

GOODWIN, PROCTER & HOAR LLP

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October 29, 1996

VIA FEDERAL EXPRESS

Mr. Charles Murphy
Chief Financial Officer
Expert Software, Inc.
800 Douglas Road
Executive Tower
Coral Gables, Florida 33134

Re: IRS Audit

Dear Charlie:

Enclosed is a very helpful memorandum that Burton Grad has prepared regarding his impressions from the meeting with the IRS agents last Friday. Also enclosed is Burton Grad's professional summary and a written outline of his presentation, both of which were distributed at the meeting.

Burt was a very persuasive and powerful witness and has been a pleasure to work with.

Sincerely,



Robert G. Kester

RGK:dd
Enclosures

cc: Howard A. Cubell, Esq.

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GOODWIN, PROCTER & HOAR LLP

Mr. Charles Murphy

October 29, 1996

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bcc: ✓ Mr. Burton Grad

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BURTON GRAD ASSOCIATES, INC.
235 MARTLING AVENUE
TARRYTOWN, NEW YORK 10591
(914) 631-5471 FAX: (914) 631-1164
E-MAIL: BURTGRAD@AOL.COM

Date: October 28, 1996

To: Bob Kester

Attorney-Client Privilege

From: Burton Grad

Subject: Meeting with IRS Agents and Expert Software Attorneys on 10/15/96

The following are some thoughts I had after the meeting; please share them with Howard Cubell and with Expert Software:

1. Valuation Methodology

- The IRS is still intrigued with using reconstruction costs as a means of determining capitalizable value. You may need to determine appropriate law, rulings or cases to support the market value concept, not the construction cost approach. If one were to value a tangible product which was remarketed (e.g., inventory) would one value it at the cost to build (production cost only) or would one deal with marketable price or some cost-based figure?
- Reconstruction value seems to be a way to say: why would anyone pay more than it would cost to develop new, competitive products. The arguments made regarding timing, success/failure ratios, etc. seemed to have satisfied this issue.
- The fact that top-down and bottom-up valuations come out so close seemed be a strong point.

2. Market Opportunity

- My explanation that there were three separate product markets (MS/DOS, MAC, WIN) seemed to have made the case that there was a reasonable basis for assuming that MS/DOS would continue as an ongoing market even though WIN would grow rapidly.

3. Top-Down Revenue Forecast

- Primary concern seemed to be with five-year life. But when we look at my three-year figures, they come out quite close to the actual number used by Expert over three years.

4. Costs and Profits

- No real discussion except for adding amortization back in to cash flow which seems to have been resolved satisfactorily.

5. NPV

- Cost of money vs. blended equity/loan rate seemed to be a central issue.
- This is a comparison of the NPV factors under different cost of money assumptions:

(½ yr. adjusted)	<u>1st year</u>	<u>2nd year</u>	<u>3rd year</u>	<u>Unweighted Average</u>	<u>Ratio to 8%</u>
NPV factors (8%)	.963	.892	.826	.894	1.00
NPV factors (12%)	.946	.845	.754	.848	0.95
NPV factors (20%)	.917	.764	.637	.773	0.86

So, at most, a \$7,386,000 valuation would drop to around \$6,352,000 if one used a 20% rate of return against the 8% actually used.

- From my viewpoint, the issue is how can one produce a stable valuation if one lets the cost of money vary based on the business situation of the buyer. The value of the products should be the same no matter who the buyer is; however, how much a buyer will pay for the assets will vary from buyer to buyer based on each company's objectives and how well the product fits into their strategy. Do we have to consider an industry return on capital figure in computing the NPV?
- They seemed to accept my position that the forecasts were intended to be low risk (units and prices).
- The revenue ratio versus straight line amortization issue seems to have been resolved.

6. Detailed Product Valuation

- They seemed to accept that an independent assessment procedure was followed and that the final numbers were the sum of the individual numbers, not vice versa.

So, all in all, I believe that the IRS agents understood the process I had followed and that it was the same process that I used for other appraisals. Therefore, if they are to try to increase the goodwill component of the purchase price, they have to focus on basic assumptions which have been used in the appraisal:

- ▶ Cost of constructing products vs. marketable value (revenues/profits)
- ▶ Rate of return vs. cost of money
- ▶ Third year cash flow would have been less if I had assumed a three-year life rather than five years for certain products? This assumption would have been consistent with the Expert tax return submission using a three-year life.

I do not plan to do any further work at this time unless you request me to do so. Please send Charlie Murphy a copy of the presentation that was given to the IRS agents and a copy of this letter.

Thanks for your guidance on the various legal aspects of my role.

by

BURTON GRAD ASSOCIATES, INC.

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(914) 631-1164 FAX

Expert Software Inc.
800 Douglas Road
North Tower #355
Coral Gables, Florida 33134-3128

Invoice #: 2793

October 28, 1996

Project #: 236-2

Attention: Mr. Charles Murphy

INVOICE

IRS inquiry regarding valuation of acquired software products

Consulting Services: 9/15/96-10/25/96

Burton Grad -- 3.75 days @ \$2000/day \$7,500.00

TOTAL FEES \$7,500.00

Expenses Incurred:

10/24/96-10/25/96 -- Tarrytown to Boston (meeting with IRS people)

airfare	204.61 (one way)	
hotel	163.45 (one night)	
meals	18.52	
Boston trans. & tolls	17.50	
to and from Westch.		
airport & tolls	16.50	
parking	17.00	437.58

Express Delivery 25.50

Telephone/fax 50.00

TOTAL EXPENSES \$513.08

TOTAL INVOICE \$8,013.08

Less Advance Payment 4,000.00

BALANCE DUE \$4,013.48

INVOICE DUE UPON RECEIPT

**Review of Expert Software, Inc.
Capitalization of Acquired
Intangible Assets (Software Products)
from Bloc Development, Inc.
Effective October 24, 1992**

Valuation Performed for:

Expert Software, Inc.
800 Douglas Road
North Tower Suite 355
Coral Gables, Florida 33134

Valuation Performed by:

Burton Grad Associates, Inc.
235 Martling Avenue
Tarrytown, New York 10591

Burton Grad

Date of Valuation Report:

December 24, 1992

Date of IRS Review:

October 25, 1996

Software Valuation Qualification

- Conducted software company/product valuation studies since 1980
- Conducted more than 125 studies for over 75 different companies
- Focused on intangible assets:
 - Software products
 - Customer base revenue projections
 - R&D technology writeoffs
- Used for accounting and tax purposes, due diligence, fairness opinions, ESOP assessments
- Worked with ITAA and testified to FASB on FASB86
- Worked with ITAA and clients on R&D Tax Credits
- BGAI has been a consulting firm for software companies since 1978 with almost 200 clients for strategic planning, management consulting, product analysis, acquisition due diligence and valuation studies
- With IBM 1960-1978 managing software development organizations
- With General Electric 1948-1960 designing and implementing automation systems
- Bachelor of Management Engineering from Rensselaer Polytechnic Institute in 1949

Expert Software

- History
- Product development (selection, outsourcing)
- Sales (channels)
- Prices, costs
- Overall financials
- Operational skills/organization

Valuation Methodology

- Selected NPV of projected cash flow (after tax)
- Rejected reconstruction cost (not meaningful when development was on a royalty basis (see Q6 and Q8))
- Rejected market comparables (no good public comparables or transaction data available at that time)
- Omitted in-development products since they had not passed FASB86 rules for capitalization (see Q7)
- Used actual data through 10/31/92
- Projected FY92; did not expect any surprises in 4Q92 (see Q9)
- Omitted any rewrite of programs for new platforms (even if extension of existing applications); did include improvements to available products
- Used constant '92 dollars
- Did top-down and bottom-up projections and valuations for confirmation of reasonableness

Market Opportunity

- Very large market opportunity and growing rapidly
- Competition is meaningful, but more in limiting market share and price, not in units sold
- MS/DOS would be principal market opportunity for '93-'94, shifting to WIN in '95-'97. Believed MS/DOS total installations would plateau (not drop), but consumers would continue to buy applications for their installed MS/DOS machines (reference Attachment 1)
- WIN would attract new consumers and build its own separate market opportunity
- MAC would not be a replacement for MS/DOS or a substitute for Windows, but would be a market in its own right at 10% of total market
- Primary channels for low-priced consumer applications would be general large scale merchandisers and large computer software retailers either through direct purchase from suppliers, through rack jobbers, or through software distributors (wholesalers). (See Q5)

Top-Down Revenue Forecast

- Unit forecasts were based on historical sales, timing of introduction of recent titles, growth in installed machines and penetration of installed machines
- Certain categories will grow faster than others and bundles (multi-application offerings) will extend life of existing products by providing more attractive pricing
- Recognized risk in '96-'97, but felt that continuing improvements and add-ons (without inventory remaindering) would allow five-year life for categories (although some switch in specific program significance) (see Q4)
- Did not project any significant growth in MS/DOS revenues from available products in spite of growth in number of installed systems
- No further price erosion for MS/DOS; some drop for MAC prices and substantial drop for Windows prices
- No change in distributor/rack jobber/direct sales mix which would change effective price

Costs and Profits

- Cost projections used were higher than historic figures (80% vs. 70%) for MS/DOS and no margin improvement over remaining life which one would normally expect. On MAC and Windows, started with higher costs (product introduction costs) and brought only to MS/DOS costs, even though pricing points were higher
- Operating expenses only (no amortization, no interest)

NPV

- Five-year life though some individual products will drop away earlier, based on market opportunity and expected MS/DOS life; MAC and WIN would probably be longer (see Q10, Q11, Q12, Q14)
- Tax rate of 40% (federal and state)
- Cost of money, if borrowed, was 8% (6% prime and 2% borrowing premium). This is a pretax cost of money applied to after tax profits. This is equivalent to 12% after tax cost of money (Reference Q2, Q15)
- Since forecasts were assumed to be low risk (e.g., conservative), 8% was a suitable figure to use. It is similar to that used on various other BGAI studies during the same time period.
- Used revenue ratio basis for amortization rather than straight line, since these will be declining revenue products. Revenue ratio is a more conservative basis, rather than wait for matching amortization with tail end revenues from product life (see Q13)

Detailed Product Valuation

- Followed same procedures for each live product (39) as for categories. But used three-year life or five-year life as appropriate for each product
- Therefore, Expert Software could write off earlier any individual products which did not meet expectations while continuing to use planned amortization on those products which met or exceeded forecast.
- Results were very close to top-down projected values

Valuation Conclusions

<u>Products</u>	<u>Capitalizable Value</u>	<u>Amortizable Life</u>	<u>Amortization Process</u>
MS-DOS Products			
Home - 3 products	\$1,431,000	5 years	Revenue Ratio
Home - 6 products	241,000	3 years	Revenue Ratio
Hobby - 9 products	1,900,000	5 years	Revenue Ratio
Improvement - 4 products	783,000	5 years	Revenue Ratio
Improvement - 2 products	88,000	3 years	Revenue Ratio
Bundles - 4 products	1,100,000	5 years	Revenue Ratio
Bundles - 3 products	68,000	3 years	Revenue Ratio
Macintosh Products			
Home - 4 products	649,000	5 years	Revenue Ratio
Hobby - 2 products	826,000	5 years	Revenue Ratio
Windows Products			
Home - 2 products	<u>300,000</u>	5 years	Revenue Ratio
Total	\$7,386,000		

IRS Questions/BGAI Answers

- Goodwill: Q1, Q3
- Cost of money: Q2, Q15
- Revenue ratio: Q15
- Shelf obsolescence: Q4
- Channel revenue mix: Q5
- Reconstruction cost: Q6, Q8
- In development products: Q7
- Economic life: Q10, Q11, Q12, Q14
- Full year '92 revenue: Q9

MS/DOS VERSUS WINDOWS - SITUATION 4Q92

Moving to Windows was difficult:

Hardware Issues

- ▶ Needed 486 chip
- ▶ Needed lots of memory
- ▶ Needed new monitors - high resolution, color
- ▶ Price was very high (many thousands of dollars)

Software Issues

- ▶ 3.0 was very buggy
- ▶ 3.1 was first usable version
- ▶ People got delivery of WIN, but didn't use it
- ▶ Business use, not home use, for first two years

Value issues

- ▶ Little other application software for WIN (vendors still producing DOS); very difficult to write WIN applications; not big enough home market to justify development efforts (e.g., DOS and even MAC markets were bigger)
- ▶ Price for Windows software was much higher than for DOS
- ▶ DOS hardware prices were quite low and dropping

Motivational Issues

- ▶ No "killer app" at the time to persuade people to buy/use Windows (justify paying for WIN-capable machine)

WHAT HAPPENED TO CHANGE WINDOWS HOME ACCEPTANCE

- Edutainment became killer app (games, good education tools)
- Some drop in MS/DOS sales in '93 made people concerned about buying old software
- Some increase in WIN app sales in '93 made people interested in Windows
- MAC in '93 went nowhere as WIN picked up home users who wanted GUI (at lower hardware price)
- By '94, it was clear that DOS was plummeting and wouldn't recover; WIN had started to climb (good new applications, lower hardware prices, WIN 3.1 really worked and was given away with new hardware sales)
- Rapid replacement was a major surprise to whole market (to business and, even more so, to home)
- Expert Software and its competitors were able to move quickly to fill revenue gap by acquiring new software (royalties only), so there was an ample supply of WIN home products by 1994

Agenda for Meeting with Burton Grad Associates

1. Discuss appraiser's opinion concerning goodwill.
2. Discuss the return on capital charges.
3. Discussion of trained personnel, established marketing and distribution channels.
4. Page II-3 of the appraisal discusses the obsolesce of the products, discuss further.
5. Page II-3 of the appraisal report states "use of distributors has some impact on Expert Software's gross revenues, but has also reduced its operating costs." Quantification of these impacts.
6. Page II-4 of the appraisal discusses the products code, further discussion.
7. Page II-5 of the appraisal, the appraiser didn't consider the value of products under development, why?
8. Page III-1 of the appraisal, the appraiser didn't use the reconstruction cost, Why?
9. The appraiser omitted the 11/92 to 12/92 revenues from their projections, discuss.
10. Page III-2 of the appraisal states that independent sources were reviewed by the appraiser, What were these.
11. Page III-2 of the appraisal states that "discussions were held regarding the consumer software market based on Expert Software's experience..."
Need to review notes of these discussions
12. Page III-3 of the appraisal states that the marketable economic life for the products was analyzed. How was this done and review the supporting documentation. How was the actual life of each product taken into account.
13. Page III-3 of the appraisal states that the revenue ratio method was used for amortization, why?
14. Page IV-1 of the appraisal, the appraiser states that DOS software would be the revenue generator for the next 5 years, discuss.
15. Page IV-5 of the appraisal, the appraiser uses an 8% discount rate, discuss.

PROFESSIONAL SUMMARY -- BURTON GRAD

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

Since 1978 he has been a consultant for software products, software professional services, value added remarketers, processing services and other computer software and services businesses:

- strategic planning, management and organizational consulting and product analysis, evaluation and review
- company and product acquisition studies including due diligence and valuation for financial, tax and capitalization purposes
- planning, assessment and analysis of business operations including quality and productivity measurements

Work is performed personally or with the assistance of well-known specialists in market research, customer service, industry applications and mainframe, midrange, workstation, client/server and personal computer systems.

This is a partial list from the more than 150 clients of BGAI:

AGS Information Services (now part of Keane, Inc.)
Broadview Associates and Geocapital Partners
Expert Software
Future Three
Informatics (now part of Sterling Software)
International Business Machines
Keane, Inc.
Morgan Stanley
NCR Corporation
Relay Technology
SPSS, Inc.
Sterling Software, Inc.
Triad Systems Corporation
TSI International

BURTON GRAD

Work Achievements

Burton Grad Associates, Inc. (1978 - Present)

- * Strategic planning, management and organizational consulting and product analysis, evaluation and review
- * Company and product valuation studies for financial, tax, capitalization and acquisition purposes
- * Business assessment studies and implementation projects for product strategy, development, quality management and customer service
- * Design and implementation of computer based training courses

Customer Care, Inc. (1992 - Present)

- * Publishing *CustomerCare Newsletter* and *CustomerCare Survey* directed at software companies' customer services activities: support, documentation, training and product consulting
- * Providing consulting on customer service processes, and training for customer service personnel

Heights Information Technology Service (1979 - 1983)

- * Professional Services for applications and systems development
- * Use of professionals on a remote, work at home basis with effective project management

International Business Machines Corporation (1960 - 1978)

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

BURTON GRAD

Work Achievements (cont'd IBM)

- * Establishment of joint planning and programming development with European operations
- * Announcement, development and initial support of CICS
- * Management of application development for small business and process control systems
- * Responsibility for the production, release and maintenance of close to 200 programs
- * Conception of approach to and programs for text processing and office automation systems
- * Development and expansion of computer based training systems
- * Development of management science and scientific programs
- * Participation in the structuring and unbundling of IBM program products
- * Creation of the Study Organization Plan for specifying and designing application systems

General Electric Company (1949 - 1960)

- * Programming of the first commercial computer (Univac I in Louisville)
- * Development of discrete simulation techniques for manufacturing planning and control
- * Invention of decision tables
- * Study of automated factory design and implementation
- * Initiation and use of advanced techniques for production, inventory and quality control

BURTON GRAD

Other Professional Activities

1972-Present

ITAA (formerly ADAPSO)

- * Computer Software and Services Trade Association
- * President, Treasurer and Board member of American Software Association Division of ITAA
- * Member of ITAA Board
- * Chair and member of various committees (Industry Relations, Software Capitalization, Software Openness, Technology Information Services, Quality Management)
- * Executive Committee of Information Technology Foundation (Project Office)

1968 and 1979

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

1950-Present

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

BURTON GRAD

**Burton Grad Associates, Inc.
235 Martling Avenue
Tarrytown, NY 10591**

(914) 631-1129
(914) 631-1164 FAX

EDUCATION

1949 Bachelor of Management Engineering
Rensselaer Polytechnic Institute
Troy, New York

POSITION HISTORY

1978-Present **Burton Grad Associates, Inc.,**
 Founder and President
 Consultants to computer software and services companies

1992-Present **CustomerCare, Inc.**
 Chairman
 Publisher and Consultants for software customer services

1978-1984 **Heights Information Technology Services, Inc.,**
 Founder and President
 Professional software services

1960-1978 **International Business Machines Corporation**
 Consultant - IBM Research Lab
 Director of Development - Data Processing
 Division (DPD)
 Manager - Development Services and Scientific
 Application Programs (DPD)
 Manager - Technical and Scientific Development
 (DPD)

1949-1960 **General Electric Company**
 Consultant - Advanced Application and Systems
 Development - Production Control Services
 Manager - Production Control Operation - Large
 Stream Turbine Division
 Manufacturing Training Program

Asset Valuation Services

Burton Grad Associates, Inc. (BGAI) is a consulting firm working exclusively in the computer software and services industry. Since 1978, BGAI has provided strategic planning, organizational analysis, and product and market analyses to over 150 firms including major clients such as IBM, Honeywell, AGS Computers, Sterling Software and NCR.

BGAI has performed more than one hundred asset valuation studies for software product, professional services and processing services companies.

Computer software and services have very special characteristics with only limited explicit case law or history. In addition, the capitalization and amortization situation has continued to change as a result of FASB86, SEC rulings and tax law modifications, all of which have impacted accounting and tax procedures. Burton Grad president of BGAI, has been actively involved in these various software product and service valuation changes through his work in ITAA (ADAPSO), including committee chairmanships and presentations at ITAA conferences.

Burton Grad personally manages each study and participates fully in the structuring and forecasting work and in preparing the valuation and final report. When needed, BGAI uses computer industry financial specialists, picking those consultants whose knowledge and reputation best qualify them to value the particular products or services involved in the assignment.

Enclosed is a fact sheet which provides more information about BGAI's experience in and approach to company and asset valuation.

We believe that BGAI is in a unique position to provide thorough, supportable value recommendations covering software products, services and other intangible assets.

BGAI Asset Valuation Fact Sheet

- * First studies performed in 1980
- * Seventy different customers
 - software products companies
 - professional services companies
 - processing services companies
 - banks and investment organizations
- * Over one hundred studies each involving one to twenty-five individual product or service lines of business for a total of more than three hundred and fifty separate valuations.
- * Valuations have included the full range of intangible assets such as proprietary software rights, proprietary methodologies, customer lists, staff replacement productivity loss, etc.
- * Study purposes include tax valuation for acquisition, due diligence, fairness opinions, capitalization for financial returns, buy-sell agreements, stock contributions (including ESOP valuation) and contract disputes.
- * Values determined have ranged from \$500,000 to \$150,000,000.

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Burton Grad Associates, Inc.
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TARRYTOWN, NEW YORK 10591
(914) 631-5471
FAX: (914) 631-1164
E-MAIL: BURTGRAD@AOL.COM

Date: October 21, 1996

Attorney Work Product

To: Bob Kester
Fax: (617) 227-8591

Number of Pages: 14

From: Burton Grad

Subject: Expert Software Valuation

Attached is my draft of the presentation materials I propose to give to the IRS agents at the October 25-26 meeting.

Please give me your comments and suggestions as soon as possible.

Would it be helpful to give the IRS agents the answers to the questions that I sent you in my October 3, 1996 letter?

I am available Thursday in the morning for a telephone conference. I'll see you at 8:00 A.M. on Friday.

Enclosure
3210

Discussion with Carbell + Kester

10/24

- Expert's own facts of DOS revenues
- check actual 92 vs fact 92
- need avg prices for DOS, WIN, MAC prior to and projected
- explain pre-tax, after tax cost of money

Value was	\$7,386,000
93	1617K
94	1689K
95	1564K
	<hr/>
	4865K
96	1345K
97	1176K
	<hr/>
	7386
	<hr/>
	2521K

MS DOS - 96	986	
97	853	
	<hr/>	
	1839	
		7386
		<hr/>
		5185
		<hr/>
		2201

where did 5185 over 3 yrs come from?

- Sales shift - platforms
- Channel mix change
- Book write offs vs Tax writeoffs
- # computers / platform 92-96
- Competitors (what share)
- Sales of home computer software / platform 92-96

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E-MAIL: BURTGRAD@AOL.COM

Date: October 3, 1996 **Attorney Work Product**
To: Bob Kester
From: Burton Grad
Subject: IRS Review of BGAI Valuation

The following notes relate to the attached IRS Agent Agenda:

1. **Goodwill**-- Usually pertains to the remainder of the purchase price after the tangible and specific intangible assets are valued. Goodwill includes availability of experienced employees, operating procedures, supplier and distributor channels and other going concern values. It also incorporates the value of company/product name and the customer base (apart from maintenance or renewal revenues).
2. **Return on Capital**-- Used pre-tax cost of money not return on capital for NPV calculations, since it is very difficult to set an expected return on capital to recognize individual investment risk. Instead, I reduce the risk by making conservative forecasts.
3. **Personnel, Channels**-- Not specifically valued; would be considered as part of Goodwill except as reflected in product revenue projections for existing products.
4. **Product Obsolescence**-- The nature of the Expert Software products enables the stores to sell them without significant regard to whether it is the latest version. Therefore, there is little to no shelf obsolescence. However, there is a need to prevent product obsolescence by updating the data base content and making improvements in the usage procedures and displays. A particular product will usually not be obsoleted until the platform on which it runs is replaced by a new platform (like Windows 3.1 over MS/DOS).
5. **Distributor Revenue Impact**-- I did not perform any specific quantification of the difference in margins between direct sales and sales through distributors. As a practical matter, there was no way that Expert Software could have set up its own distribution channel to reach the range of retail stores that it had to use as outlets. From my previous work with various software companies, it was clear that if you wanted to use high volume, low price outlets, then you had to use a multi-tiered distribution channel. The operating costs used reflected this distribution channel approach and did not need to change to consider a direct sales approach.

6. **Product Code** -- The size of the products (5,000-20,000 lines of code) is relatively small compared to business application products. However, it appears quite similar to their competitors' products. In many applications, the data base is what makes the program valuable to the buyer. From the valuation standpoint, it did not appear significant to consider the size of the programs or data bases since the market results told us whether these programs were acceptable or not. Therefore, this subject was not pursued any further.
7. **In-Development Products** -- Cannot be capitalized per FASB86, so no valuation. Under FASB2 rules, in-process development would have to be written off at acquisition. For Expert Software, this was not meaningful since all new products were developed by third parties on a royalty, not development contract, basis.
8. **Reconstruction Cost** -- Normally meaningless in determining market value except as a guide to ease of entry by competitors. Regardless of the development cost or reconstruction cost, the value lies in how many customers will buy the products and how much revenue/profit can be generated.
9. **11/92-12/92 Revenues** -- Not available when study was performed. Used full year projections since did not expect differences between actual and projected did not appear to have any significant impact on forecasts produced by BGAI.
10. **Independent Sources** -- Discussions were held with particular merger and acquisition companies and with certain venture capitalists as well as with a few selected industry consultants (all on a non-fee basis) to get their opinions on the growth of the consumer software market, the distribution channels, the pricing points, the timing of the shift from MS/DOS to Windows 3.1, etc. These opinion were added to my own opinions and those from Expert Software in making the overall market assumptions.
11. **Consumer Software Market** -- Interview notes have been sent; other discussions were by phone without any written notes.
12. **Marketable Economic Life** -- The determination of marketable life was done in Section IV on an overall basis by examining the long MS/DOS history and the expectation that consumers would continue to look for new applications for the machines which they already owned. It also looked like it would take quite some time for Expert Software (or its competitors) to develop and market significant Windows-based products, so customers would not have many choices for at least one to two years.

In Section V, we made the marketable life assessment on an individual product basis.

13. **Revenue Ratio Method** -- With products whose revenue is expected decline, this is the more conservative way to ensure that amortization matches revenues.
14. **MS-DOS Products** -- In late 1990, Windows 3.0 was introduced by Microsoft, with significant competition from IBM (which was promoting OS/2). Windows required much more powerful PC's with more memory and storage and more expensive monitors than for MS-DOS. It was my judgment in 1992 (shared by others I had spoken to in the industry) that, for the very low-priced consumer software market, customers would continue to be reluctant to replace their low-priced computers and replace all their other software. Based on this reasoning, I expected that MS-DOS would continue to provide a substantial market for low-cost consumer application software for three to five more years.
15. **Discount Rate** -- We used the 6% prime rate as of the acquisition date plus a 2% borrowing premium. This was a realistic cost of money to use as the discount rate for the NPV calculations

Agenda for Meeting with Burton Grad Associates

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8. Page III-1 of the appraisal, the appraiser didn't use the reconstruction cost, Why?
9. The appraiser omitted the 11/92 to 12/92 revenues from their projections, discuss.
10. Page III-2 of the appraisal states that independent sources were reviewed by the appraiser, What were these.
11. Page III-2 of the appraisal states that "discussions were held regarding the consumer software market based on Expert Software's experience..." Need to review notes of these discussions
12. Page III-3 of the appraisal states that the marketable economic life for the products was analyzed. How was this done and review the supporting documentation. How was the actual life of each product taken into account.
13. Page III-3 of the appraisal states that the revenue ratio method was used for amortization, why?
14. Page IV-1 of the appraisal, the appraiser states that DOS software would be the revenue generator for the next 5 years, discuss.
15. Page IV-5 of the appraisal, the appraiser uses an 8% discount rate, discuss.

Special AnalysesMarket

- # home computers / platforms 92-96
- Competitors / market share
- Sales of home computer software (\$/platform) 92-96

Export

- Sales 92-96 / Forecasts: effective price (units / \$)
- Financials 92-96
- Channel mix 92-96
- Actual sales for capitalized products 92-96
units, \$, effective price

Accounting

- Price Pch - Asset Allocation: \$8.4M
- Amortization / write downs
- Tax Treatment

Capitalization / Amortization ^{asset} of purchase price

($\$000$)	10/23-12/31 <u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>TOTAL</u>
Amount of soft lic	324	4362*	477**	283	5446
Amount of non-complete (with Bloc)***	79	417	417	338	1251
					<u>6697</u>

Balance Sheet (YE)	500	22
Acq'd soft lic.	500	22
non-complete	755	338
Cum Amount - soft	4686	5163
non-c	4915	912

* 2633 - write down

** 263 - write down

*** 3 year amount

- BGAZ recommend \$7386K for soft. cap.
- using rev ratio or straight line, whichever is greater, for amount on soft products
- no soft amount after acq.

GOODWIN, PROCTER & HOAR LLP
EXCHANGE PLACE, BOSTON, MA 02109FROM: Robert G. Kester, Esq.
ATTORNEY

20

FLOOR

TO: Burton Grad
NAME OF PERSONBurton Grad Associates, Inc
NAME OF COMPANYTarrytown, NY
CITY & STATE

- ☒ TEL. (617) 570-1000
☐ FAX (617) 523-1231
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COUNSELLORS AT LAW
EXCHANGE PLACE
BOSTON, MASSACHUSETTS 02109-2881

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October 24, 1996

BY FACSIMILE


Mr. Burton Grad
President
Burton Grad Associates, Inc.
235 Martling Avenue
Tarrytown, New York 10591

Re: Expert Software, Inc.

Dear Burt:

Enclosed are additional Expert documents relating to the purchase price allocation.

Sincerely,



Robert G. Kester

RGK:dd
Enclosures

cc: Howard A. Cubell, Esq.

178377.b1

(License Amortization)A

6/3/93

Item Description	Grand NPV	Sales Basis	Recorded NPV	Sales Basis	Sales from 10/23/92 to 12/31/92	Sales from Q1 '93	Total Sales 10/23/92-3/31/93	% Sold	Sales Under/Over vs. Straight Line	Amortized
DOS:										
10 Best Fortune ✓	162,670	1,005,333	114,169	705,209	28,419	38,801	67,220	10%	(38,636)	
10 Best Publisher ✓	57,750	346,000	40,538	242,880	32,919	28,731	59,650	25%	23,218	
Animator ✓	174,000	1,170,000	122,142	821,209	30,286	13,184	43,470	5%	(79,725)	
Astronomer ✓	465,000	3,055,000	328,414	2,141,803	69,809	128,671	198,280	9%	(125,395)	
Col Paint'nPrint ✓	187,750	1,238,000	131,794	884,008	44,518	58,045	102,663	12%	(27,682)	
Common Know ✓	180,000	1,170,000	126,354	821,209	33,568	80,319	113,887	14%	(9,308)	
Doc Tutor ✓	44,000	260,000	30,886	182,881	32,137	82,048	114,185	63%	86,808	
Finance ✓	35,750	224,000	25,095	167,240	11,505	15,305	26,810	17%	3,224	
Home Design ✓	1,188,000	7,809,000	839,935	5,481,845	234,648	402,321	636,969	12%	(185,278)	
Landscape ✓	947,000	6,262,000	664,761	4,388,705	95,202	170,852	266,054	6%	(393,302)	
Lottery ✓	85,000	600,000	66,687	421,139	50,147	82,763	132,910	32%	69,733	
Maps ✓	573,500	3,827,000	402,577	2,695,450	88,064	122,663	190,727	7%	(212,236)	
Menu Power ✓	18,000	104,000	12,635	79,005	1,170	(1,094)	76	0%	(10,875)	
Office Design ✓	168,000	1,110,000	117,930	779,701	32,188	15,384	47,570	6%	(69,307)	
Perfect Forms ✓	98,500	602,000	69,144	422,183	44,206	100,722	144,928	34%	81,541	
Perfect Labels ✓	59,000	344,000	41,416	241,478	30,485	83,487	113,972	47%	77,751	
Perfect Typing ✓	44,000	260,000	30,886	182,881	40,146	80,606	120,752	66%	93,975	
Personal Roots ✓	103,000	847,000	72,302	454,178	38,260	18,718	56,978	13%	(11,148)	
Personality ✓	135,670	885,333	95,236	621,479	31,653	28,988	58,841	9%	(34,580)	
Pet Care ✓	231,000	1,530,000	162,154	1,074,000	65,153	2,631	57,784	5%	(103,317)	
Puzzles & Mazes ✓	125,670	825,333	88,218	579,385	45,048	87,212	112,260	19%	25,357	
Resume Writer ✓	23,000	138,000	16,145	98,877	29,810	31,852	61,662	64%	47,131	
Travel Planner ✓	396,000	2,670,000	277,978	1,874,247	146,600	210,998	357,598	18%	76,459	
Will ✓	87,000	597,000	61,071	390,918	11,658	8,039	17,697	5%	(40,952)	
File n' Calc ✓	12,740	86,001	8,913	60,370	(4,871)	(4,883)	(9,554)	-18%	(18,609)	
WINDOWS:										
Money Manager	129,000	990,000	84,238	694,945	9,389	(2,844)	745	0%	(103,497)	
Home Design ✓	180,000	1,500,000	128,354	1,052,945	101,395	178,722	280,117	27%	122,175	
MACINTOSH:										
Astronomer ✓	282,000	1,990,000	197,954	1,396,910	114,972	52,783	167,755	12%	(41,782)	
Color Paint ✓	544,000	3,840,000	381,869	2,695,548	85,404	63,260	148,664	6%	(255,688)	
Home Design ✓	299,000	2,110,000	209,888	1,481,146	75,897	72,364	148,261	10%	(72,811)	
Landscape ✓	150,000	1,038,000	105,295	728,840	63,711	57,206	120,917	17%	11,621	
Office Design ✓	89,000	618,000	62,476	492,410	37,819	22,075	59,894	14%	(4,988)	
Writer ✓	111,000	776,000	77,918	544,725	76,968	6,641	23,629	4%	(58,080)	
Grand Total	7,387,000	49,585,000	5,185,418	34,808,938	1,739,301	2,308,968	4,042,269	12%	(1,178,772)	756,283
screenworks ✓					40,163	29,628	69,791			15%
publisher ✓					28,587	12,973	41,560			
10 best ✓					28,276	14,614	40,890			
draw (mac) ✓						80,826	80,826			
astrologer ✓						169,671	153,571			
diet ✓						79,723	70,723			
discontinued						(12,074)	(47,982)			
Net Sales					1,739,301	2,308,968	4,042,269			

Jan 18, 1992

Memo

To: Dennis
From: Ken
Re: Purchase Price allocation

This is the way the Expert purchase price breaks out:

1.	Asset Purchase Agreement	\$4,500,000
2.	Non-competition agreement	\$1,250,000
3.	Escrow	\$250,000
4.	5 Yr note	\$500,000
5.	5 yr note interest	\$255,304
6.	5 yr consulting agreement	\$500,000
7.	Working Cap Note	\$1,828,824
8.	Less Payables	<\$1,358,000>
	Total	\$7,726,128

The amount we need to write off for license agreements would be #1, #3, #4, #5 which equals \$5,505,304. (Maybe the note interest doesn't count).

Grad has said that the products have a capitalizable value of \$7,386,000 which should be individually amortized on a revenue ratio basis over a 36 or 60 month period.

We should be looking at writing off between \$4.5 and \$5 million in license agreements and leave \$500,000 for goodwill.

SCHEDULE 7.2
Tiger Software Prices, Terms & Conditions of Sale

ITEM	Platform	Cost To Tiger Software	Suggested Retail Price	Customary Sales Price
Animator	DOS	4.18		
Astronomer	DOS	4.05	14.95	9.95
Astronomer	MAC	8.62	14.95	9.95
Color Paint n' Print	DOS	4.05	49.95	29.95
Common Knowledge	DOS	3.82	14.95	9.95
Discovery Pack	DOS	7.95	14.95	9.95
Don Tutor	DOS	3.70	29.95	24.95
Expert Color Paint	MAC	8.62	14.95	9.95
Expert File & Calc	DOS	4.95	49.95	29.95
Expert Finance	DOS	3.97	14.95	9.95
Expert Publisher	DOS	4.72	14.95	9.95
Expert Will	DOS	4.05	14.95	9.95
Expert Writer	MAC	9.00	14.95	9.95
Flu Shot	DOS	4.05	49.95	29.95
Home Design	DOS	4.05	14.95	9.95
Home Design	MAC	8.62	14.95	9.95
Home Pack	DOS	8.77	49.95	29.95
Landscape	DOS	4.72	29.95	24.95
Landscape	MAC	9.07	14.95	9.95
Lottery	DOS	3.94	49.95	29.95
Maps	DOS	3.90	14.95	9.95
Menu Power	DOS	4.20	14.95	9.95
Office Design	MAC	4.12	14.95	9.95
Office Design	DOS	8.77	49.95	29.95
Perfect Forms	DOS	3.97	14.95	9.95
Perfect Labels	DOS	4.05	14.95	9.95
Perfect Typing	DOS	3.97	14.95	9.95
Personal Roots	DOS	4.12	14.95	9.95
Personality Expert	DOS	3.69	14.95	9.95
Pet Care	DOS	4.12	14.95	9.95
Puzzles & Mazes	DOS	3.96	14.95	9.95
Resume Writer	DOS	4.05	14.95	9.95
Ten Best	DOS	9.07	19.95	16.95
Ten Best Fortune Teller	DOS	5.40	19.95	16.95
Ten Best Publisher	DOS	5.17	19.95	16.95
Travel Planner	WIN	4.05	14.95	9.95
Screen Works	WIN	4.72	29.95	24.95
Home Design	WIN	6.67	49.95	24.95

NET 30 DAYS FROM SHIPMENT
F.O.B. SHIPPING POINT

CONDITIONS:

SALES MAY NOT BE MADE TO EXISTING SOFTWARE RESELLERS

Jan 22, 1993

To: Dennis
From: Ken
Re: Purchase of software licenses

As you know, we need to write down about \$5.1 million of the purchase price against software licenses. The consultant, Burton Grad Associates, that provided the valuation analysis has set a net present value of the licenses at \$7,387,000. He has also shown that the software has a life of between 3 - 5 years and has a consistent profit margin of 20%. He contends that Windows products will not displace DOS products in our marketplace as rapidly as they are in other markets.

I've built a model that provides a faster write down. But it disagrees with the Grad model in two ways:

1. Higher profit margins on existing products. These products are generating revenue through reorders and market expansion, not through costly sales and marketing efforts. Additionally all the R&D costs and packaging/merchandising expense has gone away.

These acquired products generate 35% pre tax profit, instead of our blended 25% for all products.

Cost of goods remains at 44.9%

Cost of sales drops from 17.9% (all products) to 3% (acquired)

R&D costs are zero

G&A costs drop from 11.1% to 6.9%

2. We are seeking to write down only \$5.1 million, not the full \$7.3, which effectively shortens the write down period.

I've attached a chart which shows pre-tax profit generated on the acquired products of \$624K during the stub period, \$3.9 million in 1993; the total, \$4,542K could be written off by the end of '93. The balance of \$602K could be written down in '94.

We need to see if Coopers will support this, or if necessary see if we can persuade Grad that the higher profit margins on "catalog" products is a legitimate model in his view.

Item Description	Full 1992	10/23-12/31 1993	35% Profit	35% Profit	35% Profit	Total	Grad NPV
DOS:	Sales Rev	Sales Rev	Stub 1993	Stub 1993	Stub 1994	Profit	
10 Best	170,613	26,276	25,436	9,197	8,903	0	18,099
10 Best Fortune	224,371	28,419	296,556	9,947	103,865	10,386	124,198
10 Best Publisher	233,486	32,919	178,054	11,522	62,319	0	73,841
Animator	93,032	30,543	235,089	10,690	82,281	8,228	101,199
Astronomer	379,076	85,088	486,062	29,781	170,122	17,012	216,915
Col Paint'nPrint	180,720	44,666	209,674	15,633	73,386	7,339	96,358
Common Know	206,111	33,612	295,449	11,764	103,407	10,341	125,512
Dos Tutor	155,125	32,137	127,075	11,248	44,476	0	55,724
Finance	69,108	11,505	12,708	4,027	4,448	445	8,919
Home Design	845,999	220,414	921,234	77,145	322,453	32,245	431,843
Landscape	418,879	81,992	508,500	28,697	177,905	17,791	224,393
Lottery	204,322	50,147	206,497	17,551	72,274	7,227	97,053
Maps	389,749	44,067	571,838	15,423	200,143	20,014	235,581
Menu Power	45,676	1,214	0	425	0	0	425
Office Design	165,929	32,283	146,138	11,299	51,148	5,115	67,561
Perfect Forms							6,649
Perfect Labels							6,649
Perfect Typing							4,048
Personal Roots							5,199
Personality							8,744
Pet Care							3,026
Publisher							1,942
Puzzles & Mazes							8,901
Resume Writer							6,922
Travel Planner							1,567
Will							9,304
Total DOS							5,186
BUNDLES							9,107
Home Pack							6,343
Family Pack							0,461
Discovery Pack							1,878
Home Improve							11
Home Graphic	3,894		0	0	0	0	0
Family Fun	3,355		0	0	0	0	0
Home Business	1,977		0	0	0	0	0
Total Bundles	1,382,674	(1,469)	2,023,914	(514)	708,370	70,837	778,693
WINDOWS:							1,168,000
Money Manager	115,246	3,389	0	1,186	0	0	1,186
Screenworks	131,878	40,163	44,551	14,057	15,593	0	29,650
Home Design -	102,493	98,795	636,863	34,578	222,902	200,000	457,480
Total Windows	349,617	142,347	681,414	49,821	238,495	200,000	488,316
MACINTOSH:							300,000
Astronomer	270,852	114,672	329,046	40,135	115,166	23,033	178,335
Color Paint	501,456	84,144	562,562	29,450	196,897	39,379	265,726
Home Design	253,580	77,380	488,261	27,083	170,891	34,178	232,153
Landscape	158,567	63,711	318,431	22,299	111,451	22,290	156,040
Office Design	99,972	37,994	180,444	13,298	63,155	12,631	89,084
Writer	126,118	16,988	148,601	5,946	52,010	10,402	68,358
Total Mac	1,410,545	394,889	2,027,345	138,211	709,571	141,914	989,696
Grand Total	8,673,063	1,784,056	11,195,917	624,420	3,918,571	602,822	5,145,812
							7,387,000

Just 5% profit - 60% 44.9

no sales net costs (17.9%) 7%

no P: D

partial G: A

44.9

- 35
9.9 → 1.2

(2.5%) 0

(11.1%) 6.9

6.9

Expert Sales

By Product	Release	Retail	Units	Dollars	Units	Dollars	Units	Dollars	Units	Dollars
DOS	Date	Price	F1991	F1991	F1992	F1992	F1993	F1993	F1994	F1994
Home Pack		29.95	8,672	\$109,469	95,189	\$1,211,637	130,000	\$1,654,738	145,000	\$1,845,669
Home Design	1/91	14.95	117,344	\$705,094	138,794	\$881,862	145,000	\$921,294	90,000	\$571,838
Expert Maps	10/90	14.95	75,366	\$459,201	69,907	\$444,172	90,000	\$571,838	90,000	\$571,838
Landscape	6/91	14.95	48,576	\$305,543	72,118	\$458,220	80,000	\$508,300	60,000	\$381,225
Astronomer	6/91	14.95	39,201	\$243,632	62,448	\$396,779	76,500	\$486,062	60,000	\$381,225
Perfect Forms	8/88	14.95	37,953	\$215,397	36,071	\$229,186	41,000	\$260,504	42,000	\$266,858
10 Best Fortune	11/91	19.95	9,336	\$79,195	26,021	\$220,626	35,000	\$296,756	45,000	\$381,544
Common Knowledge	1/92	14.95	0	\$0	33,468	\$212,647	46,500	\$295,449	45,000	\$285,919
Personal Roots	1/90	14.95	53,663	\$328,037	36,345	\$230,927	35,000	\$222,381	32,000	\$203,320
10 Best	10/90	19.95	67,985	\$541,354	18,965	\$160,799	3,000	\$25,436	0	\$0
10 Best Publisher	3/91	19.95	37,786	\$314,261	35,564	\$301,538	21,000	\$178,054	5,000	\$42,394
Lottery	6/91	14.95	23,386	\$134,693	34,262	\$217,692	32,500	\$206,497	25,000	\$158,844
Personality Expert	1/92	14.95	0	\$0	25,227	\$160,286	33,500	\$212,851	36,000	\$228,735
Dos Tutor	6/89	14.95	19,510	\$121,832	21,979	\$139,649	20,000	\$127,075	14,000	\$88,953
Office Design	5/92	14.95	0	\$0	23,746	\$150,876	23,000	\$146,136	20,000	\$127,075
Perfect Typing	7/86	14.95	16,944	\$100,867	29,275	\$186,006	23,000	\$146,136	20,000	\$127,075
Color Paint & Print	2/92	14.95	0	\$0	26,772	\$170,103	33,000	\$209,674	40,000	\$254,150
Expert Will	6/89	14.95	18,560	\$107,142	19,175	\$121,833	21,000	\$133,429	20,000	\$127,075
Expert Publisher	7/91	14.95	18,536	\$111,706	18,238	\$115,880	4,000	\$25,415	0	\$0
Puzzles & Mazes	1/92	14.95	0	\$0	21,090	\$134,001	25,000	\$158,844	28,500	\$181,082
Perfect Labels	7/89	14.95	20,447	\$122,542	29,860	\$189,723	28,500	\$181,082	24,500	\$155,667
Resume Writer	1/91	14.95	21,674	\$131,914	14,326	\$91,024	14,000	\$88,953	12,000	\$76,245
Discovery Pack		29.95	3,199	\$40,235	11,469	\$145,986	23,000	\$292,761	28,000	\$356,405
Expert Finance	8/91	14.95	8,699	\$55,095	10,538	\$66,956	2,000	\$12,708	0	\$0
Menu Power	12/89	14.95	12,296	\$80,092	6,611	\$42,005	0	\$0	0	\$0
Flu Shot	7/89	14.95	7,682	\$49,420	5,299	\$33,669	0	\$0	0	\$0
File & Calc	11/91	14.95	36,002	\$180,000	(23,855)	(\$151,569)	0	\$0	0	\$0
Family Pack		44.95	338	\$6,958	528	\$10,087	4,000	\$76,415	5,500	\$105,071
Home Improve Bund		29.95	0	\$0	234	\$2,979	0	\$0	0	\$0
Home Graphics Bundle		29.95	0	\$0	130	\$1,655	0	\$0	0	\$0

Thu, Jan 21, 1993

2

		Retail	Units	Dollars	Units	Dollars	Units	Dollars	Units	Dollars
		Price	F1991	F1991	F1992	F1992	F1993	F1993	F1994	F1994
DOS										
Family Fun Bundle		29.95	0	\$0	387	\$4,926	0	\$0	0	\$0
Paint n Print	10/89	14.95	15,910	\$95,971	(43)	(\$273)	0	\$0	0	\$0
Home Bus. Bundle		29.95	0	\$0	65	\$827	0	\$0	0	\$0
Expert Checkwriter		14.95	4,145	\$9,148	(669)	(\$4,251)	0	\$0	0	\$0
Expert Calendar		14.95	14,446	\$79,313	(4,553)	(\$28,929)	0	\$0	0	\$0
Pet Care	10/92	14.95			18,049	\$114,679	0	\$0	0	\$0
Animator	6/92	14.95			14,723	\$93,546	46,000	\$292,273	84,000	\$533,715
Travel Planner	8/92	14.95			32,685	\$207,672	37,000	\$235,089	49,500	\$314,511
Home Design Gold	2/93	49.95					82,000	\$521,008	120,000	\$762,450
Family Crest	9/93	14.95					25,900	\$549,825	33,000	\$700,549
Expert Diet & Nutrition	3/93	14.95					16,700	\$106,108	25,000	\$158,844
Home Remedies	10/93	14.95					19,500	\$123,898	37,500	\$238,266
Travel Planner Gold	9/93	49.95					19,500	\$123,898	23,000	\$146,136
Astrologer	2/93	14.95					25,000	\$530,719	22,000	\$467,033
Movie Guide	8/93	14.95					17,000	\$108,014	29,000	\$184,259
Travel Plan/Maps Bundle	1/93	29.95					13,000	\$82,599	20,000	\$127,075
Travel Plan/Pet C Bundle	1/93	29.95					8,500	\$108,194	33,000	\$420,049
Expert Draw	5/93	14.95					6,600	\$82,737	33,000	\$420,049
New DOS Products/1994		14.95					6,800	\$43,206	27,000	\$171,551
Total DOS			737,656	\$4,728,111	960,438	\$6,965,430	1,312,900	\$10,346,351	260,000	\$1,651,975
Macintosh									1,682,500	\$13,208,309
Color Paint	12/91	49.95	2,052	\$47,374	23,423	\$497,241	26,500	\$562,562	30,500	\$647,477
Expert Writer	2/92	49.95		\$0	5,255	\$111,557	7,000	\$148,601	10,500	\$222,902
Expert Astronomer	6/92	49.95		\$0	9,263	\$196,642	15,500	\$329,046	18,500	\$392,732
Home Design	7/92	49.95			12,249	\$260,031	23,000	\$488,261	28,500	\$605,019
Landscape Design	9/92	49.95			7,294	\$154,843	15,000	\$318,431	20,500	\$435,189
Office Design	8/92	49.95			4,616	\$97,992	8,500	\$180,444	11,500	\$244,131
Expert Draw	3/93	49.95					6,900	\$146,478	10,500	\$222,902
Travel Planner	10/93	49.95					4,200	\$89,161	12,000	\$254,745
Publisher	8/93	49.95					1,800	\$38,212	11,000	\$233,516
New Mac Products/1994		49.95							26,500	\$562,562
Total: Mac			2,052	\$47,374	62,100	\$1,318,305	108,400	\$2,301,197	180,000	\$3,821,175

Thu, Jan 21, 1993

3

NO.892 P.10

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Windows

		Retail Price	Units F1991	Dollars F1991	Units F1992	Dollars F1992	Units F1993	Dollars F1993	Units F1994	Dollars F1994
Screenworks	10/90	29.95	36,269	\$437,047	10,047	\$127,886	3,500	\$44,551	0	\$0
Money Manager	6/91	29.95	5,531	\$62,046	10,694	\$136,121	0	\$0	0	\$0
Home Design (92=\$29.95)	10/92	49.95			16,058	\$204,740	30,000	\$636,863	44,000	\$934,065
Landscape	6/93	49.95					8,100	\$171,953	20,000	\$424,575
Expert Maps	3/93	49.95					10,300	\$218,656	18,500	\$392,732
Expert Astronomer	11/93	49.95					6,600	\$140,110	9,500	\$201,673
Travel Planner	8/93	49.95					1,200	\$25,475	14,000	\$297,203
Pet Care	10/93	49.95					2,100	\$44,580	10,300	\$218,656
New Windows Prod/1994		49.95							74,000	\$1,570,928
Total: Windows			41,800	\$499,093	36,799	\$468,747	61,800	\$1,282,187	190,300	\$4,039,831

CD-ROM

Expert Color Paint/Mac	6/93	49.95					1,700	\$36,089	3,900	\$82,792
Expert Astronomer/Mac	8/93	49.95					1,200	\$25,475	3,500	\$74,301
Travel Planner	10/93	49.95					500	\$10,614	4,500	\$95,529
New CD Products/1994		49.95							8,500	\$180,449
Total: CD-ROM			0	\$0	0	\$0	3,400	\$72,178	20,400	\$433,067
TOTAL SALES:			781,508	\$5,274,578	1,059,337	\$8,752,482	1,486,500	\$14,001,912	2,073,200	\$21,502,382

% of Sales
DOS
Mac
Windows
CD ROM
Total

89.6%	79.6%	73.9%	61.4%
0.9%	15.1%	16.4%	17.8%
9.5%	5.4%	9.2%	18.8%
0.0%	0.0%	0.5%	2.0%
100.0%	100.0%	100.0%	100.0%

Expert Products

10 Best Fortune Teller ✓
10 Best Publisher ✓
Checkwriter ✓
Color Paint ✓
Color Paint & Print ✓
Common Knowledge ✓
DOS Tutor ✓
Expert Animator ✓
Expert Astronomer ✓
Expert Astronomer (Mac) ✓
Expert Calendar ✓
Expert Draw (Mac) ✓
Expert Fax Forms ✓
Expert Finance ✓
Expert Home Design ✓
Expert Home Design (Mac) ✓
Expert Landscape (Mac) ✓
Expert Landscaper ✓
Expert Maps ✓
Expert Office Design ✓
Expert Office Design (Mac) ✓
Expert Publisher ✓
Expert Resume Writer ✓
Expert Resume (Mac) *
Expert Utilities ✓
Expert Will ✓
Expert Writer (Mac) ✓
Extra Paint ✓
✓File and Calc
Flu Shot + ✓
Home Will Kit ✓
✓Lottery Expert
Menu Power ✓
Money Manager ✓
Paint & Print ✓
Perfect Forms ✓
Perfect Labels ✓
Perfect Typing ✓
Personal Roots ✓
✓Personality Expert
~~Pet Expert~~ ✓
✓Puzzles & Mazes
Screenworks ✓
Ten Best ✓
✓Travel Planner ✓

GOODWIN, PROCTER & HOAR LLP

COUNSELLORS AT LAW
EXCHANGE PLACE
BOSTON, MASSACHUSETTS 02109-2881

TELEPHONE (617) 570 1000
TELECOPIER (617) 227 8591

October 22, 1996

VIA FEDERAL EXPRESS

Mr. Burton Grad
President
Burton Grad Associates, Inc.
235 Martling Avenue
Tarrytown, New York 10591

Re: Expert Software, Inc.

Dear Burt:

As discussed, enclosed is a copy of Expert Software's 1992 federal income tax return. You may wish to refer in particular to Form 8594, Asset Acquisition Statement under Section 1060, which indicates the tax allocation of the purchase price, and to the immediately following Amortization statement, which indicates the amortization of the software licenses and the non-compete agreement.

Howard and I look forward to speaking with you on Thursday at 11:30 a.m.

Sincerely,



Robert G. Kester

RGK:dd
Enclosure

cc Mr. Charles Murphy
Howard A. Cubell, Esq.

177927.b1

Expert

10/24

Capitalization (from 9% return - Form 8594)

Class I 115,364

Class III 6,875,027 <

6,990,391

Non compete with Bloc 1,250,000

Software Licenses 5,185,416 34 yrs

Intangible - 6,835,416

amount 402,932

6,032,484

Amortization - Amortizable Amt 6,510,784

Licenses 5,185,416 (software)

non compete 1,250,000

Org costs 15,368

Loan fee 60,000

6,510,784

FILING INSTRUCTIONS

U.S. Corporation Income Tax Return FORM 1120 or FORM 1120A

NAME: Expert Software, Inc. Year Ended 12/31/92

The items below marked with an "X" require your attention.

Basis of Preparation

☒ The return has been prepared in conjunction with our audit of your financial statements.

Signature

☒ Any principal officer may sign and date the return.

Overpayment

☒ \$ 23,755. In accordance with your instructions, it has been applied as follows:

Credited against your estimated tax for the taxable year ending \$23,755.

Mailing

☒ Mail the original to: Internal Revenue Service Center
ATLANTA, GA 39901

Mail on or before September 15, 1993 (postmark date). We suggest that you note the date, time and place of mailing. You may wish to mail the return by certified mail to provide formal documentation of the filing date.

Copies

☒ Retain the "Taxpayer's Copy" for your files. It should conform to the original as to signature, title and date.

☒ Since 1992 was a short year and can not be used in the computation of 1993 Estimated Payments, you have opted to prepare them internally.

THE INTERNAL REVENUE SERVICE IS AUTHORIZED TO IMPOSE A 20% PENALTY IN THE EVENT A TAX RETURN DEFICIENCY IS SUCCESSFULLY ASSERTED. FOR MOST ITEMS, THE PENALTY DOES NOT APPLY IF THE TAX TREATMENT ON THE RETURN IS SUPPORTED BY "SUBSTANTIAL AUTHORITY" OR IF THE RELEVANT FACTS AFFECTING THE TREATMENT OF THE ITEM ARE "ADEQUATELY DISCLOSED" ON THE RETURN. TO AVOID THE PENALTY IF THE DEFICIENCY RELATES TO A TAX SHELTER ITEM, THERE MUST BE BOTH "SUBSTANTIAL AUTHORITY" FOR THE TREATMENT OF THE ITEM AND A REASONABLE BELIEF BY THE TAXPAYER THAT THE TREATMENT ON THE RETURN WAS "MORE LIKELY THAN NOT THE PROPER TREATMENT."

THE SCOPE OF OUR SERVICES IN PREPARING THIS RETURN DID NOT INCLUDE AN UNDERTAKING TO PROVIDE THE RESEARCH AND ANALYSIS NECESSARY TO SATISFY THESE STANDARDS, OR TO OBTAIN AND EVALUATE THE SUPPORT FOR INFORMATION PROVIDED TO YOU BY THIRD PARTIES SUCH AS PARTNERSHIPS.

U.S. Corporation Income Tax Return

OMB No. 1545-0123

1992

Form **1120**

Department of the Treasury
Internal Revenue Service

For calendar year 1992 or tax year beginning 10/23/92, ending 12/31/92
▶ Instructions are separate. See page 1 for Paperwork Reduction Act Notice.

A Check if a:
(1) Consolidated return (attach Form 851) ☐
(2) Personal holding co (attach Sch. PH) ☐
(3) Personal service corp. (as defined in Temp. Regs. sec. 1.441-4T) ☐ (see instructions)

Name
EXPERT SOFTWARE, INC.
Number, street, and room or suite no. (If a P.O. box, see page 6 of instructions.)
800 DOUGLAS ROAD, NORTH TOWER, SUITE #355
City or town, state, and ZIP code
CORAL GABLES, FLORIDA 33134-3128

B Employer identification number
65-0359860
C Date incorporated
10/23/92
D Total assets (see Specific Instructions)
10,418,677.

E Check applicable boxes: (1) ☒ Initial return (2) ☐ Final return (3) ☐ Change in address

Income	1 a Gross receipts or sales	1,794,965.	b Less returns and allowances		c Balance	1c	1,794,965.
	2 Cost of goods sold (Schedule A, line 8)					2	511,353.
	3 Gross profit. Subtract line 2 from line 1c					3	1,283,612.
	4 Dividends (Schedule C, line 19)					4	
	5 Interest					5	3,761.
	6 Gross rents					6	
	7 Gross royalties					7	
	8 Capital gain net income (attach Schedule D (Form 1120))					8	
	9 Net gain or (loss) from Form 4797, Part II, line 20 (attach Form 4797)					9	
	10 Other income (see instructions - attach schedule)					10	
	11 Total income. Add lines 3 through 10					11	1,287,373.
Deductions (See instructions for limitations on deductions.)	12 Compensation of officers (Schedule E, line 4)					12	33,334.
	13 a Salaries and wages	13,649.	b Less jobs credit		c Balance	13c	134,649.
	14 Repairs					14	793.
	15 Bad debts					15	
	16 Rents					16	29,756.
	17 Taxes					17	21,910.
	18 Interest					18	14,073.
	19 Charitable contributions (see instructions for 10% limitation)					19	
	20 Depreciation (attach Form 4562)		20	10,736.		20	
	21 Less depreciation claimed on Schedule A and elsewhere on return		21a			21b	10,736.
	22 Depletion					22	
	23 Advertising					23	126,507.
	24 Pension, profit-sharing, etc., plans					24	
	25 Employee benefit programs					25	
	26 Other deductions (attach schedule)					26	863,835.
	27 Total deductions. Add lines 12 through 26					27	1,235,593.
	28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11					28	51,780.
	29 Less: a Net operating loss deduction (see instructions)		29a			29c	
	b Special deductions (Schedule C, line 20)		29b			30	51,780.
30 Taxable income. Subtract line 29c from line 28					31	10,567.	
31 Total tax (Schedule J, line 10)							
Tax and Payments	32 Payments: a 1991 overpayment credited to 1992	32a					
	b 1992 estimated tax payments	32b					
	c Less 1992 refund applied for on Form 4466	32c			d Balance	32d	
	e Tax deposited with Form 7004				32e	34,322.	
	f Credit from regulated investment companies (attach Form 2439)				32f		
	g Credit for Federal tax on fuels (attach Form 4136). See instructions				32g		
	33 Estimated tax penalty (see instructions). Check if Form 2220 is attached				32h	34,322.	
	34 Tax due. If line 32h is smaller than the total of lines 31 and 33, enter amount owed				33		
	35 Overpayment. If line 32h is larger than the total of lines 31 and 33, enter amount overpaid				34	23,755.	
	36 Enter amount of line 35 you want: Credited to 1993 estimated tax				35		
				36	NONE		

Please Sign Here
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.
Signature of officer Robert H. Brin Date 9-14-93
Preparer's signature Robert H. Brin Date 9/14/93
Firm's name (or yours if self-employed) COOPERS & LYBRAND
Address 5959 BLUE LAGOON DRIVE MIAMI, FL
Check if self-employed ☐
E.I. No. 13-5218870
ZIP code 33126-2090

Form 1120 (1992)

Schedule A Cost of Goods Sold (See instructions.)

1	Inventory at beginning of year	1	NONE
2	Purchases	2	978,027.
3	Cost of labor	3	
4	Additional section 263A costs (attach schedule)	4	
5	Other costs (attach schedule)	5	
6	Total. Add lines 1 through 5	6	978,027.
7	Inventory at end of year	7	466,674.
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on page 1, line 2	8	511,353.

9a Check all methods used for valuing closing inventory:

- (i) ☐ Cost (ii) ☒ Lower of cost or market as described in Regulations section 1.471-4
(iii) ☐ Writedown of "subnormal" goods as described in Regulations section 1.471-2(c)
(iv) ☐ Other (Specify method used and attach explanation.)

b Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970)

c If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO

9c

☐ Yes ☒ No

d Do the rules of section 263A (for property produced or acquired for resale) apply to the corporation?

☐ Yes ☒ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes,"

☐ Yes ☒ No

attach explanation

Schedule C Dividends and Special Deductions (See instructions.)

	(a) Dividends received	(b) %	(c) Special deductions: (a) x (b)
1 Dividends from less-than-20%-owned domestic corporations that are subject to the 70% deduction (other than debt-financed stock)		70	
2 Dividends from 20%-or-more-owned domestic corporations that are subject to the 80% deduction (other than debt-financed stock)		80	
3 Dividends on debt-financed stock of domestic and foreign corporations (section 246A)		see instr.	
4 Dividends on certain preferred stock of less-than-20%-owned public utilities		41.176	
5 Dividends on certain preferred stock of 20%-or-more-owned public utilities		47.059	
6 Dividends from less-than-20%-owned foreign corporations and certain FSCs that are subject to the 70% deduction		70	
7 Dividends from 20%-or-more-owned foreign corporations and certain FSCs that are subject to the 80% deduction		80	
8 Dividends from wholly owned foreign subsidiaries subject to the 100% deduction (section 245(b))		100	
9 Total. Add lines 1 through 8. See instructions for limitation			
10 Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11 Dividends from certain FSCs that are subject to the 100% deduction (section 245(c)(1))		100	
12 Dividends from affiliated group members subject to the 100% deduction (section 243(a)(3))		100	
13 Other dividends from foreign corporations not included on lines 3, 6, 7, 8, or 11			
14 Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
15 Foreign dividend gross-up (section 78)			
16 IC-DISC and former DISC dividends not included on lines 1, 2, or 3 (section 246(d))			
17 Other dividends			
18 Deduction for dividends paid on certain preferred stock of public utilities (see instructions)			
19 Total dividends. Add lines 1 through 17. Enter here and on line 4, page 1			

20 Total deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on line 29b, page 1

Schedule E Compensation of Officers (See instructions for line 12, page 1.)

Complete Schedule E only if total receipts (line 1a plus lines 4 through 10 of page 1, Form 1120) are \$500,000 or more.

(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	(d) Common stock owned	(e) Preferred stock owned	(f) Amount of compensation
1 KEN CURRIER		100 %	.75 %	.76 %	16,667.
SUE CURRIER		100 %	.75 %	.76 %	16,667.
		%	%	%	
		%	%	%	
		%	%	%	
2 Total compensation of officers					33,334.
3 Compensation of officers claimed on Schedule A and elsewhere on return					33,334.
4 Subtract line 3 from line 2. Enter the result here and on line 12, page 1					

Form 1120 (1992)

Schedule J Tax Computation (See instructions.)

1	Check if the corporation is a member of a controlled group (see sections 1561 and 1563) <input type="checkbox"/>	
2	If the box on line 1 is checked: a Enter the corporation's share of the \$50,000 and \$25,000 taxable income bracket amounts (in that order): (i) <input type="checkbox"/> (ii) <input type="checkbox"/>	
	b Enter the corporation's share of the additional 5% tax (not to exceed \$11,750) <input type="checkbox"/>	
3	Income tax. Check this box if the corporation is a qualified personal service corporation as defined in section 448(d)(2) (see instructions on page 14) <input type="checkbox"/>	3 7,945.
4a	Foreign tax credit (attach Form 1118) <input type="checkbox"/>	4a
b	Possessions tax credit (attach Form 5735) <input type="checkbox"/>	4b
c	Orphan drug credit (attach Form 6765) <input type="checkbox"/>	4c
d	Credit for fuel produced from a nonconventional source <input type="checkbox"/>	4d
e	General business credit. Enter here and check which forms are attached: <input type="checkbox"/> Form 3800 <input type="checkbox"/> Form 3468 <input type="checkbox"/> Form 5884 <input type="checkbox"/> Form 6478 <input checked="" type="checkbox"/> Form 6765 <input type="checkbox"/> Form 8586 <input type="checkbox"/> Form 8830 <input type="checkbox"/> Form 8826	4e NONE
f	Credit for prior year minimum tax (attach Form 8827) <input type="checkbox"/>	4f
5	Total credits. Add lines 4a through 4f. <input type="checkbox"/>	5 NONE
6	Subtract line 5 from line 3. <input type="checkbox"/>	6 7,945.
7	Personal holding company tax (attach Schedule PH (Form 1120)) <input type="checkbox"/>	7
8	Recapture taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611 <input type="checkbox"/>	8
9a	Alternative minimum tax (attach Form 4626) <input type="checkbox"/>	9a 2,622.
b	Environmental tax (attach Form 4626) <input type="checkbox"/>	9b
10	Total tax. Add lines 6 through 9b. Enter here and on line 31, page 1 <input type="checkbox"/>	10 10,567.

Schedule K Other Information (See instructions.)

1	Check method of accounting: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) <input type="checkbox"/>	Yes No	6	Was the corporation a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.) <input type="checkbox"/> If "Yes," attach Form 5471 for each such corporation. Enter number of Forms 5471 attached <input type="checkbox"/>	Yes No
2	Refer to the list in the instructions and state the principal: a Business activity code no. <input type="checkbox"/> 3670 b Business activity <input type="checkbox"/> SOFTWARE DEVELOPMENT c Product or service <input type="checkbox"/> COMPUTER SOFTWARE		7	At any time during the 1992 calendar year, did the corporation have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? <input type="checkbox"/> If "Yes," the corporation may have to file Form TD F 90-22.1. If "Yes," enter name of foreign country <input type="checkbox"/>	X
3	Did the corporation at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) <input type="checkbox"/> If "Yes," attach a schedule showing: (a) name and identifying number; (b) percentage owned; and (c) taxable income or (loss) before NOL and special deductions of such corporation for the tax year ending with or within your tax year. <input type="checkbox"/>	X	8	Was the corporation the grantor of, or transferor to, a foreign trust that existed during the current tax year, whether or not the corporation has any beneficial interest in it? <input type="checkbox"/> If "Yes," the corporation may have to file Forms 926, 3520, or 3520-A. <input type="checkbox"/>	X
4	Did any individual, partnership, corporation, estate, or trust at the end of the tax year own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).) If "Yes," complete a, b, and c below. <input type="checkbox"/>	X	9	Did one foreign person at any time during the tax year own, directly or indirectly, at least 25% of: (a) the total voting power of all classes of stock of the corporation entitled to vote, or (b) the total value of all classes of stock of the corporation? <input type="checkbox"/> If "Yes," see page 17 of instructions and a Enter percentage owned <input type="checkbox"/> b Enter owner's country <input type="checkbox"/> c The corporation may have to file Form 5472. (See page 18 for penalties that may apply.) Enter number of Forms 5472 attached <input type="checkbox"/>	X
a	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? <input type="checkbox"/>	X	10	Check this box if the corporation issued publicly offered debt instruments with original issue discount <input type="checkbox"/> If so, the corporation may have to file Form 8281. <input type="checkbox"/>	
b	Enter the name and identifying number of the parent corporation or other entity with 50% or more ownership <input type="checkbox"/>		11	Enter the amount of tax-exempt interest received or accrued during the tax year <input type="checkbox"/> NONE	
c	Enter percentage owned <input type="checkbox"/>		12	If there were 35 or fewer shareholders at the end of the tax year, enter the number <input type="checkbox"/> 12	
5	During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See secs. 301 and 316.) If "Yes," file Form 5452. If this is a consolidated return, answer here for the parent corporation and on Form 851, Affiliations Schedule, for each subsidiary. <input type="checkbox"/>	X	13	If the corporation has an NOL for the tax year and is electing under sec. 172(b)(3) to forego the carryback period, check here. <input type="checkbox"/>	

Form 1120 (1992)

Schedule L Balance Sheets

Assets	Beginning of tax year		End of tax year	
	(a)	(b)	(c)	(d)
1 Cash			1,420,812.	2,286,471.
2 Trade notes and accounts receivable			148,422.	1,272,390.
b Less allowance for bad debts				466,674.
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities (see instructions)	STMT 4	NONE		110,443.
6 Other current assets (attach schedule)				
7 Loans to stockholders				
8 Mortgage and real estate loans				
9 Other investments (attach schedule)			183,817.	
10 Buildings and other depreciable assets			8,754.	175,063.
b Less accumulated depreciation				
11 Depletable assets				
b Less accumulated depletion				
12 Land (net of any amortization)			6,435,416.	
13 Intangible assets (amortizable only)			402,932.	6,032,484.
b Less accumulated amortization				75,152.
14 Other assets (attach schedule)	STMT 4	NONE		10,418,677.
15 Total assets				
Liabilities and Stockholders' Equity				
16 Accounts payable		NONE		608,526.
17 Mtges, notes, bonds payable in less than 1 year	STMT 4	NONE		630,015.
18 Other current liabilities (attach schedule)				2,086,045.
19 Loans from stockholders				4,400,000.
20 Mtges., notes, bonds payable in 1 year or more	STMT 4	NONE		39,282.
21 Other liabilities (attach schedule)			2,224,953.	
22 Capital stock: a Preferred stock			50.	2,225,003.
b Common stock				499,950.
23 Paid-in or capital surplus				
24 Retained earnings—Appropriated (attach schedule)				-70,144.
25 Retained earnings—Unappropriated				
26 Less cost of treasury stock				
27 Total liabilities and stockholders' equity		NONE		10,418,677.

Note: You are not required to complete Schedules M-1 and M-2 below if the total assets on line 15, column (d) of Schedule L are less than \$25,000.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return (See instructions.)

1 Net income (loss) per books	-45,191.	7 Income recorded on books this year not included on this return (itemize):	
2 Federal income tax		a Tax-exempt interest \$	
3 Excess of capital losses over capital gains			
4 Income subject to tax not recorded on books this year (itemize):		8 Deductions on this return not charged against book income this year (itemize):	
5 Expenses recorded on books this year not deducted on this return (itemize):		a Depreciation \$	1,983.
a Depreciation \$		b Contributions carryover \$	43,181.
b Contributions carryover \$	845.	SEE STATEMENT 5	
c Travel and entertainment \$			
SEE STATEMENT 5	141,290.	9 Add lines 7 and 8	45,164.
6 Add lines 1 through 5	96,944.	10 Income (line 28, page 1)—line 6 less line 9	51,780.

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1 Balance at beginning of year	NONE	5 Distributions: a Cash	
2 Net income (loss) per books	-45,191.	b Stock	24,953.
3 Other increases (itemize):		c Property	
		6 Other decreases (itemize):	
		7 Add lines 5 and 6	24,953.
4 Add lines 1, 2, and 3	-45,191.	8 Balance at end of year (line 4 less line 7)	-70,144.

Form **3800**

Department of the Treasury
Internal Revenue Service
Name(s) as shown on return

General Business Credit

- ▶ Attach to your tax return.
- ▶ See separate instructions.

OMB. No. 1545-0895

1992

Attachment
Sequence No. **22**

Identifying number

65-0359860

EXPERT SOFTWARE, INC

Part I Tentative Credit

1a	Current year investment credit (Form 3468, Part I)	1a	
b	Current year jobs credit (Form 5884, Part I)	1b	
c	Current year credit for alcohol used as fuel (Form 6478)	1c	
d	Current year credit for increasing research activities (Form 6765, Part III)	1d	14,040
e	Current year low-income housing credit (Form 8586, Part I)	1e	
f	Current year enhanced oil recovery credit (Form 8830, Part I)	1f	
g	Current year disabled access credit (Form 8826, Part I)	1g	
h	Current year renewable electricity production credit (Form 8835, Part I)	1h	
i	Current year general business credit. Add lines 1a through 1h	1i	14,040
2	Passive activity credits included on lines 1a through 1h (see instructions)	2	
3	Subtract line 2 from line 1i	3	14,040
4	Passive activity credits allowed in 1992 (see instructions)	4	
5	Carryforward of general business credit, WIN, or ESOP credit to 1992 (see instructions for the schedule to attach)	5	
6	Carryback of general business credit to 1992 (see instructions)	6	
7	Tentative general business credit. Add lines 3 through 6	7	14,040

Part II General Business Credit Limitation Based on Amount of Tax

8a	Individuals. Enter amount from Form 1040, line 40	8	18,074
b	Corporations. Enter amount from Form 1120, Schedule J, line 3 (or Form 1120-A, Part I, line 1)		
c	Other filers. Enter regular tax before credits from your return		
9	Credits that reduce regular tax before the general business credit -		
a	Credit for child and dependent care expense (Form 2441)	9a	
b	Credit for the elderly or the disabled (Schedule R (Form 1040))	9b	
c	Foreign tax credit (Form 1116 or Form 1118)	9c	
d	Possessions tax credit (Form 5735)	9d	
e	Mortgage interest credit (Form 8396)	9e	
f	Credit for fuel from a nonconventional source	9f	
g	Orphan drug credit (Form 6765)	9g	
h	Add lines 9a through 9g	9h	
10	Net regular tax. Subtract line 9h from line 8	10	18,074
11	Tentative minimum tax (see instructions):		
a	Individuals. Enter amount from Form 6251, line 20	11	10,567
b	Corporations. Enter amount from Form 4626, line 15		
c	Estates and trusts. Enter amount from Form 1041, Schedule H, line 37		
12	Net income tax:		
a	Individuals. Add line 10 above and line 22 of Form 6251	12	20,696
b	Corporations. Add line 10 above and line 17 of Form 4626		
c	Estate and trusts. Add line 10 above and line 39 of Form 1041, Schedule H		
13	If line 10 is more than \$25,000, enter 25% (.25) of the excess	13	
14	Subtract line 11 or line 13, whichever is greater, from line 12. If less than zero, enter -0-	14	
15	General business credit allowed for current year. Enter the smaller of line 7 or line 14. Also enter this amount on Form 1040, line 44; Form 1120, Schedule J, line 4e; Form 1120-A, Part I, line 2a; or on the appropriate line of your return. (Individuals, estates, and trusts, see instructions if the credit for increasing research activities is claimed. C corporations, see instructions for Schedule A if any regular investment credit carryforward is claimed. See the instructions if the corporation has undergone a post-1986 "ownership change.")	15	

For Paperwork Reduction Act Notice, see page 2 of this form.

Form 3800 (1992)

Form **4562**

Depreciation and Amortization
(Including Information on Listed Property)

OMB No. 1545-0172

1992

Department of the Treasury
Internal Revenue Service
Name(s) shown on return

► See separate instructions.

► Attach this form to your return.

Attachment
Sequence No. **67**

Identifying number
65-0359860

EXPERT SOFTWARE, INC.

Business or activity to which this form relates

GENERAL DEPRECIATION & AMORTIZATION

Part I Election To Expense Certain Tangible Property (Section 179) (Note: If you have any "Listed Property," complete Part V before you complete Part I.)

1	Maximum dollar limitation (see instructions)	1	10,000.
2	Total cost of section 179 property placed in service during the tax year (see instructions)	2	
3	Threshold cost of section 179 property before reduction in limitation	3	200,000.
4	Reduction in limitation. Subtract line 3 from line 2, but do not enter less than -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1, but do not enter less than -0-	5	
(a) Description of property		(b) Cost	(c) Elected cost
6			
7	Listed property. Enter amount from line 26	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction. Enter the lesser of line 5 or line 8	9	
10	Carryover of disallowed deduction from 1991 (see instructions)	10	
11	Taxable income limitation. Enter the lesser of taxable income or line 5 (see instructions)	11	
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	
13	Carryover of disallowed deduction to 1993. Add lines 9 and 10, less line 12	13	

Note: Do not use Part II or Part III below for automobiles, certain other vehicles, cellular telephones, computers, or property used for entertainment, recreation, or amusement (listed property). Instead, use Part V for listed property.

Part II MACRS Depreciation For Assets Placed in Service ONLY During Your 1992 Tax Year (Do Not Include Listed Property)

(a) Classification of property	(b) Mo. and yr. placed in service	(c) Basis for depreciation (Business/investment use only - see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
14 General Depreciation System (GDS) (see instructions):						
a 3-year property						
b 5-year property		104,141.	5.000	MQ	DDB	6,942.
c 7-year property		79,674.	7.000	MQ	DDB	3,794.
d 10-year property						
e 15-year property						
f 20-year property						
g Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
h Nonresidential real property			31.5 yrs.	MM	S/L	
			31.5 yrs.	MM	S/L	
15 Alternative Depreciation System (ADS) (see instructions):						
a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part III Other Depreciation (Do Not Include Listed Property)

16	GDS and ADS deductions for assets placed in service in tax years beginning before 1992 (see instructions)	16	
17	Property subject to section 168(f)(1) election (see instructions)	17	
18	ACRS and other depreciation (see instructions)	18	

Part IV Summary

19	Listed property. Enter amount from line 25	19	
20	Total. Add deductions on line 12, lines 14 and 15 in column (g), and lines 16 through 19. Enter here and on the appropriate lines of your return. (Partnerships and S corporations - see instructions)	20	10,736.
21	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs (see instructions)	21	

For Paperwork Reduction Act Notice, see page 1 of the separate instructions.

Form 4562 (1992)

Part V Listed Property - Automobiles, Certain Other Vehicles, Cellular Telephones, Computers, and Property Used for Entertainment, Recreation, or Amusement

For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 22a, 22b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A - Depreciation (Caution: See instructions for limitations for automobiles.)

22a Do you have evidence to support the business/investment use claimed? **Yes** **No** 22b If "Yes," is the evidence written? **Yes** **No**

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/ investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/ Convention	(h) Depreciation deduction	(i) Elected section 179 cost
23 Property used more than 50% in a qualified business use (see instructions):		%						
		%						
		%						
24 Property used 50% or less in a qualified business use (see instructions):		%				S/L -		
		%				S/L -		
		%				S/L -		

25 Add amounts in column (h). Enter the total here and on line 19, page 1 **25**

26 Add amounts in column (i). Enter the total here and on line 7, page 1 **26**

Section B - Information Regarding Use of Vehicles - If you deduct expenses for vehicles:

- Always complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person.
- If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1	(b) Vehicle 2	(c) Vehicle 3	(d) Vehicle 4	(e) Vehicle 5	(f) Vehicle 6
27 Total business/investment miles driven during the year (DO NOT include commuting miles)						
28 Total commuting miles driven during the year						
29 Total other personal (noncommuting) miles driven						
30 Total miles driven during the year. Add lines 27 through 29						
	Yes	No	Yes	No	Yes	No
31 Was the vehicle available for personal use during off-duty hours?						
32 Was the vehicle used primarily by a more than 5% owner or related person?						
33 Is another vehicle available for personal use?						

Section C - Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B. Note: Section B must always be completed for vehicles used by sole proprietors, partners, or other more than 5% owners or related persons.

	Yes	No
34 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
35 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? (See instructions for vehicles used by corporate officers, directors, or 1% or more owners.)		
36 Do you treat all use of vehicles by employees as personal use?		
37 Do you provide more than five vehicles to your employees and retain the information received from your employees concerning the use of the vehicles?		
38 Do you meet the requirements concerning qualified automobile demonstration use (see instructions)?		

Note: If your answer to 34, 35, 36, 37, or 38 is "Yes," you need not complete Section B for the covered vehicles.

Part VI Amortization

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
39 Amortization of costs that begins during your 1992 tax year: SEE AMORTIZATION DETAIL		6,510,784.			412,892.
40 Amortization of costs that began before 1992				40	
41 Total. Enter here and on "Other Deductions" or "Other Expenses" line of your return				41	412,892.

Form **4626****Alternative Minimum Tax - Corporations**
(including environmental tax)

OMB No. 1545-0175

1992Department of the Treasury
Internal Revenue Service▶ See separate instructions.
▶ Attach to the corporation's tax return.

Name

Employer identification number

EXPERT SOFTWARE, INC.

65-0359860

1	Taxable income or (loss) before net operating loss deduction. (Important: See instructions if the corporation is subject to the environmental tax.)		1	51,780.
2	Adjustments:			
a	Depreciation of tangible property placed in service after 1986	2a	4,406.	
b	Amortization of certified pollution control facilities placed in service after 1986	2b		
c	Amortization of mining exploration and development costs paid or incurred after 1986	2c		
d	Amortization of circulation expenditures paid or incurred after 1986 (personal holding companies only)	2d		
e	Basis adjustments in determining gain or loss from sale or exchange of property	2e		
f	Long-term contracts entered into after February 28, 1986	2f		
g	Installment sales of certain property	2g		
h	Merchant marine capital construction funds	2h		
i	Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only)	2i		
j	Tax shelter farm activities (personal service corporations only)	2j		
k	Passive activities (closely held corporations and personal service corporations only)	2k		
l	Certain loss limitations	2l		
m	Other adjustments	2m		
n	Combine lines 2a through 2m	2n	4,406.	
3	Tax preference items:			
a	Depletion	3a		
b	Tax-exempt interest from private activity bonds issued after August 7, 1986	3b		
c	Appreciated property charitable deduction	3c		
d	Intangible drilling costs	3d		
e	Reserves for losses on bad debts of financial institutions	3e		
f	Accelerated depreciation of real property placed in service before 1987	3f		
g	Accelerated depreciation of leased personal property placed in service before 1987 (personal holding companies only)	3g		
h	Amortization of certified pollution control facilities placed in service before 1987	3h		
i	Add lines 3a through 3h	3i		
4	Pre-adjustment alternative minimum taxable income (AMTI). Combine lines 1, 2n, and 3i		4	56,186.
5	Adjusted current earnings (ACE) adjustment:			
a	Enter the corporation's ACE from line 10 of the worksheet on page 7 of the instructions	5a	58,295.	
b	Subtract line 4 from line 5a. If line 4 exceeds line 5a, enter the difference as a negative number (see instructions for examples).	5b	2,109.	
c	Multiply line 5b by 75% and enter the result as a positive number.	5c	1,582.	
d	Enter the excess, if any, of the corporation's total increases in AMTI from prior year ACE adjustments over its total reductions in AMTI from prior year ACE adjustments (see instructions). Note: You must enter an amount on line 5d (even if line 5b is positive)	5d		
e	ACE adjustment: STMT 6 • If you entered a positive number or zero on line 5b, enter the amount from line 5c on line 5e as a positive amount. • If you entered a negative number on line 5b, enter the smaller of line 5c or line 5d on line 5e as a negative amount.		5e	1,582.
6	Combine lines 4 and 5e. If zero or less, stop here (the corporation is not subject to the alternative minimum tax).		6	57,768.
7	Adjustment based on energy preferences. (Do not enter more than 40% of line 6.)		7	
8	Alternative tax net operating loss deduction. (Do not enter more than the excess, if any, of: (a) 90% of line 6, over (b) line 7.)		8	
9	Alternative minimum taxable income. Subtract the sum of lines 7 and 8 from line 6		9	231,072.

For Paperwork Reduction Act Notice, see separate instructions.

Form **4626** (1992)

Form 4626 (1992)

Page 2

10	Enter the amount from line 9 (alternative minimum taxable income)	10	231,072.
11	Exemption phase-out computation (if line 10 is \$310,000 or more, skip lines 11a and 11b and enter -0- on line 11c):		
a	Subtract \$150,000 from line 10 (if you are completing this line for a member of a controlled group of corporations, see instructions). If the result is zero or less, enter -0-	11a	81,072.
b	Multiply line 11a by 25%	11b	20,268.
c	Exemption. Subtract line 11b from \$40,000 (if you are completing this line for a member of a controlled group of corporations, see instructions). If the result is zero or less, enter -0-	11c	19,732.
12	Subtract line 11c from line 10. If the result is zero or less, enter -0-	12	211,340.
13	Multiply line 12 by 20% SEE STATEMENT 7.	13	10,567.
14	Alternative minimum tax foreign tax credit. (See instructions for limitations.)	14	.
15	Tentative minimum tax. Subtract line 14 from line 13	15	10,567.
16	Regular tax liability before all credits except the foreign tax credit and possessions tax credit	16	7,945.
17	Alternative minimum tax. Subtract line 16 from line 15. If the result is zero or less, enter -0-. Also enter the result on the line provided on the corporation's income tax return (e.g., if you are filing Form 1120 for 1992, enter this amount on line 9a, Schedule J)	17	2,622.
18	Environmental tax. Subtract \$2,000,000 from line 6 (computed without regard to the corporation's environmental tax deduction) and multiply the excess, if any, by 0.12% (.0012). Enter the result here and on the line provided on the corporation's income tax return (e.g., if you are filing Form 1120 for 1992, enter this amount on line 9b, Schedule J). If you are completing this line for a member of a controlled group of corporations, see instructions	18	.

Adjusted Current Earnings Worksheet

▶ See ACE Worksheet Instructions (which begin on page 5).

1	Pre-adjustment AMTI (enter the amount from line 4 of Form 4626)	1	56,186.
2	ACE depreciation adjustment:		
a	Depreciation expense recomputed for AMT purposes	2a	6,330.
b	Depreciation expense recomputed for ACE purposes:		
(i)	Post-1989 property	2b(i)	4,221.
(ii)	Pre-1990 MACRS property	2b(ii)	
(iii)	Pre-1990 original ACRS property	2b(iii)	
(iv)	Property described in sections 168(f)(1) through (4)	2b(iv)	
(v)	Other property	2b(v)	
(vi)	Total depreciation expense recomputed for ACE purposes (add lines 2b(i) through 2b(v))	2b(vi)	4,221.
c	ACE depreciation adjustment (subtract line 2b(vi) from line 2a)	2c	2,109.
3	Inclusion in ACE of items included in earnings and profits (E&P):		
a	Tax-exempt interest income	3a	
b	Death benefits from life insurance contracts	3b	
c	All other distributions from life insurance contracts (including surrenders)	3c	
d	Inside buildup of undistributed income in life insurance contracts	3d	
e	Other items (see Regulations sections 1.56(g)-1(c)(6)(iii) through (ix) for a partial list)	3e	
f	Total increase to ACE due to inclusion in ACE of items included in E&P (add lines 3a through 3e)	3f	
4	Disallowance of items not deductible in computing E&P:		
a	Certain dividends received	4a	
b	Dividends paid on certain preferred stock of public utilities that are deductible under section 247	4b	
c	Dividends paid to an ESOP that are deductible under section 404(k)	4c	
d	Non-patronage dividends that are paid and deductible under section 1382(c)	4d	
e	Other items (see Regulations section 1.56(g)-1(d)(3)(i) and (ii) for a partial list)	4e	
f	Total increase to ACE due to disallowance of items not deductible in computing E&P (add lines 4a through 4e)	4f	
5	Other adjustments based on rules for computing E&P:		
a	Intangible drilling costs	5a	
b	Circulation expenditures	5b	
c	Organizational expenditures	5c	
d	LIFO inventory adjustments	5d	
e	Installment sales	5e	
f	Total other E&P adjustments (combine lines 5a through 5e)	5f	
6	Disallowance of loss on exchange of debt pools	6	
7	Acquisition expenses of life insurance companies for qualified foreign contracts	7	
8	Depletion	8	
9	Basis adjustments in determining gain or loss from sale or exchange of property	9	
10	Adjusted current earnings. Combine lines 1, 2c, 3f, 4f, and 5f through 9. Enter the result here and on line 5a of Form 4626	10	58,295.

Form **6765**

Credit for Increasing Research Activities

(or for claiming the orphan drug credit)

▶ See separate instructions.

▶ Attach to your return.

OMB No. 1545-0619

1992

Attachment
Sequence No. **81**

Department of the Treasury
Internal Revenue Service

Name(s) as shown on return

EXPERT SOFTWARE, INC.

Identifying number

65-0359860

Part I Current Year Orphan Drug Credit (For costs incurred after June 30, 1992, see instructions.)

1	Qualified clinical testing expenses paid or incurred (do not include any amounts claimed as current year research expenses on line 18 below)	1	
2	Limitation. Multiply line 1 by 50% (.50) (see instructions)	2	
3	Flow-through orphan drug credit(s) from a partnership, S corporation, estate, or trust	3	
4	Current year orphan drug credit. Add lines 2 and 3	4	

Part II Tax Liability Limitation for the Orphan Drug and Research Credits

5a	Individuals. Enter amount from Form 1040, line 40		
b	Corporations. Enter amount from Form 1120, Schedule J, line 3 (Form 1120-A filers claiming the research credit, enter amount from Form 1120-A, Part I, line 1)	5	7.945
c	Other filers. Enter regular tax before credits from your return		
6	Credits that reduce regular tax before the orphan drug credit:		
a	Credit for child and dependent care expenses (Form 2441)	6a	
b	Credit for the elderly or the disabled (Schedule R, (Form 1040))	6b	
c	Foreign tax credit (Form 1116 or Form 1118)	6c	
d	Possessions tax credit (Form 5735)	6d	
e	Mortgage interest credit (Form 8396)	6e	
f	Add lines 6a through 6e	6f	
7	Net regular tax. Subtract line 6f from line 5	7	7.945
8	Tentative minimum tax (see instructions):		
a	Individuals. Enter amount from Form 6251, line 20		
b	Corporations. Enter amount from Form 4626, line 15	8	10.567
c	Estates and trusts. Enter amount from Form 1041, Schedule H, line 37		
9	Excess of net regular tax over tentative minimum tax - Subtract line 8 from line 7	9	
10	Orphan drug credit allowed for the current year. Enter here and on the appropriate line of your return the smaller of line 4 or line 9	10	

Part III Current Year Credit for Increasing Research Activities (For costs incurred after June 30, 1992, see instructions.)

11	Basic research payments paid or incurred to qualified organizations	11	
12	Base period amount	12	
13	Subtract line 12 from line 11. If less than zero, enter -0-	13	
	Qualified research expenses paid or incurred (lines 14-17):		
14	Wages for qualified services (do not include wages used in figuring the jobs credit)	14	212.731
15	Cost of supplies	15	
16	Rental or lease costs of computers	16	
17	Enter 65% (.65) of contract expenses	17	
18	Total qualified research expenses. Add lines 14 through 17	18	212.731
19	Enter fixed-base percentage, but not more than 16% (see instructions) STMT. 8	19	3.00%
20	Enter average annual gross receipts (see instructions)	20	NONE
21	Base amount. Multiply line 20 by the percentage on line 19 (see instructions) STMT. 9	21	NONE
22	Subtract line 21 from line 18	22	212.731
23	Multiply line 18 by 50% (.50)	23	106.366
24	Enter smaller of line 22 or 23	24	106.366
25	Add lines 13 and 24	25	106.366
26	Tentative credit. Multiply line 25 by 20% (.20). If you do not elect the reduced credit under Section 280C(c), enter the result and see the instructions for the schedule that must be attached. Note: If you elect the reduced credit, multiply line 25 by 13.2% (.132) and enter that amount instead. Also, write "Sec. 280C" in the margin to the right of the entry space SEC. 280C	26	14.040
27	Flow-through research credit(s) from a partnership, S corporation, estate, or trust	27	
28	Current year credit for increasing research activities. Add lines 26 and 27. Enter here and see Claiming the Credit on page 2 to see if you have to file Form 3800	28	14.040

See Paperwork Reduction Act Notice on page 2.

Form **6765** (1992)

Part IV Tax Liability Limitation for the Research Credit

29 Net regular tax for research credit:

a Net regular tax from line 7	29a	7.945
b Orphan drug credit from line 10	29b	
c Credit for fuel from nonconventional source	29c	
d Add lines 29b and 29c	29d	
e Net regular tax. Subtract line 29d from 29a	29e	7.945

30 Net income tax:

a Individuals. Add line 29e above and line 22 of Form 6251	30	10.567
b Corporations. Add line 29e above and line 17 of Form 4626		
c Estates and trusts. Add line 29e above and line 39 of Form 1041, Schedule H		

31 If line 29e is more than \$25,000, enter 25% (.25) of the excess (see instructions)	31	NONE
32 Subtract line 8 or line 31, whichever is greater, from line 30. If less than zero, enter -0-	32	NONE
33 Corporations. Enter here and on the appropriate line of your return the smaller of line 28 or line 32. This is your General Business Credit for 1992	33	NONE
34 Individuals, estates, and trusts. Enter here and on the appropriate line of your return the smaller of line 28 or the amount from the formula in the instructions for line 34 (but do not enter more than line 32). This is your General Business Credit for 1992	34	

Asset Acquisition Statement Under Section 1060

OMB No. 1545-1021
Expires 2-29-96

Attachment
Sequence No. 61

► Attach to your Federal income tax return.

Name as shown on return
Expert Software, Inc.

Identification number as shown on return
65-0359860

Check the box that identifies you:

☒ Buyer

☐ Seller

Part I General Information—To be completed by all filers

1 Name of other party to the transaction

Other party's identification number

Bloc Development Corporation

65-0170513

Address (number, street, and room or suite no.)

800 Douglas Entrance

City, state, and ZIP code

Coral Gables, Florida 33134

2 Date of sale

October 23, 1992

3 Total sales price

\$7,078,824

Part II Assets Transferred—To be completed by all filers of an original statement

4 Assets	Aggregate Fair Market Value (Actual Amount for Class I)	Allocation of Sales Price
Class I	\$ 115,364	\$ 115,364
Class II	\$	\$
Class III	\$	\$ 6,875,027
Class IV		\$
Total		\$ 6,990,391

5 Did the buyer and seller provide for an allocation of the sales price in the sales contract or in another written document signed by both parties? ☐ Yes ☒ No
If "Yes," are the aggregate fair market values listed for each of asset Classes I, II, and III the amounts agreed upon in your sales contract or in a separate written document? ☐ Yes ☒ No

6 In connection with the purchase of the group of assets, did the buyer also purchase a license or a covenant not to compete, or enter into a lease agreement, employment contract, management contract, or similar arrangement with the seller (or managers, directors, owners, or employees of the seller)? ☒ Yes ☐ No
If "Yes," specify (a) the type of agreement, and (b) the maximum amount of consideration (not including interest) paid or to be paid under the agreement. See the instructions for line 6.

Non-compete agreement with the seller for \$1,250,000.

Management contract with the seller for \$500,000.

Part III

Class III, Intangible Amortizable Assets Only—Complete if applicable. The amounts shown below also must be included under Class III assets in Part II. Attach additional sheets if more space is needed.

Assets	Fair Market Value	Useful Life	Allocation of Sales Price
Software Licenses	\$ 5,185,416	3 Yrs.	\$ 5,185,416
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$

Part IV

Supplemental Statement—To be completed only if amending an original statement or previously filed supplemental statement because of an increase or decrease in consideration.

7 Assets	Allocation of Sales Price as Previously Reported	Increase or (Decrease)	Redetermined Allocation of Sales Price
Class I	\$	\$	\$
Class II	\$	\$	\$
Class III	\$	\$	\$
Class IV	\$	\$	\$
Total	\$	\$	\$

8 Reason(s) for increase or decrease. Attach additional sheets if more space is needed.

9 Tax year and tax return form number with which the original Form 8594 and any supplemental statements were filed.

[illegible]

1120 PAGE 1 DETAIL

LINE 17: TAXES

PAYROLL TAXES	15,888.
MISC TAXES	3,063.
STATE INCOME TAXES	2,959.

	21,910.
	=====

EXPERT SOFTWARE, INC.

Alternative Minimum Tax Depreciation

[illegible]

[illegible]

* In certain circumstances, this may be regular tax depreciation rather than AMT depreciation.

1120 PAGE 1 DETAIL

=====

LINE 5: INTEREST INCOME

INTEREST INCOME

3,761.

3,761.
=====

1120 PAGE 1 DETAIL

=====

LINE 26: OTHER DEDUCTIONS

AMORTIZATION	412,892.
DEVELOPMENT COSTS	180,691.
COMMISSIONS	62,890.
FREIGHT-OUT	52,126.
INSURANCE	63,306.
MEALS AND ENTERTAINMENT	3,385.
TRAVEL	9,332.
AUDIT FEES	10,000.
TELEPHONE	14,999.
TRAINING	1,600.
MISC. SELLING EXPENSES	12,215.
OFFICE SUPPLIES	9,742.
POSTAGE	11,811.
RECRUITING EXPENSES	10,456.
TEMPORARY HELP	5,370.
CONVENTION EXPENSES	890.
BANK CHARGES	74.
DUES AND SUBSCRIPTIONS	1,350.
DELIVERY EXPENSES	476.
PAYROLL SERVICE	230.

863,835.
=====

1120 PAGE 4 DETAIL

=====

BEGINNING

ENDING

SCHEDULE L, LINE 6: OTHER CURRENT ASSETS

PREPAID EXPENSES

NONE

86,186.

DEFERRED INCOME TAXES

NONE

24,257.

NONE

110,443.

=====

=====

SCHEDULE L, LINE 14: OTHER ASSETS

UNAMORTIZED LOAN FEES

52,500.

ORGANIZATIONAL COSTS

15,101.

DEPOSITS

7,551.

75,152.

=====

=====

SCHEDULE L, LINE 18:

OTHER CURRENT LIABILITIES

LINE OF CREDIT

NONE

1,300,000.

ACCRUED EXPENSES

NONE

751,585.

INCOME TAXES PAYABLE

NONE

24,257.

CAPITAL LEASE OBLIGATION

NONE

10,203.

NONE

2,086,045.

=====

=====

SCHEDULE L, LINE 21: OTHER LIABILITIES

LONG TERM CAPITAL LEASE OBLIGATION

NONE

39,282.

NONE

39,282.

=====

=====

1120 PAGE 4 DETAIL

=====

SCHEDULE M-1 LINE 5: EXPENSES ON BOOKS NOT DEDUCTED IN RETURN

CONTINGENT LIABILITY ON DEVELOPMENT COSTS	17,695.
AUDIT FEES	17,500.
ACCRUED VACATION	27,000.
INVENTORY RESERVE	5,369.
INTEREST ON SUBORDINATED DEBT	73,726.

	141,290.
	=====

SCHEDULE M-1, LINE 8: DEDUCT. IN RETURN NOT CHARGED AGAINST BOOK

STATE TAXES	2,959.
AMORTIZATION	2,194.
INSURANCE	38,028.

	43,181.
	=====

CUMULATIVE ACE PREFERENCES DETAIL

	1990	1991	1992
ACE			58,295.
AMT I			56,186.
ACE OVER AMT I			2,109.
AMT I OVER ACE			
75% ACE PREFERENCE			1,582.
75% ACE REDUCTION			
AMOUNT OF CARRYOVER CREATED			1,582.
CARRYOVER FROM PRIOR YEAR			
(MAXIMUM REDUCTION ALLOWED)			
AMOUNT OF CARRYOVER USED			
(REDUCTION CLAIMED)			
CARRYOVER REMAINING			1,582.

FORM 4626 ANNUALIZED ALTERNATIVE MINIMUM TAX

1. ALTERNATIVE MINIMUM TAXABLE INCOME	57,768
2. MULTIPLY BY 12	12
3. DIVIDED BY NUMBER OF MONTHS IN THE SHORT PERIOD	3
4. ANNUALIZED ALTERNATIVE MINIMUM TAXABLE INCOME	231,072
5. \$150,000 MAXIMUM EXEMPTION	150,000.
6. ANNUALIZED AMTI IN EXCESS OF LINE 5	81,072.
7. AMTI STATUTORY EXEMPTION (LINE 6 TIMES 25%)	20,268.
8. \$40,000 EXEMPTION	40,000.
9. EXEMPTION (LINE 8 LESS LINE 7)	19,732
10. NET ANNUALIZED AMTI SUBJECT TO TAX	211,340
11. TIMES ALTERNATIVE MINIMUM TAX RATE	20.0
12. TAX BEFORE DEANNUALIZATION	42,268
13. DIVIDED BY 12	12
14. TIMES NUMBER OF MONTHS IN SHORT PERIOD	3
15. ANNUALIZED ALTERNATIVE MINIMUM TAX BEFORE CREDITS	10,567

6765 LINE 19 AND LINE 20 DETAIL

START UP COMPANY
 RESEARCH AND DEVELOPMENT CREDIT
 FOR 1992 RETURN

LINE 19 - FIXED BASE PERCENTAGE

YEAR OF OPERATIONS	QUALIFIED RESEARCH EXPENSES	GROSS RECEIPTS	LESS RETURN AND ALLOWANCES	NET RECEIPTS
1984				
1985				
1986	NONE			
1987	NONE			
1988	NONE			
TOTALS	NONE			

FIXED BASE PERCENTAGE 3.00 %
 =====

LINE 20 - AVERAGE ANNUAL GROSS RECEIPTS

	1991	1990	1989	1988
RECEIPTS	NONE	NONE	NONE	NONE
	=====	=====	=====	=====
	TOTAL GROSS RECEIPTS			NONE
	AVERAGE ANNUAL GROSS RECEIPTS			NONE
				=====

* THE IRS DEFINES GROSS RECEIPTS TO BE NET OF RETURNS AND ALLOWANCES

CREDIT FOR INCREASING RESEARCH ACTIVITIES

LIMITATION OF BASE AMOUNT (LINE 21)

A	FIXED BASE PERCENTAGE (LINE 19)	3.00	
B	AVERAGE ANNUAL GROSS RECEIPTS (LINE 20)	NONE	
C	BASE AMOUNT BEFORE LIMITATION (A * B)		NONE
D	NUMBER OF DAYS IN TAX YEAR BEFORE 7/1/92	365.	
E	TOTAL NUMBER OF DAYS IN TAX YEAR	69.	
F	REDUCTION PERCENTAGE (D / E)		528.99
G	BASE AMOUNT AFTER LIMITATION (C * F)		NONE

ELECTION TO AMORTIZE START-UP EXPENDITURES

Form 1120 - FYE: 12/31/92

Name: Expert Software, Inc.

I.D. # 65-0359860

Pursuant to Internal Revenue Code Section 195, the taxpayer hereby elects to amortize the start-up expenditures paid or incurred over a 60 month period beginning with the month in which the taxpayer commences business.

ELECTION TO AMORTIZE ORGANIZATIONAL EXPENDITURES

Form 1120 - FYE 12/31/92

Name: Expert Software, Inc.

I.D.: # 65-0359860

Pursuant to Internal Revenue Code Section 248 and Regulation Section 1.248-1(c), the taxpayer hereby elects to amortize the organizational expenditures incurred as set forth below, ratably over a 60-month period beginning with the month in which the taxpayer commences business. The taxpayer has commenced business as of 10/23/92.

<u>DATE INCURRED</u>	<u>DESCRIPTION OF EXPENDITURES</u>	<u>AMOUNT</u>
10/23/92	Professional Fees	<u>\$15,368.</u>

Expert Software Valuation Presentation Outline

1. Market Analysis

- Opportunity for low-cost applications
- # of home computers - operating systems used
- Competition
- Distribution channels

2. Expert Software

- History
- Product development (selection, outsourcing)
- Sales (channels)
- Prices, costs
- Overall financials
- Operational skills/organization

3. Valuation Methodology

- Selected NPV of projected cash flow (after tax)
- Rejected reconstruction cost (not meaningful when development was on a royalty basis (see Q6 and Q8))
- Rejected market comparables (no good public comparables or transaction data available at that time)
- Omitted in-development products since they had not passed FASB86 rules for capitalization (see Q7)
- Used actual data through 10/31/92
- Projected FY92; did not expect any surprises in 4Q92 (see Q9)
- Omitted any rewrite of programs for new platforms (even if extension of existing applications); did include improvements to available products
- Used constant '92 dollars
- Did top down and bottom-up projections and valuations for confirmation of reasonableness

4. Top Down Valuation

a. Market Opportunity

- Very large market opportunity and growing rapidly
- Competition is meaningful, but more in limiting market share and price, not in units sold
- MS/DOS would be principal market opportunity for '93-'94, shifting to WIN in '95-'97. Believed MS/DOS total installations would plateau (not drop), but consumers would continue to buy applications for their installed MS/DOS machines (reference Attachment 1)
- WIN would attract new consumers and build its own separate market opportunity
- MAC would not be a replacement for MS/DOS or a substitute for Windows, but would be a market in its own right at 10% of total market

- Primary channels for low-priced consumer applications would be general large scale merchandisers and large computer software retailers either through direct purchase from suppliers, through rack jobbers, or through software distributors (wholesalers). (See Q5)

b. Revenue Forecast

- Unit forecasts were based on historical sales, timing of introduction of recent titles, growth in installed machines and penetration of installed machines
- Certain categories will grow faster than others and bundles (multi-application offerings) will extend life of existing products by providing more attractive pricing
- Recognized risk in '96-'97, but felt that continuing improvements and add-ons (without inventory remaindering) would allow five-year life for categories (although some switch in specific program significance) (see Q4)
- Did not project any significant growth in MS/DOS revenues from available products in spite of growth in number of installed systems
- No further price erosion for MS/DOS; some drop for MAC prices and substantial drop for Windows prices;
- No change in distributor/rack jobber/direct sales mix which would change effective price

c. Costs and Profits

- Cost projections used were higher than historic figures (80% vs. 70%) for MS/DOS and no margin improvement over remaining life which one would normally expect. On MAC and Windows, started with higher costs (product introduction costs) and brought only to MS/DOS costs, even though pricing points were higher
- Operating expenses only (no amortization, no interest)

d. NPV

- Five-year life though some individual products will drop away earlier, based on market opportunity and expected MS/DOS life; MAC and WIN would probably be longer (see Q10, Q11, Q12, Q14)
- Tax rate of 40% (federal and state)
- Cost of money, if borrowed, was 8% (6% prime and 2% borrowing premium). This is a pretax cost of money applied to after tax profits. This is equivalent to 12% after tax cost of money (Reference Q2, Q15)
- Since forecasts were assumed to be low risk (e.g., conservative), 8% was a suitable figure to use. It is similar to that used on various other BGA studies during the same time period.
- Used revenue ratio basis for amortization rather than straight line, since these will be declining revenue products. Revenue ratio is a more conservative basis, rather than wait for matching amortization with tail end revenues from product life (see Q13)

5. Detailed Product Valuation

- Followed same procedures for each live product (39) as for categories. But used three-year life or five-year life as appropriate for each product
- Therefore, Expert Software could write off earlier any individual products which did not meet expectations while continuing to use planned amortization on those products which met or exceeded forecast.
- Results were very close to top-down projected values

6. Fundamental Issue

- Fundamental issue was what were Expert Software's expectations when they acquired the assets: DOS was (and would be) the foundation and WIN would account for long-term growth, with some old titles and many new applications taking advantage of better display graphics, more powerful computers and GUY interfaces
- DOS would continue to sell at a flat to declining rate while WIN would grow significantly. Did not expect DOS replacement

7. General Discussion

- Goodwill: Q1, Q3
- Cost of money: Q2, Q15
- Revenue ratio: Q15
- Shelf obsolescence: Q4
- Channel revenue mix: Q5 -- handled through effective prices
- Reconstruction cost: Q6, Q8
- In development products: Q7
- Economic life: Q10, Q11, Q12, Q14
- Full year '92 revenue: Q9

MS/DOS VERSUS WINDOWS - SITUATION 4Q92

Moving to Windows was difficult:

Hardware Issues

- ▶ Needed 486 chip
- ▶ Needed lots of memory
- ▶ Needed new monitors - high resolution, color
- ▶ Price was very high (many thousands of dollars)

Software Issues

- ▶ 3.0 was very buggy
- ▶ 3.1 was first usable version
- ▶ People got delivery of WIN, but didn't use it
- ▶ Business use, not home use, for first two years

Value issues

- ▶ Little other application software for WIN (vendors still producing DOS); very difficult to write WIN applications; not big enough home market to justify development efforts (e.g., DOS and even MAC markets were bigger)
- ▶ Price for Windows software was much higher than for DOS
- ▶ DOS hardware prices were quite low and dropping

Motivational Issues

- ▶ No "killer app" at the time to persuade people to buy/use Windows (justify paying for WIN-capable machine)

WHAT HAPPENED TO CHANGE WINDOWS HOME ACCEPTANCE

- Edutainment became killer app (games, good education tools)
- Some drop in MS/DOS sales in '93 made people concerned about buying old software
- Some increase in WIN app sales in '93 made people interested in Windows
- MAC in '93 went nowhere as WIN picked up home users who wanted GUI (at lower hardware price)
- By '94, it was clear that DOS was plummeting and wouldn't recover; WIN had started to climb (good new applications, lower hardware prices, WIN 3.1 really worked and was given away with new hardware sales)
- Rapid replacement was a major surprise to whole market (to business and, even more so, to home)
- Expert Software and its competitors were able to move quickly to fill revenue gap by acquiring new software (royalties only), so there was an ample supply of WIN home products by 1994

Date: October 15, 1996

Attorney Work Product

To: Bob Kester

From: Burton Grad

Subject: Expert Software

Things we need to get from Expert:

- ✓ 1. Financial Statements '92, '93, '94, '95, '96YTD
- ✓ 2. Sales (units and \$) for all products for '92, '93, '94, '95, '96YTD (by platform and product family)
- ✓ 3. Channel mix (Units and \$) '92, '93, '94, '95, '96YTD
 - Rack Jobbers
 - Distributors (wholesalers)
 - Direct
 - Other (identify)
- 4. History of # home computers installed -- '92-'96: how many were using what platforms (DOS, WIN, MAC)
- 5. Direct competitors and their market shares, '92-'96
- 6. Overall sales of home software (by primary platforms)
- ✓ → 7. Total price paid for assets and allocations actually made in '92

Need Accounting answers to these questions:

- ✓ 1. If actual experience indicates that a product life forecast for revenue/profit is not accurate, then what are the accounting rules in writing down the "excess" capitalized value?
- ✓ 2. Are there any timing rules on when you "have to" restate capitalization of acquired products if you discover that the forecast is too high?

Bob, I'll call you.

Expert Software

Prepare presentation on process used in valuation and responses to specific questions.

- Follow report outline
- use appendices where necessary
- Provide ^{presentation} ~~written~~ answers to ^{each} questions
~~without appropriate~~
- 10/25 meeting in Boston
- get hotel for 10/24 in Boston
- stay with B + D for weekend?

review sales data since 1993 vs projections

overall financial statement?

Sales ^{by} for all products - annual summaries for 93, 94, 95 by category, by product name.

Kester - ~~Goodwill~~ Goodwill Exposure (100%)

focus on explanation of values - not high-balled



Prepared at the request of counsel and sent to:

Mr. Burton Grad

October 21, 1996

I do not have all the details regarding the allocation of the purchase price re acquisition of Expert Software from Bloc. The tax and book allocation was \$5,185,416 and \$1,250,000 for the software licenses and non-compete agreements, respectively. In addition there was \$500,000 to be paid over five years under a management contract. There may have been other allocations. I will discuss with Bob Kester and report to you.

Attached is an internal schedule - Summary of Amortization which you will find helpful. Note that the book and tax amortization were initially the same - three year life, however the actual amortization changed. The 1994 tax return includes Form 8275 - Disclosure Statement which explains the change.

Hopefully the above is helpful. Call me with any questions.

Best regards,

A handwritten signature in dark ink, appearing to be "C. E. Smith" or similar, written in a cursive style.

cc: Bob Kester GP&H

Expert Software, Inc.
Summary of Amortization
For the Year Ended December 31, 1995

Asset	Date Acquired	Cost	Yrs	Total	Amortization Deducted			
					1995	1994	1993	1992
License agreement	10/23/92	5,185,416	3.00	5,185,416	22,389	3,107,805	1,728,472	326,750
Non-compete agreement	10/23/92	1,250,000	3.00	1,250,000	49,638	704,927	416,667	78,768
Organization costs	10/23/92	15,368	5.00	9,803	3,074	3,074	3,074	582
Unamortized loan fee	10/23/92	60,000	1.67	60,000		13,208	40,000	6,792
S-1 Costs not deducted						(44,268)		
Acquired intangibles - Swfte	11/2/95	12,640,372	15.00	138,342	138,342			
Acquired intangibles - Swfte	11/2/95	250,000		0				

Unlocated

(120)

Total

8,643,661	0	213,442	3,784,626	2,188,213	412,892
-----------	---	---------	-----------	-----------	---------

Asset	Date Acquired	Cost	Yrs	Total	Amortization Expensed			
					1995	1994	1993	1992
License agreement	10/23/92	5,185,416	3.00	5,185,416	22,389	477,231	4,361,631	324,165
Non-compete agreement	10/23/92	1,250,000	3.00	1,250,000	337,898	416,667	416,667	78,768
Organization costs	10/23/92	15,368	5.00	15,368	8,954	3,074	3,074	267
Unamortized loan fee	10/23/92	60,000	3.00	60,000	12,500	20,000	20,000	7,500
Acquired intangibles - Swfte	11/2/95	12,890,372	15.00	8,707,792	8,707,792			

Unlocated

Total

15,218,576	0	9,089,533	916,972	4,801,371	410,700
------------	---	-----------	---------	-----------	---------

Tax Over (Under) Book

(8,575,015)	0	(8,876,091)	2,867,854	(2,613,159)	2,192
-------------	---	-------------	-----------	-------------	-------

Sch M-1 Per Return

2,874,567	(2,633,158)	2,194
-----------	-------------	-------

Diff

(6,913)	19,999	(2)
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ITEM #1

Form **8275**

Rev. May 1994)

Department of the Treasury
Internal Revenue Service

Name(s) shown on return

EXPERT SOFTWARE, INC.

Disclosure Statement

Do not use this form to disclose items or positions that are contrary to Treasury regulations. Instead, use Form 8275-R, Regulation Disclosure Statement. See separate instructions.

▶ Attach to your tax return.

OMB No. 1545-0048
Expires 6-31-95Attachment
Sequence No. **92**Identifying number shown on return
65-0359860**Part I General Information** (See instructions.)

(a) Rev. Rul., Rev. Proc., etc.	(b) Item or Group of Items	(c) Detailed Description of Items	(d) Form or Schedule	(e) Line No.	(f) Amount
1	Amortiza- tion Expense	Non Compete Agreement	Form 4562	41	337,898.
2					
3					

Part II Detailed Explanation (See instructions.)

1 SEE STATEMENT 2

2

3

Part III Information About Pass-Through Entity. To be completed by partners, shareholders, beneficiaries, or residual interest holders.

Note: A pass-through entity is a partnership, an S corporation, an estate, a trust, a regulated investment company, a real estate investment trust, or a real estate mortgage investment conduit (REMIC).

Complete this part only if you are making adequate disclosure with respect to a pass-through item.

1 Name, address, and ZIP code of pass-through entity	2 Identifying number of pass-through entity
	3 Tax year of pass-through entity / / to / /
	4 Internal Revenue Service Center where the pass-through entity filed its return

Expert Software, Inc.
EIN# 65-0359860

Statement to be Attached to Form 8275 - Disclosure Statement

Part II

At the time Expert Software, Inc. (Expert) was established in October 1992, it purchased substantially all of the software licenses and certain other assets of the Expert Division of Softsync, Inc., a subsidiary of Bloc Development Corporation (Bloc). Expert paid \$6 million in cash for certain net assets and a non-compete agreement with the seller. The term of the non-compete agreement spanned three years. In addition to the non-compete agreement, Expert and Bloc negotiated an agreement under which Expert paid Bloc consulting fees.

From the time when Expert entered these agreements and the 1994 tax year, the relationship between the two companies deteriorated. In fact, the relationship deteriorated to the point where Bloc did not provide consulting services. Based in part on this reason, Expert initiated negotiations to cancel both the non-compete agreement and the consulting agreement. On December 8, 1994, Bloc contacted Expert with its offer. Expert contacted Bloc on December 9, 1994 with a counter offer. Then, on December 27, 1994, Bloc rejected Expert's counter offer. However, Expert still believed that it would sever the agreements and pay the fee described above within a short period of time. Further, Expert fully intended to achieve these results.

The separation negotiations continued and, in February 1995, the parties negotiated a final agreement. As a result of the agreement, Expert paid the note and a fee to terminate the consulting agreement. In addition, Expert legally released Bloc from the non-compete agreement.

Therefore, the audited 1994 financial statements properly recognized the diminution in value. The statements included accrued deductions for the fee to terminate the consulting agreement. In additions, the statements deducted the amount necessary to write down the unamortized portion of the non-compete agreement (approximately \$338,000) except for a small portion which represents a January 1995 expense.

In addition, Bloc no longer conducted business similar to Expert's business. As such, Bloc would not have been able to compete with Expert in that arena. As such, if Expert amortized the non-compete agreement over the prior estimated useful life, it would no longer match the cost recovery with the period during which the value of the agreement ended.

IRC §446 requires a taxpayer to compute taxable income under the method of accounting on the basis of which it regularly computes its book income. Furthermore, in order to match the amortization of the non-compete agreement with its ended useful life, Expert needed to follow the book amortization. Accordingly, Expert deducted the December 31, 1994, unamortized capitalized costs attributable to the non-compete agreement under IRC §167(a).

ITEM #2

Form **8275**

Rev. May 1994)

Department of the Treasury
Internal Revenue Service**Disclosure Statement**

Do not use this form to disclose items or positions that are contrary to Treasury regulations. Instead, use Form 8275-R, Regulation Disclosure Statement. See separate instructions.

▶ Attach to your tax return.

OMB No. 1545-0049
Expires 6-31-95Attachment
Sequence No. 92

Name(s) shown on return

EXPERT SOFTWARE, INC.

Identifying number shown on return
65-0359860**Part I General Information** (See instructions.)

(a) Rev. Rul., Rev. Proc., etc.	(b) Item or Group of Items	(c) Detailed Description of Items	(d) Form or Schedule	(e) Line No.	(f) Amount
1	Amortiza- tion Expense	Software Licensing Agreement	Form 4562	41	1,401,722.
2					
3					

Part II Detailed Explanation (See instructions.)

1
SEE STATEMENT 1

2

3

Part III Information About Pass-Through Entity. To be completed by partners, shareholders, beneficiaries, or residual interest holders.

Note: A pass-through entity is a partnership, an S corporation, an estate, a trust, a regulated investment company, a real estate investment trust, or a real estate mortgage investment conduit (REMIC).

Complete this part only if you are making adequate disclosure with respect to a pass-through item.

1 Name, address, and ZIP code of pass-through entity	2 Identifying number of pass-through entity
	3 Tax year of pass-through entity / / to / /
	4 Internal Revenue Service Center where the pass-through entity filed its return

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 61935M

Form **8275** (Rev. 5-94)

Expert Software, Inc.
EIN# 65-0359860

Statement to be Attached to Form 8275 - Disclosure Statement

Part II

When Expert Software, Inc. (Expert) was established in October 1992, it acquired DOS software licenses and certain other assets. During 1993 and continuing into 1994, Expert experienced a major shift in the product mix between DOS and Windows products. During 1992, DOS products represented about 77% of sales to Windows' 23%. During 1993, DOS accounted for approximately 57% of sales compared with Windows at 43%. During 1994 the trend intensified and Expert ceased manufacturing DOS based products.

Expert has not produced any more DOS products due to the external shift dictated by its customers (retailers) and the ultimate end users of its products. In addition, Expert does not intend to produce any additional DOS products. Expert's customers (i.e., the retailers) sold all DOS products that Expert produced and held no shelf stock on December 31, 1994. However, the retailers still honor their individual return policies. As such, Expert is still subject to its return agreements with the retailers.

In December 31, 1993, Expert re-evaluated the net book value of capitalized software licenses and determined that it should adjust this value based on current and future sales projections of its DOS products. Accordingly, in its audited financial statements, Expert deducted \$2,633,000 to write down the value of the license agreement for its DOS based software products. Expert reversed this deduction on schedule M of its 1993 tax return. In addition, the audited 1994 financial statements report further reductions in the net realizable value of the DOS license agreements (\$263,000).

Clearly, external factors indicated that the licenses no longer had value. In addition, IRC §446 requires a taxpayer to compute taxable income under the method of accounting on the basis of which it regularly computes its book income. Accordingly, Expert deducted the writedown of its DOS license agreement during 1994. Expert needed this deduction in order to recover the unamortized cost in the period in which the useful life of the agreement ceased. Expert met this requirement by matching its writedown of the asset with the audited financial statement writedown. It accomplished this requirement by deducting the unamortized balance of the 1993 book (but not tax) writedown and by deducting the 1994 book writedown.



- CK effective
price -
- migration to
WIN
- New Titles

Mr. Burton Grad
Burton Grad Associates, Inc.
235 Martling Avenue
Tarrytown, New York, 10591

October 17, 1996

Dear Burton:

Enclosed is some of the information that you have requested. Items 4, 5, and 6 are being researched by our marketing department. The other items are as follows:

- ✓ 1. Financial Statements - see the prospectus for 1992 - 94, the annual report for 94-95 and the Form 10Q for June 30, 1996. The prospectus also provides interesting information on business risks.
2. Sales by platform and product family. Schedules are enclosed based on sales. We do not have the data by units.
3. Channel mix. Schedules are enclosed based on sales, not by units.

Accounting:

1. You would write down the capitalized value of an asset at the time it becomes impaired. For intangible assets it would be at the time future revenues are insufficient to justify the continuing carrying value of the asset. See note 1 Operations and Significant Accounting Policies - Amortization on page 25 of the 1995 Annual Report.
2. For accounting the timing is continuous and through-out the life of the asset. You must insure that the asset is not impaired and if it is, assess the adjustment necessary to reduce its carrying value.

Hopefully the enclosed is helpful.

Best regards,

Expert Software Net Sales by Customer Category 01/92 - 09/96 (Channel Mix)

			1992	1993	1994	1995	1996
	Cust Categ.	Customer Name	Net Sales	Net Sales	Net Sales	Net Sales	Net Sales
							(thru 9/30)
1	Computer Superstores	CompUSA	\$569,173	\$1,300,043	\$3,081,975	\$345,039	\$1,273,785
2	Computer Superstores	Computer City	\$49,259	\$351,289	\$1,104,244	\$1,509,557	\$525,025
3	Computer Superstore	Computerware		\$5,165	\$4,461	\$70	
4	Computer Superstores	Frys	\$43,157	\$74,907	\$119,058	\$232,157	\$248,572
5	Computer Superstores	Microcenter		\$135,543	\$183,659	\$177,163	\$139,798
6	Computer Superstores	Navarre (Media Play)			\$55,029		
	Total Computer Superstores:		\$661,589	\$1,866,947	\$4,548,426	\$2,263,986	\$2,187,179
1	Consumer Electronics	American Software	\$12,691	\$8,550	\$38,171	\$133,088	\$338,181
2	Consumer Electronics	Best Buy	\$461,755	\$774,370	\$1,846,740	\$3,129,571	\$2,034,812
3	Consumer Electronics	Bradlees					\$76,670
4	Consumer Electronics	Circuit City	\$211,754			\$29,770	\$37,400
5	Consumer Electronics	Incredible Universe					\$1,209
6	Consumer Electronics	Montgom Ward/Lechmere	\$66,938	\$55,180	\$105,836	\$146,528	\$45,461
7	Consumer Electronics	NCA Peripherals		\$2,720			
8	Consumer Electronics	Radio Shack USA	\$371,682	\$421,216	\$225,782	\$38,197	
9	Consumer Electronics	Slash (Best Buy)		\$181,786			
10	Consumer Electronics	Tops Appliance City				\$18,153	\$15,454
11	Consumer Electronics	Western Merch. (Hastings)			\$43,011		
	Total Consumer Electronics:		\$1,124,820	\$1,443,822	\$2,259,540	\$3,495,307	\$2,549,187
1	Department Stores	Electronics Arts (Toys)				\$753,059	\$43,710
2	Department Stores	Fred Meyer	\$286,036	\$64,544	\$206,684	\$145,391	\$75,175
3	Department Stores	Handleman (KMart, Target, Sears)	\$1,813,791	\$1,538,505	\$905,880	(\$55,373)	(\$388,450)
4	Department Stores	Kay Bee Toys					\$22,500
5	Department Stores	New Media Express (Toys)				\$27,473	(\$13,348)
6	Department Stores	Target		\$36,835			
7	Department Stores	Toys R Us		\$2,018	\$1,286	\$249	
8	Department Stores	Western Merch. (Walmart)	\$163,403	\$276,399			
	Total Department Stores:		\$2,263,230	\$1,918,301	\$1,113,850	\$870,799	(\$260,412)
1	International	Argentina- Mundo PC/ aka Diagonal PC			\$6,941	\$40,786	\$39,934
2	International	Australia - Intertan	\$19,255				
3	International	Australia - Ozisoft	\$252				
4	International	Australia- Dataflow		\$82,782	\$399,214	\$643,305	\$744,524
5	International	Australia-Electronics Arts	\$40,387	\$17,619			
6	International	Barbados - Accutrade			\$835		
7	International	Beamscope	\$98,004	\$233,056	\$266,345	\$478,168	\$998,964
8	International	Belgium -Mediamix				\$44,478	\$54,482
9	International	Brazil - Anacom Softw (aka SS Trading)			\$10,519	\$101,374	\$95,953
10	International	Brazil- Incom Imp & Exp (aka: Bordignon)			\$402	\$17,350	\$9,614
11	International	Canada - MicroBoutique	\$5,619	\$4,473			
12	International	Chile - Dist. Edwards		\$3,989	\$2,161	\$13,949	\$37,388
13	International	Colombia - Import & Export Co.			\$449		
14	International	Colombia -Syst de Comp (3S Abaco)			\$3,007	\$22,272	\$7,868
15	International	Cyprus- GCC Computers			\$2,417	\$2,778	\$2,045
16	International	Denmark - Prosoft				\$35,758	\$18,447
17	International	Denmark - SD Merchand.				\$60	
18	International	Egypt - Al-Alamiah Softw				\$3,600	
19	International	Egypt - Horizon Development					\$2,194

Expert Software Net Sales by Customer Category 01/92 - 09/96 (Channel Mix)							
			1992	1993	1994	1995	1996
	Cust Categ.	Customer Name	Net Sales	Net Sales	Net Sales	Net Sales	Net Sales
							(thru 9/30)
20	International	Egypt - Sakhr Software Company					\$13,200
21	International	El Salvador - Orbi SA			\$15,910	\$15,144	
22	International	Finland - Microdata OY				\$23,179	\$29,576
23	International	Finland- PC Superstore OY				\$4,517	
24	International	France - Micro Informatica	\$28,373				
25	International	France - Personal Soft				\$15,609	\$21,872
26	International	Germany - Infomedia				\$98,084	\$55,096
27	International	Germany - Manfred Gaus				\$10,623	
28	International	Germany - Software Resour			\$2,993	\$299	
29	International	Greece - Papasotiriou S.A.					\$3,441
30	International	Greece- CD Media					\$5,176
31	International	Guatemala -Cinco Centro			\$9,411	\$32,708	\$13,864
32	International	Hong Kong -KPS Retail		\$31,994	\$62,725	\$106,679	\$90,553
33	International	India - BPB Publications					\$5,910
34	International	India -Computer Zone				\$11,871	\$20,503
35	International	India- Lan Multimedia					\$18,752
36	International	Israel - CD Media			\$112		
37	International	Israel- Makh-Shevet M.L.				\$39,429	\$65,866
38	International	Italy- Logic Software				\$154,805	\$141,122
39	International	Japan -MarketCreators/Seiwa	\$30,000	\$18,300	\$87,803	\$49,145	\$47,712
40	International	Kenya - Computron Systems Inc.					\$1,080
41	International	Kitchener News					\$11,020
42	International	Kuwait - A.N. Malhotra				\$1,765	\$1,324
43	International	Kuwait - Marketing and Business Assoc.					\$4,536
44	International	Malaysia -Infifax SDN.			\$332	\$44,651	\$17,055
45	International	Merisel Canada				\$175,314	\$259,954
46	International	Mexico - Coefficiente			\$40,759	\$13,776	\$33,527
47	International	Misc. Int'l	\$1,897		\$292		
48	International	Multimicro		\$33,572	\$97,391	\$124,468	\$81,755
49	International	Netherlands - Office Data, Europe				\$18,239	\$22,931
50	International	Netherlands- GW Trading (GTI)	\$2,398	\$7,967	\$16,518	\$51,815	
51	International	Netherlands- Kire Intl			\$3,956		
52	International	Netherlands- Nils & Lam			\$688	\$3,158	
53	International	Norway -Essdata A/S				\$90,950	\$77,469
54	International	Office Depot Canada		\$22,080	\$65,944	(\$2,808)	
55	International	Panama - Espectra, S.A			\$8,199	\$12,276	
56	International	Paraguay - PC Tronic				\$15,424	\$9,315
57	International	Philippines - Global Publishing					\$22,191
58	International	Portugal - COM SA				\$2,311	\$2,693
59	International	Portugal - Marsis II, TDI, Lda/Portidata					\$68,068
60	International	Portugal - Valdemar S. Lima					\$3,107
61	International	Portugal -Prologica		\$319	\$8,969	\$16,078	\$20,123
62	International	Radio Shack Canada	\$85,872	\$72,119	\$49,465		
63	International	Saudi A. -Future Comp Sys				\$648	\$4,576
64	International	Saudi Arab - Elect Concepts				\$24,803	\$24,737
65	International	Saudi Arab - TRIWEF Corp/dba Triad Sales					\$9,396
66	International	Saudi Arabia - Al-Maiman				\$259	
67	International	Scholastic Canada					\$15,440
68	International	Singapore - Telahin Enterprises					\$27,017
69	International	Slovenia - Skupina Atlantis				\$2,940	
70	International	South Africa - Fist				\$11,242	\$26,895
71	International	South Africa - HNR Computers				\$4,914	\$41,449
72	International	Spain - Family Software			\$2,124	\$8,316	

Expert Software Net Sales by Customer Category 01/92 - 09/96 (Channel Mix)							
			1992	1993	1994	1995	1996
	Cust Categ.	Customer Name	Net Sales	Net Sales	Net Sales	Net Sales	Net Sales
							(thru 9/30)
73	International	Spain - Hollywood Multimedia					\$9,866
74	International	Spain, GTI, Cia Distribucion de					\$13,823
75	International	Sweden - Sky Soft				\$2,902	
76	International	Sweden - Esselte Sweden					\$7,181
77	International	Sweden -IQ Media		\$17,751	\$14,170	\$51,984	\$22,296
78	International	Switzerland - PC Mediag GmbH					\$13,048
79	International	Switzerland -CD Soft & Feuerlarm				\$1,059	
80	International	Tanzania - Tanzam Impex			\$1,116	\$7,675	
81	International	Thailand - Retail Consult. Group				\$11,962	
82	International	Thailand - Sahaririya			\$105		
83	International	Thailand -TKS Interprinting				\$37,688	\$33,128
84	International	Triad Distributors				\$24,688	\$155,791
85	International	Trinidad-RIK Services Ltd.					\$1,632
86	International	Turkey - Interactive Bilgisayar Sistemleri					\$21,680
87	International	UAR -Alpha Data L.L.C					\$3,369
88	International	UAR -North Sea Computers				\$1,323	\$5,577
89	International	UAR -Three Dimension			\$11,585	\$11,343	\$6,847
90	International	UK - GEM Distribution		\$6,616			
91	International	UK - Mindscape	\$3,750				
92	International	UK - Neil Bloom		\$673			
93	International	UK - PC World	\$14,080	\$21,514			
94	International	UK - SDL Intl		\$11,333			
95	International	UK - Software Partners		\$85,690	\$362,737	\$1,427,125	\$1,622,150
96	International	Venezuela - Service D&C Comunicaciones					\$374
	Total International (Including Canada):		\$329,887	\$671,847	\$1,555,594	\$4,164,258	\$5,246,476
1	Mail Order	Com Direct	\$174				
2	Mail Order	Dalex Systems	\$5,331	\$13,771			
3	Mail Order	Direct Mail	\$101,366	\$75,805	\$14,443		
4	Mail Order	Enduser	\$178,974	\$156,101	\$326,944	\$271,456	\$159,413
5	Mail Order	Fast Track	\$460	\$1,783	\$8,738	\$6,299	\$11,898
6	Mail Order	Mac Connection	\$65,706	\$34,698	\$2,360	\$270	
7	Mail Order	Mac Warehouse	\$118,315	\$150,043	\$23,494	\$1,042	(\$67)
8	Mail Order	Macs Place	\$3,103	\$102			
9	Mail Order	Multiple Zones	\$27,779	\$2,816	\$292	\$4,555	\$2,912
10	Mail Order	Scholastic	\$19,318	\$32,788	\$29,409	\$86,032	\$144,045
11	Mail Order	Scholastic Book Fairs				\$18,145	\$5,495
12	Mail Order	T Maker	\$1,100				
13	Mail Order	Tiger	\$31,632	(\$218)	\$18,711	(\$224)	
	Total Mail Order:		\$553,258	\$467,689	\$424,391	\$387,575	\$323,695
1	Misc	Aafes	\$3,152				
2	Misc	Access Computers Tech		\$1,946			
3	Misc	Boise Cascade	(\$7)				
4	Misc	Broderbund Software				\$6,921	\$179
5	Misc	Computer Liquidations		\$500			
6	Misc	Creative Computers					(\$27)
7	Misc	D & W Inventory Llc				\$950,378	(\$5,761)
8	Misc	Discipline Marketing				\$644	\$20,376
9	Misc	Educational Resources					\$4,374

Expert Software Net Sales by Customer Category 01/92 - 09/96 (Channel Mix)							
			1992	1993	1994	1995	1996
	Cust Categ.	Customer Name	Net Sales	Net Sales	Net Sales	Net Sales	Net Sales
							(thru 9/30)
10	Misc	Expert Software			(\$15)	\$1,370	
11	Misc	Inline Design	\$1,476				
12	Misc	JD Store Equipment			\$6,016		
13	Misc	Miscellaneous Accounts		\$7,442	\$4,811	\$3,457	
14	Misc	Personal Computer Solutions		\$7,028			
15	Misc	Prodigy Services		\$12,184			
16	Misc	Slash			\$95,680	\$14,960	
17	Misc	SW Ameriquet Technologies					(\$92,851)
18	Misc	Test Drive Corporation					\$112
19	Misc	Workman Publishing					\$69,984
	Total Miscellaneous:		\$4,621	\$29,100	\$106,492	\$977,729	(\$3,614)
1	Misc Distribution	Abco			\$299,574	\$143,046	(\$576)
2	Misc Distribution	Baker & Taylor Software		\$6,092	(\$8,355)		(\$7,229)
3	Misc Distribution	Daisycom	\$1,875	\$2,616			
4	Misc Distribution	Entertainment Tech	\$3,882	\$9,574	\$5,383		
5	Misc Distribution	GT Interactive Software					\$106,207
6	Misc Distribution	Josha	\$164,745	\$16,293	\$34,528	\$5,748	
7	Misc Distribution	Lieberman	(\$24,710)				
8	Misc Distribution	Navarre		\$263,629			(\$134,607)
9	Misc Distribution	Software Co	\$5,651	\$818			
10	Misc Distribution	Tech Data Corp.					(\$81,095)
11	Misc Distribution	Wiz Distributors		\$21,989	\$7,408	\$20,765	\$6,591
	Total Miscellaneous Distribution:		\$151,443	\$321,011	\$338,538	\$169,559	(\$110,709)
1	New Channels	Albertsons					\$4,099
2	New Channels	Camelot Distributing, Inc.					\$2,557
3	New Channels	Central Arizona Distr. Co.					\$19,897
4	New Channels	Ciba-Geigy Corporation				\$1,822	\$120
5	New Channels	Communication Expo					\$5,505
6	New Channels	Cub Foods - Supermarkets				\$36,577	(\$11,946)
7	New Channels	Cumberland Farms, Inc.					\$80,784
8	New Channels	Deep Discount Drug, Inc.					\$3,590
9	New Channels	Eckerd Drugs		\$19,521	(\$8,453)		\$373,245
10	New Channles	Hudson Computer & Elect.				\$1,075	
11	New Channels	Ingram Entertainment					\$13,284
12	New Channels	Inter'l Purchase Systems					\$266,880
13	New Channels	Library Video Company				\$1,461	\$18,857
14	New Channels	Longs Drug Stores					\$53,626
15	New Channels	National Syndications, Inc.					\$1,320
16	New Channels	NCDS				\$17,988	\$20,177
17	New Channels	Publix Supermarkets					\$7,630
18	New Channels	Rite Aid Corporation					\$15,618
19	New Channels	Shop 'n Save - Grocery Store				\$1,795	\$9,036
20	New Channels	The Edutainment Co.				\$1,224	\$974
21	New Channels	The Stop & Shop Supermarket					\$26,928
22	New Channels	Time Warner					\$36,495
23	New Channles	Turner Home Entertainment				\$16,868	\$11,897
24	New Channels	Winn Dixie Stores				\$8,333	(\$1,152)
	Total New Channels:			\$19,521	(\$8,453)	\$87,143	\$959,420

Expert Software Net Sales by Customer Category 01/92 - 09/96 (Channel Mix)							
			1992	1993	1994	1995	1996
	Cust Categ.	Customer Name	Net Sales	Net Sales	Net Sales	Net Sales	Net Sales
							(thru 9/30)
1	Office Product Chains	Arvey Paper	\$9,123	\$15,661	\$11,779	\$42	
2	Office Product Chains	Brodart Company (JK Gill)			\$28,025	\$12,134	\$4,898
3	Office Product Chains	Ingram Micro (Office Max, Staples)			\$2,848,723	\$3,968,140	\$2,340,414
4	Office Product Chains	Office Depot	\$1,413,154	\$1,020,933	\$1,762,773	\$3,199,818	\$4,402,084
5	Office Product Chains	SP Richards	\$26,371	\$13,430	\$2,612		
6	Office Product Chains	Staples	\$20,328	(\$201)		\$2,704,593	\$1,680,771
7	Office Product Chains	Stationers Dist	\$9,469				
8	Office Product Chains	United Stationers	\$3,739	\$2,427			
9	Office Product Chains	Viking	(\$579)				
Total Office Product Chains:			\$1,481,605	\$1,052,250	\$4,653,912	\$9,884,727	\$8,428,168
1	S/W Chains & Mallbased	Abco (Waldensoftware)	\$157,271	\$263,894			
2	S/W Chains & Mallbased	Babbages	\$202,437	\$507,776	\$1,037,352	\$1,040,349	\$463,207
3	S/W Chains & Mallbased	Egghead	\$174,247	\$124,687	\$48,778	\$71,335	(\$70,274)
4	S/W Chains & Mallbased	Electronics Boutique	\$313,570	\$307,373	\$577,075	\$771,413	\$495,777
5	S/W Chains & Mallbased	General Nutrition		\$7,176			
6	S/W Chains & Mallbased	Software Etc.	\$84,182	\$347,339	\$430,077	\$961,744	\$176,562
Total S/W Chains & Mallbased:			\$931,707	\$1,558,245	\$2,093,282	\$2,844,841	\$1,065,272
1	Warehouse Clubs	Ingram (Sams)	\$941,146	\$2,457,986	\$219,715		
2	Warehouse Clubs	Merisel (BJs)		\$915,577	\$443,360	\$941,362	(\$284,556)
3	Warehouse Clubs	Price/Costco	\$281,940	\$238,926	\$1,153,597	\$441,618	\$384,748
4	Warehouse Clubs	Sams Club (Direct)			\$2,192,140	\$987,007	\$1,396,167
5	Warehouse Clubs	Tech Data (Price/Costco)				\$136,825	
Total Warehouse Clubs:			\$1,223,086	\$3,612,489	\$4,008,812	\$2,506,812	\$1,496,360
SALES PER S/J:			\$8,725,246	\$12,961,222	\$21,094,384	\$27,652,735	\$21,881,022
RETURNS RECEIVED				\$1,594,815	\$2,925,464	\$2,978,998	\$4,650,868
ACCOUNTING ADJUST. (Royalties, Etc.)					\$174,116	\$176,685	\$319,994
WORKMAN'S ACCRUAL 1995 -Reversal							(\$149,845)
WORKMAN'S ACCRUAL 1996							\$233,549
GROSS SALES			\$8,725,246	\$14,556,037	\$24,193,964	\$30,808,418	\$26,935,588
RETURNS RESERVE:				\$1,992,951	\$4,466,732	\$3,171,157	\$4,066,899
NET SALES- PER F/S:			\$8,725,246	\$12,563,086	\$19,727,232	\$27,637,261	\$22,868,689
Notes:							
Ingram 1992 and 1993 sales allocated to Whs Clubs							
Ingram 1994 sales allocated to Office Product Chains minus \$219,715 allocated to Sams (Whs Clubs).							
Ingram 1995 and 1996 allocated to Office Product Chains							

HISTORICAL UNIT SALES (BY PRODUCT CATEGORY) - BUNDLES EXPLODED

ITEM #	PRODUCTIVITY:		1992	1993	1994	1995	1996
			UNITS	UNITS	UNITS	UNITS	thru 9/30
8010	2000 FANTASTIC FONTS WIN CD	CD			36,179	31,665	11,894
8015	3000 PHOTO GALLERY #2 DUAL CD	CD				26,585	7,792
8009	3000 PHOTO GALLERY CD DUAL	CD			42,514	41,296	21,507
8012	3500 COLOR CLIP ART #2 CD	CD				37,535	31,409
8007	3500 COLOR CLIP ART DUAL CD	CD			42,821	102,568	47,173
8594	3D FONT CREATOR (WIN CD) BOXED	CD					10,615
8494	3D FONT CREATOR (WIN CD) JC	CD					15,771
8719	ALL AMERICAN CLIP ART (MAC/WIN CD) BOXED	CD					592
8619	ALL AMERICAN CLIP ART (MAC/WIN CD) JC	CD					858
8582	BUSINESS CLIP ART (WIN CD) BOXED	CD					11,215
8482	BUSINESS CLIP ART (WIN CD) JC	CD					10,767
8616	CARTOON CLIP ART (WIN CD) JC	CD					6,617
8716	CARTOONS CLIP ART (WIN CD) BOXED	CD					2,578
8501	CD CLIPART COL #2 (BOXED)	CD				6,178	4,111
1000	CD CLIPART COLL #1 (SLIM LINE)	CD					12,483
8401	CD CLIPART COLLECT #2 (JEWEL)	CD				15,851	42,465
8405	CD CLIPART COLLECT #1 (JEWEL)	CD				21,245	53,073
8523	CD FONTS! WIN CD (BOXED)	CD				9,609	3,740
8423	CD FONTS! WIN CD (JEWEL)	CD				16,116	32,383
8617	CLIP ART 3D CD J/C	CD					4,985
8505	CLIPART COLLECT #1 CD BOXED)	CD				17,133	5,533
8300	COLOR MAC CD	CD			3,234	1,669	(77)
8307	DRAW CD MAC	CD			4,104	1,878	76
8537	EASY HOME GARDENING (WIN CD) BOXED	CD				7,667	3,133
8720	EDUCATION CLIPART (MAC/WIN CD) BOXED	CD					686
8620	EDUCATION CLIPART (MAC/WIN CD) JC	CD					218
8003	FANTASTIC FONTS WIN CD	CD		7,496	17,272	921	(244)
8008	FANTASY ILLUSTRATIONS CD DUAL	CD			30,274	1,789	(1,213)
8529	FLOWER GARDEN WIN CD (BOXED)	CD				3,285	(125)
8429	FLOWER GARDENING (WIN CD) JC	CD				54	2,294
8507	FUN CLIPS WIN CD (BOXED)	CD				12,164	1,556
8407	FUN CLIPS WIN CD (JEWEL)	CD				7,052	7,973
8437	GARDENING (WIN CD) JC	CD				329	2,284
8526	GREAT PRESENTAT WIN CD (BOXED)	CD				9,928	128
8426	GREAT PRESENTAT WIN CD (JEWEL)	CD				5,987	4,753
8595	HANDWRITING FONTS (WIN CD) BOXED	CD					9,944
8495	HANDWRITING FONTS (WIN CD) JC	CD					13,549
8715	HEADLINERS CLIP ART (WIN CD) BOXED	CD					2,131
8615	HEADLINES CLIP ART (WIN CD) JC	CD					5,118
8589	HEALTH & FITNESS CLIP ART (WIN CD) BOXED	CD					2,674
8489	HEALTH & FITNESS CLIP ART (WIN CD) JC	CD					2,329
8587	HOLIDAY CLIP ART (WIN CD) BOXED	CD					5,085
8487	HOLIDAY CLIP ART (WIN CD) JC	CD					6,480
8656	HOLIDAY FONTS J/C	CD					244

HISTORICAL UNIT SALES (BY PRODUCT CATEGORY) - BUNDLES EXPLODED

			1992	1993	1994	1995	1996
			UNITS	UNITS	UNITS	UNITS	thru 9/30
8453	HOME DESIGN 3D (WIN CD) CHINESE	CD					498
8006	HOME DESIGN 3D CD	CD				(8)	(2)
1809	HOME DESIGN 3D STOCKING (8409) CD	CD					1,976
8509	HOME DESIGN 3D WIN CD (BOXED)	CD				53,448	77,282
8409	HOME DESIGN 3D WIN CD (JEWEL)	CD				16,638	53,182
8000	HOME DESIGN GOLD WIN CD	CD		4,916	31,233	8,912	(257)
8303	HOME DESIGN MAC CD	CD			6,685	4,566	(162)
8530	INTERNET GUIDE (WIN CD) BOXED	CD				15,810	(7,604)
8721	KIDS FONTS (BOXED)	CD					821
8621	KIDS FONTS J/C	CD					218
8532	LANDSCAPE 3D (WIN CD) BOXED	CD				12,924	38,943
8432	LANDSCAPE 3D (WIN CD) JC	CD				149	35,469
8584	MEGA PACK CLIP ART (CCITY) WIN CD - BOXED	CD					8,988
8585	MEGA PACK FONTS (CCITY) WIN CD - BOXED	CD					8,941
8013	MULTIMEDIA HELP! WIN CD	CD				13,120	(398)
8588	NEWSLETTER CLIP ART (WIN CD) BOXED	CD					9,566
8488	NEWSLETTER CLIP ART (WIN CD) JC	CD					5,207
8518	PERS. PUBLISHER WIN CD (BOXED)	CD				18,686	10,792
8418	PERSL PUBLISHER WIN CD (JEWEL)	CD				6,748	10,474
8504	PHOTO CD GAL #1 (WIN CD) BOXED	CD				2,426	2,188
8404	PHOTO CD GAL #1 WIN CD (JEWEL)	CD				17,919	33,341
1001	PHOTO CD GAL #1 WIN CD (SLIM LINE)	CD					6,102
8410	PHOTO CD GAL #2 DUAL CD (JEWEL)	CD				12,835	28,015
8510	PHOTO CD GAL #2 WIN CD (BOXED)	CD				4,240	2,245
8540	QUICK & EASY CAD (WIN CD) BOXED	CD				3,848	14,549
8440	QUICK & EASY CAD (WIN CD) JC	CD				73	34,908
8430	QUICK & EASY INTERNET (WIN CD) JC	CD				2,171	7,924
8583	RELIGION CLIP ART (WIN CD) BOXED	CD					8,250
8483	RELIGION CLIP ART (WIN CD) JC	CD					3,476
8722	SAMPLER CLIP ART CD (BOXED)	CD					622
8622	SAMPLER CLIP ART CD J/C	CD					205
8586	SPORTS CLIP ART (WIN CD) BOXED	CD					5,872
8486	SPORTS CLIP ART (WIN CD) JC	CD					2,154
8474	TYPECASE 2001 (WIN CD)	CD					632
FPTC2001MC	TYPECASE 2001 MAC CD	CD				3,908	1,199
FPTC2001WC	TYPECASE 2001 WIN CD	CD				1,512	(103,366)
FPTCMCDROM	TYPECASE MAC CD	CD				227	666
FPTCMJCCD	TYPECASE MAC JEWEL CASE CD	CD					(321)
FPTCCDROM	TYPECASE WIN CD	CD				(1,543)	(542)
FPTCJCCD	TYPECASE WIN JEWEL CASE CD	CD					(381)
8431	VEGETABLE GARDENING (WIN CD) BOXED	CD					2,958
8531	VEGETABLE GARDENING (WIN CD) BOXED	CD				(70)	381
8543	WIN '95 TUTORIAL (WIN CD) BOXED	CD				889	12,289
8443	WIN '95 TUTORIAL (WIN CD) JC	CD				65	25,121

TOTAL PRODUCTIVITY CD FORMAT:

12,412 214,316 577,917 748,818

HISTORICAL UNIT SALES (BY PRODUCT CATEGORY) - BUNDLES EXPLODED

			1992	1993	1994	1995	1996
			UNITS	UNITS	UNITS	UNITS	thru 9/30
2838	COLOR N PRINT DOS	DOS	29,854	25,853	4,858	1,557	(42)
4824	HOME DESIGN DOS	DOS	238,864	124,818	18,976	4,199	(152)
4847	HOME DESIGN GOLD DOS	DOS		12,587	2,958	9	(68)
2828	LANDSCAPE DOS	DOS	164,829	84,692	3,786	3,788	(213)
2839	OFFICE DESIGN DOS	DOS	27,232	1,295	3,461	298	(22)
TOTAL PRODUCTIVITY DOS FORMAT:			451,179	249,237	34,839	9,843	(489)
30000	COLOR MAC	MAC	21,893	13,956	2,322	(1,879)	(199)
30007	DRAW MAC	MAC		9,675	1,174	(596)	(233)
30003	HOME DESIGN MAC	MAC	8,377	21,579	6,038	(1,697)	(487)
30004	LANDSCAPE MAC	MAC	4,485	8,187	1,458	(494)	(119)
30005	OFFICE DESIGN MAC	MAC	2,941	2,155	(1,686)	192	(3)
FPTCMU1	TYPECASE MAC 3.5 VOLUME 1	MAC				158	956
FPTCMU2	TYPECASE MAC 3.5 VOLUME 2	MAC				82	967
FPTCMU3	TYPECASE MAC 3.5 VOLUME 3	MAC				426	1,614
FPTCMB1	TYPECASE MAC BUNDLE 1,2&3	MAC				28	28
TOTAL PRODUCTIVITY MAC FORMAT:			37,696	55,552	9,386	(2,988)	2,596
5020	3D FURNITURE PLUS	WIN		1,561	18,828	5,514	82
5041	3D LANDSCAPE DESIGN WIN	WIN				112,883	28,191
5033	CLIP ART WINDOWS	WIN			187,534	158,641	48,983
5038	FLOWER GARDENING WIN	WIN				12,818	486
5005	FONTS WIN	WIN		79,268	172,587	43,318	8,439
5044	FUN CLIPS	WIN				22,779	6,842
5046	GREAT PRESENTATIONS WIN	WIN				6,965	2,598
5012	HOLIDAY FONTS WIN	WIN		49,942	56,865	13,111	(4,641)
4849	HOME DESIGN GOLD WIN	WIN		32,782	6,832	2,899	(138)
5301	HOME DESIGN WIN	WIN		93,438	188,917	21,539	(1,668)
5016	HOME DESIGN WIN 3D	WIN		34,688	192,829	281,541	66,518
5004	LANDSCAPE WIN	WIN		83,785	148,766	34,366	(2,421)
FPPTU13	PERFECTTYPE VOL. 1 3.5	WIN					(38)
FPPTU33	PERFECTTYPE VOL. 3 3.5	WIN					(37)
5043	PERSONAL PUBLISHER	WIN				45,428	5,823
FPTCCAL3	TYPECASE CALENDAR MAKER WIN 3.5	WIN				7	19
FPBTC13	TYPECASE I WIN 3.5	WIN				59	994
FPBTC113	TYPECASE II WIN 3.5	WIN				35	837
FPBTC1113	TYPECASE III WIN 3.5	WIN				(61)	1,793
FPTCLTR3	TYPECASE LETTERHEAD WIN 3.5	WIN					(148)
FPTCREES3	TYPECASE RESUME WIN 3.5	WIN					161
FPTCWB1	TYPECASE WIN BUNDLE 1,2&3	WIN				28	5
5047	VEGETABLE GARDEN WIN	WIN				5,193	1,598
TOTAL PRODUCTIVITY WIN FORMAT:				375,296	795,478	677,447	155,438

HISTORICAL UNIT SALES (BY PRODUCT CATEGORY) - BUNDLES EXPLODED

TOTAL PRODUCTIVITY:

1992 UNITS	1993 UNITS	1994 UNITS	1995 UNITS	1996 thru 9/30
488,875	692,497	1,053,131	1,262,219	986,355

LIFESTYLE:

1041	ASTROLOGER (WIN CD) SLIM LINE	CD		6,180
8521	ASTROLOGER WIN CD (BOXED)	CD	22,438	19,346
8421	ASTROLOGER WIN CD (JEWEL)	CD	14,973	46,077
8020	ASTRONOMER (WIN CD) NEW VERSION	CD	7	
8005	ASTRONOMER WIN CD	CD	33,489	9,678
8520	ASTRONOMER WIN CD (BOXED)	CD	6,247	6,655
8420	ASTRONOMER WIN CD (JEWEL)	CD	9,044	29,259
8428	BIBLE EXPLORER (WIN CD) JEWEL	CD	2,139	15,466
8021	BIBLE EXPLORER WIN CD	CD	29,825	22,320
8554	BIRTHDAY NEWLETTERS CD (BOXED)	CD		131
8454	BIRTHDAY NEWS (WIN CD) JC	CD		24,427
1034	BIRTHDAY NEWS (WIN CD) SLIME LINE	CD		6,180
8713	CORAL REEF '95 (WIN '95 CD) BOXED	CD	338	1,193
8613	CORAL REEF '95 (WIN '95 CD) JC	CD	331	1,776
8536	CORAL REEF AT NIGHT (WIN CD) BOXED	CD	10,623	(4,507)
8436	CORAL REEF AT NIGHT (WIN CD) JC	CD	290	1,324
8503	CORAL REEF WIN CD (BOXED)	CD	4,364	1,949
8403	CORAL REEF WIN CD (JEWEL)	CD	12,675	26,921
8514	DIET WIN CD (BOXED)	CD	25,376	16,708
8414	DIET WIN CD (JEWEL)	CD	5,484	27,540
8539	FAMILY ALBUM (WIN CD) BOXED	CD	15,812	2,783
8439	FAMILY ALBUM (WIN CD) JC	CD	362	8,146
8714	GOURMET DESERTS (WIN CD) BOXED	CD		4,000
8614	GOURMET DESERTS (WIN CD) JC	CD		1,298
8018	GREAT GOURMET WIN CD	CD	26,563	17,307
8525	GREAT GOURMET WIN CD (BOXED)	CD	12,952	3,159
8425	GREAT GOURMET WIN CD (JEWEL)	CD	14,699	24,755
8555	GREETING CARD MAKER (WIN CD) BOXED	CD		5,335
8455	GREETING CARD MAKER (WIN CD) JC	CD		40,039
1028	GREETING CARD MAKER (WIN CD) SLIM LINE	CD		6,180
1813	GREETING CARD MAKER STOCKING (8455)	CD		1,976
8625	HOLIDAY CARD MAKER J/C	CD		244
8718	MAPS & LANDMARKS (MAC/WIN CD) BOXED	CD		928
8618	MAPS & LANDMARKS (MAC/WIN CD) JC	CD		1,066
8511	MAPS WIN CD (BOXED)	CD	4,391	3,843
8411	MAPS WIN CD (JEWEL)	CD	9,631	8,278
8011	MOVIE CLIPS SCREENSAVER CD	CD	15,888	918
8017	RESTAURANT GUIDE WIN CD	CD	6,798	(2,510)
8490	STATIONALRY SHOP (WIN CD) JC	CD		12,397

HISTORICAL UNIT SALES (BY PRODUCT CATEGORY) - BUNDLES EXPLODED

			1992	1993	1994	1995	1996
			UNITS	UNITS	UNITS	UNITS	thru 9/30
8590	STATIONARY SHOP (WIN CD) BOXED	CD					10,486
1808	STATIONARY SHOP STOCKING (8490) CD	CD					1,976
8480	TAROT (WIN CD) JC	CD					3,787
8580	TAROT CARD (WIN CD) BOXED	CD					11,940
8014	TRAVEL PLANNER CD V2.0	CD				39,134	10,785
8002	TRAVEL PLANNER WIN CD	CD		10,043	41,943	2,198	(626)
TOTAL LIFESTYLE CD FORMAT:				10,043	75,432	302,260	431,018
2840	ANIMATOR DOS	DOS	14,845	3,660	5,677	362	(49)
4845	ASTROLOGER DOS	DOS		64,509	24,502	1,627	(896)
2829	ASTRONOMER DOS	DOS	72,464	35,229	7,947	1,667	(52)
4846	DIET DOS	DOS		34,889	7,837	423	(36)
2833	FINANCE DOS	DOS	11,020	3,092	1,734	111	(42)
4820	MAPS DOS V 1.0	DOS	66,777	9,818	(261)	(8)	(2)
4844	MAPS DOS V 2.0	DOS	8,269	47,434	7,871	1,515	(82)
4817	PERSONAL ROOTS DOS	DOS	31,893	14,613	6,911	377	(63)
9530	TEN BEST FORTUNE TELLER DOS	DOS	26,648	18,187	4,769	1,109	(22)
2841	TRAVEL PLANNER DOS	DOS	43,856	69,714	10,251	1,035	(152)
4900	TRAVEL PLANNER GOLD DOS	DOS		1,802	3,216	(441)	(113)
4814	WILL DOS	DOS	18,652	4,836	2,149	25	(8)
TOTAL LIFESTYLE DOS FORMAT:			294,424	307,783	82,603	7,802	(1,517)
30002	ASTRONOMER MAC	MAC	8,188	8,720	2,813	(498)	354
TOTAL LIFESTYLE MAC FORMAT:			8,188	8,720	2,813	(498)	354
5045	ANGELS SCREENSAVER WIN	WIN				12,754	(254)
5010	ASTROLOGER WIN	WIN				20,554	4,393
5007	ASTRONOMER WIN	WIN		13,215	56,133	15,312	4,527
5024	AUSSIE SCREENSAVER WIN	WIN			10,943	4,421	1,706
5023	BIRTHDAY NEWS WIN	WIN			46,693	86,809	5,990
5019	CORAL REEF SCREESAVER WIN	WIN			111,401	88,730	22,689
5009	DIET WIN	WIN		29,112	81,937	40,060	5,855
5029	GREETING CARD MAKER WIN	WIN			60,811	86,845	48,821
5034	HOLIDAY SCREENSAVER WIN	WIN				(4)	(8)
4851	MAPS GOLD WIN	WIN		8,111	(882)	3,736	(34)
5003	MAPS WIN	WIN		45,234	56,442	15,046	(2,014)
5039	NUMEROLOGY WIN	WIN			9,863	10,150	985
5026	ROOTS WIN	WIN			36,896	30,243	11,130
4825	SCREENWORKS WIN	WIN	16,838	5,435	(1,059)	1,683	(29)
5032	SHARKS SCREENSAVER WIN	WIN			24,226	7,359	(596)
4850	TRAVEL PLANNER GOLD WIN	WIN		15,774	7,344	490	(44)
5002	TRAVEL PLANNER WIN	WIN		42,552	82,662	7,657	(697)

HISTORICAL UNIT SALES (BY PRODUCT CATEGORY) - BUNDLES EXPLODED

1992 UNITS	1993 UNITS	1994 UNITS	1995 UNITS	1996 thru 9/30
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TOTAL LIFESTYLE WIN FORMAT:

16,838	159,433	583,410	431,845	102,420
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TOTAL LIFESTYLE:

319,450	485,979	744,258	741,409	532,275
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SMALL OFFICE/HOME OFFICE:

8538	CALENDAR SHOP WIN CD (BOXED)	CD				15,942
8438	CALENDAR SHOP WIN CD (JEWEL)	CD				25,818
8527	CALENDAR WIN CD (BOXED)	CD			6,985	943
8427	CALENDAR WIN CD (JEWEL)	CD			378	4,614
8506	DIY LAWYER WIN CD (BOXED)	CD			11,209	8,377
8406	DIY LAWYER WIN CD (JEWEL)	CD			12,818	15,549
1007	FORMS SW WIN CD (SLIM BOX LINE)	CD				1,056
8515	FORMS WIN CD (BOXED)	CD			17,813	20,530
8415	FORMS WIN CD (JEWEL)	CD			15,820	38,849
8517	LABELS WIN CD (BOXED)	CD			22,933	13,626
8417	LABELS WIN CD (JEWEL)	CD			13,571	26,201
1006	LABELS WIN CD (SLIM BOX LINE)	CD				1,254
8519	RESUME WIN CD (BOXED)	CD			10,729	20,571
8419	RESUME WIN CD (JEWEL)	CD			13,645	29,220
8513	TYPING WIN CD (BOXED)	CD			22,486	27,621
8413	TYPING WIN CD (JEWEL)	CD			13,926	39,454

TOTAL SOHO CD FORMAT:

162,313	289,625
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4815	DOS TUTOR	DOS	22,549	19,259	3,480	(109)	(58)
4801	PERFECT FORMS DOS	DOS	42,002	54,035	12,346	3,596	(58)
4812	PERFECT LABELS DOS	DOS	29,526	24,871	10,774	428	(2)
4806	PERFECT TYPING DOS	DOS	27,877	27,703	12,611	1,022	(29)
2832	PUBLISHER DOS	DOS	10,883	8,450	6,001	(405)	(49)
4827	RESUME DOS	DOS	15,598	25,201	4,744	581	(28)
9510	TEN BEST DOS	DOS	20,334	(2,769)	4,396	268	(55)
9520	TEN BEST PUBLISHER DOS	DOS	27,566	10,396	70	(161)	(49)

TOTAL SOHO DOS FORMAT:

204,415	167,146	54,422	5,220	(328)
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5028	CALENDAR WIN	WIN		57,737	27,744	279
5027	DO-IT-YOURSELF LAWYER	WIN		69,873	70,870	27,782
5022	PERFECT FORMS WIN	WIN		105,503	106,030	39,260
5021	PERFECT LABELS WIN	WIN		92,382	100,377	52,807
5006	PERFECT TYPING WIN	WIN	30,024	116,002	112,289	57,530
5008	RESUME WIN	WIN		93,529	65,940	17,162

TOTAL SOHO WIN FORMAT:

30,024	535,026	483,250	194,828
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HISTORICAL UNIT SALES (BY PRODUCT CATEGORY) - BUNDLES EXPLODED

			1992	1993	1994	1995	1996
			UNITS	UNITS	UNITS	UNITS	thru 9/30
TOTAL SOHO:			284,415	197,170	589,448	650,783	484,125
ENTERTAINMENT CATEGORY:							
8710	24 WIN '95 GAMES (WIN '95 CD) BOXED	CD				11,008	13,152
8610	24 WIN '95 GAMES (WIN '95 CD) JC	CD				2,716	37,965
1003	24 WIN '95 GAMES (WIN CD) SLIM LINE	CD					7,435
8600	BACKROAD RACERS CD DOS	CD			28,289	43,124	13,348
8546	BICYCLE BACCARAT (WIN CD) BOXED	CD					326
8446	BICYCLE BACCARAT (WIN CD) JC	CD					12,529
1031	BICYCLE BACCARAT (WIN CD) SLIM LINE	CD					6,180
8547	BICYCLE BLACKJACK (WIN CD) BOXED	CD					682
8447	BICYCLE BLACKJACK (WIN CD) JC	CD					25,836
1013	BICYCLE BLACKJACK (WIN CD) SLIM LINE	CD					6,180
8548	BICYCLE BRIDGE (WIN CD) BOXED	CD					1,006
8448	BICYCLE BRIDGE (WIN CD) JC	CD					33,215
1033	BICYCLE BRIDGE (WIN CD) SLIM LINE	CD					6,180
FPBCASWCD	BICYCLE CASINO WIN CD	CD				5,145	2,651
FPBCLAWCD	BICYCLE CLASSICS WIN CD	CD				7,392	(3,666)
FPBCCWCD	BICYCLE CLASSICS/CASINO WIN CD BUNDLE	CD				556	1,963
8549	BICYCLE GIN (WIN CD) BOXED	CD					436
8449	BICYCLE GIN (WIN CD) JC	CD					17,777
1032	BICYCLE GIN (WIN CD) SLIM LINE	CD					6,180
8579	BICYCLE HEARTS & SPADES (WIN CD) BOXED	CD					390
8479	BICYCLE HEARTS & SPADES (WIN CD) JC	CD					4,545
FPBCDROM	BICYCLE LIMITED EDITION WIN CD	CD				29	241
8578	BICYCLE PINOCHLE (WIN CD) BOXED	CD					346
8478	BICYCLE PINOCHLE (WIN CD) JC	CD					1,943
8550	BICYCLE POKER (WIN CD) BOXED	CD					594
8450	BICYCLE POKER (WIN CD) JC	CD					22,741
1030	BICYCLE POKER (WIN CD) SLIM LINE	CD					6,180
8551	BICYCLE SOLITAIRE (WIN CD) BOXED	CD					751
8451	BICYCLE SOLITAIRE (WIN CD) JC	CD					32,617
1014	BICYCLE SOLITAIRE (WIN CD) SLIM LINE	CD					6,180
8904	BLACKJACK (WIN CD) - GENERIC	CD					2,673
8712	CARD GAM CLASSICS (WIN '95 CD) BOXED	CD				1,592	5,214
8422	CARD GAME CLASS WIN CD (JEWEL)	CD				13,786	7,681
8612	CARD GAME CLASSICS (WIN '95 CD) JC	CD				228	13,574
1035	CARD GAMES CLASSICS (WIN CD) SLIM LINE	CD					6,180
8522	CARD GAMES WIN CD (BOXED)	CD				19,010	6,956
1004	CASINO (WIN CD) SLIM LINE	CD					7,434
1812	CASINO CD STOCKING (8424)	CD					1,976
8016	CASINO WIN CD	CD				49,446	16,290
8424	CASINO WIN CD (JEWEL)	CD				20,796	62,780
8524	CASINO WIN CD BOXED	CD				26,872	9,085
8535	CHAMPIONSHIP CHESS (WIN CD) BOXED	CD				20,519	14,933

HISTORICAL UNIT SALES (BY PRODUCT CATEGORY) - BUNDLES EXPLODED

			1992	1993	1994	1995	1996
			UNITS	UNITS	UNITS	UNITS	thru 9/30
8435	CHAMPIONSHIP CHESS (WIN CD) JEWEL	CD				4,033	54,846
1005	CHAMPIONSHIP CHESS (WIN CD) SLIM LINE	CD					7,434
1811	CHAMPIONSHIP CHESS STOCKING SET CD (8435)	CD					1,976
8412	CHESS WIN CD (INTERNATIONAL)	CD					3,302
8469	COMBAT ACES (DOS CD) JC	CD					8,096
8569	COMBAT ACES (DOS CD) BOXED	CD					4,393
1038	COMBAT ACES (DOS CD) SLIM LINE	CD					6,180
8402	CROSSWORDS & MORE CD (JEWEL)	CD				14,100	41,155
1002	CROSSWORDS & MORE WIN CD (SLIM LINE)	CD					7,434
8544	CROSSWORDS & WORD GAMES (WIN CD) BOXED	CD				3,027	4,876
8444	CROSSWORDS & WORD GAMES (WIN CD) JC	CD				179	22,844
1018	CROSSWORDS & WORDGAMES (WIN CD) SLIM LINE	CD					6,180
8502	CROSSWORDS& WIN CD (BOXED)	CD				33,604	8,281
8516	FAV GAMES WIN CD (BOXED)	CD				16,652	3,461
8711	FAVORITE GAMES (WIN '95 CD) BOXED	CD				20	
1020	FAVORITE GAMES (WIN CD) SLIM LINE	CD					6,180
8416	FAVORITE GAMES WIN CD (JEWEL)	CD				5,685	19,391
8498	FIGHT PACK (CD DOS)	CD					1,305
8598	FIGHT PACK (WIN CD) BOXED	CD					374
8568	FOOTBALL/HOCKEY (DOS CD) BOXED	CD					1,189
8468	FOOTBALL/HOCKEY (DOS CD) JC	CD					4,476
1037	FOOTBALL/HOCKEY (DOS CD) SLIM LINE	CD					6,180
8570	GALACTIC ADVENTURES (DOS CD) BOXED	CD					1,115
8470	GALACTIC ADVENTURES (DOS CD) JC	CD					4,232
1039	GALACTIC ADVENTURES (DOS CD) SLIM LINE	CD					6,180
8901	GIN (WIN CD) -GENERIC	CD					2,673
8571	HI TECH MISSIONS (DOS CD) BOXED	CD					1,238
8471	HI TECH MISSIONS (DOS CD) JC	CD					4,785
1040	HI TECH MISSIONS (DOS CD) SLIM LINE	CD					6,180
FPSAILWCD	INTERACTIVE SAILING WIN CD	CD				2,982	2,084
1036	LOTTERY (WIN CD) SLIM LINE	CD					6,180
8508	LOTTERY WIN CD (BOXED)	CD				4,605	3,231
8408	LOTTERY WIN CD (JEWEL)	CD				10,521	12,762
8601	OPERATION AIRSTORM CD DOS	CD			23,259	24,562	317
8534	ORNAMENT MAKER (WIN CD) BOXED	CD				17,664	(10,727)
8434	ORNAMENT MAKER (WIN CD) JC	CD				1,819	(851)
1023	PINBALL 2000 (DOS CD) SLIM LINE	CD					6,180
8400	PINBALL 2000 CD (JEWEL)	CD				12,856	11,759
8500	PINBALL 2000 DOS CD (BOXED)	CD				20,487	701
8541	PINBALL 4000 (DOS CD) BOXED	CD				3,456	9,427
8441	PINBALL 4000 (DOS CD) JC	CD				1,509	32,565
1024	PINBALL 4000 (DOS CD) SLIM LINE	CD					6,180
8900	POKER (WIN CD) - GENERIC	CD					2,673
8499	RACING PACK (CD DOS)	CD					1,387
8599	RACING PACK (WIN CD) BOXED	CD					2,847
FPSAILMCD	SAIL MAC CD	CD					(7)

HISTORICAL UNIT SALES (BY PRODUCT CATEGORY) - BUNDLES EXPLODED

			1992	1993	1994	1995	1996
			UNITS	UNITS	UNITS	UNITS	thru 9/30
8903	SOLITAIRE (WIN CD) - GENERIC	CD					2,673
8724	ULTIMATE SPIN DOCTOR (MAC/WIN CD) BOXED	CD					1,365
8624	ULTIMATE SPIN DOCTOR (MAC/WIN CD) JC	CD					1,484
TOTAL ENTERT. CD FORMAT:				51,548	399,972	758,865	
FPBLEDW3	BICYCLE LIMITED EDITION D/W 3.5	D/W				1,730	6,849
FPBBBBJBS3	BLACKJACK/BRIDGE/SOLITAIRE	D/W					(5)
FPBBBBJPS3	BLACKJACK/POKER/SOLITAIRE	D/W					(520)
FPBBBDW3	BUDGET BACCARAT D/W 3.5	D/W				3,858	2,101
FPBBBJDW3	BUDGET BLACKJACK D/W 3.5	D/W				(2,750)	26,602
FPBBBDW3	BUDGET BRIDGE D/W 3.5	D/W				(5,289)	29,447
FPBBGDW3	BUDGET GIN D/W 3.5	D/W				3,341	2,164
FPBBBPDW3	BUDGET POKER D/W 3.5	D/W				1,972	24,825
FPBBBPDW3	BUDGET POKER/BLACKJACK BUNDLE	D/W					(5)
FPBBBSDW3	BUDGET SOLITAIRE D/W 3.5	D/W				3,703	47,054
FPBBBSB3	BUDGET SOLITAIRE/BRIDGE BUNDLE	D/W					(2)
FPBBBST3	BUDGET SOLITAIRE/POKER BUNDLE	D/W					(130)
FPSOLNYTB	SOLITAIRE/NEW YORK TIMES BUNDLE	D/W				(119)	(186)
TOTAL ENTERT. D/W FORMAT:						6,446	138,194
6002	BUDO DOS	DOS		12,546	9,744	2,759	(54)
2837	COMMON KNOWLEDGE DOS	DOS	33,491	15,816	6,256	(938)	(46)
6003	CURSE OF THE CATACOMBS DOS	DOS		26,171	7,312	2,748	(155)
6001	DOGNAPPED! DOS	DOS		7,570	3,511	507	(26)
6005	LETHAL TENDER	DOS		31,315	5,492	6,046	(11)
2830	LOTTERY DOS	DOS	32,934	32,740	8,717	(288)	
2835	PERSONALITY DOS	DOS	25,864	3,261	7,387	218	(51)
6007	PINBALL 2000 DOS	DOS			70,888	27,980	4,685
2836	PUZZLES & MAZES	DOS	22,235	18,997	5,066	903	(44)
6004	ROOMS OF DOOM DOS	DOS		6,417	3,091	1,262	1
6000	STREETBALL DOS	DOS		5,855	6,900	1,166	(41)
6008	TERMINAL TERROR DOS	DOS			9,080	(194)	(474)
6006	TERROR OF THE CATACOMBS	DOS		16,153	1,123	4,250	(65)
TOTAL ENTERT. DOS FORMAT:			114,524	176,841	144,567	46,419	3,719
5017	BINGO WIN	WIN		12,899	6,557	5,311	99
30389	BUNDLE - GIN/BRIDGE/SOLITAIRE (WIN)	WIN					4
30289	BUNDLE - POKER/BLACKJACK/BACCARAT	WIN					
30489	BUNDLE - POKER/SOLITAIRE/BRIDGE	WIN					(1)
30189	BUNDLE - SOLITAIRE/POKER/BLACKJACK (WIN)	WIN				(9)	(11)
5018	CASINO WINDOWS	WIN		25,798	163,488	149,725	31,612
5031	CHESS WINDOWS	WIN			45,833	84,912	23,960
5037	CLASSIC CARD GAMES WIN	WIN			2,049	32,952	7,678

HISTORICAL UNIT SALES (BY PRODUCT CATEGORY) - BUNDLES EXPLODED

			1992 UNITS	1993 UNITS	1994 UNITS	1995 UNITS	1996 thru 9/30
5042	CROSSWORDS & MORE WIN	WIN			303	90,750	27,404
5038	FAVORITE GAMES WIN	WIN			12,580	35,217	7,684
5011	LOTTERY WINDOWS	WIN		33,063	74,282	43,874	11,232
FPNYT	NEW YORK TIMES CROSSWORDS WIN 3.5	WIN				(2)	(1,285)
5013	QUIZ SHOW WIN	WIN		23,146	14,630	7,294	(128)

TOTAL ENTERT. WIN FORMAT:

94,906 319,722 450,024 100,248

TOTAL ENTERTAINMENT:

114,524 271,747 515,837 902,861 1,009,026

EDUCATION CATEGORY

8493	"CRAYONS"	CD					2,759
8533	ALGEBRA (WIN CD) BOXED	CD				11,931	7,068
8433	ALGEBRA (WIN CD) JEWELCASE	CD				1,476	22,427
FPARCHMWC	ARCH EGY/GEO MAC/WIN CD BUNDLE	CD					449
FPARCH2MWC	ARCHIBALD'S GEOGRAPHY M/W CD	CD				2	3,131
FPARCH2MCD	ARCHIBALD'S GEOGRAPHY MAC CD	CD				(2)	1,700
FPARCH2WCD	ARCHIBALD'S GEOGRAPHY WIN CD	CD				306	848
FPARCH1MWC	ARCHIBALD'S GUIDE TO EGYPT M/W CD	CD				496	3,864
FPARCH1MCD	ARCHIBALD'S GUIDE TO EGYPT MAC CD	CD				7	449
FPARCH1WCD	ARCHIBALD'S GUIDE TO EGYPT WIN CD	CD				22	735
FPBIRDSMWC	BIRDS OF NO. AMERICA M/W CD	CD					364
FPBIRDSMCD	BIRDS OF NO. AMERICA MAC CD	CD					300
FPBIRDSWCD	BIRDS OF NO. AMERICA WIN CD	CD				122	(234)
8461	BRAIN QUEST 1ST GRADE (WIN CD) JC	CD					720
8462	BRAIN QUEST 2ND GRADE (WIN CD) JC	CD					720
8463	BRAIN QUEST 3RD GRADE (WIN CD) JC	CD					748
8464	BRAIN QUEST 4TH GRADE (WIN CD) JC	CD					769
FPBQCDASSO	BRAIN QUEST CD ASSORT.	CD					(9)
8465	BRAIN QUEST FIFTH GRADE (WIN CD) JC	CD					109
8460	BRAIN QUEST KINDERGARDEN (WIN CD) JC	CD					117
FPBQMWC1-	BRAIN QUEST M/W CD GR. 1-2	CD				2,225	476
FPBQMWC2-	BRAIN QUEST M/W CD GR. 2-3	CD				395	322
FPBQMWC3-	BRAIN QUEST M/W CD GR. 3-4	CD				2,720	52
FPBQMWC4-	BRAIN QUEST M/W CD GR. 4-5	CD				414	543
FPBQMWC5-	BRAIN QUEST M/W CD GR. 5-6	CD				2,243	(238)
FPBQMWC6-	BRAIN QUEST M/W CD GR. 6-7	CD				1,311	(419)
FPBQMWCDP-	BRAIN QUEST M/W CD GR. P-K	CD				1,634	(139)
8459	BRAIN QUEST PRE-K (WIN CD) JC	CD					701
8467	BRAIN QUEST SEVENTH GRADE (WIN CD) JC	CD					171
8466	BRAIN QUEST SIXTH GRADE (WIN CD) JC	CD					109
8456	DREAMLAND (WIN CD) JC	CD					137
8022	DREAMLAND CD-ROM BOXED	CD				13,509	2,867
8023	ECO WARRIORS IN SPACE (AKA: FUNSCHOOL IN SPACE)	CD				10,943	(418)

HISTORICAL UNIT SALES (BY PRODUCT CATEGORY) - BUNDLES EXPLODED

			1992	1993	1994	1995	1996
			UNITS	UNITS	UNITS	UNITS	thru 9/30
8457	ECO WARRIORS IN SPACE (WIN CD) JC	CD					186
FPGETTYCDR	GETTYSBURG WIN CD	CD				(1,918)	2,848
FPBGETTYCD	GETTYSBURG WINDOWS CD	CD					(26)
FPBIRDMWCDROM	MULTIMEDIA BIRD BOOK M/W CD	CD				316	(5,986)
FPBIRDCB	MULTIMEDIA BIRD BOOK M/W CD / CRAYONS BUNICD	CD					1,381
FPBUGCD	MULTIMEDIA BUG BOOK MAC.WIN CD/CRAYONS BU CD	CD				94	2,337
FPBUGMWCDR	MULTIMEDIA BUG BOOK MAC/WIN CD	CD				624	(1,474)
8542	SPANISH (WIN CD) BOXED	CD					18,241
8442	SPANISH (WIN CD) JEWELCASE	CD					41,274
1818	SPANISH STOCKING SET CD (8442)	CD					1,976
8497	THE MULTIMEDIA BIRD BOOK (WIN CD) JC	CD					1,387
8496	THE MULTIMEDIA BUG BOOK (WIN CD) JC	CD					1,362
8024	TIME CRUSADERS (AKA: FUNSCHOOL IN TIME)	CD				10,758	(874)
FPSATMWCDR	UNDERGROUND GUIDE TO SAT M/W CD	CD				188	(275)
FPUYSMWCDR	UNDERGROUND GUIDE TO SAT M/W CD	CD				1,070	2,336

TOTAL EDUCATION CD FORMAT:

60,814 115,883

FPBQ1DW3	BRAIN QUEST 1ST GRADE D/W 3.5	D/W				485	12,958
FPBQ2DW3	BRAIN QUEST 2ND GRADE D/W 3.5	D/W				486	11,993
FPBQ3DW3	BRAIN QUEST 3RD GRADE D/W 3.5	D/W				2,667	8,914
FPBQ4DW3	BRAIN QUEST 4TH GRADE D/W 3.5	D/W				2,584	9,407
FPBQ5DW3	BRAIN QUEST 5TH GRADE D/W 3.5	D/W				2,679	2,842
FPBQ6DW3	BRAIN QUEST 6TH GRADE D/W 3.5	D/W				2,701	2,998
FPBQ7DW3	BRAIN QUEST 7TH GRADE D/W 3.5	D/W				2,750	3,722
FPBQDWB1-2	BRAIN QUEST D/W BUNDLE 1-2	D/W					(10,189)
FPBQWB1-4	BRAIN QUEST D/W BUNDLE 1-4	D/W				(56)	(56)
FPBQDWB3-4	BRAIN QUEST D/W BUNDLE 3-4	D/W					(269)
FPBQDWB4-5	BRAIN QUEST D/W BUNDLE 4-5	D/W					(92)
FPBQDWB4-7	BRAIN QUEST D/W BUNDLE 4-7	D/W					51
FPBQDWB6-7	BRAIN QUEST D/W BUNDLE 6-7	D/W					(128)

TOTAL EDUCATION D/W FORMAT:

14,296 42,159

FPBQDWM1	BRAIN QUEST D/W/M 3.5 GRADE 1	D/W/M				72	2,969
FPBQDWM2	BRAIN QUEST D/W/M 3.5 GRADE 2	D/W/M				72	2,297
FPBQDWM3	BRAIN QUEST D/W/M 3.5 GRADE 3	D/W/M				344	4,649
FPBQDWM4	BRAIN QUEST D/W/M 3.5 GRADE 4	D/W/M				72	5,235
FPBQDWM5	BRAIN QUEST D/W/M 3.5 GRADE 5	D/W/M				72	5,990
FPBQDWM6	BRAIN QUEST D/W/M 3.5 GRADE 6	D/W/M				344	5,714
FPBQDWM7	BRAIN QUEST D/W/M 3.5 GRADE 7	D/W/M				72	6,154

TOTAL EDUCATION D/W/M FORMAT:

1,048 33,008

FPBQ1M3	BRAIN QUEST 1ST GRADE MAC 3.5	MAC				58	4,630
FPBQ2M3	BRAIN QUEST 2ND GRADE MAC 3.5	MAC				55	4,415

HISTORICAL UNIT SALES (BY PRODUCT CATEGORY) - BUNDLES EXPLODED

			1992	1993	1994	1995	1996
			UNITS	UNITS	UNITS	UNITS	thru 9/30
FPBQ3M3	BRAIN QUEST 3RD GRADE MAC 3.5	MAC				1,142	4,843
FPBQ4M3	BRAIN QUEST 4TH GRADE MAC 3.5	MAC				1,126	3,643
FPBQ5M3	BRAIN QUEST 5TH GRADE MAC 3.5	MAC				817	5,181
FPBQ6M3	BRAIN QUEST 6TH GRADE MAC 3.5	MAC				1,137	4,487
FPBQ7M3	BRAIN QUEST 7TH GRADE MAC 3.5	MAC				959	3,919
FPBQMB1-2	BRAIN QUEST MAC 3.5 BUNDLE 1-2	MAC				(2)	(27)
FPBQMB3-4	BRAIN QUEST MAC 3.5 BUNDLE 3-4	MAC				12	22
FPBQMB4-5	BRAIN QUEST MAC 3.5 BUNDLE 4-5	MAC				72	27
FPBQMB5-6	BRAIN QUEST MAC 3.5 BUNDLE 5-6	MAC					146
FPBQMB6-7	BRAIN QUEST MAC 3.5 BUNDLE 6-7	MAC				68	(6)

TOTAL EDUCATION MAC FORMAT:

5,436 38,488

FPARCHWCDB	ARCHIBALD EGY/GEO WIN BUNDLE	WIN					152
FPCCBW3	CRAYONS COLORING BOOK WIN 3.5	WIN				1,173	(685)
FPGETTYW3	GETTYSBURG WIN 3.5	WIN				5	875

TOTAL EDUCATION WIN FORMAT:

1,178 422

TOTAL EDUCATION:

82,772 221,872

DISCONTINUED TITLES:

FPBLE3BOTB	BICYCLE LE D/W 3.5/BOOK OF TELLS BUNDLE	D/W				(21)	(58)
FPBLEBOTCD	BICYCLE LE/BOOK OF TELLS WIN CD BUNDLE	CD				(46)	718
SWFTE	BOOK OF TELLS	WIN					(728)
4819	CALENDAR DOS	DOS	(4,562)	(15)	(42)		
4823	CHECKWRITER DOS	DOS	753	184	(5)		
7800	CHECKWRITER/FINANCE BUNDLE	DOS	(803)	(12)	(2)	(3)	
60101	DISK POLICE - SWFTE DISC	DOS					(5)
2905	DISK TOOLS	DOS	1				
4115	EXPERT WRITER - DOS	DOS	(5)				
7810	FAMILY FUN BUNDLE	DOS	112				
7804	FAMILY PACK (HD,WILL & ROOTS)	DOS	688	25	(18)	44	
4821	FAX FORMS DOS	DOS	683	2,564	(8)	(2)	
2834	FILE & CALC - DOS	DOS	(23,867)	3,581	(254)		
4080	FILER	DOS	(1)				
4811	FLU SHOT DOS	DOS	5,187	(653)	(64)	188	
7809	HOME BUSINESS BUNDLE	DOS	65				
4843	HOME DESIGN \$29.95	WIN	22,858	(1,818)	(24)	358	(2)
7811	HOME GRAPH BUNDLE	DOS	138				
7808	HOME IMPROVEMENT BUNDLE	DOS	235	111			
4826	HOME WILL KIT	WIN	96	(21)	(2)		
4818	MENU POWER DOS	DOS	7,172	882		97	
4831	MONEY MANAGER	WIN	15,817	838	(23)		
2910	MONEY POWER	WIN	(56)				

HISTORICAL UNIT SALES (BY PRODUCT CATEGORY) - BUNDLES EXPLODED

			1992	1993	1994	1995	1996
			UNITS	UNITS	UNITS	UNITS	thru 9/30
4816	PAINT 'N PRINT	DOS	(245)	533	(102)	(13)	
2904	PC PROTECTION	DOS	13				
4095	PERSONAL ACCOUNTANT	DOS	(6)				
2909	PERSONAL FINANCE	DOS	(381)	(98)			
4110	PERSONAL NEWS	DOS	(2)	(1)			
2902	PERSONAL PUBLISHER DOS	DOS	(2,446)	(99)	(42)		
2903	PERSONAL SKILLS DOS	DOS	(164)	53	(2)		
2842	PET CARE - DOS	DOS	8,781	3,710	(833)	(82)	(19)
39901	SWFTE FPBHCDDUAL - DISC	CD					(1)
FPTBOW3	THE BIG ONE WIN 3.5	WIN				(13)	6
FPWIRE3	THE WIRE WIN 3.5	WIN				10	(374)
4085	TRIO	DOS	(16)				
4822	UTILITIES DOS	DOS	(1,214)	1,902	(3)		
30001	WRITER - MAC	MAC	5,236	1,355	(1,261)	166	(32)
	* MISCELLANEOUS		39,158	(254)		(10)	175
TOTAL DISCONTINUED			71,537	13,503	(2,677)	657	(320)
TOTAL UNITS			1,198,801	1,660,896	2,899,997	3,640,701	3,153,333
NET SALES (DOLLARS) PER S/J:			8,725,246	12,961,222	21,094,384	27,652,735	21,881,022
AVERAGE PRICE:			\$7.28	\$7.80	\$7.27	\$7.60	\$6.94

Unit Forecasts

(000's)	93	94	95	96
MS/DOS - Home	442	422	402	
- Hobby	435	425	440	
- Improve	210	225	215	
- Bundles	140	153	155	
Total	1227	1275	1212	
MAC - Home	108	128	138	
Hobby	50	58	63	
Improve	58	70	75	
Total	108 108	128	138	
WIN - HOME	20	30	40	
Grand Total	1355	1433	1390	

	<u>UNITS</u>			
(in 000's)	<u>93</u>	<u>94</u>	<u>95</u>	TOTAL 93- <u>95</u>
<u>#/HO/SB</u>				
DOS	338	66	13	417
MAC	33	5	(2)	36
WIN	100	100	23	223
<u>H/CC</u>				
DOS	288	59	7	354
MAC	224	56	(2)	278
<u>PI</u>				
DOS	149	42	1	192
	<u>1132</u>	<u>328</u>	<u>40</u>	<u>1500</u>

Notes -

need units for each category
+ price conversions



October 2, 1996

Burton Grad
President
Burton Grad Associates Inc.
235 Martling Avenue
Tarrytown, New York 10591

Dear Burton:

Enclosed are the sales reference sheets for your use. Please contact me if you require additional information.

Regards,

A handwritten signature in cursive script, appearing to read "Charlie", written in dark ink.

Charles Murphy
Chief Financial Officer

CM:jw

Enclosure

RELEASE DATE	JAN 93	FEB 93	MAR 93	APR 93	MAY 93	JUN 93	JUL 93	AUG 93	SEP 93	OCT 93	NOV 93	DEC 93	TOTAL 1993
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Home/Home Office/Small Business Category:**DOS:**

1	4824	HOME DESIGN DOS	Jan-91	13,488	18,259	12,105	13,318	6,688	23,384	9,933	6,141	13,486	7,448	3,859	(2,483)	124,818
2	2828	LANDSCAPE DOS	Jun-91	2,973	14,187	8,883	9,747	7,335	19,730	6,111	3,824	9,968	2,883	1,409	(1,478)	84,692
3	2839	OFFICE DESIGN DOS	May-92	672	882	778	(73)	(439)	(817)	(267)	(193)	3,688	(3)	76	(2,841)	1,295
4	2833	FINANCE DOS	Aug-91	1,889	1,244	37	316	(34)	95	(65)	119	868	25	(15)	(579)	3,892
5	4881	PERFECT FORMS DOS	Feb-98	1,898	18,168	3,185	3,533	1,778	4,857	6,886	3,522	5,434	3,898	3,284	6,576	54,835
6	4812	PERFECT LABELS DOS	Feb-98	3,427	8,446	1,353	1,338	299	699	1,288	1,459	3,474	1,958	1,828	(618)	24,871
7	2832	PUBLISHER DOS	Jul-91	684	615	945	237	(65)	2,323	368	535	636	849	474	937	8,458
8	4827	RESUME DOS	Jan-91	948	2,788	1,267	6,996	1,654	1,786	1,376	3,479	1,347	1,983	895	698	25,281
9	9528	TEN BEST PUBLISHER DOS	Mar-91	1,835	735	1,187	1,113	425	(164)	1,289	188	2,865	885	741	977	18,396
10	9518	TEN BEST DOS	Oct-98	643	485	547	69	(159)	(2,193)	39	(1,989)	353	(198)	113	(487)	(2,769)
11	2834	FILE & CALC - DOS	N/A	(447)	(247)	(38)	(94)	(892)	48	(14)	(3)	6,128	(27)	(33)	(864)	3,581
12	4811	FLU SHOT DOS	N/A	(39)	(81)	(9)	(338)	(278)	(58)	(85)	(82)	582	(65)	(96)	(48)	(653)
13	4818	MENU POWER DOS	N/A	(53)	(118)	(11)	(117)	(589)	(13)	(28)	(11)	1,867	(21)	(22)	(18)	882
14	4819	CALENDAR DOS	N/A	(586)	(117)	(23)	(194)	(857)	(92)	(37)	(39)	1,893	(14)		(29)	(15)

SUBTOTAL DOS FORMAT:			25,724	56,998	38,126	35,851	14,858	49,585	26,618	17,838	51,685	17,921	11,713	(153)	337,788
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MAC:

1	38883	HOME DESIGN MAC	Jul-92	1,395	1,241	786	287	758	1,795	1,956	414	7,875	2,868	1,112	1,188	21,579
2	38884	LANDSCAPE MAC	Sep-92	847	588	1,122	438	1,579	1,187	558	1,139	218	74	413	128	8,187
3	38885	OFFICE DESIGN MAC	Aug-92	322	486	317	168	(84)	117	149	358	163	88	129	38	2,155
4	38881	WRITER - MAC	Feb-92	156	87	69	78	185	354	62	(97)	162	129	153	17	1,355

SUBTOTAL MAC FORMAT:			2,728	2,314	2,214	971	2,438	3,373	2,717	1,886	8,418	3,151	1,887	1,363	33,276
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WINDOWS:

1	5381	HOME DESIGN WIN	Apr-93				2,878	1,511	4,496	2,228	9,835	36,788	8,798	11,358	17,258	93,438
2	4825	SCREENWORKS WIN	Oct-98	581	513	1,134	462	121	78	426	(217)	1,323	546	725	(257)	5,435
3	4831	MONEY MANAGER		(39)	(148)	(11)	(22)	(89)	(5)	(18)	(18)	1,286	(4)		(38)	838

SUBTOTAL WINDOWS FORMAT:			542	365	1,123	2,518	1,543	4,569	2,636	8,888	39,237	9,332	12,875	16,971	99,711
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TOTAL HOME/SOHO CATEGORY:			28,986	59,677	33,463	39,332	18,823	57,447	31,971	27,644	99,252	38,484	25,595	18,181	478,775
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RELEASE DATE	JAN 93	FEB 93	MAR 93	APR 93	MAY 93	JUN 93	JUL 93	AUG 93	SEP 93	OCT 93	NOV 93	DEC 93	TOTAL 1993
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Hobby/Creativity Category:**DOS:**

1	2848	ANIMATOR DOS	Jun-92	568	668	728	157	199	386	347	484	1,159	846	218	(2,884)	3,668
2	2829	ASTRONOMER DOS	Jun-91	2,457	18,855	4,787	(1,386)	531	5,493	1,986	452	4,811	3,353	2,287	643	35,229
3	2838	COLOR N PRINT DOS	Feb-92	3,383	4,516	1,415	4,888	1,453	2,386	4,319	1,181	2,584	1,141	462	(915)	25,853
4	2838	LOTTERY DOS	Jun-91	1,465	5,783	5,574	1,778	1,244	2,198	5,334	3,836	2,168	1,262	2,829	165	32,748
5	4844	MAPS DOS V 2.8	Q4'92	8,237	11,425	6,499	3,362	2,382	2,339	4,691	2,735	1,692	1,945	1,582	625	47,434
6	4817	PERSONAL ROOTS DOS	Feb-98	1,988	388	(925)	1,392	581	3,378	3,365	738	1,321	1,587	527	441	14,613
7	2842	PET CARE - DOS	Oct-92	64	(71)	482	3,787	(341)	59	758	288	425	71	(17)	(1,627)	3,718
8	2836	PUZZLES & MAZES	Jan-92	1,861	7,128	1,718	2,652	931	389	2,187	(848)	1,364	1,653	1,245	(467)	18,997
9	9538	TEN BEST FORTUNE TELLER DOS	Nov-91	1,133	1,933	1,735	3,871	611	1,314	1,493	1,869	1,753	1,448	2,124	583	18,187

SUBTOTAL DOS FORMAT: 28,276 42,521 21,837 18,893 7,431 17,862 24,392 9,855 16,389 13,386 18,377 (2,716) 288,423

MAC:

1	38882	ASTRONOMER MAC	Jun-92	1,592	453	562	267	538	629	574	1,852	417	373	889	1,382	8,728
2	38888	COLOR MAC	Nov-91	1,848	815	967	625	1,385	1,445	2,846	1,416	888	516	1,898	1,787	13,956

SUBTOTAL MAC FORMAT: 2,640 1,268 1,529 892 1,835 2,874 2,628 2,468 1,385 889 1,987 3,169 22,676

TOTAL HOBBY/CREATIVITY CATEGORY: 22,916 43,789 23,366 19,785 9,266 19,936 27,812 12,323 17,694 14,195 12,364 453 223,899

Personal Improvement Category:**DOS:**

2841	TRAVEL PLANNER DOS	Aug-92	6,969	17,663	9,425	6,189	1,954	5,948	11,337	2,584	3,184	4,813	1,917	(1,381)	69,714
4814	WILL DOS	Feb-98	366	138	361	(56)	(75)	(1,847)	135	9	323	(95)	225	5,368	4,836
4886	PERFECT TYPING DOS	Feb-98	1,587	8,488	2,293	2,658	238	3,951	2,651	15	3,518	1,438	1,387	(337)	27,783
4815	DOS TUTOR	Feb-98	2,851	8,293	1,862	1,478	362	626	468	(333)	1,355	1,447	837	821	19,259
2837	COMMON KNOWLEDGE DOS	Jan-92	2,826	8,458	1,166	434	124	2,565	589	(895)	936	614	348	(1,333)	15,816
2835	PERSONALITY DOS	Jan-92	1,714	1,717	779	297	327	(459)	433	275	724	392	255	(3,193)	3,261

TOTAL PERSONAL IMPROVEMENT CATEGORY: 15,433 44,741 15,886 18,912 2,922 18,776 15,685 1,575 18,848 7,881 4,881 17 148,589

RELEASE DATE	JAN 94	FEB 94	MAR 94	APR 94	MAY 94	JUN 94	JUL 94	AUG 94	SEP 94	OCT 94	NOV 94	DEC 94	TOTAL 1994
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Home/Home Office/Small Business Category:**DOS:**

1	4824	HOME DESIGN DOS	Jan-91	945	1,570	2,339	1,216	1,381	2,025	(983)	937	10,805	(1,093)	141	(387)	18,976
2	2828	LANDSCAPE DOS	Jun-91	(2,198)	(1,494)	471	(1,470)	(669)	175	(1,060)	772	9,642	(128)	25	(280)	3,786
3	2839	OFFICE DESIGN DOS	May-92	(727)	(1,431)	(113)	69	38	23	97	177	5,436	(108)	5	(5)	3,461
4	2833	FINANCE DOS	Aug-91	(185)	(154)	(109)	72	111	(49)	(178)	114	2,005	51	41	15	1,734
5	4801	PERFECT FORMS DOS	Feb-90	2,462	3,686	3,567	1,666	287	(1,392)	340	925	705	233	71	(204)	12,346
6	4812	PERFECT LABELS DOS	Feb-90	798	674	1,791	240	279	1,465	381	1,155	3,599	(347)	800	(61)	10,774
7	2832	PUBLISHER DOS	Jul-91	(135)	767	937	408	219	488	398	703	2,427	12	127	(350)	6,001
8	4827	RESUME DOS	Jan-91	643	767	676	609	481	483	42	361	876	(9)	42	(147)	4,744
9	9520	TEN BEST PUBLISHER DOS	Mar-91	656	169	(1,399)	(609)	(48)	1,721	(316)	(56)	(104)	(42)	(12)	110	70
10	9510	TEN BEST DOS	Oct-90	(11)	170	86	99	623	3,231	(68)	96	129	249	9	(217)	4,396
11	2834	FILE & CALC - DOS	N/A	(140)	(33)	(45)	(1)	(7)	(15)	(1)		(5)	(4)	(1)	(2)	(254)
12	4811	FLU SHOT DOS	N/A	(23)	(8)	(12)		(1)	(9)	(9)		(1)		(1)		(64)
13	4818	MENU POWER DOS	N/A			(1)			3	(2)	2				(2)	
14	4819	CALENDAR DOS	N/A	(12)	(5)	(20)		1	(3)	(2)		(1)				(42)

SUBTOTAL DOS FORMAT:			2,073	4,678	8,168	2,299	2,615	8,146	(1,281)	5,186	35,513	(1,186)	1,247	(1,530)		65,928
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MAC:

1	30003	HOME DESIGN MAC	Jul-92	248	692	(191)	492	379	344	(231)	300	2,405	395	840	365	6,038
2	30004	LANDSCAPE MAC	Sep-92	(135)	(193)	(1,122)	(43)	198	124	(674)	151	3,005	75	78	(86)	1,458
3	30005	OFFICE DESIGN MAC	Aug-92	(40)	(301)	(1,203)	(161)	(20)	(59)	(1)	8	26	49	10	6	(1,686)
4	30001	WRITER - MAC	Feb-92	(135)	(124)	(771)	(34)	23	(105)	(167)	(8)	(10)	72	1	(3)	(1,261)

SUBTOTAL MAC FORMAT:			(62)	74	(3,287)	254	580	304	(1,073)	451	5,506	591	929	282		4,549
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WINDOWS:

1	5301	HOME DESIGN WIN	Apr-93	5,962	15,769	20,608	4,410	8,766	7,128	(519)	9,402	8,873	6,982	7,024	6,512	100,917
2	4825	SCREENWORKS WIN	Oct-90	192	867	(142)	(1,364)	(869)	335	(89)	(9)	(20)	24	16		(1,059)
3	4831	MONEY MANAGER		(25)	(2)	(6)	(4)		33	(7)	(3)	(7)	(1)		(1)	(23)

SUBTOTAL WINDOWS FORMAT:			6,129	16,634	20,460	3,042	7,897	7,496	(615)	9,390	8,846	7,005	7,040	6,511		99,835
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TOTAL HOME/SOHO CATEGORY:			8,140	21,386	25,341	5,595	11,092	15,946	(2,969)	15,027	49,865	6,410	9,216	5,263		170,312
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RELEASE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
DATE	94	94	94	94	94	94	94	94	94	94	94	94	1994

Hobby/Creativity Category:**DOS:**

1	2848	ANIMATOR DOS	Jun-92	5	178	578	182	323	3,883	459	413	494	184	28	(162)	5,677
2	2829	ASTRONOMER DOS	Jun-91	1,343	1,088	(1,994)	1,297	569	381	(484)	12	5,615	182	9	(71)	7,947
3	2838	COLOR N PRINT DOS	Feb-92	(185)	(533)	57	(141)	195	1,246	(352)	718	4,184	(232)	18	(117)	4,858
4	2838	LOTTERY DOS	Jun-91	(211)	1,067	1,130	158	643	2,719	(181)	1,465	1,677	66	36	68	8,717
5	4844	MAPS DOS V 2.0	Q4'92	1,382	228	(323)	(655)	216	3,586	(74)	1,858	2,558	(166)	71	78	7,871
6	4817	PERSONAL ROOTS DOS	Feb-98	218	498	547	1,137	549	2,241	272	498	764	64	83	48	6,911
7	2842	PET CARE - DOS	Oct-92	(228)	(3)	(37)	(181)	(86)	(14)	(123)	(18)	(32)	(184)		(7)	(833)
8	2836	PUZZLES & MAZES	Jan-92	1,729	1,168	554	1,126	676	(1,454)	843	429	1,881	(1,129)	98	(47)	5,866
9	9538	TEN BEST FORTUNE TELLER DOS	Nov-91	1,844	1,595	588	542	97	(468)	276	537	248	(87)	261	216	4,769

SUBTOTAL DOS FORMAT: 5,897 5,286 1,028 3,465 3,182 11,248 716 5,184 16,581 (1,382) 588 (2) 58,983

MAC:

1	38882	ASTRONOMER MAC	Jun-92	481	456	(383)	(34)	529	428	(458)	1,389	(24)	555	183	(141)	2,813
2	38888	COLOR MAC	Nov-91	2,194	(92)	(475)	146	131	167	(387)	189	174	114	228	(67)	2,322

SUBTOTAL MAC FORMAT: 2,675 364 (858) 112 668 587 (765) 1,418 158 669 331 (288) 5,135

TOTAL HOBBY/CREATIVITY CATEGORY: 7,772 5,650 162 3,577 3,842 11,835 (49) 6,522 16,731 (633) 919 (218) 56,118

Personal Improvement Category:**DOS:**

2841	TRAVEL PLANNER DOS	Aug-92	2,798	146	(2,815)	234	385	698	(21)	694	7,593	275	329	(49)	18,251
4814	WILL DOS	Feb-98	(68)	139	466	361	(216)	187	81	(17)	1,298	16		(18)	2,149
4886	PERFECT TYPING DOS	Feb-98	1,296	1,714	1,686	819	1,123	1,888	1,398	1,899	1,716	238	(198)	(88)	12,611
4815	DOS TUTOR	Feb-98	884	(66)	(1,724)	286	263	577	292	514	2,436	187	28	(29)	3,488
2837	COMMON KNOWLEDGE DOS	Jan-92	(1,893)	(45)	48	272	188	248	352	453	7,762	(1,119)	(2)	8	6,256
2835	PERSONALITY DOS	Jan-92	(63)	77	378	455	249	486	292	418	5,235	(16)	(1)	(27)	7,387

TOTAL PERSONAL IMPROVEMENT CATEGORY: 2,946 1,965 (2,849) 2,347 1,984 3,988 2,386 3,153 26,832 (499) 156 (187) 42,134

RELEASE DATE	JAN 95	FEB 95	MAR 95	APR 95	MAY 95	JUN 95	JUL 95	AUG 95	SEP 95	OCT 95	NOV 95	DEC 95	TOTAL 1995
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Home/Home Office/Small Business Category:**DOS:**

1	4824	HOME DESIGN DOS	Jan-91	(38)	(41)	(126)	(61)	(71)	(28)	(2)	(5)	(11)	(3)	4,577	4,199
2	2828	LANDSCAPE DOS	Jun-91	11	(8)	(25)	(16)	(88)	(55)	(9)	(14)	(7)	(25)	4,838	3,788
3	2839	OFFICE DESIGN DOS	May-92	(5)		15		(3)	(2)		(7)			388	298
4	2833	FINANCE DOS	Aug-91	6	19				(14)					188	111
5	4881	PERFECT FORMS DOS	Feb-98	(45)	(718)	(81)	(7)	(11)	(7)		(8)	(63)	(7)	4,688	3,596
6	4812	PERFECT LABELS DOS	Feb-98	(725)	181	(73)	(33)	(8)	(42)	(23)	(12)	(2)		1,245	428
7	2832	PUBLISHER DOS	Jul-91	(2)	(5)	(12)			(75)	(389)	(2)				(485)
8	4827	RESUME DOS	Jan-91	(14)	(16)	(33)	(24)	(4)	(8)	3	(14)	(4)	(5)	788	581
9	9528	TEN BEST PUBLISHER DOS	Mar-91	(9)	(14)	(53)	(88)	(4)	(231)	(3)				241	(161)
10	9518	TEN BEST DOS	Oct-98	(2)	(1)	(19)	(28)		(127)	1	(1)	(1)	(4)	458	268
11	2834	FILE & CALC - DOS	N/A												
12	4811	FLU SHOT DOS	N/A			(1)			(18)	(1)				192	188
13	4818	MENU POWER DOS	N/A			(1)	(3)			1				188	97
14	4819	CALENDAR DOS	N/A												

SUBTOTAL DOS FORMAT:

(815) (683) (489) (268) (189) (599) (343) (68) (88) (39) (86) 16,543 12,972

MAC:

1	38883	HOME DESIGN MAC	Jul-92	121	(37)	(518)	(81)	(12)	(1,321)	(288)	(12)	(26)	(4)	393	(1,697)
2	38884	LANDSCAPE MAC	Sep-92	(31)	(159)	(152)	(387)	(9)	(493)	(131)	1	(8)	(1)	796	(494)
3	38885	OFFICE DESIGN MAC	Aug-92	4	18	(44)	1		11	19	(3)			194	192
4	38881	WRITER - MAC	Feb-92	(1)	(3)	(6)	(4)	(1)	1	(25)	(1)	6	1	199	166

SUBTOTAL MAC FORMAT:

93 (189) (712) (391) (22) (1,813) (328) (17) (38) 5 (3) 1,582 (1,833)

WINDOWS:

1	5381	HOME DESIGN WIN	Apr-93	2,499	3,688	1,524	2,315	1,211	1,458	227	2,472	1,445	791	1,851	2,866	21,539
2	4825	SCREENWORKS WIN	Oct-98	(1)	3	(11)	(9)	(2)	7	(1)	1,195	2	1	(1)	588	1,683
3	4831	MONEY MANAGER														

SUBTOTAL WINDOWS FORMAT:

2,498 3,691 1,513 2,386 1,289 1,457 226 3,667 1,447 792 1,858 3,366 23,222

TOTAL HOME/SOHO CATEGORY:

1,776 2,819 392 1,655 998 (955) (445) 3,598 1,321 758 961 21,491 34,361



RELEASE DATE	JAN 95	FEB 95	MAR 95	APR 95	MAY 95	JUN 95	JUL 95	AUG 95	SEP 95	OCT 95	NOV 95	DEC 95	TOTAL 1995
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Hobby/Creativity Category:**DOS:**

1	2848	ANIMATOR DOS	Jun-92	2	68	2		(1)	(8)	6		1			388	362
2	2829	ASTRONOMER DOS	Jun-91	12	(21)	(5)	(22)	(19)	(11)	(5)	(18)	(13)	(5)		1,766	1,667
3	2838	COLOR N PRINT DOS	Feb-92	1,195	(13)	(5)		(14)	(1)	4	(9)				488	1,557
4	2838	LOTTERY DOS	Jun-91	(68)	(55)	(52)	(37)	(15)	(28)	(9)	(19)	(13)				(288)
5	4844	MAPS DOS V 2.8	Q4'92	13	(6)	(27)	(37)	(6)	(7)	4	(4)	(58)	(1)	(1)	1,645	1,515
6	4817	PERSONAL ROOTS DOS	Feb-98	(59)	18	(37)		(18)	(14)	(1)	(6)	(2)		(4)	588	377
7	2842	PET CARE - DOS	Oct-92	(1)	(2)	(4)	(26)	(34)	(13)	(2)						(82)
8	2836	PUZZLES & MAZES	Jan-92	(3)	(11)	(7)	(28)	(1)	(3)						948	983
9	9538	TEN BEST FORTUNE TELLER DOS	Nov-91	169	52	(38)	(5)	1	(24)	18	16	2	1		917	1,189

SUBTOTAL DOS FORMAT: 1,268 22 (165) (147) (187) (181) 7 (32) (83) (5) (5) 6,476 7,128

MAC:

1	38882	ASTRONOMER MAC	Jun-92	9	(3)	(95)	115	13	(715)	(23)	29	(11)	176		7	(498)
2	38888	COLOR MAC	Nov-91	(28)	4	(282)	(18)	19	(969)	(213)	(38)	(23)			373	(1,879)

SUBTOTAL MAC FORMAT: (19) 1 (297) 185 32 (1,684) (236) (1) (34) 176 388 (1,577)

TOTAL HOBBY/CREATIVITY CATEGORY: 1,241 23 (462) (42) (75) (1,785) (229) (33) (117) 171 (5) 6,856 5,543

Personal Improvement Category:**DOS:**

2841	TRAVEL PLANNER DOS	Aug-92	(25)	(32)	(64)	(45)	(32)	(16)	(4)	(4)	(12)	(19)	(7)	1,295	1,835
4814	WILL DOS	Feb-98	(19)	(9)	(25)	(1)	(2)	(13)	1					93	25
4886	PERFECT TYPING DOS	Feb-98	85	3	(188)	(69)	(7)	3	2	(282)	(7)	22		1,388	1,822
4815	DOS TUTOR	Feb-98	(185)	(5)	(4)		(58)	(39)	(1)	(4)		(1)		188	(189)
2837	COMMON KNOWLEDGE DOS	Jan-92	(11)	(855)	(9)	(1)	(8)	(52)	(2)						(938)
2835	PERSONALITY DOS	Jan-92	(5)	(25)	(1)	2		(52)			(1)			388	218

TOTAL PERSONAL IMPROVEMENT CATEGORY: (88) (923) (211) (114) (99) (169) (4) (218) (28) 2 (7) 3,888 1,253

67
BURTON GRAD ASSOCIATES, INC.

235 MARTLING AVENUE
TARRYTOWN, NEW YORK 10591
(914) 631-1129
(914) 631-1164 FAX

May 15, 1996

Mr. Robert G. Kester
Goodwin, Procter and Hoar
Exchange Place
Boston, MA 02181

Dear Bob:

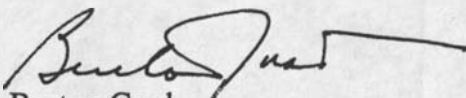
In response to your request and with written authorization from Ken Currier, CEO of Expert Software, Burton Grad Associates, Inc. (BGAI) has enclosed the following items relating to the intangible asset valuation report for Expert Software dated 12/24/92:

- A disk containing the spreadsheet models used to compute the net present value for certain of the products along with other spreadsheets used to determine projected revenues and to summarize the products capitalization and amortization.
- Attachment A lists all the spreadsheets which are on the disk and gives usage instructions
- Attachment B includes a copy of each spreadsheet corresponding to the models on the disk (these are all in the 12/24/92 report)

Note: Our storage disks only contained seven samples of the 39 models which were in Appendix N. There is one of these samples for each principal valuation category. Since the models are so easily reconstructed, there seemed no reason to save all 39 models. We have been running the NPV models using Quattro Pro (DOS).

If you have any further questions, please call me.

Sincerely,



Burton Grad
BG:2887

cc: Ken Currier (letter only)

Attachment A

The following 12 Quattro Pro files (DOS version) are on the enclosed disk:

- EXPERTD (corresponds to Appendix L-1)
- EXPERTM (corresponds to Appendix L-2)
- EXPERTW (corresponds to Appendix L-3)
- EXPERT (corresponds to Appendices M-1 through M-3)
- EXPN1 (corresponds to Appendix N-1)
- EXPN10 (corresponds to Appendix N-10)
- EXPN19 (corresponds to Appendix N-19)
- EXPN25 (corresponds to Appendix N-25)
- EXPN32 (corresponds to Appendix N-32)
- EXPN36 (corresponds to Appendix N-36)
- EXPN38 (corresponds to Appendix N-38)
- EXPAPPO (corresponds to Appendix O)

To recreate any of the other appendices in the N series, retrieve a corresponding NPV file (DOS, MACINTOSH, WINDOWS), type in the appropriate revenue figures for that product from Appendix M-3) and estimate the number to be typed into the second line (Initial Total Amortization Value). Recalculate by pressing Alt-a. Raise or lower Initial Total Amortization Value number, press Alt-a, and continue raising or lowering this number and pressing Alt-a until Total Amortization Value number is equal to the Total NPV number (lower right number).

EXPERT D

NPV Calculation Model -- Da*****
Version 2: Revenue-Dependent Amortization Option
Initialization Completed!!

MESSAGES:

```
=====
Number of Years for Projection:          5
Initial Total Amortization Value:       5494
Amortization Calculation Formula:       1
'(0=Constant; 1=Revenue Dependent)
Profit Margin, if Constant:             20.00 %
Tax Rate, if Constant:                  40.00 %
Cost of Money:                          8.00 %
Initial Year for Projection:            1993
Client Name: Expert Software
=====
```

	(\$000s)					
	1993	1994	1995	1996	1997	Total
Revenue	8000	8200	7600	6700	5600	36100
Profit Margin	20.00	20.00	20.00	20.00	20.00	
Net Profit						
- Pre Amortization	1600	1640	1520	1340	1120	7220
Amortization	1217	1247	1156	1019	855	5494
Net Profit						
- After Amortization	383	393	364	321	265	1726
Tax Rate	40.00	40.00	40.00	40.00	40.00	
Tax	153	157	146	128	106	690
Cash Flow after Tax	1447	1483	1374	1212	1014	6530
NPV Factors	0.963	0.892	0.826	0.764	0.708	
NPV	1393	1322	1135	926	718	5494

Attack means
B

EXPERT M

NPV Calculation Model -- Da*****
Version 2: Revenue-Dependent Amortization Option
Initialization Completed!!

MESSAGES:

```
=====
Number of Years for Projection:          5
Initial Total Amortization Value:       1483
Amortization Calculation Formula:       1
'(0=Constant; 1=Revenue Dependent)
Profit Margin, if Constant:              %
Tax Rate, if Constant:                  40.00 %
Cost of Money:                          8.00 %
Initial Year for Projection:            1993
Client Name: Expert Software - MAC
=====
```

	(\$000s)					
	1993	1994	1995	1996	1997	Total
Revenue	2200	2400	2200	2000	1600	10400
Profit Margin	15.00	20.00	20.00	20.00	20.00	
Net Profit						
- Pre Amortization	330	480	440	400	320	1970
Amortization	313	342	313	285	230	1483
Net Profit						
- After Amortization	17	138	127	115	90	487
Tax Rate	40.00	40.00	40.00	40.00	40.00	
Tax	7	55	51	46	36	195
Cash Flow after Tax	323	425	389	354	284	1775
NPV Factors	0.963	0.892	0.826	0.764	0.708	
NPV	311	379	321	271	201	1483

4-2

NPV Calculation Model -- Da*****
Version 2: Revenue-Dependent Amortization Option
Initialization Completed!!

MESSAGES:

```
=====
Number of Years for Projection:      5
Initial Total Amortization Value:    311
Amortization Calculation Formula:    1
'(0=Constant; 1=Revenue Dependent)
Profit Margin, if Constant:          %
Tax Rate, if Constant:              40.00 %
Cost of Money:                      8.00 %
Initial Year for Projection:         1993
Client Name: Expert Software-Windows
=====
```

	(\$000s)					
	1993	1994	1995	1996	1997	Total
Revenue	300	450	600	600	600	2550
Profit Margin	5.00	15.00	20.00	20.00	20.00	
Net Profit						
- Pre Amortization	15	68	120	120	120	443
Amortization	36	54	73	73	75	311
Net Profit						
- After Amortization	-21	14	47	47	45	132
Tax Rate	40.00	40.00	40.00	40.00	40.00	
Tax	-8	5	19	19	18	53
Cash Flow after Tax	23	62	101	101	102	390
NPV Factors	0.963	0.892	0.826	0.764	0.708	
NPV	23	55	84	77	72	311

UNIT SALES

	1991	1992	1993	1994	1995	1996	1997	Total 93-'97
MS/DOS								
HOME								
Home Design	117344	151573	180000	180000	180000	160000	120000	820000
Landscape	48576	96680	120000	120000	120000	110000	100000	570000
Office Design	0	43803	40000	40000	40000	35000	30000	185000
Expert Finance	8699	9399	10000	8000	6000	--	--	24000
Menu Power	12296	7966	8000	6000	4000	--	--	18000
Perfect Forms	37953	32370	30000	25000	20000	--	--	75000
Perfect Labels	20447	25051	24000	20000	16000	--	--	60000
Expert Publisher	18536	20087	20000	15000	10000	--	--	45000
Resume Writer	21674	13214	10000	8000	6000	--	--	24000
HOME Subtotal	285525	400143	442000	422000	402000	305000	250000	1821000
HOBBY								
Astronomer	39201	82899	90000	100000	90000	80000	70000	430000
Color Paint & Print	0	30694	40000	40000	40000	35000	30000	185000
Lottery	23386	28917	30000	25000	20000	15000	10000	100000
Expert Maps	75366	88967	100000	110000	110000	110000	100000	530000
Puzzles & Mazes	0	19295	25000	30000	30000	25000	20000	130000
10 Best Fortune	9336	38063	40000	40000	30000	20000	10000	140000
Personal Roots	53663	37485	30000	25000	20000	15000	10000	100000
Pet Care	0	23000	50000	60000	55000	50000	40000	255000
Animator	0	17000	30000	45000	45000	40000	35000	195000
HOBBY Subtotal	200952	366320	435000	475000	440000	390000	325000	2065000

UNIT SALES

	1991	1992	1993	1994	1995	1996	1997	Total 93-'97
IMPROVEMENT								
Common Knowledge	0	36668	45000	50000	45000	30000	25000	195000
Personality Exprt	0	28756	30000	35000	30000	25000	20000	140000
Dos Tutor	19510	22827	20000	15000	10000	--	--	45000
Perfect Typing	16944	22157	20000	15000	10000	--	--	45000
Expert Will	18560	18889	20000	20000	20000	15000	10000	85000
Travel Planner	0	15000	75000	90000	100000	100000	80000	445000
IMPROVEMENT Subtotal	55014	144297	210000	225000	215000	170000	135000	955000
BUNDLES								
Home Pack	8672	95870	100000	110000	110000	110000	110000	540000
Family Pack	338	1314	4000	3000	2000	--	--	9000
Discovery Pack	3199	17599	20000	20000	20000	15000	15000	90000
Home Improve Bundle	0	726	4000	4000	3000	--	--	11000
Home Graphics Bundle	0	429	4000	6000	8000	8000	8000	34000
Family Fun Bundle	0	411	4000	4000	4000	--	--	12000
Home Bus. Bundle	0	115	4000	6000	8000	8000	8000	34000
BUNDLES Subtotal	12209	116464	140000	153000	155000	141000	141000	730000
MS/DOS Subtotal	553700	1027224	1227000	1275000	1212000	1006000	851000	5571000

UNIT SALES

	1991	1992	1993	1994	1995	1996	1997	Total 93-'97
MACINTOSH								
HOME								
Home Design	0	6800	20000	25000	30000	30000	30000	135000
Landscape Design	0	6800	12000	15000	15000	12000	10000	64000
Office Design	0	4008	8000	8000	8000	8000	6000	38000
Expert Writer	0	6927	10000	10000	10000	10000	8000	48000
HOME Subtotal	0	24535	50000	58000	63000	60000	54000	285000
HOBBY								
Expert Astronomer	0	9059	18000	25000	25000	30000	30000	128000
Color Paint	2052	27320	40000	45000	50000	55000	55000	245000
HOBBY Subtotal	2052	36379	58000	70000	75000	85000	85000	373000
MACINTOSH Subtotal	2052	60914	108000	128000	138000	145000	139000	658000
WINDOWS								
HOME								
Money Manager	5531	9062	10000	15000	20000	25000	30000	100000
Home Design	0	3700	10000	15000	20000	25000	30000	100000
HOME Subtotal	5531	12762	20000	30000	40000	50000	60000	200000
WINDOWS Subtotal	5531	12762	20000	30000	40000	50000	60000	200000
GRAND TOTAL	561283	1100900	1355000	1433000	1390000	1201000	1050000	6429000

UNIT PRICES (\$)		1991	1992	1993	1994	1995	1996	1997
MS/DOS								
HOME								
Home Design		6.01	5.98	6.00	6.00	6.00	6.00	6.00
Landscape		6.29	5.84	6.00	6.00	6.00	6.00	6.00
Office Design		0.00	5.94	6.00	6.00	6.00	6.00	6.00
Expert Finance		6.33	6.03	6.00	6.00	5.00	--	--
Menu Power		6.51	6.36	6.00	6.00	5.00	--	--
Perfect Forms		5.68	7.82	6.00	6.00	5.00	--	--
Perfect Labels		5.99	6.15	6.00	6.00	5.00	--	--
Expert Publisher		6.03	5.96	6.00	6.00	5.00	--	--
Resume Writer		6.09	7.00	6.00	6.00	5.00	--	--
HOBBY								
Astronomer		6.21	5.94	6.00	6.00	6.00	6.00	6.00
Color Paint & Print		0.00	6.14	6.00	6.00	6.00	6.00	6.00
Lottery		5.76	6.05	6.00	6.00	6.00	6.00	6.00
Expert Maps		6.09	6.06	6.00	6.00	6.00	6.00	6.00
Puzzles & Mazes		0.00	6.16	6.00	6.00	6.00	6.00	6.00
10 Best Fortune		8.48	8.08	8.00	7.00	6.00	6.00	6.00
Personal Roots		6.11	5.84	6.00	6.00	6.00	6.00	6.00
Pet Care		0.00	5.98	6.00	6.00	6.00	6.00	6.00
Animator		0.00	5.98	6.00	6.00	6.00	6.00	6.00

UNIT PRICES (\$)

	1991	1992	1993	1994	1995	1996	1997
IMPROVEMENT							
Common Knowledge	0.00	6.06	6.00	6.00	6.00	6.00	6.00
Personality Exprt	0.00	6.08	6.00	6.00	6.00	6.00	6.00
Dos Tutor	6.24	6.33	6.00	6.00	5.00	--	--
Perfect Typing	5.95	6.07	6.00	6.00	5.00	--	--
Expert Will	5.77	6.08	6.00	6.00	6.00	6.00	6.00
Travel Planner	0.00	5.98	6.00	6.00	6.00	6.00	6.00
BUNDLES							
Home Pack	12.62	12.28	12.00	12.00	10.00	10.00	8.00
Family Pack	20.59	18.55	18.00	15.00	12.00	--	--
Discovery Pack	12.58	12.21	12.00	12.00	10.00	10.00	8.00
Home Improve Bundle	0.00	17.57	12.00	12.00	10.00	--	--
Home Graphics Bundle	0.00	17.38	12.00	12.00	10.00	10.00	8.00
Family Fun Bundle	0.00	16.83	12.00	12.00	10.00	--	--
Home Bus. Bundle	0.00	22.14	12.00	12.00	10.00	10.00	8.00

UNIT PRICES (\$)

	1991	1992	1993	1994	1995	1996	1997
MACINTOSH							
HOME							
Home Design	0.00	22.48	20.00	18.00	16.00	14.00	12.00
Landscape Design	0.00	22.48	20.00	18.00	16.00	14.00	12.00
Office Design	0.00	22.48	20.00	18.00	16.00	14.00	12.00
Expert Writer	0.00	21.71	20.00	18.00	16.00	14.00	12.00
HOBBY							
Expert Astronomer	0.00	22.85	20.00	18.00	16.00	14.00	12.00
Color Paint	23.09	22.49	20.00	18.00	16.00	14.00	12.00
WINDOWS							
HOME							
Money Manager	11.22	6.77	12.00	12.00	10.00	10.00	8.00
Home Design	0.00	19.98	20.00	18.00	16.00	14.00	12.00

REVENUES (\$)

MS/DOS	1991	1992	1993	1994	1995	1996	1997	Total 93-'97
HOME								
Home Design	705094	905852	1080000	1080000	1080000	960000	720000	4920000
Landscape	305543	564510	720000	720000	720000	660000	600000	3420000
Office Design	0	260203	240000	240000	240000	210000	180000	1110000
Expert Finance	55095	56709	60000	48000	30000	0	0	138000
Menu Power	80092	50689	48000	36000	20000	0	0	104000
Perfect Forms	215397	253047	180000	150000	100000	0	0	430000
Perfect Labels	122542	154060	144000	120000	80000	0	0	344000
Expert Publisher	111706	119807	120000	90000	50000	0	0	260000
Resume Writer	131914	92521	60000	48000	30000	0	0	138000
HOME Subtotal	1727383	2457398	2652000	2532000	2350000	1830000	1500000	10864000
HOBBY								
Astronomer	243632	492503	540000	600000	540000	480000	420000	2580000
Color Paint & Print	0	188561	240000	240000	240000	210000	180000	1110000
Lottery	134693	174920	180000	150000	120000	90000	60000	600000
Expert Maps	459201	538827	600000	660000	660000	660000	600000	3180000
Puzzles & Mazes	0	118793	150000	180000	180000	150000	120000	780000
10 Best Fortune	79195	307634	320000	280000	180000	120000	60000	960000
Personal Roots	328037	219013	180000	150000	120000	90000	60000	600000
Pet Care	0	137540	300000	360000	330000	300000	240000	1530000
Animator	0	101660	180000	270000	270000	240000	210000	1170000
HOBBY Subtotal	1244758	2279451	2690000	2890000	2640000	2340000	1950000	12510000

REVENUES (\$)	1991	1992	1993	1994	1995	1996	1997	Total 93-'97
IMPROVEMENT								
Common Knowledge	0	222182	270000	300000	270000	180000	150000	1170000
Personality Exprt	0	174821	180000	210000	180000	150000	120000	840000
Dos Tutor	121832	144512	120000	90000	50000	0	0	260000
Perfect Typing	100867	134576	120000	90000	50000	0	0	260000
Expert Will	107142	114840	120000	120000	120000	90000	60000	510000
Travel Planner	0	89700	450000	540000	600000	600000	480000	2670000
IMPROVEMENT Subtotal	329841	880631	1260000	1350000	1270000	1020000	810000	5710000
BUNDLES								
Home Pack	109469	1177184	1200000	1320000	1100000	1100000	880000	5600000
Family Pack	6958	24371	72000	45000	24000	0	0	141000
Discovery Pack	40235	214957	240000	240000	200000	150000	120000	950000
Home Improve Bundle	0	12759	48000	48000	30000	0	0	126000
Home Graphics Bundle	0	7458	48000	72000	80000	80000	64000	344000
Family Fun Bundle	0	6919	48000	48000	40000	0	0	136000
Home Bus. Bundle	0	2546	48000	72000	80000	80000	64000	344000
BUNDLES Subtotal	156662	1446194	1704000	1845000	1554000	1410000	1128000	7641000

REVENUES (\$)

	1991	1992	1993	1994	1995	1996	1997	Total 93-'97
MACINTOSH								
HOME								
Home Design	0	152847	400000	450000	480000	420000	360000	2110000
Landscape Design	0	152847	240000	270000	240000	160000	120000	1038000
Office Design	0	90090	160000	144000	128000	112000	72000	616000
Expert Writer	0	150389	200000	180000	160000	140000	96000	776000
HOME Subtotal	0	546173	1000000	1044000	1008000	840000	648000	4540000
HOBBY								
Expert Astronomer	0	206961	360000	450000	400000	420000	360000	1990000
Color Paint	47374	614403	800000	810000	800000	770000	660000	3840000
HOBBY Subtotal	47374	821364	1160000	1260000	1200000	1190000	1020000	5830000
MACINTOSH Subtotal	47374	1367537	2160000	2304000	2208000	2030000	1668000	10370000
WINDOWS								
HOME								
Money Manager	62046	61310	120000	180000	200000	250000	240000	990000
Home Design	0	73926	200000	270000	320000	350000	360000	1500000
HOME Subtotal	62046	135236	320000	450000	520000	600000	600000	2490000
WINDOWS Subtotal	62046	135236	320000	450000	520000	600000	600000	2490000
GRAND TOTAL	3568064	8566447	10786000	11371000	10542000	9230000	7656000	49585000

NPV Calculation Model -- Da*****
Version 2: Revenue-Dependent Amortization Option
Initialization Completed!!

MESSAGES:

```
=====
Number of Years for Projection:      5
Initial Total Amortization Value:    748
Amortization Calculation Formula:    1
      '(0=Constant; 1=Revenue Dependent)
Profit Margin, if Constant:          20.00 %
Tax Rate, if Constant:               40.00 %
Cost of Money:                       8.00 %      R*
Initial Year for Projection:         1993
Client Name: Expert DOS Home
=====
```

	(\$000s)					
	1993	1994	1995	1996	1997	Total
Revenue	1080	1080	1080	960	720	4920
Profit Margin	20.00	20.00	20.00	20.00	20.00	
Net Profit						
- Pre Amortization	216	216	216	192	144	984
Amortization	164	164	164	145	111	748
Net Profit						
- After Amortization	52	52	52	47	33	236
Tax Rate	40.00	40.00	40.00	40.00	40.00	
Tax	21	21	21	19	13	94
Cash Flow after Tax	195	195	195	173	131	890
NPV Factors	0.963	0.892	0.826	0.764	0.708	
NPV	188	174	161	132	93	748

NPV Calculation Model -- Da*****
Version 2: Revenue-Dependent Amortization Option
Initialization Completed!!

MESSAGES:

```
=====
Number of Years for Projection:      5
Initial Total Amortization Value:    391
Amortization Calculation Formula:    1
'(0=Constant; 1=Revenue Dependent)
Profit Margin, if Constant:          20.00 %
Tax Rate, if Constant:              40.00 %
Cost of Money:                      8.00 %
Initial Year for Projection:         1993
Client Name: Expert DOS Astronomer
=====
```

	(\$000s)					
	1993	1994	1995	1996	1997	Total
Revenue	540	600	540	480	420	2580
Profit Margin	20.00	20.00	20.00	20.00	20.00	
Net Profit						
- Pre Amortization	108	120	108	96	84	516
Amortization	81	90	81	72	67	391
Net Profit						
- After Amortization	27	30	27	24	17	125
Tax Rate	40.00	40.00	40.00	40.00	40.00	
Tax	11	12	11	10	7	50
Cash Flow after Tax	97	108	97	86	77	466
NPV Factors	0.963	0.892	0.826	0.764	0.708	
NPV	94	96	80	66	55	391

NPV Calculation Model -- Da*****
Version 2: Revenue-Dependent Amortization Option
Initialization Completed!!

MESSAGES:

```
=====
Number of Years for Projection:      5
Initial Total Amortization Value:    180
Amortization Calculation Formula:    1
'(0=Constant; 1=Revenue Dependent)
Profit Margin, if Constant:          20.00 %
Tax Rate, if Constant:               40.00 %
Cost of Money:                       8.00 %      R*
Initial Year for Projection:         1993
Client Name: Expert DOS Common Knowl
=====
```

	(\$000s)					
	1993	1994	1995	1996	1997	Total
Revenue	270	300	270	180	150	1170
Profit Margin	20.00	20.00	20.00	20.00	20.00	
Net Profit						
- Pre Amortization	54	60	54	36	30	234
Amortization	41	46	41	27	25	180
Net Profit						
- After Amortization	13	14	13	9	5	54
Tax Rate	40.00	40.00	40.00	40.00	40.00	
Tax	5	6	5	4	2	22
Cash Flow after Tax	49	54	49	32	28	212
NPV Factors	0.963	0.892	0.826	0.764	0.708	
NPV	47	49	40	25	20	180

NPV Calculation Model -- Da*****
Version 2: Revenue-Dependent Amortization Option
Initialization Completed!!

MESSAGES:

```
=====
Number of Years for Projection:          5
Initial Total Amortization Value:       850
Amortization Calculation Formula:       1
'(0=Constant; 1=Revenue Dependent)
Profit Margin, if Constant:             20.00 %
Tax Rate, if Constant:                  40.00 %
Cost of Money:                           8.00 %
Initial Year for Projection:            1993
Client Name: Expert DOS Home Pack
=====
```

	(\$000s)					
	1993	1994	1995	1996	1997	Total
Revenue	1200	1320	1100	1100	880	5600
Profit Margin	20.00	20.00	20.00	20.00	20.00	
Net Profit						
- Pre Amortization	240	264	220	220	176	1120
Amortization	182	200	166	166	136	850
Net Profit						
- After Amortization	58	64	54	54	40	270
Tax Rate	40.00	40.00	40.00	40.00	40.00	
Tax	23	26	22	22	16	108
Cash Flow after Tax	217	238	198	198	160	1012
NPV Factors	0.963	0.892	0.826	0.764	0.708	
NPV	209	213	164	152	113	850

NPV Calculation Model -- Da*****

MESSAGES:

Version 2: Revenue-Dependent Amortization Option
Initialization Completed!!

```
=====
Number of Years for Projection:          5
Initial Total Amortization Value:       299
Amortization Calculation Formula:       1
'(0=Constant; 1=Revenue Dependent)
Profit Margin, if Constant:              %
Tax Rate, if Constant:                  40.00 %
Cost of Money:                          8.00 %      R*
Initial Year for Projection:            1993
Client Name: Expert MAC Home Design
=====
```

	(\$000s)					
	1993	1994	1995	1996	1997	Total
Revenue	400	450	480	420	360	2110
Profit Margin	15.00	20.00	20.00	20.00	20.00	
Net Profit						
- Pre Amortization	60	90	96	84	72	402
Amortization	56	63	68	59	53	299
Net Profit						
- After Amortization	4	27	28	25	19	103
Tax Rate	40.00	40.00	40.00	40.00	40.00	
Tax	2	11	11	10	8	41
Cash Flow after Tax	58	79	85	74	64	361
NPV Factors	0.963	0.892	0.826	0.764	0.708	
NPV	56	71	70	57	46	299

NPV Calculation Model -- Da*****
Version 2: Revenue-Dependent Amortization Option
Initialization Completed!!

MESSAGES:

```
=====
Number of Years for Projection:          5
Initial Total Amortization Value:        282
Amortization Calculation Formula:        1
      '(0=Constant; 1=Revenue Dependent)
Profit Margin, if Constant:              %
Tax Rate, if Constant:                   40.00 %
Cost of Money:                           8.00 %
Initial Year for Projection:              1993
Client Name: Expert MAC Exp Astronom
=====
```

	(\$000s)					
	1993	1994	1995	1996	1997	Total
Revenue	360	450	400	420	360	1990
Profit Margin	15.00	20.00	20.00	20.00	20.00	
Net Profit						
- Pre Amortization	54	90	80	84	72	380
Amortization	51	63	56	59	53	282
Net Profit						
- After Amortization	3	27	24	25	19	98
Tax Rate	40.00	40.00	40.00	40.00	40.00	
Tax	1	11	10	10	8	39
Cash Flow after Tax	53	79	70	74	64	341
NPV Factors	0.963	0.892	0.826	0.764	0.708	
NPV	51	71	58	57	46	282

NPV Calculation Model -- Da*****
Version 2: Revenue-Dependent Amortization Option
Initialization Completed!!

MESSAGES:

```
=====
Number of Years for Projection:      5
Initial Total Amortization Value:    120
Amortization Calculation Formula:    1
'(0=Constant; 1=Revenue Dependent)
Profit Margin, if Constant:          %
Tax Rate, if Constant:               40.00 %
Cost of Money:                       8.00 %
Initial Year for Projection:         1993
Client Name: Expert WIN Money Mgr
=====
```

	(\$000s)					
	1993	1994	1995	1996	1997	Total
Revenue	120	180	200	250	240	990
Profit Margin	5.00	15.00	20.00	20.00	20.00	
Net Profit						
- Pre Amortization	6	27	40	50	48	171
Amortization	14	21	24	30	31	120
Net Profit						
- After Amortization	-8	6	16	20	17	51
Tax Rate	40.00	40.00	40.00	40.00	40.00	
Tax	-3	2	6	8	-7	20
Cash Flow after Tax	9	25	34	42	41	151
NPV Factors	0.963	0.892	0.826	0.764	0.708	
NPV	9	22	28	32	29	120

AMORTIZATION SUMMARY (\$000)

MS/DOS	1993	1994	1995	1996	1997	Total
HOME						
Home Design	164	164	164	145	111	748
Landscape	108	108	108	99	92	515
Office Design	36	36	36	31	29	168
Expert Finance	10	8	5			23
Menu Power	8	6	4			18
Perfect Forms	30	25	18			73
Perfect Labels	24	20	15			59
Expert Publisher	20	15	10			45
Resume Writer	10	8	5			23
HOME Subtotal	410	390	365	275	232	1672
HOBBY						
Astronomer	81	90	81	72	67	391
Color Paint & Print	36	36	36	31	29	168
Lottery	28	23	19	14	11	95
Expert Maps	89	98	98	98	91	474
Puzzles & Mazes	22	27	27	22	20	118
10 Best Fortune	51	45	29	19	11	155
Personal Roots	28	23	19	14	11	95
Pet Care	45	54	49	45	38	231
Animator	26	40	40	35	32	173
HOBBY Subtotal	406	436	398	350	310	1900

AMORTIZATION SUMMARY (\$000)

	1993	1994	1995	1996	1997	Total
IMPROVEMENT						
Common Knowledge	41	46	41	27	25	180
Personality Exprt	27	32	27	22	20	128
Dos Tutor	20	15	9			44
Perfect Typing	20	15	9			44
Expert Will	18	18	18	13	12	79
Travel Planner	66	80	88	88	74	396
IMPROVEMENT Subtotal	192	206	192	150	131	871
BUNDLES						
Home Pack	182	200	166	166	136	850
Family Pack	12	7	5			24
Discovery Pack	37	37	31	23	20	148
Home Improve Bundle	8	8	5			21
Home Graphics Bundle	7	10	11	11	12	51
Family Fun Bundle	8	8	7			23
Home Bus. Bundle	7	10	11	11	12	51
BUNDLES Subtotal	261	280	236	211	180	1168
MS/DOS Subtotal	1269	1312	1191	986	853	5611

AMORTIZATION SUMMARY (\$000)

	1993	1994	1995	1996	1997	Total
MACINTOSH						
HOME						
Home Design	56	63	68	59	53	299
Landscape Design	34	39	34	24	19	150
Office Design	23	20	18	16	12	89
Expert Writer	28	25	22	20	16	111
HOME Subtotal	141	147	142	119	100	649
HOBBY						
Expert Astronomer	51	63	56	59	53	282
Color Paint	113	114	113	109	95	544
HOBBY Subtotal	164	177	169	168	148	826
MACINTOSH Subtotal	305	324	311	287	248	1475
WINDOWS						
HOME						
Money Manager	14	21	24	30	31	120
Home Design	24	32	38	42	44	180
HOME Subtotal	38	53	62	72	75	300
WINDOWS Subtotal	38	53	62	72	75	300
GRAND TOTAL	1612	1689	1564	1345	1176	7386

GOODWIN, PROCTER & HOAR LLP

COUNSELLORS AT LAW
EXCHANGE PLACE
BOSTON, MASSACHUSETTS 02109-2881

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October 1, 1996

Mr. Mark D. Kaepfel
Internal Revenue Service
7771 W. Oakland Park Blvd., Suite 225
Sunrise, Florida 33351

Re: Expert Software, Inc.

Dear Mark:

As requested, enclosed please find copies of the interview notes pertaining to the on-site interviews mentioned on page I-1 of the appraisal and listed in Appendix C.

Very truly yours,



Robert G. Kester

cc: Howard A. Cubell, Esq.

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GOODWIN, PROCTER & HOAR LLP

Mr. Mark D. Kaeppel

October 1, 1996

Page 2

bcc: Mr. Charles H. Murphy
Mr. Burton Grad

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Interview Notes

Ken Currier -

Miami - 11/19/92

12⁰⁰ KC - Ken Outside - growth + plug

14⁰⁰ SC - operations international?

12¹⁵ Dennis Gibman - 11¹⁵.

1⁴⁵ Donna Rayner -

1⁴⁵ Tim Levey -

-
- rolling files and enhancements - not replacement versions
by Product/Division - historic/projected sales
descriptions from "Catalog"
-

Distribution to

Sales breakdown by
Distributor / Retailer

Definti: only those products
available for delivery on 10/24/92
including enhancements but
not avail on new platforms.

See Currier -

was Gardner model - Australia
Softbyte - started 1981
self funded...
marketing + publishers
(books, records)

Space Invaders (Finclair)
Personal accountant

Trio (db, WP, spreadsheet)
Commodore - Toys R Us

Trio moved to MS-DOS

like entertainment software
Ingram + Softel as distributors

- Handelman - Rack Jobber -
Sears, Target
- Software Dist -
Ingram, Medical, Softnet
- ~~Waste~~
Resellers -
Comp USA, Office Depot,
Egghead

8% accrual for returns -

Blac purchased in 1990 -

because of level of high end
acctg pkg - needed deep
pockets - stayed with Blac

no significant change expected in
sales costs, % discount to Distributors
& Retailers, or in production costs.

should I
include
rebills
of existing
products -
where function/
packaging
does not change

55%

referred

Dennis Gilman - opening

Primary suppliers

Cost of sales -
Printing
Packaging
Duplication
Kit + shrinkwrap
+ returns (6%)

Amer Data Technology

{ performs service
cost / diskette
inventorying
distribution

- Bellab. - printer
- Tropical Paper Box

Why would variable costs increase

Gross Sales	difference between high priced vs low priced products
less returns	
= net net	
Cost of sales -	chg in COS - yes
Development -	chg in devel - no
Prod mgmt	chg in M+S - yes
Computer costs? (NO)	chg in G+A - no
Testing - NO	
Documentation -	
<u>Margin Sales -</u>	<u>G+A</u>

Two way break on costs

high
C of sales
MKTG + Sales

low priced high priced

Donna Raynor, The Heavy

11/19/92

#70M MS-DOS machines

most users appear to be
1st time buyers

of avail MS-DOS will grow

of 1st time MS-DOS buyers

life cycle on Home category should
be good - Hobby also good

Plus Improvement - maybe shorter cycle
on entertainment but good
cycle on typing + DOS-Tutor

Bridges -

expect Windows to grow 1-2 yrs.

sales expenses - salaries, ^{alloc} will drop

commission stay the same

Windows using model like DOS

MAC - spent large amount of
launch money.

but unitary ratios will drop
on MAC business

Mac Connecti + Mac Warehouse

merchandising & or advertising &

Electronic Distribution

List of Documentation + Support Materials

(Compressed) [MS-DOS 2-5 1/4 + 1-3 1/2 maybe 2
MAC 3 1/2

User Manual - 25-100 pgs

Thru wrap license

registration card

catalog - can order by mail.

Bulletin Board ~~voice~~
America on line
Prodigy
CompuServe

Tech Support: 900 # 500 1st hour
.40 each add
minute

charging @ 2.50 + .50

FAX - free

Mail - "

Bulletin Board Form

Auto
Voice Support - most frequently
asked questions

help Screens in most
programs.

Bob Kester

9/24/96

- Does Expert have LDC for other
26 programs? NO

qu
10/2

- get actual info on what happened -
sales by product over next 2 years.

~~work with Mark Novell on info~~
~~305-569-1500~~

~~fax responses info to Kester~~
~~minutes~~

BG

BURTON GRAD ASSOCIATES, INC.
235 MARTLING AVENUE
TARRYTOWN, NEW YORK 10591
(914) 631-5471 FAX: (914) 631-1164
E-MAIL: BURTGRAD@AOL.COM

Date: October 1, 1996

Attorney Work Product

To: Bob Kester

From: Burton Grad



Subject: IRS Questions Re Expert Software Valuation

Reference: Your letter of September 11, 1996

In response to Mr. Kaepfel's requests for information to be provided regarding the number of lines of code, etc.:

- The only information which was obtained from Expert Software regarding lines of code, language and data base was included in Appendix G-2 of the report. We believed that the selected 8 programs were reasonably representative of the 39 programs which were being actively marketed as of the date of the Valuation Study.
- During the valuation process, I determined that, in this case, the cost of development was not relevant to the value of the software, except as a rough measure of the ease of entry by a competitor. The competition factor was taken into consideration in forecasting unit sales and in establishing expected unit prices. Therefore, the information in Appendix G-2 was not used in the valuation and no request was made to get the lines of code, language or size of data base for the other 31 programs.
- As a result of the current IRS request, I checked with Expert Software to see if there was any simple way to obtain this information on the programs as they existed in November 1992. The response was that this information was not available, nor could it be readily reconstructed.
- All of the programs were developed by third parties on a royalty basis.

I suggest that this item need not be pursued further since it would not affect the value of the products.

Expert Software
Interview Notes - 11/19/92
Coral Gables, Florida

Scheduled Interviews

- Ken Currier - CEO "Mr. Outside" - growth and planning
- Sue Currier - President - Operations and International
- Dennis Gilman - Director of Operations
- Donna Raynor - National Sales Manager
- Tim Leary - VP Sales and Marketing

Ken Currier

- Rolling fixes and enhancements--not replacement versions
- By product/family -- historic/projected sales
- Descriptions from "catalog"
- Sales breakdown by distributor/retailer
- Definition: Only those products available for delivery on 10/24/92 including enhancements but not including availability on new platforms

Sue Currier

- Started Softsync in 1981
 - self-funded...
 - marketing and publisher (books, records) background
- Products
 - Space Invaders (Sinclair)
 - Personal Accountant
 - Trio (db, wp, spreadsheet) on Commodore -- sold through Toys "R" Us
 - Trio was then moved to MS-DOS
 - Like entertainment software
 - Ingram and Softsel as distributors
- Channels
 - Handelman -- Rack Jobber -- Sears, Target
 - Software distributor -- Ingram, Merisel, Softsel
 - Resellers--CompUSA, Office Depot, Egghead
 -
- 8% accrual for returns
- Bloc purchased in 1990
- Because of development of high-end accounting package, needed deep pockets; Ken and Sue stayed with Bloc
- No significant change expected in sales costs, % discount to distributors and retailers, or in production/shipping costs.

Side Note: Should I include rebuilds of existing products -- where function/packaging does not change but products are refreshed?

Dennis Gilman -- Operations Manager

Cost of Sales

- Printing
- Packaging
- Duplication
- Kit and Shrink wrap
- + returns (6%)

Primary Suppliers

- American Data Technology
 Performs service
 cost/diskette
 inventorying
 distribution
- Bellah - printer
- Tropical-paper box

Why would variable costs increase?

Gross Sales less returns = Net Sales

Cost of sales

Expenses

- Development:
 Product Managers
 Computer Costs? No
 Testing - No
 Documentation
- Marketing/Sales
- G&A

Two-way break on costs

	<u>Low Priced</u>	<u>High Priced</u>
Cost of Sales		
Marketing & Sales		

- Differences between high-priced vs. low-priced products
 - Chg in Cost of Sales - yes
 - Chg in Development - no
 - Chg in M/S - yes
 - Chg in G&A - no

Donna Raynor, Tim Leary

- 70 million MS-DOS machines; most users appear to be first-time buyers
- # of available MS-DOS will grow
- # of first-time MS-buyers will grow
- Life cycle on Home category should be good -- Hobby also good
- Personal Improvement -- may be shorter cycle on entertainment but good cycle on typing and DOS-Tutor
- Bundles
- Expect Windows to grow over next 1-2 years
- Sales expenses --- salary allocations will drop
- Commissions will stay the same
- Windows marketing model like DOS
- Mac -- spent large amount of launch money; but marketing cost ratios will drop on Mac business
- Mac Connection and Mac Warehouse for distribution
- Merchandising \$ vs. advertising \$
- Electronic distribution

List of Documentation and Support Materials for Products

Compressed

MS-DOS

2-5 1/4" + 1 or 2 3 1/2"

Mac

3 1/2

User manual 25-100 pages

Shrink wrap license

Registration card

Catalog -- can order by mail

Bulletin Board

America OnLine

Prodigy

Compuserve

Tech Support: 900 # \$5 first minute, 40¢ each additional minute; changing to \$2.50 and 50¢

Fax - free

Mail - free

Bulletin Board forum

Auto Voice support -- most frequently asked questions

Help screens in most programs

GOODWIN, PROCTER & HOAR LLP

COUNSELLORS AT LAW
EXCHANGE PLACE
BOSTON, MASSACHUSETTS 02109-2881

TELEPHONE (617) 570 1000
TELECOPIER (617) 227 8591

September 11, 1996

Mr. Burton Grad
President
Burton Grad Associates, Inc.
235 Martling Avenue
Tarrytown, New York 10591

Re: Expert Software, Inc.

Dear Burt:

Thank you for calling me from your vacation today. Enclosed is a proposed agenda for the meeting prepared by Mark D. Kaeppel, the IRS Engineer. Of course, we should feel free to depart from this proposed agenda or revise it as necessary to convey the appropriate information and arguments to the IRS Engineer.

Mr. Kaeppel has also requested that the following be provided as soon as possible:

1. Number of lines of code, software language, and the size of any related database for the software products listed in the Burton Grad appraisal, except those already listed in Appendix G-2; and
2. Copies of the interview notes pertaining to the on-site interviews mentioned on page I-1 of the appraisal and listed in Appendix C.

Please let me know if these items are available.

The meeting should last about one-half of a day and likely will be held in late October either at your offices in Tarrytown or ours in Boston. In addition to Mr. Kaeppel, I expect that at least one other IRS official will attend the meeting.

Any agreements or statements relating to your services should be sent to Charles Murphy, Chief Financial Officer, at Expert.

GOODWIN, PROCTER & HOAR LLP

Mr. Burton Grad
September 11, 1996
Page 2



Please give me a call at your convenience next week to discuss appropriate preparation for the meeting and the items requested by Mr. Kaepfel.

Sincerely,

Robert G. Kester

RGK:dd
Enclosure

cc: Mr. Kenneth P. Currier
Mr. Charles Murphy
Mr. Mark Novell
Howard A. Cubell, Esq.
John J. Egan, Esq.

172765.b1

Agenda for Meeting with Burton Grad Associates

1. Discuss appraiser's opinion concerning goodwill.
2. Discuss the return on capital charges.
3. Discussion of trained personnel, established marketing and distribution channels.
4. Page II-3 of the appraisal discusses the obsolescence of the products, discuss further.
5. Page II-3 of the appraisal report states "use of distributors has some impact on Expert Software's gross revenues, but has also reduced its operating costs." Quantification of these impacts.
6. Page II-4 of the appraisal discusses the products code, further discussion.
7. Page II-5 of the appraisal, the appraiser didn't consider the value of products under development, why?
8. Page III-1 of the appraisal, the appraiser didn't use the reconstruction cost, Why?
9. The appraiser omitted the 11/92 to 12/92 revenues from their projections, discuss.
10. Page III-2 of the appraisal states that independent sources were reviewed by the appraiser, What were these.
11. Page III-2 of the appraisal states that "discussions were held regarding the consumer software market based on Expert Software's experience..."
Need to review notes of these discussions
12. Page III-3 of the appraisal states that the marketable economic life for the products was analyzed. How was this done and review the supporting documentation. How was the actual life of each product taken into account.
13. Page III-3 of the appraisal states that the revenue ratio method was used for amortization, why?
14. Page IV-1 of the appraisal, the appraiser states that DOS software would be the revenue generator for the next 5 years, discuss.
15. Page IV-5 of the appraisal, the appraiser uses an 8% discount rate, discuss.

BURTON GRAD ASSOCIATES, INC.

235 MARTLING AVENUE
TARRYTOWN, NEW YORK 10591
(914) 631-1129
(914) 631-1164 FAX

September 25, 1996

Mr. Charles^{ie} Murphy
Chief Financial Officer
Expert Software, Inc.
800 Douglas Road
Suite 750
Coral Gables, Florida 33134

Dear Charles^{ie}:

Burton Grad Associates, Inc. (BGAI) has been requested by Howard Cubell of Goodwin, Procter & Hoar LLP to provide follow-on consulting services regarding an IRS inquiry into Expert Software's valuation of intangible assets acquired from Bloc Development as of October 24, 1992.

These services, as currently identified, will be to provide detailed explanations of the BGAI Valuation Study completed in December 1992. Specific questions have been raised by the IRS Engineer (see attached list). Other information requested by him includes:

- Lines of code, etc. for all of the Expert Software products, programs and databases as of the acquisition date.
- Copies of my interview notes

We will provide this additional information, if available, with your approval.

This project has been initiated by BGAI as of September 17, 1996 and will be completed when you have informed me that no further services are required.

Burton Grad's time will be billed at his regular rate of \$2,000 per day plus any authorized expenses such as travel, accommodations, express delivery and telephone/fax.

The initial work will take 1-2 days for review of files (reports, analyses, source documents) and preparation for the meeting with the IRS Engineer (expected to be one-half day to one day in late October). The total number of days required will depend on the follow-on activities requested as a result of the initial meeting. Any additional time beyond three days will require your prior approval and authorization.

Mr. Charles Murphy
Page 2
September 17, 1996

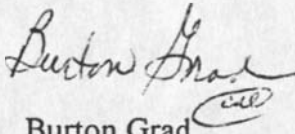
Enclosed is an invoice for \$4,000 as an advance payment against the planned consulting services. An invoice will be sent each month for actual time spent plus authorized expenses incurred. The advance payment will be deducted from the final invoice.

All information presently in BGAI's possession and any new findings or materials will be treated as confidential by BGAI and will not be disclosed to any third party without written authorization from Expert Software. All work done under this agreement will be considered as "Attorney Work Product."

To this end, by signing this agreement letter, Expert Software authorizes BGAI provide any and all documents and information to its attorneys, Howard Cubell and Robert Kester of Goodwin, Protcter & Hoar LLP, including any and all materials supplied previously to BGAI by Expert Software and any notes, analyses and reports prepared by BGAI in fulfilling its original valuation assessment.

If this project proposal is satisfactory, please sign below to authorize BGAI to proceed with the planned activities regarding the IRS in conjunction with Howard Cubell or other designated attorneys from Goodwin, Procter & Hoar LLP or any accounting personnel designated by Expert Software.

Sincerely,



Burton Grad
President

This agreement is approved for Expert Software, Inc.

by _____
Signature

Name

Title

Date

BG:3159

cc: Howard Cubell, Esq.
Mr. Ken Currier
Robert Kester, Esq.

Agenda for Meeting with Burton Grad Associates

1. Discuss appraiser's opinion concerning goodwill.
2. Discuss the return on capital charges.
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BURTON GRAD ASSOCIATES, INC.

235 MARTLING AVENUE
TARRYTOWN, NEW YORK 10591
(914) 631-1129
(914) 631-1164 FAX

Expert Software Inc.
800 Douglas Road
North Tower #355
Coral Gables, Florida 33134-3128

Attention: Mr. Charles Murphy

Invoice #: 2788

September 25, 1996

Project #: 236-2

INVOICE

Advance payment on consulting services re
Internal Revenue Service inquiry on Valuation
of Intangible Assets as of October 1992

\$ 4,000

INVOICE DUE UPON RECEIPT

invexp

CONSULTANTS ON SOFTWARE



BG

BURTON GRAD ASSOCIATES, INC.
235 MARTLING AVENUE
TARRYTOWN, NEW YORK 10591
(914) 631-5471 FAX: (914) 631-1164
E-MAIL: BURTGRAD@AOL.COM

Date: September 24, 1996

Attorney Work Product

To: Bob Kester

From: Burton Grad

Enclosed are my interview notes and personal notes taken during the November 19, 1992 meeting in Coral Gables, Florida at Expert Software headquarters.

A copy of the original handwritten notes are enclosed and a typewritten version which has been slightly edited for readability and clarity.

Interview Notes

Ken Cerner -

Miami - 11/19/92

12⁰⁰ KC - the Outside - growth & plug

14⁰⁰ SC - operations international?

12¹⁵ Dennis G. Leman - 11¹⁵.

14¹⁵ Donna Raynes -

14¹⁵ Tim Leoney -

• rolling fixes and enhancements / not replacement versions

By Product / Family - historic / projected sales
Descriptions from "Catalog"

Distribution to

Sales breakdown by
Distributor / Retailer

Definition: only those products
available for delivery on 10/24/92
including enhancements but
not avail on new platforms.

Aue Currier -

was fashion model - Australia
Softsyne - started 1981
self funded...
mktg + publishers
(books, records)

Space Invaders (Finclair)
Personal accountant

Trio (db, wp, spreadsheet)
Commodore - Toys R Us

Trio moved to MS-DOS

like entertainment software
Ingram + Softsel as distributors

- Handelman - Rack Jobber -
Mass, Target
- Software Dist -
Ingram, Mevial, Softat
- ~~Wauke~~
Resellers -
Comp USA, Office Depot,
Egghead

8% accrual for returns -

Bloc purchased in 1990 -

because of devel of high end
acctg pkg - needed deep
pockets - stayed with Bloc

no significant change expected in
sales costs, % discount to Distributors
& Retailers, or in production ^{shipping} costs.

showed I
include
rebuilt
of existing
products -
where function/
packaging
does not change

55%

refresh

Dennis Gilman - opening

Primary suppliers

Cost of sales -

Printing
Packaging
Duplication
Kit + Showwraps
+ returns (6%)

Amer Data Technology

perform service
cost / diskette
inventorying
distribution

- Bellab - printer
- Tropical Paper Box

why would variable costs increase

Gross Sales

less returns

= net net

Cost of Sales -

Development -

Prod. setup

Computer costs? (NO)

Testing - NO

Documentation -

Marketing Sales -

G+A

difference between
high priced vs
low priced
products

chg in COS - yes

chg in Devel - no

chg in M+S - yes

chg in G+A - no

Two way break on costs

high
C of sales
MKTG + sales

low priced high priced

Donna Raynor, then heavy

11/19/92

#70M MS-DOS machines

most users appear to be
1st time buyers

of avail MS-DOS will grow
of 1st time MS-DOS buyers

life cycle on Home category seemed
be good - Hobby also good

Plus Improvement - maybe shorter cycle
on entertainment but good
cycle on typing + DOS-Tutor

Bundles -

expect Windows to grow 1-2 yrs.
sales expenses - salaries ^{alloc} will drop
commissions stay the same

Windows using model like DOS

MAC - spent large amount of
launch money.

but unit ratios will drop
on MAC business

Mac Connect + Mac Warehouse

merchandising & or advertising &

Electronic Distribution

List of Documentation + Support Materials

(Compressed) [MS-DOS 2-5 1/4 + 1-3 1/2 maybe 2
MAC 3 1/2]

User manual - 25-100 pgs

Shrink wrap license

registration card

catalog - can order by mail.

Bulletin Board ~~for~~ Voice

America on line

Prodigy

CompuServe

Tech Support: 900 # 5⁰⁰ 1⁵⁵ am
.40 each add
minute

changing to 2.50 + .50

FAX - free

Mail - "

Bulletin Board Form

Auto

" Voice support - most frequently
asked questions

help screens in ^{most} programs.

BGAI NPV Calculation Approach

- No Inflation
 - Cost of money - 6% prime rate plus 2%
 - Tax rate 40%
 - \$2 million to acquire receivables
- Recognize revenue when invoiced; invoice on shipment
- No soft cap/amort on software development
- Bad debt ½%-2% is ample, but reserving all more than 30 days beyond due date

- | <u>Profit Model</u> | <u>DOS</u> | <u>Windows/Mac</u> |
|---------------------|------------|--------------------|
|---------------------|------------|--------------------|

Revenues

Cost of Sales

Marketing

Sales

Development

Royalties

G&A

Executive costs

Pre-Tax Profit Margin

- Will these margins change over time?
 - Launch costs
 - Replacement costs

- **Revenue Projections**

Revenue Projections

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
--	-------------	-------------	-------------	-------------	-------------

MS-DOS

-
-
-
-

Mac/Windows

-
-
-
-

GOODWIN, PROCTER & HOAR LLP

COUNSELLORS AT LAW
EXCHANGE PLACE
BOSTON, MASSACHUSETTS 02109-2881

TELEPHONE (617) 570 1000
TELECOPIER (617) 227 8591

June 3, 1996

*CK
Expert Software Files*

Mr. Burton Grad, President
Burton Grad Associates, Inc.
235 Martling Avenue
Tarrytown, N.Y. 10591

Re: Expert Software, Inc.

Dear Burton:

Thank you for the very helpful information you provided relating to your 1992 appraisal.

The IRS agent has requested that Expert Software provide the information supplied to Burton Grad Associates, as indicated on Appendix B of the appraisal. Could you please let me know whether you still have these documents?

A copy of Appendix B is enclosed. Thank you for your continued assistance in connection with the audit.

Very truly yours,



Robert G. Kester

RGK:dd
Enclosure

cc: Howard A. Cubell, Esq.
Kenneth P. Currier

161357.b1

Source Information Received

1. Business Plan from Expert Software, Inc. related to plans after acquisition (strategy, products, markets, technology, financials)
2. Expert Software financial history up to the acquisition date (revenue and cost breakdowns)
3. Expert Software product unit sales and revenues for the past three years.
4. Expert Software revenue recognition, software capitalization and amortization policies
5. List of major Expert Software distributor agreements with key terms and pricing structure
6. List of Expert Software suppliers and third party developer agreements; royalty plans for each
7. Expert Software organization chart and personnel lists as of acquisition date and at present (with current assignments)
8. Brief product descriptions for Expert Software products
9. List of Expert Software products with lines of code and language plus db size
10. List of Expert Software documentation and support materials
11. Expert Software distributor list with revenues received by year (new sales, returns) for last three years, by product or product group
12. Expert Software market analyses and competitive analyses for various products/marketplaces
13. Acquisition agreement with necessary schedules, exhibits and related agreements
14. Analysis and business projection material prepared by investors to support acquisition of Expert Software products, rights, licenses, etc.

BG

BURTON GRAD ASSOCIATES, INC.

235 MARTLING AVENUE
TARRYTOWN, NEW YORK 10591
(914) 631-1129
(914) 631-1164 FAX

June 13, 1996

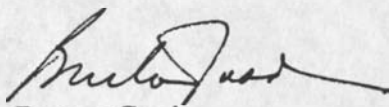
Mr. Robert G. Kester
Goodwin, Procter and Hoar
Exchange Place
Boston, MA 02181

Dear Bob:

In response to your further request dated June 3, 1996 and based on the written authorization from Ken Currier, CEO of Expert Software, Burton Grad Associates, Inc. (BGAI) has enclosed copies of all of the items as listed in Appendix B.

If you have any questions, please give me a call.

Sincerely,


Burton Grad

Enclosures
BG:2956

cc: Ken Currier (letter only)

Source Information Received

1. Business Plan from Expert Software, Inc. related to plans after acquisition (strategy, products, markets, technology, financials)
2. Expert Software financial history up to the acquisition date (revenue and cost breakdowns)
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13. Acquisition agreement with necessary schedules, exhibits and related agreements
14. Analysis and business projection material prepared by investors to support acquisition of Expert Software products, rights, licenses, etc.

wait ltr from Expert

57.4

Robert G. Kester
Goodwin, Procter and Hoar
Exchange Place
Boston, MA 02181

617 570-1681

617 227-8591 FAX

Before sending, Expert
Software will send
letter to proceed.

~~what disks
what formats
incl Lotus 1A
Boltz val mag
Expert models
print images
instructions~~



Fax

Date 5/14/96

From:

Ken Currier
Volce: (305) 569-1200
Fax: (305) 443-0786
800 Douglas Road
Executive Tower
Coral Gables, FL 33134

To:

Burton Grad
Burton Grad Associates, Inc.
235 Matling Ave
Tarrytown NY 10591
Phone: 914-631-1129
Fax: 914-631-1164

Message

Page 1 of: 2

Burt,

See attached.

May 13, 1996

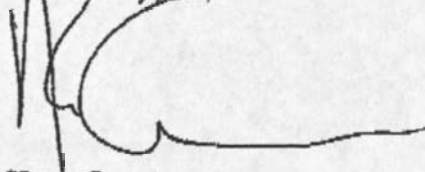
Burton Grad
Burton Grad Associates, Inc.
235 Matling Ave.
Tarrytown, NY 10591

Dear Burt,

This letter authorizes you to release printed and electronic files, reports and other information to our counsel, Goodwin Proctor and Hoar as may be requested by Howard A. Cubell or Robert G. Kester.

Thank you for your cooperation in this matter.

Sincerely,

A handwritten signature in black ink, appearing to be 'Ken Currier', with a long horizontal flourish extending to the right.

Ken Currier
Chief Executive Officer

cc: Robert G. Kester
Charles Murphy