size of company, industry, geographic territory, platform, development methodology, etc.
2. Market trends per industry analysts
3. Principal competitors: name, products, size, growth rate, product/service advantages and disadvantages

**H. Business Activities**

1. Principal opportunities and threats
2. Financial information regarding product revenues, costs and margins
3. Financial information regarding capitalization and amortization of software, deferred revenue, financial obligations, etc.
4. Contractual commitments to customers, alliances or partners, employees, etc.

**I. Customers and Alliances**

1. Names of all customers with amount of business in 1997
2. Names of all alliances with amount of business in 1997

## **Information Request List**

### **A. General**

1. Organization chart and staffing levels
2. Business strategy and operation plans

### **B. Sales**

1. Revenue and unit history by product line, geographic territory and types of revenue
2. Mix of new sales, maintenance, add-ons, upgrades and services
3. Sales organization - location and territories
4. Sales quotas and performance
5. Sales training procedures and status
6. Backlog and current pipeline
7. Methods of forecasting sales
8. Selling policies and expenses
9. Pricing and discount plans
10. Win/loss records and analyses

### **C. Marketing**

1. Advertising and promotional programs in place
2. Budgets for trade shows, ads, promotions
3. Customer references
4. Volume and sources of leads
5. Resellers, alliances and partnerships
6. Product and service descriptions

### **D. Customer Service and Support**

1. Organization of service and support staff
2. Customer expectations for support
3. Outstanding customer problems
4. Past year history of problems and time to resolve
5. Statistics and reports on product reliability and support requirements
6. Any customer satisfaction surveys or data
7. Customer base, growth and erosion



**E. Development**

1. Organization and training of development people
2. Development methodology
3. Scheduled enhancements/customer commitments
4. Current maintenance activities
5. Current development projects
6. Testing and quality assurance procedures
7. Effort and cost records for development
8. Product release and update procedures
9. Installation procedures
10. Availability and procedures for international usability and service

**F. Technical Review**

1. Supported platforms and systems for each product
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Subj: **Schedule**  
Date: 5/19/99 5:59:11 PM Eastern Daylight Time  
From: dmckinnie@seer.com (Dennis McKinnie)  
To: burtgrad@aol.com  
CC: dmckinnie@seer.com

Burton,  
I have managed to get in touch and nail down almost everyone. Here is the jest of what I have so far.

Steve D and Tom Trogdon  
Available all day Thursday. We should confirm a time as soon as we can to lock it in their schedules.

Rick Phelps and Eileen Ibenhard  
Available all day Thursday. Let me know the time and we will lock it in.

Joe Schwartz  
In Denmark the rest of the week. Is availabel all day Monday.  
Let me know when Sid wants to meet with him and we can confirm a time.

Al NEsbit  
Open Thursday and Friday.

Yoram Forscher  
Open either Thursday or FRiday. ] - Danny Schwartz  
201-288-5373 x 337

I still need to confirm Bill McMurray (Europe) and Sam Somech.

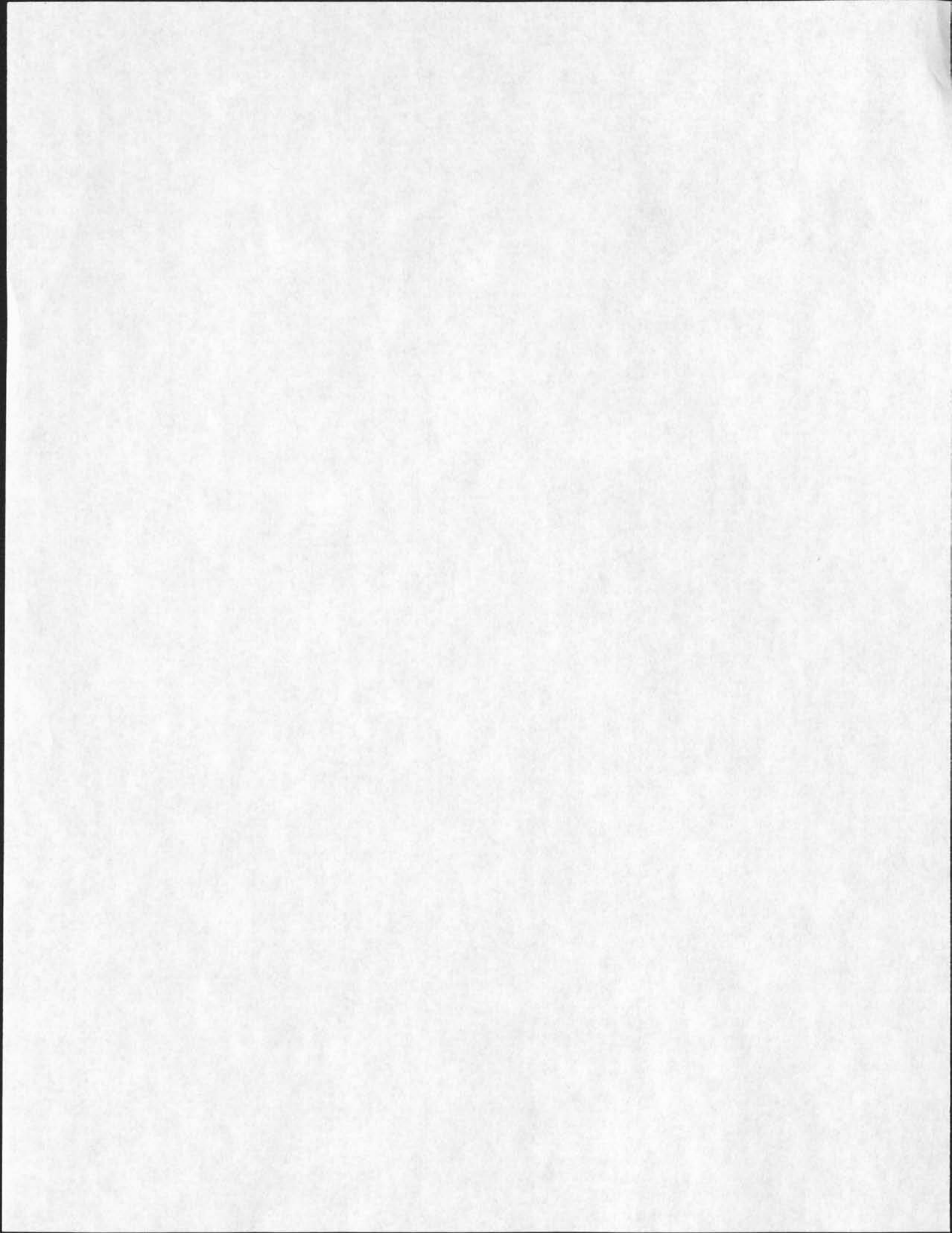
Renee is available when convenient for you.

I hope this helps.


Dennis

----- Headers -----

Return-Path: <dmckinnie@level8.com>  
Received: from rly-yb02.mx.aol.com (rly-yb02.mail.aol.com [172.18.146.2]) by air-yb03.mail.aol.com (v59.4) with SMTP;  
Wed, 19 May 1999 17:59:11 -0400  
Received: from seermail.seer.com ([206.138.37.18])  
by rly-yb02.mx.aol.com (8.8.8/8.8.5/AOL-4.0.0)  
with ESMTP id RAA04884 for <burtgrad@aol.com>;  
Wed, 19 May 1999 17:59:10 -0400 (EDT)  
Received: from SMTP ([192.168.1.237]) by seermail.seer.com  
(Netscape Messaging Server 3.6) with SMTP id 389;  
Wed, 19 May 1999 17:58:05 -0400  
Received: from seer.com ([160.1.53.59]) by 192.168.1.237  
(Norton AntiVirus for Internet Email Gateways 1.0) ;



BURTON GRAD ASSOCIATES, INC.  
101 POST ROAD EAST  
WESTPORT, CONNECTICUT 06880  
(203) 222-8718 FAX: (203) 222-8728  
E-MAIL: BURTGRAD@AOL.COM

**Date:** May 19, 1999  
**To:** Sid Dunayer  
Marty Silberberg  
**From:** Burton Grad   
**Subject:** Valuation of Level 8 Systems for Potential DIC Investment

As we discussed, BGAI has promised DIC to perform an accelerated review of Level 8 to help determine whether the current market price of the stock appears reasonable compared to the potential revenues and profits from Level 8.

To provide you with background, I have enclosed the following items:

1. Proposal to DIC
2. Level 8 "Prospectus" - selected material
3. Previous BGAI report on Seer
4. Level 8 Web site material: company information, news, products
5. Level 8 contact list

I have also asked Level 8 for the items listed in Attachment B to my May 18, 1999 letter to Lenny Recanati. You will be particularly interested in items 4, 6, 7, 8 and 9. I will have copies of these items express mailed to you at the same time they are sent to me.

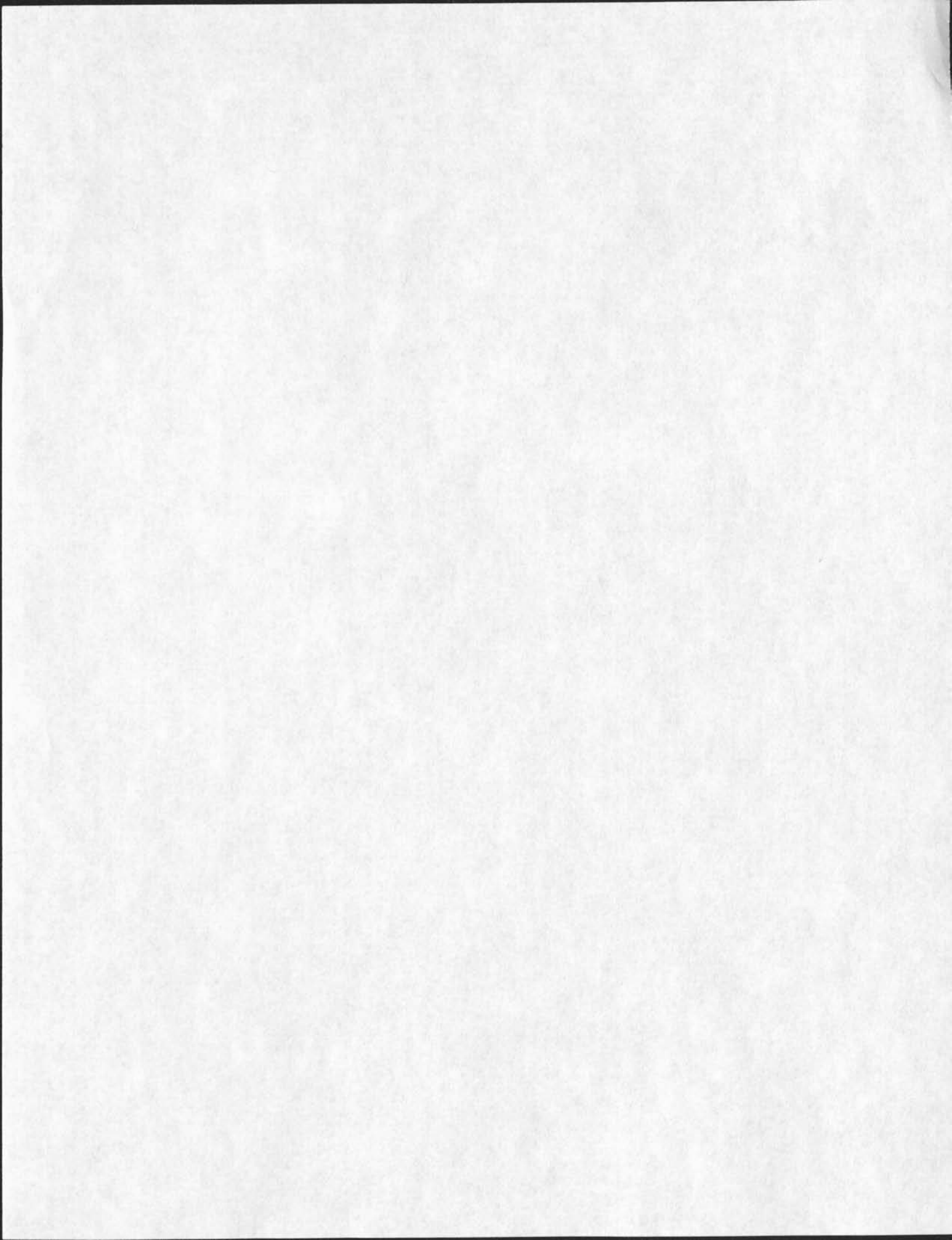
I am in the process of setting up telephone interviews for both of you for Thursday and Friday. Let's use the weekend and Monday to complete your draft reports to me (with an early oral debriefing) so that I can give a preliminary oral report to Lenny Recanati on Tuesday P.M. in New York City. The report is due on Friday.

Sid, your main focus is to understand the products as to their functionality and quality. You will also help me understand where these products fit into the future business application marketplace and how they relate to the competitive products.

Marty, your main focus is to understand how effectively the marketing, sales, consulting and customer service functions will work for each of the products and for both the North American and International marketplace. You will also help me to understand who are the competitors and their relations to IBM, Microsoft, Sun, etc.

I will be concentrating on producing revenue forecasts, cost estimates and an NPV for the individual products and the business as a whole and an investment recommendation.

<b>Contacts at Level 8 Management</b>		
<b>Arik Kilman</b>	Chief Executive Officer	New York, New York
<b>Steven Dmiszewicki</b>	Chief Operating Officer	Cary, North Carolina
<b>Samuel Somech</b>	President and Chief Technical Officer	New York, New York
<b>Dennis McKinnie</b>	Senior Vice President, Chief Legal and Administrative Officer, Corporate Secretary	Cary, North Carolina
<b>Andee Treinis</b>	Vice President, Human Relations	Cary, North Carolina
<b>Eileen Ibenhard</b>	Corporate Communications	Austin, Texas
<b>Bill McMurray</b>	Senior Vice President, EMEA and AP	United Kingdom
<b>Al Nisbet</b>	V.P., Development and Technical Operations, HPS and Network Computing	Cary, North Carolina
<b>Shashi Prasad</b>	V.P. of Channel Sales	
<b>Technical/Development</b>		
Joe Schwartz	Vice President, Development of Geneva	1250 Broadway New York, New York
Yorham Forscher	Development of Falcon/MQ	New Jersey
<b>Marketing, Sales, Customer Service, Consulting</b>		
<b>Tom Trogdon and Steve D.</b>	North American Sales	Carey
<b>Rick Phelps and Eileen Ibenhard</b>	Marketing	Carey
<b>Bill McMurray</b>	International Sales and Consulting	United Kingdom
<b>Mike Palmer</b>	Maintenance/Customer Service for all products	Carey
<b>Steve D.,</b>	Consulting	Carey
<b>Financial</b>		
<b>Rene Fulk</b>		Carey





Subj: [Fwd: Schedule]  
Date: 5/19/99 6:42:26 PM Eastern Daylight Time  
From: dmckinnie@seer.com (Dennis McKinnie)  
To: burtgrad@aol.com

I forgot to give you the telephone numbers.

Steve D 919-380-5225 - Thu - MYS  
Tom Trogdon 919-380-5025 - Thu - MYS  
Rick Phelps 919-380-5447 - Thu - MYS  
Al Nesbit 919-~~422~~2158 - Eric Singer 919 380 5044 (SD) - FRI 11<sup>00</sup>-AM  
Joe Schwartz 212-244-1234 (New York office) - Monday. - (SD)  
Yoram Forscher 201-288-5373 x-393 Danny Schwantz 201-288-5373 x 337 ~~Fri~~ Mon SD  
Bill McMurray 011-44-189-520-6700 (general number for London office - MYS his assistant is Deborah Wise) 10<sup>30</sup>

I hope this is okay.

Mike Palmer - Cary. MYS

Dennis

Sam Somech -

Return-Path: <dmckinnie@level8.com>  
Received: from SMTP ([192.168.1.237]) by seermail.seer.com  
(Netscape Messaging Server 3.6) with SMTP id 389;  
Wed, 19 May 1999 17:58:05 -0400  
Received: from seer.com ([160.1.53.59]) by 192.168.1.237  
(Norton AntiVirus for Internet Email Gateways 1.0);  
Wed, 19 May 1999 21:58:05 0000 (GMT)  
Message-ID: <374333F8.4BE19774@seer.com>  
Date: Wed, 19 May 1999 17:58:16 -0400  
From: Dennis McKinnie <dmckinnie@seer.com>  
X-Mailer: Mozilla 4.04 [en] (Win95; I)  
MIME-Version: 1.0  
To: burtgrad@aol.com  
CC: dmckinnie@seer.com  
Subject: Schedule  
Content-Type: text/plain; charset=us-ascii  
Content-Transfer-Encoding: 7bit

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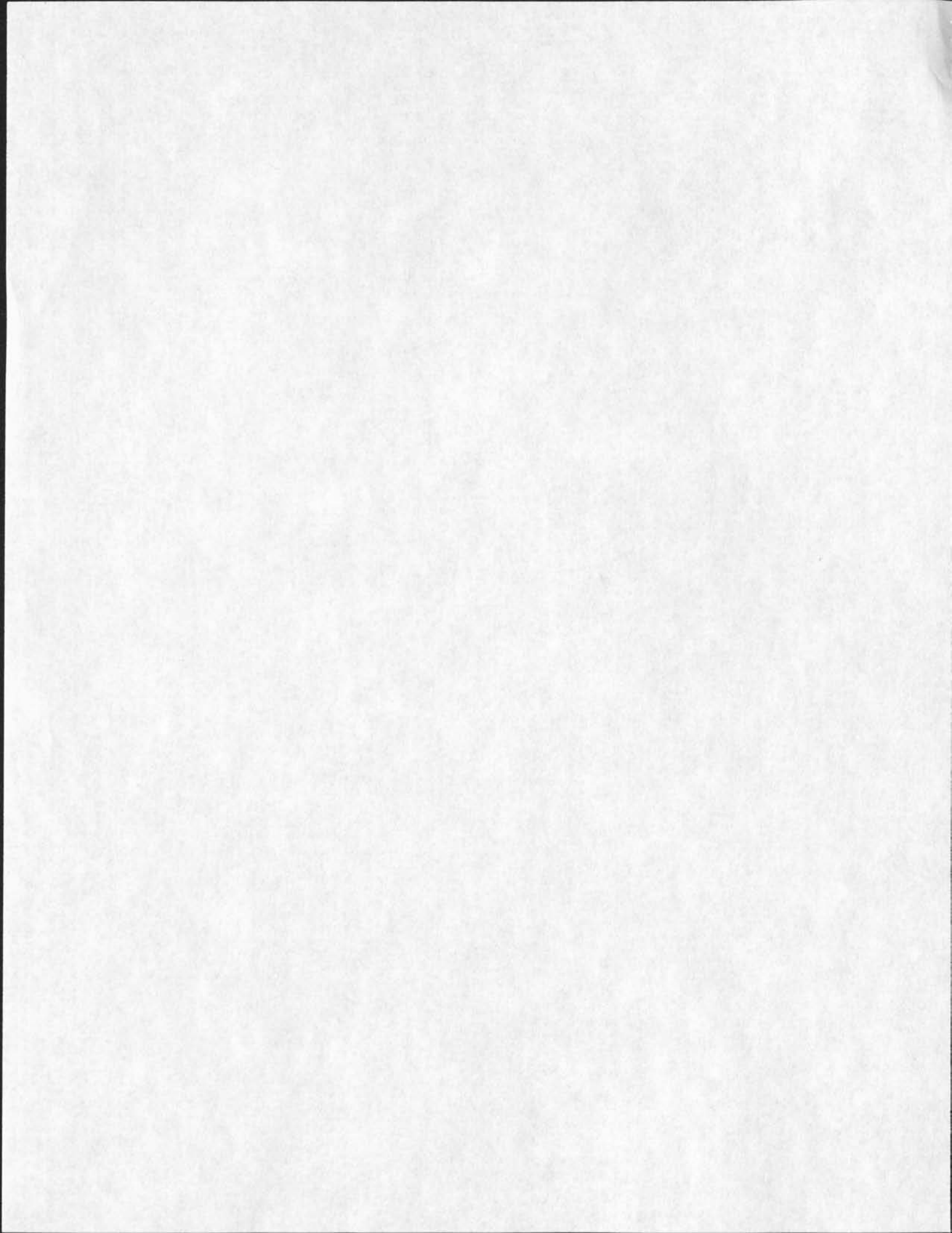
✓ Steve D and Tom Trogdon  
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Available all day Thursday. Let me know the time and we will lock it in.

Joe Schwartz  
In Denmark the rest of the week. Is available all day Monday.  
Let me know when Sid wants to meet with him and we can confirm a time.

Sid →  
The attached  
questions  
for E + F  
may be a  
helpful  
reminder of  
some topics -  
But please  
focus on  
product technology  
& quality issues  
along with level-  
development capability.

B.



## Schedule

- 1) set up technical/development phone interviews (on site for Schwantz?)  
with Sid Dwyer -
- 2) set up Mktg, Sales, etc. phone interviews for Monty Silkenberg
- 3) set up other <sup>phone</sup> interviews for BG.  
(sit in on some ~~etc~~ tech or MS?)
- 4) ~~obtain~~ obtain ~~materials~~ / distribute ~~materials~~
- 5) Review ~~materials~~ + interview information  
5a) Perform limited customer calls?
- 6) Analyze financials (history + projections)
- 7) Produce rough <sup>revenue</sup> forecasts, cost analyses and operating income projections
- 8) Determine NPV of op income
- 9) Analyze market values for similar companies
- 10) Prepare <sup>concerns,</sup> conclusions and recommendations

Dennis McKinnie - Sr VP - (leg + Adm)

5-19/99

Tech/  
Devel

\* Joe Schwartz - NYC City  
development of Geneva. <sup>1230 B'way</sup>  
VP -

Thru

(shadow)  
Neon, is  
biggest  
competitor

\* Rich Scozza - NYC City <sup>212-272-</sup>  
(Bear Stearns) EAI 5840 (mut opportunity)

\* Al Reibet (Cory)  
VP - Devel

HPS - connect with Geneva  
network computing -- (add for exinity)  
(Core Bank - IBM)

\* Yorham Forscher New Jersey  
Falcon MQ (consol. with NY)  
{messaging} {Microsoft connection}

Marketing, Sales, Service -

Silberberg

Strong presence in Europe

Tragdon + Steve D. (Cory)  
NA Sales

Mc Murray - UK. (sales + consulting)  
Intl

Rick Phelps - (Cory) Mktg  
+ Etienne Ibenhauer

Mike Palmer - Maint / cust service  
all three products

Steve D - Consulting (US)

Financial

Rene Felle

Lindsay  
Smith  
orig client

Sam Sorech - CTO ("father" of messaging)  
NY City (Israel) (IBM MQ series)

DIC/level & valuation  
 Level 8. Com.  
 5/17/99

Dennis McKinnie. 919-380-5005  
 DSC wants only publicly available information

for 919-461-2690  
 DMcKinnie@

8.6 M shares outstanding - \$10/shares

\$6M → 600k shares DIC

<del>4400k</del>	10
Co. X	<del>4.4</del> M
linaz	6 M
	<hr/>
	22 M

2.2 M shares

---

10.8 M shares

2 M - options/warrants \$17.50+

linaz - 56% on 8.6 M shares  
~~4.4~~

DIC 4.7% - fully diluted

5.5% - non fully diluted.

But  
 DIC has effective control of  
 linaz -  
 therefore, no discount as a minority stockholder

12.8 M shares @ \$10/share -  
 values co. at \$128 M - equity.

what is debt?  
 assets / liabilities  
 revenue projections  
 margins

Technical / current + new products  
 services - Financials  
 Infrastructure - Risks  
 Management -

DIC/level 8  
Fair Value

5/17/99

Application  
Enterprise Integration (more functional + more  
functional middleware)

was a level 8 project (started 1998)

\* Geneva - "Anything to Anything" connections  
generally available at this time.  
+ enhancements.  
+ documentation

some sales + some installations  
4/99 release

\* HPS SEER revenue stream.

\* Falcon - (Microsoft/ ) messaging

\* Prof. Services

Fiscal year = Calendar year

Enterprise  
Integration  
Mkt ---

Web site: Level 8.COM

White papers - Technology

Tour Triggion - Sr VP Sales - No. Amer

Rick Phelps - Mktg

Bill McMurray - Sr VP - Euro/Asia Sales, (Low)

Adam Gur - VP - R+D

Jlene Ibenwant - Corp Communications

## Private Placement Memorandum --

- MKTS / Competition
- Products / Technologies
- Customer Base
- Org chart
- Financials

---

schedule -  
non-disclosure -  
cost -

DIC/level 8

Lenny Recanati ~~011 972 409 15~~ 011 972 52501 905 5/17/99

DIC<sub>n</sub> <sup>to</sup> invest \$6M in level 8 -

private placement

discussing co. / combination

Anik Kilman

011-972-54 235 955

==  
Steve Dziuziewicki -

919-380 5225

6/1/99 - target date ---

VP - Finance

Rene - Full

==





*Please type*



- Level 8**
- Overview
- Mgmt Bios
- Locations
- FAQ
- Investor Info
- Employment
- Company Info
- Product Info
- News
- Case Studies
- Services
- Education
- Search
- Contact Us

*contacts at*

**Level 8 Management Team Biographies**

*phone #'s*

- Arik Kilman**  
Chief Executive Officer *NYC*
- Steven Dmiszewicki**  
Chief Operating Officer *Carry*
- Samuel Somech**  
President and Chief Technical Officer *NYC*
- Dennis McKinnie**  
Senior Vice President, Chief Legal and Administrative Officer, Corporate Secretary *Carry*
- Andee Treinis**  
Vice President, Human Relations *Carry*
- Eileen Ibenhard**  
~~Acting Vice President, Worldwide Marketing~~ *Corporate Communications*
- Bill McMurray**  
Senior Vice President, EMEA and AP *UK*
- Al Nisbet**  
Vice President, Development and Technical Operations *Carry*  
*HPS + network computing*
- Shashi Prasad**  
Vice President of Channel Sales

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Technical/development  
 Joe Schwartz - NY City (1250 Broadway)  
 VP - Development of Geneva  
 Yorham Forscher - New Jersey  
 development of FALCON/MQ

Contacts at Level 8

~~Avik Kilman - CEO (Chair)  
Steven Dmizewicki - COO  
Samuel Szmec - CTO (President)~~

Mktg, Sales, Customer Service, Consulting

Tom Trogdon - <sup>no.</sup> American Sales (copy)  
+ Steve D.

Rick Phelps - Marketing (copy)  
+ Eileen Ibrahmd

Bill McMurray - Intl Sales + Consulting  
(UK)

Mike Palmer - maint / cust service  
for all products (copy)

Consulting - Steve D. acting (copy)

Financial

Rene Fulk (copy)