

SoftLock Revenues

(From Annual Report)

Total revenues for the year ended December 31, 1999 ("1999") were \$83,790, a 23.4% decrease as compared to \$109,402 earned during the year ended December 31, 1998 ("1998"). In 1999, revenue from password vending (the process by which documents are "unlocked" in the Company's legacy system) decreased to \$50,290 from \$60,240 in 1998, a 16.5% decrease. Revenues from licensing, custom tools and programming, and consulting and speaking decreased to \$33,500 in 1999 from \$49,162 in 1998, a 31.9% decrease. These decreases are consistent with the Company's strategy to derive future revenues primarily from commissions from the SoftLock eMerchandising system.

Revenues in 1998 versus the year ending December 31, 1997 ("1997") were down 1.2%, from \$110,774. This decrease is attributed to the nearly offsetting changes in license and custom software design fees, which decreased by nearly 44% (approximately \$32,000) from \$73,600 in 1997 to \$41,500 in 1998, and an increase in revenue from the Company's primary product, the sale of passwords and vouchers, of nearly 82% (approximately \$27,000), from \$37,174 in 1997 to \$67,902 in 1998, reflecting an increase in both the number and value of passwords sold.

Preview Systems

(From Annual Report)

We (Preview) generally provide rights to use our solution and ongoing customer support through annual licensing agreements. These agreements typically require the payment of network transaction fees based on a percentage of the sales fulfilled using our solution. Prior to the Portland merger, Preview Software's revenues were typically based on one-time license fees, which were recognized over the term of the license.

Currently, our network transaction fees are based on a percentage of the sales fulfilled using our solution. Our customers typically commit to minimum network transaction fees that entitle them to fulfill an agreed amount of sales during the one-year term of the agreement. Some or all of the minimum network transaction fees are prepaid upon signing the agreement. We record deferred revenue related to these fees and recognize them on a straight-line basis over the license period. To the extent sales fulfilled using our solution exceed the agreed amount of sales, we recognize incremental network transaction fees. We will recognize these incremental network transaction fees when the amounts due are known, which will generally be in the month subsequent to our customers' sales. Through December 31, 1999, incremental network transaction fees earned have not been significant.

We entered into a three-year agreement with Sony Marketing of Japan in September 1998 that gives Sony Marketing the exclusive right to use and sublicense our solution in Japan, including future upgrades, enhancements and new products. The agreement also provided for training and support through June 1999. We received non-creditable, upfront payments for the license, services and training to be performed by us. We recorded deferred revenue on these upfront fees and recognize the license portion as network transaction fees on a straight-line basis over the three-year term of the agreement. We recognized the service revenue as work was performed. In addition, beginning April 1999, Sony Marketing has agreed to pay us network transaction fees based on a percentage of the revenue it receives from distributing our solution and providing related services. Sony Marketing committed to

pay us annual minimum network transaction fees. If the network transaction fees paid by Sony Marketing during the initial annual period are less than the annual minimum network transactions fees, Sony Marketing must pay us any shortfall. Beginning April 2000, if network transaction fees are less than a specified target, Sony Marketing, at its option, may forego its exclusivity rights rather than pay the shortfall. During the first year of the agreement, we recognized the annual minimum network transactions fees over 12 months. In subsequent years, we will recognize the network transaction fees as they are earned.

Service revenues generally consist of consulting, training and integration fees. We typically bill these services and recognize them as the related services are performed or when contract milestones are achieved.

Revenue

Total revenues were \$3,483 for the year ended December 31, 1999 compared to \$610 for the year ended December 31, 1998.

Network transaction fees were \$2,328 in 1999 compared to \$435 in 1998. The increase in network transaction fees resulted from growth in our customer base and growing market acceptance of electronic distribution of digital content. This growth, in turn, resulted from increased sales and marketing efforts subsequent to the Portland Software merger. Sony Marketing and Ingram Micro accounted for \$532 and \$177 of the increase, respectively. During 1999, we continued to build our customer network, signing contracts with new distributors, publishers, and resellers. In addition, during the year, several of our customers began commercial transactions using our solution. Future network transaction fee revenue growth will be dependent on continuing to expand our customer base and existing customers generating transaction volume using our solution.

Service revenues were \$1,155 in 1999 compared to \$175 in 1998. Approximately \$350 of the increase in service revenues was the result of training and consulting services performed for Sony Marketing and Ingram Micro in connection with their agreements. The remainder of the increase resulted from training and consulting services to an expanding customer base.

Two customers, Sony Marketing of Japan and Ingram Micro, accounted for 26% and 12%, respectively, of total revenues in 1999. Two customers accounted for 45% and 13%, respectively, of total revenues in 1998.

InterTrust

(From Annual Report)

We have four basic types of license agreements: commerce service licenses, business licenses, applications licenses and hardware licenses. These agreements provide different rights and technology depending on the commercial plans of our partners. Initial license fees received from these agreements may vary in amount depending on factors such as partner commitments, scope of the license as it relates to commercial markets, territory, and term of agreement. Examples of partner commitments include deploying licensed products within a specified time frame, exclusively using portions of our technology, and using and publicly promoting us as the partner's preferred digital rights management technology. We have in the past decided, and may in the future decide, to reduce or eliminate initial license fees based on these factors. We do not believe that we can determine the amount of

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foregone revenue due to reduced or eliminated license fees with any reliable degree of certainty. Our license fees are negotiated based on the terms and conditions of each individual agreement and take into account the scope of the license, the term, and the other commitments made by our partners that provide strategic value to us. In addition, we have entered into a limited number of license agreements which have varying license scopes and terms and which do not provide adequate comparable data to determine the amount of foregone revenue. In connection with our strategy to promote widespread use of our technology, through December 31, 1999, we have on three occasions received initial license fees for our Commerce software in the form of minority equity positions in the licensees. In the future, we may enter into other equity payment arrangements.

Licenses of our Commerce software generally require the payment of an initial license fee. Initial license revenue, net of any discounts granted, is recognized upon execution of a license agreement and delivery of our software if we have no remaining obligations relating to development, upgrades, new releases, or other future deliverables, if the license fee is fixed or determinable, and if collection of the fee is probable. Our license agreements generally include the right to obtain access to upgrades and new releases, on a when and if available basis, for a specified period. Under these circumstances, the license payments received, net of any discounts granted, in advance of revenue recognition are deferred and recognized on a subscription basis over the period of obligation beginning upon delivery of the licensed product. In addition, under license agreements where we are obligated to provide a specified upgrade and do not have vendor specific objective evidence of fair value of the specified upgrade, all of the license revenue is deferred until the specified upgrade has been delivered. Upon delivery of the specified upgrade, license revenue is recognized using the subscription method. We began recognizing revenue under some license agreements in January 1999, after shipping the general availability version of our Commerce software at the end of December 1998. At December 31, 1999, we had approximately \$13.2 million of deferred license revenue that will be recognized in future periods.

Through December 31, 1999, on three occasions we received license fees in the form of minority equity positions in non-public entities in exchange for technology licenses. We received approximately 1.7 million shares of common stock from one licensee, 882 shares of common stock from the second licensee, and 148,300 shares of common stock from the third licensee, which we believe represented approximately 10%, 18% and 5% of the outstanding shares of the licensees as of the license date. Because the entities were recently formed, privately-held companies and we were unable to obtain sufficient evidence of the fair value of the common stock of the entities, we did not record revenue or deferred revenue from the license fees. We are obligated to provide unspecified upgrades and new releases, on a when and if available basis, to the licensees over a two year period under the agreements for additional fees. We are not obligated to provide any funding to any licensee for the development of the licensee's software.

For contracts entered into before 1998, we recognize revenue as the amounts are earned under the related agreements, provided no significant obligations exist and the related receivable is determined to be collectible, consistent with Statement of Position 91-1, Software Revenue Recognition. Our license

revenues in 1997 were derived from licenses of pre-commercial versions of our software.

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Our license agreements also require the payment of a transaction fee that is a percentage of revenues received by our partners from transactions and services that use our technology and sales of products incorporating our technology. Transactions involving the use of our technology to conduct the sale, lease, rental, or licensing of commercial content require the payment of a transaction fee based on the amounts paid by users or charged by our partners for selling or distributing the content. Transactions involving the use of our technology for commercial services generally require the payment of a transaction fee based on the amounts paid by users or charged by our partners for the services. Transactions involving the sale, lease, rental, or licensing of products incorporating our technology generally require the payment of a transaction fee based on the amounts paid by users or charged by our partners for the product. Our partners are required to pay all amounts due for transaction fees within specified periods, depending on the licensing arrangement. Our revenue recognition policy relating to transaction fees is to recognize the revenue when the amounts due are known, which will generally be in the quarter after the transaction. Prepaid transaction fees are recorded as deferred revenue and will be recognized when the related transactions occur.

We have received \$1.5 million in prepaid transaction fees which are included in deferred revenue as of December 31, 1999. Prepaid transaction fees may generally be offset against a portion of transaction fee amounts due in any given quarter. **To date, we have not recognized any transaction fees from commercial transactions or services, or sales of products.**

Software support and training services, which typically include the right to telephone and online support and customer training, are generally provided for in the license agreements for an agreed-upon amount. Software support and training service revenue is recognized over the period in which the services

are provided, generally two years. Some of our partners were utilizing pre-commercial versions of our product in the development of their own solution and, as a result, were utilizing our software support and training services before the shipment of the general availability version of our software.

TrustNet clearinghouse service revenues represent primarily service fees from our customers for the use of our TrustNet clearinghouse infrastructure in pilot and test applications and services. Service revenues generally include consulting and system integration services provided to the customer to establish an interface with the TrustNet clearinghouse and monthly service fees to use TrustNet for the clearing of commercial transactions. Consulting and system integration fees are recognized as services are performed and monthly service fees are recognized over the term of the service period.

Revenues

Total revenues increased from \$152,000 in 1998 to \$1.5 million in 1999. Software support and training services accounted for 100% of total revenues in 1998. License fees, software support and training services, and TrustNet clearinghouse services accounted for 50%, 40% and 10% of total revenues in 1999.

No license revenues were recognized in 1998 as the general availability release of our Commerce software was not delivered to our partners until December 1998.

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License revenues were \$778,000 in 1999, and represent the amortization of deferred license fees.

Revenues from software support and training services increased from \$152,000 in 1998 to \$613,000 in 1999. This increase was due to support and training fees from additional partner licensing agreements.

No TrustNet clearinghouse services revenue was recognized in 1998 as the service was first offered to our partners in the fourth quarter of 1999. TrustNet clearinghouse services revenues of \$150,000 in 1999 were received from one partner.