

SoftLock Competitive Analysis

Company Background

SoftLock.com, Inc. ("SoftLock" or the "Company") was incorporated under the name Fieldcrest Corporation in the State of Delaware in December 1989, for the primary purpose of seeking out acquisitions of properties, businesses or merger candidates, without limitation as to the nature of the business operations or geographic area of the acquisition candidate. In August 1991, the Company completed an initial public offering, receiving proceeds of \$47,250 from the sale of 4,725,000 Units, consisting of common stock and Class A and B Warrants (the "Warrants").

On July 28, 1998, the Company and SoftLock Services, Inc. ("SSI") consummated an Agreement and Plan of Reorganization whereby the Company acquired all of the issued and outstanding common shares of SSI in exchange for the issuance of 7,097,266 shares of the Company's common stock. Subsequent to the reverse acquisition of SSI, the Company changed its name from Fieldcrest Corporation to SoftLock.com, Inc. to better reflect the ongoing business of the Company.

The Company provides a sales and merchandising system for digital content on the Internet and has been vending passwords to unlock secure digital content since 1992. The eMerchandising system, which had its "soft opening" in October 1999, has updated the Company's offerings and allows publishers of electronic content to securely sell their digital content from their own Web sites using this eMerchandising system and through the SoftLock Affiliate Network

The SoftLock eMerchandising system promotes the secure distribution of digital information by taking advantage of consumers' natural tendency to pass along relevant content to colleagues, friends and family. The Company's patented (US #5,509,070) technology prevents electronic shoplifting (piracy) while the "locked" content is securely sampled, electronically purchased, and redistributed.

When a prospective consumer receives premium digital content from the Company, or one of its affiliates, the consumer can sample a portion of the final product (i.e. "demo" the product). The consumer can then instantly purchase the complete product via access to the World Wide Web. The consumer then has permanent access to the product for personal use. The consumer is also encouraged to copy the product and redistribute the product to friends or colleagues because SoftLock digital content automatically returns to the locked state, or "demo" mode, when copied from one computer to another. Such practice invites another purchase of the full content.

The SoftLock Affiliate Network is a distribution system enabling the SoftLock Content Providers to securely sell documents through SoftLock Affiliate web sites. The Company assists in brokering and merchandising content, remits payments to Content Providers and SoftLock Affiliates, and also provides reports and customer service.

SoftLock Content Providers include traditional print publishers, web-based information services, financial/business research, magazines, books, newspapers, and new media companies.

Product and Service Offerings

The Company's comprehensive approach to the marketing, sale and distribution of digital content is to provide:

1. Content packaging,
2. Context-driven marketing and
3. Commerce enabled distribution.

This approach to the digital content market brings premium content and context marketing together with distribution to create eMerchandising.

The content packaging component of the eMerchandising system focuses on preparing premium, branded content for secure sale on the Internet. This component uses the Company's patented technology to secure the digital content and protect it from piracy. In addition, the Company provides the categorization of digital content making the content simpler to access by consumers and providing consumers with ease of use. The Company also provides analysis of content usage, allowing the Company to see and analyze the chain of distribution when content is passed from one consumer to another and better understand the relationships between consumers. Finally, the Company provides presentation enhancement, including the design of content on the Internet.

Context-driven marketing analyzes the content of publishers and the potential audiences of that content. The Company compiles information based upon consumers' purchasing patterns and uses that information to determine the best channels to market particular content. Potential consumers are served content targeted to their personal and work interests, job function, industry and buying history, based upon information provided at the time of purchase.

The commerce enabled distribution of content by the Company provides customer service for consumers, credit card clearing and billing services and physical distribution services. In connection with the other components of the eMerchandising system, SoftLock is a comprehensive merchandising and distribution system from marketing to collection and payment of fees.

HOW IT WORKS

The Company provides easy-to-use tools for publishers to securely market and distribute their content. Publishers specify a few parameters (such as price, which parts of the document are free in the sample and which parts must be purchased) and control how the consumers view, edit and print their document. The publisher receives all of the benefits of the marketing and merchandising efforts of the SoftLock Affiliates, placing personalized content in front of consumers when SoftLock believes they are most likely to buy--on content relevant sites, on search engines and in emails from friends and colleagues. In addition, the SoftLock patented technology is designed to protect the publisher's intellectual property.

The SoftLock system is designed to be unobtrusive, seamlessly integrated and easy to use for consumers. When visiting a publisher's or SoftLock Affiliate's web site, a consumer simply clicks on a standard hyperlink denoting the publisher's content. The consumer is then able to view a sample portion of the content and with a simple click is invited to purchase the content and pass it on to another consumer.

To purchase content, the consumer uses the link to WWW.SOFTLOCK.COM where server software determines whether the requisite SoftLock client software is installed on the consumer's computer (the SoftLock Plug-in). If not, after obtaining permission from the consumer, the server automatically downloads and installs the required software. After installation or activation (if the software is already installed from a prior purchase), the consumer is taken through a quick purchase process where name, address and credit card information are gathered. Finally, the server provides instant and complete access to the content by generating and installing a pass-key on the consumer's computer system that is unique to that content and that consumer's computer.

The SoftLock client software is designed to work in a straightforward manner. Whenever a consumer attempts to display secured content, the SoftLock Plug-in checks the consumer's computer for a valid pass-key for the respective content on the particular computer. If a valid pass-key exists, the SoftLock Plug-in will decrypt and completely display the content. If the pass-key is missing or invalid, then the SoftLock Plug-in solely affords access to the sample content and invites the consumer to initiate a purchase.

Unlike proprietary viewing formats, the Company "locks" documents as Adobe Acrobat-Registered Trademark-Portable Document Format (PDF) files—the Internet's most popular standard. A forthcoming generation of the system will enable clients to view content via the widely used HTML standard. Subsequent releases of the SoftLock system are expected to add support for additional formats.

Throughout the process, both prospective consumers and purchasers are encouraged to pass along the content to their friends and colleagues. Other than the fact that the content is transmitted from a friend in e-mail rather than from the publisher's web site, the SoftLock system operates exactly as it would with an initial purchase. Once the content has been transmitted from a purchaser's computer, SoftLock's persistent security software re-locks the

content, preventing piracy by the subsequent consumer. Once received and opened, the content is displayed by the SoftLock Plug-in and the consumer may peruse the sample and purchase the version of the content at any time simply by selecting a link.

EMERCHANDISING-TM-

The SoftLock eMerchandising system is a comprehensive merchandising and distribution solution. The Company's system markets and sells the digital content through affiliates and consumers who pass the content on to other consumers. The Company believes that consumers, as well as content providers and SoftLock Affiliates benefit from the sale of content through SoftLock. Consumers have the opportunity to preview content before they purchase, and upon purchase they can immediately download the full product. **SoftLock Affiliates earn a commission for each sale of content**, and content providers can have their content securely marketed and sold on the Internet.

SoftLock's team of merchandisers create a customized merchandising plan that places content providers' digital content when and where it is most likely to be purchased, effectively merchandising intellectual property through a point-of-sale system. The SoftLock eMerchandising system (i) actively markets content by placing specific links on context-appropriate SoftLock Affiliate web pages, (ii) qualifies and targets link placement, effectively pre-qualifying customers and (iii) assists consumers in finding the information they desire when they are most likely to purchase.

VIRAL MARKETING

The SoftLock transaction system is intended to leverage its geometric expansion power to create a new, virtual sales channel for publishers. This process of marketing by consumers passing content along to other consumers is called Viral Marketing. Viral Marketing acts as a sales channel without employees, bricks or mortar. The Company believes its patented system of software products and vending services will advance information commerce through Viral Marketing because it builds copyright protection, payment processing, and a distribution system right into the product. Rather than resist the user's natural tendency to redistribute digital content (as other systems do), the Company's products are designed to make redistribution work to the publisher's advantage in the following manner: (i) consumers can view a free sample of content (for example, document abstracts and initial sections) and are encouraged to send the sample to anyone who might be interested in it; (ii) a quick e-commerce transaction "unlocks" the content using a SoftLock product-key; and (iii) if consumers decide to pass the content along to friends, family or colleagues, the content automatically "re-locks" and SoftLock's system invites a subsequent purchase. By facilitating the electronic purchase of digital content via sampling and redistribution, the Company's products can turn browsers into customers and customers into defacto distributors.

In addition to increasing sales, Viral Marketing also is expected to decrease costs. Through Viral Marketing, consumers distribute the electronic products themselves, so printing and distribution costs (i.e., manufacturing, warehousing, shipping, returns, etc.), which are normally borne by the publisher, are significantly reduced. Furthermore, significant reductions may be realized in direct marketing expenditures since Viral Marketing is a hybrid of direct marketing and sales systems.

THE SOFTLOCK AFFILIATE NETWORK

In an Internet-based affiliate program, vendors seek alliances with referring web sites whose visitors are likely to purchase the vendor's products. A link on the referring site allows a consumer to easily access and conveniently purchase a desired product from the vendor. The vendor effects the sale and the referring site earns a referral fee usually ranging from five to ten percent (5-10%). Thus, the referring web site effectively acts as a distribution point or "store" for the vendor. Affiliate programs can be win/win/win scenarios for customers, vendors and referring sites. As a result, affiliate programs have become a standard web-marketing tactic.

The key reason affiliate programs are so successful is because they create effective sales opportunities; vendors appear in front of their best prospects where and when they are most likely to purchase. Historically, however, digital content vendors have not been able to use this powerful medium because they were unable to adequately protect their intellectual property.

In response to vendor's digital content commerce needs, and in addition to enabling vendors to create their own affiliate program, the Company has actively developed its own Affiliate Network. The Company actively facilitates and creates demand for information products (thereby increasing their sales and the Company's commissions)

through the SoftLock Affiliate Network. The Company's Affiliate Network connects a wide variety of information providers to a wide variety of affiliates to merchandise content to a vast array of end users.

The Company believes all parties benefit from this system. Publishers obtain membership to and the benefits of an Affiliate Network that offers a broad distribution of stores from a wide variety of districts while avoiding up-front fees, in-house management of e-commerce projects, acquisition of an e-commerce infrastructure and affiliate employee management. Publishers are also able to control the affiliates' terms and conditions of the sale of their digital content.

Affiliates, the Company believes, are more attractive to users by offering a broader selection of more valuable content. Moreover, affiliates earn commissions when consumers purchase the content, including fees earned when consumers pass content on to their associates and colleagues. Finally, affiliates enjoy enhanced publicity through pass-along sales as the initial purchaser passes along content to individuals who may not even have visited the affiliate's web site.

CONTEXT-DRIVEN MARKETING

The Company believes that Viral Marketing will be a low-cost, highly targeted, direct marketing mechanism. Consumers send sample content to pre-qualified acquaintances based on the consumer's knowledge of the content and of their acquaintance. Furthermore, since the recipient is familiar with the sender, it is anticipated that the receiver will be more likely to read the sample content and be interested in and to purchase the content.

Competitor Profile

COMPETITION

The Company believes its strength lies in its integration of technologies and services to create a complete sales, marketing, merchandising, distribution and copyright protection solution. The Company does not appear to have any direct competitors who have integrated comparable products and services. However, the Company faces competition from providers in these three product and service areas: content packaging, context-driven marketing and commerce enabled distribution.

CONTENT PACKAGING

The Company defines content packaging as the manner in which copyright protection, copyright enforcement and content recruitment (i.e. the obtaining of content from publishers) are managed. This is also referred to as digital rights management.

The Company faces competition in the area of copyright protection and copyright enforcement from companies such as Digimarc and Wave Systems. These companies provide digital "watermark" services which electronically brand documents with copyright protection. The Company believes that digital watermarks do not prevent unauthorized redistribution. Moreover, because watermarks offer few clues to the pirate's identity, they may not provide adequate deterrence. Watermarks are potentially useful in preventing commercial webmasters from appropriating content that they do not own, but they may not prevent end user piracy or facilitate information commerce. Also, while copy protection or prevention techniques (i.e. the electronic disabling of copy features) make piracy difficult, they may also inconvenience end-users who often need to backup and restore data. The Company believes there is a need for systems which prevent piracy while allowing, and even exploiting, the exponential potential of end-user redistribution. This in turn requires that the content be consistently protected. The Company's eMerchandising system is designed to provide such protection.

With regards to content recruitment, the Company faces competition from companies such as Intertrust Technologies Corporation ("Intertrust"). The Company believes that its eMerchandising system gives it a competitive advantage in recruiting digital content because of the integration of copyright protection and enforcement, merchandising, and ecommerce processing.

CONTEXT-DRIVEN MARKETING

Context-driven marketing refers to the manner in which digital content is advertised, marketed, and merchandised on the internet. Various methods include direct mail (e-Dialog), portal sites (such as Lycos, Excite, etc.), tracking

schemes / profiling (which is used by companies such as DoubleClick), and Merchandising (referring to the look and positioning of ads, links, etc.).

Although it could be argued that each of these above companies are competitors in each of their respective areas, none of the competitors use all of these methods in conjunction with copyright protection and enforcement, and ecommerce. SoftLock tailors each of these contextual approaches for each content provider and affiliate in its eMerchandising system to maximize hits, and therefore maximize revenues.

COMMERCE ENABLED DISTRIBUTION

Many companies today (e.g., CyberCash) provide e-commerce services for the Internet. A few of these specialize in the vending of digital goods; among these are Qpass and Reciprocal, Inc. Only a few of those, such as Reciprocal, incorporate content protection technology into their offerings. Reciprocal uses content protection technology from Intertrust, Xerox, and others. SoftLock uses its own, patented system. The Company believes that no company besides SoftLock combines all of these techniques with contextual marketing and merchandising services.

Partnership Information

Adobe Systems

In August 1999, the Company entered into a Reproduction and License Agreement with Adobe Systems Incorporated to license certain Adobe software products so as to make them available through the Company's distribution channels to consumers.

Intel

In November, 1999, the Company entered into a License Agreement with Intel-Registered Trademark- Corporation to integrate the Intel Software Integrity System-TM- into the SoftLock eMerchandising system. The Company chose the Intel Software Integrity System to further enhance the SoftLock eMerchandising system's persistent protection of digital content. The Company believes that the Intel solution provides a valuable resource for the purchase of digital content by utilizing tamper-resistant software and renewable components to safeguard content providers' intellectual property. The Intel system will be integrated seamlessly into future generations of the eMerchandising system. The Company believes that the integration of the Software Integrity System into the eMerchandising system will allow content providers and members of the SoftLock Affiliate Network to offer premium digital content to consumers that is not currently available due to security concerns.

Chili Pepper Inc

On March 8, 2000, the Company announced that it had entered into a letter of intent to acquire all of the outstanding stock of Chili Pepper, Inc., a Boston-based strategic marketing consulting firm. The completion of the acquisition is contingent on, among other matters, the completion of due diligence and the execution of definitive agreements.