BURTON GRAD ASSOCIATES, INC.
5 SAINT JOHN PLACE, WESTPORT, CONNECTICUT 06880
(203) 222-8821 FAX: (203) 222-~~8828~~ 8821
E-MAIL: BURTGRAD@AOL.COM

**FAX TRANSMISSION**

(fax) 512 531 2400

*Date:* 11/6/03

*No. Pages including cover page:* 1+1

*To:* Paul Baker

*From:* **Burton Grad**

---

Please process This invoice.

B.

The report has been sent electronically
to Jennifer.

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

Invoice #3063

Motive Communictions, Inc.
12515 Research Boulevard
Building 5
Austin, TX 78759

November 4, 2003

Project: 303-1

Attention: Paul Baker

## *INVOICE*

---

**Project: Review of BroadJump, Inc. Deferred Revenue Valuation**

***Consulting Services:*** Burton Grad

| | | |
|---|---|---|
| November, 2003: | 1day @ $3,000/day | $3000.00 |

***Expenses***:

None charged

| | |
|---|---|
| **Total Due** | **$3,000.00** |

***Payment is due within 15 days of receipt of this invoice***

BURTON GRAD ASSOCIATES, INC.
5 SAINT JOHN PLACE, WESTPORT, CONNECTICUT 06880
(203) 222-8821 FAX: (203) 222-8728
E-MAIL: BURTGRAD@AOL.COM

**FAX TRANSMISSION**

512 531 2598

*Date:* 2/27/03

*No. Pages including cover page:* 1+1

*To:* Paul Baker

*From:* **Burton Grad** B

---

I'm speaking with Ed Belanger
& Abby Engman This
morning weather permitting in
Dallas - I'll call you
afterward.

B.

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

Invoice #3052

February 22, 2003

Project: 303-1

Motive Communictions, Inc.
12515 Research Boulevard
Building 5
Austin, TX 78759

Attention: Paul Baker

# *INVOICE*

**Project: Valuation of Acquired Assets from BroadJump, Inc.**

***Consulting Services:*** Burton Grad

| | | |
|---|---|---|
| 1/2/03 - 2/4/03: | 3 days @ $3,000/day | $9,000.00 |

***Expenses***:

None charged

| | |
|---|---|
| **Total Due** | **$9,000.00** |

***Payment is due within 15 days of receipt of this invoice***

SPH23

**FedEx Express USA Airbill**

FedEx Tracking Number 8350 2537 2409

Form I.D. No. 0215

**Sender's Copy**

**1 From** Please print and press hard.

Date 2/5/03 Sender's FedEx Account Number 1084-0812-0

Sender's Name BURTON GRAD Phone (203) 222-8821

Company BURTON GRAD ASSOCIATES INC

Address 5 SAINT JOHNS PL

Dept./Floor/Suite/Room

City WESTPORT State CT ZIP 06880

**2 Your Internal Billing Reference** OPTIONAL

First 24 characters will appear on invoice.

**3 To**

Recipient's Name PAUL BAKER Phone (512) 531-1040

Company MOTIVE COMMUNICATIONS, INC

Address 12515 RESEARCH BLVD

To "HOLD" at FedEx location, print FedEx address. We cannot deliver to P.O. boxes or P.O. ZIP codes.

Address BUILDING 5

Dept./Floor/Suite/Room

City AUSTIN State TX ZIP 78759

**Try online shipping at fedex.com**

By using this Airbill you agree to the service conditions on the back of this Airbill and in our current Service Guide, including terms that limit our liability.

**Questions? Visit our Web site at fedex.com**

or call 1.800.Go.FedEx® 800.463.3339.

0217344922

**4a Express Package Service** *Packages up to 150 lbs.* Delivery commitment may be later in some areas.

- [ ] FedEx Priority Overnight — Next business morning
- [x] FedEx Standard Overnight — Next business afternoon
- [ ] FedEx First Overnight — Earliest next business morning delivery to select locations
- [ ] FedEx 2Day — Second business day
- [ ] FedEx Express Saver — Third business day

FedEx Envelope rate not available. Minimum charge: One-pound rate

**4b Express Freight Service** *Packages over 150 lbs.* Delivery commitment may be later in some areas.

- [ ] FedEx 1Day Freight* — Next business day
- [ ] FedEx 2Day Freight — Second business day
- [ ] FedEx 3Day Freight — Third business day

* Call for Confirmation:

**5 Packaging** * Declared value limit $500

- [ ] FedEx Envelope*
- [x] FedEx Pak* — Includes FedEx Small Pak, FedEx Large Pak, and FedEx Sturdy Pak
- [ ] Other

**6 Special Handling** Include FedEx address in Section 3.

- [ ] SATURDAY Delivery — Available ONLY for FedEx Priority Overnight and FedEx 2Day to select ZIP codes
- [ ] HOLD Weekday at FedEx Location — NOT Available for FedEx First Overnight
- [ ] HOLD Saturday at FedEx Location — Available ONLY for FedEx Priority Overnight and FedEx 2Day to select locations

**Does this shipment contain dangerous goods?** One box must be checked.

- [x] No
- [ ] Yes — As per attached Shipper's Declaration
- [ ] Yes — Shipper's Declaration not required
- [ ] Dry Ice — Dry Ice, 9, UN 1845 ____ x ____ kg
- [ ] Cargo Aircraft Only

Dangerous Goods (including Dry Ice) cannot be shipped in FedEx packaging.

**7 Payment** *Bill to:* Enter FedEx Acct. No. or Credit Card No. below.

- [x] Sender — Acct. No. in Section 1 will be billed.
- [ ] Recipient
- [ ] Third Party
- [ ] Credit Card
- [ ] Cash/Check

FedEx Acct. No. / Credit Card No. Exp. Date

| Total Packages | Total Weight | Total Declared Value† | |
|---|---|---|---|
| 1 | | $ .00 | FedEx Use Only |

†Our liability is limited to $100 unless you declare a higher value. See back for details.

**8 Release Signature** *Sign to authorize delivery without obtaining signature.*

By signing you authorize us to deliver this shipment without obtaining a signature and agree to indemnify and hold us harmless from any resulting claims.

447



PEEL AND RETAIN THIS COPY BEFORE AFFIXING TO THE PACKAGE

BURTON GRAD ASSOCIATES, INC.
5 SAINT JOHN PLACE, WESTPORT, CONNECTICUT 06880
(203) 222-8821 FAX: (203) 222-8728
E-MAIL: BURTGRAD@AOL.COM

**FAX TRANSMISSION**

fax 512 531 2598

*Date:* ~~1/2/03~~ 1/29/03

*No. Pages including cover page:* 1+1

*To:* Paul Baker

*From:* **Burton Grad** B.

---

Attached is my invoice through 12/31/02.

Please mail the check to:

Burton Grad 5 ST JOHN PLACE

~~625 NERITA ST~~
~~APT 2A~~
~~SANIBEL, FL 33957~~

WESTPORT, CT
06880

~~my phone # is 239-395-2467~~ 203-222-8821

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

Invoice #3049

Motive Communictions, Inc.
12515 Research Boulevard
Building 5
Austin, TX 78759

January 2, 2003

Project: 303-1

Attention: Paul Baker

## *INVOICE*

---

**Project: Valuation of Acquired Assets from BroadJump, Inc.**

***Consulting Services:*** Burton Grad

| | | | |
|---|---|---|---|
| 11/24/02 - 12/31/02: | 9 days @ $3,000/day | | $27,000.00 |
| | Less Advance Payment: | | 7,500.00 |
| | | **Total Due** | **$19,500.00** |

***Payment is due within 15 days of receipt of this invoice***

BURTON GRAD ASSOCIATES, INC.
5 SAINT JOHN PLACE, WESTPORT, CONNECTICUT 06880
(203) 222-8821 FAX: (203) 222-8728
E-MAIL: BURTGRAD@AOL.COM

**FAX TRANSMISSION**

1-512-531-2598

*Date:* 11/22/02

*No. Pages including cover page:* 1+2

*To:* Paul Baker

*From:* **Burton Grad**

---

~~Here's the advance payment invoice.~~

Here's The NDA for BroadJump, Inc.

B.

Burton Grad Associates, Inc.
5 Saint John Place
Westport, CT 06880
(203) 222-8821
(203) 222-8728 Fax
Burtgrad@aol.com

November 22, 2002

Mr. Paul Baker
Motive Communications, Inc.
12515-5 Research Boulevard
Austin, TX 78759

Dear Paul:

Burton Grad Associates, Inc. (BGAI) proposes to perform an acquisition valuation study for Motive Communications, Inc. (Motive) as described in this agreement.

**Objectives**

Motive plans to acquire BroadJump, Inc. (BroadJump) on a stock purchase basis including products, personnel, customer base, technologies and operations. Motive wishes to have an independent valuation performed to determine the fair market value of the acquired assets and liabilities from BroadJump and their appropriate capitalizable value.

BGAI proposes to perform this independent valuation study for Motive using commonly accepted valuation techniques and its extensive experience in valuing computer software and services companies. Burton Grad's professional profile is attached as Appendix A.

**Work Plan**

BGAI will carry out the valuation study following these steps:

1. Request and collect materials and information which will provide the basis for the valuation study. A preliminary list of the information requested is shown in Appendix B.

2. BGAI will examine these materials and conduct phone interviews with selected Motive and BroadJump executives and managers to obtain additional information and to better understand the materials received.

3. BGAI will select appropriate valuation methodologies (revenue, cost and profit projections; market comparables) and analyze materials and interview notes so as to construct the valuation models needed.

4. For these models, key valuation factors will be determined including expected customer life, NPV factors, market valuation ratios, projected tax rates, etc. Using these factors, the recommended values for BroadJump's assets and liabilities will be developed.

5. These individual values will provide a basis for the book capitalization and amortization for Motive's treatment of the acquired BroadJump assets and liabilities.

6. A report will first be delivered in draft form to ensure that all information is accurate and complete and that the logic and calculations used are clear. The final report will then be prepared and submitted, including appropriate appendices.

**Staffing**

The project will be conducted by Burton Grad, president of BGAI.

Motive and BroadJump will designate liaisons to work with BGAI.

**Schedule**

The final information request lists will be sent to Motive and BroadJump by December 2, 2002. The final response materials should be available from Motive and BroadJump by December 5, 2002.

A preliminary report covering the deferred revenue portion of the BGAI valuation will be delivered to Motive by December 5, 2002, if all necessary materials can be obtained and interviews conducted in a timely fashion. A draft of the full report will be delivered by December 16, 2002 unless additional issues are raised by BGAI or Motive. The final report will be delivered within 3 days of receiving comments from Motive on the draft report.

**Confidentiality**

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

BGAI and its employees and consultants will be bound by special non-disclosure agreements between BGAI and Motive and BGAI and BroadJump.

## Costs and Payments

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

| | |
|---|---|
| Burton Grad | $3,000/day |

Based on the information about the acquisition available to BGAI at this time and the objectives set by Motive, we estimate that the project will require five days for Grad. Therefore, the consulting fees for BGAI should not exceed $15,000 unless Motive requests additional analyses, reports or extensive personal debriefings or the information needed has to be reconstructed from the BroadJump source materials.

In addition, BGAI will be reimbursed for all authorized out of pocket expenses, including travel, accommodations, express delivery, etc. Since there are no BGAI plans to visit Austin or any other location, we estimate that the total expenses will be under $500.

Payments are due as follows:

| | |
|---|---|
| On signing this agreement: | $7,500 |
| On completion of the valuation project: | Total fees and expenses less $7,500 |

Payment is due immediately on the advance payment invoice and within 15 days of Motive receiving the final invoice. If the project is extended beyond December 31, 2002, then BGAI will invoice monthly for its services.

If the above project description is satisfactory, please sign below to authorize BGAI to initiate the work.

Sincerely,

Burton Grad
President

Enclosures

**Accepted for Motive Communications, Inc.**

by ______________________
Signature Date

PAUL BAKER
______________________
Name

CFO
______________________
Title

## Professional Summary of Burton Grad

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

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

- Strategic planning, management and organizational consulting, and product analysis, evaluation and review

- Company and product acquisition studies including due diligence and business valuations

- Planning, assessment and analysis of business operations including quality and productivity measurements

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

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

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

## Work Achievements

**Burton Grad Associates, Inc**. (1978 - Present)

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

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

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

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

**Customer Care, Inc.** (1992 - 1996)

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

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

**Heights Information Technology Service** (1979 - 1983)

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

**International Business Machines Corporation** (1960 - 1978)

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

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

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

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

**General Electric Company** (1949 - 1960)

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

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

**Other Professional Activities**

**1972-1996** **ITAA**

* Computer Software and Services Trade Association

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

* Member of ITAA Board

* Chair and member of various committees (Industry Relations, Software Capitalization, Software Openness, Technology Information Services, Quality Management)

* Executive Committee of Information Technology Foundation (Project Office)

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

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

**1997-Present** Founder and Treasurer of the Software History Center, a non-profit organization aimed at preserving and communicating the legacy of the software industry

Appendix B

## List of Materials Requested

1. Business description and strategic plans, including types of services, pricing, projects, etc. for BroadJump.

2. Financial statements for all BroadJump products and services for the preceding 2 year period, with income statements, balance sheets and cash flows on a quarterly basis; revenues and costs should be broken down by type of service and offering and by domestic/international, where possible.

3. Expected effective Motive tax rate (federal and state) for budget purposes as of the valuation date.

4. Organization Chart for BroadJump and number of employees in each organizational component.

5. Summary analysis of all BroadJump customers for the preceding 2 year period and the revenues from and sales to each major account during that period.

6. Marketing materials for offerings and services.

7. Financial projections for revenues and operating costs broken down by type of service and offering as well as by major customer.

8. Detailed analysis of all contracts in the deferred revenue account for BroadJump with information on contract terms, performance requirements and relevant direct cost elements.

BURTON GRAD ASSOCIATES, INC.
5 SAINT JOHN PLACE
WESTPORT, CT 06880
(203) 222-8821
(203) 222-8728 FAX
BURTGRAD@AOL.COM

November 22, 2002

Mr. Paul Baker
Motive Communications, Inc.
12515-5 Research Boulevard
Austin, TX 78759

Dear Paul:

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**Objectives**

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**Staffing**

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Motive and BroadJump will designate liaisons to work with BGAI.

**Schedule**

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A preliminary report covering the deferred revenue portion of the BGAI valuation will be delivered to Motive by December 5, 2002, if all necessary materials can be obtained and interviews conducted in a timely fashion. A draft of the full report will be delivered by December 16, 2002 unless additional issues are raised by BGAI or Motive. The final report will be delivered within 3 days of receiving comments from Motive on the draft report.

**Confidentiality**

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**Costs and Payments**

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

| | |
|---|---|
| Burton Grad | $3,000/day |

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Payments are due as follows:

| | |
|---|---|
| On signing this agreement: | $7,500 |
| On completion of the valuation project: | Total fees and expenses less $7,500 |

Payment is due immediately on the advance payment invoice and within 15 days of Motive receiving the final invoice. If the project is extended beyond December 31, 2002, then BGAI will invoice monthly for its services.

If the above project description is satisfactory, please sign below to authorize BGAI to initiate the work.

Sincerely,

Burton Grad

Burton Grad
President

Enclosures

**Accepted for Motive Communications, Inc.**

by ______________________________
Signature Date

______________________________
Name

______________________________
Title

BURTON GRAD ASSOCIATES, INC.
5 SAINT JOHN PLACE
WESTPORT, CT 06880
(203) 222-8821
(203) 222-8728 FAX
BURTGRAD@AOL.COM

November 22, 2002

Mr. Adam Chibib
BroadJump, Inc

Dear:

Subject: **Non-Disclosure Agreement**

BroadJump, Inc. ("Company") and Burton Grad Associates, Inc. ("Recipient") agree to Company disclosing to Recipient certain information under the terms of this Non-Disclosure Agreement (the "Agreement").

1. "Company Information" means all information furnished by the Company in oral, written or machine-readable form, including, but not limited to, designs, inventions, ideas, "know-how," product plans, specifications and information, training and consulting materials, software, documentation, company plans and financial information, employee information, marketing information and other information which (a) has value because it is not generally known, and (b) Company uses reasonable efforts to protect. Company Information does not include any information that is (i) available to the general public; (ii) in Recipient's possession prior to Company disclosure of the information, or (iii) disclosed to Recipient by a third party who is under no obligation to hold that information in confidence.

2. The Company Information shall be used only by Recipient in the course of its business relationship with Company. Recipient agrees (a) to hold the Company information in confidence, and (b) to protect and store it consistently with its own most highly confidential information, but in no event to use less than a reasonable standard of care and (c) not to copy, duplicate, disclose or deliver all or any portion of the Company Information to third parties unless the third party has signed a non-disclosure agreement with Company. Recipient may share the Company Information only with those employees with a specific need to review the Company Information.

3. These obligations shall continue from the date of disclosure to Recipient until the second anniversary of the disclosure; provided, however, that, to the extent Company has disclosed information to Recipient that constitutes a trade secret under law, Recipient agrees to protect such trade secret(s) for so long as the information qualifies as a trade secret under applicable law. Recipient will not disclose to Company any information confidential or proprietary to Recipient or a third party.

4. Recipient agrees not to remove any copyright, confidentiality, or proprietary notice from the Company Information. Recipient shall promptly return all Company Information (and any copies thereof) to Company when Recipient has completed its evaluation or immediately upon request of Company.

5. No rights or duties under this Agreement may be assigned by Recipient. This Agreement constitutes the full and entire understanding between Recipient and Company with regard to the subject matter of this Agreement, and supersedes all other discussions and agreements relating to its subject. This Agreement may be amended only in a writing signed by both Company and Recipient. The provisions of this Agreement shall be considered severable, and the invalidity or unenforceability of any provision shall not affect or impair the remaining provisions, which shall continue in full force and effect. This Agreement shall be governed by the laws of the state in which Company is headquartered.

6. Company disclosure of product plans or future product directions implies no commitment on the part of Company to make such products commercially available in any form.

| BROADJUMP, INC. | | BURTON GRAD ASSOCIATES, INC. | |
|---|---|---|---|
| By: | ______________ | By: | Burton Grad |
| Name: | ______________ | Name: | Burton Grad |
| Title: | ______________ | Title: | President |
| Date: | ______________ | Date: | 11/22/02 |

BURTON GRAD ASSOCIATES, INC.
5 SAINT JOHN PLACE
WESTPORT, CT 06880
(203) 222-8821
(203) 222-8728 FAX
BURTGRAD@AOL.COM

November 22, 2002

Mr. Adam Chibib
BroadJump, Inc

Dear:

Subject: **Non-Disclosure Agreement**

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1. "Company Information" means all information furnished by the Company in oral, written or machine-readable form, including, but not limited to, designs, inventions, ideas, "know-how," product plans, specifications and information, training and consulting materials, software, documentation, company plans and financial information, employee information, marketing information and other information which (a) has value because it is not generally known, and (b) Company uses reasonable efforts to protect. Company Information does not include any information that is (i) available to the general public; (ii) in Recipient's possession prior to Company disclosure of the information, or (iii) disclosed to Recipient by a third party who is under no obligation to hold that information in confidence.

2. The Company Information shall be used only by Recipient in the course of its business relationship with Company. Recipient agrees (a) to hold the Company information in confidence, and (b) to protect and store it consistently with its own most highly confidential information, but in no event to use less than a reasonable standard of care and (c) not to copy, duplicate, disclose or deliver all or any portion of the Company Information to third parties unless the third party has signed a non-disclosure agreement with Company. Recipient may share the Company Information only with those employees with a specific need to review the Company Information.

3. These obligations shall continue from the date of disclosure to Recipient until the second anniversary of the disclosure; provided, however, that, to the extent Company has disclosed information to Recipient that constitutes a trade secret under law, Recipient agrees to protect such trade secret(s) for so long as the information qualifies as a trade secret under applicable law. Recipient will not disclose to Company any information confidential or proprietary to Recipient or a third party.

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5. No rights or duties under this Agreement may be assigned by Recipient. This Agreement constitutes the full and entire understanding between Recipient and Company with regard to the subject matter of this Agreement, and supersedes all other discussions and agreements relating to its subject. This Agreement may be amended only in a writing signed by both Company and Recipient. The provisions of this Agreement shall be considered severable, and the invalidity or unenforceability of any provision shall not affect or impair the remaining provisions, which shall continue in full force and effect. This Agreement shall be governed by the laws of the state in which Company is headquartered.

6. Company disclosure of product plans or future product directions implies no commitment on the part of Company to make such products commercially available in any form.

| BROADJUMP, INC. | | BURTON GRAD ASSOCIATES, INC. | |
|---|---|---|---|
| By: | Adam Chibb | By: | Burton Grad |
| Name: | Adam Chibb | Name: | Burton Grad |
| Title: | CFO | Title: | President |
| Date: | 12/17/02 | Date: | 4/22/02 |

BURTON GRAD ASSOCIATES, INC.
5 SAINT JOHN PLACE, WESTPORT, CONNECTICUT 06880
(203) 222-8821 FAX: (203) 222-8728
E-MAIL: BURTGRAD@AOL.COM

**FAX TRANSMISSION**

512-905-4473

**Date:** 12/17/02

**No. Pages including cover page:** 1+2

**To:** Tom Beck

**From:** **Burton Grad** B.

Here's the proposed NDA

Burton Grad

BroadJump

11400 Burnet Road, Suite 5200, Austin, TX 78758 www.broadjump.com tel 512.908.4400 fax 512.908.4450

DATE: 12/18/02

TO: Burton Grad

FAX NUMBER: 203-222-8728

PAGES (including cover): 3

FROM: Nanci Gibson for Tom Bock

Corporate Accountant

Phone: (512) 908-4413; Fax: (512) 908-4473

www.ngibson@broadjump.com

RE: NDA

CC:

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

Invoice #3047

Motive Communictions, Inc.
12515-5 Research Boulevard
Austin, TX 78759

November 22, 2002

Project: 303-1

Attention: Paul Baker

*INVOICE*

**Project: Valuation Study of BroadJump, Inc.**

*Consulting Services:* Burton Grad

| | |
|---|---|
| Advance Payment: | $7,500.00 |
| **Total Due** | **$7,500.00** |

***Payment is due upon receipt of this invoice and signing of referenced agreement***

BURTON GRAD ASSOCIATES, INC.
5 SAINT JOHN PLACE
WESTPORT, CT 06880
(203) 222-8821
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BURTGRAD@AOL.COM

Draft Report - replaced on 2/28/03

January 30, 2003

Mr. Paul Baker
Motive Communications, Inc.
12515 Research Boulevard
Building 5
Austin, TX 78759

Dear Paul:

Enclosed is the draft valuation of the BroadJump intangible assets and goodwill as of December 31, 2002. This valuation is made to assist Motive Communications, Inc. (Motive) in determining the fair value for the intangible assets acquired by Motive from BroadJump as a result of its acquisition of the company.

This independent assessment by Burton Grad Associates, Inc. (BGAI) is based on materials supplied by Motive and BroadJump and information obtained through interviews with Motive and BroadJump executives and managers. The financial, product and customer information supplied were not independently verified.

All projections of revenues, costs and profits produced by BGAI were based on information available as of the valuation date and do not necessarily reflect BroadJump's or Motive's own forecasts or the actual results which have occurred since the effective date of the information used in this valuation study (December 31, 2002).

Please review this draft report carefully and advise me of any areas which require verification or clarification.

Sincerely,

Burton Grad, President

Enclosure

5479rpt

# Valuation Report on

# BroadJump, Inc.

# as of December 31, 2002

**Prepared for:**

Motive Communications, Inc.
12515 Research Boulevard, Building 5
Austin, TX 78759

**Prepared by:**

Burton Grad Associates, Inc.
5 Saint John Place
Westport, Connecticut 06880

Burton Grad

**Date:**

January 30, 2003

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**EXECUTIVE SUMMARY**

Motive Communications, Inc. (Motive) has negotiated to acquire all ownership rights to BroadJump, Inc. (BroadJump) another Austin, TX based company. In order to determine the proper allocation of the purchase price, Motive requested Burton Grad Associates, Inc. (BGAI) to determine the fair value of the acquired intangible assets, liabilities and goodwill of BroadJump. BGAI has used appropriate valuation methodologies to carry out this valuation process.

Motive has established, with review by Ernst & Young (E&Y), Motive's auditors, that the fair market value of the purchase price paid by Motive to acquire BroadJump was $81,458,000. Motive has validated the fair value of the tangible assets and liabilities acquired from BroadJump as of 12/31/02 and projected the acquisition costs which have been or will be incurred. The tangible assets are valued at $68,602,000, the tangible liabilities at $7,571,000 and the acquisition costs at $12,600,000.

BGAI then determined the fair value of the principal intangible liability, deferred revenue, which effectively increases the purchase price. As of 12/31/02, this was valued at $54,344,000 versus the BroadJump balance sheet value of $54,304,723. Therefore, the effective acquisition cost is $87,371,000.

Next, BGAI examined the value of the principal intangible assets acquired by Motive to establish the fair value and amortizable life of each of these intangibles. These calculations yielded the following results:

| | Value | Amortizable Life | Amortization Rate (%/year) |
|---|---|---|---|
| Order Backlog | $ 794,000 | 4 years | 35,35,20,10 |
| Customer Contractual Relationships | 6,420,000 | 5 years | 5,15,20,30,30 |
| Software Products | 8,275,000 | 5 years | 5,10,15,30,40 |
| Non-Contractual Cust. Relationships | 0 | | |
| Patented Technologies | 500,000 | Indefinite | - |
| Royalties and Licenses | 0 | | |
| Trade Secrets & Other Technologies | 500,000 | Indefinite | - |
| Employment Contracts | 0 | | |
| Non-compete Agreements | 4,800,000 | 3 years | Straight Line |
| Total Intangible Assets | $21,289,000 | | |

In addition, BGAI determined the fair value of work-in-process R&D as of 12/31/02 as $10,074,000. This amount should be expensed as of the acquisition date.

The goodwill was then calculated as the remainder of the effective purchase price (including the deferred revenue) less the fair value of the intangible assets less the work-in-process R&D write off. The goodwill value of $56,008,000 is not to be amortized, but must be reexamined regularly (at least once a year) to determine if this value has been impaired.

## SECTION I. Objectives and Work Plan

### Objectives

Motive Communications, Inc. (Motive) has acquired all ownership rights to BroadJump, Inc. (BJ) as of 12/31/02 by purchasing all of its outstanding common and preferred stock. In order to properly account for the transaction, Motive wishes to have an independent assessment of the fair value of the intangible assets, intangible liabilities and goodwill acquired in this transaction and has retained Burton Grad Associates, Inc. (BGAI) to perform these valuation studies.

BGAI has performed these independent valuation studies for Motive for this merger between independent, arms-length parties, using commonly accepted valuation techniques and its extensive experience in valuing computer software and services companies. Burton Grad's professional profile is attached as Appendix A.

### Work Plan

BGAI carried out the valuation study following these steps:

1. Requested and collected materials and information which provided the basis for the valuation studies. A list of the information requested is shown in Appendix B-1 and the information received in Appendix B-2.

2. BGAI examined these materials and conducted phone interviews with selected Motive and BJ executives and managers to obtain additional information and to better understand the materials received. Those interviewed are listed in Appendix B-3.

3. Motive confirmed the current fair value of the tangible assets and liabilities acquired.

4. BGAI selected appropriate valuation methodologies for each of the intangible assets and liabilities and analyzed the materials received and interview notes so as to construct the valuation models needed.

5. The various intangible assets and liabilities acquired were individually valued to provide a basis for their capitalization and amortizable life.

6. The goodwill associated with the transaction was calculated using the detailed purchase price and other acquisition cost information.

7. A report was delivered in draft form using unaudited financial reports to ensure that all information was accurate and complete and that the logic and calculations used were clear. The final report was then prepared and submitted, including appropriate appendices based on final data as of the acquisition date.

## SECTION II. Description of BroadJump, Inc.

In just three years, BroadJump has become the leading supplier of activation software to the broadband industry. Particularly in the US, BroadJump is the dominant provider, with almost 70% of the US broadband companies (measured by number or subscribers) as their customers.

Appendix C-1 provides a general description of the BroadJump business.

### Markets and Competition

There is a growing worldwide broadband marketplace requiring a range of functionality for both DSL and cable operators. There are a large number of competitors and potential competitors in this marketplace both in the US and internationally. The projected growth rates over the next five years (through 2007) by ARC Research and others shows a growth in the number of subscribers worldwide from 37 million to over 250 million. Appendix C-2 provides a summary of these projections and a list of the principal competitors and their current functionality.

### Organization and Personnel

BroadJump had 233 employees as of YE02 with the largest number in Development (82). Sales and Marketing accounted for 50 people and professional services, customer care and customer hosting services another 50. Appendix C-3 contains an organization chart of the principal operational components and a list of the number of employees per department.

### Products and Services

BroadJump has constructed an efficient architecture which enables it to integrate various applications in an efficient manner while minimizing development time and costs. The core of the BroadJump product line is ControlWorks.

All of the products are being renamed as part of the future growth strategy, but for consistency BGAI will use the previous names: Virtual Truck and Smart Connect. Appendix C-4 describes the BroadJump product line, including its new product alignment: Activation Edition and Service Delivery Edition.

BroadJump has applied for a number of patents. These are described in Appendix C-5

### Financials

BroadJump's financial history is shown in Appendices D-2 (1999-2001) and D-1 (2002). BroadJump's projections are shown in Appendix D-3 for 2003-2004.

## SECTION III. Valuation Methodologies

There are a number of generally accepted methods used to determine the fair value of a software products and services company's intangible assets and liabilities. The principal techniques used are:

- Net present value of projected pretax profits from products, services and contracts
- Replacement cost or resale value of various other intangible assets

A principal method used for valuing the principal intangible assets of a software products company is through determining the net present value of the projected profit stream of its current products and services by forecasting the future revenues and profits from existing and new customers for the company's products as of the valuation date over the expected economic life of each product and service.

One method for determining the value for certain intangible assets such as customer base, technology and copyrights/patents is to establish the replacement cost or resale value of these assets.

BGAI has determined the allocation of the effective purchase price as of 12/31/02 by using the net present value of the projected profit stream for its current contracts, products and IPR&D as well as replacement or resale cost for the other intangible assets and liabilities, using the fair market value for the tangible assets and liabilities. Goodwill was determined as the residual value after deducting the sum of the other assets from the effective purchase price.

### A. Establish Effective Purchase Price

Motive has provided the information necessary to establish the effective purchase price which must then be allocated to intangible assets, intangible liabilities and goodwill. The purchase price includes the following items:

- Cash paid
- Common and preferred stock given at fair market value
- Fair value of options and warrants granted

Added to these direct payments is the fair value of all tangible liabilities acquired by Motive with Motive being responsible for their payment (accounts payable, accrued expenses, notes payable).

Subtracted from these direct payments would be the fair value of all tangible assets acquired by Motive (cash, accounts receivables, prepaid expenses, fixed assets, prepaid royalties, etc.).

Motive must explicitly examine the acquired tangible assets and liabilities to ensure that the book values accurately reflect current market values for investments, facilities and equipment as well as verifying receivables, payables, etc.

Added to this value are all expected acquisition transaction costs including fees and expenses of the acquisition, severance pay and discontinued facilities costs.

The results of this procedure are covered in Section V.

## B. Valuation of Deferred Revenue

Following the guidelines in SFAS 141 and EITF 01-3, the deferred revenue commitments must have their fair value determined based upon the legally obligated cost of performance of the work. This computed value is added to the effective purchase price.

The procedure followed is:

1. Establish the 2002-based ratios for each of the costs to the various revenue accounts (licenses, maintenance, hosting, professional services)

2. Determine the revenue recognition stream for the deferred revenue by revenue account for each year of the contracts

3. Apply the 2002-based ratios to establish the performance cost for the terms of the contracts

4. Add a realistic investment and profit markup to the total performance cost for each year

5. Compute the net present value of the projected performance costs

This procedure is covered in Section VI.

## C. Projected Profit-Based Valuation for Products and Related Services

The following steps are used to determine the net present value of the projected profit stream from the current BJ products and related services:

1. Identify the customers who used these products and services during 2001-2002 and determine the expected economic life for the customer base using projected erosion and renewal patterns

2. Estimate the expected revenue from these customers over the projected product life

3. Project the acquisition and retention of new customers and their associated revenues over the forecast period

4. Estimate corresponding operating costs and calculated pre-tax operating profits, using BJ's financial history and projections and industry experience as the primary information sources

5. Compute the net present value of the profits from the customer base and new customers, adjusting for tax liability for each of the separate revenue streams: deferred revenue, unbilled revenue, extensions revenue and new customer revenue.

6. Assign these values appropriately to:

    - Products
    - Customer contract backlog
    - Contractual customer relationships
    - Non-contractual customer relationships

7. Adjust these values to reflect terminal value and contributory value from other assets.

Section VII covers the projected profit-based product and services valuation process.

## D. <u>Replacement and Resale Cost Valuation for Other Intangible Assets</u>

For each of the intangible assets other than products and contracts, BGAI has determined the replacement cost or the potential resale value.

This requires identifying each intangible asset and then determining what it would cost to replace or reconstruct the asset or what it would be worth to a qualified buyer.

Specific identifiable intangible assets examined include:

- Other contractual commitments
- Technologies beyond those used in current products
- Patents, copyrights and trade secrets
- Trademarks and company/product names
- Non-compete agreements

Section VII covers these valuations.

## E. <u>In Process Research and Development</u>

For each in process research and development project, establish its development status:

- Does it pass FAS86 technical feasibility tests (prototype, detailed design)?
- Does it pass market viability test (sufficient revenue to cover costs)?
- How much work has been done – effort, $
- How much work remains to be done – effort, $
- Technical risks
- Market risks

Then, determine the full product value based on the product being licensed to current and new customers:

- Revenue forecasts over life

- Cost projections
- Operating income
- Risk factor (NPV) – using a higher risk factor based on state of development
- NPV calculations

Finally, determine the adjusted value

- Computing terminal value
- Computing contributory value from other assets

The IPR&D value is determined in Section VII.

## F. Goodwill Valuation

With the effective purchase price established and the allocation valuations determined for the identified tangible and intangible assets and liabilities, the goodwill value can be established as the residual value from adding and deducting the allocated values from the effective purchase price.

This is computed in Section VIII.

## SECTION IV. Analysis of Acquisition by Motive

Motive had a number of reasons for wanting to acquire BroadJump:

- Sale of specific Motive Products into BroadJump marketplace
- Common marketplace
- Efficiency of scale
- Customers desire for integrated, full function offerings
- Quality of BroadJump management
- Avoidance of costs and risks to develop competitive activation products
- Prepare to compete with larger competitors
- Substantial cash position of BroadJump
- Similarity in culture
- Common location

The conclusion was that the combination of the two companies would produce a much stronger organization well prepared to compete internationally with a leaner, more effective organization and product line.

## SECTION V. Establishment of Purchase Price and Value of Tangible Assets and Liabilities

With the assistance of its auditors, Ernst & Young, Motive has determined the value of the stock used as the principal payment for the acquisition of BroadJump. The options and warrants have also been valued by Motive with review by E&Y. These values plus the cash constitute the direct consideration given.

In addition, the direct costs of acquisition have been estimated by Motive including fees incurred and reserves set up to cover special costs such as severance, accrued vacations, leasehold obligations and asset value reduction, etc. There are no contingent payments in this acquisition.

The consideration plus costs of acquisition constitute the effective purchase price.

BroadJump has also provided book values for its tangible assets and liabilities which have been reviewed by Motive. Based on discussions with E&Y, deferred taxes have not been included as a tangible asset and deferred revenues have not been included as a tangible liability. Since there were no other intangible assets or liabilities on BroadJump's GAAP books, these are the only adjustments needed to establish the net purchase price to be used in helping determine the value of the goodwill.

### A. Effective Purchase Price

| | |
|---|---|
| Consideration | |
| Cash paid | $ 4,800,000 |
| Common and preferred stock | 72,358,000 |
| Options and warrants | 4,300,000 |
| Total Consideration | $81,458,000 |
| | |
| Cost of Combination | |
| Fees (estimated) | $ 800,000 |
| Severance | 2,000,000 |
| Leasehold obligations | 7,400,000 |
| Asset value reduction | 2,400,000 |
| Total Cost of Combination | $ 12,600,00 |
| | |
| Effective Purchase Price | $94,058,000 |

### B. Tangible Assets (From appendix D-1)

| | |
|---|---|
| Cash | $51,850,791 |
| Accounts Receivable | 4,064,162 |
| Prepaid expenses | 2,828,494 |
| Equipment and facilities | 4,685,494 |
| Prepaid royalties, etc. | 5,172,980 |
| Total | $68,601,921 |

## C. **Tangible liabilities** (from Appendix D-1)

| | |
|---|---|
| Accounts Payable | $ 553,763 |
| Accrued expenses | 6,591,232 |
| Notes payable | 426,065 |
| Total | $7,571,060 |

## D. **Summary**

The net purchase price is calculated by adding the tangible liabilities to the effective purchase price and then subtracting the tangible assets:

| | |
|---|---|
| Effective purchase price | $94,058,000 |
| (plus) Tangible liabilities | 7,571,060 |
| (less) Tangible assets | 68,601,921 |
| (plus) Deferred revenue (at cost of performance) | 54,344,000 |
| Net purchase price | $87,371,139 |

## SECTION VI. Valuation of Deferred Revenues

As part of the acquisition valuation process, BGAI has determined the fair value of the deferred revenue liabilities being acquired from BJ. This work has been performed in accordance with the guidelines in SFAS 141 and EITF 01-3.

### A. Deferred Revenue Valuation

As of 12/31/02, BJ had a total of $54,304,723 in deferred revenue on its balance sheet (Appendix D-1). All of this liability represents payments received or accounts receivable from invoices sent according to contract terms. This deferred revenue represents work which will legally need to be performed by Motive to satisfy the contracted obligations incurred by BJ.

According to the referenced guidelines, the fair value of these deferred revenues must be based not upon the money received or invoiced, but rather upon the net present value (NPV) of the expected performance costs required to satisfy the contracted work obligations with a suitable uplift to provide for the expected profit margin on these contracts.

There are four principal areas of performance responsibilities corresponding to the four principal revenue accounts:

- Product License
- Product Maintenance
- Service Hosting
- Professional Services

BJ has provided an analysis by year of the planned revenue recognition from the deferred revenue account over the term of all of the existing contracts (2003-2006) separated by the various revenue accounts (Appendix F-1).

BJ has also provided information on its 2002 revenues for the same revenue accounts and provided a summary of its 2002 costs and headcount for each major expense category identifying the direct costs for each revenue account and the non-direct costs split between current customers and future prospects (Appendix F-5).

BGAI has used this information to establish the 2002-based ratios for direct costs and non-direct costs for each of the revenue accounts. BGAI has then used these ratios to establish the projected costs to perform the work required for the deferred revenues for 2003-2006. The total costs for each year have had a realistic mark-up applied and then had the net present value determined for each year using Motive's current cost of money factor. This yields the fair value for the BJ deferred revenue as of 12/31/02.

## B. 2002 Revenue and Cost Analysis

BroadJump provided detailed allocation analyses using financial data as of 11/30/02 with projections for 12/02. We have used this data for deferred revenue performance costs. The differences would have been minimal if they were based on actual full year financials.

The procedure followed is:

- Establish revenue by account
- Establish direct costs
- Determine allocation of departmental costs to current contracts and to new products and services and future prospects
- Allocate G&A and marketing and sales expenses to direct cost expense categories
- Summarize costs for current contracts by revenue accounts
- Summarize costs for new products and future prospects

The 2002 projected revenues were $48,115,147 from Appendix F-5 and the breakdown is shown below:

| $000 | Revenues | Ratio to Total |
|---|---|---|
| License | 36,753 | .764 |
| Maintenance | 3,599 | .075 |
| Hosting | 3,394 | .071 |
| Professional Services | 4,369 | .090 |
| *Total* | 48,115 | 1.00 |

The 2002 costs from Appendix F-5 are $45,145,777. Using other information from Appendix F-5, BGAI has constructed the following table for 2002 direct costs:

| ($000) | License | Maint. | Host | Prog. Dev. | Total |
|---|---|---|---|---|---|
| Development | 8,716 | 3,813 | | | 12,529 |
| Managed Services | | | 2,603 | | 2,603 |
| Customer Care | | 1,630 | | | 1,630 |
| Prof. Services | | | | 3,445 | 3,445 |
| *Total* | 8,716 | 5,443 | 2,603 | 3,445 | 20,207 |

Using additional information from Appendix F-5, BGAI has constructed the following table for 2002 non-direct costs related to current customers and future prospects:

| ($000) | Curent | Future | Total |
|---|---|---|---|
| Development | - | 1,633 | 1,633 |
| Managed Services | - | - | - |
| Customer Care | - | - | - |
| Prof. Services | - | 144 | 144 |
| Marketing | 2,422 | 2,148 | 4,570 |
| Sales | 10,055 | 1,588 | 11,643 |
| G&A | 6,150 | 799 | 6,949 |
| *Total Non-Direct* | 18,627 | 6,312 | 24,939 |

BGAI allocated the 2002-based current G&A costs (including customer retention, business development, human resources and recruiting) to each organizational component based on its headcount ratio using information from Appendix F-5.

| | Cost ($000) | HC | HC Ratio | G&A ($000) | Ratio G&A/Cost |
|---|---|---|---|---|---|
| Development | 14,162 | 85 | .427 | 2,626 | 0.185 |
| Mgd. Services | 2,603 | 16 | .080 | 492 | 0.189 |
| Customer Care | 1,630 | 10 | .050 | 308 | 0.189 |
| Prof. Services | 3,589 | 23 | .116 | 713 | 0.199 |
| Marketing | 4,570 | 17 | .086 | 529 | 0.116 |
| Sales | 11,643 | 44 | .221 | 1,359 | 0.117 |
| Future G&A | 799 | 4 | .020 | 123 | 0.154 |
| *Total* | 38,996 | 199 | 1.000 | 6,150 | 0.158 |

The current Marketing and Sales costs are then augmented by the allocated current G&A costs:

| ($000) | Current | G&A Ratio | Alloc. G&A | Total |
|---|---|---|---|---|
| Marketing | 2,422 | 0.116 | 280 | 2,702 |
| Sales | 10,056 | 0.117 | 1,174 | 11,230 |
| *Total* | 12,478 | | 1,454 | 13,932 |

The current Marketing and Sales costs are allocated to the revenue accounts based on the 2002 revenue ratios:

| ($000) | License | Maint. | Host | Prof. Serv. | Total |
|---|---|---|---|---|---|
| Revenue Ratios | .764 | .075 | .071 | .090 | 1.000 |
| Marketing and Sales | 10,644 | 1,045 | 989 | 1,254 | 13,932 |

Based on these calculations we can now determine the total current costs for each 2002 revenue account:

| ($000) | License | Maint. | Host | Prof. Serv. | Total |
|---|---|---|---|---|---|
| Direct | 8,716 | 5,443 | 2,603 | 3,445 | 20,207 |
| G&A | 1,617 | 1,015 | 492 | 684 | 3,808 |
| Mktg & Sales | 10,644 | 1,045 | 989 | 1,254 | 13,932 |
| *Total* | 20,977 | 7,503 | 4,084 | 5,383 | 37,947 |

Therefore, we can establish the 2002-based current cost to revenue ratios for each revenue account

| ($000) | Revenue | Current Cost | Ratio to Revenue |
|---|---|---|---|
| License | 36,753 | 20,977 | .571 |
| Maintenance | 3,599 | 7,503 | 2.085 |
| Host | 3,395 | 4,084 | 1.203 |
| Prof. Services | 4,369 | 5,383 | 1.232 |
| Total | 48,115 | 37,947 | .789 |

The new product and future prospect costs can also be determined:

| ($000) | Initial | Current G&A Ratio | Alloc. G&A | Total |
|---|---|---|---|---|
| Development | 1,633 | 0.185 | 302 | 1,935 |
| Prof. Services | 144 | 0.199 | 29 | 173 |
| Marketing | 2,148 | 0.116 | 249 | 2,397 |
| Sales | 1,588 | 0.117 | 185 | 1,773 |
| G&A | 799 | 0.154 | 123 | 922 |
| *Total* | 6,312 | | 888 | 7,200 |

The new product and future customer costs for 2002 of $7,200,000 produces a ratio of .150 to the total projected 2002 revenues of $48,115,000.

## C. <u>Projected Performance Costs for Deferred Revenue</u>

The procedure will be:

- Establish projected deferred revenue by year for each revenue account
- Apply calculated 2002 performance cost ratios to determine projected performance costs for each year for each revenue account.
- Add new investment cost to total performance cost for each year
- Add profit markup
- Calculate net present value using selected NPV factors

The projected recognition of deferred revenue is shown below (from Appendix F-1):

| ($000) | 2003 | 2004 | 2005 | 2006 | Total |
|---|---|---|---|---|---|
| License | 29,129 | 9,525 | 4,384 | 3,006 | 46,044 |
| Maintenance | 3,330 | 1,423 | 965 | 731 | 6,449 |
| Hosting | 1,372 | 255 | 13 | - | 1,640 |
| Prof. Services | 172 | - | - | - | 172 |
| *Total* | 34,003 | 11,203 | 5,362 | 3,737 | 54,305 |

The projected performance costs are calculated below using those revenue projections:

| ($000) | Ratio | 2003 | 2004 | 2005 | 2006 | Total |
|---|---|---|---|---|---|---|
| License | 0.571 | 16,633 | 5,439 | 2,503 | 1,716 | 26,291 |
| Maintenance | 2.085 | 6,943 | 2,967 | 2,012 | 1,524 | 13,446 |
| Hosting | 1.203 | 1,651 | 307 | 16 | - | 1,974 |
| Prof. Services | 1.232 | 212 | - | - | - | 212 |
| *Total* | | 25,439 | 8,713 | 4,531 | 3,240 | 41,923 |

We believe that every element of the business should carry its share of the necessary investment in developing new products, cultivating prospects and closing new business. These investment costs can be allocated on the basis of the projected revenues using the .150 ratio developed for 2002.

The minimum target profit margins (and target markups) established by Motive for the existing BJ contracts for 2003-2006 is:

Operations Margin: .150
Operations Markup: .176

The cost of money to be used in the NPV calculations is based on Motive's estimated cost of borrowing money as of 1/1/03. BGAI has been informed by Motive's CFO that the rate would be 7.5% for an unsecured medium term bank loan.

Using these factors, the fair value of the deferred revenue can be determined as shown in the table below:

| ($000) | 2003 | 2004 | 2005 | 2006 | Total |
|---|---|---|---|---|---|
| Recognized Deferred Revenue | 34,002 | 11,203 | 5,362 | 3,738 | 54,305 |
| Investment Cost (.15 of revenue) | 5,100 | 1,680 | 804 | 561 | 8,145 |
| Direct and Non-Direct Performance Costs | 25,439 | 8,713 | 4,531 | 3,240 | 41,923 |
| Total Performance Costs | 30,539 | 10,393 | 5,335 | 3,801 | 50,068 |
| Profit Markup (.176 of cost) | 5,375 | 1,829 | 939 | 669 | 8,812 |
| Subtotal | 35,914 | 12,223 | 6,274 | 4,470 | 58,880 |
| NPV Factors (.075) | .965 | .898 | .835 | .777 | |
| ***NPV*** | 34,657 | 10,976 | 5,239 | 3,473 | 54,345 |

Based on these procedures and calculations, BGAI believes that the fair value of the deferred revenue per contracted obligations acquired by Motive from BJ as of 12/31/02 is $54,344,000, compared to the BroadJump balance sheet deferred revenue of $54,304,723.

## SECTION VII. Valuation of Intangible Assets

Based on the requirements specified in SFAS 141 (Financial Accounting and Reporting or Business Combinations), EITF report 01-3 (Accounting…for Deferred Revenue…) and EITF report 02-17 (Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination), BGAI has determined (with input from Motive and advice from E&Y) that the following intangible assets acquired from BroadJump should be explicitly considered:

a. Marketing-Related
    1. Trademarks, trade names and service marks
    2. Non-competition agreements

b. Customer-related
    1. Customer lists
    2. Order backlog
    3. Customer contracts and contractual customer relationships
    4. Non-contractual customer relationships

c. Contract-based
    1. Licensing, royalty and standstill agreements
    2. Servicing contracts
    3. Employment contracts

d. Technology-based
    1. Patented technology
    2. Computer software
    3. Unpatented technology
    4. Trade secrets

The SFAS 141 definitions are included as Appendix G-1.

Based on careful analysis of these possible intangible assets from BroadJump, we believe that the following should be eliminated:

a1. Trademarks, etc. are not of significant value in marketing this technical product to a limited business marketplace.

b1. The customer lists would have no value if resold to any third party.

c2. The servicing arrangements are embedded within the customer contracts and will be valued with b2, b3 and d2.

For clarity and computational convenience, the other intangible assets will be valued in this sequence:

A. Software and customer-related assets for BroadJump products (b2, b3 and d2)
B. Customer-related assets for future BroadJump products and services (b4)
C. In-process research and development (d3)
D. All other intangible assets (a2, c1, c3, d1 and d4)

**A. Valuation of Software and Customer Contract-Related Assets Acquired from BroadJump**

BroadJump does business with a relatively limited number of large customers using somewhat standardized contracts. Each contract identifies the specific products and services to be provided over what time period and at what price. These contracts are often modified or extended after they are signed. Customers may also use purchase orders to confirm specific projects or services. BroadJump invoices its customers based on contract terms and on recognized work progress on certain services activities.

From a business standpoint, BroadJump considers the billings on most of its activities (licenses, maintenance, hosting and on certain professional services) as not based on having vendor specific objective evidence (VSOE). Therefore, they are treated as deferred revenues and recognized appropriately over the life of each contract.

To manage its business effectively, BroadJump forecasts its operations on a GAAP basis since the bulk of its costs are incurred in supporting the products and performing the contracted services over the life of each contract. Therefore, BGAI will produce its own revenue and cost projections using this same approach. However, since the values for the backlog, contracts and products will all be based on the net present value of the cash flow, the actual deferred revenue projections as of 12/31/02 as reported by BroadJump and the associated costs as determined by BGAI will be deducted year by year from the BGAI forecasted GAAP revenues and costs.

Therefore, the first set of projections will relate to the entire GAAP-based forecasts for revenue and costs for current products over the time period to be used for valuation. Given the rapidity of technological change and the risk that significant well-funded competitors may enter the marketplace through internal development or acquisitions, valuing profits beyond a 5-year period would appear too speculative. Therefore, BGAI will use an economic product life of 5 years for the current BJ products.

From this GAAP projection, BGAI will then deduct the revenues and associated costs for the deferred revenue component. For the remainder, BGAI will determine the appropriate ratios of the various cost elements to the corresponding revenue accounts for each year. Using the projected revenues and these cost ratios, BGAI will establish three separate business forecasts

- Unbilled revenues from current customers and their costs
- Renewals and extended revenues from current customers and their costs
- New customer revenues (with renewals and extensions) with their corresponding costs

The net present value after taxes of the operating income from unbilled revenues will be assigned as the fair value of the order backlog.

The net present value after taxes of the operating income from renewals and extensions will be assigned as the fair value of the customer contracts and relationships.

The net present value after taxes of the operating income from new customers will be assigned as the fair value of the software products.

### 1. GAAP-Based Projections

#### a. Revenue Forecasts

Assumptions – Current Customers - General

There are two different types of license agreements which BroadJump has signed with its customers: Perpetual and Term.

The perpetual license agreements allow the customer to use the licensed products for up to the authorized number of subscribers for the agreed to price. After the end of the contract period, the customer need not pay any further license or maintenance fees for the number of authorized subscribers for the specific products covered under the agreement, even though the term of the agreement has expired.

The term license agreements only allow the customer to use the licensed products for up to the authorized number of subscribers until the term of the license expires. If these customers wish to have any additional authorized subscribers besides those already activated then they must sign and pay for a new agreement.

Therefore, in projecting future revenue from current customers beyond the term of the agreements, the calculations are different for the two different types of license agreements.

We have determined the authorized number of subscribers for each agreement which terminates in a particular year, separated by perpetual and term licenses (see Appendix I-1). This has been used as the basis for projecting contract renewals, extensions and additional product sales for current customers.

Assumptions – Current Customers – Additional Subscribers

- The current projections for deferred and unbilled revenue on existing contracts will be realized (see Appendices F-1 and F-2).

- At the end of the current contracts (both perpetual and term), 95% of the current customers representing 95% of the authorized subscribers will continue to use the licensed BroadJump products. This erosion adjustment has been made by not including the smaller current customers.

- Neither the perpetual license customers nor the term license customers will need to pay any further license or maintenance fees for authorized subscribers already activated for Virtual Truck or Smart Connect.

- In addition, perpetual license customers will not need to pay license or maintenance fees for future subscribers up to their authorized subscriber limit for Virtual Truck or Smart Connect.

- Smart Connect (currently sold with a product from Support Soft) which has been licensed to about 25% of the current customers will become a new offering which includes one of Motive's products that has similar functionality to the current Support Soft component. It will be used for customer renewals or extensions as well as sold to current customers which do not have this product.

<u>Additional Subscribers – Virtual Truck</u>

- Each extending current customer with a perpetual license for Virtual Truck will add 25% of the number of additional subscribers to their authorized number at the end of the current contract for Virtual Truck.

- Each renewing current customer with a term license for Virtual Truck will license 50% of the number of originally authorized subscribers at the end of the current contract for Virtual Truck.

- There will be a license fee of $1.50 per subscriber per year for each additional authorized subscriber for use of Virtual Truck. The maintenance fee will be $.30 per subscriber per year for additional subscribers for Virtual Truck.

- No additional hosting services will be obtained from current customers for additional subscribers for Virtual Truck.

- No additional professional service fees will be obtained from current customers for additional subscribers for Virtual Truck.

The calculations are shown in Appendices I-1, I-2 and I-3, yielding the total projected revenue from additional subscribers for Virtual Truck from current customers.

<u>Additional Subscribers – Smart Connect</u>

- Each extending current customer with a perpetual license for Smart Connect will add 25% of the number of additional subscribers to their authorized number at the end of the current contract for Smart Connect.

- 50% of all additional Virtual Truck subscribers will license Smart Connect and 25% more of current authorized subscribers.

- For Smart Connect, the license fee will be $1.00/additional subscriber/year and the maintenance fee will be $.20/additional subscriber/year.

- No additional hosting or professional services fees will be obtained from current customers for additional subscribers for Smart Connect.

The calculations are shown in Appendices I-1, I-4 and I-5, yielding the total projected revenue from additional subscribers for Smart Connect from current customers.

Summary – Current Customers

Appendix I-6 summarizes the total additional revenue from current customers using the results in Appendices I-3 and I-5.

These results are then posted in Appendix H-1 as part of the GAAP-based revenue projections for current customers.

Assumptions – New Customers

The current BroadJump customers already have licenses for almost 30 million subscribers and the BGAI projections show them committing to an additional 10 million over the next 5 years. Industry information indicates that BroadJump has covered about 70% of the currently available North American subscribers. Appendix C-2 shows the ARC Research forecast for 2002-2007, indicating a growth in the Americas, Western Europe and Asia Pacific from a little over 36 million installed subscribers in 2002 to over 250 million in 2007.

If this dramatic growth rate is realized, the opportunities for the current and new BroadJump products are much larger than BGAI has forecast. Nevertheless, we have taken a conservative view anticipating the entry of serious competitors, principally in Europe and Asia Pacific as well as the possibility of new technologies which could change the landscape from broadband to wireless or other solutions.

It is also our belief that most of the new customer growth for BroadJump will be outside of North America where the established customer relationships will be less valuable.

- License fees will be $1.50/subscriber/year for new accounts for Virtual Truck and $1.00/subscriber/year for new accounts for Smart Connect.

- Maintenance fees for new accounts will be 20% per year of license fees for each product ($.30/subscriber/year for Virtual Truck and $.20/subscriber/year for Smart Connect).

- BJ will obtain 5 new customers each year over the forecast period.

- Each new Virtual Truck customer will sign up for 1,000,000 subscribers.

- Hosting will be signed up for 50% of new customers for the first 3 years of the contract for Virtual Truck at 20% of license fee (an effective price of $.15/subscriber/year).

- Professional services will be obtained at 20% of license fee for each product for the first two years of each contract ($.30/subscriber/year for Virtual Truck and $.20/subscriber/year for Smart Connect).

- None of the new customers will erode during the forecast period.

- 25% of new customers will license Smart Connect when they license Virtual Truck. Another 25% of new customers will license Smart Connect two years after they license Virtual Truck.

These calculations are shown in Appendices I-7 and I-8.

Using these assumptions generates the GAAP-based revenue projections for new customers shown in Appendix H-1.

**b. Cost of Revenue Projections**

The Cost of Revenue projections are based on using BroadJump's accounting records for 2002 (see Appendix F-5). Without debating the rules used by BroadJump in classifying its expenses, the GAAP-based accounting reports provide a consistent framework for future projections:

| 2002 COR Analysis | | | | |
|---|---|---|---|---|
| ($000) | Revenue | COR | Ratio | Projected Ratios for 2003-2007 |
| License | 36,753 | 1,263 (1) | .0344 | .040-.036 |
| Maintenance | 3,602 | 953 (2) | .2646 | .25-.21 |
| Hosting | 3,410 | 953 (2) | .2795 | .25 |
| Prof. Services | 4,455 | 2,777 | .6233 | .60-.56 |
| Total | 48,220 | 5,947 | .1233 | |

(1) Includes royalties of $975
(2) Maintenance and hosting COR is aggregated; we have assumed a 50-50 ratio

In each case, except for hosting, we expect that the COR will be reduced as better processes are introduced and revenue volumes increase for the current and future products and services. We will reduce the cost of revenue linearly over the forecasted time period.

Using these assumptions yields the Cost of Revenue projections shown in Appendix H-2.

**c. Operating Expense Projections**

The operating expense projections were also based on using BroadJump's accounting records for 2002 (see Appendix F-5). Without analyzing the classifications used by BroadJump in assigning its expenses, the GAAP-based accounting reports provide a consistent framework for future projections:

| 2002 Operating Expense Analysis | | | | | |
|---|---|---|---|---|---|
| ($000) | Operating Expense | Revenue Base | Revenue Base | Calc. Ratio | Selected Ratio |
| Sales | 14,497 | Total | 48,220 | 0.301 | .285-.260 |
| Marketing | 4,312 | Total | 48,220 | 0.089 | .085-.080 |
| Prof. Serv. and Support (1) | | | | | |
| Maintenance | 1,089 | Maint. | 3,602 | 0.302 | .300 |
| Hosting | 1,089 | Hosting | 3,410 | 0.319 | .300 |
| Prof. Services | 1,089 | Prof. Serv. | 4,455 | 0.244 | .250 |
| Development | 13,837 | License | 36,753 | 0.376 | .375-.350 |
| G&A | 3,606 | Total | 48,220 | 0.075 | .075 |
| Total | 39,519 | Total | 48,220 | 0.820 | |

(1) Total operating expense of $3,267 was divided equally among the three services functions

In a number of cases (sales, marketing and development), we expect the cost ratios to improve as better processes are introduced and revenue volumes increase for the current and future products and services. We will reduce these operating expenses linearly over the forecasted time period.

Using these assumptions yields the Operating Expense projections shown in Appendix H-3.

**d. GAAP-Based Summary**

Appendix H-4 shows the summary of the GAAP-based projections using the values from Appendices H-1, H-2 and H-3.

The following table shows the principal values from Appendix H-4:

| GAAP-Based Summary | | | | | | |
|---|---|---|---|---|---|---|
| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
| Revenue | 55,997 | 58,483 | 72,907 | 86,146 | 94,969 | 368,502 |
| Cost of Revenue | 5,147 | 6,409 | 7,553 | 8,258 | 8,569 | 35,936 |
| Operating Expense | 45,024 | 46,134 | 56,832 | 66,415 | 71,399 | 285,804 |
| Operating Income (EBITDA) | 5,826 | 5,941 | 8,521 | 11,472 | 15,000 | 46,760 |

## 2. Elimination of Deferred Revenues and Corresponding Costs

### a. Elimination of Deferred Revenues

Based on the information in Section VI, the deferred revenues will be recognized as shown in Appendix H-5.

### b. Elimination of Corresponding Costs

Based on the analysis in this section, the COR and Operating Expenses for deferred revenue will be incurred as shown in Appendix H-5. We have used the actual ratios from 2002 rather than the projected performance costs from Section VI or the projected future ratios established in this section.

### c. Adjustment of GAAP-Based Summary for Deferred Revenue

Appendix H-6 shows the adjusted GAAP-Based projections after eliminating the deferred revenues and their associated costs.

### d. Cost Ratios from Adjusted GAAP-Based Summary

Appendix H-7 shows the cost to revenue ratios from the values in Appendix H-6, the Adjusted GAAP-Based Summary.

## 3. Valuation of Backlog

### a. Unbilled Revenues

The unbilled revenues are shown in Appendix H-8 (from Appendix H-1)

### b. Costs for Unbilled Revenues

Using the cost ratios from Appendix H-7, the costs for unbilled revenues are shown in Appendix H-8.

### c. Net Present Value Calculation

Based on discussions with Motive and E&Y and on industry experience, BGAI has used a combined worldwide tax rate of 38% representing US federal and state taxes and a reasonable mix on international taxes.

The net present value factor represents a risk adjusted rate of return to be applied to the after tax operating income. While the current risk free cost of money is below 7.5%, the typical expected return for the computer software and services industry is close to 15%.

Since there is only normal risk to the unbilled revenue stream, we will use 15% as the NPV factor for the backlog valuation.

Using a tax rate of 38% and a net present value factor of 15%, the following table shows the calculations of the net present value of the BroadJump backlog (unbilled revenues) from Appendix H-8:

**Backlog Net Present Value Calculation**

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
|---|---|---|---|---|---|---|
| Revenue | 3,504 | 5,361 | 2,946 | 1,000 | - | 12,811 |
| Cost of Revenue | 267 | 510 | 319 | 70 | - | 1,166 |
| Operating Expense | 2,643 | 4,177 | 2,268 | 773 | - | 9,861 |
| Operating Income (EBITDA) | 594 | 675 | 360 | 157 | - | 1,786 |
| Taxes (38%) | 226 | 256 | 137 | 60 | - | 679 |
| Oper. Inc. after Tax | 368 | 418 | 223 | 97 | - | 1,106 |
| NPV Factors (15%) | .935 | .813 | .707 | .615 | .534 | |
| NPV | 344 | 340 | 158 | 60 | - | 902 |

The amortizable life is selected based on the expected economic life of the product. In this case the life is only 4 years since there is no unbilled revenue from current contracts after 2006.

Amortization should be taken on a basis matching the expected operating income stream. In this case the bulk of the income is in the early years. BGAI therefore recommends that Motive use the following amortization ratios:

| | |
|---|---|
| 2003 | 35% |
| 2004 | 35% |
| 2005 | 20% |
| 2006 | 10% |
| | 100% |

## 4. Valuation of Customer Contract Relationships

### a. Renewal and Extension Revenues

The revenues from additional licenses to current customers are shown in Appendix H-9 (from Appendix H-1).

### b. Costs for Extensions

Using the cost ratios established in Appendix H-7, the renewals and extensions costs are shown in Appendix H-9.

### c. Net Present Value Calculation

Based on discussions with Motive and E&Y and on industry experience, BGAI has used a combined worldwide tax rate of 38% representing US federal and state taxes and a reasonable mix on international taxes.

The net present value factor represents a risk adjusted rate of return to be applied to the after tax operating income. While the current risk free cost of money is below 7.5%, the typical expected return for the computer software and services industry is close to 15%. Given the complex nature and rapidity of technological change in the broadband marketplace, an additional 5% risk factor has been added to the 15% to reach the selected factor of 20%. This also seems sufficient to cover the risk of overestimating the revenues or underestimating the costs for current products for existing customers.

Using a tax rate of 38% and a net present value factor of 20%, the following table shows the results of the calculations of the net present value of the BroadJump customer contract relationships (renewal and extension revenues) from Appendix H-8:

| Customer Contract Relationships NPV Summary | | | | | | |
|---|---|---|---|---|---|---|
| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
| Revenue | 5,490 | 15,919 | 25,599 | 30,159 | 31,719 | 108,886 |
| Cost of Revenue | 423 | 1,149 | 1,780 | 2,022 | 2,062 | 7,436 |
| Operating Expense | 4,154 | 12,527 | 20,041 | 23,346 | 24,000 | 84,068 |
| Operating Income (EBITDA) | 913 | 2,243 | 3,778 | 4,790 | 5,657 | 17,381 |
| Taxes (38%) | 347 | 852 | 1,436 | 1,820 | 2,149 | 6,604 |
| Oper. Inc. after Tax | 566 | 1,390 | 2,342 | 2,970 | 3,507 | 10,775 |
| NPV Factors (20%) | .917 | .764 | .637 | .530 | .442 | |
| NPV | 519 | 1,062 | 1,492 | 1,574 | 1,550 | 6,197 |

The amortizable life is selected based on the expected economic life of the product. In this case the life is essentially 5 years since there is not expected to be any new sales revenues from the current product after 2007.

Amortization should be taken on a basis matching the expected operating income stream. In this case the bulk of the income is in the later years. BGAI therefore recommends that Motive use the following amortization ratios:

| | |
|---|---|
| 2003 | 5% |
| 2004 | 15% |
| 2005 | 20% |
| 2006 | 30% |
| 2007 | 30% |
| | 100% |

## 5. Valuation of Software Products and Related Services

### a. New Customer Revenues

The revenues from new customers are shown in Appendix H-10 (from Appendix H-1).

### b. Costs for New Customer Revenues

Using the cost ratios established in Appendix H-7, the costs for new customers are shown in Appendix H-10.

### c. Net Present Value Calculation

Based on discussions with Motive and E&Y and on industry experience, BGAI has used a combined worldwide tax rate of 38% representing US federal and state taxes and a reasonable mix on international taxes.

The net present value factor represents a risk adjusted rate of return to be applied to the after tax operating income. While the current risk free cost of money is below 7.5%, the typical expected return for the computer software and services industry is close to 15%. Given the complex nature and rapidity of technological change in the broadband marketplace, an additional 5% risk factor has been added to the 15% to reach the selected factor of 20%. This also seems sufficient to cover the risk of overestimating the revenues or underestimating the costs for current products for new customers.

Using a tax rate of 38% and a net present value factor of 20%, the following table shows the results of the calculations of the net present value of the BroadJump software products and related services taken from Appendix H-10:

| Software Products and Services NPV Summary | | | | | | |
|---|---|---|---|---|---|---|
| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
| Revenues | 13,000 | 26,000 | 39,000 | 51,250 | 63,250 | 192,500 |
| Cost of Revenue | 2,005 | 3,948 | 5,032 | 5,860 | 6,508 | 23,353 |
| Operating Expenses | 9,614 | 20,009 | 30,031 | 39,168 | 47,399 | 146,221 |
| Operating Income (EBITDA) | 1,381 | 2,043 | 3,938 | 6,222 | 9,344 | 22,928 |
| Taxes (38%) | 525 | 776 | 1,496 | 2,364 | 3,551 | 8,713 |
| Oper. Inc. after Tax | 856 | 1,267 | 2,442 | 3,858 | 5,793 | 14,215 |
| NPV Factors (20%) | .917 | .764 | .637 | .530 | .442 | |
| NPV | 785 | 968 | 1,555 | 2,045 | 2,561 | 7,914 |

The amortizable life is selected based on the expected economic life of the product. In this case the life is essentially 5 years since there is not expected to be any new sales revenues from the current product after 2007.

Amortization should be taken on a basis matching the expected operating income stream. In this case the bulk of the income is in the later years. BGAI therefore recommends that Motive use the following amortization ratios:

| | |
|---|---|
| 2003 | 5% |
| 2004 | 10% |
| 2005 | 15% |
| 2006 | 30% |
| 2007 | 40% |
| | 100% |

## B. Valuation of Non-Contractual Customer Relationships

While there is substantial future value to Motive from selling one of its current products to the BroadJump customer base, the intangible asset valuation rules per SFAS 141 consider such benefits to be synergistic and therefore must be included within goodwill.

Based on the SFAS rules, we will not assign any value to non-contractual customer relationships.

## C. Valuation of In-Process Research and Development

BroadJump has made excellent progress in developing a major new product (Service Delivery Edition) to be introduced to the Broadband marketplace in late 2003. The product has now reached the stage where a limited function working prototype is available for initial testing with a selected customer. Based on the results of this initial testing, the design, programming and system testing will be completed and the product made available for general use. We will assume that the product will not have its first general customer until 1Q04.

Substantial development costs have already been incurred during 2002 in bringing SDE to its current stage. However, based on our review of materials and executive discussions, BGAI does not believe that SDE would currently qualify to pass the SFAS 86 technical feasibility test.

Using the current rules for determining the value of In-Process Research and Development (IPR&D), BGAI has forecasted the expected revenues from SDE over its anticipated economic life, deducted the remaining costs for development and other market preparation costs in 2003, and then projected the COR and operating costs over its forecast life. The technical and market risks will be recognized in the NPV factors used.

## 1. GAAP-Based Projections

### a. Revenue Forecasts

SDE has an ongoing license and maintenance requirement and should be able to be sold to most of BroadJump's current and future customers. The marketing plan is to license customers for all of their authorized subscribers at an attractive price per subscriber per year. This product will obtain revenues from current customers and new customers.

Assumptions – Current Customers

Appendix I-9 picks up the current customer subscriber base from Appendix I-4 plus the expected additional subscribers from current customers from Appendix I-2. This provides the total subscriber base for current customers.

- The entire current customer base is available for additional product sales for SDE starting in 1Q04. Since the plan is to launch the product in a controlled release mode, licenses will ramp up gradually until 50% of current customers have licensed SDE for already authorized and additional subscribers.

- The SDE license adoption rate for current customer subscribers will be 10% in 2004, 10% in 2005, 15% in 2006 and 15% in 2007, totaling 50% of all subscribers. Appendix I-9 shows the calculations which generate the number of SDE subscribers from current BroadJump customers for the period 2004-2008.

- License fees will be $1.50 per authorized subscriber per year.

- Maintenance fees will be $.30 per authorized subscriber per year.

- Hosting fees will be $.30 per authorized subscriber for the first three years for 50% of the customers (an effective $.15 per subscriber per year).

- Professional Services fees will be $.30 per authorized subscriber for the first two years for 100% of the customers.

For these current customers, Appendix I-10 shows the revenue projections using the pricing and penetration assumptions listed above.

Assumptions - New Customers

Appendix I-11 picks up the new customer subscriber projections from Appendix I-7 for Virtual Truck, also assuming that BroadJump adds another 5 customers with 1,000,000 subscribers each in 2008.

- The SDE license adoption rate will be at the rate of 25% of all new customer subscribers in their first year plus an additional 25% in their third year for a total of an eventual 50% of all new customer subscribers. The results are shown in Appendix I-11.
- License fees will be \$1.50 per authorized subscriber per year.
- Maintenance fees will be \$.30 per authorized subscriber per year.
- There will be no hosting fees. We assume that these will be part of the Virtual Truck hosting fees for new customers.
- Professional Services fees will be \$.30 per authorized subscriber for the first two years for 100% of the customers.

For these new customers, Appendix I-12 shows the revenue projections using the pricing and penetration assumptions listed above.

Appendix I-13 uses the revenue projections from Appendices I-10 and I-12 to provide the total projected revenue for SDE from 2003-2008. These revenues are copied into Appendix H-12.

**b. Cost of Revenue and Operating Expense Projections**

We will use the same cost of revenue assumptions as used for the other product COR projections extended for an additional year. These ratios are shown in Appendix H-11 and are copied from Appendix H-7.

Similarly, we will use the same operating expense ratios as used for the other product cost projections extended for an additional year. These ratios are also shown in Appendix H-11 and are also copied from Appendix H-7.

Based on information supplied by BroadJump (see Appendix E-3), we have added additional development and market preparation costs in 2003 prior to the product being generally available in 1Q04. These costs are shown in Appendix H-12.

Appendix H-12 multiplies the ratios from Appendix H-11 by the revenues copied from I-13 to compute the COR and Operating Expenses for SDE to determine the EBITDA Operating Income.

## c. GAAP-based Summary

The summary of the GAAP-based projections uses the values from Appendix H-12. The following Table shows the principal summary values from Appendix H-12:

| GAAP-Based Summary | | | | | | | |
|---|---|---|---|---|---|---|---|
| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
| Revenue | - | 12,783 | 29,353 | 62,266 | 99,274 | 125,372 | 329,048 |
| Cost of Revenue | - | 1,917 | 4,298 | 8,114 | 12,033 | 13,078 | 39,440 |
| Operating Expense | 1,000 | 9,847 | 22,511 | 47,402 | 74,066 | 93,240 | 248,066 |
| Operating Income (EBITDA) | (1,000) | 1,019 | 2,544 | 6,750 | 13,175 | 19,054 | 41,542 |

### a. Net Present Value Calculation

Based on discussions with Motive and E&Y and on industry experience, BGAI has used a combined worldwide tax rate of 38% representing US federal and state taxes and a reasonable mix on international taxes.

The net present value factor represents a risk adjusted rate of return to be applied to the after tax operating income. While the current risk free cost of money is below 7.5%, the typical expected return for the computer software and services industry is close to 15%. Given the complex nature and rapidity of technological change in the broadband marketplace, an additional 5% risk factor has been added to the 15% to reach 20%.

Because of the development status of this new product, we have added another 5% to represent our assessment of the technical risk involved in completing SDE in a timely fashion within the planned budget. Therefore, we have used a 25% risk adjusted NPV factor.

Using a tax rate of 38% and a net present value factor of 25%, the following table shows the results of the calculations of the net present value of the BroadJump software products and related services taken from Appendix H-12:

| In-Process R&D NPV Summary | | | | | | | |
|---|---|---|---|---|---|---|---|
| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
| Operating Income (EBITDA) | (1,000) | 1,020 | 2,545 | 6,751 | 13,175 | 19,053 | 41,544 |
| Oper. Inc. after Tax (38%) | (620) | 632 | 1,578 | 4,185 | 8,166 | 11,813 | 25,754 |
| NPV Factors (25%) | .900 | .720 | .576 | .461 | .369 | .295 | |
| NPV | (558) | 455 | 909 | 1,929 | 3,013 | 3,485 | 9,233 |

The In-Process R&D is valued at $9,233,000 as of 12/31/02 for the years 2003-2008.

## D. Valuation of Other Intangible Assets Acquired from BroadJump

There are other intangible assets which need to be valued and their determinable life established. These include:

1. Non-competition agreements
2. Royalties and licenses
3. Patented technologies
4. Trade secrets and unpatented technologies

### 1. Non-Competition Agreements

Specific agreements have been signed with the four principals at BroadJump to pay them a total of $4,800,000 up front in order to assure Motive that they will not compete in the relevant marketplace for three years. These payments will be made at closing. This asset should be amortized on a straight line basis over three years.

### 2. Royalties and Licenses

There are no significant royalties or licenses and therefore the value is set at zero.

### 3. Patented Technologies

BroadJump has applied for four patents which are described in Appendix C-5. These all relate to broadband systems facilities which have been incorporated in BroadJump's ControlWorks programs. There is no simple basis for determining the potential value of these patents. BroadJump has no plan to license these patents, if granted, to other companies and there is no clear record of the costs for developing the technologies underlying these patent applications. The principal value of these technologies lies in the value of the products which they have helped to produce. We have therefore assigned a value of $500,000 to Patented Technologies and believe that the economic life is currently indeterminate.

### 4. Trade Secrets and Unpatented Technologies

BroadJump has invested over $10 million in building its current products. These products are protected by copyright and trade secret agreements with employees and customers. The principal value of these technologies lies in the products which they have helped to produce and in future products which will be built reusing these technologies. Establishing the standalone value of these technologies and trade secrets is quite difficult since there is no specific market value. Therefore, we have assigned a value of $500,000 for Trade Secrets and Unpatented Technologies and believe that the economic life is currently indeterminate.

**E. Adjustments for Terminal Value and Other Asset Contributions**

There are two further adjustments required to the value of certain of the intangible assets:

- Terminal value of product-based cash flow
- Contribution to operating income from other assets

Each of the intangible assets affected will be examined for these two adjustments.

**1. <u>Terminal Value</u>**

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

In the case of BroadJump, there are four intangible asset valuations which may be subject to this terminall value calculation:

- Backlog
- Customer Contract Relationships
- Software Products
- In-Process R&D

Each of these will be analyzed and their residual terminal values, if any, determined.

**a. Backlog Value**

The backlog value reflects the operating income from unbilled revenues. Since the unbilled revenues are finished in 2006, there is no need for a terminal value calculation.

**b. Customer Contract Relationships Value**

The choice of a 5 year economic life for the current products (Virtual Truck and Smart Connect) was based on the expectation that by the end of 2007 BroadJump would have introduced replacement products for these functions, competitors would have released better advanced products or the market technologies for broadband would have changed requiring new products to be competitive.

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

Normally, for most software products, there would be a substantial add-on and maintenance revenue stream for at least 2-3 years. But in the case of these BroadJump offerings there is no ongoing maintenance requirement for installed subscribers for Virtual Truck or Smart Connect since both are activation products, which are only used when the subscriber first connects to the broadband supplier.

Once there is a replacement product, most customers will use the new product to activate their new subscribers or to modify the installations of existing subscribers. Therefore, in our opinion, the continuing revenue from existing customers for current products will be relatively small, only covering those customers who are not ready to migrate to the replacement products.

The following table represents our forecast for revenues, costs and NPV for Customer Contract Relationships:

| Customer Contract Relationship NPV Summary | | | | |
|---|---|---|---|---|
| ($000) | 2008 | 2009 | 2010 | Total |
| Revenues | 10,000 | 5,000 | 2,000 | 17,000 |
| Opeating Income (18%) | 1,800 | 900 | 360 | 3,060 |
| Oper. Inc. After Tax (38%) | 1,116 | 558 | 223 | 1,897 |
| NPV Factors (20%) | .368 | .307 | .256 | |
| NPV | 411 | 171 | 57 | 639 |

This terminal value must be added to the NPV for Customer Contract Relationships of $6,197,000 which yields a revised value of $6,836,000.

**c. Software Products Values**

The choice of a 5 year economic life for the current products (Virtual Truck and Smart Connect) was based on the expectation that by the end of 2007 BroadJump would have introduced replacement products for these functions, competitors would have released better advanced products or the market technologies for broadband would have changed requiring new products to be competitive.

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

Normally, for most software products, there would be a substantial add-on and maintenance revenue stream for at least 2-3 years. But in the case of these BroadJump offerings there is no ongoing maintenance requirement for installed subscribers for Virtual Truck or Smart Connect since both are activation products, which are only used when the subscriber first connects to the broadband supplier.

Once there is a replacement product, most customers will use the new product to activate their new subscribers or to modify the installations of existing subscribers. Therefore, in our

opinion, the continuing revenue from existing customers for current products will be relatively small, only covering those customers who are not ready to migrate to the replacement products.

The following table represents our forecast for revenues, costs and NPV for Software Products:

| Software Products NPV Summary | | | | |
|---|---|---|---|---|
| ($000) | 2008 | 2009 | 2010 | Total |
| Revenues | 15,000 | 10,000 | 5,000 | 30,000 |
| Opeating Income (18%) | 2,700 | 1,800 | 900 | 5,400 |
| Oper. Inc. After Tax (38%) | 1,674 | 1,116 | 558 | 3,348 |
| NPV Factors (20%) | .368 | .307 | .256 | |
| NPV | 616 | 343 | 143 | 1,102 |

This terminal value must be added to the NPV for Software Products of $7,914,000 which yields a revised value of $9,016,000.

**d. In-Process R&D Values**

The choice of a 5 year economic life for the new product (Service Delivery Edition) was based on the expectation that by the end of 2008 BroadJump would have introduced a replacement product for these functions, competitors would have released better advanced products or the market technologies for broadband would have changed requiring a new product to be competitive.

Given those scenarios, BroadJump would expect that its future revenues from the new product would decline fairly rapidly as new sales were reduced and customers migrated their subscribers to a new product.

Normally, for most software products, there would be a substantial add-on and maintenance revenue stream for at least 2-3 years. In the case of this BroadJump offering there is an ongoing maintenance requirement for installed subscribers for SDE since it is a continuing use product.

Even after there is a replacement product, some customers will continue to use the old product to provide ongoing services to their new subscribers or to modify and maintain the services for existing subscribers. Therefore, in our opinion, the continuing revenue from existing customers for current products will be substantial, covering those customers who are not ready to migrate to the replacement products.

The following table represents our forecast for revenues, costs and NPV for In-Process R&D:

| In-Process R&D NPV Summary | | | | |
|---|---|---|---|---|
| ($000) | **2009** | **2010** | 2011 | **Total** |
| Revenues | 30,000 | 20,000 | 10,000 | 60,000 |
| Opeating Income (18%) | 5,400 | 3,600 | 1,800 | 10,800 |
| Oper. Inc. After Tax (38%) | 3,348 | 2,232 | 1,116 | 6,696 |
| NPV Factors (25%) | .236 | .189 | .151 | |
| NPV | 790 | 422 | 169 | 1,381 |

This terminal value must be added to the NPV for In-Process R&D of $9,233,000 which yields a revised value of $10,614,000.

## 2. Contributions from Other Assets

The valuation process also requires that some portion of the operating income be attributed to the contribution of other assets to the revenue stream. In the case of BroadJump, primarily a computer software company, there are a variety of these assets to be considered:

- Working capital
- Facilities and equipment
- Customer base
- Technologies
- Assembled work force

After review, BGAI believes that the investment in the customer base and technologies has been fully considered in the valuation of Customer Contract Relationships and Software Products and requires no further adjustment.

The other three need to be examined and a fair return on their value calculated and deducted from the after tax operating income of the revenue based intangible assets.

To do this, BGAI must establish the fair value of each of these assets and then determine a fair return ratio for each to be used in making adjustments to the net present value.

### a. Working Capital

How much working capital would BroadJump need in order to function efficiently? Clearly, the present cash position far exceeds the needed working capital. Based on common industry practice, we believe that working capital which equaled two months operating costs would be sufficient for this highly revenue predictable business. The cost of revenue and operating costs in 2002 were somewhat over $45 million, but the run rate in the fourth quarter was around $3.5 million per month. Therefore, working capital of $7.0 million would seem sufficient entering 2003.

The fair rate of return on working capital should be fairly low, only slightly higher than the cost of money. We have used 7.5% as the cost of money, so we will use 9% as the fair return on the $7.0 million working capital. This amounts to $630,000 per year pre tax.

#### b. Facilities and Equipment

What is the fair value of the facilities and equipment as regards their contribution to the revenue stream? In Motive's opinion these assets are worth much less than book value since it is Motive's plan to dispose of the facilities and the principal computer equipment.

After discussions with Motive executives, the remaining facilities and equipment value (in terms of contributing to ongoing profitability) is in the order of $1.5 million.

The fair rate of return on the facilities and equipment is at a moderate level. We have used 12% as the fair return on the $1.5 million facilities and equipment which amounts to $180,000 per year pre tax.

#### c. Assembled Work Force

As of 12/31/02 BroadJump had 233 employees. Motive had decided to eliminate 65 of those positions (along with another 20 Motive employees). Therefore, only 168 of the BroadJump employees are meaningful in terms of contributing to future earnings.

While the current valuation rules do not recognize the value of the assembled work force except as a component of goodwill, historically they were valued in terms of their replacement cost: what it would cost to recruit and train them and the cost of their lower productivity for some period of time. For the mix of BroadJump personnel being retained by Motive, the typical replacement cost per employee is $20,000. This yields an investment value of $3,336,000 for the assembled work force.

What is the fair rate of return on this asset? We believe that 15% would represent a fair rate. This yields a return of $504,000 per year for the assembled work force pre tax.

#### d. Summary for Contribution Value from Other Assets

Based on this analysis, the fair annual return for the three identified assets are:

| | |
|---|---|
| Working Capital | $ 630,000 |
| Facilities and Equipment | 180,000 |
| Assembled Work Force | 504,000 |
| Total | $1,314,000 |

This figure should be deducted annually from the future projected pre tax profits of the entire BroadJump business. The allocation process only determines the value of specific future revenue streams from current products and from new products which are far enough along in the development process. But, BroadJump's people, facilities and equipment and working capital will also contribute to other new products and services over the forecast period. Therefore, a procedure must be used to assign the other asset contributions fairly to the revenue stream for the various identified intangible assets and to the other revenues which will come from future unidentified products, services and offerings.

Since there is no firm basis for projecting revenues from currently unidentified products and services, we will use an assignment pattern which reflects the portion of the future revenues which the identified intangible assets would probably represent:

| | Identified Intangibles | Other Revenues | Amount to be assigned ($000) |
|---|---|---|---|
| 2003 | 100% | 0% | 1314 |
| 2004 | 90% | 10% | 1183 |
| 2005 | 80% | 20% | 1051 |
| 2006 | 70% | 30% | 920 |
| 2007 | 60% | 40% | 788 |
| 2008-2010 | 30% | 70% | 394 per year |

We will assign the amounts for each year based on the revenue projections.

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008-2010 | Total |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Deferred Rev - $ | 34,003 | 11,203 | 5,362 | 3,737 | - | - | 54,305 |
| - Ratio | .607 | .157 | .052 | .025 | .000 | .000 | |
| Unbilled rev (backlog) - $ | 3,504 | 5,361 | 2,946 | 1,000 | - | - | 12,811 |
| - Ratio | .063 | .075 | .029 | .007 | .000 | .000 | |
| Cust. Contract Rel - $ (Curr. Cust, curr. prod) | 5,490 | 15,919 | 25,599 | 30,159 | 31,719 | 17,000 | 125,886 |
| - Ratio | .098 | .223 | .250 | .203 | .163 | .076 | |
| Software Products - $ (New cust, curr prod) | 13,000 | 26,000 | 39,000 | 51,250 | 63,250 | 30,000 | 222,500 |
| - Ratio | .232 | .365 | .381 | .345 | .326 | .135 | |
| IP R&D (new prod.) - $ | - | 12,783 | 29,353 | 62,266 | 99,274 | 175,372 | 379,048 |
| - Ratio | .000 | .179 | .287 | .420 | .511 | .789 | |
| Total Revenues - $ | 55,997 | 71,266 | 102,260 | 148,412 | 194,243 | 222,372 | 794,550 |
| - Ratio | | | | | | | |

## 3. Summary of Adjustments

Applying these ratios to the amount to be assigned for each year, we can construct a table which provides the adjusted net present value for each of the identified intangible assets:

- Backlog- Unbilled Revenues
- Customer Contract Relations
- Software Products
- In-Process R&D

a. **Backlog – Unbilled Revenue**

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
|---|---|---|---|---|---|---|
| Total Assignment Amt. | 1,314 | 1,183 | 1,051 | 920 | 788 | 5,256 |
| Total Assign. Amt After Tax (38%) | 815 | 733 | 652 | 570 | 489 | 3,259 |
| Assignment Ratio | .063 | .075 | .029 | .007 | .000 | |
| Assignment Amount | 51 | 55 | 19 | 4 | - | 129 |
| NPV factor - Unbilled (15%) | .935 | .813 | .707 | .615 | .534 | |
| NPV - Unbilled Contrib. | 48 | 45 | 13 | 2 | - | 108 |
| NPV - Unbilled Orig. | 344 | 340 | 158 | 60 | - | 902 |
| NPV - Adj. Unbilled (original - contrib.) | 296 | 295 | 145 | 58 | - | 794 |

Therefore, the total NPV for the Backlog- Unbilled Revenue is $794,000 since there is no adjustment for terminal value.

b. **Customer Contract Relationships**

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008-2010 | Total |
|---|---|---|---|---|---|---|---|
| Total Assignment Amount | 1,314 | 1,183 | 1,051 | 920 | 788 | 1,182 | 6,438 |
| Total Assign. Amt After Tax (38%) | 815 | 733 | 652 | 570 | 489 | 733 | 3,992 |
| Assignment Ratio | .098 | .223 | .250 | .203 | .163 | .076 | |
| Assignment Amount | 80 | 164 | 163 | 116 | 80 | 56 | 657 |
| NPV factor - Unbilled (20%) | .917 | .764 | .637 | .530 | .442 | .307 | |
| NPV - Cust. Contr. Rels. Contrib. | 73 | 125 | 104 | 61 | 35 | 17 | 416 |
| NPV - Cust. Contr. Rels. Orig. | 519 | 1,062 | 1,492 | 1,574 | 1,550 | 639 | 6,836 |
| NPV - Adj. Cust. Contr. Rels. (original - contrib.) | 446 | 937 | 1,388 | 1,513 | 1,515 | 622 | 6,420 |

The adjusted value which should be used for the Customer Contract Relationships intangible assets is $6,420,000 after adding the terminal value and subtracting the contribution from other assets.

## c. Software Products

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008-2010 | Total |
|---|---|---|---|---|---|---|---|
| Total Assignment Amount | 1,314 | 1,183 | 1,051 | 920 | 788 | 1,182 | 6,438 |
| Total Assign. Amt After Tax (38%) | 815 | 733 | 652 | 570 | 489 | 733 | 3,992 |
| Assignment Ratio | .232 | .365 | .381 | .345 | .326 | .135 | |
| Assignment Amount | 189 | 268 | 248 | 197 | 159 | 99 | 1,160 |
| NPV factor - Unbilled (20%) | .917 | .764 | .637 | .530 | .442 | .307 | |
| NPV - Software Products Contrib. | 173 | 205 | 158 | 104 | 70 | 30 | 741 |
| NPV - Software Products Orig. | 785 | 968 | 1,555 | 2,045 | 2,561 | 1,102 | 9,016 |
| NPV - Adj. Software Prod. (original - contrib.) | 612 | 763 | 1,397 | 1,941 | 2,491 | 1,072 | 8,275 |

The adjusted value which should be used for the Software Products intangible asset is $8,275,000 after adding the terminal value and subtracting the contribution from other assets.

## d. In-Process R&D

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008-2010 | Total |
|---|---|---|---|---|---|---|---|
| Total Assignment Amount | 1,314 | 1,183 | 1,051 | 920 | 788 | 1,182 | 6,438 |
| Total Assign. Amt After Tax (38%) | 815 | 733 | 652 | 570 | 489 | 733 | 3,992 |
| Assignment Ratio | .000 | .179 | .287 | .420 | .511 | .789 | |
| Assignment Amount | - | 131 | 187 | 240 | 250 | 578 | 1,386 |
| NPV factor - IP R&D (25%) | .900 | .720 | .576 | .461 | .369 | .236 | |
| NPV - IP R&D Contribution | - | 95 | 108 | 110 | 92 | 136 | 541 |
| NPV - IP R&D Original | (558) | 455 | 909 | 1,929 | 3,014 | 4,697 | 10,446 |
| NPV - Adjusted IP R&D (original - contribution) | (558) | 360 | 801 | 1,819 | 2,922 | 4,561 | 9,905 |

The adjusted value which should be used for the In-Process R&D write-off is $9,905,000 plus $169,000 (for 2011) which equals $10,074,000. There was no value assigned to the contribution of other assets for 2011.

## SECTION VIII. Valuation Summary and Determination of Goodwill

In Section V, Motive identified the purchase price of BroadJump as $81,458,000.

Also in Section V the reported fair value of the tangible assets and liabilities were identified by Motive as $68,601,921,000 and $7,571,060 respectively. In Section VI the deferred revenue performance cost was valued by BGAI at $54,344,000. In Section VII the identifiable intangible assets of BJ were valued and the In-Process R&D.

In summary, the following lists the purchase price and the tangible assets and liabilities which Motive acquired from BJ:

| **Purchase Price** | **($000)** |
|---|---|
| **Tangible Assets** | |
| Cash | 51,851 |
| AR | 4,064 |
| Prepaid Expenses | 2,828 |
| Fixed Assets (net) | 4,685 |
| Ppd Royalties & other | 5,173 |
| Total Tangible Assets | 68,602 |
| **Tangible Liabilities** | |
| AP | 554 |
| Accrued Expenses | 6,591 |
| Notes Payable | 426 |
| Total Tangible Liabilities | 7,571 |
| **Other Liabilities** | |
| Deferred Revenue | 54,344 |
| Restructuring Costs and Other Acquisition Costs | 12,600 |
| Total Other Liabilities | 66,944 |

This yields an effective acquisition cost of $87,371,000 which needs to be allocated to the intangible assets acquired.

**Allocation of Acquisition Cost**

Based on the results of the calculations in Section VII, BGAI recommends the following allocation of the effective acquisition cost to the intangible assets:

| Intangible Asset | Amount | Life | Amort. |
|---|---|---|---|
| Order Backlog | $ 794,000 | 2003-2006 | 35%,35%,20%,10% |
| Customer Contracts and Relationships | 6,420,000 | 2003-2007 | 5%,15%,20%,30%,30% |
| Computer Software Products | 8,275,000 | 2003-2007 | 5%,10%,15%,30%,40% |
| Non-contractual Customer. Relationships | 0 | - | - |
| Patented Technologies | 500,000 | Indefinite | |
| Unpatented Tech and Trade Secrets | 500,000 | Indefinite | |
| Non-compete Agreements | 4,800,000 | 2003-2005 | Straight Line |
| **Total Intangible Assets** | 21,289,000 | | |

Work In-Process R&D is computed as $10,074,000 which should be expensed (written off) as of the acquisition date.

Since the goodwill is determined as the residual value of the acquisition cost less the value of the intangible assets, the BroadJump acquisition goodwill would be:

| | |
|---|---|
| Acquisition Cost | $87,371,000 |
| Intangible Assets | - 21,289,000 |
| WIP R&D | -10,074,000 |
| Goodwill | $56,008,000 |

The goodwill is not to be amortized but must be examined at least annually to determine whether it has been impaired because of business results and future expectations. If so, it must be suitably reduced and an expense charge taken in accordance with SFAS 142.

Substantial development costs have already been incurred during 2002 in bringing SDE to its current stage. However, based on review of materials and executive discussions, BGAI does not believe that SDE would currently qualify to pass the SFAS 86 technical feasibility test.

Using the current rules for determining the value of In-Process Research and Development (IPR&D), BGAI has forecasted the expected revenues from SDE over its anticipated economic life, deduct remaining costs for development and other market preparation costs in 2003, and then projected the COR and operating costs over its forecast life. The technical and market risks will be recognized in the NPV factors used.

### 1. GAAP-Based Projections

#### a. Revenue Forecasts

Assumptions

SDE has an ongoing license and maintenance requirement and should be able to be sold to most of BroadJump's current and future customers. The marketing plan is to license customers for all of their authorized subscribers at an attractive price per subscriber per year. This product will obtain revenues from current customers and new customers.

- The entire current customer base is available for additional product sales for SDE starting in 1Q04. Since the plan is to launch the product in a controlled release mode, licenses will ramp up gradually until 50% of new and current customers have licensed SDE for already authorized and additional subscribers.

- License fees will be $1.50 per authorized subscriber per year.

- Maintenance fees will be $.30 per authorized subscriber per year.

- Hosting fees will be $.30 per authorized subscriber for the first three years for 50% of the customers (an effective $.15 per subscriber per year).

- Professional services fees will be $.30 per authorized subscriber for the first two years for 100% of the customers.

#### b. Cost of Revenue and Operating Expense Projections

We will use the same cost of revenue assumptions as used for the other product projections extended for an additional year. These ratios are shown in Appendix H-11.

Similarly, we will use the same operating expense ratios as used for the other product cost projections extended for an additional year. These ratios are also shown in Appendix H-11.

Based on information supplied by BroadJump (see Appendix E-3), we have added additional development and market preparation costs in 2003 prior to the product being generally available in 1Q04. These values are shown in Appendix H-12.

### c. GAAP-based Summary

The summary of the GAAP-based projections uses the values from Appendix H-12. The following Table shows the principal summary values from Appendix H-12:

| GAAP-Based Summary | | | | | | | |
|---|---|---|---|---|---|---|---|
| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
| Revenue | - | 12,783 | 29,353 | 62,266 | 99,274 | 125,372 | 329,048 |
| Cost of Revenue | - | 1,917 | 4,298 | 8,114 | 12,033 | 13,078 | 39,440 |
| Operating Expense | 1,000 | 9,847 | 22,511 | 47,402 | 74,066 | 93,240 | 248,066 |
| Operating Income (EBITDA) | (1,000) | 1,019 | 2,544 | 6,750 | 13,175 | 19,054 | 41,542 |

### d. Net Present Value Calculation

Based on discussions with Motive and E&Y and on industry experience, BGAI has used a combined worldwide tax rate of 38% representing US federal and state taxes and a reasonable mix on international taxes.

The net present value factor represents a risk adjusted rate of return to be applied to the after tax operating income. While the current risk free cost of money is below 7.5%, the typical expected return for the computer software and services industry is close to 15%. Given the complex nature and rapidity of technological change in the broadband marketplace, an additional 5% risk factor has been added to the 15% to reach the selected factor of 20%.

Because of the development status of this new product, we have added another 5% to represent our assessment of the technical risk involved in completing SDE in a timely fashion within the planned budget. Therefore, we have used a 25% risk adjusted NPV factor.

Using a tax rate of 38% and a net present value factor of 25%, the following table shows the results of the calculations of the net present value of the BroadJump software products and related services taken from Appendix H-12:

| In-Process R&D NPV Summary | | | | | | | |
|---|---|---|---|---|---|---|---|
| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
| Operating Income (EBITDA) | (1,000) | 1,020 | 2,545 | 6,751 | 13,175 | 19,053 | 41,544 |
| Oper. Inc. after Tax (38%) | (620) | 632 | 1,578 | 4,185 | 8,166 | 11,813 | 25,754 |
| NPV Factors (25%) | .900 | .720 | .576 | .461 | .369 | .295 | |
| NPV | (558) | 455 | 909 | 1,929 | 3,013 | 3,485 | 9,233 |

The In-Process R&D is valued at $9,233,000 as of 12/31/02.

BURTON GRAD ASSOCIATES, INC.
5 SAINT JOHN PLACE
WESTPORT, CT 06880
(203) 222-8821
(203) 222-8821 FAX
BURTGRAD@AOL.COM

November 4, 2003

Mr. Paul Baker
Motive Communications, Inc.
12515 Research Boulevard
Building 5
Austin, TX 78759

Dear Paul:

Enclosed is the valuation of the BroadJump intangible assets and goodwill as of December 31, 2002. This valuation is made to assist Motive Communications, Inc. (Motive) in determining the fair value for the intangible assets acquired by Motive from BroadJump as a result of its acquisition of the company.

This independent assessment by Burton Grad Associates, Inc. (BGAI) is based on materials supplied by Motive and BroadJump and information obtained through interviews with Motive and BroadJump executives and managers. The financial, product and customer information supplied were not independently verified.

All projections of revenues, costs and profits produced by BGAI have been based on information as of the valuation date and do not necessarily reflect BroadJump's or Motive's own forecasts or results which have occurred since the effective date of the information used in this valuation study (December 31, 2002).

Sincerely,

Burton Grad

Burton Grad, President

Enclosure

5479rpt-s

# Valuation Report on

# BroadJump, Inc.

# as of December 31, 2002

**Prepared for:** Motive Communications, Inc.
12515 Research Boulevard, Building 5
Austin, TX 78759

**Prepared by:** Burton Grad Associates, Inc.
5 Saint John Place
Westport, Connecticut 06880

Burton Grad

**Date:** November 4, 2003

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# Table of Contents

## Table of Contents (Continued)

**EXECUTIVE SUMMARY**

Motive Communications, Inc. (Motive) has negotiated to acquire all ownership rights to BroadJump, Inc. (BroadJump) another Austin, TX based company. In order to determine the proper allocation of the purchase price, Motive requested Burton Grad Associates, Inc. (BGAI) to determine the fair value of the acquired intangible assets, liabilities and goodwill of BroadJump. BGAI has used appropriate valuation methodologies to carry out this valuation process.

Motive has established, with review by Ernst & Young (E&Y), Motive's auditors, that the fair market value of the purchase price paid by Motive to acquire BroadJump was $81,458,000. Motive has validated the fair value of the tangible assets and liabilities acquired from BroadJump as of 12/31/02 and projected the acquisition costs which have been or will be incurred. The tangible assets are valued at $68,602,000, the tangible liabilities at $7,571,000 and the acquisition costs at $12,600,000.

BGAI determined the fair value of the principal intangible liability, deferred revenue, which effectively increases the purchase price. As of 12/31/02, this was valued at $41,519,000 versus the BroadJump balance sheet value of $54,304,723. Therefore, the effective acquisition cost is $74,546,000.

Next, BGAI examined the value of the principal intangible assets acquired by Motive to establish the fair value and amortizable life of each of these intangibles. These calculations yielded the following results:

| | Value | Amortizable Life | Amortization Rate (%/year) |
|---|---|---|---|
| Order Backlog | $ 920,000 | 4 years | 35,35,20,10 |
| Customer Contractual Relationships | 7,255,000 | 5 years | 5,15,20,30,30 |
| Software Products | 9,351,000 | 5 years | 5,10,15,30,40 |
| Non-Contractual Cust. Relationships | 0 | | |
| Patented Technologies | 500,000 | Indefinite | - |
| Royalties and Licenses | 0 | | |
| Trade Secrets & Other Technologies | 500,000 | Indefinite | - |
| Employment Contracts | 0 | | |
| Non-compete Agreements | 4,800,000 | 3 years | Straight Line |
| Total Intangible Assets | $23,326,000 | | |

In addition, BGAI determined the fair value of work-in-process R&D as of 12/31/02 as $11,182,000. This amount should be expensed as of the acquisition date.

The goodwill was then calculated as the remainder of the effective purchase price (including the deferred revenue) less the fair value of the intangible assets less the work-in-process R&D write off. The goodwill value of $40,038,000 is not to be amortized, but must be reexamined regularly (at least once a year) to determine if this value has been impaired.

## SECTION I. Objectives and Work Plan

### Objectives

Motive Communications, Inc. (Motive) has acquired all ownership rights to BroadJump, Inc. (BJ) as of 12/31/02 by purchasing all of its outstanding common and preferred stock. In order to properly account for the transaction, Motive wishes to have an independent assessment of the fair value of the intangible assets, intangible liabilities and goodwill acquired in this transaction and has retained Burton Grad Associates, Inc. (BGAI) to perform these valuation studies.

BGAI has performed these independent valuation studies for Motive for this merger between independent, arms-length parties, using commonly accepted valuation techniques and its extensive experience in valuing computer software and services companies. Burton Grad's professional profile is attached as Appendix A.

### Work Plan

BGAI carried out the valuation study following these steps:

1. Requested and collected materials and information which provided the basis for the valuation studies. A list of the information requested is shown in Appendix B-1 and the information received in Appendix B-2.

2. BGAI examined these materials and conducted phone interviews with selected Motive and BJ executives and managers to obtain additional information and to better understand the materials received. Those interviewed are listed in Appendix B-3.

3. Motive confirmed the current fair value of the tangible assets and liabilities acquired.

4. BGAI selected appropriate valuation methodologies for each of the intangible assets and liabilities and analyzed the materials received and interview notes so as to construct the valuation models needed.

5. The various intangible assets and liabilities acquired were individually valued to provide a basis for their capitalization and amortizable life.

6. The goodwill associated with the transaction was calculated using the detailed purchase price and other acquisition cost information.

7. A report was delivered in draft form using unaudited financial reports to ensure that all information was accurate and complete and that the logic and calculations used were clear. The final report was then prepared and submitted, including appropriate appendices based on final data as of the acquisition date.

## SECTION II. Description of BroadJump, Inc.

In just three years, BroadJump has become the leading supplier of activation software to the broadband industry. Particularly in the US, BroadJump is the dominant provider, with almost 70% of the US broadband companies (measured by number or subscribers) as their customers.

Appendix C-1 provides a general description of the BroadJump business.

Markets and Competition

There is a growing worldwide broadband marketplace requiring a range of functionality for both DSL and cable operators. There are a large number of competitors and potential competitors in this marketplace both in the US and internationally. The projected growth rates over the next five years (through 2007) by ARC Research and others shows a growth in the number of subscribers worldwide from 37 million to over 250 million. Appendix C-2 provides a summary of these projections and a list of the principal competitors and their current functionality.

Organization and Personnel

BroadJump had 233 employees as of YE02 with the largest number in Development (82). Sales and Marketing accounted for 50 people and professional services, customer care and customer hosting services another 50. Appendix C-3 contains an organization chart of the principal operational components and a list of the number of employees per department.

Products and Services

BroadJump has constructed an efficient architecture which enables it to integrate various applications in an efficient manner while minimizing development time and costs. The core of the BroadJump product line is ControlWorks.

All of the products are being renamed as part of the future growth strategy, but for consistency BGAI will use the previous names: Virtual Truck and Smart Connect. Appendix C-4 describes the BroadJump product line, including its new product alignment: Activation Edition and Service Delivery Edition.

BroadJump has applied for a number of patents. These are described in Appendix C-5

Financials

BroadJump's financial history is shown in Appendices D-2 (1999-2001) and D-1 (2002). BroadJump's projections are shown in Appendix D-3 for 2003-2004.

## SECTION III. Valuation Methodologies

There are a number of generally accepted methods used to determine the fair value of a software products and services company's intangible assets and liabilities. The principal techniques used are:

- Net present value of projected pretax profits from products, services and contracts
- Replacement cost or resale value of various other intangible assets

A principal method used for valuing the principal intangible assets of a software products company is through determining the net present value of the projected profit stream of its current products and services by forecasting the future revenues and profits from existing and new customers for the company's products as of the valuation date over the expected economic life of each product and service.

One method for determining the value for certain intangible assets such as customer base, technology and copyrights/patents is to establish the replacement cost or resale value of these assets.

BGAI has determined the allocation of the effective purchase price as of 12/31/02 by using the net present value of the projected profit stream for its current contracts, products and IPR&D as well as replacement or resale cost for the other intangible assets and liabilities, using the fair market value for the tangible assets and liabilities. Goodwill was determined as the residual value after deducting the sum of the other assets from the effective purchase price.

### A. Establish Effective Purchase Price

Motive has provided the information necessary to establish the effective purchase price which must then be allocated to intangible assets, intangible liabilities and goodwill. The purchase price includes the following items:

- Cash paid
- Common and preferred stock given at fair market value
- Fair value of options and warrants granted

Added to these direct payments is the fair value of all tangible liabilities acquired by Motive with Motive being responsible for their payment (accounts payable, accrued expenses, notes payable).

Subtracted from these direct payments would be the fair value of all tangible assets acquired by Motive (cash, accounts receivables, prepaid expenses, fixed assets, prepaid royalties, etc.).

Motive must explicitly examine the acquired tangible assets and liabilities to ensure that the book values accurately reflect current market values for investments, facilities and equipment as well as verifying receivables, payables, etc.

Added to this value are all expected acquisition transaction costs including fees and expenses of the acquisition, severance pay and discontinued facilities costs.

The results of this procedure are covered in Section V.

## B. Valuation of Deferred Revenue

Following the guidelines in SFAS 141 and EITF 01-3, the deferred revenue commitments must have their fair value determined based upon the legally obligated cost of performance of the work. This computed value is added to the effective purchase price.

The procedure followed is:

1. Establish the 2002-based ratios for each of the costs to the various revenue accounts (licenses, maintenance, hosting, professional services)

2. Determine the revenue recognition stream for the deferred revenue by revenue account for each year of the contracts

3. Apply the 2002-based ratios to establish the performance cost for the terms of the contracts

4. Add a realistic investment and profit markup to the total performance cost for each year

5. Compute the net present value of the projected performance costs

This procedure is covered in Section VI.

## C. Projected Profit-Based Valuation for Products and Related Services

The following steps are used to determine the net present value of the projected profit stream from the current BJ products and related services:

1. Identify the customers who used these products and services during 2001-2002 and determine the expected economic life for the customer base using projected erosion and renewal patterns

2. Estimate the expected revenue from these customers over the projected product life

3. Project the acquisition and retention of new customers and their associated revenues over the forecast period

4. Estimate corresponding operating costs and calculated pre-tax operating profits, using BJ's financial history and projections and industry experience as the primary information sources

5. Compute the net present value of the profits from the customer base and new customers, adjusting for tax liability for each of the separate revenue streams: deferred revenue, unbilled revenue, extensions revenue and new customer revenue.

6. Assign these values appropriately to:

   - Products
   - Customer contract backlog
   - Contractual customer relationships
   - Non-contractual customer relationships

7. Adjust these values to reflect terminal value and contributory value from other assets.

Section VII covers the projected profit-based product and services valuation process.

## D. Replacement and Resale Cost Valuation for Other Intangible Assets

For each of the intangible assets other than products and contracts, BGAI has determined the replacement cost or the potential resale value.

This requires identifying each intangible asset and then determining what it would cost to replace or reconstruct the asset or what it would be worth to a qualified buyer.

Specific identifiable intangible assets examined include:

- Other contractual commitments
- Technologies beyond those used in current products
- Patents, copyrights and trade secrets
- Trademarks and company/product names
- Non-compete agreements

Section VII covers these valuations.

## E. In Process Research and Development

For each in process research and development project, establish its development status:

- Does it pass FAS86 technical feasibility tests (prototype, detailed design)?
- Does it pass market viability test (sufficient revenue to cover costs)?
- How much work has been done – effort, $
- How much work remains to be done – effort, $
- Technical risks
- Market risks

Then, determine the full product value based on the product being licensed to current and new customers:

- Revenue forecasts over life

- Cost projections
- Operating income
- Risk factor (NPV) – using a higher risk factor based on state of development
- NPV calculations

The IPR&D value is determined in Section VII. These calculations are also performed in Section VII.

Finally, determine the adjusted values for each of the intangible assets:

- Computing terminal value
- Computing contributory value from other assets
- Computing intangible asset tax benefit

### F. Goodwill Valuation

With the effective purchase price established and the values determined for the identified tangible and intangible assets and liabilities, the goodwill value can be established as the residual value from adding and deducting the computed values from the effective purchase price.

This is computed in Section VIII.

## SECTION IV. Analysis of Acquisition by Motive

Motive had a number of reasons for wanting to acquire BroadJump:

- Sale of specific Motive Products into BroadJump marketplace
- Common marketplace
- Efficiency of scale
- Customers desire for integrated, full function offerings
- Quality of BroadJump management
- Avoidance of costs and risks to develop competitive activation products
- Prepare to compete with larger competitors
- Substantial cash position of BroadJump
- Similarity in culture
- Common location

The conclusion was that the combination of the two companies would produce a much stronger organization well prepared to compete internationally with a leaner, more effective organization and product line.

## SECTION V. Establishment of Purchase Price and Value of Tangible Assets and Liabilities

With the assistance of its auditors, Ernst & Young, Motive has determined the value of the stock used as the principal payment for the acquisition of BroadJump. The options and warrants have also been valued by Motive with review by E&Y. These values plus the cash constitute the direct consideration given.

In addition, the direct costs of acquisition have been estimated by Motive including fees incurred and reserves set up to cover special costs such as severance, accrued vacations, leasehold obligations and asset value reduction, etc. There are no contingent payments in this acquisition.

The consideration plus costs of acquisition constitute the effective purchase price.

BroadJump has also provided book values for its tangible assets and liabilities which have been reviewed by Motive. Based on discussions with E&Y, deferred taxes have not been included as a tangible asset and deferred revenues have not been included as a tangible liability. Since there were no other intangible assets or liabilities on BroadJump's GAAP books, these are the only adjustments needed to establish the net purchase price to be used in helping determine the value of the goodwill.

### A. Effective Purchase Price

| | |
|---|---|
| Consideration | |
| Cash paid | $ 4,800,000 |
| Common and preferred stock | 72,358,000 |
| Options and warrants | 4,300,000 |
| Total Consideration | $81,458,000 |
| | |
| Cost of Combination | |
| Fees (estimated) | $ 800,000 |
| Severance | 2,000,000 |
| Leasehold obligations | 7,400,000 |
| Asset value reduction | 2,400,000 |
| Total Cost of Combination | $ 12,600,00 |
| | |
| Effective Purchase Price | $94,058,000 |

### B. Tangible Assets (From appendix D-1)

| | |
|---|---|
| Cash | $51,850,791 |
| Accounts Receivable | 4,064,162 |
| Prepaid expenses | 2,828,494 |
| Equipment and facilities | 4,685,494 |
| Prepaid royalties, etc. | 5,172,980 |
| Total | $68,601,921 |

### C. **Tangible liabilities** (from Appendix D-1)

| | |
|---|---|
| Accounts Payable | $ 553,763 |
| Accrued expenses | 6,591,232 |
| Notes payable | 426,065 |
| Total | $7,571,060 |

### D. **Summary**

The net purchase price is calculated by adding the tangible liabilities to the effective purchase price and then subtracting the tangible assets:

| | **($000)** |
|---|---|
| Effective purchase price | $94,058 |
| (plus) Tangible liabilities | 7,571 |
| (less) Tangible assets | 68,602 |
| (plus) Deferred revenue (at cost of performance) | 41,519 |
| Net purchase price | $74,546 |

## SECTION VI. Valuation of Deferred Revenues

As part of the acquisition valuation process, BGAI has determined the fair value of the deferred revenue liabilities being acquired from BJ. This work has been performed in accordance with the guidelines in SFAS 141 and EITF 01-3.

### A. Deferred Revenue Valuation

As of 12/31/02, BJ had a total of $54,304,723 in deferred revenue on its balance sheet (Appendix D-1). All of this liability represents payments received or accounts receivable from invoices sent according to contract terms. This deferred revenue represents work which will legally need to be performed by Motive to satisfy the contracted obligations incurred by BJ.

According to the referenced guidelines, the fair value of these deferred revenues must be based not upon the money received or invoiced, but rather upon the net present value (NPV) of the expected performance costs required to satisfy the contracted work obligations with a suitable uplift to provide for the expected profit margin on these contracts.

There are four principal areas of performance responsibilities corresponding to the four principal revenue accounts:

- Product License
- Product Maintenance
- Service Hosting
- Professional Services

BJ has provided an analysis by year of the planned revenue recognition from the deferred revenue account over the term of all of the existing contracts (2003-2006) separated by the various revenue accounts (Appendix F-1).

BJ has also provided information on its 2002 revenues for the same revenue accounts and provided a summary of its 2002 costs and headcount for each major expense category identifying the direct costs for each revenue account and the non-direct costs split between current customers and future prospects (Appendix F-5).

BGAI has used this information to establish the 2002-based ratios for direct costs and non-direct costs for each of the revenue accounts. BGAI has then used these ratios as the basis for establishing the projected costs to perform the work required for the deferred revenues for 2003-2006. The total costs for each year have had a realistic mark-up applied and then had the net present value determined for each year using Motive's current cost of money factor. This yields the fair value for the BJ deferred revenue as of 12/31/02.

## B. 2002 Revenue and Cost Analysis

BroadJump provided detailed allocation analyses using financial data as of 11/30/02 with projections for 12/02. We have used this data for deferred revenue performance costs. The differences would have been minimal if they were based on actual full year financials.

The procedure followed is:

- Establish revenue by account
- Establish direct costs
- Determine allocation of departmental costs to current contracts and to new products and services and future prospects
- Allocate G&A and marketing and sales expenses to direct cost expense categories
- Summarize costs for current contracts by revenue accounts
- Summarize costs for new products and future prospects

The 2002 revenues were $48,115,147 from Appendix F-5 page 1 and the breakdown is shown below:

| $000 | Revenues | Ratio to Total |
|---|---|---|
| License | 36,753 | .764 |
| Maintenance | 3,599 | .075 |
| Hosting | 3,394 | .071 |
| Professional Services | 4,369 | .090 |
| *Total* | 48,115 | 1.00 |

The 2002 costs from Appendix F-5 page 2 are $45,145,777. Using information from Appendix F-5 page 4, BGAI has constructed the following table for 2002 directly assigned costs (not necessarily COR):

| ($000) | License (1) | Maint. (2) | Host (3) | Prof. Services (4) | Total |
|---|---|---|---|---|---|
| Development | 8,716 | 3,813 | | | 12,529 |
| Managed Services | | | 2,603 | | 2,603 |
| Customer Care | | 1,630 | | | 1,630 |
| Prof. Services | | | | 3,445 | 3,445 |
| *Total* | 8,716 | 5,443 | 2,603 | 3,445 | 20,207 |

(1) Development, CTO and Product Management: Versions
(2) Development, CTO and Product Management: Maintenance and Customer Care, existing accounts
(3) Managed Services, existing accounts
(4) Professional Services, existing accounts

Using information from Appendix F-5 page 4, BGAI has constructed the following table for 2002 non-directly assigned costs related to current customers and future prospects:

| ($000) | Current (1) | Future (2) | Total |
|---|---|---|---|
| Development | - | 1,633 | 1,633 |
| Managed Services | - | - | - |
| Customer Care | - | - | - |
| Prof. Services | - | 144 | 144 |
| Marketing | 2,422 | 2,148 | 4,570 |
| Sales | 10,055 | 1,588 | 11,643 |
| G&A | 6,150 | 799 | 6,949 |
| *Total Non-Direct* | 18,627 | 6,312 | 24,939 |

(1) From Existing Account column, eliminating all directly assigned costs
(2) From New Account column and New Product column for Development, CTO and Product Management

BGAI allocated the 2002-based current G&A costs (including customer retention, business development, human resources and recruiting) to each organizational component based on its headcount ratio using information from Appendix F-5, page 3. Note that current G&A $ and current G&A headcount have been omitted from the cost analysis:

| | Cost ($000) | HC | HC Ratio | G&A ($000) | Ratio G&A/Cost |
|---|---|---|---|---|---|
| Development | 14,162 | 85 | .427 | 2,626 | 0.185 |
| Mgd. Services | 2,603 | 16 | .080 | 492 | 0.189 |
| Customer Care | 1,630 | 10 | .050 | 308 | 0.189 |
| Prof. Services | 3,589 | 23 | .116 | 713 | 0.199 |
| Marketing | 4,570 | 17 | .086 | 529 | 0.116 |
| Sales | 11,643 | 44 | .221 | 1,359 | 0.117 |
| Future G&A | 799 | 4 | .020 | 123 | 0.154 |
| *Total* | 38,996 | 199 | 1.000 | 6,150 | 0.158 |

Multiplying these G&A/cost ratios by the directly assigned costs for each revenue source produces the following allocation of G&A to the various revenue accounts:

| ($000) | Directly Assigned Costs | G&A Cost Ratio | Allocated G&A Costs |
|---|---|---|---|
| **License** | | | |
| Development | 8,716 | .185 | 1,617 |
| Maintenance | | | |
| Development | 3,813 | .185 | 707 |
| Customer Care | 1,630 | .189 | 308 |
| Hosting | | | |
| Managed Services | 2,603 | .189 | 492 |
| Professional Services - | | | |
| Professional Services | 3,445 | .199 | 684 |
| *Total* | 20,207 | | 3,808 |

The current Marketing and Sales costs are then augmented by the allocated current G&A costs:

| ($000) | Current | G&A Ratio | Alloc. G&A | Total |
|---|---|---|---|---|
| Marketing | 2,422 | 0.116 | 280 | 2,702 |
| Sales | 10,056 | 0.117 | 1,174 | 11,230 |
| *Total* | 12,478 | | 1,454 | 13,932 |

It seems clear that all direct costs should be assigned to the deferred revenue contracts along with a fair share of the G&A associated with these direct costs. However, it is necessary to determine how much of the current marketing and sales costs should be allocated to the deferred revenue accounts.

The marketing and sales costs for acquiring new customers can be quite high, particularly with large customers and large contract amounts. There are also significant costs for pursuing prospects that either choose competitors' offerings or choose not to acquire any products at that time. On the other hand, retaining the goodwill and active involvement of existing customers, particularly large ones with major contracts, requires substantial ongoing marketing and sales effort.

While BroadJump determined the current marketing and sales costs associated with supporting the existing customers, it did not differentiate between the fair share of these marketing and sales costs that should be assigned to servicing the deferred revenue contracts for the existing customers and what portion should be treated as costs involved in making future sales to these customers. For the purpose of determining the performance costs for the deferred revenue contracts, only the costs of servicing those contracts should be considered. These ongoing costs include customer service activities and being knowledgeable of and highly responsive to changing customer and subscriber needs as this market evolves and changes since this is within the contract support terms.

There is no explicit accounting basis for making this current support versus future sales distinction, but, being guided by the principle of what is the fair value of Motive's legal obligations in relation to the BroadJump deferred revenue accounts, we believe that only two-thirds of the current marketing and sales costs should be assigned to the legally required servicing of the deferred revenue accounts. This is based on discussions with Motive and BroadJump marketing and sales managers and BGAI's industry experience related to major account ongoing support costs.

Therefore, the current marketing and sales allocation costs should be adjusted as follows:

| ($000) | Current | Inclusion Ratio | Adjusted Current |
|---|---|---|---|
| Marketing | 2,422 | 0.667 | 1,615 |
| Sales | 10,056 | 0.667 | 6,704 |
| Total | 12,478 | | 8,319 |

The adjusted current Marketing and Sales costs are then allocated to the revenue accounts based on the 2002 revenue ratios:

| ($000) | License | Maint. | Host | Prof. Serv. | Total |
|---|---|---|---|---|---|
| Revenue Ratios | .764 | .075 | .071 | .090 | 1.000 |
| Marketing and Sales | 6,356 | 624 | 591 | 748 | 8,319 |

Based on these calculations we can now determine the total current costs for each 2002 revenue account:

| ($000) | License | Maint. | Host | Prof. Serv. | Total |
|---|---|---|---|---|---|
| Direct | 8,716 | 5,443 | 2,603 | 3,445 | 20,207 |
| G&A | 1,617 | 1,015 | 492 | 684 | 3,808 |
| Mktg & Sales | 6,356 | 624 | 591 | 748 | 8,319 |
| *Total* | 16,689 | 7,082 | 3,686 | 4,877 | 32,334 |

Therefore, we can establish the 2002-based current cost to revenue ratios for each revenue account:

| ($000) | Revenue | Current Cost | Ratio to Revenue |
|---|---|---|---|
| License | 36,753 | 16,689 | .454 |
| Maintenance | 3,599 | 7,082 | 1.968 |
| Host | 3,395 | 3,686 | 1.086 |
| Prof. Services | 4,369 | 4,877 | 1.116 |
| Total | 48,116 | 32,334 | .672 |

The new product and future prospect costs can also be determined:

| ($000) | Initial | Current G&A Ratio | Alloc. G&A | Total |
|---|---|---|---|---|
| Development | 1,633 | 0.185 | 302 | 1,935 |
| Prof. Services | 144 | 0.199 | 29 | 173 |
| Marketing | 2,148 | 0.116 | 249 | 2,397 |
| Sales | 1,588 | 0.117 | 185 | 1,773 |
| G&A | 799 | 0.154 | 123 | 922 |
| *Total* | 6,312 | | 888 | 7,200 |

A similar issue of legal obligation needs to be examined here as in allocating the current marketing and sales costs. While there is no question that the business as a whole, to remain viable, must incur these future development, marketing and sales costs with their associated G&A, what portion of this should be allocated to the deferred revenue accounts?

Again, there is no explicit accounting basis for making this distinction, so one must use industry experience and business judgment in determining a fair allocation.

It would seem reasonable that all of the development and professional services costs with their G&A should be borne equitably by the deferred revenue accounts since Motive is obligated to provide product improvements to existing accounts under the terms of the agreements. However, the marketing and sales costs (and their G&A) are explicitly directed toward obtaining new customers and not in obtaining renewals or extensions for existing customers. Therefore, these costs should not be allocated to the deferred revenue accounts.

Therefore, the calculations should be:

| | Total | G&A Alloc. | G&A Total | Adjusted Total |
|---|---|---|---|---|
| Devel. & Prof. Serv. | 2,108 | .336 | 310 | 2,418 |
| Marketing & Sales | 4,170 | .664 | 612 | 4,782 |
| Subtotal | 6,278 | 1.000 | 922 | 7,200 |
| G&A | 922 | | | |
| Total | 7,200 | | | |

The assigned product development costs for 2002 of $2,418,000 produces a ratio of .050 to the total 2002 revenues of $48,115,000.

## C. Projected Performance Costs for Deferred Revenue

The procedure will be:

- Establish projected deferred revenue by year for each revenue account
- Apply calculated 2002 performance cost ratios to determine projected performance costs for each year for each revenue account.
- Add development investment cost to total performance cost for each year
- Add profit markup
- Calculate net present value using selected NPV factors

The projected recognition of deferred revenue is shown below (from Appendix F-1):

| ($000) | 2003 | 2004 | 2005 | 2006 | Total |
|---|---|---|---|---|---|
| License | 29,129 | 9,525 | 4,384 | 3,006 | 46,044 |
| Maintenance | 3,330 | 1,423 | 965 | 731 | 6,449 |
| Hosting | 1,372 | 255 | 13 | - | 1,640 |
| Prof. Services | 172 | - | - | - | 172 |
| *Total* | 34,003 | 11,203 | 5,362 | 3,737 | 54,305 |

The projected performance costs are calculated below using those revenue projections:

| ($000) | Ratio | 2003 | 2004 | 2005 | 2006 | Total |
|---|---|---|---|---|---|---|
| License | 0.454 | 13,225 | 4,324 | 1,990 | 1,365 | 20,904 |
| Maintenance | 1.968 | 6,553 | 2,800 | 1,899 | 1,439 | 12,691 |
| Hosting | 1.086 | 1,490 | 277 | 14 | - | 1,781 |
| Prof. Services | 1.116 | 192 | - | - | - | 192 |
| *Total* | | 21,460 | 7,401 | 3,903 | 2,804 | 35,568 |

Each applicable element of the business should carry its share of the necessary investment product development. These investment costs should be allocated on the basis of the projected revenues using the .05 ratio developed for 2002.

The minimum target profit margins (and target markups) established by Motive for the existing BJ contracts for 2003-2006 is 15%. Converting this to an operations markup yields 17.6%.

The cost of money to be used in the NPV calculations is based on Motive's estimated cost of borrowing money as of 1/1/03. BGAI has been informed by Motive's CFO that the rate would be 7.5% for an unsecured medium term bank loan.

Using these factors, the fair value of the deferred revenue can be determined as shown in the table below:

| ($000) | 2003 | 2004 | 2005 | 2006 | Total |
|---|---|---|---|---|---|
| Recognized Deferred Revenue | 34,002 | 11,203 | 5,362 | 3,738 | 54,305 |
| Investment Cost (.05 of revenue) | 1,700 | 560 | 268 | 187 | 2,715 |
| Direct and Non-Direct Performance Costs | 21,460 | 7,401 | 3,903 | 2,804 | 35,568 |
| Total Performance Costs | 23,160 | 7,961 | 4,171 | 2,991 | 38,283 |
| Profit Markup (.176 of cost) | 4,076 | 1,401 | 734 | 526 | 6,738 |
| Subtotal | 27,236 | 9,362 | 4,905 | 3,517 | 45,021 |
| NPV Factors (.075) | .965 | .898 | .835 | .777 | |
| ***NPV*** | 26,283 | 8,407 | 4,096 | 2,733 | 41,519 |

Based on these procedures and calculations, BGAI believes that the fair value of the deferred revenue per contracted obligations acquired by Motive from BJ as of 12/31/02 is $41,519,000, which is 76.5% of the BroadJump balance sheet deferred revenue of $54,304,723.

## SECTION VII. Valuation of Intangible Assets

Based on the requirements specified in SFAS 141 (Financial Accounting and Reporting or Business Combinations), EITF report 01-3 (Accounting…for Deferred Revenue…) and EITF report 02-17 (Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination), BGAI has determined (with input from Motive and advice from E&Y) that the following intangible assets acquired from BroadJump should be explicitly considered:

a. Marketing-Related
   1. Trademarks, trade names and service marks
   2. Non-competition agreements

b. Customer-related
   1. Customer lists
   2. Order backlog
   3. Customer contracts and contractual customer relationships
   4. Non-contractual customer relationships

c. Contract-based
   1. Licensing, royalty and standstill agreements
   2. Servicing contracts
   3. Employment contracts

d. Technology-based
   1. Patented technology
   2. Computer software
   3. Unpatented technology
   4. Trade secrets

The SFAS 141 definitions are included as Appendix G-1.

Based on careful analysis of these possible intangible assets from BroadJump, we believe that the following should be eliminated:

a1. Trademarks, etc. are not of significant value in marketing this technical product to a limited business marketplace.

b1. The customer lists would have no value if resold to any third party.

c2. The servicing arrangements are embedded within the customer contracts and will be valued with b2, b3 and d2.

For clarity and computational convenience, the other intangible assets will be valued in this sequence:

A. Software and customer-related assets for BroadJump products (b2, b3 and d2)
B. Customer-related assets for future BroadJump products and services (b4)
C. In-process research and development (d3)
D. All other intangible assets (a2, c1, c3, d1 and d4)

## A. Valuation of Software and Customer Contract-Related Assets Acquired from BroadJump

BroadJump does business with a relatively limited number of large customers using somewhat standardized contracts. Each contract identifies the specific products and services to be provided over what time period and at what price. These contracts are often modified or extended after they are signed. Customers may also use purchase orders to confirm specific projects or services. BroadJump invoices its customers based on contract terms and on recognized work progress on certain services activities.

From a business standpoint, BroadJump considers the billings on most of its activities (licenses, maintenance, hosting and on certain professional services) as not based on having vendor specific objective evidence (VSOE). Therefore, they are treated as deferred revenues and recognized appropriately over the life of each contract.

To manage its business effectively, BroadJump forecasts its operations on a GAAP basis since the bulk of its costs are incurred in supporting the products and performing the contracted services over the life of each contract. Therefore, BGAI will produce its own revenue and cost projections using this same approach. However, since the values for the backlog, contracts and products will all be based on the net present value of the cash flow, the actual deferred revenue projections from Section VI as of 12/31/02 as reported by BroadJump and the associated costs as determined by BGAI will be deducted year by year from the BGAI forecasted GAAP revenues and costs.

Therefore, the first set of projections will relate to the entire GAAP-based forecasts for revenue and costs for current products over the time period to be used for valuation. Given the rapidity of technological change and the risk that significant well-funded competitors may enter the marketplace through internal development or acquisitions, valuing profits beyond a 5-year period would appear too speculative. Therefore, BGAI will use an economic product life of 5 years for the current BJ products.

From this GAAP projection, BGAI will then deduct the revenues and associated costs for the deferred revenue component. For the remainder, BGAI will determine the appropriate ratios of the various cost elements to the corresponding revenue accounts for each year. Using the projected revenues and these cost ratios, BGAI will establish three separate business forecasts

- Unbilled revenues from current customers and their costs
- Renewals and extended revenues from current customers and their costs
- New customer revenues (with renewals and extensions) with their corresponding costs

The net present value after taxes of the operating income from unbilled revenues will be assigned as the fair value of the order backlog.

The net present value after taxes of the operating income from renewals and extensions will be assigned as the fair value of the customer contracts and relationships.

The net present value after taxes of the operating income from new customers will be assigned as the fair value of the software products.

### 1. GAAP-Based Projections

#### a. Revenue Forecasts

Assumptions – Current Customers - General

There are two different types of license agreements which BroadJump has signed with its customers: Perpetual and Term.

The perpetual license agreements allow the customer to use the licensed products for up to the authorized number of subscribers for the agreed to price. After the end of the contract period, the customer need not pay any further license or maintenance fees for the number of authorized subscribers for the specific products covered under the agreement, even though the term of the agreement has expired.

The term license agreements only allow the customer to use the licensed products for up to the authorized number of subscribers until the term of the license expires. If these customers wish to have any additional authorized subscribers besides those already activated then they must sign and pay for a new agreement.

Therefore, in projecting future revenue from current customers beyond the term of the agreements, the calculations are different for the two different types of license agreements.

Appendix F-4A summarizes the information from Appendix F-4B. This provides the foundation for Appendix I-1 which summarizes when each of the current customer contracts expires and the number of authorized subscribers covered by each contract.

We have determined the authorized number of subscribers for each agreement which terminates in a particular year, separated by perpetual and term licenses (see Appendix I-1). This has been used as the basis for projecting contract renewals, extensions and additional product sales for current customers.

Note that BGAI has adopted a quite different pricing model than has been previously used by BroadJump. We have assumed annual license and maintenance fees with annual hosting fees for those who choose hosting. This permits BGAI to set rational prices for licenses, maintenance and hosting, consistent with BroadJump's list prices. It is essentially an equivalent model from a revenue recognition viewpoint, but permits more accurate determination of the various COR and operating expenses.

Assumptions – Current Customers – Additional Subscribers

- The current projections for deferred and unbilled revenue on existing contracts will be realized (see Appendices F-1 and F-2) and are posted in Appendix H-1.

- At the end of the current contracts (both perpetual and term), 95% of the current customers representing 95% of the authorized subscribers will continue to use the licensed BroadJump products. This erosion adjustment has been made by not including the smaller current customers.

- Neither the perpetual license customers nor the term license customers will need to pay any further license or maintenance fees for authorized subscribers already activated for Virtual Truck or Smart Connect.

- In addition, perpetual license customers will not need to pay license or maintenance fees for future subscribers up to their authorized subscriber limit for Virtual Truck or Smart Connect.

- Smart Connect (currently sold with a product from Support Soft) which has been licensed to about 25% of the current customers will become a new offering which includes one of Motive's products that has similar functionality to the current Support Soft component. It will be used for customer renewals or extensions as well as sold to current customers which do not have this product.

Additional Subscribers – Virtual Truck

- Each extending current customer with a perpetual license for Virtual Truck will add 25% of the number of additional subscribers to their authorized number at the end of the current contract for Virtual Truck.

- Each renewing current customer with a term license for Virtual Truck will license 50% of the number of originally authorized subscribers at the end of the current contract for Virtual Truck.

- There will be a license fee of $1.50 per subscriber per year for each additional authorized subscriber for use of Virtual Truck. The maintenance fee will be $.30 per subscriber per year for additional subscribers for Virtual Truck.

- No additional hosting services will be obtained from current customers for additional subscribers for Virtual Truck.

- No additional professional service fees will be obtained from current customers for additional subscribers for Virtual Truck.

The calculations are shown in Appendices I-1, I-2 and I-3, yielding the total projected revenue from additional subscribers for Virtual Truck from current customers.

Additional Subscribers – Smart Connect

- Appendix I-4 lists the entire current number of authorized subscribers as of 12/31/02, not just those whose customer contracts are terminating in a particular year. This figure is used for the current subscriber adoptions. The additional licenses come from Appendix I-2 and will be used for the additional subscriber calculations.

- Each extending current customer with a perpetual license for Smart Connect will add 25% of the number of additional subscribers to their authorized number at the end of the current contract for Smart Connect.

- 50% of all additional Virtual Truck subscribers will license Smart Connect and 25% more of current authorized subscribers.

- For Smart Connect, the license fee will be $1.00/additional subscriber/year and the maintenance fee will be $.20/additional subscriber/year.

- No additional hosting or professional services fees will be obtained from current customers for additional subscribers for Smart Connect.

The calculations are shown in Appendices I-1, I-4 and I-5, yielding the total projected revenue from additional subscribers for Smart Connect from current customers.

Summary – Current Customers

Appendix I-6 summarizes the total additional revenue from current customers using the results in Appendices I-3 and I-5.

These results are then posted in Appendix H-1 as part of the GAAP-based revenue projections for current customers.

Assumptions – New Customers

The current BroadJump customers already have licenses for almost 30 million subscribers and the BGAI projections show them committing to an additional 10 million over the next 5 years. Industry information indicates that BroadJump has covered about 70% of the currently available North American subscribers. Appendix C-2 shows the ARC Research forecast for 2002-2007, indicating a growth in the Americas, Western Europe and Asia Pacific from a little over 36 million installed subscribers in 2002 to over 250 million in 2007.

If this dramatic growth rate is realized, the opportunities for the current and new BroadJump products are much larger than BGAI has forecast. Nevertheless, we have taken a conservative view anticipating the entry of serious competitors, principally in Europe and Asia Pacific as well as the possibility of new technologies which could change the landscape from broadband to wireless or other solutions.

It is also our belief that most of the new customer growth for BroadJump will be outside of North America where the established customer relationships will be less valuable.

- License fees will be $1.50/subscriber/year for new accounts for Virtual Truck and $1.00/subscriber/year for new accounts for Smart Connect.

- Maintenance fees for new accounts will be 20% per year of license fees for each product ($.30/subscriber/year for Virtual Truck and $.20/subscriber/year for Smart Connect).

- BJ will obtain 5 new customers each year over the forecast period.

- Each new Virtual Truck customer will sign up for 1,000,000 subscribers.

- Hosting will be signed up for 50% of new customers for the first 3 years of the contract for Virtual Truck at 20% of license fee (an effective price of $.15/subscriber/year).

- Professional services will be obtained at 20% of license fee for each product for the first two years of each contract ($.30/subscriber/year for Virtual Truck and $.20/subscriber/year for Smart Connect).

- None of the new customers will erode during the forecast period.

- 25% of new customers will license Smart Connect when they license Virtual Truck. Another 25% of new customers will license Smart Connect two years after they license Virtual Truck.

These calculations are shown in Appendices I-7 and I-8. In Appendix I-7 we have calculated the cumulative number of subscribers in order to calculate license fees and maintenance revenue. We have calculated cumulative 2 year and 3 year figures to determine professional services and hosting revenues.

Using these assumptions generates the GAAP-based revenue projections for new customers shown in Appendix H-1.

**b. Cost of Revenue Projections**

The Cost of Revenue projections are based on using BroadJump's accounting records for 2002 (see Appendix D-1). These figures are slightly different from the values in

Appendix F-5, but are available at the level of detail that we need for these calculations. Without debating the rules used by BroadJump in classifying its expenses, the GAAP-based accounting reports provide a consistent framework for future projections:

| 2002 COR Analysis | | | | |
|---|---|---|---|---|
| (\$000) | Revenue | COR | Ratio | Projected Ratios for 2003-2007 |
| License | 36,753 | 1,263 (1) | .0344 | .040-.036 |
| Maintenance | 3,602 | 953 (2) | .2646 | .25-.21 |
| Hosting | 3,410 | 953 (2) | .2795 | .25 |
| Prof. Services | 4,455 | 2,777 | .6233 | .60-.56 |
| Total | 48,220 | 5,947 | .1233 | |

(1) Includes royalties of \$975
(2) Maintenance and hosting COR is aggregated; we have assumed a 50-50 ratio

In each case we expect that the COR will be reduced as better processes are introduced and revenue volumes increase for the current and future products and services. We will reduce the Cost of Revenue linearly over the forecasted time period. The projected ratios are based on professional judgment related to the actual experience at many other software companies.

Using these assumptions yields the Cost of Revenue projections shown in Appendix H-2.

### c. Operating Expense Projections

The operating expense projections were also based on using BroadJump's accounting records for 2002 (see Appendix D-1). Without analyzing the classifications used by BroadJump in assigning its expenses, the GAAP-based accounting reports provide a consistent framework for future projections:

| 2002 Operating Expense Analysis | | | | | |
|---|---|---|---|---|---|
| (\$000) | Operating Expense | Revenue Base | Revenue Base | Calc. Ratio | Selected Ratio |
| Sales | 14,497 | Total | 48,220 | 0.301 | .285-.260 |
| Marketing | 4,312 | Total | 48,220 | 0.089 | .085-.080 |
| Prof. Serv. and Support (1) | | | | | |
| Maintenance | 1,089 | Maint. | 3,602 | 0.302 | .300 |
| Hosting | 1,089 | Hosting | 3,410 | 0.319 | .300 |
| Prof. Services | 1,089 | Prof. Serv. | 4,455 | 0.244 | .250 |
| Development | 13,837 | License | 36,753 | 0.376 | .375-.350 |
| G&A | 3,606 | Total | 48,220 | 0.075 | .075 |
| Total | 39,519 | Total | 48,220 | 0.820 | |

(1) Total operating expense of \$3,267 was divided equally among the three services functions

In a number of cases (sales, marketing and development), we expect the cost ratios to improve as better processes are introduced and revenue volumes increase for the current and future products and services. We will reduce these operating expenses linearly over the forecasted time period.

We have not differentiated the sales expenses used for the current customers and current products from those used for new customers and new products. We viewed BroadJump as an ongoing business dealing with a limited number of large customers. In contrast to a unit sale where once sold there is no ongoing marketing and sales effort for that customer (unless you wish to sell added functions, added users or upgrades), this business requires continuing attention to each customer on the same level as to each prospect. Marketing must maintain customer confidence in the value and leadership qualities of the products. Sales must maintain close relations to resolve problems, identify additional requirements and modifications, sell additional capabilities and more authorized subscribers, counteract any competitive activity and prepare the ground for extensions of contracts and sale of new products. Therefore, we did not set up a 2 tier or 3 tier marketing and sales cost structure.

Using these assumptions yields the Operating Expense projections shown in Appendix H-3.

**d. GAAP-Based Summary**

Appendix H-4 shows the summary of the GAAP-based projections using the values from Appendices H-1, H-2 and H-3.

The following table shows the principal values from Appendix H-4:

| GAAP-Based Summary | | | | | | |
|---|---|---|---|---|---|---|
| **($000)** | **2003** | **2004** | **2005** | **2006** | **2007** | **Total** |
| Revenue | 55,997 | 58,483 | 72,907 | 86,146 | 94,969 | 368,502 |
| Cost of Revenue | 5,147 | 6,409 | 7,553 | 8,258 | 8,569 | 35,936 |
| Operating Expense | 45,024 | 46,134 | 56,832 | 66,415 | 71,399 | 285,804 |
| Operating Income (EBITDA) | 5,826 | 5,941 | 8,521 | 11,472 | 15,000 | 46,760 |

## 2. Elimination of Deferred Revenues and Corresponding Costs

**a. Elimination of Deferred Revenues**

Based on the information in Section VI, the deferred revenues will be recognized as shown in Appendix H-5.

**b. Elimination of Corresponding Costs**

Based on the analysis in this section, the COR and Operating Expenses for deferred revenue will be incurred as shown in Appendix H-5. We have used the actual ratios from 2002 rather than the projected performance costs from Section VI or the projected future ratios established in this section.

**c. Adjustment of GAAP-Based Summary for Deferred Revenue**

Appendix H-6 shows the adjusted GAAP-Based projections after eliminating the deferred revenues and their associated costs.

**d. Cost Ratios from Adjusted GAAP-Based Summary**

Appendix H-7 shows the cost to revenue ratios from the values in Appendix H-6, the Adjusted GAAP-Based Summary.

**3. <u>Valuation of Backlog</u>**

**a. Unbilled Revenues**

The unbilled revenues are shown in Appendix H-8 (from Appendix H-1)

**b. Costs for Unbilled Revenues**

Using the cost ratios from Appendix H-7, the costs for unbilled revenues are shown in Appendix H-8.

**c. Net Present Value Calculation**

Based on discussions with Motive and E&Y and on industry experience, BGAI has used a combined worldwide tax rate of 38% representing US federal and state taxes and a reasonable mix on international taxes.

The net present value factor represents a risk-adjusted rate of return to be applied to the after tax operating income. While the current risk free cost of money is below 7.5%, the typical expected return on investment for the computer software and services industry is close to 15%.

Since there is only normal risk to the unbilled revenue stream, we will use 15% as the NPV factor for the backlog valuation.

Using a tax rate of 38% and a net present value factor of 15%, the following table shows the calculations of the net present value of the BroadJump backlog (unbilled revenues) from Appendix H-8:

| Backlog Net Present Value Calculation | | | | | | |
|---|---|---|---|---|---|---|
| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
| Revenue | 3,504 | 5,361 | 2,946 | 1,000 | - | 12,811 |
| Cost of Revenue | 267 | 510 | 319 | 70 | - | 1,166 |
| Operating Expense | 2,643 | 4,177 | 2,268 | 773 | - | 9,861 |
| Operating Income (EBITDA) | 594 | 675 | 360 | 157 | - | 1,786 |
| Taxes (38%) | 226 | 256 | 137 | 60 | - | 679 |
| Oper. Inc. after Tax | 368 | 418 | 223 | 97 | - | 1,106 |
| NPV Factors (15%) | .935 | .813 | .707 | .615 | .534 | |
| NPV | 344 | 340 | 158 | 60 | - | 902 |

The amortizable life is selected based on the expected economic life of the product. In this case the life is only 4 years since there is no unbilled revenue from current contracts after 2006.

Amortization should be taken on a basis matching the expected operating income stream. In this case the bulk of the income is in the early years. BGAI therefore recommends that Motive use the following amortization ratios:

| | |
|---|---|
| 2003 | 35% |
| 2004 | 35% |
| 2005 | 20% |
| 2006 | 10% |
| | 100% |

## 4. Valuation of Customer Contract Relationships

### a. Renewal and Extension Revenues

The revenues from additional licenses to current customers are shown in Appendix H-9 (from Appendix H-1).

### b. Costs for Extensions

Using the cost ratios established in Appendix H-7, the renewals and extensions costs are shown in Appendix H-9.

### c. Net Present Value Calculation

Based on discussions with Motive and E&Y and on industry experience, BGAI has used a combined worldwide tax rate of 38% representing US federal and state taxes and a reasonable mix on international taxes.

The net present value factor represents a risk-adjusted rate of return to be applied to the after tax operating income. While the current risk free cost of money is below 7.5%, the typical expected return on investment for the computer software and services industry is close to 15%. Given the complex nature and rapidity of technological change in the broadband marketplace, an additional 5% risk factor has been added to the 15% to reach the selected factor of 20%. This also seems sufficient to cover the risk of overestimating the revenues or underestimating the costs for current products for existing customers.

Using a tax rate of 38% and a net present value factor of 20%, the following table shows the results of the calculations of the net present value of the BroadJump customer contract relationships (renewal and extension revenues) from Appendix H-8:

| Customer Contract Relationships NPV Summary | | | | | | |
|---|---|---|---|---|---|---|
| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
| Revenue | 5,490 | 15,919 | 25,599 | 30,159 | 31,719 | 108,886 |
| Cost of Revenue | 423 | 1,149 | 1,780 | 2,022 | 2,062 | 7,436 |
| Operating Expense | 4,154 | 12,527 | 20,041 | 23,346 | 24,000 | 84,068 |
| Operating Income (EBITDA) | 913 | 2,243 | 3,778 | 4,790 | 5,657 | 17,381 |
| Taxes (38%) | 347 | 852 | 1,436 | 1,820 | 2,149 | 6,604 |
| Oper. Inc. after Tax | 566 | 1,390 | 2,342 | 2,970 | 3,507 | 10,775 |
| NPV Factors (20%) | .917 | .764 | .637 | .530 | .442 | |
| NPV | 519 | 1,062 | 1,492 | 1,574 | 1,550 | 6,197 |

The amortizable life is selected based on the expected economic life of the product. In this case the life is essentially 5 years since there is not expected to be any new sales revenues from the current product after 2007.

Amortization should be taken on a basis matching the expected operating income stream. In this case the bulk of the income is in the later years. BGAI therefore recommends that Motive use the following amortization ratios:

| | |
|---|---|
| 2003 | 5% |
| 2004 | 15% |
| 2005 | 20% |
| 2006 | 30% |
| 2007 | 30% |
| | 100% |

## 5. Valuation of Software Products and Related Services

### a. New Customer Revenues

The revenues from new customers are shown in Appendix H-10 (from Appendix H-1).

**b. Costs for New Customer Revenues**

Using the cost ratios established in Appendix H-7, the costs for new customers are shown in Appendix H-10.

**c. Net Present Value Calculation**

Based on discussions with Motive and E&Y and on industry experience, BGAI has used a combined worldwide tax rate of 38% representing US federal and state taxes and a reasonable mix on international taxes.

The net present value factor represents a risk-adjusted rate of return to be applied to the after tax operating income. While the current risk free cost of money is below 7.5%, the typical expected return for the computer software and services industry is close to 15%. Given the complex nature and rapidity of technological change in the broadband marketplace, an additional 5% risk factor has been added to the 15% to reach the selected factor of 20%. This also seems sufficient to cover the risk of overestimating the revenues or underestimating the costs for current products for new customers.

Using a tax rate of 38% and a net present value factor of 20%, the following table shows the results of the calculations of the net present value of the BroadJump software products and related services taken from Appendix H-10:

| Software Products and Services NPV Summary | | | | | | |
|---|---|---|---|---|---|---|
| **($000)** | **2003** | **2004** | **2005** | **2006** | **2007** | **Total** |
| Revenues | 13,000 | 26,000 | 39,000 | 51,250 | 63,250 | 192,500 |
| Cost of Revenue | 2,005 | 3,948 | 5,032 | 5,860 | 6,508 | 23,353 |
| Operating Expenses | 9,614 | 20,009 | 30,031 | 39,168 | 47,399 | 146,221 |
| Operating Income (EBITDA) | 1,381 | 2,043 | 3,938 | 6,222 | 9,344 | 22,928 |
| Taxes (38%) | 525 | 776 | 1,496 | 2,364 | 3,551 | 8,713 |
| Oper. Inc. after Tax | 856 | 1,267 | 2,442 | 3,858 | 5,793 | 14,215 |
| NPV Factors (20%) | .917 | .764 | .637 | .530 | .442 | |
| NPV | 785 | 968 | 1,555 | 2,045 | 2,561 | 7,914 |

The amortizable life is selected based on the expected economic life of the product. In this case the life is essentially 5 years since there is not expected to be any new sales revenues from the current product after 2007.

Amortization should be taken on a basis matching the expected operating income stream. In this case the bulk of the income is in the later years. BGAI therefore recommends that Motive use the following amortization ratios:

| | |
|---|---|
| 2003 | 5% |
| 2004 | 10% |
| 2005 | 15% |
| 2006 | 30% |
| 2007 | 40% |
| | 100% |

**B. Valuation of Non-Contractual Customer Relationships**

While there is substantial future value to Motive from selling one of its current products to the BroadJump customer base, the intangible asset valuation rules per SFAS 141 consider such benefits to be synergistic and therefore must be included within goodwill.

Based on the SFAS rules, we will not assign any value to non-contractual customer relationships.

**C. Valuation of In-Process Research and Development**

BroadJump has made excellent progress in developing a major new product (Service Delivery Edition) to be introduced to the Broadband marketplace in late 2003. The product has now reached the stage where a limited function working prototype is available for initial testing with a selected customer. Based on the results of this initial testing, the design, programming and system testing will be completed and the product made available for general use. We will assume that the product will not have its first general customer until 1Q04.

Substantial development costs have already been incurred during 2002 in bringing SDE to its current stage. However, based on our review of materials and executive discussions, BGAI does not believe that SDE would currently qualify to pass the SFAS 86 technical feasibility test.

Using the current rules for determining the value of In-Process Research and Development (IPR&D), BGAI has forecasted the expected revenues from SDE over its anticipated economic life, deducted the remaining costs for development and other market preparation costs in 2003, and then projected the COR and operating costs over its forecast life. The technical and market risks will be recognized in the NPV factors used.

**1. <u>GAAP-Based Projections</u>**

**a. Revenue Forecasts**

SDE has an ongoing license and maintenance requirement and should be able to be sold to most of BroadJump's current and future customers. The marketing plan is to license customers for all of their authorized subscribers at an attractive price per subscriber per year. This product will obtain revenues from current customers and new customers.

## Assumptions – Current Customers

Appendix I-9 picks up the current customer subscriber base from Appendix I-4 plus the expected additional subscribers from current customers from Appendix I-2. This provides the total subscriber base for current customers.

- The entire current customer base is available for additional product sales for SDE starting in 1Q04. Since the plan is to launch the product in a controlled release mode, licenses will ramp up gradually until 50% of current customers have licensed SDE for already authorized and additional subscribers.

- The SDE license adoption rate for current customer subscribers will be 10% in 2004, 10% in 2005, 15% in 2006 and 15% in 2007, totaling 50% of all subscribers. Appendix I-9 shows the calculations which generate the number of SDE subscribers from current BroadJump customers for the period 2004-2008.

- License fees will be $1.50 per authorized subscriber per year.

- Maintenance fees will be $.30 per authorized subscriber per year.

- Hosting fees will be $.30 per authorized subscriber for the first three years for 50% of the customers (an effective $.15 per subscriber per year).

- Professional Services fees will be $.30 per authorized subscriber for the first two years for 100% of the customers.

For these current customers, Appendix I-10 shows the revenue projections using the pricing and penetration assumptions listed above.

## Assumptions - New Customers

Appendix I-11 picks up the new customer subscriber projections from Appendix I-7 for Virtual Truck, also assuming that BroadJump adds another 5 customers with 1,000,000 subscribers each in 2008.

- The SDE license adoption rate will be at the rate of 25% of all new customer subscribers in their first year plus an additional 25% in their third year for a total of an eventual 50% of all new customer subscribers. The results are shown in Appendix I-11.

- License fees will be $1.50 per authorized subscriber per year.

- Maintenance fees will be $.30 per authorized subscriber per year.

- There will be no hosting fees. We assume that these will be part of the Virtual Truck hosting fees for new customers.

- Professional Services fees will be \$.30 per authorized subscriber for the first two years for 100% of the customers.

For these new customers, Appendix I-12 shows the revenue projections using the pricing and penetration assumptions listed above.

Appendix I-13 uses the revenue projections from Appendices I-10 and I-12 to provide the total projected revenue for SDE from 2003-2008. These revenues are copied into Appendix H-12.

**b. Cost of Revenue and Operating Expense Projections**

We will use the same cost of revenue assumptions as used for the other product COR projections extended for an additional year. These ratios are shown in Appendix H-11 and are copied from Appendix H-7.

Similarly, we will use the same operating expense ratios as used for the other product cost projections extended for an additional year. These ratios are also shown in Appendix H-11 and are also copied from Appendix H-7.

Based on information supplied by BroadJump (see Appendix E-3), we have added additional development and market preparation costs in 2003 prior to the product being generally available in 1Q04. These costs are shown in Appendix H-12.

Appendix H-12 multiplies the ratios from Appendix H-11 by the revenues copied from I-13 to compute the COR and Operating Expenses for SDE to determine the EBITDA Operating Income.

### c. GAAP-based Summary

The summary of the GAAP-based projections uses the values from Appendix H-12. The following Table shows the principal summary values from Appendix H-12:

| GAAP-Based Summary | | | | | | | |
|---|---|---|---|---|---|---|---|
| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
| Revenue | - | 12,783 | 29,353 | 62,266 | 99,274 | 125,372 | 329,048 |
| Cost of Revenue | - | 1,917 | 4,298 | 8,114 | 12,033 | 13,078 | 39,440 |
| Operating Expense | 1,000 | 9,847 | 22,511 | 47,402 | 74,066 | 93,240 | 248,066 |
| Operating Income (EBITDA) | (1,000) | 1,019 | 2,544 | 6,750 | 13,175 | 19,054 | 41,542 |

### d. Net Present Value Calculation

Based on discussions with Motive and E&Y and on industry experience, BGAI has used a combined worldwide tax rate of 38% representing US federal and state taxes and a reasonable mix on international taxes.

The net present value factor represents a risk-adjusted rate of return to be applied to the after tax operating income. While the current risk free cost of money is below 7.5%, the typical expected return for the computer software and services industry is close to 15%. Given the complex nature and rapidity of technological change in the broadband marketplace, an additional 5% risk factor has been added to the 15% to reach 20%.

Because of the development status of this new product, we have added another 5% to represent our assessment of the technical risk involved in completing SDE in a timely fashion within the planned budget. Therefore, we have used a 25% risk adjusted NPV factor.

Using a tax rate of 38% and a net present value factor of 25%, the following table shows the results of the calculations of the net present value of the BroadJump software products and related services taken from Appendix H-12:

| In-Process R&D NPV Summary | | | | | | | |
|---|---|---|---|---|---|---|---|
| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
| Operating Income (EBITDA) | (1,000) | 1,020 | 2,545 | 6,751 | 13,175 | 19,053 | 41,544 |
| Oper. Inc. after Tax (38%) | (620) | 632 | 1,578 | 4,185 | 8,166 | 11,813 | 25,754 |
| NPV Factors (25%) | .900 | .720 | .576 | .461 | .369 | .295 | |
| NPV | (558) | 455 | 909 | 1,929 | 3,013 | 3,485 | 9,233 |

The In-Process R&D is valued at $9,233,000 as of 12/31/02 for the years 2003-2008.

## D. Valuation of Other Intangible Assets Acquired from BroadJump

There are other intangible assets which need to be valued and their determinable life established. These include:

1. Non-competition agreements
2. Royalties and licenses
3. Patented technologies
4. Trade secrets and unpatented technologies

### 1. Non-Competition Agreements

Specific agreements have been signed with the four principals at BroadJump to pay them a total of $4,800,000 up front in order to assure Motive that they will not compete in the relevant marketplace for three years. These payments will be made at closing. This asset should be amortized on a straight-line basis over three years.

### 2. Royalties and Licenses

There are no significant royalties or licenses and therefore the value is set at zero.

### 3. Patented Technologies

BroadJump has applied for four patents which are described in Appendix C-5. These all relate to broadband systems facilities which have been incorporated in BroadJump's ControlWorks programs. There is no simple basis for determining the potential value of these patents. BroadJump has no plan to license these patents, if granted, to other companies and there is no clear record of the costs for developing the technologies underlying these patent applications. The principal value of these technologies lies in the value of the products which they have helped to produce. Based on our professional judgment and business experience, we have assigned a value of $500,000 to Patented Technologies as a reasonable estimate of what one or more independent third parties would pay for a non-exclusive, royalty-free license to use the technologies outside of BroadJump's marketplace. We believe that the economic life of these patented technologies is currently indeterminate.

### 4. Trade Secrets and Unpatented Technologies

BroadJump has invested over $10 million in building its current products. These products are protected by copyright and trade secret agreements with employees and customers. The principal value of these technologies lies in the products which they have helped to produce and in future products which will be built reusing these technologies. Establishing the standalone value of these technologies and trade secrets is quite difficult since there is no specific market value. Based on our professional judgment and business experience, we have assigned a value of $500,000 for Trade Secrets and Unpatented Technologies as a reasonable estimate of what one or more independent third parties would pay for a non-exclusive, royalty-free license to use the technologies outside of BroadJump's marketplace. We believe that the economic life is currently indeterminate.

## E. Adjustments for Terminal Value, Other Asset Contributions and Intangible Asset Tax Benefit

There are three further adjustments required to the value of certain of the intangible assets:

- Terminal value of product-based cash flow
- Contribution to operating income from other assets
- Tax benefit from amortizing intangible assets

Each of the intangible assets affected will be examined for these three adjustments.

### 1. Terminal Value

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

In the case of BroadJump, there are four intangible asset valuations which may be subject to this terminal value calculation:

- Backlog
- Customer Contract Relationships
- Software Products
- In-Process R&D

Each of these will be analyzed and their residual terminal values, if any, determined.

**a. Backlog Value**

The backlog value reflects the operating income from unbilled revenues. Since the unbilled revenues are finished in 2006, there is no need for a terminal value calculation.

**b. Customer Contract Relationships Value**

The choice of a 5 year economic life for the current products (Virtual Truck and Smart Connect) was based on the expectation that by the end of 2007 BroadJump would have introduced replacement products for these functions, competitors would have released better advanced products or the market technologies for broadband would have changed requiring new products to be competitive.

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

Normally, for most software products, there would be a substantial add-on and maintenance revenue stream for at least 2-3 years. But in the case of these BroadJump offerings there is no ongoing maintenance requirement for installed subscribers for Virtual Truck or Smart Connect since both are activation products, which are only used when the subscriber first connects to the broadband supplier.

Once there is a replacement product, most customers will use the new product to activate their new subscribers or to modify the installations of existing subscribers. Therefore, in our opinion, the continuing revenue from existing customers for current products will be relatively small, only covering those customers who are not ready to migrate to the replacement products.

The following table represents our forecast for revenues, costs and NPV for Customer Contract Relationships:

| Customer Contract Relationship NPV Summary | | | | |
|---|---|---|---|---|
| ($000) | 2008 | 2009 | 2010 | Total |
| Revenues | 10,000 | 5,000 | 2,000 | 17,000 |
| Operating Income (18%) | 1,800 | 900 | 360 | 3,060 |
| Oper. Inc. After Tax (38%) | 1,116 | 558 | 223 | 1,897 |
| NPV Factors (20%) | .368 | .307 | .256 | |
| NPV | 411 | 171 | 57 | 639 |

This terminal value must be added to the NPV for Customer Contract Relationships of $6,197,000 which yields a revised value of $6,836,000.

**c. Software Products Values**

The choice of a 5 year economic life for the current products (Virtual Truck and Smart Connect) was based on the expectation that by the end of 2007 BroadJump would have introduced replacement products for these functions, competitors would have released better advanced products or the market technologies for broadband would have changed requiring new products to be competitive.

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

Normally, for most software products, there would be a substantial add-on and maintenance revenue stream for at least 2-3 years. But in the case of these BroadJump offerings there is no ongoing maintenance requirement for installed subscribers for Virtual Truck or Smart

Connect since both are activation products, which are only used when the subscriber first connects to the broadband supplier.

Once there is a replacement product, most customers will use the new product to activate their new subscribers or to modify the installations of existing subscribers. Therefore, in our opinion, the continuing revenue from existing customers for current products will be relatively small, only covering those customers who are not ready to migrate to the replacement products.

The following table represents our forecast for revenues, costs and NPV for Software Products:

| Software Products NPV Summary | | | | |
|---|---|---|---|---|
| ($000) | 2008 | 2009 | 2010 | Total |
| Revenues | 15,000 | 10,000 | 5,000 | 30,000 |
| Operating Income (18%) | 2,700 | 1,800 | 900 | 5,400 |
| Oper. Inc. After Tax (38%) | 1,674 | 1,116 | 558 | 3,348 |
| NPV Factors (20%) | .368 | .307 | .256 | |
| NPV | 616 | 343 | 143 | 1,102 |

This terminal value must be added to the NPV for Software Products of $7,914,000 which yields a revised value of $9,016,000.

**d. In-Process R&D Values**

The choice of a 5 year economic life for the new product (Service Delivery Edition) was based on the expectation that by the end of 2008 BroadJump would have introduced a replacement product for these functions, competitors would have released better advanced products or the market technologies for broadband would have changed requiring a new product to be competitive.

Given those scenarios, BroadJump would expect that its future revenues from the new product would decline fairly rapidly as new sales were reduced and customers migrated their subscribers to a new product.

Normally, for most software products, there would be a substantial add-on and maintenance revenue stream for at least 2-3 years. In the case of this BroadJump offering there is an ongoing maintenance requirement for installed subscribers for SDE since it is a continuing use product.

Even after there is a replacement product, some customers will continue to use the old product to provide ongoing services to their new subscribers or to modify and maintain the services for existing subscribers. Therefore, in our opinion, the continuing revenue from existing customers for current products will be substantial, covering those customers who are not ready to migrate to the replacement products.

The following table represents our forecast for revenues, costs and NPV for In-Process R&D:

| In-Process R&D NPV Summary | | | | |
|---|---|---|---|---|
| ($000) | 2009 | 2010 | 2011 | Total |
| Revenues | 30,000 | 20,000 | 10,000 | 60,000 |
| Operating Income (18%) | 5,400 | 3,600 | 1,800 | 10,800 |
| Oper. Inc. After Tax (38%) | 3,348 | 2,232 | 1,116 | 6,696 |
| NPV Factors (25%) | .236 | .189 | .151 | |
| NPV | 790 | 422 | 169 | 1,381 |

This terminal value must be added to the NPV for In-Process R&D of $9,233,000 which yields a revised value of $10,614,000.

## 2. Contributions from Other Assets

The valuation process also requires that some portion of the operating income be attributed to the contribution of other assets to the revenue stream. In the case of BroadJump, primarily a computer software company, there are a variety of these assets to be considered:

- Working capital
- Facilities and equipment
- Customer base
- Technologies
- Assembled work force

After review, BGAI believes that the investment in the customer base and technologies has been fully considered in the valuation of Customer Contract Relationships and Software Products and requires no further adjustment.

The other three need to be examined and a fair return on their value calculated and deducted from the after tax operating income of the revenue based intangible assets.

To do this, BGAI must establish the fair value of each of these assets and then determine a fair return ratio for each to be used in making adjustments to the net present value. The fair return ratios consider that Motive would be targeting 15% return on investment as a reasonably satisfactory figure.

### a. Working Capital

How much working capital would BroadJump need in order to function efficiently? Clearly, the present cash position far exceeds the needed working capital. Based on common industry practice, we believe that working capital which equaled two months operating costs would be sufficient for this highly revenue predictable business. The cost of revenue and operating costs in 2002 were somewhat over $45 million, but the run rate in the fourth quarter was around $3.5 million per month. Therefore, working capital of $7.0 million would seem sufficient entering 2003.

The fair rate of return on working capital should be fairly low, only slightly higher than the cost of money. We have used 7.5% as the cost of money, so we will use 9% as the fair return on the $7.0 million working capital. This amounts to $630,000 per year pre tax.

**b. Facilities and Equipment**

What is the fair value of the facilities and equipment as regards their contribution to the revenue stream? In Motive's opinion these assets are worth much less than book value since it is Motive's plan to dispose of the facilities and the principal computer equipment.

After discussions with Motive executives, the remaining facilities and equipment value (in terms of contributing to ongoing profitability) is in the order of $1.5 million.

The fair rate of return on the facilities and equipment is at a moderate level. We have used 12% as the fair return on the $1.5 million facilities and equipment which amounts to $180,000 per year pre tax.

**c. Assembled Work Force**

As of 12/31/02 BroadJump had 233 employees. Motive had decided to eliminate 65 of those positions (along with another 20 Motive employees). Therefore, only 168 of the BroadJump employees are meaningful in terms of contributing to future earnings.

While the current valuation rules do not recognize the value of the assembled work force except as a component of goodwill, historically they were valued in terms of their replacement cost: what it would cost to recruit and train them and the cost of their lower productivity for some period of time. For the mix of BroadJump personnel being retained by Motive, the typical replacement cost per employee is $20,000. This yields an investment value of $3,336,000 for the assembled work force.

What is the fair rate of return on this asset? We believe that 15% would represent a fair rate. This yields a return of $504,000 per year for the assembled work force pre tax.

**d. Summary for Contribution Value from Other Assets**

Based on this analysis, the fair annual return for the three identified assets is:

| | |
|---|---|
| Working Capital | $ 630,000 |
| Facilities and Equipment | 180,000 |
| Assembled Work Force | 504,000 |
| Total | $1,314,000 |

This figure should be deducted annually from the future projected pre tax profits of the entire BroadJump business. The allocation process only determines the value of specific future revenue streams from current products and from new products which are far enough along in the development process. But, BroadJump's people, facilities and equipment and working capital will also contribute to other new products and services over the forecast period. Therefore, a procedure must be used to assign the other asset contributions fairly to the revenue stream for the various identified intangible assets and to the other revenues which will come from future unidentified products, services and offerings.

Since there is no firm basis for projecting revenues from currently unidentified products and services, we will use an assignment pattern which reflects the portion of the future revenues which the identified intangible assets would probably represent:

| | Identified Intangibles | Other Revenues | Amount to be assigned ($000) |
|---|---|---|---|
| 2003 | 100% | 0% | 1314 |
| 2004 | 90% | 10% | 1183 |
| 2005 | 80% | 20% | 1051 |
| 2006 | 70% | 30% | 920 |
| 2007 | 60% | 40% | 788 |
| 2008-2010 | 30% | 70% | 394 per year |

We will assign the amounts for each year based on the revenue projections.

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008-2010 | Total |
|---|---|---|---|---|---|---|---|
| Revenues | | | | | | | |
| Deferred Rev - $ | 34,003 | 11,203 | 5,362 | 3,737 | - | - | 54,305 |
| - Ratio | .607 | .157 | .052 | .025 | .000 | .000 | |
| Unbilled rev (backlog) - $ | 3,504 | 5,361 | 2,946 | 1,000 | - | - | 12,811 |
| - Ratio | .063 | .075 | .029 | .007 | .000 | .000 | |
| Cust. Contract Rel - $ (Curr. Cust, curr. prod) | 5,490 | 15,919 | 25,599 | 30,159 | 31,719 | 17,000 | 125,886 |
| - Ratio | .098 | .223 | .250 | .203 | .163 | .076 | |
| Software Products - $ (New cust, curr prod) | 13,000 | 26,000 | 39,000 | 51,250 | 63,250 | 30,000 | 222,500 |
| - Ratio | .232 | .365 | .381 | .345 | .326 | .135 | |
| IP R&D (new prod.) - $ | - | 12,783 | 29,353 | 62,266 | 99,274 | 175,372 | 379,048 |
| - Ratio | .000 | .179 | .287 | .420 | .511 | .789 | |
| Total Revenues - $ | 55,997 | 71,266 | 102,260 | 148,412 | 194,243 | 222,372 | 794,550 |
| - Ratio | | | | | | | |

### 3. Summary of Adjustments from Terminal Value and Contribution of Other Assets

Applying these ratios to the amount to be assigned for each year, we can construct a table which provides the adjusted net present value for each of the identified intangible assets:

- Backlog- Unbilled Revenues
- Customer Contract Relations
- Software Products
- In-Process R&D

a. **Backlog – Unbilled Revenue**

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
|---|---|---|---|---|---|---|
| Total Assignment Amt. | 1,314 | 1,183 | 1,051 | 920 | 788 | 5,256 |
| Total Assign. Amt After Tax (38%) | 815 | 733 | 652 | 570 | 489 | 3,259 |
| Assignment Ratio | .063 | .075 | .029 | .007 | .000 | |
| Assignment Amount | 51 | 55 | 19 | 4 | - | 129 |
| NPV factor - Unbilled (15%) | .935 | .813 | .707 | .615 | .534 | |
| NPV - Unbilled Contrib. | 48 | 45 | 13 | 2 | - | 108 |
| NPV - Unbilled Orig. | 344 | 340 | 158 | 60 | - | 902 |
| NPV - Adj. Unbilled (original - contrib.) | 296 | 295 | 145 | 58 | - | 794 |

Therefore, the total NPV for the Backlog- Unbilled Revenue is $794,000 since there is no adjustment for terminal value.

b. **Customer Contract Relationships**

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008-2010 | Total |
|---|---|---|---|---|---|---|---|
| Total Assignment Amount | 1,314 | 1,183 | 1,051 | 920 | 788 | 1,182 | 6,438 |
| Total Assign. Amt After Tax (38%) | 815 | 733 | 652 | 570 | 489 | 733 | 3,992 |
| Assignment Ratio | .098 | .223 | .250 | .203 | .163 | .076 | |
| Assignment Amount | 80 | 164 | 163 | 116 | 80 | 56 | 657 |
| NPV factor - Unbilled (20%) | .917 | .764 | .637 | .530 | .442 | .307 | |
| NPV - Cust. Contr. Rels. Contrib. | 73 | 125 | 104 | 61 | 35 | 17 | 416 |
| NPV - Cust. Contr. Rels. Orig. | 519 | 1,062 | 1,492 | 1,574 | 1,550 | 639 | 6,836 |
| NPV - Adj. Cust. Contr. Rels. (original - contrib.) | 446 | 937 | 1,388 | 1,513 | 1,515 | 622 | 6,420 |

The adjusted value which should be used for the Customer Contract Relationships intangible assets is $6,420,000 after adding the terminal value and subtracting the contribution from other assets.

c. **Software Products**

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008-2010 | Total |
|---|---|---|---|---|---|---|---|
| Total Assignment Amount | 1,314 | 1,183 | 1,051 | 920 | 788 | 1,182 | 6,438 |
| Total Assign. Amt After Tax (38%) | 815 | 733 | 652 | 570 | 489 | 733 | 3,992 |
| Assignment Ratio | .232 | .365 | .381 | .345 | .326 | .135 | |
| Assignment Amount | 189 | 268 | 248 | 197 | 159 | 99 | 1,160 |
| NPV factor - Unbilled (20%) | .917 | .764 | .637 | .530 | .442 | .307 | |
| NPV - Software Products Contrib. | 173 | 205 | 158 | 104 | 70 | 30 | 741 |
| NPV - Software Products Orig. | 785 | 968 | 1,555 | 2,045 | 2,561 | 1,102 | 9,016 |
| NPV - Adj. Software Prod. (original - contrib.) | 612 | 763 | 1,397 | 1,941 | 2,491 | 1,072 | 8,275 |

The adjusted value which should be used for the Software Products intangible asset is $8,275,000 after adding the terminal value and subtracting the contribution from other assets.

**d. In-Process R&D**

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008-2010 | Total |
|---|---|---|---|---|---|---|---|
| Total Assignment Amount | 1,314 | 1,183 | 1,051 | 920 | 788 | 1,182 | 6,438 |
| Total Assign. Amt After Tax (38%) | 815 | 733 | 652 | 570 | 489 | 733 | 3,992 |
| Assignment Ratio | .000 | .179 | .287 | .420 | .511 | .789 | |
| Assignment Amount | - | 131 | 187 | 240 | 250 | 578 | 1,386 |
| NPV factor - IP R&D (25%) | .900 | .720 | .576 | .461 | .369 | .236 | |
| NPV - IP R&D Contribution | - | 95 | 108 | 110 | 92 | 136 | 541 |
| NPV - IP R&D Original | (558) | 455 | 909 | 1,929 | 3,014 | 4,697 | 10,446 |
| NPV - Adjusted IP R&D (original - contribution) | (558) | 360 | 801 | 1,819 | 2,922 | 4,561 | 9,905 |

The adjusted value which should be used for the In-Process R&D write-off is $9,905,000 plus $169,000 (for 2011) which equals $10,074,000. There was no value assigned to the contribution of other assets for 2011.

## 4. Intangible Asset Tax Benefit

There will be a tax benefit from the acquisition price paid which is amortized linearly over a 15-year period. Taxes are reduced over that period by the amount of the purchase price plus liabilities less tangible assets. Hence the amount to be benefited is the sum of the intangible assets plus goodwill. Since the goodwill is simply computed as a residual value, there is no reason to compute its tax benefit. Therefore, only the value of the intangible assets should be increased to recognize this tax benefit.

The formula is simply the NPV of the annual amortization times the tax rate for each of the intangible assets.

The value for Patented Technologies and Unpatented Technologies and Trade Secrets were determined on a market-value basis and are therefore not considered for tax benefit.

The value of the non-compete agreements were determined on a cost basis and are therefore not considered for tax benefit.

The remainder of the intangible assets and the in-process R&D must have their tax benefit calculated.

For example, the adjusted Backlog value is $794,000. Using a 15-year amortization period, a 38% tax rate and a 15% NPV factor (as was used in its income-projected value calculation), the tax benefit factor would be .159. Multiplying this by the Backlog value increases the Backlog value by $126,000 to $920,000.

Following this same logic, the following table summarizes the key factors and the results for each of the intangible assets:

| ($000) | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Intangible Asset** | **Adjusted Value** | **Amort. Period** | **Tax Rate** | **NPV Factor** | **Tax Ben. Factor** | **Add'l Value** | **Total Value** |
| Backlog | 794 | 15 yrs | 38% | 15% | .159 | 126 | 920 |
| Customer Contract | 6,420 | 15 yrs | 38% | 20% | .130 | 835 | 7,255 |
| Software Products | 8,275 | 15 yrs | 38% | 20% | .130 | 1,076 | 9,351 |
| Subtotal | 15,489 | | | | | 2,037 | 17,526 |
| | | | | | | | |
| IPR&D | 10,074 | 15 yrs | 38% | 25% | .110 | 1,108 | 11,182 |
| | | | | | | | |
| **Grand Total** | 25,563 | | | | | 3,145 | 28,708 |

## SECTION VIII. Valuation Summary and Determination of Goodwill

In Section V, Motive identified the purchase price of BroadJump as $81,458,000.

Also in Section V the reported fair value of the tangible assets and liabilities were identified by Motive as $68,601,921,000 and $7,571,060 respectively and the restructuring costs and acquisition costs were $12,600,000. In Section VI the deferred revenue performance cost was valued by BGAI at $41,519,000. In Section VII the identifiable intangible assets of BJ were valued as was the In-Process R&D.

In summary, the following lists the purchase price and the tangible assets and liabilities which Motive acquired from BJ:

| | **($000)** |
|---|---|
| **Purchase Price** | 81,458 |
| | |
| **Tangible Assets** | |
| Cash | 51,851 |
| AR | 4,064 |
| Prepaid Expenses & other | 2,828 |
| Fixed Assets (net) | 4,685 |
| Ppd Royalties & other | 5,173 |
| Total Tangible Assets | 68,602 |
| | |
| **Tangible Liabilities** | |
| AP | 554 |
| Accrued Expenses | 6,591 |
| Notes Payable | 426 |
| Total Tangible Liabilities | 7,571 |
| | |
| **Other Liabilities** | |
| Deferred Revenue (at Cost of Performance) | 41,519 |
| Restructuring Costs and Other Acquisition Costs | 12,600 |
| Total Other Liabilities | 54,119 |

This yields an effective acquisition cost of $74,546,000 which needs to be allocated to the intangible assets acquired.

**Allocation of Acquisition Cost**

Based on the results of the calculations in Section VII, BGAI recommends the following allocation of the effective acquisition cost to the intangible assets:

| Intangible Asset | Amount | Life | Amort. |
|---|---|---|---|
| Order Backlog | $ 920,000 | 2003-2006 | 35%, 35%, 20%, 10% |
| Customer Contracts and Relationships | 7,255,000 | 2003-2007 | 5%,15%,20%,30%,30% |
| Computer Software Products | 9,351,000 | 2003-2007 | 5%,10%,15%,30%,40% |
| Non-contractual Customer Relationships | 0 | - | - |
| Patented Technologies | 500,000 | Indeterminate | |
| Unpatented Tech and Trade Secrets | 500,000 | Indeterminate | |
| Non-compete Agreements | 4,800,000 | 2003-2005 | Straight Line |
| **Total Intangible Assets** | 23,326,000 | | |

Work In-Process R&D is computed as $11,182,000 which should be expensed (written off) as of the acquisition date.

Since the goodwill is determined as the residual value of the acquisition cost less the value of the intangible assets ands work-in-process R&D, the BroadJump acquisition goodwill would be:

| | |
|---|---|
| Acquisition Cost | $74,546,000 |
| Intangible Assets | - 23,326,000 |
| WIP R&D | -11,182,000 |
| Goodwill | $40,038,000 |

The goodwill is not to be amortized but must be examined at least annually to determine whether it has been impaired because of business results and future expectations. If so, it must be suitably reduced and an expense charge taken in accordance with SFAS 142.

# Professional Summary of Burton Grad

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

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

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

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

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

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

## Work Achievements

**Burton Grad Associates, Inc**. (1978 - Present)

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

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

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

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

* Expert witness on industry practices and damages

**Customer Care, Inc.** (1992 - 1996)

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

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

**Heights Information Technology Service** (1979 - 1983)

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

**International Business Machines Corporation** (1960 - 1978)

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

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

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

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

**General Electric Company** (1949 - 1960)

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

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

<u>**Other Professional Activities**</u>

**1972-1996** **ITAA**

* Computer Software and Services Trade Association

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

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

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

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

**1997-Present** Co-founder and President of the Software History Center, a non-profit organization aimed at preserving and communicating the legacy of the software industry; co-editor of special issue of IEEE Annals of Computing History on software history; organized and edited oral history interview project with Smithsonian NMAH and with Charles Babbage Institute.

# List of Materials Requested

**From BroadJump**

1. Business description and strategic plans, including types of services, pricing, projects, etc. for BroadJump.

2. Financial statements for all products and services for the preceding 2 year period, with income statements, balance sheets and cash flows on a quarterly basis; revenues and costs should be broken down by type of service and offering and by domestic/international, where possible.

3. Expected fair value of each tangible asset and liability on balance sheet as of 12/31/02.

4. Organization Chart and number of employees in each organizational component.

5. Summary analysis of all customers for the preceding 2 year period and the revenues from sales to each major account during that period.

6. Marketing materials for offerings and services.

7. Financial projections for revenues and operating costs broken down by type of service and offering as well as by major customer.

8. Detailed analysis of all contracts in the deferred revenue account with information on contract terms, performance requirements and relevant direct cost elements.

9. Tax loss carry-forward, if any

10. Any contractual commitments to current customers beyond those reflected in deferred and unbilled revenues

11. Competitive analysis for BroadJump products and services

12. Sample Contracts

**From Motive**

1. Acquisition analysis document including support for price paid: cash; common and preferred stock; options and warrants

2. Transaction costs: severance pay; lease adjustments; acquisition expenses; any other acquisition related costs that will be booked

3. Expected Federal and state tax rate

4. Current cost of money figure to be used (unsecured bank lending rate)

5. Target (realistic) operating profit margin for 2003-2007

6. Non-compete agreement

7. Comparable market data

8. Description of Motive products planned to be sold to BroadJump customers with sales and cost history on these products and related services

9. Acquisition agreement

10. Competitive analysis for Motive products and services

11. Financial statements for previous two years

**<u>From Ernst & Young</u>**

1. Procedure for valuation of deferred revenue

2. Treatment of unbilled revenue from both an asset and liability viewpoint

3. Confirmation that the purchase price as calculated by Motive is logical and supportable and can be used in establishing the goodwill value

4. Statement on treatment of deferred revenues, unbilled revenues and renewals of existing contracts for maintenance, hosting or for additional users should be part of the product valuation or part of the customer relationship, customer contract or backlog valuation

5. Clarification of whether operational infrastructure should be separately valued as an indefinite life intangible asset or whether it should be incorporated in goodwill

6. Treatment of deferred taxes

## List of Materials Received

1. Projected BroadJump Balance Sheet and Statement of Operations - 2003 by quarters (as of 12/31/02)
2. BroadJump Backlog Detail (as of 12/31/02) – deferred and unbilled revenue
3. Future Revenue by Customer (from Backlog) for 2003 through 2006
4. Licenses purchased and Installed (by account)
5. Monthly Financials – 2002
6. Professional Services Billings – 4Q02
7. Financial Analysis – 2002
8. Historic Revenue by Customer
9. Analysis of Contracts
10. SBC Agreements with BroadJump
11. Financial Statements for BroadJump for 2002
12. Audited Financial Statements for BroadJump for 1999, 2000 and 2001
13. Organization Chart for BroadJump
14. SFAS Statements 141 and 142 as analyzed by Ernst & Young
15. Non-competition Agreement
16. Agreement and Plan of Merger
17. Comparable company market statistics
18. Summary Offer Memorandum – 5/20/02
19. Comparable value discussion materials – 8/18/02

20. Yankee Group reports: 12/01, 10/02

21. David Hawley market update: 11/02

22. EITF 01-3

23. Various strategic analysis reports from BroadJump marketing

# People Contacted

Motive Communications, Inc.

Paul Baker
Sanjay Castelino
April Downing
Linda Hamann
Brian Vetter

BroadJump, Inc.

Tom Beck
Jim Crow
Wes Jones
John King
Boyd Peterson
Jim Weakley

Ernst & Young

Ed Belanger
Richard Richter

APPENDIX C-1
(3 pages)

## EXECUTIVE SUMMARY

BroadJump creates software that enables broadband networks to become profitable. Our solutions reduce network operation costs and enable the delivery of revenue-generating content and applications over broadband. More specifically, BroadJump's solutions automate the interaction between broadband service providers, content providers, and subscribers at essential points in the consumer life cycle.

BroadJump's solutions are unique in the industry for several reasons in that they:
- Are deployable in all types of broadband networks (cable, DSL, wireless, and satellite)
- Affect both top-line revenue and cost reduction
- Operate within both service provider and consumer environments

In a broadband network, the last mile refers to the edge of the network that extends from the service provider's infrastructure into the subscriber's broadband devices. However, unlike dial-up, the last mile of a broadband network is complex and heterogeneous. Systems and processes such as billing, subscriber profiles, customer premises equipment (CPE), element provisioning, network status, and quality of service are all controlled at the edge of the network. Furthermore, the mechanisms to control these networks vary depending on provider and geography.

BroadJump's solutions occupy a desirable position in this scenario, touching both the key provider systems and the subscriber to present a user-friendly experience to a complex network. BroadJump's solutions enable content and application providers to offer revenue-generating premium services, network operations to maintain and manage the network infrastructure and for subscribers to adopt compelling new broadband services.

### BroadJump Background

In three years, BroadJump has grown to become the industry's leading broadband software company. Corporate headquarters, including all decision-making, management, financial, marketing, and operations, is located in Austin, Texas. There are also 10 sales offices to service accounts worldwide, plus an additional R&D facility in Denver, Colorado.

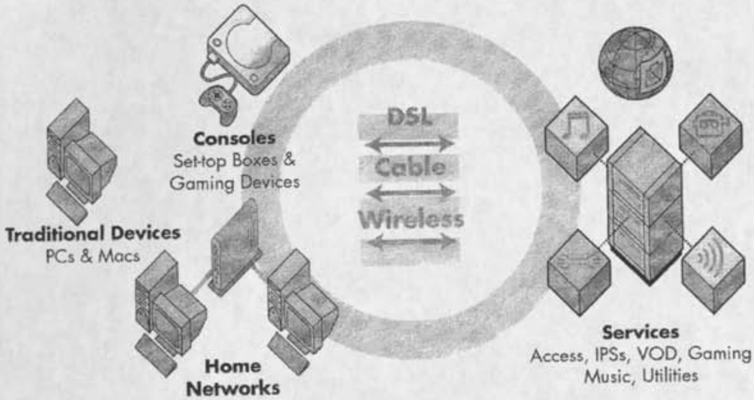
BroadJump's founders identified early on that for broadband service providers to be successful, they would need to do more than quickly acquire subscribers and effectively manage those relationships. To succeed, service providers would need to capitalize on the high-speed Internet connection to offer and fulfill content and applications to consumers over broadband. By transforming the broadband connection into a revenue-generating channel, service providers can realize the true profit potential of broadband – a philosophy upon which BroadJump has been built.

BroadJump's approach is not a vision of what broadband could be, but is based on a tangible and proven solution that is already working for the most prominent service providers in the industry. BroadJump's software solutions, based on the ControlWorks™ platform, are the most widely deployed in the broadband industry. Collectively, BroadJump's customers represent more than 70 percent of the North American broadband subscriber base and include the leading DSL and cable broadband service providers.

**BroadJump Mission**

Hardware makes broadband possible. BroadJump makes it profitable. BroadJump solutions allow broadband service providers around the world to greatly reduce operating costs and seamlessly enable the delivery of revenue-generating content, applications, and services over existing broadband networks. This is accomplished by automating the interaction between broadband service providers, content and service providers, and subscribers. Our innovative software proves its value every day to industry leaders such as AT&T Broadband, SBC Communications, and Time Warner Cable.

**Delivering the Promise of Broadband**




Since the company's inception, BroadJump has focused exclusively on solving the most pressing service provider challenges. The intent is to "Deliver the Promise of Broadband" by creating software that enables the delivery of valuable services to consumers over broadband networks. Figure 1 showcases some of the services and devices with which BroadJump currently interoperates. BroadJump's knowledge of the broadband market, innovation and product architecture makes customers successful. No other broadband software solutions are as robust or battle-tested as BroadJump's. See the Public Relations Overview section for copies of recent press coverage.

As of the end of the first quarter 2002, BroadJump's customers represented more than 70 percent of the North American broadband market. In Q1 2002, BroadJump's software activated nearly 70 percent of all new broadband subscribers in North America.

**BroadJump's Client Base**

Adelphia
Aliant Telecom
AT&T Broadband

Bell
BELLSOUTH
Charter Communications

Comcast
COX Communications
MTS
ntl:

Road Runner
SBC
Sprint

Telefónica
TELMEX
TELUS
Time Warner Cable

TO: BURT GRAD
202.222.8728
FROM: BOYD PETERSON

APPENDIX C-2
(2 pages)

BURT - HERE ARE THREE CUTS OF THE FORECAST. I WOULD USE #3 AS IT IS UNLIKELY THAT WE WILL TARGET THE MIDDLE EAST OR AFRICA.

**BROADBAND HOUSEHOLDS WORLDWIDE BY REGION**

| | | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| 1 | North America | 12.90 | 18.00 | 27.50 | 40.00 | 55.00 | 69.00 |
| | South America | 1.14 | 2.79 | 5.00 | 7.60 | 10.80 | 14.94 |
| | W. Europe | 7.65 | 15.00 | 25.00 | 41.00 | 61.00 | 88.80 |
| | Far East | 12.97 | 17.51 | 22.31 | 28.64 | 34.90 | 43.00 |
| | Asia Pac | 1.79 | 4.65 | 9.05 | 15.41 | 24.50 | 38.20 |
| | EEMA | 0.80 | 1.83 | 3.43 | 5.76 | 8.20 | 11.46 |
| | **Total** | **37.25** | **59.78** | **92.29** | **138.41** | **194.40** | **265.40** |
| 2 | North America | 12.90 | 18.00 | 27.50 | 40.00 | 55.00 | 69.00 |
| | ROW | 24.35 | 41.78 | 64.79 | 98.41 | 139.40 | 196.40 |
| | **Total** | **37.25** | **59.78** | **92.29** | **138.41** | **194.40** | **265.40** |
| 3 | North America | 12.90 | 18.00 | 27.50 | 40.00 | 55.00 | 69.00 |
| | South America | 1.14 | 2.79 | 5.00 | 7.60 | 10.80 | 14.94 |
| | W. Europe | 7.65 | 15.00 | 25.00 | 41.00 | 61.00 | 88.80 |
| | APAC | 14.76 | 22.16 | 31.36 | 44.05 | 59.40 | 81.20 |
| | TOTAL ~~ROW~~ excluding EEMA | **36.45** | **57.95** | **88.86** | **132.65** | **186.20** | **253.94** |

SOURCE: ARC RESEARCH, 2002

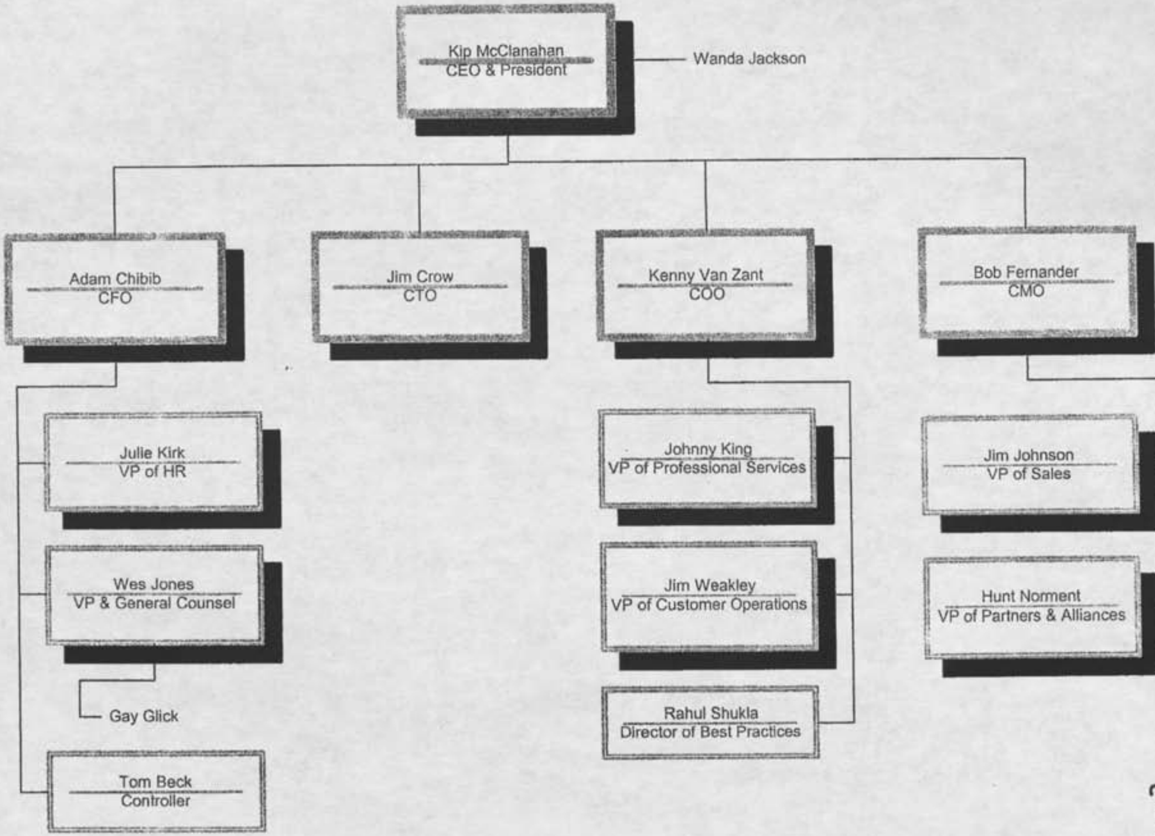
## COMPETITIVE OVERVIEW INTRODUCTION

The competitive environment for broadband software comprises a wide variety of companies. The following matrix demonstrates this variety. The matrix indicates areas of functional overlap with BroadJump's lines of business.

The companies that BroadJump competes with are constantly changing, and the competitive intensity of each competitor changes over time. The profiles compiled on the following pages are intended to provide a brief overview of a subset of BroadJump's competition. The companies listed here represent both real, and perceived threats to BroadJump's current business, as well as future threats to BroadJump's future solutions.

| | Install | Service Manage | Multi - ISP | Auto Prov. | Conversion | IP Service Delivery | Content Delivery | DSL | Cable |
|---|---|---|---|---|---|---|---|---|---|
| ALOPA NETWORKS | ● | | ● | ● | ● | ● | | | ● |
| AOL TIME WARNER | ● | ● | | | | ● | ● | ● | ● |
| ATREUS SYSTEMS | | | | | | ● | ● | ● | |
| AT&T LABS | ● | ● | ● | ● | ● | ● | ● | | ● |
| EFFICIENT | ● | | | | | ● | | ● | |
| FINEPOINT TECHNOLOGIES | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| FRIENDLY TECHNOLOGIES | ● | ● | | ● | | | | ● | ● |
| MOTIVE COMMUNICATIONS | ● | ● | | | | | | ● | ● |
| REAL NETWORKS | | | | | | | ● | ● | ● |
| ROCKSTAR | ● | | | | | | | ● | ● |
| SIGMA SYSTEMS | | ● | ● | ● | ● | | | | ● |
| SYNDESIS | | ● | ● | ● | | ● | | ● | |

# CORPORATE




APPENDIX C-3
(10 pages)

# PRODUCT DEVELOPMENT

- Jim Crow, CTO
  - Wanda Jackson
  - Cathy Riely, Director of Technical Communications & Globalization
    - Larry Begnaud
    - David Cramer
    - Matthew Reeves
    - Beth Fischi
    - Thomas Moore
    - Patrick Powell
    - Joe Williams, Temporary
    - Ali Cowden, Intern
  - Jim Kelton
  - Gary Caldwell
  - Raghu Belar
  - Rory Murtagh, Director of Development
  - John Freeman, Director of Development
  - Robbie Bruce, Director of Product Testing

# PRODUCT DEVELOPMENT

- Jim Crow — CTO
  - Rory Murtagh — Dir of Development
    - BII IElderton — Mgr of Development
      - Arabinda Bose
      - Sri Dagupati
      - Madhu Ganta
      - Caroline McDonnell
      - Vinod Nair
      - Justin Patterson
      - Amar Singh
      - Shinta Smith
    - Alex Harper — Mgr of Config/ Mgmt and Tools
      - Robin Fuller
      - Ryan Golden
      - John Mattingly
      - James Miller
    - Andy Lowe — Mgr of Development
      - Dion Alaniz
      - Keshu Dubey
      - Lorena Lauv
      - Bob Popoff
      - Jeremy Remington
      - Sean Todd
      - Jim Waltrip
    - Nathan Foyt

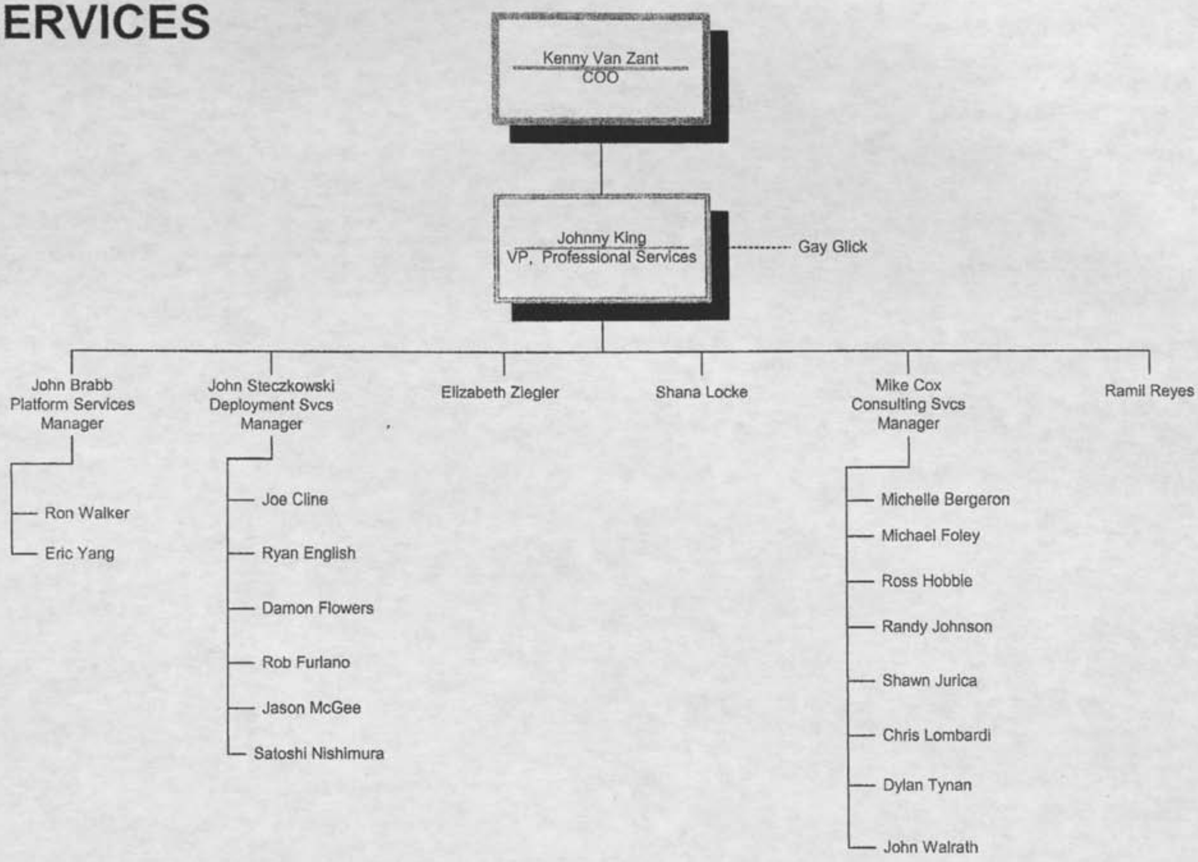
# PRODUCT DEVELOPMENT

- **Jim Crow** — CTO
  - **John Freeman** — Dir of Development
    - **Scott Pelley** — Mgr of Development
      - Brian Burton
      - Tricia Hernandez
      - Jamie Napier
      - Aparna Raman
      - Casey Schmit
      - William Wallace
      - Craig Weeks
      - Jonathan Wight
    - **Tom Giesberg** — Mgr of Development
      - Mark Deeny
      - Jawahar Dhandapani
      - Chris Guethle
      - Jim Hamilton
      - Charles Laine
      - Joey McAdams
      - Erik Noren
      - Chris Reed
    - **Mike Nicholas** — Mgr of Development
      - Dave Asebrook
      - Aleksandra Deegan
      - David Lineberger
      - Mariateresa Sabbatini
      - Marty Saxton
      - Greg Sharek
      - Tim Scotland-Stewart
      - Joe Zhou

# PRODUCT TEST

- Jim Crow, CTO
  - Robbie Bruce, Director of Product Testing
    - Paul Greenspan
    - Jonathan Mellette
    - John Engquist, Test Manager
      - Chris Fuller
      - Darin Ginther
      - Ben Iglauer
      - Swati Mopati
      - Pramod Patil
      - David Perez
      - Carol Ren
      - Linda Nguyen, Temporary
      - Jason Jungman, Temporary
    - Patricia Gamboa, Test Manager
      - Chris Aguillon
      - Tuan Nguyen
      - Cory Quain
      - Mark Rutherford
      - Manu Siddhu
      - Lily Tsai
      - Mark Worley
    - Kristin Jordan, Test Manager
      - Dan Allred
      - JC Chen
      - Zach Douglas
      - Suhail Husain
      - Lisa Moore
      - Carlos Moreno
      - Matt Morris
      - Mark Rosseisen
      - Justin Craycraft
    - Vince Rezula

# PROFESSIONAL SERVICES



# CUSTOMER OPERATIONS

- Kenny Van Zant, COO
  - Jim Weakley, VP of Customer Operations ----- Gay Glick
    - Gary Kloc, Director, Technical Services
      - Mark Buch, Customer Support Mgr
        - David Wakashige, Operations Mgr.
          - David Ferguson
          - Floyd Flowers
      - Nathan Clark, Support Services Lead
        - Keith Gilbert
        - Sean Callahan
        - Jason Moore, Intern
        - Chris Gully, Intern
      - Candice Laymance
    - Raj Tummala, Director, Network/ Business Systems
      - Jennifer Williams, Data Services Mgr
        - Jim E. Smith
        - Chris Copeland
        - Squire Earle
      - Chris Errett, Business Sys Mgr
        - David Hardisty
        - Arif Pathan
        - Scott Rawls
        - Ryan Grosskopf, Intern
      - Chris Gleaves, Managed Services Mgr
        - Samson Martinez
        - Arnold Perez
        - Aaron Sonntag
        - Stan Twiefel
        - Joe Young
        - Blake Freeburg, Temporary
    - John Filut, Sr. Customer Programs Manager
      - John Boyle

# MARKETING

- Bob Fernander – CMO
  - Tiffany Bornemann
  - Pat Colpitts – Director Corp Comm
    - Jenny Allaire
    - Stacey Bossert – Brand Manager
      - John Black
    - Liz Bullington – Channel Mktg Manager
      - Julie Humble
  - Hunt Norment – VP Products & Alliances
    - Tiffany Bornemann
    - Solution Management
      - John Engels
      - Melissa Wingard-Phillips
      - David Zahn
    - Field Marketing
      - Jeff Pauly
      - Mark Skelton
    - Product Management
      - David Campbell
      - Patrick Cummings
      - David Huebel
      - Joel Landau
      - Nick Pausback
      - Ed Smith
      - Andrew Taylor
  - Jon Green – Director Partner Programs
    - Danielle Cotey
    - Heather Kirksey
  - Boyd Peterson – Director Strategic Mktg
    - Jeremy Friedlander
      - Elizabeth Gorski – MBA Intern

# SALES

- Bob Fernander, CMO
  - Jim Johnson, VP of Sales — Tiffany Bornemann
    - Richard Armstrong, Director, Sales Engineering
      - Carol Taylor
      - Jake Angerman
      - Mike Mays
      - Tom Forman, Int'l SE Manager
        - Paul Biggs, Europe
        - John Griffin, Asia Pacific
        - Andre Pedrosa, Brazil Consultant
        - Andy Chung, Taiwan
      - Mark Bryan, SE Manager, Colorado
        - Josh Burgherr, Colorado
        - Bruce Glick, Atlanta, GA
        - Samantha Silver
        - Jason Vanoni, Kansas
      - Jamie Thompson, SE Manager
        - John Truitt
        - Jim Smith
        - Jamie Hampson, Virginia
        - Adam Edwards, Massachusetts
        - Frank VanOS
    - Mark Roberts, Director of Sales, Colorado
      - Ashley Gash, Colorado
      - Jamie Patterson
    - Jerry Bell, Director of Sales, Kansas
      - David Brower, Atlanta, GA
    - Alex Mitchell, Director of Sales
      - TBH AM - Canada
    - Geoff Lange, Director of Sales, New York
      - Mark Pearlstein, Northeast
    - Tom Chmielewski, International Sales Director
      - Ben Hogan
      - Shaun Rossiter, Asia Pacific
      - Phil Summons, Europe
      - KC Cheng, Asia Pacific
      - Gabriel Byun, Korea

Salary
Summary all Departments - # Employees
YE 2002

Headcount

| | |
|---|---|
| Sales | 37 |
| Marketing | 13 |
| Prof Services | 23 |
| Customer Care | 10 |
| External Customer Ops | 17 |
| Customer Retention | 4 |
| Business Development | 6 |
| Human Resources | 4 |
| Recruiting | 4 |
| Development | 82 |
| CTO | 1 |
| Product management | 7 |
| GA | 8 |
| Internal Customer Ops | 9 |
| Corporate | 8 |
| Total | 233 |

APPENDIX C-4
(11 pages)

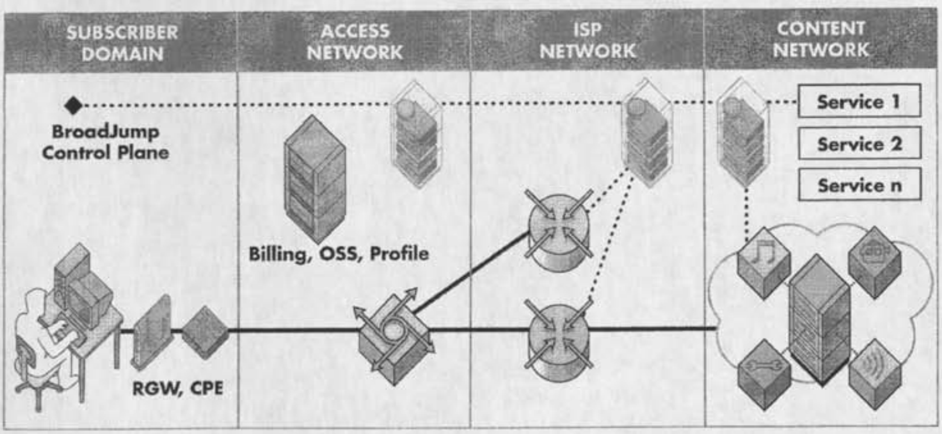
## BROADJUMP'S FIT IN THE NETWORK

BroadJump software adds intelligence to broadband networks, allowing the service provider to interact with their subscribers, and with independent sources of content through applications that are aware of, yet independent from, the physical network.

BroadJump solutions represent a set of tools that give service providers the ability to automate operational processes that involve subscriber and content interaction, and standardize the process across different network hardware components, multiple Operation Support Systems (OSS), and subscriber CPE. This is extremely significant for access providers, as networks are steadily increasing in size, complexity, and reach.

BroadJump' ControlWorks™ is the central point of control and interaction for providers, subscribers and content over today's broadband networks. ControlWorks servers reside in the networks of the broadband access providers, client applications reside in the subscriber's environment, and BroadJump supplies off-line tools and interfaces to content and services providers.

**BroadJump's Fit in the Network**




## DESCRIPTION OF PRODUCTS

Every BroadJump solution is based on the ControlWorks platform. This allows BroadJump to solve unique, business-critical problems while securing ControlWorks as a single platform that can be leveraged in an ongoing way for future solutions.

## CONTROLWORKS OVERVIEW

All BroadJump products are based on ControlWorks, a software infrastructure system designed to automate the otherwise complicated and costly processes associated with subscriber activation, marketing, and management. As a result, broadband service providers are able to maximize revenue and minimize costs for subscribers. ControlWorks™ also serves as the foundation for the cost-effective delivery of content, applications, and services. As broadband networks are transformed into revenue-generating channels, they can be leveraged by content and applications providers to deliver what subscribers want at essential points in the subscriber lifecycle.

The ControlWorks system is designed to overcome barriers between the consumers of the services and the services themselves.

ControlWorks addresses the problem of getting services to subscribers by eliminating barriers that exist between the network domain and the subscriber domain (the last mile) and by eliminating barriers between the services and the network (the first mile).

## CONTROLWORKS ACTIVATION EDITION

ControlWorks Activation Edition is a client-server software system that provides standardized subscriber activation processes for qualification, service activation, and service conversion.

ControlWorks Activation Edition provides a configurable and customizable subscriber interface and intelligent network-based server to provide automated installation and conversion solutions, dynamic updates to those solutions, integration into existing OSS systems (billing, ticketing, CRM, etc.), and collection and reporting of the results of all of those activities. Leveraging the same technology base as Virtual Truck® Installer, which is used by more than 70 percent of the North American broadband providers for completing over 5 million installations, ControlWorks Activation Edition provides a flexible and powerful system for subscriber activations and conversions. ControlWorks Activation Edition includes several key features that enable automation of different pieces of the activation and conversion processes:

- Automation of subscriber-side activation and conversion processes via a robust set of presentation, configuration, and installation services
- Coordination of network activation and provisioning functions with dynamic server-based management and distribution of activation and conversion solutions to subscribers
- Integration with other business processes by providing open interfaces between ControlWorks and other network-based BSS and OSS systems
- Comprehensive system-level subscriber data collection with tools for information exploration and discovery, increasing the effectiveness of provider operational processes
- Centralized administration and core client-server capabilities via an easy-to-use tool set for managing ControlWorks server hardware configurations, software module configurations, user account setup, and integrations with systems management applications
- Creation and update of activation solutions built for the ControlWorks Activation Edition

With these capabilities in place, the broadband service provider has the ability to address complex activation business processes. ControlWorks™ Activation Edition is pre-configured to facilitate the following use cases:

- Qualification
- Standard Installation
- Regional CD
- Self-Activation
- Multiple ISP
- Residential Gateway
- Conversions

All of BroadJump's applications communicate with the BroadJump ControlWorks server, uploading operational data that is then stored in a secure database. BroadJump® InView Reports unlocks this data's value by giving providers the ability to create their own reports, run BroadJump-published reports, or export data to other analysis packages.

**BroadJump InView Reports:**

- Provide instant access to operational, marketing, financial, and strategic data
- Enhance the overall value realized by providers who use BroadJump software solutions
- Offer deep insight into provider, subscriber, industry performance, and trends

## CONTROLWORKS SERVICE DELIVERY

Where ControlWorks Activation Edition is focused on the automation of the business processes associated with the activation of services, the comprehensive delivery of value-added services requires additional functionality to manage services in an ongoing manner. BroadJump ControlWorks is designed to give broadband service providers and content providers the mechanism to efficiently and economically deploy and manage value-added services, and provide the means for service providers to realize the tremendous revenue opportunities associated with this evolving market.

Unlike point solutions, ControlWorks provides a system on which service providers can develop their value-added service market strategies incrementally and pragmatically. ControlWorks provides the foundation for establishing an effective means of bridging the gap between the subscriber and the service provider, as well as providing a means for bridging the gap between the services and the network. Through this system, participants in the broadband value chain can leverage their investments in network infrastructure, and set the terms of the business models for delivering value-added services.

Value-added service (VAS) delivery over broadband is currently poised to develop aggressively, in large part due to the fact that the infrastructure is in place, and the channels are being established.

ControlWorks™ has:

• The ability to define service logic in workflows that span the first and last mile
• A Software Development Kit that allows the VAS provider the ability to encapsulate the business logic associated with its services in a consistent format
• The ability to develop targeting criteria and rules based distribution of services
• The ability to deliver instructions to network elements associated with a particular service
• The ability to leverage data internal external to the system to deterministically instruct the system how to behave

Through the existing ControlWorks system capabilities, and with the additional functionality and system interfaces being developed for the specific needs of value-added service delivery and management, the broadband service provider will be able to automate the processes associated with service delivery:

• Service definition and service creation
• Tying services to underlying network systems
• Session management
• Content management
• Digital copyrights management
• Service targeting
• Payment systems
• Authentication to services
• Managing multiple services
• Payment for services

## CONTROLWORKS & CONTENT, APPLICATIONS, AND SERVICE PROVIDERS

The development of a robust portfolio of service and applications that are delivered over broadband requires not only the ability to activate multiple services and applications over the last mile, but a systematic approach to the creation, segmentation, targeting, and management of the service portfolio. Services and applications that exist outside the broadband service provider's network (i.e., on the Web) need to be accessible by the activation system – in essence, bridging the first mile between the services, and the network.

BroadJump® ChannelDirect: ChannelDirect is a completely new distribution channel for content, applications, and services. It transforms broadband service processes such as qualification, installation, and ongoing usage into highly effective marketing and sales opportunities. With ChannelDirect, providers can implement an enhanced services strategy with minimal risk, decreased time-to-market, and a deliberate, incremental investment.

ChannelDirect:
• Enables service providers to leverage subscriber touch points such as installation and qualification as marketing opportunities
• Provides detailed information collected by the ControlWorks system to enable precise offer targeting, increasing take rates
• Builds a database of subscriber demographics and buying behaviors to help evolve and refine marketing efforts
• Provides a step-by-step path to implementing an enhanced services strategy
BroadJump applies its capabilities to address several unique requirements associated with bridging content, applications, and services to the broadband service provider's network:

• Services and applications are heterogeneous and can be derived from several locations in the network. Each potential value-added service has unique requirements regarding the ordering, activation, billing, and management of the service.
• Hundreds, potentially thousands of undifferentiated services exist out in the Internet. The service providers need a method of differentiating the services offered for a fee from the free content that is available on the Internet. This differentiation can come from a variety of factors including easier installation, increased performance, packaged billing, and branding of the experience.
• Services need knowledge of the subscriber environment, and the network environment. Each value-added service is enhanced if it is tailored to the specific configuration of the delivery platform and consumption platform.
• The service providers need a consistent methodology and business process for accommodating the creation, activation, and management of their application and service portfolio – In order to develop a portfolio of value-added services, broadband service providers need to interface with the services in a uniform and predictable fashion.

## BUSINESS MODEL

BroadJump receives revenue from three primary areas: The sale of licensed software to broadband service providers, transactional revenue derived from the facilitation of delivery of content, applications, and services over broadband networks, and from various business services activities.

BroadJump sells term licenses for its software to broadband service providers. Typically, a broadband service provider enters into a three-year term license deal with BroadJump. The size of the contracts is based on the size and growth of the number of broadband subscribers on a particular service provider's network.

BroadJump licenses access to ChannelDirect offers via a subscription model for the broadband access provider, and via a combination of Professional Services and transactional revenue for the content provider. BroadJump receives a bounty from the content provider on each fulfillment, and for ongoing management of the application, content or service. The fees associated with these functions are proportional to the complexity of service activation and management, and the value of the application, content or service.

Finally, BroadJump derives revenue from various business services activities. These include Professional Services revenues for customization, deployment, and system integration. BroadJump also offers hosting services, reporting services, education and training, and consulting.

## SUCCESS STORIES

**SBC Self-Install**
SBC Communications began using Virtual Truck® Installer in February 2001, re-branded as SBC Express, to allow new SBC DSL subscribers to self-install their high-speed access. SBC deployed the software across its thirteen state operating region, and has since achieved a 90-percent self-installation rate among new DSL Internet customers. The deployment of Virtual Truck® Installer in the SBC network has been highly acclaimed by leading industry experts,

earning SBC an award in 2001 for the "Best Broadband Self-Installation" product from the International Engineering Consortium.

"With the majority of our customers choosing the DSL self-install option, we have focused on developing a package that allows them to enjoy the benefits of broadband faster and easier," said Andres Gutierrez, general manager of SBC's Self Install Operations and Development. "As demand for DSL Internet Access Service continues to increase, BroadJump's Virtual Truck family of products provides SBC with a means to reduce support calls, increase customer satisfaction, and enhance the overall DSL Internet experience for our customers."

**Time Warner Computer Qualification**

In February 2001, Time Warner Cable deployed BroadJump's Virtual Truck Qualifier in almost half of its divisions nationwide. Re-branded as Road Runner System Qualifier, the software was used to help Time Warner Cable determine if potential subscribers have the necessary computing resources to support a broadband connection. By distributing Virtual Truck Qualifier via CD-ROM and through download from each of the Time Warner divisions' Web sites, Time Warner not only helped ensure that only subscribers who can support broadband connections go through the installation process, but also created a new promotional vehicle to market Time Warner's Road Runner broadband service.

In the case of Time Warner Oceanic Cable, BroadJump's Professional Services group developed a front-end menu for Road Runner System Qualifier to seamlessly walk potential subscribers through the pre-qualification process. As a result, Time Warner Oceanic Cable, with virtually no promotion, had hundreds of people download Road Runner System Qualifier from its Website. BroadJump also assisted Time Warner Oceanic Cable with developing a business card size CD-ROM that included Road Runner System Qualifier for distribution in alternative marketing channels.

**Sprint LTD Customer Service**

Sprint LTD began using Virtual Truck Installer in its Orlando region in August of 2000. Subsequently in September of that year, they rolled out into all other markets. By using a single CD across the country, Sprint call center representatives were able to eliminate most of the questions they previously had to ask the subscriber up front. Call center reps now knew exactly how the subscriber's PC was installed, and had the PC and connection data previously uploaded during installation right at their fingertips. "We save approximately 11-14 minutes per call in up-front diagnostic time," said Sprint's Jim Keller. "It's a win-win situation. Subscribers have a more positive support experience and Sprint saves money on our call center". On average, 80 percent of new subscribers are signed on through self-installation. In its first four months of operation, the company estimates that it saved $180 per customer due to not having to send a truck to the consumer's home.

## RETURN ON INVESTMENT OF BROADJUMP PRODUCTS

**Key Elements of Benefit from BroadJump Products**

BroadJump software delivers tangible benefits to broadband service providers in two key areas: cost reduction through operational efficiency, and revenue generation through the fulfillment of additional value-added services. The critical aspect of this is that BroadJump delivers these benefits simultaneously over the same infrastructure. BroadJump's first commercially available product helped streamline the expense associated with fulfilling the first service over broadband: high speed Internet access. With the addition of new products, BroadJump has increased the potential savings associated with this software platform, and created a channel for the fulfillment of services over and above basic access.

**Broadband Installation**

Providers that serve more than 70 percent of all North American broadband subscribers use BroadJump to reduce operational costs and streamline installation. The software has proven a substantial ROI in a number of areas, including:

Increasing the success rate of subscriber self-installations:

- In several cases, service providers have been able to migrate from a 100 percent tech install model, to consumers performing over 85 percent of new installations by themselves
- 95 percent of all customers who signed up for Road Runner have completed the installation themselves (TWC San Antonio)
- On average, 80 percent of new subscribers are signed on through self-installation (Sprint LTD)

Reducing the frequency and duration of support calls related to broadband installation:

- Use of BroadJump's installation software has been shown to reduce the number of calls to technical support by as much as 50 percent
- Support call costs are significant, with 30 percent to 50 percent of technician- enabled broadband installations requiring a subsequent call to technical support, and the loaded labor rate for technical support ranging from $.50 per minute to $1.20 per minute
- Service providers typically realize a 20 percent to 40 percent reduction in support calls, and a reduction in call time by as much as 10 minutes
- In particular, BellSouth's DSL self-install platform (enabled by BroadJump) reduced help-desk calls by 60 percent (CSFB, October 2001)

Eliminating the need for a PC technician:

- Using software in the place of a PC technician will result in the saving the entire loaded cost of the PC technician
- In one case a cable affiliate went from deploying a PC technician on every installation, to a PC technician being required in 1 out of 200 installations

Increasing the efficiency of each technician installation:

- By increasing the efficiency of the technicians, the serviced provider can save expense by hiring fewer technicians, or using the same number of technicians to install more subscribers
- In one case, the service provider realized a doubling of the number of installs completed by a wiring technician in a day

## TECHNOLOGY OVERVIEW

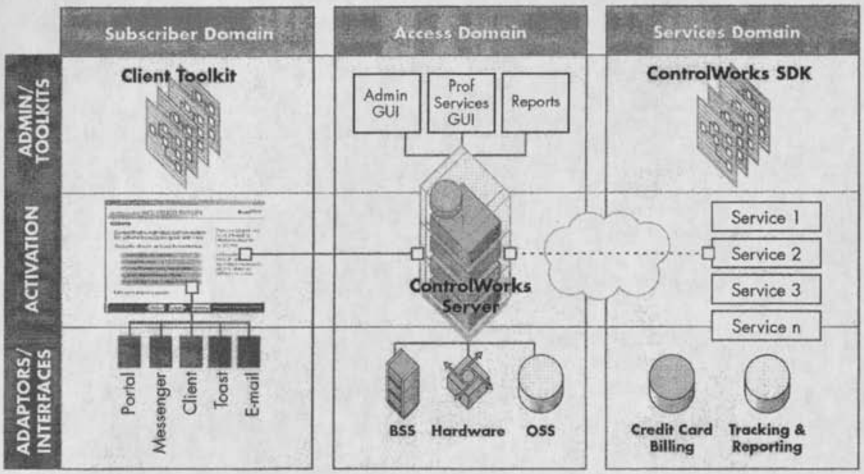
**ControlWorks™ Overview**

ControlWorks is multi-tiered distributed platform for service delivery platform in broadband networks. This platform provides the BSP with an intelligent environment to describe, fulfill, and execute value-added services, and also provides off-line tools for service providers to define and create the necessary business logic associated with offering and delivery of their specific services.

With ControlWorks in place, broadband service providers (BSPs) and content service providers are able to deliver a mix of services via several delivery models, including PC-based applications, network edge services, residential gateway services, and standard Web content. ControlWorks normalizes the service delivery lifecycle across all of these methods.

ControlWorks is open and programmable. Standard APIs allow the BSP to integrate ControlWorks into operations support systems, network hardware, CPE, and content delivery systems. In addition, ControlWorks allows a BSP to import service definitions from billing or CRM systems and create the workflows necessary to fulfill and execute a service.

The figure below presents an overview of the technology behind ControlWorks. The following sections will describe the key technology elements in more detail.




### The ControlWorks Server

The ControlWorks server is fundamentally a Java-based application server coupled with a relational database. In typical deployments, the ControlWorks server is realized as a horizontally scalable cluster of servers (typically Sun Solaris based). In addition, an IP load balancer is used to distribute processing workload (from clients or third parties) across the ControlWorks cluster. The ControlWorks server also scales vertically to exploit SMP server architectures and larger memory systems, this is accomplished primarily by tuning JVM settings and running multiple instances of the ControlWorks™ server on a single large machine.

The ControlWorks server is tightly coupled to a relational database instance with the ControlWorks schema. This database is used to provide persistent storage for administrative and management settings within the ControlWorks cluster, as well as provide persistent storage to all ControlWorks features provided through ControlWorks Activation Edition and ControlWorks Service Delivery Edition (examples include subscriber profiles, system profiles, service providers, offering definitions, and service associate records). The relational database instance is typically Oracle 8i. An object-oriented persistence tier is built within the ControlWorks platform to provide a Java bean style interface into the relational data for inserts, updates, and deletes. In addition, the persistence tier provides a higher level, nested transaction model. The persistence tier is designed to provide an EJB like programming model (i.e. properties and finders). By relying on a robust persistence tier to access to underlying relational data, platform, and application development tasks are simplified and more consistent with an object-oriented programming methodology.

Business logic and application services to support Activation Edition and Service Delivery Edition are realized as a collection of Java based WebServices and in some cases, Java based Servlets. Each application service provided by ControlWorks provides configuration options, which are stored in the templates within the ControlWorks database instance. In addition, each application service is also managed (i.e. started/stopped/queried) by the ControlWorks administration control panel. Examples of application level logic realized as WebServices and Servlets within ControlWorks include, but are not limited to:

• ProcessNewClientRegistration (used by all ControlWorks clients to register and receive configuration data from ControlWorks)
• ProcessNewClientProfie (used by all ControlWorks clients to store initial configuration data for the subscriber and system)
• QueryFilteredOfferingList (used by ControlWorks clients to retrieve the targeted list of services available to this subscriber)
• QueryNextWorkflow (used by ControlWorks clients to find and retrieve addition client side service logic)

The ControlWorks server also includes the ability to execute server-based workflows within an embedded Java workflow engine. This server side workflow capability is fundamental to interacting with third party systems in the BSP's network, and including those systems in service fulfillment and execution tasks.

**Last Mile Service Logic**
A key capability within ControlWorks is the ability to run service fulfillment and execution logic that spans the last mile of the BSP's network. Both ControlWorks Activation Edition and ControlWorks Service Delivery Edition leverage this capability with each of their supported use cases. This service logic is typically realized as one or more ControlWorks workflows. Each workflow is authored via a graphical layout service creation tool called Builder, which is included in both the ControlWorks Activation Edition and ControlWorks Service Delivery Edition. By encapsulating business logic for service fulfillment and service execution within client and server based workflows, ControlWorks provides a higher level and abstracted creation and execution environment for a broad range of service offerings.

On the subscriber end of the last mile, client based workflows are intended to run in the subscribers domain, typically on a PC or Mac. A component of the client side technology that makes up ControlWorks† is a flexible workflow runtime environment. Included in this environment is a set of client specific worknodes that abstract typical fulfillment and execution tasks on the subscribers desktop. Examples of worknode logic include CreatePPPoESession, Install3rdPartyApplication, PingTest, and QueryNextWorkflow.

Each of these client side workflows can be executed via several events. For initial installations within ControlWorks Activation Edition, the execution event is typically inserting a CD. The workflow autoruns, and begins the distributed process of fulfilling basic access for the subscriber, including any necessary interactions with subscriber CPE and the ControlWorks server (registration, profile, retrieving additional workflows). For ongoing use cases like ISP migration, which can occur after the initial access step, the workflow can be executed again via CD, or can also be executed via interaction with an e-mail, Web page, or announcement window presented via a persistent client.

On the network provider end of the last mile, server based workflows execute within the ControlWorks server. Server based workflows are authored in a similar fashion to client based workflows (i.e. a visual layout and authoring tool based on Vizio), however server based workflows reference a set of Java based worknodes designed more for interacting with third party systems within the network. Server based workflows are typically executed in response to a client requesting the services of ControlWorks in either a service fulfillment or service execution context. Typical server based workflow tasks include interacting with BRAS (broadband remote access server) devices such as the Unisphere ERX or the Shasta BSN, and or interacting with OSS/BSS systems such as billing and provisioning.

In addition, last mile service logic can be coordinated via a series of one or more workflows, with workflow instances being executed both in the subscriber and access provider domains in an orchestrated way. A typical example of this can be found in the ControlWorks Activation Edition auto provisioning use case, where basic access into the network is established via a CD based client workflow, and later auto provisioning tasks in the network and ISP domains are accomplished via server side workflows executing within a ControlWorks instance.

**The Role of WebServices**
The inherently distributed nature of BroadJump solutions has played a significant role in the architectural and design decisions of the BroadJump product family. In addition, the heterogeneous realities of today's broadband networks have also affected architecture and design decisions behind BroadJump products; these realities include a mix of operating systems and hardware platforms, as well as a mix middleware and protocols.

With these realities in mind, BroadJump has chosen to adopt key World Wide Web Consortium (W3C) XML protocol standards that were started in 1999. In particular, the W3C specifications and standards around the WebService concept play a key role in how BroadJump products integrate with each other, as well as how BroadJump products integrate with other business systems and devices.

Business and application logic within the ControlWorks server is typically exposed to both ControlWorks clients and admin related tools via a set of well-defined WebService interfaces.

**ControlWorks™ API**
The ControlWorks API provides a robust set of WebService interfaces that allow secure, programmatic access to functions and data managed by the ControlWorks server. These interfaces follow the W3C WebService standards as described in the Simple Object Access Protocol (SOAP) specification Version 1.1 (http://www.w3.org/TR/SOAP/). In addition, the ControlWorks API provides self describing WebService Description Language (WSDL) files to aid in the task of integrating with ControlWorks via this API. The WSDL description of each ControlWorks API component enables 3rd parties to interact with ControlWorks in a multitude of languages, including Java, C, C++, scripting languages, as well as Microsoft .NET languages (i.e. CLR languages).

The ControlWorks API is intended primarily for "inbound" integration, or integration scenarios that are initiated by a third party. For example, using the ControlWorks API, a CRM system can update value added service definitions stored in the ControlWorks server. This can occur on a nightly basis via an automated script, or can occur in realtime based on interactions with a third party business system. As another example, a trusted third party application partner can update existing service definitions that are stored under their ServiceProvider instance, or even create new service definitions under their ServiceProvider instance.

The ControlWorks API is supported on all ControlWorks instances. This includes instances that are deployed in an AccessProvider network, and also the instances that are hosted by BroadJump.

**ControlWorks API and ControlWorks Central**

The ControlWorks API can also be used to integrate with ControlWorks Central. Recall that ControlWorks Central is a BroadJump managed instance of ControlWorks optimized to function as a service definition aggregation point available to BroadJump customers and partners. Typically, the ControlWorks Center GUI is used to interact with the ControlWorks Central server, allowing the access provider to browse for new service definitions, and copy selected service definitions to their own instance of ControlWorks. By using the ControlWorks API, it is possible also possible to perform this task programmatically, perhaps on a nightly basis. In addition, this also allows an access provider to integrate ControlWorks Central with other OSS such as CRM and billing.

**ChannelDirect SDK**

The ChannelDirect Software Development Kit (CDSDK) is designed to provide a set of tools and guidelines for developing BroadJump ChannelDirect integrations. The CDSDK provides a WebService based interface definition between BroadJump software and BroadJump partners. This WebService interface is designed to handle the common interactions and data exchanges required when providing fulfillment and execution services for a BroadJump partner value-added service. As an example, most partner services require some form of registration transaction, where the partner requires certain pieces of information in order to establish an account in their business system. The CDSDK provides a well-defined interface to handle this type of registration transaction. This interface includes typical registration information such as address and username/password, but is also extensible to include custom information on a per-partner basis (i.e. shirt size).

By utilizing the WebService based ChannelDirect SDK, BroadJump partners enable themselves to participate in the fulfillment of value added services via the ControlWorks platform.

**Third Party Adapters and Workflow Nodes**

ControlWorks supports the ability interact with third party systems in the access provider domain. Examples of such systems include BRAS devices, billing systems, provisioning systems, and systems developed internally by the access provider. Outbound integration into third party systems is accomplished by authoring adapters that plug in the ControlWorks™ server. Adapters are essentially Java classes that subclass a ControlWorks adapter base class. The base class provides general utility functions to interact with an executing workflow instance and to interact with the ControlWorks database. The primary features of a third party adapter are twofold, the first being the ability to connect to and interact with the third party system to perform a specific task (i.e., assign a policy in a BRAS, update and VSA in a Radius server, subscribe to a service in a billing system), the second feature is to expose a bounded set of configuration options and signals to the workflow development environment. By authoring an adapter and describing the configuration and signal options for that adapter, the adapter can then be used within the ControlWorks workflow authoring environment, thereby enabling the third party system to participate in server based workflows.

APPENDIX C-5
(3 pages)

## PATENTS

**Title:** **DISTRIBUTED BROADBAND SERVICES ARCHITECTURE**

**Status:** **Drafted 2Q99, Filed to U.S. PTO**

**Abstract:** **Describes an extensible agent/sever based services framework for broadband network subscribers.**

**Claims cover:**

- The deployment of generic agents
- The registration of these agents to the control server
- The creation and delivery of an agent profile record
- The automated creation, announcement and subscription of services to these agents
- The management of services location within the network
- The maintenance lifecycle of the service agents

**Summary:**
This application describes the use of an automation and control framework consisting of an active agent and aggregating server over the "last" mile of a broadband network. The architecture, roles and responsibilities of the agent and server are detailed along with the description of fundamental framework services and capabilities.

**Title:** **DISTRIBUTED SERVICES ARCHITECTURE THROUGH USE OF A DYNAMIC SERVICE POINT MAP**

**Status:** **Drafted 2Q99, Filed to U.S. PTO**

**Abstract:** **Describes a method for formatting, announcing, processing and selecting the location of service addresses within a broadband network.**

**Claims cover:**

- The format of the Service Point Map record
- The generation of the Map and the operation of centralized SPM managers
- The communication of the map to service consuming agents
- The role and operation of the agent in post-processing the Map during service selection
- The lifecycle and maintenance of the Map

**Summary:**
This application details the mechanism to locate services machinery and resources within a broadband services network. The Service Point Map is a structure that includes both service name and location but also includes processing directives and details for the intelligent selection of multiple service points.

**Title:** **SELF-MANAGING SOFTWARE AGENTS WITH INTROSPECTION AS A MEANS OF DISTRIBUTING AND MANAGING SOFTWARE PLUGINS**

**Status:** **Drafted 2Q99, Filed to U.S. PTO**

**Abstract:** **Describes architecture for a dynamic, self- managed agent software plug-in module and the supporting plug-in harness system.**

**Claims cover:**

- The design and structure of the self-managed module
- The delivery of the modules to a managed agent system
- The roles of the agent and the harness in resolving load/run-time dependencies during installation
- The creation and maintenance of a module interface directory

**Summary:**
This application details the architecture of an active agent technology and details within that technology that specifically address a system of intelligent and dynamic software "plug-in" modules.

**Title:** **SYSTEM OF AUTOMATED CONVERSION OF NETWORK SUBSCRIBERS FROM NARROWBAND TO BROADBAND**

**Status:** **Drafted 3Q00, Filed to U.S. PTO**

**Abstract:** **Describes a system and method of automated conversion of narrowband (dial-up) to broadband network access through the use of an automation agent with centralized control.**

**Claims cover:**

- Automated qualification of the subscriber including service availability, infrastructure quality and computing machine capabilities.
- Service fulfillment through a distributed agent/server automation system.
- Qualified service offering based on subscriber and/or site criteria

**Summary:**
This application details a system of automating the acquisition, qualification and conversion of narrow-band Internet access subscribers into broadband access.

**Title:** **SYSTEM OF AUTOMATED MONITORING, TESTING AND REPAIR OF BROADBAND NETWORK CONNECTIONS**

**Status:** **Drafted 1Q01**

**Abstract:** **Describes a system and method of automated management of a residential broadband connection through the use of an active, automated agent and network specific test and diagnostic modules.**

**Claims cover:**

- The description of broadband test and diagnostic functions as deployable software modules
- The aggregation and automation of these modules by an automated agent
- Issue and incident resolution by actively monitoring and diagnosis from the broadband subscriber domain
- A system of deploying additional modules to reflect network technology and topology changes

**Summary:**
This application covers the proactive, automated monitoring of a broadband access system and a system of diagnosis and repair for the encountered network oriented problems. An agent and server automation platform is described for distributed and scalable proactive diagnostics as well as human initiated diagnostic and repair activities.

**BroadJump, Inc.**
**Statement of Operations FY 2002 - Unaudited**
**CONFIDENTIAL**

| | FY 2002 | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | YTD |
| Revenue | | | | | |
| License fees | $ 8,849,396 | $ 9,266,580 | $ 9,683,884 | $ 8,952,679 | $ 36,752,538 |
| Services revenue | 1,422,001 | 1,586,068 | 1,844,967 | 2,158,814 | 7,011,851 |
| Consulting revenue | 398,043 | 791,416 | 1,146,686 | 2,119,087 | 4,455,232 |
| Total revenue | 10,669,440 | 11,644,064 | 12,675,537 | 13,230,579 | 48,219,621 |
| Cost of Revenue | | | | | |
| License fees | 436,150 | 172,390 | 392,936 | 261,567 | 1,263,043 |
| Services costs | 429,325 | 477,949 | 437,362 | 561,633 | 1,906,269 |
| Consulting costs | 642,220 | 698,187 | 662,742 | 774,229 | 2,777,378 |
| Total Cost of Revenue | 1,507,694 | 1,348,526 | 1,493,041 | 1,597,429 | 5,946,690 |
| Gross profit | 9,161,746 | 10,295,539 | 11,182,497 | 11,633,150 | 42,272,931 |
| Operating expenses | | | | | |
| Sales | 3,509,714 | 3,408,861 | 3,674,143 | 3,904,770 | 14,497,488 |
| Marketing | 1,458,937 | 1,421,700 | 905,382 | 525,483 | 4,311,501 |
| Prof Services and support | 836,978 | 926,160 | 763,166 | 740,782 | 3,267,087 |
| Development | 3,616,498 | 3,576,457 | 3,487,361 | 3,156,861 | 13,837,176 |
| G&A | 1,034,119 | 959,001 | 889,149 | 724,117 | 3,606,386 |
| Total operating expenses | 10,456,246 | 10,292,179 | 9,719,201 | 9,052,013 | 39,519,639 |
| Income (loss) from Operations | (1,294,500) | 3,359 | 1,463,295 | 2,581,138 | 2,753,292 |
| Other income and expenses, net | | | | | |
| Merger Costs | - | - | - | (1,151,524) | (1,151,524) |
| Interest expense | (10,330) | (11,806) | (9,181) | (6,302) | (37,619) |
| Interest income | 151,754 | 162,965 | 171,924 | 176,950 | 663,593 |
| Net loss before taxes | (1,153,076) | 154,518 | 1,626,038 | 1,600,262 | 2,227,742 |
| Income taxes | 22,676 | 55,946 | 77,002 | 3,055 | 158,679 |
| Net loss after taxes | $ (1,175,752) | $ 98,572 | $ 1,549,036 | $ 1,597,207 | $ 2,069,063 |

APPENDIX D-1
(4 pages)

**BroadJump, Inc.**
**Balance Sheet FY 2002 - Unaudited**
**CONFIDENTIAL**

| | FY 2002 | | | |
|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 |
| Cash | $ 41,938,257 | $ 53,241,339 | $ 55,157,741 | $ 51,850,791 |
| Accounts receivable, net | 20,624,847 | 15,354,001 | 5,625,774 | 4,064,162 |
| Prepaid expenses and other assets | 6,633,267 | 5,323,476 | 4,549,690 | 2,828,494 |
| Total current assets | 69,196,371 | 73,918,816 | 65,333,205 | 58,743,447 |
| Fixed Assets, net | 5,687,859 | 5,661,305 | 5,096,034 | 4,685,494 |
| Other assets | 11,364,250 | 12,114,665 | 11,873,444 | 10,796,346 |
| Total assets | $ 86,248,480 | $ 91,694,786 | $ 82,302,683 | $ 74,225,287 |
| Accounts payable | $ 1,494,870 | $ 1,801,417 | $ 1,550,983 | $ 553,763 |
| Accrued liabilities | 7,339,872 | 8,401,280 | 7,322,321 | 6,591,232 |
| Deferred revenue | 67,555,532 | 71,566,919 | 62,134,010 | 54,304,726 |
| Notes payable | 945,000 | 750,000 | 555,000 | 426,065 |
| Total current liabilities | 77,335,274 | 82,519,616 | 71,562,314 | 61,875,786 |
| Common stock | 175,000 | 175,000 | 175,000 | 175,000 |
| Additional paid in capital | 1,044,891 | 1,205,190 | 1,218,259 | 1,227,091 |
| Series A preferred stock, net | 4,964,658 | 4,964,658 | 4,964,658 | 4,964,658 |
| Series B preferred stock, net | 19,965,000 | 19,965,000 | 19,965,000 | 19,965,000 |
| Series C preferred stock, net | 21,665,452 | 21,665,452 | 21,665,452 | 21,665,452 |
| Deferred compensation | (29,354) | (26,261) | (23,168) | (20,075) |
| Accumulated deficit | (38,872,441) | (38,773,869) | (37,224,832) | (35,627,625) |
| Total liabilities and equity | $ 86,248,480 | $ 91,694,786 | $ 82,302,683 | $ 74,225,287 |

BROADJUMP, INC.
PREPAID, OTHER ASSETS

| | |
|---|---|
| COMMISSION ADVANCES | 2,585,411 |
| PRE-PAID EXPENSES | 243,083 |
| Pre-paid expenses and othe assets | 2,828,494 |

| | |
|---|---|
| OTHER ASSETS | 53,609 |
| PREPAID ROYALTIES | 5,082,610 |
| PREPAID MAINTENANCE | 36,761 |
| DEFERRED TAX ASSETS | 5,623,365 |
| Other assets | 10,796,345 |

**BroadJump, Inc.**
**Cash Flow Statement FY 2002 - Unaudited**
**CONFIDENTIAL**

| | FY 2002 Q1 | Q2 | Q3 | Q4 | YTD |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net loss | $ (1,175,752) | $ 98,572 | $ 1,549,037 | $ 1,597,207 | $ 2,069,064 |
| Adjustments to reconcile net loss | | | | | |
| Depreciation | 518,474 | 503,891 | 674,057 | 598,495 | 2,294,917 |
| (Increase) decrease in current & other assets | 30,817,585 | 5,830,222 | 10,743,234 | 4,359,906 | 51,750,947 |
| Increase (decrease) in liabilities | (13,031,300) | 1,367,955 | (1,329,393) | (1,728,309) | (14,721,047) |
| Increase in deferred revenue | 3,808,926 | 4,011,387 | (9,432,909) | (7,829,284) | (9,441,880) |
| Non-cash compensation | 12,193 | 3,093 | 3,093 | 3,093 | 21,472 |
| Net cash used in operations | 20,950,126 | 11,815,120 | 2,207,119 | (2,998,892) | 31,973,473 |
| Cash flow from investing activities: | | | | | |
| Furniture and equipment additions | (658,735) | (477,337) | (108,786) | (187,955) | (1,432,813) |
| Net cash used in investing activities | (658,735) | (477,337) | (108,786) | (187,955) | (1,432,813) |
| Cash flows from financing activity: | | | | | |
| Proceeds from issuance of debt | - | - | - | 71,430 | 71,430 |
| Payments on principle of debt | (195,000) | (195,000) | (195,000) | (200,365) | (785,365) |
| Proceeds from issuance of CS | 234,257 | 160,299 | 13,069 | 8,832 | 416,457 |
| Proceeds from issuance of Series C, net | - | - | - | - | - |
| Proceeds from issuance of Series A, net | - | - | | | - |
| Proceeds from issuance of Series B, net | - | - | - | - | - |
| Net cash provided by financing act. | 39,257 | (34,701) | (181,931) | (120,103) | (297,478) |
| Increase (decrease) in cash | 20,330,648 | 11,303,082 | 1,916,402 | (3,306,950) | 30,243,182 |
| Cash at beginning of period | 21,607,609 | 41,938,257 | 53,241,339 | 55,157,741 | 21,607,609 |
| Cash at end of period | $ 41,938,257 | $ 53,241,339 | $ 55,157,741 | $ 51,850,791 | $ 51,850,791 |

APPENDIX D-2
(21 pages)

Consolidated Financial Statements

BroadJump, Inc.

*Three years in the period ended December 31, 2001*
*with Report of Independent Auditors*

BroadJump, Inc.

Consolidated Financial Statements

Three years in the period ended December 31, 2001

## Contents

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# Report of Independent Auditors

The Board of Directors
BroadJump, Inc.

We have audited the accompanying consolidated balance sheets of BroadJump, Inc. as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BroadJump, Inc. at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

January 21, 2001

# BroadJump, Inc.

## Consolidated Balance Sheets

| | December 31 2001 | December 31 2000 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 20,104,206 | $ 9,867,037 |
| Accounts receivable | 54,021,593 | 6,150,305 |
| Prepaid expenses and other current assets | 6,280,966 | 1,292,662 |
| Total current assets | 80,406,765 | 17,310,004 |
| | | |
| Restricted cash | 1,503,403 | – |
| Property and equipment, net | 5,547,600 | 2,820,640 |
| Prepaid royalties | 2,444,912 | 286,262 |
| Deferred tax asset | 6,594,283 | – |
| Other assets | 98,195 | 232,674 |
| Total assets | $ 96,595,158 | $ 20,649,580 |
| | | |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 618,660 | $ 846,540 |
| Accrued liabilities | 21,247,378 | 3,548,559 |
| Deferred revenue | 33,464,283 | 5,977,456 |
| Current portion of notes payable | 780,000 | 660,000 |
| Total current liabilities | 56,110,321 | 11,032,555 |
| | | |
| Long-term liabilities | | |
| Deferred revenue | 30,282,327 | 3,114,777 |
| Notes payable, net of current portion | 360,000 | 1,140,000 |
| Total liabilities | 86,752,648 | 15,287,332 |
| | | |
| Commitments and contingencies | | |
| | | |
| Stockholders' equity: | | |
| Series A Mandatorily Redeemable Convertible Preferred Stock; $.0033 par value; 5,227,500 shares authorized, issued and outstanding | 17,251 | 17,251 |
| Series B Mandatorily Redeemable Convertible Preferred Stock; $.0033 par value; 4,503,525 shares authorized, issued and outstanding | 14,862 | 14,862 |
| Series C Mandatorily Redeemable Convertible Preferred Stock; $.0033 par value; 3,663,750 shares authorized, 3,112,998 issued and outstanding at December 31, 2001 | 10,273 | – |
| Common Stock; $.0033 par value; 120,000,000 shares authorized; 12,928,598 and 12,702,372 shares issued and outstanding | 42,664 | 41,917 |
| Additional paid-in capital | 47,477,811 | 25,564,833 |
| Deferred compensation | (23,662) | (26,934) |
| Accumulated deficit | (37,696,689) | (20,249,681) |
| Total stockholders' equity | 9,842,510 | 5,362,248 |
| | | |
| Total liabilities and stockholders' equity | $ 96,595,158 | $ 20,649,580 |

*See accompanying notes.*

BroadJump, Inc.

Consolidated Statements of Operations

| | Years ended December 31 | | |
|---|---|---|---|
| | **2001** | **2000** | **1999** |
| Revenues | **$ 20,337,283** | $ 2,213,750 | $ 35,196 |
| Cost of goods sold | **2,744,919** | 1,110,408 | 21,085 |
| Gross profit | **17,592,364** | 1,103,342 | 14,111 |
| Operating expenses: | | | |
| Research, development and engineering | **14,293,558** | 9,386,589 | 2,245,048 |
| General and administrative | **2,973,817** | 1,770,693 | 496,596 |
| Sales and marketing | **17,244,579** | 7,151,840 | 1,230,791 |
| Total operating expenses | **34,511,954** | 18,309,122 | 3,972,435 |
| Loss from operations | **(16,919,590)** | (17,205,780) | (3,958,324) |
| Interest income | **656,024** | 937,779 | 110,580 |
| Interest expense | **(115,815)** | (121,471) | (12,465) |
| Net loss before income taxes | **(16,379,381)** | (16,389,472) | (3,860,209) |
| Income taxes | **1,067,627** | – | – |
| Net loss | **$ (17,447,008)** | $ (16,389,472) | $ (3,860,209) |

*See accompanying notes.*

BroadJump, Inc.

## Consolidated Statements of Stockholders' Equity

| | Preferred Stock | | Common Stock | | Additional Paid-in | Deferred | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Compensation | Deficit | Equity |
| Balance at inception | – | $ – | – | $ – | $ – | $ – | $ – | $ – |
| Issuance of Common Stock at inception | – | – | 10,770,000 | 35,541 | 143,959 | – | – | 179,500 |
| Issuance of Series A mandatorily redeemable preferred stock in April 1999 | 5,227,500 | 17,251 | – | – | 4,947,407 | – | – | 4,964,658 |
| Issuance of Series B mandatorily redeemable preferred stock in December 1999 | 4,429,981 | 14,619 | – | – | 19,771,325 | – | – | 19,785,944 |
| Deferred compensation | – | – | – | – | 49,725 | (39,365) | – | 10,360 |
| Issuance of common stock upon the exercise of options | – | – | 1,519,079 | 5,013 | 83,685 | – | – | 88,698 |
| Net loss incurred during development stage | – | – | – | – | – | – | (3,860,209) | (3,860,209) |
| Balance at December 31, 1999 | 9,657,481 | 31,870 | 12,289,079 | 40,554 | 24,996,101 | (39,365) | (3,860,209) | 21,168,951 |
| Repurchase of unvested shares | – | – | (95,938) | (317) | (4,202) | – | – | (4,519) |
| Issuance of Series B mandatorily redeemable preferred stock in January 2000 | 73,544 | 243 | – | – | 328,814 | – | – | 329,057 |
| Deferred compensation | – | – | – | – | – | 12,431 | – | 12,431 |
| Issuance of common stock upon the exercise of options | – | – | 509,231 | 1,680 | 244,120 | – | – | 245,800 |
| Net loss | – | – | – | – | – | – | (16,389,472) | (16,389,472) |
| Balance at December 31, 2000 | 9,731,025 | 32,113 | 12,702,372 | 41,917 | 25,564,833 | (26,934) | (20,249,681) | 5,362,248 |
| Repurchase of unvested shares | – | – | (103,779) | (342) | (41,288) | – | – | (41,630) |
| Issuance of Series C mandatorily redeemable preferred stock in April 2001 | 3,112,998 | 10,273 | – | – | 21,591,811 | – | – | 21,602,084 |
| Deferred compensation | – | – | – | – | 54,600 | 3,272 | – | 57,872 |
| Issuance of common stock upon the exercise of options | – | – | 330,005 | 1,089 | 307,855 | – | – | 308,944 |
| Net loss | – | – | – | – | – | – | (17,447,008) | (17,447,008) |
| Balance at December 31, 2001 | 12,844,023 | $ 42,386 | 12,928,598 | $ 42,664 | $ 47,477,811 | $(23,662) | $(37,696,689) | $ 9,842,510 |

*See accompanying notes.*

BroadJump, Inc.

Consolidated Statements of Cash Flows

| | Year ended December 31 | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| **Operating activities** | | | |
| Net loss | $ (17,447,008) | $(16,389,472) | $ (3,860,209) |
| Adjustment to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation expense | 1,841,581 | 619,139 | 59,312 |
| Noncash compensation expense | 57,872 | 12,431 | 10,360 |
| Deferred tax expense | (6,558,000) | – | – |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (47,871,288) | (6,121,064) | (29,241) |
| Prepaid expenses and other assets | (7,012,475) | (1,735,468) | (76,130) |
| Restricted cash | (1,503,403) | – | – |
| Accounts payable | (227,880) | 621,035 | 225,505 |
| Accrued liabilities | 17,662,536 | 3,142,611 | 405,948 |
| Deferred revenue | 54,654,377 | 9,007,867 | 84,366 |
| Net cash used in operating activities | (6,403,688) | (10,842,921) | (3,180,089) |
| **Investing activities** | | | |
| Purchase of property and equipment | (4,568,541) | (2,916,902) | (582,189) |
| Net cash used in investing activities | (4,568,541) | (2,916,902) | (582,189) |
| **Financing activities** | | | |
| Proceeds from the issuance of mandatorily redeemable convertible preferred stock, net of issuance costs of $83,994, $0 and $71,316, respectively | 21,602,084 | 329,057 | 24,750,602 |
| Proceeds from note payable | – | 1,461,000 | 564,000 |
| Payments on note payable | (660,000) | (150,000) | (75,000) |
| Proceeds from issuance of common stock | 308,944 | 245,800 | 268,198 |
| Repurchase of unvested shares | (41,630) | (4,519) | – |
| Net cash provided by financing activities | 21,209,398 | 1,881,338 | 25,507,800 |
| Net increase (decrease) in cash and cash equivalents | 10,237,169 | (11,878,485) | 21,745,522 |
| Cash and cash equivalents, beginning of year | 9,867,037 | 21,745,522 | – |
| Cash and cash equivalents, end of year | $ 20,104,206 | $ 9,867,037 | $ 21,745,522 |
| **Supplemental disclosure of cash flow information:** | | | |
| Taxes paid | $ 71,044 | $ – | $ – |
| Interest paid | $ 122,756 | $ 111,139 | $ 12,465 |

*See accompanying notes.*

BroadJump, Inc.

Notes to Consolidated Financial Statements

December 31, 2001

**1. Organization**

BroadJump, Inc. (the "Company") is a global provider of broadband service management software products and services, a new category of Internet solutions designed to enable broadband service providers to more efficiently deploy new broadband services, provide customer support and technical support, sustain online customer relationships, roll out new service offerings, increase returns on their Internet-related investments and capitalize on Internet business opportunities.

The Company was incorporated in Texas on December 21, 1998.

During the year 2001, the Company had one wholly owned subsidiary, BroadJump Holdings, Inc., which had three wholly owned subsidiaries, BroadJump Canada, Inc., BroadJump U.K. Ltd. and BroadJump Australia Ltd. Pty. Activity from all companies has been consolidated with the Company for reporting purposes.

**2. Significant Accounting Policies**

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, BroadJump Holdings, Inc., which had three wholly owned subsidiaries, BroadJump Canada, Inc., BroadJump U.K. Ltd. and BroadJump Australia Ltd. Pty. All intercompany transactions and balances have been eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Significant Accounting Policies (continued)**

**Product Development Costs**

Research and development expenditures are expensed to operations as incurred. Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release have been insignificant. Through December 31, 2001, all software development costs have been expensed.

**Software Revenue Recognition**

Revenue comprises of fees for licenses of the Company's software, maintenance provided for in license agreements, monthly charges for managed software solutions and professional services. License fees revenue is recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, no obligations remain, the fee is fixed and determinable and collectibility is probable. Maintenance agreements include the right to unspecified upgrades on an if-and-when available basis. Because the Company has not established vendor specific objective evidence of fair value for its product offerings, the revenue from its product offerings is deferred and recognized on a straight-line basis over the life of the related agreement.

Product license revenue for arrangements to deliver unspecified additional software products in the future or when obligations exist throughout the license term is recognized ratably over the term of the arrangement beginning with the delivery of the first products.

Services revenue is primarily comprised of revenue from managed software solutions, consulting fees and training. Managed software solutions consist of monthly fees, all of which are recorded as revenue at the time the services are performed. Services revenue from consulting and training billed on a time and materials basis is recognized as performed. Services revenue on fixed price service arrangements is recognized upon completion of specific contractual milestone events, or based on an estimated percentage of completion as work progresses.

**2. Significant Accounting Policies (continued)**

Customer advances and billed amounts due from customers in excess of revenue recognized are recorded as deferred revenue.

**Stock-Based Compensation**

The Company uses the intrinsic value method in accounting for its stock-based employee compensation plans.

**Property and Equipment**

Property and equipment are stated at cost less allowances for accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. The Company's assets are currently depreciated over periods ranging from two to five years.

**Cash and Cash Equivalents**

The Company considers as cash, monies invested in highly liquid financial securities with an original maturity of three months or less to be cash equivalents.

**Advertising Costs**

The Company expenses advertising costs as incurred. Advertising expense for the periods ended December 31, 2001, 2000 and 1999 was $605,181, $333,120 and $33,308, respectively.

**Financial Instruments**

The carrying amounts for the Company's cash and cash equivalents, restricted cash, accounts payable and accrued expenses approximate their fair values. The carrying value of notes payable approximates its fair value as interest rates fluctuate based on market activity.

## 2. Significant Accounting Policies (continued)

### Restricted Cash

The Company purchased $1.5 million in certificates of deposit during 2001. These investments are restricted for security deposits of which $1.4 million is for office space leases which support the Company's expanding operations and $0.1 million to secure a contract with a foreign customer. All such assets are placed with a high-credit, quality financial institution.

The maturity dates range from 2001 to 2003 and the stated yields of these investments vary between 1.5% and 1.65%. There are certain time restrictions placed on these instruments that must lapse before the Company can liquidate the principal of these investments.

### Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of short-term investments and trade receivables. The Company's short-term investments, which are included in cash and cash equivalents for reporting purposes, are placed with high-credit, quality financial institutions and issuers. The Company performs periodic credit evaluations of its customer's financial condition and generally does not require collateral. Bad debt expense was $0 for the years ending December 31, 2001, 2000 and 1999. At December 31, 2001, accounts receivable from the five significant customers totaled approximately $31 million.

### Significant Customers

The following table summarizes customers that accounted for greater than 10% of revenue in the respective years:

| | **2001** | **2000** | **1999** |
|---|---|---|---|
| Customer A | **24%** | – | – |
| Customer B | **16%** | 5% | – |
| Customer C | **14%** | 18% | – |
| Customer D | **12%** | 45% | 100% |
| Customer E | **2%** | 20% | – |

**2. Significant Accounting Policies (continued)**

**Recent Accounting Pronouncements**

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," in June 1998 as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", which was issued in June 2000.

SFAS No. 133 establishes reporting standards for derivative instruments and hedging activities that require an entity to recognize all derivatives as assets or liabilities measured at fair value and is effective for financial statements issued for all fiscal quarters of fiscal years beginning after June 15, 2000. If certain conditions are met, a derivative may be specifically designated as a hedge of the exposure to changes in the fair value, variable cash flow, or foreign currency of a recognized asset or liability or certain other transactions and firm commitments. The Company adopted SFAS No. 133 in 2001. The adoption of SFAS No. 133 did not have any financial accounting effect on the Company's consolidated financial statements.

The FASB issued SFAS No. 141, "Business Combinations," in June 2001. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. The Company adopted SFAS No. 141 during 2001. The adoption of SFAS No. 141 did not have any financial accounting effect on the consolidated financial statements.

The FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," in June 2001. SFAS No. 142 provides that separable intangible assets that have finite lives will continue to be amortized over their useful lives and that goodwill and indefinite-lived intangible assets will no longer be amortized but will be reviewed for impairment annually, or more frequently if impairment indicators arise. Under the provisions of SFAS No. 142, any impairment loss identified upon adoption of this standard is recognized as a cumulative effect of a change in accounting principle. Any impairment loss recognized subsequent to initial adoption of SFAS No. 142 will be recorded as a charge to current period earnings. The provisions of SFAS No. 142 are required to be applied starting with fiscal years beginning after December 15, 2001 and must be applied as of the beginning of a fiscal year.

**2. Significant Accounting Policies (continued)**

The Company will adopt the provisions of SFAS No. 142 in 2002. The Company does not expect the adoption of SFAS No. 142 to have a material impact on its consolidated financial statements.

The FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," in August 2001. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and other related accounting guidance. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The provisions of this Statement generally are to be applied prospectively. The Company will adopt SFAS No. 144 in 2002. The Company does not expect the adoption of SFAS No. 144 to have a material impact on its consolidated financial statements.

**3. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consist of the following components:

| | December 31 | |
|---|---|---|
| | **2001** | **2000** |
| Commission prepaid | **$5,614,584** | $1,212,689 |
| Prepaid royalties | **458,421** | – |
| Other | **207,961** | 79,973 |
| Total | **$6,280,966** | $1,292,662 |

**4. Property and Equipment**

| | December 31 | |
|---|---|---|
| | **2001** | **2000** |
| Computer equipment and software | **$ 4,638,208** | $ 2,503,744 |
| Furniture and office equipment | **1,390,142** | 718,737 |
| Leasehold improvements | **2,039,282** | 276,610 |
| Total property and equipment | **8,067,632** | 3,499,091 |
| Less: Accumulated depreciation | **(2,520,032)** | (678,451) |
| | **$ 5,547,600** | $ 2,820,640 |

Depreciation expense totaled $1,841,581, $619,139 and $59,312 for the years ended December 31, 2001, 2000 and 1999.

**5. Accrued Liabilities**

Accrued liabilities consist of the following components:

| | December 31 | |
|---|---|---|
| | **2001** | **2000** |
| Compensation payable | **$ (7,380,904)** | $ (2,531,703) |
| Sales and use tax payable | **(2,317,282)** | (441,666) |
| Income taxes payable | **(7,181,137)** | – |
| Royalties payable | **(2,203,333)** | – |
| Other | **(2,164,722)** | (575,190) |
| Total | **$ (21,247,378)** | $ (3,548,559) |

### 6. Notes Payable

The Company has two promissory notes totaling $1,950,000 to finance equipment and software purchases, of which $1,140,000 was outstanding at December 31, 2001. The promissory notes bear interest at the bank's prime lending rate plus 0.5% at December 31, 2001. The promissory notes are collateralized by all tangible assets of the Company. The promissory notes have maturity dates of December 2002 and September 2003 and contain certain restrictive covenants. In the event that the Company defaults the financial covenant specified in the note agreement, the bank will be granted security interest in the Company's intellectual property. If the default is cured, then the security interest in the intellectual property will be released. At December 31, 2001, the Company was in compliance with the financial covenant specified in the note agreement. As of December 31, 2001, all of the Company's outstanding debt has a variable interest rate, and the Company believes the carrying value of the debt approximates its fair value. The Company's debt is due in the amounts of $780,000 and $360,000 during the years ended December 31, 2002 and 2003, respectively.

### 7. Income Taxes

Significant components of the provision for income taxes are as follows:

| | December 31 | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Current: | | | |
| Federal | $ 6,664,268 | $ – | $ – |
| Foreign | 373,335 | – | – |
| State | 588,024 | – | – |
| Total current | 7,625,627 | – | – |
| Deferred: | | | |
| Federal | (6,026,270) | – | – |
| State | (531,730) | – | – |
| Total deferred | (6,558,000) | – | – |
| | $ 1,067,627 | $ – | $ – |

The foreign taxes include withholdings on royalties from customers located in foreign countries.

## 7. Income Taxes (continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes are as follows:

| | December 31 2001 | December 31 2000 |
|---|---|---|
| Deferred tax liabilities: | | |
| Depreciable assets | $ – | $ (27,512) |
| Prepaid expenses | (53,582) | – |
| | (53,582) | (27,512) |
| Deferred tax assets: | | – |
| Net operating loss carryforwards | – | 4,068,805 |
| Depreciable assets | 599,557 | – |
| Research and development credit carryforwards | – | 357,488 |
| Deferred revenue | 21,205,238 | 3,342,178 |
| Accrued expenses and other | 185,135 | 59,107 |
| | 21,989,930 | 7,827,578 |
| Net deferred tax asset | 21,936,348 | 7,800,066 |
| Valuation allowance for net deferred tax asset | (15,378,348) | (7,800,066) |
| Deferred taxes | $ 6,558,000 | $ – |

Deferred taxes have been classified on the accompanying balance sheet as follows:

| | December 31 2001 | December 31 2000 |
|---|---|---|
| Noncurrent deferred tax assets | $(6,594,283) | $ – |
| Current deferred tax liabilities | 36,283 | – |
| | $(6,558,000) | $ – |

Current deferred tax liabilities have been included in accrued liabilities on the accompanying balance sheet.

The Company has established a valuation allowance due to uncertainties regarding the realization of certain deferred tax assets. During 2001, the valuation allowance increased by approximately $14,136,000 due to operations and decreased by approximately $6,558,000 due to additional carryback potential as a result of taxes payable for 2001.

**7. Income Taxes (continued)**

The Company's provision for income taxes differs from the expected tax expense (benefit) amount computed by applying the statutory federal income tax rate of 34% to income before taxes primarily as a result of state taxes and changes in the valuation allowance.

**8. Commitments and Contingencies**

The Company leases office space for its corporate headquarters and other office space through January 2007. In accordance with FASB Statement No. 13, Accounting for Leases (SFAS 13), rental expense for the corporate headquarters office lease is recognized on a straight-line basis even though the lease contains escalation clauses. The Company also leases certain office equipment under an operating lease which expires during 2002. The minimum annual future payments under terms of these leases are as follows:

| | Operating Leases |
|---|---|
| 2002 | $1,347,440 |
| 2003 | 1,871,461 |
| 2004 | 1,878,296 |
| 2005 | 1,889,301 |
| 2006 | 1,956,274 |
| Thereafter | 163,488 |
| Total minimum lease payments | $9,106,260 |

Rent expense approximated $1,075,385, $535,000 and $119,000 for the years ending December 31, 2001, 2000 and 1999, respectively.

### 9. Mandatorily Redeemable Convertible Preferred Stock

The Company has authorized the issuance of up to a maximum of 13,394,775 shares of Preferred Stock. At December 31, 2001 and 2000, the Company had authorized 5,227,500 shares of Series A Mandatorily Redeemable Convertible Preferred Stock ("Series A"), 5,227,500 of which were outstanding at December 31, 2001 and 2000. The Series A has a par value of $.0033 per share and was issued at a price of $0.96 per share in April 1999. The Company also authorized 4,503,525 shares of Series B Mandatorily Redeemable Convertible Preferred Stock ("Series B"), of which 4,503,525 were outstanding at December 31, 2001 and 2000. The Series B has a par value of $.0033 per share and was issued at a price of $4.47 per share in December 1999. The Company also has authorized 3,663,750 shares of Series C Mandatorily Redeemable Convertible Preferred Stock ("Series C"), of which 3,112,998 were outstanding at December 31, 2001. The Series C has a par value of $.0033 per share and was issued at a price of $6.97 per share in April 2001.

The Series A, B, and C Mandatorily Redeemable Convertible Preferred Stock is convertible into Common Stock at December 31, 2001 on a one-for-one basis. Series A, B, and C are senior to Common Stock regarding liquidation and dividend preference. The liquidation preference for each series of Preferred Stock is equal to the price paid per share plus declared and unpaid dividends. Each series of Preferred Stock has voting rights equal to the number of shares of Common Stock into which it is convertible. Dividends may be paid at the discretion of the Board of Directors. Declared and unpaid dividends will be payable in cash upon the liquidation, dissolution or winding up of the Company or upon redemption of the Preferred Stock. Commencing April 6, 2008, at the option of the Series A, B and C stockholders, the Company is required to redeem 50% of the outstanding shares of Series A, B and C on each of April 6, 2008 and April 6, 2009 in an amount equal to approximately $23,400,000 on each date.

**10. Stock Options**

The Company has reserved an aggregate of 4,500,000 shares of Common Stock for issuance under its 1998 Stock Option/Stock Issuance Plan (the "Plan") at December 31, 2001. The Plan provides for grants of incentive stock options or nonqualified options to employees, officers and directors, and consultants of the Company. Options under the Plan are granted at the estimated fair value of the shares on the date of grant as determined by the Board of Directors. The maximum term of options granted under the Plan is 10 years from the date of grant. Options under the Plan generally vest over four years. Options under the Plan are exercisable immediately and the shares are subject to repurchase at the original exercise price, until fully vested. As such, all outstanding options are exercisable. The Company also has the right of first referral for any proposed disposition of shares issued under the Plan.

The Company applies APB No. 25 "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock option plan. Compensation cost has been recognized for its stock option plan in accordance with APB No. 25. Had compensation cost for the Company's stock option plans been determined based on the fair market value at the grant dates for awards under the Plan consistent with the method provided by SFAS 123, "Accounting for Stock-Based Compensation," the Company's net loss would have been increased to the following pro forma amounts:

| | December 31 | | |
|---|---|---|---|
| | **2001** | **2000** | **1999** |
| Net loss | | | |
| As reported | **$(17,447,008)** | $(16,389,472) | $(3,860,209) |
| Pro forma | **$(17,529,498)** | $(16,416,529) | $(3,860,838) |

The Company calculated the fair value of each option grant on the date of grant using the minimum value pricing method with the following assumptions:

| | December 31 | | |
|---|---|---|---|
| | **2001** | **2000** | **1999** |
| Dividend yield | **0%** | 0% | 0% |
| Risk-free rate of return | **4%** | 6% | 6% |
| Expected life | **4 years** | 4 years | 4 years |

## 10. Stock Options (continued)

The following summarized activity under the Plan.

| | For the Year ended December 31, 2001 | | For the Year ended December 31, 2000 | | For the Year ended December 31, 1999 | |
|---|---|---|---|---|---|---|
| | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares |
| Outstanding at the beginning of the year | $ 0.72 | 1,450,450 | $ 0.09 | 1,107,022 | $ – | – |
| Granted | 1.82 | 1,202,483 | 1.12 | 1,122,009 | 0.07 | 2,663,601 |
| Exercised | 0.94 | (330,005) | 0.48 | (509,231) | 0.06 | (1,519,079) |
| Canceled | 1.51 | (145,639) | 0.23 | (269,350) | 0.02 | (37,500) |
| Outstanding at the end of the year | $ 1.24 | 2,177,289 | $ 0.72 | 1,450,450 | $ 0.09 | 1,107,022 |
| Options exercisable at year-end | $ 1.24 | 2,177,289 | $ 0.72 | 1,450,450 | $ 0.09 | 1,107,022 |
| Weighted average fair value of options granted during the year | $ 0.33 | | $ 0.24 | | $ 0.02 | |

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Price | Number Outstanding at December 31, 2001 | Weighted-Average Remaining Contractual Life | Weighted -Average Exercise Price | Number Exercisable at December 31, 2001 | Weighted-Average Exercise Price |
| $ 0.02 | 30,000 | 7.10 | $ 0.02 | 30,000 | $ 0.02 |
| $ 0.10 | 430,000 | 7.80 | $ 0.10 | 430,000 | $ 0.10 |
| $ 1.12 | 1,064,089 | 8.75 | $ 1.12 | 1,064,089 | $ 1.12 |
| $ 2.25 | 653,200 | 9.63 | $ 2.25 | 653,200 | $ 2.25 |
| $0.02 – $2.25 | 2,177,289 | 8.81 | $ 1.24 | 2,177,289 | $ 1.24 |

A total of 700,197 shares of outstanding common stock is subject to repurchase by the Company at December 31, 2001 should vesting requirements not be fulfilled. The potential liability for exercised unvested shares which are subject to repurchase at their aggregate original exercise price is approximately $315,853 at December 31, 2001.

## 10. Stock Options (continued)

### Warrants

On June 12, 2000 the Company issued performance-based warrants to purchase 120,000 shares of Common Stock at an exercise price of $4.47 per share to a customer in connection with an agreement. No value was attributed to these warrants based on a valuation performed using a pricing model at the date the warrants were earned. At December 31, 2000, 100,000 warrants had fully vested and become exercisable. The remainder would have vested on the attainment of certain performance criteria. The Company has reserved 120,000 shares of Common Stock for issuance related to these warrants. At December 31, 2001, the remaining 20,000 warrants were cancelled due to the failure to attain the performance criteria.

## 11. Employee Benefit Plan

During the year ended December 31, 1999, the Company established a voluntary defined contribution retirement plan qualifying under Section 401(k) of the Internal Revenue Code of 1986. The Company made no contributions in the years ended December 31, 2001, 2000 and 1999.

BroadJump
Confidential
Projected Balance Sheet and
Statement of Operations -
Unaudited
*Contains forward looking information*

*Preliminary - Subject to Change*

| | Forecast Q1 2003 | Forecast Q2 2003 | Forecast Q3 2003 | Forecast Q4 2003 | 31-Dec-03 2003 |
|---|---|---|---|---|---|
| ***Statement of Operations*** | | | | | |
| Revenue | | | | | |
| License fees | $ 10,294,333 | $ 9,978,820 | $ 9,110,410 | $ 9,836,528 | $ 39,220,091 |
| Services revenue | $ 3,143,767 | $ 3,186,557 | $ 3,490,098 | $ 3,750,029 | $ 13,570,451 |
| Total revenue | $ 13,438,100 | $ 13,165,377 | $ 12,600,508 | $ 13,586,557 | $ 52,790,542 |
| | 2.4% | -2.0% | -4.3% | 7.8% | |
| Cost of Revenue | | | | | |
| License fees | $ 154,415 | $ 149,682 | $ 136,656 | $ 147,548 | $ 588,301 |
| Royalty Expense | $ 422,069 | $ 438,044 | $ 438,044 | $ 456,476 | $ 1,754,635 |
| Services revenue | $ 1,220,301 | $ 1,231,914 | $ 1,283,341 | $ 1,332,236 | $ 5,067,792 |
| Total cost of revenue | $ 1,796,786 | $ 1,819,640 | $ 1,858,041 | $ 1,936,261 | $ 7,410,728 |
| Gross profit | $ 11,641,314 | $ 11,345,737 | $ 10,742,467 | $ 11,650,296 | $ 45,379,814 |
| | 87% | 86% | 85% | 86% | 86% |
| Operating expenses | | | | | |
| Sales | $ 3,460,749 | $ 3,455,989 | $ 3,438,657 | $ 3,537,873 | $ 13,893,269 |
| Marketing | $ 927,175 | $ 937,608 | $ 848,652 | $ 927,275 | $ 3,640,711 |
| Prof Services and support | $ 888,406 | $ 896,583 | $ 877,692 | $ 865,749 | $ 3,528,430 |
| Development | $ 3,771,637 | $ 3,674,913 | $ 3,628,960 | $ 3,538,979 | $ 14,614,488 |
| G&A | $ 858,395 | $ 862,386 | $ 872,181 | $ 869,944 | $ 3,462,905 |
| Total operating expenses | $ 9,906,361 | $ 9,827,479 | $ 9,666,142 | $ 9,739,821 | $ 39,139,804 |
| Income (loss) from operations | $ 1,734,953 | $ 1,518,258 | $ 1,076,325 | $ 1,910,475 | $ 6,240,010 |
| Other income and expenses, net | | | | | |
| Interest expense | $ (4,800) | $ (3,000) | $ (1,200) | $ (121,250) | $ (130,250) |
| Interest income | $ 104,647 | $ 96,156 | $ 89,745 | $ 96,263 | $ 386,811 |
| Net income (loss) before taxes | $ 1,834,800 | $ 1,611,414 | $ 1,164,870 | $ 1,885,487 | $ 6,496,571 |
| Income taxes | $ (15,929) | $ (12,606) | $ (11,915) | $ (31,792) | $ (72,242) |
| Net income (loss) after taxes | $ 1,850,729 | $ 1,624,020 | $ 1,176,785 | $ 1,917,279 | $ 6,568,813 |

$38.9 M from backlog

~1.5 %
~45 %
margin seems extremely high!

2

S+M? Services?

APPENDIX D-3
(6 pages)

BroadJump
Confidential
Projected Balance Sheet and
Statement of Operations -
Unaudited
*Contains forward looking information*

*Preliminary - Subject to Change*

| | Forecast Q1 2004 | Forecast Q2 2004 | Forecast Q3 2004 | Forecast Q4 2004 | 31-Dec-04 2004 |
|---|---|---|---|---|---|
| ***Statement of Operations*** | | | | | |
| Revenue | | | | | |
| License fees | $ 10,564,615 | $ 11,972,033 | $ 13,566,948 | $ 15,374,336 | $ 51,477,932 |
| Services revenue | $ 3,972,903 | $ 4,156,380 | $ 4,361,795 | $ 4,590,597 | $ 17,081,676 |
| Total revenue | $ 14,537,518 | $ 16,128,414 | $ 17,928,743 | $ 19,964,934 | $ 68,559,608 |
| Cost of Revenue | | | | | |
| License fees | $ 158,469 | $ 179,580 | $ 203,504 | $ 230,615 | $ 772,169 |
| Royalty Expense | $ 456,476 | $ 480,000 | $ 510,000 | $ 570,000 | $ 2,016,476 |
| Services revenue | $ 1,700,978 | $ 1,808,589 | $ 1,931,048 | $ 2,047,287 | $ 7,487,902 |
| Total cost of revenue | $ 2,315,923 | $ 2,468,169 | $ 2,644,552 | $ 2,847,902 | $ 10,276,547 |
| Gross profit | $ 12,221,595 | $ 13,660,244 | $ 15,284,190 | $ 17,117,031 | $ 58,283,061 |
| | 84% | 85% | 85% | 86% | 85% |
| Operating expenses | | | | | |
| Sales | $ 3,862,925 | $ 4,298,093 | $ 4,834,678 | $ 5,690,272 | $ 18,685,968 |
| Marketing | $ 920,868 | $ 977,426 | $ 1,073,732 | $ 1,168,493 | $ 4,140,520 |
| Prof Services and support | $ 917,789 | $ 945,536 | $ 982,952 | $ 1,052,503 | $ 3,898,781 |
| Development | $ 3,461,733 | $ 3,392,845 | $ 3,325,327 | $ 3,259,153 | $ 13,439,058 |
| G&A | $ 871,361 | $ 903,621 | $ 941,046 | $ 984,930 | $ 3,700,957 |
| Total operating expenses | $ 10,034,677 | $ 10,517,521 | $ 11,157,735 | $ 12,155,351 | $ 43,865,284 |
| Income (loss) from operations | $ 2,186,918 | $ 3,142,723 | $ 4,126,455 | $ 4,961,680 | $ 14,417,776 |
| Other income and expenses, net | | | | | |
| Interest expense | $ (110,000) | $ (98,750) | $ (87,500) | $ (76,250) | $ (372,500) |
| Interest income | $ 105,753 | $ 100,451 | $ 102,986 | $ 117,200 | $ 426,390 |
| Net income (loss) before taxes | $ 2,182,670 | $ 3,144,424 | $ 4,141,942 | $ 5,002,630 | $ 14,471,666 |
| Income taxes | $ 611,148 | $ 880,439 | $ 1,159,744 | $ 1,400,736 | $ 4,052,067 |
| Net income (loss) after taxes | $ 1,571,523 | $ 2,263,985 | $ 2,982,198 | $ 3,601,894 | $ 10,419,600 |

$15.9M from 2002 backlog

BroadJump
Confidential
Projected Balance Sheet and
Statement of Operations -
Unaudited
***Contains forward looking information***

***Preliminary - Subject to Change***

| Balance Sheet | Forecast Q1 2003 | Forecast Q2 2003 | Forecast Q3 2003 | Forecast Q4 2003 | 31-Dec-03 2003 |
|---|---|---|---|---|---|
| Cash | $ 40,638,229 | $ 38,700,183 | $ 35,050,175 | $ 40,910,779 | $ 40,910,779 |
| Accounts receivable, net | $ 11,504,172 | $ 8,541,475 | $ 9,854,424 | $ 11,067,630 | $ 11,067,630 |
| Prepaid expenses and other assets | $ 5,344,353 | $ 4,599,581 | $ 4,154,619 | $ 3,708,237 | $ 3,708,237 |
| Total current assets | $ 57,486,754 | $ 51,841,239 | $ 49,059,218 | $ 55,686,646 | $ 55,686,646 |
| Fixed Assets, net | $ 4,566,958 | $ 4,277,651 | $ 3,961,983 | $ 3,621,583 | $ 3,621,583 |
| Other assets | $ 12,560,925 | $ 12,122,880 | $ 12,884,836 | $ 12,428,360 | $ 12,428,360 |
| Total assets | $ 74,614,637 | $ 68,241,771 | $ 65,906,037 | $ 71,736,589 | $ 71,736,589 |
| Accounts payable | $ 758,983 | $ 782,983 | $ 986,983 | $ 1,010,983 | $ 1,010,983 |
| Accrued liabilities | $ 5,818,571 | $ 5,362,321 | $ 6,212,321 | $ 5,162,321 | $ 5,162,321 |
| Deferred revenue | $ 53,443,536 | $ 45,995,806 | $ 41,546,195 | $ 37,082,374 | $ 37,082,374 |
| Notes payable | $ 240,000 | $ 120,000 | $ - | $ 9,400,000 | $ 9,400,000 |
| Total current liabilities | $ 60,261,090 | $ 52,261,110 | $ 48,745,499 | $ 52,655,678 | $ 52,655,678 |
| Common stock | $ 175,000 | $ 175,000 | $ 175,000 | $ 175,000 | $ 175,000 |
| Additional paid in capital | $ 1,218,259 | $ 1,218,259 | $ 1,218,259 | $ 1,218,259 | $ 1,218,259 |
| Series A preferred stock, net | $ 4,964,658 | $ 4,964,658 | $ 4,964,658 | $ 4,964,658 | $ 4,964,658 |
| Series B preferred stock | $ 19,965,000 | $ 19,965,000 | $ 19,965,000 | $ 19,965,000 | $ 19,965,000 |
| Series C preferred stock | $ 21,665,452 | $ 21,665,452 | $ 21,665,452 | $ 21,665,452 | $ 21,665,452 |
| Deferred compensation | $ (16,982) | $ (13,889) | $ (10,796) | $ (7,703) | $ (7,703) |
| Accumulated deficit | $ (33,617,840) | $ (31,993,820) | $ (30,817,035) | $ (28,899,756) | $ (28,899,756) |
| Total liabilities and equity | $ 74,614,637 | $ 68,241,770 | $ 65,906,037 | $ 71,736,588 | $ 71,736,588 |

- 38,875,583 to Rev from Backlog, 2002 (def + unbilled)
from Sales (net)
+



F1

BroadJump
Confidential
Projected Balance Sheet and
Statement of Operations -
Unaudited
***Contains forward looking information***

***Preliminary - Subject to Change***

| | Forecast Q1 2004 | Forecast Q2 2004 | Forecast Q3 2004 | Forecast Q4 2004 | 31-Dec-04 2004 |
|---|---|---|---|---|---|
| ***Balance Sheet*** | | | | | |
| Cash | $ 40,123,441 | $ 37,573,344 | $ 44,712,553 | $ 44,538,606 | $ 44,538,606 |
| Accounts receivable, net | $ 12,000,000 | $ 15,000,000 | $ 11,000,000 | $ 15,000,000 | $ 15,000,000 |
| Prepaid expenses and other assets | $ 4,168,237 | $ 4,125,237 | $ 4,082,237 | $ 4,039,237 | $ 4,039,237 |
| Total current assets | $ 56,291,678 | $ 56,698,581 | $ 59,794,790 | $ 63,577,843 | $ 63,577,843 |
| Fixed Assets, net | $ 3,287,329 | $ 3,023,075 | $ 2,828,820 | $ 2,528,566 | $ 2,528,566 |
| Other assets | $ 11,936,197 | $ 11,234,253 | $ 10,573,589 | $ 9,951,777 | $ 9,951,777 |
| Total assets | $ 71,515,204 | $ 70,955,909 | $ 73,197,199 | $ 76,058,186 | $ 76,058,186 |
| Accounts payable | $ 1,014,983 | $ 1,020,983 | $ 1,026,983 | $ 1,032,983 | $ 1,032,983 |
| Accrued liabilities | $ 4,262,321 | $ 4,412,321 | $ 4,562,321 | $ 4,712,321 | $ 4,712,321 |
| Deferred revenue | $ 37,082,374 | $ 35,000,000 | $ 35,000,000 | $ 35,000,000 | $ 35,000,000 |
| Notes payable | $ 8,500,000 | $ 7,600,000 | $ 6,700,000 | $ 5,800,000 | $ 5,800,000 |
| Total current liabilities | $ 50,859,678 | $ 48,033,304 | $ 47,289,304 | $ 46,545,304 | $ 46,545,304 |
| Common stock | $ 175,000 | $ 175,000 | $ 175,000 | $ 175,000 | $ 175,000 |
| Additional paid in capital | $ 1,218,259 | $ 1,218,259 | $ 1,218,259 | $ 1,218,259 | $ 1,218,259 |
| Series A preferred stock, net | $ 4,964,658 | $ 4,964,658 | $ 4,964,658 | $ 4,964,658 | $ 4,964,658 |
| Series B preferred stock | $ 19,965,000 | $ 19,965,000 | $ 19,965,000 | $ 19,965,000 | $ 19,965,000 |
| Series C preferred stock | $ 21,665,452 | $ 21,665,452 | $ 21,665,452 | $ 21,665,452 | $ 21,665,452 |
| Deferred compensation | $ (4,610) | $ (1,517) | $ 1,576 | $ 4,669 | $ 4,669 |
| Accumulated deficit | $ (27,328,234) | $ (25,064,248) | $ (22,082,049) | $ (18,480,156) | $ (18,480,156) |
| Total liabilities and equity | $ 71,515,203 | $ 70,955,908 | $ 73,197,200 | $ 76,058,186 | $ 76,058,186 |

BroadJump
Confidential
Projected Balance Sheet and
Statement of Operations -
Unaudited
*Contains forward looking information*

*Preliminary - Subject to Change*

| | Forecast Q1 2003 | Forecast Q2 2003 | Forecast Q3 2003 | Forecast Q4 2003 | 31-Dec-03 2003 |
|---|---|---|---|---|---|
| ***Statement of Cash Flows*** | | | | | |
| Cash flows from operating activities: | | | | | |
| Net income (loss) | $ 1,850,729 | $ 1,624,020 | $ 1,176,785 | $ 1,917,279 | $ 6,568,813 |
| Adjustments to reconcile net loss | | | | | |
| Depreciation | $ 651,615 | $ 669,057 | $ 696,168 | $ 723,650 | $ 2,740,491 |
| (Increase) decrease in current and other assets | $ (2,633,446) | $ 4,145,514 | $ (1,629,943) | $ (310,347) | $ (428,222) |
| Increase (decrease) in liabilities | $ (91,750) | $ (432,250) | $ 1,054,000 | $ (1,026,000) | $ (496,000) |
| Increase (decrease) in deferred revenue | $ (4,358,203) | $ (7,447,730) | $ (4,449,611) | $ (4,463,821) | $ (20,719,365) |
| Non-cash compensation | $ 3,093 | $ 3,093 | $ 3,093 | $ 3,093 | $ 12,372 |
| Net cash used in operations | $ (4,577,962) | $ (1,438,296) | $ (3,149,508) | $ (3,156,146) | $ (12,321,912) |
| Cash flow from investing activities: | | | | | |
| Furniture and equipment additions | $ (287,000) | $ (379,750) | $ (380,500) | $ (383,250) | $ (1,430,500) |
| Net cash used in investing activities | $ (287,000) | $ (379,750) | $ (380,500) | $ (383,250) | $ (1,430,500) |
| Cash flows from financing activity: | | | | | |
| Proceeds from issuance of debt | $ - | $ - | $ - | $ 10,000,000 | $ 10,000,000 |
| Payments on principle of debt | $ (120,000) | $ (120,000) | $ (120,000) | $ (600,000) | $ (960,000) |
| Proceeds from issuance of CS | $ - | $ - | $ - | $ - | $ - |
| Proceeds from issuance of Series C, net | $ - | | | | $ - |
| Proceeds from issuance of Series A, net | $ - | $ - | $ - | $ - | $ - |
| Proceeds from issuance of Series B, net | $ - | $ - | $ - | $ - | $ - |
| Net cash provided by financing act. | $ (120,000) | $ (120,000) | $ (120,000) | $ 9,400,000 | $ 9,040,000 |
| Increase (decrease) in cash | $ (4,984,962) | $ (1,938,046) | $ (3,650,008) | $ 5,860,604 | $ (4,712,412) |
| Cash at beginning of period | $ 45,623,190 | $ 40,638,229 | $ 38,700,183 | $ 35,050,175 | $ 45,623,190 |
| Cash at end of period | $ 40,638,229 | $ 38,700,183 | $ 35,050,175 | $ 40,910,779 | $ 40,910,779 |

BroadJump
Confidential
Projected Balance Sheet and
Statement of Operations -
Unaudited
*Contains forward looking information*

|  | *Preliminary - Subject to Change* Forecast Q1 2004 | Forecast Q2 2004 | Forecast Q3 2004 | Forecast Q4 2004 | 31-Dec-04 2004 |
|---|---|---|---|---|---|
| ***Statement of Cash Flows*** | | | | | |
| Cash flows from operating activities: | | | | | |
| Net income (loss) | $ 1,571,523 | $ 2,263,985 | $ 2,982,198 | $ 3,601,894 | $ 10,419,600 |
| Adjustments to reconcile net loss | | | | | |
| Depreciation | $ 734,254 | $ 764,254 | $ 794,254 | $ 800,254 | $ 3,093,017 |
| (Increase) decrease in current and other assets | $ (900,207) | $ (2,255,056) | $ 4,703,664 | $ (3,335,188) | $ (1,786,788) |
| Increase (decrease) in liabilities | $ (896,000) | $ 156,000 | $ 156,000 | $ 156,000 | $ (428,000) |
| Increase (decrease) in deferred revenue | $ - | $ (2,082,374) | $ - | $ - | $ (2,082,374) |
| Non-cash compensation | $ 3,093 | $ 3,093 | $ 3,093 | $ 3,093 | $ 12,372 |
| Net cash used in operations | $ 512,663 | $ (1,150,097) | $ 8,639,209 | $ 1,226,052 | $ 9,227,827 |
| Cash flow from investing activities: | | | | | |
| Furniture and equipment additions | $ (400,000) | $ (500,000) | $ (600,000) | $ (500,000) | $ (2,000,000) |
| Net cash used in investing activities | $ (400,000) | $ (500,000) | $ (600,000) | $ (500,000) | $ (2,000,000) |
| Cash flows from financing activity: | | | | | |
| Proceeds from issuance of debt | $ - | | $ - | $ - | $ - |
| Payments on principle of debt | $ (900,000) | $ (900,000) | $ (900,000) | $ (900,000) | $ (3,600,000) |
| Proceeds from issuance of CS | $ - | $ - | $ - | $ - | $ - |
| Proceeds from issuance of Series C, net | $ - | | | | $ - |
| Proceeds from issuance of Series A, net | $ - | $ | $ - | $ - | $ - |
| Proceeds from issuance of Series B, net | $ - | $ - | $ - | $ - | $ - |
| Net cash provided by financing act. | $ (900,000) | $ (900,000) | $ (900,000) | $ (900,000) | $ (3,600,000) |
| Increase (decrease) in cash | $ (787,337) | $ (2,550,097) | $ 7,139,209 | $ (173,948) | $ 3,627,827 |
| Cash at beginning of period | $ 40,910,779 | $ 40,123,441 | $ 37,573,344 | $ 44,712,553 | $ 40,910,779 |
| Cash at end of period | $ 40,123,441 | $ 37,573,344 | $ 44,712,553 | $ 44,538,606 | $ 44,538,606 |

Motive

# Comparable Companies

## Trading Statistics

**Trading Statistics of Selected Comparable Companies** [1]

(USD MM, except share price, percents and ratios)

| Company | Current Price 12/20/2002 | Discount to LTM High | Premium to LTM Low | Market Value | Aggregate Value | LTM Revenue | LTM Net Income | P/E Ratio LTM | P/E Ratio CY2002E | P/E Ratio CY2003E | Aggregate Value/ Sales LTM | Aggregate Value/ Sales CY2002E | Aggregate Value/ Sales CY2003E | Market / Book | LTM Operating Margin | Est. 5 Yr Growth Rate | CY2003E P/E / 5 Yr Growth |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Comparable Companies** | | | | | | | | | | | | | | | | | |
| Siebel Systems Inc | $7.57 | (80.3%) | 42.0% | $4,002 | $2,253 | $1,692 | $143 | 27.8 x | 29.8 x | 31.8 x | 1.3 x | 1.4 x | 1.5 x | 2.0 x | 10.5% | 20.0% | 1.59 x |
| Vignette Corp | $1.28 | (77.2%) | 93.6% | 321 | 11 | 167 | (37) | N.M. | N.M. | N.M. | N.M. | N.M. | N.M. | 0.8 | (32.6%) | 25.0% | N.M. |
| Broadvision Inc | $3.30 | (89.0%) | 200.0% | 131 | 50 | 132 | (39) | 2.9 | N.M. | N.M. | 0.4 | 0.4 | 0.4 | 2.6 | (34.5%) | 38.0% | N.M. |
| Supportsoft Inc | $3.42 | (57.5%) | 95.4% | 118 | 93 | 38 | (4) | N.M. | N.M. | 45.6 | 2.5 | N.A. | N.A. | 4.8 | (16.1%) | 85.0% | 0.54 |
| Onyx Software Corp | $1.60 | (69.1%) | 18.5% | 82 | 57 | 69 | 6 | 9.0 | N.M. | 23.5 | 0.8 | 0.8 | 0.7 | 4.6 | 11.1% | 30.0% | 0.78 |
| Metasolv Inc | $1.50 | (82.8%) | 80.7% | 58 | (13) | 84 | (14) | N.M. | N.M. | N.M. | NM | NM | NM | 0.5 | (28.8%) | 18.8% | N.M. |
| Kana Software Inc | $2.17 | (92.6%) | 267.8% | 50 | 14 | 82 | (27) | N.M. | N.M. | N.M. | 0.2 | 0.2 | 0.2 | 2.6 | (56.8%) | 50.0% | N.M. |
| | **Mean:** | **(78.4%)** | **114.0%** | | | | | **13.2 x** | **29.8 x** | **33.6 x** | **1.0 x** | **0.7 x** | **0.7 x** | **2.6 x** | **(21.0%)** | **38.1%** | **0.97 x** |
| | **Median:** | **(80.3%)** | **93.6%** | | | | | **9.0** | **29.8** | **31.8** | **0.8** | **0.6** | **0.5** | **2.6** | **(28.8%)** | **30.0%** | **0.78** |

APPENDIX E-1

Morgan Stanley

**Notes**

- Market information from FactSet; LTM information from latest SEC filings and earnings releases; forward estimates from I/B/E/S

APPENDIX E-2
(6 pages)

# NON-COMPETITION AND NON-SOLICITATION AGREEMENT

This NON-COMPETITION AND NON-SOLICITATION AGREEMENT (this "Agreement") is made and entered into as of December ____, 2002 by and among Motive Communications, Inc., a Delaware corporation ("Acquiror"), and ____________________ (the "Founder").

## WITNESSETH:

WHEREAS, Acquiror, BroadJump, Inc., a Texas corporation ("Target"), and T-Bone Acquisition, Inc., a Texas corporation, have entered into the Agreement and Plan of Merger, dated as of the date hereof (the "Merger Agreement"), pursuant to which, among other things, Merger Sub will merge with and into, and Acquiror will acquire all of the issued and outstanding capital stock of, Target (the "Merger");

WHEREAS, the Founder has been involved in the operation and/or development of the business of Target (the "Target Business"), and Acquiror and Target will be irreparably harmed if the Founder, directly or indirectly, competes with the business of Acquiror or Target, or takes any of the other prohibited actions specified herein, within the Restriction Period (as hereinafter defined), except as expressly permitted herein; and

WHEREAS, in order to protect Acquiror's interests in the Merger and the other transactions contemplated by the Merger Agreement, including the business to be conducted by Acquiror as it relates to the Target Business and the goodwill associated therewith, it is a condition to the obligation of Acquiror to consummate the Merger Agreement that the Founder enter into this Agreement;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. *Definitions*. For purposes of this Agreement, the terms set forth below shall have the following meanings:

"Person" shall mean any individual, corporation, limited liability company, partnership, limited partnership, association, trust or any other entity or organization of any kind or character, including any governmental authority.

"Restricted Activity" shall mean any business, conduct or activity of designing, developing, marketing, selling, delivering, licensing, supporting, maintaining or otherwise providing, or of assisting or participating in the design, development, marketing, sale, delivery, licensing, support, maintenance or provision of, (i) software infrastructure systems designed to automate the processes associated with subscriber activation, provisioning, software/service delivery, marketing and management of broadband services, and (ii) customer support software.



16
17
18
19

"Restriction Period" shall mean shall mean the period commencing on the date hereof and extending to and including the third anniversary of the effective date of the Merger.

SECTION 2. *Consideration.*

(a) In consideration of the covenants contained in this Agreement, Acquiror shall pay the Founder a cash payment (the "Cash Payment") in an amount equal to ________________ Dollars ($**[Kip McClanahan: 1,584,000/ Kenny Van Zant: 1,200,000/ James Crow : 1,056,000/ Adam Chibib: 960,000]**) on the effective date of the Merger.

(b) The Founder acknowledges and agrees that the payment set forth in this Section 2 is adequate consideration for the covenants and agreements of the Founder set forth in this Agreement.

SECTION 3. *Agreement Not to Compete.* The Founder agrees that, during the Restriction Period, he shall not, directly or indirectly, whether as principal, agent, officer, director, employee, investor, consultant, stockholder, shareholder, lender, partner, member, owner, sponsor or otherwise, alone or in association with any other Person:

(a) carry on, manage, operate, finance, sponsor or become engaged or concerned in, or otherwise take part in, a Restricted Activity anywhere in the world; or

(b) be employed by or render services to, or own, share in the earnings of, or invest in the stock, bonds or other securities of, or lend money or extend credit to or otherwise directly or indirectly assist, any Person engaged in a Restricted Activity anywhere in the world (other than Acquiror or Target); *provided, however*, that the Founder may acquire or maintain an ownership interest of less than five percent (5%) of the outstanding stock of a publicly held company.

SECTION 4. *Agreement Not to Solicit or Interfere.* The Founder agrees that, during the Restriction Period, he shall not, directly or indirectly, whether as principal, agent, officer, director, employee, investor, consultant, stockholder, shareholder, lender, partner, member, owner, sponsor or otherwise, alone or in association with any other Person:

(a) solicit or induce, or in any manner attempt to solicit or induce, any individual employed by, or an agent of, Acquiror or Target to terminate his or her employment or agency, as the case may be, with Acquiror or Target, or to become employed by or affiliated with (whether as an employee, officer, agent, consultant, advisor, contractor or otherwise) the Founder or any future employer of Founder; *provided, however*, that it shall not constitute a violation of this Agreement if an employee of Acquiror or Target is hired by a future employer of the Founder so long as the Founder did not directly or indirectly participate in such hiring.

(b) solicit or induce, or in any manner attempt to solicit or induce, any customer of Acquiror or Target to cease doing business, or to decrease its business, with Acquiror or Target or in any way interfere with the relationship between any such customer and Acquiror or Target;

(c) solicit or induce, or in any manner attempt to solicit or induce, any prospective customer of Acquiror or Target as of the date hereof to not do business with Acquiror or Target or in any way interfere with the relationship between any such prospective customer and Acquiror or Target;

(d) solicit or induce, or in any manner attempt to solicit or induce, any supplier, agent, licensee, licensor, franchisee, or other business relation of Acquiror or Target to cease doing business with Acquiror or Target or in any way interfere with the relationship between Acquiror or Target and any supplier, agent, licensee, licensor, franchisee, or other business relation; or

(e) interfere with the business relationships or disparage the good name or reputation of Acquiror or Target or any business of Acquiror or Target or engage in any conduct that brings Acquiror or Target or any of the business of Acquiror or Target into public ridicule or disrepute.

SECTION 5. *Absence of Conflicting Agreements.* The Founder hereby represents and warrants to Acquiror that this Agreement, when duly and validly executed and delivered thereby, will not conflict with, result in any violation or breach of, or constitute a default under, any term or provision of any license, contract or other agreement to which such Founder is a party.

SECTION 6. *Reformation.*

(a) The necessity of protection against competition from the Founder and the nature and scope of such protection has been carefully considered by the parties to this Agreement based upon the consultation with and advice from their respective legal counsel. The parties hereto agree and acknowledge (i) that the duration, scope and geographic areas applicable to the covenants contained in this Agreement are fair, reasonable and necessary, and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of Acquiror and Target and Acquiror's interests in the Merger and the other transactions contemplated by the Merger Agreement, (ii) that adequate compensation has been received by the Founder for such obligations, and (iii) that this Agreement is ancillary to the Merger Agreement.

(b) If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the term of this Agreement, in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as a part of this Agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable, but no such added provision shall be broader or result in a greater limitation of the activities of the Founder than is provided in this Agreement on the date hereof.

(c) If the automatic reformation provision contained in Section 6(b) for any reason fails or is held to be illegal, invalid or unenforceable, the parties request that the governmental body making such determination interpret, alter, amend and modify the terms of this Agreement to include as much of the scope, time period and geographic area specified in



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this Agreement as may be possible without rendering any provision of this Agreement illegal, invalid or unenforceable, but no such modified term shall be broader or result in a greater limitation of the activities of the Founder than is provided in this Agreement on the date hereof.

(d) If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the term of this Agreement, the legality, validity and, enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired.

SECTION 7. *Relief.*

(a) The Founder acknowledges and agrees that damages at law would be insufficient for breach by such Founder of any of the covenants in this Agreement. Accordingly, the Founder agrees that in the event of a breach by the Founder of any provisions of this Agreement, Acquiror shall be entitled to equitable relief in the form of an injunction to prevent irreparable injury without the necessity to post any bond therefor.

(b) Notwithstanding the provisions of Section 7(a), nothing in this Agreement shall be construed as prohibiting Acquiror from pursuing any other remedies, including damages, for breach or threatened breach of this Agreement. The remedies of Acquiror under this Agreement are cumulative, not exclusive, and may be exercised alternatively, successively or concurrently. The existence of any claim or cause of action of the Founder against Acquiror, whether based upon this Agreement, the Merger Agreement or otherwise, shall not constitute a defense to the enforcement of the obligations of the Founder under this Agreement.

SECTION 8. *Notice.* Any notice, request, instruction, other communications or other document to be given hereunder by either party hereto to the other party shall be in writing and delivered personally, faxed or sent by recognized overnight delivery service, and shall be deemed given when so delivered personally, faxed (with appropriate confirmation of receipt) or received, at such addresses as shall be specified by the parties from time to time under the Merger Agreement.

SECTION 9. . *Covenants Independent.* The covenants contained in this Agreement shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to any other covenant shall not avoid the occurrence of a breach if such action is taken or condition exists.

SECTION 10. *Waiver.* The failure of any party to insist, in any one or more instances, upon performance of any of the terms, covenants or conditions of this Agreement shall not be construed as a waiver or a relinquishment of any right or claim granted or arising under this Agreement or of the future performance of any such term, covenant or condition, and such failure shall in no way affect the validity of this Agreement or the rights and obligations of the parties to this Agreement.

SECTION 11. *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of Texas without regard to applicable principles of conflicts of law. Each of the parties hereto irrevocably consents to the exclusive jurisdiction of any court located within the State of Texas, in connection with any matter based upon or arising out of this Agreement or the matters contemplated herein, agrees that process may be served upon them in any manner authorized by the laws of the State of Texas for such persons and waives and covenants not to assert or plead any objection which they might otherwise have to such jurisdiction and such process.

SECTION 12. *Counterparts.* This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same instrument even if all parties are not signatories to each counterpart.

SECTION 13. *Parties in Interest; Assignment.* Except as otherwise provided herein, this Agreement shall bind and inure to the benefit of and be enforceable by each of the parties hereto and their respective succcessors and assigns. No party hereto shall have the right to assign its rights and obligations under this Agreement, without the consent of each of the other parties. Notwithstanding the foregoing, the provisions of this Agreement that refer to or confer rights upon Target shall inure to the benefit of Target, as fully and to the same extent as if Target were a party hereto.

SECTION 14. *Entire Agreement.* This Agreement contains the entire understanding and agreement between the parties concerning the subject matter discussed in this Agreement and supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between the parties with respect to such subject matter.

**[*Signature Page Follows*]**



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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written above.

**ACQUIROR:**

MOTIVE COMMUNICATIONS, INC.

By: ______________________________
Name:
Title:

**FOUNDER:**

______________________________
Name: [Kip McClanahan/Kenny Van Zant/James Crow/Adam Chibib]

APPENDIX E-3
(2 pages)

**ControlWorks Extensions for Service Delivery**
Jan. 23, 2003

James Crow
Motive Communications, Inc.

The task list of the SDE product contains the following high-level component deliverables that represent extensions to the ControlWorks infrastructure. As indicated below, some of these items were addressed by R&D projects within the 2002 timeframe and the remainder will be addressed with 2003.

| | |
|---|---|
| 2002 | Billing portal adapter<br>Server-based automation engine<br>Active network element adapter |
| 2003 | Services creation and management environment<br>AAA services<br>ControlWorks Svcs API<br>Services data schema and analytics<br>Telemetry source/sink adapters<br>Subscriber control and management subsystem |

The 2002 work plan was executed by a team that ranged from six to eight engineers that was formed in April 2002. This effort represents approximately 64 person-months of R&D effort. The remaining R&D effort for 2003 is projected to require a similarly sized team for the duration of the calendar year. The estimated work plan for the 2003 effort shows a team of six to eight engineering contributors for twelve months. This calculates to approximately 85 person-months of R&D effort.

The following represents the relative sizing of the SDE extensions as compared to the original ControlWorks effort.

| Item | ~KLOC |
|---|---|
| Original ControlWorks platform | 450 |
| Estimated size of CWII platform to support SDE | 300 |
| 20% estimated re-use by CWII from CW1 | 90 |
| Size net-new CWII resulting from 2002 R&D | 50 |
| Remaining R&D in 2003 | 160 |

Conclusion:

There is significant R&D effort remaining for the extensions to the ControlWorks platform that must be completed within 2003 to enable the 2004 release of the Service Delivery Edition product line. From the figures above, approximately 53 percent of the R&D effort remains. This figure is an estimate but is based on optimism about both the degree of code reuse as well as the resulting overall size. It is likely that any inaccuracy discovered during the project execution will result in the increase of the size of the remaining effort.

## CUSTOMER REVE

| Customer | Def Revenue Recognized 2003 | 2004 | 2005 | 2006 | Total |
|---|---|---|---|---|---|
| **REVENUE TYPE** | | | | | |
| LIC | 29,128,913 | 9,524,607 | 4,383,836 | 3,006,489 | 46,043,845 |
| MNT | 3,329,536 | 1,423,259 | 965,133 | 731,460 | 6,449,388 |
| MS | 1,371,771 | 254,840 | 12,649 | - | 1,639,259 |
| PS | 172,230 | - | - | - | 172,230 |
| TOTAL | 34,002,450 | 11,202,705 | 5,361,618 | 3,737,949 | 54,304,723 |
| | - | - | - | - | - |

APPENDIX F-1

## CUSTOMER REVE

| Customer | Unbilled Recognized 2003 | 2004 | 2005 | 2006 | Total |
|---|---|---|---|---|---|
| **REVENUE TYPE** | | | | | |
| LIC | 2,902,463 | 3,850,498 | 1,851,364 | 816,327 | 9,420,651 |
| MNT | 361,787 | 1,271,203 | 1,095,125 | 183,673 | 2,911,788 |
| MS | 240,000 | 240,000 | - | - | 480,000 |
| PS | - | - | - | - | - |
| TOTAL | 3,504,250 | 5,361,701 | 2,946,488 | 1,000,000 | 12,812,439 |
| | - | - | - | - | - |

APPENDIX F-2

## CUSTOMER REVENUE

| Customer | Product | Def Revenue Recognized 2003 | 2004 | 2005 | 2006 | Total | Unbilled Recognized 2003 | 2004 | 2005 | 2006 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Time Warner Cable | VTI | 581,400 | - | - | - | 581,400 | | | | | - |
| | CD | - | - | - | - | - | | | | | - |
| | MNTVT | 230,364 | - | - | - | 230,364 | | | | | - |
| | Host | 92,145 | - | - | - | 92,145 | | | | | - |
| | TRN | - | - | - | - | - | | | | | - |
| | Deploy | - | - | - | - | - | | | | | - |
| | CONS | - | - | - | - | - | | | | | - |
| | VTI | 2,303,637 | - | - | - | 2,303,637 | | | | | - |
| | | - | - | - | - | - | | | | | - |
| Road Runner | Medic | 129,946 | - | - | - | 129,946 | | | | | - |
| | VTI | 4,676,701 | 403,393 | - | - | 5,080,094 | | | | | - |
| | Host | 176,311 | - | - | - | 176,311 | | | | | - |
| | MNTVT | 350,753 | 30,254 | - | - | 381,007 | | | | | - |
| | CONS | - | - | - | - | - | | | | | - |
| | Deploy | - | - | - | - | - | | | | | - |
| | | - | - | - | - | - | | | | | - |
| Cox | VTI | - | - | - | - | - | | | | | - |
| | Deploy | - | - | - | - | - | | | | | - |
| | VTI | 2,632,248 | - | - | - | 2,632,248 | | | | | - |
| | Host | - | - | - | - | - | | | | | - |
| | MNTVT | - | - | - | - | - | | | | | - |
| | MNTVT | - | - | - | - | - | | | | | - |
| | | - | - | - | - | - | | | | | - |
| AT&T Broadband | VTI | - | - | - | - | - | | | | | - |
| | Deploy | - | - | - | - | - | | | | | - |
| | VTI | - | - | - | - | - | | | | | - |
| | VTI | 3,335,452 | - | - | - | 3,335,452 | | | | | - |
| | Host | 266,836 | - | - | - | 266,836 | | | | | - |
| | MNTVT | 333,545 | - | - | - | 333,545 | | | | | - |
| | CONS | 38,687 | - | - | - | 38,687 | | | | | - |
| | MNTVT | 271,875 | - | - | - | 271,875 | | | | | - |
| | | - | - | - | - | - | | | | | - |
| SBC | VTI | - | - | - | - | - | | | | | - |
| | TRN | - | - | - | - | - | | | | | - |
| | CC | - | - | - | - | - | | | | | - |
| | CONS | 85,455 | - | - | - | 85,455 | | | | | - |
| | VTI | 2,400,000 | 2,400,000 | 2,400,000 | 2,200,000 | 9,400,000 | | | | | - |
| | Host | - | - | - | - | - | | | | | - |
| | MNTVT | 600,000 | 600,000 | 600,000 | 550,000 | 2,350,000 | | | | | - |
| | CC | 1,464,826 | 1,622,815 | 1,622,815 | 806,489 | 5,516,945 | | | | 816,327 | 816,327 |
| | Host | 44,819 | - | - | - | 44,819 | | | | | - |
| | MNTVT | 329,586 | 365,133 | 365,133 | 181,460 | 1,241,313 | | | | 183,673 | 183,673 |
| | | - | - | - | - | - | | | | | - |
| Bell Canada | VTI | - | - | - | - | - | | | | | - |
| | VTQ | - | - | - | - | - | | | | | - |
| | VTI | 1,139,580 | 341,884 | - | - | 1,481,464 | | | | | - |
| | VTQ | 33,336 | 9,993 | - | - | 43,329 | | | | | - |
| | Deploy | - | - | - | - | - | | | | | - |
| | CONS | 48,088 | - | - | - | 48,088 | | | | | - |
| | Host | 63,332 | - | - | - | 63,332 | | | | | - |
| | | - | - | - | - | - | | | | | - |
| Adelphia | VTI | - | - | - | - | - | | | | | - |

APPENDIX F-3
(4 pages)

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | VTQ | - | - | - | - | - | | | - |
| | TRN | - | - | - | - | - | | | - |
| | MNTVT | 35,000 | - | - | - | 35,000 | | | - |
| | CONS | - | - | - | - | - | | | - |
| | Deploy | - | - | - | - | - | | | - |
| | VTI | - | - | - | - | - | | | - |
| | VTQ | - | - | - | - | - | | | - |
| | | - | - | - | - | - | | | - |
| Sprint | VTI | - | - | - | - | - | | | - |
| | VTI | - | - | - | - | - | | | - |
| | Deploy | - | - | - | - | - | | | - |
| | CONS | - | - | - | - | - | | | - |
| | MNTVT | - | - | - | - | - | | | - |
| | VTI | 253,316 | 184,690 | - | - | 438,005 | | 467,655 | 467,655 |
| | MNTVT | 49,221 | 12,774 | - | - | 61,995 | | 32,345 | 32,345 |
| | | - | - | - | - | - | | | - |
| Bell South | VTI | 1,159,003 | | | | 1,159,003 | 1,347,428 | 530,217 | 1,877,645 |
| | VTQ | 45,716 | | | | 45,716 | 51,478 | 22,584 | 74,062 |
| | CC | 1,287,485 | | | | 1,287,485 | 1,498,594 | 587,199 | 2,085,793 |
| | Host | 39,684 | | | | 39,684 | 240,000 | 240,000 | 480,000 |
| | MNTVT | - | | | | - | 360,000 | 360,000 | 720,000 |
| | TRN | - | - | - | - | - | | | - |
| | CONS | - | - | - | - | - | | | - |
| | Deploy | - | - | - | - | - | | | - |
| | Host | - | - | - | - | - | | | - |
| | MNTVT | - | - | - | - | - | | | - |
| | | - | - | - | - | - | | | - |
| BroadbandNOW | VTI | - | - | - | - | - | | | - |
| | Deploy | - | - | - | - | - | | | - |
| | | - | - | - | - | - | | | - |
| Telefonos Mexico | VTI | 158,898 | - | - | - | 158,898 | | | - |
| | SAM | 42,373 | - | - | - | 42,373 | | | - |
| | MNTVT | 20,127 | - | - | - | 20,127 | | | - |
| | VTI | 23,387 | - | - | - | 23,387 | | | - |
| | SAM | 4,225 | - | - | - | 4,225 | | | - |
| | Deploy | - | - | - | - | - | | | - |
| | Host | 16,102 | - | - | - | 16,102 | | | - |
| | CONS | - | - | - | - | - | | | - |
| | | - | - | - | - | - | | | - |
| Charter | VTI | 1,574,803 | 786,904 | - | - | 2,361,707 | | | - |
| | VTQ | 19,685 | 9,843 | - | - | 29,528 | | | - |
| | Host | 191,339 | 95,669 | - | - | 287,008 | | | - |
| | MNTVT | 239,173 | 119,587 | - | - | 358,760 | | | - |
| | Deploy | - | - | - | - | - | | | - |
| | CONS | - | - | - | - | - | | | - |
| | | - | - | - | - | - | | | - |
| Telewest | Deploy | - | - | - | - | - | | | - |
| | | - | - | - | - | - | | | - |
| Comcast | Deploy | - | - | - | - | - | | | - |
| | CONS | - | - | - | - | - | | | - |
| | VTI | - | - | - | - | - | | | - |
| | Host | - | - | - | - | - | | | - |
| | MNTVT | - | - | - | - | - | | | - |
| | Host | 138,000 | - | - | - | 138,000 | | | - |
| | MNTVT | 132,000 | - | - | - | 132,000 | | | - |
| | | - | - | - | - | - | | | - |
| AT&T DSL | VTI | 446,423 | 446,423 | 148,808 | - | 1,041,653 | | | - |
| | VTQ | 32,432 | 32,432 | 10,811 | - | 75,676 | | | - |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | CC | 502,226 | 502,226 | 167,409 | - | 1,171,860 | | | | | - |
| | Host | 37,946 | 37,946 | 12,649 | - | 88,540 | | | | | - |
| | MNTVT | - | - | - | - | - | | | | | - |
| | Host | - | - | - | - | - | | | | | - |
| | Deploy | - | - | - | - | - | | | | | - |
| | | - | - | - | - | - | | | | | - |
| Telefonica Brazil | CONS | - | - | - | - | - | | | | | - |
| | VTI | - | - | - | - | - | | | | | - |
| | SAM | - | - | - | - | - | | | | | - |
| | Host | - | - | - | - | - | | | | | - |
| | MNTVT | - | - | - | - | - | | | | | - |
| | VTI | - | - | - | - | - | | | | | - |
| | SAM | - | - | - | - | - | | | | | - |
| | VTI | - | - | - | - | - | | | | | - |
| | SAM | - | - | - | - | - | | | | | - |
| | Host | - | - | - | - | - | | | | | - |
| | MNTVT | - | - | - | - | - | | | | | - |
| | VTI | - | - | - | - | - | | | | | - |
| | SAM | - | - | - | - | - | | | | | - |
| | VTI | - | - | - | - | - | | | | | - |
| | SAM | - | - | - | - | - | | | | | - |
| | Host | - | - | - | - | - | | | | | - |
| | MNTVT | - | - | - | - | - | | | | | - |
| | VTI | - | - | - | - | - | | | | | - |
| | SAM | - | - | - | - | - | | | | | - |
| | | - | - | - | - | - | | | | | - |
| NTL | CONS | - | - | - | - | - | | | | | - |
| | VTI | 278,660 | 280,955 | 33,994 | - | 593,609 | | | | | - |
| | CC | 150,048 | 151,284 | - | - | 301,331 | | | | | - |
| | Host | 4,061 | - | - | - | 4,061 | | | | | - |
| | MNTVT | 64,306 | 64,836 | - | - | 129,142 | | | | | - |
| | VTQ | 68,790 | 5,766 | - | - | 74,557 | | | | | - |
| | Host | 445 | - | - | - | 445 | | | | | - |
| | MNTVT | 6,879 | 577 | - | - | 7,456 | | | | | - |
| | CWAE | 707,653 | 251,367 | | | 959,021 | | 934,216 | 1,185,583 | - | 2,119,799 |
| | CC | 381,044 | 135,352 | | | 516,396 | | 503,039 | 638,391 | - | 1,141,430 |
| | Host | 50,840 | - | | | 50,840 | | - | - | - | - |
| | MNTVT | 647,775 | 230,098 | | | 877,873 | | 855,167 | 1,085,265 | - | 1,940,431 |
| | | - | - | - | - | - | | | | | - |
| Qwest | CONS | - | - | - | - | - | | | | | - |
| | | - | - | - | - | - | | | | | - |
| AT&T EDSL | CONS | - | - | - | - | - | | | | | - |
| | Deploy | - | - | - | - | - | | | | | - |
| | | - | - | - | - | - | | | | | - |
| Support.com | CC | 1,160,442 | 949,077 | | | 2,109,519 | | 739,779 | | | 739,779 |
| | CC | 19,945 | | | | 19,945 | 4,963 | 65,809 | 27,390 | - | 98,162 |
| | MNTVT | 7,180 | | | | 7,180 | 1,787 | 23,691 | 9,860 | - | 35,338 |
| | CONS | - | - | - | - | - | | | | | - |
| | | - | - | - | - | - | | | | | - |
| Telus | VTI | 999,711 | 1,010,204 | - | - | 2,009,915 | | | | | - |
| | Host | 119,965 | 121,224 | - | - | 241,190 | | | | | - |
| | MNTVT | 11,752 | - | - | - | 11,752 | | | | | - |
| | Deploy | - | - | - | - | - | | | | | - |
| | | - | - | - | - | - | | | | | - |
| Aliant | Deploy | - | - | - | - | - | | | | | - |
| | | - | - | - | - | - | | | | | - |
| Sprint Canada | VTI | - | - | - | - | - | | | | | - |
| | SAM | - | - | - | - | - | | | | | - |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Host | - | - | - | - | - | | | | | - |
| | MNTVT | - | - | - | - | - | | | | | - |
| | Deploy | - | - | - | - | - | | | | | - |
| | | - | - | - | - | - | | | | | - |
| MTS | CONS | - | - | - | - | - | | | | | - |
| | | - | - | - | - | - | | | | | - |
| Motive | VTI | 1,245,469 | - | - | - | 1,245,469 | | | | | - |
| TBD Billings | VTI | - | - | - | - | - | | | | | - |
| | | - | - | - | - | - | | | | | - |
| **TOTAL** Quarterly Revenue | | 34,002,450 | 11,202,705 | 5,361,618 | 3,737,949 | 54,304,723 | 3,504,250 | 5,361,701 | 2,946,488 | 1,000,000 | 12,812,439 |
| **REVENUE TYPE** | | | | | | | | | | | |
| LIC | | 29,128,913 | 9,524,607 | 4,383,836 | 3,006,489 | 46,043,845 | 2,902,463 | 3,850,498 | 1,851,364 | 816,327 | 9,420,651 |
| MNT | | 3,329,536 | 1,423,259 | 965,133 | 731,460 | 6,449,388 | 361,787 | 1,271,203 | 1,095,125 | 183,673 | 2,911,788 |
| MS | | 1,371,771 | 254,840 | 12,649 | - | 1,639,259 | 240,000 | 240,000 | - | - | 480,000 |
| PS | | 172,230 | - | - | - | 172,230 | - | - | - | - | - |
| TOTAL | | 34,002,450 | 11,202,705 | 5,361,618 | 3,737,949 | 54,304,723 | 3,504,250 | 5,361,701 | 2,946,488 | 1,000,000 | 12,812,439 |
| | | - | - | - | - | - | - | - | - | - | - |
| | | | | | | | 16,564,406 | | | | 67,117,162 |

## Contract Analysis – Open as of 12/31/02

| Customer | Total Value ($000) | Perpetual/Term | Contract Ends | # Subscribers | Price/Subscr. |
|---|---|---|---|---|---|
| | | | | | |
| SBC | 23,482 | Perpetual | 4Q06 | 5,222K | 1.60 |
| NTL | 10,185 | Term | 4Q05 | 4,000K | 1.70 |
| Bell South | 18,505 | Term/Perp. | 4Q04 | 2,000K | 8.19 |
| Road Runner | 8,718 | Perpetual | 1Q04 | 2,500K | 3.00 |
| Cox | 8,722 | Perpetual | 4Q03 | 2,000K | 4.13 |
| ATT BBand | 12.257 | Term | 2Q03 | 2,250K | 4.83 |
| TimeWarner | 11,352 | Perpetual | 3Q03 | 4,000K | 2.63 |
| Charter | 6,362 | Perpetual | 2Q04 | 2,000K | 3.00 |
| ATT DSL | 3,760 | Perpetual | 2Q05 | 2,000K | 1.57 |
| Telus | 3,389 | Term | 4Q04 | 400K | 8.25 |
| Bell Canada | 4,674 | Term/Perp. | 2Q04 | 675K | 6.52 |
| Comcast | 6,656 | Perpetual | 3Q03 | 2,000K | 2.99 |
| Telefonos | 398 | Term | 2Q03 | 50K | 7.96 |

## Customers Concluding in 2002

| Customer | Total Value ($000) | Perpetual/Term | Contract Ends | # Subscribers | Price/Subscr. |
|---|---|---|---|---|---|
| | | | | | |
| Telefonica – Brazil | 2,146 | Term | 4Q02 | 97.5K | 16.01 |
| Adelphia | 2,532 | Perpetual | 4Q02 | 75K | 16.20 |
| Sprint | 1,591 | Term | 4Q02 | 155K | 9.00 |

# EXHIBIT 2

**Version Date: 11/01/2002**

| Customer | Total Dollars | S/W and Maint. Dollars | Service Dollars | Hosting Dollars | Pmt. | License Type | Term | Deploy Limit | Other |
|---|---|---|---|---|---|---|---|---|---|
| Adelphia Communications S/W Lic. Agreement 1/4/01 | $950,000 | $950,000 incl. 12 mo. Maint. | | | $950,000 due upon execution | Perp for those deployed | | 75,000 max. | 5% Maint. There after. |
| | | **Price per subscriber** | **$12.67** | | | | | | |
| Adelphia Communications S/W Lic. Agreement 12/4/01 | $1,480,000 | $1,480,000 incl. 12 mo. Maint. | | | $1,480,000 due upon execution | Perp for those deployed | | 75,000 max. | 5% Maint. There after. |
| | | **Price per subscriber** | **$19.73** | | | | | | |
| **ADELPIA GRAND TOTAL** | **$2,430,000** | **Ave. price per subscriber** | **$16.20** | | | | | | |
| | **$ 2,285,475** | **Revenue recognized to date** | | | | | | | |
| | **$ 246,667** | **Deferred revenue** | **Q4 2002** | | | | | | |
| | **$ 2,532,142** | | | | | | | | |
| AT&T Corp. DSL General Agree. 3/1/01 as restructured by Amend 1. | $3,142,000 | $3,025,000 | | $117,000 | $358,500 exec. $2,783,500 upon acceptance | Perp for those deployed | | Unlimited | Can cancel Order if Warranties not met (5.4) |
| | | **Price per subscriber** | **$1.57** | | | | | **2,000,000** | |
| | **$ 1,052,889** | **Revenue recognized to date** | | | | | | | |
| | **$ 2,632,486** | **Deferred revenue** | **Q2 2005** | | **True Straight-Line** | | | | |
| | **$ 75,000** | **Unbilled** | **Q2 2005** | | | | | | |
| | **$ 3,760,375** | | | | | | | | |
| AT&T Broadband S/W Lic Agr. 9/14/00 | $875,000 | $875,000 incl. 1yr maint. | | | $875,000 | Perp for those deployed | 15 mo. | 250,000 max. | |
| | | **Price per subscriber** | **$3.50** | | | | | | |
| AT&T Broadband S/W Lic Agr. 7/11/01 | $10,000,000 | $10,000,000 inc. 1yr. Maint. | | | $3 mil. Execution $2 mil. Xxx, 01 $1.25 mil. 3/31/02 $1.25 mil. 6/30/02 $1.25 mil. 9/30/02 $1.25 mil. 12/31/02 | | 2 years | 2 mil uses of Truck; Ulimited Qualifier | |
| | | **Price per subscriber** | **$5.00** | | | | | **2,000,000** | |
| **AT&T BROADBAND TOTAL** | **$10,875,000** | **Ave. price per subscriber** | **$4.83** | | | | | | |
| | **$ 6,531,654** | **Revenue recognized to date** | | | | | | | |
| | **$ 4,475,250** | **Deferred revenue** | **Q2 2003** | | **Straight-Line w/** | | | | |
| | **$ 1,250,000** | **Unbilled** | **Q2 2003** | | **increase upon pmt** | | | | |
| | **$ 12,256,904** | | | | | | | | |

APPENDIX F-4B
(6 pages)

# EXHIBIT 2

Version Date: 11/01/2002

| Customer | Total Dollars | S/W and Maint. Dollars | Service Dollars | Hosting Dollars | Pmt. | License Type | Term | Deploy Limit | Other |
|---|---|---|---|---|---|---|---|---|---|
| Bell Canada S/W Lic 12/29/00 | $375,000 | $375,000 incl. Maint | | | $375,000 upon exc | Perp for those deployed | 3 months | 25,000 max | |
| | | **Price per subscriber** | **$15.00** | | | | | | |
| Bell Canada S/W Lic 4/17/01 | $4,025,000 | $4,025,000 incl. 24mo. Maint | | Included | $2,415,000 Exec<br>$1,610,000 12/31/01 | Perp for those deployed | | 650,000 max | |
| | | **Price per subscriber** | **$6.19** | | | | | | |
| **BELL CANADA GRAND TOTAL** | **$4,400,000** | **Ave. price per subscriber** | **$6.52** | | | | | | |
| | **$ 2,645,495** | **Revenue recognized to date** | | | | | | | |
| ✓ | **$ 2,028,536** | **Deferred revenue** | **Q2 2004** | | **Dec. Straight-Line** | | | | |
| | **$ 4,674,031** | | | | | | | | |
| BellSouth S/W Lic updated per Amend 2 | $16,380,000 | $16,050,000; Maint paid quarterly NTE $247/qtr | | Pd. Qtr.; NTE $62,500 | $5,785,000 Exec<br>$6,557,500 1/1/02<br>$4,037,500 1/1/03 | Perp for those deployed | | **2,000,000** | MFC (2.6) |
| | | **Price per subscriber** | **$8.19** | | | | | | |
| | **$ 9,403,411** | **Revenue recognized to date** | | | | | | | |
| ✓ | **$ 3,713,770** | **Deferred revenue** | **Q4 2004** | | **Dec. Straight-Line** | | | | |
| | **$ 5,387,500** | **Unbilled** | **Q4 2004** | | **Dec. Straight-Line** | | | | |
| | **$ 18,504,681** | | | | | | | | |
| Charter Comm. Master Lic 7/9/01 | $6,000,000 | $6,000,000 incl. Maint | | | $2,430,000 Exec.<br>$1,822,500 12/31/01<br>$1,822,500 6/1/02 | Perp for those deployed | 3 years | unlimited<br>**2,000,000** | |
| Charter Comm. Prof Srv 7/9/01 | | | $70,000 | | | | | | |
| | | **Price per subscriber** | **$3.00** | | | | | | |
| | **$ 2,818,548** | **Revenue recognized to date** | | | | | | | |
| ✓ | **$ 3,543,750** | **Deferred revenue** | **Q2 2004** | | **True Straight-Line** | | | | |
| | **$ 6,362,298** | | | | | | | | |
| Comcst Cable S/W Lic as Amend 12/13/01 | $5,975,000 | $5,975,000 incl. Maint. | | 3% of fees if wanted | $1,000,000 of Mast<br>$3,000,000 of Amed<br>$1mil earlier of 3/31/02or 1 mil use<br>$975,000 earlier of 6/30/02 or 1 mil use | Perp for those deployed | 1 year | unlimited<br>**2,000,000** | MFC (13.16) |
| | | **Price per subscriber** | **$2.99** | | | | | | |
| | **$ 6,197,277** | **Revenue recognized to date** | | | | | | | |
| ✓ | **$ 458,516** | **Deferred revenue** | **Q3 2003** | | **Dec. Straight-Line** | | | | |
| | **$ 6,655,793** | | | | | | | | |

## EXHIBIT 2

**Version Date: 11/01/2002**

| Customer | Total Dollars | S/W and Maint. Dollars | Service Dollars | Hosting Dollars | Pmt. | License Type | Term | Deploy Limit | Other |
|---|---|---|---|---|---|---|---|---|---|
| Cox Master Lic 11/20/01 | $8,250,000 | $8,250,000 incl 12 mo Maint | | 12 incl | $5,362,500 @ accept<br>$2,887,500 1st Anniv | Perp for those deployed | 2 years | | MFC (3.4) |
| | | **Price per subscriber** | **$4.13** | | | | | **2,000,000** | |
| | **$ 2,131,680** | **Revenue recognized to date** | | | | | | | |
| ✓ | **$ 3,290,313** | **Deferred revenue** | **Q4 2003** | | **Straight-Line w/** | | | | |
| | **$ 3,300,000** | **Unbilled** | **Q4 2003** | | **increase upon pmt** | | | | |
| | **$ 8,721,993** | | | | | | | | |
| NTL Master for Instal, Qualifier & Correct Connect 12/21/01 | GBP 1,210,000 | Estimated $1,815,000 | | | | Perp for those deployed | 2 year | 100K max for Instal and 100k for CC and unlim for qual | |
| | | **Price per subscriber** | **$0.91** | | | | | **2,000,000** | |
| NTL Master for Control Works and Correct Connect 6/28/02 | GBP 5,400,000 | Estimated $8,100,000 | | | 1 mil each at 6/30/02, 12/31/02, 3/31/03, 6/30/03, 9/30/03, and 400K @ 12/31/03 | | | | MFC (3.4) |
| | | **Price per subscriber** | **$4.05** | | | | | **2,000,000** | |
| NTL Prof. Srv. Agr. 9/14/01 | GBP 181,800 | Estimated $272,700 | FFP 181,800 | | | | | | |
| | | **Price per subscriber** | **$0.14** | | | | | **2,000,000** | |
| **NTL GRAND TOTAL** | **$10,187,700** | **Ave. price per subscriber** | **$1.70** | | | | | | |
| | **$ 1,031,370** | **Revenue recognized to date** | | | | | | | |
| ✓ | **$ 2,421,967** | **Deferred revenue** | **Q4 2005** | | **Straight-Line w/** | | | | |
| | **$ 6,731,560** | **Unbilled** | **Q4 2005** | | **Inc. & dec. yr/yr** | | | | |
| | **$ 10,184,897** | | | | | | | | |
| Road Runner Servic Co 6/12/00 | | Installer $5.00/succes config<br>Selfcon $9.00/succes config | | | Invoice monthly | | 3 years | | MFC (4.2 a) |
| Road Runner Holding Co as amed per Amend 6/30/02 | $7,500,000 | $7,500,000 incl | | 12 mo incl | $3,750,000 exec<br>$3,750,000 6/30/02 | Perpetual for those deployed | | 2,500,000 use | |
| | | **Price per subscriber** | **$3.00** | | | | | | |
| | **$ 1,651,903** | **Revenue recognized to date** | | | | | | | |
| ✓ | **$ 7,066,353** | **Deferred revenue** | **Q1 2004** | | **True Straight-Line** | | | | |
| | **$ 8,718,256** | | | | | | | | |

## EXHIBIT 2

**Version Date: 11/01/2002**

| Customer | Total Dollars | S/W and Maint. Dollars | Service Dollars | Hosting Dollars | Pmt. | License Type | Term | Deploy Limit | Other |
|---|---|---|---|---|---|---|---|---|---|
| Road Runner Medic 6/12/00 | | | | | Monthly pmt for lic customers; $100K dlvy of service deliverables | | 3 years | | |
| ✓ | $ 122,568 | **Deferred revenue** | ?????? | | | | | | |
| SBC S/W & Prof Agr as changed per Amend No. 2 12/7/01 | $15,000,000 | $15,000,000 incl maint | | | $15,000,000 up front | Perp for those deployed | 5 years | 5,222,000 | MFC certified semi-annually; Can terminate if no good faith with minority plan; Quality TL9000 cert by 12/31/03 |
| | | **Price per subscriber** | **$2.87** | | | | | | |
| SBC S/W & Prof Agr as changed per Amend No. 3, 6/30/02 | $1,000,000 | | $1 mil. | | Pmt upon executionof work order | | | **5,222,000** | |
| | | **Price per subscriber** | **$0.19** | | | | | | |
| SBC/Support.com 12/11/01 | $9,000,000 | $9,000,000 incl maint, 450 free prof srv from BJ and 250 from Support.com | | | $4,500,000 exec<br>$2,250,000 2/15/02<br>$2,250,000 3/31/02 | Perpetual for those deployed | 5 years | **5,222,000** | Can cancel order for default and all $ returned; MFC written compliance; Quality std's TL9000; Warranty if not fixed then breach, SBC can cancel order |
| | | **Price per subscriber** | **$1.72** | | | | | | |
| **SBC GRAND TOTAL** | **$25,000,000** | **Ave. price per subscriber** | **$1.60** | | | | | | |
| | **$ 8,213,340** | **Revenue recognized to date** | | | | | | | |
| ✓ | **$ 14,268,339** | **Deferred revenue** | Q4 2006 | | **Straight-Line w/ increase upon pmt** | | | | |
| | **$ 1,000,000** | **Unbilled** | Q4 2006 | | | | | | |
| | **$ 23,481,679** | | | | | | | | |
| Sprint S/W Lic. Agreement 2/2/00 | | $8.00 per successful configuration | | | | Perpetual for those deployed | 10 months | 5,000 max | |
| Sprint S/W Lic. Agreement 12/14/00 | $ 1,350,000 | $ 1,350,000 incl 12 mo. Maint | | | $1,350,000 upon Exec. | Perpetual for those deployed | 18 mo. | 150,000 max | |
| | | **Price per subscriber** | **$9.00** | | | | | | |
| | **$ 1,573,178** | **Revenue recognized to date** | | | | | | | |
| ✓ | **$ 18,000** | **Deferred revenue** | Q4 2004 | | | | | | |
| | **$ 1,591,178** | | | | | | | | |

# EXHIBIT 2

Version Date: 11/01/2002

| Customer | Total Dollars | S/W and Maint. Dollars | Service Dollars | Hosting Dollars | Pmt. | License Type | Term | Deploy Limit | Other |
|---|---|---|---|---|---|---|---|---|---|
| Sprint Canada Master Lic 4/22/02 | $676,000 | $650,000 incl 12 mo Maint | | $26,000 Host setup | $325,000 exec; $325,000 12/31/02; $26,000 exec. | Perpetual for those deployed | 3 years | 50,000 max | |
| | | **Price per subscriber** | **$13.52** | | | | | | |
| | **$ 206,421** | **Revenue recognized to date** | | | | | | | |
| | **$ 325,000** | **Unbilled revenue** | **??????** | | | | | | |
| | **$ 531,421** | | | | | | | | |
| Telefonica Brazil Master Lic Agree 9/17/01 | $750,000 | $750,000 incl Maint | | | $750,000 exec | Perpetual for those deployed | 12 mon. | 42,500 max | |
| | | **Price per subscriber** | **$17.65** | | | | | | |
| Telefonica Brazil Master Lic Agree 12/14/01 | $811,250 | $811,250 incl Maint | | | $811,250 exec | Perpetual for those deployed | 12 mon. | 55,000 max | |
| | | **Price per subscriber** | **$14.75** | | | | | | |
| **TELEFONICA GRAND TOTAL** | **$1,561,250** | **Ave. price per subscriber** | **$16.01** | | | | | | |
| | **$ 1,892,771** | **Revenue recognized to date** | | | | | | | |
| ✓ | **$ 252,980** | **Deferred revenue** | **Q4 2002** | | | | | | |
| | **$ 2,145,751** | | | | | | | | |
| Telemex Master & Prof Lic 6/26/01 | $994,025 | $950,000 incl maint | $44,025 | | $950,000 exec; $44,025 as perf. | Perpetual for those deployed | 2 years | 50,000 max | |
| | | **Price per subscriber** | **$19.88** | | | | | | |
| | **$ -** | **Revenue recognized to date** | | | | | | | |
| ✓ | **$ 397,668** | **Deferred revenue** | **Q2 2003** | | **True Straight-Line** | | | | |
| | **$ 397,668** | | | | | | | | |
| Telus Prof Agr 10/12/01 | $85,000 | | $85,000 | | as performed | | | | |
| Telus Master Lic 12/20/01 | $3,300,000 | $3,300,000 incl 12 mo maint | | | $3,300,000 | Perpetual for those deployed | | Qualifier- Unlim Truck- 400,000 max 400,000 | |
| | | **Price per subscriber** | **$8.25** | | | | | | |
| | **$ 843,521** | **Revenue recognized to date** | | | | | | | |
| ✓ | **$ 2,545,714** | **Deferred revenue** | **Q4 2004** | | **True Straight-Line** | | | | |
| | **$ 3,389,235** | | | | | | | | |
| Time Warner Cable; S/W Lic Agree 8/7/00 | $3,000,000 | $3,000,000 | | | $3,000,000 upon exec | Perpetual for those deployed | 3 years | 1 mil use during term | |
| | | **Price per subscriber** | **$ 3.00** | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | **EXHIBIT 2** | | | | |
| **Version Date: 11/01/2002** | | | | | | | | | |
| **Customer** | **Total Dollars** | **S/W and Maint. Dollars** | **Service Dollars** | **Hosting Dollars** | **Pmt.** | **License Type** | **Term** | **Deploy Limit** | **Other** |
| Time Warner Cable; S/W Lic Agree 9/15/01 | $7,500,000 | $7,500,000 incl 12 mo Hosting and maint during term | | | $7,500,000 upon exec | Perpetual for those deployed | 2 years | 3 mil use during term | |
| | | **Price per subscriber** | $ 2.50 | | | | | | |
| **TIME WARNER GRAND TOTAL** | **$10,500,000** | **Ave. price per subscriber** | **$2.63** | | | | | | |
| | **$ 6,967,008** | **Revenue recognized to date** | | | | | | | |
| ✓ | **$ 4,384,621** | **Deferred revenue** | **Q3 2003** | | **True Straight-Line** | | | | |
| | **$ 11,351,629** | | | | | | | | |

**BroadJump, Inc.**
**Revenue Summary**

| | Q1 | Q2 | Q3 | Oct/Nov | Est. Dec | Est. FY |
|---|---|---|---|---|---|---|
| LIC | 8,849,396 | 9,266,576 | 9,683,881 | 6,129,940 | 2,822,737 | 36,752,531 |
| MNT | 656,543 | 753,792 | 1,041,848 | 773,336 | 373,435 | 3,598,954 |
| MS-Hosting | 765,459 | 832,278 | 803,121 | 670,457 | 323,208 | 3,394,523 |
| PS | 398,043 | 791,414 | 1,146,686 | 1,864,413 | 168,583 | 4,369,139 |
| TOTAL | 10,669,441 | 11,644,060 | 12,675,536 | 9,438,146 | 3,687,962 | 48,115,147 |

APPENDIX F-5
(5 pages)

| | | Total 2002 | Target 2002 Budget | |
|---|---|---|---|---|
| **Expenses w/ Alloc** | [redacted] | | | [redacted] |
| **Sales** | | $ 11,643,418 | $ 11,749,669 | |
| **Marketing** | | $ 4,569,977 | $ 4,559,703 | |
| **Prof Services** | | $ 3,588,844 | $ 3,678,641 | |
| **Customer Care** | | $ 1,629,899 | $ 1,713,351 | |
| **External Customer** | | $ 2,602,909 | $ 2,545,909 | |
| **Customer Retention** | | $ 550,789 | $ 621,087 | |
| **Business Developme** | | $ 1,777,291 | $ 1,928,533 | |
| **Human Resources** | | $ 677,857 | $ 677,399 | |
| **Recruiting** | | $ 524,889 | $ 538,662 | |
| **Development** | | $ 12,086,753 | $ 12,165,607 | |
| **CTO** | | $ 316,095 | $ 318,080 | |
| **Prod Management** | | $ 1,759,097 | $ 1,794,912 | |
| **G&A** | | $ 3,417,960 | $ 2,476,388 | |
| | | $ 45,145,777 | $ 44,767,941 | |

APPENDIX F-5
Page 2

**BROADJUMP, INC.**
**REVENUE BY CUSTOMER**
**DEPARTMENTAL ALLOCATIONS**

| Est. Department Headcount | 02 Dec. |
|---|---|
| Sales | 44 |
| Marketing | 17 |
| Prof Services | 23 |
| Customer Care | 10 |
| Managed Services | 16 |
| Customer Retention | 2 |
| Business Development | 15 |
| Human Resources | 4 |
| Recruiting | 4 |
| [redacted] | 75 |
| | 1 |
| | 9 |
| G&A | 8 |
| | 228 |

**PRODUCT REVENUE**

Appendix F-5
Page 3

**BROADJUMP, INC.**
**DEPARTMENTAL ALLOCATIONS**

| DEPARTMENT | ALLOCATED EXP 11/02 TOTAL | ALLOCATED EXPENSES MAINTENANCE | VERSIONS | NEW PRODUCT | TOTAL | |
|---|---|---|---|---|---|---|
| Development | 12,086,753 | 3,506,910 | 7,492,035 | 1,087,808 | 12,086,753 | |
| CTO | 316,095 | 31,609 | 126,438 | 158,047 | 316,095 | |
| Prod Management | 1,759,097 | 274,419 | 1,097,676 | 387,001 | 1,759,097 | |
| | 14,161,944 | 3,812,939 | 8,716,149 | 1,632,856 | 14,161,944 | - |
| TOTAL | | 27% | 62% | 12% | - | |
| | | **EXISTING ACCOUNT** | **NEW ACCOUNTS** | | **TOTAL** | |
| **Sales** | 11,643,418 | 10,055,679 | 1,587,739 | - | 11,643,418 | - |
| | | **EXISTING ACCOUNT** | **NEW ACCOUNTS** | | **TOTAL** | |
| **Marketing** | 4,569,977 | 2,422,088 | 2,147,889 | - | 4,569,977 | - |
| | | **EXISTING ACCOUNT** | **NEW ACCOUNTS** | | **TOTAL** | |
| Prof Services | 3,588,844 | 3,445,290 | 143,554 | - | 3,588,844 | - |
| Customer Care | 1,629,899 | 1,629,899 | - | - | 1,629,899 | - |
| Managed Services | 2,602,909 | 2,602,909 | - | - | 2,602,909 | - |
| | | **EXISTING ACCOUNT** | **NEW ACCOUNTS** | | **TOTAL** | |
| **Customer Retention** | 550,789 | 550,789 | - | - | 550,789 | - |
| **Business Development** | 1,777,291 | 1,421,833 | 355,458 | - | 1,777,291 | - |
| | | **EXISTING ACCOUNT** | **NEW ACCOUNTS** | | **TOTAL** | |
| Human Resources | 677,857 | 677,857 | - | - | 677,857 | - |
| Recruiting | 524,889 | 524,889 | - | - | 524,889 | - |
| G&A-INCLUDES MERGER COST | 3,417,960 | 2,973,625 | 444,335 | - | 3,417,960 | - |

| | |
|---|---|
| TOTAL EXPENSES | 45,145,777 |
| | - |

APPENDIX F-5
page 4

**BROADJUMP, INC.**
**DEPARTMENTAL ALLOCATIONS**

| **DEPARTMENT** | ALLOCATION CRITERIA<br>**MAINTENANCE** | **VERSIONS** | **NEW PRODUCT** | **TOTAL** |
|---|---|---|---|---|
| Development | 60% | 31% | 9% | 100% |
| [illegible] | 35% | 15% | 50% | 100% |
| Prod Management | 31% | 47% | 22% | 100% |
| TOTAL | | | | |

| | **CURRENT ACCOUNTS** | **NEW ACCOUNTS** | **TOTAL** |
|---|---|---|---|
| **Sales** | 86% | 14% | 100% |

| | **CURRENT ACCOUNTS** | **NEW ACCOUNTS** | **TOTAL** |
|---|---|---|---|
| **Marketing** | 53% | 47% | 100% |

| | **CURRENT ACCOUNTS** | **NEW ACCOUNTS** | **TOTAL** |
|---|---|---|---|
| **Prof Services** | 96% | 4% | 100% |
| **Customer Care** | 100% | 0% | 100% |
| **Managed Services** | 100% | 0% | 100% |

| | **CURRENT ACCOUNTS** | **NEW ACCOUNTS** | **TOTAL** |
|---|---|---|---|
| **Customer Retention** | 100% | 0% | 100% |
| **Business Development** | 80% | 20% | 100% |

| | **CURRENT ACCOUNTS** | **NEW ACCOUNTS** | **TOTAL** |
|---|---|---|---|
| **Human Resources** | 100% | 0% | 100% |
| **Recruiting** | 100% | 0% | 100% |
| **G&A-INCLUDES MERGER COST!** | 87% | 13% | 100% |

TOTAL EXPENSES

APPENDIX F-5
page 5

APPENDIX G-1
(4 pages)

a. Deposit liabilities and related depositor relationship intangible assets are exchanged in observable exchange transactions. Therefore, the depositor relationship intangible asset shall be recognized apart from goodwill.

b. An acquired entity owns a registered trademark, a related secret formula, and unpatented technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark in the United States, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the entity and sold if the related trademark is sold, it meets the separability criterion.

Examples of Intangible Assets That Meet the Criteria for Recognition Apart from Goodwill

A14. The following are examples of intangible assets that meet the criteria for recognition as an asset apart from goodwill. The following illustrative list is not intended to be all-inclusive, thus, an acquired intangible asset might meet the recognition criteria of this Statement but not be included on that list. Assets designated by the symbol (+) are those that would be recognized apart from goodwill because they meet the contractual-legal criterion.(superscript: 29) Assets designated by the symbol (*) do not arise from contractual or other legal rights, but shall nonetheless be recognized apart from goodwill because they meet the separability criterion. The determination of whether a specific acquired intangible asset meets the criteria in this Statement for recognition apart from goodwill shall be based on the facts and circumstances of each individual business combination.

(superscript: 29) The intangible assets designated by the symbol (+) also might meet the separability criterion. However, separability is not a necessary condition for an asset to meet the contractual-legal criterion.

a. Marketing-related intangible assets

(1) Trademarks, tradenames+
(2) Service marks, collective marks, certification marks+
(3) Trade dress (unique color, shape, or package design)+
(4) Newspaper mastheads+
(5) Internet domain names+
(6) Noncompetition agreements+

b. Customer-related intangible assets

(1) Customer lists*
(2) Order or production backlog+
(3) Customer contracts and related customer relationships+
(4) Noncontractual customer relationships*

c. Artistic-related intangible assets

(1) Plays, operas, ballets+

(2) Books, magazines, newspapers, other literary works+

(3) Musical works such as compositions, song lyrics, advertising jingles+

(4) Pictures, photographs+

(5) Video and audiovisual material, including motion pictures, music videos, television programs+

d. Contract-based intangible assets

(1) Licensing, royalty, standstill agreements+
(2) Advertising, construction, management, service or supply

contracts+

(3) Lease agreements+
(4) Construction permits+
(5) Franchise agreements+
(6) Operating and broadcast rights+
(7) Use rights such as drilling, water, air, mineral, timber cutting, and route authorities+
(8) Servicing contracts such as mortgage servicing contracts+
(9) Employment contracts+

e. Technology-based intangible assets

(1) Patented technology+
(2) Computer software and mask works+
(3) Unpatented technology*
(4) Databases, including title plants*
(5) Trade secrets, such as secret formulas, processes, recipes.+

Marketing-Related Intangible Assets

A15. Marketing-related intangible assets are those assets that are primarily used in the marketing or promotion of products or services. Trademarks are words, names, symbols, or other devices used in trade to indicate the source of the product and to distinguish it from the products of others. A service mark identifies and distinguishes the source of a service rather than a product. Collective marks are used to identify the goods or services of members of a group, and certification marks are used to certify the geographic origin or other characteristics of a good or service. In the United States and other countries, trademarks, service marks, collective marks, and certification marks may be protected legally through registration with governmental agencies, continuous use in commerce, or by other means. If registered or otherwise provided legal protection, a trademark or other mark is an intangible asset that meets the contractual-legal criterion for recognition apart from goodwill. Otherwise, a trademark or other mark shall be recognized apart from goodwill only if the separability criterion is met, which would normally be the case.

A16. The terms brand and brand name often are used as synonyms for trademarks and tradenames. However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as the trademark (or service mark) and its related tradename, formulas, recipes, and technological expertise (which may or may not be patented). This Statement does not preclude an entity from recognizing, as a single asset apart from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar useful lives.

A17. An Internet domain name is a unique alphanumeric name that is used to identify a particular numeric Internet address. Registration of a domain name associates the name with a designated computer on the Internet for the period the registration is in effect. Those registrations are renewable. Registered domain names shall be recognized as an intangible asset apart from goodwill because they meet the contractual-legal criterion.

Customer-Related Intangible Assets

Customer Lists

A18. A customer list consists of information about customers such as their name and contact information. A customer list also may be in the form of a database that includes other information about the customers such as their order history and demographic information. A customer list does not generally arise from contractual or other legal rights. However, customer lists are valuable and are frequently leased or exchanged. Therefore, an acquired customer list would meet the separability criterion for recognition apart from goodwill. An acquired customer list would not meet that criterion, however, if the terms of confidentiality or other agreements prohibit an entity from selling, leasing, or otherwise exchanging information about its customers.

Order or Production Backlog

A19. If an acquired order or production backlog arises from contracts such as purchase or sales orders, it meets the contractual-legal criterion for recognition apart from goodwill (even if the purchase or sales orders were cancelable).

Customer Contracts and Related Customer Relationships

A20. If an entity establishes relationships with its customers through contracts, those customer relationships would arise from contractual rights. Therefore, customer contracts and the related customer relationships are intangible assets that meet the contractual-legal criterion. This Statement requires that those intangible assets be recognized as assets apart from goodwill even if confidentiality or other contractual terms prohibit the sale or transfer of the contract separately from the acquired entity.

Noncontractual Customer Relationships

A21. If a customer relationship does not arise from a contract, this Statement requires that the relationship be recognized as an intangible asset apart from goodwill if it meets the separability criterion. Exchange transactions for the same asset or a similar type of asset provide evidence of separability of a noncontractual customer relationship and might also provide information about exchange prices that should be considered when estimating its fair value. For example, relationships with depositors are frequently exchanged with the related deposits and, thus, meet the criteria for recognition as an intangible asset apart from goodwill.

Artistic-Related Intangible Assets

A22. Artistic-related intangible assets meet the criteria for recognition apart from goodwill if the assets arise from contractual rights or legal rights such as those provided by copyright. In the United States for example, copyrights are granted by the government for the life of the creator plus 50 years. Copyrights can be transferred either in whole through assignments or in part through licensing agreements. In determining the fair value of an intangible asset protected by copyright, consideration shall be given to the existence of any assignments or licenses of the acquired copyrights. This Statement does not preclude an acquiring entity from recognizing a copyright intangible asset and any related assignments or license agreements as a single intangible asset for financial reporting purposes if their useful lives are similar.

Contract-Based Intangible Assets

A23. Contract-based intangible assets represent the value of rights that arise from contractual arrangements. Customer contracts (refer to paragraph A20) are one particular type of contract-based intangible asset. Contracts to service financial assets are another. While servicing is inherent in all financial assets, it becomes a distinct asset or liability only when (a) contractually separated from the underlying financial assets by sale or securitization of the assets with servicing retained or (b) through the separate purchase and assumption of the servicing. If mortgage loans, credit card receivables, or other financial assets are acquired in a business combination with servicing retained, this Statement does not require recognition of the inherent servicing rights as an intangible asset because the fair value of the servicing intangible asset is considered in the measurement of the fair value of the acquired financial asset. However, a contract representing an acquired servicing asset is an intangible asset that shall be recognized apart from goodwill.

A24. If the terms of a contract give rise to a liability or commitment (which might be the case if the terms of an operating lease or customer contract are unfavorable relative to market prices), that liability or commitment shall be recognized as required by paragraph 37(k) (Document link: Database 'Research Mgr - MOM Authoring', View '9. CARs\c. Content & CARs by Team & CAR # (Open items only)', Document 'Accounting', Anchor 'k. Other liabi') of this Statement.

Technology-Based Intangible Assets

A25. Technology-based intangible assets relate to innovations or technological advances. As stated in paragraphs A26?A28, the future economic benefits of those assets are often protected through contractual or other legal rights. Thus, many technology-based intangible assets meet the contractual-legal criterion for recognition apart from goodwill.

Computer Software and Mask Works

A26. If computer software and program formats are protected legally such as by patent or copyright, they meet the contractual-legal criterion for recognition apart from goodwill. Mask works are software permanently stored on a read-only memory chip as a series of stencils or integrated circuitry. Mask works may be provided legal protection; for example, in the United States mask works qualify for protection under the Semiconductor Chip Protection Act of 1984. Acquired mask works protected under the provisions of that Act or other similar laws or regulations also meet the contractual-legal criterion for recognition apart from goodwill.

Databases, Including Title Plants

A27. Databases are collections of information, often stored in electronic form (such as on computer disks or files). An acquired database that includes original works of authorship is entitled to copyright protection and, if so protected, meets the contractual-legal criterion for recognition apart from goodwill. However, a database often includes information created as a consequence of an entity's normal operations, such as a customer list or specialized information such as a title plant, scientific data, and credit information. Databases that are not protected by copyright can be (and often are) exchanged in their entirety or in part. Alternatively, they can be (and often are) licensed or leased to others. Thus, even if the future economic benefit of a database does not arise from legal rights, it meets the separability criterion for recognition as an asset apart from goodwill.

Trade Secrets, Such As Secret Formulas, Processes, Recipes

A28. A trade secret is "information, including a formula, pattern, compilation, program, device, method, technique, or process, that (1) drives independent economic value, actual or potential, from not being generally known . . . and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."(superscript: 30) If the future economic benefit of an acquired trade secret is protected legally, such as by the Uniform Trade Secrets Act or other laws and regulations, that asset meets the contractual-legal criterion for recognition as an asset apart from goodwill. Otherwise, a trade secret would be recognized as an asset apart from goodwill only if the separability criterion was met, which is likely to be the case.

(superscript: 30) M. Simensky and B. Lanning, The New Role of Intellectual Property in Commercial Transactions (New York: John Wiley & Sons, 1998), page 293.

~~Appendix B: Background Information and Basis for Conclusions~~

~~Introduction~~

~~B1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others. It also summarizes the considerations that were deemed significant in reaching the conclusions in FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises (Document link: Database 'Research Mgr - MOM Authoring', View '7. Main Content Authoring\a. Contents', Document 'Accounting'). Those conclusions and considerations are carried forward in this Statement without reconsideration.~~

Background Information

APPENDIX G-2
(5 pages)

**Issue No.** 02-17

**Title:** Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination

**Dates Discussed:** September 11–12, 2002; October 25, 2002

**References:** FASB Statement No. 141, *Business Combinations*

FASB Statement No. 142, *Goodwill and Other Intangible Assets*

FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*

**Introduction**

1. Intangible assets often represent legal rights that arise from contracts, statutes, or other means. Some intangible assets are exchangeable, while others cannot be separated from the entity. Statement 141 requires that an intangible asset be recorded apart from goodwill in either of the following situations:

- The intangible asset arises from contractual or other legal rights, regardless of whether they are separable from the entity (the contractual-legal criterion).
- The intangible asset is capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged (regardless of whether there is an intent to do so) either individually or in combination with a related contract, asset, or liability (the separability criterion).

2. The Board provided implementation guidance in Appendix A of Statement 141 to help constituents identify intangible assets. That guidance includes an illustrative list of intangible assets commonly acquired in a business combination. One particular category discussed was customer-related intangible assets. Paragraphs A18–A21 of Statement 141 state:

> *Customer-Related Intangible Assets*
>
> Customer lists
>
> A18. A customer list consists of information about customers such as their name and contact information. A customer list also may be in the form of a database that includes other information about the customers such as their order history and demographic information. A customer list does not generally arise from contractual or other legal rights. However, customer lists are valuable and are frequently leased or exchanged. Therefore, an acquired customer list would meet the separability criterion for recognition apart from goodwill. An acquired customer list would not meet that criterion, however, if the terms of confidentiality or other agreements prohibit an entity from selling, leasing, or otherwise exchanging information about its customers.
>
> Order or production backlog
>
> A19. If an acquired order or production backlog arises from contracts such as purchase or sales orders, it meets the contractual-legal criterion for recognition apart from goodwill (even if the purchase or sales orders were cancelable).
>
> Customer contracts and related customer relationships
>
> A20. If an entity establishes relationships with its customers through contracts, those customer relationships would arise from contractual rights. Therefore, customer contracts and the related customer relationships are intangible assets that meet the contractual-legal criterion. This Statement requires that those intangible assets be recognized as assets apart from goodwill even if

confidentiality or other contractual terms prohibit the sale or transfer of the contract separately from the acquired entity.

Noncontractual customer relationships

A21. If a customer relationship does not arise from a contract, this Statement requires that the relationship be recognized as an intangible asset apart from goodwill if it meets the separability criterion. Exchange transactions for the same asset or a similar type of asset provide evidence of separability of a noncontractual customer relationship and might also provide information about exchange prices that should be considered when estimating its fair value. For example, relationships with depositors are frequently exchanged with the related deposits and, thus, meet the criteria for recognition as an intangible asset apart from goodwill.

3. The glossary to Statement 141 defines the term *customer relationship* as follows:

> For purposes of this Statement, a customer relationship exists between an entity and its customer if (a) the entity has information about the customer and has regular contact with the customer and (b) the customer has the ability to make direct contact with the entity. Relationships may arise from contracts (such as supplier contracts and service contracts). However, customer relationships may arise through means other than contracts, such as through regular contact by sales or service representatives.

4. Questions have arisen regarding certain customer-related intangible assets acquired in a business combination. Consider the following scenarios:

<u>**Scenario 1**</u>
Company A acquired Company B on December 31, 20X1. Company B has a sales contract that will last for five years with Customer X. Company B and Company A both believe that Customer X will renew that contract for five years after the end of the current contract.

<u>**Scenario 2**</u>
Company A acquired Company B on December 31, 20X1. Company B has two distinct lines of business, Product A and Product B. Customer X purchases both Product A and Product B from Company B. Company B has a contract with Customer X to be the exclusive provider of Product A; however, there is no contractual relationship for the supply of Product B. Company B and Company A both believe that there is only one overall customer relationship with Customer X.

**Issues**

5. The issues are:

Issue 1—When an entity recognizes an intangible asset pursuant to paragraph 39 of Statement 141, whether the contractual-legal or the separability criteria restrict the use of certain assumptions, such as expectations of future contract renewals and other benefits related to the intangible asset that would be used in estimating the fair value of that intangible asset

Issue 2—Whether the guidance in, paragraph A20 of Statement 141, which states that a customer relationship meets the contractual-legal criterion if an entity establishes relationships with its customers through contracts, applies only if a contract is in existence at the date of acquisition

Issue 3—Whether order or production backlogs arising from contracts such as purchase or sales orders (even if the purchase or sales orders are cancelable) as described in paragraph A19 of Statement 141 are considered contracts subject to the guidance in paragraph A20 of Statement 141.

**Prior EITF Discussion**

6. At the September 11–12, 2002 meeting, the Task Force reached a tentative conclusion on Issue 1 that the contractual-legal and separability criteria do not restrict the use of certain assumptions that would be used in estimating the fair value of an intangible asset. Assumptions such as expectations of future contract renewals and other benefits related to the intangible asset must be considered in the estimate of its fair value regardless of whether they meet the contractual-legal or the separability criteria.

7. The Task Force observed that the contractual-legal and the separability criteria are used in Statement 141 to identify whether an intangible asset should be recorded apart from goodwill. Those criteria, however, do not provide guidance as to how to measure and record an intangible asset. The criteria are intended to ensure consistent recognition of acquired intangible assets.

8. The Task Force discussed, but did not reach a consensus on Issue 2.

9. The Task Force reached a tentative conclusion on Issue 3 that an order or a production backlog arising from contracts such as purchase or sales orders (even if the purchase or sales orders are cancelable) as described in paragraph A19 of Statement 141 is considered a contract subject to paragraph A20. Under that tentative conclusion, if an entity had a customer relationship with customers through those types of contracts, that customer relationship arises from contractual rights and therefore meets the contractual-legal criterion for recognition as an intangible asset apart from goodwill.

**Current EITF Discussion**

10. At the October 25, 2002 meeting, the Task Force reached a consensus on Issue 1 that the contractual-legal and the separability criteria do not restrict the use of certain assumptions that would be used in estimating the fair value of an intangible asset. Assumptions that marketplace participants would consider, such as expectations of future contract renewals and other benefits related to the intangible asset, must be considered in the estimate of its fair value regardless of whether they meet the contractual-legal criterion or the separability criterion.

11. The Task Force observed that the contractual-legal and the separability criteria are used in Statement 141 to identify whether an intangible asset should be recorded apart from goodwill. Those criteria, however, do not provide guidance as to how to measure and record an intangible asset. The criteria are intended to ensure consistent recognition of acquired intangible assets.

12. The Task Force reached a consensus on Issue 2 that the guidance in paragraph A20 of Statement 141 that states "if an entity establishes relationships with its customers through contracts, those customer relationships arise from contractual rights," applies if an entity has a practice of establishing contracts with its customers, regardless of whether a contract is in existence at the date of acquisition.

13. The Task Force observed that the consensus in this Issue provides guidance only on when to recognize a customer relationship intangible asset apart from goodwill. The Task Force further observed that factors such as the lack of contractual rights or separability may have an impact on the fair value of that asset.

15. The Task Force reached a consensus on Issue 3 that an order or a production backlog arising from contracts such as purchase or sales orders (even if the purchase or sales orders are cancelable) as described in paragraph A19 of Statement 141 is considered a contract subject to paragraph A20. The Task Force observed that under that conclusion, if an entity had a customer relationship with customers through those types of contracts, that customer relationship arises from contractual rights and therefore meets the contractual-legal criterion for recognition as an intangible asset apart from goodwill.

16. The Task Force observed that implicit in the consensuses reached in Issues 1, 2, and 3 is the fact that a customer contract and the related customer relationship may represent two distinct intangible assets. Both the useful lives, and the pattern in which the economic benefits of the two assets are consumed may differ.

17. The examples in Exhibit 02-17A illustrate the consensuses reached in this Issue.

**Transition**

18. The Task Force reached a consensus that the guidance in this Issue should be applied to business combinations consummated and goodwill impairment tests performed after October 25, 2002.

**Status**

19. No further EITF discussion is planned.

**Exhibit 02-17A**

## EXAMPLES OF THE APPLICATION OF THE EITF CONSENSUS ON ISSUE 02-17

**Example 1**
BigCo acquired LittleCo in a business combination on December 31, 20X2. LittleCo has a five-year agreement to supply goods to BuyerCo. Both LittleCo and BigCo believe that BuyerCo will renew the supply agreement at the end of the current contract. The supply agreement is not separable.

**Evaluation:** The supply agreement (whether cancelable or not) meets the contractual-legal criterion and, therefore, must be recorded at fair value apart from goodwill. Additionally, since LittleCo establishes its relationship with BuyerCo through a contract, the customer relationship with BuyerCo meets the contractual-legal criterion and the customer relationship must also be recorded at fair value apart from goodwill. In determining the fair value of the customer relationship, BigCo is required to consider assumptions such as the expected renewal of the supply agreement.

**Example 2**
ParentCo acquired VendorCo in a business combination on December 31, 20X2. VendorCo manufactures goods in two distinct lines of business—sporting goods and electronics. RetailCo purchases both sporting goods and electronics from VendorCo. VendorCo has a contract with RetailCo to be the exclusive provider of sporting goods to RetailCo; however, there is no contract for the supply of electronics to RetailCo. Both VendorCo and ParentCo believe that there is only one overall customer relationship between VendorCo and RetailCo.

**Evaluation:** The contract to exclusively provide sporting goods to RetailCo (whether cancelable or not) meets the contractual-legal criterion and, therefore, must be recorded at fair value apart from goodwill. Additionally, since VendorCo establishes its relationship with RetailCo through a contract, the customer relationship with RetailCo meets the contractual-legal criterion and must also be recorded at fair value apart from goodwill. Since there is only one customer relationship with RetailCo, the fair value of that relationship would incorporate assumptions regarding VendorCo's relationship with RetailCo related to both sporting goods and electronics.

If however, both ParentCo and VendorCo believed that there were separate customer relationships with RetailCo—one for sporting goods and one for electronics, then the customer relationship with respect to electronics would be assessed by ParentCo to determine whether it meets either the contractual-legal criterion or the separability criterion and, if so, should be recorded at fair value apart from goodwill.

**Example 3**
Company X acquires Company Y in a business combination on December 31, 20X2. Company Y does business with its customers solely through purchase and sales orders. At December 31, 20X2, Company Y has a backlog of customer purchase orders in-house from 60 percent of its customers, all of whom are recurring customers. The other 40 percent of Company Y's customers are also recurring customers; however, as of December 31, 20X2, Company Y does not have any open purchase orders, or other contracts, with those customers.

**Evaluation:** The purchase orders from 60 percent of Company Y's customers (whether cancelable or not) meet the contractual-legal criterion, and, therefore, must be recorded at fair value apart from goodwill. Additionally, since Company Y has established its relationship with 60 percent of its customers through a contract, those customer relationships meet the contractual-legal criterion and must also be recorded at fair value apart from goodwill.

Because Company Y has a practice of establishing contracts with the remaining 40 percent of its customers, those customer relationships also arise through contractual rights and, therefore, meet the contractual-legal criterion. Company X must record the customer relationship for the remaining 40 percent of Company Y's customers at fair value apart from goodwill, even though Company Y does not have contracts with those customers at December 31, 20X2.

| GAAP-Based Revenues for Broadjump | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | | | | | | | |
| ($000) | | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
| Deferred Revenue | | | | | | | |
| License | | 29,129 | 9,525 | 4,384 | 3,006 | - | 46,044 |
| Maintenance | | 3,330 | 1,423 | 965 | 731 | - | 6,449 |
| Hosting | | 1,372 | 255 | 13 | - | - | 1,640 |
| Professional Services | | 172 | - | - | - | - | 172 |
| Total Deferred Revenue | | 34,003 | 11,203 | 5,362 | 3,737 | - | 54,305 |
| | | | | | | | |
| Unbilled Revenue | | | | | | | |
| License | | 2,902 | 3,850 | 1,851 | 816 | - | 9,419 |
| Maintenance | | 362 | 1,271 | 1,095 | 184 | - | 2,912 |
| Hosting | | 240 | 240 | - | - | - | 480 |
| Professional Services | | - | - | - | - | - | - |
| Total Unbilled Revenue | | 3,504 | 5,361 | 2,946 | 1,000 | - | 12,811 |
| | | | | | | | |
| Extensions Revenue | | | | | | | |
| License | | 4,575 | 13,266 | 21,332 | 25,132 | 26,432 | 90,738 |
| Maintenance | | 915 | 2,653 | 4,266 | 5,026 | 5,286 | 18,148 |
| Hosting | | - | - | - | - | - | - |
| Professional Services | | - | - | - | - | - | - |
| Total Renewal Revenue | | 5,490 | 15,919 | 25,599 | 30,159 | 31,719 | 108,885 |
| | | | | | | | |
| New Customer Revenue | | | | | | | |
| License | | 8,750 | 17,500 | 27,500 | 37,500 | 47,500 | 138,750 |
| Maintenance | | 1,750 | 3,500 | 5,500 | 7,500 | 9,500 | 27,750 |
| Hosting | | 750 | 1,500 | 2,250 | 2,250 | 2,250 | 9,000 |
| Professional Services | | 1,750 | 3,500 | 3,750 | 4,000 | 4,000 | 17,000 |
| Total New Customer Revenue | | 13,000 | 26,000 | 39,000 | 51,250 | 63,250 | 192,500 |
| | | | | | | | |
| Summary - Projected Revenue | | | | | | | |
| License | | 45,356 | 44,141 | 55,067 | 66,454 | 73,932 | 284,951 |
| Maintenance | | 6,357 | 8,847 | 11,826 | 13,441 | 14,786 | 55,259 |
| Hosting | | 2,362 | 1,995 | 2,263 | 2,250 | 2,250 | 11,120 |
| Professional Services | | 1,922 | 3,500 | 3,750 | 4,000 | 4,000 | 17,172 |
| Total Projected Revenue | | 55,997 | 58,483 | 72,907 | 86,146 | 94,969 | 368,501 |

| Cost of Revenues - GAAP-Based | | | | | | |
|---|---|---|---|---|---|---|
| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
| License Ratio | .040 | .039 | .038 | .037 | .036 | |
| License | 1,814 | 1,721 | 2,093 | 2,459 | 2,662 | 10,749 |
| Maintenance Ratio | .250 | .240 | .230 | .220 | .210 | |
| Maintenance | 1,589 | 2,123 | 2,720 | 2,957 | 3,105 | 12,495 |
| Hosting Ratio | .250 | .250 | .250 | .250 | .250 | |
| Hosting | 591 | 499 | 566 | 563 | 563 | 2,780 |
| Prof. Services Ratio | .600 | .590 | .580 | .570 | .560 | |
| Professional Services | 1,153 | 2,065 | 2,175 | 2,280 | 2,240 | 9,913 |
| Total COR | 5,147 | 6,409 | 7,553 | 8,258 | 8,569 | 35,937 |

| Operating Expenses - GAAP-Based | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | | | | | | | |
| ($000) | | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
| Development Ratio | | .375 | .370 | .365 | .360 | .350 | |
| Development | | 17,009 | 16,332 | 20,100 | 23,924 | 25,876 | 103,240 |
| Customer Care Ratio | | .300 | .300 | .300 | .300 | .300 | |
| Customer Care | | 1,907 | 2,654 | 3,548 | 4,032 | 4,436 | 16,578 |
| Managed Services Ratio | | .300 | .300 | .300 | .300 | .300 | |
| Managed Services | | 709 | 599 | 679 | 675 | 675 | 3,336 |
| Professional Serv. Ratio | | .250 | .250 | .250 | .250 | .250 | |
| Professional Services | | 481 | 875 | 938 | 1,000 | 1,000 | 4,293 |
| Marketing Ratio | | .085 | .084 | .083 | .082 | .080 | |
| Marketing | | 4,760 | 4,913 | 6,051 | 7,064 | 7,597 | 30,385 |
| Sales Ratio | | .285 | .280 | .275 | .270 | .260 | |
| Sales | | 15,959 | 16,375 | 20,049 | 23,259 | 24,692 | 100,335 |
| G&A Ratio | | .075 | .075 | .075 | .075 | .075 | |
| G&A | | 4,200 | 4,386 | 5,468 | 6,461 | 7,123 | 27,638 |
| Total Operating Costs | | 45,024 | 46,134 | 56,832 | 66,415 | 71,399 | 285,804 |

## GAAP-Based Summary

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| License | 45,356 | 44,141 | 55,067 | 66,454 | 73,932 | 284,951 |
| Maintenance | 6,357 | 8,847 | 11,826 | 13,441 | 14,786 | 55,259 |
| Hosting | 2,362 | 1,995 | 2,263 | 2,250 | 2,250 | 11,120 |
| Professional Services | 1,922 | 3,500 | 3,750 | 4,000 | 4,000 | 17,172 |
| Total Revenues | 55,997 | 58,483 | 72,907 | 86,146 | 94,969 | 368,501 |
| | | | | | | |
| Cost of Revenues | | | | | | |
| License | 1,814 | 1,721 | 2,093 | 2,459 | 2,662 | 10,749 |
| Maintenance | 1,589 | 2,123 | 2,720 | 2,957 | 3,105 | 12,495 |
| Hosting | 591 | 499 | 566 | 563 | 563 | 2,780 |
| Professional Services | 1,153 | 2,065 | 2,175 | 2,280 | 2,240 | 9,913 |
| Total Cost of Revenues | 5,147 | 6,409 | 7,553 | 8,258 | 8,569 | 35,937 |
| | | | | | | |
| Operating Expense | | | | | | |
| Development | 17,009 | 16,332 | 20,100 | 23,924 | 25,876 | 103,240 |
| Customer Care | 1,907 | 2,654 | 3,548 | 4,032 | 4,436 | 16,578 |
| Managed Services | 709 | 599 | 679 | 675 | 675 | 3,336 |
| Professional Services | 481 | 875 | 938 | 1,000 | 1,000 | 4,293 |
| Marketing | 4,760 | 4,913 | 6,051 | 7,064 | 7,597 | 30,385 |
| Sales | 15,959 | 16,375 | 20,049 | 23,259 | 24,692 | 100,335 |
| G&A | 4,200 | 4,386 | 5,468 | 6,461 | 7,123 | 27,638 |
| Total Operating Expense | 45,024 | 46,134 | 56,832 | 66,415 | 71,399 | 285,804 |
| | | | | | | |
| Operating Income (EBITDA) | 5,826 | 5,941 | 8,521 | 11,472 | 15,000 | 46,760 |

## Revenues and Costs - Deferred Revenue

| ($000) | Ratio | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
|---|---|---|---|---|---|---|---|
| Deferred Revenue | | | | | | | |
| License | | 29,129 | 9,525 | 4,384 | 3,006 | - | 46,044 |
| Maintenance | | 3,330 | 1,423 | 965 | 731 | - | 6,449 |
| Hosting | | 1,372 | 255 | 13 | - | - | 1,640 |
| Professional Services | | 172 | - | - | - | - | 172 |
| Total Deferred Revenue | | 34,003 | 11,203 | 5,362 | 3,737 | - | 54,305 |
| | | | | | | | |
| Cost of Revenues | | | | | | | |
| License | .036 | 1,049 | 343 | 158 | 108 | - | 1,658 |
| Maintenance | .271 | 902 | 386 | 262 | 198 | - | 1,748 |
| Hosting | .287 | 394 | 73 | 4 | - | - | 471 |
| Professional Services | .623 | 107 | - | - | - | - | 107 |
| Total Cost of Revenues | | 2,452 | 802 | 423 | 306 | - | 3,983 |
| | | | | | | | |
| Operating Expenses | | | | | | | |
| Development | .388 | 11,302 | 3,696 | 1,701 | 1,166 | - | 17,865 |
| Customer Care | .311 | 1,036 | 443 | 300 | 227 | - | 2,006 |
| Managed Services | .330 | 453 | 84 | 4 | - | - | 541 |
| Professional Services | .256 | 44 | - | - | - | - | 44 |
| Marketing | .096 | 3,264 | 1,075 | 515 | 359 | - | 5,213 |
| Sales | .291 | 9,895 | 3,260 | 1,560 | 1,087 | - | 15,803 |
| G&A | .077 | 2,618 | 863 | 413 | 288 | - | 4,181 |
| Total Operating Expense | | 28,612 | 9,421 | 4,493 | 3,128 | - | 45,653 |
| | | | | | | | |
| Operating Income (EBITDA) | | 2,939 | 981 | 446 | 303 | - | 4,668 |

## Adjusted Revenues and Costs

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| License | 16,227 | 34,616 | 50,683 | 63,448 | 73,932 | 238,907 |
| Maintenance | 3,027 | 7,424 | 10,861 | 12,710 | 14,786 | 48,810 |
| Hosting | 990 | 1,740 | 2,250 | 2,250 | 2,250 | 9,480 |
| Professional Services | 1,750 | 3,500 | 3,750 | 4,000 | 4,000 | 17,000 |
| Total Revenues | 21,994 | 47,280 | 67,545 | 82,409 | 94,969 | 314,196 |
| | | | | | | |
| Cost of Revenues | | | | | | |
| License | 766 | 1,379 | 1,935 | 2,351 | 2,662 | 9,091 |
| Maintenance | 687 | 1,738 | 2,459 | 2,759 | 3,105 | 10,747 |
| Hosting | 197 | 426 | 562 | 563 | 563 | 2,309 |
| Professional Services | 1,046 | 2,065 | 2,175 | 2,280 | 2,240 | 9,806 |
| Total Cost of Revenues | 2,695 | 5,607 | 7,130 | 7,952 | 8,569 | 31,954 |
| | | | | | | |
| Operating Expense | | | | | | |
| Development | 5,707 | 12,636 | 18,399 | 22,757 | 25,876 | 85,375 |
| Customer Care | 871 | 2,212 | 3,248 | 3,805 | 4,436 | 14,572 |
| Managed Services | 256 | 514 | 675 | 675 | 675 | 2,795 |
| Professional Services | 436 | 875 | 938 | 1,000 | 1,000 | 4,249 |
| Marketing | 1,495 | 3,837 | 5,537 | 6,705 | 7,597 | 25,172 |
| Sales | 6,064 | 13,115 | 18,489 | 22,172 | 24,692 | 84,532 |
| G&A | 1,582 | 3,524 | 5,055 | 6,173 | 7,123 | 23,456 |
| Total Operating Expense | 16,412 | 36,713 | 52,339 | 63,288 | 71,399 | 240,151 |
| | | | | | | |
| Operating Income (EBITDA) | 2,887 | 4,960 | 8,075 | 11,169 | 15,000 | 42,092 |

| Cost Ratios for Adjusted Projections | | | | | | |
|---|---|---|---|---|---|---|
| **($000)** | **2003** | **2004** | **2005** | **2006** | **2007** | **Total** |
| Revenues | | | | | | |
| License | 16,227 | 34,616 | 50,683 | 63,448 | 73,932 | 238,907 |
| Maintenance | 3,027 | 7,424 | 10,861 | 12,710 | 14,786 | 48,810 |
| Hosting | 990 | 1,740 | 2,250 | 2,250 | 2,250 | 9,480 |
| Professional Services | 1,750 | 3,500 | 3,750 | 4,000 | 4,000 | 17,000 |
| Total Revenues | 21,994 | 47,280 | 67,545 | 82,409 | 94,969 | 314,196 |
| | | | | | | |
| Cost of Revenues | | | | | | |
| License | .047 | .040 | .038 | .037 | .036 | .038 |
| Maintenance | .227 | .234 | .226 | .217 | .210 | .220 |
| Hosting | .199 | .245 | .250 | .250 | .250 | .244 |
| Professional Services | .598 | .590 | .580 | .570 | .560 | .577 |
| Total Cost of Revenues | .123 | .119 | .106 | .096 | .090 | .102 |
| | | | | | | |
| Operating Expense | | | | | | |
| Development | .352 | .365 | .363 | .359 | .350 | .357 |
| Customer Care | .288 | .298 | .299 | .299 | .300 | .299 |
| Managed Services | .258 | .296 | .300 | .300 | .300 | .295 |
| Professional Services | .249 | .250 | .250 | .250 | .250 | .250 |
| Marketing | .068 | .081 | .082 | .081 | .080 | .080 |
| Sales | .276 | .277 | .274 | .269 | .260 | .269 |
| G&A | .072 | .075 | .075 | .075 | .075 | .075 |
| Total Operating Expense | .746 | .777 | .775 | .768 | .752 | .764 |
| | | | | | | |
| Operating Income (EBITDA) | .131 | .105 | .120 | .136 | .158 | .134 |

| Unbilled Revenue, Costs and NPV | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | | | | | | | |
| ($000) | | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
| Revenues | | | | | | | |
| License | | 2,902 | 3,850 | 1,851 | 816 | - | 9,419 |
| Maintenance | | 362 | 1,271 | 1,095 | 184 | - | 2,912 |
| Hosting | | 240 | 240 | - | - | - | 480 |
| Professional Services | | - | - | - | - | - | - |
| Total Revenues | | 3,504 | 5,361 | 2,946 | 1,000 | - | 12,811 |
| | | | | | | | |
| Cost of Revenues | | | | | | | |
| License | | 137 | 153 | 71 | 30 | - | 391 |
| Maintenance | | 82 | 297 | 248 | 40 | - | 667 |
| Hosting | | 48 | 59 | - | - | - | 106 |
| Professional Services | | - | - | - | - | - | - |
| Total Cost of Revenues | | 267 | 510 | 319 | 70 | - | 1,165 |
| | | | | | | | |
| Operating Expense | | | | | | | |
| Development | | 1,021 | 1,405 | 672 | 293 | - | 3,391 |
| Customer Care | | 104 | 379 | 327 | 55 | - | 865 |
| Managed Services | | 62 | 71 | - | - | - | 133 |
| Professional Services | | - | - | - | - | - | - |
| Marketing | | 238 | 435 | 241 | 81 | - | 996 |
| Sales | | 966 | 1,487 | 806 | 269 | - | 3,529 |
| G&A | | 252 | 400 | 220 | 75 | - | 947 |
| Total Operating Expense | | 2,643 | 4,177 | 2,268 | 773 | - | 9,861 |
| | | | | | | | |
| Operating Income (EBITDA) | | 594 | 675 | 360 | 157 | - | 1,785 |
| Taxes (38%) | | 226 | 256 | 137 | 60 | - | 678 |
| Operating Income after Tax | | 368 | 418 | 223 | 97 | - | 1,107 |
| NPV Factors (15%) | | .935 | .813 | .707 | .615 | .534 | |
| NPV | | 344 | 340 | 158 | 60 | - | 902 |

## Extensions Revenues, Costs and NPV

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| License | 4,575 | 13,266 | 21,332 | 25,132 | 26,432 | 90,738 |
| Maintenance | 915 | 2,653 | 4,266 | 5,026 | 5,286 | 18,148 |
| Hosting | - | - | - | - | - | - |
| Professional Services | - | - | - | - | - | - |
| Total Revenues | 5,490 | 15,919 | 25,599 | 30,159 | 31,719 | 108,885 |
| | | | | | | |
| Cost of Revenues | | | | | | |
| License | 216 | 528 | 814 | 931 | 952 | 3,441 |
| Maintenance | 208 | 621 | 966 | 1,091 | 1,110 | 3,996 |
| Hosting | - | - | - | - | - | - |
| Professional Services | - | - | - | - | - | - |
| Total Cost of Revenues | 423 | 1,149 | 1,780 | 2,022 | 2,062 | 7,437 |
| | | | | | | |
| Operating Expense | | | | | | |
| Development | 1,609 | 4,843 | 7,744 | 9,014 | 9,251 | 32,461 |
| Customer Care | 263 | 790 | 1,276 | 1,505 | 1,586 | 5,420 |
| Managed Services | - | - | - | - | - | - |
| Professional Services | - | - | - | - | - | - |
| Marketing | 373 | 1,292 | 2,098 | 2,454 | 2,537 | 8,755 |
| Sales | 1,514 | 4,416 | 7,007 | 8,114 | 8,247 | 29,298 |
| G&A | 395 | 1,186 | 1,916 | 2,259 | 2,379 | 8,135 |
| Total Operating Expense | 4,154 | 12,527 | 20,041 | 23,346 | 24,000 | 84,069 |
| | | | | | | |
| Operating Income (EBITDA) | 913 | 2,243 | 3,778 | 4,790 | 5,657 | 17,380 |
| Taxes (38%) | 347 | 852 | 1,436 | 1,820 | 2,149 | 6,604 |
| Operating Income after Tax | 566 | 1,390 | 2,342 | 2,970 | 3,507 | 10,775 |
| NPV Factors (20%) | .917 | .764 | .637 | .530 | .442 | |
| NPV | 519 | 1,062 | 1,492 | 1,574 | 1,550 | 6,197 |

## New Customer Revenues, Costs and NPV

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| License | 8,750 | 17,500 | 27,500 | 37,500 | 47,500 | 138,750 |
| Maintenance | 1,750 | 3,500 | 5,500 | 7,500 | 9,500 | 27,750 |
| Hosting | 750 | 1,500 | 2,250 | 2,250 | 2,250 | 9,000 |
| Professional Services | 1,750 | 3,500 | 3,750 | 4,000 | 4,000 | 17,000 |
| Total Revenues | 13,000 | 26,000 | 39,000 | 51,250 | 63,250 | 192,500 |
| | | | | | | |
| Cost of Revenues | | | | | | |
| License | 413 | 697 | 1,050 | 1,389 | 1,710 | 5,259 |
| Maintenance | 397 | 819 | 1,245 | 1,628 | 1,995 | 6,084 |
| Hosting | 149 | 367 | 562 | 563 | 563 | 2,203 |
| Professional Services | 1,046 | 2,065 | 2,175 | 2,280 | 2,240 | 9,806 |
| Total Cost of Revenues | 2,005 | 3,948 | 5,032 | 5,860 | 6,508 | 23,352 |
| | | | | | | |
| Operating Expense | | | | | | |
| Development | 3,077 | 6,388 | 9,983 | 13,450 | 16,625 | 49,523 |
| Customer Care | 504 | 1,043 | 1,645 | 2,245 | 2,850 | 8,286 |
| Managed Services | 194 | 443 | 675 | 675 | 675 | 2,662 |
| Professional Services | 436 | 875 | 938 | 1,000 | 1,000 | 4,249 |
| Marketing | 884 | 2,110 | 3,197 | 4,170 | 5,060 | 15,421 |
| Sales | 3,584 | 7,212 | 10,675 | 13,789 | 16,445 | 51,706 |
| G&A | 935 | 1,938 | 2,919 | 3,839 | 4,744 | 14,374 |
| Total Operating Expense | 9,614 | 20,009 | 30,031 | 39,168 | 47,399 | 146,221 |
| | | | | | | |
| Operating Income (EBITDA) | 1,381 | 2,043 | 3,938 | 6,222 | 9,344 | 22,927 |
| Taxes (38%) | 525 | 776 | 1,496 | 2,364 | 3,551 | 8,712 |
| Operating Income after Tax | 856 | 1,266 | 2,441 | 3,858 | 5,793 | 14,215 |
| NPV Factors (20%) | .917 | .764 | .637 | .530 | .442 | |
| NPV | 785 | 968 | 1,555 | 2,045 | 2,561 | 7,913 |

## Cost Ratios for SDE Projections

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Cost of Revenues | | | | | | |
| License | .000 | .040 | .038 | .037 | .036 | .035 |
| Maintenance | .000 | .234 | .226 | .217 | .210 | .200 |
| Hosting | .000 | .245 | .250 | .250 | .250 | .250 |
| Professional Services | .000 | .590 | .580 | .570 | .560 | .550 |
| Total Cost of Revenues | .000 | .119 | .106 | .096 | .090 | - |
| | | | | | | |
| Operating Expense | | | | | | |
| Development | .000 | .365 | .363 | .359 | .350 | .350 |
| Customer Care | .000 | .298 | .299 | .299 | .300 | .300 |
| Managed Services | .000 | .296 | .300 | .300 | .300 | .300 |
| Professional Services | .000 | .250 | .250 | .250 | .250 | .250 |
| Marketing | .000 | .081 | .082 | .081 | .080 | .080 |
| Sales | .000 | .277 | .274 | .269 | .260 | .255 |
| G&A | .000 | .075 | .075 | .075 | .075 | .075 |
| Total Operating Expense | .000 | .777 | .775 | .768 | .752 | - |
| | | | | | | |
| Operating Income (EBITDA) | .000 | .105 | .120 | .136 | .158 | - |

## SDE Revenues, Costs and NPV

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
|---|---|---|---|---|---|---|---|
| Revenues | | | | | | | |
| License | - | 8,772 | 20,194 | 44,306 | 72,085 | 94,585 | 239,941 |
| Maintenance | - | 1,754 | 4,039 | 8,861 | 14,417 | 18,917 | 47,988 |
| Hosting | - | 502 | 1,082 | 1,993 | 2,394 | 1,814 | 7,785 |
| Professional Services | - | 1,754 | 4,039 | 7,107 | 10,378 | 10,056 | 33,334 |
| Total Revenues | - | 12,783 | 29,353 | 62,266 | 99,274 | 125,372 | 329,048 |
| | | | | | | | |
| Cost of Revenues | | | | | | | |
| License | - | 349 | 771 | 1,641 | 2,595 | 3,310 | 8,667 |
| Maintenance | - | 411 | 914 | 1,923 | 3,028 | 3,783 | 10,059 |
| Hosting | - | 123 | 270 | 498 | 598 | 454 | 1,943 |
| Professional Services | - | 1,035 | 2,342 | 4,051 | 5,812 | 5,531 | 18,771 |
| Total Cost of Revenues | - | 1,918 | 4,298 | 8,114 | 12,033 | 13,078 | 39,441 |
| | | | | | | | |
| Operating Expense | | | | | | | |
| Development | 700 | 3,202 | 7,331 | 15,891 | 25,230 | 33,105 | 85,458 |
| Customer Care | 50 | 523 | 1,208 | 2,653 | 4,325 | 5,675 | 14,433 |
| Managed Services | 50 | 148 | 324 | 598 | 718 | 544 | 2,383 |
| Professional Services | - | 439 | 1,010 | 1,777 | 2,595 | 2,514 | 8,333 |
| Marketing | 50 | 1,037 | 2,406 | 5,066 | 7,942 | 10,030 | 26,531 |
| Sales | 100 | 3,546 | 8,035 | 16,753 | 25,811 | 31,970 | 86,214 |
| G&A | 50 | 953 | 2,197 | 4,664 | 7,446 | 9,403 | 24,712 |
| Total Operating Expense | 1,000 | 9,848 | 22,510 | 47,402 | 74,066 | 93,240 | 248,066 |
| | | | | | | | |
| Operating Income (EBITDA) | (1,000) | 1,017 | 2,545 | 6,751 | 13,175 | 19,053 | 41,541 |
| Taxes (38%) | (380) | 387 | 967 | 2,565 | 5,006 | 7,240 | 15,786 |
| Operating Income after Tax | (620) | 631 | 1,578 | 4,185 | 8,168 | 11,813 | 25,756 |
| NPV Factors (25%) | .900 | .720 | .576 | .461 | .369 | .295 | |
| NPV | (558) | 454 | 909 | 1,929 | 3,014 | 3,485 | 9,234 |

| Current Customers - # Authorized Subscribers after end of Contract Term (1) | | | | | | | |
|---|---|---|---|---|---|---|---|
| ($000) | | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
| Perpetual | | | | | | | |
| 2003 | | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 40,000 |
| 2004 | | | 4,500 | 4,500 | 4,500 | 4,500 | 18,000 |
| 2005 | | | | 2,000 | 2,000 | 2,000 | 6,000 |
| 2006 | | | | | 5,200 | 5,200 | 10,400 |
| Total | | 8,000 | 12,500 | 14,500 | 19,700 | 19,700 | 74,400 |
| | | | | | | | |
| Term | | | | | | | |
| 2003 | | 2,250 | 2,250 | 2,250 | 2,250 | 2,250 | 11,250 |
| 2004 | | | 3,075 | 3,075 | 3,075 | 3,075 | 12,300 |
| 2005 | | | | 4,000 | 4,000 | 4,000 | 12,000 |
| 2006 | | | | | - | - | - |
| Total | | 2,250 | 5,325 | 9,325 | 9,325 | 9,325 | 35,550 |
| | | | | | | | |
| Combined | | | | | | | |
| 2003 | | 10,250 | 10,250 | 10,250 | 10,250 | 10,250 | 51,250 |
| 2004 | | - | 7,575 | 7,575 | 7,575 | 7,575 | 30,300 |
| 2005 | | - | - | 6,000 | 6,000 | 6,000 | 18,000 |
| 2006 | | - | - | - | 5,200 | 5,200 | 10,400 |
| Total | | 10,250 | 17,825 | 23,825 | 29,025 | 29,025 | 109,950 |

(1) In this table we have omitted some of the smaller agreements in terms of number of subcribers

| Current Customers - Additional # of Subscribers (1) - Virtual Truck | | | | | | | |
|---|---|---|---|---|---|---|---|
| ($000) | Ratio | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
| Perpetual | | | | | | | |
| 2003 | .25 | 1,000 | 2,000 | 2,000 | 2,000 | 2,000 | 9,000 |
| 2004 | .25 | | 562 | 1,125 | 1,125 | 1,125 | 3,937 |
| 2005 | .25 | | | 250 | 500 | 500 | 1,250 |
| 2006 | .25 | | | | 650 | 1,300 | 1,950 |
| Total | | 1,000 | 2,562 | 3,375 | 4,275 | 4,925 | 16,137 |
| | | | | | | | |
| Term | | | | | | | |
| 2003 | .50 | 562 | 1,125 | 1,125 | 1,125 | 1,125 | 5,062 |
| 2004 | .50 | | 769 | 1,538 | 1,538 | 1,538 | 5,383 |
| 2005 | .50 | | | 1,000 | 2,000 | 2,000 | 5,000 |
| 2006 | .50 | | | | - | - | - |
| Total | | 562 | 1,894 | 3,663 | 4,663 | 4,663 | 15,445 |
| | | | | | | | |
| Combined | | | | | | | |
| 2003 | | 1,562 | 3,125 | 3,125 | 3,125 | 3,125 | 14,062 |
| 2004 | | - | 1,331 | 2,663 | 2,663 | 2,663 | 9,320 |
| 2005 | | - | - | 1,250 | 2,500 | 2,500 | 6,250 |
| 2006 | | - | - | - | 650 | 1,300 | 1,950 |
| Total | | 1,562 | 4,456 | 7,038 | 8,938 | 9,588 | 31,582 |
| | | | | | | | |
| | | (1) Only 50% in first year because of expiration timing | | | | | |

| Current Customers - Additional Subscriber Revenue - Virtual Truck | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | | | | | | | |
| **($000)** | **Price ($)** | **2003** | **2004** | **2005** | **2006** | **2007** | **Total** |
| Revenues - VT | | | | | | | |
| License | 1.50 | 2,343 | 6,684 | 10,557 | 13,407 | 14,382 | 47,373 |
| Maintenance | .30 | 469 | 1,337 | 2,111 | 2,681 | 2,876 | 9,475 |
| Hosting | - | - | - | - | - | - | - |
| Prof. Services | - | - | - | - | - | - | - |
| Total - VT | | 2,812 | 8,021 | 12,668 | 16,088 | 17,258 | 56,848 |

| Current Customers - Additional # Subscribers - Smart Connect | | | | | |
|---|---|---|---|---|---|
| **($000)** | **2003** | **2004** | **2005** | **2006** | **2007** |
| Current # Subscribers | 29,025 | 29,025 | 29,025 | 29,025 | 29,025 |
| License Adoption Rate - Curr. Subsc. | .05 | .10 | .10 | .00 | .00 |
| Cumulative Adoption Rate | .05 | .15 | .25 | .25 | .25 |
| Add'l Lic. - Curr. Cust - SC | 1,451 | 4,354 | 7,256 | 7,256 | 7,256 |
| Add'l # Subscribers | 1,562 | 4,456 | 7,038 | 8,938 | 9,588 |
| License Adoption Rate- Add'l Subsc. | .50 | .50 | .50 | .50 | .50 |
| Add'l Lic. - Add'l Subsc. - SC | 781 | 2,228 | 3,519 | 4,469 | 4,794 |
| Total Licenses - Curr. Cust - SC | 2,232 | 6,582 | 10,775 | 11,725 | 12,050 |

| Current Customers - Additional Subscriber Revenue - Smart Connect | | | | | | | |
|---|---|---|---|---|---|---|---|
| **($000)** | **Price ($)** | **2003** | **2004** | **2005** | **2006** | **2007** | **Total** |
| Revenues | | | | | | | |
| License | 1.00 | 2,232 | 6,582 | 10,775 | 11,725 | 12,050 | 43,365 |
| Maintenance | 0.20 | 446 | 1,316 | 2,155 | 2,345 | 2,410 | 8,673 |
| Hosting | - | - | - | - | - | - | - |
| Prof. Services | - | - | - | - | - | - | - |
| Total | | 2,679 | 7,898 | 12,930 | 14,070 | 14,460 | 52,038 |

## Current Customers - Additional Revenue - Current Products

| ($000) | | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
|---|---|---|---|---|---|---|---|
| Revenues | | | | | | | |
| License | | 4,575 | 13,266 | 21,332 | 25,132 | 26,432 | 90,738 |
| Maintenance | | 915 | 2,653 | 4,266 | 5,026 | 5,286 | 18,148 |
| Hosting | | - | - | - | - | - | - |
| Prof. Services | | - | - | - | - | - | - |
| Total | | 5,490 | 15,919 | 25,599 | 30,159 | 31,719 | 108,885 |

| New Customers - # Subscribers - Current Products | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |
| **($000)** | **2003** | **2004** | **2005** | **2006** | **2007** | **Total** |
| # New Cust - Virtual Truck | 5 | 5 | 5 | 5 | 5 | 25 |
| # Subscribers/Customer | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 5,000 |
| # New Subs. For VT | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 25,000 |
| Cumulative # Subs. For VT | 5,000 | 10,000 | 15,000 | 20,000 | 25,000 | |
| New Subs for SC - ratio for initial license | .25 | .25 | .25 | .25 | .25 | |
| # New subs. For SC - Initial | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 6,250 |
| New subs for SC - ratio for follow-on license (2 yrs later) | - | - | .25 | .25 | .25 | |
| # New Subs for SC Follow-on | - | - | 1,250 | 1,250 | 1,250 | 3,750 |
| Total # new subs for SC | 1,250 | 1,250 | 2,500 | 2,500 | 2,500 | 10,000 |
| Cumm. # subs for SC | 1,250 | 2,500 | 5,000 | 7,500 | 10,000 | |
| Cumulative 2 yrs for subs for VT | 5,000 | 10,000 | 10,000 | 10,000 | 10,000 | |
| Cumulative 3 yrs for Subs for VT | 5,000 | 10,000 | 15,000 | 15,000 | 15,000 | |
| Cumulative 2 yrs for Subs for SC | 1,250 | 2,500 | 3,750 | 5,000 | 5,000 | |

| New Customers - Subscriber Revenue - Current Products | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | | | | | | | |
| **($000)** | **Price ($)** | **2003** | **2004** | **2005** | **2006** | **2007** | **Total** |
| Revenues - Virtual Truck | | | | | | | |
| License | 1.50 | 7,500 | 15,000 | 22,500 | 30,000 | 37,500 | 112,500 |
| Maintenance | .30 | 1,500 | 3,000 | 4,500 | 6,000 | 7,500 | 22,500 |
| Hosting | .15 | 750 | 1,500 | 2,250 | 2,250 | 2,250 | 9,000 |
| Prof. Services | .30 | 1,500 | 3,000 | 3,000 | 3,000 | 3,000 | 13,500 |
| Total | | 11,250 | 22,500 | 32,250 | 41,250 | 50,250 | 157,500 |
| | | | | | | | |
| Revenues - SC | | | | | | | |
| License | 1.00 | 1,250 | 2,500 | 5,000 | 7,500 | 10,000 | 26,250 |
| Maintenance | .20 | 250 | 500 | 1,000 | 1,500 | 2,000 | 5,250 |
| Hosting | 0 | - | - | - | - | - | - |
| Prof. Services | .20 | 250 | 500 | 750 | 1,000 | 1,000 | 3,500 |
| Total | | 1,750 | 3,500 | 6,750 | 10,000 | 13,000 | 35,000 |
| | | | | | | | |
| Revenues - Summary | | | | | | | |
| License | | 8,750 | 17,500 | 27,500 | 37,500 | 47,500 | 138,750 |
| Maintenance | | 1,750 | 3,500 | 5,500 | 7,500 | 9,500 | 27,750 |
| Hosting | | 750 | 1,500 | 2,250 | 2,250 | 2,250 | 9,000 |
| Prof. Services | | 1,750 | 3,500 | 3,750 | 4,000 | 4,000 | 17,000 |
| Total | | 13,000 | 26,000 | 39,000 | 51,250 | 63,250 | 192,500 |

| Current Customers - Service Delivery Edition | | | | | | |
|---|---|---|---|---|---|---|
| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Current # Subscribers | 29,025 | 29,025 | 29,025 | 29,025 | 29,025 | 29,025 |
| Additional Subscribers | 1,562 | 4,456 | 7,038 | 8,938 | 9,588 | 9,588 |
| Total Avail. Subscribers | 30,587 | 33,481 | 36,063 | 37,963 | 38,613 | 38,613 |
| License Adoption Rate | .00 | .10 | .10 | .15 | .15 | .00 |
| Cumulative Adopt. Rate | .00 | .10 | .20 | .35 | .50 | .50 |
| Total # Add'l Prod. Subscribers | - | 3,348 | 7,213 | 13,287 | 19,307 | 19,307 |
| Added Subs. Each year | - | 3,348 | 3,865 | 6,074 | 6,019 | - |
| Cumulative 3 years | - | 3,348 | 7,213 | 13,287 | 15,958 | 12,094 |
| Cumulative 2 years | - | 3,348 | 7,213 | 9,939 | 12,094 | 6,019 |

## Current Customers - SDE Revenue

| ($000) | Price ($) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
|---|---|---|---|---|---|---|---|---|
| Revenues | | | | | | | | |
| License | 1.50 | - | 5,022 | 10,819 | 19,931 | 28,960 | 28,960 | 93,691 |
| Maintenance | 0.30 | - | 1,004 | 2,164 | 3,986 | 5,792 | 5,792 | 18,738 |
| Hosting (1) | 0.15 | - | 502 | 1,082 | 1,993 | 2,394 | 1,814 | 7,785 |
| Prof. Services (2) | 0.30 | - | 1,004 | 2,164 | 2,982 | 3,628 | 1,806 | 11,584 |
| Total | | - | 7,533 | 16,228 | 28,891 | 40,774 | 38,372 | 131,798 |

(1) 1st 3 years for each contract
(2) 1st 2 years for each contract

## New Customers - Service Delivery Edition

| ($000) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
|---|---|---|---|---|---|---|---|
| # New Cust - Virtual Truck | 5 | 5 | 5 | 5 | 5 | 5 | 30 |
| # Subscribers/Customer | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 6,000 |
| # New Subs. For VT | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 30,000 |
| Cumulative # Subs. For VT | 5,000 | 10,000 | 15,000 | 20,000 | 25,000 | 30,000 | 105,000 |
| New Subs for SDE - ratio for initial license | - | .25 | .25 | .25 | .25 | .25 | |
| # New subs. For SDE - Initial | - | 2,500 | 3,750 | 5,000 | 6,250 | 7,500 | 25,000 |
| New subs for SDE - ratio for follow-on license (2 yrs later) | - | - | - | .25 | .25 | .25 | |
| # New Subs for SDE Follow-on | - | - | - | 5,000 | 6,250 | 7,500 | 18,750 |
| Total # new subs for SDE | - | 2,500 | 3,750 | 10,000 | 12,500 | 15,000 | 43,750 |
| Cum. # subs for SDE | - | 2,500 | 6,250 | 16,250 | 28,750 | 43,750 | |
| Cumulative 2 yrs for Subs for SDE | - | 2,500 | 6,250 | 13,750 | 22,500 | 27,500 | |
| Cumulative 3 yrs for subs for SDE | - | 2,500 | 6,250 | 16,250 | 26,250 | 37,500 | |

| New Customers - SDE Revenue | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **($000)** | **Price ($)** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **Total** |
| Revenues - New Cust. | | | | | | | | |
| License | 1.50 | - | 3,750 | 9,375 | 24,375 | 43,125 | 65,625 | 146,250 |
| Maintenance | .30 | - | 750 | 1,875 | 4,875 | 8,625 | 13,125 | 29,250 |
| Hosting | - | - | - | - | - | - | - | - |
| Prof. Services | .30 | - | 750 | 1,875 | 4,125 | 6,750 | 8,250 | 21,750 |
| Total | | - | 5,250 | 13,125 | 33,375 | 58,500 | 87,000 | 197,250 |

| Current and New Customers - New Product Revenue - SDE | | | | | | | |
|---|---|---|---|---|---|---|---|
| **($000)** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **Total** |
| Revenues | | | | | | | |
| License | - | 8,772 | 20,194 | 44,306 | 72,085 | 94,585 | 239,941 |
| Maintenance | - | 1,754 | 4,039 | 8,861 | 14,417 | 18,917 | 47,988 |
| Hosting | - | 502 | 1,082 | 1,993 | 2,394 | 1,814 | 7,785 |
| Prof. Services | - | 1,754 | 4,039 | 7,107 | 10,378 | 10,056 | 33,334 |
| Total | - | 12,783 | 29,353 | 62,266 | 99,274 | 125,372 | 329,048 |