CONCEPT FIVE SM

TECHNOLOGIES, INC.

BUSINESS PLAN

Table of Contents

I. EXECUTIVE SUMMARY OF THE COMPANY 3

A. Overview 3
B. The Market Need 4
C. Concept Five Solution 4
D. Overview of Strategic Partnerships 8
E. Competitive Landscape 9
F. Strategy 11
G. Summary of Financial and Other Data 12

II. INVESTMENT HIGHLIGHTS 15

III. PRODUCTS AND SERVICES 21

A. Overview 21
B. Professional Services 24
C. Software Products 28

IV. STRATEGY MARKETING AND DISTRIBUTION 33

A. Marketing Strategy 33
B. Marketing Operations 34
C. Distribution Strategy 35

V. STRATEGIC PARTNERSHIPS 39

A. Overview 39
B. Relationship with Hitachi 39
C. Other Strategic Partnerships 41

VI. MANAGEMENT, DIRECTORS AND EMPLOYEES 43

A. Corporate Organization 43
B. Biographies 43

VII. FINANCIAL INFORMATION 53

A. Historical and Projected Results of Operations 53
B. Management's Discussion and Analysis 54
C. Summary Financial Information 57
D. Liquidity and Capital Resources 59
E. Projected Quarterly Financial Information 60
F. Summary Financial Information for 1999 and 2000 63

APPENDIX I 65

APPENDIX II 67

APPENDIX III 69

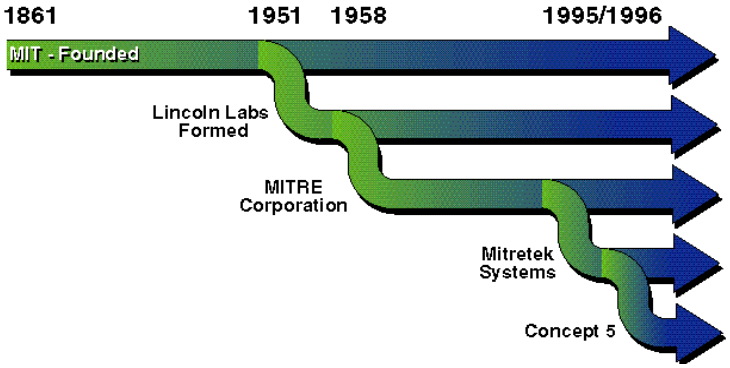
I. Executive Summary of The Company

A. Overview

Concept Five Technologies ("Concept Five" or the "Company") provides a set of integrated software products and a comprehensive suite of professional services to enable enterprises to operate securely in the global electronic marketplace. The Company's products and services enable businesses to leverage and preserve investments in their existing heterogeneous information systems and securely integrate such systems with next generation 'Net applications. 'Net applications include Internet, Intranet or Extranet applications that electronically deliver business services or enable electronic commerce. Concept Five offers products and services targeting the growing need for: (i) Legacy Access and Integration, and (ii) Security in Distributed Computing Environments.

Concept Five has a heritage of leading edge technology development. The Company's roots trace back to MIT, Lincoln Labs and The MITRE Corporation ("MITRE"), a $600 million professional service organization with over 4,000 systems engineers. While Concept Five was incorporated in early 1996 as a result of a spin-off from MITRE, the Company draws on skills developed over 40 years of experience in advanced information technology development and systems engineering applied to complex national priorities. The Company has adapted best practices from MITRE as well as advanced technology expertise for application exclusively to the commercial marketplace. The Company has not entered into any government contracts for the provision of products and services.

Concept Five Heritage



Concept Five's senior management team has extensive experience in the systems integration and advanced technologies' marketplace. Dr. Barry Horowitz, Chairman and Chief Executive Officer, served as President and Chief Executive Officer of The MITRE Corporation from 1990 to 1995. Harold C. Teubner, Jr., Executive Vice President and Chief Operating Officer, led North American Operations sales as a Senior Vice President for Sybase during the time it grew from a $6 million start-up in 1988 to a $850 million major software vendor. William Ruh, Executive Vice President and Chief Technical Officer, is a recognized expert in the areas of Internet and Object Technology and has led many large research and development efforts in those areas during his tenure at MITRE. Lewis Fincke, Chief Financial Officer, has a distinguished career in senior-level financial management of commercial information technology ("IT") companies, including the Unisys Corporation and CONTEL.

B. The Market Need

Since the late 1980s, the government has been moving to 'Net-based computing. The government's early advanced technology activities provided many of the Company's staff, while working at The MITRE Corporation, with the opportunity to become technology leaders in their respective fields. Over the last three years, commercial companies have also been rapidly adopting 'Net-based computing to support new forms of electronic business services, relationships and commerce. Distributed computing, distributed object technology and 'Net technologies are converging to support this new environment. Several factors are creating the need for the Company's products and services:

- *Legacy Reuse and Integration into 'Net-Based Applications.* The proliferation of diverse mixes of applications, operating systems, programming languages and hardware platforms, has resulted in the compelling need for integration. Businesses seek to reuse and integrate their existing heterogeneous custom and packaged software into the new 'Net applications quickly and cost effectively, while allowing for simplified change and maintenance as business conditions warrant.

- *Security in Distributed Computing Environments.* As the most proprietary elements of an enterprise are newly exposed, secure forms of distributed computing have become a critical requirement of new applications. Current integration mechanisms must be enhanced to include security controls as computing systems become more distributed and operate over open networks.

- *Complex Application Integration Across Lines of Business Using Applications on Separate Computer Systems.* Competitive requirements of new 'Net-delivered services are driving the replacement of stove-piped, single line of business applications with integrated applications that cross lines of business.

- *Scarcity of Skills Required to Solve the Complex and Emerging Technical Issues.* The emergent market demands education and technology transfer as a starting point for adoption of, as well as design and development skills in advanced technology areas for full-scale deployment of, the new applications. These advanced technology skills are in short supply within corporate IT departments.

The explosive growth in business use of the 'Net and the problems associated with next generation 'Net application development are driving Concept Five Technologies' significant market opportunity. Concept Five's product and services offerings address each of these critical barriers to implementing next generation distributed object applications, accelerating their creation and change, and reducing their cost.

C. Concept Five Solution

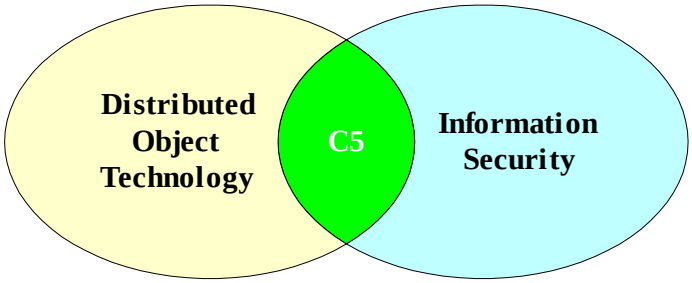
Concept Five's objective is to become a premier provider of products and services for the development of secure distributed applications delivering new business services via 'Net technology. The Company's integrated products and services solution set is aimed at the heart of the above challenges. Concept Five's depth of experience at the intersection of Information

Security and Distributed Object Technology enable the Company to address the growing needs as these areas continue to overlap.

The development of secure distributed applications demands the integration of two very complex and antithetical technologies: Distributed Object Technology and Information Security. To date, distributed system designers have been constrained by the trade off between the degree of security and the degree of integration. A distributed environment by its nature introduces the potential for security holes at multiple points in the enterprise. Security protection by nature makes systems less flexible and more difficult to use. This dichotomy creates a substantial challenge for systems developers creating innovative new 'Net applications. Until now, a primitive level of security for distributed systems has been achieved through the insertion of discrete security elements at the system perimeter, including encryption, authorization, and authentication technologies. Distributed environments by their nature disperse security administration and result in substantial administration overhead.

Concept Five's solutions use distributed object technology as a vehicle for distributing application sensitive security features to individual business objects, which results in maximum application flexibility, centralized security administration for faster time to market, and reduces the potential for security gaps that occur in distributed applications. As a result, Concept Five's product suite includes the most comprehensive distributed object security exceeding OMG's level 2 security capability specification[1].

The Intersection Is the Key Enabler of
Next-Generation Electronically-Delivered Business Services



Next Generation Application

- Object Technology will underpin 98% of new applications by 2001—Gartner Group, 1997
- Information Security products and services will reach $2.5 billion by 2000—Gartner Group,1997
- $150 billion expected in Internet Commerce by 2000—International Data Corporation (IDC), 1997
- Object Middleware will grow to over $707 million by 2001—IDC, 1997

The distinguishing features of the Company's solution are the focus on the integration of information security and distributed object technology and the approach it uses to combine its products and services to enable a "best of breed" solution. The Company's products, Component Power Series, are designed to provide a framework for integration of a wide range of underlying products that make up the whole solution. To support customer desires to evolve their systems,

[1] Object Management Group ("OMG") is the standards body for the Common Object Request Broker Architecture ("CORBA"). Its Level 2 security specifications include identification and authentication, authorization and access control, delegation of privileges, security of communications, security auditing and security administration.

Component Power Series was designed as components that provide a migration path to a full solution. Customers can begin by utilizing a subset of the Component Power Series to solve particular problems and, over time, add additional components for a more comprehensive solution. To support customer requirements to use "best of breed" subsystems, Concept Five's legacy access products work with object request brokers (ORBs[2]) from Visigenic Software, Inc. (Visibroker) and IONA Technologies, Inc. (Orbix), and plans to support BEA Systems, Inc., Expersoft and IBM's DSOM. In addition, the Company's products work with multiple servers including Microsoft NT, Sun Microsystem Solaris, Hewlett Packard UX and plans to support IBM AIX and Silicon Graphics Irix. Also, all user interfaces are in JAVA for full portability. This designed-in flexibility enables the Company's professional services organization to implement a "best of breed" versus a single vendor solution, and to organize the system implementation into manageable steps.

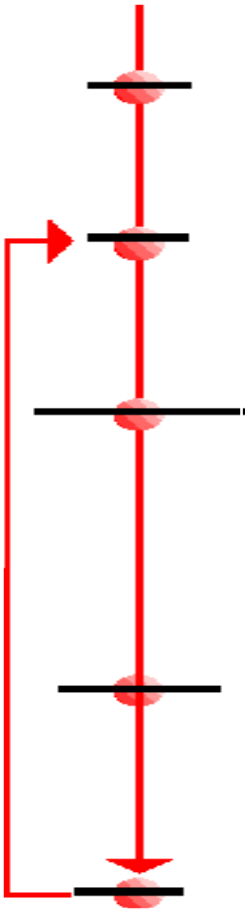
In today's business systems, complexity demands that a supplier not only provide useful component products but also sophisticated services to help clients formulate and develop overall solutions. Concept Five has structured its offerings along the continuum of the application life cycle. The Company's professional services offerings help clients formulate and develop leading edge 'Net applications. The Company's products facilitate application design, development and maintenance. The Company's products leverage its unique core competencies to provide its professional services clients with open, packaged and supportable component software as opposed to custom, proprietary software that is difficult to maintain.

[2] Object Request Brokers (ORBS) are the elements of a distributed system that implement the integration of the diverse parts through open integration standards.

The following chart describes the new application life cycle and how Concept Five's professional services and complementary products combine to accelerate the development and implementation of next generation applications:

Concept Five Technologies' Complementary Products and Services Support the New Distributed Application Life Cycle

Stages of Application Life Cycle



Concept Five Professional Services	*Concept Five Products*
Training Courses ▪ Security ▪ CORBA Applications ▪ JAVA	
'Net Strategies ▪ Information Security Assessments ▪ Systems Design Analyses ▪ Evolution Management & Risk Assessments	
Secure Object Oriented Architecture and Design Services	**Component Power Series** ▪ Secure Component Integration Framework (Rollout May 1998)
Custom Relationship Management Solutions ▪ Advanced 'Net Integration Services ▪ JAVA /CORBA Solutions ▪ Security Solutions ▪ Legacy Integration Services **Custom and Packaged Software Development**	**Component Power Series** ▪ Legacy Access and Integration Tools (Roll-out April 1998) ▪ Distributed Security Products – Visigenic (Rollout Q1 1998) ▪ Reusable application components and tool kits (Roll-out May 1998)
Concept Five's Customer Support	**Concept Five's Product Support**

The Company's professional services provide the highly skilled technical expertise required to train and educate the customer on the emerging technologies as a first step in the development cycle. Next, accelerated by its productivity-enhancing legacy integration, security integration and secure integrated frameworks product suite, the Company provides the technical talent to design, secure and connect the new distributed application to the existing environment cost effectively and within the competitive requirements of time to market.

In 1998 and through early 1999, Concept Five will generate a majority of its revenue from professional services engagements focused on developing 'Net applications for major businesses. In particular, the Company will continue to capitalize on its capability in enterprise-wide information security engineering, which naturally leads to higher-level system efforts.

Beginning in late 1998, Concept Five expects to derive significant revenue from sales of its software products. Product sales will consist of direct sales to Fortune 1000 corporations developing advanced 'Net-based applications. The indirect channel for products will consist of independent software vendors (ISVs) and original equipment manufacturers (OEMs) partners who embed the Company's products in their packaged software solutions, as well as selected system integrators (SIs) who use the Company's products in their engagements.

D. Overview of Strategic Partnerships

The Company is aggressively pursuing partners to serve as indirect sales channels for both its product and service offerings. The Company believes that these partnerships will increase the demand for its products and services. Concept Five has established strategic partnerships with industry leaders in key technology sectors to enhance its market presence and reach, and facilitate ongoing development of software products that meet customer needs. The Company's strategic partnerships range in scope from software licensing to embedded solutions to preferred supplier status with SIs and consultants. Concept Five has targeted its efforts on the following types of partners:

- *ORBs, Transaction Processor Vendors.* These vendors will license and sell Concept Five's ORB security products as augmentations to their products. As these vendors vertically integrate capability, they are also potential partners for legacy integration products and professional services. The Company has an OEM agreement with Visigenic and has delivered a beta version of the ORB security software. (See Appendix I for Visigenic announcement.) In addition, the Company is in current negotiations with IONA Technologies and BEA Systems.
- *Software Product Development Vendors.* These vendors will license and sell the Company's legacy integration products and its secure component integration framework. Through an agreement between Hitachi and OEC Japan, OEC Japan will license the Company's products. The Company is also currently in discussions with Forte Software, Inc. and Persistence.
- *Packaged Software Providers.* These vendors will license and sell the Company's security products, legacy integration products, and the secure component integration framework. Some of these vendors are also partner candidates for joint product

development and professional services. For example, Fair, Isaac, a leading provider of credit scoring software, will license the Company's products, sell its professional services and embed its products in a next generation joint product. The Company is also in advanced discussions with The Baan Company (through Hitachi), CrossRoads Software, The Vantive Corporation and CheckFree Corporation.

- *Security Solution Providers.* The Company's professional services organization integrates these point solution products with its own security products to secure the enterprise. Targets for future discussions include Security Dynamics, Entrust Technology, Trusted Information Systems, and VeriSign, Inc.
- *Hardware / Infrastructure Vendors.* These companies have the potential for a broad range of partnership opportunities including resale of the Company's product line, joint product development and professional services. For example, Sun Microsystems is providing the necessary hardware to establish an Object Reality Center with Concept Five. This Center will support system-level sales of hardware for Sun, which the Company believes will also generate demand and leads for the Company's products and services. The Company is engaged in establishing an agreement with Bell Atlantic to resell the Company's security assessment service using its 300-person sales force.
- *Systems Integrators.* These vendors will license and resell the Company's product line. Through Hitachi, the Company has concluded an agreement with Concorde Systems—the systems integration arm of the Bank of America—and is in early discussions with Electronic Data Systems Corporation (EDS), as discussed below.

Relationship with Hitachi, Ltd.

The Company's partnership with Hitachi represents its most important relationship to date. Through its 15-month $17 million contract with the Company, Hitachi is funding much of the development of its initial product set. The product set will be a central part of Hitachi's distributed application strategy by providing a secure integration platform, legacy access technology and education/training services that enable Hitachi to securely integrate their legacy mainframe platforms into the emerging distributed environment. (See Appendix II for Hitachi strategic outlook relative to the Company's efforts.) The Company's relationship with Hitachi has also fostered the development of additional partnerships and outlets for the Company's products. For example, the Company is actively engaged in establishing a special outlet for its security products with The Baan Company, based on the Hitachi relationship, and a systems integration partnership with EDS, co-owner of Hitachi Data Systems. Hitachi will also serve as a channel for sales of the Company's products and services in the Asian market.

E. Competitive Landscape

Competition must be evaluated on a basis which directly relates to the problems that customers seek to address in selecting products and services. In today's IT marketplace, customers have a compelling need to evolve their existing systems into 'Net configurations that support new business concepts. At the same time, customers want to minimize integration costs by buying as much pre-integrated packaged software as possible, while having the freedom to choose individual elements on their own merit. Customers want to minimize application development

and implementation life cycle costs and maximize value by focusing the bulk of their IT investments on the value-added, user visible portion of the application rather than on the software infrastructure.

There are a number of companies that compete in the Company's general market space:

- *Software Only Vendors.* Companies, like Level 8, provide only products. Due to the emerging nature of the technology and its context within overall application development, companies without professional services face major barriers to the adoption of their products and provide customers with only a piece of a complex solution.

- *Custom Software Providers / Systems Integrators.* Vendors like Sun Valley Internet Partners or Cambridge Technology Partners provide custom software and integration. However, due to the customized nature of the solution offered, these vendors are limited by their lack of productivity enhancing, open and supportable packaged tools, which reduce the need for large portions of custom development.

- *Product and Services Vendors.* A third class of vendors, including Concept Five, provides products, services and custom software. However, typically these vendors (e.g., IBM, Microsoft) provide single vendor-focused products and services as opposed to the open, "best of breed" approach provided by the Company. The Concept Five approach offers the customer the advantages of completeness of solution with choices about underlying architectural issues and component products. To the Company's knowledge, "completeness with choice" is not available from any other vendor selling both products and services in this market space. The Company's partnering strategy strengthens its market position by providing a packaged integrated solution for a broad range of the most popular underlying components, which would otherwise require custom integration.

A number of different product classes provide aspects of functionality that overlap with the Company's product suite, Component Power Series. These products include: screen scrapers, data scrapers, reuse products employing object wrappers, messaging and message brokers and integrated security products. All of these product classes claim to achieve legacy access, legacy integration, a development framework, or security. However, while these products compete with individual components of the Company's product suite, they do not provide an integrated offering that permits customers to evolve within a product line. The *reuse vendors*, including IBM's ComponentBroker, Microsoft's Cedar, Level 8, and Select Software offer the most comparable capabilities to the Company's Component Power Series in the marketplace. Concept Five's Component Power Series derives its competitive advantage by offering critical capabilities that result in substantial value to the customer, which are not duplicated by the other reuse vendors, including:

- Faster time to market and improved productivity enhancing tools such as automatic, security-sensitive wrappers[3] and semi-automated object generation tools that operate on undocumented legacy software

[3] A wrapper is a software mechanism that encapsulates code to form business objects that satisfy distributed object standards for their interface with new applications.

- Integrated distributed security management system enabling the development of secure distributed applications
- Frameworks and tools that enable cross platform integration and allow for quicker and more cost-effective development of complex applications
- An open architecture that supports a "best of breed" versus a single vendor approach
- Complementary professional services with special expertise in object technology, security and Internet technologies

F. Strategy

Concept Five intends to become a leading provider of products and services used in the development of secure distributed business applications. Key elements of the Company's strategy include:

- *Develop Products and Services that Leverage the Company's Core Competencies*. The Company provides a combined suite of integrated products and services around the core competency—the intersection of information security and distributed object technology—that address the needs of the emerging marketplace. The Company is executing this strategy by continuing to build and expand its professional services business while completing the development of its first set of software products.
- *Develop Indirect Channels of Distribution*. The Company is developing relationships with leading product partners and system integrators as distribution channels for the Company's products and with large technology companies as service partners, in order to substantially increase its distribution potential. The Company's partnerships with Hitachi, Visigenic, Sun Microsystems and Fair, Isaac are examples of implementations of this strategy.
- *Become the Standard for ORB Security.* The Company is pursuing the addition of the Company's security product to all of the major ORB products to become a de facto industry standard. The Visigenic ORB implementation and discussions with IONA are the first steps in the full execution of this strategy.
- *Pursue Asian Market.* The Company is central to Hitachi's product offerings, resulting in a significant Asian market potential for the Company. Hitachi has stated that its product suite developed by Concept Five will be the cornerstone of its object-oriented systems integration business, which is expected to grow to over $6 billion by the year 2000. (See Appendix II.)
- *Develop Hitachi / Concept Five International Standard.* Hitachi/Concept Five are pursuing international industry standards through the OMG. Significant participation in the OMG by several Concept Five staff members and Hitachi puts the Company in an excellent position to successfully execute this strategy.

Concept Five has attained several notable milestones, which evidence initial success in achieving its strategy:

- Achieved $17.5 million in sales in its fiscal year ending September 1997 ($10.1 million of which resulted from the Hitachi agreement) with a $9.4 million backlog entering into fiscal year 1998 ($6.9 million of which results from the Hitachi agreement). As the Company's service business is already profitable, the Company has been investing in developing its product business. The Company plans to be profitable in both its professional services and product businesses by the fourth quarter of fiscal 1998.

- Built a growing professional services business with major companies, primarily in the financial services and manufacturing industries, including: Advanta Corporation, BankBoston, Donaldson, Lufkin & Jenrette, Swedbank, USAA, Amoco and SmithKline Beecham.

- Delivering on a 15-month, $17 million product development contract with Hitachi, Ltd. to develop a software product line to substantially complement the Company's professional services business with various products reaching the market during the first three quarters of 1998.

- Delivered in September 1997 beta security software for Visigenic's Visibroker ORB under a joint working agreement and is targeting release to the market in first quarter 1998.

- Continued to acquire the additional talent it needs in finance, sales, marketing and commercial software product development and support, with special focus on first product availability in late 1997.

- Harold C. Teubner, who led North American Operations as a Senior Vice President at Sybase during its major growth period, has recently joined the Company as Executive Vice President and Chief Operating Officer.

G. Summary of Financial and Other Data

The following table sets forth the Company's historical and projected financial information (unaudited) for the fiscal years ended September 30, 1997, 1998, 1999 and 2000.

($ in millions)
(Unaudited)

	Years Ended September 30			
	Actual	Projected		
	1997	1998	1999	2000
Revenue				
Professional services	$7.4	$12.0	$26.0	$45.0
Client-sponsored development (Hitachi)	10.1	10.6	5.0	–
Product sales	–	4.0	20.0	40.0
Total revenue	17.5	26.6	51.0	85.0
Cost of revenue				
Professional services	5.0	6.3	13.7	23.7
Client-sponsored development (Hitachi)	6.3	4.6	2.3	–
Product sales	–	0.8	4.2	8.0
Gross Profit	6.2	14.9	30.8	53.3
Operating Expenses				
Research and development	3.4	2.9	4.7	7.7
Marketing and sales	4.5	6.2	8.0	18.0
Product support	–	2.0	3.0	5.5
Administration and management	4.1	6.1	7.4	7.8
Total operating expenses	12.0	17.2	23.1	39.0
Operating income (loss)	(5.8)	(2.3)	7.7	14.3
Interest income (expense)	(0.8)	(1.1)	(0.9)	(0.7)
Pretax income	(6.6)	(3.4)	6.8	13.6
Income taxes	–	–	–	–
Net income (loss)	$(6.6)	$(3.4)	$6.8	$13.6

II. Investment Highlights

Industry-Leading Technology Experts and Management

Concept Five focuses its efforts on the intersection between distributed object technology and security to solve the most complex part of the system integration problem for network computer systems. The Company has been successful in achieving its objective primarily due to its work force, which consists of leading highly skilled and experienced industry experts. In fact, Concept Five has assembled a very sophisticated work force, with many of its members having national recognition as leaders in their field and experience in delivering and marketing advanced software products to the marketplace. (See Management, Directors and Employees—Biographies.)

Bill Ruh and Ron Zahavi have each written a book, *Inside CORBA* and *The Essential CORBA*, respectively, on distributed object technology and have led some of the world's largest and most innovative projects. Bill Ruh, Ron Zahavi, Bill Brown, Bret Hartman and Melony Katz have had and continue to play key roles in the Object Management Group (OMG)—the standards-setting body for Common Object Request Broker Architecture (CORBA). These long-standing relationships will help the Company establish its Secure Component Integration Framework as the emerging standard for distributed applications development.

Jeffrey Berger, Bret Hartman and Harriet Goldman are nationally recognized experts in Information Security and Electronic Commerce, having implemented some of the world's most secure systems. Jeffrey Berger is currently negotiating an agreement to write the first book ever on distributed security. Bill Brown, Director of Software Design, has a proven track record in successfully leading development projects for large-scale, object-oriented software, particularly within the financial services industry.

About two-thirds of the current Concept Five technical work force of 125 staff were drawn from the strongest performers in the Company's core competency areas of expertise from The MITRE Corporation, a recognized leader in systems engineering, including Dr. Barry Horowitz who was MITRE's President and CEO. The remainder of the technical and marketing staff was hired for its industry experience and successful track record in advanced commercial software development, marketing, and sales. Chuck Teubner, Chief Operating Officer, was Senior VP of North American Operations for Sybase during the time it grew from a $6 million start-up in 1988 to a $850 million major software vendor. Douglas Foran, Vice President of Sales and Marketing, has over 20 years of innovation and experience in operating management, marketing, and selling commercial software products and integrated systems to worldwide markets.

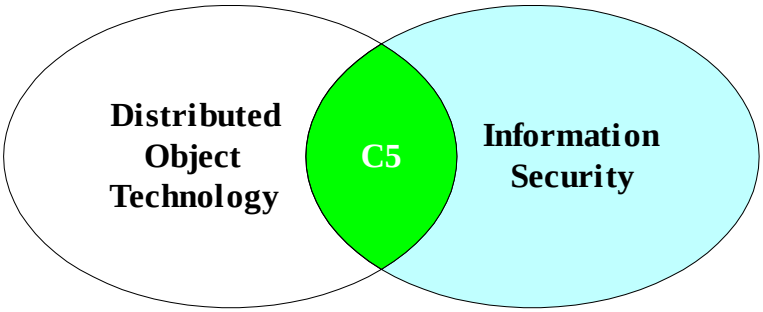
Strong Market Demand for Systems Integration and Information Security

Companies are increasingly recognizing the value of the network-based computing systems to establish new, richer relationships with customers, suppliers and employees as a way of realizing competitive advantage. Distributed object technology and information security are critical

elements of 'Net computing systems. However, companies evolving their use of Internet-related technologies to support electronic commerce and other new forms of electronic relationships face two major and conflicting challenges: (1) the complexity and cost of integrating their existing custom and packaged software into new distributed computing environments; and (2) securing the newly exposed, distributed elements of the enterprise requires highly specialized skills, and well-integrated products at multiple points in the enterprise.

Concept Five is well positioned to capitalize on these opportunities. The Company's products and services, based on the synergistic intersection of its unique core competencies in distributed object technology and information security and on its significant expertise in 'Net technologies and systems engineering, address the market's most pressing challenges. Distributed object technology is the cornerstone for rapid and changeable integration of existing systems and applications into new configurations. Information sdecurity for distributed environments resolves the inherent problems with distributed computing where, until now, integration has been achieved at the expense of security. 'Net technologies and systems engineering expertise deliver the complete, innovative next generation application.

The Intersection Is The Key Enabler of Next-Generation, Electronically Delivered Business Services



Next Generation Application

- Object Technology will underpin 98% of new applications by 2001—Gartner Group, 1997
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- $150 billion expected in Internet Commerce by 2000—International Data Corporation (IDC), 1997
- Object Middleware will grow to over $707 million by 2001—IDC, 1997

The potential for Concept Five's products and services is large and rapidly growing. This market consists of businesses seeking to deploy secure mission-critical transaction-based applications via 'Net configurations. The Company's initial target markets are the financial services industry as an enabler of new channels and capabilities for all aspects of the banking/financial services relationship, and the manufacturing industry, which seeks to build new mechanisms for improved supply chain and customer relationship management. Driven by intense global competition, the financial and manufacturing industries have been early adopters of these new forms of computing. The Company estimates that, combined, both industries currently spend $20 billion on 'Net delivered services and are expected to spend over $80 billion by the year 2001.[4]

4 Based on analysts' inputs from both the Tower Group and AMR.

Many indicators suggest that companies in all industries are deploying distributed object technology to leverage code reuse, simplify change and improve maintenance. The Gartner Group projects that object technology will underpin 98% of all new applications developed by the year 2001.

The rapid adoption of 'Net computing systems has led to an explosion in the Internet-related software and integration services market, expected to grow to $32 billion by 2001.[5] At the same time, 70% of the world's mission critical applications still reside on mainframes with an estimated installed base of 200 billion lines of COBOL code. A large portion of these mainframes and code resides in the world's top financial institutions and manufacturing concerns. Rewriting the existing software to accommodate the new environment is not only lengthy and costly but also extremely risky to the critical operations of an organization. The need to reduce the cost and risk of new application development, which brings together these two disparate environments, is driving the exploding growth in the market for integration software. The size of the legacy-to-web integration software market is expected to reach $1 billion by 2001; the size of the object middleware market is expected to reach $707 million by 2001; and the size of the overall middleware market is expected to climb to $5.3 billion by 2001.[6] Parallel to the growth in object technology and Internet-based application development is the growth in the market for enabling information security products and services expected to top $2.5 billion by 2000.[7]

Innovative and Technology Leading Products and Services

Concept Five Technologies' products and services play a strategic role in helping clients build next generation 'Net applications. Key features of the Company's innovative offerings include:

- *Products and Services that Enable Thin versus Fat Application Development.* The Company's products and services solutions enable the creation of system architectures that separate business–specific application software from infrastructure software and enable the use of pre-packaged infrastructure software. This minimizes the custom development required for new applications and reduces the cost of change and maintenance. Current bridging technologies, such as messaging, result in "fat" distributed applications, where a significant fraction of the necessary software infrastructure functions must be developed as part of the business applications. CORBA offers a degree of standardization in the system infrastructure resulting in the opportunity for "thinner" distributed applications that separate the business specific application logic from common and reusable infrastructure software functions and components. The Company's products and architectural approach substantially implement and extend the "thin" application benefits of CORBA, resulting in simplified, lower-cost new application development and maintenance.

5 Data Quest, September, 1997.
6 International Data Corporation, 1997.
7 Gartner Group, Information Security Market Overview, 1997.

- *Productivity Enhancing Tools for Rapid Secure Development of Next Generation Applications.* Concept Five's products and services achieve faster time to market and improved productivity for legacy integration through productivity-enhancing tools, such as automatic wrapper generation and semi-automatic legacy software analysis for object creation that operates on undocumented legacy code. The Company's integrated security products and services address the inherent security gaps associated with distributed applications, enabling the rapid development and maintenance of security with a distributed environment. The Company's secure frameworks products and services allow for the development and cross platform integration of "thinner" more cost-effective complex applications.

- *"Best of Breed" versus Single Vendor Approach*. All of the Company's products capabilities are achieved through an open architecture that gives customers choices regarding a wide range of products that make up the whole solution, including ORBs and platforms. The designed-in flexibility of its products enables the Company's professional services organization to implement a "best of breed" versus a single vendor solution.

- *A Complete Solution.* The Company's professional services provide complementary training, design and development capabilities to its products to enable a complete solution and to remove critical barriers to adoption throughout the new application life cycle. The Company's products facilitate application design, development and maintenance to provide professional services clients with an open, packaged and supportable component software solution.

Growth Opportunities Through Key Strategic Relationships

Concept Five's expertise for development of secure distributed applications has fueled important strategic relationships with product suppliers and companies pursuing aggressive market positions leveraging distributed object technology.

Concept Five's most important partnership to date with Hitachi is providing the cornerstone of Hitachi's distributed application strategy. The resulting secure integration platform, legacy and security technologies, and education/training services will provide Hitachi with the core technologies to integrate its legacy mainframe platforms into the emerging distributed environment, which will be the center piece of its growing systems integration business. Hitachi projects that its object oriented systems integration business alone will grow to over $6 billion, accounting for more that 40% of its total projected systems integration revenue by the year 2000. As an indication of its expected return from this effort, Hitachi has organized a team of 550 systems engineers and software developers in conjunction with its initiative with Concept Five. The Hitachi relationship has also provided the entry point and leverage for other serious partnership discussions with companies such as The Baan Company, Electronic Data Systems Corporation, Concord Systems and OEC Japan.

Most of Concept Five's other partnership opportunities were initiated as a result of interest in the Company's products and expanded to include its complementary professional services. Other opportunities have started with interest in the Company's professional services and have expanded to include opportunities for its products. The combined Concept Five products and services offering has significantly expanded the Company's overall market penetration potential.

For example:

- Concept Five's security product will be added to the Visigenic's VisiBroker for JAVA Object Request, and Visigenic has signed a professional services agreement with the Company as well.

- Sun Microsystems has selected the Company as an Object Reality Center (ORC). The purpose of the ORC is to provide funding and marketing support to innovative companies to demonstrate network computing solutions based on JAVA and other object-oriented distributed application development technologies. Sun Microsystems is providing the necessary hardware to establish an Object Reality Center with Concept Five. This Center will support system-level sales of hardware for Sun, and the Company believes it will generate demand and leads for the Company's products and services.

- Fair, Isaac, Inc. and Concept Five have formed an alliance to build a next generation market offering that uses the Company's services and technology to modernize and expand Fair, Isaac's core financial services products. The joint offering will provide a secure 'Net delivery platform for Fair, Isaac's products. Concept Five's security, integration and legacy access software form the basis of the platform. The Company's information security architecture, legacy integration and professional services figure prominently in the delivery of the solution to the Fair, Isaac customer.

Establishment of Critical, Reference Customer Relationships

Concept Five has established an impressive list of reference customer relationships over the last 18 months. These relationships have enjoyed significant expansion over this period. All of these relationships have strong potential to include the Company's products. The following is a synopsis of the key relationships and the nature of the Concept Five value to the customer:

Concept Five Technologies' Major Customer Relationships

Customer	*Requirement/Need*	*Concept Five Value*	*Expansion of Relationship*
Financial			
Fair, Isaac	▪ Leading provider of credit scoring products and services. Needed new ways to deliver credit desk applications to customers ▪ Needed innovative techniques for mining and analyzing data for improved decision support of customers ▪ Credit scoring is a mature market; needed to develop next generation growth application capitalizing on existing customer base	▪ Opened up new delivery channels for Fair Isaac's main product ▪ Played a significant role in the formation of Fair Isaac's Intranet architecture, development and deployment ▪ Provided expert consulting for data mining and analysis for improved decision support ▪ Created a 'Net delivery platform for its credit desk applications products ▪ Developing a new generation joint product offering including Concept Five products and professional services to be branded and sold by Fair Isaac to its installed customer base; will provide a vehicle for sustained Fair Isaac growth	▪ Initial contract for $44,000 grew to over $600,000 in cumulative professional services revenue ▪ Relationship continues to expand and grow into object technology modernization and legacy integration into 'Net environments
Swedbank	▪ Major European bank wanting to be first to the market with a secure Internet securities trading system	▪ Designed and implemented the security architecture for Europe's first Internet securities trading system, resulting in competitive advantage for Swedbank. The architecture included secure connection of the trading system to back office trade clearing systems and disaster recovery systems and plans. ▪ The Concept Five security architecture has been made a bank-wide standard	▪ Initial contract of $125,000 grew to almost $900,000 cumulative professional services revenue ▪ The relationship continues to grow and expand into other lines of business within the bank to include 'Net development and legacy integration
BankBoston	▪ Major US bank moving to capitalize on 'Net as a new delivery channel for its Capital Market products and services	▪ Designed and implemented the information security perimeter for the bank ▪ Delivered a secure equity research publishing application which has the potential for significant cost savings with improved ways to track and monitor usage and interest for improved future research development and targeting ▪ Provide ongoing consulting services for domestic and international banking divisions ▪ Growing to include other capital market applications, such as Foreign Exchange Trading desk	▪ Initial contract of $125,000 grew to cumulative revenues exceeding $1 million ▪ The relationship continues to grow and expand into other opportunities, applications and lines of business within the bank ▪ Relationship includes a strategic investment in Concept Five
Industrial and Pharmaceutical			
SmithKline Beecham	▪ Major drug company trying to improve clinical trial process through strategic use of information technology. Each day the time to market for a new drug is reduced results in the potential for $1MM in additional revenue to the drug company.	▪ Provided extensive services in the areas of data mining and object technology analysis and design to reduce time to market tied up in the clinical trial process ▪ Working as a strategic partner using Distributed Object and 'Net expertise to define the next generation clinical trial methodology ▪ Developing object technology in support of the SmithKline's gene sequencing initiatives	▪ Initial contract of $40,000 grew to over $1.3MM in cumulative revenue ▪ The relationship continues to prosper and grow into other opportunities
Amoco	▪ In the Chemical Intermediaries Business Group, knowledge management of environmental and other business issues was largely paper-based and ineffective.	▪ Designed and implemented an Internet-based knowledge management system for improved efficiency and more effective knowledge sharing of critical business data and information ▪ Based on the success of the initial application, Concept Five expanded the system to include integration with Amoco's corporate wide SAP implementation	▪ Initial contract of $54,000 grew to over $550,000 in cumulative revenue ▪ The relationship continues to grow into other business areas

III. Products and Services

A. Overview

Concept Five provides a set of integrated software products and a comprehensive suite of professional services to enable enterprises to operate securely in the global electronic marketplace. The Company's products and services enable businesses to leverage and preserve investments in their existing heterogeneous information systems and securely integrate such systems with next generation 'Net applications.

The growing market need for the Company's solutions is being driven by the following factors:

- *Explosive Growth in Internet-Based Business.* The International Data Corporation (IDC) estimates that Internet commerce will exceed $150 billion by 2000. Due to intense global competition, the financial and manufacturing industries—Concept Five's target markets—are early adopters of 'Net technologies. The Company estimates that, combined, these two industries currently spend in the aggregate $20 billion on 'Net-delivered services, and they are expected to spend over $80 billion by the year 2001.[8]
- *The Requirement to Integrate Applications Across Lines of Business Which are Using Separate Computer Systems.* Companies are rapidly evolving their static web-based applications to next generation transaction-based 'Net applications that require an integrated view of the complete customer relationship across multiple lines of business within an organization. For example, a bank will want to provide integrated personalized services to its banking customers who may hold a checking account, a mortgage and a car loan with the bank. However, the bank's current separate business systems are unable to support these new demands. Of the world's mission critical systems, 70%[9] still reside on mainframes supporting single lines of business with an estimated installed base of 200 billion lines of COBOL code.[10] Much of the balance is made up of single line of business software packages.
- *Inherent Business Conflict Between Operating in Secure Environments and Operating Over Distributed Systems.* On the one hand, distributed object technology achieves integration and connectivity at the expense of increased security risk. On the other hand, a secure system is one with reduced integration and connectivity to minimize the number of potential places for a security breach to occur. The Gartner Group projects that object technology will underpin 98% of all new applications developed by the year 2001. Parallel to the growth in object technology and Internet-based application development is the growth in the market for enabling information security products and services, expected to top $2.5 billion by 2000.[11]
- *Increasingly Complex Technical Problems.* Most corporate IT organizations do not have the resources to deal with the emerging technical issues. As a result, the Internet-related software and integration services market is expected to grow to $32 billion by 2001.[12] A survey conducted by Forrester Research reveals that major companies believe security and legacy

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8 Based on inputs from both the Tower Group and AMR.
9 DeLoitte & Touche, Information Technology Survey, 1997.
10 Software, 1996.
11 Gartner Group, Information Security Market Overview, 1997.
12 Data Quest, September, 1997.

integration will be the most important and difficult to achieve features of an Internet commerce capability.

The company's products and services are designed to address the following business and technology problems:

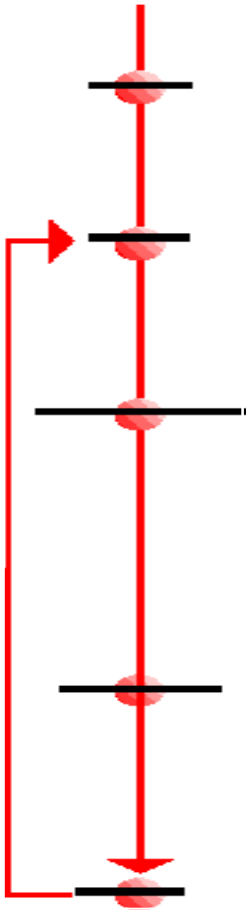
- *Information Security in Distributed Environments.* As the most proprietary elements of an enterprise are newly exposed, secure forms of distributed computing have become a critical requirement of new applications. Current integration mechanisms must be enhanced to include security controls as systems become more distributed and operate over open networks.
- *Legacy Software Reuse.* The majority of IT assets consists of packaged and custom software. The practical reality of the risk and cost associated with replacement requires software reuse.
- *Distributed System Design and Integration.* Diverse mixes of software applications, operating systems, programming languages and hardware platforms are the reality of today's distributed computing environment, where integration is the most compelling need. The existing heterogeneous custom and packaged software must be integrated into the new 'Net applications quickly and cost effectively, while allowing for simplified change and maintenance as business conditions warrant.
- *Electronic Relationship Management.* Increased global competition is forcing companies to find new ways to manage, grow and retain relationships with customers, suppliers and employees. Electronically delivered services are a vehicle to provide low cost, improved types and levels of service for all business relationships.

The unique qualities of the Company's professional services and software product offerings, and the specialized skills of its technical staff in the areas of Information Security and Distributed Object Technology, are the foundation upon which Concept Five develops, markets, delivers and enables secure distributed business applications.

The following chart is a summary of Concept Five's complementary products and services as they facilitate each activity in the new application life cycle:

Concept Five Technologies' Complementary Products and Services Support the New Distributed Application Life Cycle

Stages of Application Life Cycle



Concept Five Professional Services	*Concept Five Products*
Training Courses ▪ Building Secure Systems in a Distributed Environment ▪ Building Enterprise Distributed Applications using CORBA ▪ Accelerated CORBA ▪ Accelerated JAVA	
'Net Strategies ▪ Information Security Assessments ▪ Systems Design Analyses ▪ Evolution Management & Risk Assessments	
Secure Object Oriented Architecture and Design Services ▪ Packaged Vertical Solutions	**Component Power Series** ▪ Secure Integration Framework: a specification, methodology and implementation components for cross platform, cross application integration (Rollout May 1998)
Custom Relationship Management Solutions ▪ Advanced 'Net Integration Services ▪ JAVA /CORBA Solutions ▪ Security Solutions ▪ Legacy Integration Services **Custom and Packaged Software Development**	**Component Power Series** ▪ Legacy Access and Integration: Tools for analysis of object source code (COBOL, JCL, CICS) for automatic generation of IDL wrappers (Rollout April 1998) ▪ Distributed Security Products: Comprehensive ORB security services includes identification and authentication, authorization and access control, delegation of privileges, security of communications, security auditing, and administration of security (Visigenic Rollout Q1 1998) ▪ Reusable application components and tool kits (Rollout May 1998)
Concept Five's Customer Support	**Concept Five's Product Support**

The following sections discuss the Company's offerings in the context of this application life cycle.

B. Professional Services

Concept Five offers a set of advanced system-level professional services to help clients formulate and develop advanced 'Net applications. This business opens high value engagements with customers using innovative, repeatable methodologies in key enterprise-wide systems development efforts that address key technical problems: information security, legacy software integration, distributed system design and integration and custom relationship management solutions.

Concept Five provides professional services to address these key technology issues through the application life cycle as follows:

- *Training.* Concept Five addresses the technology transfer and educational needs of the emerging market. The Company's training courses leverage the industry recognized expertise of its leading experts in the areas of CORBA, Information Security and JAVA to overcome a critical barrier to adoption for both its products and services and to generate leads for consulting opportunities.

- *'Net Strategies.* Security Assessment is one of the most highly demanded of Concept Five's professional services by both clients and partners. Security Assessments evaluate the exploitation risks of accessible information systems. The output is a prioritized list of problems, including the relative severity of each in terms of risk to the company and suggestions for countermeasures.

  Concept Five performs three main types of Security Assessments: Security Architecture Assessments, Security Probing and Penetration Testing. Security Architecture provides an overall structural analysis and planning framework; Security Probing and Penetration Testing provides real-world testing of installed systems and components. A Security Architecture Assessment is normally the starting point for any information security services. Such an assessment clarifies fundamental structural issues and pinpoints potential trouble areas for the most efficient Security Probing or Penetration Testing.

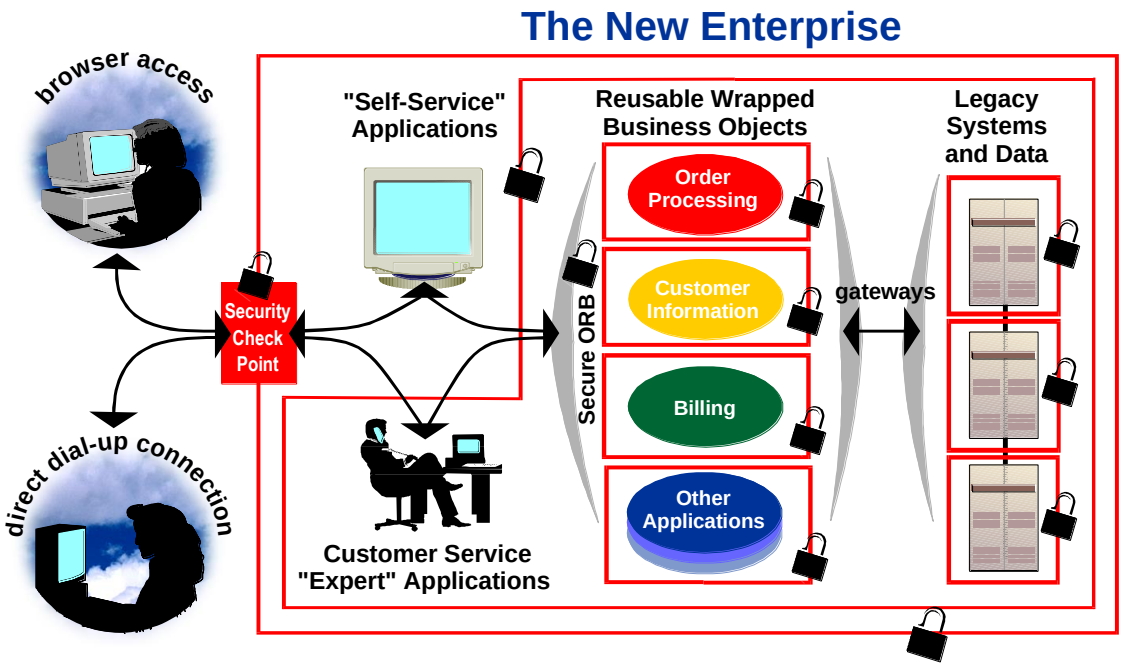
- *Secure Object-Oriented Architecture and Design Services.* Today, most companies are in the early stages of distributed application life cycles. Although many of these companies have extensive IT staffs, few have in-depth know-how of distributed object implementations. Even fewer companies have senior architects and designers with multi-project experience to design large, complex and secure distributed applications. Concept Five is richly talented to deliver on these critical services.

The Company's design methodology includes use of structured methodologies for the development of new system requirements. Concept Five has developed a suite of object-

based requirements development and description methods, which yield a set of common terminology and component library descriptions that are the foundation of large distributed application developments. Once the development requirements are established, the Company supports its clients in planning for a pilot system, which gives visibility into critical full-scale performance issues at a minimum cost and in minimum time. Using industry leading development tools, Concept Five's technical staff implements the software for systems to verify operational expectations, performance and scalability goals.

- *Relationship Management Solutions.* Competitive pressures are driving businesses to create new customer-focused applications to manage their business relationships. To date, most of these systems have been custom, dial-up systems such as home banking applications. Web-enabled applications are still in their infancy and are most often static views of data snapshots, rather than transaction-capable interactive applications. Concept Five is approaching the development of relationship management solutions in a new way: reusable, 'Net object components that securely reuse custom and commercial legacy software.

Relationship Management Solutions Delivery Model



- *Packaged Vertical Solutions for Banks*. The banking industry is compelled by its competitive environment to develop 'Net-delivered, self-service platforms that reach far beyond the rudimentary home banking services available today. Concept Five has adapted its core professional services offerings into a packaged set of services focused on banks. These

services address the banking industry's particular needs and focus on the major concerns for banks: (1) alternative delivery channels for competitive differentiation and customer retention; and (2) an integrated view of the customer for improved relationship and profitability management.

Customers

Since its inception, Concept Five has been steadily increasing the number of professional services clients signed as well as the monthly dollar value of contracts. Major client accounts include: Advanta, BankBoston, DLJ, Fair, Isaac, Swedbank, USAA, Amoco and SmithKline Beecham. Client relationships generally start with security assessments or training and move through the application life cycle to include services that provide design and architecture development, application development and maintenance. The introduction of the Company's products suite, Component Power Series, will provide new opportunities to deliver substantial value to the Company's customers during the design and build stages of a new application development effort.

Hitachi is the Company's largest existing customer. The revenue stream from Hitachi began in fiscal year 1997 and totaled $10.1 million, which represented 58% of the Company's total revenues for that year. In addition to Hitachi, Concept Five has had substantial success in establishing and expanding its professional services engagements. The chart below provides certain data on some of the Company's high potential clients. The chart indicates that, through fiscal year 1997, the Company established and built relationships with six key customers, each growing to an average of $800 thousand in cumulative revenue and growing. Businesses moving to next generation 'Net applications must make significant investments. The Company has shown success at initiating the development cycle through a low-cost entry strategy and maturing the relationship through the application development cycle. The Company ended the year with three or four new key customers which, when combined with existing customers, have the potential of generating $7 million in revenue for 1998. The Company believes that the addition of new customers to the expanded training programs will allow it to comfortably achieve its revenue plan of $12 million for non-Hitachi customers in 1998.

Client	Initial Contract Date	Initial Contract Size	Revenue to Date
Swedbank	April 1996	$125,000	$880,000
Amoco	June 1996	$54,100	$563,000
SmithKline Beecham	June 1996	$40,000	$1,326,000
BankBoston	October 1996	$125,000	$980,000
CheckFree	December 1996	$110,000	$401,000
Fair, Isaac	January 1997	$43,500	$598,000
USAA	June 1997	$187,500	$254,000
Proprietary Client	September 1997	$170,000	$170,000

Selected Professional Services Engagements

- *BankBoston.* The Company initially performed an information security assessment and design for the bank's mission critical capital market systems. Successful completion of this contract opened the opportunity to deliver a secure, Internet-based investment-analysis publishing system, which went into production in April 1997. The relationship is ongoing, continues to grow, and is moving into other capital market applications, such as a foreign exchange trading system. The initial contract with BankBoston was for $125,000 and has grown to cumulative revenues to date of over $1 million. BankBoston has recognized the value of Concept Five's products and services by making a strategic investment of $1 million in the Company.

- *Swedbank.* The Company's information security experts implemented the architecture to secure the first Internet-based securities trading system in Europe. Since its implementation, the security architecture has been made a bank-wide standard and has been expanded to deal with the back-office system integration. (See Appendix III for Swedbank's security reference.) The Company is currently employing object technology skills to build new Internet-delivered applications that integrate legacy software and data into the trading service.

  The Swedbank engagement started with an assessment of the Internet securities trading project of $125,000. The relationship has continued to mature and has resulted in almost $900,000 in cumulative revenues to Concept Five.

- *Fair, Isaac.* This major statistical research firm serving the credit industry needed new ways to deliver its credit desk applications to its customers. It also desired to develop a high growth next generation application to increase growth in its extraordinarily successful credit scoring business. Concept Five was engaged to build a corporate intranet, secure it for delivery of business services via the Internet and use data mining technologies to widen the market for the customers services.

  Because of Fair, Isaac's knowledge of the Company's software product efforts, this relationship has led to co-development of a new joint product offering. The joint offering currently under development is a customer relationship management platform that enables cross selling of financial services at several customer intercept points in the bank. The application will be offered to regional banks that have an existing relationship with Fair, Isaac, which will carry Fair, Isaac's market brand and be implemented with the Company's Component Power Series products and professional services.

  Concept Five's initial contract with Fair, Isaac was for $44,000 and has since grown to a joint development effort and over $600,000 in cumulative revenue.

- *American Bankers Association (ABA).* The Company enabled the ABA to provide its traditional services to its members over the Internet, including publishing, research and news customized to ABA members' needs. The ABA site offers advertising to industry product and service providers, and advanced implementations will include electronic

commerce applications for buying and selling goods and services. The ABA has branded this service the ABA BankersMart. This service is currently available on the Internet at: http://BankersMart.aba.com.

The same software has been used to deliver on a contract for $390,000 with the California CPA Association.

- *SmithKline Beecham.* This major drug company is trying to improve its clinical trial process through the strategic use of information technology. Each day in which the time to market of a new drug can be reduced can result in a potential $1 million in additional revenue to the drug company. Concept Five performed data mining services to exploit drug efficacy data to examine secondary potential for drugs judged not effective for their expected purpose. This lead to redesign of the data review process for clinical trials and an object design task to model molecular screening processes and define the data model for the process. Subsequently, Concept Five has started advanced projects to design, pilot and evaluate a new clinical trial process based on object technology methods delivered over the Internet and to design an object-based integration strategy (homology engine) for gene sequencing data purchased by SmithKline Beecham from different sources. The relationship with SmithKline Beecham began with a $40,000 contract and has since resulted in over $1.3 million in cumulative revenue to Concept Five.

C. Software Products

Overview

The Company's product suite, Component Power Series, is used to accelerate both the creation and change of business applications by leveraging existing custom and packaged software. The Series includes three software components that can be deployed individually to extend an existing infrastructure or, for customers building more comprehensive solutions, the components can be used together as a tightly integrated product suite for new distributed object applications. These software products provide increasing levels of capabilities for creating and maintaining applications with modern technologies. A significant part of the Company's products are based on prototypes developed and deployed as part of its custom professional services engagements. The Component Power Series will include:

- *Security Integration Products:* End-to-end, system-wide security for securing distributed business applications
- *Legacy Integration Products:* Legacy wrappers that allow the reuse of business logic from back-end systems, segmented through the application of the Company's legacy software analysis tool
- *Secure Component Integration Framework:* A set of reusable software comprised of Connector and Collaborator Toolkits, which are used by distributed system developers to simplify CORBA development and provide interoperability and portability in the integration of the separate software packages and custom code that constitute the elements of new applications. Connectors are software augmentations to standard CORBA technology that allow applications to interpret objects in a reusable fashion

within a distributed system. They include a ready set of necessary software "convenience" functions for a distributed system to simplify the use of CORBA. No other vendor has implemented these pre-fabricated common software functions. Collaborators are a set of secure reusable relationship management components that system designers use to rapidly deploy full-solutions, including the user interfaces.

Each of the products provides a component capability that can be integrated with the most popular applications and platforms already in place within an organization. For customers seeking the most comprehensive solution, the tightly integrated product suite can be deployed as a unified whole to provide an advanced infrastructure for rapidly building secure new distributed object applications that enable reuse of legacy code and logic. Each of the software components is described below.

Security Integration

Concept Five's Security Integration products enable the rapid deployment of a distributed security capability during the development phase of a new distributed application. Up to now, distributed object environments offered integration at the expense of comprehensive security. These environments, by nature, are more vulnerable to penetration as there are more places where the system can be attacked. Information security threats are real, resulting in compromised corporate secrets and financial loss. Beyond protection, in the age of relationship management, security represents the key to making new revenue-generating services possible. The legacy-to-web offerings currently in the marketplace approach security as individual features (e.g. authentication, authorization and encryption), which are add-on features at the perimeter of a system rather than integral to the design of the whole product. This places the responsibility on customers to be aware of and plug security holes.

Concept Five provides a comprehensive ORB security software capability that supports end-to-end, system-wide identification and authentication, authorization and access control, delegation of privileges, security of communication, security auditing and administration of security information. Through the use of distributed object technologies, security features can be provided object by object to deliver the appropriate level of security on a discrete basis. The product also provides additional, value-added features beyond those designated by OMG's Level 2 security specification. Concept Five offers the only security product that meets the basic functionality and exceeds OMG's Level 2 security specification. The ORB Security software product includes the following functionality:

- *Authentication:* User password, token and public key-based mechanisms
- *Authorization/Access control:* Access control based on users, roles, object classes and unitary login (single sign-on) capability
- *Delegation of Privileges:* Allows an object to act on behalf of a client
- *Security Auditing:* Selective audit of ORB Security events
- *Security of Communication:* SSL based and full SECIIOP implementation
- *Security Administration:* Administration of users, objects, applications and policies

Through years of practical application experience in distributed system development, Concept Five has identified key areas of weakness and opportunities to enhance the specification. Concept Five's extended features over and above OMG's Level 2 specification include unitary login, extended cryptography features and internationalization of security information. Each of these features should attract significant market attention.

These capabilities allow an enterprise to both protect its assets and respond to critical business needs. Concept Five is the supplier of security software for the Visigenic's Visibroker ORB. Concept Five delivered its security products to Visigenic in September. Visigenic is expected to launch its secure ORB including the Company's product by the middle of the first quarter of 1998.

The Company's security software product can be modified and integrated with any custom-built or vendor-developed ORB in today's marketplace. Beyond the current capability, extensions under consideration include non-repudiation, digital signatures, a public key to Kerberos gateway and other advanced security administration features. Hitachi has expressed immediate interest in security as a major area of follow-on effort for extending and enhancing the product line.

Legacy Integration

The second hurdle in deploying distributed object technology is achieving integration across the existing environment. The most difficult and as yet unsolved piece of that problem is integrating mainframe legacy code and logic with the rest of the computing infrastructure. Concept Five's Legacy Integration software provides access to mainframe data and logic, wraps and encapsulates mainframe applications, and generates objects (of code and logic) that can be used to build new applications. This first-of-its-kind tool enables developers and integrators to perform source code analysis on mainframe languages (COBOL, CICS, JCL) and analysis of logic and data flows even on undocumented code, and automatically generates CORBA IDL and object wrappers. This is the most advanced tool in the marketplace and the only one that performs on generations of undocumented COBOL. This capability substantially condenses the cost and development time for a next generation application.

The Legacy Integration software products provide:

- *Mainframe Access:* To code and logic, files and databases, batch and transactions
- *Analysis of Code:* Operates even on undocumented source code
- *Wrappers:* Automatically generate standards-compliant objects

This software is designed to expand the capability of a customer's existing infrastructure by operating with the most popular mainframe languages and all standard ORBs. The Legacy Integration software plugs into installed CORBA-based applications to extend existing front-end applications to the back-end. It also enables mainframe code and logic to be integrated with packaged applications and custom code into new distributed object-based applications. Until now, it has been very difficult and expensive to reuse back-end code and logic. Concept Five's Legacy Integration product offers breakthrough capabilities that make rapid application innovation possible.

This element of Component Power Series is scheduled to be available for beta test in January 1998 and ready for use in April 1998. Extensions beyond product launch will be dictated by market requirements and could include:

- Other object environments, such as DCOM
- Additional operating environments beyond MVS, including VMS
- Additional integration mechanisms to CORBA IDL, including wrappers for MQ series and Java Beans
- Additional languages above COBOL, including C, PL/1, Natural, etc.
- Additional databases beyond DB2 interfaces, including SQLserver, Oracle, Informix, Adabas, Sybase, etc.

Secure Component Integration and Framework (SCIF)

Organizations in the forefront of building secure, mission-critical applications that cross lines of business and fully leverage the installed legacy are candidates for this third service that completes Concept Five's product suite. While distributed object technology offers the best environment for building new applications that integrate back-end systems with today's technologies, it fails to provide all of the necessary underlying functionality. For example, distributed object technology enables communication, but cannot ensure interoperability. To fully leverage the benefits of distributed object technology, the Company's product suite provides extensions that support: (1) greater interoperability; (2) portability; and (3) frequently used distributed system software functions. The SCIF is a set of integration and application framework products designed to make the design and architecture phase of a new application that crosses complex lines of business much more efficient and less costly. The SCIF includes software Connectors and Collaborators as follows:

Connector Toolkit. Ensures system-wide interoperability, supports easy access to data, enables the development of generic legacy wrappers, allows complex objects to be developed and offers the capability to browse, query and interact with data sources previously unavailable without complex programming. Its key features are as follows:

- *System-wide Interoperability.* Through a software augmentation to standard CORBA technology that includes a set of application interfaces, data types and a common description language supported through software packages allowing applications to interpret objects in a reusable fashion.
- *Portability Across Platforms.* Through uniform interfaces and a set of base-level reusable classes.
- *Convenience Functions.* That insulate developers from the complexity of CORBA by providing a pre-built set of frequently used software functions accessible through an ORB and necessary in a distributed system (e.g., Internationalization, Life cycle, Time, and Externalization).

Collaborator Toolkit. Provides a set of reusable relationship management components to facilitate business processes across applications, enables applications to access information stored in other applications and maintains consistent information between applications. The Collaborator Toolkit enables system developers to rapidly deploy full solutions, including the user interfaces. Its key features include:

- *Business Object Framework:* For building, executing and establishing collaboration among business objects.
- *Plug and Play Business Objects:* Enables application changes and rapid integration of "best of breed" point products to be made at a pace commensurate with the increasing rate of change in business processes.
- *Synchronization Across Heterogeneous Applications and Custom Environments:* Enables communication, collaboration and coordination in a secure coherent framework.

The SCIF is designed to help organizations realize the full potential of distributed object technology. The product includes a set of integrated framework products that establish a strong foundation for development and integration. In combination with Concept Five's Security Integration and Legacy Integration software products, the SCIF provides the marketplace a solution for developing secure applications that cross lines of business and involve reuse of legacy code and logic. The complete Component Power Series provides organizations with the ability to fully leverage existing systems and data and integrate them securely to the 'Net applications in a well-formed architecture that provides genuine portability and interoperability.

Beta versions of elements of the Secure Component Integration Framework are expected to launch in January 1998. Product launch is expected for May 1998. Hitachi has plans to make this segment of the Company's product line the centerpiece of their distributed object software line, "Network Object Plaza™."

The Component Power Series is designed to allow a client to use any of these individual components as the starting point for a development effort or in combination as an integrated offering, depending on the requirements particular to the client's technical environment. The product suite is a modern platform for developing new applications and provides the key capabilities—security and legacy integration—missing in the marketplace. The Security Integration products use ORBs to secure an infrastructure, operate across the enterprise as a security management system and enable the development of security-aware applications. The Legacy Integration products generate, from undocumented source code, interfaces that integrate with new object environments. The SCIF makes rapid development of distributed object-based applications possible, by generating quality interoperable interfaces and wrappers, ensuring portability and supplying extensible business objects. Component Power Series provides an enterprise architecture, standards-compliant components and productivity-enhancing services that makes it possible to achieve application innovation through high return distributed object programming.

IV. Strategy Marketing and Distribution

A. Marketing Strategy

Concept Five's marketing strategy is focused on driving the Company's complete portfolio of products and services to leadership positions in its target markets. The Company's marketing strategy is aimed at capitalizing on the growing need for the integration of Information Security and Object Technology. The strategy is to deliver information security and distributed object technology products for implementing distributed applications and to offer leading-edge professional services that complement those products. These services provide a solution context and proof source for the Company's products. Key elements of the Company's marketing strategy for delivering leadership solutions are as follows:

- *Leverage Combined Expertise in Object Technology and Information Security.* At the highest level, information security expertise and reputation differentiates the Company from competing corporations and creates a unique selling proposition. The information security community is relatively small and Concept Five's cumulative experience and critical mass of talent in this area offers a unique market differentiation.

  The development of secure distributed applications demands the integration of two very complex and divergent technologies: Distributed Object Technology and Information Security. Concept Five's solutions use distributed object technology as a vehicle for distributing application sensitive security features to individual business objects, which result in maximum application flexibility, centralized security administration for faster time to market, and reduce the potential for security gaps that occur in distributed applications.

- *Offer Combined Products and Services Offering.* The offering by the Company of a combination of products and expert professional services strengthens the Company's competitive position. Next generation applications, requiring security, legacy reuse and cross platform implementation are in the nascent stages of development. Software products that enable these applications must be accompanied by technical staff training, architecture and design services, pilot system development and technology transfer for full-scale deployment. Concept Five's professional services remove the critical barriers to adoption of the products during the market introduction phase.

- *Target Markets with Distinct Need for Distributed 'Net Applications.* The financial services and manufacturing industries have the greatest need for the Company's products and services as both are early adopters of object, 'Net and security technologies and, as such, are burdened by the need to integrate large installed bases of legacy custom and packaged applications. Other major corporations that are developing advanced applications and fitting these profiles will also be targeted. The initial target market for Concept Five products and services is the financial service industry. The Company is targeting Global 1000 financial services companies in the banking, credit and insurance sectors that are:

- Planning new services delivery platforms for next generation web sites
- Seeking to expand market position by bringing new services online (e.g., banks moving into securities trading)
- Working to establish transaction-based capabilities extending from the Internet to back-end production systems as a means of gaining competitive advantage
- Expanding their service area to national and international services delivery
- Seeking to optimize business connections across international time zones

The Company's secondary customer target is the process-manufacturing segment. Pharmaceutical, petrochemical and batch process companies are seeking new ways to manage corporate knowledge, improve operational performance and manage their supply chain.

B. Marketing Operations

Concept Five is actively recruiting for a Vice President of Marketing to focus on the execution of its comprehensive marketing program. To execute its marketing strategy, Concept Five has developed various programs to expand industry and market awareness and recognition of the Company. The external marketing operations will focus in the following areas:

- *Public Relations.* The goal of the public relations program is to educate key industry analysts (e.g., Gartner Group, Forrester, IDC) and industry trade press editors about Concept Five's technology and services, the emerging market segment for this type of technology and the business progress of the Company in order to obtain favorable recommendations and extensive press coverage. Concept Five engaged Fitzgerald Communications, a Boston-based PR firm exclusively involved in the technology industry to develop and execute a comprehensive PR program for the Company, which will include the following activities:

  - Press Liaison: establishing and maintaining contacts with key industry editors and analysts
  - Press Releases: preparing press releases and getting them placed
  - Press Materials: preparing appropriate materials (e.g., list of analyst quotes, corporate backgrounds and application stories).
  - Press Tours and Events: promoting product and business announcements for maximum press coverage
  - Customer Programs: identifying successful customers who are willing to talk with the press and prepare customer success stories
  - Speaker Programs: arranging for Concept Five executives and industry recognized experts to address audiences at conferences, trade shows and other public forums
  - Article Placement: placing Concept Five authored articles in major publications
  - Product Review Program: coordinating efforts by independent groups (e.g., Datapro, Gartner, Forrester) to conduct product reviews

- *Demand Generation and Advertising Programs.* Concept Five has engaged the Boston-based marketing strategy and advertising agency, Cohn Godley Norwood (CGN), to assist with the development and evolution of the Company's marketing strategy and formulate its advertising strategy in the future. Initially, the marketing strategy will focus on developing demand generation programs to generate leads for the Company's sales efforts, including traditional direct mail programs as well as innovative web-based programs. Short-term programs will focus on the Company's security assessment services, CORBA, JAVA and Information Security training classes and programs to generate leads from the financial industry. During the second and third quarters of fiscal 1998, the focus will shift to generating leads for the software products as the Company's product rollout programs are initiated.

The Company's marketing operations will also focus on assuring the development of complete products that address compelling needs in the marketplace. This effort will focus on the following areas:

- *Product Marketing.* Product Marketing is responsible for ensuring that Concept Five has a competitive and consistent message that can be understood by both technical and non-technical buyers. Product Marketing is responsible for developing programs, collateral, demonstrations and presentations. Product Marketing gathers and disseminates information about the market and the competition and uses that data as input to all functional departments of the Company. This group is the focal point for competitive information and marketing intelligence.

- *Product Management.* Product Management is responsible for tracking the product and services life cycle. Product Managers define complete and timely products and service programs, help implement product development activities, participate in the promotion of these products to both partners and the market and provide comprehensive sales support. These activities will include a complete and comprehensive product release plan as well as defining the next generation of products.

C. Distribution Strategy

Concept Five's distribution strategy is based on exploiting both direct and indirect channels as follows:

- *Direct Channels.* Direct sales of professional services by the Company's sales force will lead the revenue growth through 1998 by penetrating the major accounts in the Company's target markets. Direct sales provide insight into the Company's target markets requirements as well as provide proof of success for the Company's solution. Customers strongly influence the product choices and vendors used by system integrators (SIs). Therefore, direct sales to end user customer can also create demand and visibility to SIs and other channel partners serving those customer markets. The initial staffing for sales will focus on traditional major account direct sales with staffing levels appropriate to generate revenues in line with the business plans. Direct sales will continue to expand with the release of the product suite.

- *Indirect Channels.* The indirect channel for products consists of SIs who use the Company's products in their engagements and independent software vendors (ISVs) and original equipment manufacturers (OEMs) who embed the Company's products in their packaged software solutions. The indirect channel for services includes companies and product partners that do not have sufficient system-level professional service capacity in the Company's expertise areas. The use of indirect or alternate channels for demand and lead generation and expanded distribution capability is a central element of the Company's distribution strategy. The Company will leverage the distribution capability of leading complementary software product vendors and SI's to provide the major channel mechanism for the Company's products. Large companies, such as Bell Atlantic, will partner with the Company to augment their own service offerings with the Company's unique skills and expertise, which the Company believes will additionally create demand and generate leads for the Company's products. Product partners, like Visigenic, will also employ the Company's professional services to support its clients with system-level technical expertise in areas for which their own capacity is limited.

Hitachi will provide a significant indirect channel in Asia for the Company's products. Hitachi will also utilize the Company's professional services and training. Through OMG, Hitachi and Concept Five intend to jointly promote the Secure Component Integration Framework (SCIF) as an international methodology and standard for distributed application development. If successful, this effort will increase demand through all of the various channels and should result in widespread adoption of the products.

A significant investment will be required to establish a sales and support group to develop and nurture indirect channel sales and to handle the complexity of product integration and channel support. These elements are critical to achieving the leverage of partner relationships.

- *Financial Services.* Most applications in the financial services market fall into the custom legacy category, which is built with an SI partner. The following SI firms lead in this market: AMS, Cap Gemini, Andersen, CSC, Digital, Unisys, Deloitte & Touche, Ernst & Young, EDS, KPMG, IBM, NCR and Price Waterhouse.[13] Second tier SIs, dedicated to the financial market include: Logica, Cambridge Technology Partners, Perot Systems, Sun Valley Internet Partners, Sapient, Concorde Technologies, BayOne Technologies and Wells Fargo & Co.[14]

  The Company will generate demand from the leading SI firms through direct product sales to major financial institutions and alliances with the second tier SI's. Concept Five has penetrated major accounts in the credit, securities trading and banking segments using information security. Most of these accounts are aligned for the Company's product sales.

  There are also OEM opportunities within the financial services market. However, this market does not have a dominant supplier of enterprise packaged software. Potential OEM

13 The Gartner Group.
14 Concept Five's internal analysis.

partners within the financial services market are: Alltel, Hogan (CSC), Altimira (Andersen), AMS, Marshall & Ilsley, SunGard, SEI, Fidelity, Fiserv, Edify, Security First, Servantis (CheckFree) and BroadVision.

- *Manufacturing.* Unlike the financial services market, the manufacturing market has several dominant suppliers of enterprise packaged software solutions, including SAP from Germany and Baan from the Netherlands. Enterprise Resource Planning (ERP) software is pervasive throughout the manufacturing industry. ERP companies sell very large, very expensive application building frameworks, which represent the opportunity for manufacturing companies to re-engineer and re-implement the business processes performed by their legacy code in a new more supportable environment. Projects using these frameworks cost tens to hundreds of millions of dollars and take years to implement. Concept Five sees a great opportunity to provide security and legacy integration products to these vendors, particularly as they extend into 'Net-based supply chain management. The Company will approach these market leaders with its product suite, capitalizing on the existing relationships between these vendors and Hitachi. The products will provide the ERP vendors with a bridging strategy for their customers who want to re-engineer and re-write legacy applications but must move applications to the Internet immediately.

V. Strategic Partnerships

A. Overview

The Company is aggressively pursuing partners to serve as indirect sales channels for both its products and services offerings. The Company believes that these partnerships will increase the demand for its products and services. Concept Five has established strategic partnerships with industry leaders in key technology sectors to enhance its market presence and reach, and facilitate ongoing developments of software products that meet customer needs. The Company's strategic partnerships range in scope from software licensing to embedded solutions to preferred supplier status with SIs and consultants. The Company's partnership with Hitachi represents its most important relationship to date. It includes a substantial development contract for the central piece of Hitachi's distributed application strategy, while offering significant distribution potential for both Concept Five's products and services. In addition, Concept Five will pursue partnerships with complementary product and services vendors. For example, the Company is pursuing the major commercial ORB vendors for integration with its information security products. The Company will pursue this cross-market opportunity to become a premier supplier of distributed object technology and information security services. Other partner targets include: application development vendors, such as Forte; packaged software vendors, such as CheckFree, and hardware and infrastructure vendors, such as Cisco and Sun. The following summarizes Concept Five's partnerships, including its relationship with Hitachi.

B. Relationship with Hitachi

Concept Five has a 15-month software development agreement with Hitachi, Ltd., which will generate total revenues of $17 million. Pursuant to the agreement, the parties, Concept Five and Hitachi, agreed to jointly develop software products that are the central feature of Hitachi's distributed object technology strategy. This core technology will extend Hitachi's mainframes into new distributed object environments and will be a central element of its object technology systems integration business, which is expected to grow to over $6 billion by the year 2000. The agreement results in CORBA compliant software products to support legacy MVS systems integration with 'Net environments. The agreement does not constrain independent product development by either party in any way.

Target Product Set

The development project formed the basis for Concept Five's development of CORBA-based components in three areas:

- *Legacy Access and Integration*
- *Integrated Security*
- *Secure Component Integration Framework (SCIF)*

Concept Five and Hitachi jointly own the resulting products, components and intellectual property. The agreement specifies a split of royalties for product sales. Concept Five's product suite is at the core of Hitachi's systems integration business projected to grow to over $14 billion

by 2000, of which over 40% will be generated by its object-oriented systems integration. Concept Five expects Hitachi to develop a substantial Asian market for its products.

Both companies intend to pursue a continuing relationship, focused on expanding the basic product set and creating object-oriented access to significant commercial packages such as SAP and Baan.

Both companies also intend to pursue developing the SCIF as an international methodology and standard for distributed application development. Hitachi will provide a strong market force in Asia through its current $6 billion systems integration business and will work with Concept Five within the OMG—the standards setting body for CORBA—to make SCIF a standard within the United States. Hitachi and many of Concept Five's staff members, including Ron Zahavi, Bill Ruh, Bill Brown, Bret Hartman and Melony Katz, play key roles in relevant committees within OMG.

The current agreement with Hitachi establishes Concept Five's reputation with SIs and OEMs as a significant software provider. Hitachi's global reach and reputation for quality enhances Concept Five's position. The product sales projections are in part predicated on Hitachi providing a channel into Asia. Concept Five's product line will enhance Hitachi's considerable mainframe computer and systems integration businesses.

Potential for Expanded Relationship

Hitachi, Ltd. has a very strong relationship with EDS, part owner of HDS, the professional services organization for Hitachi's hardware products. Hitachi, Concept Five and EDS have begun discussions for a software product relationship around Component Power Series. EDS has already shown its commitment to building a legacy integration practice through its partnership with Cisco. Cisco's product, based on OpenConnect's leading screen scraper product, achieves the most basic level of legacy application access through a browser. A software relationship with Hitachi and Concept Five would give EDS a robust capability for complete levels of integration, with integrated security, in addition to a common secure framework for distributed application development. The adoption of SCIF by a large organization like EDS would greatly increase the likelihood of the SCIF's substantial market penetration.

C. Other Strategic Partnerships

The following chart summarizes Concept Five's partnering relationships and targets:

- *Visigenic.* Concept Five and Visigenic entered into a combined development and professional services partnership to extend Visigenic's Visibroker for JAVA ORB to the enterprise by providing developers with Concept Five's integrated security products, the tools and mechanisms to build secure distributed components-based applications. Products are expected to reach the market in the second quarter of fiscal 1998. Concept Five will receive 33 1/3% of licensing fee revenue. The market for object middleware is expected to grow to $707 million by 2001. Visigenic is expected to be a major player in that marketplace.

- *Sun Microsystems.* Sun Microsystems has selected the Company as an Object Reality Center (ORC). This will be one of eight to ten such ORCs established by Sun. The purpose of the ORC is to provide funding and marketing support to innovative companies to demonstrate network computing solutions based on JAVA and other object-oriented distributed application development technologies. Sun will provide close to $0.5 million of hardware into a Concept Five-supported facility to use as the basis for the ORC.

  Concept Five expects that the ORC will attract a substantial number of early distributed technology users to establish and build relationships, initially through training and demos that will result in a maturation through the Company's life cycle of new distributed application development-related services.

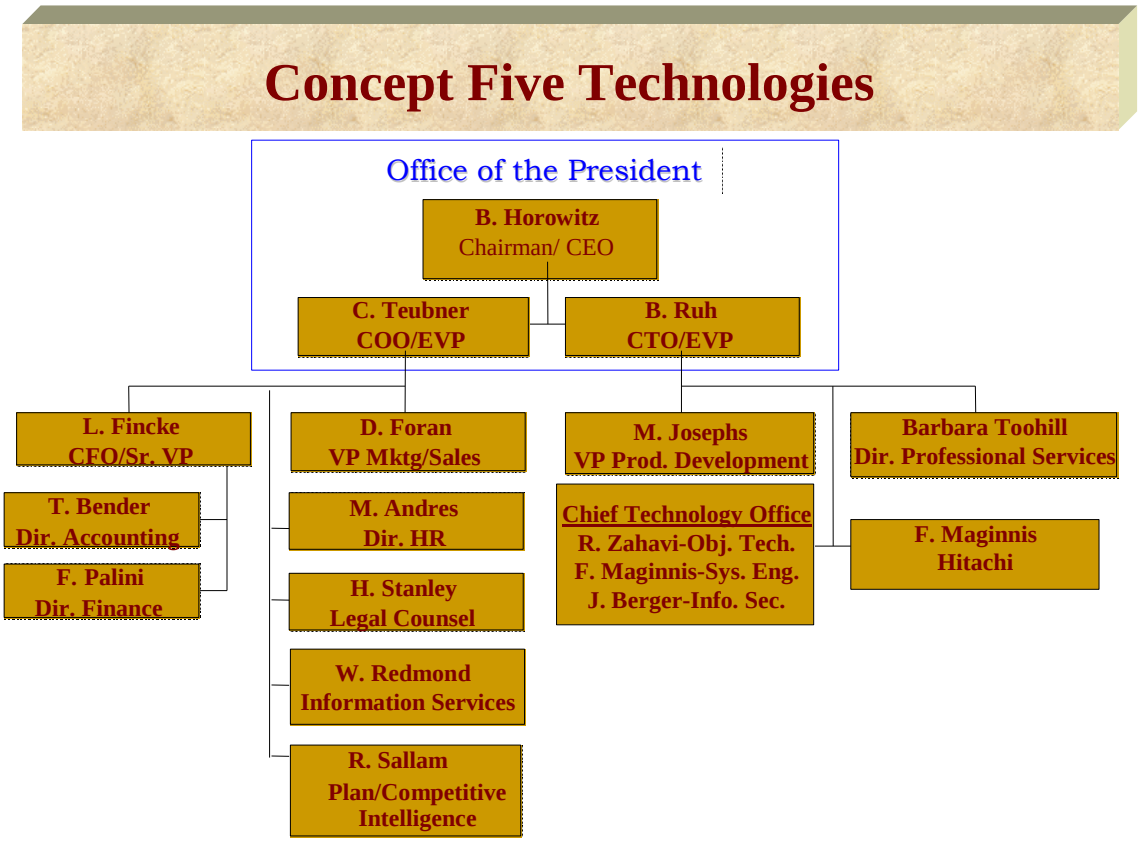
- *Fair, Isaac.* The Company has established a joint product development with Fair, Isaac, the market leader in credit card scoring and decision support software for the financial and retail industries. The new joint product combines Concept Five's software products with Fair, Isaac's modeling tools to create a set of on-line banking products that facilitate maximizing customer profitability through crossing lines of business. Concept Five's professional services organization will do the product integration and will provide the customer with the necessary surrounding integration services for deployment of the joint product.

  Fair, Isaac has an existing relationship with most of the top 100 banking institutions and holds the major market share of the credit scoring market. The majority of Fair, Isaac's existing customer base represents the addressable market for the Concept Five/Fair Isaac joint product offering. The expected revenue for an initial engagement is $2 million of which 25% will be from product and 75% from services. Concept Five expects to realize 35% of product and services revenue, or $675,000 per initial engagement.

- *Bell Atlantic.* Bell Atlantic's networking and multi-media business provides Intranet/Extranet solutions for financial services through its 300-person sales force. To complete its offering, Bell Atlantic is working on establishing an agreement with the Company to promote, brand and resell the Company's high-end information security assessments services. Concept Five is gradually introducing itself into the Bell Atlantic sales process as a way of managing capacity issues that could result from a sudden, substantial increase in demand for the Company's information security resources.

VI. Management, Directors and Employees

A. Corporate Organization



B. Biographies

Dr. Barry M. Horowitz

Chairman and Chief Executive Officer

Dr. Barry M. Horowitz is Chairman and Chief Executive Officer of Concept Five. His efforts led to the creation of Concept Five, and he is responsible for setting the overall strategy and business plan for the Company, including selection of upper management and strategic partners.

Prior to assuming his present position, Dr. Horowitz was President and Chief Executive Officer of The MITRE Corporation. He served in that role from 1990 to 1995, and as Chief Operating Officer from 1988 to1990. His strategic planning and leadership led to the division of The MITRE Corporation which in turn led to the creation of Concept Five Technologies. He served as President and Chief Executive Officer of Mitretek Systems for a six-month period prior to populating Concept Five Technologies.

Dr. Horowitz was a recognized technology leader in the national security community focused on command, control, communications and intelligence systems, as well as the aviation community dealing with air traffic control systems. His personal contributions have been most notably recognized by his selection to the National Academy of Engineering and by his being given the Air Force's highest civilian award, the Air Force Exceptional Service Award.

Dr. Horowitz attended New York University where he received a doctorate in Electrical Engineering in 1969, and a Master of Science degree in the same discipline in 1967. He received his Bachelor of Science degree from City College of New York in 1965, also in the same discipline.

Mr. Harold C. Teubner, Jr.
Executive Vice President and Chief Operating Officer

Mr. Teubner is Executive Vice President and Chief Operating Officer at Concept Five. He is responsible for finance, sales, marketing, human resources, administration and all operational aspects of Concept Five's business units. Mr. Teubner brings to Concept Five 28 years in the technology industry with extensive executive experience in several software companies. This experience also includes technical management and sales management roles earlier in his career.

Prior to joining Concept Five, Mr. Teubner was President and CEO of VISIX Software, a company that developed and marketed object-oriented application development tools. He expanded the efforts of the company to build a JAVA-based development environment which utilized the highly sophisticated class libraries of the Galaxy™ product line.

Prior to VISIX, Mr. Teubner was Senior Vice President of North American Operations for Sybase, Inc., a leading vendor of relational database software and application development tools. He built, developed and managed a sophisticated, multi-channel sales organization that delivered $450 million in revenue during 1994. Mr. Teubner joined Sybase in 1988 when it was a $6 million software start-up. He was a key executive in building Sybase to become the seventh largest software company in 1994 with revenues in excess of $850 million.

From 1982 to 1986, Mr. Teubner was Vice President of Federal Sales for Computer Corporation of America (CCA), the developer of the mainframe database management software product Model 204. This product became the standard utilized throughout the intelligence community of the Department of Defense while enjoying significant success throughout the Federal Government.

Mr. Teubner earned his graduate degree in Business from Central Michigan University. He also holds a bachelor's degree in Business from the University of Maryland.

Mr. William A. Ruh

Executive Vice President and Chief Technology Officer

Mr. Ruh is the Executive Vice President and a corporate officer at Concept Five. In this capacity he is responsible for the technology strategy, product development, and professional services activities for the Company.

He is a recognized expert in the areas of Internet and object technology. His current book, *Inside CORBA: Distributed Object Standards and Applications*, was released in September by Addison-Wesley. In addition, he regularly writes and speaks on these topics. Recent activities include speaking at the Internet Commerce Exposition on "Stocking and Maintaining the Corporate Intranet," an article in the Network World entitled "Crank it up: The Architectural Levels of Intranets," and testifying before the U. S. Senate as an expert witness on Intranets.

Prior to his involvement with Concept Five, Mr. Ruh was a Senior Vice President with Mitretek Systems responsible for creating Concept Five as a result of the split of The MITRE Corporation. In this role he reported to the CEO and was responsible for the establishment and operation of Concept Five's sales and marketing, product development, and professional services activities.

From 1984 to 1996, Mr. Ruh worked for The MITRE Corporation in support of the U.S. Intelligence Community. He was actively involved with approaches and strategies for transitioning to open and client server-based systems. The results of this work were published as "Evolutionary Systems Acquisition." This work impacted how his clients approached buying information systems technology, from a monolithic to an evolutionary approach.

In addition, he was responsible for all corporate research and development in digital libraries, the Internet and electronic commerce. His concepts and leadership in this area influenced the direction of the Intelligence Community's open source program. His work was recognized by the Open Source Symposium where he received the Golden Candle Award in 1993. He developed, for two clients and The MITRE Corporation, three of the first Intranets. He has spoken on these efforts at a variety of technical symposium including ACM's SIGGRAPH, OOPSLA and CHI conferences, and the Society for Competitive Intelligence.

Mr. Ruh's experience prior to MITRE was at IBM's Los Angeles Scientific Center. He was involved with research in modeling and simulation of building energy utilization. This research developed into a product used at IBM in the design and analysis of buildings being constructed.

He attended California State University, Fullerton where he received a Bachelor of Science degree in Computer Science in 1983, and a Masters of Science degree in Computer Science in 1984.

Mr. Lewis Fincke

Senior Vice President, Chief Financial Officer, and Secretary-Treasurer

Mr. Fincke serves as the Senior Vice President, Chief Financial Officer and Secretary-Treasurer of Concept Five. In this capacity, he has the responsibility for all finance and administration activities including finance and accounting, treasury, business operations, contracts/pricing, procurement, legal and human resource functions of the Company and its subsidiaries. Mr. Fincke also served as Chief Financial Officer of Mitretek Systems, Inc. before coming to Concept Five.

Prior to joining Mitretek in February 1996, Mr. Fincke was the Vice President of Business Operations and Chief Financial Officer of IDEAS, Inc., an entrepreneurial information technology company providing solutions to both commercial and government clients who require complex information and telecommunications systems. Mr. Fincke has extensive experience in financial management, consolidations, strategic planning, business development, mergers acquisitions, and spin-offs, with a background in commercial and government telecommunications, information systems, systems integration, sales and services businesses.

Before joining IDEAS in January 1993, Mr. Fincke was Acting Group President and Vice President Business Operations of the Government Systems Group of GTE Federal Systems (formerly CONTEL Federal Systems) and directed all business activities including business development, finance, accounting, contracts, pricing, procurement, quality assurance, and material control and interfaced with the public accountants, DCAA and DCAS.

From February 1985 until joining CONTEL, Mr. Fincke was Vice President of Finance and Administration for the Systems Services Group of Unisys Corporation and the Custom Products Group of Burroughs, responsible for all business and finance operations.

Previous positions included Vice President of Finance and Administration for General Dynamics Communications Company, a business telecommunications, installation, sales and service unit; Controller of Stromberg-Carlson, a commercial telecommunications central office switching and PBX manufacturer; and various financial management positions with General Dynamics.

Mr. Fincke served on the board of directors of Com Dev, a provider of telecommunications network management systems and services from 1985 to 1989.

Mr. Fincke received a BBA in Finance from Iona College, New Rochelle, NY, in 1962.

Mr. Douglas Foran
Vice President, Marketing and Sales

Doug Foran has over 20 years of experience in startup, general management, marketing and sales of commercial software products and integrated systems to worldwide markets.

For Xerox Corporation he had general management responsibility for engineering document management solutions. Products developed and sold to worldwide markets by Mr. Foran include:

- The Xerox Virtual Printroom, the first packaged solution of its kind which achieved market leadership for worldwide installations and revenue.
- ProScan, an innovative software offering that changed the way gas and electric utility companies solved their asset management and mapping problems for plant and equipment inventories in their operating territory.

As Director of Electronic Publishing Products for Omnicad Corporation, he lead the development and marketing of the AT&T Omnipage product developed by Omnicad for AT&T Information Systems. Mr. Foran was Vice President of Product Marketing for Information Displays Incorporated and established IDI as the market leader in the emergent technical publishing market during the early 80's. Mr. Foran entered the software systems business selling integrated circuit design systems for Silicon Valley startup Calma Corporation and has held sales management assignments throughout his career. He joined Concept Five in August 1996 and currently runs the marketing and sales operations for the Company.

He is a graduate of Georgetown University with a degree in Physics and graduate studies in Electrical Engineering and Computer Science.

Mr. Michael R. Josephs
Vice President of Product Development

Michael R. Josephs currently serves as the Vice President for Product Development at Concept Five. In this capacity he is responsible for the management of all aspects of the Company's product development activities, along with being a key member of the its overall product and service strategy team. Mr. Josephs is a nationally recognized expert in the area of Intranet architectures and advanced Intranet applications. He has been critical to the company's early success in helping its clients formulate long-term intranet strategies and deploy state-of-the-art Intranet solutions.

Prior to coming to Concept Five, Mr. Josephs was head of The MITRE Corporations' Digital Libraries department and its Corporate Knowledge Management department. In his role with the Digital Libraries, Mr. Josephs directed a work program of 50 engineers focused on assessing, piloting and deploying technology to support the acquisition, management, dissemination and discovery of information in electronic form. As head of the Corporate Knowledge Management

department, he directed the efforts of a MITRE-wide team focused on the deployment of new information services (e.g., Internet-based technology), to allow for better sharing of MITRE's intellectual and physical capital.

Joining MITRE in 1988, Mr. Josephs worked in support of Intelligence Community initiatives to plan for, develop and deploy information technology in both testbed and operational environments. His activities ranged from the design and prototyping of an Electronic Dissemination System (EDS) for use as an Executive Information System for the intelligence community's policy making consumers, to leading a development effort in support of the Nonproliferation Center's (NPC) Advanced Access Prototype (AAP). The AAP provides World Wide Web (WWW) based publishing and access to finished intelligence products (the model for the Intelink Program).

He received a Bachelor of Science degree in Computer Science in 1985 from the University of Maryland and, prior to joining MITRE, worked in the design and development of software applications in both the image processing and information management domains.

Ms. Barbara G. Toohill

Director of Professional Services

Ms. Toohill is the Director of Professional Services at Concept Five. Her organization provides a full range of consulting and systems integration services in information security, distributed object technology, I'Nets and data management analysis to financial service and manufacturing corporations.

Prior to heading up Professional Services, Ms. Toohill led the Data Refinery Consulting Service at Concept Five which develops intelligent business applications for commercial organizations and provides data management analysis services including warehousing and mining.

Ms. Toohill developed and led consulting service organizations within The MITRE Corporation for over fifteen years. As Director of the Advanced Information Technology Center at MITRE, Ms. Toohill was a leading visionary for advanced command and control systems for the Department of Defense (DOD) incorporating modeling and simulation, artificial intelligence and networking technology.

Ms. Toohill holds an M.S. in Computer Science from George Mason University, an M.S. in Information Technology Management from American University, an M.S. in Information and Library Science from Catholic University and a B.A. from Allegheny College.

Mr. Bret A. Hartman

Chief Security Architect

Mr. Hartman is Chief Security Architect for Concept Five. He is responsible for defining the overall security architecture for the Concept Five product line. Mr. Hartman has over 17 years of experience in a variety of security technology positions in industry and government.

Prior to joining Concept Five, Mr. Hartman co-founded a venture for building security policy management tools and providing distributed object security consulting services. He defined security architectures for a number of commercial clients, including JavaSoft (Sun Microsystems), Tandem, HealthMagic, 3Com and Expersoft. He has been a long-time participant in Object Management Group (OMG) activities, and is a co-author of the Common Object Request Broker Architecture (CORBA) Security specification along with representatives from several major computer vendors. The CORBA Security specification provides a standard definition for secure interoperability of commercial distributed object-oriented systems.

Mr. Hartman received a Bachelor of Science degree from the Massachusetts Institute of Technology and a Master of Science degree from the University of Maryland.

Mr. Jeffrey L. Berger

Director, Information Security

Mr. Berger is currently Director of Information Security for Concept Five, where he oversees all aspects of the Company's information security work, including setting its strategic technology and product direction. These efforts include secure product development, secure system integration, system security assessment, information security strategic planning, information security policy definition, information security training and enterprise security management.

Immediately prior to his current role, Mr. Berger was Department Manager of the Enterprise Security Solutions Department at The MITRE Corporation. He managed a large team of system security engineers and provided technical direction and oversight to projects in such areas as secure system integration, evaluation and use of commercial off-the-shelf security products, security assessment of enterprise systems, penetration analysis and use of security technology in healthcare organizations. Mr. Berger's department was also responsible for providing enterprise-wide protection to MITRE's own networks.

Previously, Mr. Berger was Associate Department Head of the Security and Intelligence Engineering department, also at MITRE. In that role Mr. Berger managed staff working on numerous projects, with particular emphasis on providing information security services to intelligence agencies and to the non-government healthcare community.

In past assignments, Mr. Berger played a major part in workstation and network security efforts. He co-authored one of the first network security protocols and was a key developer of workstation security specifications that had a significant influence on projects underway at a

number of computer vendors. In addition, Mr. Berger managed projects evaluating commercially developed workstations for use in environments with special security requirements and acted as security engineer for several complex networked systems.

Mr. Berger received a Bachelor of Science degree from Union College and a Master of Science degree from Boston University.

Ms. Harriet G. Goldman

Executive Director of Electronic Commerce

Ms. Goldman is the Executive Director of Electronic Commerce at Concept Five, spearheading its technology and strategic business initiatives in Electronic Commerce and leading Concept Five's product suite definition. In support of Concept Five's customers, she directed a variety of key Internet-based customer relationship management solutions to provide secure, customized financial service delivery over the Internet. Specifically, she led Concept Five Technologies' support to Swedbank to deploy the first on-line securities trading service and developed electronic commerce strategies for customers needing to perform EDI and other transaction-based services over the Internet.

Prior to her role in creating Concept Five Technologies, Ms. Goldman held various management positions during her 16 years at The MITRE Corporation. She was the major developer of the diversification business plan to transition MITRE's customer base into the financial services sector.

Ms. Goldman is a recognized national expert in Information Security. As Associate Director of MITRE's Information Security Center, she managed one of the largest Infosec organizations in the world. In her 14 years as a computer security professional, Ms. Goldman played a significant role in shaping the Department of Defense's Computer Security policies, initiatives and programs, leading product evaluations for the National Computer Security Center and leading the Air Force's security research program and secure system integration for the Air Force Cryptologic Support Center.

As Manager of the Information Security Technology and Engineering Department at MITRE, she established herself as a leading visionary in technology, pioneering research in advanced authentication solutions, smartcards, network security management and firewalls, and developing the first comprehensive system-of-systems security assessment tools and methodologies. Under her direction, her department supported the protection of the corporation's 800-node network as well as a $10 million work program for a variety of DOD and intelligence agency customers.

Prior to joining MITRE, she worked for the Xerox Corporation where she directed modeling and simulation studies in the research and development division. She holds a BS degree in Applied Mathematics from Brown University and she has performed graduate studies in Computer Science at the University of Rochester and Northeastern University.

Mr. Ron Zahavi

Director, Object Technology

Mr. Zahavi is the Director of Software Integration at Concept Five and is leading a group of object technologists supporting the development of distributed on-line services using distributed objects, JAVA and the Web. Mr. Zahavi is also the deputy program manager of a large software development project relating to these technologies. Mr. Zahavi is the Company's Object Management Group focal point and participates at related conferences and other events as a panelist, featured speaker and tutorial presenter. He is also the co-author of the first CORBA book, "The ESSENTIAL CORBA," and a session chair at the upcoming Financial Object-Oriented Technical Symposium.

Prior to this position, Mr. Zahavi was a Deputy Department Head at The MITRE Corporation's Open Systems Center. In this role he was responsible for the technical program and program management of several client legacy system integration efforts. Prior to joining MITRE, he worked in the commercial market developing communication protocol software. He also ran his own company developing computer graphics and statistical applications.

Mr. Zahavi holds a Bachelor of Science degree in Electrical Engineering from the University of Maryland, and a Master of Science degree in Computer Science from Johns Hopkins University.

Mr. William Brown

Director, Software Design

Mr. Brown is the Director of Software Design at Concept Five. Mr. Brown's background is one of project management and the development of business and technical architectures and supporting object-oriented development processes. His expertise is primarily in large-scale object-oriented project developments. Mr. Brown has a proven track record in delivering new technology systems due to his strong leadership and technical knowledge. He has worked on projects in military, health, real-time control systems and financial domains. His object-oriented financial project deliveries include insurance, investment banking and retail banking. He has specialized in financial systems migration to object-oriented technology over the last six years for a variety of financial and other sector companies, such as: National & Provincial Building Society, NatWest Bank, IGE, Popkin Software, London & Manchester Assurance, Sumitomo Bank, NEC, and WS Atkins.

Mr. Brown is very active in the OMG. He holds the post of Financial Architect in the Financial Domain Task Force, responsible for the coordination and consistency of the various financial lines of business architectures. He is also co-chair of the Metrics SIG. He is involved with other OMG initiatives, such as the DCE CORBA gateway and the Data Interchange Format. He was one of the founders of the OMG CORBAnet project.

Mr. Brown has presented at major international conferences on various aspects of object-orientation, such as panel chairman at Object World of an advanced tutorial on "Scaleable,

Distributed Object-Oriented Systems." He has had several articles published, such as "Leading A Successful Migration" in the October 1996 issue of *Object Magazine*.

Ms. Kimberly Warren

Director, Collaboration Technology

Ms. Warren is the Director of Collaborative Technologies at Concept Five, leading its technology and strategic business initiatives in distributed collaborative environments, and object-oriented frameworks for advanced online services. In support of Concept Five's customers, she directed a variety of collaborative solutions to provide secure communication and coordination services delivery over the Internet. Specifically, she led Concept Five Technologies' collaboration product development and support to a major consortium of health care providers to deploy an on-line home healthcare service and developed a core application framework for the development of advanced, secure, distributed applications that leverage legacy systems and services.

Prior to her role in creating Concept Five Technologies, Ms. Warren held various management positions in advanced information systems technology during her eight years at The MITRE Corporation. As part of her role in Artificial Intelligence and Human Computer Interaction technology at MITRE, she was a pioneer in the research and application of advanced, web-based tools for communication, coordination and collaboration, presenting her work internally and externally. Ms. Warren also developed a technical and business competency in advanced instructional environments, growing a group of technical and business staff to support a work program in the research, development, deployment and acquisition support of intelligent tutoring systems.

Ms. Warren is a recognized national expert in Artificial Intelligence and Advanced, Collaborative Systems. As the leader of MITRE's Artificial Intelligence Core Technology Program, she managed a broad customer investment in the application of Artificial Intelligence (AI) techniques to a broad range of customer problems. Ms. Warren was technically responsible for the application of AI techniques to such programs as the Strategic Defense Initiative's Decision Support System and Communications Network Management, the Air Force's Maintenance Skills Tutor and NASA's Remote Monitoring and Maintenance Satellite System.

Prior to joining MITRE, Ms. Warren was a partner in CORE Technologies, a systems analysis firm that developed custom computer systems for a wide range of industries, including publishing, accounting, and retail. She holds an MS degree in Artificial Intelligence from Edinburgh University and a BS in Computer Science from Syracuse University. She has published in the areas of AI, object-oriented architectures and mathematical reasoning.

VII. Financial Information

A. Historical and Projected Results of Operations

The following selected consolidated financial data has been derived from the Company's financial statements for the fiscal year ended September 30, 1997 and financial projections for the fiscal years 1998, 1999 and 2000. The selected financial data should be read in conjunction with the Company's financial statements, including the notes thereto, which are available from the Company upon request.

The Company was founded in February 1996 as a result of the Mitretek spin-off from MITRE and was principally engaged in providing distributed object and security technology-related professional services to Fortune 1000 companies. In January 1997, the Company entered into a software development contract with Hitachi, Ltd., the third largest software company worldwide, to develop a suite of distributed object technology products to complement the Company's professional services business. The suite of products is based on the CORBA standard and includes information security, legacy access and relationship management solutions and tools for application software developers. Coupled with the Company's limited operating history, the Company's change in focus from a professional/consulting services organization to a provider of both services and products makes comparisons of operating results prior years to projections of future periods difficult. Consequently, the following financial presentation presents the contribution of professional services and products to revenue and the cost of revenue on separate line items to enable such comparison.

The projections included in the following pages represent management's good faith estimate, as of the date of this Memorandum, of selected financial data of the Company for the fiscal years 1997 through 2000. The projections are based upon the assumptions articulated below, among others. Some of the assumptions may not materialize, or may materialize only in part, causing the actual results achieved by the Company to vary from the projections, and these variations may be material. The Company's success in meeting the goals stated in the projections will depend, among other factors, on its ability to build its professional services and software products businesses and expand into other markets. In addition, unforeseen events such as loss of a major customer, technological innovation or adverse market conditions could also cause the Company to fail to achieve the goals stated in the Projections.

Prospective investors in the Series B Convertible Preferred Stock are cautioned not to place reliance on the projections. The Company does not intend to update or otherwise revise the projections to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. The projections were not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants. The Company's independent accountants have not examined or compiled the projections and, accordingly, have not expressed an opinion or any other form of assurance with respect thereto.

Concept Five Technologies	Fiscal Year ended September 30,			
	(Unaudited)	Projected		
	1997	1998	1999	2000
Revenue				
Professional services	$7.4	$12.0	$26	$45
Client-sponsored development (Hitachi)	10.1	10.6	5	
Product sales	–	4.0	20	40
Total revenue	17.5	26.6	51	85
Cost of revenue				
Professional services	5.0	6.3	13.7	23.7
Client-sponsored development (Hitachi)	6.3	4.6	2.3	
Product sales		0.8	4.2	8.0
Gross profit	6.2	14.9	30.8	53.3
Operating expenses				
Research and development	3.4	2.9	4.7	7.7
Marketing and sales	4.5	6.2	8.0	18.0
Product support		2.0	3.0	5.5
Administration and management	4.1	6.1	7.4	7.8
Total operating expenses	12.0	17.2	23.1	39.0
Operating income (loss)	(5.8)	(2.3)	7.7	14.3
Interest income (expense)	(0.8)	(1.1)	(0.9)	(0.7)
Pretax income (loss)	(6.6)	(3.4)	6.8	13.6
Income taxes	–	–	–	–
Net income (loss)	$(6.6)	$(3.4)	$6.8	$13.6

B. Management's Discussion and Analysis

Revenue. Professional services for fiscal 1997 was $17.5 million. The Company generated $10.1 million in revenue under the Hitachi development contract and $7.4 million in other professional services revenue. The products developed under the Hitachi contract will serve as the base for future product sales. Given the Company's rate of attraction of new professional services clients, an oral agreement from Hitachi Ltd. for significant follow-on work, and the release of products into the marketplace, the Company believes that its revenue targets are reasonable and attainable. Revenue projections of $51 million and $85 million for fiscal years 1999 and 2000 respectively constitute the Company's belief in its ability to expand its professional services business and its expectations of market acceptance of its products.

Costs of Revenue. The Company's cost of revenue consists primarily of personnel and related overhead costs incurred to provide professional services. Costs of revenue were $11.3 million in fiscal 1997, representing 64.7% of revenue. Included in these costs is a $700,000 cost reserve for the performance of the Hitachi software product development contract. Costs of revenue for professional services for fiscal years 1998 through 2000 are expected to be 52.5% of revenue. Costs of revenue for products for fiscal years 1998 through 2000 are expected to be 20% of revenue. These costs include the industry average of 10-15% of revenue for software products

plus a 5-10% cost of revenue to account for the uncertainty in expenses related to the Hitachi royalty arrangement.

Gross Margin. The Company generated a gross margin of $6.2 million in fiscal 1997, representing 35.3% of revenue. Gross margins of $14.9 million, $30.8 million and $53.3 million are expected for fiscal years 1998 through 2000 respectively. The gross margin increases from 35.3% of revenue in 1997 to 56% of revenue in 1998 is expected from the introduction of high margin software sales and a change in calculating the Company's professional services and Hitachi-related cost of goods sold. The Company changed its government contracting method of calculating cost of goods sold it inherited from MITRE to a method in line with conventional commercial practice. These gross margins show an expected improvement from 35.3% of revenue in fiscal 1997 to 63% of revenue in 2000.

Operating Expenses. The Company incurred $12 million in operating expenses in 1997. These expenses reflect an expansion in its sales and marketing effort, investment in the development of an administrative infrastructure to support the future growth of the Company, and a significant investment in research and development effort. Several non-recurring charges for promotional and advertising expenses and corporate formation expenses were also incurred in fiscal 1997. Of note, with the existence of the Hitachi product development contract, development costs were significantly decreased as Hitachi has funded a significant portion of the Company's product development.

In fiscal 1998 the company expects to incur $17.2 million in operating expenses. These expenses include a $6.2 million investment in the Company's sales and marketing efforts needed to develop future revenue growth. A $2.0 million investment for the development of a product support organization is also included in anticipation of product sales. Research and development expense decreases to $2.9 million in anticipation of continued Hitachi product development contract work. The research and development effort will center around the enhancement of the Hitachi product set, the development of the software to complete the co-developed Fair, Isaac cross-selling banking product and the refinement of software components for use in the company's professional services business.

In fiscal years 1999 and 2000, the company expects to incur operating expenses comparable to industry benchmarks. Sales and marketing expenses increase as a percentage of revenue, reflecting the need to continually invest in future revenue generation. Administrative expenses decrease as a percentage of revenue, reflecting the return on the previous years' administrative infrastructure investment. The Company's research and development cost projections assume a discontinuation of the Company's Hitachi efforts. This assumption is not predicated on any information available at this time.

Interest Income (Expenses). Net interest expense of $754,000 in 1997 was incurred on the drawdown of the Company's existing line of credit. The Company financed its formation and working capital requirement from a combination of debt financing through its credit facility with Mitretek Systems, Inc. and equity capital investments. Approximately 50% of the line of credit was used to finance working capital while the remainder of the credit facility was used for selling, general and administrative expenses. Net interest expense for the line of credit is

expected to be $1.2 million, $0.9 million and $0.7 million in fiscal 1998, 1999 and 2000, respectively, reflecting projected improvements in cash flow.

Income Taxes. The Company did not incur an income tax liability in 1997. As of September 30, 1997, the Company had available net operating loss carryforwards approximating $11 million which will expire in 2011 and 2012. The Company does not expect to incur income tax liabilities in the years 1998 to 2000 due to the expected loss in fiscal 1998 and the expected use of tax loss carryforwards in fiscal 1999 and 2000.

Net Profits (Loss). The Company lost $6.6 million in fiscal 1997. These losses included the booking of a $0.7 million reserve on the Hitachi development contract. On a quarterly basis in fiscal 1997, the Company's losses including reserves decreased from $1.8 million in the first quarter to $1.4 million in the fourth quarter. Without reserves, the Company's losses improved from $1.8 million in the first quarter to $1.2 million by the fourth quarter on fiscal 1997. For fiscal 1998, the Company projects a loss of $3.4 million with a profitable fourth quarter. This loss is primarily related to the Company's requirement to invest in its sales, marketing, partnership and product support activities in order to develop a more robust product line and a strong market presence for it's products. Without these investments, the Company would expect to generate a pre-tax profit of approximately 15% from its professional services business in fiscal 1998. The Company expects to see a payoff in its previous years' investment with $6.8 million in profits in 1999. These profits are expected to continue to grow to $13.6 million by 2000 as the Company's products realize an increased acceptance in the marketplace and the Company's professional services continue to provide value to its growing customer base.

C. Summary Financial Information

	Actual At September 30, 1997 (Unaudited)
Balance Sheet Data:	
($ in thousands)	
ASSETS	
Cash and cash equivalents	$ 486
Accounts receivable, net	4,224
Costs and earnings in excess of billing	2,967
Other current assets	181
Total current assets	7,858
Property and equipment, net	1,300
Costs in excess of net acquired assets, net	5,715
Other assets	126
Total Assets	**$** 14,999
LIABILITIES AND STOCKHOLDERS'DEFICIT	
Notes payable	$ 2,500
Accounts payable and accrued expenses	2,126
Accrued compensation and related expenses	565
Accrued leave	572
Due to Mitretek	271
Total Current Liabilities	6,035
Long-Term Obligations	
Line-of -credit	11,438
Total Liabilities	17,473
EQUITY	
Convertible Preferred Stock Series A-1	6,648
Convertible Preferred Stock Series A-1	6,156
Convertible Preferred Stock Series A-1	3,000
Common stock	8
Additional paid-in capital	
Accumulated deficit	(18,286)
Total stockholders' deficit	(2,474)
LIABILITIES AND STOCKHOLDERS' DEFICIT	$14,999

Accounts Receivable, Net. Net accounts receivable have increased $5.1 million to $7.2 million at the end of fiscal 1997. The increase in accounts receivable is primarily due to the increased

revenue generation in fiscal 1997 and due to large milestone-based payments in the contract with Hitachi, Ltd. Fiscal 1998 receivables are estimated at 90 days sales outstanding adjusted for the timing of Hitachi receivables. Receivables for 1999 and 2000 are estimated at 90 days sales outstanding.

Property and Equipment, Net. The Company purchased computer equipment necessary to improve and update its computer network and infrastructure. Net capital expenditures amounted to $266,000 for the fiscal year 1997. The Company depreciates its capital assets using the straight-line method over estimated service lives of three years for computer hardware and software, five years for office equipment and seven years for furniture and fixtures. Leasehold improvements are amortized over the shorter of the life of the lease or the estimated service life of the improvement. Property and equipment expenditures are projected at $1.3 million, $3.0 million and $4.0 million for 1998, 1999 and 2000, respectively.

Costs in Excess of Net Assets Acquired. In April 1997, the Company acquired all of the outstanding securities of the eNTR Companies in exchange for 1,121,192 shares of Series A-2 Convertible Preferred Stock valued at $5.34 per share. These companies were formed in order to permit early investments in Concept Five while it was still embedded in Mitretek. As of September 30, 1996, the Company owned approximately 33% of the outstanding stock or ownership interest in the respective entities. The Company is amortizing the net acquisition costs over a 15 year period.

Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses increased to $2.1 million at the end of fiscal 1997. This increase is attributable to the overall growth and maturation of the Company's operations. Current liabilities excluding notes payable and the current portion of long-term debt are projected at 105% of monthly incurred costs.

Notes Payable. In an attempt to raise additional financing, the Company issued subordinated convertible promissory notes to its existing shareholders. The value of the notes payable is $2.5 million at September 30, 1997, and accrues interest at a rate of two points over the prime rate (8.5% at September 30, 1997). At the holder's discretion, the note is convertible into the Company's preferred stock or is redeemable for cash. It is assumed the note will be paid off in September 1998. Mitretek, subject to the completion of the offering of the Series B Preferred, will convert its share of the note ($2.0 million) plus interest to an equity interest in the Series A-2 Preferred. This conversion is recognized in the pre-money valuation of the Company.

Long-term Debt. The long-term debt consists of the long-term line of credit with Mitretek Systems, Inc. The balance of the line at September 30, 1997 was $11.4 million. The size of the debt is directly related to the costs to create and populate Concept Five and working capital requirements. The credit facility converts to a four year term agreement with principle payments commencing in June, 1999.

Equity. In 1997, the Company issued Series A-1 Convertible Preferred Stock in exchange for net cash consideration of $6.6 million. The Company issued A-3 Convertible Preferred stock in exchange for a $3 million debt relief from Mitretek. Also, the Company issued Series A-2 Preferred Stock in exchange for complete ownership in eNTR, Inc., Proceed Ltd. and ASK Systems, LLC, as well as $0.2 million in unrelated cash transactions.

D. Liquidity and Capital Resources

As of September 30, 1997, the Company's primary source of liquidity was from its line of credit. In fiscal 1997, the Company raised $6.8 million in equity financing and $2.5 million from subordinated convertible promissory notes from its existing shareholders. In October 1997, the Company executed a $1.5 million short term working capital loan collateralized by the accounts receivable due from Hitachi, Ltd. The Company used cash flow of $10.6 million in operations during fiscal 1997 and had working capital of $1.8 million as of the end of the year.

Management believes that the Company has sufficient funds available to meet the Company's current debt obligations. However, to the extent that funds generated by the Offering, together with existing resources, future earnings and credit facilities, are not sufficient to fund the Company's activities, the Company will need to raise additional funding through other private and/or public offerings. No assurance can be given that additional financing will be available or that, if available, will be obtained on terms favorable to the Company.

E. Projected Quarterly Financial Information

Projected Quarterly Balance Sheet
($ in thousands)

	Q1-FY'98	Q2-FY'98	Q3-FY'98	Q4-FY'98
ASSETS				
Current Assets				
Cash and cash equivalents				
Accounts receivable, net	$7,400	$5,800	$7,200	$8,200
Allowance for doubtful accounts	(182)	(221)	(293)	(396)
	7,218	5,579	6,907	7,804
Prepaid expenses and other current assets	14	14	14	14
Total current assets	7,232	5,593	6,921	7,818
Property and Equipment				
Property & equipment	1,977	2,335	2,693	3,052
Accumulated depreciation	(609)	(768)	(926)	(1,084)
Net property & equipment	1,367	1,567	1,767	1,968
Other Assets				
Costs in excess of net acquired assets	5,619	5,523	5,427	5,331
Organization costs, net	109	106	103	100
Other	14	14	14	14
Total other assets	5,741	5,642	5,543	5,444
TOTAL ASSETS	14,341	12,802	14,232	15,230
LIABILITIES AND STOCHOLDERS' DEFICIT				
Current Liabilities				
Notes payable	2,520	2,520	2,520	–
Current portion of long-term debt	–	–	243	973
Accounts payable and accrued expenses	2,257	1,483	1,670	1,799
Accrued compensation and related expenses	1,136	1,066	1,355	1,460
Total current liabilities	5,913	5,070	5,788	4,232
Long Term Obligations				
Line-of -credit	11,673	12,427	14,363	16,894
TOTAL LIABILITIES	17,586	17,496	20,151	21,126
STOCKHOLDER DEFICIT				
Beg of Year Equity + Equity Investment	(2,474)	(2,474)	(2,474)	(2,474)
Y-T-D Earnings (loss)	(771)	(2,220)	(3,446)	(3,422)
Net Stockholder deficit	(3,245)	(4,694)	(5,920)	(5,896)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$14,341	$12,802	$14,232	$15,230

Projected Quarterly Income Statement
($ in thousands)

	Q1-FY'98	Q2-FY'98	Q3-FY'98	Q4-FY'98	FY'98
Revenue					
Professional services	$1,771	$2,548	$3,451	$4,279	$12,049
Client-sponsored development (Hitachi)	4,500	2,700	1,750	1,650	10,600
Product sales	–	97	1,310	2,594	4,000
Total revenue	6,271	5,345	6,510	8,523	26,649
Cost of Revenue:					
Professional services	1,245	1,418	1,670	2,015	6,347
Client-sponsored development (Hitachi)	1,760	911	1,039	934	4,644
Product sales	–	19	257	509	785
Total cost of revenue	3,005	2,348	2,965	3,458	11,776
% of revenue	48%	44%	46%	41%	44%
Gross profit	3,266	2,997	3,545	5,065	14,873
% of revenue	52%	56%	54%	59%	56%
Operating expenses					
Research and development	531	700	729	938	2,898
Marketing and sales	1,172	1,451	1,785	1,739	6,147
Product support	437	511	518	5389	2,005
Administration and management	1,609	1,495	1,450	1,539	6,093
Total operating expenses	3,749	4,158	4,482	4,754	17,143
Operating profit	(483)	(1,161)	(937)	311	(2,270)
% of revenue	–8%	–22%	–14%	4%	–9%
Interest income (expense)	288	288	288	288	1,152
Pre-tax income (loss)	(771)	(1,449)	(1,225)	23	(3,422)
% of revenue					
Income taxes	0	0	0	0	0
Net income (loss)	$(771)	$(1,449)	$(1,225)	$23	$(3,422)
% of revenue					

Projected Quarterly Statement of Cash Flow
($ in thousands)

	Q1-FY98	Q2-FY98	Q3-FY98	Q4-FY98	Total
CASH FLOW FROM OPERATING ACTIVITIES					
Net earnings (losses)	$(771)	$(1,449)	$(1,225)	$23	$(3,422)
Depreciation and amortization	257	257	257	257	1,029
	(514)	(1,192)	(968)	280	(2,393)
Changes in operating assets					
Current assets					
(Increase) Decrease in accounts receivable	(54)	1,600	(1,400)	(1,000)	(854)
(Increase) Decrease in other assets	168	-	-	-	168
Allowances for reserves and uncollected accounts	27	40	71	103	241
Subtotal	146	1,640	(1,329)	(897)	(446)
Current liabilities					
Increase (decrease) in accounts payable and other expenses	(140)	(774)	187	129	(598)
Increase (decrease) in accrued compensation	(1)	(70)	288	105	323
Notes payable	20	–	–	(2,520)	(2,500)
Subtotal	(121)	(844)	475	(2,286)	(2,775)
Changes in operating assets	20	796	(854)	(3,183)	(3,221)
Net cash provided by (used in) operating activities	(494)	(397)	(1,821)	(2,903)	(5,614)
CASH FLOWS FROM INVESTING ACTIVITIES					
Net purchase of property & equipment	(225)	(358)	(358)	(358)	(1,300)
Purchase of investments					
Net cash provided by (used in) investing activities	(225)	(358)	(358)	(358)	(1,300)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from long-term debt	233	754	2,180	3,262	6,428
Proceed from equity issuance	–	–	–	–	–
Buy-back of equity	–	–	–	–	–
Net cash provided by (used in) financing activities	233	754	2,180	3,261	6,428
Net increase in cash and equivalents	$(486)	–	–	–	$(486)
Cash and equivalents at beginning of period	$486	–	–	–	–
Cash and equivalents at end of period	–	–	–	–	–

F. Summary Financial Information for 1999 and 2000

Projected Balance Sheet
($ in thousands)

	FY 1999	FY 2000
ASSETS		
Current Assets		
Cash and cash equivalents	$(1,346)	$1,619
Accounts receivable, net	15,120	25,619
Allowance for doubtful accounts	(1,162)	(2,436)
	12,613	24,802
Prepaid expenses and other current assets	14	14
Total current assets	12,627	24,816
Property and Equipment		
Property & equipment	6,052	10,052
Accumulated depreciation	(2,410)	(4,424)
Net property & equipment	3,641	5,627
Other Assets		
Costs in excess of net acquired assets	4,947	4,551
Organization costs, net	88	76
Other	14	14
Total other assets	5,048	4,641
TOTAL ASSETS	21,316	35,083
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable	–	–
Current portion of long-term debt	2,918	2,918
Accounts payable and accrued expenses	2,249	4,041
Accrued compensation and related expenses	1,838	3,306
Total current liabilities	7,005	10,266
Long Term Obligations		
Line-of -credit	13,386	10,261
TOTAL LIABILITIES	20,391	20,527
STOCKHOLDER EQUITY		
Beg of Year Equity + Equity Investment	(5,896)	925
Y-T-D Earnings (loss)	6,820	13,631
Net Stockholder equity	925	14,556
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$21,316	$35,083

Projected Statements of Cash Flow
($ in thousands)

	FY 1999	FY 2000
CASH FLOW FROM OPERATING ACTIVITIES		
Net earnings (losses)	$6,820	$13,631
Depreciation and amortization	1,722	2,422
	8,542	16,053
Changes in operating assets		
Current assets		
(Increase) Decrease in accounts receivable	(6,920)	(10,499)
(Increase) Decrease in other assets	–	–
Allowances for reserves and uncollected accounts	765	1,275
Subtotal	(6,154)	(9,224)
Current liabilities		
Increase (decrease) in accounts payable and other expenses	451	1,792
Increase (decrease) in accrued compensation	378	1,468
Notes payable	–	–
Subtotal	829	3,260
Changes in operating assets	(5,326)	(5,964)
Net cash provided by (used in) operating activities	3,217	10,089
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchase of property & equipment	(3,000)	(4,000)
Purchase of investments		
Net cash provided by (used in) investing activities	(3,000)	(4,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(1,563)	(3,125)
Net cash provided by (used in) financing activities	(1,563)	(3,125)
Net increase in cash and equivalents	$(1,346)	$2,964
Cash and equivalents at beginning of period	–	$(1,346)
Cash and equivalents at end of period	$(1,346)	$1,618

APPENDIX I

APPENDIX II

APPENDIX III