LEGEND

ID (Respondent Identification)

1 = Jeanine Gordon
2 = Jason Moore
3 = Terje Hidle
4 = Jeff Metter
5 = Pete Davies
6 = Kostas Marinakis
7 = Claudio Grisso
8 = Dave McCallum
9 = Antonio Garcia Lose
10 = Roy Harrow
11 = Elo Simonsen
12 = Jan Eric Louwerens
13 = Oliver Schneiter
14 = Simon Taisbak
15 = Neil Ready
16 = Alfons Vilbusch
17 = Minhaz Peerbhal

Prio. (Account Priority)
1 = Low
2 = Medium
3 = High

Stat. (Account Status)
1 = Green
2 = Red

Co. (Company Code)

1 = Access International
2 = AXA Sun Life
3 = Banca Carige
4 = BCI
5 = Credit Suisse
6 = DIMA
7 = Fiducia
8 = Friends Provident Life
9 = LBS
10 = Legal & General
11 = Lloyds TSB
12 = NBG
13 = Postgirot
14 = Rabo Bank
15 = RSA
16 = RSI
17 = Schwab
18 = Scottish Equitable
19 = SDC
20 = Standard Life
21 = Telenor
22 = TKP
23 = Unibank
24 = Woolwich

Q# (Questionnaire Item Number)

(Questionnaire Sub-item Number)

Please send the following items to Ted Venema and Paul Rampel with a cover note saying that these are from the survey and if they have any questions they should talk directly to me:

1. Your summary report

2. The verbatims in sequence by black and red and then in company sequence as you sent it to me along with the codes as to the id# and company name

3. The spread sheet showing the individual answers to each of the questions

4. The final questionnaire as used

The email addresses are:

prampel@level8.com
tvenema@level8.com

Please send me your invoice.

Burt Grad 6/28

Subj: **RE: Survey summary**
Date: 06/25/2001 10:49:04 AM Eastern Daylight Time
From: Talmor.Margalit@dic.co.il (Talmor Margalit)
To: Burtgrad@aol.com

Burt,
Please send Specific's report to Paul and Ted.

Best Regards,

Talmor Margalit
Vice President
Discount Investment Corporation Ltd
Tel.:   +972-3-6075888
Fax   +972-3-6075899
Mobile +972-58-785555
Email   talmorm@dic.co.il
Web site   www.dic.co.il

-----Original Message-----
From: Burtgrad@aol.com [mailto:Burtgrad@aol.com]
Sent: Monday, 25 June, 2001 14:12
To: Talmor Margalit
Subject: Re: Survey summary

Some of the customers are quite significant. To determine the timing
would
require follow-up questioning. This should be done by the Level 8
representatives fairly soon, so I agree that the report should be given
to
Venema and Rampel by Specifics. I can arrange this if you tell me to do
so.

The other reports that we will get shortly will give us a lot more
information for each of the customers.

The information received so far does not change Sid's or my opinion
regarding
the viability of proceeding with the acquisition, but it does further
emphasize that rapid timing is necessary and that some actions should be

taken right away by Level 8 without waiting for completion of the
acqisition
process.

Burt Grad 6/25

----------------------- Headers ----------------------------------
Return-Path: <Talmor.Margalit@dic.co.il>
Received: from rly-xd03.mx.aol.com (rly-xd03.mail.aol.com [172.20.105.168]) by air-xd04.mail.aol.com
(v78_r3.8) with ESMTP; Mon, 25 Jun 2001 10:49:04 -0400
Received: from mail.idb-hq.co.il ([194.90.191.210]) by rly-xd03.mx.aol.com (v79.20) with ESMTP id
MAILRELAYINXD35-0625104858; Mon, 25 Jun 2001 10:48:58 -0400
Received: from taex1.idb-hq (unverified) by mail.idb-hq.co.il
(Content Technologies SMTPRS 4.2.1) with ESMTP id <T545d18a842c25abfd20d1@mail.idb-hq.co.il> for
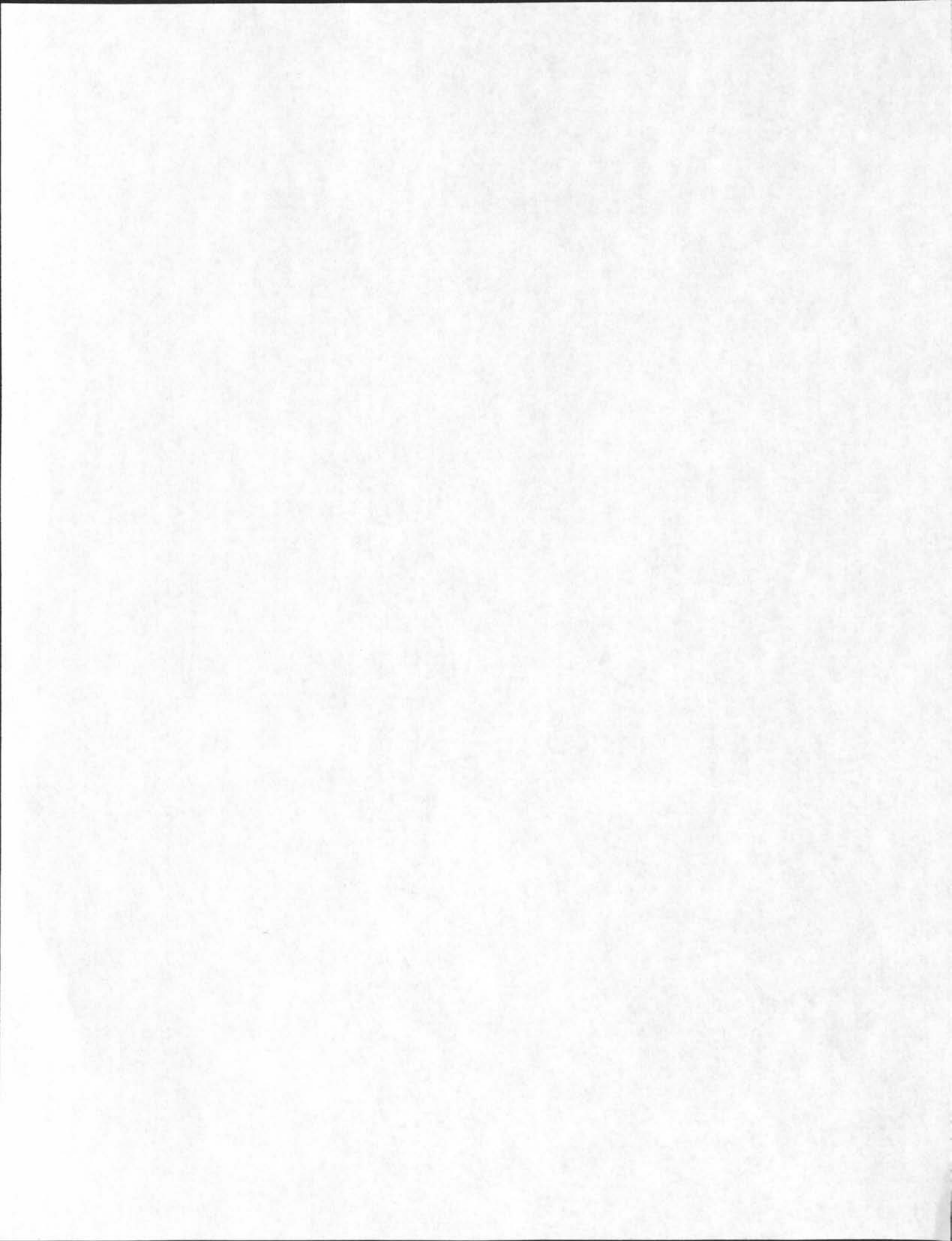
Subj:	**Supplement 1 to Preliminary Legal Due Diligence Report of Rabinowitz & Kerson LLP dated June 20, 2001: Additional Charges for Upgrades**
Date:	06/22/2001 10:13:37 AM Eastern Daylight Time
From:	*e.kerson@worldnet.att.net (Edward Kerson)*
To:	*akilnam@attglobal.net, talmorm@hotmail.com, talmorm@dic.co.il, lenny_r@netvision.net.il, reneef@contradopartners.com, burtgrad@aol.com, kgoodheart@kpmg.com*

On the question of whether HPS can charge separately for upgrades, the short answer is yes. The standard form of agreement provides that, "Upgrades are provided for no additional charge, where the Customer is paying for mainenance." However, "Upgrades do not include new products which provide significant new features and functions not provided in the current product line, which port existing Products to new harware or software platforms, which provide significant new functionality on new hardware or software platforms, or which Level 8 designates with a new product number (e.g., EREP-TSO)."

Please call, if you have additional questions

------------------------ Headers ----------------------------------
Return-Path: <e.kerson@worldnet.att.net>
Received: from rly-zd01.mx.aol.com (rly-zd01.mail.aol.com [172.31.33.225]) by air-zd01.mail.aol.com
(v78_r3.8) with ESMTP; Fri, 22 Jun 2001 10:13:37 -0400
Received: from mtiwmhc21.worldnet.att.net (mtiwmhc21.worldnet.att.net [204.127.131.46]) by rly-
zd01.mx.aol.com (v79.22) with ESMTP id MAILRELAYINZD17-0622101334; Fri, 22 Jun 2001 10:13:34 -0400
Received: from ewk ([12.88.97.81]) by mtiwmhc21.worldnet.att.net
        (InterMail vM.4.01.03.16 201-229-121-116-20010115) with SMTP
        id <20010622141333.IPTS3208.mtiwmhc21.worldnet.att.net@ewk>;
        Fri, 22 Jun 2001 14:13:33 +0000
Message-ID: <000901c0fb25$703299e0$bf4ffea9@ewk>
From: "Edward Kerson" <e.kerson@worldnet.att.net>
To: <akilnam@attglobal.net>, <talmorm@hotmail.com>, <talmorm@dic.co.il>,
        <lenny_r@netvision.net.il>, <reneef@contradopartners.com>,
        <burtgrad@aol.com>, <kgoodheart@kpmg.com>
Subject: Supplement 1 to Preliminary Legal Due Diligence Report of Rabinowitz & Kerson LLP dated June
20, 2001: Additional Charges for Upgrades
Date: Fri, 22 Jun 2001 10:12:51 -0400
MIME-Version: 1.0
Content-Type: text/plain;
    charset="iso-8859-1"
Content-Transfer-Encoding: 7bit
X-Priority: 3
X-MSMail-Priority: Normal
X-Mailer: Microsoft Outlook Express 5.00.2615.200
X-MimeOLE: Produced By Microsoft MimeOLE V5.00.2615.200

Subj:	**RE: Dunayer's Tech report**
Date:	06/17/2001 9:15:50 AM Eastern Daylight Time
From:	*Talmor.Margalit@dic.co.il (Talmor Margalit)*
To:	*Burtgrad@aol.com*

Burt,
Can either you or Sid try to quantify the cost of improving the
practices in AppBuilder (QA, adherence to defined standards etc)? My
objective is to have a realistic cost estimates going forward, assuming
we want to correct some of the inefficiencies. This may affect the
financial projections.

Best Regards,

Talmor Margalit
Vice President
Discount Investment Corporation Ltd
Tel.:   +972-3-6075888
Fax   +972-3-6075899
Mobile   +972-58-785555
Email   talmorm@dic.co.il
Web site   www.dic.co.il

-----Original Message-----
From: Burtgrad@aol.com [mailto:Burtgrad@aol.com]
Sent: Friday, 15 June, 2001 17:20
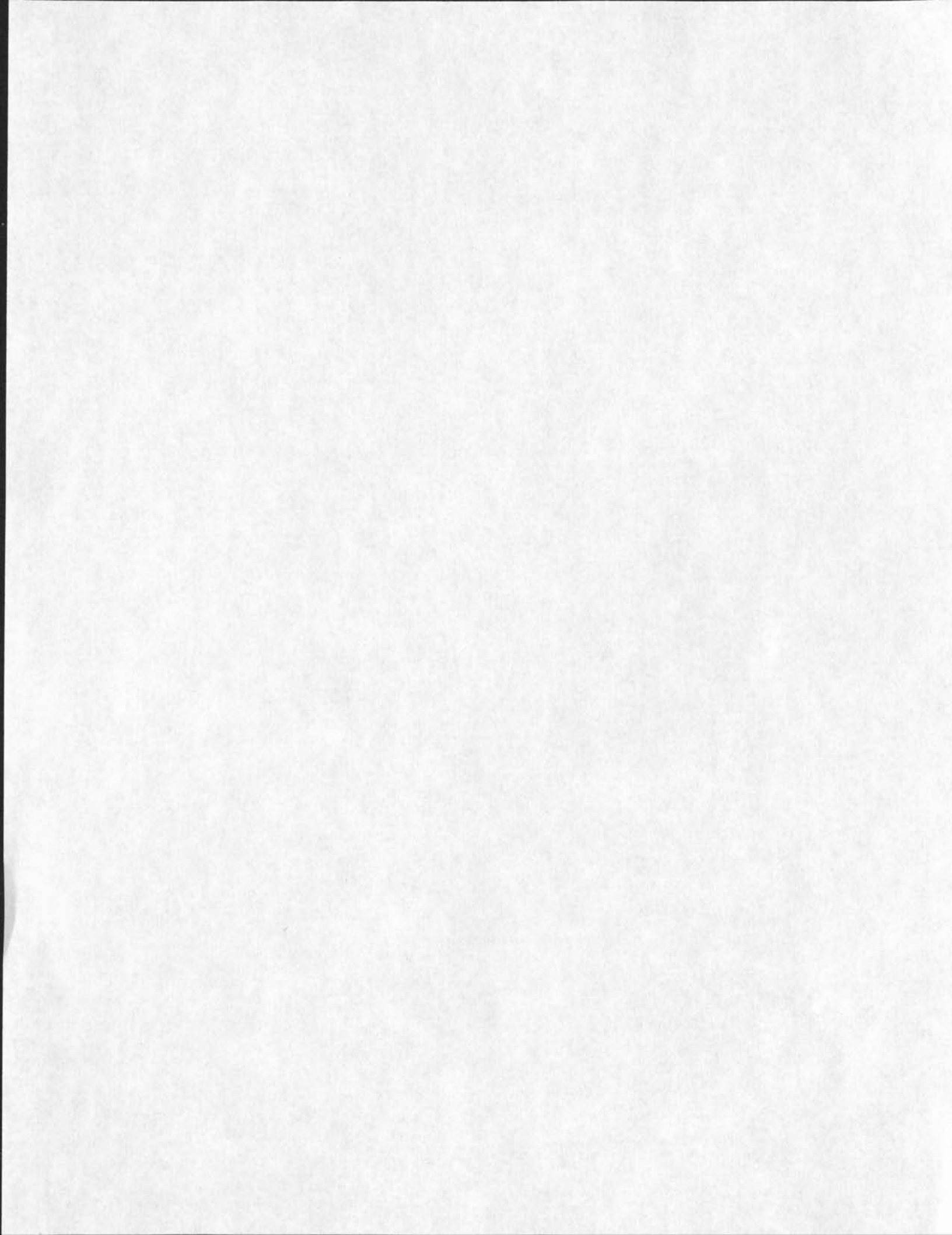To: Talmor Margalit; lenny_r@netvision.net.il
Subject: Dunayer's Tech report

Here's Sid's report. It will be included as an Appendix in my report.

Burt Grad 6/15

[Handwritten notes in right margin:]
4 devel for new projects
4 QA, doc, tuning
= ceo, VP-Sales, etc
= G+A - 13 (now 5?)
= 3 prof services
= 3 sales
24 addl

------------------------ Headers ---------------------------------
Return-Path: <Talmor.Margalit@dic.co.il>
Received: from rly-xc02.mx.aol.com (rly-xc02.mail.aol.com [172.20.105.135]) by air-xc02.mail.aol.com
(v78_r3.8) with ESMTP; Sun, 17 Jun 2001 09:15:50 -0400
Received: from mail.idb-hq.co.il ([194.90.191.210]) by rly-xc02.mx.aol.com (v78_r3.8) with ESMTP; Sun, 17
Jun 2001 09:15:40 -0400
Received: from taex1.idb-hq (unverified) by mail.idb-hq.co.il
(Content Technologies SMTPRS 4.2.1) with ESMTP id <T5433906e29c25abfd20d1@mail.idb-hq.co.il> for
<Burtgrad@aol.com>;
Sun, 17 Jun 2001 16:12:36 +0200
content-class: urn:content-classes:message
Subject: RE: Dunayer's Tech report
MIME-Version: 1.0
Content-Type: text/plain;
    charset="ISO-8859-1"
Content-Transfer-Encoding: quoted-printable
Date: Sun, 17 Jun 2001 16:13:28 +0300
X-MimeOLE: Produced By Microsoft Exchange V6.0.4418.65
Message-ID: <C0ED3A5A1941E042911B5B8CD425318C0C27F5@taex1.idb-hq>
X-MS-Has-Attach:
X-MS-TNEF-Correlator:
Thread-Topic: Dunayer's Tech report

Not Now (NO) ⊕ Rampel — XFPC et al clearance

- Reconati — agreement, check
  ✓ Avik
  ✓ Survey content, timing

- Talmov — ✓ Survey
  ✓ Questions

- Venema — for questions / ✓ Questionnaire
  ✓ Customer priorities
  ✓ " contact list

✓ - Reinghant — customers, sales, prof services, mant

✓ - Rossman — " " " "

- Brodewick — Financial

- Blumberg < Questionnaire Contact list > Updates, report
  (Steve Hale) 270-391-0013 x226

✓ - Dumoyer

- Knowlton

✓ - Index mails received

- List mails due

✓ - Go over check list for A-E + F-G

- Draft report

- Financial Calculations

- Final Report

<u>check list for 6/7</u>

TV
Talmor M 〉 1. Survey Questionaire and customer list/contact names

TV, LK,   2. Strategic Planning meeting
EG, SD, BG

FW   3. Customer Service/Maintenance   11-12³⁰

LR   4. Get signed contract + check

LK   5. Overall Devel review: QA, Doc + Trng, Russian Progs

JB/PR   6. XJPC/GMQ/GIB/CTRC ?
                   SD-LK   tech/devel
            (phone) - TV   business

+TV + Eov   7.   mktg/sales

TV + Eov   8.   Prof Services   .

(LK)   9.   Internal use licensed software
                  Other Internal use software

~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

11-¹·³⁰   Fred Wood

12³⁰ - 1¹⁵   fid.

2⁰⁰ - TV -- ✓ Q   ✓
            M + S (Pricing)
            P.S.

3⁰⁰ - LK - QA, Doc/Trng

<u>Schedule</u>

949-212-9608 (c)
732-223-3325 (H)
919-380-5320 (O)
email JBrodovich @ level8. com

1³⁰ 6/6   <u>John Brodovich</u> - Fin + Admin

covel beoutville   Corp legal (may be eliminated) private corp
Susan Markle - part operational legal (1 attorney)
✓   Corp Finance (not needed)   Payroll (ADP)
Hoeg Rowe + $ operational acctg (controller + AP, AR & GL)
✓   HR - 1 Europe, 1 US
✓   Admin — 1 US, 1 Europe
✓   Facilities - 1 US   (1 floor) 15k - 20k sq ft.
2 (Lance) - IT - internal + outsource web communication
13

4³⁰ 7 - 6/6   <u>Ted Venema</u> - MKtg

MKtg / communication
sales - (back up, Wetzel, Rossman)
Prof Services (back up Wetzel, Rossman)
Quest / Survey / Customers

9⁰⁰ - 10⁴⁰ 6/7   <u>Strategic Plans</u> - of Gentry, Ted, Lance, Sid, BB.

2¹⁵ 6/6   <u>Lance Knowlton</u> - (5060)   [MKtg Request / Engrg Analysis]
QA -
✓ Devel -
Doc + Tung.
Computer Facilities

[Russian programmers]

1³⁰ - 6/7   <u>Messaging Products</u> - <u>Ted Venema</u> +

11⁰⁰ - 12³⁰ 6/7   <u>Fred Wood</u> - Customer Service + Supt incl Uxbridge

George. George Dumitrescu ?

license software for internal use
acctg
Customer Service
network

<u>Subjects to cover</u>

- Current customers - Users
                    - Intermediaries
  status, plans, revenues 2000, proj 2001,
  requirements, problems

(TV + Eur)

- Prospective customers - users
                        - Intermediaries

- Competition for current and planned products

- Product description

- technical
  Maintenance

- new development

TV   · Professional Services

FW   · Customer Service + Support
JB ✓ · Admin, finance, HR, IT, ~~operations~~ facilities

→ org chart - Covey + Non-US Sales/MKT/Serv/prof service

JB   Financial -
              2000 for geog, product, type of revenue
(acct g)   + customer for HIS/Messaging prod + CTRC

      Sales Pipeline - 6/5/01 (add'l prod rev only)

      ⟨prof services would be slow rampup⟩

      2.0.2 detailed plan
[meeting on 6/7   ⟩ 3.0 - verbal from
with Sid, Ted,
Lance, Ed + Brent]
      Review Assumptions with Ted Venema

LEVEL 8
eBusiness
Integration
Software

Lance Knowlton
Vice President,
Research and Development
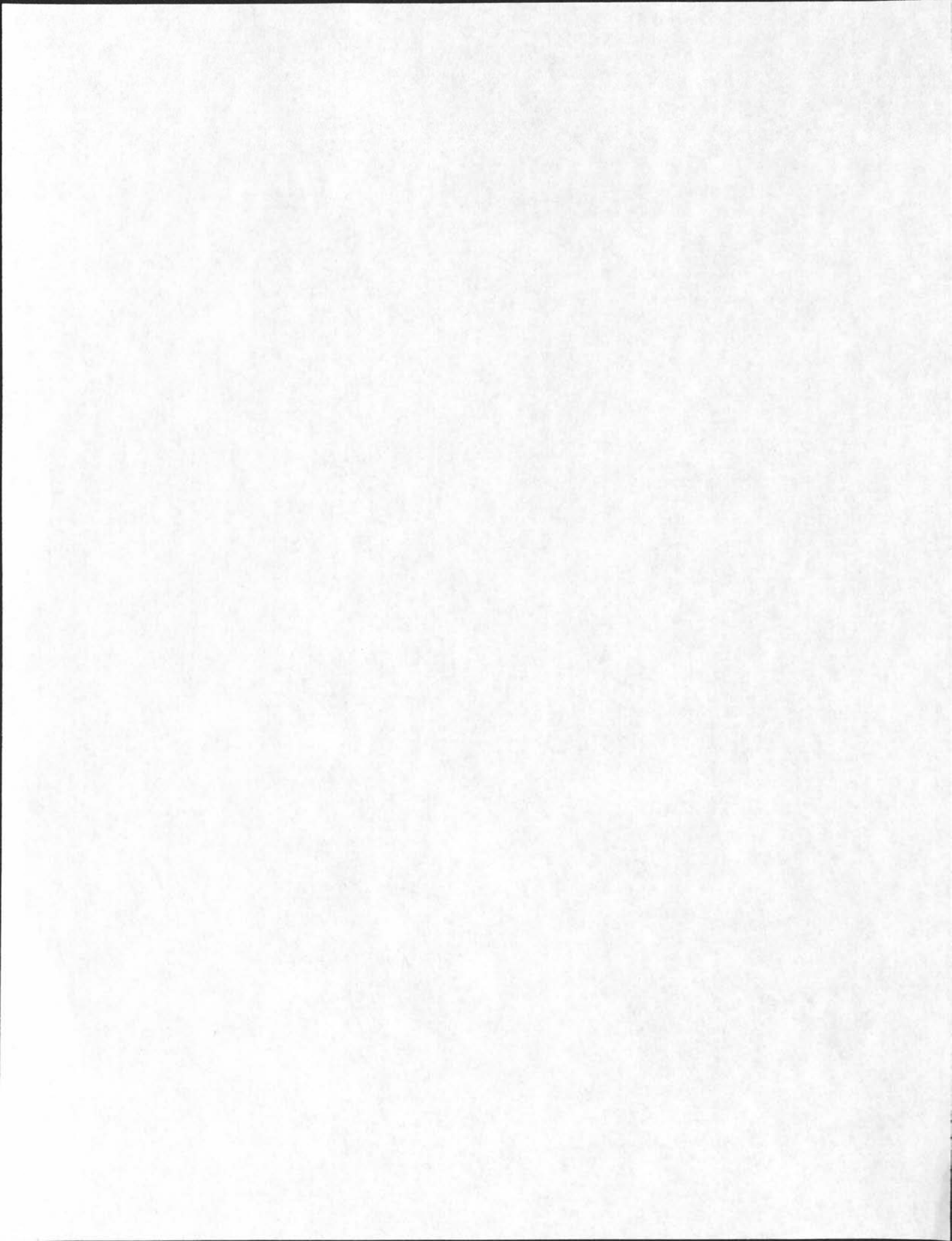
ph: (919) 380-5060
fax: (919) 469-1910
cell: (919) 244-7201
Email: Lance.Knowlton@level8.com

Level 8 Systems, Inc.
8000 Regency Parkway
Cary, NC 27511
www.level8.com

Subj: **DD Summary Meeting & Level 8 negotiation**
Date: 06/18/2001 7:10:12 AM Eastern Daylight Time
From: Talmor.Margalit@dic.co.il (Talmor Margalit)
To: burtgrad@aol.com, ekerson@rkny.com, kgoodheart@kpmg.com, reneef@contradopartners.com (Renee Fulk (E-mail))
CC: Lenny.Recanati@dic.co.il (Lenny Recanati), akilnam@attglobal.net (=?windows-1255?B? 4Pjp9yD36ezu7yAoRS1tYWIsKQ==?=)

All,
We shall all meet this Thursday, June 21st, 9:00 AM (EST) to conclude the DD effort. The meeting will be held at the New York Palace Hotel (same place as the Kickoff meeting). Expected duration – 3 hours. Burt will join by telephone. The main objective of the meeting is to set a comprehensive and coherent picture of the transaction, including issues for negotiation and financial projections.
Proposed agenda:
* Presentation of findings and recommendations by each of the parties that participated in the DD.
* Discussion and summary – preparing for the negotiation on the terms of the transaction.

Ed, Renee, Lenny, Arik and myself will participate in the meeting with Level 8 (Paul, John, Dennis) at 1:00 PM the same day. Location to be defined.

Please confirm attendance.

Please feel free contact me for any request or comment you may have.

Best Regards,

Talmor Margalit
Vice President
Discount Investment Corporation Ltd
Tel.:   +972-3-6075888
Fax   +972-3-6075899
Mobile +972-58-785555
Email   talmorm@dic.co.il
Web site   www.dic.co.il

---------------------- Headers ---------------------------------
Return-Path: <Talmor.Margalit@dic.co.il>
Received: from rly-za05.mx.aol.com (rly-za05.mail.aol.com [172.31.36.101]) by air-za03.mail.aol.com (v78_r3.8) with ESMTP; Mon, 18 Jun 2001 07:10:12 -0400
Received: from mail.idb-hq.co.il ([194.90.191.210]) by rly-za05.mx.aol.com (v78_r3.8) with ESMTP; Mon, 18 Jun 2001 07:09:52 -0400
Received: from taex1.idb-hq (unverified) by mail.idb-hq.co.il
(Content Technologies SMTPRS 4.2.1) with ESMTP id <T54384328d8c25abfd20d1@mail.idb-hq.co.il>;
Mon, 18 Jun 2001 14:06:18 +0200
content-class: urn:content-classes:message
Subject: DD Summary Meeting & Level 8 negotiation
MIME-Version: 1.0
Content-Type: text/plain;
    charset="windows-1255"
Content-Transfer-Encoding: quoted-printable

BGA I

Interviews completed, materials reviewed
final report submitted missing survey findings
Survey is now completed, ~~that~~ report
being prepared; have findings on
selected question (16 interviews)

Principal Conclusions: No technical reasons
not to proceed — products appear stable
and usable and capable of being
improved to meet customer req't

- Business situation has little upside
  potential as currently planned
  (questionable market for current products,
  speculative market for new products,
  many customers seeking/considering
  less restrictive alternatives)

- Business ~~cash flow has~~ revenues have little short-term
  down side risk (maint of $11M for 3 years,
  services of $6M for 3 years, product avg
  licenses of $3M for 3 years, total $20M)

- Business cash flow of at least $5M/year
  unless mismanaged or overstaffed

personnel	~~1000~~ 1050	/mo (120 people)
net travel	50	
Premises	] 150	
Commun	] ~~200~~	
Equip	]	
revenue	1700 K ~~1700~~	
cash flow	$50 K	

- Visible change in support/sales of
  product: deliver specific customer
  requests in a timely manner 1Q02,
  3Q02 (try to get pre-orders for
  features like Open Cobol, Repository, etc.

- Organization: CEO, VP-sales, etc,
  Devel, maint/support, Admin/Acctg

Due Diligence Review Meeting   6/21/01

Lenny, Renee, Talmor, Avik, Ed Kerson,
Ken Goodheart, Burt Snad

Ken Goodheart - Financials -
    Foreign office info ltd -
    wanted more historical info on
        allocations, expenses, liabilities
    decline in revenue (40M-99, 34M-00, 21M-01)
        dependent on 3.0: when + how significant
        in mkt
    questions on projections for 02 + beyond
    maint renewals look at viva
    JCT agreement -- should it be cancelled -
        hasn't been paid ($1M)
    Receivables are OK

Ed Kerson - Legal
    agreements - straightforward - should be reviewed
    Cary lease - 2M liability - only need 1/3 of space
    oem agreements - should be reviewed
(BG) → IBM charging on computer size ...
  ? → Software licenses - 3rd party
        BSA questions on whether LE is paying
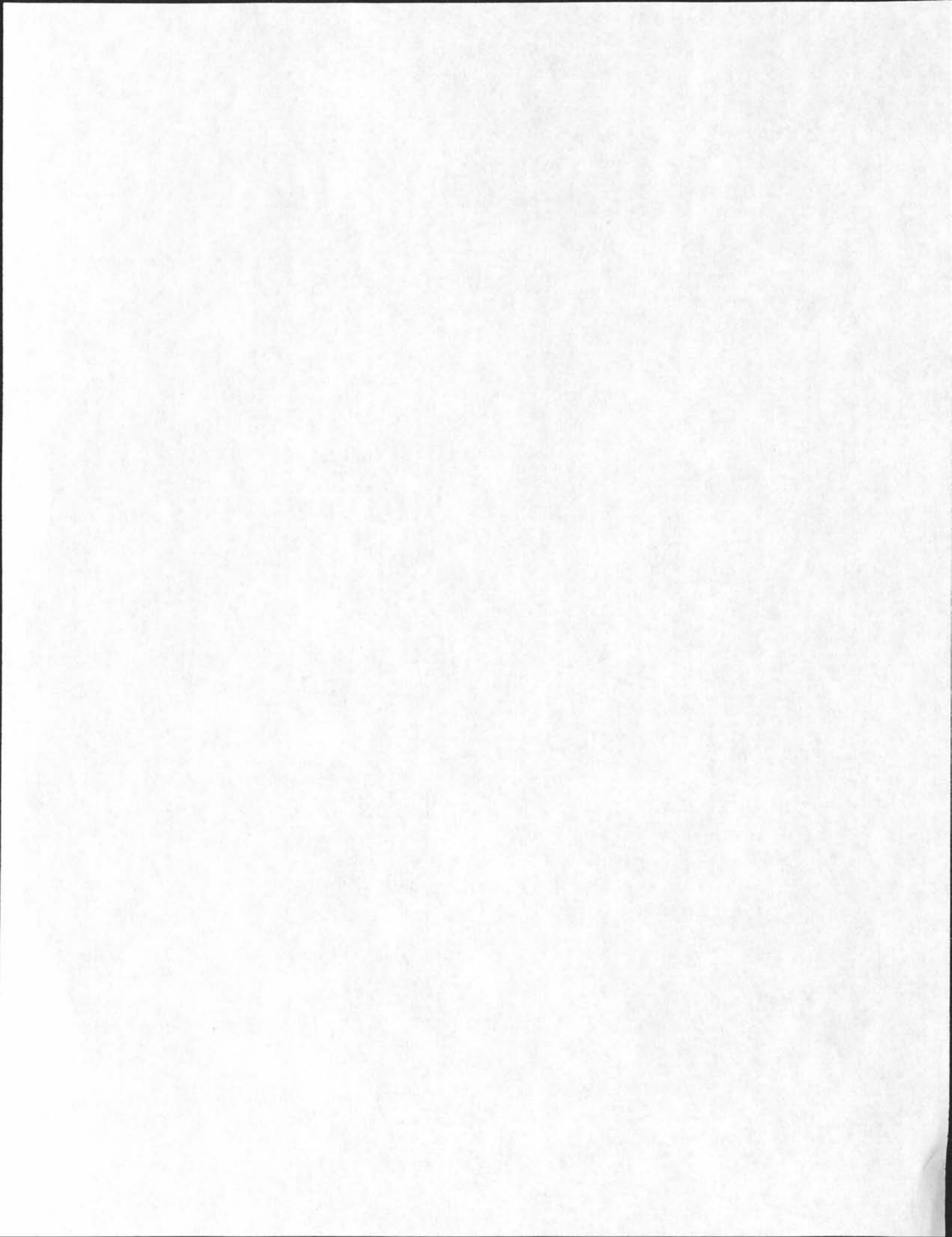   transfer of HPS licenses to new co.
    Litigation -
    Intellectual Property

Burt Snad -
    email or hand copy to Sofitel (Noon)

Subj:	**RE: update on due diligence**
Date:	06/17/2001 8:16:02 AM Eastern Daylight Time
From:	*Talmor.Margalit@dic.co.il (Talmor Margalit)*
To:	*Burtgrad@aol.com*
CC:	*lenny_r@netvision.net.il*

Burt,
Thanks for the update.
* Please mail me Sid's report from 1998.
* Your private comments are welcome.
* We will certainly need a CEO and possibly other executives - any constructive suggestions and assistance are welcome.
* You can feel free to mail copies of your findings to Arik. I will forward to others upon request and need. I mailed Ted's updated customer list to Renee for crosscheck against what she has.

Best Regards,

Talmor Margalit
Vice President
Discount Investment Corporation Ltd
Tel.: +972-3-6075888
Fax +972-3-6075899
Mobile +972-58-785555
Email talmorm@dic.co.il
Web site www.dic.co.il

-----Original Message-----
From: Burtgrad@aol.com [mailto:Burtgrad@aol.com]
Sent: Friday, 15 June, 2001 16:02
To: Talmor Margalit; lenny_r@netvision.net.il
Subject: update on due diligence

I'm planning to send you a preliminary due diligence report on 6/16. This
will have the principal findings and conclusions from the technical and business study. It will not reflect any information from the survey and will
not have the detailed financial projections.

I am separately forwarding Sid Dunayer's technical due diligence report. If
you have copies of the 7/98 report that we did for Liraz that would also be
useful. If not, let me know and I can either fax or email a copy of Sid's
technical report and any other material from the report that I feel would be
instructive.

Both Sid and I feel that we are somewhat in a time warp, since most of what
we said about HPS in 1998 is still true. The problems are about the same and
very little has been done to fix them. The technical organization is probably
not much worse except for the elimination of QA and the reduction in

call Venema

Subj:	**Materials coming**
Date:	06/09/2001 9:56:56 PM Eastern Daylight Time
From:	tvenema@level8.com (Venema, Ted)
To:	burtgrad@aol.com ('burtgrad@aol.com')

Burt

+ Competitive Analysis
? + Prof Services 2000-2001

I am still working on for you:

1) Q1 Revenue
2) Software Pipeline
3) Services Pipeline
4) An analysis of Maintenance. This seems such a hot topic that I will prepare a bit more for you.
5) List of customers for survey.

Should have most of this on Monday.

As a further thought on Open COBOL, I know you have questioned (rightly) why if so important are we not already doing it. One thing you should be aware of is that although we have talked about it for some time there has also been a fear (particularly from Bill McMurray whose opinion on sales I respect) that if we did it then it would provide the opportunity for more customers to get off since Open COBOL is the last lock-in for customers on the run time side (and virtually all our customers used the COBOL part.)

There is some truth in this. Doing open COBOL means it is easier to get off, therefore the business case to stay needs to shift from "locked in" to "value add for what is left". Since what is left is then just the development environment (no runtime anymore) I think that we would need to address:

1) Insuring that customers are positive about the commitment to the product so they would be less likely to want to leave for business perception reasons

2) improving value of "what is left" (what R3 is all about)

Thus you have an interesting scenario as follows:

1) If you do Open COBOL, but do not do 1) and 2) above, then sales might increase somewhat but maintenance is quite possibly eroded, perhaps even more than the sales.

2) If you do Open COBOL and 1) and 2) above, then sales will increase more (due to positive future perception) and maintenance will not likely erode at all.

For this reason, although we have known about Open COBOL for some time and talked about it before, we have been reluctant to do it. In this sense, Bill was right - there is a risk in Open COBOL if one does not do the other things.

This further complicates the timing issues you talked about since from a pure Level 8 perspective doing Open COBOL would not necessarily be a good idea unless they were sure that customer perception about the entire situation were changed. Funding just Open COBOL without a positive direction and strong commitment to R3 carries a risk to maintenance revenue. Hence we had historically looked at combining Open COBOL with R3 to insure that by the time we had Open COBOL we also had the R3 stuff as well. In other words, make sure we had a good story on the rest before we took the handcuffs off.

Our recent shift to considering doing Open COBOL sooner is largely driven by the fact that there are a number of customers who are indicating that we have to do it for them now, that if we don't they will leave anyway, albeit over time. My fear is that if we wait for the until R3 then they will be too far down the road of

leaving to turn back. Maybe another reason to also speed up R3.

Ted

----------------------- Headers ----------------------------------
Return-Path: <tvenema@level8.com>
Received: from rly-zc04.mx.aol.com (rly-zc04.mail.aol.com [172.31.33.4]) by air-zc03.mail.aol.com
(v78_r3.8) with ESMTP; Sat, 09 Jun 2001 21:56:56 -0400
Received: from corpmail.level8.com ([207.124.41.30]) by rly-zc04.mx.aol.com (v78_r3.8) with ESMTP; Sat,
09 Jun 2001 21:56:35 -0400
Received: by corpmail.level8.com with Internet Mail Service (5.5.2650.21)
    id <MKXK57H2>; Sat, 9 Jun 2001 21:56:47 -0400
Message-ID: <3FA69CA63AC8D3119C15009027E793D101A0DD77@corpmail.level8.com>
From: "Venema, Ted" <tvenema@level8.com>
To: "'burtgrad@aol.com'" <burtgrad@aol.com>
Subject: Materials coming
Date: Sat, 9 Jun 2001 21:56:43 -0400
MIME-Version: 1.0
X-Mailer: Internet Mail Service (5.5.2650.21)
Content-Type: multipart/alternative;
    boundary="----_=_NextPart_001_01C0F150.9AEAB688"

Information Request List

A. General

1. Organization chart and staffing levels
2. Business strategy and operation plans
3. Profiles of senior managers

B. Sales

1. Revenue and unit history by product line, geographic territory and types of revenue
2. Mix of new sales, maintenance, add-ons, upgrades and services
3. Backlog and current pipeline
4. Pricing and discount plans
5. Win/loss records and analyses

C. Marketing

1. Major customer analysis with revenues for 2000 and 1Q2001
2. Resellers, alliances and partnerships
3. Product and service descriptions
4. Principal competitors

D. Customer Service and Support

1. Outstanding customer problems
2. Past year history of problems and time to resolve
3. Statistics and reports on product reliability and support requirements
4. Any customer satisfaction surveys or data
5. Customer base with historic growth and erosion

E. Professional Services

1. Customer requirements for professional services
2. Past year history of professional services activity (customers, activities, revenues, direct costs).
3. Pipeline for professional services

F.   <u>**Development: Current Products; New Products**</u>

1. Organization and training of development people
2. Development methodology
3. Scheduled enhancements/customer commitments
4. Current maintenance activities
5. Current development projects
6. Testing and quality assurance procedures
7. Effort and cost records for development
8. Product release and update procedures
9. Installation procedures and customer training materials
10. Availability and procedures for international usability and service
11. Use of third party developers
12. Detailed review of schedule and progress for new product releases

G.   <u>**Technical Review: Current Products; New Products**</u>

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

5437.PRO

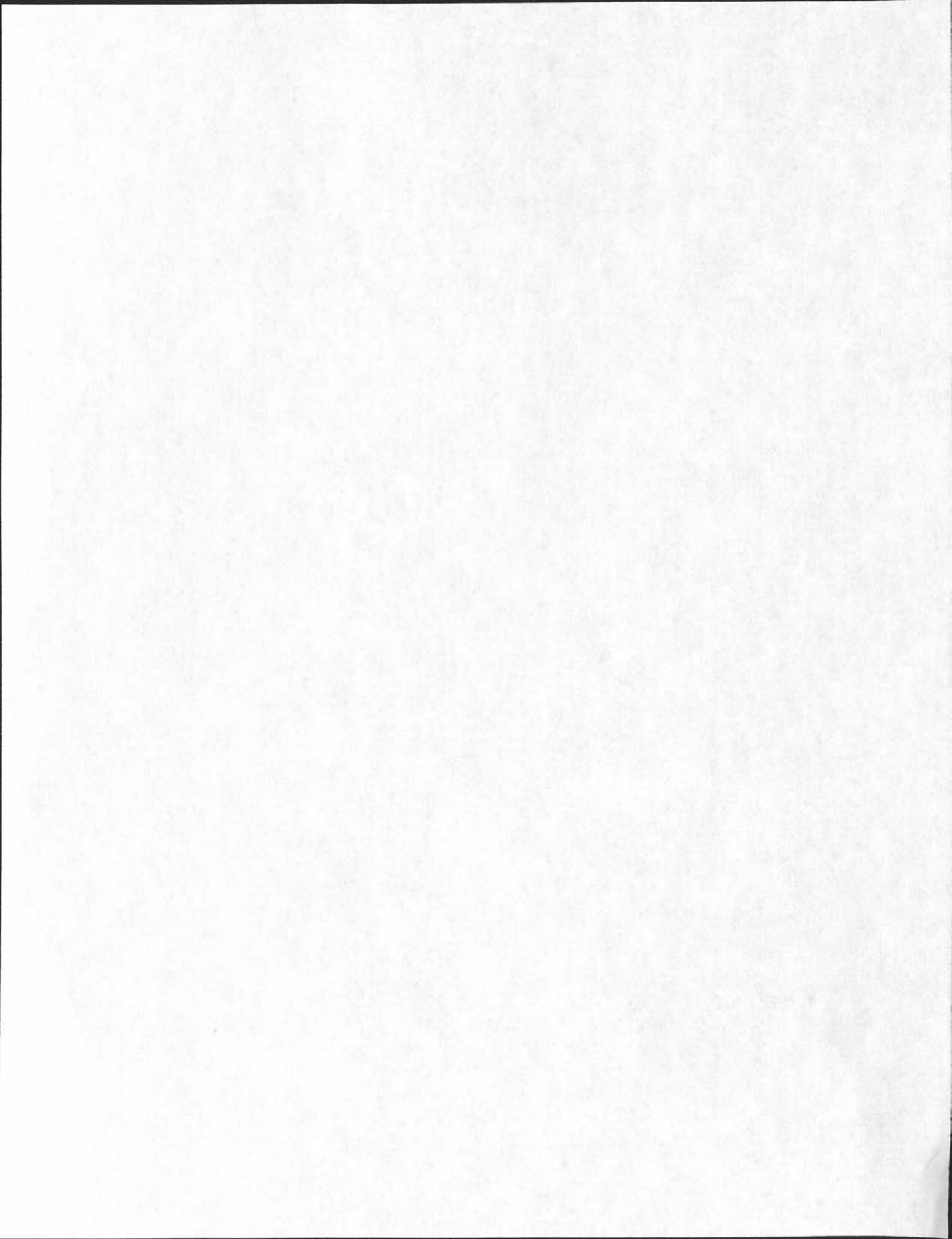| Subj:	**Consulting Pipeline**
Date:	06/15/2001 11:34:06 PM Eastern Daylight Time
From:	*tvenema@level8.com (Venema, Ted)*
To:	*burtgrad@aol.com (Burt Grad (E-mail))*

Burt

I have gotten information together on the consulting pipeline, however it is not right and to correct it I need to get in touch with the people in Europe.

Will try and get to you first thing Monday.

Ted

----------------------- Headers -----------------------------------
Return-Path: <tvenema@level8.com>
Received: from rly-yb04.mx.aol.com (rly-yb04.mail.aol.com [172.18.146.4]) by air-yb04.mail.aol.com
(v78_r3.8) with ESMTP; Fri, 15 Jun 2001 23:34:05 -0400
Received: from corpmail.level8.com ([207.124.41.30]) by rly-yb04.mx.aol.com (v78_r3.8) with ESMTP; Fri,
15 Jun 2001 23:33:49 -0400
Received: by corpmail.level8.com with Internet Mail Service (5.5.2650.21)
    id <M8L5BP5M>; Fri, 15 Jun 2001 23:33:57 -0400
Message-ID: <3FA69CA63AC8D3119C15009027E793D101A0DE1B@corpmail.level8.com>
From: "Venema, Ted" <tvenema@level8.com>
To: "Burt Grad (E-mail)" <burtgrad@aol.com>
Subject: Consulting Pipeline
Date: Fri, 15 Jun 2001 23:33:57 -0400
MIME-Version: 1.0
X-Mailer: Internet Mail Service (5.5.2650.21)
Content-Type: multipart/alternative;
    boundary="----_=_NextPart_001_01C0F615.2CE69E12"

Review of all Sales Situation

6/6/01

Ted Venema, Talnor Margolin

Review of HPS Customers ---

Access Int'l - CS First Boston software - real time brokerage
back office system
$10 M initial funding as startup
upgraded system
maint $100K (not on current list)
paid ($3.5 M) for products 2000
services $2M / exchange for Stack 2000
services in 2001 - $80K/mo - 6 + 3? months
Financial services
bulk of product HPS, balance
is PL/1 and COBOL
have not closed any orders
selling Systems or as ASP
35% ~~commission~~ for run time; not % on full product license
site license for Access
customers would license HPS ($250K)

✓ { copy of agreement }

→

~~IBM is partner~~ They are IBM partner;

HPS needs open COBOL to be competitive
2002 projection : $500K from 2 sales
Jeff Metter - president

Achmea (Neth) - on maintenance $42K/yr
interest in Java

Banca Carige (Italy) on maint $183K/yr
interest in Java

Banco Sao Paola (Italy) maint to ~~be~~ expire $223K/yr

Cheltenham + Gloucester not active / no applic
not renewed

{ no open att'le site license except Access + Banco Sao Paola

GODAN   no acct

COM.T - (Banco Coml Italians)   · maint $398K
new applications being
developed

Credit Suisse -   maint $1085K
new applications

CSFB   should not be on list

[15% of license/   CSC Danmark   maint $53K
  maint fee]   no new projects

Den Danske   maint $256K
may be new work

Eagle Star   discontinued

Fiducia (Germany)   maint $261K
some new devel

Friends Provident L.S. (UK)   maint $218K
active

IBM - Denmark (Coinbank Center)   abandoned   ($50K?)
Sold to Alltel

IBM - Netherlands   maint - $66K
active project

LBS - (Germany)   new customer + { maint $16K
remarketing application

Legal & General (UK)   maint $424K
interested in Java
currently staying with HPS

Lloyds (UK)   maint $492K
may upgrade

Maersk	maint 50K
Natl Bank of Greece	maint 350K
Post giraat	maint 170K may be int'd in Java
Rabo bank	maint $332K
RSI	maint $221K
San lam	—
	gone
Scottish Equitable	maint - 149K
SDC - Fin Services	20% owned by Alltel open COBOL
selesta Sistemi	
Std Life	176K
Sun Life	152K
Telecom Italia	no move
Telenor	$324K
TKP	205K
Unibank	277K

West LB

LBS – Munster

Woolwich   229K

Asia

AAPT   64k

DZMA

[double byte / questions]   IBM Japan   reseller $56 4k

IBM Korea (KEB)

·I   Royal & Sun Alliance

Americas

AAFES

ADP

AIG

Bank of Montreal

~~Citibar~~ Charles Schwab

Citibank

Consultec

update customer list –
manit list –

CNS	dead
EDS	small. may go away
Federated	gone
Key Services	probably leave in 2001
Moto Honda	Gone
Norwest	Gone
NCC (?)	
Paine Webber	Gone by 2001
Rich Enterprise Mgt	
SAAQ (Canada)	prob. moving away
Hawaii	in wait mode may be active again
Sun Trust	may be reactivated
Sikorsky	active
FA New Mexico	
Telefonica	

Subj:	**FW: Cobol & XML**
Date:	06/11/2001 9:35:23 AM Eastern Daylight Time
From:	*tvenema@level8.com (Venema, Ted)*
To:	*burtgrad@aol.com (Burt Grad (E-mail))*

FYI

Ted

-----Original Message-----
From: Venema, Ted
Sent: Monday, June 11, 2001 8:39 AM
To: 'Talmor Margalit'
Subject: RE: Cobol & XML

Yes it is interesting, and we have discussed this already since one benefit we have is a strong OS/390 COBOL knowledge including 3270.

The basic mechanism to make this work with AppBuilder will be present in version 2.0.2 with the eServices concept using SOAP/XML. We are picking SOAP to start with since SOAP naturally lends itself to accessing AppBuilder servers (including COBOL on OS/390). At the 2.0.2 level, remembering that this is a release still focused on customers, the prime purpose was to access existing AppBuilder generated COBOL on OS/390 and existing AppBuilder generated "C" on other platforms.

With R3, the goal was to open the repository. This provides the core facility to import COBOL interfaces from non-AppBuilder generated COBOL and, using the same run time mechanism already supported in 2.0.2, generate "wrappers" that could access legacy code using XML. If you remember my diagram of three columns, this was the concept behind one of the sideways arrows - the ability to incorporate code developed in the historic models and mix it with new code written using AppBuilder rules. The repository being the common denominator that controls both.

We felt there was a strong long term market in this area - mixing both the creation of new with the re-use of old in a managed fashion.

Ted

-----Original Message-----
From: Talmor Margalit [mailto:Talmor.Margalit@dic.co.il]
Sent: Monday, June 11, 2001 4:39 AM
To: tvenema@level8.com
Subject: Cobol & XML

Ted,
You may find interest in the following:

top <C:>
    IDEABYTE
© 2001 Giga Information Group
May 31, 2001
XML Meets COBOL — The Odd Couple, or a Match Made in Heaven?
Phil Murphy
Contributing Analyst: Uttam Narsu

Catalyst
Analyst collaboration

Question
How will XML impact environments with a large investment in COBOL
applications? Will the two technologies ever coexist, and what should
organizations do to prepare?

Answer
As Extensible Markup Language (XML) matures and more organizations adopt
it as a standard for defining and exchanging data, it is inevitable that
COBOL and XML will be used together to connect mainframe applications
with other corporate platforms and technologies. While opinions vary
about the predicted life of the COBOL programming language, the sheer
volume of existing COBOL code is evidence that COBOL will be with us for
some time, perhaps decades. Accordingly, COBOL programmers must
familiarize themselves with XML and its constructs in order to leverage
its power to integrate COBOL with the newer technology.

COBOL Lives On (and On)
An estimated 80 billion to 90 billion lines of COBOL source code power
the core business applications of large organizations around the world,
employing millions of programmers. New coding in COBOL will hit the 100
billion line mark later this decade [.8p]. Assuming that a COBOL
eradication effort began today, it would take at least the remainder of
the decade to replace all of the applications with another language
using highly optimistic estimating techniques.

But language replacement projects for their own sake and database
management system (DBMS) replacement for the sake of eliminating one
vendor's DBMS in favor of another are rarely funded because they
contribute little (if any) new value to the organization. They simply
replace status quo, adding little new functionality. As such, it is
completely reasonable to assume that COBOL will continue to exist as a
viable (if waning) programming language well into the next decade with
the aid of Web-enabling technology. Despite the seeming chasm between
Web and legacy technology, there are analogies between COBOL and XML
that serve to narrow the gap.

HTML and 3270 Screens
XML is a tagged meta language. Meta language means that XML can be used
to create other languages, HTML for example. A tagged language means
that XML (and HTML) use matched pairs of TAG/FIELD to describe data and
Web pages.

From a COBOL programmer's point of view, it is helpful to consider HTML
analogous to a 3270 map. The 3270 map specifies the physical position of
literals (TAGs) and data fields (FIELD). The 3270 map definition also
specifies the display attributes (Bold/normal, un/protected, etc.) of
the fields on the screen. HTML and XML set attributes using the TAGs.
Both 3270 and XML/HTML, insofar as we have described them, treat data as
display only (alphanumeric). From a tools perspective, HTML editors such
as SoftQuad's XMetal are analogous to IBM's Basic Mapping Service (BMS).

In ascending order of structure, XML may be labeled as "poorly formed,"
"well formed" and "valid" according to an XML schema.

Well-Formed XML

The term "well formed" describes XML that conforms to what COBOL programmers can think of as good/recommended programming techniques. Well-formed XML is loosely equivalent to COBOL successfully passing the warning-level and informative-level (-W and -I) messages issued by a COBOL compiler.

Well-formed XML is an XML document that conforms to all the XML syntax rules. For example, the TAGs within the language have beginning and ending syntax that should be paired and properly nested to qualify it as well-formed XML. This pairing is similar to IF/ENDIF statements in COBOL. Nesting is a familiar concept to COBOL programmers who use nested IF statements and nested paragraphs.

Poorly formed XML may still execute based on the parser's ability to ignore mismatched pairs of TAGs, similar to the way that Web browsers can sometimes understand incorrectly nested HTML and COBOL that issues –W and –I level messages. But poorly formed XML represents poor coding techniques analogous to the "spaghetti code" written in the days before the advent of structured COBOL programming techniques. So well formed applies primarily to coding style and technique, with a syntax checker to keep programmers honest.

DTDs, Valid XML and XSDL
Document type definitions (DTDs) are roughly analogous to a file definition in a copybook, giving XML a formal structure by specifying the relative order of data elements within. However, DTDs are less rigid than copybooks — an ADDRESS "field" for example can be defined as ADDRESS+, indicating that a variable (unspecified) number of address lines follows and DTDs don't support data type definitions. Valid XML essentially states that the XML conforms to the structure outlined by the DTD.
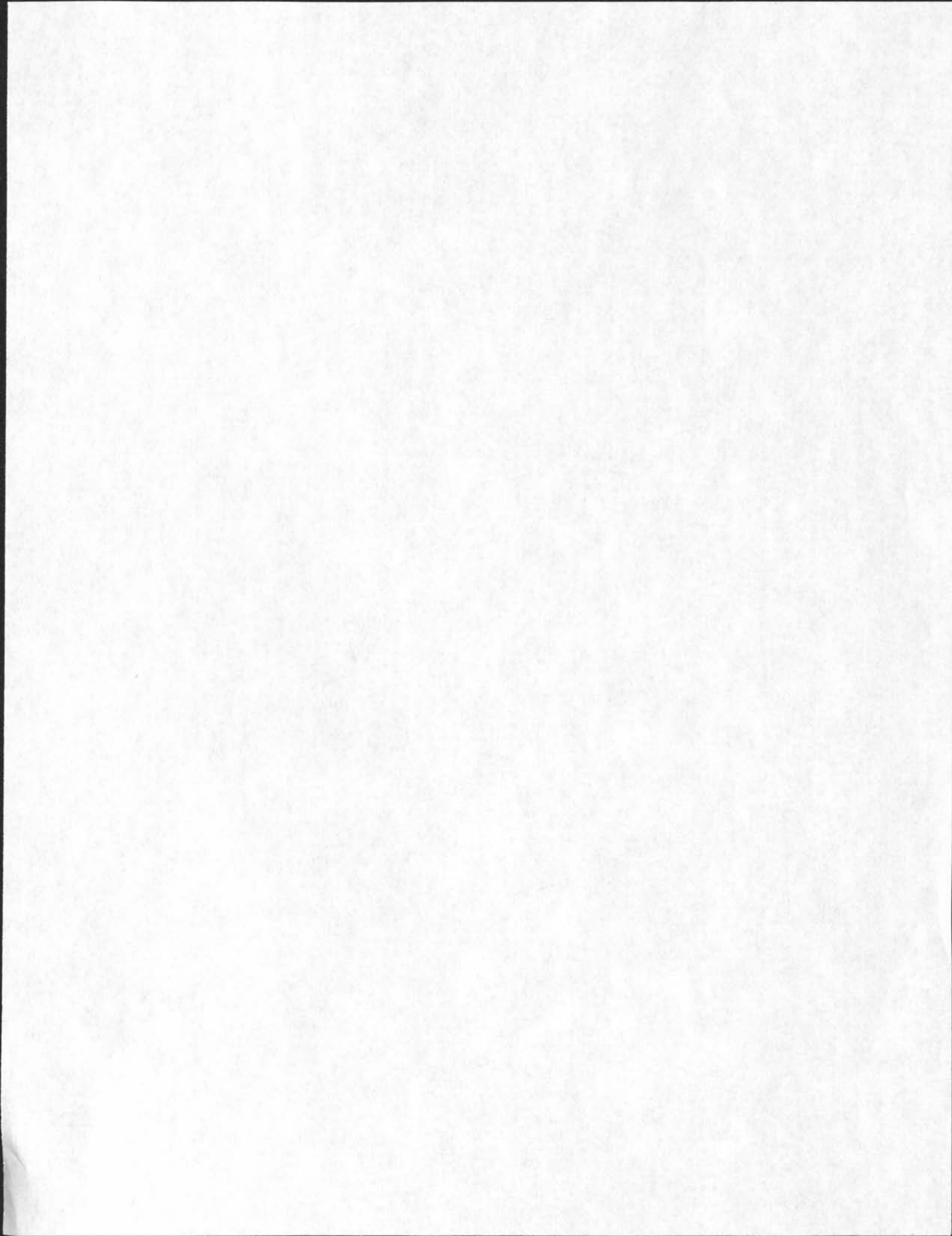
Lastly, an XML schema provides the ability to define the data more precisely than a DTD using XML Schema Definition Language (XSDL). For example, XSDL supports a full range of data type definitions, such as duration, date, string, decimal, etc., as opposed to display-oriented alphabetic and alphanumeric data fields in a DTD. XML schemas also allow a more rigid specification of data structure. Building on the DTD example above, where a DTD may specify that the ADDRESS field has a variable (unspecified) number of address lines using the ADDRESS+ notation, the XML schema takes the process one step further by specifying exactly how many ADDRESS lines should be present.

XML and COBOL are an inevitable pairing in large organizations that seek to extend their legacy business processes to other platforms, both within and outside the organization's physical walls. XML will become the de facto standard for data definition and exchange, making it crucial to the success of e-business and collaborative commerce efforts.

Best Regards,

Talmor Margalit
Vice President
Discount Investment Corporation Ltd
Tel.:   +972-3-6075888
Fax   +972-3-6075899
Mobile +972-58-785555

Lenny Recanati, Asie Kilman, Renee Falk
Talmor Margavit, Ed Kevson,

Revenue — Software
            Maintenance
            Services - Consulting
            Services -

Ted Verema-
919 380-5040

Lenee Knowlton 919-380-5060

Pipeline - for new sales - name by name
        new versions - Java (5.4.1)
          IBM - Japan
Prof Service - #, assignments, revenue
           Consultant Costs; Sales expense
Maintenance - renewals

Devel
Plan

  Java Version — 2 Beta installs ~~Releases~~ - -

  new versions   [- Open COBOL   // XML
              - VB

    workflow mgr. / connected to
                    Dulles

    List of all employees - - - (ex ongoing
           services from level 8)

non-US offices -
   { - Denmark - 100% HPS
      - Germany - mainly HPS (Frankfurt)
      - UK - large office 70% Temp.; 30% HPS
      - France - only Template
      - Italy - no interest

Costs —

retention of employees —

performance? volume of transactions
generate Java code —

investment needed for VB ? Syntax

code generator — —   positioning in
                                        mkt.

QA — (report to hence know How)

Relationships —

Telenor (full cust care / billing, Telcos) application for

prospects / technical

ICT (European start up) acquired
banking applic for Spain
(82 banks)

[NBG (Greece) —]
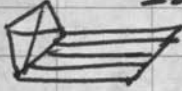
Access Intl (US) — NTPA —   Start up
                  software for back office
                  brokerage applications

CoolGen — (CA) is primary competitor

development — Russian developing on HPS

Contractors — Europe prof service

retention —
sales to existing cust
sales to new cust
sales through 3rd parties:

XJPC, GMQ — tech review

Ted Venema — · ·

La Quinta NC
Cary, NC

report copies to   Arie
                   Lenny
                   Talmor

Tue PM   4 — 5⁵³
Raleigh 5³⁰ — 7¹⁵

Dinner with
Arik + Talmor?

Stay at La Quinta

Principal Contacts:

Ted Venema — mktg, strategy
Lance Knowlton — devel/technical
              — cust service/support
              — consulting services (US)
              — consulting services (Intl)
              — sales
              — QA

LE App Bldr

Financials -

    Exec
    Sales US
    Sales Europe (UK, Denmark, Italy, Germany)
    Prof Svcs (US, Europe) (UK, Sweden/Norway,
           Netherlands, Finland, Denmark,
           Italy, Germany)
    Development (Cary R+D – GAB, Cary R+D - other)
    Maintenance (Cary First, EMEA Supt)

~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~

Devel / Technical — Sid Demayer / Lance Knowlton
    (Then, Foi at Cary) Existing, new for AB; other

Customer Satisfaction Survey — Joe Blumberg (Specific)
    Questionnaire, Customer Contacts, Cover Story

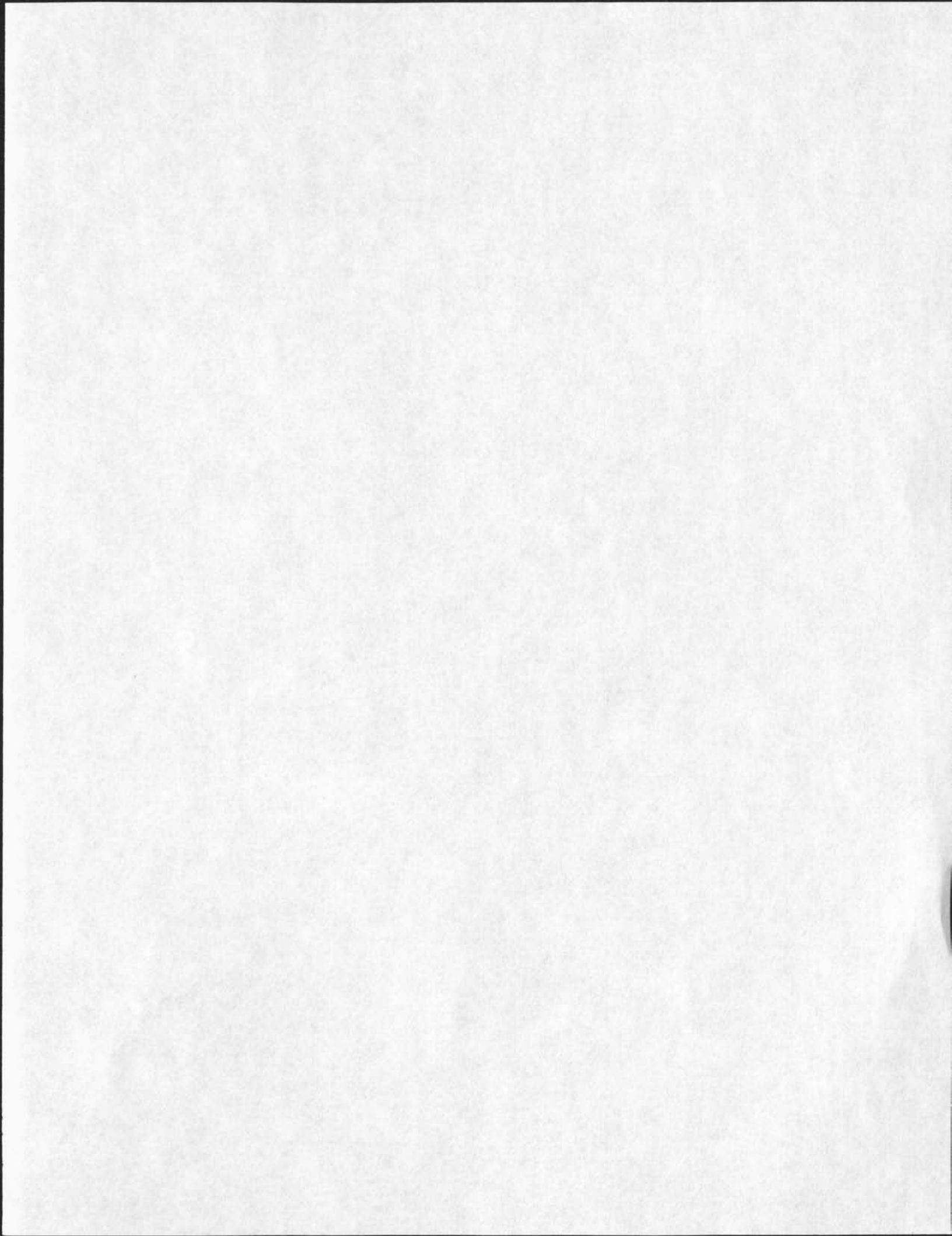|	
Mktg	
Sales	
Customer Service (Maint)	
Prof. Service	Grad
Mgt	
Strategy	
Business	

× org chart, Emp list, Salaries, contractors, rates
× Customer list - revenues by category + location (2000, thru 5/01)
× renewal status -
× product plans, business plans
× pricing structure
× competitive analysis
× market opportunity — platforms, applications, industries
× Pipeline

Subj: **RE: DRAFT DUE DILIGENCE REPORT**
Date: 06/17/2001 11:05:22 AM Eastern Daylight Time
From: Talmor.Margalit@dic.co.il (Talmor Margalit)
To: reneef@contradopartners.com (Renee Fulk)
CC: steved@contradopartners.com, akilnam@attglobal.net, lenny_r@netvision.net.il (Lenny Recanati),
Burtgrad@aol.com

Renee,
It would be very helpful if you could propose your own estimates
wherever it seems that L8's information is not in line with the facts
from our point of view (overestimating revenue and value of assets,
underestimating costs etc). it could be useful to coordinate it with
Burt's view on how the technical operation should look like.
In addition, we need a projection of balance sheet, P&L statement and
cash flow for 3-4 years, based on your interpretation of the projections
provided by the company. This will enable us to present the transaction
for approval in house.

Best Regards,

Talmor Margalit
Vice President
Discount Investment Corporation Ltd
Tel.:   +972-3-6075888
Fax   +972-3-6075899
Mobile +972-58-785555
Email   talmorm@dic.co.il
Web site   www.dic.co.il

-----Original Message-----
From: Renee Fulk [mailto:reneef@contradopartners.com]
Sent: Sunday, 17 June, 2001 05:13
To: Lenny Recanati; akilnam@attglobal.net; Talmor Margalit;
talmorm@hotmail.com
Cc: steved@contradopartners.com
Subject: DRAFT DUE DILIGENCE REPORT

Please find attached our draft due diligence report. The files are as
follows:

Word file - Executive Summary
Appendix A - Balance Sheet Analysis
Appendix B - Other Obligations Analysis
Appendix D - HR Analysis

I need to complete the forecasting analysis (Appendix C) and add the
forecasting section to the summary of findings for draft distribution on
Monday evening. Please forward any questions that you may have
regarding
these items so that we can clarify the details of the report for final
distribution to you by Wednesday morning.

Regards,
Renee

2 - QA
1 - Doc
1 - Training
—
4 additional developers.   }

realistic schedules for   maint + support
                                 may be able
                                 to be reduced

2.0 includes Websphere -

2.0.1   4Q 01

2.1   Open Cobol   1Q 02
         Base Interface

2.2.   3rd party repository   3Q 02
         VB or Java other language
         ~~Base interface?~~

Dunayov   6/11/01

Procedure Oriented —   current cust/new cust
        Open Cobol —
        Repository — Public Product
        Double Byte — Asia
    ·   Rational Rose Interface
Object Oriented (NO)

Process - Driven — separate with assessment
                (Gartner Vision)
OEM'S — driven off Procedure Oriented
        Old Application
Browser
IBM Alliance

Development —
        $ to QA ⟨ tools + people ⟩
        $ for some new level
        Are The Russians worth The $?
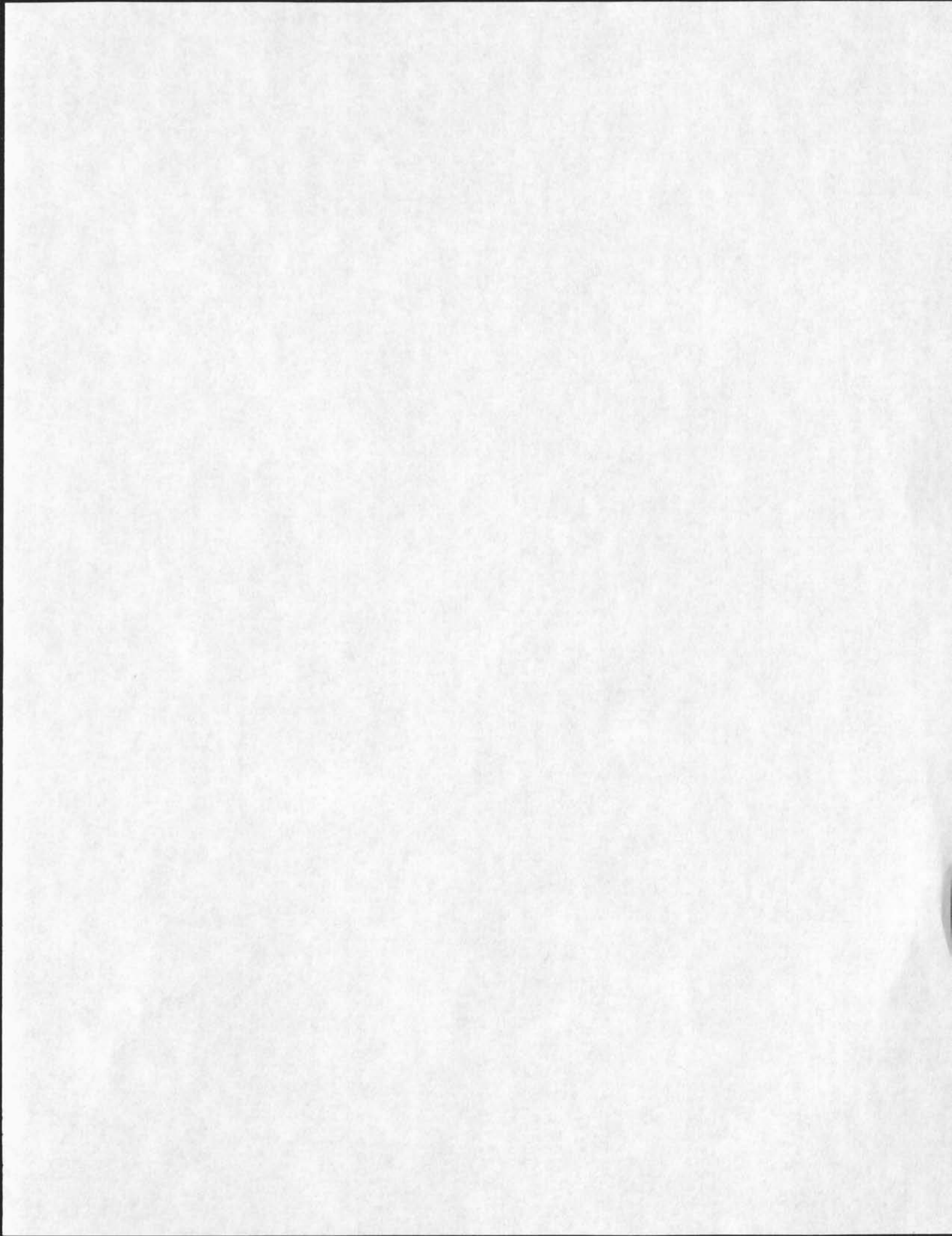   productivity + quality

Let mktg-oriented strategy based on
        Users - European input

no need to be leading-edge
        modeling
        work flow

strength is in back-end generation.

Interview Notes

Phone Interview   6/5/01
Lence Knowlton,

        App Builder -
            Development -
            Maintenance -

Fred Wood Customer Service -
            all products - Level 1 (only contact) 1.5
            not GET/BPA ⌉ level 2   4
            not cisco ⌋→ Level 3 (bug fixes)
        App Bldr -
            HF (MVS)
            NT
            AS400
            UNIX

        XIPC
        GMQ   ⌉ Fred Wood
        GIB
        cTRC (CISCO)   ⌋

        new development projects -
        (April) GA. - GAB 2.0 (Java generation on
            (all platforms)   client/server)
        (Nov) 2.0.2. remote prep for MV
                        using MQ for consumer
                            Web Services (XML, etc.)
        3.0 design -
            no specific plan for VB --

        Ed Gentry - Sr Architect
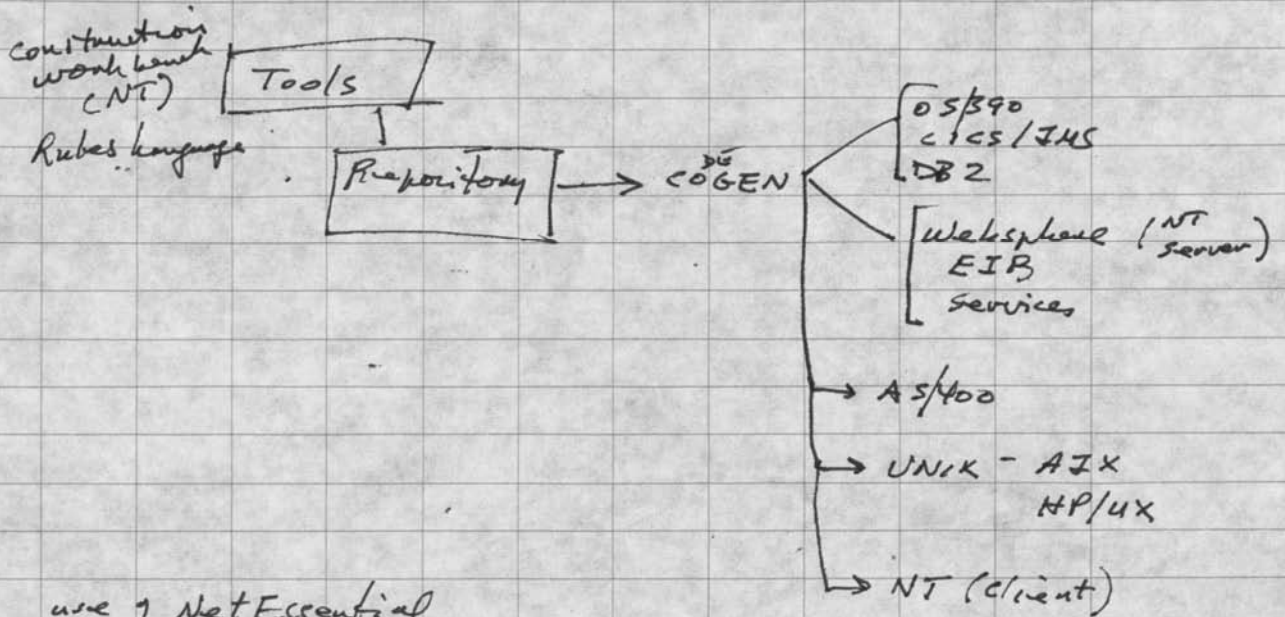   •   Fred Wood - Cust Serv incl maint lean
        George Dumitrescu - new devel -

    •   Mike McMullin -   QA

Lance KnowHon   6/6/01

construction
work bench
(NT)
Rules language

[Tools]

[Repository] ———> COGEN (DB) {
- OS/390
- CICS/IMS
- DB2

[Websphere (NT server)
  EIB
  Services]

—> AS/400

—> UNIX - AIX
            HP/UX

—> NT (client)

use of Net Essential
Support RMI

	MVS	Web Sphere	AS/400	UNIX	NT	OS/2
Devel subsyst.	✓	(uses NT)	(uses NT)	(uses NT)	✓	✓
Modeling	✓				✓	✓
Repository	✓			✓	✓	✓
generation	✓		✓	✓	✓	✓
Runtime	✓	✓	✓	✓	✓	✓

Ted Venema —

Mktg —   Customer Advisory Board (10 custs)
                        2/year
(Ed Gentry) Changes enhancements --
            no lead generation activity
            no lead follow-up process

Ted Venema –
Ed Bentley, Lance Knowlton   6/7/01

"Too Proprietary"
Generation/run time deployment needed
        improvement in web services + ~~time~~ reduce
~~Rehandles~~ closed environment
            improved client + server
Browser
App Server Net E
MF –   closed CoBol

Gartner + IDC input on mkt direction/reqts
    (any published mat'l?)

Procedure Based Devel Systems - -	Object oriented	(work flow) Process Driven
Analysis	✓	Pres Proc Mod
Design	✓	Pres Proc Auto
~~Devel~~ Deployment	✓	Integ exist + new app
Maint	✓	Maint

                    APS   Rational
                                 Forte
                                 Visual ~~Age~~

delivered 11/01   GAB ~~target~~ 2.0.2 – MQ Series for Net E
                                        ~~old~~
                    move to MVS remote prep
                    SOAP/XML Support
                    Open CoBol? (NO)   need Repository to manage information

4Q02   GAB 3.0 – work flow integration
                        Object Support
                        Repository (3rd party db?)
                        Option for Meta language
                            (VB or ?)

            GAB 4.0 – Broaden Repository to
                        store objects (Components)

"Quick fixes"

Remote prep improved
Open COBOL
Repository
Java Reporting
Extended Run time options (MQRPC, IBM TCP/IP,
        EJB CoBoL wrapper, Enhanced Host debugger)

Goal: get existing cos. to extend ~~an~~ HPS
(get existing cos to) ~~applications~~ ~~and~~ (write new applications
        incorporating existing non-HPS apps

get a few new cos. to ~~use~~ ~~this~~ GAB
        to ~~incorporate~~ *integrate* non-compatible
        applications

get a few new cos. to build new applications
        (existing cos)

Fred Wood — NC State — Comp Sci Bachelor
5½ yrs Marine Corps until '92
Master's courses in C.S.
IBM intern (on VTAM)
Hired by IBM – '94
SEER – '96
12/00 – Mngr Director, customer support

25 people –
support – 9   – Lindsay Davies, Lori 7. [L2] [L1]
devel. – 16]   + Candice Poor [L2]

Online, internet problem reporting +
resolution

net AppBuilder – 5 of 16 are ~~out~~
handling XIPC/GMQ/GIB/CTRC
~ 1½ of 9 are on these   (Cisco
products   level 1+2)
OS/2 sunsets 11/30/01
2002 sunset for S.Y may hold
since no change in runtime

around 50 cnt on pd maint
around 20 " active in devel

can customers reduce maintenance
by dropping development side of GIB

devel do some enhancements to products
as a result of field inputs —
if won't affect architecture and requires limited
time can do... small workload to level.
+ do some new devel on runtime
on GR3/LR6 + on net Essential.

Maintenance releases 1/QTR - non M-F
Maintenance " 2/yr on MF

Is Maintenance treated by Fred Wood as a
business unit

goal: 10% inc maint per customer
within contract terms + without
any additional license revenue

renewal financials & Jno DaVita -
price analysis on not yet renewed
maint agreements - who sets renewal price

which will not renew? ck Rossman, Rinehart + TV

Planned Survey (on line) in next 2 months

financials on maint revenue

Ted V.

Q - reviewed changes in Q

Contact List - use maint list as start
→ CAB members -
name, title, phone #
25 names

_____

maint - who's informed TV going off maint
+ when
who's at current risk.

maint prices -- add'l soft
elim soft
increase price

prof services - Jump start
priority on new devel --

Lance Knowlton –

                    reqts' – ok, design –
Open COBOL – development (Russian) –
           GA
1~/31/01 ^ delivery – $250,000

Add'l package –   start – 8/01   ⎤
                       deliver – 3/02   ⎦

IBM relationship –

     Websphere on 390
     Linux on 390

     _____

QA – read mat'l supplied

Doc/Tung – Eric Funderburg for Doc
           Tung – nobody in charge
     Could sell Tung Services –
           revenue source – 3rd party Service

Internal Use software – Package
                        Custom

Reinhard Wetzel - Germany, Switz, Austria, Netherland
                    Eastern Europe, Italian
        2 Acct Mgrs --
        Current Customers
        Pre-Sales

IBM was originally a strong partner...
        IBM was 40% shareholder in early 80's
        Financial area

Professional Services - declined
        Lack of product support
        consultants left - not encouraged

        BPA - , Common Data Interface Format
Rational Rose

        solutions

        cell - 49-172-65-26-213   (Thursday)

        migration from other app dev systems -

        Cool:Gen - unique selling pts of AppB1dr

        connection to BPA
        _____

Conclusions:
        • difficult to make new sales -
        • trying to migrate from HPS to GAB
        • trying to sell GAB with BPA
        • need prof services dependent on migration
                of existing customers
        • trying to work with applic solution partners
        • enough consultants available if work avail
        • features would not sell new acct but
                might get customers to migrate to App B1dr
        • need pre sales help. / might migrate from other
                                                    systems.

6/14/01

Frank Ranswan - Nordic Region
          UK - 6 existing customers / Australia
     1 sales

Denmark - most used HPS -
          Technical mistakes - poor quality
     IBM uses Visual Age

Websphere replace CICS

last 3 yrs no effort to make new sales
          told only to focus
          no sales plan / no compensation plan

App Builder - much better than HPS
     positive customer reaction
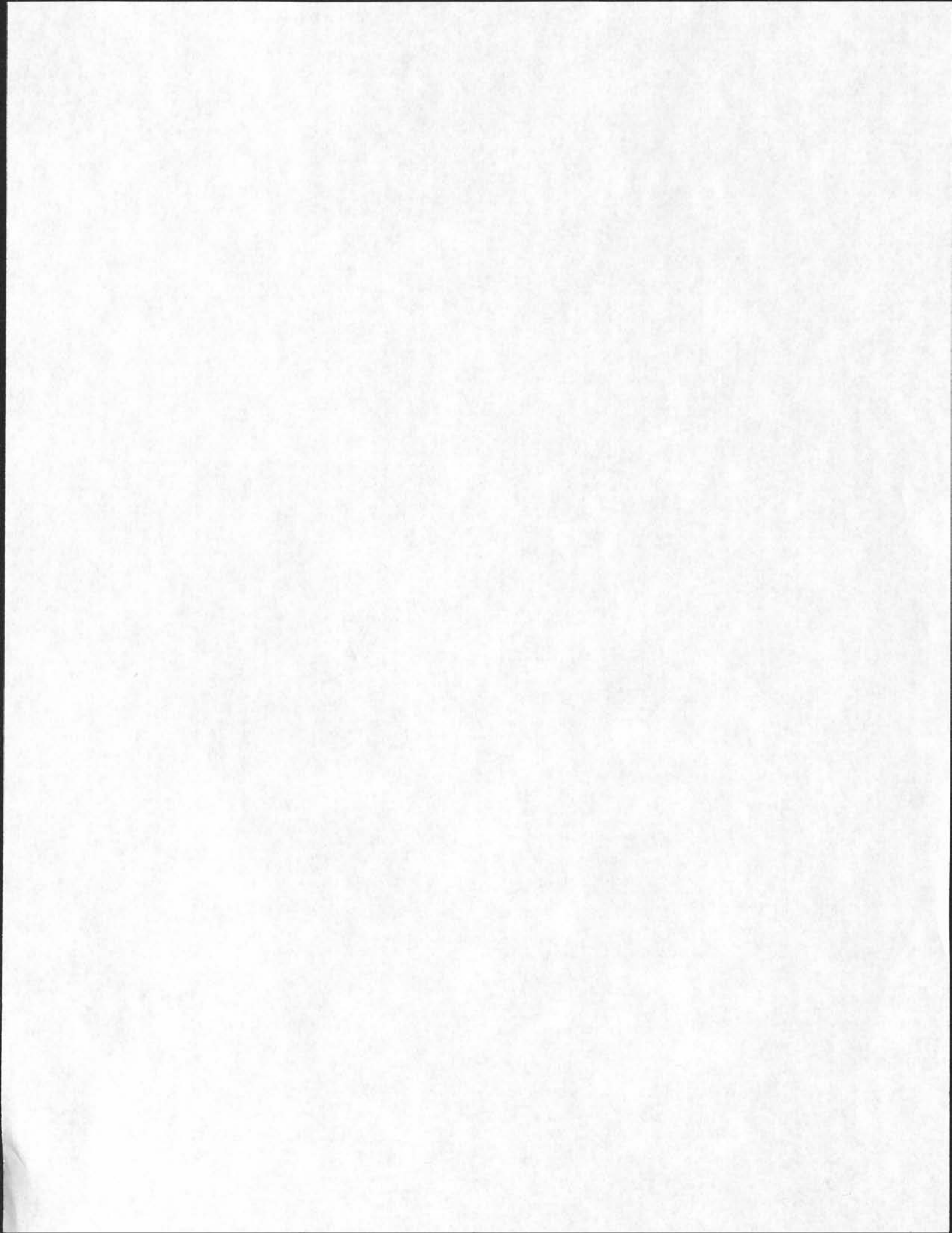   Java Beans + Java Client
     12 mos. to move all to GAB
               10 Nordic   ⎫ presales
               5 UK   ⎬ capability
               1 Australia   ⎭

Infrastructure: training, career path needed

          CSC
          SDC - (Alltel)

     Avik is a no-no
     Venema is not a mgr.

Memo

To: Burt Grad

From: Sid Dunayer

Date: 13 June 2001

Re: Level 8 Staff Evaluations

I interviewed Ted Venema, Ed Gentry, Lance Knowlton and Gheorghe Dumitrescu during my visit to Level 8. I found them all to be quite knowledgeable about the AppBuilder product. They all were also quite vocal about their feelings regarding the staffing and resource cuts made over the past three years. In general, all felt that these cuts created serious development and support problems that are hurting the product and undermining customer confidence.
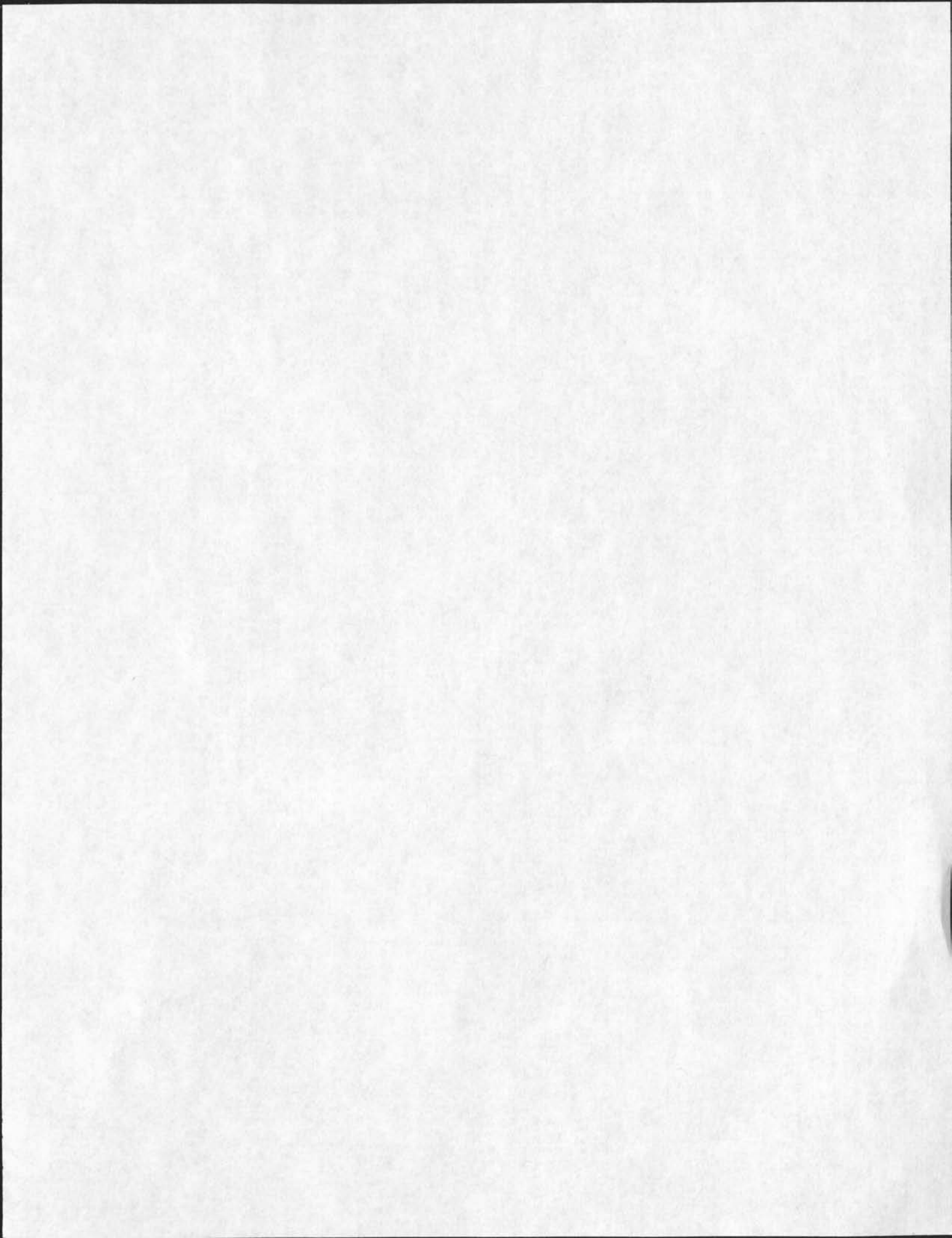
I interviewed Ted Venema during my visit in 1998. At the time, he had only been with the company for about a year, but had managed to get a good grasp in how the product worked and the problems that needed to be solved. He had many ideas and plans to upgrade the product and the development operation. Unfortunately, most of these plans have not materialized. During this visit, he described a new direction for the product that is largely influenced by information he received from Gartner. As a result of this, he has changed directions and now proposes to make radical changes to AppBuilder that do not necessarily address what the market is currently asking for, While I won't speculate as to whether or not this new direction might be desirable at some future date, it certainly will not be required for at least three years and will do nothing to address current customer requirements.

Lance Knowlton and Gheorghe Dumitrescu have both worked on the product as developers for many years before being moved into management positions. Both expressed that they felt forced to deliver an incomplete and poorly functioning product. Both impress me as totally competent and capable of running their respective departments in a professional manner. Lance has started to re-staff the QA department, which was completely eliminated as part of the cuts, in an attempt to ensure that future releases are fully tested. He also has fairly good project plans in place, using Microsoft Project, to help track the development process. I think that, given a chance, he will hold development to much higher standards than in the past, and will not allow poorly functioning releases to be delivered to customers.

Ed Gentry has also been around for many years. He understands what the market demands and seems to be able to create functional requirements that will address

these demands and provide a roadmap for development to follow. Unfortunately, he gets much of his direction from Ted Venema and that may not be the most desirable arrangement. I think that if given reasonable objectives, he is more than capable of delivering well-defined design specs that can be implemented within reasonable time frames.

Subj:	**RE: due diligence update call**
Date:	06/13/2001 10:28:32 AM Eastern Daylight Time
From:	*reneef@contradopartners.com (Renee Fulk)*
To:	*Burtgrad@aol.com*
File:	**GABonlyBudgetandProjectionsv1.zip** (241311 bytes) DL Time (32000 bps): < 2 minutes

Thanks, Burt. As long as Talmor has your update, I believe that is fine.

As to the Q1 information you requested, the allocations to GAB have been performed at a very high level. For instance, all cost of services expenses were allocated based on revenues, not by costing the group of consultants trained in each product.

I am attaching the Q1 information that was provided (I think you already have) along with Q1 revenues by customers. There is currently no further detail information available. It doesn't sound like there was a lot of precision in preparing this. Based on my experience in the company, I believe the cost of maintenance and development costs should be fairly accurate since those departments are costed separately. The cost of services, sales and marketing, and G&A costs will just be high level allocations and are probably not indicative as a base for the future.

Regards,
Renee

-----Original Message-----
From: Burtgrad@aol.com [mailto:Burtgrad@aol.com]
Sent: Tuesday, June 12, 2001 7:09 PM
To: reneef@contradopartners.com
**Subject:** Re: due diligence update call

> I will be unable to attend the Teleconference aince I will be on a train
> going into NYC. I can try to dial in from the train, but I don't know if the
> quality will be good enough.
>
> I haave updated Talmor on our progress as of this morning, but would be glad
> to give you an update later this evening or early tomorrow morning. Please
> let me know what you wish me to do.
>
> Burt Grad 6/12

---------------------- Headers ----------------------------------
Return-Path: <reneef@contradopartners.com>
Received: from rly-xd05.mx.aol.com (rly-xd05.mail.aol.com [172.20.105.170]) by air-xd02.mail.aol.com
(v78_r3.8) with ESMTP; Wed, 13 Jun 2001 10:28:30 -0400
Received: from prserv.net (out2.prserv.net [32.97.166.32]) by rly-xd05.mx.aol.com (v78_r3.8) with ESMTP;
Wed, 13 Jun 2001 10:27:40 -0400
Received: from hurricaner (slip-32-100-106-216.nc.us.prserv.net[32.100.106.216])
        by prserv.net (out2) with SMTP
        id <20010613141934202000uvm66e>; Wed, 13 Jun 2001 14:19:36 +0000
From: "Renee Fulk" <reneef@contradopartners.com>
To: <Burtgrad@aol.com>
Subject: RE: due diligence update call
Date: Wed, 13 Jun 2001 10:19:54 -0400
Message-ID: <NDBBJJFEDFBEPOPELPJDGEINDAAA.reneef@contradopartners.com>
MIME-Version: 1.0
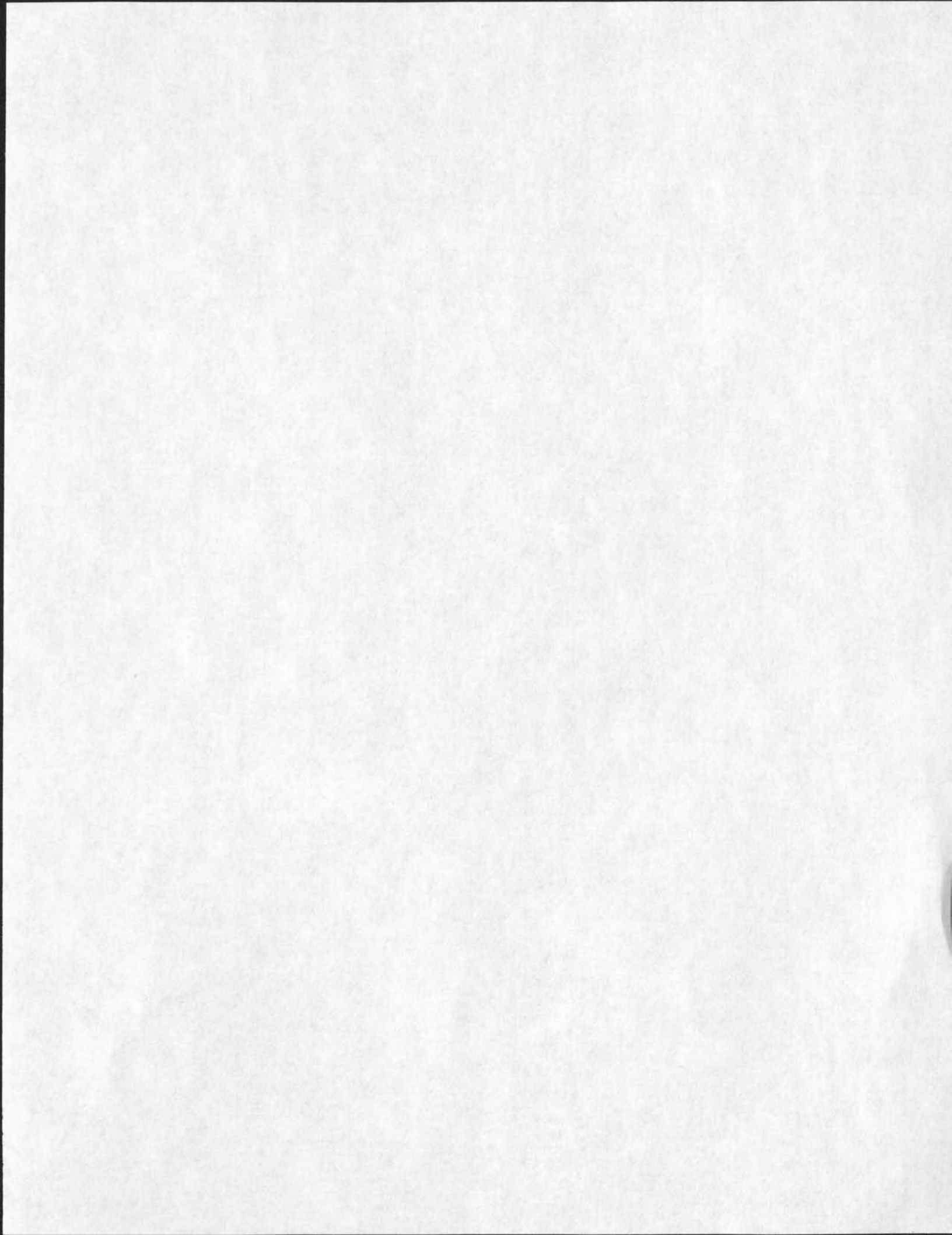
MAINTENANCE STATUS REPORT
AMERICAS REGION

CUSTOMER	EXP	RENEW	CURRENCY	ANNUAL VALUE	2001 VALUE	2002 VALUE	2003 VALUE	Notes Color	NOTES
Achmea	December 31, 2001	Q4/01	NLG	42,230	42,230	42,230	42,230	Green	Was negative, how looking to hold on, Rienhard working
ADP	October 31, 2001	Q4/01	USD	10,800	10,800	10,800	10,800	Green	AppBuilder 2.0 Beta Customer
ADP	March 31, 2002	Q1/02	USD	88,200	88,200	88,200	88,200	Green	Same Account as line above
AMS	December 31, 2001	Q4/01	DKK	31,148	31,148	31,148	31,148	Green	Developed by CSC, client runtime licenses - Maersk runs server
AMS	December 31, 2001	Q4/01	DKK	20,416	20,416	20,416	20,416	Green	Same Account as line above
Banca Commerciale Italiana	December 31, 2001	Q4/01	ITL	340,862	340,862	340,862	340,862	Green	Nervous, but so big they aren't going anywhere soon, would benefit from better overall story
Bank of Montreal	December 31, 2001	Q4/01	USD	7,020	7,020	7,020	7,020	Green	Need a visit to insure they keep going, but will stay
Bank of Montreal	December 31, 2001	Q4/01	USD	189,059	189,059	189,059	189,059	Green	Same Account as line above
Ceska Sportalna	December 31, 2001	Q4/01	USD	200,904	200,904	200,904	200,904	Green	New account last year in Czech
Charles Schwab	July 31, 2001	Q3/01	USD	10,890	100,000	200,000	200,000	Green	Same Account as line above
Citibank	July 22, 2001	Q3/01	USD	23,100	23,100	23,100	23,100	Green	Only uses modeling tools, but will continue. Selling 5 more seats. Small sale.
Credit Suisse	June 30, 2001	Q2/01	USD	1,084,553	1,084,553	1,084,553	1,084,553	Green	Biggest Maint Account, Interested in Java
CSC Danmark	June 30, 2001		DKK	52,581	52,581	52,581	52,581	Green	Develop applications for other customers,
CSC Danmark	December 31, 2001	Q4/01	DKK	375,479	375,479	180,000	180,000	Green	Same Account as line above
DIMA	August 31, 2001	Q3/01	AUD	157,749	157,749	157,749	157,749	Green	Was nervous, now more stable, looking at Java
Fiducia	December 31, 2001	Q4/01	DEM	261,078	261,078	261,078	261,078	Green	Was interested in Java, bought out looked negative, now positive again
Friends Provident	December 31, 2001	Q4/01	GBP	218,204	218,204	218,204	218,204	Green	Have some of the Java stuff, positive account
Hawaii DOT	September 30, 2001	Q3/01	USD	5,743	5,743	5,743	5,743	Green	Just re-instated maint on shelved system due to Java interest
Hawaii Judiciary	June 21, 2001	Q2/02	USD	20,358	20,358	20,358	20,358	Green	Looking to buy a small $70K upgrade, Java interest
Helaba	June 30, 2002	Q2/02	DEM	26,214	26,214	26,214	26,214	Green	Part of LBS group
IBM Japan	December 1, 2001	Q4/01	USD	584,382	584,382	584,382	584,382	Green	Stable, small accounts long off, too big ones left that will stay. Java interest dependent on DBCS version.
IBM Netherlands	March 31, 2001	Q2/01	NLG	66,180	66,180	66,180	66,180	Green	Series of small accounts
IBM Netherlands (Rabobank)	January 31, 2002	Q1/02	NLG	225,547	225,547	225,547	225,547	Green	Java Prospect, presented at user group
LBS Muenster	September 30, 2000		DEM	15,295	15,295	15,295	15,295	Green	LBS Group, maintenance currently under WestLB but breaking out on own
LBS Wurtemberg	December 31, 2001	Q4/01	DEM	15,858	15,858	15,858	15,858	Green	LBS Group selling banking system to other LBS groups, positive for Java
Legal & General	March 31, 2002	Q2/02	GBP	423,500	423,500	423,500	423,500	Green	Tried to move away, but board rejected cost. Steve G. working this as new possibility.
Maersk Data	December 31, 2001	Q4/01	DKK	51,244	51,244	51,244	51,244	Green	Oursourer running AMS application, bidding on dev environment, could be some extra licences
Natl. Bank of Greece	December 31, 2001	Q4/01	USD	350,000	350,000	350,000	350,000	Green	New account last year, bought RSI app now handled by ICT, in process of customizing
Royal & Sun Alliance	June 26, 2001	Q2/01	AUD	80,800	80,800	80,800	80,800	Green	Stable, probably Java interest
RSI	December 31, 2001	Q4/01	ESP	200,814	200,814	200,814	200,814	Green	Is the App sold to National Bank of Greece and that ICT is attempting to re-sell
Scottish Equitable	December 31, 2002	Q4/02	GBP	149,410	149,410	149,410	149,410	Green	Looking at Java
Standard Life	June 30, 2001	Q3/01	GBP	175,719	175,719	175,719	175,719	Green	Stable, will have Java interest
State Of New Mexico	April 30, 2002	Q2/02	USD	149,220	149,220	149,220	149,220	Green	Ongoing account, looking for a bit of consulting, expect Java interest
Sun Life(AXA)	March 31, 2001	Q2/01	GBP	267,581	267,581	267,581	267,581	Green	Stable, will have Java interest
Telefonica	September 30, 2001	Q2/01	USD	259,283	259,283	259,283	259,283	Green	Need a visit for encouragement, will be interested in Java
Told Og skatt	December 31, 2001		DKK	10,454	10,454	10,454	10,454	Green	Clients for a CSC Denmark Customer
Woolwich	December 31, 2001	Q4/01	GBP	228,998	228,998	228,998	228,998	Green	Looking at Java
Total Green				6,400,828	6,489,738	6,374,260	6,374,260		
Access International	March 31, 2002	Q1/02	USD	100,000	100,000	100,000	100,000	Black	Venture OEM, risk of moving away without Open COBOL, like Java, have close contact, CAB Member
AIG Data Center	December 31, 2001	Q4/01	USD	141,544	141,544	141,544	141,544	Black	Dependant on what happens with IBM Japan, but will continue for some years at least, paying extended maintenance
Banca Carige	December 31, 2001	Q4/01	ITL	183,838	183,838	183,838	183,838	Black	Nervous fence sitter
Banco San Paulo	December 31, 2001	Q4/01	ITL	222,750	222,750	222,750	222,750	Black	Nervous fence sitter
Charles Schwab	July 31, 2001	Q3/01	USD	294,282	294,282	294,282	294,282	Black	Schwab is 5.2 customer, intends to move away but can't justify cost
Lloyds	December 31, 2001	Q4/01	GBP	507,478	507,478	507,478	507,478	Black	Nervous for some time, but holding, maint for next year quoted at over a million. Open COBOL an interest.
Postgirot	December 31, 2001	Q4/01	SEK	189,830	189,830	189,830	189,830	Black	Nervous
SAAQ	September 30, 2002	Q3/02	USD	195,380	195,380	195,380	195,380	Black	Recently indicted they are moving away, need attention, might be brought back
SDC	June 30, 2003	Q2/03	DKK	504,461	504,461	504,461	504,461	Black	Strong supporter but needs Open COBOL has they are now OEM
Sigma Infogix Magasinet	March 31, 2002	Q1/02	SEK	1,457	1,457	1,457	1,457	Black	Same Account as line above
Sikorsky	December 31, 2001	Q4/01	USD	138,150	138,150	138,150	138,150	Black	Previous CAB member, big A/P system, has been ignored, transportation industry undergoing many changes
Sun Trust	June 30, 2001	Q2/01	USD	151,929	151,929	151,929	151,929	Black	Nervous, have moved some systems off
Telenor - EDB-4TEL A/S	December 31, 2001	Q4/01	NOK	306,137	306,137	306,137	306,137	Black	Have just indicated not strategic, but will take 3 yrs to change. Open COBOL could change
Telenor (OEM Swiss Telecom)	December 1, 2001	Q4/01	NOK	18,000	18,000	18,000	18,000	Black	Telenor Sold site, could lose if Telenor produces another system in 3 years
TKP	June 30, 2001	Q2/01	USD	204,909	204,909	204,909	204,909	Black	Nervous, systems house, Open COBOL of interest
Unibank (NOW KNOWN AS NORDEA)	December 31, 2001	Q4/01	DKK	250,000	250,000	250,000	250,000	Black	Just indicated they may move off, will take couple of years, Open COBOL may change mind
West LB	December 31, 2001	Q4/01	DEM	182,009	182,009	182,009	182,009	Black	Nervous fence sitter
Total Black				3,552,132	3,552,132	3,552,132	3,552,132		

AAPT	June 7, 2001	Q2/01	AUD	84,329	32,000			Red	Bought out, moving off
Consultse	June 30, 2002	Q2/02	USD	50,270	50,270	25,000		Red	OEM, will likely move away over time
Den Danske	December 1, 2001	Q4/01	DKK	233,049	233,049			Red	Moving off for some time already
EDS	August 31, 2001	Q3/01	USD	180,000	180,000	90,000		Red	Using standalone NETE, would like to move, actually helps us if they do
IBM Denmark (Corebank)	December 31, 2002	Q4/02	USD	50,000	50,000	50,000		Red	IBM has killed this project
IBM Korea (KEB)	April 1, 2000	Q2/01		31,843				Red	Unknown what they will do, assuming worst
Integrated Core Technologies	June 30, 2001	Q3/01	USD	85,386				Red	OEM looking for VC funding
Key Services (Key Bank)	June 30, 2001	Q2/01	USD	182,052	182,052			Red	Likely gone end of year, maybe six months more, moving off last two years
Paine Webber	July 31, 2001	N/A	USD	29,400	29,400			Red	Likely gone end of year, been moving off for years
Wells Fargo (Formerly Norwest)	December 31, 2001	Q4/01	USD	83,115	83,115			Red	Moving Away, old release level, let go
Wells Fargo Brokerage Services	March 6, 2002	Q1/02	USD	5,517	5,517			Red	Moving Away, old release level, let go
Total Red				994,764	845,403	165,000	0		
Additional Sales @ 15%					37,500	225,000	318,750		Calculated based on numbers that are 50% of budgeted sales
Total Maintenance				10,947,524	10,924,773	10,316,392	10,245,142		
Code:									
Green - Positive Accounts									
Black - Fence Sitters, not moving but need reinforcing or might move off									
Red - Moving and little can be done									

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As per attached Shipper's Dec

Dangerous Goods cannot be shipped

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Total Packages   1

†Our liability is limited

8 Release Signature

By signing you authorize... and agree to indemnify...

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NY. NY
10036
8153 8233 0092
212-354
8844

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Mr. Lenny Recanati
Page 4
May 30, 2001

Based on the information about Level 8 available to us at this time and the range of information needed by DIC, we estimate that the project will require about three to four days for Dunayer and three to four days for Grad. Therefore, the consulting fees for BGAI should not exceed $20,000 unless DIC requests additional analyses, reports or extensive personal debriefings.

If DIC wishes to have a customer satisfaction and requirements survey performed, BGAI will subcontract this work to Specifics, Inc. which will invoice separately for its work. BGAI will coordinate this activity with DIC and Level 8. The cost of this work will be in the $6,000 to $8,000 range, depending on the extent of the questionnaire used and the number and locations of the customers to be interviewed.

In addition, BGAI will be reimbursed for all authorized out of pocket expenses, including travel, accommodations, phone/fax, express delivery, etc. Although both of the BGAI consultants plan to visit Level 8 operations in Cary, North Carolina, we estimate that the total expenses will not exceed $2,500.

Payments are due as follows:

On initiation of the due diligence project: $10,000
On completion of the project: Total fees and expenses less $10,000

Final payment is due within 15 days of DIC receiving the invoice. If the project is extended beyond June 30, 2001, then BGAI will invoice monthly for its services.

If the above project description is satisfactory, please sign below to authorize BGAI to initiate the work and prepare and forward the advance payment.

Sincerely,   Accepted for DIC

Burton Grad   by _____ 6 - 12 - 01
President   Signature   Date

Enclosures   Talmor Margalit
BG:5437.PRO   Name

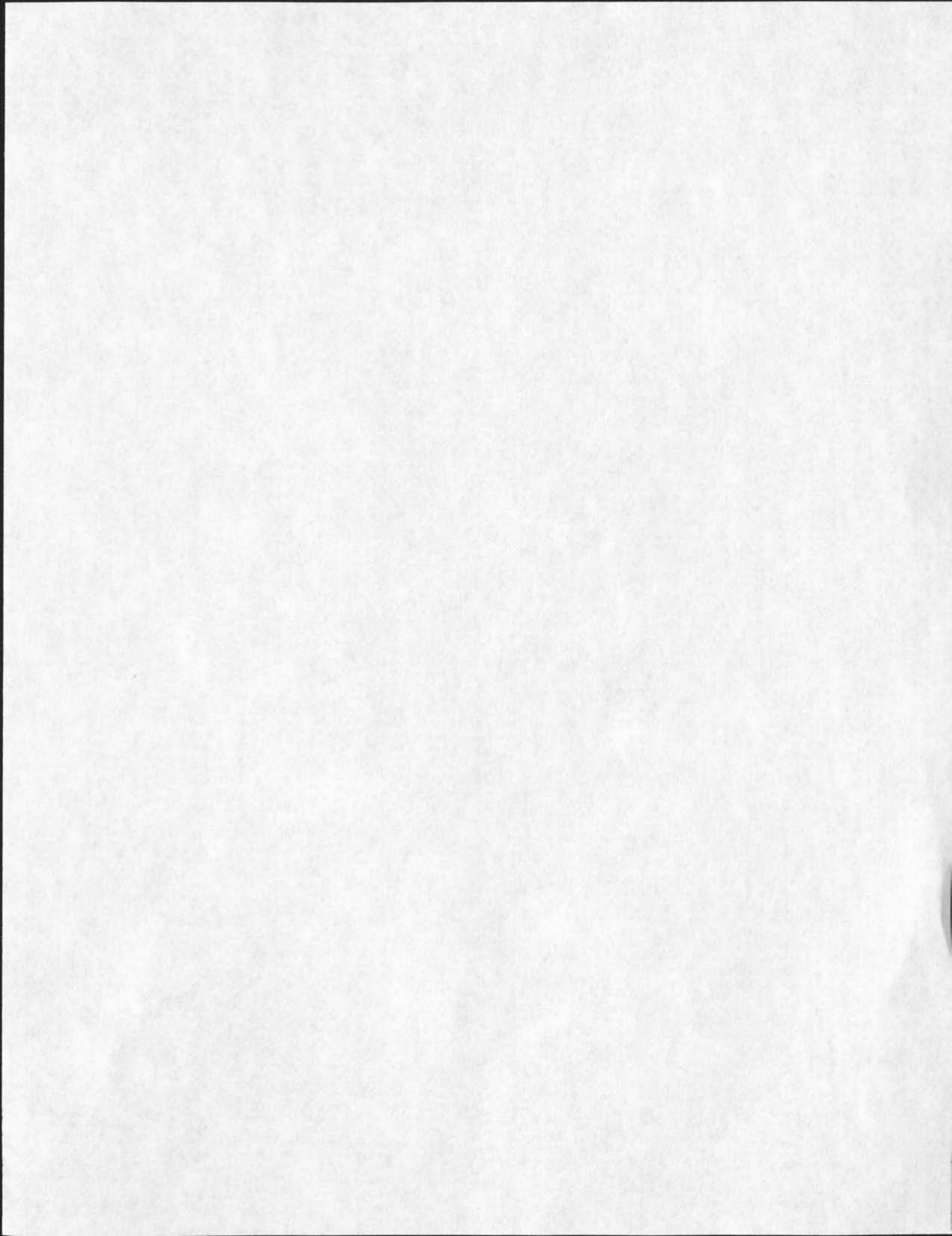   VP
                                        Title

CONSULTANTS ON SOFTWARE

PRELIMINARY DUE DILIGENCE STUDY OF

SEER TECHNOLOGIES, INC.

Prepared for:

Liraz Systems, Ltd.
1250 Broadway
New York, New York

Prepared by:

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

Burton Grad
Sidney J. Dunayer
Martin Y. Silberberg
Specifics, Inc.

Date:

August 13, 1998

Table of Contents

Executive Summary

Seer Technologies, Inc. (Seer) is a publicly held software products company producing and maintaining certain application development products and providing professional services to its customers to assist in the use of these products.

Seer is listed on NASDAQ; it has approximately 12M shares outstanding and has recently traded in the $1.50-$2.00/share range, giving Seer a market capitalization of $18M to $24M.

Liraz Systems, Ltd. (Liraz) was originally considering paying a total of $30M to acquire new shares in Seer to give Liraz controlling ownership of the company, with the $30M in cash available to help turn around and grow the Seer business. Liraz is now considering a variety of other alternative proposals.

The purpose of the preliminary due diligence was to assist Liraz in deciding whether the downside risks (business, operations, customers or technical) were so great that it was not worth proceeding with a full due diligence study.

In performing this preliminary due diligence study, Burton Grad Associates, Inc. (BGAI) identified a number of significant concerns which could make the acquisition of Seer Technologies a very risky undertaking, particularly considering the magnitude of the financial investment required:

- While the Seer technologies, as imbedded in their current HPS products, are quite solid, they are relatively stronger for the MVS market than for the NT/UNIX marketplace. Also, there are two separate HPS products (externally identical, but internally quite different) for the two markets; while one of these can probably be eliminated in the future, both may still need to be maintained for existing customers.

- The Seer infrastructure has been seriously impacted not just by the extensive layoffs during the 3QFY98, but also by the uncertainty felt by many employees and customers in not knowing whether the company will financially survive. Since any Liraz acquisition announcement would have to wait for the completion of due diligence and financial negotiations, and implementation would require stockholder approval under SEC rules, the uncertainty could not be resolved for at least 45-60 days from the date that Liraz and Seer sign a commitment letter. Further staff erosion would even further weaken the technical and services staffs and encourage prospects and customers to seek alternate solutions. This would reduce the value of the company and increase the difficulty, time and cost required to effect a major business turnaround.

- New product licenses have dried up (world-wide) and add-on licenses for existing customers have been hard to come by. While many application development tools suppliers have had their new sales affected by customers and prospects concentrating on Y2K projects, most vendors have maintained their customer revenues and relations by performing Y2K corrections and now Euro conversions. Some have also focused on performing application development projects for their customers using their own tools and so are not as dependent on standalone license sales as Seer. Seer has not been successful in doing anything to replace their lost new license revenue (or the impact on its maintenance and services revenue). It is not at all clear that, at this late date, Seer can even turn around the HPS business or implement any substitute revenue generating offerings soon enough to pull in the revenue needed to produce a positive cash flow in the next 6-12 months.

- One of the most valuable Seer assets is its relationship with IBM-Europe and its potential revenues from IBM's planned CoreBank offering. Lack of financial stability for Seer (including the threat of NASDAQ delisting) could cause IBM to consider other alternatives to the use of HPS in CoreBank and to be reluctant to recommend Seer for other application development projects. This is a very serious threat, since virtually all of Seer's European revenue comes as a result of the IBM marketing alliance. Remember, IBM can (and does) recommend use of other application development products from various vendors to IBM customers.

- Seer's financials seem to be fraught with high risk. The current balance sheet and recent income statements (as of 6/30/98, covering 9 months of FY98) show that Seer has accumulated extraordinary losses during the last two quarters and now has a negative equity of $16M and outstanding bank loans of approximately $37M. The AR less AP and other accrued expenses has a net value of around $15M. This seriously negative position has triggered a NASDAQ inquiry on delisting.

- In our opinion, a majority investment by Liraz in Seer common shares will put Liraz at risk for the entire $37M debt as well as being expected to provide the cash needed to carry Seer through the next 9-12 months. In our opinion, it will take at least $5M to $10M just to get Seer back to operating on a break-even basis over the next 9-12 months. In addition, Liraz would need to provide the cash required to develop the proposed new application renewal product offerings, and to rebuild the marketing, sales, support and services staffs required to launch this new product line in the new marketing space. In our opinion, it would cost at least $10-$15M to bring the new product line to a position where it could start to generate period profits.

- These figures add up to a total exposure over the next 12 months of at least $50M to $60M. While the $37M bank loans may not need to be repaid within the year if Liraz/Seer successfully negotiates an extension, it is likely that, with the removal of the WCAS guaranty, the bank (or even an alternate bank) would seek to reduce the open balance by at least $10M over the next 12 months. Also, the turnaround money for HPS and launch money for the application renewal offerings could be spaced out over the first 6-9 months. Nevertheless, real cash of at least $25M and possibly $35M would be needed before Seer started to generate significant positive cash flow. Most of the investment money may be needed almost immediately in order to avoid NASDAQ delisting.

- The net effect is that Liraz would be paying essentially $50-60M for ownership of a company whose FY1998 revenues will be, at best, $65M and is operating at an annual going rate of $60M, and is still heading downward in revenue. This translates into paying a p/r ratio of one. Seer is still losing money and, if more layoffs are required, will have to incur even more restructuring charges, further compromising the already severe equity deficiency. Why would Liraz (or anyone else for that matter) pay 1 times revenue for a company with such a very questionable future?

- In BGAI's opinion, even if WCAS would turn over all of its stock just to eliminate their $17M debt guaranty, Liraz should not take over control of Seer unless it can find a partner to provide a $15M-$20M investment sharing the risk of failure and bankruptcy but, of course, sharing the potential gain if the stock recovers to p/r and p/e ratios typical of successful software products companies.

BGAI, given its technical and operations analyses and after examining the financial situation as it was described in an 8/3/98 meeting with Liraz representatives, has reached the conclusion that Liraz should not invest any money in Seer under the present conditions. This investment does not even pass the "gift" test.

However, if the bank debt could be eliminated (or sharply reduced) and Liraz could form a partnership with another company to market Seer's new offerings on a world-wide basis, then it might be possible to turn Seer into primarily a development and services company which could maintain its HPS revenue level while controlling (and reducing) its fixed operating costs (partially by paying for the marketing, sales and service activities on a commission basis). This approach may limit the upside potential, but would radically reduce the downside financial risk. Note also that this more conservative approach would require significant additional layoffs and finding a suitable marketing partner.

It is also worthwhile exploring other acquisition deal arrangements, particularly those which might take Seer private, since the underlying technologies, customers, and technical employee base are currently solid and valuable. But any practical deal still has to provide enough money to cover the existing debt and to enable Seer to develop and launch its new application renewal offering. in a timely fashion.

Section II. <u>Overview of Seer</u>

During our preliminary review, BGAI identified the following principal business values along with the principal business problems and specific areas of potential risk. These are listed below:

<u>Principal Seer Business Values</u>

- Customer Base
    - recurring maintenance, services and software add-on revenues
    - customer satisfaction with products and services
    - planned customer usage of products and services for new development

- Staff Resources
    - marketing and sales - U.S., Europe, Asia
    - professional services - U.S., Europe, Asia
    - product development and technical maintenance
    - customer support
    - finance and administration
    - executives and management

- Products
    - HPS - MVS
    - HPS - NT/Unix, etc.

- Alliances
    - IBM - Europe

- Other Values
    - CoreBank (IBM)
    - Investment in Relativity (~1% of the company's stock)
    - Net Essentials Programs -communications capability (being enhanced)
    - NTPA (brokerage application)

- Strategic New Concepts for Seer Future Direction
    - enterprise application renewal software
    - network computing facilities
    - application warehouse capabilities

- Net Operating Loss Carryforward

Principal Seer Problems
- Obligations to customers and alliances
- Financial obligations: debt and taxes
- Current perceived financial weakness and performance concerns by customers
- Loss of key people (is it ongoing?)
- Very low revenues from new sales with flat maintenance and lower services revenues, particularly in the Americas
- Anticipated costs of previous and future layoffs
    - pensions
    - vacations

Potential Risks
- Lack of market opportunities
- Strong competition
- Impact of layoffs on technical capabilities
- Lower employee and management morale and lost loyalty
- Loss of business momentum
- Lack of European sales independence (dependence on IBM)
- Poor U. S. sales performance

Seer Descriptive and Financial Materials

Seer is in the process of trying to change its primary focus from just selling and maintaining proprietary application development tools to becoming a broad provider of tools and services targeted at integrating applications written in various languages running on a variety of platforms. Appendix C-1 describes the previous strategy and the planned new strategy.

Seer financial results have been deteriorating rapidly since FY96 although FY97 results were not as negative as FY96. The financials for both years are shown in Appendix C-2.

Appendix C-3 shows the even more severe losses and negative equity which occurred during the first nine months of FY98 with a continuing increase in debt.

Seer probably had close to 100 active customers during the first nine months of FY98. Appendix C-4 shows that there have been relatively few additional license fees, but that there were ongoing maintenance fees from 74 customers; there was services work for 23 customers who were on maintenance plus 51 customers who were not on maintenance.

Finally, Appendix C-5 shows the principal organizational units as of July 31, 1998. There were still 452 employees which is very high for a $60M going revenue rate company in the software/services area. This would question whether the radical reductions in personnel made during the past two months have gone anywhere near far enough to bring costs into line with the sharply reduced revenue (and the change in revenue mix).

Section III. <u>Consideration of Business Activities and Financial Position</u>

<u>Findings</u>

Based on the interviews conducted and materials reviewed, BGAI has the following findings regarding these values, problems and risks:

1. Seer has not been able to make any significant new software sales of HPS or even any substantial add-on software sales during 2QFY98 or 3QFY98. Maintenance revenues have been flat, and services revenues have dropped. Poor Americas performance has been the largest problem, but it is a worldwide issue.

2. Seer shows a substantial loss in 3QFY98, but expects to break even in 4QFY98. The improved financial results will come from very sharp cost reductions in 3QFY98, principally through reduction in marketing, sales and other personnel and by closing offices.

3. Seer is an integral part of IBM-Europe's planned CoreBank strategy and products. Each IBM sale of CoreBank systems would involve a major license of HPS products to the IBM customer (plus ongoing maintenance fees) and may generate significant initial and on-going services fees for training, usage assistance, etc. IBM stated to BGAI that it plans to generally release its CoreBank system in mid 1999, but IBM may make an announcement and some sales much earlier.

4. The organization structure and key executive and senior management positions are in flux as Seer is trying to adjust to the recent extensive layoffs. The office of the president seems to be working satisfactorily to reduce costs, but there are as yet no signs of a revenue resurgence.

5. Seer has identified a principal new strategic direction aimed at enterprise application renewal. This strategy requires enhancing HPS to permit open use of existing or future applications, written in various languages, interfaced with the current or future HPS proprietary applications. This appears to be technically achievable by Seer. It is too early to have any strong sense of the market acceptance of this new strategy.

6. Seer has also identified an application warehousing direction which would treat applications information in a manner similar to how data warehousing treats data from various sources and data bases.

Conclusions

1. Seer is teetering on the edge of bankruptcy and, without major new money, it probably cannot survive long enough to again become a growing, profitable company.

2. Seer's problems are not just short term, but have been festering at least since shortly after Seer made its IPO in 1995. Management direction has been overly aggressive, inconsistent and plagued by poor reading of market opportunities and market changes.

3. Seer has some assets which may have cash-in value and would not negatively impact Seer's future revenues or operating income. Sale of these assets could help in providing cash needed to produce and launch the new Seer products and to rebuild the infrastructure where needed. These are: NTPA (brokerage package), Relativity investment and, probably most significant, Net Essentials, a middleware communications program.

4. The CoreBank system, when announced and sold by IBM-Europe, should provide major incremental new sales and services revenue. While Seer expects this to have impact in FY99, this is speculative since IBM has stated that it doesn't expect general release until the second half of calendar year 1999.

5. Seer faces heavy duty competition from Sterling Software (previous TIS and Synon products), Sapiens, Rational and others as well as from Oracle, Informix, et al. These are larger and better financed companies with their own independent sales force selling on a worldwide basis. The key to the future for all of the tools vendors lies in customer's acceptance of NT-based tools, able to integrate mainframe application programs with new client/server initiatives.

6. Seer's new products will probably require 6-12 months before they are ready for general release.

Section IV. Analysis of Operations

These comments are based upon Marty Silberberg's report which is in Appendix D.

Findings

1. Certain of Seer's organizations have been severely impacted by the recent layoffs. Some of the key people have left the company and more may be seeking new jobs. This may leave significant gaps in marketing and sales, and possibly in services, support and, of greatest concern, in development.

2. Seer has been previously involved in various alliances, all of which have now been dissolved (except for IBM-Europe). These were generally not successful; significant reserves have been set up to cover non-payment by the partners under the existing contracts.

Conclusions

1. The current executive team has done a yeoman-like job in the past four months to staunch the severe cash bleeding, but has not yet demonstrated that it can successfully sell Seer's products and services (old or new).

2. The application development tools market has been significantly impacted by user companies being focused on Y2K corrections which has delayed new application development. Nevertheless, the revenue reduction has been far more severe to Seer than to its principal competitors. Seer's particular weakness in the Americas (especially the lack of new customers) is somewhat surprising and of special concern. Is it product and platform decisions or just sales force inadequacy and poor management? Since the Americas are the principal part of the world where Seer sells directly (not through or with IBM), these dismal results may indicate that the only way Seer's products can be sold successfully is through a manufacturer or system integrator.

3. Seer is almost totally dependent on IBM as its only marketing partner in Europe. This dependency is confirmed by the initial customer survey. While the IBM-CoreBank strategic planning manager gives Seer high grades and IBM keeps involving Seer in new proposals, this is still a serious long term exposure.

Section V. Analysis of Technical and Development Activities

These comments are based upon Sid Dunayer's report which is in Appendix E.

Findings

1. Seer's HPS products appear to be technically sound and competitive in both the MVS and NT/Unix markets. It appears that the MVS products as rewritten recently in C may be relatively better performers than the current programs for the NT/Unix market.

2. Seer's HPS MVS products seem to be well structured and documented. The non-MVS products are not as readable and are sparsely commented; documentation seems to be satisfactory.

3. There was no evidence that any of the Seer programs were the property of any third party, and Seer states that all current product code was developed by Seer and is their property.

4. HPS analysis and design tools are not as robust as those in some competing products, but the repository and construction tools seem to be quite strong and have given Seer an edge on the code generation side, which is critical to many customers.

5. The technologies needed to extend HPS to provide the open systems capability needed for the enterprise application renewal offering appear to be available for licensing or can be reasonably developed by Seer.

Conclusions

1. The current HPS products are a valuable asset and provide a solid base for future development work.

2. The technical staff has done high quality work, although the standards have slipped recently with the NT/Unix products.

3. Going forward, the NT/Unix programs may be able to be eliminated by basing these programs on the MVS implementation. This should help reduce the apparently excessive number of technical development and maintenance employees.

4. The open language/application direction seems quite interesting and well within Seer's current technical capabilities.

Section VI. Customer Survey

These comments are based on Specifics' Customer Survey Report which is in Appendix F.

Findings

1. Customer satisfaction with Seer's HPS products is good with generally positive statements for the MVS product. However, recent product releases have been late and not well tested or integrated into the system. The products are relatively hard to learn to use, but they perform the application development functions well.

2. Seer's consulting services are viewed favorably by its customers and are considered essential to learning and using HPS successfully. However, customers are concerned that Seer's financial problems may cause a loss of key Seer consulting resources.

3. While most customers plan to write more applications using HPS, some are in a wait and see position until Seer gets its financial and operational house in order.

4. Customers are interested in Seer's Enterprise Application renewal direction, but have doubts of Seer's ability to implement the necessary functionality in a timely manner.

Conclusions

1. Changing current customer perceptions regarding Seer's future will be essential to rebuilding sales and service revenues from existing customers, but, more importantly, to obtain new customers.

2. Seer will have a "concept-selling" hill to climb to get even existing customers to consider Seer's new open products.

Section VII. General Conclusions and Recommendations

Conclusions

1. There are no individual operational, technical or customer show stoppers which would clearly indicate that Liraz should not proceed with a letter of intent and a stock purchase option for Seer.

2. However, there are a large number of danger signals which indicate that getting Seer to become a growth company again may be a Herculean task and may over-stretch Liraz financial limitations.

3. Before proceeding with the actual purchase of the new shares, Liraz will need to do a much more thorough due diligence study of technologies, operations, customers and finances.

4. The most serious questions arise on the financials (which were not BGAI's specific assignment). The amount of money needed to even have a chance of turning Seer into a profitable company will be very large, probably risking a total of $50 million to $60 million.

5. While there are a few assets which can be sold, this would probably yield less than $10 million, not reducing the downside risk significantly.

Recommendations

The Executive Summary reviews the recommendations thoroughly; below is a brief summary of them:

1. Liraz should not invest in Seer, given the very large debt and the relatively high costs of re-establishing the market for HPS as a product. Without time and money, Seer will not have the opportunity of introducing its proposed new product line into its new market space.

2. Under certain circumstances, Liraz might find it worthwhile to acquire the products, technologies, customer base and a subset of the personnel to construct a new Seer, not encumbered with Seer's debts and potential public stockholder liabilities. A new Seer, with clean books, could be regrown as a privately held technical services company with its own proprietary application development products and with a new application development management system to integrate old and new applications written in various languages for a variety of platforms. Going private may be blocked by WCAS concerns regarding potential stockholder suits, the relative enormity of the debt and the continuing operating and restructuring losses.

3. The possibility of Seer being acquired by a suitable other software company might be pursued, but it is not clear how Liraz could benefit from such an arrangement.

Preliminary Technical Review of Seer Technologies. Inc.

Sid Dunayer – 31 July 1998

The following comments reflect data gathered during an on-site visit to Seer on July 23, 1998. The primary source of all information was Ted Venema who was candid in his answers. Despite being at Seer for only a year, he seemed quite knowledgeable about how the product worked today, as well as how the new product would be structured.

Development

- All development areas report to Al Nisbet, VP of Development. There are three Development area managers, a QA manager, a Planning manager and a Project Management manager. Each of the development areas is further subdivided into development teams for individual parts of HPS. Each development area also has a dedicated documentation staff. Seer has a "handbook" that is used to guide new developers and technicians as to the overall development process including the automated testing methods.

- The MVS development teams have a defined set of standards that developers are expected to and do follow. The non-MVS teams do not have a corresponding set of standards and the lack of same is noticeable in the code.

- Seer has a documented development plan that shows all scheduled development and maintenance activities. There are also planning documents and business case justifications for new features.

- Seer has an excellent document describing the automated testing and QA procedures currently in place. They use several different tools to perform this function and reportedly have an extensive test case suite. Unfortunately, these procedures have been bypassed or short circuited in the past allowing poorly functioning code to be delivered to customers. These practices have reportedly been stopped and the quality of the delivered product is better than in the past.

- HPS is "internationalized", but many parts of the code still do not support DBCS. This makes their product less attractive in Asian markets. Seer has produced a business case and plan to upgrade the entire product to support DBCS.

Technical Review

- The HPS development workbench runs under Windows/NT or OS/2. There is also a version that runs under MVS, but it is not the recommended platform. The generated client code can run on Windows (NT, 95, 3.x), OS/2, or on 3270 terminals. The

generated server code can run on MVS, Windows/NT, OS/2, AIX, AS/400, Sun, HP, or Sinix (Siemens UNIX). There is only one client using the Sinix code. There also is the ability to generate code for the Tandem, but this is not being marketed.

- HPS provides a total development environment for creating new client/server applications. It contains Analysis Tools (data flow diagrams, process diagrams, etc.), Design/Preparation Tools (window painting, window flow diagrams, HPS rule editor, etc.), a proprietary Repository and Construction Tools that do the actual code generation and partitioning. The Repository must reside on a server (MVS, NT, OS/2 or AIX).

- The non-MVS portions of the product are all written in either C or C++. The MVS portions are written in C, Assembler, Cobol and a small amount of PL/1.

- All current product code was reportedly developed at and is the property of Seer.

- In general, there are copyright notices in the source code. There are some exceptions to this, most notably in the non-MVS code.

- Change control is performed using standard tools, such as PVCS.

- Seer has documentation and design notes for current and recent development activities.

- Some source code for the MVS and non-MVS components were reviewed. While this was not an extensive examination, it was sufficient to note that the MVS code (all languages) was well structured and commented. Clearly, the MVS programmers follow the standards and produce very readable and understandable code. The non-MVS code was not as readable and was sparsely commented.

Observations

- Seer markets HPS to large, mainframe-centric companies that are doing new client/server development. The current product is an all-or-nothing deal. You can only use HPS tools for all aspects of development. Unfortunately, this market will continue to shrink. The new strategy of "application renewal" will expand this market somewhat by including those large companies that wish to modernize what they currently have or can buy (what Seer refers to as "used assests"). While this will indeed expand the target market, it still primarily addresses a limited mainframe market.

- The HPS analysis and design tools are not as robust as competing tools from other vendors. Seer recognizes these weaknesses and indicates that the new strategy would allow them to effectively retire these tools in favor of allowing the customers the use

of more robust tools, like Visual Basic. This is probably not a bad move as it would free development resources for other projects, but Seer will have to continue to satisfy those customers that are already using the HPS tools.

- The repository and construction tools are highly versatile and this is an area where HPS apparently gets high marks. There will need to be changes to both the actual repository structure and the construction tools in order to support other languages. While Seer has a good grasp of the changes needed in the repository, they will need to acquire technology to analyze and process the other languages they wish to support in their construction tools. Technology to process Visual Basic can be licensed from Microsoft. Technology to process other languages, like Cobol, C and Java, will either have to be invented at Seer or acquired from third parties. There will then be the task of interfacing to these technologies.

- There are currently two separate code bases for the Repository support, one for MVS and one for non-MVS. The reasons for this are historical and have much to do with the fact that the original MVS repository code was written in Assembler and Cobol. Most of this code has reportedly been rewritten in C for MVS. Given that changes are required in the Repository code, it would make sense to consolidate the code bases at this time. This would have the benefits of freeing valuable development resources and ensuring consistent operation of the Repository on all targeted platforms.

- Seer uses a proprietary runtime package, which they developed, to implemented window painting on the various client platforms. This code has been troublesome and difficult to support. The use of alternative window painting tools, like Visual Basic, could help to eliminate the need for the runtime package.

- Communication between the client and server components is realized using a middleware layer known as NetEssentials (NETE) and developed at Seer. The code is reportedly reliable and fairly robust. Despite this, customers have indicated the desire to utilize alternative communications schemes such as PCOM. Seer acknowledges that it is not a middleware company and is working to allow the use of other methods.

- Seer also has a product called NTPA, a brokerage application written in HPS. It has been around since the beginning, but only two copies have been sold. Seer indicates that it is not in the brokerage application business and does not know how to market and support NTPA directly. If the package is a functioning product, there may be opportunities to help realize the value of this asset.

SEER Technologies, Inc.

Customer Study *by* Specifics, Inc. - 8/1/98

This preliminary report is offered with the understanding that at least one more interview will be conducted on Monday, August 3. Considering the small sample, no conclusions can be drawn from this report. The comments, herein, are based solely on the limited number of quantitative and qualitative responses.

A total of six interviews were conducted, 3 in the U.S. and 3 in Europe. The following organizations were contacted.

AXA Sun Life
Unibank
Sun Trust
Sikorsky
ADP
Telenor

The Sales Process

Three respondents were involved in the sales process and rated the SEER sales team a "7" overall on a 9-point scale, where 1 is very poor and 9 is excellent. The primary business driver for the sale is generally the same – a desire to reduce the programming load and create systems that are easily maintained.

In all cases multiple vendors were evaluated and in each case the respondent believes that the SEER products did the best overall job and provided the broadest functionality. Issues or compromises that might have prevented a sale were minimal, because the need to generate code that was useable and easily maintainable were paramount. Mentions of system cost and the need for an infrastructure to properly implement were more related to after sale concerns than pre-sale. Customers tended to be surprised by the cost of implementation and the learning curve.

For European customers, the importance of IBM to the selection received mixed ratings -- from "5" to "8," but the importance of IBM to the ongoing use of the SEER products varied more widely, from "3" to "9." This factor must be weighed and balanced for each customer, since each approach is likely to be unique. The impact of Y2K activity on new product development is considered *very little, somewhat, and a lot* with 2 respondents in each category, respectively.

The Product

Generally, the product meets expectations. It meets the criteria for its selection and the systems that are generated seem to be reliable and easy to maintain. Most customers are satisfied with the product, plan to use it for new system development, and would recommend it to colleagues interested in case tools. Only one respondent would not recommend SEER at the present time due to the current state of product enhancements and the financial risk of the company.

The concerns for the product are more with the release schedule and the fact that releases are "never complete." The customer receives modules that have to be installed and interfaced to other modules of the system and the integration is "never easy." This also presents problems for the documentation which is claimed to be lagging the features in the product. This can further complicate an already long learning curve.

The product, designed to be used with OS2, is used mostly to prepare programs to be run on the mainframe or in a UNIX environment, primarily on RS6000 platforms. The customers in this study use it almost exclusively for these platforms and plan to migrate to NT, but do not have any operational systems on NT.

Ratings on product and support attributes are as follows:

Product / Service Feature	Average Rating
1. The software product, overall	6.0
2. Quality of the software (lack of bugs)	4.7
3. Performance of the software (speed)	5.6
4. Overall functionality of the software (it does what it's supposed to do)	6.5
5. Ease of use and learning of the software	6.2
6. Printed and / or on-line documentation	4.8
7. SEER's technical support, overall	6.0
8. Accessability of technical support	6.2
9. Responsiveness of technical support	4.0

These ratings are somewhat lower than are typically seen in other customer satisfaction studies. A couple of customers are very critical of the product development efforts of SEER, claiming that promises are made all the time, but there is no delivery. Examples are version control, SEER front ends, TP monitor interfaces, etc.

The lack of good new product releases clouds the perceptions of the respondents of SEER's ability to deliver new product strategies. The perception of SEER's ability to deliver the *Application Renewal Strategy* is only "5.2," ranging from "3" to "7," on a 9-point scale. The perceived ability to deliver on the *Network Computing Strategy* is only "4.3," ranging from "3" to "6." Finally, the perception of SEER's ability to deliver the *Application Warehouse* is generally positive given the present use of a repository, but respondents feel that it may not be delivered on time, or that there are not enough resources or budget to deliver the warehouse as promised.

The average value of SEER products overall is rated a "5.8" on a 9-point scale, with a range of "2" to "7."

Consulting Services

The consulting services of SEER are viewed more favorably. The average value is rated a "6.6," with a range of "5" to "8." Consultants are seen as working hard with the right professional attitude. and trying to solve problems with products that need to be enhanced.

The ratings for consulting services attributes are:

Consulting Services	Average Rating
1. SEER's consulting staff overall	7.6
2. Technical knowledge of the consulting staff	7.4
3. Product / application knowledge of the consulting staff	7.0
4. Professionalism of the consulting staff	7.8

The complexity of large systems, the customer commitment required for implementation and the long learning curve are an opportunity for SEER consulting services. Responses show that customers are solving the implementation problem by hiring former SEER staff, by complaining loudly enough to get attention and by using IBM consultants. There is an expressed concern that the financial hardships of the company have caused experienced resources to leave and they have not been replaced. This limits the supply of talent for consulting.

Future Use of SEER

Most customers plan to use SEER products and consulting for new application development in the future. Three responded "yes" to this question, two said "maybe," and one said "no." The overriding concern is whether the company has the financial backing to be a viable entity. One customer is so committed to SEER that they are dependent for their entire operation and they don't have a clear alternative. This customer also believes that it is unrealistic to have to work with SEER the way they do. They want more independence in the product and the requirement for consulting services. Other customers are considering alternatives, including in-house development with new tools, to avoid the potential financial crisis at SEER and to gain more independence.

Conclusions

SEER's biggest challenge, outside of getting it's financial house in order, is to restore customer confidence in the products and the company. This can only be done through execution, not promises. Customers have evidenced some improvements, e.g., in documentation, in the last year, but they are still wary of SEER's ability to maintain the technical expertise required to handle multiple new technologies and platforms, as required by their new strategies.

The priorities they place on functionality for SEER products are:

Functionality of SEER's products	Priority Rating
CORBA (Common Object Request Broker Architecture)	1
JAVA Front-end	2
Incorporate legacy code	2
JAVA code generation	3
Incorporate other languages through open interface	4
JAVA to COBOL	5

MEMORANDUM

Date: August 3, 1998

To: Burt Grad
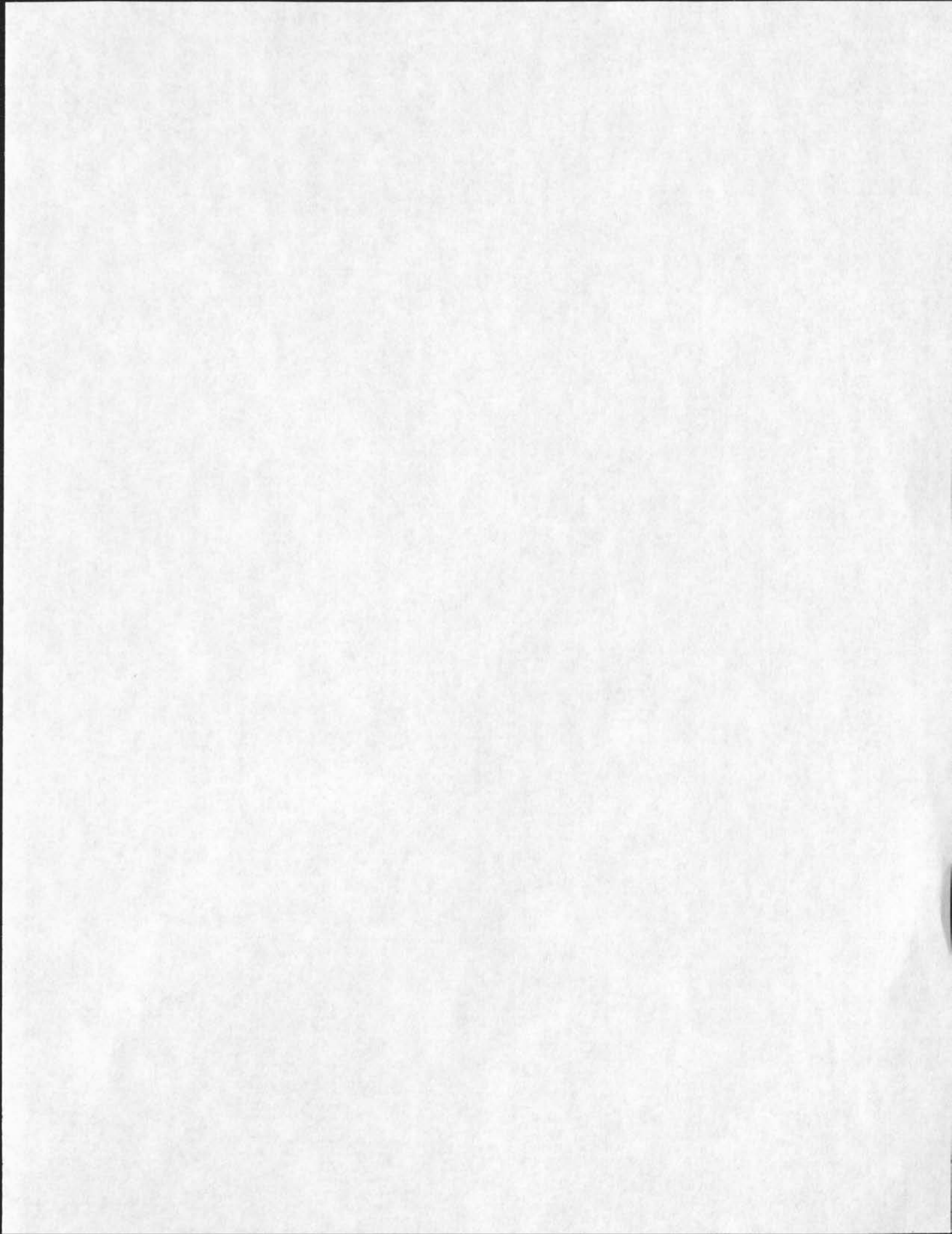
From: Joe Blumberg

Subject: SEER Technologies

A last interview was conducted today with Rural Servicios Informaticos, SC in Spain. The client was very knowledgeable about SEER products and the proposed strategies. They have used the products for more than five years and have developed in excess of 30 applications, including three on NT.

The information and ratings provided by the respondent do not shed new light nor substantially change any of the findings on the report submitted, however the ratings were generally one or two points higher than the average reported, and therefore will raise the overall average by approximately 0.2 points on all reported averages.

This respondent is highly dependent on the IBM relationship and considers it critical to the ongoing relationship with SEER. It was IBM who introduced the products and maintains the ongoing relationship with the customer.

The one item that is influenced somewhat by this respondent is the priorities for new functionality in SEER products. Adding these ratings to the mix closely balances the priorities to put the JAVA front-end and JAVA to COBOL slightly higher on the priority scale.

Again, the small sample is not a good basis to draw conclusions, but it is an indicator of customer reactions and perceptions.

Prop
(agreement not
signed as of 6/15)

FAX TRANSMISSION

fax 011- 972 3-607 5899

Date: 6/11/01

No. Pages including cover page:

To: Talmor Margalit

From: **Burton Grad**

Here's a revised proposal to reflect
The new dates for The Survey. Also enclosed
is an invoice.

β. 6/11

Subj:	**DIC Engagement**
Date:	06/11/2001 11:58:59 AM Eastern Daylight Time
From:	*Talmor.Margalit@dic.co.il (Talmor Margalit)*
To:	*Burtgrad@aol.com*

Burt,
Please mail me a copy of your engagement agreement and I'll have it
settled, including the check.

Best Regards,

Talmor Margalit
Vice President
Discount Investment Corporation Ltd
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Received: from mail.idb-hq.co.il ([194.90.191.210]) by rly-xc04.mx.aol.com (v78_r3.8) with ESMTP; Mon, 11
Jun 2001 11:58:40 -0400
Received: from taex1.idb-hq (unverified) by mail.idb-hq.co.il
(Content Technologies SMTPRS 4.2.1) with ESMTP id <T54153f8fc0c25abfd20d1@mail.idb-hq.co.il> for
<Burtgrad@aol.com>;
Mon, 11 Jun 2001 18:55:39 +0200
content-class: urn:content-classes:message
Subject: DIC Engagement
MIME-Version: 1.0
Content-Type: text/plain;
    charset="windows-1255"
Content-Transfer-Encoding: quoted-printable
Date: Mon, 11 Jun 2001 18:56:33 +0300
Message-ID: <C0ED3A5A1941E042911B5B8CD425318C0C27E4@taex1.idb-hq>
X-MimeOLE: Produced By Microsoft Exchange V6.0.4418.65
X-MS-Has-Attach:
X-MS-TNEF-Correlator:
Thread-Topic: DIC Engagement
Thread-Index: AcDyl9WWe4fKKI5iEdWIbAAQYAA/+g==
From: "Talmor Margalit" <Talmor.Margalit@dic.co.il>
To: <Burtgrad@aol.com>

BURTON GRAD ASSOCIATES, INC.

5 SAINT JOHN PLACE
WESTPORT, CONNECTICUT 06880
(203) 222-8821
(203) 222-8728 FAX
BURTGRAD@AOL.COM

May 30, 2001

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

Dear Lenny:

Burton Grad Associates, Inc. (BGAI) proposes to perform the requested technical and business due diligence review of Level 8's "HPS" business for DIC.

Objectives

DIC wants to have an independent technical and business due diligence study performed prior to determining whether it wishes to acquire the HPS business from Level 8. This study will help ensure that the technical and business representations made by Level 8 to DIC are accurate and complete and to be sure that there are no serious development, technical, operational or business issues which would significantly affect estimates of current value or projections of future profits from HPS. DIC will separately perform the legal and financial due diligence work it needs to do.

BGAI, an independent consulting firm with extensive experience in computer software and services company due diligence and valuation studies, is pleased to perform this technical and business due diligence study so that DIC can proceed with its potential acquisition decision.

Work Plan

1. BGAI will request a wide range of development, technical, operational, marketing, sales, customer service, professional service and other business information from Level 8 for all of the HPS products. The initial request list is attached as Appendix B. After discussions with DIC and Level 8, BGAI will prepare the final information request list and send it to Level 8 for response.

2. BGAI will conduct both on-site and phone interviews with the principal technical and business executives and possibly a few other technical managers of Level 8 and review all relevant materials in the assigned due diligence areas including a review of source code and technical and user documentation.

3. BGAI will analyze the Level 8 materials and interview notes to identify any areas of concern and any potential problems in the assigned due diligence areas.

4. If requested by DIC, BGAI will arrange for a customer satisfaction and requirements survey to be conducted and a detailed report submitted to DIC, but without specifically identifying which Level 8 customers provided which responses.

5. BGAI will prepare a due diligence report for DIC on its findings and recommendations about Level 8's HPS business without disclosing any Level 8-identified source code or related confidential program materials.

The technical due diligence portion of the assignment is described in more detail below:

-   Review the development process and methodologies, assess the technical aspects of the current programs and analyze the status and plans of any new programming projects.

-   For the current products, we will review the features/functions, as well as development style, documentation, regression testing, etc.

-   Focus will be on the quality of the existing programs and on HPS's ability to maintain and enhance these programs.

-   For the projected new projects:

    ▸   Are the features/functions appropriate for the market requirements as stated by HPS?

    ▸   How difficult are the development efforts in terms of complexity, resource level, time frame and performance?

    ▸   Does HPS have the resources and skills needed to get these projects done?

    ▸   Can HPS meet the schedules needed for effective market impact?

Staffing

The project will be managed by Burton Grad, president of BGAI, with BGAI Associate Sidney J. Dunayer as the principal technical consultant.

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

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

Schedule

The final information request list will be ready to be sent to Level 8 within 2 days of project initiation. The key response materials should be available from DIC and Level 8 within 4 days of project initiation.

The on-site meetings and interviews will be scheduled as soon as the project is initiated. Grad will cover the various business and operational issues and Dunayer will perform the source code and technical review and development analysis.

A preliminary report covering the BGAI findings, concerns and recommendations will be delivered to DIC by June 15, 2001, if all materials can be obtained and interviews conducted in a timely fashion. A final report will be delivered on June 22, 2001 unless additional issues are raised by BGAI or DIC or the customer survey is delayed by Level 8.

Confidentiality

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

BGAI will sign a letter with DIC agreeing to observe the rules of its non-disclosure understandings with Level 8. BGAI and its employees and consultants will also be bound by a special non-disclosure agreement between BGAI and Level 8. BGAI will not remove any programs or program documentation from Level 8 premises nor provide detailed descriptions of these to DIC without specific written authorization by Level 8.

BGAI (and its employees and consultants) will not be restricted in any other way as to working with other firms in the software industry as a result of this assignment; however, BGAI will not perform any work directly related to Level 8's HPS business, except for DIC, until after December 31, 2001.

Costs and Payments

The due diligence work will be performed on a time and expense basis. The following are the BGAI consultant fees:

Burton Grad	$3,000/day
Sid Dunayer	$1,750/day

Based on the information about Level 8 available to us at this time and the range of information needed by DIC, we estimate that the project will require about three to four days for Dunayer and three to four days for Grad. Therefore, the consulting fees for BGAI should not exceed $20,000 unless DIC requests additional analyses, reports or extensive personal debriefings.

If DIC wishes to have a customer satisfaction and requirements survey performed, BGAI will subcontract this work to Specifics, Inc. which will invoice separately for its work. BGAI will coordinate this activity with DIC and Level 8. The cost of this work will be in the $6,000 to $8,000 range, depending on the extent of the questionnaire used and the number and locations of the customers to be interviewed.

In addition, BGAI will be reimbursed for all authorized out of pocket expenses, including travel, accommodations, phone/fax, express delivery, etc. Although both of the BGAI consultants plan to visit Level 8 operations in Cary, North Carolina, we estimate that the total expenses will not exceed $2,500.
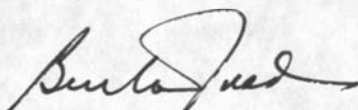
Payments are due as follows:

| On initiation of the due diligence project: | $10,000 |
| On completion of the project: | Total fees and expenses less $10,000 |

Final payment is due within 15 days of DIC receiving the invoice. If the project is extended beyond June 30, 2001, then BGAI will invoice monthly for its services.

If the above project description is satisfactory, please sign below to authorize BGAI to initiate the work and prepare and forward the advance payment.

Sincerely,

Accepted for DIC

Burton Grad
President

by _____

Signature   Date

Enclosures
BG:5437.PRO

Name _____

Title _____

Information Request List

A. General

1. Organization chart and staffing levels
2. Business strategy and operation plans
3. Profiles of senior managers

B. Sales

1. Revenue and unit history by product line, geographic territory and types of revenue
2. Mix of new sales, maintenance, add-ons, upgrades and services
3. Backlog and current pipeline
4. Pricing and discount plans
5. Win/loss records and analyses

C. Marketing

1. Major customer analysis with revenues for 2000 and 1Q2001
2. Resellers, alliances and partnerships
3. Product and service descriptions
4. Principal competitors

D. Customer Service and Support

1. Outstanding customer problems
2. Past year history of problems and time to resolve
3. Statistics and reports on product reliability and support requirements
4. Any customer satisfaction surveys or data
5. Customer base with historic growth and erosion

E. Professional Services

1. Customer requirements for professional services
2. Past year history of professional services activity (customers, activities, revenues, direct costs).
3. Pipeline for professional services

F.   Development: Current Products: New Products

1. Organization and training of development people
2. Development methodology
3. Scheduled enhancements/customer commitments
4. Current maintenance activities
5. Current development projects
6. Testing and quality assurance procedures
7. Effort and cost records for development
8. Product release and update procedures
9. Installation procedures and customer training materials
10. Availability and procedures for international usability and service
11. Use of third party developers
12. Detailed review of schedule and progress for new product releases

G.   Technical Review: Current Products: New Products

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

Subj:	**RE: business due diligence**
Date:	06/05/2001 1:51:16 PM Eastern Daylight Time
From:	reneef@contradopartners.com (Renee Fulk)
To:	Burtgrad@aol.com

Burt,

Thanks for the message. My fax number is (919) 460-5494. I will not provide anything to the company related to the business due diligence until we have had a chance to coordinate. I will let them know that you will be providing further requests, probably tomorrow, in addition to the requests I give them today.

Our offices are actually in the same building as the company. If you are going to be onsite tomorrow, we could arrange to get together during the day. Feel free to call me on my office number or cell at (919) 810-3424.

Renee

> -----Original Message-----
> **From:** Burtgrad@aol.com [mailto:Burtgrad@aol.com]
> **Sent:** Tuesday, June 05, 2001 1:38 PM
> **To:** reneef@contradopartners.com
> **Subject:** Re: business due diligence
>
> I went over the Technical and development lists with Lance and that's all
> set, but I haven't had a chance to do the same with Ted on all of the others.
> I can fax you a marked up copy of the lists for your own info, but it should
> not go to anyone until tomorrow when I discuss it with Ted and reflect any
> suggestions from Arik and Talmor. Is there any way we can get together
> tomorrow (Breakfast or possibly dinner) to turn over these checklists to you?
> I'm rushing off to catch a plane to Raleigh. I'm arriving around 6 pm and
> heading to La Quinta Hotel to have dinner with Arik and Talmor. What is your
> fax number I'll call you when I get to Cary.
>
> Burt Grad 6/5

----------------------- Headers -----------------------------------
Return-Path: <reneef@contradopartners.com>
Received: from rly-yg01.mx.aol.com (rly-yg01.mail.aol.com [172.18.147.1]) by air-yg05.mail.aol.com
(v77_r1.36) with ESMTP; Tue, 05 Jun 2001 13:51:16 -0400
Received: from prserv.net (out4.prserv.net [32.97.166.34]) by rly-yg01.mx.aol.com (v77_r1.36) with ESMTP;
Tue, 05 Jun 2001 13:50:43 -0400
Received: from hurricaner (slip-32-101-163-238.nc.us.prserv.net[32.101.163.238])
       by prserv.net (out4) with SMTP
       id <2001060517472320402r7e09e>; Tue, 5 Jun 2001 17:47:23 +0000
From: "Renee Fulk" <reneef@contradopartners.com>
To: <Burtgrad@aol.com>
Subject: RE: business due diligence
Date: Tue, 5 Jun 2001 13:47:40 -0400
Message-ID: <NDBBJJFEDFBEPOPELPJDKEGEDAAA.reneef@contradopartners.com>
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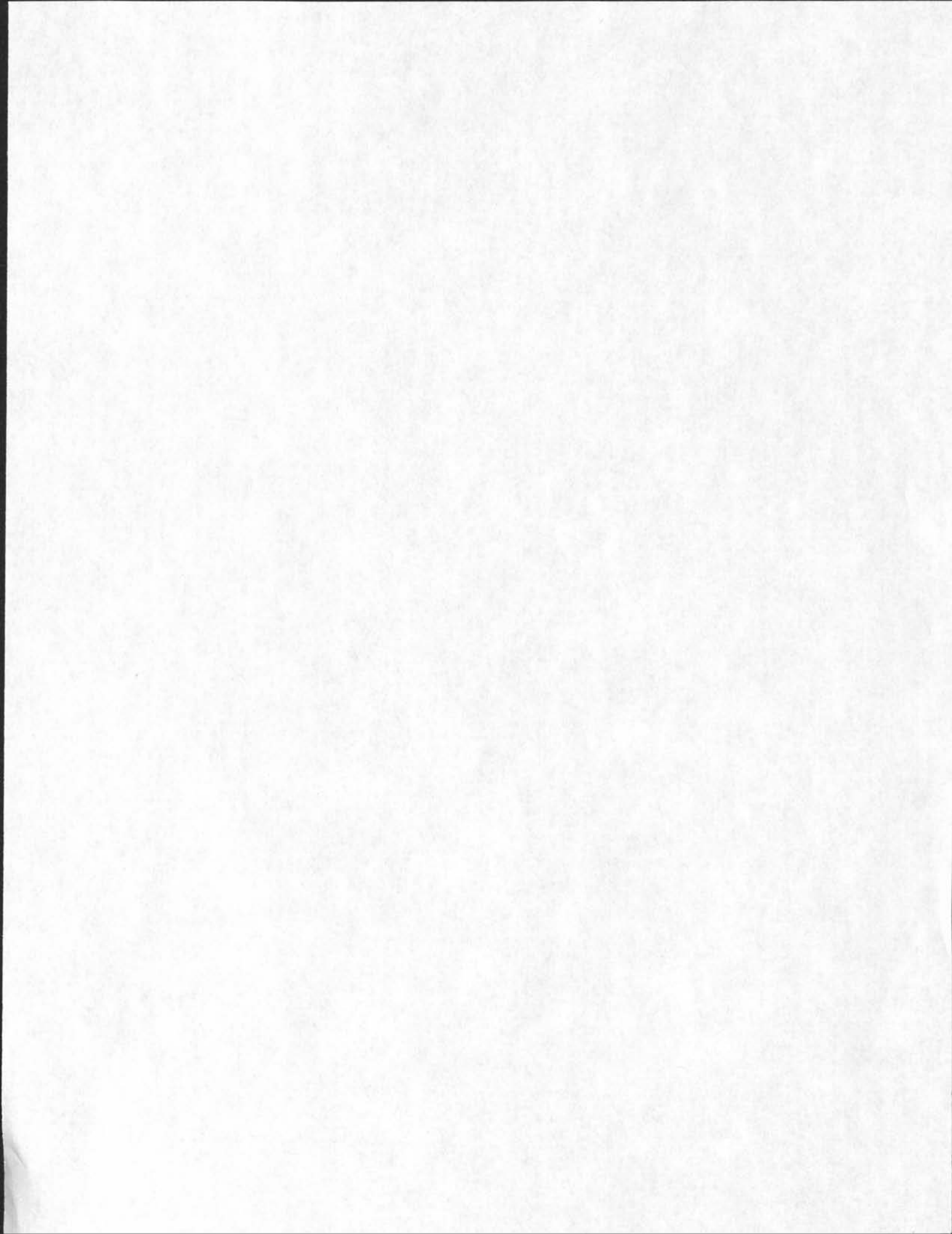
Subj:	**Sales Costs**
Date:	06/11/2001 4:17:58 PM Eastern Daylight Time
From:	*tvenema@level8.com (Venema, Ted)*
To:	*burtgrad@aol.com (Burt Grad (E-mail))*

Burt

A small note.

When we talked about sales, I indicated that at least for now I felt that the costs budgeted could handle sales. This is true, but based a an assumption that I am not sure is in your numbers.

When I first did the numbers, Arik was included. In current numbers from a Level 8 perspective, he is not in there but in my numbers I left the cost in. This allowed me some extra sales cost, likely a person in NA (Sales/SE type) and likely one more in Europe. Not sure where things exactly are in the numbers you have.

Something you might want to talk to Reinhard and Frank about. Being sales oriented, I expect that they will always argue they need more help but in this case there is likely some truth to it.

They have never seen my overall numbers.

Ted

----------------------- Headers --------------------------------
Return-Path: <tvenema@level8.com>
Received: from rly-xd04.mx.aol.com (rly-xd04.mail.aol.com [172.20.105.169]) by air-xd01.mail.aol.com (v78_r3.8) with ESMTP; Mon, 11 Jun 2001 16:17:58 -0400
Received: from corpmail.level8.com ([207.124.41.30]) by rly-xd04.mx.aol.com (v78_r3.8) with ESMTP; Mon, 11 Jun 2001 16:17:34 -0400
Received: by corpmail.level8.com with Internet Mail Service (5.5.2650.21)
    id <MKXK50LM>; Mon, 11 Jun 2001 16:17:51 -0400
Message-ID: <3FA69CA63AC8D3119C15009027E793D101A0DD91@corpmail.level8.com>
From: "Venema, Ted" <tvenema@level8.com>
To: "Burt Grad (E-mail)" <burtgrad@aol.com>
Subject: Sales Costs
Date: Mon, 11 Jun 2001 16:17:49 -0400
MIME-Version: 1.0
X-Mailer: Internet Mail Service (5.5.2650.21)
Content-Type: multipart/alternative;
    boundary="----_=_NextPart_001_01C0F2B3.96376C3A"

Subj: **Calls Tomorrow**
Date: 06/11/2001 2:29:07 PM Eastern Daylight Time
From: *tvenema@level8.com (Venema, Ted)*
To: *burtgrad@aol.com (Burt Grad (E-mail))*

Burt

Attached is the contact information for Reinhard and Frank. I have talked to them both, so they are expecting your call. They are both pretty much aware of the situation.

Reinhard has noted that he has meetings scheduled in the aft with a customer, so would only be available if you can call before 2PM his time. Otherwise next day might be better.

Contact information for e-mail and cell phone:

Reinhard Wetzel rwetzel@level8.com   011-49-6995811719
Frank Rossman   frossman@level8.com   011-45- 22122455

Ted

----------------------- Headers ----------------------------------
Return-Path: <tvenema@level8.com>
Received: from rly-xa01.mx.aol.com (rly-xa01.mail.aol.com [172.20.105.70]) by air-xa01.mail.aol.com
(v78_r3.8) with ESMTP; Mon, 11 Jun 2001 14:29:07 -0400
Received: from corpmail.level8.com ([207.124.41.30]) by rly-xa01.mx.aol.com (v78_r3.8) with ESMTP; Mon,
11 Jun 2001 14:28:54 -0400
Received: by corpmail.level8.com with Internet Mail Service (5.5.2650.21)
   id <MKXK599N>; Mon, 11 Jun 2001 14:29:10 -0400
Message-ID: <3FA69CA63AC8D3119C15009027E793D101A0DD8B@corpmail.level8.com>
From: "Venema, Ted" <tvenema@level8.com>
To: "Burt Grad (E-mail)" <burtgrad@aol.com>
Subject: Calls Tomorrow
Date: Mon, 11 Jun 2001 14:29:09 -0400
MIME-Version: 1.0
X-Mailer: Internet Mail Service (5.5.2650.21)
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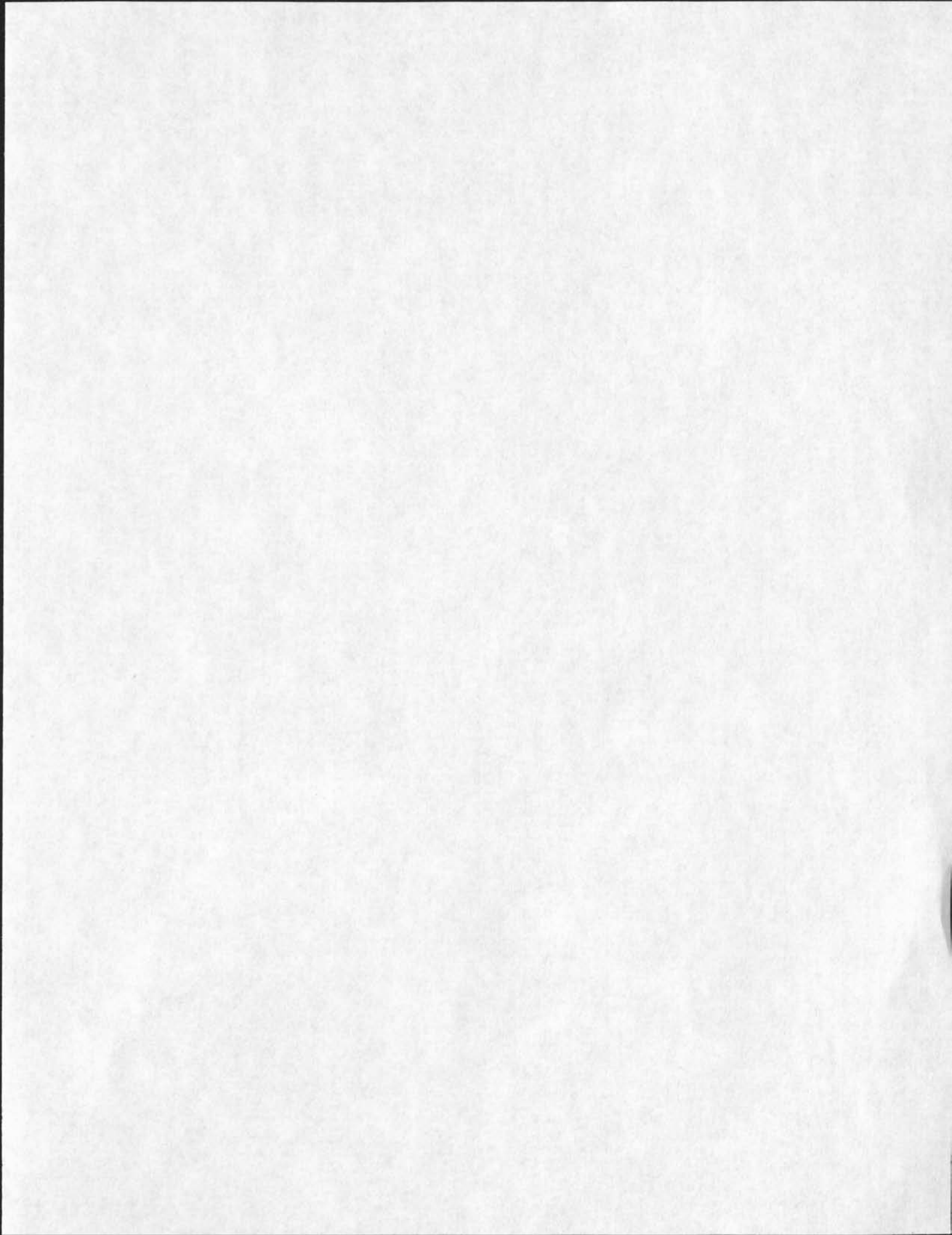
Level 8 Systems, Inc.
2001 Operating Plan
GIB - Line of Business

	Actual Q1	Q2	Q3	Q4	Total Annual	2002 Q1	Q2	Q3	Q4	Total Annual	2003 Q1	Q2	Q3	Q4	Total Annual	2004 Q1	Q2	Q3	Q4	Total Annual
Revenue:																				
Software	$ 100	100	100	300	100	100	100	100	400	100	100	100	100	400	100	100	100	100	400
Maintenance	59	60	61	180	64	67	70	73	274	75	77	79	81	312	81	83	85	85	334
Services						0	0	0	0		0	0	0	0		0	0	0	0
Total Revenue	159	160	161	480	164	167	170	173	674	175	177	179	181	712	181	183	185	185	734
Cost of Revenue:																				
Cost of Software																				
Cost of Maintenance	103	103	103	310	103	103	103	103	413	103	103	103	103	413	103	109	109	109	431
Cost of Services																				
Total Cost of Revenue	103	103	103	310	103	103	103	103	413	103	103	103	103	413	103	109	109	109	431
Gross Profit	56	57	58	170	61	64	67	70	261	72	74	76	78	299	78	74	76	76	303
Operating Expenses:																				
Development																				
Sales	34	34	34	102	34	63	63	63	223	63	67	67	67	264	67	71	71	71	280
Marketing																				
G&A - Corp Services Charge	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0	0	0	
Subtotal	34	34	34	102	34	63	63	63	223	63	67	67	67	264	67	71	71	71	280
Income/(loss) from operations	22	23	24	68	27	1	4	7	38	9	7	9	11	35	11	3	5	5	23
Final Profit	22	23	24	68	27	1	4	7	38	9	7	9	11	35	11	3	5	5	23
Final Margin	13.5%	14.2%	14.9%		16.2%	0.5%	2.2%	3.9%		5.0%	3.8%	4.9%	6.0%		6.0%	1.4%	2.5%	2.5%	
Services Margin																				
Maintenance Margin	-75.7%	-72.0%	-68.5%		-61.9%	-54.1%	-47.5%	-41.4%		-37.6%	-34.1%	-30.7%	-27.4%		-27.4%	-31.8%	-28.7%	-28.7%	

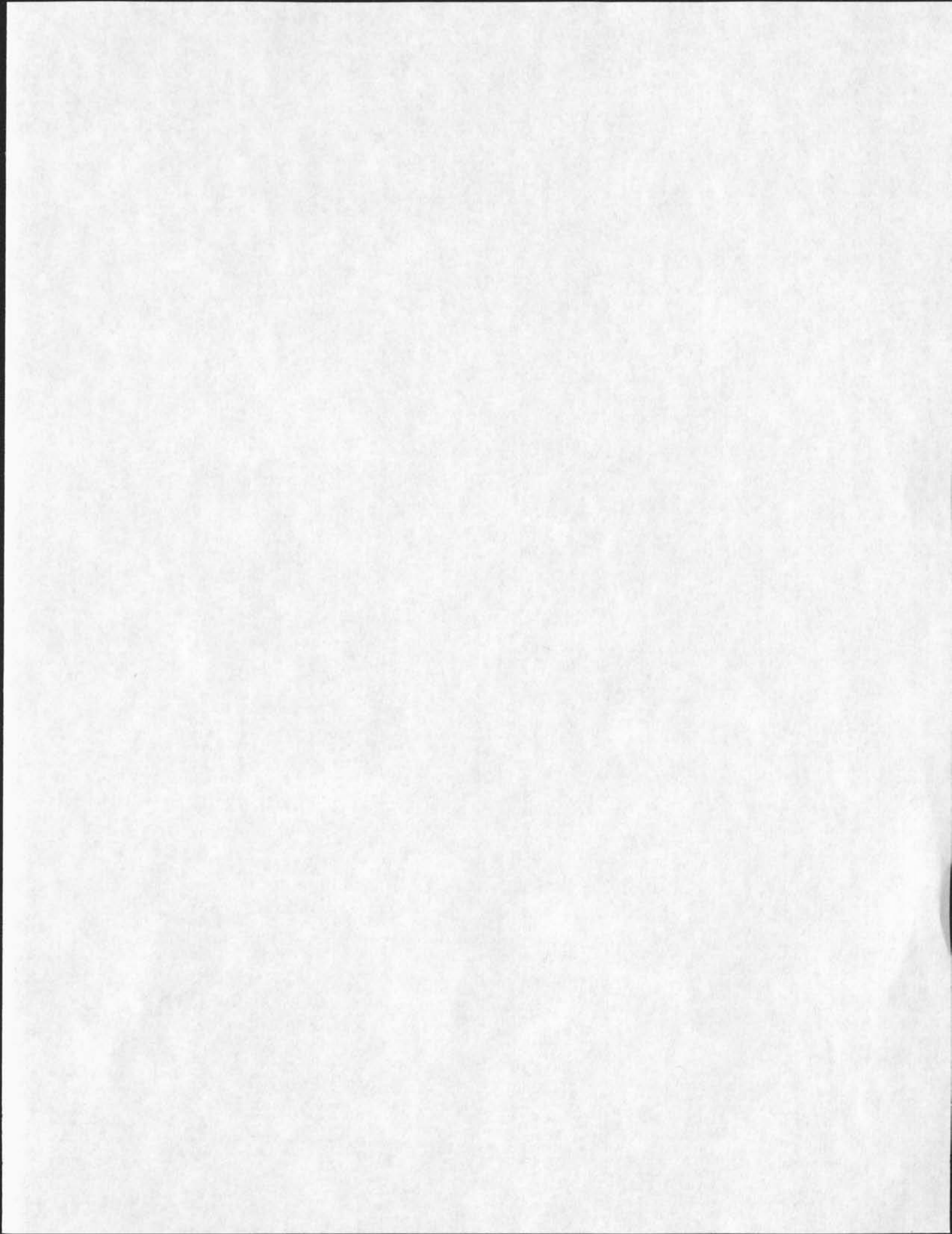|	Q2	Q3	Q4	Q1	Total Annual	2002 Q2	Q3	Q4	Q1	Total Annual	2003 Q2	Q3	Q4	Q1	Total Annual	2004 Q2	Q3	Q4	Q1	Total Annual
Revenue:																				
Software	$ 25	25	25	25	$ 100	25	25	25	25	100	25	25	25	25	100	25	25	25	25	100
Maintenance	280	280	280	280	1,120	273	266	260	253	1052	247	241	235	229	950	223	217	212	207	858
Services					-	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenue	305	305	305	305	1,220	298	291	285	278	1,152	272	266	260	254	1,050	248	242	237	232	958
Cost of Revenue:																				
Cost of Software					0															
Cost of Maintenance	111	111	111	117	451	117	117	117	105	456	105	105	100	100	410	100	100	100	100	400
Cost of Services					0					0										0
Total Cost of Revenue	111	111	111	117	451	117	117	117	105	456	105	105	100	100	410	100	100	100	100	400
Gross Profit	194	194	194	188	769	181	174	168	173	696	166	160	160	154	640	148	142	137	132	558
Operating Expenses:																				
Development					0					0					0					0
Sales	30	30	30	32	123	32	32	32	33	129	33	33	33	35	135	35	35	35	35	140
Marketing					0					0					0					0
G&A - Corp Services Charge	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal	30	30	30	32	123	32	32	32	33	129	33	33	33	35	135	35	35	35	35	140
Income/(loss) from operations	163	163	163	156	646	149	142	136	139	567	133	127	126	119	505	113	107	102	96	418
Profit Sharing																				0
Final Profit	163	163	163	156	646	149	142	136	139	567	133	127	126	119	505	113	107	102	96	418
Final Margin	53.6%	53.6%	53.6%	51.2%	53.0%	50.1%	48.9%	47.7%	50.1%	49.2%	49.0%	47.8%	48.6%	46.8%	48.1%	45.5%	44.3%	43.0%	41.7%	43.6%
Services Margin	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Maintenance Margin	60.2%	60.2%	60.2%	58.2%	59.7%	57.2%	56.1%	54.9%	58.4%	56.6%	57.3%	56.3%	57.4%	56.3%	56.8%	55.1%	54.0%	52.8%	51.6%	53.4%

Avik Kilman —
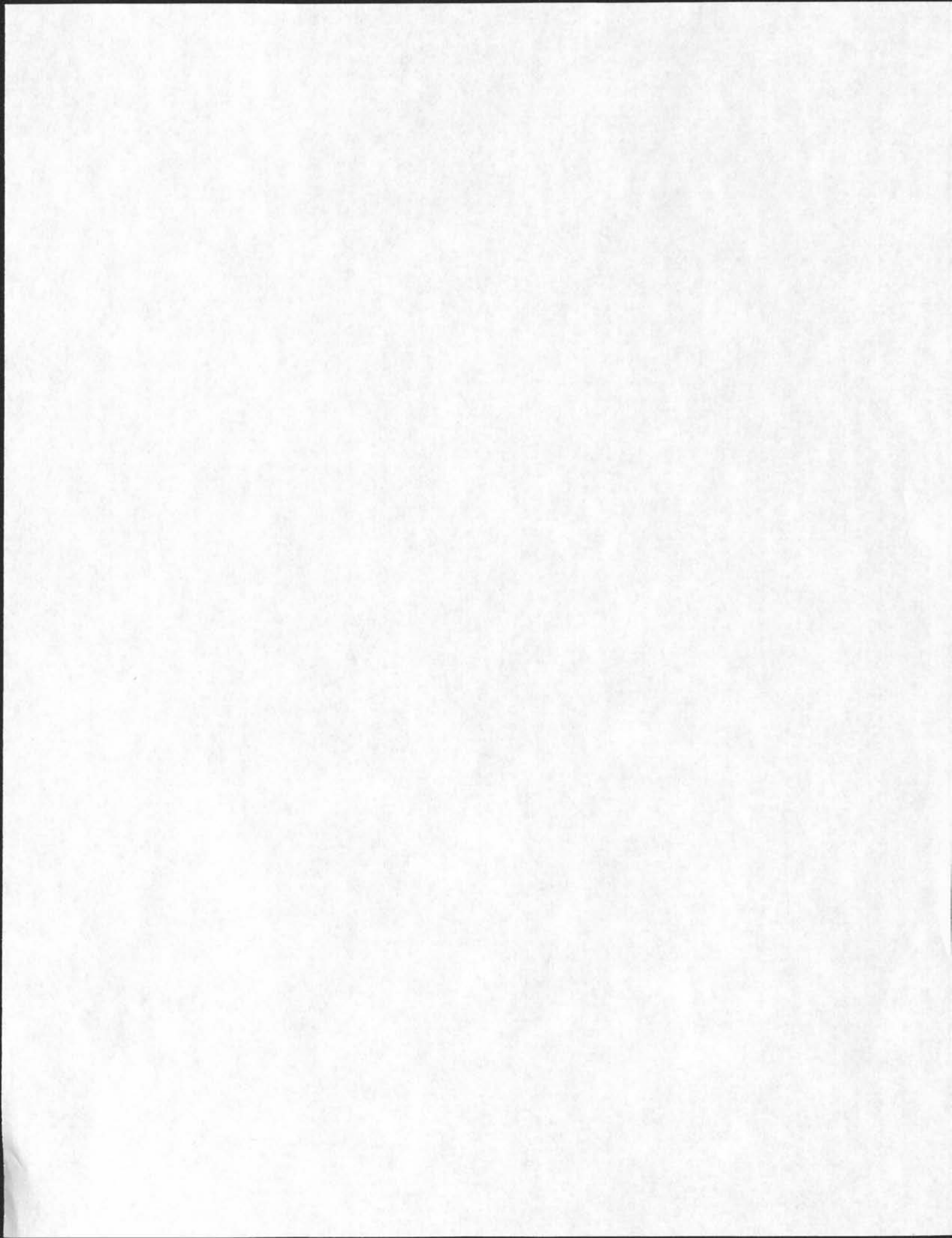
- direction for product -- (Dennayer)
  for growth --
  what functions, what platforms?
          acctg
- who should provide services?
  Elvon Software

Specific Key questions

1. Continuation of maintenance revenue
    analyze 2000 revenue and 2001 status
    Customer satisfaction question on renewal
    how long between deciding to reprogram
        + dropping maintenance
    contract terms re maint pricing
    Maint flow from new product sales
        to existing customers
    exposure to reduction in # of developer
        seats
    increases from platform change, new
        applications, add'l user or devel seat

2. Projected cash flow for the AB business,
    considering all prospective revenues, operating costs
    and share of corporate services and
    executive overhead.
        assumptions on revenue:-
            maint, prof. serv, product sales
        assumptions on operating cost:
            Cary, Uxbridge, Europe,
        assumptions on admin, fin, etc cost
        assumptions on exec/corp cost

3. Investment required for new development
    new releases for AB for 2001
    new release/revision for AB for 2002
        opportunities to speed up/enhance devel

4. Ongoing maintenance/support costs
    current product
    new products
    opportunities to reduce maint costs

5. Market opportunities for AB-type product
    new prospects
    competition

Here is the preliminary report on the technical and business due diligence work done by BGAI. Many sections have not yet been written, but will be done by 6/20. I have focused on the Executive Summary, Conclusions and Recommendations.

Most of the Appendices are omitted since they require hard copy. I have also omitted the Dunayer Appendix since that was sent to you previously.

This email has attached the report in Word format. When you can print this it may not have all of the layout and formatting as I intend it to appear, but the content will be ok. I have sent you a separate email with the attachment in Word Perfect format.

I want to send you the final report with all of the appendices (in hard copy) on Wednesday so you will have it on Thursday morning. Where should I send it?

Also let me know how I can participate in the Thursday morning meeting by telephone.

Burt Grad 6/17

Here is the preliminary report on the technical and business due diligence work done by BGAI. Many sections have not yet been written, but will be done by 6/20. I have focused on the Executive Summary, Conclusions and Recommendations.

Most of the Appendices are omitted since they require hard copy. I have also omitted the Dunayer Appendix since that was sent to you previously.

This email has attached the report in Word Perfect format. If you can print this it will have all of the layout and formatting as I intend it to appear. If you have to convert it to Word, then the formatting will be different, but the content will be ok. I have sent you a separate email with the attachment in Word format.

I want to send you the final report with all of the appendices (in hard copy) on Wednesday so you will have it on Thursday morning. Where should I send it?

Also let me know how I can participate in the Thursday morning meeting by telephone.

Burt Grad 6/17

Subj:	**RE: Preliminary Due Diligence report in Word format**
Date:	06/18/2001 2:09:09 PM Eastern Daylight Time
From:	*akilnam@attglobal.net (Arik Kilman)*
To:	*Burtgrad@aol.com*

Burt,

I have read your report and agree with your conclusions especially those related to the CEO and R3 strategy.

FYI , I personally am considering buying some part with DIC , because I see it as a good investment under the proposed terms.

I hope you will be helpful in finding a good CEO.

Regards,

Arik

-----Original Message-----
From: Burtgrad@aol.com [mailto:Burtgrad@aol.com]
Sent: Monday, June 18, 2001 5:06 AM
To: talmor.margalit@dic.co.il; lee_keet@vatlantic.com
Cc: sdunayer@interserv.com; akilnam@attglobal.net
Subject: Preliminary Due Diligence report in Word format

Here is the preliminary report on the technical and business due diligence
work done by BGAI. Many sections have not yet been written, but will be done
by 6/20. I have focused on the Executive Summary, Conclusions and
Recommendations.

Most of the Appendices are omitted since they require hard copy. I have also
omitted the Dunayer Appendix since that was sent to you previously.

This email has attached the report in Word format. When you can print this it
may not have all of the layout and formatting as I intend it to appear, but
the content will be ok. I have sent you a separate email with the attachment
in Word Perfect format.

I want to send you the final report with all of the appendices (in hard copy)
on Wednesday so you will have it on Thursday morning. Where should I send it?

Also let me know how I can participate in the Thursday morning meeting by
telephone.

Burt Grad 6/17

----------------------- Headers --------------------------------
Return-Path: <akilnam@attglobal.net>
Received: from rly-yb04.mx.aol.com (rly-yb04.mail.aol.com [172.18.146.4]) by air-yb02.mail.aol.com
(v78_r3.8) with ESMTP; Mon, 18 Jun 2001 14:09:09 -0400
Received: from prserv.net (out4.prserv.net [32.97.166.34]) by rly-yb04.mx.aol.com (v78_r3.8) with ESMTP;
Mon, 18 Jun 2001 14:08:44 -0400
Received: from oemcomputer (slip139-92-253-145.tel.il.ibm.net[139.92.253.145])
      by prserv.net (out4) with SMTP

Subj:	**RE: Preliminary Due Diligence report in Word format**
Date:	06/18/2001 5:43:29 AM Eastern Daylight Time
From:	*Talmor.Margalit@dic.co.il (Talmor Margalit)*
To:	*Burtgrad@aol.com*
CC:	*Sharon.Yunger@dic.co.il (Sharon Yunger)*

Burt,
Thanks. We can manage with the Word version of the document. My
assistant, Sharon, will coordinate with you the delivery of a hard copy
- either by Wednesday morning (our time) to our office in Tel Aviv or
Wednesday afternoon (EST) to Sofitel hotel in NY, for me.
We will call you on Thursday at 9:00 AM to allow you to join the
discussion - please advise what number we should dial.

Best Regards,

Talmor Margalit
Vice President
Discount Investment Corporation Ltd
Tel.: +972-3-6075888
Fax +972-3-6075899
Mobile +972-58-785555
Email talmorm@dic.co.il
Web site www.dic.co.il

-----Original Message-----
From: Burtgrad@aol.com [mailto:Burtgrad@aol.com]
Sent: Monday, 18 June, 2001 05:06
To: Talmor Margalit; lee_keet@vatlantic.com
Cc: sdunayer@interserv.com; akilnam@attglobal.net
Subject: Preliminary Due Diligence report in Word format

Here is the preliminary report on the technical and business due
diligence
work done by BGAI. Many sections have not yet been written, but will be
done
by 6/20. I have focused on the Executive Summary, Conclusions and
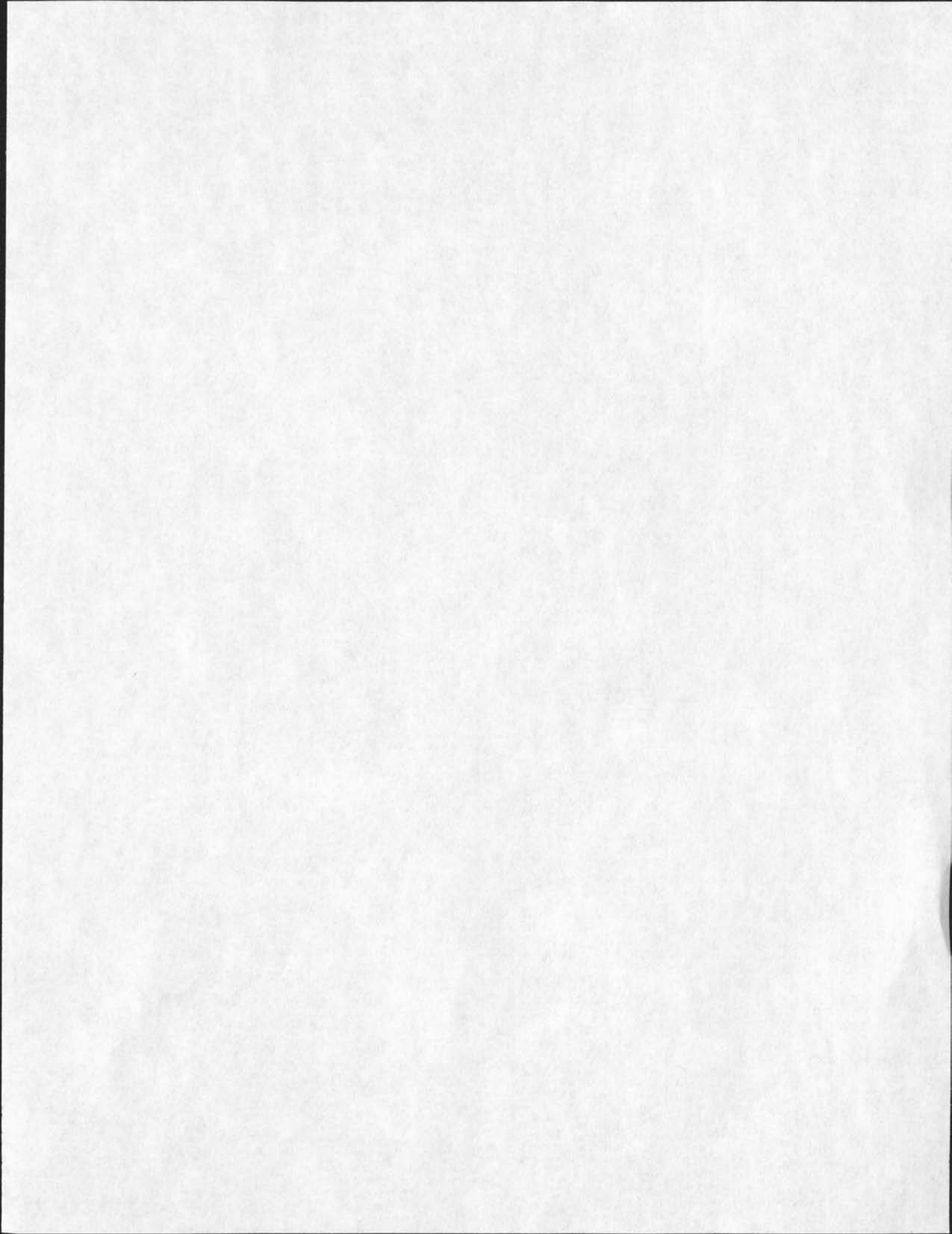Recommendations.

Most of the Appendices are omitted since they require hard copy. I have
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omitted the Dunayer Appendix since that was sent to you previously.

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may not have all of the layout and formatting as I intend it to appear,
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the content will be ok. I have sent you a separate email with the
attachment
in Word Perfect format.

I want to send you the final report with all of the appendices (in hard
copy)
on Wednesday so you will have it on Thursday morning. Where should I
send it?

Also let me know how I can participate in the Thursday morning meeting

Subj:	**HPS - Business DD**
Date:	06/10/2001 3:37:41 AM Eastern Daylight Time
From:	*Talmor.Margalit@dic.co.il (Talmor Margalit)*
To:	*burtgrad@aol.com*

Burt,
It's been a real pleasure meeting you last week, and I look forward to
working together in the future.
Following our meeting with Ted, could you please have him:
*   Update the Customer Status Report to reflect current situation,
with a clear distinction (separate columns) between reality and
potential.
*   Update the list maintenance fees and contracts, accordingly.
*   We should then quantify the value of the operation, assuming (1)
continuation of current trends led by L8 management and (2) potential
renewed / new activities.

If you prefer that I contact Ted directly – please let me know.

Best Regards,

Talmor Margalit
Vice President
Discount Investment Corporation Ltd
Tel.:   +972-3-6075888
Fax   +972-3-6075899
Mobile +972-58-785555
Email   talmorm@dic.co.il
Web site   www.dic.co.il

----------------------- Headers ----------------------------------
Return-Path: <Talmor.Margalit@dic.co.il>
Received: from rly-ye03.mx.aol.com (rly-ye03.mail.aol.com [172.18.151.200]) by air-ye02.mail.aol.com
(v78_r3.8) with ESMTP; Sun, 10 Jun 2001 03:37:41 -0400
Received: from mail.idb-hq.co.il ([194.90.191.210]) by rly-ye03.mx.aol.com (v78_r3.8) with ESMTP; Sun, 10
Jun 2001 03:37:38 -0400
Received: from taex1.idb-hq (unverified) by mail.idb-hq.co.il
(Content Technologies SMTPRS 4.2.1) with ESMTP id <T540e4e7fc6c25abfd20d1@mail.idb-hq.co.il> for
<burtgrad@aol.com>;
Sun, 10 Jun 2001 10:34:38 +0200
content-class: urn:content-classes:message
Subject: HPS - Business DD
Date: Sun, 10 Jun 2001 10:35:32 +0300
MIME-Version: 1.0
Content-Type: text/plain;
   charset="windows-1255"
Content-Transfer-Encoding: quoted-printable
Message-ID: <C0ED3A5A1941E042911B5B8CD425318C0C27DE@taex1.idb-hq>
X-MS-Has-Attach:
X-MimeOLE: Produced By Microsoft Exchange V6.0.4418.65
X-MS-TNEF-Correlator:
Thread-Topic: HPS - Business DD
Thread-Index: AcDxiKyBf8bRo12EEdWIbAAQYAA/+g==
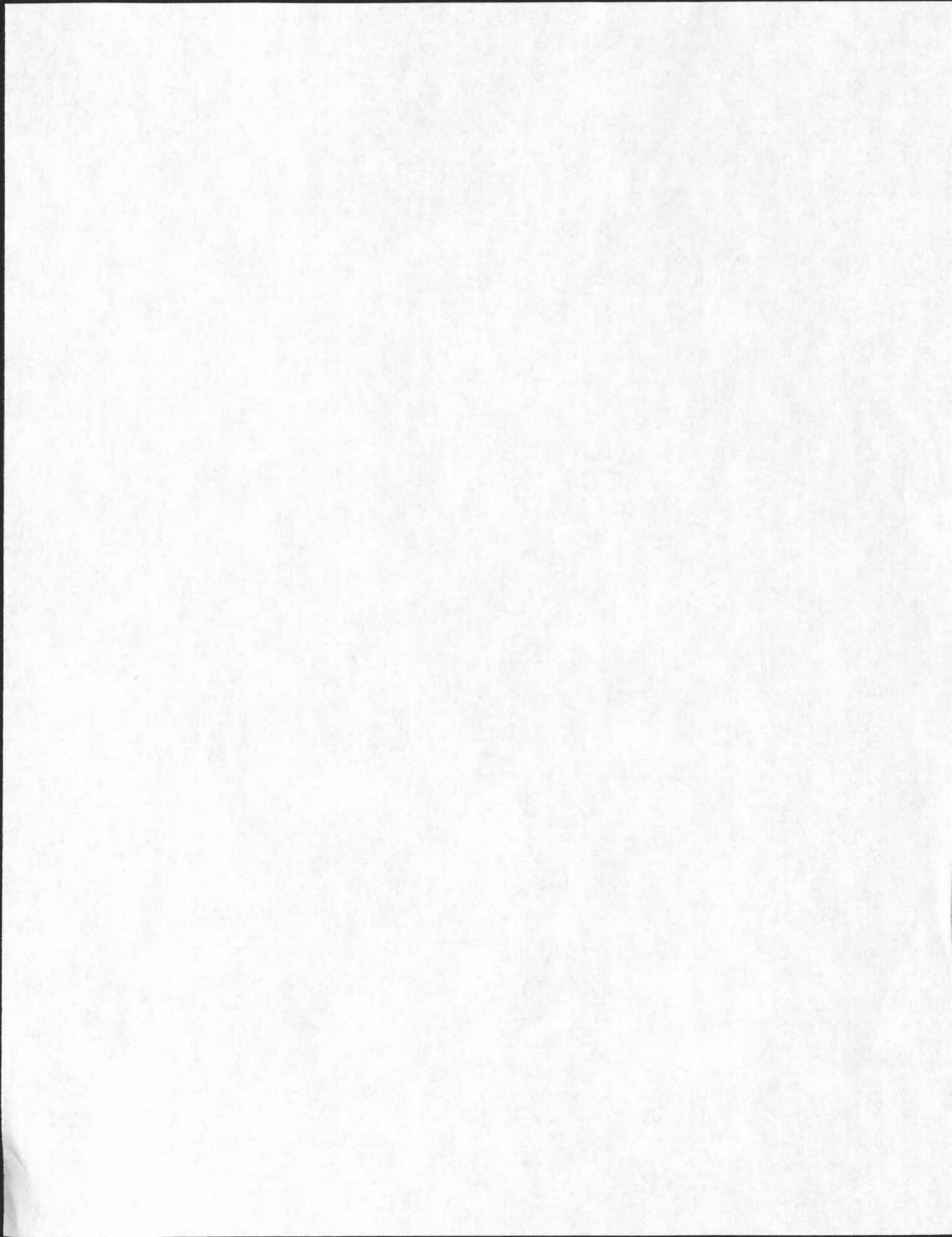From: "Talmor Margalit" <Talmor.Margalit@dic.co.il>
To: <burtgrad@aol.com>

Subj:	**Re: HPS - Business DD**
Date:	06/10/2001
To:	Talmor.Margalit@dic.co.il

I'll be pleased to contact Ted directly for the information that you want. Actually, I've already requested the first two items, but I'll try to get the format modified as you have asked. I will give you a call this afternoon (your time) to discuss some items that came up during my visit and Sid Dunayer's review.

Please check with Lenny Recanati about what to do on the other products which are presently managed and supported in Cary: XIPC, GMQ, GIB and CTRC. I spoke with Paul and he said that the current terms sheet was controlling and that we should not look at these without some form of an agreement. I have some of the financial information, but did not discuss the products while I was there and
Sid did not look at them.

I also enjoyed meeting with you and look forward to working together on this project and on the Level 8 Boaard.

Burt Grad 6/10

Subj:	**due diligence update call**
Date:	06/12/2001 6:46:13 PM Eastern Daylight Time
From:	*reneef@contradopartners.com (Renee Fulk)*
To:	*lenny_r@netvision.net.il (Lenny Recanati), akilnam@attglobal.net, talmorm@dic.co.il (Talmor Margalit),*
ekerson@rkny.com, burtgrad@aol.com	

Arik had requested a conference call on Wednesday to provide an update on
the due diligence process.

I have scheduled a call at 12:00 EDT through AT&T Teleconferencing. The
dial in information is as follows:

International: (775) 785-1972
US: (800) 457-0265
Participant Code: 583077

Let me know if you are unable to attend at this time.

Regards,
Renee

----------------------- Headers ----------------------------------
Return-Path: <reneef@contradopartners.com>
Received: from rly-yd03.mx.aol.com (rly-yd03.mail.aol.com [172.18.150.3]) by air-yd02.mail.aol.com
(v78_r3.8) with ESMTP; Tue, 12 Jun 2001 18:46:13 -0400
Received: from prserv.net (out4.prserv.net [32.97.166.34]) by rly-yd03.mx.aol.com (v78_r3.8) with ESMTP;
Tue, 12 Jun 2001 18:45:59 -0400
Received: from hurricaner (slip-32-102-104-222.nc.us.prserv.net[32.102.104.222])
      by prserv.net (out4) with SMTP
      id <2001061222433020400kd2m0e>; Tue, 12 Jun 2001 22:43:32 +0000
From: "Renee Fulk" <reneef@contradopartners.com>
To: "Lenny Recanati" <lenny_r@netvision.net.il>, <akilnam@attglobal.net>,
      "Talmor Margalit" <talmorm@dic.co.il>, <ekerson@rkny.com>,
      <burtgrad@aol.com>
Subject: due diligence update call
Date: Tue, 12 Jun 2001 18:43:51 -0400
Message-ID: <NDBBJJFEDFBEPOPELPJDGEILDAAA.reneef@contradopartners.com>
MIME-Version: 1.0
Content-Type: text/plain;
   charset="iso-8859-1"
Content-Transfer-Encoding: 7bit
X-Priority: 3 (Normal)
X-MSMail-Priority: Normal
X-Mailer: Microsoft Outlook IMO, Build 9.0.2416 (9.0.2911.0)
Importance: Normal
X-MimeOLE: Produced By Microsoft MimeOLE V5.50.4133.2400

|	
Subj:	**Level 8 Proposal**
Date:	06/12/2001 6:01:13 PM Eastern Daylight Time
From:	*jblumberg@SPECIFICS.com (Joe Blumberg)*
To:	*burtgrad@aol.com ('burtgrad@aol.com')*
File:	**NCDueDiligence.doc** (23040 bytes) DL Time (32000 bps): < 1 minute

Burt:

With the preponderance of foreign interviews, I felt it was appropriate to
leave the "up to" qualifier in the first sentence. We will be calling
during the night and pushing to complete as many as possible in a very short
time. If we get close to 15 in this timeframe, especially from the primary
list, it will be an extraordinary effort, and I will be pleased.

<<NC Due Diligence.doc>>

Joe Blumberg
Specifics, Inc.
We bring IT into Focus
770-391-0013
www.specifics.com

----------------------- Headers -----------------------------------
Return-Path: <jblumberg@SPECIFICS.com>
Received: from rly-zd04.mx.aol.com (rly-zd04.mail.aol.com [172.31.33.228]) by air-zd02.mail.aol.com
(v78_r3.8) with ESMTP; Tue, 12 Jun 2001 18:01:13 -0400
Received: from specifics01.specifics.com ([209.193.235.34]) by rly-zd04.mx.aol.com (v78_r3.8) with
ESMTP; Tue, 12 Jun 2001 18:00:32 -0400
Received: by SPECIFICS01 with Internet Mail Service (5.5.2653.19)
   id <K0G7NYGZ>; Tue, 12 Jun 2001 18:00:28 -0400
Message-ID: <9867A67B4A2BD511BF2E0002557C19CE5898@SPECIFICS01>
From: Joe Blumberg <jblumberg@SPECIFICS.com>
To: "'burtgrad@aol.com'" <burtgrad@aol.com>
Subject: Level 8 Proposal
Date: Tue, 12 Jun 2001 18:00:27 -0400
MIME-Version: 1.0
X-Mailer: Internet Mail Service (5.5.2653.19)
Content-Type: multipart/mixed;
   boundary="----_=_NextPart_000_01C0F38B.16ED5470"
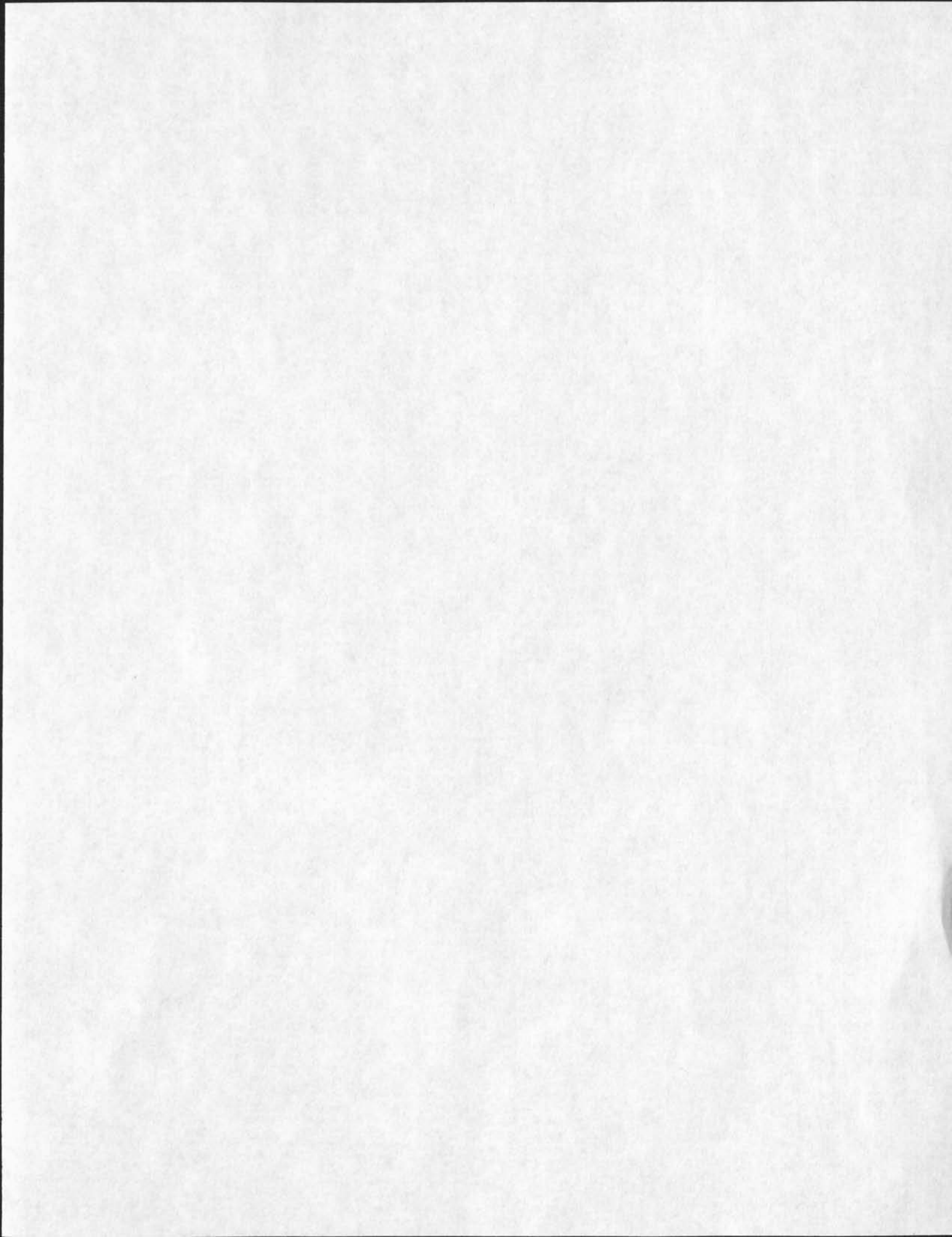
June 4, 2001

Level 8 Systems, Inc.
8000 Regency Parkway
Cary, North Carolina 27511

Gentlemen:

Attached is a preliminary term sheet relating to the possible sale by you to DIC (as defined in the term sheet) of the HPS Assets (as defined in the term sheet).

It is our mutual intention to execute and deliver, or cause to be executed and delivered, definitive documentation embodying the price, structure and other terms and conditions of the possible sale contemplated by the attached term sheet as soon as practicable, and, in any event, on or before June 23, 2001.

Notwithstanding the foregoing, however, it is understood and agreed that the attached term sheet is not, and is not intended to be, binding on either of us, and no binding agreement shall be in effect until and unless definitive documentation is agreed upon and executed and delivered; provided, however, that the provisions of the attached term sheet under the headings "Inspection and Access", "Costs and Expenses" and "Nondisclosure" shall be binding on each of us, whether or not we execute and deliver definitive documentation (it being understood that the provisions under the headings "Inspection and Access" and "Nondisclosure" shall terminate on June 24, 2001). In that connection, we do not intend to execute any definitive documentation, until and unless definitive documentation regarding the Liraz Guaranty Amendment (as defined in the term sheet) is executed and delivered.

If you agree with the foregoing, please execute this letter in the space provided below for that purpose and deliver the executed copy to us.

Very truly yours,

DISCOUNT INVESTMENT
CORPORATION LTD.

By: _____

Agreed and accepted the date first written above:

LEVEL 8 SYSTEMS, INC.

By:_____

PRELIMINARY TERM SHEET

Basic Transaction:

On or before June 23, 2001, and subject to satisfactory completion of the due diligence process referred to under "Inspection and Access" below, Discount Investment Corporation Ltd., an Israeli corporation (and one or more of its affiliates) (collectively, "DIC"), and Level 8 Systems, Inc., a Delaware corporation ("Level 8"), shall enter into a definitive acquisition agreement (the "Purchase Agreement"), pursuant to which DIC shall purchase from Level 8, and Level 8 shall sell to DIC, as of June 30, 2001, the HPS Assets (as defined in Attachment "A" hereto) and such other assets as may be specified in the Purchase Agreement (the "Other Assets").

Consideration:

In consideration for the HPS Assets and the Other Assets, DIC shall pay Level 8 an amount to be mutually agreed upon (which shall not be less than $20,000,000 or more than $25,000,000) following the due diligence process referred to under "Inspection and Access" below, and shall assume the HPS Liabilities (as defined in Attachment "A" hereto) and such other liabilities as may be specified in the Purchase Agreement (the "Other Assumed Liabilities").

Purchase Agreement:

Level 8 and DIC shall execute and deliver a mutually acceptable Purchase Agreement setting forth the price, structure and other terms and conditions of the possible acquisition, together with all ancillary documentation and exhibits necessary to consummate the transaction, all of which shall be mutually acceptable to the parties. Closing on the transaction shall be concurrent with or as soon after the signing of the Purchase Agreement as possible, but in no event later than July 16, 2001. Concurrent with the closing on this transaction, the parties shall enter into the License Agreement for Geneva Integration Broker and the Liraz Guaranty Amendment, each as contemplated in Attachment "A" .

Representations, Warranties
And Covenants:

The Purchase Agreement shall contain representations, warranties and covenants typically found in agreements relating to transactions of this type, including representations and warranties as to software, intellectual property, infringement and related intellectual property matters, and covenants relating to Level 8 providing DIC certain transition services, at no additional cost, for not fewer than six

329768

months.

Indemnification: The Purchase Agreement shall contain indemnification provisions typically found in agreements relating to transactions of this type, including indemnification of DIC against any liabilities or obligations of Level 8 or any of its subsidiaries that do not constitute HPS Liabilities or Other Assumed Liabilities.

Conditions to Closing: The Purchase Agreement shall contain closing conditions typically found in agreements of this type and mutually acceptable to Level 8 and DIC.

Inspection and Access: The parties recognize that there will be an abbreviated due diligence process conducted prior to the consummation of the purchase. Upon reasonable prior notice and during normal business hours, Level 8 shall grant to DIC and its agents, employees and designees full and complete access to the books and records and personnel of Level 8 concerning the HPS Assets.

Costs and Expenses: Except as provided herein, each party shall be responsible for its own expenses in connection with all matters relating to the transaction herein proposed, including, but not limited to, its own legal, accounting, investment banking and other advisory fees.

Nondisclosure: Neither of the parties shall disclose to the public or any third party, other than is attorneys or other advisors or financing institutions, the existence of this Term Sheet or the proposed transactions, except to the extent required by law after giving prior written notice to the other party. Level 8 and DIC agree to enter into an appropriate confidentiality agreement covering this proposed transaction.

Attachment "A"

The HPS Assets shall refer to all the assets (including accounts receivable) and business of Level 8 and its subsidiaries relating to the product formerly known as Seer*HPS (currently named Geneva AppBuilder), and all derivatives thereof in both source and object code format and including the patented technology contained in said products (collectively, the "HPS Products").

The HPS Liabilities shall refer to all accounts payable, obligations and accrued expenses as of July 1, 2001that relate to the HPS Products, and all liabilities and obligations under the Assumed Agreements. The HPS Assumed Liabilities shall not include any liabilities for infringement of intellectual property rights of third parties, any liabilities for any violation of law, breach of contract or tort arising before the closing. It is understood that the sum of the accounts receivable plus the fixed assets included in the HPS Assets shall equal the sum of the accounts payable plus obligations (including deferred revenue obligations) plus accrued expenses included in the HPS Assumed Liabilities.

At the closing, DIC shall grant Level 8 a fully paid, worldwide, non-terminable license to copy, display, use, modify and reproduce Geneva Integration Broker, including the right to make derivative works of the product. Level 8 shall own all such derivative works produced by it.

At the closing, the agreements among Level 8, Liraz Systems Ltd. ("Liraz") and Bank Hapoalim (the "Bank") shall be amended to provide, among other things, that (a) $8,000,000 to $10,000,000 of the purchase price paid under the Purchase Agreement shall be applied to reduce Level 8's indebtedness to the Bank, (b) the guaranty by Liraz of Level 8's obligations to the Bank shall be amended (the "Liraz Guaranty Amendment") to reduce the amount of Liraz's guaranty by $8,000,000 to $10,000,000, and (c) Level 8 shall repay not less than $1,000,000 of the unpaid balance of its indebtedness to the Bank not later than six months after the closing.

4