Impairment Analysis Report on

SoftBrands, Inc.

as of September 30, 2005

Prepared for:

~~SoftBrands, Inc.~~
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EXECUTIVE SUMMARY

SoftBrands has requested that Burton Grad Associates, Inc. (BGAI) establish the fair value of its businesses as of the end of FY2005 for use in determining whether either of its two reporting units requires an impairment adjustment.

BGAI has applied appropriate valuation methodologies to carry out this valuation process using market-based comparables and projected cash flow for the two software businesses (Manufacturing and Hospitality) to determine their fair value as of 9/30/05, taking into consideration their assets and liabilities as of that date and an appropriate allocation of corporate liabilities. Note that the intra-company positive A/R for Manufacturing and negative A/R for Hospitality and Corporate have been eliminated from both the market-based valuation and from the carrying value calculation.

The impairment analysis for the Manufacturing reporting unit yields the following results as of 9/30/05:

Fair Value	\$62,876,000
Carrying Value	\$21,276,000

Since the fair value is greater than the carrying value, no impairment adjustment is needed for Manufacturing goodwill.

The impairment analysis for the Hospitality reporting unit yields the following results as of 9/30/05:

Fair Value	\$6,560,000
Carrying Value	\$2,125,000

Since the fair value is greater than the carrying value, no impairment adjustment is needed for Hospitality goodwill.

SECTION II. Description of SoftBrands, Inc.

SoftBrands has two primary businesses: manufacturing and hospitality software products and services. There is no crossover or integration between the two businesses; however from an organizational standpoint, a number of operational and management functions are shared. Each of the businesses is described separately since they are treated as independent reporting units. Appendix C-1 gives an overall description of the SoftBrands business operations and plans.

Manufacturing

The Fourth Shift product line is a comprehensive ERP system aimed at third tier manufacturing companies. There are almost 1,200 active customer sites worldwide with FY2005 revenues of over \$43.2 million. In addition, SoftBrands Manufacturing offers the evolution products with FY2005 revenues of over \$5.3 million and 265 active customer sites. Demand Stream is a "lean" manufacturing product which was first marketed in 2002; it only achieved \$1.3M in revenue in FY2005 with 27 customer sites. SoftBrands has also introduced Fourth Shift Edition in 2005 which contains a full set of applications for use with SAP Business One; it obtained its first 11 customers during this year, generating revenue of almost \$700K.

SoftBrands plans to focus its future Manufacturing development and marketing efforts in building on the SAP connection with Fourth Shift Edition (FSE). This product will use SAP-related marketing channels for SAP Business One to address the requirements for new and replacement systems for portions of the medium and small manufacturing enterprise market. The selected markets will involve specific SIC codes and geographies as primary targets. Specifically, the United States, Canada, the UK and China will be first priority. Within these countries, companies in the areas of computers, electronics, medical devices and control instruments will get initial attention. SoftBrands Manufacturing is planning to shift from just a customer retention policy to one of adding new customers through its SAP alliance. This may also provide a framework for SoftBrands to initiate a structured acquisition program to extend its customer base, obtain distribution facilities and enhance its product content.

Appendix C-4 describes the Manufacturing Business Plan and its product strategy; Appendix D-7 shows the revenue statistics for each product line for FY2005. In total, the Manufacturing business generated over \$50M in revenue in FY2005.

Hospitality

SoftBrands Hospitality still has a number of individual products, some acquired in Europe in 1993 and others (Eltrax and Rio) acquired in 2000 and 2001:

- Property Management Systems (PMS) products include Medallion, PORTfolio and LANMark. These cover local property management, central reservations and interfaces between these functions. In total, these products were installed in over 1,750 customer sites at the end of FY2005.

- The Leisure Management System offering is the RIO products and these had almost 250 installations at the end of FY2005.

In total, these products accounted for over $20M in revenue.

The planned strategy is to sell Medallion to middle tier hotels (100-350 rooms) that are not part of chains. DOS, UNIX and Windows platforms provide almost all of the revenues.

The RIO market is hotel spas and health clubs. About one-third of the total revenues is for associated hardware sales (work stations) which provide essentially zero margin to SoftBrands, but are required as an accommodation to customers.

SoftBrands has been able to stabilize the Hospitality business over the past two years, limiting erosion of present customers while dramatically reducing its operations costs. Now, SoftBrands plans to enhance its Medallion product and actively sell it as a replacement product to some of its existing customers as well as to sell it to new customers as a replacement product or a first-time purchase. The principal vehicle for these new sales will be through Business Partners, particularly in EMEA and APAC but possibly also in the Americas. New sales of Medallion will be pursued specifically in the Americas and EMEA while the company continues to support and provide limited enhancements to the rest of the product line throughout the world. To contain development and product maintenance costs, this development work will be principally performed in Bangalore, India.

Appendix C-5 describes the Hospitality Business Plan and its product strategy. Appendix D-7 provides the financial data for each product line for FY2005.

Organization and Financial

As of 9/30/05, SoftBrands had 574 employees working all over the world. Of these, 401 were in Manufacturing, 160 in Hospitality and the remaining 13 were in Corporate. Much of the development work is done using programming employees in India and China. Appendix C-2 provides backup for the personnel data. There were also a small number of contractors working on assignment for SoftBrands.

Appendix C-3 presents an overall company organization chart. There have been major reorganizations in SoftBrands during the past two years. During FY2005, two new Senior Vice Presidents have been hired and assigned as general managers of the two businesses: Ralf Suerken for Manufacturing and Steve VanTassel for Hospitality. Each of them has responsibility for Sales, Services and Support on a global basis and each has Product Management reporting to them.

International management has general managers for EMEA, India and APAC while Product Development is separated between Manufacturing and Hospitality. In addition, there are three Corporate Services functions: Finance and IT; Human Resources; and Marketing and Business Development.

The SoftBrands Consolidated financial data for FY2005 is summarized in Appendices D-1 and D-2 and then separated between Manufacturing, Hospitality and Corporate in Appendices D-4 and D-5 . The audited financial results for FY2004 are also shown in Appendices D-1 and D-2.

SECTION IV. Market-Based Valuation of SoftBrands Business Units

In determining the market-based value for the SoftBrands business clients, BGAI has made two principal assumptions:

- SoftBrands is currently a public but unlisted company with over 500 stockholders and trades actively on a pink-sheet basis. It has two principal software businesses:
  - Manufacturing
  - Hospitality
- There is no extra market value from the combination of the two business units except for sharing of certain operational and corporate functions.

Therefore, we will develop a market-based value for each unit adjusted to include appropriate shared costs and recognizing reporting unit and allocated corporate balance sheet items.

The Corporate G&A and other shared costs have been analyzed for FY2005. The total unassigned value for G&A was $12,736,000 (Appendix D-4B). Some of these G&A charges were specifically related to corporate activities and were not directly beneficial to either the manufacturing or hospitality reporting units; other Corporate G&A costs had operational value to the reporting units. After examining each of the elements in Corporate G&A, it is the opinion of SoftBrands financial management and BGAI that 80% of these Corporate G&A should be allocated to the reporting units for FY2005 for operational activities and that these unit-related G&A expenses should be split based on a ratio of 2.2 for Manufacturing to 1.0 for Hospitality (e.g. 55% and 25% respectively). These allocations are shown in Appendix D-4B

The EBITDA figures for each reporting unit have been adjusted appropriately for FY2005 to recognize these allocatable Corporate G&A charges. The total consolidated revenue for the fiscal year was $70,781,000, of which $50,597,000 was for Manufacturing and $20,184,000 was for Hospitality. Manufacturing represented 71.5% of the revenues and Hospitality represented 28.5%.

Similarly, the FY2006 EBITDA projections by SoftBrands in Appendix D-3 have been adjusted for the expected FY2006 Corporate G&A allocation, using the appropriate ratios as for FY2005.

The total FY2006 consolidated revenue is projected as $77,427,000 with Manufacturing contributing $55,400,000 and Hospitality contributing $22,027,000. The FY2006 percentages are 71.6% for Manufacturing and 28.4% for Hospitality.

The shared costs of marketing, R&D and Corporate G&A of $26,160,000 for FY2006 are allocated per Appendix D-3B

Manufacturing

For the SoftBrands' Manufacturing business we have received the following figures from SoftBrands management (see Appendices D-4B and D-3B):

($000)	Actual FY2005	SoftBrands Projected FY2006
Revenue	50,597	55,400
Cost of Goods Sold	16,621	19,783
Direct Operating Exp.	10,552	8,719
Allocated and Assigned Operating Expenses	13,926	15,530
Plus Depreciation	670	670
Adjusted EBITDA	10,168	12,038

After examining comparable public manufacturing software companies for their trailing twelve-month (TTM) ratios and then applying a 20% discount for the projected twelve-month (PTM) ratios, the ratios as of 9/30/05 were (see Appendices E-1 and E-2):

	TTM		PTM	
	Median	Mean	Median	Mean
Market Cap/Revenue	1.95	2.01	1.56	1.61
Market Cap/EBITDA	14.92	15.29	11.94	12.23

The marketplace for manufacturing software products was relatively stable in FY2005 and may show some improvement in FY2006. Recognizing this limited growth picture, the MC/R and MC/E ratios for comparable public companies were mixed during 2005. But SoftBrands Manufacturing has a relatively old product line with only one significant new product available for sale, although it does have a valuable customer base in the third tier market which produces substantial ongoing maintenance revenues. We do not believe that SoftBrands Manufacturing would receive as high a ratio to revenues as these somewhat larger comparable companies. Therefore, we have used the median MC/R values and discounted it by 20%.

While the EBITDA/Revenue ratio for the Manufacturing Business Unit is attractive, we would still discount the MC/E ratios by 20%. Given the projected revenue growth in FY2006 which would be the first in many years and the 20% increase in EBITDA, we have weighted the averages 50-50 for TTM and the PTM.

	TTM	PTM
MC/R	1.56	1.25
MC/E	11.94	9.55

Multiplying these ratios by the SoftBrands Manufacturing TTM and PTM revenues and EBITDA income, we get the following figures:

($000)	TTM	PTM	Weighted Average
MC/R-based	78,931	69,250	
MC/E-based	121,406	114,963	
Avg. value	100,168	92,106	96,137

Using these figures based on the selected market capitalization ratios, BGAI would expect the SoftBrands Manufacturing business unit to have a market-based value of $96,137,000 prior to adjustment for SoftBrands not being listed on any stock exchange. We believe that financial analysts would reduce the value of an unlisted company by at least 15 %, yielding a fair market-based value of $81,717,000.

Hospitality

For SoftBrands' Hospitality business we have received the following figures from SoftBrands management (see Appendices D-4B and D-3B):

($000)	Actual FY2005	SoftBrands Projected FY2006
Revenue	20,184	22,027
Cost of Goods Sold	11,068	10,289
Operating Expenses	3,461	4,679
Allocated and Assigned Allocated Op. Exp.	6,735	7,778
Plus Depreciation	474	474
Adjusted EBITDA	(606)	(245)

From examining comparable public hospitality software companies (there were only three) for their TTM ratios and then applying a 20% discount for the PTM ratios, we find that the ratios as of 9/30/05 would be (see Appendices E-1 and E-2):

	TTM		PTM	
	Median	Mean	Median	Mean
Market Cap/Revenue	1.05	2.07	0.84	1.66
Market Cap/EBITDA	13.22	14.06	10.58	11.25

The marketplace for hospitality software products was reasonably stable in FY2005, and shows some signs of further improvement for FY2006. However, the principal SoftBrands Hospitality products are quite old and there is only one significant set of enhancements under development. Given the relative market position of SoftBrands Hospitality vs. its three public comparables, we believe that Hospitality is a much riskier business. Therefore, we have reduced the median comparable company ratios by 40%:

	TTM	PTM
MC/R	.63	.50
MC/E	7.93	6.35

Multiplying these ratios by the SoftBrands Hospitality TTM and PTM revenues and EBITDA income, we get the following figures:

($000)	TTM	PTM	Average
MC/R-based	12,716	11,013	
MC/E-based	NA	NA	
Avg. value	12,716	11,013	
Adj. value	9,537*	9,912*	9,725

* The TTM loss (3.0% of revenues) would cause an analyst to give this business a further discount of at least 25% for TTM; the continuing PTM loss, though small, would mean a 15% discount for FY2006.

Weighting these figures equally based on the market capitalization ratios, BGAI would expect the SoftBrands hospitality business unit to have a value of $9,725,000 prior to adjusting for SoftBrands not being listed. We believe that financial analysts would discount the value by at least 15%, yielding a market-based value of $8,266,000.

Balance Sheet Adjustments

We have examined the constructed balance sheets in Appendix D-5. If one eliminates the intra-company receivable from the assets and the deferred revenue from the liabilities, the Manufacturing balance sheet shows a reasonable ratio of assets to liabilities. Similarly, the Hospitality balance sheet shows a very reasonable ratio of assets to liabilities if these same items are eliminated, although large future losses could jeopardize Hospitality's cash position.

We have determined that it would be consistent not to increase the value of the Manufacturing unit or decrease the value of the Hospitality unit by recognizing this intra-company A/R, as long as we do not recognize it in the carrying value of the two reporting units. Realistically, this debt will probably never be repaid and practically, if either unit were sold to a third party, the A/R would not be accepted either as an asset or as a liability.

Based on this reasoning, we have not made any balance sheet adjustments to the market-based values of the two reporting units.

Summary

Manufacturing is market-based valued at $81,717,000.

Hospitality is market-based valued at $8,266,000.

Current Market Value of SoftBrands

SoftBrands stock has been trading on a pink sheet basis. The closing price of SoftBrands common stock on 9/30/05 was $1.80 per share (Appendix E-5). As of that date there were 40,030,000 common stock shares publicly held (Appendix E-4). In addition, there were a number of convertible preferred shares outstanding along with stock options for employees and warrants for various investors. SoftBrands has been providing regular information on its business operations and its financial situation to its stockholders and other investors, so that those people buying or selling common shares are reasonably up to date on the company and can be expected to make informed decisions regarding the company value. The pink sheet-based value of the publicly held common shares is $72,054,000.

The market-based value of SoftBrands Manufacturing was determined as $81,717,000. The market-based value of SoftBrands Hospitality was determined as $8,266,000. This produces a total value of $89,983,000. This was after taking a 15% discount to recognize that the stock is unlisted.

Appendix D-1 shows long term corporate debt has been reduced to zero. This yields an equity value of $26,078,000 based on assets less liabilities, although most of that value is simply the value of the goodwill. Therefore, we believe that no balance sheet adjustment is needed.

The market-based valuation is sufficiently close to the pink sheet value to indicate that the market-based values of the reporting units are realistic if one assumes that knowledgeable investors would recognize that there are over 31,000,000 equivalent shares exercisable at some point in time.

SECTION V. Income-Based Valuation of Manufacturing Reporting Unit

Prior to FY2004, SoftBrands had organized itself around two operating business units: manufacturing and hospitality. Each of these was a full function business with its own product development and maintenance, marketing and sales, customer service and finance and administration activities. All of the necessary customer, product, personnel and financial records were maintained for each of these business units. While SoftBrands has reorganized in order to share many of the operating functions, the records can still be effectively separated between these reporting units. Although detailed records are also provided for individual product lines and for geographic regions, these do not meet SFAS 141's criteria as reporting units. Therefore, the income-based company valuation has been done for just these two reporting units.

In this section we will look at Manufacturing, one of SoftBrands' two reporting units, to determine the value of its projected EBITDA income stream.

SoftBrands Manufacturing currently continues to market and support its primary product line, Fourth Shift, and two secondary product lines, evolution and Demand Stream. The future profit streams from these products represent one primary measure of the value of the installed Manufacturing software business. However, SoftBrands Manufacturing has also developed a separate version of Fourth Shift integrated with SAP's Business One software. This product was introduced in FY2005 and is being sold jointly by SAP and SoftBrands to selected small to medium manufacturing prospects as well as to individual operations of certain of SAP's global accounts. BGAI has forecast the revenues, operating costs and operating income for the current and new product lines including the planned enhancements to these manufacturing products for five years to determine the NPV for the Manufacturing reporting unit.

These are the assumptions used for SoftBrands Manufacturing revenue forecasts, cost projections and NPV analyses.

A. General

- The current principal SoftBrands manufacturing products (Fourth Shift and evolution) are relatively old but have continued to be enhanced and updated. Fortunately for SoftBrands there are no dominant competitors in its particular market space and their third tier customers are not likely to spend the money to migrate to competitive products as long as the SoftBrands products perform satisfactorily.

- Demand Stream, a relatively new SoftBrands Manufacturing product, has not made much market impact and will probably continue to be a minor contributor to future income. We have incorporated Demand Stream with Fourth Shift and evolution.

- SoftBrands has defined and is implementing its own product enhancement and extension strategy so that it can retain its current customers and even attract some new customers for Fourth Shift, evolution and Demand Stream in particular geographic regions.

- Given this scenario, with an appropriate marketing strategy, SoftBrands should be able to retain the bulk of its current Fourth Shift, evolution and Demand Stream customers for a number of years.

- Fourth Shift Edition (the SAP-related product) will have a measurable effect on SoftBrands revenue over the next five years and beyond, although there are significant risks in terms of relations with SAP, establishing effective distribution channels and significantly modernizing the Fourth Shift components of FSE.

- In making the forecasts and projections, BGAI has assumed a five year economic life for the current and new products.

- BGAI has used the FY2005 and the projected FY2006 SoftBrands figures as the basis for its forecasts (see Appendices D-4A, D-7 and D-3A).

B. Revenues – Current Products

- For licenses on the three current products (Fourth Shift, evolution and Demand Stream), it is assumed that SoftBrands will continue to obtain some add-on sales from existing customers (additional functions and features) as well as acquiring a few new customers in particular regions. The new/upgrade license revenue will drop 5% in FY2006 from FY2005 level and then drop by 10% in FY2007, 15% in FY2008 and then drop by 20% for FY2009 and FY2010 for the current products.

- All maintenance customers will be charged at the rate of 20% of current license value instead of 18% as of 1/1/06. This is reflected in an increase in maintenance revenue of 10% for FY2006. For maintenance revenues, it is assumed that current customers will erode at a rate of 10% per year during FY2006-2010 based on data in Appendix D-6, but maintenance revenue will increase from add-on and new licenses at 20% of the previous year's license revenues.

- Consulting and training will follow the same pattern as license revenues for FY2006-2010.

- Third party sales and hardware/software revenues will be small but will follow the same pattern as license revenues for FY2006-2010. Note that this revenue includes reimbursable expenses for current products.

- No differentiation is being made between the Fourth Shift, evolution and Demand Stream product lines, since it is assumed that they will follow a similar sales trajectory.

Appendix F-1 shows the results of using these assumptions in calculating the revenues for the current Manufacturing products and starts with the financial results shown in Appendix D-4A for FY2005.

C. Revenues – New Products

- Licenses for the Fourth Shift Edition product will increase by 300% in FY2006 and then increase by 200% in FY2007, by 100% in FY2008, 60% in FY2009 and 30% in FY2010.

- Maintenance for the new product will be at the rate of 20% of the previous year's license revenue. There will be no erosion of the FSE product customers through FY2010.

- Consulting and training will occur at 60% of license fees for the FSE products during each year for FY2006-2010.

- Third party sales, hardware/software sales and reimbursed travel will occur at 10% of consulting and training revenue for FY2006-2010.

Appendix F-1 shows the results of using these assumptions in calculating the revenues for the new products.

D. COGS

- The ratios for the actual FY2005 COGS will be used as the basis for the FY2006-2010 COGS projections (see Appendix D-7). Third party and other revenues now include reimbursable expenses and the FY2006 projected revenues and the corresponding COGS reflect this change. Appendix F-2 shows these calculations.

- License COGS will be calculated at .050 of license revenues for both current and new products for FY2006-2010.

- Maintenance COGS will be calculated at .225 of all maintenance revenues, reflecting the increase in maintenance fees from 18% to 20%.

- Consulting and Training COGS will start at .750 of consulting and training revenues in FY2006 and drop to .700 by FY2008.

- Third party, hardware/software and reimbursable travel COGS will be calculated at .800 of third party and hardware/software revenues for FY2006-2010, reflecting the fact that the reimbursable travel expense roughly equals the corresponding revenue.

The results of these calculations are shown in Appendix F-3.

E. Operating Expenses

- In fiscal year 2005 SoftBrands Manufacturing had operating expenses of $23,808,000, including assigned and allocated corporate marketing, R&D and G&A expenses (see Appendix D-4B). This is a ratio of .471 to FY2005 revenue.

- SoftBrands' own FY2006 projections (Appendix D-3B) show operating expenses of $23,579,000 for SoftBrands Manufacturing, including shared Corporate projected allocations which is a ratio of .426 to FY2006 revenue.

- SoftBrands' actual results for FY2005 operating costs are shown in Appendix F-4 and the corresponding ratios calculated based on the information in Appendix D-4B. The FY2006 projected operating expenses are also shown in Appendix F-4 (taken from Appendix D-3B).

- In determining operating cost projections, BGAI, primarily using the FY2005 data, has analyzed the specific elements of revenue and the effect each would have on the operating costs.

- New licenses require significantly higher marketing and sales expenses, while maintenance requires very much less and Consulting and Training and third party and other sales need an in between level. Selling a new product like Fourth Shift Edition is much more difficult initially than selling an established product. However, this extra cost decreases as the number of installations increases. Sales and Marketing expense for the mix of products will therefore be computed as:

% of Revenue	FY2006	FY2007	FY2008	FY2009	FY2010
Licenses	40.0	37.5	35.0	35.0	35.0
Maintenance	5.0	5.0	5.0	5.0	5.0
Consulting & Training	15.0	15.0	15.0	15.0	15.0
Third Party and other	10.0	10.0	10.0	10.0	10.0

- Research and Development costs are related to both licenses and to maintenance. The R&D costs will be dependent on both the new product development and on maintenance of the current products. We will deal with this on a fixed percent of total revenues. We will use 12% of revenue as the full R&D cost.

- Direct and Corporate G&A for SoftBrands Manufacturing will be dealt with as a percent of total revenue. While it usually does not exceed 15% in a stable business, SoftBrands Manufacturing had a .204 ratio in FY2005 but projects a ratio of only .137 for FY2006 (which seems very questionable).

- To be conservative, BGAI has assumed that Manufacturing G&A will start at .180 of revenues in FY2006 and gradually drop to .160 in FY2010.

Appendix F-5 shows the calculations of projected operating expenses using these assumptions.

F. NPV Analysis

- We have assumed that the applicable worldwide tax rate will be 38%.

- There are three components to the SoftBrands NOL carryforward. The first is $18.461M related to the Aremisoft acquisition of Fourth Shift. Originally $22.323M, as of 9/30/05

$3.862M of this NOL carryforward had been used. There is an annual increase of $2.0M in the availability to use these past operating losses and they can only be used for Manufacturing profits. The second NOL carryforward is unlimited in use. This is currently (9/30/05) at $17.2M. Based on information from SoftBrands Corporate Finance, the unlimited NOL carryforward will be used after using the limited NOL carryforward. It may be used to cover either Manufacturing or Hospitality earnings. The result is that virtually all profits for Manufacturing will be sheltered from taxes until the limited NOL carryforward is exhausted and then they will be partially sheltered by the limited NOL carryforward.

- There is a third NOL carryforward in the United Kingdom of $10.386M as of 9/30/05. At this point SoftBrands financial management could not identify the rules and restrictions on its use, nor was BGAI able to identify the EBITDA for UK-based operations either in Manufacturing or Hospitality.

- Manufacturing also has a $1.8M tax credit; but it can only be used after the NOL carryforwards have been exhausted, and it expires at the rate of $200K per year.

- We have reduced the taxable income for Manufacturing using the limited NOL carryforward and for Manufacturing and Hospitality using the unlimited US-based NOL carryforward. We have not used the UK-based NOL nor have we used the Manufacturing tax credits. By omitting both of these we have decreased the NPV-based value for both Manufacturing and Hospitality. This provides a more conservative valuation for the impairment assessment. Appendix H-1 shows all of the calculations in determining the actual taxes using the applicable NOL carryforwards.

- In order to determine the net present value of the after tax operating income stream, we have computed a reasonable discount rate to apply over the five year forecast period. This factor takes into consideration the expected cost of borrowing money for SoftBrands, the expected return on invested capital for SoftBrands and a risk factor to compensate for possible over optimism on revenue forecasts and potential increases in COGS or operating expenses.

- SoftBrands finance estimates that it would have had to pay an effective interest rate of around 12% to borrow money during FY2006 for the Manufacturing Business Unit.

- Investors in equity instruments would still be somewhat leery of SoftBrands' future growth and earnings ability and would look for an expected rate of return of about 18% on the Manufacturing Business Unit.

- The BGAI five year projections are conservative and assume relatively limited growth in revenues with well-controlled costs.

- We would therefore add a relatively small risk factor to the expected rate of return. Based on this analysis, we have selected 20% as a reasonable risk-adjusted discount rate to use in the SoftBrands Manufacturing NPV calculations for the fiscal years 2006-2010.

Appendix F-6 picks up the revenue, COGS and operating expense projections, adjusts for NOL carryforwards and then uses the expected worldwide tax rate and the selected Manufacturing NPV discount rate to compute the net present value for the SoftBrands Manufacturing Business Unit.

Based on these calculations, BGAI has determined an income-based value of $39,862,000 for the SoftBrands Manufacturing operations.

G. Adjustments for Terminal Value

There is one further adjustment required to determine the income-based value of the Manufacturing reporting unit: Terminal value of product-based cash flow

In producing a Revenue/EBITDA-based income projection for products and services, a defined forecast period is used representing that time for which the products/services have a realistic economic life expectancy. Nevertheless, the nature of software products is such that even when new sales have stopped there is usually residual income from add-on users and add-on features (for existing customers) and from ongoing maintenance and customer service. This terminal value is determined by producing a phase out projection for revenues and costs and then computing the NPV of this after tax operating income stream.

1. Current Products

The choice of a 5 year economic life for the current products was based on the expectation that by the end of FY2010 SoftBrands Manufacturing would have introduced replacement products for these functions, competitors would have released more advanced products or that computer technologies would have changed requiring wholly new products to be competitive.

Given those scenarios, Manufacturing would expect that its future revenues from the current products would decline rapidly as new sales disappeared and customers migrated to new products. For most software products, there would be some add-on and maintenance revenues for at least 2-3 years.

The following table represents our forecast for revenues, costs and NPV for the current products beyond FY2010. The FY2010 revenue for these products was $33,649,000. We have reduced the EBITDA income margin of 24.8% in FY2010 to 20.0% and have increased the NPV factor to 25% (from 20%). We have not used any of the NOL carryforward:

Current Products NPV Summary				
($000)	FY2011	FY2012	FY2013	Total
Revenues	20,000	10,000	5,000	35,000
Operating Income (20.0%)	4,000	2,000	1,000	7,000
Oper. Inc. After Tax (38%)	2,480	1,240	620	4,340
NPV Factors (25%)	.354	.283	.226	
NPV	878	351	140	1,369

This terminal value of $1,369,000 for current products must be added to Manufacturing's income-based value.

2. New Products

The choice of a 5 year economic life for the new products was based on the expectation that by the end of FY2010 SoftBrands Manufacturing would have started to introduce replacement products for these functions, competitors would have released advanced products or computer technologies would have changed so much as to require additional new products to be competitive.

Given those scenarios, Manufacturing would expect that its future revenues even from new products would be affected as new sales declined.

The following table represents our forecast for revenues, costs and NPV for the new products beyond FY2010. The FY2010 revenues from the new products were $36,227,000. We have decreased the EBITDA income margin of 24.5% in FY2010 to 22.5% and have increased the NPV factor to 25% (from 20%). We have not used any of the NOL carryforward:

New Products NPV Summary				
($000)	FY2010	FY2011	FY2012-FY2013	Total
Revenues	35,000	20,000	10,000	65,000
Operating Income (22.5%)	7,875	4,500	2,250	14,625
Oper. Inc. After Tax (38%)	4,883	2,790	1,395	9,068
NPV Factors (25%)	.354	.283	.204	
NPV	1,728	790	285	2,803

This terminal value of $2,803,000 must be added to the Manufacturing income-based value.

3. Adjusted Value

Using the 5 year NPV calculated value for Manufacturing of $39,862,000 and then adding $1,369,000 for the current products terminal value and $2,803,000 for the new products terminal value yields an adjusted income-based value of $44,034,000 for the Manufacturing reporting unit.

SECTION VI. Income-Based Valuation of Hospitality Reporting Unit

This section will deal with the income-based valuation of the second of SoftBrands' two reporting units: Hospitality.

SoftBrands Hospitality has been offering a wide range of technically unrelated products, acquired over a number of years, running on various platforms with quite different architectures. During 2002 and particularly 2003, SoftBrands tried to construct and implement a strategy which would produce an integrated product line to which the property management customers could migrate in a rational, timely fashion. Unfortunately, in spite of spending millions of dollars on new product development, the position at FYE03 was dismal and SoftBrands decided to completely reorganize this business unit, introduce all new management and significantly cut back the operations to ensure profitability while still trying to deliver a usable property management system.

As reconstructed, SoftBrands Hospitality continued to support the current PORTfolio PMS products principally in a maintenance mode. Medallion is now targeted to become the key global PMS product through ongoing development activities. The RIO leisure management system still appears to be competitive in certain markets and will continue to be supported with focus on improving scalability and reliability.

Going forward, the SoftBrands Hospitality products will principally address the Property Management Systems area. The projected profit streams from the current and new products represent a basis for determining the value of the Hospitality business on a future income basis. We have forecast the revenues, operating costs and EBITDA income for the current and enhanced products. BGAI has prepared a five-year forecast and determined the NPV.

These are the assumptions used for SoftBrands Hospitality revenue forecasts, cost projections and NPV analyses.

A. General

- The continuing SoftBrands hospitality products are a mixture of some fairly old products which have been somewhat improved during the past two years with some planned enhancements. Fortunately, for SoftBrands, there are no dominant competitors in its particular market space and these smaller customers are not likely to spend the money to migrate to other competitive products as long as the SoftBrands products perform satisfactorily and the customers can see continuing support from SoftBrands.

- SoftBrands will need to clearly define, implement and communicate its own long term strategy so that it can keep its current customers and attract some new customers. This strategy probably depends on making significant acquisitions if the business is to grow and become reasonably profitable.

- Given this scenario, with an appropriate marketing strategy, SoftBrands should be able to retain a substantial part of its customer base while attracting a few new customers in Asia/Pacific and in world-wide third tier markets for its Medallion products.

- At present, there are no plans for new products.

- In making the forecasts and projections, BGAI has assumed a five-year economic life.

B. Revenues – Current Customers

- For licenses, it is assumed that SoftBrands will obtain some add-on sales from existing property management customers (additional functions and features). On a blended basis for all products, these sales revenues will be stable in FY2006 and then decline by 10% in FY2007 and FY2008, 15% in FY2009 and 20% in FY2010.

- For maintenance revenues, it is assumed that current customers will erode at 10% per year for FY2005-2008 and then at 15% per year for FY2009-2010. Maintenance will increase from add-on and new licenses (18% of the previous year's license revenues for current customers and 20% for new customers).

- Consulting and training will follow the same pattern as license revenues for FY2006-2010.

- Equipment and third party sales will be less significant, and have been reduced to 50% of current year license revenues for current customers. Note that this now includes reimbursable expenses.

- No differentiation is being made among the various property and leisure management product lines.

Appendix G-1 shows the results of using these assumptions to calculate the revenues for the current Hospitality products; it is based on the FY2005 financial results shown in Appendix D-4A.

C. Revenues – New Customers

- New customer licenses for the enhanced Medallion products will start at $.5M in FY2006, increase by 100% in FY2007 and FY2008 and then by 50% during FY2009 and FY2010.

- Maintenance for these new customers will start in FY2006 at the rate of 20% of the previous year's license revenue. There will be no erosion of new customers through FY2010.

- Consulting and training will occur at 50% of license fees for the new customers during each year.

- Third party, equipment and reimbursed travel will have revenue equal to 50% of current year new customer license revenue.

Appendix G-1 shows the results of using these assumptions in calculating the revenues for the new customers.

- At present, there are no plans for new products.

- In making the forecasts and projections, BGAI has assumed a five-year economic life.

B. Revenues – Current Customers

- For licenses, it is assumed that SoftBrands will obtain some add-on sales from existing property management customers (additional functions and features). On a blended basis for all products, these sales revenues will be stable in FY2006 and then decline by 10% in FY2007 and FY2008, 15% in FY2009 and 20% in FY2010.

- For maintenance revenues, it is assumed that current customers will erode at 10% per year for FY2005-2008 and then at 15% per year for FY2009-2010. Maintenance will increase from add-on and new licenses (18% of the previous year's license revenues for current customers and 20% for new customers).

- Consulting and training will follow the same pattern as license revenues for FY2006-2010.

- Equipment and third party sales will be less significant, and have been reduced to 50% of current year license revenues for current customers. Note that this now includes reimbursable expenses.

- No differentiation is being made among the various property and leisure management product lines.

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- Third party, equipment and reimbursed travel will have revenue equal to 50% of current year new customer license revenue.

Appendix G-1 shows the results of using these assumptions in calculating the revenues for the new customers.

- Research and Development costs are related to both licenses and to maintenance. The R&D costs will primarily be dependent on new product development and somewhat less so on maintenance of the current products. We will deal with R&D on a fixed percent of total revenues. We will use 14% as the full R&D cost.

- G&A for SoftBrands Hospitality will be dealt with as a percent of total revenue. We have reduced this from the SoftBrands FY2005 G&A of 21.1%. With the restructuring, the G&A should start at no more than 17.5% and drop to 15.5% over the forecast period. This includes the allocation from Corporate G&A.

Appendix G-5 shows the calculations of projected operating expenses using these assumptions.

F. NPV Analysis

- The use of the NOL carryforwards has been discussed in Section V (Manufacturing). For Hospitality, only the unlimited NOL carryforward is applicable. We will not consider the UK-based NOL carryforward in these calculations. The applicable use of the NOL is calculated in Appendix H-1. Note that Manufacturing earnings will use up most of the NOL carryforward so this will have little effect on the valuation of the Hospitality Business Unit.

- We have also assumed that the applicable worldwide tax rate will be 38%.

- In order to determine the net present value of the after tax operating income stream, we have computed a reasonable discount rate to apply over the five year forecast period. This factor takes into consideration the cost of borrowed money for SoftBrands, the expected return on invested capital for SoftBrands and a risk factor to compensate for possible over optimism on revenue forecasts and potential increases in COGS and operating expenses.

- SoftBrands believes it would have to pay an effective interest rate of 14% to borrow funds at this time for the Hospitality business.

- Investors in equity instruments would still be concerned about SoftBrands' future Hospitality growth and earnings ability and would look for an expected rate of return of about 20%.

- The BGAI projections assume a slow growth in revenues but with carefully controlled costs so as to generate increasing profits after FY2006.

- We would add a substantial risk factor to the expected rate of return for Hospitality. Based on this analysis, we have selected 25% as a reasonable risk-adjusted discount rate to use in the SoftBrands Hospitality NPV calculations. We consider the Hospitality revenue forecasts somewhat more risky than the Manufacturing revenue forecasts.

Appendix G-6 picks up the revenue, COGS and operating expense projections and then uses the net operating loss and the expected worldwide tax rate, along with the selected Hospitality NPV discount rate to compute the net present value for the SoftBrands Hospitality operations.

Based on these calculations, BGAI would assign an income-based value of $4,266,000 to the SoftBrands Hospitality operations.

G. Adjustments for Terminal Value

There is one further adjustment required to determine the income-based value of the Hospitality reporting unit: Terminal value of product-based cash flow.

In producing a revenue-based operating income projection for products and services, a defined forecast period is used representing that time for which the products and services have a realistic economic life expectancy. Nevertheless, the nature of software products is such that even when new sales have stopped there is usually some residual income from add-on users and add-on features (for existing customers) and from ongoing maintenance and customer service. This terminal value is determined by producing a phase out projection for revenues and costs and then computing the NPV of this after tax operating income stream.

1. Current Customers

The choice of a 5 year economic life for the current products was based on the expectation that by the end of FY2010 SoftBrands Hospitality would have introduced replacement products for these functions, competitors would have released advanced products or the computer technologies would have changed so as to require new products to be competitive.

Given those scenarios, Hospitality would expect that its future revenues from the current products would decline rapidly as new sales disappeared and customers migrated to new products.

For most software products, there would be some add-on and maintenance revenues for at least 2-3 years.

The following table represents our forecast for revenues, costs and NPV for the current products. The FY2010 revenue for these products was $11.607M. We have used the same EBITDA income margin of 13% as in FY2010, but have increased the NPV factor to 27.5% (from 25.0%). We have not included any NOL carryforward:

Current Product NPV Summary				
($000)	FY2011	FY2012	FY2013	Total
Revenues	6,000	4,000	2,000	12,000
Operating Income (13%)	780	520	260	1,560
Oper. Inc. After Tax (38%)	484	322	161	967
NPV Factors (27.5%)	.289	.232	.185	
NPV	140	75	30	245

This terminal value of $245,000 for current customers must be added to Hospitality's income-based value.

2. New Customers

The choice of a 5 year economic life for the new customers for the enhanced products was based on the expectation that by the end of FY2010 SoftBrands Hospitality would have introduced replacement products for these functions, competitors would have released advanced products or the computer technologies would have changed so as to require additional new products to be competitive.

Given those scenarios, Hospitality would expect that its future revenues, even from the new customers, would decline rapidly as even those new customers migrated to newer products.

The following table represents our forecast for revenues, costs and NPV for the new products. In FY2010 revenues from the new products were $10.300M. We have used the same EBITDA income margin of 13.0% as in FY2010, but have increased the NPV factor to 27.5% (from 25%). We have not included any NOL carryforward:

New Products NPV Summary				
($000)	FY2011	FY2012	FY2013	Total
Revenues	8,000	6,000	3,000	17,000
Operating Income (13.0%)	1,040	780	390	2,210
Oper. Inc. After Tax (38%)	645	484	242	1,371
NPV Factors (27.5%)	.289	.232	.185	
NPV	186	112	45	343

This terminal value of $343,000 for new customers must be added to the Hospitality income-based value.

3. Adjusted Value

Using the 5 year NPV calculated value for Hospitality of $4,266,000 and then adding $245,000 for the current customer terminal value and $343,000 for the new customers terminal value yields an adjusted value for Hospitality of $4,854,000.

SECTION VII. Impairment Analysis for Manufacturing and Hospitality

Based on the rules in SFAS 142, each company is responsible for determining at least once a year whether the book value of its goodwill has been impaired. This is a two-step process. The first step is to establish the fair value of each reporting unit and compare it to the carrying value of that reporting unit. Carrying value is essentially defined as the "equity value" in the reporting unit. Fair value is the current transaction price at which willing parties would sell or buy a reporting unit. Fair value can be based on comparable market values or on the present value of estimated future income.

If the current fair value is greater than the current carrying value, then no further analysis is required; the carrying value of the goodwill is shielded from impairment. If, however, the fair value is less than the book value, then the impairment process must be followed to reduce the value of the goodwill. In this report we will only implement step one. If the impairment process is needed, it will be covered in a separate study and report.

As previously discussed, SoftBrands has two reporting units: Manufacturing and Hospitality. Each needs to be separately analyzed to determine its fair value and its carrying value. This section will deal first with fair value and then with carrying value.

A. Fair Value - Manufacturing

In Section IV of this report, the market-based value of the Manufacturing reporting unit was determined as $81,717,000.

In Section V, the income-based value of the Manufacturing reporting unit was determined to be $44,034,000.

Averaging these two values yields $62,876,000 as the fair value of the Manufacturing reporting unit. This is the price that a willing buyer would pay if SoftBrands wished to sell this business without any financial pressure and with its 9/30/05 balance sheet (except for the intra-company receivable).

B. Fair Value - Hospitality

In Section IV of this report, the market-based value of the Hospitality reporting unit was determined as $8,266,000.

In Section VI, the income-based value of the Hospitality reporting unit was determined to be $4,854,000.

Averaging these two values yields $6,560,000 as the fair value of the Hospitality reporting unit. This is the price that a willing buyer would pay if SoftBrands wished to sell this business without any financial pressure and with its 9/30/05 balance sheet (except for the intra-company negative A/R).

C. Carrying Value - Manufacturing

The Manufacturing reporting unit constructed balance sheet as of 9/30/05 is shown in Appendix D-5. The summary balance sheet for Manufacturing is shown below after Corporate allocations and eliminations:

Assets (\$000)		**Liabilities (\$000)**	
Current Assets	10,675	Current Liabilities	3,463
Intra-Company A/R	10,969	Deferred Revenue	12,503
Fixed Assets (net)	1,105	Accrued Restructuring	188
Other Assets	501	Long Term Liabilities	88
Intangible Assets (net)	3481		
Goodwill (net)	21,756	Total Liabilities	16,242
Total Assets	48,487		

This yields a carrying value of $32,245,000 for the Manufacturing reporting unit. Subtracting the intra-company receivable reduces the carrying value to $21,276,000.

D. Carrying Value - Hospitality

The Hospitality reporting unit balance sheet as of 9/30/05 is shown in Appendix D-5. The summary balance sheet for Hospitality is shown below without any Corporate allocations or eliminations:

Assets (\$000)		**Liabilities (\$000)**	
Current Assets	4,645	Current Liabilities	1,767
Intra-Company A/R	(7,404)	Deferred Revenue	2,889
Fixed Assets (net)	594	Accrued Restructuring	15
Other Assets	57	Long Term Debt	88
Intangible Assets (net)	212		
Goodwill (net)	1,375		
		Total Liabilities	4,759
Total Assets	(521)		

This yields a carrying value of ($5,279,000) for the Hospitality reporting unit. Subtracting the intra-company negative A/R increases the carrying value to $2,125,000.

E. Determination of Need for Impairment - Manufacturing

The fair value for the Manufacturing reporting unit was determined as $62,876,000 (Section VII-A). The carrying value was determined as $21,276,000 (Section VII-C). The fair value is greater than the carrying value. Therefore, no impairment adjustment is necessary for the Manufacturing reporting unit goodwill.

F. Determination of Need for Impairment – Hospitality

The fair value for the Hospitality reporting unit was determined as $6,560,000 (Section VII-B). The carrying value was determined as $2,125,000 in Section VII-D. The fair value is greater than the carrying value. Therefore, no impairment adjustment is necessary for the Hospitality reporting unit goodwill.

Revenue Projections - Manufacturing							
	Actual	Projections					
($000)	Fiscal Year 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Fiscal Year 2006-2010 Total
Licenses - Current prod.	7,310	6,945	6,250	5,313	4,250	3,400	26,157
Licenses - new prod.	366	1,464	4,392	8,784	14,054	18,271	46,965
Total Licenses	7,676	8,409	10,642	14,097	18,304	21,671	73,122
Prev. Year Maint - Curr. Prod.**		33,672	31,767	29,979	28,231	26,471	
Erosion - current		3,367	3,177	2,998	2,823	2,647	
Add-on - current		1,462	1,389	1,250	1,063	850	
Full Year Maint. - current	30,611	31,767	29,979	28,231	26,471	24,674	141,121
Add-on Maintenance - new		73	293	878	1,757	2,811	
Full Year Maint. - new	86	159	452	1,330	3,087	5,898	10,927
Cons and Training - current	9,359	8,891	8,002	6,802	5,441	4,353	33,489
Cons and Training - new	199	878	2,635	5,270	8,433	10,962	28,179
Third Party & Other - current	2,627	2,496	2,246	1,909	1,527	1,222	9,400
Third Party & Other - new	40	88	264	527	843	1,096	2,818
Total Revenue *	50,598	52,688	54,220	58,166	64,107	69,876	299,057

* Projections are BGAI calculations and are not the same as SoftBrands projections for any of the fiscal years 2006-2010; source of FY2005 numbers is Appendix D-4A

** Maintenance rates have beeen increased from 18% to 20% for all FY2006 renewals

COGS Ratios - Manufacturing			
($000)	FY2005 Revenues	FY2005 COGS	Ratio
License	7,676	251	.033
Maintenance	30,697	7,340	.239
Consulting and Training	9,558	7,099	.743
Third Party	2,667	2,200	.825
Total	50,598	16,890	.334
	Source: Appendix D-7		

COGS Projections - Manufacturing *						
	Fiscal Years					
($000)	2006	2007	2008	2009	2010	Total
Revenues						
Licenses	8,409	10,642	14,097	18,304	21,671	73,122
Maintenance	31,926	30,431	29,562	29,558	30,572	152,048
Consulting and Training	9,769	10,637	12,072	13,874	15,315	61,668
Third Party & Other	2,583	2,510	2,436	2,371	2,318	12,218
Total Revenue	52,688	54,220	58,166	64,107	69,876	299,057
COGS						
Licenses - ratio	.050	.050	.050	.050	.050	
$	420	532	705	915	1,084	3,656
Maintenance - ratio	.225	.225	.225	.225	.225	
$	7,183	6,847	6,651	6,651	6,879	34,211
Cons. & Training - ratio	.750	.725	.700	.700	.700	
$	7,327	7,712	8,450	9,712	10,721	43,922
Third Party & Other- ratio	.800	.800	.800	.800	.800	
- $	2,067	2,008	1,949	1,896	1,854	9,774
Total COGS	16,998	17,099	17,756	19,174	20,537	91,563
		* These are all BGAI projections				

Operating Cost Ratios - Manufacturing				
($000)	FY 2005		FY 2006 SB Projections	
	$	Ratio to Revenue	$	Ratio to Revenue
Sales and Marketing	7,852	.155	10,047	.181
Research and Dev.	5,624	.111	5,935	.107
G&A (incl. corp. alloc.)	10,332	.204	7,597	.137
Total Operating Costs	23,808	.471	23,579	.426
Total Revenues	50,598		55,400	
	Source: Appendices D-4B and D-3B			

Operating Expense Projections - Manufacturing *						
($000)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Total
Revenues						
Licenses	8,409	10,642	14,097	18,304	21,671	73,122
Maintenance	31,926	30,431	29,562	29,558	30,572	152,048
Consulting and Training	9,769	10,637	12,072	13,874	15,315	61,668
Third Party & Other	2,583	2,510	2,436	2,371	2,318	12,218
Total Revenue	52,688	54,220	58,166	64,107	69,876	299,057
Operating Costs						
Marketing & Sales - Ratios						
Ratio to Licenses	.400	.375	.350	.350	.350	
Ratio to Maintenance	.050	.050	.050	.050	.050	
Ratio to Cons. & Trng	.150	.150	.150	.150	.150	
Ratio to Third Party	.100	.100	.100	.100	.100	
Marketing & Sales - $						
Licenses	3,363	3,991	4,934	6,407	7,585	26,279
Maintenance	1,596	1,522	1,478	1,478	1,529	7,602
Cons. & Training	1,465	1,596	1,811	2,081	2,297	9,250
Third Party & Other	258	251	244	237	232	1,222
Total Marketing & Sales	6,683	7,359	8,466	10,203	11,642	44,354
R&D - Ratio	0.12	0.12	0.12	0.12	0.12	
- $	6,323	6,506	6,980	7,693	8,385	35,887
G&A						
Bus. Unit + Corp. Ratio	.180	.175	.170	.165	.160	
Bus. Unit + Corp $	9,484	9,488	9,888	10,578	11,180	50,618
Total Operating Costs	22,490	23,354	25,335	28,473	31,208	130,859
Ratio of Op. Costs to Revenue	0.427	0.431	0.436	0.444	0.447	0.438
	* These are all BGAI projections					

NPV Calculations - Manufacturing *						
($000)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Total
Revenues	52,688	54,220	58,166	64,107	69,876	299,057
COGS	16,998	17,099	17,756	19,174	20,537	91,563
Operating Expenses	22,490	23,354	25,335	28,473	31,208	130,859
Pretax Operating Income	13,200	13,767	15,076	16,460	18,131	76,634
Lesss NOL Adjustment	13,200	12,682	2,000	2,000	2,000	31,882
Adjusted Income	0	1,085	13,076	14,460	16,131	44,752
Taxes (38%)	0	412	4,969	5,495	6,130	17,006
After Tax income	13,200	13,355	10,107	10,965	12,001	59,628
NPV factors (20%)	.917	.764	.637	.530	.442	
NPV	12,104	10,203	6,438	5,811	5,304	39,862
	* These are all BGAI projections.					

Professional Summary of Burton Grad

SoftBrands

Burton Grad, President of Burton Grad Associates, Inc. (BGAI), has a long record of significant contributions to the computer software and services industry. He has experience both as a user and developer of application and systems products and as consultant, innovator, businessman and leader in the computer software and services industry.

Since 1978 he has been a consultant to companies providing software products, software professional services, processing services and other computer software and services offerings:

- Strategic planning, management and organizational consulting, and product analysis, evaluation and review
- Company and product acquisition studies including due diligence and business valuations
- Planning, assessment and analysis of business operations including quality and productivity measurements

Work is performed personally or with the assistance of experienced specialists in market analysis, customer services, systems programs and industry applications on mainframe and departmental computers as well as on client/server and Internet/based systems.

This is a partial list from the more than 200 BGAI clients:

Artesyn Technologies
Broadview Associates
CIBER, Inc.
DA Consulting Group
Decision Consultants, Inc.
Elron Software, Inc.
Discount Investment Corporation
First Dallas, Ltd.
Geocapital Partners
Grace Consulting and Technologies
i2 Technologies, Inc
Keane, Inc.
Mediware, Inc.
Motive Communications, Inc.
SoftBrands, Inc.
Sterling Commerce, Inc.
Sterling Software, Inc.
Summit Partners
Synhrgy HR Technologies
TSI International

Work Achievements

Burton Grad Associates, Inc. (1978 - Present)

* Strategic planning, management and organizational consulting, and product analysis, assessment and review

* Company, product and technology valuation studies for financial, tax, capitalization and acquisition purposes

* Due diligence studies on acquisitions of computer software/services companies

* Business assessment studies and implementation projects for product strategy, development, quality management and customer service

* Expert witness on industry practices and damages

Customer Care, Inc. (1992 - 1996)

* Published ***CustomerCare Newsletter*** and ***CustomerCare Survey*** directed at software companies' customer services activities: support, documentation, training and product-related consulting

* Provided consulting on customer service processes and training for customer service personnel

Heights Information Technology Service (1979 - 1983)

* Performed professional services for applications and systems development
* Used professionals on a remote, work at home basis with effective project management

International Business Machines Corporation (1960 - 1978)

* Definition, design and implementation of application development systems strategy resulting in release of IBM's development management systems
* Development of application programs for every major industry

* Establishment of joint planning and programming development with European operations
* Announcement, development and initial support of CICS
* Management of application development for small business and process control systems

* Responsibility for the production, release and maintenance of almost 200 programs
* Conception of approach to and programs for text processing and office automation systems
* Development and expansion of computer based training systems

* Development of management science and scientific programs
* Participation in the structuring and unbundling of IBM program products
* Creation of the Study Organization Plan for specifying and designing application systems

General Electric Company (1949 - 1960)

* Programming of the first commercial computer (Univac I in Louisville)
* Development of discrete simulation techniques for manufacturing planning and control
* Invention of decision tables

* Study of automated factory design and implementation
* Initiation and use of advanced techniques for production, inventory and quality control

Other Professional Activities

1972-1996 **ITAA**

* Computer Software and Services Trade Association

* President, Treasurer and Board member of American Software Association Division of ITAA; Member of ITAA Board

* Chair and member of various committees (Industry Relations, Software Capitalization, Software Openness, Technology Information Services, Quality Management); Executive Committee of Information Technology Foundation (Project Office)

1968 and 1979 Principal author of ***Management Systems***, published by Holt, Rinehart and Winston. Used for colleges and businesses for computer application system methodology and design.

1950-Present Speaker and chair at conferences and workshops and contributor to professional journals on various information technology subjects including decision tables, quality control, systems engineering and software capitalization

1997-Present Chair of Software Business History Committee of the Computer History Museum which is the successor to the Software History Center, a non-profit organization aimed at preserving and communicating the legacy of the software industry; co-editor of special issue of IEEE Annals of Computing History on software history; organized and edited oral history interview projects with Smithsonian NMAH, the Charles Babbage Institute and the Computer History Museum.

List of Materials Requested

1. Business description and strategic plans, including types of products, services, pricing, projects, etc. as of the valuation date

2. Financial statements for the identified Global 360 services and markets for the preceding two years, with income, balance sheets and cash flows; revenues and costs should be broken down by types of products/services and expense categories.

3. Expected effective Global 360 tax rate (federal, state and international) for budget purposes as of the valuation date

4. Organization Chart and number of employees by organizational component as of the valuation date

5. Descriptions of products and services

6. Financial projections for revenues and operating costs broken down by products and services

7. Availability and use of any net operating loss carryforwards for the company

8. Market opportunities and competitive analysis for the company

9. Customer Base Analysis by product/service including information on contract renewals, add-on sales and new accounts

10. Detailed information on all potential intangible assets

List of Materials Received

1. Functional headcount and Projected headcount – 4/1/06
2. Organization Chart
3. Pro Forma Income Statement – 3/30/06
4. BOS Description
5. Product Descriptions
6. Competitive Marketplace – Gartner
7. Competitive Products/Companies
8. Consolidated Income Statements – 2004, 2005, 1Q06
9. Company Overview – Website
10. Purchase Price
11. Production Acquisition History
12. Intangible Assets Rollforward
13. Income Statements – Revenue and COS by Product – 2004, 2005, 1Q06
14. Balance Sheets – 2005, 2006
15. COS, R&D, G&A and S&M – 2005
16. COS, R&D, G&A and S&M – 1Q06
17. Pro Forma Balance Sheet – 3/30/06
18. Acquisition Information Memorandum – 11/2005
19. Patent Portfolio
20. EY SFAS141 Analysis
21. Professional Services Projection Model
22. Outsourcing Services – 2006 Projections
23. Product Cancellations
24. Operating Expense Details – 2005
25. Third Party Software Revenue and Cost of Sales Information – 2005
26. Cost of Sales Details
27. Deferred Revenue Details
28. EMEA and ASPAC Services Revenue – 2005
29. G&A – 2005 Analysis of Excluded non-GAAP Items
30. Proforma Modifications to 2005 Income Statement

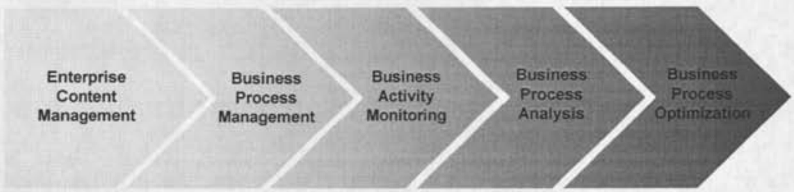
People Contacted

- Donna Allen
- Chuck Barnett
- Ben Cody
- George Ellis
- Dana Khoyi
- Bob Kouba
- Patricia McArdle
- Lucy Norris
- John Oldham
- Steve Russell
- Pam Schneider
- Scott Winzeler
- Don Woolf

Executive summary - Global 360 Business Description

Global 360 is a leading provider of Business Process Management ("BPM") and Business Process Optimization ("BPO") application suites for enterprises that need to automate, measure and improve resource-intensive business processes across different communities including customers, employees and partners. Global 360's component-based enterprise, suites span the software markets traditionally known as Enterprise Content Management ("ECM"), Business Process Management ("BPM"), Business Activity Monitoring ("BAM"), Business Process Analysis ("BPA") and Business Process Optimization ("BPO"). With vertical application expertise in financial services, insurance, healthcare and government, Global 360's products allow organizations to optimize critical business processes, reduce expenditures, improve efficiency and provide world-class customer service with a comprehensive BPM/BPO suite.

Business Process Management and Business Process Optimization (BPM/BPO) Suite



The rapid adoption of BPM solutions and the future adoption of BPO are being driven by organizations' increasing need to streamline business processes, reduce costs and improve customer service to become more competitive. In most organizations, simple cost-cutting measures have already been exhausted. In order to achieve efficiency and growth goals going forward, organizations will need to find new ways to streamline operations. Identifying business processes, determining which processes to improve and how to improve them are major challenges for organizations of all sizes. Once assessments are made, organizations are empowered to automate and optimize processes.

Global 360 offers the leading product functionality, and a global customer base, in the rapidly growing BPM/BPO enterprise software market. Global 360 is unique in that it has expanded beyond BPM and developed an agnostic BPO suite that can leverage customer investments in ECM and enterprise applications. Within the BPM/BPO market, IDC estimates that the BPM segment will grow almost 24% annually from $1.1 billion in 2004 to $3.2 billion in 2009 and expects the ECM market to grow 14% annually from $2.8 billion in 2004 to $5.4 billion in 2009. Gartner states, "We are now on the cusp of a new generation of software business tools. The Business Process Management Suite (BPMS) places in the hands of business leaders the ability to define their process flows, re-sequence process steps, change business rules, simulate enhancements and continually optimize their processes with little, if any, IT involvement." Global 360 is positioned to capitalize on this adoption wave with its comprehensive BPM/BPO application suites and extensive and loyal installed base of over 2,000 customers. Global 360's customer base provides a foundation for long-term, organic growth opportunities for follow-on BPM and BPO software sales.

Global 360 has a track record of financial success and customer stability, with high levels of predictable, recurring revenue. In 2004, Global 360 generated revenue of $71.1 million and EBITDA of $14.9 million and is projected to generate pro forma revenue of $83.3 million and EBITDA of $15.0 million in 2005. Global 360 has a loyal and quality customer base with significant penetration of the Fortune 1000 companies and a retention rate of over 98%. Currently, the typical Global 360 customer has between two to three applications utilizing Global 360's technology to run mission-critical functions. Furthermore, this installed repository and workflow base is the foundation for significant expansion revenues from the Global 360 BPM/BPO suites. Global 360 has a strong management team with a proven track record to execute on the expanding BPM/BMO market opportunity. Founded in August 2000, Global 360 is headquartered in Dallas, Texas and has 321 employees across 17 offices worldwide.

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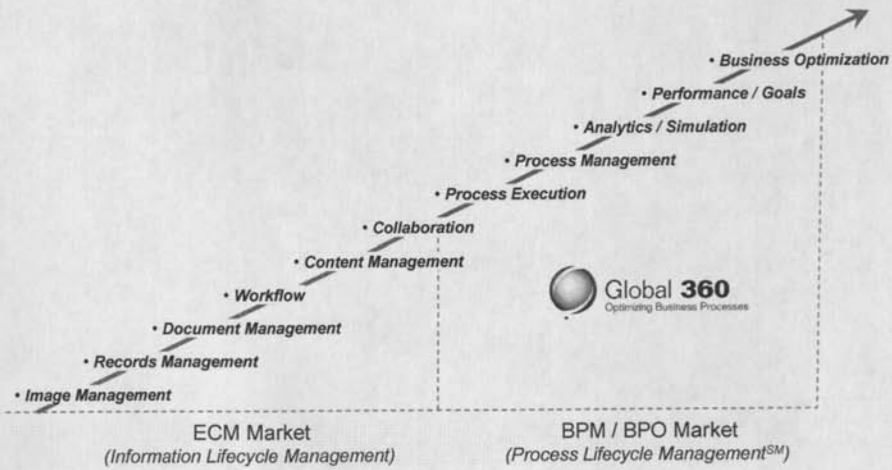
Industry overview & Competition

Businesses are continually seeking ways to drive efficiencies in how they operate. Historically, workflow applications focused on managing people and automating how people worked. In their shift toward building process-centric organizations, businesses are now realizing that future operational efficiencies will result from focusing on managing processes and automating how people manage work. The end goal for most Fortune 1000 companies is to build self-healing (continuously improving) processes that are self-service oriented (managed and operated by fewer people). Utilizing a combination of BPM/BPO products enables corporations to achieve real-time insight and control over their business processes. This provides business executives the ability to achieve a much higher level of process improvement and agility in their operations.

Five current enterprise application markets are converging into what Global 360 calls the Process Lifecycle Management[S1]SM (or BPM/BPO) market. This market will extend and enhance the Information Lifecycle Management (or ECM) market. These markets include BPM, BPA, BAM and BPO. Convergence of these markets is a result of organizations' need to automate, manage, model, simulate and optimize processes across human-to-human business flows and transactional and content-based systems.



BPM/BPO software enables organizations to improve efficiency by defining, organizing, monitoring and optimizing their mission-critical business processes. BPM/BPO represents a key paradigm shift for organizations as they move their focus from transaction and information applications to process applications. Key drivers for BPM/BPO adoption include:

- Organizational need to streamline business processes, reduce costs, and generate higher ROI
- Senior management initiatives to gain a process-centric view of the current state of the business
- Desire to dramatically reduce the amount of time to capitalize on new/changing business opportunities
- Shifting emphasis from function-centric to cross-function, process-centric orientation
- Need to embed and drive strategic management goals in daily business processes (Balanced Scorecard)
- Emphasis on compliance driven initiatives such as Sarbanes-Oxley and HIPAA
- Enabling senior executives and line-of-business employees with process tools as opposed to IT staff
- Improving customer satisfaction levels through segmentation metrics and real-time process analytics

The BPM market currently has a number of "pure-play" vendors as well as competing vendors from adjacent spaces. However, as the market embraces the significant value to be obtained from process efficiency and optimization versus process (workflow) management, Global 360 believes these "pure-play" vendors will struggle to integrate and deliver the foundation technologies required to meet customer demands. Furthermore, Global 360 believes it will be difficult for vendors from adjacent market segments to move their existing technology bases from a monolithic product to a suite of integrated, yet separable and open components that are required to meet customer process demands. The time to market for building new, integrated and open BPO solutions that include simulation, analytics, goal management, predictive optimization, modeling, and real-time monitoring dashboards is years due to the complexity of the technology base. As a result, many BPM vendors have had to offer BPO functionality through partnering as opposed to through in-house development.

In the current environment, BPM sales are primarily application focused. However, as more organizations realize the ROI benefits of process-centric optimization, Global 360 believes there will be a movement from process applications to process platforms. As platforms for building consistent BPM applications across the enterprise become the norm, the BPM market will likely develop in a manner similar to the way the ECM market developed; *i.e.,* customers will purchase their solutions from a few strategic vendors, pure-plays will struggle to survive at the fringes of the market, and the average selling price will increase. Global 360 believes it is uniquely positioned for both the current and future markets as its industry leading applications address the specific functional requirements of the current marketplace while its scalable, open BPM/BPO platform architecture provides the foundation for future process-centric enterprise initiatives.

Competition

The BPM/BPO market is highly fragmented with few vendors of scale. However, the rapid growth in the BPM/BPO markets has attracted competitors from a number of adjacent spaces as well as pure-play competition. Global 360's competitors can generally be classified into one of the following six categories:

- **Imaging and content + BPM:** Includes vendors who have a strong imaging and content management base and are now attempting to fill product gaps in order to call themselves "BPM" vendors. Specific examples include EMC (Documentum), FileNet, and IBM (Content Manager).
- **Process centric BPM:** Includes vendors whose strengths lie in process automation but lack content, process simulation, process analytics and/or optimization capabilities. Sample vendors include Fuego, Pegasystems and Savvion.
- **Case management:** Case management vendors combine document management repositories with collaboration technologies to create unified working environments. Sample vendors include FileNet, Interwoven and Vignette.
- **Applications:** Applications vendors provide targeted solutions to specific process issues such as claims processing, accounts payable processing and correspondence management. While pure applications providers solve specific business process issues, they do not have the process platform to support enterprises' full process optimization needs. Sample vendors include DST, Pegasystems and Clear Technology.
- **Home-grown:** Many organizations currently have home-grown process automation code that has been stitched together over years. These home-grown content and process applications typically cannot support the vast, rapidly changing requirements of today's process-driven organizations.
- **Business optimization server:** The business optimization server market combines process automation, analytics and optimization. Global 360 is the only vendor that currently offers complete BOS functionality.

The BPM/BPO market is at an inflection point in its development. As Gartner recently stated "BPM is becoming a product, not just a feature." Customers are transitioning away from focusing on specific features and functionality and are seeking vendors who provide comprehensive process management and optimization suites that contain highly customizable, process-centric platforms, multiple vertical and horizontal applications, and high-quality customer support. Industry leadership (vision and execution) and scale (long-term viability) will become increasingly more relevant in customer BPM/BPO purchasing decisions.

Competitive Overview

Updated: 5/31/06

List of Competitors

Global 360
http://www.global360.com/
http://www.actiontech.com/

Documentum (EMC):
http://www.documentum.com/

Filenet

Savvion
http://www.savvion.com/

Fuego (BEA)
http://www.fuego.com/

	Vendor Solutions										
Type	Goal Mgmt	Modeling & simulation	Workflow	Doc Mgmt	Analytics	Reporting	Mgmt console	Case Mgmt	Integration	Templates	Forms
BPM Suite	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Content centric Mgmt		oem	✓	✓	oem			✓		✓	✓
		✓	✓	✓	oem [illegible]	✓	✓	✓	✓	✓	✓
Pure Play		✓	✓		✓	✓	✓		✓	✓	✓
Pure Play		✓	✓			✓			✓		✓

Company	Type	Goal Mgmt	Modeling & simulation	Workflow	Doc Mgmt	Analytics	Reporting	Mgmt console	Case Mgmt	Integration	Templates	Forms
Handysoft http://www.handysoft.com/ (BIZFLOW)	Pure Play			✓			✓	✓				✓
Lombardi http://www.lombardisoftware.com	Pure Play	✓	✓	✓			✓	✓		✓	✓	✓
Pegasystems http://www.pega.com/	Pure Play		✓	✓	oem capevison	oem capevison	✓	✓			✓	
Staffware (TIBCO) http://www.tibco.com/	Pure Play		in progress	✓		✓	✓			✓	✓	✓

04/01/06 Global 360, Inc. Head Count

	North America Full Time	Canada	EMEA	ASPAC	Total	North America Part Time	Additions	Deletions
Corporate Marketing	7		4		11		1	-1
Sub Total	7	0	4	0	11	0	1	-1
General & Administration								
Finance & Accounting	15		3	2	20	2		-3
Administration	9		2	2	13			
Executive	5				5			-4
Ground Maintenance	0				0			-4
IT	7		1		8	1		
Legal & HR	2				2			-1
Security					0			
Sub Total	38	0	6	4	48	3	0	-12
Research & Development	65			2	67		2	-3
Sub Total	65	0	0	2	67	0	2	-3
Sales Organization								
BDM's & Sales	22		9	8	39		3	-3
Inside Sales	2				2		1	-1
Sales Engineers	20	3	10	6	39		3	-1
Sales Operations	8				8			
Sub Total	52	3	19	14	88	0	7	-5
Support Services								
IPP Support	5				5		1	
PSO	30		9		39		5	-1
Support	54		4	9	67		1	
Technical Account Manager	8				8			
Sub Total	97	0	13	9	119	0	7	-1
Total G360	**259**	**3**	**42**	**29**	**333**	**3**	**17**	**-22**
Information Outsourcing								
Director IOS	1				1			
IOS	93				93	3	4	-7
Sub Total	94	0	0	0	94	3	4	-7
Grand Total	**353**	**3**	**42**	**29**	**427**	**6**	**21**	**-29**

Employee and Organizational Summary

APPENDIX C-3
PAGE 1 of 3

Executive Management

- **Michael K. Crosno**, President & CEO, Global 360, Inc.
  - **Elaine Van Norman**, Executive Assistant
  - **Dan Aschman**, Director, Sales Operations
  - **Patricia McArdle**, VP, HR & General Counsel
  - **Jeff Sturrock**, VP, Business/Corporate Development
  - **Ben Cody**, VP, Product Mgmt. & Product Marketing
  - **Colleen Nichols**, VP, Corporate Marketing
  - **Bill Yarnoff**, VP, Alliances
  - **Michael Crosno**, Acting VP, Sales
  - **John Oldham**, SVP, Client Mgmt. & Services
  - **George Ellis**, SVP/CFO, Finance
  - **Steve Russell**, SVP, R&D

Client Management & Services

- **John Oldham**
  SVP
  Client Management & Services
  - ***Dan Aschman***
    Director
    Sales Operations
  - **Chuck Barnett**
    Director
    Information Outsourcing (IOS)
  - **Lucy Norris**
    VP
    Client Support & Management
  - **Don Woolf**
    Director
    Professional Services (PSO)

Global 360
Optimizing Business Processes

Products and services

APPENDIX C-4
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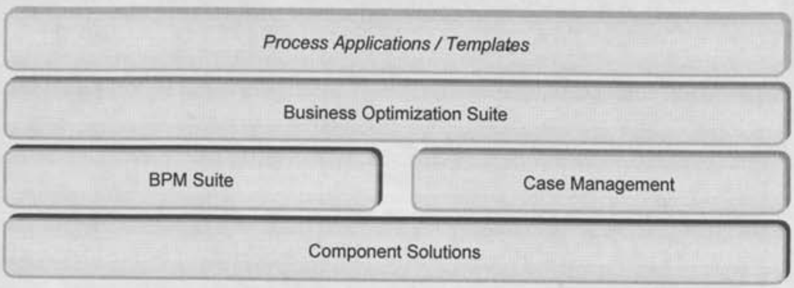
Global 360 offers a full suite of integrated products and services designed to manage and optimize resource and information intensive processes within and across various lines of businesses and functional areas. The suite is aimed at key strategic decision makers such as line of business executives, senior financial management and IT executives to enable them to align corporate business and financial strategies with business process priorities and outcomes. Using Key Performance Indicators derived from senior management input, human and system resources are dynamically assigned work based on business value and desired outcomes on an hour-by-hour, minute-by-minute basis. Past trends are combined with information on existing business conditions to predict issues such as service level performance and proactively adjust resource assignments and process behavior to ensure optimal process outcomes. Additionally, strategic process improvement opportunities may be easily identified and implemented based on business intelligence provided by process analytics and process simulation modules. The combined solution enables organizations to achieve business objectives such as higher return on investment, improved customer service and expense reduction.

Product Portfolio

Global 360 sells an industry-leading process optimization and performance management application (Business Optimization Suite – BOS), two core process management solutions (BPM Suite and Case Management), as well as several modular application components for managing content, images and reports. Additionally, a variety of process applications/templates based on industry best practices is available to jump start client implementations. The Company's BOS product integrates with Global 360's process management products, third party workflow and content products and ERP systems to provide true "end-to-end" process optimization for processes that span multiple systems and organizations.



Global 360 owns 20 active United States patents and has made corresponding filings with a number of international jurisdictions. These patents cover technologies that are currently incorporated within our software. The Company owns an additional 37 patents, which are not currently utilized within our product suites. The Company's active patents cover a broad range of content and process management concepts. Content management patents comprise many aspects of image processing, in particular how images are captured, displayed and annotated. Process management patents include how work is graphically defined, distributed, and processed by users. Historically, Global 360's patents have not generated significant royalty revenues but have served to protect the Company's investment in its intellectual property.

Portfolio overview

	Product	Users	Description
Enterprise Solutions	**Business Optimization Suite (BOS)**	■ New and existing BPM Suite clients ■ Users of 3rd party workflow, content management, ERP ■ Global 360 installed base	Application suite that enables business process optimization through process performance management, process analytics, process simulation and process modeling. Enables management of "end-to-end" process lifecycles - including those that span multiple process, workflow, content and transaction (ERP, CRM, Legacy) systems
	BPM Suite	■ New clients adopting BPM for process efficiencies ■ Existing Global 360 clients expanding BPM applications	Application suite that enables process automation, rapid process application design and deployment, content/events/process management, business rules management and real-time monitoring. Also includes robust system-to-system and human-to-system integration capabilities
	Case Manager	■ Compliance project office ■ Contract administration ■ Underwriting departments ■ Enrollment departments	Packaged application that automates, organizes and aggregates information into a single, case-oriented view. Enables collaboration among information workers driving to a decision or supporting an event in key process areas such as underwriting, claims adjudication and enrollment / on-boarding. Combines a sophisticated storage management infrastructure with rules-based process engine and collaboration features into one solution
Component Solutions	**Records Manager**	■ Marketed and sold in conjunction with BPM Suite	Enables the automated classification and management of corporate and government records for compliance and record keeping purposes. DoD 5015.2 certified and fully integrates into Global 360's BPM suite, version control and secure management system
	Report Manager	■ Marketed and sold in conjunction with BPM Suite	Electronically indexes and stores computer output from any line data, report or variety of print streams from transaction statements, invoices and budget analysis records and prepares them for on-screen viewing in the exact format of the original printed document
	Scan Manager	■ Marketed and sold in conjunction with BPM Suite	Transforms paper documents into electronic images and metadata that is usable within the BPM Suite, Case Manager or BOS. Provides high-capacity document capture features and supports multiple scanning stations in centralized or distributed mailroom configurations
Process Applications / Templates	**Accounts Payable**	■ Marketed and sold in conjunction with BPM Suite	Streamlines payables approval process, reducing cycle times and enabling organizations to capitalize on discounts and optimize payments based on cash flow objectives. Reduces invoice processing costs by 40% or more
	Product Credit Claims	■ Marketed and sold in conjunction with BPM Suite	Directly impacts bottom line by providing immediate, universal visibility to claim related information, enabling organizations to rapidly adjudicate claims and prioritize work based on claim value. Reduces cycle time to process product claims from 45 days to 1 week or less
	Customer Correspondence	■ Marketed and sold in conjunction with BPM Suite	Ensures high quality correspondence and customer service level attainment. Enables utilization of global resource pools for completing customer correspondence processing. Reduces the time and costs of customer inquiries by 30-50%.
	Compliance	■ Marketed and sold in conjunction with BPM Suite	Automates costly and time consuming control testing processes and enables real time compliance validation by embedding compliance controls directly within the business process. Supports key compliance initiatives such as Sarbanes-Oxley and Basel II

Business Optimization Suite (BOS) enables both "run time" and "design time" process optimization. Key modules include Performance Management, Process Analytics, Process Simulation and Process Modeling. The Performance Management module proactively adjusts processes and resources to maximize and optimize business performance on a real time basis as the process is running ("run time"). Process engine decisions based on current and predicted goals drive the optimal outcome. Process Analytics gives line-of-business managers the ability to trace and measure performance and obtain up-to-the-moment statistics about productivity, workloads, goal attainment and bottlenecks. This enables complete visibility and organizational control. Analytics combines with the Process Modeling and Simulation capabilities to identify and design strategic process improvements ("design time"). Modeling and Simulation also helps organizations perform ROI calculations such as the benefits and costs associated with incremental resources and also serves as a vital tool for business continuity planning. BOS delivers real time optimization of existing processes and resources as well as provides the platform for strategic, long term process improvement and optimization.

Business Process Management Suite provides a platform for automating and managing line of business processes as well as functional business processes. Business analysts may rapidly define business processes and rules and configure end user application interfaces and dashboards, all without programming or scripting. An integration framework enables connectivity to ERP and CRM systems as well as third party content management repositories. BPM Suite also may be packaged with application templates based on "best practices" for the automation of accounts payable, credit claims, correspondence and compliance processes. BPM Suite includes a robust content management infrastructure supporting high volume capture, storage and retrieval of images, documents, multi-media and other content types. The solution offers magnetic, database and optical content storage alternatives for information managed in the Global 360 system. Content classification is configurable and document meta-data can be defined by document type or use. The flexible architecture of the BPM Suite allows the content capabilities to be unbundled when customers only require the process management capabilities or desire to leverage an existing third party content repository.

Case Manager delivers a process-enabled case management application that collects and organizes information about customers, projects and processes into a virtual case file, known as a "case folder," which provides a single, common view of related information, tasks, prerequisites and deadlines. Common examples of case folders include those based on customers, claims, policies, loans and employees. Case Manager's repository is capable of storing a variety of web, desktop, image and multi-media content, as well as linking objects in external repositories. Case Manager enables access to documents, tasks, alerts and threaded discussions within a single case folder, in a deadline driven environment. Users may collaborate on assignments, which change and adapt along with other case folder attributes as the underlying process moves through various stages. Features such as email alert messages and comprehensive audit logs are also included.

Investment Protection Plan

Global 360's dedication to superior customer service has resulted in an unparalleled customer care and retention program known as the Investment Protection Program (IPP) that goes beyond the traditional "maintenance" offered by enterprise software vendors. Global 360 customers receive expert service from experienced specialists (support and client services) through this proactive program.

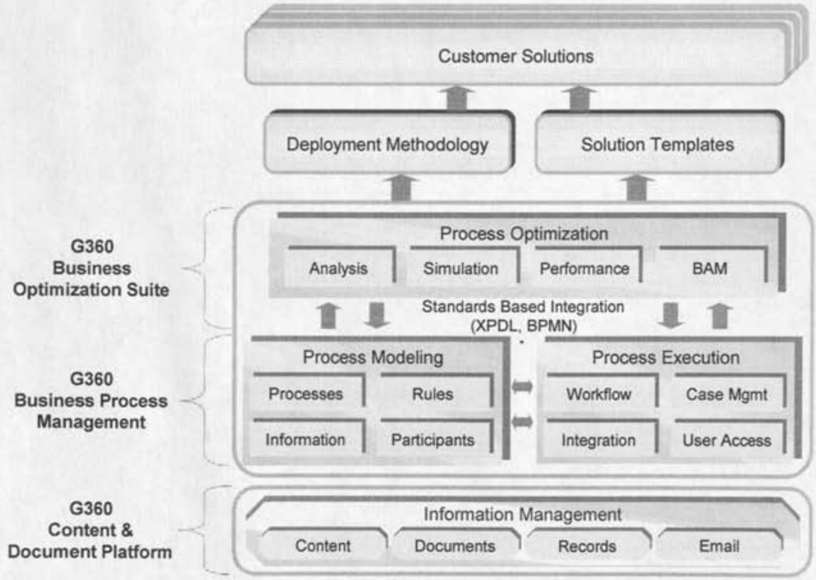
IPP highlights include:

- Annual system operations review to ensure that Global 360 Solutions run at peak efficiency
- Design, deployment and recovery services
- Ongoing training to ensure solution/operational efficiency and productivity with latest releases of the Global 360 Enterprise Products
- Access to Global 360 Worldwide Support Center twenty-four hours a day, five days a week with optional 24 x 7 support
- Predictable and practical software maintenance with accessible expert assistance for upgrade planning and major system maintenance events
- Commitment to non-obsolescence with functional upgrades consistent with future product roadmaps

Architecture and technologies

Global 360's process management and optimization solutions are based on a robust architecture that scales from both a computing / hardware performance perspective and a deployment and management perspective. Due to its application management capabilities, Global 360 offers a lower total cost of ownership to its customers, thereby encouraging rapid roll out of process solutions to multiple divisions and process areas. The typical Global 360 customer has two to three applications of Global 360 technology deployed within its enterprise, and is a candidate for adding more on a regular basis.

The architecture for the Global 360 technology stack includes three primary layers upon which solution templates and customer solutions are ultimately deployed, and upon which the BPM deployment methodology is based. These underpinning layers include the Process Optimization layer, which comprises the BOS offering, the Process Modeling and Execution layer, which creates the BPM Suite offering, and the supporting Information Management layer, which provides content management support for BPM applications. A key strength of the Global 360 architecture is its plug and play nature. Customers may deploy the entire stack, or mix and match Global 360 technology with existing investments. For example, customers may opt to deploy the Process Modeling and Execution technology with a third party content repository such as FileNet, or deploy the Process Optimization layer with a third party workflow engine such as TIBCO / Staffware, or deploy combinations of these solutions depending on business requirements. By embracing a heterogeneous IT application environment, Global 360 maximizes the market potential of its technologies by complementing existing investments rather than dictating a "rip and replace" approach.



Global 360 remains committed to open standards both within the BPM market as well as within the larger IT technology domain. The Global 360 technology stack leverages open standards such as ODBC / JDBC for database access and also supports leading application server solutions from Microsoft, Oracle, BEA and IBM for enterprise deployment and scalability. From a BPM perspective, Global 360 is a standards leader, currently chairing the leading BPM standards body, the WFMC, and has also taken the lead on developing and championing the adoption of the latest XPDL process interoperability standard.

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eiStream - Consolidated
Income Statement - Cost of Sales Format
For the Twelve Months Ending December 31, 2004

Revenue	
Software	11,971,604.83
Maintenance	49,932,924.44
Services	8,165,095.07
Hardware	1,066,280.17
Other	97,954.50
Subtotal Revenue	**71,233,859.01**
Total Revenue	**71,233,859.01**
Cost of Sales	
Software	821,384.14
Maintenance	737,829.82
Services	17,581,790.57
Hardware	866,476.92
Aircraft	263,742.00
Other	27,497.86
Total Cost of Sales	**20,298,721.31**
Gross Margin	**50,935,137.70**
Selling, general & administrative	32,610,710.30
Research & development	8,231,854.79
Operating Profit (Loss)	**10,092,572.61**
Goodwill & intangibles amortization	(1,062,238.17)
Interest expense	(1,390,784.45)
Interest income	65,059.11
Currency Gain/(Loss)	77,121.90
Other Non-operating Gain/(Loss)	(4,119.63)
Income (Loss) Before Income Tax (Benefit)	**7,777,611.37**
Income Tax (Benefit)	
State	352,733.57
Federal	2,986,861.83
Total Income Tax (Benefit)	**3,339,595.40**
Net Income (Loss)	**4,438,015.97**

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pg. 2

Global 360 - Consolidated
Income Statement - Cost of Sales Format
For the Twelve Months Ending December 31, 2005

Revenue	
Software	17,393,509.24
Maintenance	53,138,174.48
Services	13,682,964.16
Hardware	554,785.47
Other	90,894.87
Subtotal Revenue	**84,860,328.22**
Intercompany revenue	(2.86)

Total Revenue	**84,860,325.36**
Cost of Sales	
Software	1,255,594.95
Maintenance	1,155,306.50
Services	22,265,921.74
Hardware	302,402.32
Other	20,680.01

Total Cost of Sales	**24,999,905.52**

Gross Margin	**59,860,419.84**
Selling, general & administrative	40,444,444.68
Research & development	9,392,156.63

Operating Profit (Loss)	**10,023,818.53**
Goodwill & intangibles amortization	(1,189,093.29)
Interest expense	(908,254.60)
Interest income	93,034.82
Currency Gain/(Loss)	197,166.43
Other Non-operating Gain/(Loss)	(576.93)

Income (Loss) Before Income Tax (Benefit)	**8,216,094.96**
Income Tax (Benefit)	
State & Local	361,348.40
National	4,721,409.87

Total Income Tax (Benefit)	**5,082,758.27**

Net Income (Loss) from Continuing Operations	**3,133,336.69**
	==============
Discontinued Operations	
Texas Land Records Income (Loss)	(1,432,513.85)
SouthTech Income (Loss)	(4,623,034.94)

Income (Loss) on Discontinued Operations	**(6,055,548.79)**

Net Income (Loss)	**(2,922,212.10)**
	==============

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Pg 3

Global 360 - Consolidated
Income Statement - Cost of Sales Format
For the Three Months Ending March 31, 2006

Revenue	
Software	2,787,931.04
Maintenance	13,524,021.58
Services	4,333,506.70
Hardware	305,928.28
Other	5,895.74
Subtotal Revenue	**20,957,283.34**
Total Revenue	**20,957,283.34**
Cost of Sales	
Software	122,022.16
Maintenance	279,622.37
Services	5,960,632.53
Hardware	283,132.21
Other	229.20
Total Cost of Sales	**6,645,638.47**
Gross Margin	**14,311,644.87**
Selling, general & administrative	34,060,148.79
Research & development	2,723,539.94
Operating Profit (Loss)	**(22,472,043.86)**
Goodwill & intangibles amortization	(298,565.01)
Interest expense	(318,903.90)
Interest income	24,960.88
Currency Gain/(Loss)	107,633.78
Other Non-operating Gain/(Loss)	578,006.50
Income (Loss) Before Income Tax (Benefit)	**(22,378,911.61)**
Income Tax (Benefit)	
State & Local	(115,409.84)
National	83,613.39
Total Income Tax (Benefit)	**(31,796.45)**
Net Income (Loss) from Continuing Operations	**(22,347,115.16)**
Discontinued Operations	
Texas Land Records Income (Loss)	(8,278.04)
SouthTech Income (Loss)	(595,916.94)
Income (Loss) on Discontinued Operations	**(604,194.98)**
Net Income (Loss)	**(22,951,310.14)**

Appendix C-6

PURCHASE PRICE

Sources:	
Term Loan A	32,000,000.00
Term Loan B	21,000,000.00
Revolver	4,000,000.00
Subordinated Debt	32,453,844.44
Convertible Preferred	114,548,846.03
Total Sources	204,002,690.47

eiStream - Consolidated
Income Statement - Detail Format
For the Twelve Months Ending December 31, 2004

REVENUE	
Software:	
403100 Revenue - WMS Products	6,858,234.97
403120 Revenue - WMS Imaging Pro Products	2,057,068.60
403300 Revenue - KIDMS Products	273,724.58
403400 Revenue - Kofile Products	945,463.52
403500 Revenue - SDI Products	129,495.00
403600 Revenue - ViewStar Products	951,775.00
403200 Revenue - Identitech Products	397,451.57
403700 Revenue - Keyfile Products	548,172.70
401900 Revenue - Software Product Adjustments	(189,781.11)
Total Software Revenue	**11,971,604.83**
Maintenance:	
414000 Revenue - Software Contract Maint	94,222.64
414100 Revenue - WMS Products Maintenance	25,225,890.41
414120 Revenue - WMS Imaging Pro Maintenance	81,489.59
414300 Revenue - KIDMS Products Maintenance	978,583.16
414400 Revenue - Kofile Products Maintenance	4,937,457.70
414600 Revenue - ViewStar Products Maintenance	12,388,644.15
414200 Revenue - Identitech Maintenance	3,290,121.49
414250 Revenue - SouthTech Maintenance	36,230.81
414700 Revenue - Keyfile Maintenance	2,909,662.49
414900 Revenue - Maintenance Adjustments	(9,378.00)
Total Maintenance Revenue	**49,932,924.44**
Subtotal Software and Maintenance Revenue	**61,904,529.27**
Service Revenue:	
420100 Revenue - WMS Consulting	3,358,041.34
420250 Revenue - SouthTech Consulting	31,636.00
420300 Revenue - KIDMS Consulting	109,912.46
420400 Revenue - Kofile Consulting	136,717.00
420600 Revenue - ViewStar Consulting	641,960.00
420200 Revenue - Identitech Consulting	884,462.49
420700 Revenue - Keyfile Consulting	3,720.00
425100 Revenue - SDI Imaging Services	2,998,645.78
Total Service Revenue	**8,165,095.07**
Hardware Revenue:	
430500 Revenue - Hardware	1,066,280.17

Total Hardware Revenue	**1,066,280.17**
Other Revenue:	
485000 Revenue - Freight	5,697.66
485400 Revenue - Other Income	92,256.84
Total Other Revenue	**97,954.50**
SUBTOTAL REVENUE (EXCLUDING INTERCOMPANY)	**71,233,859.01**
Intercompany Revenue:	
490610 Revenue - WMS	299,821.02
490612 Revenue - Australia	912,453.25
490615 Revenue - China	970,432.68
490619 Revenue - Netherlands	1,332,864.25
490628 Revenue - Belgium	1,227,907.24
490630 Revenue - France	907,480.07
490632 Revenue - Italy	805,051.58
490633 Revenue - Sweden	1,831,785.54
490634 Revenue - United Kingdom	2,560,010.75
490641 Revenue - Germany	225,326.46
490642 Revenue - SDI	10,095.00
490650 Revenue - Canada	1,697,876.87
490999 Revenue - Eliminations	(12,781,104.71)
TOTAL REVENUE	**71,233,859.01**
PRODUCTION COSTS	
Software:	
503100 COS - WMS Products	14,341.71
503120 COS - WMS Imaging Pro Products	0.25
503400 COS - Kofile Products	(1.00)
508100 COS - Other Software	296,475.90
Total Software COS	**310,816.86**
Maintenance:	
510000 COS - Maintenance Third Party	524,437.19
514100 COS - WMS Maintenance	179,717.70
514400 COS - Kofile Maint	33,675.00
514600 COS - ViewStar Maint	(0.07)
Total Maintenance COS	**737,829.82**
Service:	
520000 COS - Consulting	789.80
520100 COS - WMS Consulting	46,801.35

520500 COS - PSO Project Accounting	1,612.76
520600 COS - ViewStar Consulting	425,369.48
Total Service COS	**474,573.39**
Production Costs:	
541100 COS - Resale Hardware	866,476.92
542100 COS - Chemicals	2,880.53
542150 COS - Computer Equip/Supplies	58,649.61
542200 COS - Film	79,857.76
542250 COS - Product Parts	62,007.80
542300 COS - Supplies	32,324.02
543100 COS - Third Party File Conversion	33,000.00
544100 COS - Shipping Supplies	295.69
545100 COS - Third Party Software	368,549.15
Total Production Costs	**1,504,041.48**
Aircraft Costs:	
570100 COS - Fuel	257,537.46
570200 COS - Pilot Services	133,001.56
570300 COS - Aircraft Repairs & Maintenance	352,298.10
Total Aircraft COS	**742,837.12**
Other Costs:	
580900 COS - Freight	27,202.17
581000 COS - Amortization	86,279.50
Total Freight COS	**113,481.67**
TOTAL PRODUCTION COSTS	**3,883,580.34**
PERSONNEL EXPENSES	
Salaries:	
Exempt Salaries	26,365,170.44
Overtime - Direct Labor	46,670.14
Total Salaries:	**26,411,840.58**
Other Personnel Expenses:	
401K Employer Contributions	537,491.61
Commissions	3,162,586.72
Contract Labor	1,513,369.10
Conventions	227.50
Employee Insurance	2,223,559.28
Foreign Pension Contributions	590,222.09
Fringe Benefit Expense	65,634.77

Incentive Compensation	1,545,346.32
Payroll Taxes	2,849,829.83
Service Recognition	272.40
Severance	516,925.19
Training Expense - External	41,447.51
Travel & Entertainment	4,743,021.36
Tuition Reimbursement	15,914.50
Total Other Personnel Expenses	**17,805,848.18**
TOTAL PERSONNEL EXPENSES	**44,217,688.76**
OTHER OPERATING EXPENSES	
Advertising & Marketing	323,751.84
Bad Debt Expense	124,204.28
Building Occupancy	3,063,592.39
Communications	1,267,470.57
Depreciation	1,278,597.33
Dues & Fees	91,482.55
Dues & Subscriptions	79,254.72
Equipment Repair & Maintenance Contracts	376,716.88
Expense Allocation to Other Plants	8,143.42
Freight	6,238.86
Leased Equipment	358,432.03
Office Supplies & Services	876,309.18
Outside Services	2,187,186.40
Professional Fees	2,494,517.85
Project Labor Transfer	(51,150.00)
Taxes	590,737.69
Other Operating Expenses	(35,468.69)
TOTAL OTHER OPERATING EXPENSES	**13,040,017.30**
TOTAL OPERATING EXPENSES	**57,257,706.06**
NET OPERATING INCOME (LOSS)	**10,092,572.61**
Amortization Expense - Acqiusition Related:	
Amortization - Goodwill	(9.60)
Amortization - Intangibles	1,062,247.77
Total Amortization Expense	**1,062,238.17**
Interest:	
Interest Income	65,059.11
Interest Expense	(1,390,784.45)
Total Interest Income (Expense)	**(1,325,725.34)**

Currency Gain (Loss):	
Currency Gain	343,935.97
Currency Loss	(266,814.07)
Total Currency Gain (Loss)	**77,121.90**
Other Non-operating Income (Expense):	
Extraordinary Income	(4,119.63)
Total Other Non-operating Income (Expense)	**(4,119.63)**
PRE-TAX INCOME (LOSS)	**7,777,611.37**
Income Taxes:	
National	2,986,861.83
State & Local	352,733.57
Total Income Taxes	**3,339,595.40**
NET INCOME (LOSS)	**4,438,015.97**
	==============
total revenue check	(71,233,859.01)
total COS check	3,883,580.34
total operating expense check	57,257,706.06
total non-operating expense check	5,654,556.64
net income check	(4,438,015.97)

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Income Statement - Detail Format
For the Three Months Ending March 31, 2006

REVENUE	
Software:	
403100 Revenue - EX	1,116,194.19
403110 Revenue - Case Management	96,737.22
403120 Revenue - Consumer	477,658.85
403150 Revenue - Components	180,745.40
403200 Revenue - Identitech	19,916.25
403450 Revenue - Kovis	105,224.34
403600 Revenue - BPM Solutions	593,628.56
403700 Revenue - Keyfile	192,001.23
408100 Revenue - Other Software Revenue	1,719.14
408200 Revenue - 3rd Party Products	4,105.86
Total Software Revenue	**2,787,931.04**
Maintenance:	
414100 Revenue - EX Maintenance	6,263,088.67
414110 Revenue - Case Management Maintenance	348,123.43
414120 Revenue - Consumer Maintenance	46,103.07
414150 Revenue - Components Maintenance	556,675.61
414200 Revenue - Identitech Maintenance	736,956.21
414300 Revenue - IDMS Maintenance	259,028.04
414400 Revenue - Kofile Maintenance	730,460.29
414450 Revenue - Kovis Maintenance	450,893.39
414600 Revenue - BPM Solutions Maintenance	3,267,236.43
414700 Revenue - Keyfile Maintenance	685,352.77
418200 Revenue - 3rd Party Maintenance	180,103.67
Total Maintenance Revenue	**13,524,021.58**
Subtotal Software and Maintenance Revenue	**16,311,952.62**
Service Revenue:	
420100 Revenue - EX Consulting	1,507,045.42
420200 Revenue - Identitech Consulting	182,796.99
420300 Revenue - IDMS Consulting	30,290.20
420400 Revenue - Kofile Consulting	27,400.00
420450 Revenue - Kovis Consulting	6,000.00
420500 Revenue - BGS Outsource Services	2,502,962.96
420600 Revenue - BPM Solutions Consulting	73,811.13
420700 Revenue - Keyfile Consulting	3,200.00
Total Service Revenue	**4,333,506.70**
Hardware Revenue:	
430500 Revenue - Hardware	305,928.28
Total Hardware Revenue	**305,928.28**
Other Revenue:	
485000 Revenue - Freight	688.29
485100 Discounts	(6,913.90)
485400 Revenue - Other Income	12,121.35
Total Other Revenue	**5,895.74**
SUBTOTAL REVENUE (EXCLUDING INTERCOMPANY)	**20,957,283.34**
Intercompany Revenue:	
490612 Revenue - Australia	613,591.00
490613 Revenue - Singapore	12,638.00
490615 Revenue - China	97,720.00
490619 Revenue - Netherlands	242,350.00
490628 Revenue - Belgium	283,144.00
490630 Revenue - France	199,520.26
490632 Revenue - Italy	153,538.17
490633 Revenue - Sweden	466,917.63
490634 Revenue - United Kingdom	467,772.04

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For the Three Months Ending March 31, 2006

490641 Revenue - Germany	1,334.46
490650 Revenue - Canada	783,452.45
490999 Revenue - Eliminations	(3,321,978.01)
TOTAL REVENUE	**20,957,283.34**
PRODUCTION COSTS	
Software:	
503100 COS - EX	8,361.68
503120 COS - Consumer	3,196.78
503150 COS - Components	10,613.53
503400 COS - Kofile	3,823.00
503600 COS - BPM Solutions	
508100 COS - Other Software	35,880.00
Total Software COS	**61,874.99**
Maintenance:	
510000 COS - Maintenance Third Party	272,149.09
514100 COS - EX Maint	(2,520.06)
514200 COS - Identitech Maint	19,744.21
514600 COS - BPM Solutions Maint	(9,750.87)
Total Maintenance COS	**279,622.37**
Service:	
520100 COS - EX Consulting	7,437.50
520600 COS - BPM Solutions Consulting	95,358.25
Total Service COS	**102,795.75**
Production Costs:	
541100 COS - Resale Hardware	283,132.21
542100 COS - Chemicals	3,641.65
542150 COS - Computer Equip/Supplies	4,474.27
542200 COS - Film	41,916.79
542250 COS - Product Parts	4,146.99
542300 COS - Supplies	23,409.84
543100 COS - Third Party File Conversion	4,707.12
545100 COS - Third Party Software	51,206.76
Total Production Costs	**416,635.63**
Aircraft Costs:	
570100 COS - Fuel	105,167.84
570200 COS - Pilot Services	117,297.67
570300 COS - Aircraft Repairs & Maintenance	99,467.18
Total Aircraft COS	**321,932.69**
Other Costs:	
580900 COS - Freight	229.20
581000 COS - Amortization	8,940.41
Total Freight COS	**9,169.61**
TOTAL PRODUCTION COSTS	**1,192,031.04**
PERSONNEL EXPENSES	
Salaries:	
Exempt Salaries	7,681,683.74
Overtime - Direct Labor	38,930.01
Total Salaries:	**7,720,613.75**
Other Personnel Expenses:	
401K Employer Contributions	219,975.44

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Income Statement - Detail Format
For the Three Months Ending March 31, 2006

Commissions	914,918.09
Contract Labor	915,528.66
Employee Insurance	693,014.57
Foreign Pension Contributions	119,741.67
Fringe Benefit Expense	50,036.49
Incentive Compensation	20,326,953.80
Payroll Taxes	1,347,614.92
Recruiting Expense	76,522.40
Severance	180,800.00
Training Expense - External	28,173.90
Travel & Entertainment	1,514,988.04
Tuition Reimbursement	5,989.50
Total Other Personnel Expenses	**26,394,257.48**
TOTAL PERSONNEL EXPENSES	**34,114,871.23**
OTHER OPERATING EXPENSES	
Advertising & Marketing	184,051.20
Bad Debt Expense	120,091.88
Building Occupancy	1,032,352.61
Communications	333,377.95
Depreciation	439,175.22
Dues & Fees	68,488.54
Dues & Subscriptions	34,651.23
Equipment Repair & Maintenance Contracts	51,800.07
Expense Allocation to Other Plants	2,966.90
Freight	2,416.25
Leased Equipment	22,837.29
Office Supplies & Services	317,329.59
Outside Services	1,293,463.25
Professional Fees	3,961,897.79
Project Labor Transfer	52,200.00
Taxes	169,010.97
Other Operating Expenses	36,314.19
TOTAL OTHER OPERATING EXPENSES	**8,122,424.93**
TOTAL OPERATING EXPENSES	**42,237,296.16**
NET OPERATING INCOME (LOSS)	**(22,472,043.86)**
Amortization Expense - Acquisition Related:	
Amortization - Intangibles	298,565.01
Total Amortization Expense	**298,565.01**
Interest:	
Interest Income	24,960.88
Interest Expense	(318,903.90)
Total Interest Income (Expense)	**(293,943.02)**
Currency Gain (Loss):	
Currency Gain	102,295.05
Currency Loss	5,338.73
Total Currency Gain (Loss)	**107,633.78**
Other Non-operating Income (Expense):	
Gain (Loss) on Sale of Fixed Assets	578,006.50
Total Other Non-operating Income (Expense)	**578,006.50**
PRE-TAX INCOME (LOSS)	**(22,378,911.61)**
Income Taxes:	
National	83,613.39
State & Local	(115,409.84)

Global 360 - Consolidated
Income Statement - Detail Format
For the Three Months Ending March 31, 2006

Total Income Taxes	**(31,796.45)**
Net Income (Loss) from Continuing Operations	**(22,347,115.16)**
Discontinued Operations	
Texas Land Records Income (Loss)	(8,278.04)
SouthTech Income (Loss)	(595,916.94)
Income (Loss) on Discontinued Operations	**(604,194.98)**
Net Income (Loss)	**(22,951,310.14)**
total revenue check	(20,957,283.34)
total COS check	1,192,031.04
total operating expense check	42,237,296.16
total non-operating expense check	479,266.28
net income check	22,951,310.14

APPENDIX D-2
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Global 360 - Consolidated
Detailed Balance Sheet
For the Twelve Months Ending December 31, 2005

ASSETS:

Cash & Equivalents:	
Petty Cash	4,862.46
Cash - Operating	989,882.08
Cash - Payroll	76,221.94
Cash - Medical Claims	124,369.37
Cash - Flexible Spending	1,128.22
Short-Term Investments	841,062.16
Total Cash & Equivalents	2,037,526.23
Accounts Receivable:	
A/R - Trade	50,107,938.86
Intercompany Reporting Offset	(13,569,527.72)
Unbilled Accounts Receivable	1,222,662.18
A/R Reserve	(1,366,276.64)
Total A/R (net)	36,394,796.68
Prepaids & Other Current Assets:	
Prepaid Rent & Utilities	289,311.72
Prepaid Software Royalties	156,631.23
Prepaid Maintenance	93,521.63
Prepaid Expenses - Other	654,410.12
Employee Receivables	24,209.20
A/R - Other	61,550.57
Income Tax Receivable	201,763.54
Deferred Tax Asset	2,201,408.89
Total Prepaids & Other Current Assets	3,682,806.90
TOTAL CURRENT ASSETS	**42,115,129.81**
Fixed Assets:	
Leasehold Improvements	2,956,284.04
Machinery & Equipment	1,193,394.27
Furniture & Fixtures	1,389,634.61
Computer Equipment	3,833,837.72
Automobiles	29,298.22
Aircraft	6,323,872.46
Subtotal Fixed Assets	15,726,321.32
Less: Accumulated Depreciation	(5,654,804.13)
Total Fixed Assets (net)	10,071,517.19
Goodwill:	
Goodwill	15,622,505.98
Less: Accumulated Amortization	(527,616.33)
Total Goodwill (net)	15,094,889.65
Other Intangible Assets:	
Capitalized Software	4,578,580.84
Customer List	1,686,949.73
Subtotal Other Intangible Assets	6,265,530.57
Less: Accumulated Amortization	(4,437,667.30)
Total Other Intangible Assets (net)	1,827,863.27
Other Assets:	
Deposits	418,030.69
Deferred Tax Asset	997,934.05
Other	9,714.94
Total Other Assets	1,425,679.68
Intercompany Advances	

Global 360 - Consolidated
Detailed Balance Sheet
For the Twelve Months Ending December 31, 2005

TOTAL NON-CURRENT ASSETS	**28,419,949.79**
TOTAL ASSETS	**70,535,079.60**
LIABILITIES & STOCKHOLDERS' EQUITY	
Accounts Payable	2,108,735.00
Accrued Liabilities:	
Accrued Restructuring	2,989,195.15
Accrued Royalties	129,668.47
Accrued Interest	215,709.61
Accrued Professional Fees	502,831.85
Accrued Taxes Payable	1,122,407.74
Other Accrued Liabilities	2,033,386.89
Total Accrued Liabilities	6,993,199.71
Accrued Payroll Related Expenses:	
Accrued Commissions	1,717,981.19
Accrued Bonus - Incentive Plan	861,972.12
Accrued Payroll	2,006,296.88
Accrued Payroll Taxes	473,190.80
Fringe Accrual 2000	902,815.70
FICA Withheld	47,729.59
Other Employee Withholding	310,924.00
FSA Account 2000	31,018.64
A/P - Employee 401K Loans	116.80
Total Accrued Payroll Related Expenses	6,352,045.72
Current Portion of L/T Debt:	
Notes Payable - Current Portion	8,121,454.87
Total Current Portion of L/T Debt	8,121,454.87
Deferred Revenue:	
Def'd Revenue - SouthTech	100,233.25
Def'd Revenue - Components	1,251,883.90
Def'd Revenue - EX	13,765,006.14
Def'd Revenue - Case Mgmt	912,559.11
Def'd Revenue - Consumer	103,144.27
Def'd Revenue - Keyfile	1,476,650.08
Def'd Revenue - Kofile	1,861,204.36
Def'd Revenue - Kovis	970,680.07
Def'd Revenue - Identitech	1,297,764.72
Def'd Revenue - IDMS	134,460.75
Def'd Revenue - BPM Solutions	7,794,392.32
Def'd Revenue - 3rd Party	174,303.66
Def'd Revenue - Other	2,480,984.42
Total Deferred Revenue	32,323,267.05
Current Income Tax Payable	
TOTAL CURRENT LIABILITIES	**55,898,702.35**
Long-term Debt:	
Revolving Credit Agreement	6,966,404.09
Capitalized Leases	118,823.22
Notes Payable	2,054,423.77
Total Long-term Debt	9,139,651.08
Deferred Tax Liability	147,671.47
TOTAL NON-CURRENT LIABILITIES	**9,287,322.55**
TOTAL LIABILITIES	**65,186,024.90**

Global 360 - Consolidated
Detailed Balance Sheet
For the Twelve Months Ending December 31, 2005

SHAREHOLDERS' EQUITY	
Stock & Capital Surplus:	
Common Stock	1,722,568.00
Preferred Stock	8,798,790.00
Paid-in Capital	624,181.66
Total Common Stock & Capital Surplus	11,145,539.66
Currency Translation Adjustments	(629,833.84)
Retained Earnings	(2,244,439.02)
Income Summary	(2,922,212.10)
TOTAL SHAREHOLDERS' EQUITY	**5,349,054.70**
TOTAL LIABILITIES & EQUITY	**70,535,079.60**
total assets	70,535,079.60
total liabilities & equity	(70,535,079.60)

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Global 360 - Consolidated
Detailed Balance Sheet
For the Three Months Ending March 31, 2006

ASSETS:

Cash & Equivalents:	
Petty Cash	4,878.07
Cash - Operating	5,647,257.22
Cash - Payroll	87,908.12
Cash - Medical Claims	18,313.60
Cash - Flexible Spending	1,128.22
Short-Term Investments	845,429.95
Total Cash & Equivalents	6,604,915.18
Accounts Receivable:	
A/R - Trade	40,273,174.42
Intercompany Reporting Offset	(13,661,037.39)
Unbilled Accounts Receivable	1,520,703.90
A/R Reserve	(1,003,423.33)
Total A/R (net)	27,129,417.60
Prepaids & Other Current Assets:	
Prepaid Rent & Utilities	294,743.73
Prepaid Software Royalties	39,431.56
Prepaid Maintenance	171,677.28
Prepaid Expenses - Other	1,128,518.75
Employee Advances	3,364.21
Employee Receivables	36,759.46
A/R - Other	6,189,268.18
Income Tax Receivable	993,674.99
Deferred Tax Asset	1,902,665.39
Total Prepaids & Other Current Assets	10,760,103.55
TOTAL CURRENT ASSETS	**44,494,436.33**
Fixed Assets:	
Leasehold Improvements	3,030,832.06
Machinery & Equipment	619,134.95
Furniture & Fixtures	1,337,470.59
Computer Equipment	4,690,157.85
Automobiles	29,298.22
Subtotal Fixed Assets	9,706,893.67
Less: Accumulated Depreciation	(5,506,011.28)
Total Fixed Assets (net)	4,200,882.39
Goodwill:	
Goodwill	15,622,505.98
Less: Accumulated Amortization	(527,616.33)
Total Goodwill (net)	15,094,889.65
Other Intangible Assets:	
Capitalized Software	4,578,580.84
Customer List	1,686,949.73
Subtotal Other Intangible Assets	6,265,530.57
Less: Accumulated Amortization	(4,745,172.72)
Total Other Intangible Assets (net)	1,520,357.85
Other Assets:	
Deposits	420,539.21
Deferred Tax Asset	1,002,138.86
Other	9,797.27
Total Other Assets	1,432,475.34
Due To / Due From Subsidiaries	

Global 360 - Consolidated
Detailed Balance Sheet
For the Three Months Ending March 31, 2006

Intercompany Advances	
TOTAL NON-CURRENT ASSETS	**22,248,605.23**
TOTAL ASSETS	**66,743,041.56**
LIABILITIES & STOCKHOLDERS' EQUITY	
Accounts Payable	1,907,683.38
Accrued Liabilities:	
Accrued Restructuring	2,703,208.18
Accrued Royalties	88,743.41
Accrued Interest	73,411.42
Accrued Professional Fees	334,426.86
Accrued Taxes Payable	696,311.39
Other Accrued Liabilities	4,276,420.36
Total Accrued Liabilities	8,172,521.62
Accrued Payroll Related Expenses:	
Accrued Commissions	852,286.62
Accrued Bonus - Incentive Plan	75,788.43
Accrued Payroll	2,348,390.15
Accrued Payroll Taxes	533,921.87
Accrued Payroll - Other Deductions	3,984.09
Fringe Accrual 2000	956,251.20
FICA Withheld	36,832.02
Employee 401K Withheld	11,221.16
Other Employee Withholding	249,888.55
FSA Account 2000	11,665.27
A/P - Employee 401K Loans	116.80
Total Accrued Payroll Related Expenses	5,080,346.16
Current Portion of L/T Debt:	
Notes Payable - Current Portion	10,009,831.70
Total Current Portion of L/T Debt	10,009,831.70
Deferred Revenue:	
Def'd Revenue - Components	1,308,803.98
Def'd Revenue - EX	14,410,917.63
Def'd Revenue - Case Mgmt	739,332.62
Def'd Revenue - Consumer	87,082.97
Def'd Revenue - Keyfile	1,412,364.57
Def'd Revenue - Kofile	1,779,804.40
Def'd Revenue - Kovis	908,651.27
Def'd Revenue - Identitech	1,069,741.00
Def'd Revenue - IDMS	143,937.56
Def'd Revenue - BPM Solutions	6,967,826.23
Def'd Revenue - 3rd Party	174,666.79
Def'd Revenue - Other	2,257,392.01
Total Deferred Revenue	31,260,521.03
Current Income Tax Payable	(616,390.44)
TOTAL CURRENT LIABILITIES	**55,814,513.45**
Long-term Debt:	
Revolving Credit Agreement	8,999,999.46
Capitalized Leases	111,917.31
Notes Payable	(4,177,769.22)
Total Long-term Debt	4,934,147.55
Deferred Tax Liability	(748,447.53)
TOTAL NON-CURRENT LIABILITIES	**4,185,700.02**

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Global 360 - Consolidated
Detailed Balance Sheet
For the Three Months Ending March 31, 2006

TOTAL LIABILITIES	**60,000,213.47**
SHAREHOLDERS' EQUITY	
Stock & Capital Surplus:	
Common Stock	21,680,979.47
Preferred Stock	8,798,790.00
Paid-in Capital	3,571,160.80
Total Common Stock & Capital Surplus	34,050,930.27
Currency Translation Adjustments	(715,437.68)
Retained Earnings	(3,641,354.36)
Income Summary	(22,951,310.14)
TOTAL SHAREHOLDERS' EQUITY	**6,742,828.09**
TOTAL LIABILITIES & EQUITY	**66,743,041.56**
total assets	66,743,041.56
total liabilities & equity	(66,743,041.56)

Global 360, Inc. and Subsidiaries
Project Longhorn
Pro-Forma Summary Balance Sheet - Unaudited*
As of March 30, 2006

ASSETS	**Revised March Pro Forma Balance Sheet**
Cash & Equivalents	8,626
	-
Accounts Receivable	28,133
Less: Allowances	(1,003)
Net Accounts Receivable	27,130
Prepaids	1,634
A/R - Other	189
Other Current Assets	40
Income Tax Receivable	994
Deferred Tax Asset	1,903
Total Current Assets	**40,516**
Property, Plant, & Equipment	8,893
Less: Accum. Depreciation	(5,434)
Total Property, Plant, & Equipment - Net	**3,459**
Goodwill - Net	-
Software - Net	-
Customer List - Net	-
Deferred Tax Asset	1,002
Other	430
Excess Cost over Underlying Value of Net Assets	201,781
Total Other Assets	**203,213**
Due To / Due From Subsidiaries	-
Intercompany Advances	-
TOTAL ASSETS	**247,188**
	-
LIABILITIES & STOCKHOLDERS' EQUITY	
Accounts Payable	1,908
Accrued Liabilities	6,747
Accrued Payroll Related Expenses	4,544
Current Portion of Long-term Debt	6,665
Deferred Revenue	31,295
Current Income Tax Payable	(616)
Total Current Liabilities	**50,543**
Deferred Taxes - LT Liability	(748)
Long-term Debt	82,844
Total Non-current Liabilities	**82,096**
TOTAL LIABILITIES	**132,639**
Stock & Capital Surplus	114,549
Currency Translation Adjustments	-
Retained Earnings	-
Income Summary	-
TOTAL SHAREHOLDERS' EQUITY	**114,549**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	**247,188**
	-

Subject to cautionary language in Basis of Presentation. -

Note 1: These amounts were adjustments to the purchase price and should not have been recorded as prepaids.
Note 2: Per our tax accountant, the tax balances should remain on the books. We assumed the tax balances would not remain on the books.
Note 3: These assets write-offs were inadvertently left off original balance sheet
Note 4: Inadvertently left off original balance sheet
Note 5: These are top side entries. They have not been recorded on the g/l
Note 6: This amount represents the excess of the WFF wire from the funds flow stmt
Note 7: In the original pro-Forma Balance Sheet, the Nashoba sale was treated as part of the TA transaction. However, the sale was consummated just prior to the TA closing and therefore should have been treated as a separate transaction and included in the March Financials. As part of the transaction, the I/C debt balance was contributed to capital and a gain of $578k was recorded on the sale.
Note 8: These amounts were paid by G360 at Closing

Global 360, Inc. and Subsidiaries
Project Longhorn
Pro-Forma Summary Balance Sheet - Unaudited*
As of March 30, 2006

ASSETS	3/30/06 GAAP Basis	3/30/06 Rounded	Nashoba	Prepaid Services Agent (Armenia)	Prepaid Turtle Creek Rent	Nashoba Divestiture Proceeds	Adjust Restructuring Reserves - Turtle Creek	Adjust Deferred Rent	Debt Repayments (incl. Accrued Interest)	Tax Adjustments	Unrecorded A/P	Bonus Accrual	Maintenance Revenue Adj	Severance Pmts Made at Closing	Total Adjustments
Cash & Equivalents	6,637,542	6,638	(33)			1,788									1,755
Accounts Receivable	28,132,841	28,133													-
Less: Allowances	(1,003,423)	(1,003)													-
Net Accounts Receivable	27,129,418	27,130	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaids	1,634,371	1,634		225	435										660
A/R - Other	189,368	189													-
Other Current Assets	80,124	80													-
Income Tax Receivable	993,673	994								(994)					(994)
Deferred Tax Asset	1,902,665	1,903								(1,903)					(1,903)
Total Current Assets	38,527,464	38,528	(33)	225	435	1,788	-	-	-	(2,897)	-	-	-	-	(482)
Property, Plant, & Equipment	16,087,366	16,090	(6,380)												(6,380)
Less: Accum. Depreciation	(6,109,388)	(6,109)	603												603
Total Property, Plant, & Equipment - Net	9,977,978	9,981	(5,777)	-	-	-	-	-	-	-	-	-	-	-	(5,777)
Goodwill - Net	15,094,890	15,095													-
Software - Net	289,441	289													-
Customer List - Net	1,230,917	1,231													-
Deferred Tax Asset	1,002,139	1,002													-
Other	430,336	430													-
Excess Cost over Underlying Value of Net Assets			5,422	(225)	(435)	(1,788)	(608)	(133)	(15,095)	2,897	30	200	34	(736)	(10,337)
Total Other Assets	18,047,723	18,047	5,422	(225)	(435)	(1,788)	(608)	(133)	(15,095)	2,897	30	200	34	(736)	(10,337)
Due To / Due From Subsidiaries	0	-													-
Intercompany Advances	0	-													-
TOTAL ASSETS	66,553,164	66,556	(388)	-	-	-	(608)	(133)	(15,095)	-	30	200	34	(736)	(16,596)
LIABILITIES & STOCKHOLDERS' EQUITY															
Accounts Payable	1,907,683	1,908													-
Accrued Liabilities	8,219,372	8,219	(40)				(608)	(133)	(80)		30				(833)
Accrued Payroll Related Expenses	5,080,346	5,080										200		(736)	(536)
Current Portion of Long-term Debt	10,019,832	10,020							(9,985)						(9,985)
Deferred Revenue	31,260,521	31,261											34		34
Current Income Tax Payable	(616,390)	(616)													-
Total Current Liabilities	55,860,564	55,862	(40)	-	-	-	(608)	(133)	(10,071)	-	30	200	34	(736)	(11,326)
Deferred Taxes - LT Liability	243,743	243	(991)												(991)
Long-term Debt	9,103,958	9,104	(4,170)						(4,934)						(9,104)
Total Non-current Liabilities	9,346,701	9,347	(5,161)	-	-	-	-	-	(4,934)	-	-	-	-	-	(10,095)
TOTAL LIABILITIES	65,207,265	65,209	(5,207)	-	-	-	(608)	(133)	(15,005)	-	30	200	34	(736)	(21,415)
Stock & Capital Surplus	31,353,951	31,354	2,947												2,947
Currency Translation Adjustments	(715,438)	(715)													-
Retained Earnings *	(5,513,298)	(5,513)	1,716				*								1,716
Income Summary	(23,529,317)	(23,529)	156												156
TOTAL SHAREHOLDERS' EQUITY	1,345,899	1,347	4,819	-	-	-	-	-	-	-	-	-	-	-	4,819
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	66,553,164	66,556	(388)	-	-	-	(608)	(133)	(15,095)	-	30	200	34	(736)	(16,596)
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

ASSETS	Short-Term Debt - Revolver	Term Loan A	Term Loan B	Subordinated Debt	Convertible Preferred	G360 Intangible Assets & Equity	Deloitte Fees	Estimated Legal Fees	Total Transaction Adjustments	Original Balance Sheet Provided for 3/30/06
Cash & Equivalents									-	8,393
Accounts Receivable									-	28,133
Less: Allowances									-	(1,003)
Net Accounts Receivable	-	-	-	-	-	-	-	-	-	27,130
Prepaids									-	2,294
A/R - Other									-	189
Other Current Assets									-	80
Income Tax Receivable									-	-
Deferred Tax Asset									-	-
Total Current Assets	-	-	-	-	-	-	-	-	-	38,046
Property, Plant, & Equipment									-	9,710
Less: Accum. Depreciation									-	(5,506)
Total Property, Plant, & Equipment - Net	-	-	-	-	-	-	-	-	-	4,204
Goodwill - Net						(15,095)			(15,095)	-
Software - Net						(289)			(289)	-
Customer List - Net						(1,231)			(1,231)	-
Deferred Tax Asset									-	1,002
Other									-	430
Excess Cost over Underlying Value of Net Assets	4,000	32,000	21,000	33,000	115,000	13,396	400	1,500	219,296	208,959
Total Other Assets	4,000	32,000	21,000	33,000	115,000	(3,219)	400	1,500	202,681	210,391
Due To / Due From Subsidiaries									-	-
Intercompany Advances									-	-
TOTAL ASSETS	4,000	32,000	21,000	33,000	115,000	(3,219)	400	1,500	202,681	252,641
LIABILITIES & STOCKHOLDERS' EQUITY										
Accounts Payable									-	1,908
Accrued Liabilities							400	1,500	1,900	9,286
Accrued Payroll Related Expenses									-	4,544
Current Portion of Long-term Debt	4,000	2,400	210						6,610	6,635
Deferred Revenue									-	31,295
Current Income Tax Payable									-	(616)
Total Current Liabilities	4,000	2,400	210	-	-	-	400	1,500	8,510	53,052
Deferred Taxes - LT Liability									-	(748)
Long-term Debt		29,600	20,790	33,000					83,390	83,390
Total Non-current Liabilities	-	29,600	20,790	33,000	-	-	-	-	83,390	82,642
TOTAL LIABILITIES	4,000	32,000	21,000	33,000	-	-	400	1,500	91,900	134,694
Stock & Capital Surplus					115,000	(31,354)			83,646	117,947
Currency Translation Adjustments						715			715	-
Retained Earnings *	*					3,797			3,797	* -
Income Summary						23,373			23,373	-
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	115,000	(3,219)	-	-	115,781	117,947
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	4,000	32,000	21,000	33,000	115,000	(3,219)	400	1,500	202,681	252,641
	-	-	-	-	-	-	-	-	-	

Subject to cautionary language in Basis of Presentation

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Note 7: In the original pro-Forma Balance Sheet, the Nashoba sale was treated as part of the TA transaction. However, the sale was consummated just prior to the TA closing and therefore should have been treated as a separate transaction and included in the March Financials. As part of the transaction, the I/C debt balance was contributed to capital and a gain of $578k was recorded on the sale.
Note 8: These amounts were paid by G360 at Closing

CONTINUED

Global 360, Inc. and Subsidiaries
Project Longhorn
Pro-Forma Summary Balance Sheet - Unaudited*
As of March 30, 2006

ASSETS	Prepaid Services Agmt (Armenia) Note 1	Prepaid Turtle Creek Rent Note 1	Tax Adjustments (note 2)	Write-Off Viceroy Leasehold Improvements Note 3	Write-Off Other Assets Note 3	Payment of Deutsche Bank Fees Note 4	Excess WFF Wire Note 6	Nashoba Contribute I/C to Capital Note 7	Nashoba Sale Note 7	Adjust Equity Amount for Nashoba Sale Note 7	Severance Payments Pd by G360 at Closing Note 8
Cash & Equivalents							969				(736)
Accounts Receivable											
Less: Allowance											
Net Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-
Prepaids	(225)	(435)									
A/R - Other											
Other Current Assets											
Income Tax Receivable			994								
Deferred Tax Asset			1,903								
Total Current Assets	**(225)**	**(435)**	**2,897**	-	-	-	**969**	-	-	-	**(736)**
Property, Plant, & Equipment				(683)	(134)						
Less: Accum. Depreciation				40	32						
Total Property, Plant, & Equipment - Net	-	-	-	**(643)**	**(102)**	-	-	-	-	-	-
Goodwill - Net											
Software - Net											
Customer List - Net											
Deferred Tax Asset											
Other											
Excess Cost over Underlying Value of Net Assets	225	435	(2,897)	643	102	(2,524)	(969)	(5,422)	(2,370)	4,845	736
Total Other Assets	**225**	**435**	**(2,897)**	**643**	**102**	**(2,524)**	**(969)**	**(5,422)**	**(2,370)**	**4,845**	**736**
Due To / Due From Subsidiaries											
Intercompany Advances											
TOTAL ASSETS	-	-	-	-	-	**(2,524)**	-	**(5,422)**	**(2,370)**	**4,845**	-
LIABILITIES & STOCKHOLDERS' EQUITY											
Accounts Payable											
Accrued Liabilities						(2,524)					
Accrued Payroll Related Expenses											
Current Portion of Long-term Debt											
Deferred Revenue											
Current Income Tax Payable											
Total Current Liabilities	-	-	-	-	-	**(2,524)**	-	-	-	-	-
Deferred Taxes - LT Liability											
Long-term Debt											
Total Non-current Liabilities	-	-	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	-	-	-	-	-	**(2,524)**	-	-	-	-	-
Stock & Capital Surplus								(5,422)	(2,947)	5,422	
Currency Translation Adjustments											
Retained Earnings											
Income Summary									577	(577)	
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	-	-	-	**(5,422)**	**(2,370)**	**4,845**	-
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	-	-	-	-	-	**(2,524)**	-	**(5,422)**	**(2,370)**	**4,845**	-
	-	-	-	-	-	-	-	-	-	-	-

ASSETS	Unrecorded A/P Note 5	Bonus Accrual Note 5	Maintenance Revenue Adj. Note 5	Total Adjustments	Revised March 30, 2006 Balance Sheet	Reclass Tax Balances	Unrecorded A/P	Bonus Accrual	Maintenance Revenue Adj.	Revised March Pro Forma Balance Sheet
Cash & Equivalents				233	8,626					8,626
Accounts Receivable				-	28,133					28,133
Less: Allowance				-	(1,003)					(1,003)
Net Accounts Receivable	-	-	-	-	27,130	-	-	-	-	27,130
Prepaids				(660)	1,634					1,634
A/R - Other				-	189					189
Other Current Assets				-	40					40
Income Tax Receivable				994	994	616				1,610
Deferred Tax Asset				1,903	1,903	748				2,651
Total Current Assets	-	-	-	**2,470**	**40,516**	**1,364**	-	-	-	**41,880**
Property, Plant, & Equipment				(817)	8,893					8,893
Less: Accum. Depreciation				72	(5,434)					(5,434)
Total Property, Plant, & Equipment - Net	-	-	-	**(745)**	**3,459**	-	-	-	-	**3,459**
Goodwill - Net				-	-					-
Software - Net				-	-					-
Customer List - Net				-	-					-
Deferred Tax Asset				-	1,082					1,082
Other				-	436					436
Excess Cost over Underlying Value of Net Assets	(30)	(200)	(34)	(7,460)	201,499	-	30	200	34	201,763
Total Other Assets	**(30)**	**(200)**	**(34)**	**(7,460)**	**202,931**	-	**30**	**200**	**34**	**203,195**
Due To / Due From Subsidiaries				-	-					-
Intercompany Advances				-	-					-
TOTAL ASSETS	**(30)**	**(200)**	**(34)**	**(5,735)**	**246,906**	**1,364**	**30**	**200**	**34**	**248,534**
LIABILITIES & STOCKHOLDERS' EQUITY										
Accounts Payable				-	1,968					1,968
Accrued Liabilities	(30)			(2,554)	6,732		30			6,762
Accrued Payroll Related Expenses		(200)		(200)	4,344			200		4,544
Current Portion of Long-term Debt				-	6,635					6,635
Deferred Revenue			(34)	(34)	31,261				34	31,295
Current Income Tax Payable				-	(616)	616				-
Total Current Liabilities	**(30)**	**(200)**	**(34)**	**(2,788)**	**50,264**	**616**	**30**	**200**	**34**	**51,144**
Deferred Taxes - LT Liability				-	(748)	748				-
Long-term Debt				-	82,390					82,390
Total Non-current Liabilities	-	-	-	-	**81,642**	**748**	-	-	-	**82,390**
TOTAL LIABILITIES	**(30)**	**(200)**	**(34)**	**(2,788)**	**131,906**	**1,364**	**30**	**200**	**34**	**133,534**
Stock & Capital Surplus				(2,947)	115,000					115,000
Currency Translation Adjustments				-	-					-
Retained Earnings				-	-					-
Income Summary				-	-					-
TOTAL SHAREHOLDERS' EQUITY	-	-	-	**(2,947)**	**115,000**	-	-	-	-	**115,000**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	**(30)**	**(200)**	**(34)**	**(5,735)**	**246,906**	**1,364**	**30**	**200**	**34**	**248,534**
	-	-	-	-	-	-	-	-	-	-

Subject to customary language in Basis of Presentation

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Note 4: Inadvertently left off original balance sheet
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Note 8: These amounts were paid by G360 at Closing

Global 360, Inc. & Subsidiaries
Deferred Revenue Summary - Home Currency
As of March 30, 2006

APPENDIX E-1
PAGE 1 of 6

D-3 thru D-5

	Per Balance Sheet	Reconciling Difference	Total
3rd Party Maint / 312000			
Global 360	40,158.70		40,158.70
BGS	133,625.13		133,625.13
Keyfile			-
Canada	882.96		882.96
Belgium			-
France			-
Germany			-
Italy			-
Netherlands			-
Sweden			-
UK			-
Australia			-
China			-
Singapore			-
	174,666.79	-	174,666.79
Components / 314000			
Global 360	639,006.57		639,006.57
BGS	7,875.00		7,875.00
Keyfile			-
Canada	104,133.02		104,133.02
Belgium	160,545.79		160,545.79
France	174,900.64		174,900.64
Germany	1,589.79		1,589.79
Italy	33,347.01		33,347.01
Netherlands	26,811.91		26,811.91
Sweden	4,220.50		4,220.50
UK	38,796.55		38,796.55
Australia	25,683.47		25,683.47
China	58,439.52		58,439.52
Singapore	33,454.21		33,454.21
	1,308,803.98	-	1,308,803.98
EX (WMS) / 315000			
Global 360	6,958,043.23	(469,345.04)	7,427,388.27
BGS			-
Keyfile			-
Canada	1,962,788.54		1,962,788.54
Belgium	571,992.29		571,992.29
France	900,919.75		900,919.75
Germany	11,426.25		11,426.25
Italy	452,714.15		452,714.15
Netherlands	913,197.43		913,197.43
Sweden	789,581.74		789,581.74
UK	1,448,561.50		1,448,561.50
Australia	49,875.20		49,875.20
China	156,902.44		156,902.44
Singapore	194,915.11		194,915.11
	14,410,917.63	(469,345.04)	14,880,262.67
Case Mgmnt / 315500			
Global 360	436,912.44		436,912.44

	Per Balance Sheet	Reconciling Difference	Total
BGS			-
Keyfile			-
Canada			-
Belgium	173,489.46		**173,489.46**
France	1,547.87		**1,547.87**
Germany			-
Italy			-
Netherlands	69,986.04		**69,986.04**
Sweden			-
UK	47,293.40		**47,293.40**
Australia			-
China	10,103.41		**10,103.41**
Singapore			-
	739,332.62	-	**739,332.62**
Consumer / 315600			
Global 360	52,431.48		**52,431.48**
BGS			-
Keyfile			-
Canada			-
Belgium			-
France	5,486.59		**5,486.59**
Germany			-
Italy			-
Netherlands	14,623.20		**14,623.20**
Sweden	113.04		**113.04**
UK			-
Australia			-
China	14,428.66		**14,428.66**
Singapore			-
	87,082.97	-	**87,082.97**
Keyfile / 316500			
Global 360	9,065.91		**9,065.93**
BGS			-
Keyfile	1,403,298.66		**1,403,298.64**
Canada			-
Belgium			-
France			-
Germany			-
Italy			-
Netherlands			-
Sweden			-
UK			-
Australia			-
China			-
Singapore			-
	1,412,364.57	-	**1,412,364.57**
Kofile / 317000			
Global 360	1,532,669.12		**1,532,669.12**
BGS	6,071.26		**6,071.26**
Keyfile			-
Canada			-
Belgium			-
France	60,262.16		**60,262.16**
Germany			-

	Per Balance Sheet	Reconciling Difference	Total
Italy	8,523.24		**8,523.24**
Netherlands	21,172.24		**21,172.24**
Sweden	20,090.27		**20,090.27**
UK	131,691.41		**131,691.41**
Australia	(889.60)	(889.60)	-
China	(21.60)	(21.60)	-
Singapore	235.90	235.90	-
	1,779,804.40	**(675.30)**	**1,780,479.70**
Kovis / 317200			
Global 360	331,312.81		**331,312.81**
BGS	131,877.15		**131,877.15**
Keyfile			-
Canada			-
Belgium			-
France			-
Germany			-
Italy	17,264.20		**17,264.20**
Netherlands	17,904.54		**17,904.54**
Sweden	353,714.58		**353,714.58**
UK	45,593.60		**45,593.60**
Australia	10,018.47		**10,018.47**
China	965.92		**965.92**
Singapore			-
	908,651.27	**-**	**908,651.27**
BPM Solutions / 319000			
Global 360	5,626,988.92	48,675.70	**5,578,313.22**
BGS			-
Keyfile			-
Canada			-
Belgium			-
France			-
Germany			-
Italy	145,744.07		**145,744.07**
Netherlands			-
Sweden	9,938.15		**9,938.15**
UK	937,981.17		**937,981.17**
Australia	247,173.92		**247,173.92**
China			-
Singapore			-
	6,967,826.23	**48,675.70**	**6,919,150.53**
Identitech / 317500			
Global 360			-
BGS	1,061,824.44	29,024.91	**1,032,799.53**
Keyfile			-
Canada			-
Belgium			-
France			-
Germany			-
Italy			-
Netherlands			-
Sweden			-
UK	7,916.56		**7,916.56**
Australia			-
China			-

	Per Balance Sheet	Reconciling Difference	Total
Singapore			-
	1,069,741.00	**29,024.91**	**1,040,716.09**
IDMS / 318000			
Global 360			-
BGS			-
Keyfile			-
Canada			-
Belgium			-
France			-
Germany			-
Italy			-
Netherlands			-
Sweden			-
UK			-
Australia	104,253.52		**104,253.52**
China	13,889.02		**13,889.02**
Singapore	25,795.02		**25,795.02**
	143,937.56	**-**	**143,937.56**
Deferred Income/316000			
Global 360	879,193.42		**879,193.42**
BGS	1,029,129.54		**1,029,129.54**
Keyfile	28,800.00		**28,800.00**
Canada	17,400.00		**17,400.00**
Belgium			-
France	103,970.30		**103,970.30**
Germany			-
Italy	86,486.82		**86,486.82**
Netherlands	56,655.90		**56,655.90**
Sweden	2,255.99		**2,255.99**
UK	43,500.00		**43,500.00**
Australia	0.04		**0.04**
China	10,000.00		**10,000.00**
Singapore			-
	2,257,392.01	**-**	**2,257,392.01**
	31,260,521.03	**(392,319.73)**	**31,652,840.76**

Global 360, Inc. & Subsidiaries
Deferred Revenue Other Detail

	Total	Services	Software	Maintenance
Global 360, Inc.	$879,193.42	$407,937.22	$339,750.00	$131,506.20
BGS	$1,029,129.75	$1,029,129.75		
Keyfile	$28,800.00	$28,800.00		
Canada	$17,400.00	$17,400.00		
France	$103,970.30	$103,970.30		
Italy	$86,486.82	$5,950.00		$80,536.82
Netherlands	$56,655.90	$56,655.90		
Sweden (immaterial)	$2,255.99	$2,255.99		
UK	$43,500.00	$43,500.00		
China (immaterial)	$10,000.04	$10,000.04		
	$2,257,392.22	$1,705,599.20	$339,750.00	$212,043.02

Deferred Revenue – Monthly Totals

		($000)	
4/06*	[$6,398 - $2,257] =	4,141	* $2,257 represents non-maintenance
5/06		3,943	deferred revenue, all of which was
6/06		3,661	assigned to 4/06. See Appendix
7/06		3,179	E-1, page 5 for details on this
8/06		3,030	deferred revenue.
9/06		2,789	
10/06		2,442	
11/06		2,179	
12/06		2,098	
1/07		719	
2/07		466	
3/07		427	
Total FY07 Maintenance:		29,074	
4/07		137	
5/07		60	
6/07		70	
7/07		10	
8/08		9	
9/07		9	
10/07		9	
11/07		9	
12/07		5	
1/08		3	
2/08		0	
3/08		0	
Total FY08 Maintenance:		321	
Grand Total Maintenance:		29,395	
Grand Total Non-Maintenance:		2,257	
Total:		31,652	

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Global 360, Inc. and Subsidiaries
Unbilled Accounts Receivable
As of March 30, 2006

Global 360, Inc	
Kofile - quarterly in arrears maintenance	41,023.81
Digital River	17,363.02
PSO Accrual	363,151.25
Accrue VA Department of Veteran Affairs	16,209.68
Boat US PSO 70130 Adj	4,625.00
Accrue LAC Registrars Maint Revenue	6,094.68
	448,467.44
Global 360 BGS, Inc.	
Broward County	550,976.62
Services Revenue Accrual	53,776.80
Maintenance Rev Accruals	90,071.75
PSO Accrual	129,461.66
	824,286.83
Global 360 Keyfile, Inc.	
Mapics Revenue Accrual	29,000
	29,000
Global 360 Canada, Inc.	
PSO Accrual - ATB Magellan & Spinnaker Projects	66,333
	66,333
Global 360 NV/SA (Belgium)	
Unbilled Maintenance accrual	4,765.95
	4,765.95
Global 360 Germany GmbH	
Unbilled Maintenance accrual	22,633.80
	22,633.80
Global 360 Italy Srl	
Unbilled Maintenance accrual	20,677.44
	20,677.44
Global 360 Netherlands BV	
Unbilled Maintenance accrual	8,057.19
	8,057.19
Global 360 UK Ltd	
Unbilled Maintenance accrual	96,482.10
	96,482.10
Total	1,520,703.90

FASB Statements 141 and 142

FASB Statements 141 and 142 which were issued in June 2001 are referenced in this report.

Also referenced is a Financial Reporting Development report from Ernst & Young's Assurance and Advisory Business Services in February 2004, which updates the interpretations and practices associated with FASB Statements 141 and 142.

Following is the Table of Contents of the E&Y February 2004 report.

Contents

Patent Summary and Value Assessment

Docket Number	Title	Value	NX	CM	EX	EM	KV	KW	KF	SM	I4W
			Applicable Products								
3109.1019-001	A Method And System For Retrieving I	very little		X	X						X
3109.1019-002	A Method And System For Retrieving I	very little		X	X						X
3109.1001-001	A Pixel Signal Processing Method	very little									*
3109.1009-001	A System And Method For Viewing Icc	very little									*
3109.1005-003	A System For Providing Selective Intei	very little									
3109.1005-004	A System For Providing Selective Intei	very little									
3109.1025-000	Access Control	very little									
3109.1001-002	Adaptive Threshold Circuit For Digital	very little									*
3109.1001-000	Adaptive Threshold Circuit For Image	very little									*
3109.1001-003	Adaptive Threshold Circuit For Image	very little									*
3109.1009-025	Annotation And Handling Of Documen	very little									
3109.1003-006	Apparatus For Data Compression Of E	very little									*
3109.1023-001	Apparatus For Distributing Data Proce	very little		*	*						
3109.1023-000	Apparatus For Distributing Data Proce	very little		*	*						
3109.1023-004	Apparatus For Distributing Data Proce	very little		*	*						
3109.1023-006	Apparatus For Distributing Data Proce	very little		*	*						
3109.1023-007	Apparatus For Distributing Data Proce	very little		*	*						
3109.1023-008	Apparatus For Distributing Data Proce	very little		*	*						
3109.1023-009	Apparatus For Distributing Data Proce	very little		*	*						
3109.1023-005	Apparatus For Distributing Data Proce	very little		*	*						
3109.1023-003	Distributing Data Processing Across A	very little		*	*						
3109.1010-000	Apparatus For Document Annotation A	very little									
3109.1010-001	Apparatus For Document Annotation A	very little									
3109.1010-003	Apparatus For Document Annotation A	very little									
3109.1010-005	Apparatus For Document Annotation A	very little									
3109.1010-007	Apparatus For Document Annotation A	very little									
3109.1010-009	Apparatus For Document Annotation A	very little									
3109.1010-011	Apparatus For Document Annotation A	very little									
3109.1010-013	Apparatus For Document Annotation A	very little									
3109.1010-015	Apparatus For Document Annotation A	very little									
3109.1010-002	Apparatus For Document Annotation A	very little									

APPENDIX I-1

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G+ #

3109.1010-012	Apparatus For Document Annotation A	very little									
3109.1009-028	Apparatus For Handling Documents In	Has potential - many products manipulate do	*	*	*	*	*		*	*	*
3109.1009-012	Apparatus for Manipulating Document	Has potential - many products manipulate do	*	*	*	*	*		*	*	*
3109.1009-015	Apparatus For Manipulating Documen	Has potential - many products manipulate do	*	*	*	*	*		*	*	*
3109.1009-019	Apparatus For Manipulating Documen	Has potential - many products manipulate do	*	*	*	*	*		*	*	*
3109.1009-032	Apparatus For Manipulating Documen	Has potential - many products manipulate do	*	*	*	*	*		*	*	*
3109.1009-042	Apparatus For Manipulating Documen	Has potential - many products manipulate do	*	*	*	*	*		*	*	*
3109.1009-048	Apparatus For Manipulating Documen	Has potential - many products manipulate do	*	*	*	*	*		*	*	*
3109.1009-063	Apparatus For Manipulating Documen	Has potential - many products manipulate do	*	*	*	*	*		*	*	*
3109.1009-000	Apparatus For Manipulating Documen	Has potential - many products manipulate do	*	*	*	*	*		*	*	*
3109.1003-003	Apparatus For The Compression Of D	very little									*
3109.1003-004	Apparatus For The Compression Of D	very little									*
3109.1003-005	Apparatus For The Compression Of D	very little									*
3109.1011-000	Automatic Determination Of Blank Pag	very little								*	*
3109.1011-001	Automatic Determination Of Blank Pag	very little								*	*
3109.1011-002	Automatic Determination Of Blank Pag	very little								*	*
3109.1011-003	Automatic Determination Of Blank Pag	very little								*	*
3109.1011-004	Automatic Determination Of Blank Pag	very little								*	*
3109.1011-005	Automatic Determination Of Blank Pag	very little								*	*
3109.1011-006	Automatic Determination Of Blank Pag	very little								*	*
3109.1011-007	Automatic Determination Of Blank Pag	very little								*	*
3109.1005-001	Cascadable, High-Bandwidth, Multi-Ch	none									
3109.1005-002	Cascadable, High-Bandwidth, Multi-Ch	none									
3109.1005-000	Cascadable, High-Bandwidth, Multi-Ch	none									
3109.1016-000	Character Recognition System Identifi	Has potential - this was very original handwr									
3109.1016-001	Character Recognition System Identifi	Has potential - this was very original handwr									
3109.1016-002	Character Recognition System Identifi	Has potential - this was very original handwr									
3109.1016-003	Character Recognition System Identifi	Has potential - this was very original handwr									
3109.1016-004	Character Recognition System Identifi	Has potential - this was very original handwr									
3109.1016-005	Character Recognition System Identifi	Has potential - this was very original handwr									
3109.1016-006	Character Recognition System Identifi	Has potential - this was very original handwr									
3109.1016-007	Character Recognition System Identifi	Has potential - this was very original handwr									
3109.1022-001	Composite Document Accessing And	none									

3109.1009-008	Data Processing Method	very little								*
3109.1009-017	Data Processing Method	very little								*
3109.1009-034	Data Processing Method	very little								*
3109.1009-038	Data Processing Method	very little								*
3109.1009-041	Data Processing Method	very little								*
3109.1009-044	Data Processing Method	very little								*
3109.1009-050	Data Processing Method	very little								*
3109.1009-054	Data Processing Method	very little								*
3109.1009-055	Data Processing Method	very little								*
3109.1009-058	Data Processing Method	very little								*
3109.1009-006	Data Processing System With Folder I	very little								*
3109.1009-004	Data Retrieval, Manipulation And Tran	very little	*	*	*	*	*	*	*	*
3109.1008-000	Digital Imaging File Processing Syster	very little	*	*	*	*	*	*	*	*
3109.1008-001	Digital Imaging File Processing Syster	very little	*	*	*	*	*	*	*	*
3109.1008-002	Digital Imaging File Processing Syster	very little	*	*	*	*	*	*	*	*
3109.1008-003	Digital Imaging File Processing Syster	very little	*	*	*	*	*	*	*	*
3109.1008-004	Digital Imaging File Processing Syster	very little	*	*	*	*	*	*	*	*
3109.1008-005	Digital Imaging File Processing Syster	very little	*	*	*	*	*	*	*	*
3109.1008-006	Digital Imaging File Processing Syster	very little	*	*	*	*	*	*	*	*
3109.1008-007	Digital Imaging File Processing Syster	very little	*	*	*	*	*	*	*	*
3109.1008-008	Digital Imaging File Processing Syster	very little	*	*	*	*	*	*	*	*
3109.1008-009	Digital Imaging File Processing Syster	very little	*	*	*	*	*	*	*	*
3109.1008-010	Digital Imaging File Processing Syster	very little	*	*	*	*	*	*	*	*
3109.1009-009	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-011	Document Annotation And Manipulatic	very little								*
3109.1009-013	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-020	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-023	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-029	Document Annotation And Manipulatic	?								
3109.1009-033	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-037	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-039	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-045	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*

3109.1009-051	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-052	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-056	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-059	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-061	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-005	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-007	Document Annotation And Manipulatic	Has potential	*	*	*	*	*	*	*	*
3109.1009-022	Document Folder Icon For Display In /	very little	*	*	*	*	*	*	*	*
3109.1009-014	Document Folder Icon For Display In /	very little	*	*	*	*	*	*	*	*
3109.1009-021	Document Folder Icon For Display In /	very little	*	*	*	*	*	*	*	*
3109.1009-035	Document Folder Icon For Display In /	very little	*	*	*	*	*	*	*	*
3109.1009-036	Document Folder Icon For Display In /	very little	*	*	*	*	*	*	*	*
3109.1009-040	Document Folder Icon For Display In /	very little	*	*	*	*	*	*	*	*
3109.1009-046	Document Folder Icon For Display In /	very little	*	*	*	*	*	*	*	*
3109.1009-047	Document Folder Icon For Display In /	very little	*	*	*	*	*	*	*	*
3109.1009-053	Document Folder Icon For Display In /	very little	*	*	*	*	*	*	*	*
3109.1009-057	Document Folder Icon For Display In /	very little	*	*	*	*	*	*	*	*
3109.1009-060	Document Folder Icon For Display In /	very little	*	*	*	*	*	*	*	*
3109.1009-062	Document Folder Icon For Display In /	very little	*	*	*	*	*	*	*	*
3109.1009-010	Document Folder Means in a Data Prc	very little	*	*	*	*	*	*	*	*
3109.1009-026	Document Folder Means In A Data Pr	very little								
3109.1009-030	Document Folder Means In A Data Pr	very little								
3109.1009-018	Document Manipulation In A Data Pro	very little	*	*	*	*	*	*	*	*
3109.1009-024	Document Manipulation In A Data Pro	very little	*	*	*	*	*	*	*	*
3109.1009-031	Document Manipulation In A Data Pro	very little								
3109.1002-002	Document Scanner With Positioning D	none								
3109.1002-003	Document Scanner With Positioning D	none								
3109.1002-000	Scanner Document Positioning Device	none								
3109.1002-001	Scanner Document Positioning Device	none								
3109.1002-004	Scanner Document Positioning Device	none								
3109.1002-005	Scanner Document Positioning Device	none								
3109.1010-004	Electronic Document Display With Anr	none								
3109.1010-006	Electronic Document Display With Anr	none								

3109.1010-008	Electronic Document Display With Anr	none								
3109.1010-010	Electronic Document Display With Anr	none								
3109.1010-014	Electronic Document Display With Anr	none								
3109.1009-027	Handling Of Documents In A Data Pro	?								
3109.1020-000	High Speed Document Verification Sy:	Has potential, this is a common technique	X	X	X	X	X	X	X	X
3109.1020-001	High-Speed Document Verification Sy:	Has potential, this is a common technique	X	X	X	X	X	X	X	X
3109.1020-002	High-Speed Document Verification Sy:	Has potential, this is a common technique	X	X	X	X	X	X	X	X
3109.1020-003	High-Speed Document Verification Sy:	Has potential, this is a common technique	X	X	X	X	X	X	X	X
3109.1020-004	High-Speed Document Verification Sy:	Has potential, this is a common technique	X	X	X	X	X	X	X	X
3109.1020-005	High-Speed Document Verification Sy:	Has potential, this is a common technique	X	X	X	X	X	X	X	X
3109.1020-006	High-Speed Document Verification Sy:	Has potential, this is a common technique	X	X	X	X	X	X	X	X
3109.1013-000	Image Undithering Apparatus And Mel	very little								*
3109.1013-001	Image Undithering Apparatus And Mel	very little								*
3109.1013-002	Image Undithering Apparatus And Mel	very little								*
3109.1013-003	Image Undithering Apparatus And Mel	very little								*
3109.1013-004	Image Undithering Apparatus And Mel	very little								*
3109.1013-005	Image Undithering Apparatus And Mel	very little								*
3109.1013-006	Image Undithering Apparatus And Mel	very little								*
3109.1013-007	Image Undithering Apparatus And Mel	very little								*
3109.1013-008	Image Undithering Apparatus And Mel	very little								*
3109.1014-000	Lossy Compression And Expansion Al	very little								*
3109.1014-004	Lossy Compression And Expansion Al	very little								*
3109.1014-005	Lossy Compression And Expansion Al	very little								*
3109.1014-001	Lossy Compression Land Expansion /	very little								*
3109.1014-002	Lossy Compression Land Expansion /	very little								*
3109.1014-003	Lossy Compression Land Expansion /	very little								*
3109.1014-006	Lossy Compression Land Expansion /	very little								*
3109.1014-007	Lossy Compression Land Expansion /	very little								*
3109.1022-000	Management Communication Termina	none								
3109.1022-003	Management Communication Termina	none								
3109.1022-004	Management Communication Termina	none								
3109.1022-005	Management Communication Termina	none								
3109.1012-003	Method And Apparatus For Automatic	very little								X

3109.1012-000	Method And Apparatus For Automicall	very little									X
3109.1012-001	Method And Apparatus For Automicall	very little									X
3109.1012-002	Method And Apparatus For Automicall	very little									X
3109.1012-004	Method And Apparatus For Automicall	very little									X
3109.1012-005	Method And Apparatus For Automicall	very little									X
3109.1012-006	Method And Apparatus For Automicall	very little									X
3109.1012-007	Method And Apparatus For Automicall	very little									X
3109.1017-001	Method And Apparatus For Convertinç	Claims too specific to be useful	X	X	X	X	X		X	X	X
3109.1017-002	Method And Apparatus For Convertinç	Claims too specific to be useful	X	X	X	X	X		X	X	X
3109.1017-003	Method And Apparatus For Convertinç	Claims too specific to be useful	X	X	X	X	X		X	X	X
3109.1017-004	Method And Apparatus For Convertinç	Claims too specific to be useful	X	X	X	X	X		X	X	X
3109.1017-005	Method And Apparatus For Convertinç	Claims too specific to be useful	X	X	X	X	X		X	X	X
3109.1017-006	Method And Apparatus For Convertinç	Claims too specific to be useful	X	X	X	X	X		X	X	X
3109.1017-007	Method And Apparatus For Convertinç	Claims too specific to be useful	X	X	X	X	X		X	X	X
3109.1017-008	Method And Apparatus For Convertinç	Claims too specific to be useful	X	X	X	X	X		X	X	X
3109.1017-009	Method And Apparatus For Convertinç	Claims too specific to be useful	X	X	X	X	X		X	X	X
3109.1017-010	Method And Apparatus For Convertinç	Claims too specific to be useful	X	X	X	X	X		X	X	X
3109.1017-000	Method And Apparatus For Convertinç	Claims too specific to be useful	X	X	X	X	X		X	X	X
3109.1003-000	Method And Apparatus For Differentia	very little									*
3109.1003-001	Method And Apparatus For Differentia	very little									*
3109.1003-002	Method And Apparatus For Differentia	very little									*
3109.1019-000 a	Method And System For Retrieving Dc	?									
3109.1019-000 b	Method And System For Retrieving Dc	?									
3109.1009-002	Method For Black And White Pixel Imε	very little									*
3109.1009-003	Method For Ĉolor Image Reduction Bε	very little									*
3109.1015-000	Method For Reducing The Size Of An	very little									*
3109.1015-001	Method For Reducing The Size Of An	very little									*
3109.1015-002	Method For Reducing The Size Of An	very little									*
3109.1004-000	Method Of Coupling Identification Tab	very little									
3109.1000-004	Method Of Resolving Data Conflicts In	very little		X							
3109.1000-006	Method Of Resolving Data Conflicts In	very little		X							
3109.1000-001	Method Of Resolving Data Conflicts In	very little		X							
3109.1024-000	Office Automation System With Integr:	very little	X	X	X	X	X		X	X	X

3109.1024-002	Office Automation System With Integr	very little	X	X	X	X	X		X	X	X
3109.1024-003	Office Automation System With Integr	very little	X	X	X	X	X		X	X	X
3109.1024-004	Office Automation System With Integr	very little	X	X	X	X	X		X	X	X
3109.1024-006	Office Automation System With Integr	very little	X	X	X	X	X		X	X	X
3109.1024-007	Office Automation System With Integr	very little	X	X	X	X	X		X	X	X
3109.1024-005	Office Automation Systems With Integ	very little	X	X	X	X	X		X	X	X
3109.1009-016	Reduced Image Generation	very little									*
3109.1009-043	Reduced Image Generation	very little									*
3109.1009-049	Reduced Image Generation	very little									*
3109.1009-064	Reduced Image Generation	very little									*
3109.1021-000	Remote Network Management Softwa	very little			X						
3109.1021-002	Remote Network Management Softwa	very little			X						
3109.1021-003	Remote Network Management Softwa	very little			X						
3109.1021-004	Remote Network Management Softwa	very little			X						
3109.1021-005	Remote Network Management Softwa	very little			X						
3109.1007-000	Resolution Conversion Of Bitmap Ima	very little									X
3109.1007-001	Resolution Conversion Of Bitmap Ima	very little									X
3109.1007-002	Resolution Conversion Of Bitmap Ima	very little									X
3109.1007-003	Resolution Conversion Of Bitmap Ima	very little									X
3109.1007-004	Resolution Conversion Of Bitmap Ima	very little									X
3109.1007-005	Resolution Conversion Of Bitmap Ima	very little									X
3109.1007-006	Resolution Conversion Of Bitmap Ima	very little									X
3109.1000-000	Structured Workflow	very little		X							
3109.1000-002 b	Structured Workfolder	very little		X							
3109.1000-003	Structured Workfolder	very little		X							
3109.1000-005	Structured Workfolder	very little		X							
3109.1018-000	Workflow Initiated By Graphical Symb	very little	X	X	X	X		X			*
3109.1006-000	Thresholding Algorithm Selection App	very little									*
3109.1006-001	Thresholding Algorithm Selection App	very little									*
3109.1006-002	Thresholding Algorithm Selection App	very little									*
3109.1006-003	Thresholding Algorithm Selection App	very little									*
3109.1006-004	Thresholding Algorithm Selection App	very little									*
3109.1006-005	Thresholding Algorithm Selection App	very little									*

3109.1006-006 Thresholding Algorithm Selection App; very little

*

. . .

Unpatented and Trade Secret Technologies

Certain items were added to Case Manager recently which may be patentable and may have independent value to non-competing organizations:

1. Rules based security – the permission mechanism was extended to allow application designers to add rules based on user and object properties to specify conditions under which users have permission to perform specific actions. For example, a rule could specify that clerk only get READ permission if the value of a claim is less than their authorized limit.

2. Dynamic load balancing – the Case Manager server can be run on any number of servers connected to a single database server. The servers automatically detect each other's presence and automatically divide up the work to be processed.

These are documented in the Case Management Help system.

Burton Grad Associates, Inc.
5 Saint John Place
Westport, CT 06880
(203) 222-8821
(203) 222-8821 Fax
Burtgrad@aol.com

Invoice #3112

SoftBrands, Inc.
2 Meridian Crossings
Minneapolis, MN 55423

December 15, 2005

Project: 301-6

Attention: Harvey Schmitz

INVOICE

Project: Determination of SoftBrands Goodwill Impairment as of 9/30/05

Consulting Services: Per Agreement signed 10/17/05

11/7/05-12/13/05:	5 days @ $3,000/day	$15,000.00
Expenses:		none
	Less Advance Payment:	6,000.00
	Total Invoice:	**$9,000.00**

Payment is due within fifteen days.

5601 SB Invoice2

Burton Grad Associates, Inc.
5 Saint John Place, Westport, Connecticut 06880
(203) 222-8821 Fax: (203) 222-8821
e-mail: burtgrad@aol.com

(fax) 612-851-1901

FAX TRANSMISSION

Date: 1/21

No. Pages including cover page: 1 + 3

To: Steve Johnston

From: **Burton Grad** B.

EBITDA for 2005

PART I

ITEM 1. BUSINESS.

get updated
version of
pages 1-3 of
10-K / or on
website!

General

SoftBrands, Inc. provides enterprise software and sup[...] stomers in more than 60 countries. We have established a worldwide infrastructure for distribution, [...] ise software. Our integrated software suites provide the tools necessary for small- and mid-sized bu[...] ospitality sectors to improve efficiency, enhance customer satisfaction and improve profitability[...] Minnesota, we have more than 570 employees **(confirm)** and branch offices in Europe, Ch[...], Australia, India and Africa. We operate in two principal business segments: manufacturing software and hospitality software.

Manufacturing Software Operations

Our manufacturing business supports the enterprise information management needs of small- to mid-sized manufacturing companies worldwide. Our manufacturing software business currently generates the majority of our revenue, comprising $50,597,000 or 71.5 percent of our consolidated revenue for the year ended September 30, 2005.

We offer ERP software, consulting, implementation, installation and ongoing support to manufacturing customers worldwide. Our core products for manufacturing include:

- Fourth Shift, an enterprise software solution aimed at small- to mid-sized manufacturers. It is designed to improve the quality, efficiency and speed of a customer's supply chain, global manufacturing operations, and strategic and tactical business decisions. Fourth Shift's comprehensive ERP suite facilitates critical business functions including manufacturing, operations, financials, workflow, e-business, human resources, and customer and supplier relationship management. Since the Fourth Shift software was introduced in 1985, we have shipped more than 4,000 systems **(confirm).**

- Fourth Shift Edition for SAP Business One, which was introduced in April 2005. During fiscal 2004, we agreed to a significant joint-initiative with SAP Business One to address the software applications needs of medium-sized manufacturing companies. As the largest enterprise application software company in the world, SAP has significant marketing, distribution and name-recognition advantages. SAP selected SoftBrands as its partner for mid-market manufacturing opportunities. Fourth Shift Edition for SAP Business One is a set of software applications, based on our core Fourth Shift product, which is integrated with SAP Business One software. This product was introduced in the United States in April 2005; Canada in August 2005; Australia, New Zealand, Singapore and Malaysia in the fourth quarter of fiscal 2005.

- Demand Stream is a lean enterprise automation software system that provides functionality to support the demand-driven factory from the shop floor through the supply chain. Demand Stream works in tandem with a manufacturing customer's ERP system and is not dependent on Fourth Shift or any of our other software products. Demand Stream was introduced in 2001 and currently has approximately 30 customer installations worldwide **(confirm)**, primarily in the United States and China.

- evolution is a software system designed to serve niche manufacturing markets and is particularly suitable for 'converter' manufacturers, such as manufacturers of metals, paper, and fabric producers, where reels, rolls, coils or bundles of raw materials are converted into finished product. In contrast to Fourth Shift, which is a complete software system sold in standardized form, evolution is designed to allow customers to customize the system to their own unique operations. Introduced in 1986, evolution is currently used worldwide in approximately 1,000 locations **(confirm).**

Services for manufacturing software customers

We generate substantial, recurring revenue from software maintenance contracts. Our Customer Support Program ("CSP"), our software maintenance service, is our primary service offering for manufacturing software customers. CSP customers pay an annual fee of between 15 to 20 percent of the current list price of the software modules they license. Included in this annual maintenance contract are software upgrades on a when and if available basis, interim service releases, phone support, web-based self-service offerings and web seminars.

Research and Development

We currently employ a staff of 82 computer engineers and programmers in our manufacturing software development department. Our product development departments for manufacturing are located in Minneapolis, Tianjin, China; Blackburn, U.K.; and Noida and Bangalore, India. Total manufacturing-related research and development expense was $5,821,000 in the year ended September 30, 2005.

Competitors

Our manufacturing software products compete for installations in companies with less than $1 billion in revenue. SoftBrands manufacturing products compete worldwide based on reputation, quality, reliability and service offerings. Key competitors for Fourth Shift include Mapics, Epicor, QAD, SYSPRO, Microsoft, Oracle, PeopleSoft and Infor Global Solutions. Key competitors for Demand Stream include QAD, Oracle, PeopleSoft, Lilly, Pelion Systems and Exemplary. SoftBrands' evolution product competes with vendors of financial and enterprise management products from a number of suppliers, including QAD, JD Edwards, Oracle, IFS, Mapics, Intentia, Glovia and Baan.

Hospitality Software Operations

Our Hospitality business business supports the enterprise information management needs of hotels and resorts. Our hospitality software business generated $20,146,000, or 28.5 percent of our consolidated revenue for the year ended September 30, 2005.

Products

We provide property management systems and leisure management systems to hotels, resorts, spas and health clubs. Our primary property management system is Medallion. Our core hospitality products include:

- Medallion is a windows-based property management system designed primarily for medium-service independent hotels and hotel chains worldwide. It features a single-screen approach to property management and a high number of features. Medallion is our key "go-forward" product and we believe it will offer customers of legacy systems an attractive replacement product. There are currently more than 800 installations of Medallion worldwide **(confirm)**. Prior to 2003, we were a distributor of Medallion. We acquired all of the intellectual property rights for this product in May 2003 and have since worked to standardize the offering and increase its appeal to our target markets.

- PORTfolio is a comprehensive client/server hotel system that offers a wide range of functions for both the front- and back-office operations in single-site and multi-property hotels. With PORTfolio's centralized management system, hotel chains can take advantage of a central reservation system, along with centralized guest and company history, data warehousing and sales ledger. There are currently approximately 250 installations of PORTfolio, primarily in the United Kingdom, with approximately 30 in the United States **(confirm).**

- RIO supports the activities of spas, health clubs and resorts. RIO is an integrated system that has particular strength in high-end accommodation resorts and spas. We have offered the RIO product for three years. There are currently approximately 250 installations of RIO worldwide **(confirm)**.

A large portion of hospitality revenue is derived from maintenance of legacy software systems, primarily IGS Hotel and LANmark. IGS Hotel operates in a multitasking DOS environment and offers a wide range of functions for both the front- and back-office operations in a hotel. LANmark is a property management product, which operates in multitasking DOS environments and offers many of the same features as IGS Hotel.

Services

We currently provide customer support for hospitality customers on a geographic basis from locations in the United States, India, United Kingdom, Belgium and Australia. We have developed a worldwide customer support center in Bangalore, India that is providing first-line customer support for hospitality clients on an around-the-clock basis. Customer support and professional services related to our hospitality software products totaled $12,843,000 during the year ended September 30, 2005. We offer a standardized customer support program (CSP) for all hospitality products. CSP is a comprehensive, fee-based program designed to help customers obtain the maximum benefit from their business management software. CSP customers pay an annual fee of 15 to 25 percent of the current list price of the modules licensed.

Research and Development

Research and development for hospitality products occurs both in-house and through an agreement with RekSoft, a software development company. The focus of our current development efforts is primarily on increasing the functionality of Medallion. We have made a long-term commitment to software development and coding in India, with the creation of a worldwide development center in Bangalore. Total hospitality-related research and development expense was $2,604,000 in the year ended September 30, 2005.

Competitors

The enterprise software market for the hotel and resort category is highly competitive and highly fragmented. SoftBrands hospitality products compete with a wide range of competitors. The PMS products compete primarily with Micros-Fidelios, HIS and Springer Miller. In leisure management, our products primarily compete with Springer Miller. These products compete primarily on the basis of functionality and integration capabilities

ITEM 2. PROPERTIES

We do not own any real property. We lease office space and some equipment. The following table sets forth the terms of leases for our largest offices:

Location	Office Size (ft^2)	Lease Expires	Approximate Annual Rent
Two Meridian Crossings Minneapolis, MN 55423	61,804	December 31, 2008	$ 985,800
1600 Jackson Street, #205 Golden, CO 80401	7,991	December 31, 2005	$ 113,080
Fourth Shift House 11 Worton Drive Reading, Berkshire RG2 0LX United Kingdom	15,400	June 24, 2006	$ 675,000
Unit A Level 2 15 Rodborough Road Frenchs Forest NSW Australia	6,000	October 7, 2006	$
302 3rd Floor Prestige Sigma No. 3, Vittal Mallaya Road Bangalore, India	4,305	May 14, 2007	$ 104,200
76, 1st Floor, Prestige Samrah 4/2, St. Marks Road Bangalore, India	5,783	May 30, 2007	$ 46,700
Software Technology Park Block-1, 2nd Floor Sector 29 Noida (U.P.) India	1,403	September 30, 2005	$ 47,500
27th floor The Exchange Tower #1 No. 189, Nanjing Road Heping District Tianjin, China	14,362	April 30, 2007	$ 41,000
Glenfield Park, Site 2 Blakewater Road Blackburn, Lancs UK	11,749	October 19, 2010	$ 130,000
1938 N. Woodlawn # 100 Wichita, KS 67208	12,479	October 31, 2006	$ 99,400
BEIJING Room 9061, JingAn Center, No. 8 Beisanhuan, DongLu Chaoyang District Beijing, China 100028	185.25 m2	May 30, 2006	$

SHANGHAI Room 1101, Central Plaza, 227 Huang Pi Road North Shanghai, China 200003	304.56 m2	January 31, 2006	$	252,600 0
GUANGZHOU Room 1810, GITIC Plaza 339 Huanshi Road East Guangzhou Guangdong Province China 510098	131.80 m2	December 31, 2005	$	40,753

We also maintain administrative offices in Dallas, Texas. We lease additional facilities and offices for international sales operations in Johannesburg, South Africa; Singapore, Shanghai and Beijing, China.

We believe that we currently have adequate leased space to accommodate current operations and that facilities for administrative personnel are adequate for expansion plans. We also believe that expansion space is readily available in virtually all the markets in which we operate.

ITEM 3. LEGAL PROCEEDINGS

SoftBrands and its subsidiaries are periodically engaged in litigation in the ordinary course of business, including litigation seeking return of software licensing and services fees. SoftBrands does not believe that any of such litigation is material to its ongoing operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND PURCHASE OF EQUITY SECURITIES

Until the effective date of this registration under Section 12(g) of the Securities Exchange Act of 1934, our common stock has not been registered under the Securities Exchange Act of 1934, and has not traded on any exchange. Our shares are traded between stockholders and third parties on an individual transaction basis and trading prices are published in the "pink sheets," a quotation service that displays sale prices, and volume information for transactions with market makers in over-the-counter ("OTC") equity securities. All such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions.

Until class representatives distributed shares they held to class action claimants in April, 2004, although trading occurred in our shares, the NASD had imposed a "when-issued" status that rendered settlement of the trades difficult. During this period, there was not an active trading market in our shares of common stock and on many days, no trades, or virtually no trades, occurred. Because class representatives of the plaintiffs in *In re AremisSoft Securities Litigation* delivered shares of our common stock they held to individual class claimants on that date, trading after April, 2004 represented substantially higher volumes.

Based on information obtained from the pink sheets, the high and low bid quotations for the common stock for each of the quarters of our fiscal years ended September 30, 2003 and September 30, 2004, and the quarter ended December 31, 2004 —the first quarter of our 2005 fiscal year—are set forth in the table below:

	Price Range	
	High($)	Low($)
Quarter ended December 31, 2002(1)	.30	.25
Quarter ended March 31, 2003	2.00	.25
Quarter ended June 30, 2003	2.00	.80
Quarter ended September 30, 2003	1.20	.80
Quarter ended December 31, 2003	1.00	.80
Quarter ended March 31, 2004	2.00	.80
Quarter ended June 30, 2004	1.65	1.07
Quarter ended September 30, 2004	1.22	1.10
Quarter ended December 31, 2004	2.28	1.12

(1) Quotation information is not available prior to December 17, 2002.

As of December 31, 2004, we had 3,260 record holders of our common stock, and we estimate that we have approximately 7,700 beneficial holders. Prior to the April 2004 distribution of shares by class representatives to class members, we had fewer than 300 record holders of our common stock. This Form 10 is being filed because at the end of the year ended September 30, 2004, we had more than 500 holders of record of our common stock, and total assets of more than $10 million

The Securities Exchange Commission has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than $5.00, other than securities registered on certain national securities exchanges or quoted on the Nasdaq system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, deliver a standardized risk disclosure document prepared by the Commission, which: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation to such duties or other requirements of Securities' laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form as the Commission shall require by rule or regulation. The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer: (a) with bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitably statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our stock and, as a result, stockholders may have difficulty selling those securities.

We are considering taking measures that we hope will allow us to achieve trading privileges on a national securities exchange such as Amex or on Nasdaq. The filing of this Form 10 and the registration of our common stock under Section 12(g) of the Securities Exchange Act of 1934 would be a prerequisite to any such trading or quotation privileges. The market price of our common stock would also have to increase and our consolidated net worth would have to increase before we met the listing standards of these exchanges. We have considered, and may propose, several steps to accomplish these increases, including a reverse stock split. Any such reverse stock split would require the approval of our stockholders under Delaware law.

Equity Compensation Plan Information

The following table describes shares of our common stock that are available for purchase under outstanding options or warrants or other rights, or reserved for issuance under options, warrants or other rights that may be granted in the future, under our equity compensation plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding those reflected in column (a))
Equity compensation plans approved by security holders ...			
2001 Stock Incentive Plan (1).	9,966,000	2.21	1,404,000
Equity compensation plans not approved by security holders ...	0	0	0
Total	9,966,000	2.21	1,404,000

(1) In addition to options, we may issue restricted stock awards, performance awards and other stock-based awards.

Dividends

Subject to restrictions under Delaware law and our debt agreement, dividends must be determined and declared by our Board of Directors. We have never declared or paid a dividend and we intend to retain earnings, if any, to support our growth for the forseeable future. We are prohibited under our debt agreement with our principal lender from paying any dividends or making any other distribution on any shares of our capital stock, or purchasing, redeeming, retiring or acquiring any shares of our capital stock, except for stock splits and dividends payable in shares of our common stock.

1. On the August 2, 2002, effective date of the Plan of Reorganization of AremisSoft Corporation, 40,000,000 shares, constituting all of the issued shares, of SoftBrands were issued, or delivered to a disbursement agent for issuance, to Class Counsel for In re AremisSoft Securities Litigation and to former stockholders of AremisSoft Corporation. In accordance with, and pursuant to, the Plan of Reorganization,

- 8,066,667 shares of our common stock was issued and delivered as of August 2, 2002 to plaintiff class counsel in payment of their fees;

- 16,133,333 shares of our common stock was issued and delivered as of August 2, 2002 to plaintiff class counsel as representatives of, and for further distribution to, the plaintiff class; and

- 15,800,000 shares of our common stock was delivered as of August 2, 2002 to a disbursement agent and disbursed during the 11 months ended July 3, 2003, to former stockholders of AremisSoft Corporation who were not associated with the alleged fraud at AremisSoft.

The issuance of such shares pursuant to the Plan of Reorganization was exempt from the registration provisions of the Securities Act of 1933 by virtue of Section 1145 of the United States Bankruptcy Code.

2. On November 26, 2002, we sold (i) $20 million of our 12.5% Senior Subordinated Secured Note Due 2009, and (ii) a common stock Purchase Warrant to purchase 6,956,715 shares of our common stock at $.57 per share, to a single institutional investor. The purchase agreement included representations of the investor that the Note and the Warrant had been purchased with investment intent and the Note and Warrant contained legends noting that they cannot be transferred without registration, or an exemption
from registration, under federal and applicable state securities laws. The Note and Warrant were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

3. On November 26, 2002, we issued warrants to purchase 250,000 shares of our common stock to the placement agent engaged to assist us in the transaction described in paragraph 2. The placement agent represented that it was acquiring the warrants with investment intend and the warrant agreements contained legends noting that they cannot be transferred without registration, or an exemption from registration, under federal and applicable state securities laws. These warrants were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

4. On April 13, 2004, we issued 30,000 shares of our common stock to two former directors in consideration of services they had rendered to the Company. The certificates representing shares contained legends noting that that cannot be transferred without registration, or an exemption from registration, under federal and applicable state securities laws. These shares were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933 and Rule 701 adopted under the Securities Act of 1933.

5. On August 18, 2004, we exchanged 4,331,540 shares of our Series B Convertible Preferred Stock, and a Common Stock Purchase Warrant to purchase 4,016,518 shares of our common stock, for the Common Stock Purchase Warrant referred to in paragraph 2(ii) above, and amendments to the purchase agreement for the note and warrant referred to in paragraph 2.

Description of SoftBrands Capital Stock

Our Second Restated Certificate of Incorporation, as amended, authorizes 110,000,000 shares of common stock, par value $.01 per share and 15,000,000 shares of Preferred Stock, par value $.01 per share. The certificate provides our board of directors with the authority to set the terms and preferences of multiple series of preferred stock. Our Board has authorized a series of 300,000 shares of Series A Preferred Stock, which is issuable under our stockholder rights plan, and 4,331,540 shares of Series B Convertible Preferred Stock, which was issued in August 2004 to our principal lender in exchange for warrants it held. On December 15, 2004, 40,030,000 shares of our common stock were issued and outstanding, 4,331,540 shares of our Series B Convertible Preferred Stock were issued and outstanding, and no shares of our Series A Preferred Stock were issued or outstanding. Although we have not made any decision regarding its timing or size, we are considering proposing to our stockholders a reverse stock split that would change the number of shares of our common stock that are outstanding and the corresponding conversion rate of our outstanding Series B Convertible Preferred Stock.

The rights and preferences of our different classes and series of capital stock are described in detail in our Second Restated Certificate of Incorporation and in the Designations of Rights, Preferences and Privileges of the Series A Preferred Stock and Series B Preferred Stock. These documents are filed as Exhibits to this Form 10 and are summarized below. We have also filed as exhibits our 2001 Stock Incentive Plan and the form of Incentive Stock Option Agreement we have issued.

Common Stock The holders of our common stock:

(i) have equal rights to dividends, based on the number of shares they hold, from funds legally available for dividends, when and if our Board of Directors declares dividends, and after payment of any preferential dividends on our preferred stock;

(ii) are entitled, based on the number of shares they hold and after payment of preferences on the preferred stock, to all of the assets of SoftBrands available for distribution to holders of the common stock upon liquidation, dissolution or winding up of the affairs of SoftBrands;

(iii) do not have preemptive, subscription or conversion rights, and are not entitled to the benefits of redemption or sinking fund provisions; and

(iv) are entitled to one vote per share on all matters which stockholders may vote on at all meetings of stockholders.

The holders of the common stock do not have cumulative voting rights, which means that the holders of more than 50 percent of such outstanding voting shares of the Company could elect all of the directors of SoftBrands to be elected, if they so choose.

Our Board of Directors has discretion as to when and if to pay dividends. A decision to declare a dividend will depend, among other things, upon our earnings, capital requirements and financial condition, as well as other relevant factors. Due to our anticipated financial needs and future plans, we do not contemplate paying any dividends upon the common stock in the foreseeable future.

Preferred Stock
Our Board of Directors is authorized, without a vote or other authorization from our stockholders, to issue preferred stock in one or more series and to fix the voting rights, liquidation preferences, dividend rights, repurchase rights, conversion rights, redemption rights and terms, including sinking fund provisions, and other rights and preferences, of the preferred stock. These rights, including particularly the voting and conversion rights, could adversely affect the voting power of the holders of common stock and may have the effect of delaying, deferring or preventing a change in control of SoftBrands.

Series A Preferred Stock. The Series A Preferred Stock was created solely to accommodate our Rights Plan, which is described below. Because the rights under the Rights Plan are not exercisable, and will not become exercisable until or unless a "distribution date" occurs, no shares of Series A Preferred Stock are outstanding or are expected to be outstanding. Shares of the Series A Preferred Stock:

- are not redeemable;
- are entitled to a minimum preferential quarterly dividend payment of $.25 per share but will be entitled to an aggregate dividend of 100 times the dividend declared on common stock;
- have a preference in liquidation equal to the greater of (A) a preferential liquidation payment of $100 per share plus all accrued and unpaid dividends, or (B) an aggregate payment of 100 times the payment made per Common Share;
- have 100 votes, voting together with the common stock, on all matters presented to stockholders; and
- in the event of any merger, consolidation or other transaction in which Common stock is exchanged, are entitled to receive 100 times the amount received per share of common stock.

Because of the nature of the dividend, liquidation and voting rights of the Series A Preferred Stock, the value of the one one-hundredth interest in a share of Series A Preferred Stock purchasable upon exercise of each Right should approximate the value of one share of common stock.

Series B Preferred Stock. On August 18, 2004, we created and issued a series of 4,331,540 shares of Series B Convertible Preferred Stock. The shares of Series B Convertible Preferred Stock, together with new warrants to purchase 4,016,518 shares of common stock at $1.06 per share, were issued in consideration of the cancellation of warrants held by the lender to purchase 6,956,715 shares of common stock at a price of $.40 per share. Shares of the Series B Convertible Preferred Stock:

- vote on an "as-if-converted" basis with our common stock, but have special voting rights to approve, by a majority vote a liquidation, merger or consolidation of SoftBrands, the sale of all, or substantially all, of our assets , any amendment to our Certificate of Incorporation or Bylaws that adversely effects the rights of the holders of Series B Convertible Preferred Stock, or the creation of any senior class of preferred stock;
- have a preference in liquidation over the common stock of $1.06 per share, plus accumulated and unpaid dividends, per share, or if greater, the amount a holder of the number of shares of common stock into which the Series B Convertible Preferred Stock is then convertible would receive;

Series C Preferred Stock. On August 9, 2005, we created and authorized a series of 20,027,000 shares of Series C Convertible Preferred Stock. We issued 18,000,000 shares of Series C Convertible Preferred Stock to Investors at a nominal face value Issue Price of $1,000 per share and an open conversion feature into shares of the Company's common stock at a conversion price of $2.01 per share. Additionally, the Investors of the Series C Convertible Preferred Stock were granted new warrants to purchase up to one million shares (1,200,000) of the Company's common stock at an exercise price equal to $2.11 per share Shares of the Series C Convertible Preferred Stock:

- Carry a mandatory dividend, whether or not earned, of 6% of its face value per annum (paid in two semi-annual installments, commencing December 31, 2005).

- Have a liquidation preference over common stock and on a par with the Series B Convertible Preferred Stock equal to its face value plus accrued and unpaid dividends.

- Is convertible into common stock at any time at $2.01 per share, subject to price anti-dilution protection on a weighted average basis for new issuances by us below the conversion price or below 80% of market price.

- May be redeemed by us at par plus accrued dividends, or automatically converted into common stock , commencing August 17, 2007, subject to satisfaction of a number of conditions, including market price conditions.

- The warrants are exercisable at $2.11 per share, subject to the same price anti-dilution provisions, contain cash-less exercise rights and expire on August 17, 2015 and are convertible at a holder's option into shares of common stock at an initial rate of one share of common stock for each share of Series B Convertible Preferred Stock, subject to adjustment; and automatically convert into common stock if we complete a public offering of in which we raise net proceeds of at least $25 million, our market capitalization is at least $100,000,000 and the public offering price is at least $2.00, or if we meet market trading tests.

We are obligated, under the Investor Rights Agreement described below, to file a registration statement including shares of common stock, or to include shares of common stock in a registration we file, that are acquired on conversion of the Series B Preferred Stock and upon exercise of the warrants we issued to our lender.

Stock Option Plan

On December 13, 2001, our Board of Directors adopted the SoftBrands, Inc. 2001 Stock Incentive Plan, reserving a total of 8,400,000 shares of our common stock for issuance in accordance with grants under the plan to employees, directors, consultants or other persons providing valuable services to SoftBrands. We amended the plan in 2003 to increase the number of shares that may be issued under the Plan to 11,400,000. Although the Incentive Plan provides authority to the committee that administers the plan to grant both incentive stock options and options that do not qualify as incentive stock options, restricted stock, stock appreciation rights, dividend rights and other forms of stock benefits, most of the benefits that we have granted under the plan are incentive stock options.

All of the options that we have granted are for a term of ten years and are not currently exercisable, but become exercisable seven years from the date of grant. The options "accelerate," so that they become currently exercisable on a vesting schedule when our common stock is registered under the Exchange Act. Accordingly, all of the options will accelerate when the registration under this Form 10 becomes effective. After acceleration, our employee options will be vested and exercisable with respect to 25% of the shares under each option multiplied by the number of years they have been outstanding. Some of the options we have granted to our officers will be exercisable with respect to 33% of the shares subject to the option multiplied by the number of years outstanding, and the options we granted to directors will be exercisable with respect to 33% plus an additional 33% for each year outstanding, up to a maximum of 100%.

We currently have options to purchase 9,966,000 shares of common stock outstanding under the plan, and estimate that options to purchase approximately 5,995,000 will be exercisable when the Form 10 becomes effective.

Rights Plan

Effective November 26, 2002, our Board of Directors adopted a Rights Agreement. The Rights Agreement has the effect of making an acquisition of more than a 10% interest in our voting stock difficult without involving our board of directors. The description and terms of the rights are set forth in the Rights Agreement, dated November 26, 2002 between SoftBrands and Wells Fargo Bank Minnesota, National Association, as rights agent. We have filed a copy of the Rights Agreement with this Form 10..

Effective November 26, 2002, we declared a dividend under the Rights Agreement of one preferred stock purchase right for each outstanding share of our common stock. The dividend was payable on November 26, 2002 to stockholders of record on that date. Each share of common stock that we issue after that date is automatically accompanied by one preferred stock purchase right.

Each right entitles the registered holder to purchase from us one one-hundredth of a share of Series A Preferred Stock at a price of $15.00 per one-hundredth of a share, subject to adjustment

Initially, the rights attach to all certificates representing common stock and no separate right certificates are distributed. The rights will separate from our common stock, and a "Distribution Date" for the rights will occur upon the earlier of:

(i) the tenth business day following the commencement of, or public announcement of a person's intention to commence, a tender offer or exchange offer, the consummation of which would result in a person or group of affiliated or associated persons becoming an "Acquiring Person" (i.e., has become, subject to certain exceptions, the beneficial owner of 10% or more of our outstanding Common Shares) (or such later date as may be determined by our Board of Directors prior to a person or group of affiliated or associated persons becoming an Acquiring Person);

(ii) the date of a public announcement that a person or group of affiliated or associated persons has become an "Acquiring Person"; and

(iii) the date on or after a public announcement that (A) we will consolidate with or merge with or into another corporation or person, or (B) another person will consolidate with or merge with or into SoftBrands, or (C) we intend to sell 50% or more of our assets or earning power.

We have excluded from the definition of "Acquiring Person:

- Our wholly-owned subsidiaries, employee benefit plans and persons holding voting shares pursuant to benefit plans, or who acquired voting shares through a stock purchase program or self-tender offer;
- Persons who acquired shares under the Plan of Reorganization of AremisSoft, or the Liquidating Trust, to the extent they do not acquire additional shares;
- Our principal lender.

Until the Distribution Date,

(i) the rights will be evidenced by the common stock certificates and will be transferred with and only with shares of the common stock;

(ii) new common stock certificates issued upon transfer or new issuance of common stock will be issued with rights and will contain a notation incorporating the Rights Agreement by reference; and

(iii) the surrender for transfer of any common stock certificate, also will constitute the transfer of the rights associated with the common stock represented by the certificate.

Our transfer agent will mail separate certificates evidencing the rights to holders of record of our common stock as promptly as possible after a Distribution Date.

The rights are not exercisable until the Distribution Date. The rights will expire on October 16, 2012, unless we extend, redeem or exchange them.

The exercise price payable, and the number of shares of Series A Preferred Stock or other securities or property issuable upon exercise of the rights, are subject to adjustment:

(i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Series A Preferred Stock;

(ii) upon the grant to holders of the Series A Preferred Stock of rights, options or warrants to subscribe for or purchase shares or convertible securities at less than the then current market price of the preferred stock; or

(iii) upon the distribution to holders of the Series A Preferred Stock of securities or assets (excluding regular periodic cash dividends or dividends payable in Preferred Stock) (other than those described in clause (ii) of this paragraph); and

(iv) in the event of a stock split of the common stock, a stock dividend on the Common Shares payable in common stock, or subdivisions, consolidations, combinations or reclassifications of the common stock occurring, in any such case, prior to the Distribution Date, redemption date or rights expiration date.

If any person or group of affiliated or associated persons becomes an Acquiring Person in a transaction in which SoftBrands survives, then each holder of a right, other than rights beneficially owned by the Acquiring Person, will have the right to receive, upon exercise of the right at the then current exercise price, one one-hundredth of a share of Series A Preferred Stock having a market value of two times the exercise price of the right, subject to possible adjustments. If SoftBrands is acquired or sells more than half its assets while there is an Acquiring Person, outstanding rights (other than rights held by the Acquiring Person) will become rights to receive, upon exercise, shares of the acquiring company having a market value of two times the exercise price of the right.

In certain events specified in the rights agreement, we are permitted temporarily to suspend the exercisability of the rights.

At any time prior to a person becoming an Acquiring Person, our Board of Directors may redeem the rights at a price of $.005 per right, payable in cash, common stock, Preferred Stock, other equity securities, debt securities, property or any combination chosen by our Board of Directors.

At any time during the period 180 days after a Person or group of affiliated or associated Persons becomes an Acquiring Person, our Board of Directors may exchange all, but not less than all, of the Rights (other than Rights which have become void under the terms of the Rights Agreement) for Common Shares, one one-hundredths of Preferred Shares, debt securities, property or any combination thereof having an aggregate current market price equal to the result obtained by multiplying the current market price per Common Share on the date of the exchange by the number of Common Shares for which a Right is exercisable and subtracting from such product the Exercise Price.

FORWARD LOOKING STATEMENTS

Our Form 10-K contains a number of statements about our future operations. We make statements regarding anticipated product introductions, changes in markets, customers and customer order rates, expenditures in research and development, growth in revenue, taxation levels, the effects of pricing, and the growth in our foreign operations, all of which represent our expectations and beliefs about future events. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue" or similar words and expressions. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, level of activity, performance or achievements to be materially different from those expressed or implied by these forward-looking statements. The factors that may cause our operations to vary materially from those contemplated by our forward-looking statements include:

- ***Economic and market conditions can adversely affect our revenue growth and operating results.*** Demand for enterprise software and our solutions is affected by general economic conditions, competition, product acceptance and technology lifecycles. A general weakening of the economy and business conditions that affect information technology and the industries we serve could result in delays and decreases of customer purchases, and in decreases in our renewal rates for software maintenance.

- ***Our operating results may be adversely affected by downturns in the industries we serve.*** Our financial results depend, in significant part, upon economic and market conditions in the manufacturing and hospitality industries. The hospitality industry experienced a significant downturn as a result of 9/11 and the SARS outbreak. Disasters such as the tsunami in the Indian Ocean region or hurricane Rita's impact in the United States could have similar impact upon both the manufacturing and hospitality markets in the regions affected. Continued changes in the hospitality and manufacturing markets could impact our ability to sell our software.

- ***The markets for some of our products are mature and we may have difficulty generating significant new software license sales in those markets.*** In the United States, the combination of a decline in the level of manufacturing activity and purchase by a substantial portion of the mid-sized manufacturing concerns of an enterprise resources planning software package can be expected to limit the potential for new license sales growth of our existing ERP package. In these markets, we may become more dependent for growth on new software products, such as our Fourth Shift Edition for SAP Business One product, which has a less consistent record of sales and service revenue.

- ***We may become increasingly dependent on products that are not currently widely accepted and that we cannot be certain will be widely accepted.*** We introduced in 2004 and are marketing our Fourth Shift Edition for SAP Business One product, for use with SAP Business One and small manufacturing concerns. We have not sold substantial amounts of these products and cannot be certain that they will ever be widely accepted in the marketplace.

- ***We have substantial international sales which are subject to the many risks of international operations.*** Our operations are international in scope, with operations in Europe, Middle East, China and Africa. For the year ended September 30, 2005, ____% of our revenue was derived from sales outside the United States. Our foreign sales are subject to many of the risks of international operations including:

    - higher operating costs in some regions;
    - currency controls and fluctuations in currency exchange rates;
    - changes in local market business requirements and increased cost and development time required to modify and translate our products for local markets;
    - inability to recruit personnel in a specific country or region;
    - difficulty in establishing and maintaining relationships with local resellers, systems integrators or other third-party vendors;
    - differing foreign technical standards;
    - differing regulatory requirements;
    - export restrictions and controls, tariffs and other trade barriers;
    - difficulties in staffing and managing international operations;
    - reduced protection for intellectual property rights;
    - changes in political and economic conditions;
    - seasonal reductions in business activity;
    - potentially adverse tax assessments; and

  - terrorism, disease, or other events that may affect local economies and access, and that may particularly affect utilization of hotels and therefore our hospitality business.

- ***The sales cycle for our products makes it difficult to predict our operating results.*** Our customers often take significant time evaluating our products before licensing them. The period between initial customer contact and a purchase may vary from one month to more than one year. During the evaluation period, prospective customers may delay purchases, may decide not to purchase and may scale down proposed orders for reasons that we do not control and cannot predict, including:

  - reduced demand for enterprise software solutions;
  - introduction of products by our competitors;
  - lower prices offered by our competitors;
  - changes in the budgets and purchasing priorities of the customer;
  - need for education of customer personnel; and
  - changes in the customer's information systems.

- ***We may be unable to retain or attract customers if we do not develop new products and enhance our current products in response to technological changes and competing products.*** We have been required, and will continue to be required, to adapt our products to rapidly changing standards for operating systems, databases and other technologies. We will be unable to compete effectively if we are unable to:

  - maintain and enhance our technological capabilities to correspond to these changing environments and standards;
  - develop and market products and services that meet changing customer needs; and
  - anticipate or respond to technological changes on a cost-effective and timely basis.

  A significant portion of our research and development resources is devoted to product upgrades that address new systems and maintenance requirements or add functionality to our products. The remainder of our research and development resources are devoted to new products that we cannot be certain will be widely accepted.

- ***Our revenue is partly dependent on renewal of maintenance agreements by our customers.*** We generate substantial recurring revenue from our customer support program and other software maintenance services, most of which renew annually at the customer's option. During the year ended September 30, 2005, we generated $43.5 million or approximately 62% of our total revenue from software maintenance services. The level of our maintenance revenue is directly related to the number of our software products that are in active use by customers. If our customers cease using our products, if we are unable to maintain the rate of addition of new customers, or if our customers determine that they cannot afford maintenance, our maintenance revenue can be expected to decline.

- ***We may be required to delay revenue recognition into future periods, which could adversely impact our operating results.*** We may be required to defer revenue recognition for license fees due to several factors, if:

  - our license agreements include applications that are under development or have other undelivered elements which may be essential or may not have a vendor specific objective evidence of fair value;
  - we deliver services which could delay product delivery or acceptance; or
  - a third-party vendor, whose technology is incorporated into our software products, delays delivery of the final software product to the customer.

  Our intention is to structure our license agreements with the appropriate terms that meet all applicable revenue recognition criteria in order to recognize revenue when we initially deliver software or perform services. We are occasionally not able to negotiate contract terms that permit revenue recognition at the time of delivery or even as work on the project is completed.

- ***We have adopted anti-takeover defenses that could make it difficult for another company to acquire control of SoftBrands.*** Provisions in our second amended and restated certificate of incorporation and bylaws, our stockholder rights plan and under Delaware law could make it more difficult for other companies to acquire us, even if doing so would benefit our stockholders. Our charter documents contain the following provisions which may inhibit an acquisition:

  - advance notification procedures for matters to be brought before stockholder meetings;
  - a limitation on who may call stockholder meetings;
  - a prohibition on stockholder action by written consent;
  - a classified or "staggered" board of directors; and

- the ability of our board of directors to issue shares of preferred stock without a stockholder vote.

Further, our stockholder rights plan could delay, deter or prevent any potential bidder from acquiring more than 10% of our voting stock without the agreement of our Board of Directors. Because we are incorporated under Delaware, a stockholder who acquires more than 15% but less than 85% of our stock may have difficulty acquiring us during the three years after the date of the stock acquisition.

- ***A number of our competitors are well-established software companies that have advantages over us.*** We face competition from a number of software companies that have advantages over us due to their larger customer bases, greater name recognition, long operating and product development history, greater international presence and substantially greater financial, technical and marketing resources. These competitors include well-established companies such as Microsoft, JD Edwards, Oracle Corporation and PeopleSoft, Inc., all of which have larger installed customer bases. In addition, we compete with a variety of more specialized software and services vendors, including: Mapics, Epicor, QAD, SYSPRO, Infor Global Solutions, Lilly, Pelion Systems, Exemplary, IFS, Intentia, Glovia and Baan. [CHECK THIS LIST. DO THEY ALL STILL EXIST BY THE SAME NAMES?]

- ***A recently adopted change in the way companies must account for stock options may affect our earnings and cause us to change our compensation practices.*** We currently account for the issuance of stock options under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees". In December 2004, the Financial Accounting Standards Board ("FASB") adopted SFAS No. 123R, *Share-Based Payment*, which will require us to account for equity under our stock plans as a compensation expense and our net income and earnings per share will be reduced. Currently, we record compensation expense only in connection with option grants that have an exercise price below fair market value. For option grants that have an exercise price at fair market value, we calculate compensation expense and disclose their impact on net income (loss) and earnings (loss) per share, as well as the impact of all stock-based compensation expense, in a footnote to the consolidated financial statements. SFAS No. 123R requires us to adopt the new accounting method beginning in the first quarter of our fiscal year ending September 30, 2006, and will require us to expense stock based benefit awards, stock options, restricted stock and stock appreciation rights, as compensation cost.

- ***Changes in the terms on which we license technologies from third-party vendors could result in the loss of potential revenues or increased costs or delays in the production and improvement of our products.*** We license third-party software products that we incorporate into, or resell with, our own software products. For example, we incorporate customer relations software licensed from Pivotal into some of our products, and we rely on the SQL database management system for many of our products and the Oracle database management system for some of our products. We also have reseller relationships with a number of other companies, which allow us to resell their technology with our products. These licenses and other technology licenses are subject to periodic renewal and may include minimum sales requirements. A failure to renew, or early termination of these licenses or other technology licenses could adversely impact our business.

- ***If our products infringe on the intellectual property rights of third parties and we are sued for infringement or cannot obtain licenses to these rights on commercially acceptable terms, our business would suffer.*** Many participants in the technology industry have an increasing number of patents and patent applications and have demonstrated a readiness to take legal action based on allegations of patent and other intellectual property infringement. As the number and functionality of our products increase, we believe that we may become increasingly subject to the risk of infringement claims. If infringement claims are brought against us, these assertions could distract management and we may have to expend potentially significant funds and resources to defend or settle such claims. If we are found to infringe on the intellectual property rights of others, we could be forced to pay significant license fees or damages for infringement.

- ***We have limited protection of our intellectual property and, if we fail to adequately protect our intellectual property, we may not be able to compete.*** We rely on a combination of contract, copyright, trademark and trade secret laws to protect this information. Existing copyright laws afford only limited protection. In general, we do not release the source code of our products, although we may permit customers to obtain access to our source code through a source code escrow arrangement. This access to our source code may increase the likelihood of misappropriation or other misuse of our intellectual property. In addition, the laws of some countries in which our software products are or may be licensed do not protect our software products and intellectual property rights to the same extent as the laws of the United States. Defending our rights could be costly.

- ***Our success depends on our ability to continue to retain and attract qualified personnel.*** We believe that our success depends upon our ability to continue to train, retain, effectively manage and attract highly skilled technical, managerial, sales and marketing personnel. If our efforts in these areas are not successful, our costs may increase, development and sales efforts may be hindered and our customer service may be degraded. There is intense competition for personnel in the software industry. From time to time, we experience difficulties in locating enough highly qualified candidates in desired geographic locations, or with required industry-specific expertise.

- ***Our association with AremisSoft Corporation has had, and could continue to have, a negative impact on our business.*** We were a subsidiary of AremisSoft Corporation ("AremisSoft"), a publicly-held corporation involved in the international sale of software, until August 2002. AremisSoft engaged in a number of transactions prior to April 2001 that resulted in an enforcement action by the SEC for fraud and inadequate disclosure, criminal actions against its former officers, and a class action that eventually led to its bankruptcy and our separation. While we were associated with AremisSoft, our ability to attract new customers and to maintain our business operations was negatively affected and even after our separation, our former association with AremisSoft has caused some hesitancy in customers and others. Further, AremisSoft was permanently enjoined in July 2002 from committing further violations of federal securities laws, including primarily the disclosure obligations of those laws, and the injunction applied not only to AremisSoft, but its subsidiaries, including SoftBrands. Because of this, some of the protections for forward looking statements available under securities laws may not be available to us and we may also be subjected to enhanced level of scrutiny by the SEC.

- ***If we fail to maintain effective internal control over financial reporting, we may not be able to accurately report our financial results which could have a material adverse effect on our business or operating results***. Effective internal control over financial reporting is necessary for us to provide reliable financial reports and is important in helping to prevent financial fraud. If we are unable to achieve and maintain adequate internal control over financial reporting, our business and operating results could be adversely affected.

  We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. For example, we concluded that we did not maintain effective controls over accounting for income taxes required under SFAS No. 109. Specifically, we did not maintain effective controls to ensure tax accounting was accurately presented for unique transactions and situations or that the related tax accounting was appropriately reviewed to ensure compliance with generally accepted accounting principles. This control deficiency resulted in the restatement of our interim and annual consolidated financial statements for the year ended September 30, 2004, and the interim consolidated financial statements during fiscal year 2005 (the quarters ended December 31, 2004 and March 31, 2005). The restatement had no impact on net loss, net cash provided by operating activities and total stockholders' equity as previously reported for the fiscal year ended September 30, 2004. Additionally, this control deficiency could result in a misstatement to the tax provision and related tax accounts and disclosures that would result in a material misstatement in the annual or interim financial statements that would not be prevented or detected. Accordingly, management determined that this control deficiency represents a material weakness in internal control over financial reporting as of September 30, 2004 and through June 30, 2005.

  We are continuing to work to improve our internal control over financial reporting. Areas of focus include:

  - Strengthening our internal knowledge base with expanded training and education.
  - Expanding our review procedures related to unique and specialized transactions.
  - Reviewing unique and specialized transactions on a contemporaneous basis.
  - Increasing consultations with external experts in the field of accounting, to augment our internal knowledge and experience base.

  We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Further, the Sarbanes-Oxley Act of 2002 requires, beginning with our annual report for the 2006 fiscal year, our management to state whether our internal control over financial reporting is effective, and will require our independent registered public accounting firm to attest to management's conclusion. If our management is not able to come to a conclusion that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to attest to management's conclusion, investors could lose confidence in our reported financial information.

- ***We may need additional capital.*** We believe our cash balances, together with cash from operations will be sufficient to meet cash requirements through September 30, 2006 and beyond. However, we may need or choose to raise capital for various reasons including debt refinancing or for operations. If we do so with unregistered securities these securities may be priced at a discount to freely tradable shares as currently reflected on the pink sheets. There can be no assurance we will be able to raise capital and the pricing and terms of any capital could be unfavorable to current stockholders.

APPENDIX C-1
(6 PAGES)

SoftBrands
Company Overview

SoftBrands is a leader in providing 21st century software and support solutions to customers worldwide. SoftBrands has established a worldwide infrastructure for distribution, development and support of enterprise software. Headquartered in Minneapolis, Minnesota, the company has more than 500 employees and branch offices in Europe, Asia, Australia, the Middle East and Africa.

Markets Served
SoftBrands competes in the enterprise application software industry. Our integrated software suites provide the tools necessary for businesses in the manufacturing and hospitality sectors to improve efficiency, enhance customer satisfaction and improve profitability. SoftBrands has more than 5,000 active customers in more than 60 countries.

Software Products
Manufacturing: Fourth Shift™, Fourth Shift Edition™, evolution, Demand Stream

Hospitality: PORTfolio, Medallion, Rio

Growth Opportunities
SoftBrands has a heightened emphasis on innovation across all of its businesses. The company is well positioned to help its customers in hospitality and manufacturing achieve their key objectives as a result of several SoftBrands strategic initiatives, including:

- The company's partnership with SAP
- Its commitment to advancing lean, demand-driven manufacturing with its Demand Stream offering;
- SoftBrands long-term presence in the China market;
- Its ability to capitalize on right-shoring trends through its worldwide development and customer support infrastructure; and
- The upgrading of the company's hospitality solution products.

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SoftBrands Overview…/2

Financial Performance

- Projected fiscal 2004 revenue $70 million
- Approximately 65% of revenue is customer support (recurring revenue)
- Approximately 60% of revenue is North America based
- Over the next five years, the company's goal is to grow revenues 10% to 15% and EBITDA 20% to 30%.

In January 2005 SoftBrands expects to file a Form 10 Registration Statement with the Securities and Exchange Commission (SEC) and list its securities on a public exchange thereafter.

Fiscal 2005 Priorities

In fiscal 2005, SoftBrands is focused on three primary objectives:

- Driving top-line revenue growth
- Building its business to a greater size and scale
- Continuing to produce predictable profitability

November 2004

SoftBrands
Fact Sheet

Business Overview

SoftBrands, Inc. is a global leader in providing next-generation enterprise software for businesses in the hospitality and manufacturing sectors. With more than 5,000 customers in over 60 countries, SoftBrands has established a worldwide infrastructure for distribution, development and support of enterprise software.

Software Brands

<u>Manufacturing</u>

Fourth Shift™	Enterprise software solutions for mid-range manufacturers
Fourth Shift Edition™	Powerful set of software applications designed for use with SAP® Business One.
evolution	Software solutions focused on enterprise resource planning (ERP) and business-to-business (B2B) commerce
Demand Stream	Lean enterprise automation software system

<u>Hospitality</u>

PORTfolio	Enterprise-wide property management system for single-site and multi-property hotels and resorts
Medallion	"Look-and-book" property management solution for small- and mid-sized hotels, limited-service chains and extended-stay hotels
Rio	Easy-to-use, guest-centric leisure management solution For resorts, spas and clubs

Employees

520

Primary Company Locations

Minneapolis, Minnesota (headquarters)
Bangalore, India
Tianjin, China
Shanghai, China
Wichita, Kansas
Brussels, Belgium
Beijing, China
Reading, United Kingdom

SoftBrands products are represented in more than 60 countries worldwide

-- more--

Management
George Ellis, Chairman and chief executive officer
Randy Tofteland, President and chief operating officer
Dave Latzke, senior vice president and chief financial officer

Revenues
Approximately $70 million in fiscal 2004 (year ended Sept. 30, 2004)

Key Competitors
Manufacturing:
Mapics, Epicor, QAD, SYSPRO, Microsoft, Oracle, PeopleSoft.

Hospitality:
Hotel Information Systems, Springer Miller Systems, Visual One, Micros Fidelios, Ramesys Systems

November 2004

SoftBrands History

SoftBrands has emerged as a vital competitor in the ERP software market after a period of uncertainty.

April 1999	Aremis*Soft* completes its initial public offering.
November 2000	Aremis*Soft* makes its first major acquisition in the U.S. with the purchase of the LANmark hospitality software product.
February 2001	Aremis*Soft* acquires the *RIO* hospitality management software product for spa operators.
April 2001	Aremis*Soft* acquires the *Fourth Shift* manufacturing software company for $40 million in cash, its first major U.S. manufacturing software acquisition.
May 2001	*The New York Times* questions Aremis*Soft* publicity claims about its Emerging Markets Group. The SEC starts an investigation, and Class Action lawsuits are filed.
September 2001	Aremis*Soft* senior management team resigns amid allegations of misrepresentation and fraud.
October 2001	Steps are taken to strengthen Aremis*Soft* corporate governance. New management team appointed. New outside corporate counsel and independent auditor recruited. Search for new independent directors initiated.
December 2001	SoftBrands, Inc. is created as a wholly owned subsidiary that includes *Fourth Shift* and other manufacturing and hospitality product lines. Appointment of George Ellis, Chairman and CEO.
March 2002	Management negotiates with class action representatives, with the SEC and with representatives of Aremis*Soft* stockholders to reorganize the company.
March 2002	Aremis*Soft* files a voluntary plan under Chapter 11 of the U.S. bankruptcy code, which was pre-negotiated with Class Action representatives and stockholder representatives to include plans for settlement of class action suits.

--more --

History.../2

August 2002	The reorganization plan is effective. SoftBrands becomes an independent company. All class action lawsuits and all creditor obligations of Aremis*Soft* are satisfied. The reorganization plan creates a liquidating trust to pursue former Aremis*Soft* senior management on behalf of class action plaintiffs. The reorganization plan provides for the newly independent SoftBrands to receive 10 percent of all net proceeds recovered by the Aremis*Soft* liquidating trust.
November 2002	SoftBrands successfully raises $20 million in outside financing.
December 2002	SoftBrands completes the acquisition of key enabling technology.
February 2003	SoftBrands completes its acquisition of the *Medallion* hospitality software product. SoftBrands acquires South African and Indian operations of its distributors.
October 2003	SoftBrands combines its manufacturing and hospitality businesses under a single management team.
October 2003	SoftBrands launches its pioneering *Demand Stream* software system for lean manufacturers.
December 2003	SoftBrands receives its first distribution from the Aremis*Soft* liquidating trust totaling $2.9 million.
February 2004	SoftBrands enters into a strategic partnership with SAP Business One.
Fall 2004	SoftBrands to complete three years of audited financial statements; positioning the company to resume public reporting. Completing a journey of over four years.

November 2004

used for C-4 mfg.
selected pgs for strategy + product plan

SoftBrands™

Manufacturing Business Plan
2006-2008

Table of Contents

EXECUTIVE SUMMARY & VISION

SoftBrands' vision is to lead the 21st century manufacturing software market of lean, demand-driven producers, suppliers and customers in the Americas, EMEA, China, India and other key global markets.

SoftBrands strategic focus in its manufacturing business will allow it to achieve three important goals in the 2006-2008 period:

- Achieve key business objectives of generating top-line growth through innovation, growing in size and scale and producing predictable profitability.
- Capitalize on significant, key trends while building on SoftBrands' continuing momentum in the global manufacturing sector.
- Become the leading provider of enterprise resource planning (ERP) software, services and solutions to the rapidly emerging and significant SAP-centric small-and-medium (SMB) sized manufacturing market.

SoftBrands is positioning itself to be the leader in the $8 billion SMB segment of the over all $22 billion global sales market for ERP systems. SoftBrands has built a global company with customers in more than 60 countries with major offices in the United States, United Kingdom (Reading, Blackburn), China (Shanghai, Tianjin, Beijing), and India (Bangalore). Its strategic partnership with SAP--along with its continuing thought leadership in important manufacturing concepts including lean manufacturing, business process management and RFID--provides an unprecedented opportunity to grow globally.

SoftBrands' strategies to accomplish its goals consist of the several key elements:

- Leverage the global SAP product and sales partnership, and its Fourth Shift Edition for SAP Business One software, to win new customers in key markets around the world.
- Focus on delivering highly valued professional services and recurring revenue support solutions to the existing base of Fourth Shift, evolution and Demand Stream customers.
- Acquire maintenance paying customer bases in targeted markets that complement and extend SoftBrands' presence in the SAP SMB manufacturing ecosystem.
- Build SoftBrands' "right-shored" infrastructure to deliver highly cost-effective software development, customer support, marketing and other shared services to advance the needs of manufacturing customers.
- Create a highly engaged culture intent on growing the manufacturing business.

SoftBrands' major opportunity for successful implementation of these strategies lies in its collaboration with customers around the world. These relationships generate ideas for innovation and growth, and further our customer's visions with results and financial return.

SoftBrands and its manufacturing customers compete in a real-time, demand-driven market that requires innovation and growth from producers, suppliers and distributors alike. Operations are both global and seamless, linked virtually with each other in worldwide strategic supply chains. The successful players in the demand-driven economy are networked and embedded within a variety of manufacturing ecosystems. They are agile, global, boundary-less, efficient, profitable and growing – intent on meeting their customers' needs anytime, anywhere.

The cornerstone of SoftBrands' growth is its partnership with SAP and the resulting new sales of the Fourth Shift Edition (FSE) for SAP Business One product. This partnership is a significant strategic advantage for SoftBrands. The SAP ecosystem of global accounts and reseller partners is a tremendous platform to grow and compete successfully around the world.

The Fourth Shift manufacturing software platform will continue as the backbone product for the entire business. The Fourth Shift product matured through the innovations of SoftBrands' customers. It will continue to add value by allowing SoftBrands to respond to the important trends of the day. In addition, the Demand Stream software product will allow SoftBrands to further its role as a thought and market leader in the lean enterprise space, where reduced waste and increased plant performance frees manufacturers to focus on their value adding projects. Fourth Shift and Demand Stream provide SoftBrands a foundation for the two major manufacturing disciplines, push and pull, which are used throughout the world. This combination will be the backbone for the Fourth Shift Edition product platform and partnership with SAP.

Critical to the success of SoftBrands' entire vision, position and strategy is its team of highly engaged people who bring a unique blend of intelligence, energy, passion and innovation to help SoftBrands' SMB customers succeed. SoftBrands' people, products and partners will be its competitive advantage in the manufacturing business for many years to come.

MARKET

The Opportunity

The fragmented enterprise resource planning (ERP) market for small-and-medium (SMB) manufacturers is ripe for a global leader. Purchases are increasingly made to align ERP systems around larger software ecosystems. Vendors have responded by consolidating, which has further altered the market landscape. Leadership in this changing environment will depend not only on superior products, but also on the right strategic alignment with one of the leading global providers.

SAP – the largest and fastest growing business applications software company in the world – is partnering with SoftBrands to expand into the SMB market for ERP software. In its 2004 Annual Report, SAP states that extending "its position as a leading supplier of solutions for SMBs" is one of the company's top four global priorities. This partnership provides SAP with SoftBrands' expertise and experience in the SMB ERP market for small- and mid-sized manufacturers. It provides SoftBrands with the worldwide recognition of the SAP name on its products and the global SAP marketing and sales channels. It provides a tremendous opportunity to develop market leadership through the new Fourth Shift Edition (FSE) for SAP Business One software system.

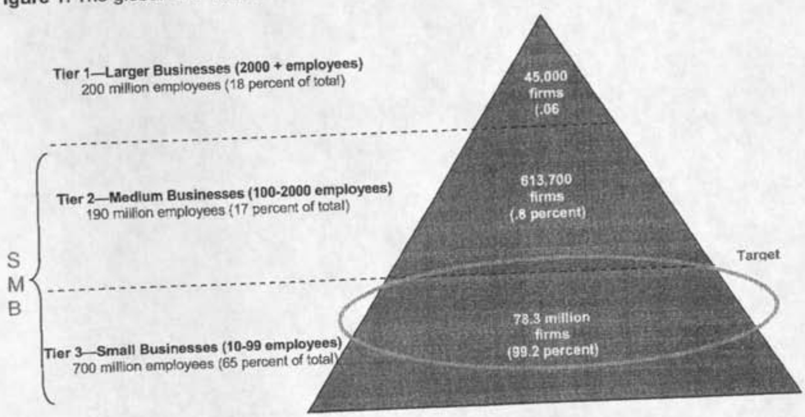
The opportunities ahead of SoftBrands benefit its entire product portfolio. SoftBrands will continue to develop its leadership in the growing concepts of lean manufacturing and business process management. Moreover, the strategic value of the Fourth Shift product will increase as it becomes the basis of innovation for the entire line of SoftBrands manufacturing software.

SoftBrands is positioning itself to be the leader in the $8 billion SMB segment of the $22 billion global sales market for ERP systems. Its strategic partnership with SAP, along with its continuing thought leadership in important manufacturing concepts, provides an unprecedented opportunity to grow in the United States, Canada, China, EMEA, India and beyond.

The Market

The SoftBrands manufacturing brands are sold to and compete in the Enterprise Resources Planning (ERP) marketplace. ERP software is the backbone system of most companies' financial and commercial execution activity. This general market spans virtually all industries, from retail to health care to manufacturing. Figure 1 shows the worldwide market for ERP systems, overall segment spending on information technology (IT) and the annual growth rate stratified by company size.

Figure 1. The global ERP market



Source: SAP

The larger businesses segment of this chart is traditionally referred to as the Tier 1 market. The two largest ERP providers in this market are SAP and Oracle, which hold 40 percent and 25 percent of the market, respectively. This is the most mature segment of the ERP market with near 100 percent penetration. Currently, this market is a replacement/consolidation market as the Tier 1 firms seek to standardize and centralize their enterprise systems. SoftBrands has not been a part of the Tier 1 market, nor is its product mix appropriate for the needs of most of these businesses.

The saturation of the Tier 1 market is limiting future ERP growth and driving SAP and Oracle to look to the other tiers for new growth opportunities and, in the case of SAP, to develop partnerships with software companies like SoftBrands where product mixes are already developed for the needs of these smaller businesses.

Tier 2 and 3 markets are also called the Small and Medium Business (SMB) market. These two markets are separate and distinct. The competitive landscape for the Medium Market (Tier 2) has, until recently, consisted of smaller software firms and has been void of a market leader. The lack of market leadership, however, has made it attractive to the larger software companies – most notably SAP and Microsoft – and thus the competitive landscape is changing.

This has led to a recent round of consolidations. By now, most of the competing small software companies are a part of the portfolios of a few large vendors. This medium market has a high penetration rate for ERP systems (estimated at 80 + percent) and is considered primarily a replacement market. The estimated annual replacement rate is 10 percent per year for the SMB space.

Tier 3 is primarily serviced by simple accounting packages such as Intuit's Quick Books and Microsoft's Great Plains. The remainder of the market is considered to be less than 50 percent penetrated for simple ERP systems. This is also a fragmented market, but several leaders are emerging, such as Intuit, Microsoft Great Plains and SAP. From a financial perspective, this market can be misleading. While it contains 99.2 percent of the firms in the global market for ERP systems, the majority of the 78 million firms are smaller than $500,000 in annual sales and have no need for an integrated ERP system.

SoftBrands' target market for Fourth Shift Edition (FSE) is represented by the red circle in Figure 2. The market consists of lower Tier 2 companies as well as the high-end Tier 3 and low-end Tier 1 market. The target market is further defined by specific types of Tier 2 manufacturers in Figure 2, with the U.S. as an example. The outside circle represents the broad U.S. Standard Industrial Codes (SIC) for several specific types of SMB manufacturers. Each subsequent circle more specifically defines the types of manufacturers that are a target for FSE. The *sweet spot* (or "bull's eye") represents discrete manufacturers in the areas of computers and electronics, medical devices and control instruments.

Figure 2. SoftBrands target market for Fourth Shift Edition for SAP Business One. The figure is based on classifications used by the Standard Industrial Codes (SIC) for SMB manufacturers. To some extent, the target market varies from the rather hard distinctions made by the SIC code system. SoftBrands' sales efforts are more inclusive when identifying targeted classes. The market represented by the entire circle is purchasing SMB systems at a replacement rate of 10 percent per year.

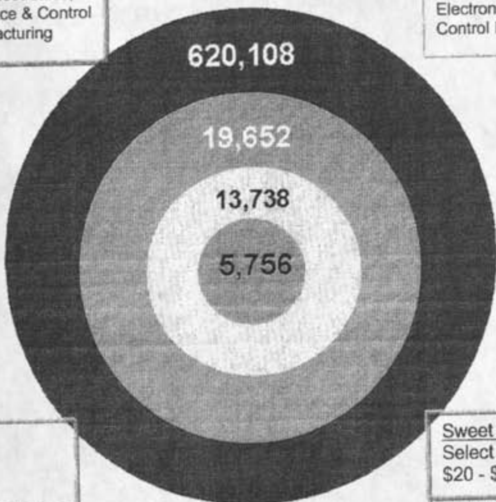
Entire Market
SIC Codes 20 – 39
$0 - $2B+

Entire Market 620,108
Food &Kindred, Tobacco, Textile, Apparel, Lumber & Wood, Furniture, Paper, Printing, Chemical, Petroleum, Rubber & Plastic, Leather, Stone Clay & Glass, Primary Metal, Fab Metal, Machinery, Computer & Electronics, Transportation, Med. Device & Control Instruments, Misc. Manufacturing

Primary Market
Select 4 Digit SIC Codes
$10 - $200M

Primary Market 13,738 Sites
Select 4 Digit SIC's from:
Furniture, Rubber & Plastic, Fab Metal, Transportation, Misc. Manufacturing

All 4 Digit SIC's from:
Machinery, Computer & Electronics, Med. Device & Control Instruments



Secondary Market
SIC Codes 30 – 39
$10 - $200M

Secondary Market 19,652 Sites
Rubber & Plastic, Leather, Stone Clay & Glass, Primary Metal, Fab Metal, Machinery, Computer & Electronics, Transportation, Med. Device & Control Instruments, Misc. Manufacturing

Sweet Spot
Select 4 Digit SIC Codes
$20 - $70M

4 Digit FSE Target Manufacturing
Select 4 Digit SIC's from:
Furniture, Rubber & Plastic, Fab Metal, Transportation, Misc. Manufacturing

All 4 Digit SIC's from:
Machinery, Computer & Electronics, Med. Device & Control Instruments

Geographic segmentation of ERP Market

SoftBrands currently has global operations in the Americas, EMEA and Asia Pacific. The SAP partnership will allow SoftBrands to expand its market to all countries, representing a significant opportunity for SoftBrands' growth.

Tables 1 and 2 provide ERP market revenues for both SMB and the total market. In 2005, the expected global revenue for the SMB market is $9 billion. For all markets, it is expected to be $23 billion.

Table 1. ERP total revenue by geographic region – SMB market

Region	Revenue 2003 ($M)	Revenue 2004 ($M)	Revenue 2005 ($M)	Revenue 2006 ($M)	Revenue 2007 ($M)	Revenue 2008 ($M)	Five year CAGR
North America	3429	3543	4004	4208	4501	4617	5.1%
Europe	2733	2920	3391	3648	3999	4272	7.7%
Asia Pacific	696	769	932	1045	1163	1314	11.1%
Central and South America	232	269	328	361	413	471	12.5%
Rest of World	160	184	222	238	258	279	9.7%
Total	7249	7685	8878	9499	10334	10954	7.1%

Source: AMR

Table 2. ERP total revenue by geographic region – total market

Region	Revenue 2003 ($M)	Revenue 2004 ($M)	Revenue 2005 ($M)	Revenue 2006 ($M)	Revenue 2007 ($M)	Revenue 2008 ($M)	Five year CAGR
North America	9796	10122	10536	11074	11540	11839	4%
Europe	7808	8344	8924	9599	10254	10954	7%
Asia Pacific	1988	2196	2453	2750	2981	3370	10%
Central and South America	663	768	864	950	1060	1208	14%
Rest of World	456	527	584	625	662	716	12%
Total	20710	21957	23362	24997	26497	28087	6%

Source: AMR

The North American market (U.S. and Canada) is expected to represent 45 percent of worldwide ERP spending. This market continues to be the most attractive in the world. The U.S., in particular, is expected to comprise 87 percent of the North American market. The market is easy to enter in whole as the U.S. and Canada share common language, business practices and fiscal policies.

The European market, on the other hand, is complicated to enter as a whole because of its many countries, languages, legal and fiscal policies. Although the European Union has streamlined some of the fiscal requirements, many European countries maintain local requirements as well. While the European market appears to be large – 38 percent of 2005 ERP revenues – these varying business conditions makes entry less attractive. There are some key markets, however, that should be considered, such as the UK, as well as industrializing countries in Central and Eastern Europe.

Germany is also a noteworthy market, given SoftBrands' relationship with SAP. In its 2004 annual report, SAP indicates that it expects to hire 3,000 full-time employees globally in 2005, with 20 percent of the hiring anticipated in Germany "confirming SAPs belief in Germany as a place to do business."

In contrast to Europe, the Asia Pacific market represents only 11 percent of the overall ERP market but should be considered a strong market for SoftBrands, as Asian industrialization is occurring primarily around manufacturing. The primary markets within Asia Pacific are China and the English speaking countries located on outskirts of the region (e.g., Australia). One strength of SoftBrands' opportunity in this region is its existing presence – since 1991 – into the Chinese market.

The Central and South American market, like Europe, is also highly fragmented, creating significant barriers to broad market entry. In addition, this market is largely made up of developing and underdeveloped countries with unstable foundations. There are several of key countries, however that warrant attention. In particular, Mexico, because of its close business ties to the United States, and Brazil, which is the most significant industrialized nation in the region and has a strong western joint venture process. SoftBrands will be reaching this region through the SAP channel strategy. The total market for the region is 3.5 percent of the overall ERP market revenue.

Table 3 shows the geographic target market, segmented by country along the same target distinctions made in Figure 2. The ranking represents SoftBrands' priorities.

Table 3. Total number of firms, by country, in SoftBrands' target sweet spot.

Rank	Country	Sweet Spot Target	Primary Target	Secondary Target	Entire Market
1	United States	5,756	13,738	19,652	620,108
2	Canada	860	1,893	3,440	86,004
3	UK	1,071	2,712	3,779	130,905
4	China (JV)	921	2,198	3,144	99,217
5	Germany	1,982	4,895	7,160	176,370
6	France	953	2,333	3,502	270,440
7	Italy	675	2,004	3,043	405,115
*	Australia	607	1,451	1,451	11,767

Push and Pull Segmentation

The market is further defined by a distinction between two types of manufacturing systems. Many manufacturers apply the *push* manufacturing concept, which is characterized by driving production based on a demand forecast. Most recently, there has been a trend toward implementing a *pull* (or *"lean"*) concept, which is characterized by manufacturing only as orders are placed. This trend has been driven by increasing global competition and the need to find greater economic efficiencies and cost controls.

With SAP and Fourth Shift, SoftBrands has significant leverage in both the *push* and *pull* markets. The integration of the Demand Stream product into FSE and Fourth Shift provides SoftBrands with a distinct position of market leadership in lean manufacturing.

Competition

The ERP market is dominated by its top five vendors, which make up 70 percent of the overall ERP generated revenue. SAP is the market leader. In its 2004 Annual Report, SAP indicated that the company won 56 percent of the "business software license space that it contests with its peers" in 2004 (Oracle/PeopleSoft, Siebel and Microsoft). SAP and Oracle receive the majority of their revenues from the Tier 1 market. In 2004, SAP generated 31 percent of its software revenue from companies with fewer than 2,500 employees and revenues below $1 billion, up from 28 percent in 2003. Table 4 ranks ERP market share by revenues.

The large number of competitors in the ERP market highlights the opportunity of the SoftBrands/SAP partnership. Most of the smaller competitors in Table 4 have been acquired by larger competitors. The emergence of large software companies in the market for smaller ERP users makes this partnership both essential as well as strategic.

Table 4. ERP market competitors (source, AMR)

2003 Revenue Rank	Company Name	Total ERP Revenue 2003 ($M)	Total ERP Market Share %
1	SAP	8000	38.6%
2	PeopleSoft	2682	13.0%
3	Oracle	2470	11.9%
4	Sage	900	4.3%
5	Microsoft Business Solutions	659	3.2%
6	SSA Global	646	3.1%
7	Intentia (proposed merger with Lawson)	428	2.1%
8	GEAC	407	2.0%
9	Lawson (proposed merger with Lawson)	342	1.7%
10	IFS	318	1.5%
11	Exact Software	246	1.2%
12	QAD	230	1.1%
13	Glovia International	212	1.0%
14	MAPICS (now Infor)	173	0.8%
15	PSI AG	157	0.8%
16	Epicor	155	0.7%
17	CINCOM	132	0.6%
18	Agilisys (now Infor)	123	0.6%
19	Systems Union	112	0.5%
20	Deltek Systems	94	0.5%
21	Infor	75	0.4%
22	Scala (now Epicor)	71	0.3%
23	Lilly (now Infor)	68	0.3%
24	American Software	61	0.3%
25	Adonix	54	0.3%
26	SoftBrands	50	0.2%
27	Ramco	50	0.2%
28	Syspro	46	0.2%
29	Ross Systems	46	0.2%
30	Made 2 Manages	30	0.1%
31	Friedman	25	0.1%
32	CMS Systems	27	0.1%
33	MAI Systems	20	0.1%
34	Other (several hundred)	1500	7.2%

Product Positioning

SoftBrands has manufacturing software products, and one add-on conversion package, that are targeted for this marketplace. The primary emphasis of the SAP partnership will be the Fourth Shift Edition package, along with the Demand Stream lean automation system.

FOURTH SHIFT Edition

Fourth Shift Edition (FSE) for SAP Business One will become SoftBrands' lead product. This product is the embedded combination of SAP Business One CRM, HR and Financial Management and SoftBrands' Fourth Shift Manufacturing. SoftBrands' position will be to leverage the familiarity and security of SAP with the manufacturing expertise of Fourth Shift. The go to market focus will be on the market being created by SAP in the SMB space. To date, approximately eight customers worldwide have purchased the system, prior to the initial release of the product in Q2 of 2005.

DemandStream

The *Demand Stream* lean automation system was recently added to the Fourth Shift family of products to bolster its ability to provide existing customers with leading edge capabilities. Demand Stream converts ERP systems from a *"push"* manufacturing system into a *"pull"* (or *"lean"*) system. Moving forward, this product will be completely integrated into the Fourth Shift and Fourth Shift Edition products. SoftBrands' ability to provide systems for both types of manufacturing processes is unique to the industry and provides a competitive advantage to SoftBrands' product portfolio.

FOURTH SHIFT™ 21st Century Manufacturing Solutions

Fourth Shift (FS) – SoftBrands flagship brand – will become less of a stand alone brand and will get its leverage from its importance as the backbone of Fourth Shift Edition's manufacturing functionality. SoftBrands' has shipped over 4000 systems since 1984 and is currently supporting approximately 1500 customers worldwide. Over the last four years the Fourth Shift product has been focused on supporting existing customers in the US and UK markets and selling in the China market.

evolution

evolution is a Unix-based product that has a long heritage as a boutique product in the UK and American markets. It takes toolkit approach to product delivery and is focused on markets that do not fit a more standard product – particularly converter companies that require solutions to meet their needs with multi-dimensional products, such as fabrics, foils, carpets and similar rolled products. A Business Process Management tool was recently developed to allow SoftBrands to go back to its existing evolution customers and extend their use of the systems. There are approximately 250 evolution customers worldwide. In the near future, the existing customer base business will be grown and the product's capabilities will be further expanded through focused development of products and services. As SoftBrands continues to develop its portfolio around the SAP SMB ecosystem the role of this product and the emerging business process management capabilities within the overall direction of the business will be evaluated.

Figure 3 outlines the competitive position of SoftBrands products. Products are measured on two dimensions: company size and manufacturing type. With regard to size, FSE is positioned at the mid-point where firms typically have complex manufacturing requirements, one large single site and separate distribution sites. These businesses seek an ERP system that will provides comprehensive implementation services and helps them grow. This market segment is sold primarily through a direct channel.

The manufacturing type dimension is a measure of the manufacturing and process drivers in the business. At the make to stock end of the dimension, where FSE is positioned, material management is the primary driver of process. The labor contribution to a finished product averages less than 30 percent of the cost of a finished item. Forecasting and demand profiling is used to drive production and finished goods replenishment. There is significant pressure for manufacturers at this end of the strata to adopt lean manufacturing and pull principles to better manage their material flow. Costing is usually based on a standard costing method.

Figure 3. Product positioning matrix for ERP market.

The difference in positioning for FS and FSE is related to the fact that Fourth Shift Edition is based on a subset of the Fourth Shift functionality. Specifically, the more advanced "make to stock" features built around engineering, lean automation and shop floor control are not available with the 8.0 release of Fourth Shift Edition. In addition, the financials delivered by SAP Business One are not as robust as the existing Fourth Shift financials.

SoftBrands' existing customer base is a key contributor to SoftBrands growth and profitability. The existing customer base is an important set of relationships, revenue and source of ongoing innovation. SoftBrands continues to drive efficiencies into this core area of its business in order to increase margins and improve its entire portfolio.

Conclusion

The opportunity to partner with SAP is placing SoftBrands' Fourth Shift Edition product into the center of its product portfolio. This partnership will allow SoftBrands to take advantage of the SAP brand and delivery channels. For SAP, the partnership represents an opportunity to better reach the ERP market for small-and mid-sized (Tier 2 & 3) manufacturers.

SoftBrands' FSE target market is mid-sized discrete manufacturers with either *push* or *pull* manufacturing systems. SoftBrands' primary focus will first be the U.S .and Canadian markets, with U.K., German and Chinese markets to follow. Later emphasis will be placed on other Asian Pacific countries as well as some select European countries.

MARKETING

The Fourth Shift brand will benefit from the opportunity to leverage SAP and its global distribution channels to brand leadership recognition of SoftBrands' Fourth Shift suite of software and services. SoftBrands' focus is to build a leadership position in the SAP SMB manufacturing market. Its Fourth Shift Edition (FSE) for SAP Business One product will become the lead product in the manufacturing portfolio.

SoftBrands' key priorities for success in the new SAP-driven global marketing environment are:

- Consolidate existing brands into the core Fourth Shift brand and invest in the brand
- Build equity and velocity in alignment with the SAP Brand
- Provide excellence in effective, high-payback channel management, marketing communications and lead generation programs
- Extend SoftBrands' cost efficient, right-shored marketing infrastructure
- Maintain relationships with existing customer base
- Deliver consistent corporate positioning, identity and product messaging
- Employ best-in-class marketing talent worldwide

Strategic Deployment

Consolidate existing brands into the core Fourth Shift brand and invest in the brand

SoftBrands will emphasize the Fourth Shift brand to deliver world-class, 21st century software, solutions, services and people. Its product portfolio will be rationalized to fit within the Fourth Shift brand positioning. Current products and brands such as Demand Stream, evolution and Fourth Shift Edition will evolve onto the Fourth Shift brand platform. Fourth Shift will be made synonymous with SMB manufacturing.

Build equity and velocity in alignment with SAP Brand

SoftBrands will leverage the SAP brand in virtually all communication programs and tactics in order to provide added equity in the brand. The power of the SAP brand (the so-called *"halo effect"*) is a significant competitive advantage in today's environment.

Provide excellence in effective, high-payback channel management, marketing communications and lead generation programs

The indirect sales channel will grow in importance over the next three years. SoftBrands' organization and operations must therefore be geared toward making the channel successful. In order to build upon the success of SoftBrands' direct sales heritage, a hybrid model of the two approaches will be used.

Extend SoftBrands' cost efficient, right-shored marketing infrastructure

In Fiscal 2004, SoftBrands launched its India Marketing Center (IMC) with great success. The quality of the marketing communications programs, delivered via the IMC, was a substantial improvement over previous efforts while the cost of execution dropped by a factor of 10.

SoftBrands views its IMC capability as a significant marketing and competitive advantage. The IMC allows SoftBrands to generate significantly increased volumes of messaging and promotion activity. SoftBrands' global marketing organization will increase the role, size, capability and output of the IMC as a central element in global marketing efforts. These plans will include collateral programs, lead generation initiatives and telemarketing activities, as well as its key channel partners in the SAP SMB market.

Maintain relationships with existing customer base

Recognizing that the current customer base is vital to its long-term success, the company intends to maintain ongoing, important and timely communications and meaningful marketing programs to this key audience. An essential ingredient in the Company's success to date has been its ability to listen to and respond to existing customer needs with solutions that provide real value to customer's business. This capability is a fundamental heritage and promise of the Fourth Shift brand and will remain a central element in SoftBrands' business model going forward.

Deliver consistent corporate positioning, identity and product messaging

SoftBrands' corporate-wide messaging and identity will be updated over the next three years. Consistent representation through its spoken, written and visual communications is vital to building brand equity, as well as mindshare with key audiences (including SAP). Corporate processes and policies will be reviewed to ensure consistency in SoftBrands corporate and product messaging and identity.

Employ best-in-class marketing talent worldwide

"Smart marketing" depends on smart people. The global marketing organization intends to partner with the global HR team worldwide to nurture a culture of highly engaged, passionate people. SoftBrands will continue to invest in innovative, creative marketing people. SoftBrands will step-up training for its marketing talent and pursue complementary additions to its existing staff and organizational structures.

SoftBrands will also promote a 'learning' culture throughout the marketing organization by taking advantage of its association with SAP, channel partners, industry analyst groups and other world-class marketing organizations.

Furthermore, the marketing organization will advance its reputation and capabilities as a source of continuous innovation across SoftBrands. It will introduce new go-to-market concepts, communications vehicles and campaigns to reinforce the company's key positioning as a global leader. It will focus on the core Fourth Shift brand promise to be recognized as synonymous with 21st century manufacturing solutions for the SAP SMB market.

Conclusion

The repositioning of SoftBrands' product portfolio under the SAP relationship will emphasize Fourth Shift Edition as its core brand. Demand Stream will play an integral part of rounding out the package's functionality and market positioning, but as an offering re-branded as part of the core Fourth Shift brand platform.

While the SAP environment is an opportunity for growth, the current installed base of Fourth Shift customers remain a significant source of cash and profit contributions. These customers will continue to receive the service that SoftBrands has built a reputation for providing.

The new SAP environment will extend SoftBrands' global network, providing opportunities as well as new challenges. The trend toward global networks of manufacturers, suppliers, assemblers, distributors and customers will accelerate. As a result, marketing efforts will necessarily be more international, while meeting the needs of individual countries. Corporate messaging will be positioned to emphasize the new relationship with SAP and to face the realities of the global sales channel environment that SAP provides. Global talent will be recruited for SoftBrands' marketing efforts, including the right-shoring of its global services offerings.

PRODUCT MANAGEMENT

The market for ERP systems is changing dramatically. More sophisticated consumer demands as well as new competitive environments emphasizes the importance of being connected to the changing needs of manufacturers and developing new product capabilities to meet those needs.

SoftBrands will meet the R&D needs of the ERP market with the following key strategies:

- Align R&D expenditures more closely with competitors.
- Adopt to shifting selection criteria of customers
- Implement product development roadmap
- Implement process to support ongoing software development

Strategic Deployment

Align R&D expenditures more closely with competitors

In order to meet growth objectives, SoftBrands will align R&D expenditures back within competitive market ranges. With the prior business model, SoftBrands managed development to maximize customer retention. The size of the development organization was set to approximately 10 percent of total revenue. As the company moves into a growth phase, its skill sets and expenditures need to return to market average. Table 5 depicts the 2004 market for R&D expenditures. Most of the peer companies have both on- and off-shore resources.

Table 5. R&D Spending as a Percent of Revenue (dollars in thousands)

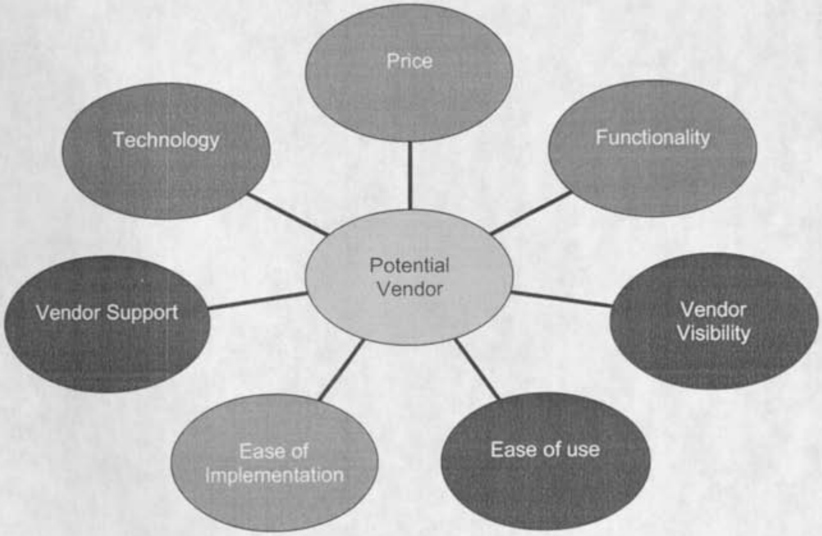
Company	Total R&D	Revenue	% of Revenue
Lawson	$ 64,550	$ 36,300	17.78%
QAD	$ 36,191	$ 233,063	15.53%
Exact	$ 31,379	$ 206,312	15.21%
SSA	$ 95,200	$ 637,000	14.95%
SAP	$1,450,000	$ 9,900,000	14.65%
Epicor	$ 32,103	$ 226,210	14.19%
American Software	$ 7,600	$ 56,200	13.52%
Oracle	$1,278,000	$ 10,156,000	12.58%
Mapics	$ 18,942	$ 172,799	10.96%
Sage	$ 107,860	$ 996,998	10.82%
SoftBrands	$ 4,687	$ 46,159	10.15%

In 2006, SoftBrands will begin to increase its development activities, moving toward the industry average of 14 percent. The incremental funds will provide for between 30 and 40 new hires to the R&D group in fiscal 2006. The first still will be to rebuild the manufacturing domain expertise, project management and QA skills in Minneapolis, with an additional 7-to10 people. The remainder of the investment will be directed toward adding programming resources to SoftBrands existing factory, the China Development Center in Tianjin.

Adopt to shifting selection criteria of customers

Customer selection criteria is shifting. For several years, SMB ERP buyers have focused on the criteria demonstrated in Figure 4. As customers replace systems, they find their criteria priorities shifting. Price, for example, is becoming less of a priority, while functionality and ease-of-use are becoming more important. Underlining this issue is the fact that vendors are able to produce analogous, or even near identical products, and that the sales process for these similar products is quite common. In a market approaching parity, differentiation must rest on something other than features and low price. Therefore, a breakout product strategy must include leading differentiators that are distinctive and permeate these criteria.

Figure 4. Existing criteria for selection of ERP systems by mid-size manufacturers.



The Fourth Shift and Demand Stream product strategy is built on two priorities. First, provide the backbone set of features to power Fourth Shift Edition for SAP Business One. Second, to preserve and expand SoftBrands' footprint within existing customer sites. To end, SoftBrands will continue to add enhancements to the Fourth Shift – the core of this product set. Figures 5 and 6 provide the development roadmaps for Fourth Shift and Fourth Shift Edition, respectively.

The Demand Stream suite will be repositioned from a general market product to a Fourth Shift only product. Ultimately, Demand Stream will be built to fit into Fourth Shift Edition for SAP Business One.

The evolution product is selected by its customers because of its extensibility and adaptability. Recent development work to enable its use in an SOA operating environment, combined with an industry standard BPEL engine and corporate portal, have created new revenue opportunities, and mitigated the risk of attrition. These tool sets and the projects within the evolution installed base are providing an experience base that can be used with the Fourth Shift Edition, Fourth Shift and Demand Stream customer bases.

Figure 5. Fourth Shift development roadmap.

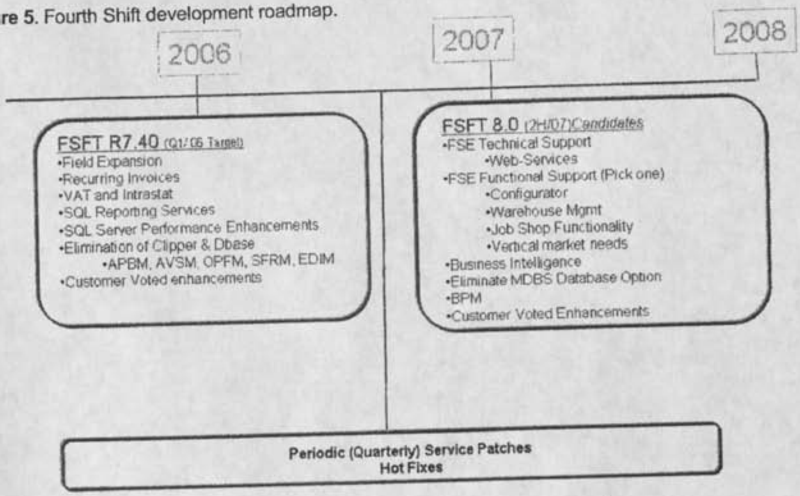
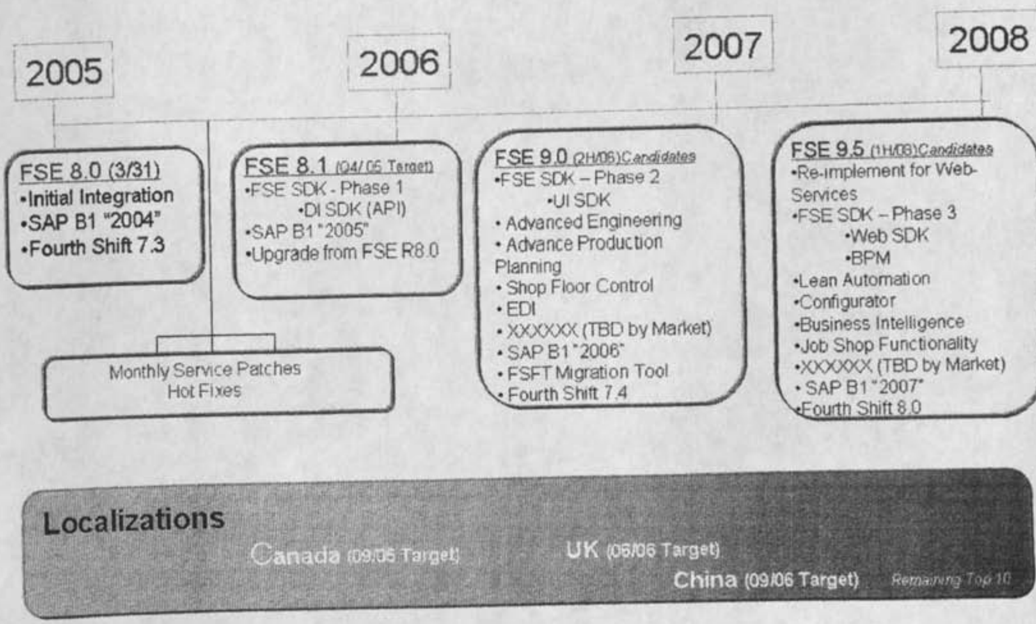


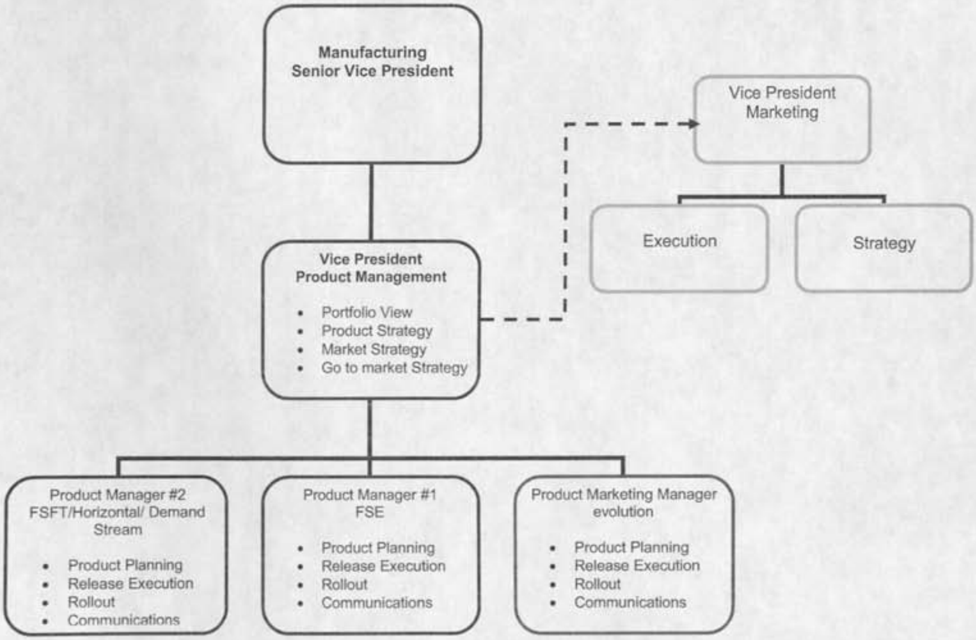
Figure 6. Four-year view of Fourth Shift Edition for SAP Business One Roadmap.



Implement process to support ongoing software development

A global vehicle will be implemented to support the ongoing alignment between customers, prospects, market and the "whole" product. The process (Figure 7) includes steps to gather information from all parts of the business in order to inform the product development process about the changing needs of the market.

Figure 7. The product management process.



Conclusion

The new competitive environment and changing needs of customers requires ongoing efforts to provide the latest in ERP software management techniques. To meet this need, SoftBrands will align R&D expenditures at approximately 14 percent - within a competitive market range.

Software development must keep pace with the changing needs of customers. Increasingly, priorities are shifting away from price and towards functionality and ease of use. Product development roadmaps focus on these changes to keep the Fourth Shift Edition software package competitive among ERP systems, as well as within the SAP portfolio.

In order to inform ongoing product development, changes in consumer preferences must be recognized through and intentional information collection process. Such a process is an essential part of SoftBrands' product management strategy.

ORGANIZATIONAL STRATEGY

The new environment for SoftBrands requires new organizational structures and processes to support growth. The SAP relationship brings a global network of marketing, sales and services. Lines of authority must be re-emphasized to highlight the importance of building out cost-efficient functions such as finance, marketing, human resources, product development and IT.

An important part of the new environment is the recognition of the global organization. The global business is no longer just a function of manufacturing and sales, but relates to services as well as the competition for *"world class"* talent in all areas of the business. The nurturing of SoftBrands global workforce is an important strategic component to its success.

SoftBrands' key strategies for meeting the structural needs of the company are:

- Implement new business structure to manage growth.
- Build a culture of innovation and growth
- Implement new communication tools to respond to global audience.
- Promote industry thought leadership by SoftBrands management.
- Identify a pool of management successors.
- Recruit global workforce.
- Provide training to support global teaming.

Strategic Deployment

Implement new business structure to manage growth

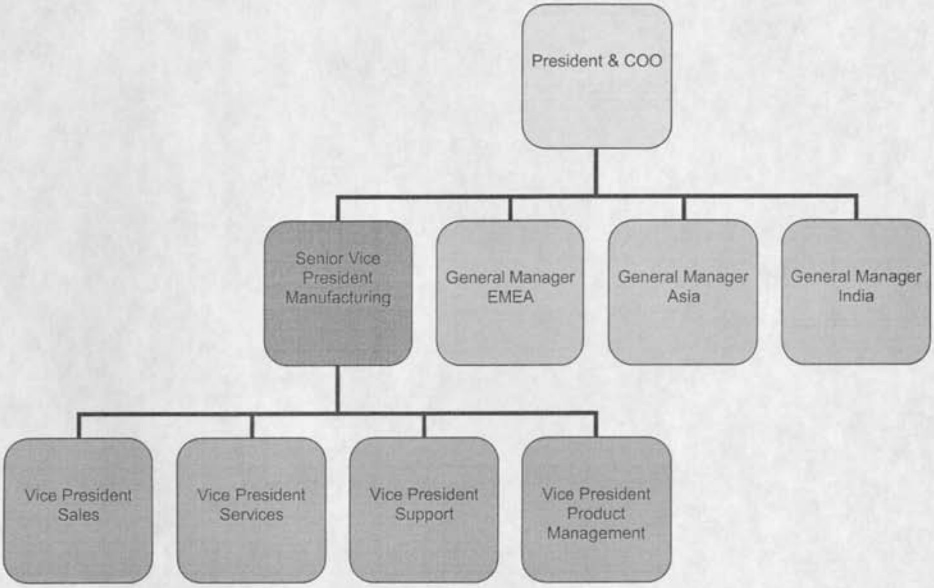
SoftBrands will implement a new manufacturing structure that is flexible and adaptive to the evolving SMB market (see Figure 8). The new structure will eliminate redundant chains of decision-making, including the alignment of SoftBrands' operational units – manufacturing and hospitality – with its support functions: finance, marketing, human resources, product development and IT. The new structure will better enable the company to focus, be flexible, manage a greater span of control, promote partnering and marshal resources in a timely manner.

The new structure will be rolled out in stages. During the transformational change, SoftBrands Leadership University will continue to be the learning ground for managers. Strong internal communication channels will be implemented to keep all segments of the company connected to each other.

Build a culture of innovation and growth

An innovative culture is risk tolerant, ambiguous and free-spirited. SoftBrands will foster an organization culture that is comfortable with risk and change and is willing to learn from its failures. Senior management will articulate and exemplify this culture. Employees will not be penalized for failed ideas and successful ideas will be showcased throughout the company. This environment will incorporate risk and change into the value ranking process, and identify an acceptable balance of chaos and order with a high tolerance for risk and climate for learning.

Figure 8. SoftBrands' manufacturing organization structure



Implement new communication tools to respond to global audience

Internal communications programs are important to ensure that SoftBrands' global workforce is kept informed on developments regarding its products and services, customers, SAP relationship, industry trends and competitors. Communications will be especially important to enable the successful roll out of the new structure. Tools such as the Intranet, employee communication meetings, Pivotal and newsletters will be used as communication tools.

Promote industry thought leadership by SoftBrands management

A key element of building on the current momentum of the SAP relationship is positioning the company's manufacturing business as a visionary industry leader with the ability to define and shape the future. Company executives will become increasingly visible through speaking engagements, media and analyst tours and authored white papers in order to establish the company's position among industry analysts, securities analysts, trade and business media, public policy makers in key geographies, and key trade groups and industry associations.

Identify a pool of management successors
Managers at all levels will be responsible for identifying a pool of successors in order to manage the uncertainties of turnover and to build a dept of leadership experience in the very fast-paced and growing SRP industry. SoftBrands Leadership University will provide training for those who are currently not in management positions. Those in management will be provided coaching and development opportunities based on their individual needs. Internal tools such as ePredix will allow SoftBrands to create electronic development plans to groom leaders based on areas they have identified for development.

Recruit global workforce
To manage exposure to the shrinking worldwide workforce, SoftBrands will focus on maintaining its current workforce and strengthening its recruitment efforts to develop a world-class organization. SoftBrands will establish channels to recruit future employees directly from the manufacturing industry in order to recruit talent that possess a thorough knowledge of the business.

SoftBrands will ensure employment opportunities are posted to the entire global SoftBrands workforce. This will allow the company to build on the talent of its worldwide workforce and provide opportunities and incentives for career growth and training. It will also allow SoftBrands to construct an understanding of who is interested in moving departments or careers in order to create a pool of talent for future positions or transfers. By giving employees the assurance that SoftBrands will first look inside the company for talent, it is providing them reasons to stay engaged.

Provide training to support global teaming
SoftBrands seeks to be known as an organization that develops talent and provides opportunities for growth and achievement. Employee retention begins with an on boarding process called "Ready, Set, Go with SoftBrands" – a monthly day-long introduction to SoftBrands that provides new employees with the organization knowledge they need to be get started. The program will include discussions on vision, culture, organizational structure and processes. It will provide newly hired employees a foundation and understanding of SoftBrands' business, customers and the opportunity to form relationships with co-workers.

To prepare employees with the required technical competency, SoftBrands will continue to use e-learning to train a large number of employees at lower costs than conventional training programs. Product training will continue to be taught from SoftBrands' support and development departments.

SoftBrands will maintain a database of job descriptions on the company Intranet so employees are aware of the skill sets required for positions of advancement. By providing employees with a career development roadmap, SoftBrands will be able to nurture the necessary skills to enable the company to compete in the fast-paced marketplace.

A global structure requires global partnering. It is necessary for SoftBrands to provide basic skills for understanding cross-cultural teaming. SoftBrands has partners such that can help create a training plan and provide tools for employees to expand their knowledge in the area of cross cultural development and understanding. SoftBrands also has a wealth of resources with years of experience in managing global teams that can be leveraged to design a cross-cultural training program..

Conclusion

SoftBrands will implement structural changes to better manage growth as well as its global distribution, workforce and sales channels. SoftBrands' corporate culture is an important component, as well, to its success. The company will build acceptance of innovation and greater tolerance of risk into its culture. Consistent communications will be necessary to ensure a well-informed workforce that is connected to one another.

SoftBrands' workforce is an important part of the structural development of the company. Increasing globalization of the company requires it to nurture its base of international talent.

SALES

The SAP partnership positions SoftBrands within a global network of SAP sales channels. These channels are a tremendous opportunity to grow sales of SoftBrands' manufacturing software. They also require new structures, processes and partnerships to fully integrate the new opportunities with the existing sales organization. The resulting model will be a hybrid between SoftBrands' successful direct sales approach and the new opportunities within SAP's sales channels.

SoftBrands' key strategies for sales are:

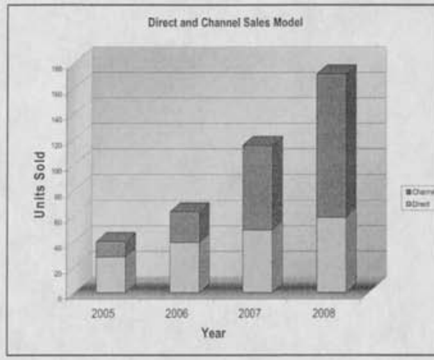
- Capitalize on the brand and channel delivery infrastructure of SAP
- Restructure sales organization
- Implement new sales process
- Merge global sales teams
- Implement SoftBrands Partner Program
- Understand and present the exact differentiators
- Focus on critical SoftBrands sales factors

Strategic Deployment

Capitalize on the brand and channel delivery infrastructure of SAP

The sales strategy for Fourth Shift Edition will be to rapidly gain market share from current SMB ERP vendors by capitalizing on the brand and channel delivery infrastructure of SAP. Given the current state of the SAP channel, SoftBrands will blend direct and channel selling, with a heavier direct sales approach in the initial periods. In this way, SoftBrands will ensure a solid start before a transition to a more highly leveraged channel.

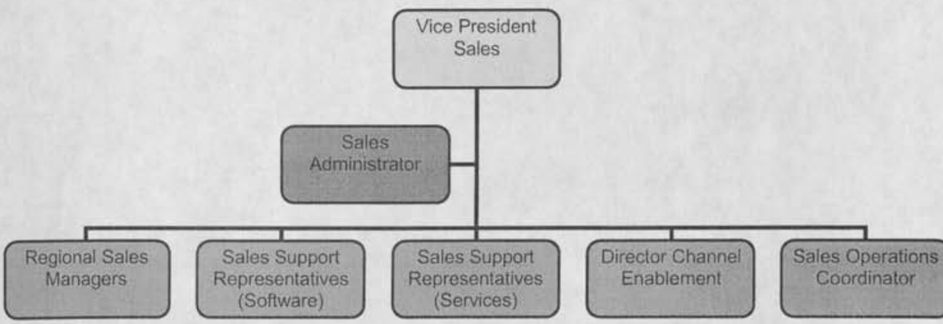
Figure 9. Sales projections for the hybrid direct and channel sales model.



Restructure sales organization

Within the initial sales organization there will be seven roles, as depicted below.

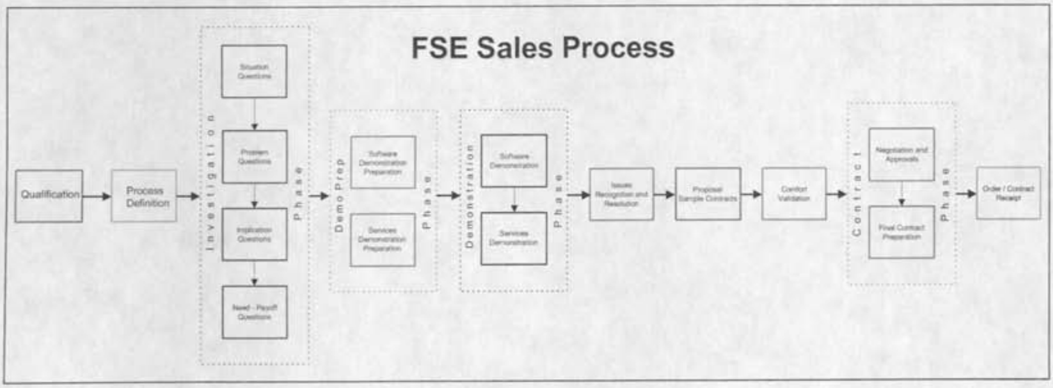
Figure 9a. The restructuring of the sales organization.



Implement new sales process

The SoftBrands sales model will be a blend of direct and channel sales. SoftBrands intends to leverage the existing sales channel of SAP and subsequently added channel partners. Additionally, SoftBrands will help SAP recruit potential partners that have a background in manufacturing ERP systems to improve its own success. In advance of a productive sales channel, SoftBrands will sell directly to preserve the current momentum and produce an even greater groundswell of support within SAP and in the market at large.

Figure 10. The FSE Sales Process.



Merge global sales teams

The initial phase of the SoftBrands' strategic plan will be to market Fourth Shift Edition in the United States and Canada. As product management uncovers new geographies and development delivers the functionality required for localizations, the sales team will broaden its efforts to the United Kingdom (and selected EMEA locations) and China (as well as other selected APAC locations).

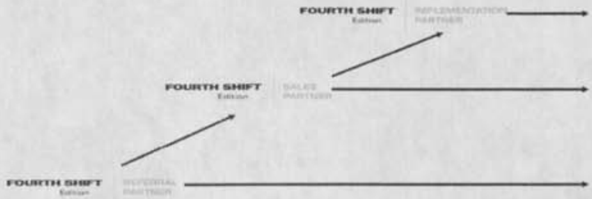
Localization for the U.K. will likely be available in mid-2006. At the beginning of 2006, the U.K. sales team will merge with the US sales team into one sales organization with two sales units. At that time, a management structure will be put into place to govern both geographies.

Localizations for China should be complete in the final fiscal quarter of 2006. The merger sales teams in China will occur beginning with the new 2007 fiscal year. A similar approach to rolling out sales excellence will be employed with the APAC sales organization as it merges with the Americas/EMEA team.

Implement SoftBrands Partner Program

The SoftBrands Partner Program (see Figure 11) will enable partners to make the most of the opportunity presented by Fourth Shift Edition.

Figure 11. SoftBrands Partner Program



Through a process of activation, qualification and certification, partners can choose to operate with SoftBrands at different partnership levels depending on their business objectives. Three levels of increasing partnership have been established with varying degrees of revenue earning potential.

Understand and present exact differentiators

In order to capture an ever-increasing share of the market, SoftBrands must understand and present the exact differentiators that appeal to buyer decision making. There are currently two primary differentiators and eight secondary differentiators. Differentiators change as products change. The sales organization will ensure that these changes are recognized in order to maximize the sales potential of SoftBrands' product portfolio.

SAP is the single most important differentiator in the differentiation arsenal. The SAP relationship will be presented strongly and repeatedly. This relationship will help buyers believe in SoftBrands viability and address the emotions of security, esteem and wealth through the perception of SAP's global financial strength, resources and products for short and long-term investment protection.

The second differentiator is SoftBrands' superior services. Services include a wide range of offerings, such as implementation consulting days, phone support and Remote Systems Administration. The approach to selling services will be comprehensive. In fact, SoftBrands has created a new process that will be internalized as "services demonstrations" in order to display its services technique and acumen.

Figure 12 provides a list of the secondary differentiators. The combined lists of ten total differentiators will enable to sales team to increase its close ratio.

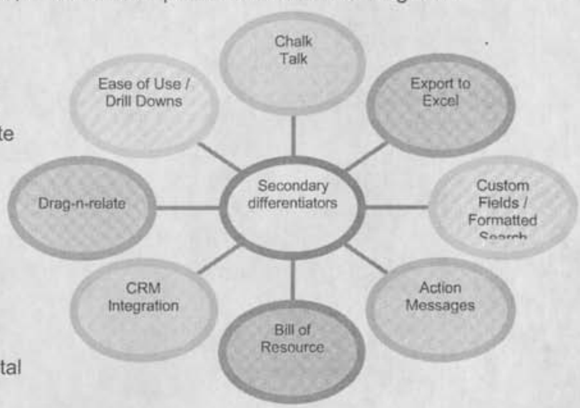


Figure 12. The secondary differentiators for Fourth Shift Edition. The primary differentiators are the SAP relationship and SoftBrands' superior service.

As the sales for Fourth Shift Edition slowly transition to channel partners, SoftBrands will need to increase its differentiation. While SoftBrands will still have the SAP brand, over time other manufacturing solution partners will likely offer SAP Business One solutions as well. This would mean future competitors with the same brand-connection. Furthermore, as partners assume responsibility for some of SoftBrands' services, that area of differentiation will also diminish.

SoftBrands' initial relationship with SAP will keep top-of- mind with SAP in this early stage of the relationship. Any delay, however, in getting product out and the appearance of other SAP Solution Partners, in addition to the transfer of services to its partners, means further innovation is necessary.

Focus on critical SoftBrands sales factors

The underlying principles behind the sales organization's efforts to rapidly gain market share must be sound and scaleable. The team must be able to rapidly act in an environment that is ever changing, often new and frequently without process. For these reasons, the sales team has created a list of critical success factors, which must be reviewed and pledged to on a regular basis by members:

1. Leverage the SAP relationship at every opportunity
2. Focus on the most important tasks and not let outside influences interrupt and distract
3. Communicate well. Share expectations and needs both internally and externally
4. Hire the best talent
5. Maintain a cross-company commitment to the important work ahead
6. Work quickly towards success so as not to miss any window of opportunity
7. Work consistently as a team to benefit from the work of team members and measure results on our ability to work together
8. Carefully create and adhere to efficient and effective processes
9. Be innovative, creative and in touch with the needs of the market
10. Maintain a positive spirit
11. Have fun and be balanced

Conclusion

The partnership with SAP presents new networks and opportunities for sales growth for the FSE product line. In order to merge the existing direct sales function with the new sales channel of SAP, SoftBrands manufacturing will develop a hybrid direct and channel sales model. The sales team will be restructured into a global unit and new sales processes will be implemented.

The sales team considers it vital to understand the differentiators of its products and will participate in the product management process to identify the changing needs of customers and translate those needs into ongoing software development.

SERVICES

The services team provides implementation services to SoftBrands' customers. The need for these services is changing as the FSE becomes the primary product in the SoftBrands' manufacturing portfolio. The services team will need to work most closely with the SAP sales channel, as well as provide consistent global support for SoftBrands' existing customer base. There is also a need to add generic capabilities to focus on both FSE as well as the core business.

The key strategies for SoftBrands' manufacturing services are:

- Provide a hearty customer experience through Account Management
- Provide a consistent implementation and consulting methodology
- Implement a sustainable services business model with high utilization and margins
- Emphasize business process management (BPM) consulting

Strategic Deployment

Provide a hearty customer experience through Account Management

A formal account management process keeps SoftBrands closer to its customers and will reveal new opportunities to serve them. SoftBrands has a set of proven professional account management tools and found compelling improvements in account satisfaction and productivity through their use. Our access to executives and the strategic value they place with us has driven improved revenue and margin per customer. Use of these tools will be expanded in order to better identify and articulate customers' problems and opportunities to serve them; better nurture a creative culture; and better manage the ambiguities of innovation.

Provide a consistent implementation and consulting methodology

Implementation and consulting have distinct methodologies that insure safe, low risk, predictable results. They are used globally and across our products. They allow project visibility to our customers and partners, and provide metrics for successful project management. These methodologies are repeatable and consistent with each implementation. They follow strict guidelines to insure process and project integrity. They can be used by both internal personnel as well as outside channel partners.

FSE/Fourth Shift is implemented using the proven SoftBrands six-step methodology. These six steps are defined as:

1. Project Organization
2. Project Definition
3. Systems Development and Integration
4. Conference Room Pilot (testing)
5. Cut-over
6. On-going Improvements (Kaizen)

These steps are further defined by the key activities present at each step of the project.

Implement a sustainable services business model with high utilization and margins

The services business has traditionally been tied to the sale of licensed products. With the return of new site license sales revenues through the FSE product offering, the services business will grow in step with new revenues. SoftBrands can create services revenue from new site or add-on license sales and put in place a sustainable services business model that can grow independently – and at greater margins – by working with the installed base in post implementation process improvement projects. This is strategically and tactically important, because it keeps SoftBrands relevant to the installed base, which is a critical factor in preserving the revenues of the Support Services Program – its largest revenue line and margin generator. The FSE business model shows that services revenues, mainly tied to implementation services, will be about 75 percent of license revenues, and generate a 30 percent margin.

Emphasize business process management (BPM) consulting

SoftBrands' ERP software packages allow SoftBrands to help its customers better manage company processes. The concept of BPM is to build and manage business *processes*, rather than the functional transactions. This concept is helping businesses better manage the way groups of people interact by putting in place the systems that control the flow of information to match the decision process.

SoftBrands has been helping our customer's IT staffs with their workflows through Visi tools. The BPM methodologies and processes take this to the next level, by bringing process design and application support to the customer's executive and managerial operating staffs. With BPM, we are delivering business process solutions.

Conclusion

SoftBrands' manufacturing services are an integral part of delivering quality software. The services team is developing incremental sources of revenue through new and existing customers. It is also delivering new consulting services to customers that link SoftBrands' product portfolio with the unique strategic process needs of each customer through BPM. Furthermore, SoftBrands is implementing new processes itself in order to better manage customer accounts.

WORLDWIDE SUPPORT SERVICES

Global Support Services provides ongoing application and technical support for SoftBrands customers.

SoftBrands' key strategies for Global Support Services are:

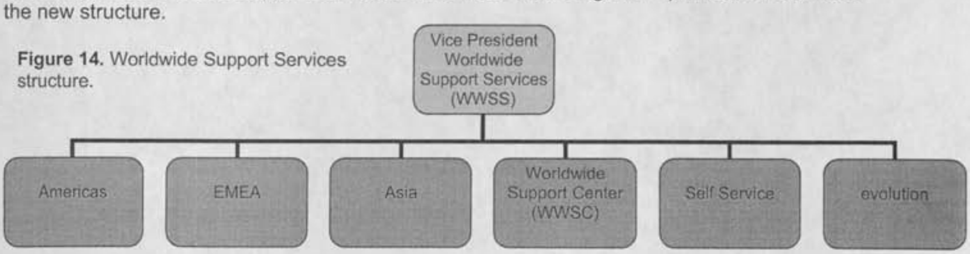
- Restructure support teams under a global leader.
- Drive increased support services margins and cost efficiencies through the worldwide support services Bangalore, India facility
- Focus on customer experience through quality of relationship with support services
- Build a scalable organization to support new products quickly.

Strategic Deployment

Restructure support teams under a global leader

Synergies from restructuring support teams under a global leader include improvements in employee quality of work life, quality of customer service, customer loyalty, consistency and common focus. SoftBrands' customers will see consistent, high-quality support from each of SoftBrands' global locations. Focusing all support services on a single vision and direction will enable SoftBrands to maximize and leverage global talent and increase momentum towards becoming one of the best support services teams in the world. Figure 14 provides an outline of the new structure.

Figure 14. Worldwide Support Services structure.



Drive increased support services margins and cost efficiencies through the worldwide support services Bangalore, India facility

Global Support Services is creating ways to provide 24 hour, consistently high quality service to customers while improving operating margins per customer by taking advantage of its right-shoring capabilities in Bangalore, India. All first-line product support will be delivered from Bangalore, enabling staff in regional offices to provide second-level support to Bangalore and customers. This right-shoring allows SoftBrands to increase its:

- Employees' quality of life
- Customer service
- Ability to develop/deliver new value added services
- Customer satisfaction and operating margins

Focus on customer experience through quality of relationship with support services

The quality of customers' experiences with SoftBrands is an essential component to maintaining long-term, loyal and profitable customers. This experience is primarily driven by their relationships with support services. The key to building and maintaining these relationships lies beyond the quality of the software. It relies primarily on the employee and their own satisfaction and loyalty to the company.

The *"quality of work life"* of global support services is impacted by many conditions, including shared values with GSS to continue to provide a high level of training to its employees, to stretch service professionals in their abilities to build highly confident and competent people, and to provide equal access to career advancement as other SoftBrands employees.

By maintaining high standards for quality of work life, SoftBrands will ensure quality relationships with customers. This dynamic will reinforce itself as customers recognize SoftBrands as a company with excellence in service, and by talented *people-oriented* software professionals around the world who will seek SoftBrands out as a place they want to work.

Build a scalable organization to support new products quickly

As SoftBrands grows through acquisitions and innovation, support services will likewise acquire more, and often diverse, software systems to support. In order to accommodate the greater complexity of services required, while maintaining consistent, high quality support to customers, these acquisitions must be quickly and efficiently incorporated into the support services portfolio.

Support Services will develop a scalable organization by building efficient processes for quickly understanding and assimilating new product acquisitions into its services portfolio. These processes include leveraging best customer services practices and standardizing them within a global Pivotal system; the recruitment, training, and on boarding of new service professionals to maintain existing and developing new services; and managing the growth in size of the global SoftBrands organization.

Conclusion

Global Support Services will restructure under a worldwide leader. The Bangalore, India facility will become increasingly important as the center of right-shoring activities, which will allow SoftBrands to deliver highly cost-effective software development, customer support, marketing and other shared services while improving the operating margins of each customer.

Customers will find SoftBrands' service providers highly trained, extremely competent and pleasant. SoftBrands will create a culture in which these service providers find motivation to excel at their customer relationships. The quality of work life is important for success at all levels of the company.

Support Services will implement critical processes to ensure that SoftBrands' new products and acquired products are rapidly deployed into its service portfolio.

ACQUISITIONS

SoftBrands' strategy for organic growth will be furthered by carefully targeted strategic acquisitions. These activities will be complementary to each other and with the SAP SMB market focus. The result will be a stronger competitive position, stronger distribution channels and additional customers. SoftBrands' criteria for acquisitions will focus on:

- Acquiring maintenance-paying customers
- Acquiring distribution
- Acquiring complementary content
- Rapid rationalization and assimilation into SoftBrands' right-shore platform

SoftBrands' key strategies for its acquisition activities are:

- Pursue criteria-based acquisitions
- Provide adequate corporate funding of "M&A war chest"
- Implement process to qualify targets, conduct due diligence and efficiently assimilate acquisitions into business functions
- Develop access and visibility to deal flow and growing pipeline of targets
- Develop assimilation processes in key business functions
- Execute small deal by end of Q1 FY 2006

Strategic Deployment

Pursue criteria-based acquisitions
SoftBrands will seek acquisitions according to a set of criteria that emphasize both the external need for SoftBrands competitive growth, as well as the internal need to manage growth. The four components to the criteria: are listed below.

Acquiring maintenance-paying customers will be emphasized to further develop SoftBrands' base of recurring customer revenue streams. New customer segments must be able to align with the SAP SMB market focus and should represent new incremental customer segments from competing ecosystems.

Acquiring distribution is essential in a global market. New customer segments will be sought to both reinforce existing key territories (the U.S. and U.K., for example) as well as extend into adjacent geographic territories (e.g., Germany and Japan). Acquisitions will be selected, as well, for their ability to penetrate into competitive ecosystems.

Acquiring complementary content will enable SoftBrands to expand its SAP SMB position beyond Fourth Shift Edition. The competitive environment requires SoftBrands to consider SAP a customer for new functionality within its portfolio as well as the SMB market itself.

Rapid rationalization and assimilation is important for winning the *approval* of newly acquired customers as well as their accounts. Acquisitions will be sought for their ability to be rapidly assimilated into the high-quality services provided by SoftBrands' support functions.

Provide adequate corporate funding of "M&A war chest"

SoftBrands' acquisitions strategy requires a readily available financing mechanism in order to act quickly on opportunities.

Implement process to qualify targets, conduct due diligence and efficiently assimilate acquisitions into business functions

Acquisitions require a robust process to effectively identify, analyze and assimilate the complex components related to each deal. SoftBrands will implement an acquisitions process to ensure adherence to the acquisitions criteria, the strategic integrity of the deal, accurate valuation and effective assimilation into business functions such as product management, human resources, finance, customer support and marketing communications.

Develop access and visibility to deal flow and growing pipeline of targets

The pursuit of acquisitions is as competitive as the strategic value of the acquisitions themselves. To effectively engage in the acquisitions arena, SoftBrands will invest in developing its visibility in the circles of players in mergers and acquisitions. This positioning will enable SoftBrands to have better access to and analysis of potential deals.

Execute small deal by end of FY Q1 2006

SoftBrands will begin with a small acquisition in order to signal its strategic intent to the market as well as gain experience with its internal acquisitions process. SoftBrands is setting the goal for a first deal to be completed by the end of Q1 FY 2006.

Conclusion

SoftBrands will selectively pursue acquisitions that complement its existing strategy and provide competitive advantage.

FINANCIALS

SoftBrands manufacturing Financial Projections: 2005 - 2008

	2005	2006	2007	2008
Revenue ($000)				
Software	8,994	10,900	13,100	18,300
Prof Ser	10,200	11,300	12,500	14,400
CSP	30,110	32,200	34,000	36,800
Other	909	2,505	2,706	2,955
Total Rev	**50,213**	**56,905**	**62,306**	**72,455**
COGS	15,373	15,400	16,200	17,424
Expenses	17,000	17,446	19,776	22,864
Total Exp	**32,373**	**32,846**	**35,976**	**40,288**
EBITDA	**$17,840**	**$24,059**	**$26,330**	**$32,167**
EBITDA%	35%	42%	42%	44%

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SoftBrands

Hospitality Business Plan
2006-2008

SOFTBRANDS HOSPITALITY STRATEGIC PLAN

EXECUTIVE SUMMARY

SoftBrands objective is to become the Property Management System (PMS) leader in the $600 million small, medium, business (SMB) hotel industry. SoftBrands has built a global operation with customers in more than 60 countries with major offices in the United States, United Kingdom (Reading, Blackburn), China (Shanghai, Tianjin, Beijing), and India (Bangalore). Growth and dominance will come through strong organic revenue growth in the EMEA and Americas geographies and an aggressive strategic acquisition plan.

SoftBrands' hospitality business has emerged from a restructuring that began in September 2003 as a stronger, more viable competitor in the property management systems market. . During this period SoftBrands solely focused on the needs of its existing customer base which a produced a strong go-forward foundation. Through this effort SoftBrands is now poised for growth with a strong line of PMS products.

This coincides with a positive market outlook as worldwide spending in tourism and travel is expected to double by 2013. Business trends that reflect the increasing need for connectivity, business intelligence, revenue management and loyalty programs are combining with key technology trends to prompt investment in property management systems. The technology requirements and competition among hotels is now more intense then at any time in our history. These factors are applying tremendous pressure on PMS vendors to continue strong product investments to satisfy these industry requirements.

SoftBrands' key strategies to foster growth in hospitality include:

- Focus on the EMEA and Americas geographies where the highest growth potential exists and is matched by SoftBrands resources in those markets.
- Reduce overall cost structures in customer support, development, and marketing through use of SoftBrands' growing operations in Bangalore, India.
- Invest in our go-forward PMS product line with greater application features combined with strong technology platforms.
- Acquire other PMS companies that add revenue can take advantage of SoftBrands "right sizing" cost benefits, and most importantly add additional maintenance paying customers .
- Foster a highly engaged culture intent on growing the hospitality business.

SoftBrands' target market in the hotel industry is the SMB sized hotel. The company will focus its product efforts and investments in one key product: Medallion as other existing products transition into a sunset period. From a geographic standpoint, sales efforts will focus on the high-potential Americas and EMEA markets. Investments in the sales infrastructure will coincide with cost reductions in other geographies where growth potential is far less. Cost structures will be reduced by increasingly providing customer, development and marketing support through the company's Bangalore operations. Sales will be pursued through both direct sales and channel partners.

SoftBrands' goal is to achieve size and scale in the hospitality market, achieving revenues of approximately $50 million by 2008 and strong profitability. A revenue level of this size will position SoftBrands as the clear leader in the $600M SMB sector of the overall $1.6B global PMS market. This objective will be achieved through growth of the existing business, and through acquisitions that offer opportunities to increase revenues, customers and profitability.

MARKET OPPORTUNITY

There are 170,000 hotels containing 17.4 million rooms worldwide. At the center of each of these hotels resides mission critical hospitality software called Property Management Systems (PMS). The software is the central nervous system of every hotel managing rooms, guests, reservations, billing, occupancy tracking and other operational tasks. In addition to operational management, property management systems contain sophisticated business intelligence enabling guest data to be extracted, sorted and profiled for marketing purposes centered on customer loyalty.

The market size, assuming that property management software is sold at an average rate of $90 per room, represents an overall worldwide market opportunity of $1.57 billion.

PMS customers fall into three hotel profiles:

- **Chains:** 200+ hotels that are owned by a company that services and manages the hotels
- **Groups:** 5-200 hotels that are franchise or consortium owned by several entities
- **Independents:** 1-4 hotels that are privately owned, typically offering medium to low service levels

SoftBrands sells direct to hotel groups; uses channel partners to reach independents and does not pursue sales with chains. Hotel groups generate the greatest financial contribution to SoftBrands in terms of sales effort and sales cycle length to deal size. SoftBrands sells to independent hotels via channel partners in order to minimize sales and support costs. Chains are international, sophisticated and somewhat bureaucratic organizations, generating very large property management system deals; but the sales effort and length of sales cycle is such that the financial contribution from these transactions is low.

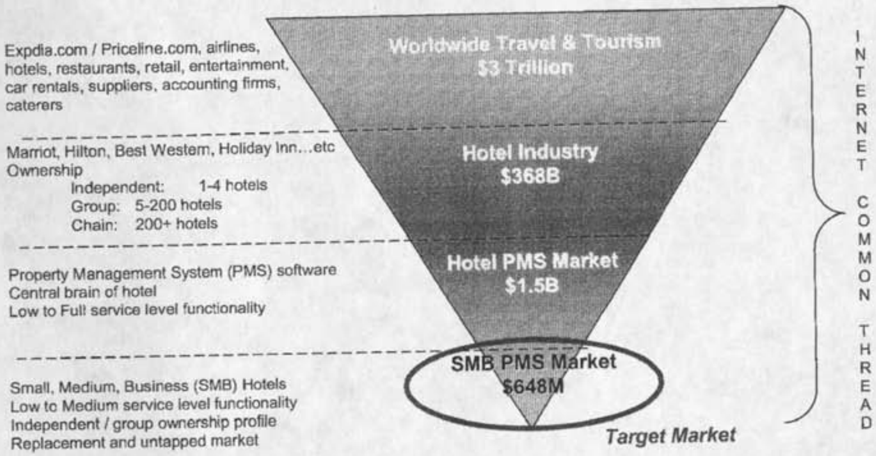
In addition to hotel ownership and scale, other important characteristics make up the optimal sales profile for SoftBrands. Customer service levels within hotels can dictate the functional level requirements of property management software. A hotel that offers services such as catering and room amenities has a direct correlation to the complexity and cost of the sales cycle and on-going support. SoftBrands has determined that the most lucrative prospect group is independent hotels with two-and three-star service and amenity levels, a segment known as small to medium size businesses (SMB).

There are 124,000 SMB hotels with approximately 7.2 million rooms in North America, South America and EMEA, representing a property management opportunity of $648 million.

Figure 1. below shows the structure of the hotel market and SoftBrands target SMB market.

The Market

Figure 1. SoftBrands target market



The property management industry within the SMB hotel sector is highly fragmented, with unsophisticated software providers that often provide mediocre offerings. Until recently, hotels have been a technology laggard and have not moved aggressively to adopt commercial property management software. However, due to increasing hotel competition, global technology requirements and the overall impact of the internet, SoftBrands believes a "perfect storm" is surfacing that now opens the door for a leader to emerge. SoftBrands has the products, people, infrastructure and strategy to become the dominant leader in this $648 million SMB market.

Table 1. geographic breakdown of hotels and rooms in key markets:

Region	Chains		Groups and Independents	
	Hotels	***Rooms k***	***Hotels***	***Rooms k***
North America	34,247	3,219	23,343	2,182
Europe	34,729	1,539	104,177	4,618
Middle East & Africa	5,112	383	15,345	1,149
Central & South America	1,958	159	7,832	634
Total Americas & EMEA	76,046	5,300	150,696	8,582

Source: Mintel International Hotel Industry Travel and Tourism Intelligence, October 2003

While not represented in the chart above, the Asia-Pacific region has 4.1 million hotel rooms with China estimated to represent 1.3 million of those rooms. Asia-Pacific is a potential large market for SoftBrands, but has weak price points and SoftBrands has limited resources to address this market. Over the next 12 months, SoftBrands will review and study the Chinese PMS market and develop a plan to appropriately invest resources in addressing this market.

Target hotel group service level

SoftBrands has narrowed its focus to target hotel groups and independents with two- or three-star service and amenity levels, SMBs. SoftBrands does not pursue four-star hotels because they require a breadth and depth of functionality in property management systems and that functionality is currently unavailable in SoftBrands products.

Table 2. SMB target market opportunity in the North America and Europe markets of 5.7 million hotel rooms in 105,000 hotels:

Region	All Groups and Independents		SMB Groups and Independents	
	Hotels	***Rooms k***	***Hotels***	***Rooms k***
North America	23,343	2,182	21,474	2,006
Europe	104,177	4,618	83,343	3,694
Middle East & Africa	15,345	1,149	12,275	919
Central & South America	7,832	634	7,206	584
Total Americas & EMEA	150,696	8,582	124,298	7,203

(Source: Mintel International Hotel Industry Travel and Tourism Intelligence, October 2003)

Existing and untapped market sizes

Analysis of competitor and SoftBrands installations in SMB hotels in North America and Europe suggests that only 1.4 million of the 5.7 million rooms within the target market use property management systems. This existing market can be categorized in two ways:

- The total actual PMS vendor revenue in 2004 was $87 million, which represents maintenance, support, add-ons and periodic PMS upgrading.
- The replacement value is $126 million, representing the cost of installing a new PMS into each of the 1.4 million rooms at $90 per room.

Within the SMB space, 4.3 million rooms do not use PMS, an untapped and significant market opportunity of $387 million. SoftBrands believes that hotel groups not currently using these systems will adopt them in the future, given compelling business and technology trends in the hotel industry.

Growth of the existing market

Existing market growth is a function of the increase in the number of hotel rooms, which is driven by hotel industry economics, and overall growth of travel and tourism worldwide. Long-term and short-term travel and tourism forecasts are extremely attractive for the hotel industry:

- Total worldwide travel and tourism spending is forecast to be $6,066 billion in 2013, an increase of 92 percent from the $3,156 billion in 2003 (growth of 6.8 percent per annum)
- North America is forecast to grow travel and tourism spending to $2,132 billion in 2013 from $1,148 billion in 2003 (growth of 6.4 percent per annum)
- The European Union is forecast to grow travel and tourism spending to $1,917 billion in 2013 from $1,035 billion in 2003 (growth of 6.4 percent per annum)

  (Source: The World Travel and Tourism Council 2003 Travel and Tourism Economic Research)

SoftBrands believes the number of hotel rooms increases at half the rate of travel and tourism spending, and therefore predicts 3.4 percent annual growth of the existing market.

Untapped market's adoption of property management systems
The rate at which the untapped market adopts property management systems will depend on both technology and business trends affecting hotels.

The key technology trend is the expanding role of electronic advance booking systems; the internet is forecast to generate 20 percent of U.S. advance bookings in 2005 (Phocus Wright and Bear Sterns study); and third-party and hotel chain's own central reservation systems account for a large proportion of advance bookings. These electronic systems must link to a PMS at each hotel they pre-book and are therefore an important driver of technology adoption.

Another important technology trend is increasing electronic tracking of guest spending in hotel amenities (restaurant, retail, spas.) The ability to track what guests watch on television, where and what they eat, their check-in times and favorite amenities, are examples of data that can only be gathered, assimilated and profiled through property management functionality. Consumer profiles are the basis that every hotel, travel agent and airline uses to target customers, and much of this profile data resides in property management software. In highly competitive markets hotels that are able to retain customers for repeat stays versus continually compete for them – will win marketshare.

The business trends affecting hotels (and their influence on PMS adoption) are:

- The changing structure of the hotel industry as the global integrated hotel chains divide into hotel operating companies and hotel property companies. The smaller groups of hotels that result from the splintering of the global integrated hotel chains fall into SoftBrands' target market. Hilton, Intercontinental and Marriott are examples of this trend.
- The decentralization of IT purchasing decisions to regional and local groups of hotels, even in some cases to individual hotels. The trend to smaller hotel groups making IT purchasing decisions is favorable to SoftBrands. Best Western is an example of this trend.
- Growth in the resort hotel segment. These properties have a wide range of amenities that require tracking, which in turn requires PMS. Casinos are an example of this trend.
- The increasing importance of customer loyalty programs and other incentives important for guest return stays (and best managed electronically via PMS)
- The ongoing requirement to reduce administrative costs; administration is less expensive when using a property management system.

Hotel groups are growing at the expense of the large hotel chains due to the divestment by hotel chains and the decentralization of IT purchasing described above. Furthermore, PMS is at the core of hotel IT systems as they link to the internet, travel agent and central, reservation systems, and to the hotel administrative and accounting back-end systems. Therefore, despite hotels having recently been cautious in their spending on IT generally (perhaps due to the recent travel downturn), spending on PMS in SoftBrands target market will accelerate, as hotel groups require PMS functionality for modern hotel management and the number of hotel groups in SoftBrands target market increases.

PMS installations in the current hotel industry compare with ERP software installations in manufacturing companies fifteen years ago. In 1990, only large manufacturing companies had installed ERP software, whereas now virtually all manufacturing companies operate ERP software. If the untapped market adopts PMS technology, the existing market will grow by $32.4 million per year for fifteen years

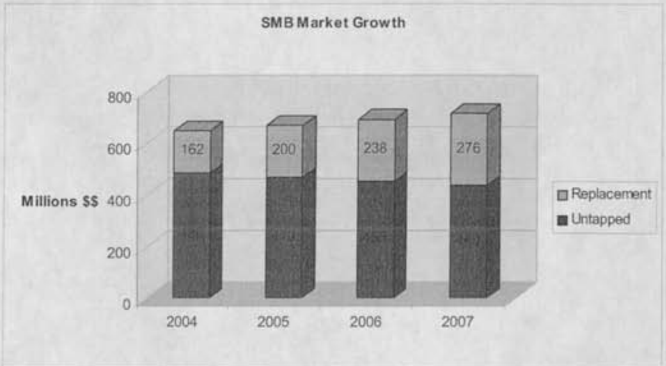


Figure 2. Growth implications of the adoption of PMS systems by non-users

The greatest growth potential for SoftBrands in the hospitality market is to target new name customers who will be adopting their first commercial property management system, versus focusing on the replacement market.

Market evolution

SoftBrands believes that hotels using non-commercial property management systems will install commercial systems in the future due to rapidly increasing technology pressure. Property management systems are quickly becoming more than billing software. The technology needs are driven by two main components: the internet and in-house customer tracking, requiring property management systems to extend capability beyond traditional operational roles. The system must now facilitate and enable the new requirements of the hotel industry:

- Vastly increased global requirements of connectivity, customer amenity profiling and overall growth in hotel capacity;
- Customer loyalty programs and other incentives that are becoming key to securing customer return stays
- Links to the internet, travel agents and central reservation systems and to the hotel administrative and accounting back-end systems.

In addition, SoftBrands believes the property management market can extend from the pure supply of PMS to the supply of PMS and the provision of PMS related services. These services will center on guest retention, which is fast becoming the most competitive attribute of the hotel industry. SoftBrands believes the hotel operating companies will extend the range of services they offer to hotel property companies to sales and marketing, and that they will outsource the data extraction and synthesis role to third parties, like SoftBrands, which have the appropriate expertise.

In summary, the main market dynamics that enhance SoftBrands' opportunity in the PMS market are:

- SoftBrands target market--independents and groups--is expanding through increased hotel capacity;
- Non-users migration to commercial property management systems; and
- Global hotel chains that are divesting hotels to independent and group ownership significantly increases the size of the SMB property management system market.

COMPETITION

Business profiles

The PMS target market has a large number of small, regional competitors, with only Micros Fidelio, HIS and SoftBrands competing globally. SoftBrands believes that only a few vendors can serve the entire market and support large hotel chains. The five small vendors mentioned in the chart below -- and other even smaller vendors -- may struggle to upgrade products to internet protocol, given the product development costs relative to their size.

PMS vendor	2003 Revenue $m	Installations (rooms m)	Observations
Micros Fidelio	75	1.4	• US based vendor with global reach • Record locking issues with Fidelio Six product
Hogatex	25	0.25	• Acquired by Optims and then in turn by Amadeus • GDS, yield, channel management and PMS combination is strong, but has stayed in Germany, France, South Africa, and Middle East
HIS	22	0.6	• US based vendor with global reach • Has grown by M&A so now has several disparate products, branded as the "Epitome" family
SoftBrands hospitality	19	0.20	•Global competitor •SMB/PMS strength
Springer-Miller	15	0.15	• Focus on high-end resort hotels • Acquired Spasoft in 2002 • Acquired by Par Technology Group in 2004
Protel	12	0.2	• German based vendor started by ex-Fidelio staff • Product is similar to Fidelio Six, targeting Fidelio customers • Successful in Europe and Australia
Ramesys	12	0.1	• UK based vendor also serving travel agents • Mostly legacy installations
Five small vendors*	22	0.55	• Focus on geographic or product niche • Key issue is can they invest to upgrade their products
Total	183	3.25	

* Northwind, Visual One, RDP, Agilysis, Galaxy

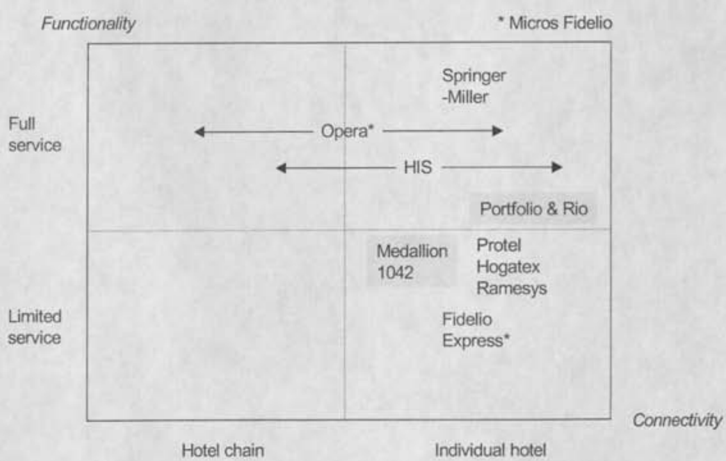
Product profiles

Customers and prospects review PMS products against two criteria: connectivity and functionality:

- Individual hotels have simple connectivity requirements, perhaps solely to a web site, whereas hotel groups have complex connectivity requirements as they require the PMS to link with central and third-party reservation systems and other corporate software for purposes such as CRM.
- Limited service hotels provide accommodation only and so the PMS requires basic functionality, whereas full-service hotels offer multiple amenities such as restaurant, business center, leisure facilities and retail. PMS must provide the rich functionality to track guest usage across all the amenities.

As seen in figure 3 below, competitor PMS products and SoftBrands products (shaded) cluster in the quadrant "fully functional - limited connectivity," thereby appealing to individual hotels and small groups:

Figure 3. SoftBrands' product functionality and Connectivity



Product Positioning

SoftBrands currently has a range of hospitality software products for the SMB marketplace. The primary emphasis will be to introduce Medallion to the untapped market and to existing LANmark and IGS customers. Below is an overview of each key product offering.

Medallion™

Medallion is a Windows®-based property management solution. Medallion is a highly functional, full service system with the flexibility to fulfill the requirements of the full spectrum of the hotel industry. From highly specialized boutiques, to resorts to city center properties, Medallion satisfies varied business and operational requirements. Medallion is highly configurable so it matches the way individual properties are managed, such as selling by room type or by room, with packages or negotiated rates.

PORTfolio™

PORTfolio delivers complete, enterprise-wide property management software for single-site and multi-property hotels and resorts. This feature-rich system incorporates sophisticated graphics, photography and touch-screen capability to help hotels and resorts manage reservations, rates and guest profiles.

RIO

RIO is a property management system that enables resorts, spas, clubs, golf and leisure facilities to effectively and efficiently manage their operations while providing a positive guest experience. RIO is the industry-leading solution for managing leisure activities. It's a multi-property, easy-to-use, guest-centric solution that helps properties manage spa and activity appointments, dining reservations, retail point-of-sale, food and beverage point-of-sale, membership billing, classes and events and web reservations. RIO combines flexible functionality, platform stability and scalability with excellent customer support.

POS

POS is a touch-screen point of sale solution to manage restaurants and bars with maximum efficiency. This state-of-the-art system seamlessly integrates all front-of-house and back-office functions in one easy-to-use solution. POS is a complete management tool that includes fast service features, multi-server capabilities, remote order printing, table reservations and full management reporting and analysis. POS is suitable for many different styles and types of operation, from large multi-user configurations to small single-user systems. Available in Europe, Asia and Africa.

In addition to the above-mentioned products, SoftBrands has several other property management products representing a large customer bases. IGS and LANMark are property management products that have strategic importance to SoftBrands. Each product has a large maintenance paying customer base that requires support and continued level, investment into the products.

PRODUCT MANAGEMENT

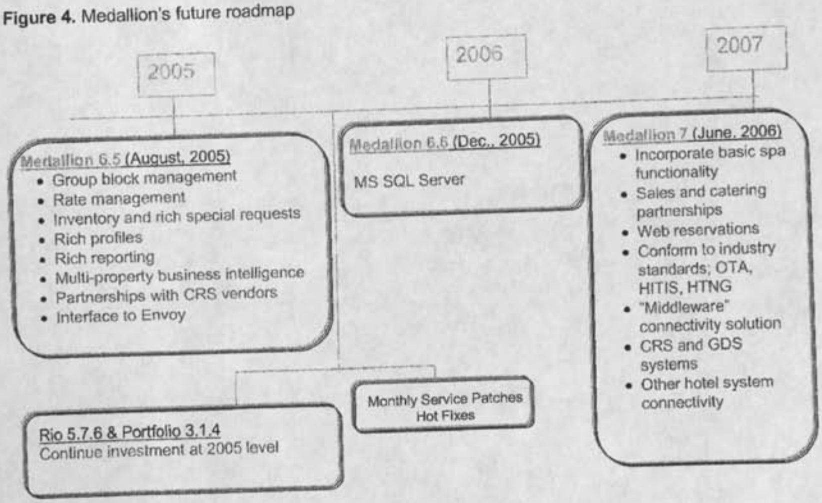
Continuing to increase the capabilities of the development functions in Bangalore will allow SoftBrands to develop world-class software solutions while investing less in development that its competitors. Currently, product development has two centers of excellence: one in Bangalore and another in Wichita, Kansas. A key goal in the next several years is to build and mature the capabilities of the India Development Center.

The Wichita group works closely with product management to design and architect new product requirements identified by the regional businesses. Bangalore provides core coding and Wichita provides code review and quality assurance. The new product is then passed back to Wichita for product release. This process maximizes productivity while minimizing cost. Bangalore also undertakes automated regression testing of existing products. SoftBrands has a China translation center in Tianjin to translate products into Chinese, Japanese and Korean languages.

SoftBrands also has an agreement with RekSoft of St. Petersburg, Russia to provide development and maintenance for Medallion. SoftBrands will recruit and train a Medallion maintenance team in Bangalore in late 2005 in order to bring in house responsibility for maintaining and developing Medallion. The RekSoft agreement expires in 2007.

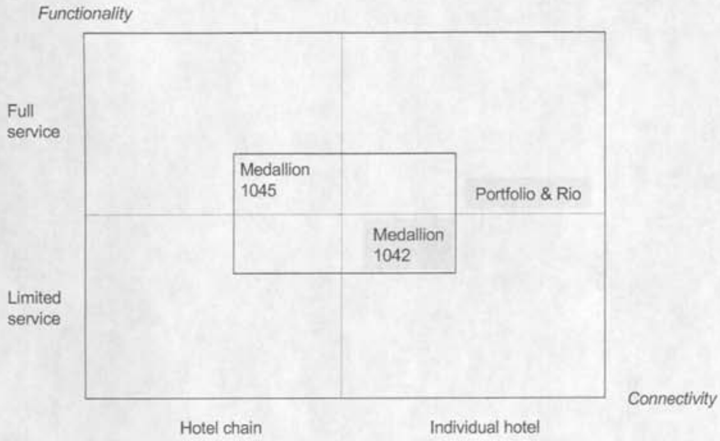
Going forward, SoftBrands will have a clear focus on its flagship property management product, Medallion. Medallion will be the "go forward" offering. All other existing products are legacy products with "long sunset" strategies, which preserve maintenance revenue and potential migration to the Medallion product. Investment in Medallion will increase as investment into legacy products decreases. Connectivity, customer retention tracking and added functionality will be the basis for the three-year Medallion product plan.

Figure 4. Medallion's future roadmap



Medallion's future development is aimed at increasing its appeal to larger hotel groups with increased functionality and connectivity. PORTfolio and RIO will not be substantially enhanced after versions 3.1.4 and 5.7.6 respectively.

Figure 5. Medallion and its move to a more full-service offering



PORTfolio and RIO are legacy products with "a long sunset". They will be sold to existing customers and will receive minor development to preserve the legacy revenue and ensure an upgrade path to Medallion. The emphasis for PORTfolio will be the EMEA market and large custom development contracts in North America. Medallion will increase its connectivity through interfaces to Best Western, Envoy and e-Res central reservation systems and will add considerable functionality as outlined in the chart below:

Medallion release	Connectivity enhancements	Functionality enhancements
1045: August 2005	• Best Western OTA Interface • Partnership with HTI to provide CRS • Interface to Envoy.	• Group block management • Rate management • Inventory and rich special requests • Rich profiles • Rich reporting • Multi-property business intelligence
Three year vision	Full integration with Envoy, providing connectivity to other environments: CRS and GDS systems credit card verification other hotel systems	• Incorporate RIO spa functionality • Add modules: - sales and catering - web reservations • Conform to industry standards; OTA, HITIS, HTNG

ORGANIZATIONAL STRATEGY

Similar to the company's manufacturing business, new organizational structures and processes are required to support growth in the company's hospitality business.

Increasingly, SoftBrands will operate as a true global business. Being global is no longer just a function of the sales footprint, but relates to services as well as the competition for "world class" talent in all areas of the business. SoftBrands has been a leader in approaching its business from a global point of view – now it needs to take the next step and operate our businesses seamlessly – with no geographic borders. Operating globally means SoftBrands will be better able to orchestrate resources and be more efficient. The new organization will eliminate many redundancies and as a result, the company will be able to devote more resources to its sales efforts and propel future growth.

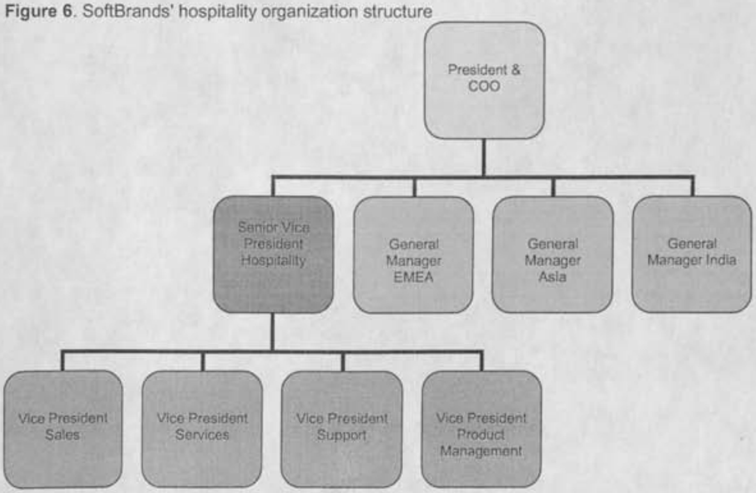
SoftBrands' key strategies to ensure an optimal hospitality organization are to:

- Implement new business structure to manage growth
- Build a culture of innovation and growth
- Implement new communication tools to respond to global audience.
- Promote industry thought leadership by SoftBrands management.
- Identify a pool of management successors
- Recruit global workforce
- Provide training to support global teaming.

Implement new business structure to foster growth

SoftBrands will implement a new hospitality structure that is flexible and adaptive to the evolving SMB market (see Figure XX.) The new structure will be rolled out in stages. During the transformational change, SoftBrands Leadership University will continue to be the learning ground for managers. Strong internal communication channels will be implemented to keep all segments of the company connected to each other.

Figure 6. SoftBrands' hospitality organization structure



Build a culture of innovation and growth
An innovative culture is risk tolerant, ambiguous and free-spirited. SoftBrands will foster an organization culture that is comfortable with risk and change and is willing to learn from its failures. Senior management will articulate and exemplify this culture. Employees will not be penalized for failed ideas and successful ideas will be showcased throughout the company. This environment will incorporate risk and change into the value ranking process, and identify an acceptable balance of chaos and order with a high tolerance for risk and climate for learning.

Implement new communication tools to respond to global audience
Internal communications programs are important to ensure that SoftBrands' global workforce is kept informed of developments regarding its products and services, customers, industry trends and competitors. Communications will be especially important to enable the successful roll out of the new structure. Tools such as the Intranet, employee communication meetings, Pivotal and newsletters will be used as communication tools.

Identify a pool of management successors
Managers at all levels will be responsible for identifying a pool of successors in order to manage the uncertainties of turnover and to build a dept of leadership experience in the very fast-paced and growing ERP industry. SoftBrands Leadership University will provide training for those who are currently not in management positions. Those in management will be provided coaching and development opportunities based on their individual needs. Internal tools such as ePredix will allow SoftBrands to create electronic development plans to groom leaders based on areas they have identified for development.

Recruit global workforce
SoftBrands will focus on maintaining its current workforce and strengthening its recruitment efforts to develop a world-class organization. SoftBrands will establish channels to recruit future employees directly from the hospitality industry in order to recruit talent that possess a thorough knowledge of the business.

Provide training to support global teaming
SoftBrands seeks to be known as an organization that develops talent and provides opportunities for growth and achievement. Employee retention begins with an on boarding process called "Ready, Set, Go with SoftBrands" – a monthly day-long introduction to SoftBrands that provides new employees with the organization knowledge they need to be get started. The program will include discussions on vision, culture, organizational structure and processes. It will provide newly hired employees a foundation and understanding of SoftBrands' business, customers and the opportunity to form relationships with co-workers.

MARKETING

Marketing has traditionally been a lower priority at SoftBrands and has received minimal funding. Given the return to financial health in the hospitality business, the momentum of the Medallion product and the clear focus on the SMB market, and the attractive market dynamics, the timing is right to invest more aggressively in key marketing activities.

The tight focus on SMB hotel groups in North America and Europe means that target customers are clearly identifiable. As a result, going forward it will be cost effective to allocate resources to lead generation in support of direct sales.

The clear focus on Medallion also allows the company to better leverage its investments in marketing. The goal will be to build awareness and equity in the Medallion brand.

SoftBrands key priorities for success in the current hospitality marketing environment are:

- Grow the number of properties utilizing our PMS solutions by dramatically increasing the sophistication of the sales lead generation capability in key markets and supporting the creation of an effective reseller program worldwide.
- Drive the re-emergence of SoftBrands hospitality as a key player in the PMS market.
- Clearly focus on and raise visibility in the SMB PMS market.
- Foster stronger relationships with the existing customer base.
- Leverage the India Marketing Center to cost-effectively deliver consistent company positioning and build the Medallion brand name.
- Continue to build relationships with well-known hospitality organizations such as Leading Hotels of the World and AAHOA, which lend us credibility, added recognition and prospecting lists
- Target Medallion marketing efforts on independent and franchise group hotels

Marketing spending will increase in 2006 and 2007 to $352,000 and $391,000 respectively, from $41,000 in 2005, as lead generation is increased and the Medallion brand is supported by trade shows, trade media relations and trade advertising.

SALES

SoftBrands will pursue hotel prospects in North America and Europe through both direct sales and channel partners. Direct sales will focus on reaching hotel groups. Partners will be used to reach the independent hotel market and to serve geographies that are not economically viable for SoftBrands to reach directly.

The new business sales force will focus on Medallion. In addition, we will continue to service the existing customer base and create incremental business for legacy products, with the goal of migrating customers to Medallion.

New business will be obtained in three ways:

- Hotels replacing legacy systems,
- New construction hotels
- Hotels making an initial property management system purchase.

The overall sales approach will be organized on a regional basis (Americas, EMEA and Asia-Pacific) led by a global vice president and supported by regional sales directors, business development managers (focus on new business) and customer relationship managers (focus on sales to the existing base and account management). The emphasis on direct versus indirect sales will vary by region.

Direct sales
Each region will have a direct sales channel supported by a lead generation resource. Lead generation will focus on both the replacement and new build markets.

The contract size for a business development manager's customer falls in the range of $75,000 to $100,000; and the sales cycle is three to nine months and typically requires 20 person-days of effort. The approach used is solution selling.

SoftBrands currently has 2,000 hotel installations and the customer base in each region is divided into gold, silver, bronze and other:

- Gold customers are the ten largest customers in a region and are visited quarterly by their customer relationship manager and annually by the regional vice president of sales
- Silver customers are the next 25 largest customers and are visited quarterly by their customer relationship manager
- Bronze customers are the next 100 customers, visited twice annually
- Other customers are contacted twice annually by telephone

A customer relationship manager's typical contract size is $10,000. The approach used is to go deeper and wider into existing accounts, selling add-ons, legacy migration to Medallion and sustaining maintenance revenue.

Indirect Sales
Indirect sales are defined as revenue generated through business partners. A global channels director will be responsible for business partners worldwide and will supervise channel managers in each region. SoftBrands has developed a Business Partner Program Guide that clearly defines the categories of business partner, the accreditation process, contract details and operational guidelines.

Three types of business partners will be used:

- Referral partner (represents SoftBrands and identifies new business opportunities)
- Sales partner (responsible for managing the entire sales process for selected products)
- Implementation partner (builds a dedicated team around SoftBrands products

Channel partners will be used to sell Medallion to independent hotels and to reach markets that otherwise would not be economically attractive to SoftBrands.

WORLDWIDE SUPPORT AND SERVICES

The principle Worldwide Support and Services (WWSS) strategy is to systemize and reduce operational costs while maintaining high service levels. This will be achieved by reducing the number of products supported; providing customer support through the lower cost Worldwide Support Center in Bangalore; and creating one global support and services team that combines resources from all offices and uses knowledge from all employees to service customers (and eliminates duplication that exists today).

Support
Hospitality businesses operate around-the-clock and SoftBrands customer support will as well, delivering 24x7x365 customer support, emphasizing service and technical expertise.

All first-line and sunset product support will be delivered from Bangalore, enabling WWSS staff in regional offices to focus on becoming Medallion experts who will provide more sophisticated follow-up support to the Bangalore office and to hospitality customers.

Currently 40 percent of first-line support is delivered in Bangalore; by January 2006,100 percent of first-line support will be handled in Bangalore. Support costs in acquired companies can also be significantly reduced by providing support through Bangalore.

Services
SoftBrands' services are an integral part of delivering quality software. The services team provides implementation, training and customization services to SoftBrands' hospitality customers and partners. The need for these services will change going forward as Medallion becomes the primary product offering.

The key strategies for SoftBrands' hospitality services are:

- Restructure support teams under a global leader
- Provide a positive customer experience by increasing consultant depth of knowledge and improving implementation procedures
- Build and maintain strong relationships with our customer base
- Drive increased support services margins and cost efficiencies through the worldwide support services Bangalore, India facility
- Build a scalable organization capable of quickly supporting new products
- Work closely with product development to improve the ease of installation and overall quality of our software offerings.

WWSS in the regional offices will continue to install Medallion. SoftBrands has a six-step methodology for installing Medallion:

1. Project organization
2. Project definition
3. System implementation
4. Customer training
5. Cut-over
6. Post-installation review

SoftBrands goal is to be a true partner to its customers by providing high quality service resulting from:

- Improved employee training;
- Increased value-added services;
- Enhanced customer communication; and
- More effective implementation processes.

Figure 7. WWSS organization

ACQUISITIONS

SoftBrands will grow its hospitality business organically, but to achieve its financial objectives it will require acquisitions that complement the company's existing hospitality business. SoftBrands believes that some of the small PMS vendors may consider selling their businesses and SoftBrands will evaluate them as acquisition candidates.

Acquisitions that would be attractive to SoftBrands in the hospitality sector include:

- Companies that compete in the SMB sector in North America and Europe.
- Technology that augments and helps penetrate additional markets

The result of the acquisitions would create a stronger competitive position, stronger distribution channels and additional customers. SoftBrands' criteria for acquisitions will focus on:

- Acquiring maintenance-paying customers
- Acquiring distribution
- Acquiring complementary content
- Rapid rationalization and assimilation into SoftBrands' right-shore platform

The priority for hospitality is to identify acquisition candidates that offer ongoing maintenance revenues and/or provide opportunities for migration to Medallion.

As in its manufacturing business, SoftBrands' key strategies for its acquisition activities are:

- Pursue criteria-based acquisitions
- Provide adequate corporate funding of "M&A war chest"
- Implement process to qualify targets, conduct due diligence and efficiently assimilate acquisitions into business functions
- Develop access and visibility to deal flow and growing pipeline of targets
- Develop assimilation processes in key business functions

SoftBrands' acquisitions strategy requires a readily available financing mechanism in order to act quickly on opportunities. In addition, acquisitions require a robust process to effectively identify, analyze and assimilate the complex components related to each deal. SoftBrands will implement an acquisitions process to ensure adherence to the acquisitions criteria, the strategic integrity of the deal, accurate valuation and effective assimilation into business functions such as product management, human resources, finance, customer support and marketing communications.

FINANCIAL FORECASTS

2005

Revenue ($'000)	
Software	3,330
Prof Ser	2,370
CSP	12,780
Other	1,548
Total Rev	**20,028**
COGS	9,900
Expenses	6,240
Total Exp	**16,140**
EBITDA	**$3,888**
EBITDA%	19%

2006

Revenue ($'000)	
Software	3,630
Prof Ser	2,670
CSP	13,080
Other	1,827
Total Rev	**21,207**
COGS	10,200
Expenses	6,621
Total Exp	**16,821**
EBITDA	**$ 4,386**
EBITDA%	21%

2007

Revenue ($'000)	
Software	4,700
Prof Ser	3,427
CSP	14,100
Other	1,737
Total Rev	**23,964**
COGS	11,100
Expenses	7,681
Total Exp	**18,781**
EBITDA	**$ 5,183**
EBITDA%	22%

Key Assumptions:

1. Growth in North America and Europe, decline in Asia-Pacific due to attrition in the Australia customer base.
2. New customers are only sold Medallion; the customer base is sold a mix of products, usually legacy, until migrated to Medallion.
3. Direct sales are used to service larger opportunities in SoftBrands' geographic locations where there is a solid infrastructure
4. Channel sales are in key geographic locations where SoftBrands does not have a strong infrastructure and to reach the independent portion of the market in complement to the direct sales force in the primary geographies.
5. Bangalore is a key area for migration of resources for support and development
6. Overall attrition in customers paying maintenance on legacy products does not accelerate significantly from historical rates prior to our being able to migrate customers to Medallion.

App D-3B

FY2006 - Projected EBITDA Analysis

(based on SB's own projections in App D-3A)

($000)	Consol	Mfg	Hosp	Corp
Revenue	77427	55400	22027	0
COGS	30070	19783	10289	(2)
Bus. Unit Direct Cost	13401	8719	4679	3
~~Shared Costs~~				
Allocation of Shared Cost				
Mktg	3219	2305	914	0
R+D	8683	5383	3300	0
G+A	14258	7842	3564	2852
+ Depreciation	0	670	474	0
EBITDA - (after allocation)	~~3595~~	12038	(246)	~~(2851)~~

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FY 2005 ~~Trailing~~ ~~12 month~~ Revenue, Costs + EBITDA Analysis pg 1

($000)	CONSOL	MFG	HOSP	CORP
+ Revenues	70,781	50,597	20,184	0
− COGS	31 537	19,896	11,641	0
− BU Direct Exp (~~Sales+Mktg~~) Sales, Mktg, R+D, G+A	14 283	10 552	3461	270
− Shared MKT - assgnd	2495	217	1	2277
- alloc		1628	649	(2277)
− R+D - assigned	7239	4480	2759	0
- alloc				
− Shared G+A - assgnd	13761	875	150	12736
- alloc		7005	3184	(10189)
+ Shared other inc - assgnd	602	279	8	315
- alloc				
− Shared other exp - assgnd	0	8	583	(591)
- alloc		(8)	(583)	591
− Total non-direct expense	22893	13926	6735	2232
EBIT	2068	6223	(1653)	(2502)
+ Depreciation <Shared G+A>	1312	670	474	168
+ Amortization <License COGS>	3848	3275	573	
EBITDA	7228	10168	(606)	(2334)

DO NOT TYPE

BU Direct -				
Sales	7724	5674	2050	0
Mktg	807	333 ~~157~~	157	317
R+D	989	1144	(155)	0
G+A	~~3~~4763	3401	1409	(47)
	14283	10552	3461	270

Allocation of Corporate Costs - FY2005

	Corp Costs	Mfg	Hosp	Remaining Corp ~~Control~~
Shared MKtg	2277	1628	649	0
				0
Shared G+A -				
FIN	5838			
HR	1122			
MIS	1210			
Facilities	673			
Exec + other	2635			
SOX	1258			
Total G+A	12 736	7005	3184	2547
+ Other Income	315	0	0	315
- Other Expense	(591)	(8)	(583)	0
Total alloc non direct B.U costs	14377	8826	3328	2223
Assigned non-direct B.U. costs				
FIN		298	72	
HR		29	13	
MIS		12	9	
Fac		497	36	
Exec + other		39	20	
SOX		0	0	
Total assigned non-direct BU costs	12 736	875	150	