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

October 29, 1999

Mr. Paul Baker
Sterling Software, Inc.
300 Crescent Court
Suite 1200
Dallas, Texas 75201-1000

Dear Paul:

At your request, Burton Grad Associates, Inc. (BGAI) has reexamined its valuation of the intangible assets acquired by Sterling Software, Inc. (SSW) from Cayenne Software, Inc. (Cayenne) which was originally made as of the acquisition date of October 23, 1998. This review was triggered by a significant change in SSW's Application Development Division (ADD) strategy regarding its Cool:Jex product line which had incorporated Cayenne's ObjectTeam product and technologies.

As a result of this review, BGAI recommends that SSW make substantial reductions in certain of the capitalized values which SSW has on its books as of September 30, 1999.

These recommended changes and the logic and calculations supporting the recommendations are detailed in the attached report.

If there are any questions, please call me.

Sincerely,

Burton Grad

Enclosure
BG:5133

Valuation Report on Intangible Assets of
Cayenne Software, Inc.
Acquired by Sterling Software, Inc.
Valued as of October 23, 1998
Reexamined as of September 30, 1999

Prepared for:

Sterling Software, Inc.
300 Crescent Court
Suite 1200
Dallas, Texas 75201-1000

Prepared by:

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

Burton Grad

Date: October 29, 1999

5133.RPT

Sterling Software's experience with the acquired in-process Cayenne Software ObjectTeam products and technologies has been quite disappointing. While SSW was investing substantial development funds in producing the planned new Cool:Jex 5.0 object-oriented product, the market share for the current product (Cool:Jex 4.x) was deteriorating relative to the Rational Corporation, Cayenne's principal competitor. This was in spite of the fact that the current product sales met SSW targets.

As part of a recent strategy review (Appendix A), SSW's Advanced Development Division (ADD) decided that the object-oriented application development market segment has become dominated by Rational's products and that the investment needed by SSW to pursue this market aggressively is too great compared to the expected revenues and potential profits.

Therefore, ADD has terminated the Cool:Jex 5.0 development project, but will continue to support its current Cool:Jex 4.x customers for the next few years, providing maintenance and currency releases and necessary functional product improvements.

As a result of this change in strategy, the various capitalized intangible asset value from the acquisition need to be individually reexamined and, where necessary, revalued.

The original capitalization values determined by BGAI as of October 23, 1998 with their amortizable life and the actual remaining balance as of September 30, 1999 are shown below:

($000)	BGAI 3/29/99 Value	Amortization Life	SSW Remaining Capital Balance (9/30/99)*
ObjectTeam 8.x (Cool:Jex 4.x)	$4,516	5 years	3,220
Trained Personnel (43 people)	886	8 years	1,133
Customer Base (NPV from Biz, Spex, Gen, Plex)	2,464	10 years	1,955
Core Technologies (for Cool:Jex 5.0)	7,955	10 years	6,804
Goodwill	10,771	10 years	11,222
Total	**26,592**		**24,334**

* SSW actually used capitalization and write-off values from an earlier draft of the BGAI valuation report. While the total figure of $36,811,000 for the intangibles acquisition value was the same, the allocation mix was somewhat different. As part of this reexamination, BGAI recommends that, where feasible, the remaining capital balances be brought into line with the figures in the final BGAI report (3/29/99).

As part of its review of the financials of the Cayenne acquisition, SSW determined that the reserves it had set aside to cover potential acquisition costs turned out to be greater than appear to be needed. Therefore, SSW has decided to reduce the reserves by $3,100,000. By implication, if the total cost to be allocated to the intangible assets acquired was $33,711,000 instead of $36,811,00, then the goodwill would have been reduced from $10,771,000 to $7,671,000. This will be considered in revaluing the capitalized goodwill.

Based on its reexamination, the BGAI logic and recommendations for each of the acquired assets are described briefly below:

- **ObjectTeam 8.x (Cool:Jex 4.x)** – While Rational was growing its market share, the Cool:Jex 4.x product did meet the BGAI revenue projections for FY99. With the discontinuance of the Cool:Jex 5.0 project, the expected migration of the Cool:Jex 4.x customer base will not take place. However, the loss of customers to Rational will occur at close to the expected migration to Cool:Jex 5.0. Therefore, we have concluded that the original BGAI forecast is still valid and that no adjustment in the remaining capitalized value is needed. The revenue and profit forecast still appear to be reasonable, and it should continue to be amortized over the remainder of the five-year period. While using the BGAI 3/29/99 figure of $4,516,000 amortized for 11 months would give a figure of $3,688,000, it is not appropriate to increase the capitalization, so the remaining figure should not be changed.

- **Trained Personnel** – Of the 44 people retained from Cayenne, 22 people have since either resigned or have been separated for lack of work. This is substantially greater than the expected employee erosion. Although SSW does not need to replace those employees (since the workload has dropped), an adjustment is necessary to recognize the lower number of retained employees. BGAI recommends that the remaining balance of $1,133,000 be reduced by 50%.

- **Customer Base** – As a result of acquiring the Cayenne customer base, ADD has, in fact, been able to sell certain of those customers on using other ADD products. No adjustment appears necessary.

- **Core Technologies** – With the termination of the Cool:Jex 5.0 product and with ADD's decision not to pursue any alternative product in the object-oriented marketplace, there is no further value to the ObjectTeam 8.x core technologies beyond the value of the Cool:Jex 4.x product. The entire remaining core technologies value of $6,804,000 should be written off as of September 30, 1999.

- **Goodwill** – With the termination of the Cool:Jex 5.0 product, the expected benefit to SSW from the Cayenne acquisition is severely reduced. This new product was the principal reason why SSW acquired Cayenne. Therefore, it is necessary to reduce the goodwill to reflect the revised expected value from the acquisition.

  Based on the BGAI 3/29/99 valuation, IPR&D technologies and core technologies accounted for $18,174,000 and the other assets (excluding goodwill) accounted for $7,866,000. Therefore, Cool:Jex 5.0 was responsible for 70% of the identified value, apart from the goodwill. Applying this percentage to the revised BGAI goodwill of $7,671,000 yields a value of $5,370,000 as that portion of the goodwill related to Cool:Jex 5.0.

Based on this analysis, the original goodwill value would have only been $2,301,000 if there had not been a Cool:Jex 5.0 product plan. After deducting for the amortization which would have been taken on the non-Cool:Jex 5.0 related goodwill, the goodwill balance as of September 30, 1999 should be $2,090,000. Therefore, the original goodwill of $11,222,000 after being reduced by $3,100,000 for adjustment of the reserves should also be reduced by $6,032,000 to reflect the elimination of the Cool:Jex 5.0 plans.

The following table summarizes the reductions in capitalization which SSW should take as of September 30, 1999 as a result of the change in ADD's strategy for Cool:Jex:

($000)	SSW Capital Balance as of 9/30/99	Reduction in Capitalized Value	Remaining Capitalized Value
Cool:Jex 4.x product	3,220	0	3,220
Trained Personnel	1,133	566	567
Customer Base	1,955	0	1,955
Core Technologies	6,804	6,804	-0-
Goodwill	8,122*	6,032	2,090
Total	**21,234***	**13,402**	**7,832**

* The SSW goodwill and total capital balances reflect the reduction in reserves of $3,100,000.

SSW should write off $13,402,000 of capitalization associated with the Cayenne acquisition as of 9/30/99. This will reduce the capital balance from $21,334,000 to $7,832,000. $3,220,000 of this is associated with the Cool:Jex 4.x product and has a remaining 49-month amortization period. The other $4,612,000 can all be treated as goodwill with a remaining 109-month amortization period.

In addition, ADD has capitalized $721,000 of development work on Cool:Jex 5.0 (code named Project Elmo) under FAS86 rules. Since the product plan has been terminated, and there is no other expected use for this programming work, the entire $721,000 should be written off as of September 30, 1999.

Including the adjustment in reserves, the total capitalization write-off should be $17,223,000 as of September 30, 1999.

Sterling Software COOL:Jex Strategy

Starting in July 1999, Sterling Software's Application Development Group began a process of re-evaluating its overall strategy and its business plans for each of ADG's product lines. This reassessment was driven by trends in ADG's performance that showed significant slowing in the growth of several product lines. Sterling Software and ADG's management concluded that the dramatic increase in Internet-based applications and e-Business had fundamentally changed the traditional enterprise-scale application development tools market. In response to this market shift and new market opportunity ADG re-oriented its overall product strategy to increase our support and competitive positioning as an e-Business application development tool provider. As a part of this strategy change ADG re-evaluated the investments made in each product line. Investments that would enhance ADG's positioning as e-Business solutions provider were increased, while investments in other areas were decreased.

ADG's COOL:Jex product line was one area where investments were significantly reduced. There were several factors that were involved in making this decision:

1. The adoption of enterprise-scale object-oriented analysis and design by large scale enterprises has not occurred as ADG had expected. There were a number of factors that contributed to this. First, large scale enterprise's focus on Y2K remediation and the implementation of packaged software solutions from companies like SAP, BAAN, PeopleSoft, and Oracle consumed significant development resources in the I.T. shops of our target market. Second, the meteoric growth of internet-enabled/e-Business applications also consumed significant amount of resources. These diversions of resources left the adoption of enteprise scale object-oriented analysis and design solutions as a significantly lower priority.

2. Rational Software has established a position of market dominance in object-oriented tools with its Rational Rose product. It has been estimated that Rational now controls over 70% of the market for OO tools. The Rational Rose product provides excellent coverage of standard OO techniques, but the Rose product is focused on single users. Rational has successfully convinced the market that there products address the needs of large scale OO development groups. The types of team-oriented development features offered by COOL:Jex are not perceived by the market to add enough value to justify going with a COOL:Jex solution versus a Rational Rose solution.

3. The Unified Modeling Language is an industry standard that describes the capabilities that OO tools must support. Our current version of COOL:Jex does not support certain critical elements of UML 1.1, the current standard and it would be cost prohibitive to enhance the current COOL:Jex code base to support these features. Rational's products fully support this standard and COOL:Jex's lack of compliance has already resulted in COOL:Jex being displaced in several key accounts by Rational Rose. Additionally, the UML standard is being revised and a new version, UML 2.0 is due out in mid-2000. This new version of UML has new requirements that could only be addressed through a rewrite of COOL:Jex. Sterling Software and ADG's management has determined that the cost of developing a new version of COOL:Jex to match the current and projected requirements of UML v1.1 and v2.0 will materially exceed the revenues and profits that ADG could realize.

ADG's current product line strategy with COOL:Jex is to focus on the existing customer base. The COOL:Jex development lab is focused on providing minimal enhancements and defect correction. Our marketing and sales resources associated with COOL:Jex are focusing on servicing existing customers and pursuing new customers on an extremely limited and opportunistic basis.

10/29

Alternatives

RATIO OF non-5.0 Value

WRITE OFF OF Excess ACQ ~~COST~~ Costs	with GW			w/o GW		
	Write off	GW	TOT	Write off	GW	TOT
6.1 M	.41	3382	10752	.30	3849	11219
3.1 M	.46	4917	12287	.30	6032	13402
0	.51	6232	13602	.30 tol	8287 tol	15657 tol

Selected Alternative

3231x
2935

11222

2935
8287
15657

GW recalculation

$6.1M too high

Assume provision for acq costs was $3.1M too high

total value of intangibles		
30711	= 33711	
-4516	-4516	- prod
-10219	-10219	- IPR&D
	~~22251~~	other int.
15976	18976 -	
886	886	Trend Pers
2464	2464	Cust Base
7955	7955	Core Tech
4671 GW	7671	GW

~~Jex 5.0~~

			Jex 5.0 value	
		10219	IPR&D	
		7955	Core Tech	
59% 18174	70%	54% 18174		
			non Jex 5.0	
		4516	prod	
		886	Trend pers	
		2464	Cust base	
7866	30%	7866		
4671	26040	7671	GW	
41% 12537		46% 15537		
Rev GW 1915	1401 | 2301	3529		
after 41/120 amort 1740	1273 | 2090	3205		

11 400
15 684

27084
(3627)

30 711

-4516
-10219

~~19 257~~
15 976 = Total other int.

30 711
59% 18174 - Tex 5.0

4,671,000 GW

41% 12,537

comment re Tex 4.x valuat $x11 on

12 537
-4516 road
- 886
-2464

4671 - GW

Reductions

~~32~~
0
566
6 804

Tex 5.0 59% 2756
other 41% 1915 -

9482
16 852

GW (non 5.0)
after 11 mos. amount = 1740

Assume $6.1M write off [GW incl in non 5.0]

The following table summarizes the reductions in capitalization which SSW should take as of September 30, 1999 as a result of the change in ADD's strategy for Cool:Jex:

($000)	SSW Capital Balance as of 9/30/99	Reduction in Capitalized Value	Remaining Capitalized Value
Cool:Jex 4.x product	3,220	0	3,220
Trained Personnel	1,133	566	567
Customer Base	1,955	0	1,955
Core Technologies	6,804	6,804	-0-
Goodwill	~~[illegible]~~ ~~11,222~~ 11,222	~~[illegible]~~ ~~6,232~~	1,740 ~~4,990~~
Total	~~24,334~~ 18234	10 752 ~~13,602~~	~~10,732~~ 1482

SSW should write off $13,602,000 of capitalization associated with the Cayenne acquisition as of 9/30/99. This will reduce the capital balance from $24,334,000 to $10,732,000. $3,220,000 of this is associated with the Cool:Jex 4.x product and has a remaining 49-month amortization period. The other $7,512,000 can all be treated as goodwill with a remaining 109-month amortization period.

In addition, ADD has capitalized $721,000 of development work on Cool:Jex 5.0 (code named Project Elmo) under FAS86 rules. Since the product plan has been terminated, and there is no other expected use for this programming work, the entire $721,000 should be written off as of September 30, 1999.

The total capitalization write-off should be $14,323,000 as of September 30, 1999.

capital write off

10752
721
6100

17573

assume 3.1M writeoff.

The following table summarizes the reductions in capitalization which SSW should take as of September 30, 1999 as a result of the change in ADD's strategy for Cool:Jex:

[GW incl in ver. 5.0]

($000)	SSW Capital Balance as of 9/30/99	Reduction in Capitalized Value	Remaining Capitalized Value
Cool:Jex 4.x product	3,220	0	3,220
Trained Personnel	1,133	566	567
Customer Base	1,955	0	1,955
Core Technologies	6,804	6,804	-0-
Goodwill	~~11,222~~ 8122	~~6,232~~ 4917	~~4,990~~ 3205
Total	~~24,334~~ 21234	~~13,602~~ 12287	~~10,732~~ 8947

SSW should write off $13,602,000 of capitalization associated with the Cayenne acquisition as of 9/30/99. This will reduce the capital balance from $24,334,000 to $10,732,000. $3,220,000 of this is associated with the Cool:Jex 4.x product and has a remaining 49-month amortization period. The other $7,512,000 can all be treated as goodwill with a remaining 109-month amortization period.

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Capital write off

12287
721
3100

16108

6.1 M
write off

The following table summarizes the reductions in capitalization which SSW should take as of September 30, 1999 as a result of the change in ADD's strategy for Cool:Jex:

[GW not incl
in non 5.0]

($000)	SSW Capital Balance as of 9/30/99	Reduction in Capitalized Value	Remaining Capitalized Value
Cool:Jex 4.x product	3,220	0	3,220
Trained Personnel	1,133	566	567
Customer Base	1,955	0	1,955
Core Technologies	6,804	6,804	-0-
Goodwill	5,122 ~~11,222~~	~~[illegible]~~ ~~6,232~~ 3849	1273 ~~[illegible]~~ ~~4,990~~
Total	~~24,334~~ 18234	~~[illegible]~~ ~~13,602~~ 11219	7015 ~~10,732~~

SSW should write off $13,602,000 of capitalization associated with the Cayenne acquisition as of 9/30/99. This will reduce the capital balance from $24,334,000 to $10,732,000. $3,220,000 of this is associated with the Cool:Jex 4.x product and has a remaining 49-month amortization period. The other $7,512,000 can all be treated as goodwill with a remaining 109-month amortization period.

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The total capitalization write-off should be $14,323,000 as of September 30, 1999.

capital write off

11219
721
6100
18040

BURTON GRAD ASSOCIATES, INC.
101 POST ROAD EAST
WESTPORT, CONNECTICUT 06880
(203) 222-8718
(203) 222-8728 FAX
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October 19, 1999

Replaced by 10/19 letter

Mr. Paul Baker
Sterling Software, Inc.
300 Crescent Court
Suite 1200
Dallas, Texas 75201-1000

Dear Paul:

At your request, Burton Grad Associates, Inc. (BGAI) has reexamined its valuation of the intangible assets acquired by Sterling Software, Inc. (SSW) from Cayenne Software, Inc. (Cayenne) which was originally made as of the acquisition date of October 23, 1998. This review was triggered by a significant change in SSW's Application Development Division (ADD) strategy regarding its Cool:Jex product line which had incorporated Cayenne's ObjectTeam product and technologies.

As a result of this review, BGAI recommends that SSW make substantial reductions in certain of the capitalized values which SSW has on its books as of September 30, 1999.

These recommended changes and the logic and calculations supporting the recommendations are detailed in the attached report.

If there are any questions, please call me.

Sincerely,

BG

Burton Grad

Enclosure
BG:5133

64

Valuation Report on Intangible Assets of Cayenne Software, Inc. Acquired by Sterling Software, Inc. Valued as of October 23, 1998 Reexamined as of September 30, 1999

Prepared for:	Sterling Software, Inc. 300 Crescent Court Suite 1200 Dallas, Texas 75201-1000
Prepared by:	Burton Grad Associates, Inc. 101 Post Road East Westport, Connecticut 06880 Burton Grad
Date:	October 19, 1999

5133.RPT

Sterling Software's experience with the acquired in-process Cayenne Software ObjectTeam products and technologies has been quite disappointing. While SSW was investing substantial development funds in producing the planned new Cool:Jex 5.0 object-oriented product, the market share for the current product (Cool:Jex 4.x) was deteriorating relative to the Rational Corporation, Cayenne's principal competitor. This was in spite of the fact that the current product sales met SSW targets.

As part of a recent strategy review (Appendix A), SSW's Advanced Development Division (ADD) decided that the object-oriented application development market segment has become dominated by Rational's products and that the investment needed by SSW to pursue this market aggressively is too great compared to the expected revenues and potential profits.

Therefore, ADD has terminated the Cool:Jex 5.0 development project, but will continue to support its current Cool:Jex 4.x customers for the next few years, providing maintenance and currency releases and necessary functional product improvements.

As a result of this change in strategy, the various capitalized intangible asset value from the acquisition need to be individually reexamined and, where necessary, revalued.

The original capitalization values determined by BGAI as of October 23, 1998 with their amortizable life and the actual remaining balance as of September 30, 1999 are shown below:

($000)	BGAI 3/29/99 Value	Amortization Life	SSW Remaining Capital Balance (9/30/99)*
ObjectTeam 8.x (Cool:Jex 4.x)	$4,516	5 years	3,220
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Goodwill	10,771	10 years	11,222
Total	**26,592**		**24,334**

* SSW actually used capitalization and write-off values from an earlier draft of the BGAI valuation report. While the total figure of $36,811,000 for the intangibles acquisition value was the same, the allocation mix was somewhat different. As part of this reexamination, BGAI recommends that, where feasible, the remaining capital balances be brought into line with the figures in the final BGAI report (3/29/99).

Based on the reexamination, the BGAI recommendations for each of these items are described briefly below:

- **ObjectTeam 8.x (Cool:Jex 4.x)** – The revenue and profit forecast still appear to be reasonable, and it should continue to be amortized over the remainder of the five-year period. While using the BGAI 3/29/99 figure of $4,516,000 amortized for 11 months would give a figure of $3,688,000, it is not appropriate to increase the capitalization, so the remaining figure should not be changed.

- **Trained Personnel** – Of the 44 people retained from Cayenne, 22 people have since either resigned or have been separated for lack of work. This is substantially greater than the expected employee erosion. Although SSW does not need to replace those employees (since the workload has dropped), an adjustment is necessary to recognize the lower number of retained employees. BGAI recommends that the remaining balance of $1,133,000 be reduced by 50%.

- **Customer Base** – As a result of acquiring the Cayenne customer base, ADD has, in fact, been able to sell certain of those customers on using other ADD products. No adjustment appears necessary.

- **Core Technologies** – With the termination of the Cool:Jex 5.0 product and with ADD's decision not to pursue any alternative product in the object-oriented marketplace, there is no further value to the ObjectTeam 8.x core technologies beyond the value of the Cool:Jex 4.x product. The entire remaining core technologies value of $6,804,000 should be written off as of September 30, 1999.

- **Goodwill** – With the termination of the Cool:Jex 5.0 product, the expected benefit to SSW from the Cayenne acquisition is severely reduced. This new product was the principal reason why SSW acquired Cayenne. Therefore, it is necessary to reduce the goodwill to reflect the revised expected value from the acquisition.

  The original value to be allocated to the intangible assets was $36,811,000. Based on the BGAI 3/29/99 valuation, IPR&D technologies and core technologies accounted for $18,174,000 and the other assets (including goodwill) accounted for $18,637,000. Therefore, Cool:Jex 5.0 was responsible for 49% of the identified value, apart from the goodwill. Applying this percentage to the BGAI goodwill of $10,771,000 yields a value of $5,277,000 as that portion of the goodwill related to Cool:Jex 5.0.

  Based on this analysis, the original goodwill value would have only been $5,494,000 if there had not been a Cool:Jex 5.0 product plan. After deducting for the amortization which would have been taken on the non-Cool:Jex 5.0 related goodwill, the goodwill balance as of September 30, 1999 should be $4,990,000. Therefore, the goodwill of $11,222,000 should be reduced by $6,232,000.

Sterling Software COOL:Jex Strategy

Starting in July 1999, Sterling Software's Application Development Group began a process of re-evaluating its overall strategy and its business plans for each of ADG's product lines. This reassessment was driven by trends in ADG's performance that showed significant slowing in the growth of several product lines. Sterling Software and ADG's management concluded that the dramatic increase in Internet-based applications and e-Business had fundamentally changed the traditional enterprise-scale application development tools market. In response to this market shift and new market opportunity ADG re-oriented its overall product strategy to increase our support and competitive positioning as an e-Business application development tool provider. As a part of this strategy change ADG re-evaluated the investments made in each product line. Investments that would enhance ADG's positioning as e-Business solutions provider were increased, while investments in other areas were decreased.

ADG's COOL:Jex product line was one area where investments were significantly reduced. There were several factors that were involved in making this decision:

1. The adoption of enterprise-scale object-oriented analysis and design by large scale enterprises has not occurred as ADG had expected. There were a number of factors that contributed to this. First, large scale enterprise's focus on Y2K remediation and the implementation of packaged software solutions from companies like SAP, BAAN, PeopleSoft, and Oracle consumed significant development resources in the I.T. shops of our target market. Second, the meteoric growth of internet-enabled/e-Business applications also consumed significant amount of resources. These diversions of resources left the adoption of enteprise scale object-oriented analysis and design solutions as a significantly lower priority.

2. Rational Software has established a position of market dominance in object-oriented tools with its Rational Rose product. It has been estimated that Rational now controls over 70% of the market for OO tools. The Rational Rose product provides excellent coverage of standard OO techniques, but the Rose product is focused on single users. Rational has successfully convinced the market that there products address the needs of large scale OO development groups. The types of team-oriented development features offered by COOL:Jex are not perceived by the market to add enough value to justify going with a COOL:Jex solution versus a Rational Rose solution.

3. The Unified Modeling Language is an industry standard that describes the capabilities that OO tools must support. Our current version of COOL:Jex does not support certain critical elements of UML 1.1, the current standard and it would be cost prohibitive to enhance the current COOL:Jex code base to support these features. Rational's products fully support this standard and COOL:Jex's lack of compliance has already resulted in COOL:Jex being displaced in several key accounts by Rational Rose. Additionally, the UML standard is being revised and a new version, UML 2.0 is due out in mid-2000. This new version of UML has new requirements that could only be addressed through a rewrite of COOL:Jex. Sterling Software and ADG's management has determined that the cost of developing a new version of COOL:Jex to match the current and projected requirements of UML v1.1 and v2.0 will materially exceed the revenues and profits that ADG could realize.

ADG's current product line strategy with COOL:Jex is to focus on the existing customer base. The COOL:Jex development lab is focused on providing minimal enhancements and defect correction. Our marketing and sales resources associated with COOL:Jex are focusing on servicing existing customers and pursuing new customers on an extremely limited and opportunistic basis.

The following table summarizes the reductions in capitalization which SSW should take as of September 30, 1999 as a result of the change in ADD's strategy for Cool:Jex:

($000)	**SSW Capital Balance as of 9/30/99**	**Reduction in Capitalized Value**	**Remaining Capitalized Value**
Cool:Jex 4.x product	3,220	0	3,220
Trained Personnel	1,133	566	567
Customer Base	1,955	0	1,955
Core Technologies	6,804	6,804	-0-
Goodwill	11,222	6,232	4,990
Total	**24,334**	**13,602**	**10,732**

SSW should write off $13,602,000 of capitalization associated with the Cayenne acquisition as of 9/30/99. This will reduce the capital balance from $24,334,000 to $10,732,000. $3,220,000 of this is associated with the Cool:Jex 4.x product and has a remaining 49-month amortization period. The other $7,512,000 can all be treated as goodwill with a remaining 109-month amortization period.

In addition, ADD has capitalized $721,000 of development work on Cool:Jex 5.0 (code named Project Elmo) under FAS86 rules. Since the product plan has been terminated, and there is no other expected use for this programming work, the entire $721,000 should be written off as of September 30, 1999.

The total capitalization write-off should be $14,323,000 as of September 30, 1999.

10/18/99

To: Paul Baker

From: Burton Jead

Subject: IPR&D Writeoff

I have revised the report -

You will get a new copy by fax on 10/19 (Tuesday)

The writeoffs will be:

	($000)
Trained Personnel	566
Core Technologies	6,804
Goodwill	6,232
	13,602
ADD E/mo cap	721
	14,323

The new report will be dated 10/19/99.

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

Sterling Software, Inc.
300 Crescent Court
Suite 1200
Dallas, Texas 75201-1000

Attention: Paul Baker

Invoice #2958

October 14, 1999

Project: #133-81

INVOICE

Project: **Revaluation of the Intangible Assets Acquired from Cayenne Software on October 23, 1998**

Consulting Services: October 12 - 14, 1999

Burton Grad	1 day @ $2,800/day	$2,800.00
	Total Invoice	**$2,800.00**

Payment Is Due Within 15 Days of Receipt of Invoice

Cayenne
Revaluation

ORG	Retained	Resigned	Restructur	Today
Labs	48	25	16	7
Sales	33	14	5	14
Marketing	3	0	2	1
Business Dev.	3	1	2	0
Total	**87**	**40**	**25**	**22**

Note: These headcount numbers reflect the worldwide headcount associated with the Cayenne business
Retained = Cayenne employees retained at time of acquisition
Resigned = Retained Cayenne employees who subsequently have resigned from Sterling Software
Restructure = Retained Cayenne employees who were terminated during the recent ADG restructuring
Today = Active retained Cayenne employees who still are with the ADG business

ADG COOL:Jex Long Range Financial Plan

The following table shows ADG's product revenue estimates for the COOL:Jex product line:

ADG Estimate COOL:Jex	FY98 Actual	FY99 Actual	FY00 Plan	FY01 Plan	FY02 Plan	FY03 Plan
NSS	5,300	9,900	7,425	3,713	1,856	1,392
Maintenance	1,300	2,600	2,228	1,448	891	838
Total Product Revenue	6,600	12,500	9,653	5,161	2,747	2,230
NSS Growth Rate			-25%	-50%	-50%	-25%
Maint. Retention Rate			60%	50%	50%	80%

Cayenne
Revaluation

ORG	Retained	Resigned	Restructur	Today
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Today = Active retained Cayenne employees who still are with the ADG business

Cayenne Intangible Assets on ADD Books
September 30, 1999

Type Descripion	Burt Grad Value $K	Burt Grad Life	On ADD Ledger Software	Goodwill	Life	Start	Mo	Acc Amot	NBV
Current Product									
Object Team	3,943	5	3,943		5	Nov-98	11	(723)	3,220
New Product									
Cool Jex	9,623	-							
Other Intangibles									
Assembled Workforce	1,247	8		1,247	10	Nov-98	11	(114)	1,133
Customer Base/Other Cool Prod	2,152	10		2,152	10	Nov-98	11	(197)	1,955
Other Technologies	7,491	10	7,491		10	Nov-98	11	(687)	6,804
Going Concern/Goodwill	12,355	10		12,355	10	Nov-98	11	(1,133)	11,222
	36,811		11,434	15,754				(2,854)	24,334

COOL:Jex
September 30, 1999

FAS86 Capital	Jex SW Cap	Acc Amort
Balance Start FY99	-	-
Additions FY99		
Jex (Elmo) 5.0	721	-
Columbus (Jex) 4.X	105	-
Amortization FY99		-
Ending Balance	826	-

Terry Shapley 10/14/99
x6254

Subj: **Cayenne**
Date: 10/13/99 3:16:29 PM Eastern Daylight Time
From: paul.baker@sterling.com
To: Burtgrad@aol.com

Burt

Bookings as follows:

	W/off period	Orig Booking	As at 9/30/99 ~~9/30/99~~	Per BGAI Report	Orig Booking vs BGAI value
Core Tech	10yr	7491	6837	7955	94%
Object Team	5yr	3943	3255	4516	87%
Goodwill	10yr	15754	14380	14121	112%
IPR&D w/off		9623	n/a	10219	94%
		36811	24472	36811	100%

Core Tech was treated as part of Software as you suspected.

Project Elmo (new Jex) $722k capitalised. —

Regards

Paul

——————— Headers ———————
Return-Path: <paul.baker@sterling.com>
Received: from rly-yh01.mx.aol.com (rly-yh01.mail.aol.com [172.18.147.33]) by air-yh05.mail.aol.com (v62.10) with ESMTP; Wed, 13 Oct 1999 15:16:29 2000
Received: from ns.corp.sterling.com (ns.corp.sterling.com [198.4.58.6]) by rly-yh01.mx.aol.com (v61.13) with ESMTP; Wed, 13 Oct 1999 15:16:21 -0400
Received: ns.corp.sterling.com
id AA04339; Wed, 13 Oct 1999 14:15:04 -0500
Message-Id: <9B2A26DBF9E4D111958100805FA79114D88098@corp.sterling.com>
From: paul.baker@sterling.com
To: Burtgrad@aol.com
Subject: Cayenne
Date: Wed, 13 Oct 1999 14:16:15 -0500
Mime-Version: 1.0
X-Mailer: Internet Mail Service (5.5.2650.21)
Content-Type: text/plain;
charset="iso-8859-1"

SSA / Cayenne

Revaluation

per John Meckl

10/13/99

Moved technology group from Netherlands to Atlanta building Cool: Jex 5.0

$700K on balance sheet for work on Jex 5.0

- no Sterling content in 4.2 or 4.3 all OT based

Discontinued 5.0 work because:

did not believe could compete with Rational

costs for developing product were high compound to revised mktg facts

this market (Object-oriented) is less attractive than - ?

[never executed Rational Rose deal]

Model-based tools are better for large scale applications using "waterfall" transaction-based / data based - commercial

mkt for component-based tools has not evolved, although there ~~are~~ is ~~the~~ use of smaller technical-based components -

$M^2/$

8.x (Fax 4.x) will still leave a limited ~~life~~ -

UML 1.1 (nested packages)

new UML std in Summer/Fall 2000

do not plan to be compatible with new UML - give up mkt to Rational; Select went out of business - sold tech to Computer Horizons

- cap/amort/bal +
- proj - 00 -
  - 00 - 04 -
- act - 99 .

Took cap. of 5.0.

strategic statement - cancellation of 5.0

~~shortly available~~

no future use of OT 8.x core tech.

customer base value $ -

employee lay offs. -

SSI/Cayenne
Reevaluation

10/11/99

per Paul Baker

Strategy has changed on Cool: Jex 5.0
not to enhance and promote (too technical)
Therefore, need to assess associated capitali-
zation for potential write down -

existing product - ~~Cool: Jex~~
new product - core tech contrib.
employees - new layoffs
cust base - probably no change
good will - (did SSI overpay?)
core technologies - from change in
new product value

Rick Dodson - Tech

Charlie Miller - Fin

Bruce Flory - MKTG

John Mecke - Business Development

Subj: **Some Jex Stuff**
Date: 10/12/99 7:40:34 PM Eastern Daylight Time
From: john.mecke@sterling.com (Mecke, John)
To: burtgrad@aol.com (Burt Grad (E-mail))

File: Grad.doc (24576 bytes)
DL Time (31200 bps): < 1 minute

Burt,

I got waylaid by some stuff after we spoke this afternoon. I am enclosing some preliminary info for your review. The first page is the summary Labs business plan for Jex for FY00 and the second page is the Mecke version of the Jex long range financial plan. I prepared this estimate about a month ago for another purpose but it should give you an idea about what we see happening to the business, especially in comparison to the estimates we put together for the IPR&D stuff last year.

FYI in FY99 Sterling Software generated $9.3M in Jex NSS on a worldwide basis and $2.9M in maintenance for total product revenue of $12.2M.

I will call you on Wednesday to discuss further.

John

<<Grad.doc>>

---------------- Headers ----------------
Return-Path: <john.mecke@sterling.com>
Received: from rly-yd03.mx.aol.com (rly-yd03.mail.aol.com [172.18.150.3]) by air-yd01.mail.aol.com (v62.10) with ESMTP; Tue, 12 Oct 1999 19:40:34 -0400
Received: from ns.plano.sterling.com (bogus.plano.sterling.com [208.24.125.254]) by rly-yd03.mx.aol.com (v61.13) with ESMTP; Tue, 12 Oct 1999 19:40:12 -0400
Received: ns.plano.sterling.com
id AA17649; Tue, 12 Oct 1999 18:38:56 -0500
Received: from coolmail1.plano.sterling.com (coolmail1.plano.sterling.com [10.1.48.30]) by hp750.plano.sterling.com with ESMTP (8.7.6/8.7.3) id SAA03079 for <burtgrad@aol.com>; Tue, 12 Oct 1999 18:38:55 -0500 (CDT)
Message-Id: <55C3536CF064D1119EF500A0C9962103029A7A85@plano.sterling.com>
From: "Mecke, John" <john.mecke@sterling.com>
To: "Burt Grad (E-mail)" <burtgrad@aol.com>
Subject: Some Jex Stuff
Date: Tue, 12 Oct 1999 18:38:46 -0500
Mime-Version: 1.0
X-Mailer: Internet Mail Service (5.5.2448.0)
Content-Type: multipart/mixed;
boundary="----_=_NextPart_000_01BF150A.F1B18EE8"

Summary COOL:Jex FY00 Development Plan

Product:	**COOL:Jex**		
Release(s):	**v4.2**	Beta: 10/99	GA: 11/99
	v4.3	Beta: TBD	GA: 06/00
Revenue:	**NSS:**	$5.1M	
	Maintenance:	$2.1M	
	Total:	$7.2M	
Development expense:			
	Headcount:	6	(CC 4650)
	Direct:	$705	(55% of CC 4650)
	Capitalized:	$483k	(42 developer-months)
Support expense:			
	Headcount:	5	
	Direct:	$495k	

Development effort / release content:

COOL:Jex development in FY00 focuses on maintenance retention (which justifies FAS86 capitalization) and selected enhancements based on major customer care-abouts. Version 4.3 is the only release scheduled for developer resourcing in FY00; version 4.2, which ships in Q1, completed development in FY99.

COOL:Jex 4.3

- 40 developer-months
- Nested packages
- Expanded UML notational support
- Drag & drop enhancements
- Java inner classes
- Java based editor
- Reusable associations
- Improved pick lists
- XML export

COOL:Jex Long Range Financial Plan
(Based on new product strategy)

SSW Jex 5 Year Plan	FY00	FY01	FY02	FY03	FY04	Total
North America						
NSS	2.5	2.1	1.3	1.1	1.0	8.1
Maintenance	1.3	1.2	0.8	0.7	0.6	4.6
Total North America	3.8	3.3	2.1	1.8	1.6	12.6
International						
NSS	5.0	4.3	2.6	2.3	2.5	16.6
Maintenance	1.5	1.5	1.1	1.0	1.0	6.1
Total International	6.5	5.8	3.7	3.3	3.5	22.7
Worldwide						
NSS	7.5	6.4	3.8	3.4	3.6	24.7
Maintenance	2.8	2.7	1.9	1.7	1.6	10.7
Total WW	10.3	9.0	5.8	5.1	5.1	35.4
Target Operating Profit Margin	60%	58%	55%	50%	50%	56%
Operating Expense	4.1	3.8	2.6	2.6	2.6	35.4
Operating Profit	6.2	5.2	3.2	2.6	2.6	19.7

Deltas	01 v 00%	02 v 01%	03 v 02 %	04 v 03%	01 v 00$	02 v 01$	03 v 02 $	04 v 03$
North America								
NSS	-15%	-40%	-10%	-10%	(0.38)	(0.85)	(0.13)	(0.11)
Maintenance	-10%	-30%	-17%	-11%	(0.13)	(0.35)	(0.14)	(0.08)
Total North America	-13%	-37%	-13%	-10%	(0.51)	(1.20)	(0.27)	(0.19)
International								
NSS	-15%	-40%	-10%	10%	(0.75)	(1.70)	(0.26)	0.23
Maintenance	1%	-25%	-12%	-2%	0.01	(0.37)	(0.13)	(0.02)
Total International	-11%	-36%	-11%	6%	(0.74)	(2.07)	(0.39)	0.21
Worldwide								
NSS	-15%	-40%	-10%	3%	(1.13)	(2.55)	(0.38)	0.11
Maintenance	-5%	-27%	-14%	-6%	(0.13)	(0.73)	(0.27)	(0.10)
Total WW	-12%	-36%	-11%	0%	(1.25)	(3.28)	(0.66)	0.02
Target Operating Profit Margin	-3%	-5%	-9%	0%	(0.02)	(0.03)	(0.05)	-
Operating Expense	-8%	-32%	-2%	0%	(0.32)	(1.20)	(0.04)	0.01
Operating Profit	-15%	-39%	-19%	0%	(0.93)	(2.07)	(0.62)	0.01

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

Date: October 12, 1999

To: Paul Baker

From: Burton Grad

Subject: Reexamination of Current Value of Intangible Assets Acquired from Cayenne Software, Inc.

1. The total valuation of the intangible assets acquired from Cayenne are shown on the attached VIII-1. These are as of the acquisition date of October 23, 1998.

2. The product value of $4,516,000 was based on replacing ObjectTeam 8.x by Cool:Jex 5.0 relatively soon (during FY99 which ended September 30, 1999). Any change in SSI's Cool:Jex 5.0 strategy may slow down the rapidity of replacement and, therefore, could increase both new sales and maintenance for ObjectTeam 8.x.

3. The trained personnel value of $886,000 should not be affected unless SSI plans to terminate an additional number of the 43 former Cayenne employees who were retained.

4. The customer base value of $2,464,000 should not be affected by any change in the Cool:Jex 5.0 strategy.

5. The largest change would be in the other technologies value of $7,955,000 which would be substantially reduced (or even eliminated) if the SSI strategy does not support Cool:Jex 5.0 at the level anticipated. Revaluing this would require a reforecast of Cool:Jex 5.0 and then a redetermination of the Cayenne technology contribution.

6. The going concern/goodwill value of $10,771,000 could be reduced substantially if SSI determined that, based on subsequent market assessments, it had seriously overpaid for the Cayenne acquisition. Revaluation would require an overall assessment of the overall acquisition value and then a calculation of the residual goodwill value after the other adjustments were made. Alternatively, we might reduce the goodwill value proportionately to the reduction in additional profits from the current and planned Cayenne products.

5130

SECTION VIII. Summary of Valuations and Financial Recommendations

SSI has determined that the preliminary acquisition cost for all of the intangible assets obtained from Cayenne is $33,184,000.

In Section V, we determined that the net present value of the one carryover Cayenne product (ObjectTeam 8.x) was $4,516,000. This must be capitalized and should be amortized on a straight line basis over five years.

In Section VI, we determined that the net present value of the acquired Cayenne technologies in the new ADD product (Cool:Jex 5.0) was $10,219,000. This total value was determined after adjustments to recognize the percent completed as of the acquisition date and the reuse of core technologies. Using the logic and calculations in this report, with appropriate guidelines from FASB, AICPA and SEC, BGAI recommends that SSI use $10,219,000 as of the value of the acquired new technologies assets as of the date of the acquisition. This value should be written off as of the acquisition date under FAS2 IPR&D rules.

The following calculations were used to determine the total purchase price and the value remaining for the other intangible assets:

Asset Purchase Price	$11,400,000
Preliminary Acquisition Costs	21,784,000
Total Purchase Price	$33,184,000
Less: Total Tangible Assets minus Liabilities Products Technologies	(3,627,000) 4,516,000 10,219,000
Other Intangibles	$22,076,000

In Section VII the total valuation of the other Cayenne intangible assets to be allocated was computed as $22,076,000 principally comprised of trained personnel, customer base for other ADD products, other technologies and going concern/goodwill value. These other intangibles should be amortized as shown below:

Other Intangibles	Value	Amortizable Life
Trained Personnel	$886,000	8 years
Customer Base	2,464,000	10 years
Core Technologies	7,955,000	10 years
Going Concern and Goodwill	10,771,000	10 years
Total	$22,076,000	

The sum of all of these intangible assets matches the purchase price plus other acquisition costs less the net value of tangible assets and tangible liabilities.

Table of Contents

work copy of original Valuation Report

EXECUTIVE SUMMARY

At the request of Sterling Software, Inc. (SSI) and its Application Development Division (ADD), Burton Grad Associates, Inc. (BGAI) has conducted a valuation study of the intangible assets acquired as part of the purchase of the assets and liabilities of Cayenne Software, Inc. (Cayenne) as of October 23, 1998 (the acquisition date), using the applicable SEC, AICPA and FASB valuation rules as of that date.

This study provides an assessment of the capitalizable values for the then current Cayenne products. It also provides an assessment of the value of the in-process research and development technologies acquired from Cayenne as they were planned to be used by SSI in ADD's future products. It also assesses the value of the other intangibles acquired from Cayenne.

To perform the study, BGAI worked with the information requested from and provided from Cayenne and ADD. A number of people at ADD were interviewed in order to gather additional information and to understand ADD's planned strategies and directions.

In allocating the total intangibles acquisition costs, BGAI has examined all of the products and technologies which Cayenne was marketing or had under development as of the date of acquisition. BGAI then valued each of these intangible assets in terms of the strategic and tactical plans which ADD had formulated for future sales of the existing Cayenne products and for incorporating the available and in-process Cayenne technologies into new ADD products. BGAI also examined the nature and size of the other intangible assets obtained through the acquisition. The sum of these values should equal the total intangibles acquisition costs.

Only one of the four then current products (Object Team 8.x) has been valued, since the other products (BusinessTeam, DataTeam and TeamWork) will not be actively marketed and will be replaced by appropriate ADD products. Product valuation is based on a projection of revenues and operating costs for the OT 8.x product which SSI will continue to market and support.

The assumptions for and results of these calculations for the one existing Cayenne product which was valued is shown in Section V. The results are summarized here:

Current Product	Capitalizable Value ($000)	Amortization Life
ObjectTeam 8.x	$4,516	5 years

This product value of $4,516,000 should be capitalized and amortized over five years starting with the date of acquisition, on a straight line basis.

Object Team 9.1 which was in the process of development by Cayenne will become the basis for COOL:Jex 5.0, which will depend significantly on the technologies acquired from Cayenne. BGAI has determined the value of the total Cayenne technology contributions by preparing revenue and operating cost projections for Cool:Jex 5.0 and has then allocated the NPV of the operating income proportionately to the contribution from ADD core technologies, the contribution from Cayenne core technologies and the contribution of the new Cayenne technologies (those in process).

A further adjustment in value was needed to reflect the percent completion of the COOL:Jex product as of the acquisition date.

The assumptions for and results of the calculations for the value of the acquired Cayenne technologies as incorporated into SSI's intended new product are shown in Section VI. The results are summarized here:

New Product ($000)	Total Product Value	Core Technology and % Non-Complete Value	Cayenne New Technology Value
Cool:Jex 5.0	$29,032	$18,813	$10,219

The in-process technology value ($10,219,000) must be expensed per FAS2 rules on research and development expenses as of the date of acquisition since the product which will incorporate these technologies does not yet meet FAS86 qualifications for development capitalization.

The total measured value from products and technologies is $14,735,000. To determine the residual value to be capitalized as other intangibles, this figure was deducted from the net intangible asset purchase value, which is computed by adding the acquisition costs to the purchase price and then adjusting for the net tangible value (tangible assets less tangible liabilities are minus $3,627,000). SSI has determined this total value as $36,811,000 after computing the total acquisition costs on a preliminary basis. The residual value of $22,076,000 consisting primarily of avoided employee costs, customer relations, core technologies and going concern/goodwill was calculated as $36,811,000-$14,735,000.

Other Intangibles	Value of Intangibles ($000)	Amortization Period
Assembled Work Force	$ 886	8 years
Customer Base/Other Cool Products	2,464	10 years
Other Technologies	7,955	10 years
Going Concern/Goodwill	10,771	10 years
Total	$22,076	

Using the acquisition costs supplied by SSI, the total other intangibles value is $22,076,000. We recommend that these values be amortized on a straight line basis over the periods noted above.

These values and procedures represent BGAI recommendations to SSI for its allocation of the Cayenne intangible asset purchase value among products, in-process R&D technologies and other intangibles.

SECTION V. Valuation of Acquired Cayenne Products

The valuation methodologies and principles as described in Section IV A are applied in this section to the products acquired from Cayenne.

A. SSI Plans for Acquired Cayenne Products

Sterling Software determined that of the acquired Cayenne products, only ObjectTeam had significant value going forward and, therefore, planned to discontinue marketing and technical support for TeamWork and for BusinessTeam. It was expected that most Cayenne customers would not pay maintenance/support fees after 1999.

However, SSI expected ObjectTeam to provide the foundation for SSI becoming a major player in the object-oriented analysis modeling and design market. Since it was going to take SSI about 12 months to produce its full function Cool:Jex 5.0 product, it was important to provide development and technical support for ObjectTeam 8.x (to be renamed Cool:Jex 4.x) to provide an active marketing and sales position during FY99.

Even after the release of Cool:Jex 5.0, many previous customers would stay with Cool:Jex 4.x for 1-3 years before migrating to the newer version.

B. Valuation Procedure

The valuation for ObjectTeam 8.x (we have used the old name) follows the methodology described in Section IV A:

- Market Opportunity
- Revenue Forecasts
- Cost and Operating Income Projections
- NPV over Economic Life

C. General Assumptions Used in the Valuation

In producing the revenue forecasts, operating cost estimates, operating income and net present values, a number of business assumptions have been made by BGAI. The general assumptions are listed below:

1. The market for object-oriented application development products will grow to significant levels during the next few years, and SSI will get a significant share of this marketplace.

2. International and Americas will grow in a similar fashion and the market sizes will be comparable.

3. Professional Services will be a limited revenue source for the object-oriented product and will tend to be used principally when the product is originally installed.

4. BGAI has used a five-year projection starting October 1, 1998. New licenses for this product will decline and then stop after 2001 as SSI markets Cool:Jex 5.0. BGAI has extended the economic life to five years on the basis that even though SSI will migrate its customers to the new product as soon as practical in order to maintain technical market leadership, some customers will still hold onto the older product for a number of years.

5. Operating income ratios will increase substantially for the product over the first few years of the five-year planning horizon, reaching and holding levels well above industry averages. This is because SSI has a high margin business and will not spend significant money on marketing or development on this product.

6. No inflation or deflation factors will be used for costs or for product or service prices.

7. The product will charge for maintenance and support; since most customers will continue to use these offerings for the forecast years, the maintenance revenue will be very significant.

8. A tax rate of 38% will be applied against all Americas operating income and 20% against International operating income.

9. A discount rate of 15% will be used and applied to the after-tax operating income to compute the net present value. We consider the product forecast to be relatively low risk.

D. Market Opportunities for ObjectTeam 8.x

ObjectTeam (OT) is an object-oriented design and analysis tool providing a broad set of modeling capabilities for customers wishing to follow an object-oriented approach to application design and implementation. The main competitors in this market are Rational Rose, Select Enterprise and Paradigm Plus. Rational Rose is by far the market leader; its sales are equivalent to the combined sales of all its major competitors.

The total market for such tools is estimated (by Cayenne) to be around $300 million in 1998, growing at more than 40% CAGR. For the pure OOA/D tools market, the number is much smaller. SSI's estimates, based on estimated figures for the four major OOA/D tools are as follows:

OOA/D Tool	**Sales in 1997 ($M)**
Rational Rose	35
Select Enterprise	16
Cayenne ObjectTeam	10
Paradigm Plus	3
Others	6
Total	**70**

The OOA/D market can be considered in two primary categories:

1. First time OOA/D users learning about the technology and applying the technology to their first prototypes or projects

2. More advanced OOA/D users familiar with the approach through previous projects and ready to move to larger, more mission-critical applications within the context of broader project life-cycle needs

The majority of OOA/D tool sales are currently aimed at the first category.

The main competitive selling points of OT against its competitors are:

- The completeness of its support for the Unified Modeling Language (UML) standard
- Its team-based orientation
- The variety and configurability of its generation technology

The main limitations of OT against its competitors are:

- A relatively poor user interface
- Installation and configuration difficulties (addressed to a large degree by OT 8.1)
- Lack of market visibility of the product

As a result, OT tends to be much more competitive in situations characterized by:

- An understanding of OO development
- A team-based development scenario
- Where a detailed evaluation process takes place
- Where a well-defined development process is in place
- Specialized code generator needs

As a result, it is useful to consider OT and its position in relation to the OOA/D market composed of the two parts described earlier. The first, larger part (in numbers) consists of first time OO users. Rational Rose dominates this part of the market. OT does not compete well here for the reasons stated above.

The second part of the OOA/D market consists of experienced OO developers, stepping up to larger projects requiring greater tool support as part of the development life cycle. OT is able to have greater success in this part of the market.

Sterling Software ADD also has a product offering in the OOA/D market, Cool:Jex. It offers many similar functional capabilities to OT. However, there are a number of major differences. In particular, the Cool:Jex product supports an earlier version of the UML specification (UML 0.8, with some of 1.0). It only generates C++ class headers, with no user capabilities for modifying the code generators. It is not integrated with any third-party tools for requirements management, testing, etc.

It currently has a small user base (20-30 customer sites, about 100 seats) and is infrequently evaluated by prospects for OOA/D support. Since its introduction, Cool:Jex has produced negligible new sales revenues.

On the other hand, Cool:Jex has a windows-based UI and a common semantic model implemented on an object-oriented database. Furthermore, the technology base for Cool:Jex is the same as the base for other tools in the Sterling Software ADD portfolio.

E. Revenue Forecasts for ObjectTeam 8.x

The revenue forecasts for ObjectTeam 8.x are shown in Appendix F in Tables 11 and 12. Based on historic financial information provided by Cayenne (see Appendices D-1 and D-2), BGAI established the fiscal year 1998 revenues for Cayenne's ObjectTeam product (new sales = $5,000k; services = $750k; maintenance = $1,000k). BGAI has assumed a 50/50 split between North America and international.

Using input from SSI/ADD's strategic plans, BGAI anticipates a major growth in new sales for FY99 with much lower levels of new sales in FY00 and FY01 as Cool:Jex 5.0 is released.

Services revenues will be at 15% of new sales revenues (similar to the FY98 experience). Maintenance/support revenues are computed using the following factors:

- Erosion -- from 10% in 1999 to 50% in 2003. This is based on a high rate of migration to the Cool:Jex 5.0 product starting in 2000.
- Maintenance/Support fees of 18% of the then current new license price
- 100% maintenance acceptance rate for new sales

The results of these calculations for ObjectTeam 8.x shows revenues as follows:

($000)	FY1999	FY2000	FY2001	FY2002	FY2003	Total
Americas	5,438	4,641	1,920	667	333	12,998
International	5,438	4,641	1,920	667	333	12,998
Total	10,875	9,281	3,839	1,333	667	25,995

F. Costs and Operating Income Projections

Cayenne's operating costs for 1997 and 1998 do not provide a useful guide as to the costs which SSI/ADD will incur in marketing and supporting ObjectTeam 8.x. ADD's own experience provides a better starting point with consideration that, after FY99, ObjectTeam 8.x will be a back burner project with almost all of ADD's object-oriented marketing and development effort focused on Cool:Jex 5.0. BGAI has used ADD as a model for both Americas and International cost projections.

In projecting the operating income for ObjectTeam 8.x, BGAI has used the following cost ratios to revenues (see Appendix F, Table 13).

	FY1999	FY2000	FY2001	FY2002	FY2003
Cost of Revenues	.10	.10	.10	.10	.10
Sales, Marketing & Support	.35	.30	.25	.25	.25
R & D	.15	.15	.10	.10	.10
G & A	.15	.15	.15	.15	.15
Total Operating Costs	.75	.70	.60	.60	.60
Operating Income Margin	.25	.30	.40	.40	.40

The results of using these ratios are summarized in Table 14 of Appendix F. The total costs are $18,156,000 with operating income of $7,839,000.

G. Net Present Value Calculations – ObjectTeam 8.x

The above figures have been used in the Appendix F, Table 14, calculations to determine the net present value for ObjectTeam 8.x. A tax rate of 38% has been used for the Americas operating income and 20% for International operating income. An after-tax discount rate of 15% has been used to recognize cost of money and rate of return for SSI and the relatively low expected risk in this forecast of revenues and costs.

($000)	Americas	International	Total
Revenues	12,998	12,998	25,995
Costs	9,078	9,078	18,156
Operating Income Pre Tax	3,919	3,919	7,839
Operating Income After Tax	2,430	3,135	5,565
Net Present Value	1,972	2,544	4,516

The value of $4,516,000 should be capitalized and then amortized over five years on a straight line basis.

SECTION VI. Valuation of Cayenne Technologies

The technologies valuation methodology and principles as described in Section IV B, C and D are applied in this section to the values of the product which was being constructed by Cayenne using technologies which are still considered in-process research and development.

A. Technologies Assessment Principles

Cayenne was developing certain new technologies which are of substantial value; they will enable SSI/ADD to complete and deliver a key new object-oriented analysis, modeling and design product at a much lower cost and in a much more timely fashion than if SSI/ADD had to specify, design, build and test the comparable technologies needed to construct this new product.

SSI/ADD determined the price it was willing to pay for the Cayenne assets not just by considering the value of the current products business, trained employees and customer base, but by what it believed would be the value of the in-process Cayenne technologies, giving significant weight to the new object-oriented product which Cayenne had under development.

Therefore, to assist in the allocation of the acquisition purchase price, BGAI has assessed the value of the in-process technologies based on SSI/ADD's specific plans, as of the acquisition date, for development and marketing of a new product and related services using the acquired Cayenne technologies. BGAI has projected the revenues, costs and operating income for the new product and related services to determine the basis for the net present value for the IPR&D.

Based on the rules of FAS2, any acquired in-process research and development work which cannot yet meet appropriate technical and market tests (as stated in FAS86) must be expensed on a current basis. Since the new SSI/ADD product using the acquired new Cayenne technologies has not yet been detail designed or prototyped, it cannot meet the FAS86 technical tests at this time and, therefore, the acquired technology values must be expensed (written off) as of the date of acquisition. However, these NPV assessments must be reduced to reflect the percentage not yet completed for the product as of the date of acquisition and the degree to which it incorporates core technologies from predecessor Cayenne and ADD products.

B. Specific Cayenne Technologies Assessment

There is one new in-process Cayenne product which will be produced, marketed and supported by ADD. This new product (to be called Cool:Jex 5.0) will use the acquired Cayenne object-oriented technologies and certain predecessor ADD object-oriented technologies.

The total value of the acquired Cayenne technologies is determined by calculating the net present value of the new product and then reducing this value for the percent not yet completed by Cayenne as of the date of acquisition and further reducing it for the core technologies contributions.

BGAI worked with materials provided by ADD as well as communicating extensively with representatives from ADD to understand the in-process Cayenne technologies for the new ADD product.

C. ADD Information Supplied

Information on markets opportunities was obtained from Cayenne materials and from ADD for the new product. Consideration of these and other technical, market, competitive and business factors were used by BGAI in setting its own assumptions to determine the BGAI projected operating income for each new product and offering. ADD provided:

1. Schedules for when the new product will be able to pass FAS86 tests and when it will be released (available for delivery).

2. Pricing plans for new licenses, upgrades/add-ons, maintenance and related technical services.

3. Estimates of the number of new customers and license revenues during the first and subsequent years.

4. Projections of the ratio between upgrades/add-ons and the installed base.

5. Projections of the ratio of technical services revenue to new license revenues.

6. Projections on the initial acceptance rate of maintenance on both new licenses and on upgrades/add-ons and projections on maintenance erosion rates after the first license year.

7. Views on marketable product life for new customers and continued support of those customers.

8. Plans and projections for both American and International markets for all of the above questions to identify any differences between the American markets and projections and international markets and projections.

9. Estimates of expected costs for Americas and International. The classification of cost information is:

    - Cost of revenues (for products, maintenance, services)
    - Marketing, sales and support
    - Research and development
    - General and administrative

All of the information supplied by ADD for the new product valuation in this Section has been carefully reviewed and used by BGAI as a reference for BGAI's own assumptions.

D. BGAI General Assumptions

In producing the revenue forecasts, operating cost estimates, operating income and net present values, a number of business assumptions have been made by BGAI. The general assumptions are listed below.

1. The market for object-oriented application development products will grow quite rapidly, and ADD will get a significant share of this marketplace.

2. International and Americas will be comparable in adopting object-oriented application development products, and the market sizes will be comparable.

3. Installation, training and usage assistance services will be a limited revenue source for this market; these services will be used principally when the product is originally installed.

4. BGAI plans to use a ten-year projection starting 10/1/99: new sales of the new product will decline sharply during the latter part of that period as the market becomes saturated and/or replacement technologies obsolete this product.

5. Operating income ratios will generally increase for the new product and services over the first few years of the ten-year planning horizon, reaching levels above industry averages, but similar to other SSI and ADD products.

6. No inflation or deflation factors will be used for costs or for product or service prices.

7. The new ADD product will be priced, at least partly, on a per-seat basis so that upgrades and add-ons will constitute a significant part of the projected revenues.

8. This product will charge for maintenance and support; since most customers will continue to use these offerings for many years, the maintenance revenue will be very significant.

9. A tax rate of 38% will be applied against all Americas operating income and 20% against all International operating income.

10. A discount rate of 20% will be used and applied to the after-tax operating income to compute the net present value. BGAI has prepared all of the forecasts and this level of risk is consistent with these forecasts.

E. Market Opportunities

The market opportunities are described in Section V D. Object-oriented application development will become a significant business opportunity over the next few years. By being relatively early to market with a high quality product, ADD should be able to obtain a substantial share of the market, even against tough competition.

F. Revenue Forecast

The revenue forecasts are constructed in Appendix H, Table 21 (Americas) and Table 22 (International). BGAI has assumed a very slow start in FY99, primarily from initial launch customers who are already users of other of ADD's Cool products. Growth in 2001-2003 will be very strong, and then slow down and taper off in 2004 and 2005. After 2005 there will be no new sales.

Services will stay at a 15% rate of new license revenue throughout the first seven years of the planning period.

Upgrades/add-ons will be significant, accounting for 10% of the new license value of the installed base each year. This is computed as 55.6% of the remaining maintenance each year (10% divided by the 18% maintenance fee equals 55.6%).

Maintenance/support revenues will be very significant particularly in the latter years of the forecast.

BGAI has assumed:

- Retention rate of 90% (10% erosion) each year for seven years and then dropping to 80%, 70% and 60% for the last three years.
- 18% maintenance/support fee based on the then current new license charge
- 100% acceptance of maintenance/support agreements by new customers.

The results of these revenue calculations are summarized below:

($000)	FY99	FY00	FY01	FY 02	FY03	FY04	FY05	FY06	FY07	FY08	Total
Americas	1,625	6,965	11,518	17,243	23,051	25,798	23,906	10,856	7,599	4,559	133,121
Int'l	1,625	6,965	11,518	17,243	23,051	25,798	23,906	10,856	7,599	4,559	133,121
Total	3,250	13,930	23,036	34,486	46,103	51,597	47,813	21,711	15,198	9,119	266,241

The total revenues are forecast to be $266,241,000.

G. Cost and Operating Income Projections

Appendix H, Table 23, shows the assumptions made in calculating the operating costs for Cool:Jex 5.0. The model used was ADD's experience with other application development products. From a high ratio in FY99 (primarily because of small sales), BGAI believes that the cost ratios will quickly drop to match the usual ADD levels and hold at or above these levels throughout the ten-year forecast period.

The total costs (Americas and International) are projected at $164,760,000 and the operating income at $101,481,000.

H. NPV Calculations

Appendix H, Table 24, shows the NPV calculations for the Cool:Jex 5.0 product. Using a 38% tax rate for Americasa 20% tax rate for International and a 20% discount rate to reflect the cost of money, return on investment plus an appropriate risk factor, the NPV prior to adjustments is:

($000)	FY99	FY00	FY01	FY 02	FY03	FY04	FY05	FY06	FY07	FY08	Total
Americas	92	990	1,500	2,098	2,527	2,357	1,820	689	402	201	12,676
Int'l	119	1,277	1,936	2,708	3,261	3,041	2,348	889	518	259	16,356
Total	212	2,266	3,436	4,806	5,788	5,398	4,169	1,577	920	460	29,032

The total net present value for the projected operating cash flow for Cool:Jex 5.0 is $29,032,000.

I. Core Technologies Adjustment

In constructing Cool:Jex 5.0, ADD has planned to use certain program materials from previously released ObjectTeam and Cool:Jex programs. This re-use varies from simply utilizing requirements or functional specifications to actually incorporating the design and, even in some cases, the program source code. Section IV D spells out the criteria used for determining whether the use of previously released programs constitutes re-use of core technologies. The definition used is:

- If the new product only uses requirements and functional specifications, then it does not constitute re-use of core technologies.

- If the new product uses design or code from a previously released program, then it is considered to be using core technologies.

In the case of Cool:Jex 5.0, there were two predecessor products to be considered: ObjectTeam 8.1 and Cool:Jex 3.5.

In conjunction with the ADD development director and the Cool:Jex development team leader, BGAI reviewed all of the planned functional/technology elements of Cool:Jex 5.0 and the corresponding elements for ObjectTeam 8.1 and Cool:Jex 3.5. Appendix G-1, page 2, shows the results of these extensive discussions. Appendix G-1, page 1, provides definitions for the terms used.

Appendix G-3 uses the factors in G-1 and constructs a model to compute the significance of the contributions of the core technologies versus the new technologies. The results are:

Cayenne ObjectTeam 8.1	27.4% of value
ADD Cool:Jex 3.5	28.6% of value
New Technologies	44.0% of value
Total	100.0%

As shown in Table 24 of Appendix H, applying the 56% core technologies factor to the Cool:Jex 5.0 product value, the core technologies values are:

($000)	FY99	FY00	FY01	FY 02	FY03	FY04	FY05	FY06	FY07	FY08	Total
Americas	52	554	840	1,175	1,415	1,320	1,019	386	225	112	7,099
Int'l	67	715	1,084	1,516	1,826	1,703	1,315	498	290	145	9,159
Total	119	1,269	1,924	2,691	3,241	3,023	2,334	884	515	257	16,267

Subtracting $16,267,000 from the Cool:Jex 5.0 product value of $29,032,000 yields a value of $12,774,000 after eliminating the core technologies value. The value of the Cayenne core technologies should be considered as part of other intangibles and is, therefore, included in Section VII.

J. Percent Completion Adjustment

In addition to the core technologies adjustment, it is also necessary to reduce the value of the acquired IPR&D technologies to reflect the degree to which the development work has not yet been completed.

BGAI analyzed the research and development costs incurred by Cayenne from the start of the ObjectTeam 9.1 product development project through the acquisition date. BGAI also worked with ADD to determine the expected costs and time required to be able to have Cool:Jex 5.0 pass the FAS86 technical tests. Finally, BGAI worked with ADD to determine the costs which would be incurred in preparing the product for general release. Appendix G-2 shows these values for Cool:Jex 5.0.

Using these values, BGAI determined that the product was 80% complete as of the acquisition date.

This percentage factor was used in Appendix H, Table 24, to determine the NPV for the product, including the percent completed.

($000)	Americas	International	Total
Appendix H, Table 24 -- % not yet completed	1,115	1,439	2,554
Appendix H, Table 24 -- % completed	4,462	5,757	10,219

As a result of this analysis and calculation, BGAI recommends that SSI use $10,219,000 as the value of the acquired Cayenne technologies to be used in Cool:Jex 5.0.

This value should be written off as of the date of acquisition as In-Process Research and Development under FAS2 rules.

SECTION VII. Valuation of Other Intangible Assets

In acquiring Cayenne, SSI/ADD had six principal business goals:

1. Acquiring the Cayenne technologies specifically related to object oriented application development so that ADD could become a major provider of OOAD tools

2. Acquiring a few trained technical staff and sales/marketing people to enable ADD to enter this high tech OO market rapidly, effectively and efficiently

3. Acquiring Cayenne's customer base which will provide buyers for current and future ADD product offerings

4. Acquiring the current Cayenne products to pick up some new sales from ObjectTeam 8.x and from maintenance revenues from the other products

5. Acquiring other Cayenne technical knowledge and experience from previous products which should assist in other ADD products (e.g., developed technologies)

6. Acquiring the going concern practices and procedures and goodwill from Cayenne

In valuing each of these primary intangible assets one must be especially careful to identify the value as of the acquisition date and to avoid double counting the same benefit:

- Item 1 (IPR&D Technologies) has been valued in Section VI, but only includes the percent already completed of the in-process R&D efforts and excludes the core technologies contributions.

- Item 2 (assembled work force) refers to the costs avoided by ADD acquiring the trained staff. All retained employees will be considered. These cost savings do not overlap other benefits.

- Item 3 (Customer Base) has its principal value in providing the potential for these customers to purchase other ADD products.

- Item 4 refers to the value of the existing Cayenne products as of the acquisition date. This was principally the ObjectTeam 8.x product which was valued in Section V. The other products will not be sold; the clients will be migrated to the corresponding COOL products or discontinued as rapidly as possible. The operating income from the other products will be minimal.

- Item 5 refers to any other known technologies which are available at Cayenne, but have not been identified with a specific marketable future product. This also includes the value of ObjectTeam core technologies.

- Item 6 is a potpourri of all of the other intangible assets acquired by ADD from Cayenne. This category includes name recognition, going concern practices and procedures, operational locations, channel and partnership relations, etc. The value of these will be the residual value from the purchase payments made and acquisition costs incurred less all other tangible and intangible assets.

A. Trained Personnel

Acquisition of trained personnel provides a direct benefit to the acquiring company since it avoids the costs of recruiting, training and bringing these employees to their full level of productivity.

SSI expected to retain only 40% of Cayenne's 108 employees. BGAI's determination of the value of these avoided employee costs is $1,247,000. This saving occurs principally because SSI does not have to try to recreate an organization to maintain, support and sell the object oriented product. The savings after-tax adjustment is $773,000 which should be amortized over an eight-year period representing the useful life of the acquired staff. Appendix I-1 provides the details of these calculations.

B. Customer Base and Professional Services

The acquired Cayenne customer base was expected to be of major direct benefit to ADD. Acquiring a new customer is an expensive marketing and sales process, but once a company has served a customer, the customer is far more apt to buy additional products than a non-customer.

Appendix I-2 analyzes the acquired Cayenne customer base and identifies which ADD products would benefit from having these companies as ADD customers.

The analysis in Appendix I-2, page 1, shows the mix of the then current Cayenne customers (large, medium and small) and estimates what percentage of each category would buy each of the present ADD products (Cool:Biz, Cool:Spex, Cool:Gen, Cool:Plex).

Prices, upgrade ratios, maintenance factors, services percentages and operating margin assumptions are shown for each ADD product in Appendix I-2, page 2. Appendix J shows the calculations, the total NPV for each product is summarized below:

ADD Product	Net Present Value
Cool:Biz	$248,000
Cool:Spex	89,000
Cool:Gen	1,153,000
Cool:Plex	974,000
Total	$2,464,000

The estimates were made using a seven-year forecast. Based on ADD experience, many customers will continue to use the products and stay on maintenance beyond the seven-year forecast period, particularly those that license relatively late in the sales cycle. Therefore, BGAI recommends using a ten-year amortization period.

The value of the Cayenne customer base in buying other Cool products has been calculated at $2,464,000 which should be amortized over a ten-year period.

C. Other Technologies

Cayenne has been developing advanced technologies for its key products and markets for a number of years. However, at the time of the acquisition, ADD could not identify any technologies other than those used for Cool:Jex 5.0 for which it had specific future use.

With ADD's focus on migrating the object-oriented Cayenne customers to the new ADD Cool:Jex product and ADD's strategy to become a leading player in the entire applications development marketplace, the objected-oriented core technologies are a most valuable asset.

Appendix I-3 identifies the value of the object-oriented core technologies. The resulting valuation of the acquired Cayenne core technologies is $7,955,000 and should be amortized over a ten-year period.

D. Going Concern and Goodwill Valuation

In addition to the other intangibles itemized in this Section, there are some other going concern and goodwill values which need to be considered in the total valuation process. These items cannot be valued individually so are only assessed as a group. Appendix I-4 provides the reasoning and quantification of the going concern and goodwill values. The result is a valuation of $10,771,000 which should be amortized over a ten-year period.

Summary of Other Intangibles Valuation

These four elements constitute the whole of the value of the other intangibles. The life expectancy of these are as shown below:

Other Intangibles	Value	Amortizable Life
Trained Personnel	$886,000	8 years
Customer Base for other ADD products	$2,464,000	10 years
Core Technologies	$7,955,000	10 years
Going Concern and Goodwill	$10,771,000	10 years
Total	$22,076,000	--

BGAI believes that the other intangibles value of $22,076,000 realistically represents the value of all of these acquired elements and that it should be allocated and amortized as shown above.

	A	B	C	D	E	F	G	H
1		ObjectTeam 8.x - Revenues (Americas)						11
2								
3					Projected			Total
4	($000)	1998	1999	2000	2001	2002	2003	1999-2003
5								
6	**New Product Licenses**							
7	New license rate		1.5	0.75	0.25	0	0	
8	New license revenue	2500	3750	2813	703	0	0	7266
9								
10	**Services**							
11	Services rate		0.15	0.15	0.15	0.15	0.15	
12	Services revenue	375	563	422	105	0	0	1090
13								
14	Maintenance revenue	500	1125	1406	1111	667	333	4642
15								
16	**Total revenue**	3375	5438	4641	1920	667	333	12998
17								
18	**Maintenance Calculations**							
19	Previous year maint.		500	1125	1406	1111	667	
20	Retention rate		0.9	0.8	0.7	0.6	0.5	
21	Remaining maint.		450	900	984	667	333	3334
22	New license rev.		3750	2813	703	0	0	
23	Maint./license rate		0.18	0.18	0.18	0.18	0.18	
24	Conversion rate		1.0	1.0	1.0	1.0	1.0	
25	New license maint. revenue		675	506	127	0	0	1308
26	**Total Maintenance**	500	1125	1406	1111	667	333	4642
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	A	B	C	D	E	F	G	H
51		ObjectTeam 8.x - Revenues (Int'l)						12
52								
53					Projected			Total
54	($000)	1998	1999	2000	2001	2002	2003	1999-2003
55								
56	**New Product Licenses**							
57	New license rate		1.5	0.75	0.25	0	0	
58	New license revenue	2500	3750	2813	703	0	0	7266
59								
60	**Services**							
61	Services rate		0.15	0.15	0.15	0.15	0.15	
62	Services revenue	375	563	422	105	0	0	1090
63								
64	Maintenance revenue	500	1125	1406	1111	667	333	4642
65								
66	**Total revenue**	3375	5438	4641	1920	667	333	12998
67								
68	**Maintenance Calculations**							
69	Previous year maint.		500	1125	1406	1111	667	
70	Retention rate		0.90	0.80	0.70	0.60	0.50	
71	Remaining maint.		450	900	984	667	333	3334
72	New license rev.		3750	2813	703	0	0	
73	Maint./license rate		0.18	0.18	0.18	0.18	0.18	
74	Conversion rate		1.0	1.0	1.0	1.0	1.0	
75	New license maint. revenue		675	506	127	0	0	1308
76	**Total Maintenance**	500	1125	1406	1111	667	333	4642
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	A	B	C	D	E	F	G	H
101	**Costs for ObjectTeam 8.X - Worldwide**							
102								**13**
103								
104					**Projected**			**Total**
105	**($000)**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**1999-2003**
106								
107	**Americas**							
108	Revenues	3375	5438	4641	1920	667	333	12998
109								
110	Cost of revenues rate		0.10	0.10	0.10	0.10	0.10	
111	cost		544	464	192	67	33	1300
112	Marketing and sales rate		0.35	0.30	0.25	0.25	0.25	
113	cost		1903	1392	480	167	83	
114	R and D rate		0.15	0.15	0.10	0.10	0.10	
115	cost		816	696	192	67	33	1804
116	G and A rate		0.15	0.15	0.15	0.15	0.15	
117	cost		816	696	288	100	50	1950
118	**Total Costs- Americas**		4078	3248	1152	400	200	9078
119	**Cost/Revenue Ratio**		0.75	0.70	0.60	0.60	0.60	
120								
121	**International**							
122	Revenues	3375	5438	4641	1920	667	333	12998
123								
124	Cost of revenues rate		0.10	0.10	0.10	0.10	0.10	
125	cost		544	464	192	67	33	1300
126	Marketing and sales rate		0.35	0.30	0.25	0.25	0.25	
127	cost		1903	1392	480	167	83	4025
128	R and D rate		0.15	0.15	0.10	0.10	0.10	
129	cost		816	696	192	67	33	1804
130	G and A rate		0.15	0.15	0.15	0.15	0.15	
131	cost		816	696	288	100	50	1950
132	**Total Costs - International**		4078	3248	1152	400	200	9078
133								
134	**Cost/Revenue Ratio**		0.75	0.70	0.60	0.60	0.60	
135								
136	**Total Costs - Worldwide**	0	8156	6497	2303	800	400	18156
137								
138	**Total Revenue - Worldwide**	6750	10875	9281	3839	1333	667	25995
139								
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145								
146								
147								
148								
149								
150								

	A	B	C	D	E	F	G	H
151		**Net Present Value - ObjectTeam 8.x WorldWide**						**14**
152								**Total**
153	**($000)**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**1999-2003**
154	**<u>ObjectTeam 8.x - Americas</u>**							
155	Revenue	3375	5438	4641	1920	667	333	12998
156	Operating Income Ratio		0.25	0.30	0.40	0.40	0.40	
157	Operating Income		1359	1392	768	267	133	3919
158	Tax Rate		0.38	0.38	0.38	0.38	0.38	
159	Operating Income After Tax		843	863	476	165	83	2430
160	NPV Factors		.935	.813	.707	.615	.534	
161	NPV		788	702	336	102	44	1972
162								
163	Discount Rate - Americas	0.15						
164								
165								
166								
167								
168								
169								
170								
171								
172								**Total**
173	**($000)**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**1999-2003**
174	**<u>ObjectTeam 8.x - Int'l</u>**							
175	Revenue	3375	5438	4641	1920	667	333	12998
176	Operating Income Ratio		0.25	0.30	0.40	0.40	0.40	
177	Operating Income		1359	1392	768	267	133	3919
178	Tax Rate		0.20	0.20	0.20	0.20	0.20	
179	Operating Income After Tax		1088	1114	614	213	107	3135
180	NPV Factors		.935	.813	.707	.615	.534	
181	NPV		1017	905	434	131	57	2544
182								
183	Discount Rate - Int'l	0.15						
184								
185	Total Worldwide NPV		1804	1607	771	233	101	4516
186								
187								
188								
189								
190								
191	WorldWide Summary							
192	Revenue	6750	10875	9281	3839	1333	667	25995
193	Operating income		2719	2784	1536	533	267	7839
194	Op. Income after tax		1930	1977	1090	379	189	5565
195	NPV		1804	1607	771	233	101	4516
196								
197								
198								
199								
200								
201								
202								
203								

COOL:Jex and ObjectTeam
function and technology mapping to COOL:Jex 5.0

Legend:

Product releases

Jex 3.5	COOL:Jex release 3.5, the current GA product; being replaced by OT 8.1 (re-branded as COOL:Jex 4.1)
OT 8.1	ObjectTeam release 8.1, the current GA product. Maintenance release 8.2 will be GA Apr 99 as Jex 4.2.
OT 9.1	ObjectTeam release 9.1. Was to be newly architected product; will be replaced by COOL:Jex 5.0.
Jex 5.0	COOL:Jex release 5.0, whole new technology base for a product functionally equivalent to OT 9.1.

Market value

High	Critical to customer buying the product; would not buy without it
Medium	Valuable to customer buying the product, but lack of it would not, by itself, preclude the purchase, though in combination with other mediums, could be a purchase stopper.
Low	Limited significance to most prospects; nice to have, but would pay extra for it.

Function:

Full	Product feature is available in the specified release to the extent needed to satisfy market expectation for Jex 5.0.
Partial	Product feature is available but does not fully satisfy market expectation for Jex 5.0.
n/a	Product feature is essentially not implemented.

Re-use in Jex 5.0:

None	Substantially no re-use of any technology from any perspective.
Reqt	Existing product provides a requirements definition of product features / functionality.
Spec	Existing product provides a functional specification for product behavior.
Design	Existing product's technical design is being used substantially in the future product.
Code	Existing software source code is being used substantially in the future product.

From Jex 3.5 / From OT 8.1 / New Devt / Total:

	Percentage of the development effort for designing and coding Jex 5.0 that is achieved from the listed source.
	"New devt" is substantially new design and coding developed specifically for Jex 5.0.

COOL:Jex and ObjectTeam
function and technology mapping to COOL:Jex 5.0

Product element / Product features / technologies	Market Value	Jex 3.5		OT 8.1		OT 9.1	Jex 5.0				
		Function	Reuse in Jex 5.0	Function	Reuse in Jex 5.0	Function	Function	From Jex 3.5	From OT 8.1	New devt	Total
Repository - 25%											
Architecture	High	Full	Code	Partial	None	Full	Full	40%	0%	60%	100%
Model exchange	High	Full	None	Full	Spec	Partial	Full	0%	0%	100%	100%
Meta Model	High	Full	Code	Partial	None	Partial	Full	50%	0%	50%	100%
Diagrammers - 35%											
Nine (9) UML 1.1 diagrams	High	Partial	Code	Full	Spec	Partial	Full	50%	0%	50%	100%
GUI libraries to render diagrams	High	Full	Code	Full	None	Partial	Full	100%	0%	0%	100%
Customization	Medium	Partial	None	Full	Code	Partial	Partial	0%	40%	60%	100%
Code Generators - 35%											
Generator interface	High	Partial	None	Full	Spec	Full	Full	0%	0%	100%	100%
Reverse engineering	High	Partial	None	Full	Code	Full	Full	0%	30%	70%	100%
Generator templates	High	Partial	None	Full	Code	Full	Full	0%	100%	0%	100%
C++	High	Partial	None	Full	Code	Full	Full	0%	100%	0%	100%
Java	Medium	N/A	None	Full	Code	Full	Full	0%	100%	0%	100%
COM IDL	Medium	N/A	None	Partial	Code	Full	Full	0%	70%	30%	100%
CORBA IDL	Medium	N/A	None	Partial	Code	Full	Full	0%	70%	30%	100%
Forte	Low	N/A	None	Full	Code	Full	Full	0%	100%	0%	100%
PowerBuilder	Low	N/A	None	Full	Code	Full	Full	0%	100%	0%	100%
ADA	Low	N/A	None	Full	Code	Full	Full	0%	100%	0%	100%
SmallTalk	Low	N/A	None	Full	Code	Full	Full	0%	100%	0%	100%
VisualAge	Low	N/A	None	Full	Code	Full	Full	0%	100%	0%	100%
SanFrancisco	Medium	N/A	None	N/A	None	Full	Full	0%	0%	100%	100%
Delphi	Low	N/A	None	Full	Code	Full	Full	0%	100%	0%	100%
NewEra	Low	N/A	None	Full	Code	Full	Full	0%	100%	0%	100%
VisualBasic	Medium	N/A	None	Full	Code	Full	Full	0%	100%	0%	100%
Persistent C++	Low	N/A	None	Full	Code	Full	Full	0%	100%	0%	100%
Third party interfaces - 5%											
All current OT 8.1 interfaces	Medium	N/A	None	Partial	Code	Full	Full	0%	100%	0%	100%
Rational Rose	Medium	N/A	None	Partial	Code	Full	Full	0%	70%	30%	100%
Uniface	Low	N/A	None	Partial	Code	Full	Full	0%	30%	70%	100%

Percent Completion Analysis - Adjusted Values

I. Start to Acquisition Date (10/98)			
OT 9 Development (at Cayenne) 1/97-3/98	2 people 30 p-months	$400,000	
4/98-8/98	4 people 20 p-months	200,000	
9/98-10/98	10 people 20 p-months	200,000	
		$800,000	80%
II. Acquisition Date to FAS86 Date (11/98 - 3/99)			
11/98-1/99	3 people x 3 months = 9 p-m	$90,000	
2/99	5 people x 1 month = 5 p-m	50,000	
3/99	6 people x 1 month = 6 p-m	60,000	
		$200,000	20%
Total for Phases I and II		$1,000,000	100%
III. FAS86 Date to General Release Date (4/99 - 3/00)			
	10 people x 12 months - 120 p-m	$1,200,000	
Grand Total		$2,200,000	

Core Technologies Analysis - Cayenne and ADD

	Market Value Factor	Technology Significance	New Development Contribution	New Development Overall Value
Repository				
Architecture	.25	.33	.60	.0495
ModelXchg	.25	.33	1.00	.0825
Meta Model	.25	.34	.50	.0425
Repository Sum				.1745
Diagrammers				
UML	.35	.4	.50	.0700
GUI	.35	.4	0	.0000
Custom	.35	.2	.60	.0420
Diagrammers Sum				.1120
Code Gen				
Gen Int	.35	.2	1.00	.0700
Rev Eng	.35	.2	.7	.0490
Gen Temp	.35	.2	0	0
C++	.35	.2	0	0
Java	.35	.04	0	0
Com IDL	.35	.04	.3	.0042
Corba IDL	.35	.04	.3	.0042
San Fran	.35	.04	1.0	.0140
V/B	.35	.04	0	0
Code Gen Sum				.1414
Third-Party Int – OT 8.1	.05	.4	0	0
Rational Rose	.05	.4	.3	.0060
Uniface	.05	.2	.7	.0070
Third-Party Int Sum				.0130
Grand Total				**.4409**

Acquired new technologies contribution from Cayenne for Cool:Jex 5.0 is 44%.

Cayenne OT 8.1 core technologies account for 27.4% of the technology value for Cool:Jex 5.0.

Jex 3.5 core technologies account for 28.6% of the technology value for Cool:Jex 5.0.

Core Technologies from Cayenne and ADD account for 56% of technology value for Cool:Jex 5.0

	A	B	C	D	E	F	G	H	I	J	K	L
1					Cool/Jex 5.0 - Revenues (Americas)							21
2												
3					Projected							Total
4	($000)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-2008
5												
6	**New Product Licenses**											
7	New license rate		4.0	1.5	1.4	1.3	1.0	0.75	0.0	0.0	0.0	
8	New license revenue	1250	5000	7500	10500	13125	13125	9844	0	0	0	60344
9												
10	**Services**											
11	Services rate		0.15	0.15	0.15	0.15	0.15	0.15	0	0	0	
12	Services revenue	150	750	1125	1575	1969	1969	1477	0	0	0	9014
13												
14	Maintenance revenue	225	1103	2342	3998	5961	7727	8726	6981	4887	2932	44882
15	Add-ons (10%)	0	112	551	1170	1997	2977	3860	3874	2712	1627	18881
16	**Total revenue**	1625	6965	11518	17243	23051	25798	23906	10856	7599	4559	133121
17												
18	**Maintenance Calculations**											
19	Previous year maint.		225	1103	2342	3998	5961	7727	8726	6981	4887	
20	Retention rate		0.90	0.90	0.90	0.90	0.90	0.90	0.80	0.70	0.60	
21	Remaining maint.		203	992	2108	3598	5365	6954	6981	4887	2932	34020
22	New license rev.	1250	5000	7500	10500	13125	13125	9844	0	0	0	60344
23	Maint./license rate	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	
24	Conversion rate	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
25	New license maint. revenue	225	900	1350	1890	2363	2363	1772	0	0	0	10862
26	**Total Maintenance**	225	1103	2342	3998	5961	7727	8726	6981	4887	2932	44882
27												
28												
29												
30												
31												
32												
33												
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50												

	A	B	C	D	E	F	G	H	I	J	K	L
51						Cool/Jex 5.0 - Revenues (Int'l)						22
52												
53	($000)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-2008
54												
55	**New Product Licenses**											
56	New license rate		4.0	1.5	1.4	1.3	1.0	0.75	0	0	0	
57	New license revenue	1250	5000	7500	10500	13125	13125	9844	0	0	0	60344
58												
59	**Services**											
60	Services rate		0.15	0.15	0.15	0.15	0.15	0.15	0	0	0	
61	Services revenue	150	750	1125	1575	1969	1969	1477	0	0	0	9014
62												
63	Maintenance revenue	225	1103	2342	3998	5961	7727	8726	6981	4887	2932	44882
64	Add-ons (10%)		112	551	1170	1997	2977	3860	3874	2712	1627	18881
65	**Total revenue**	1625	6965	11518	17243	23051	25798	23906	10856	7599	4559	133121
66												
67	**Maintenance Calculations**											
68	Previous year maint.		225	1103	2342	3998	5961	7727	8726	6981	4887	
69	Retention rate		0.90	0.90	0.90	0.90	0.90	0.90	0.80	0.70	0.60	
70	Remaining maint.		203	992	2108	3598	5365	6954	6981	4887	2932	34020
71	New license rev.	1250	5000	7500	10500	13125	13125	9844	0	0	0	
72	Maint./license rate	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	
73	Conversion rate	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
74	New license maint. revenue	225	900	1350	1890	2363	2363	1772	0	0	0	10862
75	**Total Maintenance**	225	1103	2342	3998	5961	7727	8726	6981	4887	2932	44882
76												
77												
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80												
81												
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	A	B	C	D	E	F	G	H	I	J	K	L
101	**Costs for CoolJex 5.0 - Worldwide**											
102												
103												**23**
104						**Projected**						
105	**($000)**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total 1999-2008**
106												
107	**Americas**											
108	Revenues	1625	6965	11518	17243	23051	25798	23906	10856	7599	4559	133121
109												
110	Cost of revenues rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
111	cost	163	696	1152	1724	2305	2580	2391	1086	760	456	13312
112	Marketing and sales rate	0.35	0.30	0.28	0.26	0.25	0.25	0.25	0.25	0.25	0.25	
113	cost	569	2089	3225	4483	5763	6450	5977	2714	1900	1140	34309
114	R and D rate	0.30	0.15	0.14	0.12	0.10	0.10	0.10	0.10	0.10	0.10	
115	cost	488	1045	1613	2069	2305	2580	2391	1086	760	456	14791
116	G and A rate	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	
117	cost	244	1045	1728	2586	3458	3870	3586	1628	1140	684	19968
118	**Total Costs- Americas**	1463	4875	7717	10863	13831	15479	14344	6513	4559	2736	82380
119	**Cost/Revenue Ratio**	0.9	0.7	0.67	0.63	0.60	0.60	0.60	0.60	0.60	0.60	
120												
121	**International**											
122	Revenues	1625	6965	11518	17243	23051	25798	23906	10856	7599	4559	133121
123												
124	Cost of revenues rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
125	cost	163	696	1152	1724	2305	2580	2391	1086	760	456	13312
126	Marketing and sales rate	0.35	0.30	0.28	0.26	0.25	0.25	0.25	0.25	0.25	0.25	
127	cost	569	2089	3225	4483	5763	6450	5977	2714	1900	1140	34309
128	R and D rate	0.30	0.15	0.14	0.12	0.10	0.10	0.10	0.10	0.10	0.10	
129	cost	488	1045	1613	2069	2305	2580	2391	1086	760	456	14791
130	G and A rate	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	
131	cost	244	1045	1728	2586	3458	3870	3586	1628	1140	684	19968
132	**Total Costs - International**	1463	4875	7717	10863	13831	15479	14344	6513	4559	2736	82380
133												
134	**Cost/Revenue Ratio**	0.90	0.70	0.67	0.63	0.60	0.60	0.60	0.60	0.60	0.60	
135												
136	**Total Costs - Worldwide**	2925	9751	15434	21726	27662	30958	28688	13027	9119	5471	164760
137												
138	**Total Revenue - Worldwide**	3250	13930	23036	34486	46103	51597	47813	21711	15198	9119	266241
139												
140												
141												
142												
143												
144												
145												
146												
147												
148												
149												
150												

	A	B	C	D	E	F	G	H	I	J	K	L
151						Net Present Value - Cool/Jex 5.0 WorldWide						24
152	($000)											Total
153		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-2008
154	Cool/Jex 5.0 - Americas											
155	Revenue	1625	6965	11518	17243	23051	25798	23906	10856	7599	4559	133121
156	Operating Income Ratio	0.1	0.3	0.33	0.37	0.4	0.4	0.4	0.4	0.4	0.4	
157	Operating Income	163	2089	3801	6380	9221	10319	9563	4342	3040	1824	50741
158	Tax Rate	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	
159	Operating Income After Tax	101	1295	2357	3956	5717	6398	5929	2692	1885	1131	31459
160	NPV Factors	.917	.764	.637	.530	.442	.368	.307	.256	.213	.178	
161	NPV	92	990	1500	2098	2527	2357	1820	689	402	201	12676
162												
163	Discount Rate - Americas	0.2										
164												
165	Core Technologies rate	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	
166	Core Technologies value	52	554	840	1175	1415	1320	1019	386	225	112	7099
167	Percent completion rate	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
168	Percent completion value	8	87	132	185	222	207	160	61	35	18	1115
169	NPV after adjustment	33	348	528	739	890	830	641	242	141	71	4462
170												
171												
172												Total
173	($000)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-2008
174	Cool/Jex 5.0 - Int'l											
175	Revenue	1625	6965	11518	17243	23051	25798	23906	10856	7599	4559	133121
176	Operating Income Ratio	0.10	0.30	0.33	0.37	0.40	0.40	0.40	0.40	0.40	0.40	
177	Operating Income	163	2089	3801	6380	9221	10319	9563	4342	3040	1824	50741
178	Tax Rate	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	
179	Operating Income After Tax	130	1672	3041	5104	7376	8255	7650	3474	2432	1459	40593
180	NPV Factors	.917	.764	.637	.530	.442	.368	.307	.256	.213	.178	
181	NPV	119	1277	1936	2708	3261	3041	2348	889	518	259	16356
182												
183	Discount Rate - Int'l	0.2										
184												
185	Core Technologies rate	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	
186	Core Technologies value	67	715	1084	1516	1826	1703	1315	498	290	145	9159
187	Percent completion rate	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
188	Percent completion value	10	112	170	238	287	268	207	78	46	23	1439
189	NPV after adjustment	42	449	681	953	1148	1071	827	313	182	91	5757
190												
191												
192												
193	WorldWide Summary											
194	Revenue	3250	13930	23036	34486	46103	51597	47813	21711	15198	9119	266241
195	Operating income	325	4179	7602	12760	18441	20639	19125	8684	6079	3647	101481
196	Op. Income after tax	231	2967	5397	9059	13093	14653	13579	6166	4316	2590	72052
197	NPV	212	2266	3436	4806	5788	5398	4169	1577	920	460	29032
198	NPV after adjustment	74	798	1209	1692	2037	1900	1467	555	324	162	10219

Assembled Work Force Valuation

Based on information provided by Cayenne and SSI, BGAI has computed the cost savings from acquiring and retaining the 108 Cayenne employees as of the date of acquisition. Most of these employees either voluntarily or involuntarily resigned as of 10/23/98.

The table below summarizes the key factors for valuing the Assembled Work Force:

Employee Category	Number of Retained Employees	Average Monthly Salary ($)	Learning Period (months)	Recruiting Cost % of Annual Salary	Trainer Costs
Executive Senior Management and Technical VP's	1	11,645	6	50%	20,000
Sales/Marketing	19	4,968	4	17%	10,000
Senior Technical	17	5,647	4	12.5%	10,000
Customer Services	4	4,315	2	0%	4,000
Finance & Administration	3	3,987	1	0%	2,000
Total	44				

The number of employees were those actually on the SSI payroll just after the acquisition date, grouped into logical categories.

The average monthly salaries include social benefits.

Learning time is based on Cayenne and SSI experience in training new hires.

Recruiting cost (from third-party recruiters) is based on a percentage of salary, adjusted to recognize that the salary includes social benefits and further adjusted to take into consideration that many employees are directly hired, not obtained through outside recruiting firms.

Training cost takes into consideration the lost productivity from the employees who are needed to provide on-the-job training or formal classes for new employees.

Cayenne Customer Base and Crossover
ADD Product Purchases Valuation

Based on historic customer base information provided by Cayenne and strategic plans provided by SSI, BGAI has determined the net present value of the projected operating income which SSI can realistically expect to obtain from Cayenne's existing customers from their purchases of other ADD products (e.g., other products in the Cool family).

ADD has four Cool products which would be of direct interest and value to many of the Cayenne customers as of the date of acquisition:

Cool:Biz
Cool:Spex
Cool:Gen
Cool:Plex

These are in addition to Cool:Jex which has already been analyzed in Section VI.

All Cayenne customers, including the ObjectTeam 8.X customers, are potential buyers of the other Cool products. The table below shows the number of Cayenne customers as of the date of acquisition subdivided between large, medium and small accounts (based on Cayenne revenues from the accounts) and the expected percentage of these customers who would buy each particular Cool product.

Crossover Buyer Analysis

	Large	Medium	Small	Total
Total Number Cayenne Customers	25	25	400	450
Cool:Biz				
% who will buy	50%	40%	20%	
# who will buy	13	10	80	103
Cool:Spex				
% who will buy	25%	20%	8%	
# who will buy	6	5	32	43
Cool:Gen				
% who will buy	15%	10%	4%	
# who will buy	4	3	16	23
Cool:Plex				
% who will buy	30%	20%	10%	
# who will buy	8	5	40	53

These incremental buyer figures have been used to determine the revenues calculated in Appendix J. The other assumptions are summarized below:

Customer Base	**Cool:Biz**	**Cool:Spex**	**Cool:Gen**	**Cool:Plex**
Price/Unit Sale (Large, Medium, Small)	L = 25k M = 10k S = 5k	L = 20k M = 10k S = 2.5k	L = 500k M = 125k S = 50k	L = 125k M = 75k S = 30k
Add-on/Upgrade % (average)	5%	5%	15%	10%
Maintenance Retention Rate	90%	90%	90%	90%
Maintenance (% of License)	18%	18%	18%	18%
First-Year Maintenance	100%	100%	100%	100%
Services (% of New Sales) (average)	15%	10%	20%	15%
Operating Margins	35%	35%	25%	20%

The following assumptions were used in determining the net present value of the operating income:

- A blended tax rate -- 29%
- Discount rate (after tax) -- 15%

The Spreadsheets in Appendix J show the results of these calculations for the four Cool products. SSI should be able to receive sufficient revenue and operating income from these crossover-sales projected for the current Cayenne customer base to justify a $2,464,000 valuation to be amortized over ten years. While only a seven year forecast has been used, there would still be residual income from the installed accounts for an additional three years.

Appendix J shows these calculations for all four Cool products:

- Table 30 is a worldwide summary computing the NPV for each product
- Tables 31 and 32 provide the detailed analysis for Cool:Biz
- Tables 33 and 34 provide the detailed analysis for Cool:Spex
- Tables 35 and 36 provide the detailed analysis for Cool:Gen
- Tables 37 and 38 provide the detailed analysis for Cool:Plex

The total values are summarized below:

	Net Present Value
Cool:Biz	$248,000
Cool:Spex	89,000
Cool:Gen	1,153,000
Cool:Plex	974,000
Total	$2,464,00

Other Technologies Valuation

The value of the OT 8.1 core technologies is $7,955,000. The life expectancy for realizing the values from the acquisition of all rights to these technologies would be over a ten-year period. The value is computed as 27.4% of the total NPV for Cool:Jex 5.0 of $29,032,000. The time period is the same ten years as used for the Cool:Jex 5.0 forecast.

This is based upon using the information in Appendix G-1 and then following the same type of calculations as was done in G-3 for the new Cayenne technologies.

This figure does not need to be reduced for percent not completed, since it is viewed as proven technology.

Going Concern and Goodwill Valuation

The remainder of the acquired intangible assets from Cayenne consists of items which are difficult to individually assess. These include name recognition, operational offices, partnership and channel relationships, going concern practices and procedures, etc.

The remaining unallocated acquisition cost is $10,771,000 which is determined by deducting the assembled work force, customer base/professional services and core technologies from the total value of other intangibles of $22,076,000.

These are considered long life assets so using a ten-year projected life is a reasonable basis for amortization.