# GARLAND DATA SYSTEMS, INC.

10 FIELDSTONE ROAD                    RYE, NEW YORK 10580                    (914) 967-4661

August 31, 1983

Burton Grad Associates, Inc.
570 Taxter Road
Elmsford, New York 10523

## INVOICE # 595

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For professional services of M. Marcus during August 1983, in
connection with Sterling Software Inc. strategic planning consulting:

| | | |
|---|---|---|
| 2 Days @ $600/ Day | | $1200.00 |

Expenses for August 2 and 3 in Dallas:
Air Fare                 628.00
Ground Transportation    85.00
Meals                    20.40
                        --------
                                              733.40

TOTAL                                         $1933.40

NOTE: These expenses include the visit to Pacesetter Systems, Inc on
      August 2.

May 20, 1983

MEMO TO:     Burt Grad

SUBJ:        Sterling Business Analysis Model (discussion notes)


Schedule is :

    By May 27 - have top level outline of report; expand and
               fill in detail after discussing with Burt.

    By June 3 -  have draft of report.

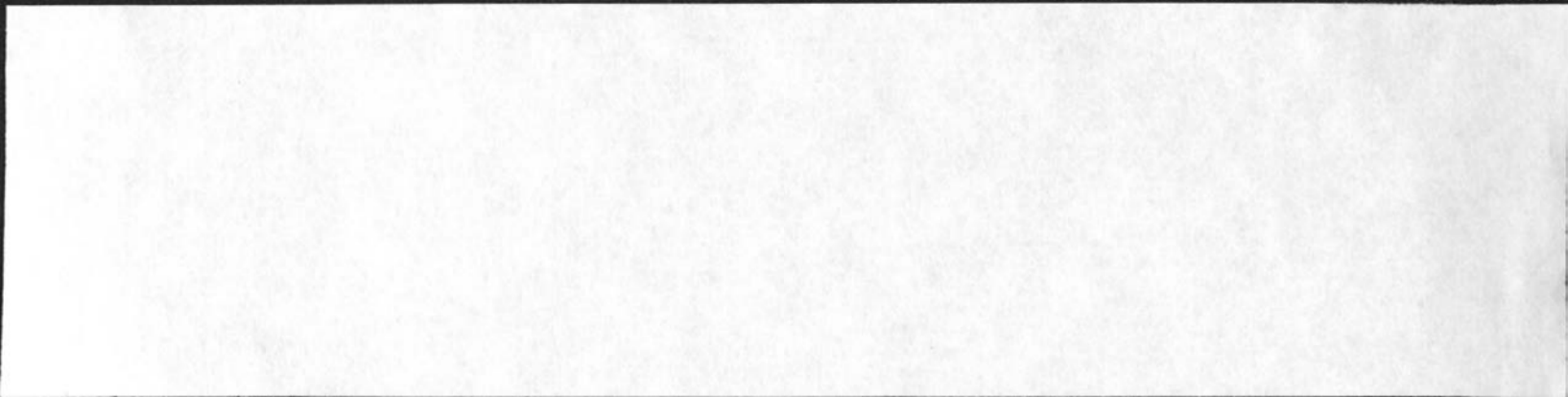    By June 10 - have final report.

Talk to Phil Moore to get technical material he was to have sent.

Talk to Al Holland.

Talk to Sterling only if necessary - discuss with Burt first.



Mike Marcus
bd

TO:      Mike Marcus-Garland      DATE:   May 3, 1983

FROM:    Burton Grad

SUBJECT:  STERLING/BUSINESS ANALYSIS MODELS

Enclosed are:

   (1)   Draft of product analysis you used for Empire.
       Please edit or expand somewhat and return for
       re-typing.

   (2)   An outline for HOST.  Questions were prepared
       by Al Holland.

   (3)   An outline I prepared on 4/12 after meeting
       with Sterling and Holland.

Phil Moore has a set of notes he uses for technical review which
he has promised to send to us.  Please follow-up if not
received by 5/6/83.

Remember that everyone is still involved in their public
offering and will not give us much attention until that's
done. . . it's currently scheduled for 5/4 or 5/5/83.

BG:meb
Enclosures (3)

## FOR EACH PRODUCT

1. Name

2. Function

3. Environment: (a) hw-type, size  (b) O/S  (c) language
   (d) support sw

4. Complexity, reasons

5. How, when, by whom developed

6. Markets:  (a) primary  (b) secondary

7. Dis. Chan. and marketing methods

8. (a) When first installed  (b) No installed  (c) No active
   (d) Total sales

9. Price and terms

10. Main. Contract:  (a) what is offered: hotline, upgrades/
    updates, enhancements, bug fixes
    (b) price  (c) no. maint. customers

11. Customer acceptance

12. Competition

13. Code:  (a) structured (size)  (b) modular  (c) commented
    (d) parameterized  (e) expandable/flexible
    (f) stability: no bugs reported, fixed, open - 6 mos.
    (g) system doc.

14. How installed, ease, doc

15. How are customers trained, ease of learning, doc

16. Ease of use, response time, doc

17. Trends:  (a) technology  (b) economcis  (c) competition  (d) other

18. Sales proj

    Enhancements - fr basic, for SU's

## FOR NEW PRODUCTS/SPECIAL SITUATIONS

QA

Ongoing support

Applicability of existing methods - different mkt?

EXHIBIT II

Product Acquisition and Analysis:  Qualitative and Quantitive

*when is — this only?*

Part I:   Qualitative Analysis

A.  Define Product
1.  Tenative Name of Product:  SMM/HOST.
2.  Developer of the Product:  Empire Computer Software
3.  Purpose of the Product:  A network control program which resides on the IBM
    mainframe, which allows minis, micros, and mainframes to send and receive
    bulk data to and from the mainframe upon which SMM/HOST resides.

    *digitally — option to digital*

4.  Reasons for Development:
    -Give IBM mainframe users the ability to send and receive bulk data
     to and from any bisynch device, such as other IBM/PCM's, Univac,
     Honeywell, and mini/micro devices.

     *what if digital transmission*

    -The target customers are those companies that have numerous remote
     devices that the mainframe has to send data to and from within a
     given period of time.
    -SMM/HOST can concurrently communicate with as many devices as the
     installation assigns ports to SMM/HOST.  *or customer switch?*
5.  Royalty:
    -5% royalty if owned by SMM.
    -30% royalty if owned by ECS.
6.  What is the Life Cycle of the Product?  SMM/HOST will support BTAM, Async,
    and SDLC.  The life cycle will be four years.  *what causes evolution?*

    *How much will it?*

7.  How Enhanceable is the Product?  SMM/HOST will continually be enhanced with
    the possibility of also adding selectable units on to the basic system.

    *documentation?*    *to do what?*    *what about code architecture;
                                          re maintenance also?*

B.  Define Potential Customer.
1.  On What Hardware is the Software Compatible?  Any IBM/PCM mainframes supporting
    all releases of DOS/OSMVS.
2.  How Many Installations are There of the Hardware?- All IBM/PCM mainframes
    worldwide.  *How many? (units versus dollars over last 3-5 yrs?)*
3.  Are the Hardware Installations Growing, Static, or Declining?  Mainframe
    installations are growing due to the fact that the price is becoming less
    expensive.
4.  What is the Geographic Distribution of the Hardware?  Worldwide.

C.  Define Competition.
1.  What Software are the Customers Currently Using?  There is no software available
    that competes with SMM/HOST.
2.  What Competitors Have Produced and are Producing Similar Products?  There is no
    known competition.
3.  How Quickly do Competitors React to New Product Introduction?  N/A ?

D.  Define Sales and Distribution Channels.
1.  Will we Sell Directly to the User or through a Distributor?  SMM will sell
    directly to the Fortune 1000 companies.
2.  How will we Move the Product to the Particular Channels?  N/A

E.  Define Promotion of the Product.
1.  Direct Mail.  Direct Mail and Telephone Solicitation will be the major
    emphasis of promoting the product.
2.  Magazine Advertising.  Yes.
    *← How much, how do we evaluate cost/benefit?*

1

3. Trade Show Promotion. Yes.
4. Seminar Promotion. Yes.
5. On-Site Demonstrations. No.
6. Telephone Solicitation and Direct Mail. Telephone Solicitation and Direct Mail will be the major emphasis of promoting the product.

F. Define Price.
1. SMM/HOST will be priced as follows: DOS Version $12,000.00; OS version $15,000.00. Within one year of initial release of the product, the price of SMM/HOST will range between $15,000.00 and $22,000.00.
2. Quantity Discounts.

| # of Sites | Discount |
|------------|----------|
| 1 | 0% |
| 2 | 20% |
| 3 | 25% |
| 4 | 30% |
| 5 | 35% |
| 6 | 40% |
| 7 | 45% |
| 8 - X | 50% |

Discounts will roll back to zero after one year from initial purchase of software.
3. Cash Discounts. No.
4. Distributor Discounts. N/A
5. Maintenance & Enhancement Pricing. M&E will be due one year from the initial purchase of the software and will be priced at 15% of the prevailing purchase price.
6. Introductory Pricing. A discount will be offered to companies who wish to beta test the product and also to SMM/TRACS users as an incentive to upgrade those users to SMM/HOST in order to establish an early user base.
7. What Royalty Splits Have Been Discussed? 3% if SMM owned and 30% is owned by the Developer.
8. How Open is the Developer to Different Royalty Arrangements? Open to negotiations.

G. Define Resources Necessary to Market the Product.
1. How many new Sales Representatives Will be Necessary? A new Sales Representative is projected to be added to Division 3 in the month of May who will be marketing SMM/HOST and other Division 3 products.
2. Will the New Product Require an Additional Administrative Assistant, Either because the Product Requires Specific Administrative Assistance or Because the Total Number of Products in the Division or Company Require Additional Administrative Assistance? An additional Administrative Assistant will not be necessary.
3. Will Technical Support be Necessary? Yes.
4. Will Additional Technical Support Personnel be Necessary? If SMM takes over the development of SMM/HOST, an additional person will be needed, unless we can realign the existing technical staff to continue development and support for SMM/HOST.
5. Will We need Additional Equipment to Test or Demonstrate the Product? No.
6. Will We need Additional Space For the Equipment or Personnel? No.

2

April 12, 1983

TO:        FILE

SUBJECT:   MEETING WITH STERLING SOFTWARE, 4/11/83


Sterling has asked BGAI to perform the following work in
addition to the study of Empire Systems:

1.    Prepare a set of model studies for four different situa-
tions:

    (1)    An acquisition analysis for a minor product

    (2)    An acquisition analysis for a major product

    (3)    Small company acquisition

    (4)    Medium company acquisition

Al Holland shared a set of notes which he had put together in
relationship to the Empire Study which he then gave to Harris
Herman at SMM.  Herman has worked with this material and has
some of the specific answers in relationship to Host and
PCNet-1.  Apparently Phil Moore has also done some work on
this in relationship to TRACS, though he did not have a
copy with him.  I have a copy of those notes which I will
review.

Sterling wants to have a picture which should be done from
a marketing, technical and financial point of view.  He wishes
to know who is responsible for each piece, how long each piece
will take, and what the price will be at today's rates.  He
would like an outline of both what the process would be and
what the report would contain.  I expect he would also like
to have some kind of a questionnaire which indicates what
items will be examined, what data will be collected and the
kinds of people and number of people that would be involved
in various stages.

He would like to see that outline as soon as possible, but
I have told him that I will not give him a firm date until
I have had a chance to go over this with Al and Mike and then
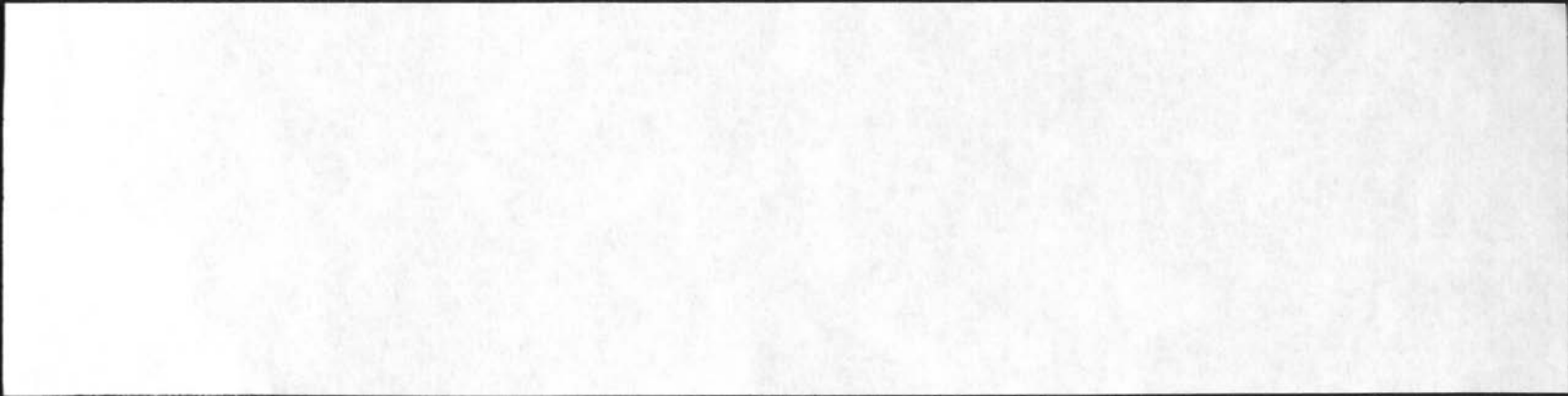give him a schedule for the delivery of the outline.

2.    He would like to establish a strategic planning update
meeting.   This would consist of three elements:

    (1)      A review of current strategies

    (2)      A review of current *target* markets

    (3)      Review the acquisition candidate checklist

This meeting will probably take place in Hilton Head.   He is
considering possibly May 11th or 12th with a possible follow-
up meeting early in the week of May 17th.

BG/vh

**BURTON GRAD ASSOCIATES, INC.**

50 CASTLE HEIGHTS AVENUE
TARRYTOWN, NEW YORK 10591
(914) 631-0330

*Sterling*
*Bus Anal*
*Model*

April 28, 1983


Mr. Phil Moore
Sterling Software, Inc.
1001 Campbell Centre
8350 N. Central Expressway
Dallas, TX   75206

Dear Phil:

In accordance with the request from Sterling Williams, Al
Holland and yourself, Burton Grad Associates, Inc. (BGAI)
is prepared to structure a comprehensive set of business
analysis models which could be used by Sterling to evaluate
product acquisition and company acquisition opportunities.

Scope and Objectives

Sterling Software, as a company policy, intends to acquire
marketing rights to various programs and will acquire
companies where appropriate to give them both the technical
and marketing capabilities which they need to achieve their
corporate objectives.  Sterling believes that this process
should be well defined and consistent so that the results
can be competently used to make effective acquisition decisions.
In general, Sterling views that they will be acquiring both
minor and major products and acquiring small and medium-size
companies.  The effort to be put into each of these studies
will vary of course and the models that are drawn up should
reflect the different requirements and risks.

It can be presumed that all of the acquisitions will be in
the software products business although some of the companies
may well include hardware as well as software capabilities.
The work to be performed may be done by Sterling employees,
various Sterling consultants or by third parties who have
special skills or knowledge in a particular area.

BGAI is prepared to structure a comprehensive set of pro-
cedures which could carry out the most complete studies
required, identifying the particular skills needed and
establishing formulas to estimate the time and cost required.

CONSULTANTS ON SOFTWARE

MEMBER OF
SOFTWARE INDUSTRY ASSOCIATION

In addition, model reports will be identified with criteria
for selection of which processes are necessary and which
report elements needed as a function of the nature and size
of the acquisition.

Work Plan

BGAI will assign Burton Grad and Michael Marcus as principal
consultants on the project.  Based upon work previously done
for a variety of clients, including Sterling Software, they
will construct a set of generalized procedures and a generalized
report format as well as the necessary formulas and selection
criteria.

Their present concept is that the following structures will
be used:

1.   There will be five primary subject areas to be
     examined:  financial, technical, marketing,
     administration, management.

2.   There will be a large number of specific topics
     covered for each of these areas.  These include:
     contacts, information sources, third-party
     experts, market assessment, analysis, projections,
     business case, overall evaluation, report prepara-
     tion, presentation.

3.   The business categories will be precisely defined
     covering:  minor product acquisition, major
     product acquisition, small company acquisition,
     medium company acquisition.

4.   Report format and topics will be laid out including
     business description, market opportunity, products,
     competition/risks, forecasts/costs/profit.

The final report on this project will consist of both outlines,
checklists, questionnaires, procedures and an overall control
document which will indicate under what circumstances which
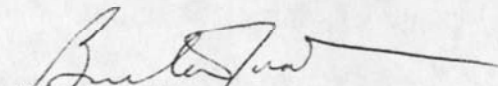items are to be used.

Scheduling Costs

If approved by May 1st, the work will be completed by May 31st.
Delay on approval may cause more than a proportionate delay in
the completion date.  There is a fixed price of $6,000 plus
actual authorized expenses incurred.  These would appear to
be primarily in the area of telephone calls and express delivery
services.  If a trip to Dallas were required, this would, of
course, be an additional charge.

Payment for the project would be $3,000 upon initiation and
$3,000 plus expenses upon completion of the work.

Note that this proposal does not include the type of product
evaluation that was performed for Dylakor or for Software
Labs.  It if is necessary to have a detailed plan for this
type of work, then it would require an additional sum of
money and an additional work schedule to complete.

If the above proposal is satisfactory, please sign below to
indicate your acceptance and return the original to BGAI.

Sincerely,                              Accepted for Sterling
                                        Software, Inc.

Burton Grad                             By_____
President                                        Signature

BG/vh                                   Title_____

cc:    Mike Marcus
       Al Holland                       Date_____

## BURTON GRAD ASSOCIATES, INC.

570 TAXTER ROAD
ELMSFORD, NEW YORK 10523
(914) 592-4700

June 16, 1983

Mr. Phil Moore
Sterling Software, Inc.
1001 Campbell Centre
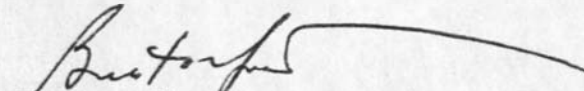8350 North Central Expressway
Dallas, Texas  75206

Dear Phil:

Enclosed is the Business Analysis Models Report as requested.
I caution that we should really consider this a working model
and that we should all add to it, strengthen it and clarify
it as we tackle individual cases.

This has certainly been a challenging assignment and the contents
owe much to ideas and insights which we have received from Al
Holland and you.  I'm satisfied that Mike Marcus has been able
to put these pieces together in a comprehensive form and that
this will serve as a reasonable guide for practical projects.

Please give us feedback on this report so that we can use it
effectively on any future evaluation assignments.

Sincerely,

Burton Grad

BG/awf

cc:  Sterling Williams
     Al Holland
     Mike Marcus

CONSULTANTS ON SOFTWARE

MEMBER OF
SOFTWARE INDUSTRY ASSOCIATION

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1001 Campbell Centre
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Dallas, TX 75206

| | |
|---|---|
| **INVOICE NUMBER** | 1673 |
| **INVOICE DATE** | 5/27/83 |
| **PROJECT NUMBER** | 133-10 |
| **ORDER NUMBER** | |
| **DATE OF ORDER** | |

REF:    Business Analysis Models

Consulting Services per our agreement dated
4/28/83 on initiation of project

$3,000.00

## BURTON GRAD ASSOCIATES. INC.

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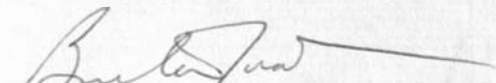items are to be used.

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                                        Software, Inc.

Burton Grad                             By _____
President                                     Signature

BG/vh                                   Title _____

cc:   Mike Marcus                       Date _____
      Al Holland

Sterling    Work [group]

Proposal
Deliverables
Procedures
Skills needed
Formats - Time + cost
Model rpts
Match rpt elements to Type

from Marcus
5/29/83

Areas
financial          admin
tech               mgmt
mktg

2  Topics for each of the areas
Contacts                projections
info. sources           bus case
3rd party experts       overall evaluation
mkt assessment          rpt prep
Analysis                presentation

3.  Type: major prod, minor prod, small co, medium co.

4.  Rpt Fmt + Topics:
bus desc, mkt opportunity, products, capital/risks,
forecasts/costs/profit

Deliverables:  outlines, checklists, questionnaires, procedures
control for when each is to be used

# Project Work Plan

1. Define report for bus. seg.   - LARGE
   - Narrative description
   - Information, content checklist

   FAMILY OF PRODUCTS
   # MKTplaces / MKTG
   Approaches

2. List sources of information
   - Interviews
   - Documents
   - Demonstrations

3. Devise questionnaires for Interviews

4. Identify what to look for in docs, demos

5. Describe process

6. Identify skills required (by process step?)

7. Make up estimates/formulas for time & cost ↑

   ← Ditto for Products / Small Seg.

8. Organize into a report for sterling

# Report for Acquisition of a Business

Executive Summary

I   Company History & Background

II  Offerings   (Products/Services)

III Market Opportunities   (Market, competition, Sales Strategy)

IV  Organization and Operations

V   Financial History and Forecasts

Note: Difference in reports not predicated on co. size but on existence of single offering (or family of offerings with similar characteristics) vs multiple offerings.

— Company History + Background Section

Business (overview)
When Founded
By Whom
Type of entity: corp, partnership, sole prop.
Headquarters + branch locations
Financing
Organization
Key people
Markets
Sales Strategy
Financial Summary

## Product Section

Introduction - overview
For each product:

Name
Description
How, when & by whom developed
Sales & installation history
Terms & conditions : sales & support
Market Opportunity
Sales Strategy
Forecasts
Assessment

## Product Questions

1. Name

2. Function

3. Environment: (a) h/w type, size   (b) o/s

    (c) language   (d) support s/w

4. How, when, by whom developed

5. Ownership, royalties etc

6. Installation history  (a) when first installed

    (b) no. installed   (c) no. active

    (d) no. sold   (e) geographic distribution

7. Sales Terms & conditions: history + current

    (a) Form - sale, lease, rental, etc

    (b) Pricing - single unit, multiple site,

       multiple CPU/site, introductory, other

8. Support: (a) Offerings - hotline, upgrades,

       user group, bug fixes, other

    (b) Terms - price

    (c) no. customers   (d) fall off history

9. Markets: primary + secondary

    (a) Customer profiles

    (b) geographic distribution

    (c) market size

10. Competition: direct and indirect (ways in which

    customers can solve problem other than buying

    products or competitive product.

May 20, 1983

MEMO TO:       Burt Grad

SUBJ:          Sterling Business Analysis Model (discussion notes)


Schedule is :

       By May 27 - have top level outline of report; expand and
                 fill in detail after discussing with Burt.

       By June 3 -  have draft of report.

       By June 10 - have final report.

✓ Talk to Phil Moore to get technical material he was to have sent.

Talk to Al Holland.

Talk to Sterling only if necessary - discuss with Burt first.


Mike Marcus
bd

Product / Company Evaluation Plan

Project Execution Matrix

Mercier: 4 days (650/day)
Girard — 2 days } $6K

- Skills
- Time req'd
  - elapsed
  - work
- on site
- contact
- surveys
- cost

Estimating formulas

| | Fin | Tech | Mktg | Admin | Mgt |
|---|---|---|---|---|---|
Contacts
Info Sources
3rd party Experts
Infos Assessment
Analysis
Projections
Business Case
& Evaluation
Report
Presentation

+ YK. IRS
2 wks

Deliverables

Produce —
outline / rules
checklist / formula

Detailed
questionnaires

format
(not IRS / SEC
justification)

Questionnaire 5/31/83
Cpt

Report Format / Topics
+ Company Description History
    History
    principals
    Business context

+ Market Opportunity
    size
    penetration

+ Products —
    Technical
    growth

+ Competition / Risk

+ Forecasts /
    Costs / Profit

| Product | Company |
|---|---|
| price worth | small medium |

EXHIBIT II

Product Acquisition and Analysis:  Qualitative and Quantitive

Part I:    Qualitative Analysis

*when is TRACS analy...* (handwritten)

A.    Define Product
1.    Tenative Name of Product:   SMM/HOST.
2.    Developer of the Product:   Empire Computer Software
3.    Purpose of the Product:   A network control program which resides on the IBM
      mainframe, which allows minis, micros, and mainframes to send and receive
      bulk data to and from the mainframe upon which SMM/HOST resides.
4.    Reasons for Development:

*especially shifted to digital* (handwritten left margin)

                  -Give IBM mainframe users the ability to send and receive bulk data
                   to and from any bisynch device, such as other IBM/PCM's, Univac,
                   Honeywell, and mini/micro devices.

*what if digital transmission* (handwritten left margin)

                  -The target customers are those companies that have numerous remote
                   devices that the mainframe has to send data to and from within a
                   given period of time.
                  -SMM/HOST can concurrently communicate with as many devices as the
                   installation assigns ports to SMM/HOST.   *on customer switch?* (handwritten)
5.    Royalty:
                  -5% royalty if owned by SMM.
                  -30% royalty if owned by ECS.
6.    What is the Life Cycle of the Product?  SMM/HOST will support BTAM, Async,
      and SDLC.  The life cycle will be four years.  *what causes obsolesc...?* (handwritten)
7.    How Enhanceable is the Product?  SMM/HOST will continually be enhanced with
      the possibility of also adding selectable units on to the basic system.

*How much Help? Documentation?* (handwritten left margin)

*to do what?* (handwritten)   *what about code architecting? re maintenance also?* (handwritten)

B.    Define Potential Customer.
1.    On What Hardware is the Software Compatible?  Any IBM/PCM mainframes supporting
      all releases of DOS/OSMVS.
2.    How Many Installations are There of the Hardware?  All IBM/PCM mainframes
      worldwide.  *How many? (units numerous dozens... over last 3-5 yrs?)* (handwritten)
3.    Are the Hardware Installations Growing, Static, or Declining?  Mainframe
      installations are growing due to the fact that the price is becoming less
      expensive.
4.    What is the Geographic Distribution of the Hardware?  Worldwide.

C.    Define Competition.
1.    What Software are the Customers Currently Using?  There is no software available
      that competes with SMM/HOST.
2.    What Competitors Have Produced and are Producing Similar Products?  There is no
      known competition.
3.    How Quickly do Competitors React to New Product Introduction?  N/A

D.    Define Sales and Distribution Channels.
1.    Will we Sell Directly to the User or through a Distributor?  SMM will sell
      directly to the Fortune 1000 companies.
2.    How will we Move the Product to the Particular Channels?  N/A

E.    Define Promotion of the Product.
1.    Direct Mail.  Direct Mail and Telephone Solicitation will be the major
      emphasis of promoting the product.
2.    Magazine Advertising.  Yes.
                  *How much, how do we evaluate cost/benefit?* (handwritten)

1

3.  Trade Show Promotion.  Yes.
4.  Seminar Promotion.  Yes.
5.  On-Site Demonstrations.  No.
6.  Telephone Solicitation and Direct Mail.  Telephone Solicitation and Direct Mail will be the major emphasis of promoting the product.

F.  Define Price.
1.  SMM/HOST will be priced as follows:  DOS Version $12,000.00; OS version $15,000.00. Within one year of initial release of the product, the price of SMM/HOST will range between $15,000.00 and $22,000.00.
2.  Quantity Discounts.

| # of Sites | Discount |
|------------|----------|
| 1          | 0%       |
| 2          | 20%      |
| 3          | 25%      |
| 4          | 30%      |
| 5          | 35%      |
| 6          | 40%      |
| 7          | 45%      |
| 8 - X      | 50%      |

*? is this high — what is basis ?*

Discounts will roll back to zero after one year from initial purchase of software.
3.  Cash Discounts.  No.
4.  Distributor Discounts.  N/A
5.  Maintenance & Enhancement Pricing.  M&E will be due one year from the initial purchase of the software and will be priced at 15% of the prevailing purchase price.  *How much?*

*Who will do.*

6.  Introductory Pricing.  A discount will be offered to companies who wish to beta test the product and also to SMM/TRACS users as an incentive to upgrade those users to SMM/HOST in order to establish an early user base.
7.  What Royalty Splits Have Been Discussed?   3% if SMM owned and 30% is owned by the Developer.
8.  How Open is the Developer to Different Royalty Arrangements?  Open to negotiations.

G.  Define Resources Necessary to Market the Product.
1.  How many new Sales Representatives Will be Necessary?  A new Sales Representative is projected to be added to Division 3 in the month of May who will be marketing SMM/HOST and other Division 3 products.
2.  Will the New Product Require an Additional Administrative Assistant, Either because the Product Requires Specific Administrative Assistance or Because the Total Number of Products in the Division or Company Require Additional Administrative Assistance?  An additional Administrative Assistant will not be necessary.
3.  Will Technical Support be Necessary?  Yes.
4.  Will Additional Technical Support Personnel be Necessary?  If SMM takes over the development of SMM/HOST, an additional person will be needed, unless we can realign the existing technical staff to continue development and support for SMM/HOST.

*how much left?*

5.  Will We need Additional Equipment to Test or Demonstrate the Product?  No.
6.  Will We need Additional Space For the Equipment or Personnel?  No.

2

TO:      Mike Marcus-Garland        DATE:  May 3, 1983

FROM:    Burton Grad

SUBJECT:  STERLING/BUSINESS ANALYSIS MODELS


Sterling Software, Inc. has awarded BGAI a contract to perform
a study describing a variety of Business Analysis Models which
can be used for future product and company acquisitions.  The
enclosed proposal which has been accepted describes the assignment.

BGAI would like to use you as a Senior Consultant on this
project.  You will have primary responsibility for executing
the project and preparing the final report.

You will be paid at the rate of $650 per day for this assignment.
It is expected that the total number of your work days will not
exceed 4 and I will spend up to 2 days.  The work is planned to
be completed by 5/31/83.

Kick off on the project may have to be deferred if we cannot get
reasonable access to Phil Moore, Al Holland and Sterling Williams
all of whom wish to provide input to the study.  We should
probably plan on meeting with them at the Nashville ADAPSO
meeting.

If the above project description is satisfactory, please sign
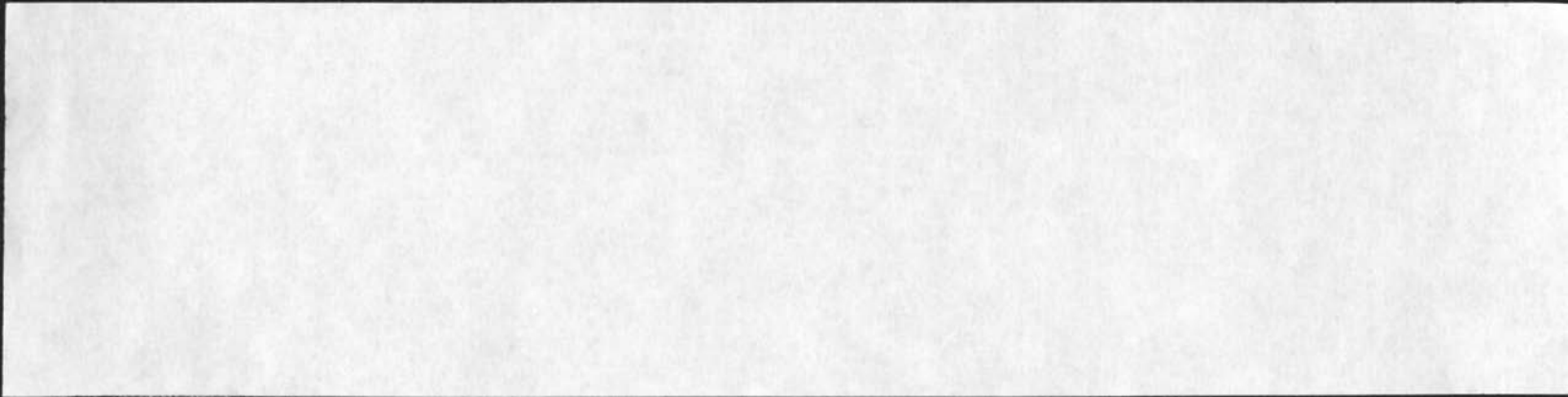and return the original.

Sincerely,                              Accepted for Garland


Burton Grad                        By_____
President                                   Signature

BG/meb                                 _____
                                              Title

                                       _____
Enclosure:  Project Proposal                  Date

**BURTON GRAD ASSOCIATES, INC.**

50 CASTLE HEIGHTS AVENUE
TARRYTOWN, NEW YORK 10591
(914) 631-0330

TO:      Mike Marcus-Garland       DATE:   May 3, 1983

FROM:    Burton Grad

SUBJECT: STERLING/BUSINESS ANALYSIS MODELS


Enclosed are:

(1)  Draft of product analysis you used for Empire.
     Please edit or expand somewhat and return for
     re-typing.

(2)  An outline for HOST.  Questions were prepared
     by Al Holland.

(3)  An outline I prepared on 4/12 after meeting
     with Sterling and Holland.

                              he
Phil Moore has a set of notes uses for technical review which
he has promised to send to us.  Please follow-up if not
received by 5/6/83.

Remember that everyone is still involved in their public
offering and will not give us much attention until that's
done. . . it's currently scheduled for 5/4 or 5/5/83.


BG:meb
Enclosures (3)

FOR EACH PRODUCT

1.  Name

2.  Function

3.  Environment: (a) hw-type, size   (b) O/S   (c) language
                  (d) support sw

4.  Complexity, reasons

5.  How, when, by whom developed

6.  Markets: (a) primary   (b) secondary

7.  Dis. Chan. and marketing methods

8.  (a) When first installed   (b) No installed   (c) No active
    (d) Total sales

9.  Price and terms

10. Main. Contract:   (a) what is offered: hotline, upgrades/
                      updates, enhancements, bug fixes
                      (b) price   (c) no. maint. customers

11. Customer acceptance

12. Competition

13. Code:  (a) structured (size)   (b) modular   (c) commented
           (d) parameterized   (e) expandable/flexible
           (f) stability: no bugs reported, fixed, open - 6 mos.
           (g) system doc.

14. How installed, ease, doc

15. How are customers trained, ease of learning, doc

16. Ease of use, response time, doc

17. Trends: (a) technology  (b) economcis  (c) competition  (d) other

18. Sales proj

    Enhancements - fr basic, for SU's

FOR NEW PRODUCTS/SPECIAL SITUATIONS

QA
Ongoing support
Applicability of existing methods - different mkt?

EXHIBIT II

## Product Acquisition and Analysis:  Qualitative and Quantitive

Part I:  Qualitative Analysis

A. Define Product
1. Tentative Name of Product:  SMM/HOST.
2. Developer of the Product:  Empire Computer Software
3. Purpose of the Product:  A network control program which resides on the IBM mainframe, which allows minis, micros, and mainframes to send and receive bulk data to and from the mainframe upon which SMM/HOST resides.
4. Reasons for Development:

   -Give IBM mainframe users the ability to send and receive bulk data to and from any bisynch device, such as other IBM/PCM's, Univac, Honeywell, and mini/micro devices.

   -The target customers are those companies that have numerous remote devices that the mainframe has to send data to and from within a given period of time.

   -SMM/HOST can concurrently communicate with as many devices as the installation assigns ports to SMM/HOST.

5. Royalty:

   -5% royalty if owned by SMM.
   -30% royalty if owned by ECS.

6. What is the Life Cycle of the Product?  SMM/HOST will support BTAM, Async, and SDLC. The life cycle will be four years.
7. How Enhanceable is the Product?  SMM/HOST will continually be enhanced with the possibility of also adding selectable units on to the basic system.

B. Define Potential Customer.
1. On What Hardware is the Software Compatible?  Any IBM/PCM mainframes supporting all releases of DOS/OSMVS.
2. How Many Installations are There of the Hardware?- All IBM/PCM mainframes worldwide.
3. Are the Hardware Installations Growing, Static, or Declining?  Mainframe installations are growing due to the fact that the price is becoming less expensive.
4. What is the Geographic Distribution of the Hardware?  Worldwide.

C. Define Competition.
1. What Software are the Customers Currently Using?  There is no software available that competes with SMM/HOST.
2. What Competitors Have Produced and are Producing Similar Products?  There is no known competition.
3. How Quickly do Competitors React to New Product Introduction?  N/A

D. Define Sales and Distribution Channels.
1. Will we Sell Directly to the User or through a Distributor?  SMM will sell directly to the Fortune 1000 companies.
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E. Define Promotion of the Product.
1. Direct Mail.  Direct Mail and Telephone Solicitation will be the major emphasis of promoting the product.
2. Magazine Advertising.  Yes.

3. Trade Show Promotion. Yes.
4. Seminar Promotion. Yes.
5. On-Site Demonstrations. No.
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F. Define Price.
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2. Quantity Discounts.

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| 3 | 25% |
| 4 | 30% |
| 5 | 35% |
| 6 | 40% |
| 7 | 45% |
| 8 - X | 50% |

   Discounts will roll back to zero after one year from initial purchase of software.
3. Cash Discounts. No.
4. Distributor Discounts. N/A
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2. Will the New Product Require an Additional Administrative Assistant, Either because the Product Requires Specific Administrative Assistance or Because the Total Number of Products in the Division or Company Require Additional Administrative Assistance? An additional Administrative Assistant will not be necessary.
3. Will Technical Support be Necessary? Yes
4. Will Additional Technical Support Personnel be Necessary? If SMM takes over the development of SMM/HOST, an additional person will be needed, unless we can realign the existing technical staff to continue development and support for SMM/HOST.
5. Will We need Additional Equipment to Test or Demonstrate the Product? No.
6. Will We need Additional Space For the Equipment or Personnel? No.

2

April 12, 1983

TO:          FILE

SUBJECT:     MEETING WITH STERLING SOFTWARE, 4/11/83


Sterling has asked BGAI to perform the following work in
addition to the study of Empire Systems:

1.    Prepare a set of model studies for four different situa-
tions:

    (1)    An acquisition analysis for a minor product

    (2)    An acquisition analysis for a major product

    (3)    Small company acquisition

    (4)    Medium company acquisition

Al Holland shared a set of notes which he had put together in
relationship to the Empire Study which he then gave to Harris
Herman at SMM.  Herman has worked with this material and has
some of the specific answers in relationship to Host and
PCNet-1.  Apparently Phil Moore has also done some work on
this in relationship to TRACS, though he did not have a
copy with him.  I have a copy of those notes which I will
review.

Sterling wants to have a picture which should be done from
a marketing, technical and financial point of view.  He wishes
to know who is responsible for each piece, how long each piece
will take, and what the price will be at today's rates.  He
would like an outline of both what the process would be and
what the report would contain.  I expect he would also like
to have some kind of a questionnaire which indicates what
items will be examined, what data will be collected and the
kinds of people and number of people that would be involved
in various stages.

He would like to see that outline as soon as possible, but
I have told him that I will not give him a firm date until
I have had a chance to go over this with Al and Mike and then
give him a schedule for the delivery of the outline.

2.    He would like to establish a strategic planning update
meeting.   This would consist of three elements:

    (1)     A review of current strategies

    (2)     A review of current target markets

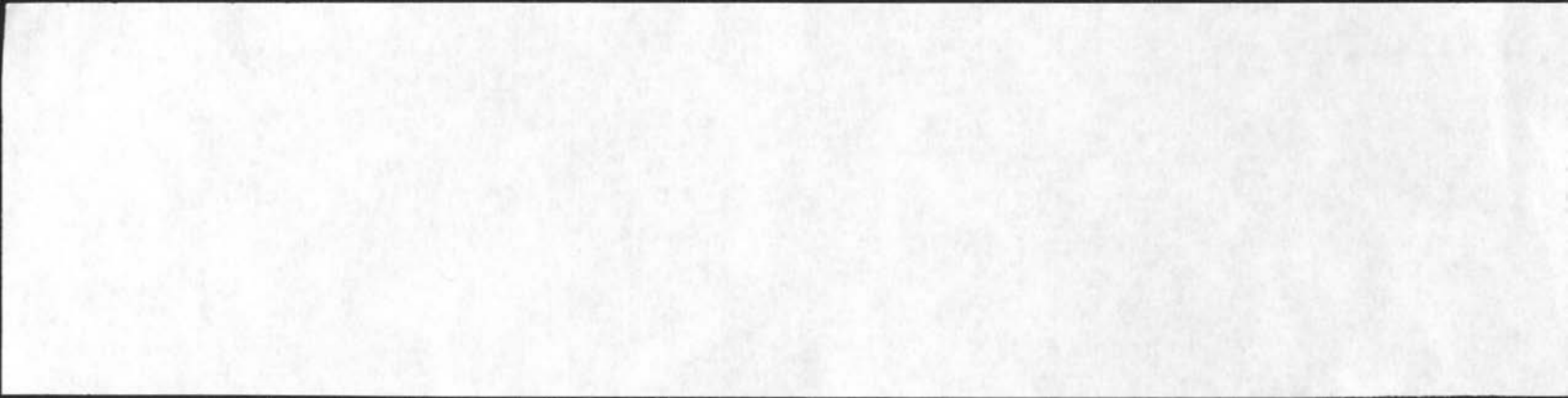    (3)     Review the acquisition candidate checklist

This meeting will probably take place in Hilton Head.   He is
considering possibly May 11th or 12th with a possible follow-
up meeting early in the week of May 17th.

BG/vh

**BURTON GRAD ASSOCIATES, INC.**

50 CASTLE HEIGHTS AVENUE
TARRYTOWN. NEW YORK 10591
(914) 631-0330

TO:      Mike Marcus-Garland        DATE:  May 3, 1983

FROM:    Burton Grad

SUBJECT: STERLING/BUSINESS ANALYSIS MODELS


Sterling Software, Inc. has awarded BGAI a contract to perform
a study describing a variety of Business Analysis Models which
can be used for future product and company acquisitions.  The
enclosed proposal which has been accepted describes the assignment.

BGAI would like to use you as a Senior Consultant on this
project.  You will have primary responsibility for executing
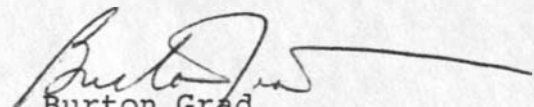the project and preparing the final report.

You will be paid at the rate of $650 per day for this assignment.
It is expected that the total number of your work days will not
exceed 4 and I will spend up to 2 days.  The work is planned to
be completed by 5/31/83.

Kick off on the project may have to be deferred if we cannot get
reasonable access to Phil Moore, Al Holland and Sterling Williams
all of whom wish to provide input to the study.  We should
probably plan on meeting with them at the Nashville ADAPSO
meeting.

If the above project description is satisfactory, please sign
and return the original.

Sincerely,                          Accepted for Garland


Burton Grad                         By_____
President                                   Signature

BG/meb
                                    _____
                                            Title


                                    _____
Enclosure:  Project Proposal                Date

CONSULTANTS ON SOFTWARE             MEMBER OF
                                    SOFTWARE INDUSTRY ASSOCIATION

**BURTON GRAD ASSOCIATES, INC.**

50 CASTLE HEIGHTS AVENUE
TARRYTOWN, NEW YORK 10591
(914) 631-0330

April 28, 1983

Mr. Phil Moore
Sterling Software, Inc.
1001 Campbell Centre
8350 N. Central Expressway
Dallas, TX 75206

Dear Phil:

In accordance with the request from Sterling Williams, Al
Holland and yourself, Burton Grad Associates, Inc. (BGAI)
is prepared to structure a comprehensive set of business
analysis models which could be used by Sterling to evaluate
product acquisition and company acquisition opportunities.

Scope and Objectives

Sterling Software, as a company policy, intends to acquire
marketing rights to various programs and will acquire
companies where appropriate to give them both the technical
and marketing capabilities which they need to achieve their
corporate objectives. Sterling believes that this process
should be well defined and consistent so that the results
can be competently used to make effective acquisition decisions.
In general, Sterling views that they will be acquiring both
minor and major products and acquiring small and medium-size
companies. The effort to be put into each of these studies
will vary of course and the models that are drawn up should
reflect the different requirements and risks.

It can be presumed that all of the acquisitions will be in
the software products business although some of the companies
may well include hardware as well as software capabilities.
The work to be performed may be done by Sterling employees,
various Sterling consultants or by third parties who have
special skills or knowledge in a particular area.

BGAI is prepared to structure a comprehensive set of pro-
cedures which could carry out the most complete studies
required, identifying the particular skills needed and
establishing formulas to estimate the time and cost required.

In addition, model reports will be identified with criteria for selection of which processes are necessary and which report elements needed as a function of the nature and size of the acquisition.

Work Plan

BGAI will assign Burton Grad and Michael Marcus as principal consultants on the project. Based upon work previously done for a variety of clients, including Sterling Software, they will construct a set of generalized procedures and a generalized report format as well as the necessary formulas and selection criteria.

Their present concept is that the following structures will be used:

1. There will be five primary subject areas to be examined: financial, technical, marketing, administration, management.

2. There will be a large number of specific topics covered for each of these areas. These include: contacts, information sources, third-party experts, market assessment, analysis, projections, business case, overall evaluation, report preparation, presentation.

3. The business categories will be precisely defined covering: minor product acquisition, major product acquisition, small company acquisition, medium company acquisition.

4. Report format and topics will be laid out including business description, market opportunity, products, competition/risks, forecasts/costs/profit.

The final report on this project will consist of both outlines, checklists, questionnaires, procedures and an overall control document which will indicate under what circumstances which items are to be used.
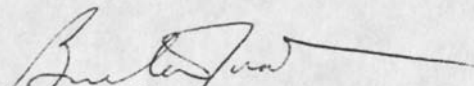
Scheduling Costs

If approved by May 1st, the work will be completed by May 31st.
Delay on approval may cause more than a proportionate delay in
the completion date. There is a fixed price of $6,000 plus
actual authorized expenses incurred. These would appear to
be primarily in the area of telephone calls and express delivery
services. If a trip to Dallas were required, this would, of
course, be an additional charge.

Payment for the project would be $3,000 upon initiation and
$3,000 plus expenses upon completion of the work.

Note that this proposal does not include the type of product
evaluation that was performed for Dylakor or for Software
Labs. It if is necessary to have a detailed plan for this
type of work, then it would require an additional sum of
money and an additional work schedule to complete.

If the above proposal is satisfactory, please sign below to
indicate your acceptance and return the original to BGAI.

Sincerely,
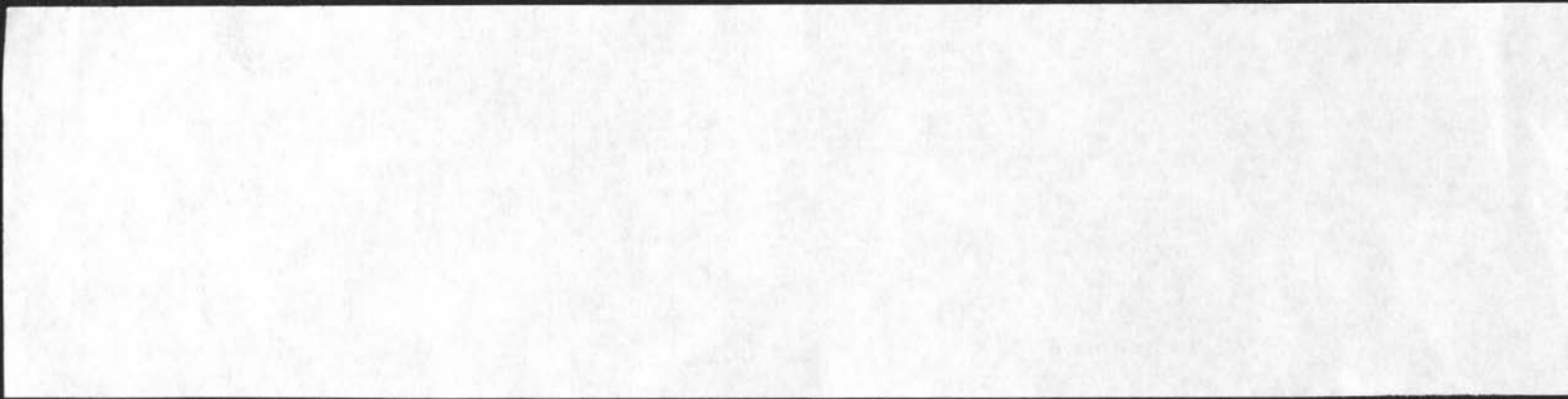
Burton Grad
President

BG/vh

cc:   Mike Marcus
      Al Holland

Accepted for Sterling
Software, Inc.

By_____
          Signature

Title_____

Date_____

**BURTON GRAD ASSOCIATES. INC.**

570 TAXTER ROAD
ELMSFORD. NEW YORK 10523
(914) 592-4700

August 30, 1984

Mr. Sterling Williams
Sterling Software, Inc.
370 Campbell Centre
8350 North Central Expressway
Dallas, Texas   75206

Dear Sterling:

Attached is a first look at the new Opportunity Analysis Procedures.
I will simplify this further when I return from Bermuda.

Sincerely,

Burton Grad

Enclosure
BG:cdl:221D
cc:  Mr. Phil Moore

## Product/Company Opportunity Analysis

Based on identifying a product or company which meets Sterling's strategic objectives, the following is the model scenario. Note, however, that this can be modified based on prospect's desires and facts about products and company performance:

1. Preliminary Screening -- Should there be a formal assessment?

2. Fact Finding -- What should the size and shape of the offer be?

3. Fact Confirming -- Due diligence to ensure that representations are accurate and opportunity is as assessed.

The intent initially would be to focus on product marketing rights acquisition preferably with an option to purchase the product. If the product is successful and the relation with the key people at the company is positive, then a company acquisition study would be initiated.

Attached are appendices which outline a company report (Appendix 1) and a product report (Appendix 3) and questionnaires which may be used in obtaining the information needed for each of these reports (Appendix 2 for company investigation and Appendix 4 for product analysis).

REPORT OUTLINE FOR EVALUATION OF A SOFTWARE PRODUCTS COMPANY
-------------------------------------------------------------

Executive Summary

I  Company History and Background

    A. Business
    B. Company History
    C. Organization and Operations
    D. Key Personnel

II Products and Services

    A. Overview of all Products
    B. Description of Each Product

        1. Name
        2. Purpose
        3. Development History and Ownership
        4. Installation and Sales History
        5. Functions
        6. Environment
        7. Technical Considerations
        8. Support
        9. Dependencies
       10. Assessment

III Market Opportunity

    A. The Market
    B. Sales Strategy
    C. Sales Terms and Conditions
    D. Competition
    E. Forecasts
    F. Assessment

IV Organization and Operations

    A. Internal Organization
    B. External Relationships
    C. Key Personnel
    D. Personnel Resources
    E. Geographic Coverage
    F. Equipment and Facilities
    G. Assessment

V Financial History and Forecasts

    A. Financial Structure
    B. Balance Sheet
    C. Profit/Loss History
    D. Forecasts
    E. Assessment

VI Evaluation

    A. Overall Assessment
    B. Major Opportunities
    C. Major Risks

SOFTWARE COMPANY EVALUATION
-------------------------------

A.  QUESTIONNAIRE FOR MANAGEMENT

1.  Full name of company and any other names previously or
currently known by.

2. Type of entity (corp., partnership, etc.)

3. Affiliations and ownership (subsidiary or division of another
company, ownership, other companies with the same ownership or
management, etc.)

4. Company  history  (when  formed,  by  whom,  where,
financing, original business concept, etc.)

5. Current business - brief overview of products and services

6. Organization and operations - How is the company organized and
how does it operate nominally and actually? Internal structure as
well as role of outsiders. Equipment and facilities.

7.People -Key employees, outside directors, investors, others.
Skills inventory. History of employee relations. Any employment
agreements, consulting contracts or union contracts in force.


8.  Suppliers  -  Importance  of,  and  relationship  with,  any
suppliers of critical products or services utilized by the
company.

9. Customers - Customer satisfaction, loyalty, etc.

10. Management philosophy and policies - Tight central control?
Delegated authority? Well defined company strategy?
Reasons for considering acquisition offer.

11. Management control. Means of promulgating company philosophy
and policy. Reporting and tracking of status, progress, problems.
History in meeting plans.

12. Identification of each product and its function

13. Financial information

14. Sales and financial forecasts


For each product, select questions from the Sales and Technical

Questionnaires which management is able and willing to answer.

## SOFTWARE COMPANY EVALUATION
-------------------------------

### B. QUESTIONNAIRE FOR SALES AND MARKETING PERSONNEL

1. Organizational structure of the marketing and sales activities

2. Personnel - Key personnel; hiring and training practices; compensation; employee relations; turnover.

3. Coverage: geographic territory, vertical market, etc.

4. Marketing/Sales management techniques: method of establishing policies; setting quotas; monitoring forecasts; etc.

5. Marketing/Sales techniques and their effectiveness and costs: advertising; trade shows; direct mail; seminars; agents; etc.


For each product:


6. Name and purpose of each product

7. Sales and Installation history.

8. Ownership, royalties or license fees, sales restrictions, etc.

9. Prospect Profiles. Considerations in determining size of market by profile type:

   - Industry/Cross-industry/Consumer Application
   - Prospect Size
   - System Enviroment Prerequisites
   - Perceived Need and Time Period
   - To whom sold (user, developer, operations, etc.)

10. Market Size by Prospect Type.

11. Penetration to date. Subject product, competition.

12. Remaining market and time period.

13. The after market. Product extensions and enhancements which may affect marketability.

14. Special considerations: legal/regulatory requirements

15. Sales Strategy. Marketing methods; direct sales and

distribution channels. Coverage by industry and geography. Differences between domestic and international sales.

16. Sales Terms and Conditions: history and current; form (sale, lease, rent, etc.); pricing (single unit, multiple site, multiple CPU/site, introductory, etc.)

17. Competition. Direct and indirect (ways in which prospective customers can solve their problems or accomplish their aims other than by buying this or a competitive product). Type of competition: other software products; services, turnkey systems and their strengths and weaknesses. Product differentiability.

18. Installation. Method, ease and available documentation. Degree of customization and effort required. Conversion requirements.

19. Training. Method, ease and available documentation.

20. User Interface. Ease of learning; ease of use. Response time

21. Trends. Technology; economics; competition; market (growing, static, declining).

22. Sales forecasts. Units and dollar amounts.

23. Customer acceptance.

24. Product assessment.

25. Overall assessment of the market, marketing and sales.


NOTE: For products sold internationally, note differences or distinctions to be made for the international as opposed to domestic market.

SOFTWARE COMPANY EVALUATION
-------------------------------

## C.QUESTIONNAIRE FOR TECHNICAL PERSONNEL

1.   Organization of  technical activities:  new development, maintenance and enhancement, customer support, sales support

2. Personnel: Key personnel; hiring and training practices; compensation; employee relations; turnover.

3. System Development Techniques: use of  methodologies, project control mechanisms, special technologies.

4. Facilities and equipment

For each product:


5. Functions

6.  Environment Requirements:  hardware type,  size;  operating system  version; language; support software.

7.  How developed:  (in  house,  contracted, purchased, client-sponsored), when, by whom. Date of first release.

8.  Installation History:  When  first  installed; number  of current installations, number  of active installations, geographic distribution.

9.  Support:  offerings   (hotline, upgrades,  user  group,  bug fixes,  other);  terms  and price;  number of  customers; fall-off history;  vulnerabilty (dependency  on  one or  small  number  of individuals or suppliers). Support procedures.

10. Product Enhancements.

11. Technical assessment:  Functionality; performance; capacity; complexity;  size;  quality  of software (structure,  modularity, annotation,     parameterization,    expandability/flexibility); software stability (number of  bugs reported, fixed,  open, close rate, number  of versions in  the field); quality and  quantity of system  documentation;  special  techniques  and  unusual  risks; portability; security and protection.

12. Hardware. Is  non-standard/proprietary/special hardware part of  the offering? Quality, availability and support.

13.  Installation.  Method,  ease and  available  documentation. Degree   of   customization   and  effort   required.   Conversion

requirements.

14. Training. Method, ease and available documentation.

15. User Interface. Ease of learning; ease of use. Response time

16. Trends. Technology; economics; competition; market (growing, static, declining).

17. Customer Satisfaction

18. Critical Vendors: products/services provided, alternate sources, vendor commitment, quality of vendor support.

19. Product assessment

NOTE: For products sold internationally, note differences or distinctions to be made for the international as opposed to domestic market.

SOFTWARE COMPANY EVALUATION
-------------------------------

D. QUESTIONNAIRE FOR CUSTOMERS

1. Customer Name, Address and Phone Number

2. Person Interviewed:Name, Title and Job Function

3. Product Version/Release

4. Hardware/Software Environment.

5. When purchased? When installed? How many releases have been installed since? Release quality and stability.

6. Under maintenance agreement?.

7. Beta site?

8. Evaluation: Function, Performance, Ease of Learning, Ease of Use, Documentation, Installation, Training, Support.

9. Best Features

10. Features needing improvement

11. Missing features.

12. Why did you select this product? Who/what determined it. What competitors were evaluated.

13. Is there a users' group? Do you belong, attend? Is it worthwhile?

14. Would you buy additional products from the company? Why?

15. General comments by the customer, any volunteered information.

16. Overall assessment of the customer's attitude by the interviewee.

### SOFTWARE COMPANY EVALUATION
----------------------------------

#### E. QUESTIONNAIRE FOR VENDORS

1. Product or service provided.

2. Vendor background - size, stability, dependence on the company.

3. Terms on which the service is provided.

4. For how long has it been provided.

5. Vendor commitment to product/service.

6. Quality of the relationship

7. Opinion of the company and its products

8. Company's record in meeting obligations.

## REPORT OUTLINE FOR EVALUATION OF A SOFTWARE PRODUCT
-----------------------------------------------------------------

Executive Summary

I  Product History and Background

    A. Purpose
    B. History
    C. Ownership

II  Product Description

    A. Function
    B. Environment
    C. Technical Considerations
    D. Support
    E. Assessment

III Market Opportunity

    A. The Market
    B. Sales Strategy
    C. Sales Terms and Conditions
    D. Competition
    E. Forecasts
    F. Assessment

IV Evaluation

    A. Overall Assessment
    B. Major Opportunities
    C. Major Risks

SOFTWARE PRODUCT EVALUATION
-----------------------------

A.  QUESTIONNAIRE FOR MANAGEMENT


1. Background information on selling company: name, type of entity, ownership, history, etc.


For each product, select questions from the Sales and Technical Questionnaires which the management is able and willing to answer.

## SOFTWARE PRODUCT EVALUATION
-----------------------------

B. QUESTIONNAIRE FOR SALES AND MARKETING PERSONNEL

For each product:

1. Name and purpose of each product

2. Sales and Installation history.

3. Ownership, royalties or license fees, sales restrictions, etc.

4. Prospect Profiles. Considerations in determining size of market by profile type:

   . Industry/Cross-industry/Consumer Application
   . Prospect Size
   . System Enviroment Prerequisites
   . Perceived Need and Time Period
   . To whom sold (user, developer, operations, etc.)

5. Market Size by Prospect Type.

6. Penetration to date. Subject product, competition.

7. Remaining market and time period.

8. The after market. Product extensions and enhancements which may affect marketability.

9. Special considerations: legal/regulatory requirements

10. Sales Strategy. Marketing methods; direct sales and distribution channels. Coverage by industry and geographical. Differences between domestic and international sales.

11. Sales Terms and Conditions: history and current; form (sale, lease, rent, etc.); pricing (single unit, multiple site, multiple CPU/site, introductory, etc.)

12. Competition. Direct and indirect (ways in which prospective customers can solve their problems or accomplish their aims other than by buying this or a competitive product). Type of competition: other software products; services, turnkey systems and their strengths and weaknesses. Product differentiability.

13. Installation. Method, ease and available documentation. Degree of customization and effort required. Conversion requirements.

14. Training. Method, ease and available documentation.

15. User Interface. Ease of learning; ease of use. Response time

16. Trends. Technology; economics; competition; market (growing, static, declining).

17. Sales forecasts. Units and dollar amounts.

18. Customer acceptance.

19. Product assessment.

NOTE: For products sold internationally, note differences or distinctions to be made for the international as opposed to domestic market.

## SOFTWARE PRODUCT EVALUATION
-------------------------------

## C.QUESTIONNAIRE FOR TECHNICAL PERSONNEL

For each product:

1. Functions

2. Environment Requirements: hardware type, size; operating system version; language; support software.

3. How developed: (in house, contracted, purchased, client-sponsored), when, by whom. Date of first release.

4. Installation History: When first installed; number of current installations, number of active installations, geographic distribution.

5. Support: offerings (hotline, upgrades, user group, bug fixes, other); terms and price; number of customers; fall-off history; vulnerabilty (dependency on one or small number of individuals or suppliers). Support procedures.

6. Product Enhancements.

7. Technical assessment: Functionality; performance; capacity; complexity; size; quality of software (structure, modularity, annotation, parameterization, expandability/flexibility); software stability (number of bugs reported, fixed, open, close rate, number of versions in the field); quality and quantity of system documentation; special techniques and unusual risks; portability; security and protection.

8. Hardware. Is non-standard/proprietary/special hardware part of the offering? Quality, availability and support.

9. Installation. Method, ease and available documentation. Degree of customization and effort required. Conversion requirements.

10. Training. Method, ease and available documentation.

11. User Interface. Ease of learning; ease of use. Response time

12. Trends. Technology; economics; competition; market (growing, static, declining).

13. Customer Satisfaction

14. Critical Vendors: products/services provided, alternate sources, vendor commitment, quality of vendor support.

15. Product assessment

NOTE: For products sold internationally, note differences or distinctions to be made for the international as opposed to domestic market.

### SOFTWARE PRODUCT EVALUATION
--------------------------------

#### D. QUESTIONNAIRE FOR CUSTOMERS

1. Customer Name, Address and Phone Number

2. Person Interviewed:Name, Title and Job Function

3. Product Version/Release

4. Hardware/Software Environment.

5. When purchased? When installed? How many releases have been installed since? Release quality and stability.

6. Under maintenance agreement?.

7. Beta site?

8. Evaluation: Function, Performance, Ease of Learning, Ease of Use, Documentation, Installation, Training, Support.

9. Best Features

10. Features needing improvement

11. Missing features.

12. Why did you select this product? Who/what determined it. What competitors were evaluated.

13. Is there a users' group? Do you belong, attend? Is it worthwhile?

14. Would you buy additional products from the company? Why?

15. General comments by the customer, any volunteered information.

16. Overall assessment of the customer's attitude by the interviewee.

## SOFTWARE PRODUCT EVALUATION

### E. QUESTIONNAIRE FOR VENDORS

1. Product or service provided.

2. Vendor background - size, stability, dependence on the company.

3. Terms on which the service is provided.

4. For how long has it been provided.

5. Vendor commitment to product/service.

6. Quality of the relationship

7. Opinion of the company and its products
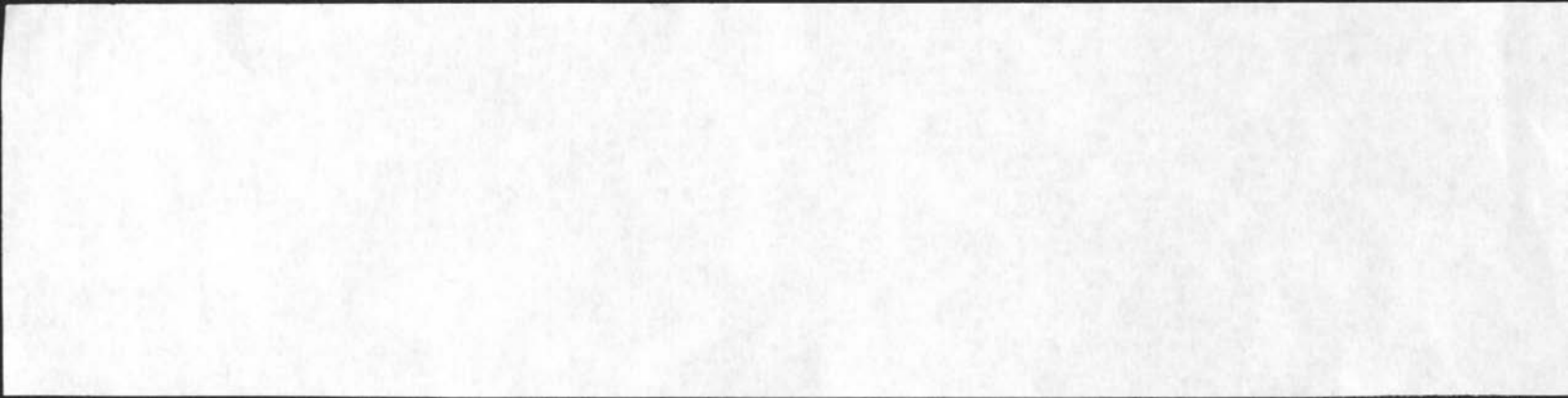
**BURTON GRAD ASSOCIATES. INC.**

570 TAXTER ROAD
ELMSFORD. NEW YORK 10523
(914) 592-4700

May 5, 1987

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Mr. Phil Moore
Sterling Software, Inc.
8080 North Central Expressway
Suite 1140, LB53
Dallas, Texas  75206-1895

Dear Phil:

Enclosed is a second draft of the material required for the
Acquisition Management Guide.  We can discuss this at our May
8th meeting in Hilton Head.

Sincerely,

Burton Grad

BG:1062D
cc: Sterling Williams

Acquisition Management Guide


Prepared for:                          Sterling Software, Inc.
                                       8080 N. Central Expressway
                                       Dallas, Texas 75206-1895



Prepared by:                           Burton Grad Associates, Inc.
                                       570 Taxter Road
                                       Elmsford, New York 10523



Date:                                  May 5, 1987



S E C O N D    D R A F T

# Table of Contents

## Appendixes

## Acquisition Management Guide

## I. Introduction

Acquisitions have been and are a vital element in Sterling Software's previous and planned growth. Four companies* were acquired in 1983 as the initial parts which created Sterling Software and the ~~five~~ additional companies** which were acquired since then including the merger with Informatics General in 1985 have been instrumental in making Sterling more than a $200 million company in 1987. Carefully planned divestitures have also ensured that the company remains focused on its main areas of interest. Units which don't meet Sterling's growth and profitability goals will not be kept, but sold so as not to dilute management attention.

While Sterling will continue to invest internally in research and development to grow its current businesses, it will also continue to look for acquisitions which expand or improve the current businesses or which provide new business opportunities for Sterling consistent with its strategic directions.

The Acquisition Management Guide helps to formalize the approach taken and ensures effective planning and coordination between Corporate and the Groups/Divisions as well as with consultants and supporting organizations.

---

\*    Dylakor, SMM, Software Labs, Directions

\*\*   Empire, Check Consultants, Pacesetter, Strategic Solutions, Informatics General, Decision Systems

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## II. Objectives and Guidelines

A. Maintain the optimum balance between growing the company internally and growing through acquisitions.

B. Be market-driven and product-driven rather than just financial or deal-driven.

C. Manage the acquisition program to achieve growth through meeting acquisition objectives.

D. Maintain active acquisition and divestiture programs.

E. Look for a single acquisition or a series of acquisitions that will enable the company to double in size by the end of 1988.

F. Focus through 1989 exclusively on acquisitions in current target markets: systems software, banking applications software, professional services and proprietary information services.

G. Focus on up-front acquisition of companies and products that will provide dominant positions in targeted market segments or niches.

H. Continue to acquire minority positions in companies with options to acquire the rest.

I. Continue to acquire exclusive marketing rights to products with options to acquire the product or their producing companies outright.

J. Search for and evaluate acquisition opportunities at the group and division levels; maintain ultimate responsibility and authority at the corporate level.

K. Reevaluate all products and businesses regularly to identify those that need to be divested...then divest them.

L. Concentrate exclusively on IBM 370 series products.

M. Stay out of the micro standalone software market.

N. Avoid the mini standalone software market.

O. Consider only mini or micro software that support Sterling mainframe software through mainframe-to-micro distributed systems.

III. **The Sterling Acquisition Process**

   A. Outline of Activities

      1. Surveying companies in the industry (public and private)

      2. Screening Suspects

      3. Qualifying Prospects

      4. Preliminary Due Diligence ("fact finding")

      5. Negotiating
         - Proposal
         - Agreement in principle
         - Contract

      6. Final Due Diligence ("fact confirming")

      7. Closing

      8. Transitioning (executing the merger)

   B. Description of Activities

      1. Surveying Companies --
         Maintain an active data base on a large number of computer software and services companies (both public and private) in areas of current or potential future interest. Review this data base regularly to identify unique opportunities. Obtain information from merger/acquisition brokers and other sources on available companies.

      2. Screening suspects --
         Analyze selected companies (if they fit into strategic directions) from data base and from brokers/other sources to see if they meet preliminary criteria on market/product focus, size of company, potential price, quality of management and other general business issues.

      3. Qualifying prospects --
         Perform "public information" review on prospects to determine product and financial history, market prospects, competitive position, fit with existing Sterling offerings or ability to stand alone within strategic objectives (see Appendix A).

      4. Preliminary Due Diligence --
         Approach acquisition candidate (in most cases) to carry out fact finding study (see Appendix B).

5. Negotiating --
   Plan and structure negotiating process if candidate
   appears suitable and would likely be available at a
   fair price.

6. Final Due Diligence --
   After deal is struck, confirm all representations and
   preliminary findings by conducting a full scale due
   diligence study (see Appendix C). If the results
   require, adjust terms of deal or withdraw the offer.

7. Closing --
   Close the deal with careful legal documentation and
   clear financial and personnel positioning.

8. Transitioning --
   Provide for suitable standalone operation or integrate
   the acquisition into an existing unit.

# IV. Responsibilities and Resources

## A. Acquisition Responsibilities

|  | CORPORATE | GROUP | DIVISION |
|---|:---:|:---:|:---:|
| **COMPANIES** | | | |
| Surveying | ** | * | * |
| Evaluation<br>  screening<br>  qualifying<br>  fact finding | ** | * | |
| Negotiation | ** | * | |
| Final Approval<br>  fact confirming<br>  closing | *** | | |
| Transition | | ** | |
| **PRODUCTS** | | | |
| Surveying | * | ** | * |
| Evaluation<br>  screening<br>  qualifying<br>  fact finding | * | ** | * |
| Negotiation | ** | * | |
| Final Approval<br>  fact confirming<br>  closing | *** | | |
| Transition | | ** | |

*** - Sole Authority
** - Primary Responsibility
* - Active Involvement

B. **Resources Required**

1. (Surveying)   *sourcing*

   - Corporate
   - Subsidiary (Group) Presidents (*operations*)
   - Broadview Associates
   - Consultants
   - Professional Community
   - Investment Community
   - Cold Calls (*from potential sellers*)

   *acq opportunities*

   *outside sources*

   *formal   referral*
   *t informal*

2. **Screening**

   - Corporate
   - Subsidiary (Group) Presidents   *operations*
   - Broadview
   - ~~Consultants~~ ℓ

   *Screen for interest*

   *Acq B/P proactive in early phases*

3. **Qualifying**

   - Corporate
   - Subsidiary Presidents - *operations*
   - Broadview
   - *outside* Consultants

   *1ST 87500*

   *Info collection + Analysis, evaluation Decision why... separate steps*

4. ~~Preliminary Due Diligence~~

   - Corporate — (*Acquisition officer*)
   - Subsidiary (Group) Presidents
   - Broadview
   - ~~Business~~ Consultants
   - Financial
   - ~~Legal~~ *Chief Counsel*

   *Sterling Williams*
   *Ellis*
   *merc*
   *Business*
   *Tech*
   *Fin*
   *Legal*

   (*Key operating personnel*)

   *P.S. corp only*

5. **Negotiating** *Team*

   - President

   - CFO/Chief Counsel
     - → deal structuring
     - → impact analysis       } *— input only*

   - Acquisition Offerer
     - → coordination

   - Broadview
     - → advice (always)
     - → intermediary (when appropriate)
     - → arbitration (when necessary)

   *highly variable*

   *negotiating team*

   *BV corp pres Tech ... legal corp pres*

   - Group president (*never lower*)
     - *Letter of Intent may include Contract*
     *submission of proposal to complete of contract*

   *i The corp pres corp pres head of negot.*

6. ~~Final~~ Due Diligence    *may start in parallel.*

   - Acquisition Officer
     . coordinator

   - Chief Counsel
     . Jackson, Walker (legal)    *legal*

   - Financial VP (internal)
     . Arthur Young (financial)    *fin*

   - ~~Business~~ Consultant*s*    *business*
     ~~Selected~~
   - *& Operations personnel*    *technical*
                                  *mktg.*

7. Closing

   - Corporate
   ~~- Related Subsidiary (Group) President~~    *[ Lawyers +*
   ~~- Broadview~~ ~~&co~~                        *Accounts ]*

~~8. Transition~~

   ~~- President~~
   ~~- CFO~~
   ~~- Acquisition Officer~~
   ~~- Related Subsidiary (Group) President~~

V. **Acquisition Administration and Data Base Management**

1. Establish and maintain lists of public and private companies identified by market segment to assist in selecting potential targets.

2. Provide copies of these lists to Group Presidents on a subset basis.

3. Establish a high interest list for each market segment (prospects) with meaningful backup information describing the company and its products/services.

4. Set up action criteria and an action plan for each prospect.

5. Maintain and selectively circulate the Prospect Status/Action Plan.

6. Use a computer data base with limited on-line access to Group Presidents and consultants; minimize report printing.

7. Obtain records on public (and private?) deals made in the industry.

8. Maintain record of current structure and products/services of Sterling Software businesses.

9. Maintain record of strategy of each Sterling Software business.

10. Maintain record of additional company strategies (not group related):

    - work stations?
    - data bases?
    - distributed systems?
    - non-IBM support (DEC, MAC, UNIX)?

11. Monitor process for creating/maintaining active group acquisition/disposition strategies.

# Consultant Report on Prospect Qualification

I.      Description of Company

II.      Organization and Key Personnel

III.      Products and Services

IV.      Marketplace

V.      Customers

VI.      Financials

VII.      Fit with Sterling Software

VIII.      Evaluation

IX.      Acquirability

## List of Questions for Fact Finding

### Analyzing Company History

For each named product or service:

. Profile to include date first released, purpose, equipment, operating system, development history and ownership

. Sales History:
   - New installation three-year history, with current year in units and $
   - Lease, rental, purchase
   - Options and features (units and $)
   - Multiple product sales
   - Market analysis: industry and/or size

. Financial history for three years

. Installed position - current (geographically if available)

. Current sales pipeline

. Maintenance history - units and $ (3 years and current year)

. Number (%) discontinuing maintenance as against renewing

. Who markets

. Geographic coverage

. Who supports; related offerings; training; documentation

. Sales strategy

. Pricing and discounts for product and maintenance

. Sales terms and conditions

. Marketing channels (quantitative)

. Technical information (lines, language...)

. Functionality

. Environment

. Dependencies

. Personnel - number and expense by function

## Analyzing Market Opportunities

This should be done for each product, service or family of products and services, e.g.,:

- Professional services for Federal Government
- Banking software

Each analysis should contain information which is identified as to date and source and should contain historic trend information where possible. (These figures and references may be at a supporting level.) The analysis should cover:

- Market size

  - Potential customers classified by revenues, assets, # employees

  - Units (e.g., # of financial institutions of different types)

  - Segmentation (e.g., S&L's, etc.)

  - Growth expectations and likely direction

- Machines installed

  - Manufacturer

  - Size

  - Distinguishing features

  - Penetration

  - Growth expectations and likely direction

- Special Considerations

  - Legal or regulatory requirements

- International

  - As above, where appropriate

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## Analyzing Competitive Environment

For each product and service, or family, there should be an appraisal of current competitive activity to include:

- Players, giving some history (how old? how big? what other products? owned by whom? etc.).  This should cover competitors in alternative solutions (turnkey, machine oriented, etc.)

- Geographic location and coverage

- Product description and pluses/minuses

- Machine environment

- Pricing and discount policy

- End user profile (e.g., sells to smaller companies; sells to universities, etc.)

- Marketing policies on maintenance, other products, training, manuals, etc.

- Sales channels and distribution

- Likely/known technical developments

- Significant customers

- Likely market share

- Overall competitive assessment for immediate future and longer term (e.g., new competitors entering, dying market, etc.)

- International to be considered separately, where appropriate.

<u>Report Outline for Due Diligence on a</u>
<u>Software Products Company</u>

**Executive Summary**

I.   <u>Company History and Background</u>

    A.   Business
    B.   Company History
    C.   Organization and Operations
    D.   Key Personnel

II.  <u>Products and Services</u>

    A.   Overview of all Products
    B.   Description of Each Product
        1.   Name
        2.   Purpose
        3.   Development History and Ownership
        4.   Installation and Sales History
        5.   Functions
        6.   Environment
        7.   Technical Considerations
        8.   Support
        9.   Dependencies
      10.   Assessment

III. <u>Market Opportunity</u>

    A.   Internal Organization
    B.   External Relationships
    C.   Key Personnel
    D.   Personnel Resources
    E.   Geographic Coverage
    F.   Equipment and Facilities
    G.   Assessment

V.   <u>Financial History and Forecasts</u>

    A.   Financial Structure
    B.   Balance Sheet
    C.   Profit/Loss/ History
    D.   Forecasts
    E.   Assessment

VI.  <u>Legal Assessment</u>

    A.   Customer Contracts
    B.   Vendor Agreements
    C.   Employee Agreements
    D.   Leases, etc.

VII. <u>Evaluation</u>

    A. Overall Assessment
    B. Major Opportunities
    C. Major Risks

## Questionnaires for Software Company Due Diligence

A.  ### Questionnaire for Management

1. Full name of company and any other names previously or currently know by.

2. Type of entity (corporation, partnership, etc.)

3. Affiliations and ownership (subsidiary or division of another company, ownership, other companies with the same ownership or management, etc.).

4. Company history (when formed, by whom, where, financing, original business concept, etc.)

5. Current business--Brief overview of products and services.

6. Organization and operations--How is the company organized and how does it operate nominally and actually? Internal structure as well as role of outsiders. Equipment and facilities.

7. People--Key employees, outside directors, investors, others. Skills inventory. History of employee relations. Any employment agreements, consulting contracts or union contracts in force.

8. Suppliers--Importance of, and relationship with, any suppliers of critical products or services utilized by the company.

9. Customers--Customer satisfaction, loyalty, etc.

10. Management philosophy and policies--Tight central control? Delegated authority? Well-defined company strategy? Reasons for considering acquisition offer.

11. Management control--Means of promulgating company philosophy and policy. Reporting and tracking of status, progress, problems. History in meeting plans.

12. Identification of each product and its function.

13. Financial information

14. Sales and financial forecasts

For each product, select questions from Sales and Technical Questionnaires which management is able and willing to answer.

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## Software Company Evaluation

B. **Questionnaire for Sales and Marketing Personnel**

1. Organization structure of the marketing and sales activities.

2. Personnel--Key personnel; hiring and training practices; compensation; employee relations; turnover.

3. Coverage--Geographic territory, vertical market, etc.

4. Marketing/Sales management techniques--Method of establishing policies; setting quotas; monitoring forecasts; etc.

5. Marketing/Sales techniques--their effectiveness and costs: advertising; trade shows; direct mail; seminars; agents; etc.

For Each Product:

6. Names and purpose of each product.

7. Sales and Installation history.

8. Ownership, royalties or license fees, sales restrictions, etc.

9. Prospect Profiles--Considerations in determining size of market by profile type:

    - Industry/Cross-Industry/Consumer Application
    - Prospect Size
    - System Environment Prerequisites
    - Perceived Need and Time Period
    - To whom sold (user, developer, operations, etc.)

10. Market Size by prospect type.

11. Penetration to date--Subject product, competition.

12. Remaining market and time period.

13. The after-market--Product extensions and enhancements which may affect marketability.

14. Special considerations--Legal/regulatory requirements.

15. Sales Strategy--Marketing methods; direct sales and distribution channels. Coverage by industry and geography. Differences between domestic and international sales.

16. Sales Terms and Conditions--History and current; form (sale, lease, rent, etc.); pricing (single unit, multiple site, multiple CPU/site, introductory, etc.).

17. Competition. Direct and indirect (ways in which prospective customers can solve their problems or accomplish their aims other than by buying this or a competitive product). Type of competition: other software products; services, turnkey systems and their strengths and weaknesses. product differentiability.

18. Installation--Method, ease and available documentation. Degree of customization and effort required. Conversion requirements.

19. Training--Method, ease and available documentation.

20. User Interface-Ease of learning; ease of use. Response time.

21. Trends--Technology; economics; competition; market (growing, static, declining).

22. Sales forecasts--Units and dollar amounts.

23. Customer acceptance.

24. Product assessment.

25. Overall assessment of the market, marketing and sales.

NOTE:   For products sold internationally, note differences or distinctions to be made for the international as opposed to domestic market.

## Software Company Evaluation

C. Questionnaire for Technical Personnel

1. Organization of technical activities--New development, maintenance and enhancement, customer support, sales support.

2. Personnel--Key personnel; hiring and training practices; compensation; employee relations; turnover.

3. System development techniques--Use of methodologies, project control mechanisms, special technologies.

4. Facilities and equipment.

For Each Product:

5. Functions

6. Environment requirements--Hardware type, size; operating system version; language; support software.

7. How developed--(In-house, contracted, purchased, client-sponsored), when, by whom. Date of first release.

8. Installation history--When first installed; number of current installations, number of active installations, geographic distribution.

9. Support--Offerings (hotline, upgrades, user group, bug fixes, other); terms and price; number of customers; fall-off history; vulnerability (dependency on one or small number of individuals or suppliers). Support procedures.

10. Product Enhancements.

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12. Hardware--Is non-standard/proprietary/special hardware part of the offering?  Quality, availability and support.

13. Installation--Method, ease and available documentation. Degree of customization and effort required.  Conversion requirements.

14. Training--Method, ease and available documentation.

15. User Interface--Ease of learning; ease of use.  Response time.

16. Trends--Technology; economics; competition; market (growing, static, declining).

17. Customer Satisfaction.

18. Critical vendors--Products/services provided, alternate sources, vendor commitment, quality of vendor support.

19. Product Assessment.


NOTE:    For products sold internationally, note differences or distinctions to be made for the international as opposed to domestic market.

## Software Company Evaluation

D. Questionnaire for Customers

1. Customer name, address and telephone number.

2. Person interviewed: Name, title and job function.

3. Product version/release.

4. Hardware/software environment.

5. When purchased? When installed? How many releases have been installed since? Release quality and stability.

6. Under maintenance agreement?

7. Beta site?

8. Evaluation: Function, performance, ease of learning, ease of use, documentation, installation, training, support.

9. Best features.

10. Features needing improvement.

11. Missing features.

12. Why did you select this product? Who/what determined it. What competitors were evaluated?

13. Is there a users' group? Do you belong, attend? Is it worthwhile?

14. Would you buy additional products from the company? Why?

15. General comments by the customer, any volunteered information.

16. Overall assessment of the customer's attitude by the interviewee.

## Software Company Evaluation

E. Questionnaire for Vendors

1. Product or service provided.

2. Vendor background--size, stability, dependence on the company.

3. Terms on which the service is provided.

4. For how long has it been provided.

5. Vendor commitment to product/service.

6. Quality of the relationship.

7. Opinion of the company and its products.

8. Company's record in meeting obligations.