Arbortext
Content That Means Business

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March 18, 2004

Richard G. Blair
Morgan Miller Blair
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Dear Mr. Blair,

In response to your request of this week, this letter serves to summarize Arbortext's offer to buyout its existing contract with Blueberry Software.

Last November, Raymond Schiavone, Arbortext's CEO, and I had a telephone conversation with Mary Tarantino of Blueberry Software. During this conversation, we verbally offered to make a lump-sum cash payment of $100,000 to Blueberry in exchange for a non-exclusive, perpetual, and royalty-free license for the source code and object code of the "Blueberry Software", including unlimited rights to modify, enhance and distribute the software globally. We are interested in a buyout for two primary reasons: (i) Blueberry has not continued to maintain the software (the last source code update that we received from Blueberry was in December 2002), and (ii) our relationship with Blueberry has largely turned negative and unproductive. Blueberry has rejected our offer.

We believe a $100,000 buyout fee represents a reasonable amount to pay Blueberry for the software, based on the following:

- For 2003 product sales, Arbortext paid Blueberry royalties of $33,520 under the existing contract;
- For a similar level of product sales in 2004 and future years, Arbortext will pay Blueberry annual royalties of $29,112 under the existing contract;
- Microsoft Word 2003 now has built-in XML support. As this version of Word becomes more widely adopted, we expect the need for the Blueberry technology in our client base to lessen dramatically over the next 2-3 years;
- Notwithstanding the above, if we assume three years to be the remaining life of the software, the net present value of royalties to be paid over the next three years approximates $77,000 (assuming $29,000 in annual royalties and an 8% discount rate). The $100,000 buyout fee represents a 30% premium over this amount;
- Finally, our contract with Blueberry contains a two-year notice provision in the event of termination. Given our tenuous relationship with Blueberry, we are in the process of considering alternative sources of the technology. In the event we terminate the contract, our royalties to Blueberry would cease two years thereafter.

In making the offer summarized above, our intention was to achieve a resolution acceptable to both Blueberry and Arbortext. We hope this information is helpful in your proceedings. If you have questions, do not hesitate to call me.

Very Truly Yours,

David Peralta
Chief Financial Officer, Arbortext