

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 26, 1999.

REGISTRATION NO. 333-\_\_\_\_\_

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM SB-2  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

Pacific Softworks, Inc.

(Name of small business issuer in its charter)

California	8980	77-0390628
-----		
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

703 Rancho Conejo Boulevard  
Newbury Park, California 91320  
(805) 499-7722

(Address and Telephone Number of Principal Executive Offices  
and Address of Principal Place of Business or Intended  
Principal Place of Business)

Glenn P. Russell  
President and Chief Executive Officer  
Pacific Softworks, Inc.  
703 Rancho Conejo Boulevard  
Newbury Park, California 91320  
(805) 499-7722

(Name, Address and Telephone Number of Agent For Service)

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Approximate date of commencement of proposed sale to the public: As soon  
as practicable following the date on which this Registration Statement becomes  
effective.

If this Form is filed to register additional securities for an offering  
pursuant to Rule 462(b) under the Securities Act of 1933, please check the  
following box and list the Securities Act registration statement number of the  
earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c)  
under the Securities Act of 1933, check the following box and list the

Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

Title of Each Class Of Securities To Be Registered -----	Amount To Be Registered(1) -----	Proposed Maximum Offering Price Per Unit(2) -----	Proposed Maximum Aggregate Offering Price -----	Amount Of Registration Fee -----
Units, each comprising one share of common stock and one warrant(3) (4)	920,000	\$ 5.25	\$ 4,830,000	\$1,342.74
(a) Common stock	920,000	--	--	--
(b) Warrants to purchase common stock	920,000	--	--	--
(c) Common Stock	920,000	\$ 7.50	\$ 6,900,000	\$1,918.20
Representative's option for the purchase of units	1 Warrant		\$ 100	\$ 1.00
Units, underlying representative's option each comprising one share of common stock and one warrant(4) (5)	80,000	\$ 6.30	\$ 504,000	\$ 140.11
(a) Common stock	80,000	--	--	--
(b) Warrants to purchase common stock	80,000	--	--	--
(c) Common stock	80,000	\$ 7.50	\$ 600,000	\$ 166.80
Units, each comprising one share of common stock and one warrant(4) (6)	80,000	\$ 5.25	\$ 420,000	\$ 116.76
(a) Common stock	80,000	--	--	--
(b) Warrants to purchase common stock	80,000	--	--	--
(c) Common stock	80,000	\$ 7.50	\$ 600,000	\$ 166.80
Common stock(7)	200,000	\$ 5.25	\$ 1,050,000	\$ 291.90
Total			\$14,904,100	\$4,144.31

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- (1) Assumes the underwriters' over-allotment option is exercised in full.
- (2) Estimated pursuant to Rule 457(o) under the Securities Act solely for the purpose of calculation of the registration fee.
- (3) Includes 920,000 shares of common stock issuable upon exercise of the warrants.
- (4) Pursuant to Rule 416 promulgated under the Securities Act of 1933, as amended, an indeterminate number of additional shares of common stock are registered hereunder in the event that provisions preventing dilution are triggered, as provided in the warrants. No additional registration fee has been paid for these shares of common stock.
- (5) Shares of common stock and warrants to purchase common stock included in the units issuable on exercise of the representative's option for the purchase of units.
- (6) Shares of common stock and warrants to purchase common stock issuable on exercise of warrants to acquire 80,000 units and also includes 80,000 shares of common stock issuable upon exercise of the warrants.

(7) Shares of common stock registered on behalf of certain registering stockholders.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to such section 8(a), may determine.

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#### EXPLANATORY NOTE

This registration statement contains two prospectuses.

The first prospectus forming a part of this registration statement is to be used in connection with the underwritten public offering of 920,000 units (including 120,000 units subject to the underwriters' over-allotment option) (each unit consisting of one share of common stock and one warrant). The first prospectus immediately follows this explanatory note.

The second prospectus forming a part of this registration statement is to be used in connection with the resale by certain nonaffiliated stockholders and consultants to Pacific Softworks of (i) up to 80,000 units issuable upon exercise of certain warrants to purchase units and (ii) up to 200,000 shares of common stock. The second prospectus will consist of (i) the cover page and inside cover page immediately following the first prospectus, (ii) pages 1 through 57 (other than the section entitled "Underwriting") and pages F-1 through F-15 of the first prospectus, (iii) pages SS-1 through SS-3, (iv) page SS-2 which will appear in place of the section entitled "Underwriting," and (v) the back cover page, which immediately follows the inside back cover page of the first prospectus.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission or any applicable state securities commission becomes effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated March \_\_, 1999

PROSPECTUS

800,000 UNITS

[PACIFIC SOFTWORKS, INC. LOGO]

800,000 SHARES OF COMMON STOCK

AND

800,000 WARRANTS

This is our initial public offering of securities. We expect that the initial public offering price per unit will be between \$5.00 and \$5.50. Each unit consists of one share of common stock and one warrant. The common stock and warrants will trade separately. There has been no public market for any of our securities before this offering. The public offering price may not reflect the market price of our securities after the offering.

Each warrant allows its holder to purchase for a period of 24 months one share of common stock at a price of \$7.50. We reserve the right to redeem all outstanding warrants under certain circumstances.

We expect to list the common stock and warrants on the Nasdaq SmallCap Market under the symbols "PASW" and "PASWW."

INVESTING IN THESE SECURITIES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 6.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The underwriters have a 45-day option to purchase an additional 120,000 units from Pacific Softworks.

	Per Unit	Without Over-Allotment	With Over-Allotment
Price to public	\$	\$	\$
Underwriting discounts	\$	\$	\$
Pacific Softworks' proceeds	\$	\$	\$

The underwriters are offering the units subject to various conditions and are severally underwriting the units. The underwriters expect to deliver the units against payment in Los Angeles, California on \_\_\_\_\_, 1999.

SPENCER EDWARDS, INC.  
\_\_\_\_\_, 1999

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Except where noted otherwise, all information in this prospectus, including share and per share information, assumes no exercise of the underwriters' over-allotment option.

Until \_\_\_\_\_, 1999 (25 days after the date of this prospectus), all dealers effecting transactions in the units, common stock and warrants, whether or not participating in this distribution, may be required to deliver a prospectus. This is in addition to the obligations of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

We have prepared this summary to assist you in your review of this document. This summary highlights only selected information contained elsewhere in this prospectus. Before making an investment in the securities of Pacific Softworks you should read this entire prospectus and the financial statements and notes, all of which should be consulted when reading this summary.

PACIFIC SOFTWORKS, INC.

OUR BUSINESS

Pacific Softworks develops and licenses Internet and Web related software and software development tools. Our products enable Internet and Web based communications, based on a set of rules known as protocols, and are embedded into systems and "information appliances" developed or manufactured by others. Information appliances are Internet connected versions of everyday products such as telephones, televisions, fax machines and other digitally based devices.

Rapid advances are enabling wired and wireless information appliances to assume many of the tasks now handled by personal computers ("PCs"). We believe that Web browsing enabled by embedded software in information appliances used by businesses and individuals will be a major market. International Data Corp. estimates that 94% of Internet access is now made through PCs. By 2002, that percentage is expected to decrease to 64% and the number of information appliances sold is expected to exceed the number of PCs sold.

We intend to evolve and refine our business to track the growth of embedded software in information appliances that incorporate Internet and Web communications capabilities. As information appliances proliferate, we anticipate that our opportunities for long term revenue growth will also increase.

Our Internet and Web related software development tools offer significant benefits to our customers including:

- o Accelerated product development and market entry,
- o Portability across multiple hardware and software system environments, and

- o Comprehensive embedded solutions that enable information appliances to connect with the Internet and use the Web.

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Information appliance manufacturers and software developers have included our products within the following applications and information appliances:

Applications - - - - -	Information Appliances - - - - -
o Office automation	o Internet fax, copiers, laser printers, scanners
o Medical	o Patient monitors, imaging systems
o Multimedia	o DVD players, projectors, digital cameras
o Industrial controls	o Vending machines, traffic controls, scoring systems, security controls
o Networking	o Routers, switches, network controls, cable modems
o Set-top boxes	o Set-top boxes, Internet TV
o Wireless	o Telephones, personal digital assistants, pagers, electronic organizers
o Navigation systems	o Navigational controls, air traffic controls
o Defense and aerospace	o Engine controls, smart weapons
o Satellite	o Satellite positioning, uplink and downlink of streaming video

We have developed a new proprietary Internet browser for use within independent, "non-Windows(R)" information appliances. We expect to begin marketing this browser, under the "FUSION WebPilot Micro Browser(TM)" name, by the middle of this year. Our browser may be effectively placed in use without an operating system and does not require substantial amounts of memory. We believe that our browser may prove particularly attractive to manufacturers of information appliances who would rather give their products a proprietary or subjective "look and feel" than to be restricted by a browser which requires or depends on the "look and feel" of commercially available operating systems such as Windows(R).

OUR CUSTOMERS

Since incorporation in 1992, Pacific Softworks has licensed its products to over 400 companies around the world, including: Alcatel, AT&T, America OnLine, Canon, Canal+, Cisco, Cocom, Bell Labs, Data General, Concurrent Technologies, Ericsson, General Instruments, Hughes, Honeywell, Hewlett Packard, Intel, Motorola, Newbridge, Nortel, Psion, Philips, Samsung, Siemens, ST Microsystems, Tandberg, Unisys, and VLSI.

OUR STRATEGY

Our objective is to be a leading provider of embedded software that enables information appliances and other devices to connect with and communicate through the Internet and Web. To attain our objective and to increase revenue, we intend to:

- o Increase sales and marketing activities,
- o Expand our existing collaborative relationships to capitalize on our new micro-browser and other technologies designed for information appliances,
- o Create new collaborative relationships with key information appliance manufacturers,
- o Maintain research and development of new Internet-based products

that enable reliable and secure communication and transport of data over the Internet, and

- o Continue to provide additional functions and features to our existing and upgraded software and communication products.

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#### OUR REVENUE MODEL

We have historically licensed our source code for a one time fee. Depending on the products and their use, this one-time fee typically ranged from \$10,000 to \$40,000. As we implement our growth strategies we anticipate that our revenue model will evolve into one based primarily on royalties measured against our customers' units of production.

#### GENERAL

"Pacific Softworks," "FUSION," "WebPilot," "FastTrack," "WebWatch," "FusOS," "AirMail," "SimpleMail" and "FusionWizard" are all trademarks of Pacific Softworks. All other trade names, trademarks and service marks appearing in this prospectus are the property of their respective holders.

Our executive offices are located at 703 Rancho Conejo Boulevard, Newbury Park, California 91320 and our telephone number is (805) 499-7722. Our Web site address is [www.pacificsw.com](http://www.pacificsw.com). Information contained on our Web site does not constitute part of this prospectus.

#### THE OFFERING

Units offered: 800,000, each consisting of one share of common stock and one warrant.

Warrant attributes: Each warrant entitles the holder to purchase one share of common stock for \$7.50 for the 24 months ending \_\_\_\_\_, subject to our rights to redeem warrants in certain events.

Common stock to be outstanding after the offering: 4,100,000 shares.

Use of proceeds: We estimate that we will receive net proceeds of about \$3,500,000. We expect to use net proceeds to hire more engineering, marketing and support personnel and for working capital. See "Use of Proceeds."

Risk factors: For a discussion of certain risks you should consider before investing in units, see "Risk Factors."

Dividend policy: Pacific Softworks does not intend to pay dividends.

Proposed Nasdaq Small Cap Market symbols:

Common Stock: PASW  
Warrants: PASWW

In addition to 4,100,000 shares of common stock outstanding after the offering, Pacific Softworks may issue 800,000 shares of common stock on exercise of the warrants and 345,000 shares of common stock on exercise of currently outstanding options and warrants.

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## SUMMARY CONSOLIDATED FINANCIAL DATA

## CONSOLIDATED STATEMENTS OF OPERATIONS DATA:

	Year Ended December 31,	
	1997	1998
	-----	-----
	(In thousands except per share data)	
Net revenue .....	\$ 3,310	\$ 2,787
Gross profit .....	3,193	2,687
Selling, general and administrative .....	2,110	1,936
Research and development .....	834	852
Depreciation and amortization .....	64	59
Former officer's consulting and administrative expense .....	314	314
Loss from operations .....	(129)	(474)
Net loss .....	\$ (129)	\$ (474)
	-----	-----
Net loss per share, basic and diluted .....	\$ (0.04)	\$ (0.14)
	=====	=====

The following table indicates a summary of our balance sheet as of December 31, 1998. The column labeled "pro forma as adjusted" reflects:

- o Net proceeds we received from the sale of 100,000 shares of common stock at \$5.00 per share in February 1999, and
- o Our receipt of estimated net proceeds from the sale of 800,000 units at an assumed initial public offering price of \$5.25 per unit, after deducting underwriting discounts and estimated expenses.

## CONSOLIDATED BALANCE SHEET DATA:

	December 31, 1998	
	Actual	Pro Forma As Adjusted
	-----	-----
	(in thousands)	
Cash and cash equivalents.....	\$224	\$4,210
Working capital .....	222	4,208
Total assets .....	643	4,629
Total stockholders' equity.....	207	4,193



## RISK FACTORS

Investment in our securities involves a high degree of risk. In addition to the other information in this prospectus, you should carefully read and consider the following risk factors before purchasing our securities. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties of which we are unaware or which we currently deem immaterial also may become important factors that may adversely affect us.

If any of the following risks actually occur, our business, financial condition or operating results could be materially and adversely affected. In this case, the trading price of our securities could decline, and you may lose all or a part of your investment.

WE HAVE REPORTED LOSSES FOR OUR LAST TWO YEARS AND HAVE EXPERIENCED FLUCTUATING OPERATING RESULTS.

We reported losses of \$129,000 and \$474,000 for the years ending December 31, 1997 and 1998. These losses include about \$314,000 paid during each of those years for former officer's consulting and administrative expense. As of March 15, 1999 we will pay that former officer \$180,000, in equal monthly installments through September 1999. We can provide no assurance that we will be profitable in the future. From time to time we have experienced material period-to-period fluctuations in revenue and operating results. We anticipate that these periodic fluctuations in revenue and operating results will occur in the future. We attribute these fluctuations to a variety of business conditions that include:

- o the volume and timing of orders received during the quarter,
- o the timing and acceptance of new products and product enhancements by us and our competitors,
- o unanticipated sales and buyouts of run-time licenses,
- o stages of product life cycles,
- o purchasing patterns of customers and distributors,
- o market acceptance of products sold by our customers, and
- o competitive conditions in our industry.

We operate in rapidly evolving markets for our Internet products and services. Our future operating results may fluctuate as a result of these and other competitive conditions.

As a result of the factors described above we believe that quarterly revenue and operating results are likely to vary significantly in the future and that quarter to quarter comparisons of our operating results may not be meaningful. You should therefore not rely on the results of one quarter as an indication of future performance.

WE RELY ON OUR CORE SUITE OF PRODUCTS AND NEW PRODUCTS.

Revenue from licenses of our suite of Internet and Web products and sales of our services accounted for all of our revenue in the year ended December 31, 1998. Our research and development expenditures for 1997 and 1998 resulted in several new products. We introduced FastTrack(TM) in November 1998 and expect to market our FUSION WebPilot Micro Browser(TM) by

mid 1999. Our future results depend heavily on continued market acceptance of our products in existing and new markets.

Historically we have charged a one-time fee for a source code license and have occasionally also charged royalties for each copy of our software embedded in our customers' products. Our recently formulated strategy for new products is to seek flexible up-front fees with ongoing royalties measured against our customers' units of production or run times. Any increase in the portion of revenue attributable to royalties will depend on our successful negotiation of royalty agreements and on the successful commercialization by our customers of their underlying products.

THE INTENSE COMPETITION IN OUR MARKETS MAY LEAD TO REDUCED REVENUE AND INCREASED LOSSES.

The markets for our products are intensely competitive, and are likely to become even more competitive. Increased competition could result in:

- o pricing pressures, resulting in reduced margins,
- o decreased volume resulting in reduced revenue, or
- o the failure of our products to achieve or maintain market acceptance.

Any of these occurrences could have a material adverse effect on our business, financial condition and operating results. Each of our products faces intense competition from multiple competing vendors. Our principal competitors include Wind River Systems, Inc., Integrated Systems, Inc., Mentor Graphics, Inc., Microware Systems Corporation and Microsoft Corporation. Many of our current and potential competitors have:

- o longer operating histories,
- o greater name recognition,
- o access to larger customer bases, or
- o substantially greater resources than we have.

As a result, our principal competitors may respond more quickly than we can to new or changing opportunities and technologies. For all of the foregoing reasons, we may be unable to compete successfully against our current and future competitors.

OUR SUCCESS DEPENDS ON INCREASING MARKET AWARENESS OF OUR BRAND.

If we fail to promote our brand successfully or if we incur significant expenses promoting and maintaining our FUSION brand names, we may experience a material adverse effect on our business, financial condition and operating results. Due in part to the still emerging nature of the market for Internet and embedded software products and the substantial resources available to many of our competitors, we may have a time limited opportunity to achieve and maintain market share. We believe that developing and maintaining awareness of the FUSION brand names will be critical to achieving widespread acceptance of our products. Furthermore, the importance of brand recognition will increase as competition in the market for our products increases. Successfully promoting and positioning our brand will depend largely on the effectiveness of our marketing efforts and our ability to develop reliable and useful products at competitive prices. As

a result, we may need to increase our financial commitment to creating and maintaining brand awareness among potential customers.

WE WILL ENCOUNTER RISKS ASSOCIATED WITH NEW AND CHANGING MARKETS.

We are continuously engaged in product development for new or changing markets. We have invested significant time and effort to develop our software product line. We continue to expend substantial time and financial resources to develop embedded operating software and development tools for Internet applications. The commercial Internet market is still in an early stage, is rapidly changing and is characterized by an increasing number of new entrants with competitive products. Our products must be ported to an increasing number of new Internet protocols. We are not certain about which of these competing protocols will achieve market acceptance. If the protocols upon which our Internet products are based ultimately fail to be widely adopted, our business, financial condition and operating results may be materially and adversely affected.

WE MAY NOT BE ABLE TO DEVELOP ACCEPTABLE NEW PRODUCTS OR ENHANCEMENTS TO OUR EXISTING PRODUCTS AT THE RATE REQUIRED BY OUR RAPIDLY CHANGING MARKET.

Our future success depends upon our ability to address the rapidly changing needs of our customers by developing and introducing high quality products, product enhancements and services on a timely basis and by keeping pace with technological developments and emerging industry standards. The market for our products is rapidly evolving. Failure to develop and release enhanced or new products, or delays or quality problems in doing so, could have a material adverse effect on our business, financial condition and operating results.

As is common in new and rapidly evolving industries, demand and market acceptance for recently introduced products are subject to high levels of uncertainty and risk. Furthermore, new products can quickly render obsolete products that were only recently in high demand. The market for our existing products may not be sustainable at its current level. We launched several new products in calendar 1998 and January 1999. We have additional new product launches, as well as upgrades to our existing products, planned for 1999. The market for our recently introduced and planned products may not develop or grow. If the market for these products does not develop or grow we will experience a material adverse effect on our business, financial condition and operating results.

FAILURE TO EXPAND OUR SALES OPERATIONS AND CHANNELS OF DISTRIBUTION WOULD LIMIT OUR GROWTH.

In order to maintain and increase our current and future market share and revenue, we will need to expand our direct and indirect sales operations and channels of distribution. Failure to do so could have a material adverse effect on our business, financial condition and operating results. We need to expand our relationships with domestic and international original equipment manufacturers of information appliances, and other partners, to build our sales. We must also continue to expand and maintain strategic relationships with key hardware and software vendors, distribution partners, and customers. In addition, to maintain and increase our revenue, we must increase the number of products that each of our customers licenses. This will require expanded and sophisticated sales efforts. In order to achieve increased revenue, we plan to hire additional product engineering, sales and marketing personnel. Any new hires will require training and may take six months or more to achieve full productivity. We may not be able to hire enough qualified individuals when needed, or at all, and we may not be able to increase distribution through any other methods. This could adversely affect our ability to grow our business.

THE LOSS OF OUR PRESIDENT OR OTHER KEY PERSONNEL COULD ADVERSELY AFFECT OUR

BUSINESS AND DECREASE THE VALUE OF YOUR INVESTMENT.

Our success depends largely upon the continued services of our executive officers and other key management and development personnel. The loss of the services of one or more of our executive officers, engineering personnel, or other key employees could have a material adverse effect on our business, financial condition and operating results. In particular, we rely on Glenn P. Russell, president and chief executive officer, Mark Sewell, senior vice president, and Sandra J. Garcia, vice president. Glenn P. Russell, Mark Sewell and Sandra J. Garcia do not have employment agreements with Pacific Softworks and, therefore, could terminate their employment with us at any time without penalty. We do not maintain key person life insurance policies on any of our employees.

IF WE ARE UNABLE TO HIRE QUALIFIED TECHNICAL PERSONNEL, WE MAY NOT BE ABLE TO GROW OUR BUSINESS.

Our future success depends on our ability to attract and retain other highly qualified personnel. We attempt to hire engineers with high levels of experience in designing and developing networking software and Internet-related products. There is a limited number of these qualified engineers in our geographic area, resulting in intense competition for the services of these engineers. If we are not successful in attracting or retaining qualified personnel we may experience a material adverse effect on our business, financial condition and operating results.

THE STRAIN THAT INCREASED GROWTH PLACES UPON OUR SYSTEMS AND MANAGEMENT RESOURCES MAY ADVERSELY AFFECT OUR BUSINESS AND DECREASE THE VALUE OF YOUR INVESTMENT.

Any failure to properly manage our growth could have a material adverse effect on our business, financial condition and operating results. To manage growth, we must implement and improve additional and existing administrative systems, procedures, and controls on a timely basis. We will also need to expand our finance, administrative, and operations staff. We may not be able to complete the improvements to our systems, procedures, and controls necessary to support our future operations in a timely manner. We also may not successfully identify, manage, and exploit existing and potential market opportunities. In connection with our anticipated expansion, we plan to increase operating expenses and personnel resources to:

- o expand our sales and marketing operations,
- o develop new distribution channels,
- o fund greater levels of research and development,
- o broaden professional services and support, and
- o improve operational and financial systems.

Failure of our revenue to increase along with these expenses during any fiscal period could have a material adverse impact on our financial results for that period.

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WE MAY BE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY.

We regard substantial elements of our Internet and embedded software products as proprietary and attempt to protect them by relying on:

- o copyright,

- o trade secret and trademark laws,
- o nondisclosure, and
- o other contractual restrictions on copying, distribution and technical measures.

Any steps we take to protect our intellectual property may be inadequate, time consuming, and expensive.

Furthermore, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property. Any such infringement or misappropriation could have a material adverse effect on our business, financial condition and operating results.

We currently have no issued patents. We believe that one or more features of our software technology are unique and patentable. We expect to devote a portion of the proceeds from this offering to seek patent protection for these features. We have no patent applications pending. New patent applications may not result in issued patents and may not provide us with any competitive advantages, or may be challenged by third parties. Legal standards relating to the validity and enforceability of intellectual property rights in Internet-related industries are uncertain and still evolving.

The future viability or value of any of our intellectual property rights is uncertain. Effective trademark, copyright, and trade secret protection may not be available in every country in which our products are distributed or made available through the Internet. Furthermore, our competitors may independently develop similar technology that adversely affects the value of our intellectual property.

OTHERS MAY BRING INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS AGAINST US.

In addition to the technology we have developed internally, we use code libraries developed and maintained by third parties and have acquired or licensed technologies from other companies. Our internally developed technology, the code libraries, or the technology we acquired or licensed may infringe on a third party's intellectual property rights. These third parties may bring claims against us alleging infringement of their intellectual property rights. If we infringe or others bring claims against us alleging infringement, our business, financial condition and operating results could be materially and adversely affected.

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In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. We are not currently involved in any intellectual property or other material litigation. We may, however, be a party to litigation in the future to protect our intellectual property or as a result of an alleged infringement of the intellectual property of others. These claims and any resulting litigation could subject us to significant liability for damages and invalidation of our proprietary rights. Litigation, regardless of its success, would likely be time-consuming and expensive to prosecute or defend and would divert management attention from our business. Any potential intellectual property litigation could also force us to do one or more of the following:

- o cease selling, incorporating, or using products or services that incorporate the challenged intellectual property,
- o obtain from the holder of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all, and

- o redesign those products or services that incorporate such technology.

Any of these events could have a material adverse effect on our business, financial condition and operating results.

#### EVOLVING REGULATION OF THE INTERNET MAY AFFECT US ADVERSELY.

As Internet commerce continues to evolve, increasing regulation by federal, state, or foreign agencies becomes more likely. Any regulation imposing fees for Internet use could result in a decline in the use of the Internet and the viability of Internet commerce. Regulation is probable in the areas of user privacy, pricing, content, and quality of products and services. Taxation of Internet use, or other charges imposed by government agencies or by private organizations for accessing the Internet, may also be imposed. Laws and regulations applying to the solicitation, collection, or processing of personal or consumer information could affect our activities. Regulation affecting our customers could have a material adverse effect on our business, financial condition and operating results.

#### PRODUCT DEFECTS COULD LEAD TO THE LOSS OF CUSTOMERS AND TO PRODUCT LIABILITY CLAIMS THAT WOULD REQUIRE CONSIDERABLE EFFORT AND EXPENSE TO DEFEND.

Our products provide functions that are often critical to the performance of information appliances. The occurrence of errors or failures in our products could result in adverse publicity, loss of or delay in market acceptance, or claims by customers against us, any of which could have a material adverse effect on our business, financial condition and operating results.

Our end-user licenses contain provisions that limit our exposure to product liability claims, but these provisions may not be enforceable in all jurisdictions. Additionally, we maintain limited product liability insurance. To the extent our contractual limitations are unenforceable or such claims are not covered by insurance, a successful product liability claim could have a material adverse effect on our business, financial condition and operating results.

Although we have not experienced any product liability or economic loss claims, our products and product enhancements are very complex and may from time to time contain errors or result in failures that we did not detect or anticipate. The computer hardware environment is characterized by a wide variety of non-standard configurations that make pre-release testing for

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programming or compatibility errors very difficult and time consuming. Despite our testing, errors may be discovered in new products or enhancements that we deliver to customers.

#### SOME OF OUR PRODUCTS MAY NOT BE YEAR 2000 COMPLIANT, WHICH COULD RESULT IN CUSTOMER DISSATISFACTION OR CLAIMS AGAINST US.

Failure of our products to be year 2000 compliant could result in significant decreases in market acceptance of our products and legal liability for defective software, either of which would have a material adverse effect on our business, financial condition and operating results. We believe that all current versions of our products are year 2000 compliant when configured and used in accord with our specifications. However, we have not tested our products in every possible computer or product environment, and therefore there may remain a risk that our products may not be fully year 2000 compliant.

If our suppliers, vendors and industry collaborators fail to correct

their year 2000 problems, that failure could result in an interruption in, or a failure of, our normal business activities or operations. That failure could have a material adverse effect on our business, financial condition and operating results. The uncertainty of the year 2000 readiness of third-party suppliers and vendors makes us unable to determine at this time whether the consequences of any year 2000 failures will have a material effect on our business, financial condition and operating results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000 Issues."

OUR SUCCESS DEPENDS ON CONTINUED USE AND EXPANSION OF THE INTERNET.

Continued expansion in the sales of our Internet based embedded software products will depend upon the adoption of the Internet as a widely used medium for commerce and communication. If the Internet does not continue to become a widespread communications medium and commercial marketplace, demand for our products could be significantly reduced, which could have a material adverse effect on our business, financial condition and operating results.

The Internet may prove not to be a viable commercial marketplace because of inadequate development of the necessary infrastructure or timely development of complementary products such as high speed modems. The Internet infrastructure may not be able to support the demands placed on it by continued rapid growth. The Internet also could lose its viability as a result of delays in the development or adoption of new standards and protocols to address issues such as Internet:

- o activity,
- o security,
- o reliability,
- o cost,
- o ease of use,
- o accessibility, and
- o quality of service.

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OUR SALES MAY DECLINE IF WE ARE UNABLE TO ADAPT OUR PRODUCTS TO CHANGES IN INTERNET TECHNOLOGY.

Even if the infrastructure, standards, or protocols of the Internet, and complementary services, products, or facilities are developed, we may be required to make significant expenditures to adapt our products to changing or emerging technologies. We may not be successful in either developing Internet software or timely introducing it to the market. Any of these technology changes could have a material adverse effect on our business, financial condition and operating results.

WE WILL BE SUBJECT TO RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS.

For the years ended December 31, 1997 and 1998, we derived approximately 52% and 58%, of our total revenue from sales outside of North America. We expect that international sales will continue to be a significant percentage of our total revenue in the foreseeable future. We expect to make substantial investments to expand our international operations and to increase our direct sales force in Europe and Asia. We can provide no assurance that these investments will result in profitable increases in our international sales. International operations are subject to various risks, including:

- o foreign government regulation,
- o more prevalent software piracy,
- o longer payment cycles,
- o unexpected changes in regulatory requirements, tariffs, import and export restrictions and other barriers and restrictions,
- o greater difficulty in accounts receivable collection,
- o potentially adverse tax consequences including restrictions on repatriation of earnings,
- o the burdens of complying with a variety of foreign laws,
- o difficulties in staffing and managing foreign operations,
- o political and economic instability,
- o changes in diplomatic and trade relationships,
- o possible recessionary environments in economies outside the United States, and
- o other factors beyond our control.

These and other factors may have a material adverse effect on our international sales and, consequently, our business, operating results and financial condition. An increase in the relative value of the dollar against local currencies could reduce our revenue in dollar terms or make our products more expensive and, therefore, potentially less competitive in foreign markets.

We rely on outside distributors for sales of our products in certain foreign countries. We are dependent on the ability of those distributors to promote and support our products and, in some instances, to translate them into foreign languages. Our international distributors generally offer products of several different companies, including in some cases products that are competitive with ours. Our distributors are not subject to any minimum purchase or resale requirements. Any changes in the relationships which we have with our international distributors may have a material adverse effect on our business, financial condition and operating results.

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WE DEPEND ON A SMALL NUMBER OF LARGE ORDERS.

Although no customer has accounted for 10% or more of total revenue in any fiscal year, we derive a significant portion of our software license revenue in each quarter from a small number of relatively large orders. While we believe that the loss of any particular customer is not likely to have a material adverse effect on our business, our operating results could be materially adversely affected if we were unable to complete one or more substantial license sales in any future period.

We derive a substantial portion of our revenue from the sale of products with related implementation services. In these cases, revenue recognition policy requires substantial completion of the implementation of the product before software license revenue can be recognized. Any end of quarter delays in product implementation could materially adversely affect operating results for that quarter. As a result, small delays in customer orders or product implementations can cause license revenue and operating results for any particular period to vary significantly.



ACQUISITIONS MAY PRESENT RISKS TO OUR BUSINESS.

Although we have not done so in the past we may make acquisitions of, or investments in, other companies, products, technologies or Internet-related services. If we make any acquisitions, we will be required to assimilate the operations, products and personnel of the acquired businesses and train and retain key personnel from the acquired businesses. We may be unable to maintain uniform procedures and policies if we fail in these efforts. Similarly, acquisitions may cause disruptions in our operations and divert management's attention from day-to-day operations. This could impair our relationships with our current employees, customers and strategic partners.

We may have to incur debt or issue equity securities to pay for any future acquisitions. The issuance of equity securities for any acquisition could be substantially dilutive to our stockholders. In addition, our profitability may suffer because of acquisition-related costs or amortization costs for acquired goodwill and other intangible assets. If we are unable successfully to address any of these issues, our business could be materially affected.

WE MAY APPLY THE PROCEEDS OF THIS OFFERING AND THE PROCEEDS FROM EXERCISE OF WARRANTS TO USES THAT DO NOT INCREASE OUR PROFITS OR MARKET VALUE.

The net proceeds from the sale of the securities we are offering will be used for hiring additional engineering, marketing and management personnel and will be added to our general working capital. We may also obtain up to \$6,000,000 from exercise of warrants. The proceeds from any exercise of warrants will be added to our general working capital. Our management will have considerable discretion in the application of the net proceeds added to our general working capital, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. The net proceeds may be used for corporate purposes that do not increase our profitability or market value.

WE MAY HAVE FUTURE CAPITAL NEEDS AND IT IS UNCERTAIN IF WE CAN OBTAIN ADDITIONAL FINANCING.

We expect that the net proceeds from this offering, cash on hand, cash equivalents and commercial credit facilities will be adequate to meet our working capital and capital expenditure

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needs for about the next 18 months. After that, we may require additional funds for product development, market support and additional expansion.

We can provide no assurance that the warrants will be exercised. We cannot be certain that additional financing will be obtained on favorable terms, if at all. If we cannot raise needed funds on acceptable terms, we may be unable to:

- o develop or enhance products,
- o take advantage of future opportunities, or
- o respond to competitive pressures or unanticipated capital requirements.

The occurrence of any of these events could have a material adverse effect on Pacific Softworks. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

FUTURE NON-PUBLIC SALES OF OUR SECURITIES MAY BE ON TERMS MORE FAVORABLE THAN

THOSE OF THIS OFFERING.

In order to raise additional working capital, Pacific Softworks could make a limited number of offers and sales of its common stock or other securities to qualified investors in transactions that are exempt from registration under the securities laws. These purchasers may acquire Pacific Softworks' securities on terms more favorable than offered to you. The price may not relate to any ascertainable criterion of value, including the prevailing market price. Pacific Softworks may make sales of its securities at a lower price than that of the units.

BECAUSE OWNERSHIP IS CONCENTRATED, YOU AND OTHER INVESTORS WILL HAVE MINIMAL INFLUENCE ON stockholder DECISIONS.

Our officers and directors will beneficially own 74.3% of the outstanding common stock after this offering. If all the warrants are exercised, our officers and directors will own 62.4% of the outstanding common stock. Our officers and directors will be able to exercise control over all matters requiring stockholder approval, and you and other investors will have minimal influence over the election of directors or other stockholder actions. As a result, these officers and directors could approve or cause Pacific Softworks to take actions of which you disapprove or that are contrary to your interests. Our controlling stockholders will have the ability to elect a majority of our directors. This ability to exercise control over all matters requiring stockholder approval could prevent or significantly delay another company from acquiring or merging with us. See "Management" and "Principal Stockholders."

ISSUANCE OF OUR AUTHORIZED PREFERRED STOCK MAY DISCOURAGE A CHANGE IN CONTROL AND REDUCE THE MARKET PRICE OF OUR COMMON STOCK.

The issuance of preferred stock may have the effect of delaying, deferring, or preventing a change in control. Any such issuance may materially and adversely affect the market price of the common stock and the voting rights of the holders of common stock. The issuance of preferred stock may also result in the loss of the voting control of holders of common stock to the holders of preferred stock. See "Description of Securities -- Preferred Stock."

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TRADING IN OUR COMMON STOCK AND WARRANTS MAY BE LIMITED.

A public market for our common stock and our warrants has not existed prior to this offering. Although this offering will result in a trading market for our common stock and warrants, we do not know how liquid that market might be. The initial public offering price for the units will be determined through negotiations between the underwriters and us. If you purchase units, you may not be able to resell these securities at or above the initial public offering price. See "Underwriting."

THE MARKET PRICES FOR OUR SECURITIES, LIKE THOSE OF OTHER TECHNOLOGY ISSUES, MAY BE VOLATILE.

The value of your investment in Pacific Softworks could decline from the impact of any of the following factors:

- o changes in market valuations of Internet software companies,
- o variations in our actual and anticipated operating results,
- o changes in our earnings estimates by analysts,
- o our failure to meet analysts' performance expectations, and
- o lack of liquidity.

The stock markets have, in general, and with respect to Internet companies in particular, recently experienced stock price and volume volatility that has affected companies' stock prices. The stock markets may continue to experience volatility that may adversely affect the market price of our securities.

Stock prices for many companies in the technology and emerging growth sector have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. Fluctuations such as these may affect the market prices of our common stock and warrants.

YOU WILL INCUR IMMEDIATE SUBSTANTIAL DILUTION BY PURCHASING SECURITIES IN THIS OFFERING.

The initial public offering price applicable to the common stock included in a unit is expected to be substantially higher than the book value per share of the common stock before the offering. By purchasing securities in this offering you will incur immediate substantial dilution. See "Dilution." You may incur additional dilution in the event that certain options to officers and to a consultant are exercised. See "Management" and "Description of Securities - Options to Consultant."

OUR WARRANTS ARE SUBJECT TO APPLICABLE SECURITIES LAWS AS WELL AS REDEMPTION.

You will own one warrant for each unit that you purchase. You may purchase one share of common stock through the exercise of one warrant on payment of the \$7.50 exercise price. You may only exercise your warrants if a registration statement relating to the common stock underlying the warrants is then in effect and we have complied with applicable state securities laws. We may be unsuccessful in maintaining a current registration statement covering the common stock underlying the warrants. You may be unable to exercise the warrants for this or other reasons. Your warrants may also be redeemed by us under certain circumstances. Your warrants may be exercised during the notice period prior to the date of redemption. If you do not

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exercise your warrants prior to the redemption date, you will only be entitled to receive the redemption price of \$0.05 per warrant.

OUR STOCK AND WARRANT PRICES MAY BE AFFECTED BY SHARES ELIGIBLE FOR FUTURE SALE.

The market prices of the common stock and the warrants could decrease as a result of large numbers of shares of common stock being available for sale after the offering. These sales could also make it more difficult for us to raise funds through future offerings. The 3,300,000 shares of common stock outstanding before the offering are subject to certain resale restrictions under federal securities laws. Holders of these shares have agreed that they will not sell these securities without the consent of the representative of the underwriters for 13 months after the date of this prospectus. See "Description of Securities - Shares Eligible for Future Sale."

SIGNIFICANT FLUCTUATION IN THE MARKET PRICE OF OUR COMMON STOCK AND WARRANTS COULD RESULT IN SECURITIES CLASS ACTION CLAIMS AGAINST US.

Securities class action claims have been brought against issuing companies in the past where there has been volatility in the market price of a company's securities. Litigation could be very costly and divert our management's attention and resources. Any adverse determination in litigation could also subject us to significant liabilities. Any or all of these events could have a material adverse effect on our business, financial condition and operating results.

YOU SHOULD NOT RELY ON OUR FORWARD-LOOKING STATEMENTS.

This prospectus contains forward-looking statements that involve risks and uncertainties. Discussions containing forward-looking statements may be found in the material set forth under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business" as well as within this prospectus generally. In addition, when used in this prospectus, the words "believes," "intends," "plans," "anticipates," "expects," and similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to a number of risks and uncertainties. Actual results could differ materially from those described in the forward-looking statements as a result of the risk factors set forth in this section and the information provided in this prospectus generally. We do not intend to update any forward-looking statements.

#### WHERE YOU CAN FIND ADDITIONAL INFORMATION

Pacific Softworks has filed with the Securities and Exchange Commission, 450 Fifth Street, Washington, D.C. 20549, a registration statement on Form SB-2 under the Securities Act with respect to the securities offered. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. For further information concerning Pacific Softworks and the securities offered, we refer you to the registration statement and the exhibits and schedules filed as a part of the registration statement.

Statements contained in this prospectus concerning the contents of any contract or any other document are not necessarily complete. In each instance where a copy of that contract or document has been filed as an exhibit to the registration statement, we refer you to the copy of the contract or document that has been filed. Each statement is qualified in all respects by reference to that exhibit. The registration statement, including its exhibits and schedules, may be inspected without charge at the SEC's principal office in Washington, D.C. and at the SEC's regional offices at Northwest Atrium Center, 500 West Madison Street, Suite 1400, Chicago,

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Illinois 60661-2511 and 7 World Trade Center, New York, New York 10048. Copies of all or any part of those documents may be obtained from the SEC's office after payment of the SEC's prescribed fees. The SEC maintains a Web site that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

Pacific Softworks intends to provide its stockholders with annual reports containing consolidated financial statements audited by an independent public accounting firm and quarterly reports containing unaudited consolidated financial data for the first three quarters of each year.

#### USE OF PROCEEDS

Based on an assumed public offering price of \$5.25 per unit, we expect that net proceeds from the sale of the 800,000 units sold in this offering will be approximately \$3,486,000, or \$4,034,100 if the underwriters' over-allotment option is exercised in full.

We intend to use net proceeds to hire additional personnel as discussed below and for working capital and general corporate purposes. We also intend to use up to \$50,000 of proceeds for patent and trademark applications, including filing fees and expenses of intellectual property counsel.

We intend to fill the following positions within the 18 month period following the completion of this offering:

Description of position -----	Number of Additions -----	Annual Compensation -----
Engineering - Core Products.....	6	\$ 580,000
Engineering - Web Products.....	7	770,000
Marketing and Sales.....	3	355,000
Product Managers.....	2	300,000
Business Development.....	1	150,000
Administrative.....	1	90,000
		-----
Total		\$ 2,245,000 =====

We may acquire or invest in complimentary businesses, technologies, services or products and a portion of the net proceeds currently allocated to working capital may be used for such acquisitions or investments. However, we currently have no understandings, commitments or agreements for any material acquisition or investment.

The foregoing represents our best estimate of the uses of the net proceeds to be received in this offering, based on current planning and business conditions. However, we reserve the right to change these uses when and if market conditions or unexpected changes in operating conditions occur.

The amounts expended for each use may vary significantly depending upon a number of factors including, but not limited to, amounts we spend to develop and introduce new products and the amount of cash generated by our operations. We believe that our existing capital resources and the net proceeds of this offering will be sufficient to maintain current and planned operations for a period of at least 18 months from the date of this prospectus. Net proceeds not

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immediately required for the purposes described above will be invested principally in investment grade, interest-bearing securities.

#### DIVIDEND POLICY

Pacific Softworks has never declared or paid any cash dividends on its common stock or other securities and does not anticipate paying cash dividends in the foreseeable future. Our line of credit currently prohibits the payment of dividends. A share purchase agreement with a former stockholder also prohibits us from paying certain dividends until all obligations owed to him under the agreement are retired. See "Certain Transactions Share Purchase Agreement - Minority stockholder."

#### CAPITALIZATION

The following table sets forth our capitalization as of December 31, 1998:

- o on a historical basis,
- o on a pro forma actual basis taking into account the sale in February 1999 of 100,000 shares of common stock at \$5.00 per share as if that sale was completed in December 1998, and
- o on a pro forma as adjusted basis, giving effect to the sale of 800,000 units at an assumed initial public offering price of \$5.25 per unit, after deducting underwriting discounts and estimated

offering expenses.

You should read this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and notes thereto appearing elsewhere in this prospectus. See also "Use of Proceeds."

	December 31, 1998		
	(in thousands)		
	Actual	Pro Forma Actual	Pro Forma as Adjusted
Stockholders' equity:			
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; none issued and outstanding .....	\$ --	\$ --	\$ --
Common Stock, \$0.001 par value; 50,000,000 shares authorized; 3,200,000 shares issued and outstanding; 3,300,000 shares, pro forma actual; 4,100,000 shares, pro forma as adjusted .....	3	3	4
Additional paid-in capital .....	175	675	4,160
Retained earnings .....	18	18	18
Cumulative adjustment for currency translation .....	11	11	11
Total stockholders' equity .....	207	707	4,193
Total capitalization .....	\$207	\$707	\$4,193

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The information provided above excludes:

- o 800,000 shares of common stock issuable upon exercise of warrants,
- o 345,000 shares of common stock issuable upon exercise of outstanding options and warrants,
- o 160,000 shares of common stock issuable upon the exercise of warrants to acquire units and warrants underlying those units, and
- o 80,000 units issuable on exercise of the representative's option.

#### DILUTION

At December 31, 1998, pro forma net tangible book value was \$706,285, or \$0.21 per share. Pro forma net tangible book value per share represents our pro forma net tangible assets less liabilities divided by the pro forma shares of common stock outstanding. Pro forma adjustments take into account the sale in February 1999 of 100,000 shares of common stock at \$5.00 per share as if that sale was completed in December 1998.

After giving effect to our sale of 800,000 units and our receipt of an estimated \$3,486,000 of net proceeds from the offering, based on an assumed offering price of \$5.25 per unit, all of which is attributable to the common stock and none of which is attributable to the warrants, pro forma adjusted net tangible book value at December 31, 1998 would have been \$1.02 per share. This represents an immediate increase in pro forma net tangible book value of \$0.81 per share to existing stockholders and an immediate dilution of \$4.23 per share of common stock to new investors purchasing units in the offering. The following

table illustrates per share dilution:

Assumed public offering price per share		\$ 5.25
Pro forma net tangible book value prior to the offering	\$ 0.21	
Increase attributable to new investors	0.81	
	-----	
Adjusted pro forma net tangible book value after the offering		1.02
		-----
Dilution per share to new investors in this offering		\$ 4.23
		=====

The following table sets forth, on a pro forma basis as of December 31, 1998, the number of shares of common stock purchased from Pacific Softworks, the total consideration paid to Pacific Softworks and the average price per share paid by existing stockholders and new investors purchasing units in the offering, before deducting underwriting discounts and estimated offering expenses:

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders.....	3,300,000	80.5%	\$ 678,000	13.9%	\$0.21
New investors.....	800,000	19.5%	4,200,000	86.1%	\$5.25
	-----	-----	-----	-----	-----
Total.....	4,100,000	100.0%	\$ 4,878,000	100.0%	
	=====	=====	=====	=====	

The information for existing stockholders in the table above includes 100,000 shares sold in February 1999 at \$5.00 per share but excludes shares and warrants issuable upon exercise of outstanding options or warrants, the representative's option to purchase units and exercise of the underwriters' over-allotment option. To the extent that currently outstanding options or warrants are exercised at prices below \$5.25, there will be further dilution to new investors.

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SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data is qualified by reference to and should be read in conjunction with the consolidated financial statements and notes thereto and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included elsewhere in this prospectus. The consolidated statement of operations data for the years ended December 31, 1997 and 1998 and the consolidated balance sheet data at December 31, 1997 and 1998 are derived from and qualified by reference to, audited consolidated financial statements included elsewhere in this prospectus.

CONSOLIDATED STATEMENTS OF OPERATIONS DATA:

Year Ended December 31,	
1997	1998
-----	-----

(in thousands, except per share data)

Net revenue .....	\$ 3,310	\$ 2,787
	-----	-----
Cost of revenue .....	117	100
	-----	-----
Gross profit .....	3,193	2,687
	-----	-----
Selling, general and administrative .....	2,110	1,936
Research and development .....	834	852
Depreciation and amortization .....	64	59
Former officer's consulting and administrative expense .....	314	314
	-----	-----
Total expenses .....	3,323	3,161
	-----	-----
Net loss .....	(129)	(474)
	=====	=====
Net loss per share, basic and diluted.....	\$ (0.04)	\$ (0.14)
	=====	=====

CONSOLIDATED BALANCE SHEET DATA:

	December 31,	
	1997	1998
	-----	-----
	(in thousands)	
Cash and cash equivalents .....	\$ 625	\$224
Working capital .....	761	222
Total assets .....	1,071	643
Total stockholders' equity .....	691	207

See notes 1 and 12 of notes to consolidated financial statements for a discussion regarding the computation and presentation of basic and diluted net loss per share.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with "Selected Financial Data" and the consolidated financial statements and related notes. The following information contains forward-looking statements that involve risks and uncertainties, such as Pacific Softworks' plans, objectives, expectations, and intentions. These statements may be identified by use words such as "believes," "intends," "plans," "anticipates," "expects," and similar expressions. Pacific Softworks' actual results could differ materially from those anticipated in

these forward-looking statements as a result of various factors including, but not limited to, those discussed below, those stated in "Risk Factors," and elsewhere in this prospectus.



Pacific Softworks develops and licenses a suite of embedded Internet and Web software products for business and individual customers that seek to add Internet-based communication capabilities to their information appliances.

In distributing our products, we primarily have licensed source code to our customers for a one time fee. Manufacturers or developers customize their information appliances containing our licensed software to serve a particular need or market.

Our traditional focus and expertise has been on one of the principal building blocks of the Internet, the underlying information transport protocol known as TCP/IP. We have subsequently developed additional products that provide other various essential elements of networked data communication and transport. We have historically derived the majority of our revenue from the licensing of a small range of relatively independent protocols that our customers port to their own software products. We are in the process of completing development of a range of embedded products, including an embedded Web browser and related software accessories. These products will provide customer ready solutions for the information appliance and embedded systems market.

Historically, we had no materially significant post sale commitments following software delivery. As a result we recognized revenue upon product shipments to customers. We found that many of our older products were becoming commodity items, with steady price erosion and competition. We could therefore not support royalty bearing licenses on these products.

Commencing late in fiscal 1998 with the introduction of our new Internet and Web application products, we initiated a plan to charge a one-time fee for a development license and a run-time or per unit production license fee for each copy of these applications used in the customer's products. We intend to follow this approach for many of our new products introduced and expected to be sold in 1999. Any increase in the percentage of revenue attributable to run-time and unit production licenses will depend on our successful negotiation of run-time license agreements and on the successful commercialization by our customers of their underlying products.

The typical one-time license fee of our base TCP/IP product has been between \$10,000 and \$40,000. Due to competitive pressures and the implementation of upgraded TCP/IP protocols, we expect this average sale amount for our more mature products to decrease by 20% or more per year over the next few years. We expect this decay in pricing and reduced gross profit margins for our mature TCP/IP product line to be partially offset by several factors:

- o increased use and thus increased total licenses of TCP/IP,
- o availability of the new FastTrack(TM) solutions, which should increase our average licensefee by \$10,000,
- o availability of our new TCP/IP version 6, which is expected to become available within the next 12 to 18 months, and that may increase our average license to \$80,000, and
- o availability of our IP security and encryption products before the end of this fiscal year at prices which we believe will exceed \$80,000 per license.

We anticipate that the FUSION WebPilot Micro Browser(TM), introduced in late fiscal 1998, will be priced at approximately \$100,000 per unit and above for the initial license, plus royalties measured against run-time or customer's units of production. We expect to be licensing and delivering this product by mid 1999.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentage relationship to net revenue of certain items in our consolidated statements of operations and comprehensive income:

	Year Ended December 31, 1997	Year Ended December 31, 1998
	-----	-----
Net revenue.....	100.00%	100.00%
Cost of revenue.....	4.00	3.61
	-----	-----
Gross profit.....	96.00	96.39
	-----	-----
Selling, general and administrative.....	63.75	69.45
Research and development.....	25.20	30.55
Depreciation and amortization.....	1.94	2.11
Former officer consulting and administrative expense.....	9.50	11.28
	-----	-----
Total operating expenses.....	100.39	113.39
	-----	-----
Net loss from operations.....	(4.39)	(17.00)
Foreign currency translation adjustment.....	2.00	0.34
	-----	-----
Comprehensive loss.....	(2.00)%	(17.34)%
	=====	=====

NET REVENUE

Revenue decreased approximately 16% from 1997 to 1998. Our revenue results primarily from fees for licenses of software products, fees for customer support, training, maintenance and engineering services and royalties. The decrease in revenue for 1998 was attributable primarily to increased competition, related discounting on older product categories, delayed introductions of new products and substantially lower revenue from Japan stemming from recessionary economic conditions in that country.

The following table sets forth, for the periods indicated, the percentage of net revenue by principal geographic area to total revenue:

	Year Ended December 31, 1997	Year Ended December 31, 1998
	-----	-----
United States.....	48%	42%
United Kingdom and Europe.....	35	40
Australia and Asia.....	15	17
Other.....	2	1
	---	---
Total .....	100%	100%
	===	===

The increase in international sales from 52% to 58% of total sales for 1997 and 1998 is principally due to a decline in domestic sales as a result of increased competition and related

price discounting. We expect international sales to continue to represent a significant portion of net revenue although the percentage may fluctuate from period to period.

We generally price our foreign licenses in dollars. An increase in the relative value of the dollar against Japanese and European currencies may reduce our revenue in dollar terms or could make our products more expensive. As a result, an increase in the relative value of the dollar against other currencies may cause our products to be less competitive in foreign markets. To pay expenses and for other corporate purposes we maintain a small portion of our funds outside of the United States in local currency. We actively monitor our foreign currency exchange exposure and to date this exposure has not had a material impact on the results of operations. To date, we have not utilized derivative instruments to hedge such exposure.

#### COST OF REVENUE

Cost of revenue includes direct and indirect costs for the production and duplication of manuals and media for software products, as well as those relating to packaging, shipping and delivery of the products to our customers. Cost of revenue also includes license and other direct purchase costs of third-party software that we distribute or integrate into our products. Cost of revenue has remained relatively constant for fiscal 1997 and 1998 at approximately 4% of net revenue. As a result, gross profit margins for products have also remained constant at about 96%.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative expense decreased from \$2,110,038 to \$1,936,117 or 8%, from 1997 to 1998. Because of a 16% decrease in net revenue, these expenses as a percentage of revenue increased from 64% to 69%. The higher absolute expense in 1997 reflected a non-recurring distribution to the president and majority stockholder. Pacific Softworks, then a corporation governed under the provisions of subchapter S of the Internal Revenue Code, made the non-recurring distribution to its president and majority stockholder to permit him to pay corporate income taxes payable for 1996. The decrease in expenditures for 1998 reflected reductions in sales staff and related operating costs in 1998. Our decreases in expenditures were partially offset by increases in corporate consulting expenditures related to strategic planning and marketing and an increase in rent following the relocation of our principal executive offices to our current location in mid 1998.

#### RESEARCH AND DEVELOPMENT EXPENSE

Research and development expense increased from \$834,049 to \$851,568, or 2%, from 1997 to 1998. Because of a 16% decrease in net revenue, research and development expense as a percentage of revenue increased from 25% to 31%. The increase in research and development expense in 1998 was principally attributable to an increase in the number of employees and consultants we hired to assist in the development of the FastTrack(TM) product line and the FUSION WebPilot Micro Browser(TM). These costs were partially offset by a decrease in cost of third-party software acquired for the development process.

#### DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation and amortization expense decreased from \$64,195 to \$58,850 or 8%, from 1997 to 1998 and remained constant as a percentage of net revenue at 2%. This decrease in

from third party vendors in 1996 that became fully amortized in early 1998.

#### FORMER OFFICER'S CONSULTING AND ADMINISTRATIVE EXPENSE

Former officer's consulting and administrative expense remained constant at \$314,286 for 1997 and 1998. This expense increased as a percentage of net revenue from 9% to 11% as a result of the decrease in net revenue. We incurred this expense in connection with our buyout of a former officer's employment agreement in March 1996. At that time, the former officer also entered into a covenant not to compete and into a consulting agreement with Pacific Softworks. As of March 15, 1999, the total amount payable to this former officer under these agreements was \$180,000. This sum will be paid in equal monthly installments through September 1999. See "Certain Transactions - Share Purchase Agreement - Minority Stockholder."

#### PROVISION FOR TAXES

Commencing in 1995 we elected to be treated as a subchapter S corporation. Through 1998 all federal tax liabilities were recognized at the individual stockholder level. In February 1999 Pacific Softworks terminated the subchapter S election and became subject to taxation at the corporate level. Our historical financial statements do not reflect any income tax provision or benefit. Had Pacific Softworks been subject to taxation as a C corporation, it would have received pro forma income tax benefits totaling \$48,375 and \$177,750 in 1997 and 1998, based on a combined federal and state tax rate of 37.5%. We will record income tax expense (benefit) in future periods at the corporate level.

#### LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1998, we had working capital of \$222,477 and cash and cash equivalents of \$224,031. We expect that our cash and financing needs in 1999 will be met by:

- o cash on hand,
- o cash generated by operations,
- o proceeds of \$500,000 from a private sale of securities in February 1999,
- o a bank line of credit,
- o net proceeds of this offering, and
- o other capital financing arrangements.

In the event these sources of financing are insufficient or unavailable, or if we experience an increase in operating cash requirements, we would slow the rate at which we bring additional FastTrack(TM) products and the FUSION WebPilot Micro Browser(TM) to market. We would also reduce our related marketing and development activities.

To date, we have satisfied operating cash requirements principally through internally generated funds. Our operating activities have generated (used) net cash of \$286,567 and (\$419,480) for 1997 and 1998. Cash generated by or used in operating activities in each period principally reflected the loss from operations for each period and the related change in working capital components. Decreased revenue for 1998 contributed to decreases in accounts receivable, accounts payable and deferred revenue. Our investing activities during 1998 used net cash of \$71,888 for capital expenditures. Our financing activities during 1998 generated net cash of \$94,500. This net cash primarily resulted from our acquisition of the minority interest in

our Japanese subsidiary for \$5,500, that was offset by \$150,000 of short-term borrowings of which \$50,000 was repaid during the period.

We have available a \$250,000 bank line of credit, personally guaranteed by our president and majority stockholder, under which no balance was outstanding at December 31, 1998. In 1998 we borrowed \$100,000, interest free, from a company affiliated with our president. Pacific Softworks repaid this loan after December 31, 1998.

#### SUBSEQUENT EVENT - PRIVATE PLACEMENT

In February 1999 we sold 100,000 shares of restricted common stock to one investor at a price of \$5.00 per share. We also issued 100,000 warrants, allowing the investor to acquire 100,000 shares of common stock at \$6.00 per share. These warrants expire March 1, 2001. We received net proceeds of \$500,000 from this sale.

#### YEAR 2000 ISSUES

We are aware of the issues associated with the programming code in existing computer systems as the year 2000 approaches. The "Year 2000" problem is pervasive and complex, as many computer systems will be affected in some way by the rollover of the two-digit year value to 00. Systems that do not properly recognize this information could generate erroneous data or cause a system to fail. The Year 2000 issue creates risk for us from unforeseen problems in our own computer systems and from third parties with whom we deal on transactions worldwide. Failures of our and/or third parties' computer systems could have a material impact on our ability to conduct business.

We believe that our financial information systems are Year 2000 compliant. We are analyzing the remaining computer systems to identify any potential Year 2000 issues and will take appropriate corrective action based on the results of this analysis. Management believes that any remaining costs related to achieving Year 2000 compliance will not be material.

We have contacted significant suppliers to determine the extent to which our operations are vulnerable to their failure to solve their own Year 2000 issues. Specific factors that might cause suppliers to be vulnerable to Year 2000 issues include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties. We can provide no assurance that the systems of other companies on which we rely will be converted on a timely basis and will not have an adverse effect on our financial position or operating results. The Year 2000 issue also could affect the products that we sell. Although our products are subject to ongoing analysis and review, we believe that the current versions of our products are Year 2000 compliant.

#### INTRODUCTION OF THE EURO

On January 1, 1999, 11 of the 15 member countries of the European Union established fixed conversion rates between their existing sovereign currencies and a new currency called the "Euro." These countries agreed to adopt the Euro as their common legal currency on that date. The Euro trades on currency exchanges and is available for non-cash transactions. The existing sovereign currencies will remain legal tender in these countries until January 1, 2002. On that date the Euro is scheduled to replace the sovereign legal currencies of the member countries.

Our European operations are centered in the United Kingdom, which has not adopted the Euro. We will evaluate the impact the implementation of the Euro will have on our business operations. We do not expect the Euro to have a

material effect on our competitive position. We can provide no assurance, however, that the implementation of the Euro will not have a material adverse affect on our business, financial condition and operating results. In addition, we cannot accurately predict the impact the Euro will have on currency exchange rates or our currency exchange risk. We have historically priced our foreign licenses in dollars and as a result we have had no material need to hedge our foreign currency exposure. If competitive conditions require us to license our products in terms of Euro or other currencies, we may engage in currency hedging to manage this exposure in the future if we think that it is appropriate for us to do so.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 130 ("FAS 130"). FAS 130 establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income as defined includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive income, which are excluded from net income, include foreign currency translation adjustments and unrealized gains/losses on available-for-sale securities. We adopted the disclosure prescribed by FAS 130 in fiscal 1997.

In June 1997 FASB issued Statement of Financial Accounting Standards No. 131 ("FAS 131"), "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for the way companies report information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. We have not yet determined the impact, if any, of adopting this statement. We will adopt the disclosures prescribed by FAS 131 in the year ending December 31, 1999.

In October 1997 and March 1998 the American Institute of Certified Public Accountants issued Statements of Position 97-2, "Software Revenue Recognition" ("SOP 97-2") and 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2, Software Revenue Recognition" ("SOP 98-4"), which we are currently required to adopt for transactions entered into in the fiscal year beginning January 1, 1998. SOP 97-2 and SOP 98-4 provide guidance on recognizing revenue on software transactions and supersede SOP 91-1. We believe that the adoption of SOP 97-2 and SOP 98-4 will not have a significant impact on our current licensing or revenue recognition practices. However, should we adopt new licensing practices or change our existing licensing practices, our revenue recognition practices may change to comply with the accounting guidance provided in SOP 97-2 and SOP 98-4.

In April 1998 the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 provides guidance for determining whether computer software is internal-use software as well as guidance on accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. It also provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use. We have not yet determined the impact, if any, of adopting this statement. We will adopt the disclosures prescribed by SOP 98-1 in the year ending December 31, 2000.

#### BUSINESS

##### OUR BUSINESS

Pacific Softworks develops and licenses Internet and Web related software and software development tools. Our products enable Internet and Web

based communications, based on a set of rules known as protocols, and are embedded into systems and "information appliances" developed or manufactured by others. Information appliances are Internet connected versions of everyday products such as telephones, televisions, fax machines and other digitally based devices.

Rapid advances are enabling wired and wireless information appliances to assume many of the tasks now handled by personal computers ("PCs"). We believe that Web browsing enabled by embedded software in information appliances used by businesses and individuals will be a major market. International Data Corp. estimates that 94% of Internet access is now made through PCs. By 2002, that percentage is expected to decrease to 64%. By 2002 the number of information appliances sold is expected to exceed the number of PCs sold.

We intend to evolve and refine our business to track the growth of embedded software in information appliances that incorporate Internet and Web communications capabilities. As information appliances proliferate, we anticipate that our opportunities for long term revenue growth will also increase.

Our Internet and Web related software development tools offer significant benefits to our customers including:

- o accelerated product development and market entry,
- o portability across multiple hardware and software system environments, and
- o comprehensive embedded solutions that enable information appliances to connect with the Internet and use the Web.

Information appliance manufacturers and software developers have included our products within the following applications and information appliances:

Applications	Information Appliances
o Office automation	o Internet fax, copiers, laser printers, scanners
o Medical	o Patient monitors, imaging systems
o Multimedia	o DVD players, projectors, digital cameras
o Industrial controls	o Vending machines, traffic controls, scoring systems, security controls
o Networking	o Routers, switches, network controls, cable modems
o Set-top boxes	o Set-top boxes, Internet TV
o Wireless	o Telephones, personal digital assistants, pagers, electronic organizers
o Navigation systems	o Navigational controls, air traffic controls
o Defense and aerospace	o Engine controls, smart weapons
o Satellite	o Satellite positioning, uplink and downlink of streaming video

We have developed a new proprietary Internet browser for use within independent, "non-Windows(R)" information appliances. We expect to begin marketing this browser, under the "FUSION WebPilot Micro Browser(TM)" name, by the middle of this year. Our browser may be effectively placed in use without an operating system and does not require substantial amounts of memory. We believe that our browser may prove particularly attractive to manufacturers of information appliances who would rather give their products a proprietary or subjective "look and feel" than to be restricted by a browser which requires or depends on the "look and feel" of commercially available operating systems such

as Windows (R) .

## BACKGROUND

### INDUSTRY BACKGROUND - SIGNIFICANT GROWTH OF THE INTERNET.

The Internet has grown in less than a decade from a limited research tool to a global network consisting of millions of computers and users. The Internet is expected to continue to grow rapidly. We estimate that the number of Internet users worldwide will grow from approximately 69 million in 1997 to 320 million in 2002. The U.S. Department of Commerce estimates that Internet traffic doubles every 100 days. The number of Internet Web sites is also growing rapidly. The number of Web sites detected by the Netcraft Web Server Survey increased from approximately 526,000 in November 1996 to approximately 1.6 million in November 1997, and to over 3.5 million in November 1998, reflecting annual growth exceeding 100%.

Network Solutions, Inc., which estimates that it holds a 75% worldwide market share in domain name registrations, registered over 1.9 million new domains in 1998, nearly double those of the previous year. The growth of the Internet is primarily attributable to its value as a low-cost, open, and readily accessible platform for communications and commerce.

As a result of these attributes, organizations are increasingly embracing the Internet as a principal platform for communicating with key constituents and conducting business. Internally, many organizations have adopted Internet-based systems to facilitate communications among employees and to automate internal business processes. Many organizations are adding Web-based applications to increase sales, cut costs, and improve customer service. These applications range from Web sites offering electronic brochures, to electronic acquisition of goods and services, and automated customer service and support.

Organizations are making large investments in these applications to create meaningful and attractively presented content that informs, entertains, and communicates. Emerging applications now enable organizations to attract customers and build customer loyalty by offering dynamic, personalized content. Web-based applications for suppliers and distributors have also significantly improved business-to-business procurement, payment systems, and logistics planning. Entirely new businesses have emerged that have been developed specifically to exploit the unique characteristics of the Internet and e-commerce. We estimate that the volume of

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Internet commerce will increase from approximately \$12 billion in 1997 to over \$400 billion in 2002.

Advertising revenue has also played an important role in the growth of the Internet. Attracted by increasing numbers of users, Internet-based businesses have developed that are supported primarily by advertising revenue. Traditional businesses have also realized incremental advertising spending from their Web sites. We estimate that Internet advertising spending will grow from \$1.9 billion in 1998 to \$7.7 billion in 2002.

### GROWTH OF INTERNET TECHNOLOGY, CONTENT AND INFRASTRUCTURE.

Organizations are supporting their Internet-based systems by investing heavily in technology, content, and infrastructure. Forrester Research estimates that spending on software and services for e-commerce alone will exceed \$5.6 billion in 1998 and \$35 billion by 2002. The creation of Internet content continues to grow rapidly by any measure. For example, as of May 27, 1998, the AltaVista search engine had indexed more than 140 million Web pages, an increase of more than 40 million pages in the first five months of 1998.



The Internet uses Web and specialized servers for different tasks and forms of communications. For example, specialized servers are used for Web browsing, email, chat, news groups, file transfers, and audio and video streaming. A measure of the growth of the Internet infrastructure is the number of Web and other Internet servers that are installed. These servers respond to requests for information and manage data. We estimate that the number of Web and other Internet servers installed will grow from approximately 6.3 million in 1998 to nearly 12 million in the year 2002.

#### OUR SUITE OF PRODUCTS

##### TRANSMISSION CONTROL PROTOCOL/INTERNET PROTOCOL.

Transmission Control Protocol/Internet Protocol, which we refer to below as "TCP/IP," is a suite of communications protocols that have been adopted as a standard and enable the communications that take place on the Internet. As a standard, TCP/IP enables Internet users to adopt or acquire pre-made, "off the shelf" products, such as those of Pacific Softworks, and eliminates the need by those users to develop a proprietary communications infrastructure on their own. The TCP/IP stack is a collection of components consisting of various layers of protocols and programs that operate together to transfer data over the Internet. These protocols include the Internet Protocol, various messaging and addressing protocols, and the Transmission Control Protocol.

Embedded systems consist of a microprocessor and related software incorporated into a product and dedicated to performing a specific set of tasks. The market for embedded Internet applications continues to grow substantially as customers deploy TCP/IP based networks. TCP/IP and related technologies are emerging as the building blocks for next-generation wired and wireless networks. According to Datapro, total industry sales of TCP/IP products is projected to grow at a compounded annual growth rate of 11.6% with industry sales rising from \$1.6 billion in 1995 to \$2.7 billion in 2000.

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We believe that key elements defining our market today include the following:

- o TCP/IP is a commodity type product that remains a key component of the Internet. Generic public domain software for TCP/IP is available at low cost.
- o The competitive market for TCP/IP products currently focuses on selling value-added applications, such as file transfer protocols (FTPs) designed to send large files over the Internet, email, and management tools that enhance the embedded protocol stack.
- o The market is migrating away from proprietary protocols to Internet protocols.
- o Manufacturers continue to implement Internet and Web embedded software in a growing number of consumer and industrial information appliances.
- o International market growth will ultimately outpace market growth in the United States.
- o As more powerful microprocessors become available and decrease in price, embedded systems are being used in a wider range of applications and are facilitating the development of a new generation of information appliances. Emerging embedded Internet applications for interactive entertainment, network computers, remote management and other uses may offer significant additional

opportunities for embedded systems and information appliances.

- o Manufacturers of products using embedded technology must bring complex applications for embedded systems to market rapidly and economically. Developing embedded applications has evolved from a relatively modest programming task to a complex engineering effort. As more powerful and affordable 32-bit and 64-bit microprocessors have become available, products based on them have become richer in features and functions.
- o More sophisticated software solutions are required to develop these more complex applications, frequently including a real-time operating system, which we refer to elsewhere in this prospectus as "RTOS," and Internet and Web products that provide developers with far more features, higher performance and greater productivity than those necessary or feasible for programming prior generations of microprocessors. Our flexible software solutions and powerful development tools allow our customers to create and standardize complex, embedded software applications quickly and efficiently.
- o As embedded applications increase in complexity, the costs associated with providing software development, support and training of engineers are rising rapidly. In this environment, time-to-market, conformance to standards and product reliability have become critical issues for companies developing information appliances and other devices which may be connected to the Internet.

We have designed FUSION products with the developer in mind. The FUSION solution assists system developers by adding compliant Internet protocols and applications to their products. FUSION products are very flexible and portable. Our products are not dependent on any particular hardware or software. Our products are also designed for easy integration.

Our FastTrack(TM) development products provide a pre-built "drop-in solution" that facilitates quick and easy protocol implementation within the products of our customers. FUSION FastTrack(TM) solutions provide users with a complete suite of networking tools to ease the development and porting of new projects. Our customers do not face the uncertainty of trying to determine what components will work with FUSION. Our engineers have integrated FastTrack(TM)

with the processor, operating system, compiler, debugger and development board to assure a certified drop-in solution that moves a customer's project to more rapid completion. A user need only add its application and then transfer our software to the targeted hardware or device.

FUSION FastTrack(TM) products are not dependent on any particular processor. They have been and are currently being developed for several families of processors including those of:

- |   |                        |
|---|------------------------|
| o Advanced Micro Devices                      | o LSI Logic            |
| o Advanced Risc Machines                      | o MIPS Technologies    |
| o Analog Devices                              | o Motorola Corporation |
| o ARC   | o NEC                  |
| o Hitachi                                     | o Philips              |
| o Hyperstone                                  | o Siemens              |
| o Intel Corporation                           | o ST Microsystems      |
| o International Business Machines Corporation | o Texas Instruments    |

Pacific Softworks' Internet and Web products provide an integrated suite of critical functions which feature:

- o a small sized, fast, efficient, high performance embedded Internet

protocol stack,

- o an extensive range of Internet and Web applications,
- o custom-built software code, not based on public domain sources,
- o mature software code, tested and used in a wide variety of products by companies including Sony, Motorola, Hewlett-Packard, Intel, IBM, Lucent, Cisco and VLSI,
- o code developed for embedded systems and information appliances with fine tuning capabilities built into the code to optimize Internet connectivity for specific applications,
- o multiple interface software support for most of the popular communication chip sets, and
- o pre-built ready to add "drop-in solutions" for easy integration of customer application software across multiple processor platforms.

## OUR PRODUCTS

### OUR INTERNET AND APPLICATION PRODUCTS

FUSION TCP/IP. This product enables data to be transported over the Internet. Our product is not dependent on any particular processor, operating system or compiler. FUSION is high performance, small, tunable, and can be easily incorporated in a customer's information appliances.

FusOS. This product is our FUSION operating system. Customers may choose to use FusOS or remove it from our Internet product and replace it with any commercial operating system of their choice.

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FUSION 6. This product is our major TCP/IP upgrade. We are designing this application to provide greater security and flexibility in connection with the next generation Internet Protocol. We expect to introduce this product within the next 12-18 months.

FUSION IPsec. This product is the FUSION IP security protocol suite which provides privacy and authentication services at the Internet Protocol layer. IPsecurity uses advanced encryption algorithm keys and is designed to provide secure financial and e-commerce transactions from information appliances over the Internet.

FUSION Mobile IP. We are designing this product for use within wireless and cellular applications. Internet protocols do not currently operate efficiently in wireless environments. We are designing Mobile IP to handle information processing delays and interruptions associated with Internet protocols in wireless applications.

FUSION Satellite IP. This product adds the power and scalability required for Internet protocols to work in a slow-start or delayed environment such as in satellites and set-top boxes. FUSION Satellite IP is designed to handle communication over satellite links for uplink and downlink modes, and adapts to the delays inherent in satellite communications.

FUSION RIP, Routing Information Protocol. Widely accepted as a standard routing protocol, RIP routers send broadcast messages onto a network, and contain routing information about the network. This information is shared among all the RIP-capable routers in a network thereby allowing each router to understand where it exists in a network and where its routes lead. RIP specifies how routers exchange routing table information. Currently, there are industry

standards which describe the specifications required to implement RIP. The FUSION RIP protocol is a high-performance portable software engine that implements IP forwarding and route generation consistent with industry standards. With RIP, routers periodically exchange entire tables of routing data. Because this is inefficient, RIP is gradually being replaced by a newer protocol called Open Shortest Path First Protocol (OSPF).

FUSION OSPF. This product is a portable software engine that fully implements the Open Shortest Path First Protocol (OSPF) to provide routing. It has been designed specifically for use in high performance multi-protocol routers. OSPF defines how routers share routing information. Unlike RIP, which transfers entire tables of routing data, OSPF transfers only routing information which has changed since the previous transfer. As a result, use of this protocol reduces the amount of data to be transmitted and conserves system resources.

FUSION PPP, Point-to-Point Protocol. This product provides a method for transmitting packets of data known as datagrams over serial point-to-point links. This application links one device to another over telephone lines and cable.

FUSION MultiLink PPP. Both FUSION PPP and MultiLink PPP modules are portable to any processor. MultiLink PPP extends PPP over multiple links or channels. MultiLink PPP allows users to broadcast data simultaneously to multiple devices within various environments allowing users to dynamically combine available links and increase usable aggregate data bandwidth.

FUSION SNMP, Simple Network Management Protocol. SNMP is a set of protocols that interfaces transparently into FUSION TCP/IP. SNMP helps to manage and control devices over the Internet.

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FUSION FTP, File Transfer Protocol. This application software allows the efficient sharing of files, programs or data between devices over the Internet. FTP also provides a secure way to allow or deny access to specific files or directories between diverse systems.

FUSION TFTP, Trivial File Transfer Protocol. This is a subset of FTP that allows the efficient transferring of files between diverse host systems without the extended features and potential overhead associated with FTP. TFTP is designed with small size and easy implementation in mind for devices with minimal memory.

FUSION Telnet. This product is a general, bi-directional oriented communications application which allows a standard method of interfacing or connecting terminal devices and terminal-oriented processes to each other. This application can be used for terminal-to-terminal and/or application-to-application communications.

FUSION SMTP, Simple Mail Transfer Protocol. This product is a protocol used for sending email messages between servers. SMTP is generally used to send messages from a mail client to a mail server. SMTP is independent of any transmission protocol or operating system and only requires a reliable data stream. We have designed FUSION SMTP to be small, efficient and easy to implement in virtually any environment.

FUSION POP3, Post Office Protocol Version 3. This software provides messaging capability within products or systems that do not have the memory or other resources to use SMTP or where there is no continuous Internet connection. POP3 is typically used to access and retrieve email that is being held on a mail server. Most email applications, sometimes called an email client, use a POP Protocol. POP3 is independent of any transport protocol or operating system and is typically implemented over TCP. We have designed FUSION POP3 to be a small, efficient messaging client that is easy to implement in environments where

memory and system resources are sparse.

FUSION BOOTP, Bootstrap Protocol. This is an Internet protocol that enables a diskless device to discover its own IP address, the IP address of a BOOTP server on the network, and a file to be loaded into memory to activate or boot the device. This application software allows the efficient sharing of files, programs or data between diverse host systems. BOOTP also provides a secure way to allow or deny access to specific files or directories between diverse systems.

FUSION DHCP, Dynamic Host Configuration Protocol. This is a protocol for assigning dynamic addresses to devices on the Internet. With dynamic addressing, a device can have a different address every time it connects to the Internet. DHCP also supports a mix of fixed and dynamic Internet addresses. Dynamic addressing simplifies network administration because the software keeps track of the addresses rather than requiring an administrator to manage the task. This means that a device can be added to the Internet without the difficulties associated with manually assigning it a unique address. Many Internet service providers use dynamic addressing for dial-up users.

#### OUR WEB PRODUCTS

Our FUSION WebPilot Micro Browser(TM) is a completely embedded browser aimed at applications like set-top boxes, wired and wireless telephones, other hand-held information appliances, kiosks, and other remote Internet information appliances. This application has been designed for limited memory environments and is independent of the operating system, processor or compiler. It is applicable across multiple platforms.

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Unlike other browsers based on Windows(R), the FUSION WebPilot Micro Browser(TM) is designed for small space applications. Our browser has also been designed from scratch for embedded applications. Unlike other browsers, it is not a modified or simplified version of existing PC code. Pacific Softworks believes that its product is the only embeddable Web browser that currently can make this claim. Our product provides full browsing capabilities in an embedded environment without needing a full PC-type operating system or Microsoft Windows(R). In addition to browsing capabilities, the FUSION WebPilot Micro Browser(TM) family of products will include email and e-commerce applications in the embedded environment.

The FUSION WebPilot Micro Browser(TM) has its own embedded windowing and graphical support. These features allow users to create custom designs and custom fonts and icons. We believe that these features are an attribute particularly important in addressing foreign languages such as Japanese and in the development of branded presentation screens.

We have designed the FUSION WebPilot Micro Browser(TM) to permit incorporation of various add-on modules. Our browser will have a functionality and presentation similar to that of the much larger PC-based browsers such as Internet Explorer and Netscape but with substantially reduced memory requirements.

FUSION Embedded Web Server. This application software allows any user on the Internet easily to manage or monitor any device connected to the Internet. It provides an easy way to deliver powerful Web-based applications in generally understood graphical formats. Using FUSION Internet protocols, FUSION Web Server provides integrated Web services. It provides Web servers with the capability to look at and manage any Internet connected devices through the Web. Examples of such uses include:

- o video cameras,

- o vending machines,
- o utility power meters,
- o medical equipment, and
- o other remote devices.

The FUSION Web Server is compatible with FUSION WebPilot Micro Browser(TM) and all other standard browsers including Netscape, Mosaic, and Internet Explorer, on all platforms.

#### SERVICES AND SUPPORT

Pacific Softworks provides comprehensive customer service and support which help customers realize the value and potential of our products.

#### TRAINING CLASSES.

We offer several training courses and workshops for an additional fee. We provide courses monthly at our executive office in California or in the United Kingdom. We also provide training courses at customer sites. We tailor these training courses to meet specific customer needs and schedules.

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#### TECHNICAL SUPPORT.

Our technical support staff assists customers with problems and questions in the installation and use of our products. We bundle technical support with product updates and maintenance on an annual fee basis.

#### ENGINEERING SERVICES.

We provide a number of services on a fee-for-service basis, including application-level consulting, customization, and porting to proprietary semiconductor architectures. We coordinate and perform these services in North America, Japan and Europe.

#### INDUSTRY COLLABORATION

Pacific Softworks works with various companies in jointly developing products for the Internet market for those companies and their customers. We have described some of our more significant collaborations below. We plan to continue developing these and other relationships.

**INTEL.** Under a program called "wired for manageability," Intel has partnered with Pacific Softworks and has incorporated FUSION Internet software products into various Intel products.

**MOTOROLA.** Pacific Softworks and Motorola have collaborated for a number of years on providing Internet connectivity for most of the Motorola product families. Pacific Softworks has provided Internet solutions for Motorola customers. In return members of the Motorola sales force and application engineers have recommended Pacific Softworks as a solution partner to their customers.

**ST MICROELECTRONICS.** ST Microelectronics has worked with Pacific Softworks in the United States and Europe on incorporating our products with ST Microsystems set-top box, cable modems and other product designs.

**ADVANCED RISC MACHINES ("ARM").** ARM and Pacific Softworks have worked together to incorporate FUSION products onto the ARM7 development board, a foundation used for the development of other products. ARM recommends Pacific

Softworks products to its customers.

TEXAS INSTRUMENTS ("TI"). Since late 1998 TI has been evaluating the FUSION Protocols on its set-top box development board. We are currently discussing joint development for new TI products. In addition, FUSION Internet protocols have been incorporated into certain of TI's digital signal processors.

ANALOG DEVICES INC ("ANALOG"). Analog has licensed both our browser and our email technology for use in conjunction with its SHARC chip set. The license is royalty bearing. These digital signal processors are targeted at a variety of communications applications including digital television and video phones. Our software will be bundled with the chip set that will also form part of Analog's SHARC development platform design. We expect to work with Analog to meet the requirements of its customers worldwide and to work on joint developments for next generation appliance technology.

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#### TOOLS AND OPERATING SYSTEM COLLABORATION

We currently work or collaborate with the following companies in developing and expanding our FastTrack(TM) suite of products:

GREENHILLS SOFTWARE. Several of our FastTrack(TM) developer kits are based on GreenHills' tools suite. These products provide a strong development environment and are well accepted in the embedded market.

EXPRESS LOGIC. We have worked with Express Logic for two years. We believe that Express Logic has superior real-time operating systems products for the embedded market. Most of Pacific Softworks' FastTrack(TM) solutions are built using this real-time operating system. In addition, with the exception of Germany and Switzerland, Pacific Softworks distributes Express Logic software code on a non-exclusive basis worldwide.

DIAB DATA CORPORATION. Pacific Softworks has worked with Diab Data for over three years on Motorola platforms. Diab Data is a leading supplier of software tools for Motorola based products.

SOFTWARE DEVELOPMENT SYSTEMS (SDS). Pacific Softworks has collaborated with SDS to use the SDS compiler for Motorola platforms. Based on informational available to us, we believe that SDS has over 50% of compiler sales for Motorola products.

GAIO JAPAN. GAIO is the largest supplier of integrated tools in Japan. We are currently building our Hitachi FastTrack(TM) products with the complete tools suite from GAIO. In return we believe we have become the Internet software supplier of choice for GAIO.

#### WIDE AREA NETWORK (WAN) COLLABORATION

TELENETWORKS. Telenetworks and Pacific Softworks have recently co-developed a complete router reference platform with Motorola for the small office/home office market. This router reference platform is being reviewed by 3COM and other companies. The collaboration is continuing for other wide area network products. Pacific Softworks is a worldwide value added reseller for Telenetworks. The combination of our products with those of Telenetworks provides a complete WAN/LAN solution for the products manufactured by our customers.

UNISOFT JAPAN. Unisoft is experienced in developing and integrating Internet and Web protocols for customer applications. In addition it provides wide area network solutions for the Japanese market. Pacific Softworks and Unisoft have cooperated on several joint developments involving our FUSION WebPilot Micro Browser(TM) within automobile navigation systems.

## CUSTOMERS

Since incorporation in 1992, Pacific Softworks has licensed its products to over 400 companies around the world, including: Alcatel, AT&T, America OnLine, Canon, Canal+, Cisco, Cocom, Bell Labs, Data General, Concurrent Technologies, Ericsson, General Instruments, Hughes, Honeywell, Hewlett Packard, Intel, Motorola, Newbridge, Nortel, Psion, Philips, Samsung, Siemens, ST Microsystems, Tandberg, Unisys, and VLSI.

No single customer accounted for more than 10% of our total revenue in 1997 or 1998.

## MARKETING, SALES AND DISTRIBUTION

In North America, Europe and Japan, we market our products and services primarily through our own direct sales organization, which consists of salespersons and field application engineers. As of December 31, 1998, Pacific Softworks had four domestic salespersons and field

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application engineers located in North America, one salesperson and field application engineer in Europe and three sales and marketing employees in Japan.

Pacific Softworks distributes its products in Japan through a wholly owned subsidiary, Network Research Corporation Japan (NRCJ). Pacific Softworks has licensed its products exclusively to NRCJ for distribution in Japan.

Pacific Softworks has appointed international distributors to serve customers in regions not serviced by our direct sales force. We also collaborate with semiconductor and software vendors and work closely with a number of system integrators worldwide. These relationships enable us further to broaden the geographic and market scope for our products.

Revenue from international sales represented approximately 52% and 58% of our total revenue in fiscal 1997 and 1998. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and note 11 of notes to consolidated financial statements for a summary of operations by geographic region.

Pacific Softworks has experienced, and expects to continue to experience, significant seasonality of revenue resulting primarily from customer buying patterns and product development cycles. See "Risk Factors." We have generally experienced the strongest demand for our products in the fourth quarter of each fiscal year and the weakest demand in the first quarter of each fiscal year. Quarterly revenue typically decreased in the first quarter of each fiscal year from the fourth quarter of the prior fiscal year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## COMPETITION

The embedded Internet and Web-based software industry is highly competitive and is characterized by rapidly advancing technology. Pacific Softworks believes that it competes favorably in its markets on the basis of:

- o product capabilities,
- o price/performance characteristics,
- o product portability,
- o ease of use, and



- o support services and corporate reputation.

We compete with other independent software vendors, including Wind River Systems, Inc., Integrated Systems, Inc., Mentor Graphics, Inc. (through its acquisition of Microtec/Ready Systems), Microware Systems Corporation and Microsoft Corporation. In addition, hardware or other software vendors could seek to expand their product offerings by designing and selling products that directly compete with or adversely affect sales of our products.

Many of our existing and potential competitors have substantially greater financial, technical, marketing and sales resources than we have. We are aware of ongoing efforts by competitors to emulate the performance and features of our products and we can provide no assurance that competitors will not develop equivalent or superior technology to that of Pacific Softworks.

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Because we have been substantially dependent on our TCP/IP family of Internet products and services, the effects of competition could be more adverse on us than would be the case if we had a broader product offering. In addition, competitive pressures could cause us to reduce the prices of our products, which would result in reduced profit margins. We cannot assure you that we will be able to compete effectively against our current and future competitors. If Pacific Softworks is unable to compete successfully, its business, financial condition and operating results would be materially adversely affected.

#### PRODUCT DEVELOPMENT AND ENGINEERING

Pacific Softworks believes that its success will depend in large part on its ability to:

- o maintain and enhance its current product line,
- o develop new products,
- o maintain technological competitiveness, and
- o meet an ever-expanding range of customer requirements.

During 1997 and 1998 we incurred product development and engineering expenses of \$834,049 and \$851,568. We intend to increase our commitment to product development and engineering for 1999. See "Use of Proceeds."

The embedded software industry faces a fragmented market characterized by ongoing technological developments, evolving industry standards and rapid changes in customer requirements. Our success depends and will continue to depend upon our ability to:

- o develop and introduce in a timely manner new products that take advantage of technological advances,
- o identify and implement emerging standards,
- o continue to improve the capabilities of our development environment and the scalability and features of the TCP/IP and WebPilot Micro Browser(TM) products,
- o offer our products across a spectrum of microprocessor families used in the embedded systems market, and
- o respond promptly to customers' requirements.

Pacific Softworks has from time to time experienced delays in the development of new products and the enhancement of existing products. These

delays are commonplace in the software industry. We cannot assure you that we will be successful in developing and marketing, on a timely basis or at all, competitive products, product enhancements and new products that respond to technological change and changes in customer requirements. We also cannot assure you that our enhanced or new products will adequately address the changing needs of the marketplace. The inability of Pacific Softworks, due to resource constraints or technological or other reasons, to develop and introduce new products or product enhancements in a timely manner could have a material adverse effect on our business, financial condition or operating results.

From time to time, Pacific Softworks or its competitors may announce new products, capabilities or technologies that have the potential to replace or shorten the life cycles of our

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existing products. We cannot assure you that announcements of currently planned or other new products by us or others will not cause customers to defer purchasing existing products. Any failure by Pacific Softworks to anticipate or respond adequately to changing market conditions, or any significant delays in product development or introduction, could have a material adverse effect on our business, financial condition and operating results.

As a result of their complexity, software products may contain undetected errors or compatibility issues, particularly when first introduced or as new versions are released. Despite testing by us and testing and use by current and potential customers, it is always possible for errors to be found in new products after shipments to our customers. The occurrence of these errors could result in loss of or delay in market acceptance of our products, which could have a material adverse effect on our business, financial condition and operating results.

Our products are increasingly used for applications in systems that interact directly with the general public, particularly applications in transportation, medical systems and other markets where the failure of the embedded system could cause substantial property damage or personal injury. This failure of our products could expose Pacific Softworks to significant product liability claims. In addition, our products may be used for applications in mission-critical business systems where the failure of the embedded system could be linked to substantial economic loss. Although Pacific Softworks has not experienced any product liability or economic loss claims to date, the sale and support of our products entail the risk of these claims.

#### PROPRIETARY RIGHTS

Pacific Softworks' success is heavily dependent upon its proprietary technology. We rely on a combination of:

- o copyright,
- o trade secret and trademark laws,
- o nondisclosure,
- o other contractual restrictions on copying, or distribution, and
- o technical measures

to protect our software, documentation and other written materials.

As a part of its confidentiality procedures, Pacific Softworks generally enters into nondisclosure agreements with its employees and consultants and limits access to and distribution of its software, documentation and other proprietary information. End user licenses of Pacific Softworks' software are

frequently in the form of source license agreements, which are signed by licensees, and which we believe may be enforceable under the laws of many jurisdictions.

Despite Pacific Softworks' efforts to protect its proprietary rights, unauthorized third parties may be able to copy our products or to reverse engineer or obtain and use information that we regard as proprietary. We can provide you with no assurance that competitors will not independently develop technologies that are substantially equivalent or superior to ours. Policing unauthorized use of our products is difficult. Pacific Softworks is unable to determine the extent to which software piracy of its products exists. Software piracy, however, can be expected to be a continuing and persistent problem.

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We believe that, due to the rapid pace of innovation within our industry, factors such as the technological and creative skills of our personnel are more important to establishing and maintaining a technology leadership position within the industry than are the various legal protections of our technology.

As the number of patents, copyrights, trademarks, trade secrets and other intellectual property rights in our industry increases, products based on our technology may increasingly become the subject of infringement claims. We can provide you with no assurance that third parties will not assert infringement claims against us in the future. Any of these claims with or without merit could:

- o be time consuming,
- o result in costly litigation,
- o cause product shipment delays, or
- o require us to enter into unwanted royalty or licensing agreements.

These royalty or licensing agreements, if required, may not be available on terms acceptable to us, or at all, which could have a material adverse effect on our business, financial condition and operating results.

In addition, we may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Litigation to determine the validity of any claims, whether or not such litigation is determined in favor of Pacific Softworks, could result in significant expense to Pacific Softworks and divert the efforts of our technical and management personnel from productive tasks. In the event of an adverse ruling in any such litigation, we might be required to:

- o pay substantial damages,
- o discontinue the use and sale of infringing products,
- o expend significant resources to develop non-infringing technology,  
or
- o obtain a license to the infringing technology.

#### MANUFACTURING AND BACKLOG

Our manufacturing operation consists of assembling, packaging and shipping the software products and documentation needed to fulfill each order. We manufacture our source code for sale and duplicate compact disks in our California facility. We use outside vendors to print documentation and manufacture packaging materials. We believe that backlog is not a meaningful

indicator of revenue that can be expected in future periods.

#### EMPLOYEES

As of December 31, 1998, Pacific Softworks employed 21 persons, including four in sales and marketing, 15 in product development, engineering and support and two in management, operations, finance and administration. Of these employees, 17 are located in North America, two are located in Japan and two are located in Europe. None of our employees is represented by a labor union or is subject to a collective bargaining agreement. We have never experienced a work stoppage. We believe that relations with our employees are good.

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#### PROPERTIES

Our executive offices are located in a leased facility in Newbury Park, California consisting of approximately 11,500 square feet of office space, substantially all of which is under a lease expiring September 15, 2000. Our monthly lease payment is approximately \$8,500. In Japan we have subleased space of approximately 700 square feet at a rate of approximately \$1,600 on a month to month basis. We believe that these facilities are adequate for our current needs and for expected personnel additions over the next 18 months.

#### LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

#### MANAGEMENT

##### DIRECTORS AND EXECUTIVE OFFICERS

The directors and executive officers of Pacific Softworks are:

Name - ----	Age ---	Position -----
Glenn P. Russell .....	44	Chairman, President, Chief Executive and Chief Financial Officer
Mark Sewell.....	37	Senior Vice President - Business Development
Sandra J. Garcia .....	37	Vice President - North American Sales
Robert G. J. Burg II .....	42	Director
Wayne T. Grau .....	49	Director
Reuben Sandler, Ph.D. ....	62	Director
Joseph Lechman .....	32	Secretary

Glenn P. Russell. Mr. Russell has been Chairman, President, Chief Executive and Chief Financial Officer of Pacific Softworks since 1992. Before 1992 he had various sales and marketing positions at IBM, Unisys and Network Research Corporation, a predecessor of Pacific Softworks. Mr. Russell is also an officer and director of Luke Systems International, a distributor of electronic components. Luke Systems International is controlled by Mr. Russell's spouse. See "Certain Transactions - Transactions with Affiliates." Mr. Russell devotes substantially all of his time to Pacific Softworks. Mr. Russell was educated in and is a native of the United Kingdom.

Mark Sewell. Mr. Sewell, a resident of the United Kingdom, has been the general manager for our European operations since 1996, with responsibility for European sales and business development. For over two years prior to 1996, he was the business and support manager for the Asia Pacific region of PictureTel, Inc. He received his masters degree in electrical and electronic engineering in 1985 from the University of Canterbury.

Sandra J. Garcia. Ms. Garcia joined Pacific Softworks in 1993 as its regional sales manager and became Vice President - North American Sales in 1996. Ms. Garcia graduated from Santa Barbara College in 1982.

Robert G. J. Burg II. Mr. Burg has been a director of Pacific Softworks since January 1999. He has been the president of Profile Sports, a corporate sports and outing entertainment business, since 1998. Prior to that, he was a senior vice president and also served as president of Royal Grip, Inc., a manufacturer and distributor of golf grips and sports headwear. Mr. Burg received a bachelor of arts degree from the University of Colorado in 1977. He currently serves on the boards of directors of EMD/Empyean Diagnostics, Ltd. and Royal Precision, Inc.

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Wayne T. Grau. Mr. Grau has been a director of Pacific Softworks since January 1999. He has been the president and chief executive officer of Fielding Electric, Inc. since 1981. He is currently a member of the Los Angeles Chapter membership committee of the National Electrical Contractors Association, a trustee for the Joint Apprenticeship Training Committee and a trustee for the Los Angeles Electrical Training Trust.

Reuben Sandler, Ph.D. Dr. Sandler has been a director of Pacific Softworks since January 1999. He has been the president and chief information officer for MediVox, Inc., a medical software development company, since June 1997. Before that he was an executive vice president for R&D Laboratories, Inc. and president and chief executive officer for IPA Information Systems, Inc. Dr. Sandler received a Ph.D. from the University of Chicago in 1961 and is the author of four books on mathematics. He currently serves on the boards of directors of MediVox, Inc. and Alliance Medical Corporation and is an advisor to the board of directors of R&D Laboratories, Inc.

Joseph Lechman. Mr. Lechman has been the secretary of Pacific Softworks since March 1999. He is a principal in the law firm of Gose & Lechman and has been practicing law in Ventura County, California since 1991. Mr. Lechman received his bachelor of arts degree in business administration in 1987 from California State University at Fullerton. He received his juris doctorate from Pepperdine University School of Law and was admitted to the State Bar of California in 1990. Mr. Lechman obtained a master's of law in taxation from the New York University School of Law in 1991. He focuses his practice primarily on business law, tax planning, estate planning and real estate law.

#### BOARD OF DIRECTORS

Directors are elected for a one year term. Each director holds office until the expiration of his term, until his successor has been duly elected and qualified or until the earlier of his resignation, removal or death. Each officer serves at the discretion of the board of directors. There are no family relationships among any of our directors or officers.

Commencing March 1999, directors receive \$200 for attending meetings of the board of directors. We will also reimburse our directors for actual and reasonable out of pocket expenses incurred when attending board of directors and committee meetings. Directors who are not employees are eligible to participate in the 1998 Equity Incentive Program and received options to purchase 15,000 shares of common stock upon their election to the board of directors. See "Management - Equity Incentive Program."

#### COMMITTEES OF THE BOARD OF DIRECTORS

The board of directors maintains a compensation committee and an audit committee. The compensation committee is composed of Reuben Sandler, chair, Robert Burg and Wayne Grau. The audit committee is composed of Robert Burg, chair, Reuben Sandler and Wayne Grau. The compensation committee reviews and

makes recommendations to the board of directors on compensation matters, including bonuses, of Pacific Softworks' officers and administers the grants under Pacific Softworks' equity incentive program. The audit committee:

- o reviews the scope of the audit procedures employed by our independent auditors,
- o reviews our accounting practices and policies with our independent auditors,
- o recommends to whom reports should be submitted within Pacific Softworks,

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- o reviews with the independent auditors their final audit reports,
- o reviews Pacific Softworks' overall accounting and financial controls with our internal and independent auditors,
- o has its members available to the independent auditors for consultation,
- o approves the audit fee charged by the independent auditors,
- o reports to the board of directors with respect to the matters described above, and
- o recommends the selection of the independent auditors.

EXECUTIVE COMPENSATION

The following table sets forth the compensation earned by our chief executive officer, senior vice president, and vice president for services, or the named executive officers, rendered during the fiscal years ended December 31, 1998, 1997 and 1996. No other executive officer of Pacific Softworks earned or was paid compensation of more than \$100,000 in the year ended December 31, 1998.

SUMMARY COMPENSATION TABLE

Name and Principal Position -----	Year ended Dec. 31 -----	Annual Compensation -----	
		Salary -----	Bonus -----
Glenn P. Russell	1998	\$ 207,962	\$ --
Chairman, President, Chief Executive and	1997	215,384	118,201
Chief Financial Officer	1996	162,501	--
Mark Sewell	1998	134,822	--
Senior Vice President - Business	1997	115,885	--
Development	1996	58,161	--
Sandra J. Garcia	1998	120,442	--
Vice President - North American Sales	1997	154,563	--
	1996	175,750	--

Pacific Softworks paid Glenn P. Russell \$118,201 in 1997 in addition to his salary to permit Mr. Russell to pay 1996 personal tax obligations arising from Pacific Softworks' S corporation status. In February 1999 Pacific Softworks terminated the subchapter S election and became subject to taxation at the corporate level.

OPTION GRANTS IN 1998:

The following table sets forth each grant of stock options to named executive officers during the fiscal year ended December 31, 1998:

Name	Number of Shares Underlying Options	Exercise Price
----	-----	-----
Mark Sewell	70,000	\$1.25
Sandra J. Garcia	70,000	\$1.25

The expiration date for each of the options described in the table above is June 25, 2008. These options were not granted under, and are separate from, our equity incentive program. The options may be exercised at any time during their term.

CHANGE OF CONTROL ARRANGEMENTS

The compensation committee of the board of directors, as plan administrator of the 1998 Equity Incentive Program, has the authority to provide for accelerated vesting of outstanding options held by any executive officer or director or recipient upon certain changes in control of Pacific Softworks.

EQUITY INCENTIVE PROGRAM

Our 1998 equity incentive program was adopted by the board of directors and approved by stockholders in April 1998. The number of shares of common stock reserved for issuance under the equity incentive program is 320,000 shares. As of December 31, 1998, no options were granted under the equity incentive program. Under the equity incentive program, employees, non-employee members of the board and consultants may be awarded options to purchase shares of common stock, stock appreciation rights ("SARs"), restricted shares or stock units (collectively, the "Awards"). Options may be incentive stock options designed to satisfy Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") or nonstatutory stock options designed not to meet those requirements. If restricted shares or shares issued upon the exercise of options granted under this plan are forfeited, then these shares will again become available for awards under the equity incentive program. If stock units, options or SARs granted under the equity incentive program are forfeited or terminate for any other reason before being exercised, then the corresponding shares will again become available for awards under the equity incentive program.

The equity incentive program is administered by the compensation committee of the board of directors. This committee has complete discretion to:

- o determine who should receive any Award,
- o determine type, number, vesting requirements and other features and conditions of an Award,
- o interpret the equity incentive program, and
- o make all other decisions relating to the operation of the equity incentive program.

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The exercise price for statutory and incentive stock options granted under the equity incentive program may not be less than 85% or 100%, respectively, of the fair market value of the common stock on the option grant date and may be paid in cash or in outstanding shares of common stock. Holders may exercise options by using a cashless exercise method, a pledge of shares to a broker or promissory note. The payment for an award of newly issued restricted shares will be made in cash, by promissory note or the rendering of services.

The committee has the authority to modify or extend outstanding options and stock appreciation rights. The committee may also accept the cancellation of outstanding options or stock appreciation rights in return for a grant of new options or stock appreciation rights for the same or a different number of shares at the same or a different exercise price.

If there is a change in control of Pacific Softworks, an Award will become fully exercisable as to all shares subject to an Award if the Award is not assumed by the surviving corporation or its parent and the surviving corporation or its parent does not substitute such Award with another award of substantially the same terms. In the event of an involuntary termination of service within 18 months following a change in control, all of the Awards then outstanding and not vested will then be fully vested.

A change in control includes (i) a merger or consolidation of Pacific Softworks after which Pacific Softworks' then current stockholders own less than 50% of the surviving corporation, (ii) sale of all or substantially all of the assets of Pacific Softworks, (iii) a proxy contest that results in replacement of more than one-third of the directors over a 24-month period, or (iv) acquisition of 50% or more of our outstanding stock by a person other than a trustee of Pacific Softworks' equity incentive program or a corporation owned by the stockholders of Pacific Softworks in substantially the same proportions as their stock ownership in Pacific Softworks. In the event of a merger or other reorganization, outstanding options, stock appreciation rights, restricted shares and stock units will be subject to the agreement of merger or reorganization, which may provide for the assumption of outstanding awards by the surviving corporation or its parent, for their continuation by Pacific Softworks (if Pacific Softworks is the surviving corporation), for accelerated vesting and for settlement in cash followed by cancellation of outstanding awards.

The board of directors may amend or terminate the equity incentive program at any time. Amendments may be subject to stockholder approval to the extent required by applicable laws. The equity incentive program will continue in effect unless otherwise terminated by the board of directors.

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#### CERTAIN TRANSACTIONS

##### SHARE PURCHASE AGREEMENT - MINORITY stockholder

In March 1996, Pacific Softworks agreed with a former officer, director and principal stockholder to a buyout of his employment agreement and Glenn P. Russell agreed to purchase all of that former officer's shares of common stock of Pacific Softworks. Pacific Softworks and that former officer also entered into a consulting agreement and that former officer agreed not to compete with Pacific Softworks. Pacific Softworks paid the former officer \$314,286 for each



of 1997 and 1998. At December 31, 1998 the balance of our payments due to this former officer under these agreements was \$236,000. This amount is payable in equal monthly installments through September 1999. See note 13(c) of notes to consolidated financial statements. The agreement restricts us from making any distributions to stockholders, other than those necessary for tax liabilities resulting from corporate earnings during the time we were an S corporation. We are also prohibited from paying executive compensation in excess of certain levels. The obligations under the agreement are secured by substantially all of the outstanding shares of common stock of Pacific Softworks owned by Glenn P. Russell and all assets of Pacific Softworks.

#### TRANSACTIONS WITH AFFILIATE

##### LOAN FROM AFFILIATE

In December 1998, Luke Systems International, a company controlled by the spouse of Glenn P. Russell loaned Pacific Softworks \$100,000 interest free. In March 1999, Pacific Softworks repaid the loan.

##### RENTAL OF PREMISES TO AFFILIATE

Pacific Softworks rents a portion of its premises to a company affiliated with our chief executive officer. We believe the terms of occupancy to be favorable to Pacific Softworks. We expect this affiliated company to relocate to other premises in or around the middle of 1999.

Pacific Softworks believes that the transactions set forth above were made on terms no less favorable to Pacific Softworks than could have been obtained from unaffiliated third parties. All future related party transactions will be approved by a majority of the board of directors, including a majority of the independent and disinterested outside directors on the board of directors, and will be made on terms no less favorable to Pacific Softworks than could be obtained from unaffiliated third parties.

#### INDEMNIFICATION

Our articles of incorporation limit the liability of our directors for monetary damages arising from a breach of their fiduciary duty as directors, except to the extent otherwise required by the California General Corporation Law. This limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our bylaws provide that Pacific Softworks shall indemnify its directors and officers to the fullest extent permitted by California law, including in circumstances in which indemnification is otherwise discretionary under California law. Pacific Softworks has also entered into indemnification agreements with its officers and directors containing provisions that may require Pacific Softworks, among other things, to indemnify these officers and directors against certain liabilities that may arise by reason of their status or service as directors or officers (other than

liabilities arising from willful misconduct of a culpable nature), to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified, and to obtain directors' and officers' insurance if available on reasonable terms.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and control persons of Pacific Softworks pursuant to the foregoing provisions, or otherwise, Pacific Softworks has been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding beneficial ownership of our common stock as of the date of this prospectus, and as adjusted to reflect the sale of the units offered by this prospectus, by:

- o each person who is known by Pacific Softworks to own beneficially more than 5% of our outstanding common stock,
- o each of our executive officers and directors, and
- o all executive officers and directors as a group.

Shares of common stock not outstanding but deemed beneficially owned because an individual has the right to acquire the shares of common stock within 60 days are treated as outstanding only when determining the amount and percentage of common stock owned by that individual. Each person has sole voting and investment power with respect to the shares of common stock shown. The address of each person is 703 Rancho Conejo Boulevard, Newbury Park, California 91320.

Name and Address of Beneficial Owner -----	Number of Shares Beneficially Owned -----	Percentage of Shares Outstanding -----	
		Prior to Offering -----	Following Offering -----
Glenn P. Russell .....	3,000,000	90.91%	73.17%
Mark Sewell .....	70,000	2.01	1.68
Sandra J. Garcia .....	70,000	2.01	1.68
Robert G. J. Burg II .....	15,000	*	*
Wayne T. Grau .....	15,000	*	*
Reuben Sandler, Ph.D. ....	15,000	*	*
All directors and executive officers as a group (7 persons)	3,185,000	91.39%	74.33%

The foregoing table includes shares of common stock issuable upon exercise of options granted to two officers and to each of our three non-employee directors. Asterisks in the foregoing table indicate beneficial ownership of less than 1%.

DESCRIPTION OF SECURITIES

The authorized capital stock of Pacific Softworks consists of 50,000,000 shares of \$0.001 par value common stock and 10,000,000 shares of \$0.01 par value preferred stock, which Pacific

Softworks may issue in one or more series as determined by the board of directors. There currently are 3,300,000 shares of common stock issued and outstanding that are held of record by three stockholders.

UNITS

Each unit being offered in this prospectus consists of one share of common stock and one warrant. The common stock and warrants are separately transferable. There is currently no trading market for the common stock or

warrants of Pacific Softworks, and we can provide no assurance that a trading market will develop in the future.

#### PREFERRED STOCK

Pacific Softworks' board of directors is authorized to issue from time to time, without stockholder authorization, in one or more designated series, any or all of the authorized but unissued shares of preferred stock with such dividend, redemption, conversion, and exchange provisions as may be provided by the board of directors with regard to such particular series. Any series of preferred stock may possess voting, dividend, liquidation, and redemption rights superior to those of the common stock.

The rights of the holders of common stock will be subject to and may be adversely affected by the rights of the holders of any preferred stock that may be issued in the future. Issuance of a new series of preferred stock could make it more difficult for a third party to acquire, or discourage a third party from acquiring, the outstanding shares of common stock of Pacific Softworks and make removal of the board of directors more difficult. No shares of preferred stock are currently issued and outstanding, and Pacific Softworks has no present plans to issue any shares of preferred stock.

#### COMMON STOCK

Each holder of record of common stock is entitled to one vote for each share held on all matters properly submitted to the stockholders for their vote. Stockholders may cumulate their votes in the election of directors.

Holder of outstanding shares of common stock are entitled to those dividends declared by the board of directors out of legally available funds and, in the event of liquidation, dissolution or winding up of the affairs of Pacific Softworks, holders are entitled to receive, pro rata, the net assets of Pacific Softworks available to the common stockholders. Holders of outstanding common stock have no preemptive, conversion or redemption rights. All of the issued and outstanding shares of common stock are, and all unissued shares of common stock, when offered and sold will be, duly authorized, validly issued, fully paid and nonassessable. To the extent that additional shares of common stock may be issued in the future, the relative interests of the then existing stockholders may be diluted.

The shares of common stock outstanding before this offering are restricted securities as that term is defined in Rule 144 under the Securities Act of 1933, as amended. Those shares cannot be resold without registration or an exemption from registration.

#### WARRANTS

Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$7.50 for a period of 24 months from the date of this prospectus, subject to Pacific Softworks' redemption rights described below. The warrants will be issued under the terms of a warrant agreement between Pacific Softworks and American Securities Transfer & Trust, Incorporated as warrant agent. Pacific Softworks has authorized and reserved for issuance the shares of common stock issuable on exercise of the warrants. The warrants are exercisable to purchase a total of 800,000 shares of common stock of Pacific Softworks. If the underwriters' over-allotment option relating to the warrants is exercised, the warrants are exercisable to purchase a total of 920,000 shares of common stock.

The warrant exercise price and the number of shares of common stock that may be purchased upon exercise of the warrants are subject to adjustment in the event of, among other events, a stock dividend on, or a subdivision,

recapitalization or reorganization of, the common stock, or the merger or consolidation of Pacific Softworks with or into another corporation or business entity.

Commencing 30 days from the date of this prospectus and until the expiration of the warrants, Pacific Softworks may redeem outstanding warrants, in whole but not in part, upon not less than 30 days' notice, at a price of \$0.05 per warrant. This right to redeem outstanding warrants is conditioned upon the closing bid price of the common stock equaling or exceeding \$8.00 per share for 15 consecutive trading days. We must provide the redemption notice not more than five business days after conclusion of the 15 consecutive trading days in which the closing bid price of the common stock equals or exceeds \$8.00 per share.

In the event Pacific Softworks exercises its right to redeem the warrants, the warrants will be exercisable until the close of business on the date fixed for redemption in such notice. If any warrant called for redemption is not exercised by such time, it will cease to be exercisable and the holder thereof will be entitled only to the redemption price.

Pacific Softworks must have on file a current registration statement with the SEC pertaining to the common stock underlying the warrants in order for a holder to exercise the warrants or in order for the warrants to be redeemed by Pacific Softworks. The shares of common stock underlying the warrants must also be registered or qualified for sale under the securities laws of the states in which the warrant holders reside. Pacific Softworks intends to use its best efforts to keep the registration statement incorporating this prospectus current, but we can give no assurance that the registration statement (or any other registration statement filed by Pacific Softworks covering shares of common stock underlying the warrants) can be kept current. In the event the registration statement covering the underlying common stock is not kept current, or if the common stock underlying the warrants is not registered or qualified for sale in the state in which a warrant holder resides, the warrants may be deprived of any value.

Pacific Softworks is not required to issue any fractional shares of common stock upon the exercise of warrants or upon the occurrence of adjustments pursuant to anti-dilution provisions. Pacific Softworks will pay to holders of fractional interests an amount equal to the cash value of such fractional interests based upon the then-current market price of a share of common stock.

Warrants may be exercised upon surrender of the certificate representing those warrants on or prior to the expiration date (or earlier redemption date) of such warrants at the offices of the warrant agent with the form of "Election to Purchase" on the reverse side of the warrant certificate

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completed and executed as indicated, accompanied by payment of the full exercise price by check payable to the order of Pacific Softworks for the number of warrants being exercised. Shares of common stock issued upon exercise of warrants for which payment has been received in accordance with the terms of the warrants will be fully paid and nonassessable.

The warrants do not confer upon the warrant holder any voting or other rights of a stockholder of Pacific Softworks. Upon notice to the warrant holders, Pacific Softworks has the right to reduce the exercise price or extend the expiration date of the warrants. Although this right is intended to benefit warrant holders, to the extent Pacific Softworks exercises this right when the warrants would otherwise be exercisable at a price higher than the prevailing market price of the common stock, the likelihood of exercise, and the resultant increase in the number of shares outstanding, may impede or make more costly a change in control of Pacific Softworks.

## ANTI-TAKEOVER PROVISIONS

Pacific Softworks' articles of incorporation and bylaws contain provisions that may make it more difficult for a third party to acquire, or may discourage acquisition bids for, Pacific Softworks. The board of directors of Pacific Softworks is authorized, without action of its stockholders, to issue authorized but unissued common stock and preferred stock. The existence of undesignated preferred stock and authorized but unissued common stock enables Pacific Softworks to discourage or to make it more difficult to obtain control of Pacific Softworks by means of a merger, tender offer, proxy contest or otherwise.

## TRANSFER AGENT, WARRANT AGENT AND REGISTRAR

Pacific Softworks has retained American Securities Transfer & Trust, Incorporated to serve as the transfer agent and registrar for the common stock and warrant agent for the warrants.

## SHARES ELIGIBLE FOR FUTURE SALE

On completion of this offering, Pacific Softworks will have 4,100,000 shares of common stock outstanding, assuming no warrants are exercised. If the underwriters' over-allotment option is exercised in full, 4,220,000 shares of common stock will be outstanding. Of these shares, 800,000 shares of common stock sold in this offering and any shares sold by Pacific Softworks upon exercise of the underwriters' over-allotment option will be freely transferable by persons other than "affiliates" of Pacific Softworks as that term is defined under the Securities Act of 1933, as amended, without restriction or further registration. In addition, 200,000 shares beneficially owned by two persons who are not employees of Pacific Softworks and up to 160,000 shares issuable upon exercise of warrants to purchase units, are being registered concurrently with this offering. These securities will be subject to certain sale restrictions imposed by the representative for a period of 13 months from the date of this prospectus. These restrictions may be waived by the representative, although it has no current intention to do so. See "Description of Securities - Additional Warrants to Purchase Securities."

The remaining 3,100,000 outstanding shares of common stock are "restricted securities" within the meaning of Rule 144 under the Securities Act and may not be sold in the absence of registration unless an exemption from registration is available, including the exemption contained in Rule 144. All of these shares become eligible for sale under Rule 144 commencing 90 days after the date of this prospectus. Under the terms of the underwriting agreement, the representative has required that the shares of common stock owned by officers, directors and the

current stockholders may not be sold until at least 13 months from the date of this prospectus without its prior written consent.

In general, under Rule 144 as currently in effect, a stockholder who has beneficially owned shares of common stock for at least one year is entitled to sell, within any three-month period, a number of "restricted" shares that does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to certain manner of sale limitations, notice requirements and the availability of current public information about Pacific Softworks. Rule 144(k) provides that a stockholder who is not deemed to be an "affiliate" and who has beneficially owned shares of common stock for at least two years is entitled to sell such shares at any time under Rule 144(k) without regard to the limitations described above. In addition to the shares of common stock that are currently outstanding, a total of 320,000 shares of common stock have been reserved for issuance upon exercise of options

granted under the equity incentive program.

Pacific Softworks is unable to estimate the number of shares that may be sold in the future by the existing holders of shares of Pacific Softworks' common stock or holders of options or warrants that are outstanding or the effect, if any, that sales of shares of common stock by such persons will have on the market price of the common stock prevailing from time to time. Sales of substantial amounts of common stock by such persons could adversely affect the then prevailing market prices of the common stock and warrants.

Pacific Softworks, its directors, executive officers and other stockholders have agreed pursuant to the underwriting agreement and other agreements that they will not sell any common stock without the prior consent of the representative for a period of 13 months from the date of this prospectus (the "lockup arrangements"), except that Pacific Softworks may, without this consent, grant options and issue shares under its equity incentive program. The representative has no current intention to waive or shorten the lock-up arrangements.

Pacific Softworks intends to file a registration statement on Form S-8 under the Securities Act to register shares of common stock issued or reserved for issuance under outstanding options and our equity incentive program within 180 days after the date of this prospectus, thus permitting the resale of these shares by nonaffiliates in the public market without restriction under the Securities Act. Pacific Softworks intends to register these shares on Form S-8, along with common stock underlying options that have not been issued under our equity incentive program as of the date of this prospectus. See "Underwriting" for a discussion of certain limitations imposed on the sale of common stock registered on the Form S-8 until expiration of the 13-month lockup arrangements.

#### ADDITIONAL WARRANTS TO PURCHASE UNITS

Pacific Softworks also has issued warrants to purchase 40,000 units to certain members of Resch Polster Alpert & Berger LLP, special counsel to Pacific Softworks in this offering, and warrants to purchase an additional 40,000 units to two persons who have provided temporary accounting and administrative services to Pacific Softworks. Each of these warrants to purchase units may be exercised at any time over a period of 60 months commencing from the date of this prospectus at a price of \$5.25 per unit. These units are identical to the units sold in this offering. Pacific Softworks is also registering these units concurrently with this offering. The representative has required all holders of these units to not sell, transfer or convey any shares of common stock or warrants issued upon exercise of these warrants for 13 months after the date of this prospectus except upon consent of the representative.

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#### OPTIONS TO CONSULTANT

In June 1998, Pacific Softworks agreed, subject to the conditions described below, to issue options to a consultant equal in number to 10% of the then outstanding capital stock of Pacific Softworks. These options will be issued if the consultant introduces Pacific Softworks to a merger, acquisition or other transaction which is acceptable to Pacific Softworks before June 1999. To date, the consultant has not introduced any such transaction to Pacific Softworks. If issued the options will be exercisable for a period of five years commencing from June 1998 at an exercise price of \$1.20 per share.

#### UNDERWRITING

Subject to the terms and conditions of the underwriting agreement, the underwriters named below, for which Spencer Edwards, Inc. is acting as the underwriters' representative, or "representative," have agreed to purchase from Pacific Softworks the number of units set forth opposite their names, and will

purchase the units at the price to public less underwriting discounts set forth on the cover page of this prospectus:

UNDERWRITERS -----	NUMBER OF UNITS -----
Spencer Edwards, Inc.....	800,000 -----
TOTAL .....	800,000 =====

The underwriting agreement provides that the underwriters' obligations are subject to conditions precedent and that the underwriters are committed to purchase all units offered hereby (other than those covered by the over-allotment option described below) if the underwriters purchase any of these securities.

The representative has advised Pacific Softworks that the underwriters propose to offer the units directly to the public at the price to public set forth on the cover page of this prospectus, and that they may allow to certain dealers that are members of the National Association of Securities Dealers, Inc., concessions not in excess of \$\_\_\_\_\_. After the initial public distribution of the units is completed, the shares of common stock and warrants will trade separately and their offering prices may change as a result of market conditions. No change in these terms will alter the amount of proceeds to be received by Pacific Softworks as set forth on the cover page of this prospectus. The representative has also advised Pacific Softworks that the underwriters do not intend to confirm sales to any accounts over which any of them exercises discretionary authority.

Pacific Softworks has agreed to pay the representative a nonaccountable expense allowance of 3% of the aggregate public offering price of the units offered, including units sold on exercise of the over-allotment option. Pacific Softworks paid the representative \$35,000 before the date of this prospectus as an advance against this nonaccountable expense allowance. Pacific Softworks has also agreed to pay all expenses in connection with qualifying the units for sale under the laws of various states designated by the representative.

Pacific Softworks has granted the underwriters an option, exercisable for 45 days after the date of this prospectus, to purchase up to 120,000 additional units at the same price as the initial units offered. The underwriters may purchase the units solely to cover over-allotments, if any, in connection with the sale of the units offered hereby. If the underwriters fully exercise their over-

allotment option, the total public offering price, underwriting discounts and proceeds to Pacific Softworks will be \$4,830,000, \$483,000 and \$4,347,000, respectively.

The underwriters may engage in over-allotment, stabilizing transactions, syndicate covering transactions and may impose penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934, as amended. Over-allotment involves syndicate sales in excess of the offering size, which create a syndicate short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Syndicate covering transactions involve purchases of the securities in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the securities

originally sold by that syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. These stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the common stock or warrants to be higher than they would otherwise be in the absence of these transactions.

Neither Pacific Softworks nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock or warrants. In addition, neither Pacific Softworks nor any of the underwriters make any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Pacific Softworks' officers, directors and stockholders have agreed not to offer, sell or otherwise dispose of any shares of common stock or derivative securities of Pacific Softworks for a period of 13 months after the date of this prospectus without the prior written consent of the representative. The representative has agreed that Pacific Softworks may file an S-8 registration statement 180 days after the date of this prospectus registering common stock underlying outstanding options and options to be granted under the equity incentive program. However, sales of common stock so registered:

- o may not exceed an aggregate of 25,000 shares until expiration of the 13 month lockup arrangement, and
- o may only be made by persons not serving as officers or directors of Pacific Softworks.

The representative has no present intention to waive or shorten period of the lockup arrangements.

Pacific Softworks will sell to the representative on completion of the offering, for a total purchase price of \$100, the representative's option for the purchase of units entitling the representative or its assigns to purchase one unit for each 10 units sold to the public (excluding the units sold in the over-allotment option). The representative's option will be exercisable on the date of this prospectus and will expire five years from that date. For each warrant included in the units underlying the representative's option, the representative will be able to purchase one share of common stock at an exercise price of \$7.50 per share during the exercise period of these warrants. The rights and attributes of these warrants issuable to the representative are identical to the warrants included in the units sold in the offering. The exercise price of the representative's option to purchase units is 120% of the public offering price or \$6.30 per unit.

Pacific Softworks will set aside and at all times have available a sufficient number of securities to be issued upon exercise of the representative's option. The representative's option and underlying securities will be restricted from sale, transfer, assignment or hypothecation for a period of one year after the date of this prospectus, except to officers of the representative, co-underwriters, selling group members and their officers, employees or partners. Thereafter, the representative's option and underlying units will be transferable provided that transfers are made in accordance with the provisions of the Securities Act of 1933, as amended. Subject to certain limitations and exclusions, Pacific Softworks has agreed, at the request of the representative, to register the common stock included in the units and underlying the warrants included in the units issuable upon exercise of the representative's option.

For a period of three years from the date hereof, the representative has a preferential right to purchase for its account or to sell for the account of



Pacific Softworks (or any successors), or any subsidiaries of Pacific Softworks, any securities with respect to which any of them may seek to sell, publicly or privately, for cash other than transactions with a lending institution.

Pacific Softworks and the representative have entered into a non-exclusive agreement which provides that, if the representative arranges for the purchase or sale of substantially all of the assets of Pacific Softworks, or for a merger, consolidation or acquisition accepted by Pacific Softworks during the five-year period commencing on the date of this prospectus, the representative will receive a fee based on a sliding scale ranging from 5% of the first \$1 million of consideration and decreasing to 3% of consideration in excess of \$2 million.

Pacific Softworks and the representative have entered into an agreement which provides that for a period of three years from the date of this prospectus, all public sales of Pacific Softworks' securities by officers, directors and principal stockholders of Pacific Softworks at the time of this prospectus shall be effected through or with the representative on an exclusive basis, provided that the representative offers the best price reasonably available. In addition, for a period of three years starting two years from the date of this prospectus, in the case of private transactions in our common stock, these selling security holders must offer the representative the exclusive opportunity to purchase or sell the common stock on terms at least as favorable as the selling security holder can obtain elsewhere.

For a period of five years after the date hereof, the representative has the right to have an observer attend meetings of Pacific Softworks' board of directors. This observer will be reimbursed for expenses incurred in attending any such meeting.

Before this offering, there was no public market for Pacific Softworks' securities. The public offering price of the units and the exercise price of the warrants were determined by arms-length negotiation between Pacific Softworks and the representative. There is no direct relation between the offering price of the units and the assets, book value or net worth of Pacific Softworks. Among the factors considered by Pacific Softworks and the representative in pricing the units and in determining the exercise price of the warrants were the results of operations, the current financial condition and future prospects of Pacific Softworks, the experience of management, the amount of ownership to be retained by present stockholders, the general condition of the economy and the securities markets and the demand for securities of companies considered comparable to Pacific Softworks.

In connection with this offering, Pacific Softworks and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act of 1933, as amended, and if such indemnification is unavailable or insufficient, Pacific Softworks and the underwriters have agreed to damage contribution arrangements based upon relative benefits received from this offering and relative fault resulting in such damage.

#### LEGAL MATTERS

The validity of the securities offered hereby will be passed on for Pacific Softworks by Resch Polster Alpert & Berger LLP, Los Angeles, California. Certain members of Resch Polster Alpert & Berger LLP own warrants to acquire a total of 40,000 units. See "Description of Securities - Additional Warrants to Purchase Units." Certain legal matters in connection with the offering will be passed on for the representative by Berliner Zisser Walter & Gallegos, P.C., Denver, Colorado.

Merdinger, Fruchter, Rosen & Corso, P.C., independent auditors, have audited the consolidated financial statements of Pacific Softworks for the years ended December 31, 1996, 1997 and 1998, as set forth in their report, which is included in this prospectus. Pacific Softworks consolidated financial statements are included in this prospectus in reliance on their report, given on their authority as experts in accounting and auditing.

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PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS  
PACIFIC SOFTWARES, INC. AND SUBSIDIARY

We have audited the accompanying consolidated balance sheets of PACIFIC SOFTWARES, INC. AND SUBSIDIARY as of December 31, 1998 and 1997, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting

the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PACIFIC SOFTWARES, INC. AND SUBSIDIARY as of December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

MERDINGER, FRUCHTER, ROSEN & CORSO, P.C.  
 Certified Public Accountants

Los Angeles, California  
 January 29, 1999, except  
 for Note 14 as to which the  
 date is March 15, 1999

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PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
 CONSOLIDATED BALANCE SHEETS  
 DECEMBER 31,

ASSETS	1997	1998
	-----	-----
Current assets		
Cash	\$ 624,952	\$224,031
Accounts receivable, net of allowance for doubtful accounts of \$36,400 and \$86,400	337,690	268,902
Related party receivable	--	43,000
Other receivable	2,125	--
Prepaid expenses	36,112	15,523
	-----	-----
Total current assets	1,000,879	551,456
	-----	-----
Fixed assets, net of accumulated depreciation and amortization of \$311,204 and \$348,761	69,158	82,196
	-----	-----
Other assets		
Trademark	1,034	1,188
Security deposit	--	8,486
	-----	-----
	1,034	9,674
	-----	-----
Total assets	\$1,071,071	\$643,326
	=====	=====
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 219,027	\$180,469
Related party payable	--	103,705
Accrued taxes payable	20,601	21,705
Customer deposits	--	23,100
	-----	-----
Total current liabilities	239,628	328,979
	-----	-----
Deferred revenue	140,811	106,874
	-----	-----

Commitments and contingencies	--	--
Minority interest		
Stockholders' equity		
Preferred stock, \$.01 par value; 10,000,000 shares authorized, no shares issued and outstanding	--	--
Common stock, \$.001 par value; 50,000,000 shares authorized, 3,200,000 shares issued and outstanding	3,200	3,200
Additional paid-in capital	174,658	174,658
Retained earnings	492,212	18,452
Cumulative adjustment for currency translation	20,562	11,163
	-----	-----
Total stockholders' equity	690,632	207,473
	-----	-----
Total liabilities and stockholders' equity	\$1,071,071	\$643,326
	=====	=====

The accompanying notes are an integral part of the financial statements.

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PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31,

	1996	1997	1998
	-----	-----	-----
Net revenue:			
Sales	\$3,123,893	\$ 2,929,536	\$ 2,479,589
Royalties and other	564,217	380,248	307,808
	-----	-----	-----
Total	3,688,110	3,309,784	2,787,397
Cost of revenue -			
Purchases and royalty fees	96,576	116,311	100,336
	-----	-----	-----
Gross profit	3,591,534	3,193,473	2,687,061
	-----	-----	-----
Expenses:			
Selling, general and administrative	2,257,560	2,110,038	1,936,117
Research and development	632,811	834,049	851,568
Depreciation and amortization	72,415	64,195	58,850
Former officer's consulting and administrative expense	235,714	314,286	314,286
	-----	-----	-----
Total expenses	3,198,500	3,322,568	3,160,821
	-----	-----	-----
Net income (loss)	\$ 393,034	\$ (129,095)	\$ (473,760)
	=====	=====	=====
Net income (loss) per share - Basic and diluted	\$ 0.12	\$ (0.04)	\$ (0.14)
	=====	=====	=====
Weighted average number of shares outstanding	3,340,000	3,340,000	3,340,000
	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

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PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31,

	1996	1997	1998
	-----	-----	-----
Net income (loss)	\$393,034	\$ (129,095)	\$ (473,760)
Other comprehensive income (loss) -			
Foreign currency translation adjustment	19,219	49,946	(9,399)
	-----	-----	-----
Comprehensive income (loss)	\$412,253	\$ (79,149)	\$ (483,159)
	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

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PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional	Retained	Cumulative	Total
	Shares	Amount	Paid-in	Earnings	Foreign	Stockholders'
	-----	-----	Capital	-----	Currency	Equity
	-----	-----	-----	-----	Adjustment	-----
Balance, January 1, 1996	3,200,000	\$3,200	\$174,658	\$ 228,273	\$ (48,603)	\$ 357,528
Foreign currency translation adjustment	--	--	--	--	19,219	19,219
Net income	--	--	--	393,034	--	393,034
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1996	3,200,000	3,200	174,658	621,307	(29,384)	769,781
Foreign currency translation adjustment	--	--	--	--	49,946	49,946
Net loss	--	--	--	(129,095)	--	(129,095)
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1997	3,200,000	3,200	174,658	492,212	20,562	690,632
Foreign currency translation adjustment	--	--	--	--	(9,399)	(9,399)
Net loss	--	--	--	(473,760)	--	(473,760)
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1998	3,200,000	\$3,200	\$174,658	\$ 18,452	\$ 11,163	\$ 207,473
	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

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PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

	1996 -----	1997 -----	1998 -----
Cash flows from operating activities:			
Net income (loss)	\$ 393,034	\$ (129,095)	\$ (473,760)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	72,415	64,195	58,850
Bad debts	--	--	50,000
(Increase) decrease in assets:			
Accounts receivable	(247,081)	305,048	18,788
Related party receivable	--	--	(43,000)
Other receivables	(23,216)	22,152	2,125
Prepaid expenses	(16,600)	10,990	20,589
Deposits and trademark	458	392	(8,486)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	87,710	(44,532)	(38,558)
Related party payable	--	--	3,705
Accrued taxes payable	1,867	13,771	1,104
Customer deposits	--	--	23,100
Deferred revenue	63,898	43,646	(33,937)
	-----	-----	-----
Net cash provided by (used in) operating activities	332,485	286,567	(419,480)
	-----	-----	-----
Cash flows used for investing activities:			
Acquisition of fixed assets	(14,493)	(19,903)	(71,888)
	-----	-----	-----
Cash flows from financing activities:			
Acquisition of stock in subsidiary	(5,743)	(5,555)	(5,500)
Proceeds of borrowings	--	--	150,000
Repayment of borrowings	(200,000)	--	(50,000)
	-----	-----	-----
Net cash (used) provided by financing activities	(205,743)	(5,555)	94,500
	-----	-----	-----
Effect of exchange rate changes on cash	25,114	55,501	(4,053)
	-----	-----	-----
Net increase (decrease) in cash	137,363	316,610	(400,921)
Cash - Beginning	170,979	308,342	624,952
	-----	-----	-----
Cash - Ending	\$ 308,342	\$ 624,952	\$ 224,031
	=====	=====	=====
Supplemental cash flow information:			
Cash paid during the year for -			
Interest	\$ 42	\$ --	\$ 482
	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

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PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1998

## Nature of Operations

Pacific Softworks, Inc., incorporated in California in November 1992, develops and licenses Internet and Web related software and software development tools. Its products enable Internet and Web based communications, based on a set of rules known as protocols, and are embedded into systems and "information appliances" developed or manufactured by others. Information appliances are Internet connected versions of everyday products such as telephones, televisions, fax machines and other digitally based devices. Its operations are conducted principally from its offices in Southern California, and it maintains sales offices in England and Japan.

## Basis of Consolidation

The consolidated financial statements include the accounts of Pacific Softworks, Inc. ("PSI") and its wholly owned subsidiary, Network Research Corp. Japan, Ltd. ("NRC"). Accordingly, all references herein to PSI or the "Company" include the consolidated results of its subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

In January of 1998, PSI purchased the remaining 21% of NRC stock held by a third party, to increase its holdings to 100%.

All of NRC's operations and assets are located in the country of Japan.

## Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

## Revenue Recognition

The Company is engaged primarily as a developer and licensor of software and generates revenue primarily from the one-time sales of licensed software. Generally, revenue is recognized upon shipment of the licensed software. For multiple element license arrangements, the license fee is allocated to the various elements based on fair value. When a multiple element arrangement includes rights to a postcontract customer support, the portion of the license fee allocated to each function is recognized ratably over the term of the arrangement.

## Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation and Amortization

Furniture, fixtures and equipment are stated at cost and depreciated using both the straight-line and double declining balance methods over their estimated useful lives, generally five to seven years. Purchased computer software costs have been amortized over five years.

The costs of maintenance and repairs are charged to expense when incurred; costs of renewals and betterments are capitalized. Upon the sales or retirement of property and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in operations.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and short-term debt. The carrying amounts of cash, accounts receivable, accounts payable and short-term debt approximate fair value due to highly liquid nature of these short-term instruments.

Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the assets and long-lived assets to be disposed of are reported at the lower of carrying amount of fair value less cost to sell.

Income Taxes

The Company has been a subchapter S corporation. Income is passed through to the stockholders who pay personally their share of the applicable taxes. Therefore, no provision for income taxes is made at December 31, 1996, 1997 and 1998. (See Note 14).

Translation of Foreign Currency

The Company translates the foreign currency financial statements of its foreign subsidiary in accordance with the requirements of Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation". Assets and liabilities are translated at current exchange rates and related revenues and expenses are translated at average exchange rates in effect during the period. Resulting translation adjustments are recorded as a separate component in stockholders' equity. Foreign currency transaction gains and losses are included in determining net income.

Concentration of Credit Risk

The Company places its cash in what it believes to be credit-worthy financial institutions. However, cash balances may exceed FDIC insured levels at various times during the year.



PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1998

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising Costs

Advertising costs, except for costs associated with direct-response advertising, are charged to operations when incurred. The costs of direct-response advertising, if any, are capitalized and amortized over the period during which future benefits are expected to be received.

Per Share of Common Stock

In February 1997, the Financial Accounting Standards Board issued a new statement titled "Earnings Per Share" (SFAS No. 128). This statement is effective for both interim and annual periods ending after December 15, 1997 and specifies the computation, presentation, and disclosure requirements for earnings per share for entities with publicly held common stock or potential common stock. All prior-period earnings per share data presented has been restated to conform with the provisions for SFAS No. 128.

Per share amounts have been computed based on the average number of shares of common stock outstanding during each period. In connection with the Company's proposed initial public offering ("IPO"), stock options issued for consideration below the IPO per share price during the twelve months before the filing of the registration statement are considered to be similar to a stock dividend or stock split and have been included in the calculation of shares of common stock outstanding for all periods presented.

Stock Based Compensation

The Company uses the intrinsic value method of accounting for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25. See Note 10 for proforma disclosure of net income and earnings per share under the fair value method of accounting for stock-based compensation as proscribed by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123.

Comprehensive Income

In June 1997, the Financial Accounting Standards Board issued a new statement titled "Reporting Comprehensive Income" (SFAS No. 130). This statement is effective for both interim and annual periods beginning after December 15, 1997. This statement uses the term "comprehensive income" to describe the total of all components of comprehensive income, including net income. This statement uses the term "other comprehensive net income" to refer to revenues, expenses, gains or losses that under generally accepted accounting principles are included in comprehensive income, but excluded from net income.

PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1998

NOTE 2 - FIXED ASSETS

Fixed assets at December 31 consist of the following:

	1996	1997	1998
	-----	-----	-----
Furniture, fixtures and equipment	\$124,764	\$144,533	\$216,421
Computer software	235,829	235,829	214,536
	-----	-----	-----
	360,593	380,362	430,957
Less: accumulated depreciation and amortization	247,143	311,204	348,761
	-----	-----	-----
Fixed assets - net	\$113,450	\$ 69,158	\$ 82,196
	=====	=====	=====
Depreciation expense recorded in the statement of operations	\$ 25,647	\$ 19,348	\$ 30,243
	=====	=====	=====
Unamortized computer software costs	\$ 71,514	\$ 28,607	\$ --
	=====	=====	=====
Amortization of computer software costs	\$ 46,768	\$ 42,907	\$ 28,607
	=====	=====	=====

NOTE 3 - DEFERRED REVENUE

The Company provides technical support for its products, usually over a twelve-month term. Revenue is recognized as earned on a straight-line basis

NOTE 4 - RELATED PARTY TRANSACTIONS

- a) As of December 31, 1998, the Company has advanced funds to its principal stockholder in the amount of \$43,000. The advances bear no interest and are repayable upon demand. (See Note 14).
- b) As of December 31, 1998, the Company has received advances from a company controlled by the spouse of the principal stockholder of PSI. The advances totaled \$103,705. The advances bear no interest and are repayable upon demand. (See Note 14).
- c) The company mentioned in item (b) above also occupies space in premises leased by PSI. The Company believes that the terms of occupancy are no less favorable than those that could be obtained from unaffiliated third parties. This party is expected to relocate during the first half of 1999.
- d) The principal stockholder of the Company has personally guaranteed any advances made to the Company pursuant to a line of credit provided by Bank of America. Total availability under the line is \$250,000. No advances were outstanding as of December 31, 1998.

PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1998

NOTE 5 - CAPITAL STOCK

- a) The Company is authorized to issue 10,000,000 shares of Preferred Stock, par value \$.01. Preferred shares may be issued from time to time in one or more series. The number of shares in each series and the designation of each series to be issued shall be determined from time to time by the board of directors of the Company.
- b) On January 30, 1998, the Company increased the number of shares of common stock it is authorized to issue from 1,000,000 shares to 50,000,000 shares. In June of 1998, the Company effected a stock split and subsequently effected a reverse stock split. The net result of these two stock transactions was an effective 6.27205 shares for one stock split, increasing the outstanding shares from 510,200 to 3,200,000.

All references in the accompanying financial statements to the number of shares of common stock and per-share amounts for 1996, 1997 and 1998 have been restated to reflect the effective stock split.

NOTE 6 - STOCK PLAN

On April 17, 1998, the Company adopted the 1998 Equity Incentive Program (the "Plan"). The Plan provides for the granting of the following Stock Awards: (i) Incentive Stock Options, (ii) Non-Statutory Stock Options, (iii) Stock Appreciation Rights, (iv) Stock Bonuses, and (v) Rights to acquire Restricted Stock. Persons eligible to receive Stock Awards are the employees, directors and consultants of the Company and its Affiliates, as defined. Incentive Stock Options may be granted only to employees. Stock awards other than Incentive Stock Options may be granted to all eligible persons.

The maximum term of any options granted is ten years. Vesting requirements may vary, and will be determined by the board of directors.

The number of shares reserved for issuance under the Plan is 320,000 shares. (See Note 10).

NOTE 7 - ADVERTISING COSTS

Advertising costs incurred and recorded as expense in the statement of operations were \$222,051, \$263,912 and \$213,670 for the years ended December 31, 1996, 1997 and 1998, respectively.

NOTE 8 - INTEREST COSTS

Interest costs incurred were \$42, (\$43) and \$6,004 in 1996, 1997 and 1998, respectively, all of which were charged to operations.

PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1998

NOTE 9 - INCOME TAXES AND S CORPORATION STOCKHOLDER DISTRIBUTIONS

a) S Corporation Election

Effective January 1, 1995, the Company, with the consent of its stockholders, elected under the Internal Revenue Code to be an S corporation. For 1996, 1997 and 1998, the stockholders of the Company were taxed on their proportional share of the corporation's taxable income, or deducted personally any corporate losses. Therefore, no provision or liability or carryforward loss for federal income taxes has been included in these financial statements.

b) Distributions

The Company has paid no distributions to its stockholders.

c) Tax Provision

As a result of the Company's tax status as an S Corporation, operating results as presented in the accompanying consolidated financial statements do not include a provision for income taxes for the years ended December 31, 1996, 1997 and 1998.

d) Proforma Income Taxes

Proforma income taxes (benefit), assuming that the Company had not been an S Corporation in each of the periods presented, are as follows:

	1996	1997	1998
	-----	-----	-----
Federal	\$90,410	\$3,100	\$ (93,510)
State	28,174	2,500	(30,674)
	-----	-----	-----
	\$ 118,584	\$5,600	\$ (124,184)
	=====	=====	=====

NOTE 10 - STOCK OPTIONS

a) The Company has granted certain non-statutory options to purchase shares of Common Stock to two employees. Each option is for 70,000 shares at an exercise price of \$1.25 per share. The options vest on January 1, 1999 and expire June 25, 2008.

b) Plan and non-plan stock option activity is summarized as follows:

December 31,

-----

	1996 -----	1997 -----	1998 -----
Outstanding at beginning of year	--	--	--
Options granted at an exercise price of \$1.25 per share	-- -----	-- -----	140,000 -----
Outstanding at end of year	-- =====	-- =====	140,000 =====
Exercisable at end of year	-- =====	-- =====	-- =====
Weighted average exercise price of options outstanding	\$ -- =====	\$ -- =====	\$ 1.25 =====
Weighted average remaining contractual life of options outstanding	--	--	9 1/2 years

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PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1998

NOTE 10 - STOCK OPTIONS (continued)

The Company accounts for its stock option transactions under the provisions of APB No. 25. The following proforma information is based on estimating the fair value of grants based upon the provisions of SFAS No. 123. The fair value of each option granted during the period ending December 31, 1998 has been estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 5.5%, life of options of 10 years, and expected dividend yield of 0%. Under these assumptions, the weighted average fair value of options granted during the period ending December 31, 1998 was \$0.52. Accordingly, the Company's proforma net loss and net loss per share assuming compensation cost was determined under SFAS No. 123 would have been the following:

	Year Ended December 31, 1998 -----
Net Loss	\$(546,560)
Net Loss Per Share	\$(0.16)

NOTE 11 - SEGMENTED INFORMATION

The Company's assets are located principally in the United States.

Product sales are to the following geographic areas:

	1996	1997	1998
	----	----	----
United States and the Americas	50%	50%	43%
Europe and the United Kingdom	17	35	40
Asia and Australia	27	15	17

NOTE 12 - EARNINGS PER SHARE

Stock options issued with an exercise price below the IPO purchase price during the twelve months before the filing of the registration statement have been included in the calculation of shares of common stock outstanding as if they had been outstanding for all periods presented. The amount of such shares included in earnings per share calculations totals 140,000.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

- a) The Company occupies facilities under terms of an operating lease expiring September 15, 2000. Rent expense included in the statement of operations totaled \$30,000, \$56,100 and \$106,592 in 1996, 1997 and 1998, respectively. The Company leases an auto under term of an operating lease expiring August 31, 1999. Auto lease expense included in the statement of operations totaled \$0, \$5,171 and \$15,513 in 1996, 1997 and 1998, respectively.

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PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 1998

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Future minimum lease payments are as follows:

1999	\$114,894
2000	76,608

- b) The Company maintains a revolving line of credit arrangement with Bank of America. The credit limit under the arrangement is \$250,000. Advances, when drawn upon, bear interest at the Bank's Reference Rate plus two percent (9.75% at December 31, 1998). Advances are collateralized by the Company's accounts receivable and inventory and are secured by the personal guaranty of the Company's principal stockholder.

No advances were outstanding under the line at December 31, 1998.

- c) The Company is obligated to a former officer and 49% stockholder for a consulting agreement, covenant not to compete and buy-out of an employment agreement (collectively, the "Agreement"). The obligation provides for a monthly payment of \$26,190.49 over a 42 month period. At December 31, 1998, nine payments remain. In addition to these payments, the Agreement requires that so long

as the Company has not paid in full all obligations under the Agreement, it is restricted from making any distributions to stockholders, other than necessary for any tax liability resulting from corporate earnings; is prohibited from issuing securities; is prohibited from paying executive compensation in excess of certain levels; and accelerates payment of obligations under the Agreement if certain corporate income levels are not met. The obligations under the Agreement are secured by substantially all of the outstanding shares of common stock of the Company and all assets of the Company.

The former officer and stockholder has given his consent to the sale of common stock described in Note 14(c).

- d) In June 1998, the Company agreed, subject to the conditions described below, to issue options to a consultant equal in number to 10% of the Company's then outstanding capital stock. These options will be issued if the consultant introduces the Company to a merger, acquisition or other transaction which is acceptable to the Company before June 1999. To date, the consultant has not introduced any such transaction to the Company. If issued, the options will be exercisable for a period of five years commencing from June 1998 at an exercise price of \$1.20 per share.

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PACIFIC SOFTWARES, INC. AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1998

NOTE 14 - SUBSEQUENT EVENTS

- a) Subsequent to December 31, 1998, the Company paid in full the liability to the related party described in Note 4(b).
- b) Subsequent to December 31, 1998, the related party receivable described in Note 4(a) was repaid.
- c) In February 1999 the Company sold 100,000 units to a single accredited investor at a price of \$5.00 per unit for total proceeds of \$500,000. Each unit consisted of one share of common stock and one common stock purchase warrant entitling the holder thereof to purchase one share of common stock for two years at an exercise price of \$6.00 per share.
- d) As a result of the sale of common stock described in item (c) above, the Company's S Corporation election has been terminated as of February 14, 1999.
- e) In February 1999, the Company entered into a letter of intent with an underwriter in connection with a proposed initial public offering of the Company's securities. The letter of intent relates to the proposed sale by the Company of 800,000 units. Each unit will consist of one share of common stock and one warrant. Each warrant will entitle the holder to purchase one share of common stock at an exercise price of \$7.50 for a period of two years commencing from the initial issuance. Under the letter of intent, the underwriters will also be granted the right to purchase up to an additional 120,000 units for the sole purpose of covering over-allotments. It is expected that the

units will be offered to the public at an offering price of \$5.25 per unit.

- f) Warrants to purchase 80,000 units have been issued to certain professionals who have rendered legal, temporary accounting and administrative services to the Company. Each of these warrants to purchase units may be exercised at any time over a period of 60 months commencing from the date of the Company's prospectus at a price of \$5.25 per unit. These units are identical to the units to be sold by the Company in the proposed IPO.
- g) Upon completion of the IPO, the Company will issue to the representative of the underwriters options to purchase one unit for each 10 units sold to the public. The options will be exercisable commencing one year from the effective date of the registration statement and for a period of four years thereafter. The exercise price of the option is \$6.30 per unit.

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800,000 Units

Pacific Softworks, Inc.

[Company Logo]

Each unit consists of one share of common stock and one warrant.

Spencer Edwards, Inc.  
\_\_\_\_\_, 1999

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PROSPECTUS  
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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission or any applicable state securities commission becomes effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated March \_\_, 1999

PROSPECTUS

[PACIFIC SOFTWORKS, INC. LOGO]

80,000 UNITS  
CONSISTING OF 80,000 SHARES OF COMMON STOCK AND



80,000 WARRANTS  
AND  
200,000 SHARES

This prospectus relates to the registration by Pacific Softworks for resale by the named holders, for their accounts, of up to 80,000 units and 200,000 shares of common stock of Pacific Softworks. Each unit consists of one share of common stock and one warrant. The units are issuable upon exercise of certain warrants to purchase units at a price of \$5.25 per unit. The securities described in this prospectus are not being underwritten in this offering. Pacific Softworks will not receive any proceeds from the sale of common stock and common stock included in the units. Pacific Softworks will receive up to \$420,000 upon exercise of all of the warrants to purchase units. There is no assurance that the warrants to purchase units will be exercised.

Concurrently with this offering, Pacific Softworks is offering up to 920,000 units by means of a separate prospectus. Information contained in this separate prospectus, except for the cover page, the back cover page and the information under the heading "Selling Security Holders", is a part of that separate prospectus relating to the other concurrent offering by Pacific Softworks. This prospectus includes certain information (including all information relating to the concurrent underwritten offering and the underwriters) that may not be pertinent to the sale of the securities described in this prospectus by the holders.

The securities described in this prospectus may be sold by the holders or their transferees starting on the date of this prospectus. The holders have agreed with the representative not to sell any of their securities for a period of 13 months from the date of this prospectus without the prior written consent of the representative. Sales of these securities may depress the price of the common stock and the warrants in any market that may develop for the common stock and the warrants.

Prior to this offering there has been no public market for the common stock or the warrants. We can provide no assurance that a public market will develop in the future.

INVESTING IN THESE SECURITIES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 6.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is March \_\_\_\_, 1999

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SALE OF SECURITIES DESCRIBED IN THIS PROSPECTUS.

The sale of the securities described in this prospectus may be made from time to time in transactions (which may include block transactions by or for the account of the holders) in the over-the-counter market or in negotiated transactions through a combination of these methods of sale or otherwise. Sales may be made at fixed prices which may be changed, at market prices prevailing at the time of sale, or at negotiated prices.

A post-effective amendment to the registration statement that includes this prospectus must be filed and declared effective by the Securities and Exchange Commission (SEC) before a holder may:

- o sell any securities described in this prospectus according to the terms of this prospectus either at a fixed price or a negotiated price, either of which is not the prevailing market price,
- o sell securities described in this prospectus in a block transaction to a purchaser who resells,
- o pays compensation to a broker-dealer that is other than the usual and customary discounts, concessions or commissions, or
- o makes any arrangements, either individually or in the aggregate, that would constitute a distribution of the securities described in this prospectus.

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#### SELLING SECURITY HOLDERS

This prospectus relates to the resale of 80,000 units and 200,000 shares of common stock of Pacific Softworks. Each unit consists of one share of common stock and one warrant. Each warrant entitles the holder to buy one share of common stock at a price of \$7.50 per share for a period of 24 months starting from the date of this prospectus. Pacific Softworks will not receive any of the proceeds of the sale of the securities by the selling security holders. Pacific Softworks will receive \$420,000 upon full exercise of the warrants to purchase units.

The following tables set forth certain information regarding the units and shares of common stock owned beneficially as of March \_\_\_\_, 1999 by each selling security holder. The selling security holders are not required, and may choose not, to sell any of their units or shares of common stock. The selling security holders have agreed with the representative not to sell any of their securities for a period of 13 months from the date of this prospectus without the prior written consent of the representative.

NAME OF SELLING UNIT HOLDER -----	UNITS OWNED PRIOR TO OFFERING -----	UNITS BEING OFFERED -----
Randall M. Gates	27,500	27,500
Georgette W. Pagano	12,500	12,500
Aaron A. Grunfeld	25,000	25,000
Ronald M. Resch	2,500	2,500
Lee M. Polster	2,500	2,500
Sheldon P. Berger	2,500	2,500
Peter H. Alpert	2,500	2,500
David Gitman	2,500	2,500
Nicolas Ramniceanu	2,500	2,500

NAME OF SELLING STOCK HOLDER -----	SHARES OWNED PRIOR TO OFFERING -----	SHARES BEING OFFERED -----
John P. McGrain	140,000	140,000
Georgette W. Pagano	60,000	60,000

To the extent that the selling security holders intend to sell their securities directly, through agents, dealers, or the representative, in the over-the-counter market or otherwise, on terms and conditions that they

determine at the time of sale or that they determine in private negotiations between buyer and seller, such sales of the shares of common stock and warrants may be made pursuant to this prospectus and pursuant to Rule 144 adopted under the Securities Act of 1933, as amended.

No underwriting arrangements exist as of the date of this prospectus for the selling security holders to sell their securities. Upon being advised of any underwriting arrangements that may be entered into by a selling security holder after the date of this prospectus, Pacific Softworks will prepare a supplement to this prospectus to disclose those arrangements. It is anticipated that the selling price for the common stock and warrants will be at or between the "bid" and "asked" prices for these securities, as quoted in the over-the-counter market immediately preceding the sale.

PART II  
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 316 of the California General Corporation Law authorizes a court to award or a corporation's Board of Directors to grant indemnification to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended (the "Securities Act"). Article III Section 16 of the Registrant's Bylaws provides for mandatory indemnification of its directors and officers and permissible indemnification of employees and other agents to the maximum extent permitted by the California General Corporation Law. The Registrant's Articles of Incorporation provides that, pursuant to California law, its directors shall not be liable for monetary damages for breach of the directors' fiduciary duty as directors to the company and its stockholders. This provision in the Articles of Incorporation does not eliminate the directors' fiduciary duty, and in appropriate circumstances equitable remedies such as injunctive or other forms of non-monetary relief will remain available under California law. In addition, each director will continue to be subject to liability for breach of the director's duty of loyalty to Pacific Softworks for acts or omissions not in good faith or involving intentional misconduct, for knowing violations of law, for actions leading to improper personal benefit to the director, and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under California law. The provision also does not affect a director's responsibilities under any other law, such as the federal securities laws or state or federal environmental laws. Pacific Softworks has entered into Indemnification Agreements with its officers and directors, a form of which is attached as Exhibit 10.1 hereto and incorporated herein by reference. The Indemnification Agreements provide the Registrant's officers and directors with further indemnification to the maximum extent permitted by the California General Corporation Law. Reference is made to the Underwriting Agreement contained in Exhibit 1.1 hereto, which contains provisions indemnifying officers and directors of the Registrant against certain liabilities.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the costs and expenses, other than underwriting discounts, payable by Pacific Softworks in connection with the sale of Units being registered. All amounts are estimates except the SEC registration fee, the NASD filing fee and the Nasdaq SmallCap Market listing fee.

SEC Registration fee .....	\$ 4,144
----------------------------	----------

NASD fee .....	1,991
Nasdaq Small Cap Market listing fee .....	10,000
Printing and engraving expenses* .....	30,000
Legal fees and expenses* .....	60,000
Accounting fees and expenses* .....	40,000
Blue sky fees and expenses* .....	20,000
Transfer agent fees .....	1,825
Miscellaneous fees and expenses* .....	8,500
	-----
Total .....	\$176,460
	=====

\*Estimated

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ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

The following information relates to all securities sold within the past three years which were not registered under the Securities Act of 1933, as amended (the "Securities Act"):

In February 1999 Pacific Softworks sold 100,000 units to a single accredited investor at a price of \$5.00 per unit for total proceeds of \$500,000. Each unit consisted of one share of common stock and one common stock purchase warrant entitling the holder thereof to purchase one share of common stock for two years at an exercise price of \$6.00 per share.

In February 1999 Pacific Softworks also sold and issued warrants to purchase 40,000 units to certain members of Resch Polster Alpert & Berger LLP, special counsel to Pacific Softworks in this offering, and warrants to purchase an additional 40,000 units to two persons who have provided temporary accounting and administrative services to Pacific Softworks. Each of these warrants to purchase units may be exercised at any time over a period of 60 months commencing from the date of this prospectus at a price of \$5.25. The units issuable upon exercise of these warrants are identical to the units sold in this offering.

Pacific Softworks issued these securities in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act. The recipients of securities in these transactions represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof. The certificates evidencing the shares and warrants bear restrictive legends indicating that the shares and warrants were not registered under the Securities Act. No underwriter was involved in any of these transactions.

ITEM 27. EXHIBITS

(a) Exhibits

Exhibit No.	Description
- - - - -	- - - - -
1.1	Form of Underwriting Agreement
1.3	Form of Selected Dealers Agreement
3.1	Articles of Incorporation of the Registrant, as amended to date
3.2	Bylaws of the Registrant

4.2	Specimen Warrant
4.3	Form of Warrant Agreement
4.4	Specimen common stock certificate
4.5	Form of Lock Up Agreement
4.6	Form of Representative's Option for Purchase of Units
5.1	Opinion of Resch Polster Alpert & Berger LLP*
10.1	Form of Indemnification Agreements
10.2	1998 Equity Incentive Program
10.3	Security and Loan Agreement, dated _____, 1998 between the Registrant and _____*
10.4	Form of Invention Assignment and Proprietary Information Agreement
21.1	Subsidiary of the Registrant
23.1	Consent of Merdinger, Fruchter, Rosen & Corso, P.C., Independent Auditors
23.3	Consent of Counsel (contained within Exhibit 5.1)*
24.1	Power of Attorney (see page II-5)
27.1	Financial Data Schedule

\* To be filed by amendment.

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(b) Financial Statement Schedules

All schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the consolidated financial statements or notes thereto.

ITEM 28. UNDERTAKINGS

The undersigned small business issuer will:

(1) File, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

- (i) Include any prospectus required by section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act"),
- (ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement, and
- (iii) Include any additional or changed material information on the plan of distribution.

(2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona

fide offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

The small business issuer will provide to the underwriter at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission ("SEC") such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by a director, officer or controlling person of the small business issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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The undersigned small business issuer will:

(1) For determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the small business issuer under Rule 424(b)(1), or (4) or 497(h) under the Securities Act as part of this registration statement as of the time the SEC declared it effective.

(2) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

#### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on form SB-2 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Newbury Park, State of California, on this 26th day of March, 1999.

Pacific Softworks, Inc.

By /s/ \*Glenn P. Russell

-----  
Glenn P. Russell  
President and Chief Executive Officer

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## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Glenn P. Russell his true and lawful attorney-in-fact and agent with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to sign any registration statement for the same offering covered by this Registration Statement that is to be effective on filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, and all post-effective amendments thereto, and to file the same, with all exhibits thereto and all documents in connection therewith, with the SEC, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature -----	Title -----	Date ----
/s/ Glenn P. Russel ----- Glenn P. Russel	President, Chief Executive Officer and Chairman (Principal Executive Officer and Principal Financial Officer)	March 26, 1999 -----
/s/ Mark Sewell ----- Mark Sewell	Senior Vice President	March 26, 1999 -----
/s/ Sandra J. Garcia ----- Sandra J. Garcia	Vice President	March 26, 1999 -----
/s/ Robert G. J. Burg II ----- Robert G. J. Burg II	Director	March 26, 1999 -----
/s/ Wayne T. Grau ----- Wayne T. Grau	Director	March 26, 1999 -----
/s/ Reuben Sandler, Ph.D. ----- Reuben Sandler, Ph.D.	Director	March 26, 1999 -----

800,000 UNITS  
CONSISTING OF  
800,000 SHARES OF COMMON STOCK  
AND  
800,000 WARRANTS  
PACIFIC SOFTWARES, INC.  
UNDERWRITING AGREEMENT

May \_\_\_\_, 1999

Spencer Edwards, Inc.  
6120 Greenwood Plaza Boulevard  
Englewood, Colorado 80111

Dear Sirs:

PACIFIC SOFTWARES, INC., a California corporation (the "Company") hereby confirms its agreement with you (who are sometimes hereinafter referred to as the "Representative") and with the other members of the underwriting group (the "Underwriters") named on Schedule 1 hereto as follows:

1. Introductory. Subject to the terms and conditions contained herein, the Company proposes to issue and sell to the Underwriters 800,000 Units (the "Units"), comprised of 800,000 shares of common stock (the "Common Stock") and 800,000 redeemable warrants (the "Warrants"). Common Stock and Warrants shall be immediately separately transferable and the Units shall not be listed for trading on the Nasdaq SmallCap Market. For the purpose of this Agreement, references hereinafter to Common Stock and Warrants shall be deemed to include, where appropriate, the Units. In addition, solely for the purpose of covering over-allotments, the Company grants to the Representative the option to purchase up to an additional 120,000 units, consisting of 120,000 shares of Common Stock and 120,000 Warrants (the "Additional Securities"), which option to purchase shall be exercisable, in whole or in part, from time to time during the forty-five (45) day period commencing on the date on which the Registration Statement (as hereinafter defined) is initially declared effective (the "Effective Date") by the Securities and Exchange Commission (the "Commission"). Unless otherwise noted, the Common Stock, together with the additional 120,000 shares of Common Stock issuable on exercise of the over-allotment

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option, is referred to hereinafter as the "Common Stock" and the Warrants and the 120,000 Warrants issuable on exercise of the over-allotment option are referred to hereinafter as the "Warrants".

2. Each Warrant will entitle the holder to purchase one share of Common Stock (a "Warrant Share") at a price equal to \$7.50 during the twenty-four (24) month exercise period of the Warrants, subject to the Company's right of redemption.



The Warrants may be redeemed by the Company commencing one 30 days from the Effective Date of the Registration Statement upon at least 30 days prior written notice, in whole but not in part, at a price of \$.05 per Warrant provided the closing bid price for the Company's Common Stock is at least \$8.00 during each day of the fifteen (15) trading day period ending five days preceding the date of the written notice. The terms and provisions of the Warrants shall be governed by a warrant agreement between the Company and its transfer agent (the "Warrant Agreement"), which Warrant Agreement will contain, among other provisions, anti-dilution protection for warrant holders on terms acceptable to the Representative. The Company shall not lower the exercise price of the Warrants during such one year period without the Representative's prior written consent. The Warrant Agreement governing the Warrants will contain anti-dilution protection on terms reasonably acceptable to the Representative. The Common Stock, Warrants and Additional Securities are more fully described in the Prospectus referred to below. All references to the Company below shall be deemed to include, where appropriate, the Company's subsidiaries, if any.

3. Representations and Warranties of the Company. The Company represents and warrants to, and agrees with, each of the Underwriters that:

a. The Company has filed with the Commission a registration statement, and may have filed one or more amendments thereto, on Form SB-2 (Registration No. 333- ), including in such registration statement and each such amendment a facing sheet, the information called for by Part I, audited consolidated financial statements for the past two fiscal years or such other period as may be appropriate, the information called for by Part II, the undertakings to deliver certificates, file reports and file post-effective amendments, the required signatures, consents of experts, exhibits, a related preliminary prospectus (a "Preliminary Prospectus") and any other information or documents which are required for the registration of the Common Stock and Warrants, the Warrant Shares, the purchase options referred to in Section 2(n) (the "Representative's Options"), and the securities referred to in Section 2(n) underlying the Representative's Options (the "Representative's Option Securities"), under the Securities Act of 1933, as amended (the "Act"). As used in this Agreement, the term "Registration Statement" means such registration statement, including incorporated documents, all exhibits and consolidated financial statements and schedules thereto, as amended, when it becomes effective, and shall include information

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with respect to the Common Stock, the Warrants, the Warrant Shares, the Representative's Options, and the Representative's Option Securities and the offering thereof permitted to be omitted from the Registration Statement when it becomes effective pursuant to Rule 430A of the General Rules and Regulations promulgated under the Act (the "Regulations"), which information is deemed to be included therein when it becomes effective as provided by Rule 430A; the term "Preliminary Prospectus" means each prospectus included in the Registration Statement, or any amendments thereto, before it becomes effective under the Act and any prospectus filed by the Company with the consent of the Representative pursuant to Rule 424(a) of the Regulations; and the term "Prospectus" means the final prospectus included as part of the Registration Statement, except that if the prospectus relating to the securities covered by the Registration Statement in the form first filed on behalf of the Company with the Commission pursuant to Rule 424(b) of the Regulations shall differ from such final prospectus, the term "Prospectus" shall mean the prospectus as filed pursuant to Rule 424(b) from and after the date on which it shall have first been used.

b. When the Registration Statement becomes effective, and at all times subsequent thereto, to and including the Closing Date (as defined in

Section 3) and each Additional Closing Date (as defined in Section 3), and during such longer period as the Prospectus may be required to be delivered in connection with sales by the Representative or any dealer, and during such longer period until any post-effective amendment thereto shall become effective, the Registration Statement (and any post-effective amendment thereto) and the Prospectus (as amended or as supplemented if the Company shall have filed with the Commission any amendment or supplement to the Registration Statement or the Prospectus) will contain all statements which are required to be stated therein in accordance with the Act and the Regulations, will comply with the Act and the Regulations, and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and no event will have occurred which should have been set forth in an amendment or supplement to the Registration Statement or the Prospectus which has not then been set forth in such an amendment or supplement; and no Preliminary Prospectus, as of the date filed with the Commission, included any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading; except that no representation or warranty is made in this Section 2(b) with respect to statements or omissions made in reliance upon and in conformity with written information furnished to the Company as stated in Section 8(b) with respect to the Underwriters by or on behalf of the Underwriters expressly for inclusion in any Preliminary

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Prospectus, the Registration Statement, or the Prospectus, or any amendment or supplement thereto.

c. Neither the Commission nor the "blue sky" or securities authority of any jurisdiction have issued an order (a "Stop Order") suspending the effectiveness of the Registration Statement, preventing or suspending the use of any Preliminary Prospectus, the Prospectus, the Registration Statement, or any amendment or supplement thereto, refusing to permit the effectiveness of the Registration Statement, or suspending the registration or qualification of the Common Stock, the Warrants, the Warrant Shares, the Representative's Options, or the Representative's Option Securities, nor has any of such authorities instituted or threatened to institute any proceedings with respect to a Stop Order.

d. Any contract, agreement, instrument, lease, or license required to be described in the Registration Statement or the Prospectus has been properly described therein. Any contract, agreement, instrument, lease, or license required to be filed as an exhibit to the Registration Statement has been filed with the Commission as an exhibit to or has been incorporated as an exhibit by reference into the Registration Statement.

e. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of California, with full power and authority, and all necessary consents, authorizations, approvals, orders, licenses, certificates, and permits of and from, and declarations and filings with, all federal, state, local, and other governmental authorities and all courts and other tribunals, to own, lease, license, and use its properties and assets and to carry on the business in the manner described in the Prospectus. The Company is duly qualified to do business and is in good standing in every jurisdiction in which its ownership, leasing, licensing, or use of property and assets or the conduct of its business makes such qualifications necessary. The Company has no subsidiaries except as disclosed in the

Prospectus.

f. The authorized capital stock of the Company consists of 50,000,000 shares of Common Stock, of which 3,500,000 shares of Common Stock are issued and outstanding, and 345,000 shares of Common Stock are reserved for issuance upon the exercise of outstanding options and warrants, and 10,000,000 shares of Preferred Stock, none of which are issued or outstanding. There is no commitment, plan, or arrangement to issue, and no outstanding option, warrant, or other right calling for the issuance of, any share of capital stock of the Company or any security or other instrument which by its terms is convertible into, exercisable for, or exchangeable for capital stock of the Company, except as set forth above, and as may be properly described in the Prospectus.

g. The consolidated financial statements of the Company included in the Registration Statement and the Prospectus fairly present with respect to the Company the consolidated

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financial position, the results of operations, and the other information purported to be shown therein at the respective dates and for the respective periods to which they apply. Such consolidated financial statements have been prepared in accordance with generally accepted accounting principles, except to the extent that certain footnote disclosures regarding any stub period may have been omitted in accordance with the applicable rules of the Commission under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), consistently applied throughout the periods involved, are correct and complete, and are in accordance with the books and records of the Company. The accountants whose report on the audited consolidated financial statements is filed with the Commission as a part of the Registration Statement are, and during the periods covered by their report(s) included in the Registration Statement and the Prospectus were, independent certified public accountants with respect to the Company within the meaning of the Act and the Regulations. No other financial statements are required by Form SB-2 or otherwise to be included in the Registration Statement or the Prospectus. There has at no time been a material adverse change in the consolidated financial condition, results of operations, business, properties, assets, liabilities, or future prospects of the Company from the latest information set forth in the Registration Statement or the Prospectus, except as may be properly described in the Prospectus.

h. There is no litigation, arbitration, claim, governmental or other proceeding (formal or informal), or investigation pending, or, to the knowledge of the Company, threatened, or in prospect with respect to the Company or any of its operations, businesses, properties, or assets, except as may be properly described in the Prospectus or such as individually or in the aggregate do not now have and will not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company. The Company is not in violation of, or in default with respect to, any law, rule, regulation, order, judgment, or decree except as may be properly described in the Prospectus or such as in the aggregate do not now have and will not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company; nor is the Company required to take any action in order to avoid any such violation or default.

i. The Company has good and marketable title in fee simple absolute to all real properties and good title to all other properties and assets which the Prospectus indicates are owned by it, free and clear of all

liens, security interests, pledges, charges, encumbrances, and mortgages except as may be properly described in the Prospectus or such as in the aggregate do not now have and will not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company. No real property owned, leased, licensed, or used by the Company lies in an area which is, or to the

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knowledge of the Company will be, subject to zoning, use, or building code restrictions which would prohibit, and no state of facts relating to the actions or inaction of another person or entity or his or its ownership, leasing, licensing, or use of any real or personal property exists or will exist which would prevent, the continued effective ownership, leasing, licensing, or use of such real property in the business of the Company as presently conducted or as the Prospectus indicates it contemplates conducting, except as may be properly described in the Prospectus or such as in the aggregate do not now have and will not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company.

j. Neither the Company nor any other party is now or is expected by the Company to be in violation or breach of, or in default with respect to complying with, any material provision of any contract, agreement, instrument, lease, license, arrangement, or understanding which is material to the Company, and each such contract, agreement, instrument, lease, license, arrangement, and understanding is in full force and is the legal, valid, and binding obligation of the parties thereto and is enforceable as to them in accordance with its terms. The Company enjoys peaceful and undisturbed possession under all leases and licenses under which it is operating. The Company is not a party to or bound by any contract, agreement, instrument, lease, license, arrangement, or understanding, or subject to any charter or other restriction, which has had or may in the future have a material adverse effect on the financial condition, results of operations, business, properties, assets, liabilities, or future prospects of the Company. The Company is not in violation or breach of, or in default with respect to, any term of its Articles of Incorporation (or other charter document) or by-laws.

k. All patents, patent applications, trademarks, trademark applications, trade names, service marks, copyrights, franchises, technology, know-how and other intangible properties and assets (all of the foregoing being herein called "Intangibles") that the Company owns or has pending, or under which it is licensed, are in good standing and uncontested. Except as otherwise disclosed in the Registration Statement, the Intangibles are owned by the Company, free and clear of all liens, security interests, pledges, and encumbrances. "Pacific Softworks (and design)" is a registered trademark used by the Company to identify its services and such mark is protected by registration in the name of the Company on the principal register of the United States Patent Office. There is no right under any Intangible necessary to the business of the Company as presently conducted or as the Prospectus indicates it contemplates conducting (except as may be so designated in the Prospectus). The Company has not infringed, is not infringing, and has not received notice of infringement with respect to asserted Intangibles of others. To the knowledge of the

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Company, there is no infringement by others of Intangibles of the Company. To the knowledge of the Company, there is no Intangible of others which has had or may in the future have a materially adverse effect on the financial condition, results of operations, business, properties, assets, liabilities, or future prospects of the Company.

l. Neither the Company nor any director, officer, agent, employee, or other person associated with or acting on behalf of the Company has, directly or indirectly: used any corporate funds for unlawful contributions, gifts, entertainment, or other unlawful expenses relating to political activity; made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns from corporate funds; violated any provision of the Foreign Corrupt Practices Act of 1977, as amended; or made any bribe, rebate, payoff, influence payment, kickback, or other unlawful payment. The Company has not accepted any material advertising allowances or marketing allowances from suppliers to the Company and, to the extent any advertising allowance has been accepted, the Company has provided proper documentation to the supplier with respect to advertising as to which the advertising allowance has been granted.

m. The Company has all requisite power and authority to execute and deliver, and to perform thereunder each of this Agreement, the Warrants, and the Representative's Options. All necessary corporate proceedings of the Company have been duly taken to authorize the execution and delivery, and performance thereunder by the Company of this Agreement, the Warrants, and the Representative's Options. This Agreement has been duly authorized, executed, and delivered by the Company, is a legal, valid, and binding obligation of the Company, and is enforceable as to the Company in accordance with its terms. Each of the Warrants and the Representative's Options has been duly authorized by the Company and, when executed and delivered by the Company, will each be a legal, valid, and binding obligation of the Company, and will be enforceable against the Company in accordance with its respective terms. No consent, authorization, approval, order, license, certificate, or permit of or from, or declaration or filing with, any federal, state, local, or other governmental authority or any court or other tribunal is required by the Company for the execution and delivery, or performance thereunder by the Company of this Agreement, the Warrants or the Representative's Options except filings under the Act which have been or will be made before the Closing Date and such consents consisting only of consents under "blue sky" or securities laws which are required in connection with the transactions contemplated by this Agreement and which have been obtained at or prior to the date of this Agreement. No consent of any party to any contract, agreement, instrument, lease, license, arrangement, or understanding to which the Company is a party, or to which any of its properties or assets are subject, is required for the execution or delivery, or performance

thereunder of this Agreement, the Warrants and the Representative's Options; and the execution and delivery, and performance thereunder of this Agreement, the Warrants and the Representative's Options will not violate, result in a breach of, conflict with, or (with or without the giving of notice or the passage of time or both) entitle any party to terminate or call a default under any such contract, agreement, instrument, lease, license, arrangement, or understanding, or violate or result in a breach of any term of the Articles of Incorporation or by-laws of the Company, or violate, result in a breach of, or conflict

with any law, rule, regulation, order, judgment, or decree binding on the Company or to which any of its operations, businesses, properties, or assets are subject.

n. The Common Stock, the Warrants, the Warrant Shares, purchase options (the "Representative's Options") entitling the Representative or its assigns to purchase the Representative's Option Securities, and the Representative's Option Securities are validly authorized and reserved for issuance. The Common Stock, when issued and delivered in accordance with this Agreement, the Warrant Shares, when issued and delivered upon exercise of the Warrants, the Representative's Option Securities, when issued and delivered upon exercise of the Representative's Options and the Representative's Option Shares issuable on exercise of warrants included in the Representative's Option Securities, upon payment of the exercise price therefor, will be validly issued, fully paid, and nonassessable, without any personal liability attaching to the ownership thereof, and will not be issued in violation of any preemptive rights of stockholders, and the Underwriters will receive good title to the Common Stock and the Warrants purchased, the Representative will receive good title to the Representative's Options purchased and any purchaser of the Warrant Shares or Representative's Option Securities will receive good title thereto, all such title free and clear of all liens, security interests, pledges, charges, encumbrances, stockholders' agreements, and voting trusts.

o. The Common Stock, the Warrants, the Warrant Shares, the Representative's Options and the Representative's Option Securities conform to all statements relating thereto contained in the Registration Statement and the Prospectus.

p. Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, and except as may otherwise be properly described in the Prospectus, the Company has not (i) issued any securities or incurred any liability or obligation, primary or contingent, for borrowed money, (ii) entered into any transaction not in the ordinary course of business, or (iii) declared or paid any dividend on its capital stock.

q. Neither the Company nor any of its officers, directors, or affiliates (as defined in the Regulations), has taken or will take, directly or indirectly, prior to the termination of the

distribution of securities contemplated by this Agreement, any action designed to stabilize or manipulate the price of any security of the Company, or which has caused or resulted in, or which might in the future reasonably be expected to cause or result in, stabilization or manipulation of the price of any security of the Company, to facilitate the sale or resale of the Common Stock and Warrants.

r. The Company has not incurred any liability for a fee, commission, or other compensation on account of the employment of a broker or finder in connection with the transactions contemplated by this Agreement.

s. The Company has obtained from each officer, director and person who beneficially owns shares of the Company's capital stock or derivative securities convertible into shares of the Company's capital stock his or her enforceable written agreement that for a period of 13 months from the Effective Date, he or she will not, without the Representative's prior written consent, offer, pledge, sell, contract to sell, grant any option for the sale of, or otherwise dispose of, directly or indirectly, any shares of capital stock or any security or

other instrument which by its terms is convertible into, exercisable for, or exchangeable for shares of Common Stock (except that, subject to compliance with applicable securities laws, any such officer, director or stockholder may transfer his or her stock in a private transaction, provided that any such transferee shall agree, as a condition to such transfer, to be bound by the restrictions set forth in this Agreement and further provided that the transferor, except in the case of the transferor's death, shall continue to be deemed the beneficial owner of such shares in accordance with Regulation 13d-(3) of the Exchange Act). For a period of three (3) years from the Effective Date, all public sales by officers, directors and stockholders of the Company prior to the Effective Date shall be effected through or with the Representative on an exclusive basis, provided that the Representative offers the best price reasonably available to the selling stockholders. In addition, for a period of three years commencing 24 months from the Effective Date in the case of private transactions in the Company's Common Stock, each such selling security holder specified above shall offer the Representative the exclusive opportunity to purchase or sell the securities on terms at least as favorable as the selling security holder can obtain elsewhere. If the Representative fails to accept in writing any such proposal for sale by the selling security holders within three (3) business days after receipt of a notice containing such proposal, then the Representative shall have no claim or right with respect to any such sales contained in such notice. If, thereafter, such proposal is modified in any material respect, the selling security holders shall adopt the same procedure as with respect to the original proposal. An appropriate legend shall be marked on the face of stock certificates representing all of such securities. Public or private sales of Common Stock by such

persons shall not include gifts, intra-family transfers or transfers for estate planning purposes, which shall be exempt from the foregoing provisions. The Company, on behalf of itself, and all officers, directors and holders of one percent or more of the Common Stock of the Company, have provided the Representative their enforceable written agreements not to sell, transfer, or hypothecate capital stock or derivative securities of the Company (i) through a "Regulation S" transaction for a minimum period of five years from the Effective Date without the prior written consent of the Representative, or (ii) through a "Regulation D" transaction for a minimum period of 24 months from the Effective Date. The Company will also obtain from each holder of options to acquire Common Stock of the Company such person's written enforceable agreement not to sell Common Stock pursuant to the exemption afforded by Rule 701 under the 1933 Act for a minimum period of 13 months from the Effective Date without the prior written consent of the Representative.

t. Except as otherwise provided in the Registration Statement, no person or entity has the right to require registration of shares of Common Stock or other securities of the Company because of the filing or effectiveness of the Registration Statement.

u. The Company is eligible to use Form SB-2 for registration of the Common Stock, the Warrants, the Warrant Shares, the Representative's Options and the Representative's Option Securities.

v. No unregistered securities of the Company, of an affiliate of the Company or of a predecessor of the Company have been sold within three years prior to the date hereof, except as described in the Registration Statement.

w. Except as set forth in the Registration Statement, there is and at the Closing Date there will be no action, suit or proceeding before any court, arbitration tribunal or governmental agency, authority or body pending or, to the knowledge of the Company, threatened which might result in judgments against the Company not adequately covered by insurance or which collectively might result in any material adverse change in the condition (financial or otherwise), the business or the prospects of the Company or would materially affect the properties or assets of the Company. a.

x. The Company has filed all federal and state tax returns which are required to be filed by it and has paid all taxes shown on such returns and all assessments received by it to the extent such taxes have become due. All taxes with respect to which the Company is obligated have been paid or adequate accruals have been set up to cover any such unpaid taxes.

y. Except as set forth in the Registration Statement:

i. The Company has obtained all permits, licenses and other authorizations which are required under the Environmental Laws for the ownership,

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use and operation of each location operated or leased by the Company (the "Property"), all such permits, licenses and authorizations are in effect, no appeal nor any other action is pending to revoke any such permit, license or authorization, and the Company is in full compliance with all terms and conditions of all such permits, licenses and authorizations.

ii. The Company and the Property are in compliance with all Environmental Laws including, without limitation, all restrictions, conditions, standards, limitations, prohibitions, requirements, obligations, schedules and timetables contained in the Environmental Laws or contained in any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder.

iii. The Company has not, and to the best knowledge of the Company's executive officers, no other person has, released, placed, stored, buried or dumped any Hazardous Substances, Oils, Pollutants or Contaminants or any other wastes produced by, or resulting from, any business, commercial, or industrial activities, operations, or processes, on, beneath, or adjacent to the Property or any property formerly owned, operated or leased by the Company except for inventories of such substances to be used, and wastes generated therefrom, in the ordinary course of business of the Company (which inventories and wastes, if any, were and are stored or disposed of in accordance with applicable laws and regulations and in a manner such that there has been no release of any such substances into the environment).

iv. Except as provided to the Representative, there exists no written or tangible report, synopsis or summary of any asbestos, toxic waste or Hazardous Substances, Oils, Pollutants or Contaminants investigation made with respect to all or any portion of the assets of the Company (whether or not prepared by experts and whether or not in the possession of the executive officers of the Company).

v. Definitions: As used herein:



(1) Environmental Laws means all federal, state and local laws, regulations, rules and ordinances relating to pollution or protection of the environment, including, without limitation, laws relating to Releases or threatened Releases of Hazardous Substances, Oils, Pollutants or Contaminants into the indoor or outdoor environment (including, without limitation, ambient air, surface water, groundwater, land, surface and subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, Release, transport or handling of Hazardous Substances, Oils, Pollutants or Contaminants.

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(2) Hazardous Substances, Oils, Pollutants or Contaminants means all substances defined as such in the National Oil and Hazardous Substances Pollutant Contingency Plan, 40 C.F.R. Section 300.6, or defined as such under any Environmental Law.

(3) Release means any release, spill, emission, discharge, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the indoor or outdoor environmental (including, without limitation, ambient air, surface water, groundwater, and surface or subsurface strata) or into or out of any property, including the movement of Hazardous Substances, Oils, Pollutants or Contaminants through or in the air, soil, surface water, groundwater or any property.

a. Any pro forma financial or other information and related notes included in the Registration Statement, each Preliminary Prospectus and the Prospectus comply (or, if the Prospectus has not been filed with the Commission, as to the Prospectus, will comply) in all material respects with the requirements of the Act and the rules and regulations of the Commission thereunder and present fairly the pro forma information shown, as of the dates and for the periods covered by such pro forma information. Such pro forma information, including any related notes and schedules, has been prepared on a basis consistent with the historical financial statements and other historical information, as applicable, included in the Registration Statement, the Preliminary Prospectus and the Prospectus, except for the pro forma adjustments specified therein, and give effect to assumptions made on a reasonable basis to give effect to historical and, if applicable, proposed transactions described in the Registration Statement, each Preliminary Prospectus and the Prospectus.

All of the above representations and warranties shall survive the performance or termination of this Agreement.

1. Purchase, Sale, and Delivery of the Units. On the basis of the representations, warranties, covenants, and agreements of the Company herein contained, but subject to the terms and conditions herein set forth, the Company agrees to sell to the Underwriters, severally and not jointly, and the Underwriters, severally and not jointly, agree to purchase from the Company the number of Units set forth opposite the Underwriters' names in Schedule 1 hereto.

2. The purchase price per Unit to be paid by the Underwriters shall be \$\_\_\_\_. The initial public offering price of the Units shall be \$\_\_\_\_\_.

3. Payment for the Units by the Underwriters shall be made by certified or official bank check in clearing house funds, payable to the order of the Company

at the offices of Pacific Softworks, Inc., 703 Rancho Conejo Boulevard, Newbury Park, California 91320, or at such

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other place as the Representative shall determine and advise the Company by at least two full days' notice in writing, upon delivery of the Units to the Representative. Such delivery and payment shall be made at 10:00 a.m., Mountain Time, on the third business day following the time of the initial public offering, as defined in Section 10(a). The time and date of such delivery and payment are herein called the "Closing Date."

4. In addition, the Company hereby grants to the Representative the option to purchase all or a portion of the Additional Securities as may be necessary to cover over-allotments, at the same purchase price per Additional Security as the price per Unit provided for in this Section 3. This option may be exercised by the Representative on the basis of the representations, warranties, covenants, and agreements of the Company herein contained, but subject to the terms and conditions herein set forth, at any time and from time to time on or before the 45th day following the Effective Date of the Registration Statement, by written notice by the Representative to the Company. Such notice shall set forth the aggregate number of Additional Securities as to which the option is being exercised, and the time and date, as determined by the Representative, when such Additional Securities are to be delivered (such time and date are herein called an "Additional Closing Date"); provided, however, that no Additional Closing Date shall be earlier than the Closing Date nor earlier than the third business day after the date on which the notice of the exercise of the option shall have been given nor later than the eighth business day after the date on which such notice shall have been given; and further provided, that not more than two Additional Closings shall be noticed and held following purchase of Additional Securities by the Representative.

5. Payment for the Additional Securities shall be made by certified or official bank check in clearing house funds payable to the order of the Company at the offices of Pacific Softworks, Inc., 703 Rancho Conejo Boulevard, Newbury Park, California 91320, or at such other place in Denver, Colorado as you shall determine and advise the Company by at least two full days' notice in writing, upon delivery of certificates representing the Additional Securities to you.

6. Certificates for the Units and any Additional Securities purchased shall be registered in such name or names and in such authorized denominations as you may request in writing at least two full business days prior to the Closing Date or Additional Closing Date, as applicable. The Company shall permit you to examine and package such certificates for delivery at least one full business day prior to any such closing with respect thereto.

7. If for any reason one or more Underwriters shall fail or refuse (otherwise than for a reason sufficient to justify the termination of this Agreement under the provisions of Section 10 hereof) to purchase and pay for the number of Units agreed to be purchased by such Underwriter, the Company shall immediately give notice thereof to the Representative, and the non-defaulting Underwriters shall have the right within 24 hours after the receipt by the

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Representative of such notice, to purchase or procure one or more other Underwriters to purchase, in such proportions as may be agreed upon among the Representative and such purchasing Underwriter or Underwriters and upon the terms herein set forth, the Units which such defaulting Underwriter or

Underwriters agreed to purchase. If the non-defaulting Underwriters fail so to make such arrangements with respect to all such Units, the number of Units which each non-defaulting Underwriter is otherwise obligated to purchase under the Agreement shall be automatically increased pro rata to absorb the remaining Units which the defaulting Underwriter or Underwriters agreed to purchase; provided, however, that the non-defaulting Underwriters shall not be obligated to purchase the Units which the defaulting Underwriter or Underwriters agreed to purchase in excess of 10% of the total number of Units which such non-defaulting Underwriter agreed to purchase hereunder, and provided further that the non-defaulting Underwriters shall not be obligated to purchase any Units which the defaulting Underwriter or Underwriters agreed to purchase if such additional purchase would cause the Underwriter to be in violation of the net capital rule of the Commission or other applicable law. If the total number of Units which the defaulting Underwriter or Underwriters agreed to purchase shall not be purchased or absorbed in accordance with the two preceding sentences, the Company shall have the right, within 24 hours next succeeding the 24-hour period above referred to, to make arrangements with other underwriters or purchasers satisfactory to the Representative for the purchase of such Units on the terms herein set forth. In any such case, either the Representative or the Company shall have the right to postpone the Closing for not more than seven business days after the date originally fixed as the Closing in order that any necessary changes in the Registration Statement, the Prospectus or any other documents or arrangements may be made. If neither the non-defaulting Underwriters nor the Company shall make arrangements within the 24-hour periods stated above for the purchase of all the Units which the defaulting Underwriter or Underwriters agreed to purchase hereunder, this Agreement shall be terminated without further act or deed and without any liability on the part of the Company any non-defaulting Underwriter, except the Company shall be liable for actual expenses incurred by the Representative as provided in Section 10 hereof, and without any liability on the part of any non-defaulting Underwriter to the Company.

8. Nothing contained herein shall relieve any defaulting Underwriter of its liability, if any, to the Company or to the remaining Underwriters for damages occasioned by its default hereunder.

9. Offering. The Underwriters are to make a public offering of the Units as soon, on or after the effective date of the Registration Statement, as the Representative deems it advisable so to do. The Units are to be initially offered to the public at the initial public offering price as provided for in Section 3 (such price being herein called the "public offering price"). After

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the initial public offering, you may from time to time increase or decrease the price of the Units, in your sole discretion, by reason of changes in general market conditions or otherwise.

10. Covenants of the Company. The Company covenants that it will:

a. Use its best efforts to cause the Registration Statement to become effective as promptly as possible. If the Registration Statement has become or becomes effective with a form of Prospectus omitting certain information pursuant to Rule 430A of the Regulations, or filing of the Prospectus is otherwise required under Rule 424(b), the Company will file the Prospectus, properly completed, pursuant to Rule 424(b) within the time period prescribed and will provide evidence satisfactory to you of such timely filing.

b. Notify you immediately, and confirm such notice in writing, (i) when the Registration Statement and any post-effective amendment thereto become effective, (ii) of the receipt of any comments from the Commission or the "blue sky" or securities authority of any

jurisdiction regarding the Registration Statement, any post-effective amendment thereto, the Prospectus, or any amendment or supplement thereto, and (iii) of the receipt of any notification with respect to a Stop Order or the initiation or threatening of any proceeding with respect to a Stop Order. The Company will use its best efforts to prevent the issuance of any Stop Order and, if any Stop Order is issued, to obtain the lifting thereof as promptly as possible.

c. During the time when a prospectus relating to the Units or the Additional Securities is required to be delivered hereunder or under the Act or the Regulations, comply so far as it is able with all requirements imposed upon it by the Act, as now existing and as hereafter amended, and by the Regulations, as from time to time in force, so far as necessary to permit the continuance of sales of or dealings in the Units and Additional Securities in accordance with the provisions hereof and the Prospectus. If, at any time when a prospectus relating to the Units or Additional Securities is required to be delivered hereunder or under the Act or the Regulations, any event shall have occurred as a result of which, in the reasonable opinion of counsel for the Company or counsel for the Representative, the Registration Statement or the Prospectus, as then amended or supplemented, contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or if, in the opinion of either of such counsel, it is necessary at any time to amend or supplement the Registration Statement or the Prospectus to comply with the Act or the Regulations, the Company will immediately notify you and promptly prepare and file with the Commission an appropriate amendment or supplement (in form and substance satisfactory to you) which will correct such statement or omission or which will effect such

compliance and will use its best efforts to have any such amendment declared effective as soon as possible.

d. Deliver without charge to you such number of copies of each Preliminary Prospectus as you may reasonably request and, as soon as the Registration Statement or any amendment thereto becomes effective or a supplement is filed, deliver without charge to you two signed copies of the Registration Statement or such amendment thereto, as the case may be, including exhibits, and two copies of any supplement thereto, and deliver without charge to you such number of copies of the Prospectus, the Registration Statement, and amendments and supplements thereto, if any, without exhibits, as you may reasonably request for the purposes contemplated by the Act.

e. Endeavor in good faith, in cooperation with you, at or prior to the time the Registration Statement becomes effective, to qualify the Units and Additional Securities for offering and sale under the "blue sky" or securities laws of such jurisdictions as you may designate; provided, however, that no such qualification shall be required in any jurisdiction where, as a result thereof, the Company would be subject to service of general process or to taxation as a foreign corporation doing business in such jurisdiction to which it is not then subject. In each jurisdiction where such qualification shall be effected, the Company will, unless you agree in writing that such action is not at the time necessary or advisable, file and make such statements or reports at such times as are or may be required by the laws of such jurisdiction.

f. Make generally available (within the meaning of Section 11(a) of the

Act and the Regulations) to its security holders as soon as practicable, but not later than fifteen (15) months after the date of the Prospectus, an earnings statement (which need not be certified by independent certified public accountants unless required by the Act or the Regulations, but which shall satisfy the provisions of Section 11(a) of the Act and the Regulations) covering a period of at least 12 months beginning after the effective date of the Registration Statement.

g. For a period of 13 months after the date of the Prospectus, not, without your prior written consent, offer, issue, sell, contract to sell, grant any option for the sale of, or otherwise dispose of, directly or indirectly, any shares of Common Stock (or any security or other instrument which by its terms is convertible into, exercisable for, or exchangeable for shares of Common Stock) except as provided in Section 3 and except for (i) the issuance of Warrant Shares issuable upon the exercise of Warrants or issuance of Common Stock underlying options outstanding on the date hereof which are properly described in the Prospectus, (ii) the issuance of Representative's Option Securities, or (iii)

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the grant of options pursuant to the Company's existing stock option plans, or (iv) the issuance of capital stock in connection with any acquisitions undertaken by the Company.

h. For a period of five years after the Effective Date of the Registration Statement, furnish you, without charge, the following:

i. Within 90 days after the end of each fiscal year, three copies of consolidated financial statements certified by independent certified public accountants, including a balance sheet, statement of operations, and statement of cash flows of the Company and its then existing subsidiaries, with supporting schedules, prepared in accordance with generally accepted accounting principles, at the end of such fiscal year and for the 12 months then ended;

ii. As soon as practicable after they have been sent to stockholders of the Company or filed with the Commission, three copies of each annual and interim financial and other report or communication sent by the Company to its stockholders or filed with the Commission;

iii. As soon as practicable, two copies of every press release and every material news item and article in respect of the Company or its affairs which was released by the Company;

iv. Notice of any regular quarterly or special meeting of the Company's Board of Directors concurrently with the sending of such notice to the Company's directors; and

v. Such additional documents and information with respect to the Company and its affairs and the affairs of any of its subsidiaries as you may from time to time reasonably request.

a. Designate an Audit Committee and a Compensation Committee, the members of which shall be subject to your reasonable approval, which will generally supervise the financial affairs of the Company and review executive compensation, respectively.

b. Furnish to you as early as practicable prior to the Closing Date and any Additional Closing Date, as the case may be, but not less than two full business days prior thereto, a copy of the latest available unaudited interim consolidated financial statements of the Company which have been read by the Company's independent certified public accountants, as stated in their letters to be furnished pursuant to Section 7(e). a.

c. File no amendment or supplement to the Registration Statement or Prospectus at any time, whether before or after the Effective Date of the Registration Statement, unless such filing shall comply with the Act and the Regulations and unless you shall previously have been advised of such filing and furnished with a copy thereof, and

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you and counsel for the Representative shall have approved such filing in writing within a reasonable time of receipt thereof.

d. Comply with all periodic reporting and proxy solicitation requirements which may from time to time be applicable to the Company as a result of the Company's registration under the Exchange Act on a Registration Statement on Form 8-A .

e. Comply with all provisions of all undertakings contained in the Registration Statement.

f. Prior to the Closing Date or any Additional Closing Date, as the case may be, issue no press release or other communication, directly or indirectly, and hold no press conference and grant no interviews with respect to the Company, the financial condition, results of operations, business, properties, assets, or liabilities of the Company, or this offering, without your prior written consent.

g. On or prior to the Closing Date, sell to the Representative for a total purchase price of \$100, Representative's Options entitling the Representative or its assigns to purchase (i) 80,000 Units at a price equal to 120% of the public offering price of the Units, with the terms of the Representative's Options, including exercise period, anti-dilution provisions, exercise price, exercise provisions, transferability, and registration rights, to be in the form filed as an exhibit to the Registration Statement.

h. Until expiration of the Representative's Options, keep reserved sufficient shares of Common Stock and Warrants for issuance upon exercise of the Representative's Options, and shares of Common Stock for issuance upon exercise of the warrants contained in the Representative's Options. a.

i. If the Representative, any employee of the Representative or any company controlled by or under control of the Representative acts as the introducing broker or finder during the five year period commencing on the Effective Date with regard to (i) the sale of all or substantially all of the assets and properties of the Company, (ii) the merger or consolidation of the Company (other than a merger or consolidation effected for the purpose of changing the Company's domicile) or (iii) the acquisition by the Company of the assets or stock of another business entity, which agreement or understanding is thereafter consummated during such five-year period or within one year of expiration of such five-year period, pay to the Representative or such person(s) as the Representative may designate an amount equal to 5% of the first \$1,000,000 or portion thereof in value or consideration

received or paid by the Company, 4% of the second \$1,000,000 or portion thereof in value or consideration received or paid by the Company and 3% of such value or consideration received by the Company in excess of the first \$2,000,000 of such value or consideration received or paid by the Company. The fee payable to the Representative will be in the same form of consideration as that paid by or to the Company, as the case may be, in any

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such transaction. It is understood that the designation of the Representative to act as a finder is not exclusive and that the Representative shall not be entitled to the foregoing amounts unless it participates in the introduction.

j. Adopt procedures for the application of the net proceeds it receives from the sale of the Units and apply the net proceeds from the sale of the Units substantially in the manner set forth in the Registration Statement, which does not contemplate repayment of debt to officers, directors, stockholders or affiliates of the Company, unless any deviation from such application is in accordance with the Registration Statement and occurs only after approval by the Board of Directors of the Company and then only after the Board of Directors has obtained the written opinion of recognized legal counsel experienced in federal and state securities laws as to the propriety of any such deviation.

k. Within the time period which the Prospectus is required to be delivered under the Act, comply, at its own expense, with all requirements imposed upon it by the Act, as now or hereafter amended, by the Rules and Regulations, as from time to time may be enforced, and by any order of the Commission, so far as necessary to permit the continuance of sales or dealing in the Units, Common Stock and Warrants.

l. At the Closing, deliver to the Representative true and correct copies of the Articles of Incorporation of the Company and all amendments thereto, all such copies to be certified by the Secretary of the Company; true and correct copies of the by-laws of the Company and of the minutes of all meetings of the directors and stockholders of the Company held prior to the Closing which in any way relate to the subject matter of this Agreement or the Registration Statement.

m. Use all reasonable efforts to comply or cause to be complied with the conditions precedent to the several obligations of the Underwriters in Section 7 hereof.

n. File with the Commission all required information concerning use of proceeds of the Public Offering in Forms 10-QSB and 10-KSB in accordance with the provisions of the Act and to provide a copy of such reports to the Representative and its counsel.

o. Supply to the Representative and the Representative's counsel at the Company's cost, two bound volumes each containing material documents relating to the offering of the Common Stock and Warrants within a reasonable time after the Closing, not to exceed 90 days.

p. As soon as possible prior to the Effective Date, and as a condition of the Underwriter's obligations hereunder, (i) have the Company listed on an accelerated basis, and to maintain such listing for not less than ten years from the Closing Date, in Standard & Poor's Standard Corporation Records; and (ii) have the Units, Common Stock and Warrants

quoted on The Nasdaq SmallCap Market" as of the Effective Date, on the Closing Date, on the Additional Closing Date and thereafter for at least ten years provided the Company is in compliance with The Nasdaq SmallCap Market" maintenance requirements.

y. At such time as the Company qualifies for listing on the Nasdaq National Market, take all steps necessary to have the Company's Common Stock and Warrants, to the extent eligible, listed on the Nasdaq National Market.

z. Continue, for a period of at least five years following the Effective Date of the Registration Statement, to appoint such auditors as are reasonably acceptable to the Representative, which auditors shall (i) prepare consolidated financial statements in accordance with Regulation S-B or, if applicable, Regulation S-X under the General Rules and Regulations of the Act and (ii) examine (but not audit) the Company's consolidated financial statements for each of the first three (3) fiscal quarters prior to the announcement of quarterly financial information, the filing of the Company's 10-QSB quarterly report and the mailing of quarterly financial information to security holders.

aa. Within 90 days of the Effective Date of the Registration Statement, obtain a "key man" life insurance policy in the amount of \$\_\_\_\_\_ on the life of Glenn P. Russell, with the Company designated as the beneficiary of such policy, and pay the annual premiums thereon for a period of not less than three years from the Effective Date of the Registration Statement.

bb. Cause its transfer agent to furnish the Representative a duplicate copy of the daily transfer sheets prepared by the transfer agent upon the reasonable request of the Representative, at the Company's expense, for a period of five years after the Effective Date.

cc. Refrain from filing a Form S-8 Registration Statement for a period of 180 days from the Effective Date of the Registration Statement without the Representative's prior written consent. On or prior to the filing of the Form S-8 Registration Statement, the Company shall (i) obtain from all officers and directors their written agreement not to sell the registered Common Stock underlying options for the duration of the period through 13 months from the Effective Date, and (ii) not permit the sale by non-officer and non-director employees of in excess of an aggregate of 25,000 shares of Common Stock during the period from the Effective Date of the Form S-8 Registration Statement through 13 months from the Effective Date. The Company will also obtain from each holder of options to acquire Common Stock of the Company such person's written enforceable agreement not to sell shares of Common Stock pursuant to the exemption afforded by Rule 701 under the 1933 Act for a minimum period of 13 months from the Effective Date without the prior written consent of the Representative.

dd. Afford the Representative the right, but not the obligation, to designate an observer to attend meetings of the Board of Directors, which right shall commence on the Effective Date and survive for a period through the later of (i) three years from the Effective Date, or (ii) exercise of the Representative's Warrants. The designee, if any, and the Representative will receive notice of each meeting of the Board of Directors in accordance with Colorado law, of which no less than four meetings will be held each year. Any such designee will receive reimbursement for all reasonable costs and expenses incurred in



attending meetings of the Board of Directors, including but not limited to, food, lodging and transportation. Moreover, to the extent permitted by law, the Representative and its designee shall be indemnified for the actions of such designee as an observer to the Board of Directors and in the event the Company maintains a liability insurance policy affording coverage for the acts of its officers and/or directors, to the extent permitted under such policy, each of the Representative and its designee shall be an insured under such policy.

ee. On behalf of itself and on behalf of its officers and directors, provide the Representative a non-assignable right of first refusal, which right of first refusal shall extend for a period of three years after the Effective Date. The right of first refusal shall entitle the Representative to purchase for its account, or to sell for the account of the Company, any of the Company's subsidiaries or any selling security holders or officers, directors or affiliates of such persons, any debt or equity securities of the Company or common stock owned by such selling security holders with respect to which the Company, any of its subsidiaries or successors (other than a successor entity which has acquired the Company and in which the stockholders of the Company own less than 25% of the outstanding shares) or selling security holders may seek to offer and sell pursuant to a registration statement under the Act or in a private transaction other than with a lending institution. The Company, its subsidiaries and any selling security holders will consult with the Representative with regard to any such offering and will offer the Representative the opportunity to purchase or sell any such securities on terms not more favorable to the Company than it can secure elsewhere. If the Representative fails to accept in writing such proposal for financing made by the Company, its subsidiaries or such selling security holders within fifteen (15) days after the receipt by the Representative of a notice containing such proposal, then the Representative shall have no further claim or right with respect to the financing proposal contained in such notice. If thereafter such proposal is modified, the Company, its subsidiaries or affiliates shall adopt the same procedure as with respect to the original proposal, except that upon re-presentation, such term for response by the Representative shall be ten (10) days. Should the Representative not avail itself of such opportunity, the right of first refusal shall not be affected thereby, and the right of first refusal shall continue in effect for the remaining period thereof. The Company further agrees that any breach by the Company of the Representative's right of first refusal shall be enforceable through injunctive relief. The offer or sale by the Company of equity securities in connection with acquisitions or mergers shall be exempted from the foregoing right of first refusal.

1. Payment of Expenses. The Company hereby agrees to pay all expenses (subject to the last sentence of this Section 6) in connection with the offering, including but not limited to (a) the preparation, printing, filing, distribution, and mailing of the Registration Statement and the

Prospectus, including NASD, SEC, Nasdaq filing and/or application fees, and the printing, filing, distribution, and mailing of this Agreement, any Agreement Among Underwriters, Selected Dealers Agreement, preliminary and final Blue Sky Memorandums, material to be circulated to the Underwriters by you and other

incidental or related documents, including the cost of all copies thereof and of the Preliminary Prospectuses and of the Prospectus, and any amendments or supplements thereto, supplied to the Representative in quantities as hereinabove stated, (b) the issuance, sale, transfer, and delivery of the Units, the Additional Securities, the Warrant Shares, the Representative's Options and the Representative's Option Securities, including, without limitation, any original issue, transfer or other taxes payable thereon and the costs of preparation, printing and delivery of certificates representing such securities, as applicable, (c) the qualification of the Units, Additional Securities, Representative's Options, Representative's Option Securities, and Warrant Shares under state or foreign "blue sky" or securities laws, (d) the fees and disbursements or counsel for the Company and the accountants for the Company, (e) the listing of the Units, Common Stock and Warrants on The Nasdaq SmallCap Market", and (f) the Representative's non-accountable expense allowance equal to 3% of the aggregate gross proceeds from the sale of the Units and the Additional Securities. Prior to or immediately following the Closing Date, the Company shall bear the costs of tombstone announcements not to exceed \$1,500, if requested to do so by the Representative.

2. The Company has previously remitted to the Representative the sum of \$35,000, which sum has been credited as a partial payment in advance of the non-accountable expense allowance provided for in Section 6(f) above.

3. Conditions of Underwriters' Obligations. The Underwriters' obligation to purchase and pay for the Units and the Additional Securities, as provided herein, shall be subject to the continuing accuracy of the representations and warranties of the Company contained herein and in each certificate and document contemplated under this Agreement to be delivered to you, as of the date hereof and as of the Closing Date (or the Additional Closing Date, as the case may be), to the performance by the Company of its obligations hereunder, and to the following conditions:

a. The Registration Statement shall have become effective not later than 5:00 p.m., Mountain time, on the date of this Agreement or such later date and time as shall be consented to in writing by you.

b. At the Closing Date and any Additional Closing Date, you shall have received the favorable opinion of Resch, Polster, Alpert & Berger, LLP, counsel for the Company, dated the date of delivery, addressed to you, and in form and scope satisfactory to your counsel, to the effect that:

i. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of California, with full power and

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authority, and all necessary consents, authorizations, approvals, orders, certificates, and permits of and from, and declarations and filings with, all federal, state, local, and other governmental authorities and all courts and other tribunals, to own, lease, license, and use its properties and assets and to conduct its business in the manner described in the Prospectus. The Company is duly qualified to do business and is in good standing in every jurisdiction in which its ownership, leasing, licensing, or use of property and assets or the conduct of its business makes such qualification necessary;

ii. The authorized capital stock of the Company as of the date of this Agreement consisted of 50,000,000 shares of Common Stock, of which 3,300,000 shares of Common Stock are issued and outstanding, 320,000 shares of Common Stock are

reserved for issuance upon the exercise of options; and 10,000,000 shares of Preferred Stock, none of which are issued and outstanding; and there have been no changes in the authorized and outstanding capital stock of the Company since the date of this Agreement, except as contemplated by the Registration Statement and the Prospectus. Each outstanding share of capital stock is validly authorized, validly issued, fully paid, and nonassessable, with no personal liability attaching to the ownership thereof, has not been issued and is not owned or held in violation of any preemptive right of stockholders. There is no commitment, plan, or arrangement to issue, and no outstanding option, warrant, or other right calling for the issuance of, any share of capital stock of the Company or any security or other instrument which by its terms is convertible into, exercisable for, or exchangeable for capital stock of the Company, except as set forth above, and except as is properly described in the Prospectus. There is outstanding no security or other instrument which by its terms is convertible into or exchangeable for capital stock of the Company, except as described in the Prospectus;

iii. There is no litigation, arbitration, claim, governmental or other proceeding (formal or informal), or investigation pending, threatened, or in prospect (or any basis therefor) with respect to the Company or any of its respective operations, businesses, properties, or assets, except as may be properly described in the Prospectus or such as individually or in the aggregate do not now have and will not in the future have a material adverse effect upon the operations, business, properties, or assets of the Company. The Company is not in violation of, or in default with respect to, any law, rule, regulation, order, judgment, or decree, except as may be properly described in the Prospectus or such as in the aggregate have been disclosed to the Representative and do not now have and will not in the future

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have a material adverse effect upon the operations, business, properties, or assets of the Company; nor is the Company required to take any action in order to avoid any such violation or default;

iv. Neither the Company nor any other party is now or is expected by the Company to be in violation or breach of, or in default with respect to, complying with any material provision of any contract, agreement, instrument, lease, license, arrangement, or understanding which is material to the Company;

v. The Company is not in violation or breach of, or in default with respect to, any term of its Articles of Incorporation or by-laws;

vi. The Company has all requisite power and authority to execute and deliver and to perform thereunder this Agreement, the Warrants and the Representative's Options. All necessary corporate proceedings of the Company have been taken to authorize the execution and delivery and performance thereunder by the Company of this Agreement, the Warrants and the Representative's Options. Each of this Agreement, the

Warrants and the Representative's Options have been duly authorized, executed and delivered by the Company, and is a legal, valid, and binding obligation of the Company, and (subject to applicable bankruptcy, insolvency, and other laws affecting the enforceability of creditors' rights generally) enforceable as to the Company in accordance with its respective terms. No consent, authorization, approval, order, license, certificate, or permit of or from, or declaration or filing with, any federal, state, local, or other governmental authority or any court or other tribunal is required by the Company for the execution or delivery, or performance thereunder by the Company of this Agreement, the Warrants and the Representative's Options (except filings under the Act which have been made prior to the Closing Date and consents consisting only of consents under "blue sky" or securities laws which are required in connection with the transactions contemplated by this Agreement, and which have been obtained on or prior to the date the Registration Statement becomes effective under the Act). No consent of any party to any contract, agreement, instrument, lease, license, arrangement, or understanding to which the Company is a party, or to which any of its properties or assets are subject, is required for the execution or delivery, or performance thereunder of this Agreement, the Warrants and the Representative's Options; and the execution and delivery and performance thereunder of this Agreement, the Warrants and the Representative's Options will not violate, result in a breach of, conflict with, or (with or without the giving of notice or the passage of time or both) entitle any party to terminate or call a default

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under any such contract, agreement, instrument, lease, license, arrangement, or understanding, or violate or result in a breach of any term of the Articles of Incorporation or by-laws of the Company, or violate, result in a breach of, or conflict with any law, rule, regulation, order, judgment, or decree binding on the Company or to which any of its operations, businesses, properties, or assets are subject;

vii. The shares of Common Stock are, the shares of Common Stock issuable on exercise of the Warrants will be, the shares of Common Stock underlying the Representative's Options will be upon exercise of the Representative's Options, and the Representative's Option Shares will be upon exercise of the Warrants underlying the Representative's Options, validly authorized, validly issued, fully paid, and nonassessable and are not issued in violation of any preemptive rights of stockholders, and the Underwriters have received good title to the Units and Additional Securities purchased by them from the Company, free and clear of all liens, security interests, pledges, charges, encumbrances, stockholders' agreements, and voting trusts; upon payment for the Warrant Shares and the Representative's Securities, the holders thereof will receive good title to such securities, free and clear of all liens, security interests, pledges, charges, encumbrances, stockholders' agreement and voting trusts. The Units, Common Stock, the Warrants, the Warrant Shares, the Representative's Options and the Representative's Option Securities conform to all statements relating thereto contained in the Registration Statement or the Prospectus;

viii. The Warrant Shares have been duly and validly

reserved for issuance pursuant to the terms of the Warrant Agreement between the Company and its transfer agent, the Representative's Option Securities have been duly and validly reserved for issuance pursuant to the terms of the Representative's Options or the Warrant Agreement, as the case may be;

ix. Any contract, agreement, instrument, lease, or license required to be described in the Registration Statement or the Prospectus has been properly described therein. Any contract, agreement, instrument, lease, or license required to be filed as an exhibit to the Registration Statement has been filed with the Commission as an exhibit to or has been incorporated as an exhibit by reference into the Registration Statement;

x. Insofar as statements in the Prospectus purport to summarize the status of litigation or the provisions of laws, rules, regulations, orders, judgments, decrees, contracts, agreements, instruments, leases, or licenses, such statements

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have been prepared or reviewed by such counsel and accurately reflect the status of such litigation and provisions purported to be summarized and are correct in all material respects;

xi. Except as provided in the Registration Statement, no person or entity has the right to require registration of shares of Common Stock or other securities of the Company because of the filing or effectiveness of the Registration Statement;

xii. The Registration Statement has become effective under the Act. No Stop Order has been issued and no proceedings for that purpose have been instituted or threatened;

xiii. The Registration Statement and the Prospectus, and any amendment or supplement thereto, comply as to form in all material respects with the requirements of the Act and the Regulations;

xiv. Such counsel has no reason to believe that either the Registration Statement or the Prospectus, or any amendment or supplement thereto, contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading (except that no opinion need be expressed as to the consolidated financial statements and other financial data and schedules which are or should be contained therein);

xv. Since the Effective Date of the Registration Statement, any event which has occurred which should have been set forth in an amendment or supplement to the Registration Statement or the Prospectus has been set forth in such an amendment or supplement;

xvi. The Company is not currently offering any securities for sale except as described in the Registration Statement;

xvii. Such counsel has no knowledge of any promoter, affiliate, parent or subsidiaries of the Company except as are described in the Registration Statement;

xviii. The Company has no subsidiaries except as described in the Registration Statement;

xix. The Company owns or possesses, free and clear of all liens or encumbrances and rights thereto or therein by third parties, the requisite licenses or other rights to use all trademarks, copyrights, service marks, service names, trade names and licenses necessary to conduct its business (including without limitation, any such licenses or rights described in the Registration Statement as being owned or possessed by the Company or any subsidiary) (all of which are collectively referred to herein as the "Intellectual Property"); there is no actual or pending, or threatened claim, proceeding or action by any person pertaining to or which

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challenges the exclusive rights of the Company with respect to any of the Company's Intellectual Property; based on a review of all the Company's products, proposed products and Intellectual Property, such products, proposed products or Intellectual Property do not and will not infringe on any trademarks, copyrights, service marks, service names, trade names or valid patents or patents pending held by third parties known to the Company and such counsel;

xx. The Company is not a party to any agreement giving rise to any obligation by the Company or any subsidiary to pay any third-party royalties or fees of any kind whatsoever with respect to any technology developed, employed, used or licensed by the Company or any subsidiary, other than as disclosed in the Prospectus;

xxi. The Units, Common Stock and Warrants are eligible for quotation on The Nasdaq SmallCap Market;

xxii. All issued and outstanding shares of Common Stock and all other securities issued and sold or exchanged by the Company or its subsidiaries have been issued and sold or exchanged in compliance with all applicable state and federal securities laws and regulations; and

xxiii. The Company and all of its Property are in compliance with all Environmental Laws and the Company is in full compliance with all permits, licenses and authorizations relating to Environmental Laws.

In rendering such opinion, counsel for the Company may rely (A) as to matters involving the application of laws other than the laws of the United States and the laws of the State of California, to the extent counsel for the Company deems proper and to the extent specified in such opinion, upon an opinion or opinions (in form and substance satisfactory to counsel for the Representative) of other counsel, acceptable to counsel for the Representative, familiar with the applicable laws, in which case the opinion of counsel for the Company shall state that the opinion or opinions of such other counsel are satisfactory in scope, form, and substance to counsel for the Company

and that reliance thereon by counsel for the Company is reasonable; (B) as to matters of fact, to the extent the Representative deems proper, on certificates of responsible officers of the Company; and (C) to the extent they deem proper, upon written statements or certificates of officers of departments of various jurisdictions having custody of documents respecting the corporate existence or good standing of the Company, provided that copies of any such statements or certificates shall be delivered to counsel for the Representative.

a. On or prior to the Closing Date and any Additional Closing Date, as the case may be, you shall have been furnished such information, documents, certificates, and

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opinions as you may reasonably require for the purpose of enabling you to review the matters referred to in Sections 7(b) and (c), and in order to evidence the accuracy, completeness, or satisfaction of any of the representations, warranties, covenants, agreements, or conditions herein contained, or as you may reasonably request.

b. At the Closing Date and any Additional Closing Date, as the case may be, you shall have received a certificate of the chief executive officer and of the chief financial officer of the Company, dated the Closing Date or such Additional Closing Date, as the case may be, to the effect that the conditions set forth in Section 7(a) have been satisfied, that as of the date of this Agreement and as of the Closing Date or such Additional Closing Date, as the case may be, the representations and warranties of the Company contained herein were and are accurate, and that as of the Closing Date or such Additional Closing Date, as the case may be, the obligations to be performed by the Company hereunder on or prior thereto have been fully performed.

c. At the time this Agreement is executed and at the Closing Date and any Additional Closing Date, as the case may be, you shall have received a letter from Merdinger, Fruchter, Rosen & Corso, P.C., Certified Public Accountants, addressed to you and dated the date of delivery but covering a period within three business days of such date, in form and substance satisfactory to you.

d. All proceedings taken in connection with the issuance, sale, transfer, and delivery of the Units and the Additional Securities shall be satisfactory in form and substance to you and to counsel for the Representative, and you shall have received a favorable opinion from counsel to the Company, dated as of the Closing Date or the Additional Closing Date, as the case may be, with respect to such of the matters set forth under Sections 7(b) and 7(c), respectively, and with respect to such other related matters, as you may reasonably request.

e. The NASD, upon review of the terms of the public offering of the Units and the Additional Securities, shall not have objected to your participation in such offering.

f. The Company shall have received notice that the Units, Common Stock and Warrants will be quoted on "The Nasdaq SmallCap Market" as of the Effective Date.

Any certificate or other document signed by any officer of the Company and delivered to you or to counsel for the Representative shall be deemed a representation and warranty by such officer individually and by the Company hereunder to the Representative as to the statements made therein. If any condition to your obligations hereunder to be fulfilled prior to or at the Closing Date or any Additional Closing Date, as the case may be, is not so

fulfilled, you may terminate this Agreement or, if you so elect, in writing waive any such conditions which have not been fulfilled or extend the time for their fulfillment.

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1. Indemnification and Contribution.

a. Subject to the conditions set forth below, the Company agrees to indemnify and hold harmless the Underwriters, the Representative, and each of their officers, directors, partners, employees, agents, and counsel, and each person, if any, who controls the Representative or any one of the Underwriters within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, against any and all loss, liability, claim, damage, and expense whatsoever (which shall include, for all purposes of this Section 8, but not be limited to, attorneys' fees and any and all expense whatsoever incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever and any and all amounts paid in settlement of any claim or litigation) as and when incurred arising out of, based upon, or in connection with (i) any untrue statement or alleged untrue statement of a material fact contained (A) in any Preliminary Prospectus, the Registration Statement, or the Prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, or (B) in any application or other document or communication (in this Section 8 collectively called an "application") in any jurisdiction in order to qualify the Units and Additional Securities under the "blue sky" or securities laws thereof or filed with the Commission or any securities exchange; or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) any breach of any representation, warranty, covenant, or agreement of the Company contained in this Agreement. The foregoing agreement to indemnify shall be in addition to any liability the Company may otherwise have, including liabilities arising under this Agreement; however, the Company shall have no liability under this Section 8 if such statement or omission was made in reliance upon and in conformity with written information furnished to the Company as stated in Section 8(b) with respect to the Underwriters by or on behalf of the Underwriters expressly for inclusion in any Preliminary Prospectus, the Registration Statement, or the Prospectus, or any amendment or supplement thereto, or in any application, as the case may be.

If any action is brought against the Underwriters, the Representative or any of their officers, directors, partners, employees, agents, or counsel, or any controlling persons of an Underwriter or the Representative (an "indemnified party") in respect of which indemnity may be sought against the Company pursuant to the foregoing paragraph, such indemnified party or parties shall promptly notify the Company in writing of the institution of such action (but the failure so to notify shall not relieve the Company from any liability it may have other than pursuant to this Section 8(a)) and the Company shall promptly assume the defense of such action, including the employment of counsel (satisfactory to such indemnified party or parties) and payment of expenses. Such indemnified party

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or parties shall have the right to employ its or their own counsel in any such



case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action or the Company shall not have promptly employed counsel satisfactory to such indemnified party or parties to have charge of the defense of such action or such indemnified party or parties shall have reasonably concluded that there may be one or more legal defenses available to it or them or to other indemnified parties which are different from or additional to those available to the Company, in any of which events such fees and expenses shall be borne by the Company. Anything in this paragraph to the contrary notwithstanding, the Company shall not be liable for any settlement of any such claim or action effected without its written consent. The Company agrees promptly to notify the Underwriters and the Representative of the commencement of any litigation or proceedings against the Company or against any of its officers or directors in connection with the sale of the Units or the Additional Securities, any Preliminary Prospectus, the Registration Statement, or the Prospectus, or any amendment or supplement thereto, or any application.

a. The Underwriters agree to indemnify and hold harmless the Company, each director of the Company, each officer of the Company who shall have signed the Registration Statement, each other person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, to the same extent as the foregoing indemnity from the Company to the Underwriters in Section 8(a), but only with respect to statements or omissions, if any, made in any Preliminary Prospectus, the Registration Statement, or the Prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, or in any application, in reliance upon and in conformity with written information furnished to the Company as stated in this Section 8(b) with respect to the Underwriters by or on behalf of the Underwriters expressly for inclusion in any Preliminary Prospectus, the Registration Statement, or the Prospectus, or any amendment or supplement thereto, or in any application, as the case may be; provided, however, that the obligation of the Underwriters to provide indemnity under the provisions of this Section 8(b) shall be limited to the amount which represents the product of the number of Units and Additional Securities sold hereunder and the initial public offering prices per Unit set forth on the cover page of the Prospectus. For all purposes of this Agreement, the amounts of the selling concession and reallowance set forth in the Prospectus, the information under "Underwriting" and the identification of counsel to the Representative under "Legal Matters" constitute the only information furnished in writing by or on behalf of the Underwriters expressly for inclusion in any Preliminary Prospectus, the Registration Statement, or the Prospectus (as from time to time amended or supplemented),

or any amendment or supplement thereto, or in any application, as the case may be. If any action shall be brought against the Company or any other person so indemnified based on any Preliminary Prospectus, the Registration Statement, or the Prospectus, or any amendment or supplement thereto, or any application, and in respect of which indemnity may be sought against the Underwriters pursuant to this Section 8(b), the Underwriters shall have the rights and duties given to the Company, and the Company and each other person so indemnified shall have the rights and duties given to the indemnified parties, by the provisions of Section 8(a).

b. In order to provide for just and equitable contribution in circumstances in which the indemnity agreement provided for in this Section 8 is for any reason held to be unavailable to the Underwriters

or the Company, then the Company shall contribute to the damages paid by the several Underwriters, and the several Underwriters shall contribute to the damages paid by the Company; provided, however, that no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. In determining the amount of contribution to which the respective parties are entitled, there shall be considered the relative benefits received by each party from the sale of the Units and Additional Securities (taking into account the portion of the proceeds of the offering realized by each), the parties' relative knowledge and access to information concerning the matter with respect to which the claim was asserted, the opportunity to correct and prevent any statement or omission, and any other equitable considerations appropriate in the circumstances. The Company and the Underwriters agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation (even if the Underwriters were treated as one entity for such purpose). No Underwriter or person controlling such Underwriter shall be obligated to make contribution hereunder which in the aggregate exceeds the total public offering price of the Units and Additional Securities purchased by such Underwriter under this Agreement, less the aggregate amount of any damages which such Underwriter and its controlling persons have otherwise been required to pay in respect of the same or any substantially similar claim. The Underwriters' obligations to contribute hereunder are several in proportion to their respective underwriting obligations and not joint. For purposes of this Section, each person, if any, who controls an Underwriter within the meaning of Section 15 of the Act shall have the same rights to contribution as such Underwriter, and each director of the Company, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the Act, shall have the same rights to contribution as the Company. Anything in this Section 8(c) to the contrary

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notwithstanding, no party shall be liable for contribution with respect to the settlement of any claim or action effected without its written consent. This Section 8(c) is intended to supersede any right to contribution under the Act, the Exchange Act, or otherwise.

2. Representations and Agreements to Survive Delivery. All representations, warranties, covenants, and agreements contained in this Agreement shall be deemed to be representations, warranties, covenants, and agreements at the Closing Date and any Additional Closing Date, and such representations, warranties, covenants, and agreements of the Underwriters and the Company, including the indemnity and contribution agreements contained in Section 8, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Representative, the Underwriters or any indemnified person, or by or on behalf of the Company or any person or entity which is entitled to be indemnified under Section 8(b), and shall survive termination of this Agreement or the delivery of the Units and the Additional Securities to the Underwriters for a period equal to the statute of limitations for claims related hereto, but not to exceed an aggregate of three years from the date hereof. In addition, the provisions of Sections 5(a), 6, 8, 9, 10, and 12 shall survive termination of this Agreement, whether such termination occurs before or after the Closing Date or any Additional Closing Date.

3. Effective Date of This Agreement and Termination Thereof.

a. This Agreement shall be executed within 24 hours of the Effective Date of the Registration Statement and shall become effective on the

Effective Date or at the time of the initial public offering of the Units, whichever is earlier. The time of the initial public offering shall mean the time, after the Registration Statement becomes effective, of the release by the Representative for publication of the first newspaper advertisement which is subsequently published relating to the Units or the time, after the Registration Statement becomes effective, when the Units are first released by the Representative for offering by dealers by letter or telegram, whichever shall first occur. The Representative or the Company may prevent this Agreement from becoming effective without liability of any party to any other party, except as noted below in this Section 10, by giving the notice indicated in Section 10(c) before the time this Agreement becomes effective.

b. The Representative shall have the right to terminate this Agreement at any time prior to the Closing Date or any Additional Closing Date, as the case may be, by giving notice to the Company if there shall have been a general suspension of, or a general limitation on prices for, trading in securities on the New York Stock Exchange or the American Stock Exchange or in the over-the-counter market; or if there shall have been an outbreak of major hostilities or other national or international calamity; or if a banking moratorium has been declared by a state or federal authority; or if a moratorium in foreign exchange trading by major international banks or persons has been declared; or if there

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shall have been a material interruption in the mail service or other means of communication within the United States; or if the Company shall have sustained a material or substantial loss by fire, flood, accident, hurricane, earthquake, theft, sabotage, or other calamity or malicious act which, whether or not such loss shall have been insured, will, in the Representative's opinion, make it inadvisable to proceed with the offering, sale, or delivery of the Units or the Additional Securities, as the case may be; or if there shall have been such material and adverse change in the market for securities in general so as to make it inadvisable to proceed with the offering, sale, and delivery of the Units or the Additional Securities, as the case may be, on the terms contemplated by the Prospectus due to the impaired investment quality of the Units or the Additional Securities; or if the Dow Jones Industrial Average shall have fallen by 15% or more from its closing price on the day immediately preceding the date that the Registration Statement is declared effective by the Commission.

c. If the Representative elects to prevent this Agreement from becoming effective as provided in this Section 10, or to terminate this Agreement, it shall notify the Company promptly by telephone, telex, or telegram, confirmed by letter. If, as so provided, the Company elects to prevent this Agreement from becoming effective, the Company shall notify the Representative promptly by telephone, telex, or telegram, confirmed by letter.

d. Anything in this Agreement to the contrary notwithstanding other than Section 10(e), if this Agreement shall not become effective by reason of an election pursuant to this Section 10 or if this Agreement shall terminate or shall otherwise not be carried out prior to September 30, 1999 because (i) of any reason solely within the control of the Company or its stockholders and not due to the breach of any representation, warranty or covenant or bad faith of the Representative, (ii) the Company unilaterally withdraws the proposed Public Offering from the Representative in favor of another underwriter, (iii) the Company does not permit the Registration

Statement to become effective for any reason (iv) of any material discrepancy in any representation by the Company and/or its officers, directors, stockholders, agents, advisers or representatives, made in writing, including but not limited to the Registration Statement, to the Representative, (v) the Company is, directly and/or indirectly, negotiating with other persons or entities of whatsoever nature relating to a possible Public Offering of its securities, or (vi) of any failure on the part of the Company to perform any covenant or agreement or satisfy any condition of this Agreement by it to be performed or satisfied, then, in any of such events, the Company shall be obligated to reimburse the Representative for its out-of-pocket expenses on an accountable basis. Should the Representative be required to account for "out-of-pocket" expenses, any expense incurred by the Representative shall be deemed to be reasonable and unobjectionable upon

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a reasonable showing by the Representative that such expenses were incurred, directly or indirectly, in connection with the proposed transaction and/or relationship of the parties hereto, as described herein. In no event will the Representative be entitled to reimbursement of accountable expenses exceeding \$50,000, inclusive of the \$35,000 advanced against the non-accountable expense allowance. The Representative will return to the Company any portion of the \$35,000 payment previously received that is not used in the payment of accountable expenses.

e. Notwithstanding any election hereunder or any termination of this Agreement, and whether or not this Agreement is otherwise carried out, the provisions of Sections 5(a), 6, 8, 9, and 10 shall not be in any way affected by such election or termination or failure to carry out the terms of this Agreement or any part hereof.

f. Anything in this Agreement to the contrary notwithstanding other than Sections 10(d) and (e), if this Agreement shall not be carried out within the time specified herein for any reason other than as set forth in Section 10(d), the Company shall have no liability to the Representative other than for the Representative's accountable expenses up to a maximum aggregate amount of \$35,000, which amount has been paid in advance in accordance with Section 6 hereof. The Representative will return to the Company any portion of the \$35,000 payment previously received that is not used in the payment of accountable expenses.

4. Notices. All communications hereunder, except as may be otherwise specifically provided herein, shall be in writing and, if sent to the Representative, shall be mailed, delivered, or sent by facsimile transmission and confirmed by original letter, to Spencer Edwards, Inc., 6120 Greenwood Plaza Boulevard, Englewood, Colorado 80111, Attention: Edward Price, President, with a copy to Robert W. Walter, Esq., Berliner Zisser Walter & Gallegos, P.C., 1700 Lincoln Street, Suite 4700, Denver, Colorado 80203; or if sent to the Company shall be mailed, delivered, or telexed or telegraphed and confirmed by letter, to Pacific Softworks, Inc., 703 Rancho Conejo Boulevard, Newbury Park, California 91320, Attention: Glenn P. Russell, President, with a copy to Aaron A. Grunfeld, Esq., Resch, Polster, Alpert & Berger LLP, 10390 Santa Monica Boulevard, Los Angeles, California 90025. All notices hereunder shall be effective upon receipt by the party to which it is addressed.

5. Parties. This Agreement shall inure solely to the benefit of, and shall be binding upon, the Underwriters, the Company, and the persons and entities referred to in Section 8 who are entitled to indemnification or contribution, and their respective successors, legal representatives, and assigns (which shall not include any buyer, as such, of the Units or the Additional Securities) and

no other person shall have or be construed to have any legal or equitable right, remedy, or claim under or in respect of or by virtue of this Agreement or any provision herein contained.

6. Construction. This Agreement shall be construed in accordance with the laws of the State of Colorado, without giving effect to conflict of laws. Time is of the essence in this Agreement. The parties acknowledge that this Agreement was initially prepared by the Representative, and that all parties have read and negotiated the language used in this Agreement. The parties agree that, because all parties participated in negotiating and drafting this Agreement, no rule of construction shall apply to this Agreement which construes ambiguous language in favor of or against any party by reason of that party's role in drafting this Agreement.

If the foregoing correctly sets forth the understanding between us, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between us.

Very truly yours,  
Pacific Softworks, Inc.

By: \_\_\_\_\_  
Glenn P. Russell, President

Accepted as of the date first above written.  
Denver, Colorado

SPENCER EDWARDS, INC.  
for itself

By: \_\_\_\_\_  
Edward Price, President

PACIFIC SOFTWARES, INC.  
(A CALIFORNIA CORPORATION)

SCHEDULE 1

This Schedule sets forth the name of each Underwriter referred to in the

Underwriting Agreement and the number of Units to be sold by the Company.

NAME ----	NUMBER OF UNITS -----
Spencer Edwards, Inc.	
Total	----- 800,000 =====

## SELECTED DEALERS AGREEMENT

PUBLIC OFFERING OF  
800,000 SHARES OF COMMON STOCK  
800,000 REDEEMABLE WARRANTS  
OFFERING PRICE OF \$\_\_\_\_ PER UNIT

PACIFIC SOFTWARES, INC.

MAY \_\_, 1999

Spencer Edwards, Inc., on behalf of itself and other underwriters (the "Underwriters") for which it is the representative (the "Representative"), has severally agreed with Pacific Software, Inc., a California corporation (the "Company"), to purchase 800,000 Units (the "Firm Securities") of the Company, and the Representative has been granted the right to purchase up to an additional 120,000 Units (the "Additional Securities") at its option for the sole purpose of covering over-allotments in the sale of the Firm Securities (the Firm Securities and Additional Securities being collectively referred to as the "Securities" or a "Security"). The Underwriters are offering the Securities to the public at an offering price of \$\_\_\_\_. Certain other capitalized terms used herein are defined in the Underwriting Agreement and are used herein as therein defined.

The Representative is offering the Securities to certain selected dealers (the "Selected Dealers"), when, as and if accepted by the Representative and subject to withdrawal, cancellation or modification of the offer without notice and further subject to the terms of (i) the Company's current Prospectus, (ii) the Underwriting Agreement, (iii) this Agreement, and (iv) the Representative's instructions which may be forwarded to the Selected Dealer from time to time. A copy of the Underwriting Agreement will be delivered to you forthwith for inspection or copying or both, upon your request therefor. This invitation is made by the Representative only if the Securities may be offered lawfully to dealers in your state.

The further terms and conditions of this invitation are as follows:

1. Acceptance of Orders. Orders received by the Representative from the Selected Dealer will be accepted only at the price, in the amounts and on the terms which are set forth in the Company's current Prospectus, subject to allotment in the Representative's uncontrolled discretion. The Representative reserves the right to reject any orders, in whole or in part.

2. Selling Concession. As a Selected Dealer, you will be allowed on all Securities purchased by you, which the Underwriters have not repurchased or contracted to repurchase prior to termination of this Agreement at or below the public offering price, a concession of \_\_\_% of the full 10% Underwriting discount, i.e., \$\_\_\_ per Security as shown in the Company's current Prospectus. No selling concession will be allowed to any domestic broker-dealer who is not a member of the National Association of Securities Dealers, Inc. (the "Association"), or to any foreign broker-dealer eligible for membership in the Association who is not a member of the Association. Payment of such selling concession to you will be made only as provided in Section 4 hereof. After

the Securities are released for sale to the public, the Representative is authorized to, and may, change the public offering price and the selling concession.

3. Reoffer of Securities. Securities purchased by you are to be bona fide reoffered by you in conformity with this Agreement and the terms of offering set forth in the Prospectus. You agree that you will not bid for, purchase, attempt to induce others to purchase, or sell, directly or indirectly, any Securities except as contemplated by this Agreement and except as a broker pursuant to unsolicited orders. You confirm that you have complied and agree that you will at all times comply with the provisions of Regulation M of the Securities Exchange Act of 1934, as amended (the "Exchange Act") applicable to this offering. In respect of Securities sold by you and thereafter purchased by the Representative at or below the public offering price prior to the termination of this Agreement as described hereinafter (or such longer period as may be necessary to cover any short position with respect to the offering), you agree at the Representative's option either to repurchase the Securities at a price equal to the cost thereof to the Representative, including commissions and transfer taxes on redelivery, or to repay the Representative such part of your Selected Dealers' concessions on such Securities as the Representative designates.

4. Payment for Securities. Payment for the Securities purchased by you is to be made at the net Selected Dealers' price of \$\_\_\_\_\_ per Security, at the offices of Spencer Edwards, Inc., 6120 Greenwood Plaza Boulevard, Englewood, Colorado 80111, Attention: Syndicate Department, at such time and on such date as the Representative may designate, by certified or official bank check, payable in clearing house funds to the order of the Representative, against delivery of certificates for the Securities so purchased. If such payment is not made at such time and on such date, you agree to pay the Representative interest on such funds at the current interest rates. The Representative may in its discretion deliver the Securities purchased by you through the facilities of the Depository Trust Company or, if you are not a member, through your ordinary correspondent who is a member unless you promptly give the Representative written instructions otherwise.

5. Offering Representations. The Representative has been informed that a Registration Statement in respect of the Securities is expected to become effective under the Securities Act of 1933, as amended (the "Act"). You are not authorized to give any information or to make any representations other than those contained in the Prospectus or to act as agent for the Company or for the undersigned when offering the Securities to the public or otherwise.

6. Blue Sky. Neither the Representative nor the Underwriters assume any responsibility or obligations as to your right to sell the Securities in any jurisdiction, notwithstanding any information furnished in that connection. The Selected Dealer shall report in writing to the Representative the number of Securities which have been sold by it in each state and the number of transactions made in each such state. This state report shall be submitted to the Representative as soon as possible after completion of billing, but in any event not more than three days after the closing.

7. Dealer Undertakings. By accepting this Agreement, the Selected Dealer in offering and selling the Securities in the Public Offering (i) acknowledges its understanding of (a) the Conduct Rules (the "Rules") of the Association and the interpretations of such Rules promulgated by the Board of Governors of the Association (the "Interpretations") including, but not limited to the Rule Interpretation with respect to "Free-Riding and Withholding" defined therein, (b) Rule 174 of the rules and regulations promulgated under the Act, (c) Regulation M promulgated under the



Exchange Act, (d) Release No. 3907 under the Act, (e) Release No. 4150 under the Act, and (f) Sections 2730, 2740, 2420 and 2750 of the Rules and Interpretations thereunder, and (ii) represents, warrants, covenants and agrees that it shall comply with all applicable requirements of the Act and the Exchange Act in addition to the specific provisions cited in subparagraph (i) above and that it shall not violate, directly or indirectly, any provision of applicable law in connection with its participation in the Public Offering of the Securities.

8. Conditions of Public Offering. All sales shall be subject to delivery by the Company of certificates evidencing the Securities against payment therefore.

9. Failure of Order. If an order is rejected or if a payment is received which proves insufficient or worthless, any compensation paid to the Selected Dealer shall be returned by (i) restoration by the Representative to the Selected Dealer of the latter's remittance or (ii) a charge against the account of the Selected Dealer with the Representative, as the latter may elect without notice being given of such election.

10. Additional Representations, Covenants and Warranties of Selected Dealer. By accepting this Agreement, the Selected Dealer represents that it is registered as a broker-dealer under the Exchange Act; is qualified to act as a dealer in the states or the jurisdictions in which it shall offer the Securities; is a member in good standing of the Association; and shall maintain such registrations, qualifications and membership in full force and effect and in good standing throughout the term of this Agreement. If the Selected Dealer is not a member of the Association, it represents that it is a foreign dealer not registered under the Exchange Act and agrees to make no sales within the United States, its territories or its possessions or to persons who are citizens thereof or residents therein, and in making any sales to comply with the Association's Rules and Interpretations with respect to Free-Riding and Withholding. Further, the Selected Dealer agrees to comply with all applicable federal laws including, but not limited to, the Act and Exchange Act and the rules and regulations of the Commission thereunder; the laws of the states or other jurisdictions in which Securities may be offered or sold by it; and the Constitution, Bylaws, and rules of the Association. Further, the Selected Dealer agrees that it will not offer or sell the Securities in any state or jurisdiction except those in which the Securities have been qualified or qualification is not required. The Selected Dealer acknowledges its understanding that it shall not be entitled to any compensation hereunder for any period during which it has been suspended or expelled from membership in the Association.

11. Employees and other Agents of the Selected Dealer. By accepting this Agreement, the Selected Dealer assumes full responsibility for thorough and proper training of its employees and other agents and representatives concerning the selling methods to be used in connection with the Public Offering of the Securities, giving special emphasis to the principles of full and fair disclosure to prospective investors and the prohibitions against "Free-Riding and Withholding" as set forth in Section 2110 of the Rules and the Interpretations thereunder.

12. Indemnification by the Company. The Company has agreed in Section 8 of the Underwriting Agreement to indemnify and hold harmless the Underwriters, the Representative and each person if any, who controls the Representative or any one of the Underwriters within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act against any and all loss, liability, claim, damage, and expense whatsoever (which shall include, for all purposes of Section 8 of the Underwriting Agreement, but not be limited to, attorneys' fees and any and all expense whatsoever incurred in investigating, preparing, or defending against any litigation, commenced or

threatened, or any claim whatsoever and any and all amounts paid in settlement of any claim or litigation) as and when incurred arising out of, based upon, or in connection with (i) any untrue statement or alleged untrue statement of a material fact contained (A) in any Preliminary Prospectus, the Registration Statement, or the Prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, or (B) in any application or other document or communication (in the Underwriting Agreement collectively called an "application") in any jurisdiction in order to qualify the Securities under the "blue sky" or securities laws thereof or filed with the Commission or any securities exchange; or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) any breach of any representation, warranty, covenant, or agreement of the Company contained in the Underwriting Agreement. The Representative has agreed to give the Company an opportunity and the right to participate in the defense or preparation of the defense of any action brought against the Representative, any Underwriter or any controlling person thereof to enforce any such loss, claim, demand, liability or expense. The agreement of the Company under this indemnity is conditioned upon notice of any such action having been promptly given by the indemnified party to the Company. Failure to notify the Company as provided in the Underwriting Agreement shall not relieve the Company of its liability which it may have to the Representative, the Underwriters, or any controlling person thereof other than pursuant to Section 8(a) of the Underwriting Agreement. This agreement is subject in all respects, especially insofar as the foregoing description of the indemnification provisions set forth in the Underwriting Agreement is concerned, to the terms and provisions of the Underwriting Agreement, a copy of which will be made available for inspection or copying or both to the Selected Dealer upon written request to the Representative therefor. The Selected Dealer acknowledges and confirms that, by signing a counterpart of this Agreement, it shall be deemed an agent of the Underwriters or a "Representative" for all purposes of Section 8 of the Underwriting Agreement, as expressly set forth therein.

13. Indemnification by the Selected Dealer. The Selected Dealer shall indemnify and hold harmless the Company, each director of the Company, each officer of the Company who shall have signed the Registration Statement, each other person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, to the same extent as the indemnity from the Company to the Underwriters in Section 8(a) of the Underwriting Agreement, but only with respect to statements or omissions, if any, made in any Preliminary Prospectus, the Registration Statement, or the Prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, or in any application, in reliance upon and in conformity with information furnished to the Representative or the Company with respect to the Selected Dealer by or on behalf of the Selected Dealer expressly for inclusion in any Preliminary Prospectus, the Registration Statement, or the Prospectus, or any amendment or supplement thereto, or in any application, as the case may be, or are based upon alleged misrepresentations or omissions to state material facts in connection with statements made by the Selected Dealer or the Selected Dealer's employees or other agents to the Company or the Representative orally or by any other means; provided, however, that the obligation of the Selected Dealer to provide indemnity hereunder shall be limited to the amount which represents the product of the number of Firm Securities and Additional Securities sold and the initial public offering price per Security set forth on the cover page of the Prospectus. If any action shall be brought against the Company or any other person so indemnified in respect of which indemnity may be sought against the Selected Dealer pursuant to this provision, the Selected Dealer shall have the rights and duties given to the Company in the Underwriting Agreement, and the Company and each other person so indemnified shall have the rights and duties given to the indemnified parties, by the provisions of

Section 8(a) of the Underwriting Agreement; and the Selected Dealer shall reimburse the Company and the Representative for any legal or other expenses reasonably incurred by them in connection with the investigation of or the defense of any such action or claim. The Representative shall, after receiving the first summons or other legal process disclosing the nature of the action being brought against it or the Company in any proceeding with respect to which indemnity may be sought by the Company or the Representative hereunder, notify promptly the Selected Dealer in writing of the commencement thereof; and the Selected Dealer shall be entitled to participate in (and, to the extent the Selected Dealer shall wish, to direct) the defense thereof at the expense of the Selected Dealer, but such defense shall be conducted by counsel satisfactory to the Company and the Representative. If the Selected Dealer shall fail to provide such defense, the Company or the Representative may defend such action at the cost and expense of the Selected Dealer. The Selected Dealer's obligation under this Section 13 shall survive any termination of this Agreement, the Underwriting Agreement and the delivery of and payment for the Securities under the Underwriting Agreement, and shall remain in full force and effect regardless of the investigation made by or on behalf of any Representative within the meaning of Section 15 of the Act.

14. No Authority to Act as Partner or Agent. Nothing herein shall constitute the Selected Dealers as an association or other separate entity or partners with or agents of the Representative or with each other, but each Selected Dealer shall be responsible for its pro rata share of any liability or expense based upon any claims to the contrary. The Representative shall not be under any liability for or in respect of the value, validity or form of the Securities, or the delivery of certificates for the Securities or the performance by any person of any agreement on its part, or the qualification of the Securities for sale under the laws of any jurisdiction, or for or in respect of any matter in connection with this Agreement, except for lack of good faith and for obligations expressly assumed by the Representative in this Agreement.

15. Expenses. No expenses incurred in connection with offers and sales of the Securities under the Public Offering will be chargeable to the Selected Dealers. A single transfer tax, if any, on the sale of Securities by the Selected Dealer to its customers will be paid when such Securities are delivered to the Selected Dealer for delivery to its customers. Notwithstanding the foregoing, the Selected Dealer shall pay its proportionate share of any transfer tax or any other tax (other than the single transfer tax described above) if any such tax shall at any time be assessed against the Representative and other Selected Dealers.

16. Notices. All notices, demands or requests required or authorized hereunder shall be deemed given sufficiently if in writing and sent by registered or certified mail, return receipt requested and postage prepaid, or by tested telex, telegram, cable or facsimile to, in the case of the Representative, the address set forth above directed to the attention of the President of the Representative, and in the case of the Selected Dealer, to the address provided below by the Selected Dealer, directed to the attention of the President.

17. Termination. This Agreement may be terminated by the Representative with or without cause upon written notice to Selected Dealer to such effect; and such notice having been given, this Agreement shall terminate at the time specified therein. Additionally, this Agreement shall terminate upon the earlier of the termination of the Underwriting Agreement, or at the close of business thirty days after the Securities are released by the Representative for sale to the public.

18. General Provisions. This Agreement shall be construed and enforced in accordance with and governed by the laws of the State of Colorado. This Agreement embodies the entire

agreement and understanding between the Representative and the Selected Dealer and supersedes all prior agreements and understandings related to the subject matter hereof, and this Agreement may not be modified or amended or any term or provision hereof waived or discharged except in writing signed by the party against whom such amendment, modification, waiver or discharge is sought to be enforced. All the terms of this Agreement, whether so expressed or not, shall be binding upon, and shall inure to the benefit of, the respective successors, legal representatives and assigns of the parties hereto; provided, however, that none of the parties hereto can assign this Agreement or any of its rights hereunder without the prior written consent of the other party hereto, and any such attempted assignment or transfer without the other party's prior written consent shall be void and without force or effect. The headings of this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

If the foregoing correctly sets forth the terms and conditions of your agreement to purchase the Securities allotted to you, please indicate your acceptance thereof by signing and returning to Spencer Edwards, Inc. the duplicate copy of this Agreement, whereupon this letter and your acceptance shall become and evidence a binding contract between you and the Representative.

SPENCER EDWARDS, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Gentlemen:

The undersigned confirms its agreement to purchase \_\_\_\_\_ Units of Pacific Softworks, Inc., upon the terms and subject to the conditions of the foregoing Selected Dealers Agreement, and further agrees that any agreement by it to purchase Additional Securities during the life of such Agreement will be upon the same terms and subject to the same conditions. The undersigned acknowledges receipt of the Prospectus relating to the public offering of the Securities and confirms that in agreeing to purchase such Securities it has relied on such Prospectus and not on any other statement whatsoever written or oral.

Firm Name: \_\_\_\_\_  
(Print or Type name of Firm)

By: \_\_\_\_\_  
(Authorized Agent)

\_\_\_\_\_  
(Print or Type Name and Title of  
Authorized Agent)

Address: \_\_\_\_\_

Telephone No. \_\_\_\_\_

IRS Employer Identification No.: \_\_\_\_\_

Dated: \_\_\_\_\_, 1999

[SEAL OF THE  
SECRETARY OF STATE  
OF THE STATE OF  
CALIFORNIA  
DATED - NOV 30,1992]

ARTICLES OF INCORPORATION  
OF  
PACIFIC SOFTWARES, INC.

I

The name of this corporation is: PACIFIC SOFTWARES, INC.

II

The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

The name and address in the State of California of this corporation's initial agent for service of process is: Philip R. Gustlin, 11755 Wilshire Boulevard, Suite 1400, Los Angeles, CA 90025-1520.

IV

A. This corporation is authorized to issue two classes of shares of stock to be designated respectively as "Common Shares" and "Preferred Shares." The number of authorized Common Shares shall be 5,000,000, and the par value of each such share shall be \$0.001. The number of authorized Preferred Shares is 1,000,000, and the par value of each such share shall be \$0.01. The Preferred Shares shall be issuable from time to time in one or more series, the number of shares in such series and the designation of such series to be issued shall be determined from time to time by the board of directors of this corporation.

B. The board of directors is authorized, by majority action on its part, to issue Preferred Shares from time to time in one or more series; to fix or alter the rights, preferences, privileges and restrictions, or any of them, as to wholly unissued series of Preferred Shares; and to fix the number of shares constituting any such series and designation thereof, or any of them, and to increase or decrease the number of shares of that series, but not below the number of shares of such series then outstanding. If the number of shares of such series is so decreased, the shares constituting such decrease shall resume the status which they had before the adoption of the resolution originally fixing the number of shares of such series.

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V

The liability of the directors of the corporation for monetary damages shall be eliminated to the fullest extent permissible under California laws.

VI

The corporation is authorized to provide indemnification of agents (as defined in Section 317 of the Corporations Code) for breach of duty to the corporation

and its stockholders through bylaw provisions or through agreements with agents, or both, in excess of the indemnification otherwise permitted by Section 317 of the Corporations Code, subject to the limits on such excess indemnification set forth in Section 204 of the Corporations Code.

Dated: November 19, 1992

/s/ KENNETH E. WOODGRIFT

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KENNETH E. WOODGRIFT, Incorporator

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[Endorsed and Filed  
with the Office of  
the Secretary of  
State of the State  
of California on  
June 5, 1998]

RESTATED ARTICLES OF INCORPORATION OF  
PACIFIC SOFTWARES, INC.

GLENN P. RUSSELL certifies that:

1. He is the President and Secretary of PACIFIC SOFTWARES, INC., a California corporation.

2. The Articles of Incorporation of PACIFIC SOFTWARES, INC., as amended to the filing date of this certificate, and setting forth an additional amendment to Article III, are amended and restated to read as follows:

I

The name of this corporation is PACIFIC SOFTWARES, INC.

II

The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business, or the practice of a profession permitted to be incorporated by the California Corporations Code.

III

This corporation is authorized to issue two classes of shares of stock to be designated respectively as "Common Shares" and "Preferred Shares." The number of authorized Common Shares shall be 50,000,000, and the par value of each such share shall be \$0.001. The number of authorized Preferred Shares is 10,000,000, and the par value of each such share shall be \$0.01. The Preferred Shares shall be issuable from time to time in one or more series, the number

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of shares in such series and the designation of such series to be issued shall

be determined from time to time by the board of directors of this corporation.

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IV

The board of directors is authorized, by majority action on its part, to issue Preferred Shares from time to time in one or more series, to fix or alter the rights, preferences, privileges and restrictions, or any of them, as to wholly unissued series of Preferred Shares; and to fix the number of shares constituting any such series and designation thereof, or any of them, and to increase or decrease the number of shares of that series, but not below the number of shares of such series then outstanding. If the number of shares of such series is so decreased, the shares constituting such decrease shall resume the status which they had before the adoption of the resolution originally fixing the number of shares of such series.

V

The liability of the directors of the corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

VI

The corporation is authorized to indemnify the directors and officers of the corporation to the fullest extent permissible under California law.

3. The Articles of Incorporation of PACIFIC SOFTWARES, INC., as amended and restated in this certificate, have been approved by a resolution of the board of directors dated January 30, 1998.

4. The restated articles of incorporation set forth above have been approved by the required stockholder vote in accordance with Corporations Code Section 902. The corporation has two classes of shares designated "Common Shares" and "Preferred Shares," respectively. The total number of outstanding shares of Common Shares entitled to vote with respect to the amendment is 510,200. There are no outstanding Preferred Shares. The percentage vote required of Common Shares entitled to vote is 51 percent. The number of shares of Common Shares voting in favor of the amendment was 100 percent which exceeded the vote required.

Dated: January 30, 1998

/s/ Glenn P. Russell

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Glenn P. Russell, President

/s/ Glenn P. Russell

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Glenn P. Russell, Secretary

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The undersigned declares under penalty of perjury that the matters set forth in this certificate are true and correct of his own knowledge and that this declaration was executed on January 30, 1998, at Camarillo, California.

/s/ Glenn P. Russell

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Glenn P. Russell

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BYLAWS  
OF  
PACIFIC SOFTWARES, INC.

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BYLAWS  
OF  
PACIFIC SOFTWARES, INC.

A California Corporation

ARTICLE I  
OFFICES

SECTION 1. PRINCIPAL EXECUTIVE OFFICE. The principal executive office of the Corporation shall be located at such place as the Board of Directors shall from time to time determine.

SECTION 2. OTHER OFFICES. Other offices may at any time be established by the Board of Directors or the Chief Executive Officer at any place or places where the Corporation is qualified to do business.

ARTICLE II  
MEETING OF stockholders

SECTION 1. PLACE OF MEETINGS. All meetings of stockholders shall be held at any other principal executive office of the Corporation or at any other place within or without the State of California which may be designated either by the Board of Directors or by the stockholders in accordance with these Bylaws.

SECTION 2. ANNUAL MEETINGS. The annual meetings of stockholders shall be

held one hundred twenty (120) days after the end of each fiscal year, or at such other date and time as shall be designated from time to time by the Board of Directors or by the stockholders in accordance with these Bylaws. If the date set forth in these Bylaws falls upon a legal holiday, then such annual meeting of stockholders shall be held at the same time and place on the next day thereafter ensuing which is not a legal holiday. At such annual meetings, Directors shall be elected and any other business may be transacted which is within the power of the stockholders.

SECTION 3. SPECIAL MEETINGS. Special meetings of the stockholders, for the purpose of taking any action which is within the powers of the stockholders, may be called at any time by the Chairman of the Board or the President or by the Board of Directors, or by the holders of shares entitled to cast not less than ten percent of the votes at the meeting. Upon request in writing that a special meeting of stockholders be called for any proper purpose, directed to the chairman of the Board, President, Vice-President or Secretary by any person (other than the board) entitled to call a special meeting of stockholders, the officers forthwith shall cause notice to be given to the

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stockholders entitled to vote that a meeting will be held at a time requested by the person or persons calling the meeting, not less than thirty-five (35) nor more than sixty (60) days after receipt of the request.

SECTION 4. NOTICE OF MEETINGS OF stockholders. Written notice of each meeting of stockholders, whether annual or special, shall be given to each stockholder entitled to vote thereat, either personally or by mail, or other means of written communication, charges prepaid, addressed to such stockholder at the Corporation or given by such stockholder to the Corporation for the purpose of notice. If any notice addressed to the stockholder at the address of such stockholder appearing on the books of the Corporation is returned to the Corporation by the United States Postal Service marked to indicate that the United States Postal Services is unable to deliver the notice to the stockholder at such address, all future notices shall be deemed to have been duly given without further mailing if the same shall be available for the stockholder upon written demand of the stockholder at the principal executive office of the Corporation for a period of one year from the date of the giving of the notice to all other stockholders. If no address appears on the books of the Corporation or is given by the stockholder to the Corporation for the purpose of notice, notice shall be deemed to have been given to such stockholder if sent by mail or other means of written communication addressed to the place where the principal executive office of the Corporation is located, or if published at least once in a newspaper of general circulation in the county in which the principal executive office is located.

All such notices shall be given to each stockholder entitled thereto not less than ten (10) days nor more than sixty (60) days before the meeting. Any such notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by other means of written communication. An affidavit of mailing of any such notice in accordance with the foregoing provisions, executed, by the Secretary, Assistant Secretary or any transfer agent of the Corporation shall be prima facie evidence of the giving of the notice.

All such notices shall state the place, date and hour of such meeting. In the case of a special meeting such notice shall also state the general nature of the business to be transacted at such meeting, and no other business may be transacted thereat. In the case of an annual meeting, such notice shall also state those matters which the Board of Directors at the time of the mailing of the notice intends to present for action by the stockholders. Any proper matter may be presented at an annual meeting of stockholders though not stated in the notice, provided that unless the general nature of a proposal to be approved by the stockholders relating to the following matters is stated in the notice or a

written waiver of notice, any such stockholder approval will require unanimous approval of all stockholders entitled to vote:

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(a) A proposal to approve a contract or other transaction between the Corporation and one or more of its directors or any corporation, firm or association in which one or more of its directors has a material financial interest or is also a director;

(b) A proposal to amend the Articles of Incorporation;

(c) A proposal to approve the principal terms of a reorganization as defined in Section 181 of the General Corporation Law;

(d) A proposal to wind up and dissolve the Corporation;

(e) If the Corporation has preferred shares outstanding and the Corporation is in the process of winding up, a proposal to adopt a plan of distribution of shares, obligations, or securities of any other corporation or assets other than money which is not in accordance with the liquidation rights of the preferred shares.

The notice of any meeting at which Directors are to be elected shall include the names of nominees intended at the time of the notice to be presented by management for election.

SECTION 5. QUORUM. The presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting shall constitute a quorum for the transaction of business. The stockholders present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

SECTION 6. ADJOURNED MEETINGS AND NOTICE THEREOF. Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by vote of a majority of the shares the holders of which are either present in person or by proxy thereat, but in the absence of a quorum, no other business may be transacted at any such meeting, except as provided in Section 4 of this Article II.

When any stockholders' meeting, either annual or special, is adjourned for forty-five (45) days or more, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting as in the case of an original meeting. Except as set forth in this Section 6 of Article II, it shall not be necessary to give any notice of an adjourned meeting or of the business to be transacted at an adjourned meeting, other than by

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announcement of the time and place thereof at the meeting at which such adjournment is taken.

SECTION 7. VOTING. At all meetings of stockholders, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares standing in the name of such stockholder on the stock records of the Corporation on the record date for such meeting. Shares held by an

administrator, executor, guardian, conservator, custodian, trustee, receiver, pledgee, minor, corporation or fiduciary or held by this Corporation or a subsidiary of this Corporation in a fiduciary capacity or by two or more persons shall be voted in the manner set forth in Sections 702, 703 and 704 of the General Corporation Law. Shares of this Corporation owned by this Corporation or a subsidiary (except shares held in a fiduciary capacity) shall not be entitled to vote. Unless a record date for voting purposes is fixed pursuant to Section 1 of Article V of these Bylaws, then only persons in whose names shares entitled to vote stand on the stock records of the Corporation at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held, shall be entitled to vote at such meeting, and such day shall be the record date for such meeting. Votes at a meeting may be given by viva voce or by ballot; provided, however, that all elections for Directors must be by ballot upon demand made by a stockholder at any election and before the voting begins. If a quorum is present at the beginning of the meeting, except with respect to the election of Directors (and subject to the provisions of Section 5 of this Article II should stockholders withdraw thereafter) the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on any matter shall be the act of the stockholders and shall decide any question properly brought before the meeting, unless the vote of a greater number of voting by classes is required by the General Corporation Law or the Articles of Incorporation, in which case the vote so required shall govern and control the decision of such question. Subject to the provisions of the next sentence, at all elections of Directors of the Corporation, each stockholder shall be entitled to cumulate his votes and give one candidate a number of votes equal to the number of Directors to be elected multiplied by the number of votes to which his shares are entitled, or to distribute his votes on the same principal among as many candidates as he shall think fit. No stockholder shall be entitled to cumulate his votes unless the name of the candidate or candidates for whom such votes would be cast has been placed in nomination prior to the voting and any stockholder has given notice at the meeting prior to the voting, of such stockholder's intention to cumulate his votes. The candidates receiving the highest number of votes up to the number of Directors to be elected shall be elected.

SECTION 8. WAIVER OF NOTICE AND CONSENT OF ABSENTEES. The proceedings and transactions of any meeting of stockholders, either annual or special, however called and noticed and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum is present either in person or by PROXY, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to the holding of such

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meeting, or an approval of the minutes thereof. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by law or these Bylaws to be included in the notice but which was not so included, if such objection is expressly made at the meeting, provided however, that any person making such objection at the beginning of the meeting or to the consideration of matters required to be but not included in the Notice may orally withdraw such objection at the meeting or thereafter waive such objections by signing a written waiver thereof or a consent to the holding of the meeting or the consideration of the matter or an approval of the minutes of the meeting. Neither the business to be transacted at nor the purpose of any annual or special meeting of stockholders need be specified in any written waiver of notice except that the general nature of the proposals specified in subsections (a) through (e) of Section 4 of this Article II, shall be so stated. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

SECTION 9. ACTION WITHOUT A MEETING. Directors may be elected without a meeting by a consent in writing, setting forth the action so taken, signed by all of the persons who would be entitled to vote for the election of directors, provided that, without notice except as hereinafter set forth, a Director may be elected at any time to fill a vacancy not filled by the Directors by the written consent of persons holding a majority of the outstanding shares entitled to vote for the election of Directors.

Any other action which, under any provision of the General Corporation Law may be taken at any annual or special meeting of the stockholders, may be taken without a meeting, and without notice except as hereinafter set forth, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Unless the consents of all stockholders entitled to vote have been solicited in writing:

(a) Notice of any proposed stockholder approval of (i) a contract or other transaction between the Corporation and one or more of its Directors or any corporation, firm or association in which one or more of its Directors has a material financial interest or is also a Director; (ii) indemnification of an agent of the Corporation as authorized by Section 16, of Article III, of these Bylaws, (iii) a reorganization of the Corporation as defined in Section 181 of the General Corporation Law, or (iv) the distribution of shares, obligations or securities of any other corporation or assets other than money which is not in accordance with the liquidation rights of preferred shares if the corporation is in the process of winding

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up, without a meeting by less than unanimous written consent, shall be given at least ten days before the consummation of the action authorized by such approval; and

(b) Prompt notice shall be given of the taking of any other corporate action approved by stockholders without a meeting by less than unanimous written consent, to those stockholders entitled to vote who have not consented in writing. Such notices shall be given in the manner and shall be deemed to have been given as provided in Section 4 of Article II of these Bylaws.

Unless, as provided in Section 1 of Article V of these Bylaws, the Board of Directors has fixed a record date for the determination of stockholders entitled to notice of and to give such written consent, the record date for such determination shall be the day on which the first written consent is given. All such written consents shall be filed with the Secretary of the Corporation.

Any stockholders giving a written consent, or the stockholder's proxyholders, or a transferee of the shares of a personal representative of the stockholder or their respective proxyholders, may revoke the consent by a writing received by the corporation prior to the time that written consents of the number of shares required to authorize the proposed action have been filed with the Secretary of the Corporation, but may not do so thereafter. Such revocation is effective upon its receipt by the Secretary of the Corporation.

SECTION 10. PROXIES. Every person entitled to vote or execute consents shall have the right to do so either in person or by an agent or agents authorized by a written proxy executed by such person or the duly authorized agent of such person and filed with the Secretary of the Corporation, or the persons appointed as inspectors of election or such other person as may be designated by the Board of Directors or the Chief Executive Officer to receive proxies; provided, that no such proxy shall be valid after the expiration of eleven months from the date of its execution, unless the stockholder executing

it specifies therein the length of time for which such proxy is to continue in force. Every proxy duly executed continues in full force and effect until revoked by the person executing it prior to the vote pursuant hereto. Except as otherwise provided by law, such revocation may be effected by attendance at the meeting and voting in person by the person executing the proxy or by a writing stating that the proxy is revoked or by a proxy bearing a later date executed by the person executing the proxy and filed with the Secretary of the Corporation or the persons appointed as inspectors of election or such other persons as may be designated by the Board of Directors or the Chief Executive Officer to receiver proxies.

SECTION 11. INSPECTORS OF ELECTION. In advance of any meeting of stockholders, the Board of Directors may appoint any persons as inspectors of election to act at such meeting or any adjournment thereof. If inspectors of election are not so appointed, or if any person so appointed fail to appear or refuse to act, the Chairman of any such

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meeting may, and on the request of any stockholder or his proxy shall, make such appointment at the meeting. The number of inspectors shall be either one or three. If appointed at a meeting on the request of one or more stockholders or proxies, the majority of shares represented in person or by proxy shall determine whether one or three inspectors are to be appointed.

The inspectors of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum and the authenticity, validity and effect of proxies, receive votes, ballots or consents, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes or consents, determine when the polls shall close, determine the result and do such acts as may be proper to conduct the election or vote with fairness to all stockholders. In the determination of the validity and effect of proxies the dates contained on the forms of proxy shall presumptively determine the order of execution of the proxies, regardless of the postmark dates on the envelopes in which they are mailed.

The inspectors of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is prima facie evidence of the facts stated therein.

### ARTICLE III DIRECTORS

SECTION 1. POWERS. Subject to the General Corporation Law and any limitations in the Articles of Incorporation relating to action requiring stockholder approval, and subject to the duties of Directors as prescribed by the Bylaws, the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors.

SECTION 2. NUMBER AND QUALIFICATION OF DIRECTORS. The number of Directors shall be not less than three (3) nor more than five (5). The first Board shall consist of four (4) Directors. Thereafter, within the limits above specified, the number of Directors shall be determined by resolution of the Board of Directors or by the stockholders at the annual meeting of the stockholders. If the number of Directors is or becomes five or more, an amendment of the Articles of Incorporation or the Bylaws reducing the authorized number of Directors to less than five cannot be adopted if the votes cast against its adoption at a meeting or the shares not consenting in the case of action by written consent are equal to more than 16-2/3 percent of the



outstanding shares entitled to vote. Directors need not be residents of the State of California nor stockholders of the Corporation. The term "Director" shall be used interchangeably with "Directors".

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SECTION 3. ELECTION AND TERM OF OFFICE. The Directors shall be elected at each annual meeting of stockholders, but if any such annual meeting is not held or the Directors are not elected at any annual meeting, the Directors may be elected at any special meeting of stockholders held for that purpose, or at the next annual meeting of stockholders held thereafter. Each Director shall hold office at the pleasure of the stockholders until the next annual meeting of stockholders and until his successor has been elected and qualified or until his earlier resignation or removal or his office has been declared vacant in the manner provided in these Bylaws.

SECTION 4. RESIGNATION AND REMOVAL OF DIRECTORS. Any Director may resign effective upon giving written notice to the Chairman of the Board, the President, the Secretary or the Board of Directors of the Corporation, unless the notice specifies a later time for the effectiveness of such resignation, in which case such resignation shall be effective at the time specified. Unless such resignation specifies otherwise, its acceptance by the Corporation shall not be necessary to make it effective. The Board of Directors may declare vacant the office of a Director who has been declared of unsound mind by an order of court or convicted of a felony. Any or all of the directors may be removed without cause if such removal is approved by the affirmative vote of a majority of the outstanding shares entitled to vote provided that no Director may be removed (unless the entire Board is removed) when the votes cast against removal (or, if such action is taken by written consent, the shares held by persons not consenting in writing to such removal) would be sufficient to elect such Director if voted cumulatively at an election at which the same total number of votes were cast (or, if such action is taken by written consent, all shares entitled to vote were voted) and the entire number of Directors authorized at the time of the Director's most recent election were then being elected. No reduction of the authorized number of Directors shall have the effect of removing any Director before his term of office expires.

SECTION 5. VACANCIES. Vacancies on the Board of Directors (except vacancies created by the removal of a Director) may be filled by a majority of the Directors then in office, whether or not less than a quorum, or by a sole remaining Director, and each Director elected in this manner shall hold office until the next annual meeting of stockholders and until a successor has been elected and qualified or until his earlier resignation or removal or his office has been declared vacant in the manner provided in these Bylaws. A vacancy or vacancies on the Board of Directors shall exist on the death, resignation or removal of any Director, or if the board declares vacant the office of a Director if he is declared of unsound mind by an order of court or is convicted of a felony, or if the authorized number of Directors is increased, or if the stockholders fail to elect the full authorized number of Directors to be voted for at any stockholders meeting at which an election of Directors is held. The stockholders may elect a Director at any time to fill any vacancy not filled by the Directors or which occurs by reason of the removal of a Director.

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Any such election by written consent of stockholders shall require the consent of a majority of the outstanding shares entitled to vote. If the resignation of a Director states that it is to be effective at a future time, a successor may be elected to take office when the resignation becomes effective.

SECTION 6. PLACE OF MEETINGS. Regular and special meetings of the Board of Directors shall be held at any place within or without the State of California which has been designated in the notice or written waiver of notice of the meeting, or, if not stated in the notice or waiver of notice or there is no notice, designated by resolution of the Board of Directors or, either before or after the meeting, consented to in writing by all members of the Board who were not present at the meeting. If the place of a regular or special meeting is not designated in the notice or waiver of notice or fixed by a resolution of the Board or consented to in writing by all members of the Board not present at the meeting, it shall be held at the Corporation's principal executive office.

SECTION 7. REGULAR MEETINGS. Immediately following each annual stockholder's meeting, the Board of Directors shall hold a regular meeting to elect officers and transact other business. Such meeting shall be held at the same place as the annual meeting or such other place as shall be fixed by the Board of Directors. Other regular meetings of the Board of Directors shall be held at such times and places as are fixed by the Board. Call and notice of regular meetings of the Board of Directors shall not be required and is hereby dispensed with.

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SECTION 8. SPECIAL MEETINGS. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairman of the Board, the President, any Vice President, the Secretary, any Assistant Secretary or any two Directors. Notice of the time and place of special meetings shall be delivered personally or by telephone or telegraph or sent to the Director by mail. In case notice is delivered by mail or telegram, it shall be sent, charges prepaid, addressed to the Director at his address appearing on the corporate records, or if it is not on these records or is not readily ascertainable, at the place where the meetings of the Directors are regularly held. If notice is delivered personally or given by telephone, it shall be delivered or given at least 48 hours before the meeting or if by telegraph or mailgram, it shall be telephoned or delivered to the telegraph office at least said 48 hours before the meeting. If notice is mailed, it shall be deposited in the United States mail at least four days before the meeting. Such mailing, telephoning or delivery, personally or by telephone, as provided in this Section, shall be due, legal and personal notice of such director.

SECTION 9. QUORUM. A Majority of the authorized number of Directors shall constitute a quorum of the Board for the transaction of business, except to adjourn a meeting under Section 11. Every act or decision done or made by a majority of the Directors present at a meeting duly held at which a quorum is present is the act of the Board of Directors, unless the vote of a greater number or the same number after disqualifying one or more Directors from voting, is required by law, the Articles of incorporation or these Bylaws. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, provided that any action taken is approved by at least a majority of the required quorum for such meeting.

SECTION 10. WAIVER OF NOTICE OR CONSENT. The transactions of any meeting of the Board of Directors, however, called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum is present and if, either before or after the meeting, each of the Directors not present or who, though present, has prior to the meeting or at its commencement, protested the lack of proper notice to him, signs a written waiver of notice, or a consent to holding the meeting, or an approval of the minutes of the meeting. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. A notice or waiver of notice need not specify the purpose of any regular or special meeting of the Board of Directors. Notice of a meeting need not be given to any Director who signs a waiver of notice, whether before or after the meeting, or who attends the meeting without protesting, prior to or at its commencement, the lack of notice to such Director.

SECTION 11. ADJOURNMENT. A majority of the Directors present, whether or not a quorum is present, may adjourn any meeting to another time and place. If the meeting is adjourned for more than 24 hours, notice of the adjournment to another time or

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place shall be given prior to the time of the adjourned meeting to the Directors who were not present at the time of the adjournment.

SECTION 12. MEETINGS OF CONFERENCE TELEPHONE. Members of the Board of Directors may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another. Participation by Directors in a meeting in the manner provided in this Section constitutes presence in person at such meeting.

SECTION 13. ACTION WITHOUT A MEETING. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if all members of the Board shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of such directors.

SECTION 14. FEES AND COMPENSATION. Directors and members of committees shall receive neither compensation for their services as Director or members of committees or reimbursement for the expenses incurred as Directors or members of committees unless these payments are fixed by resolution of the Board. Directors and members of committees may receive compensation and reimbursement for their expenses incurred as officers, agents or employees of or for other services performed for the Corporation as approved by the Chief Executive officer without authorization, approval or ratification by the Board.

SECTION 15. COMMITTEES. The Board of Directors may, at its discretion, by resolution adopted by a majority of the authorized number of Directors, designate one or more committees, each of which shall be composed of two or more Directors, to serve at the pleasure of the Board. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The Board may delegate to any such committee, to the extent provided in such resolution, any of the Board's powers and authority in the management of the Corporation's business and affairs, except with respect to:

(a) the approval of any action for which the General Corporation Law or the Articles of Incorporation also requires approval by the stockholders;

(b) the filing of vacancies on the Board of Directors of any committee.

(c) the fixing of compensation of Directors for serving on the Board or on any committee;

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(d) the amendment or repeal of Bylaws or the adoption of new-Bylaws;

(e) the amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable;

(f) a distribution to the stockholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the Board;

(g) the authorization of the issuance of shares; and

(h) the appointment of other committees of the Board or the members thereof.

The Board may prescribe appropriate rules, not inconsistent with these Bylaws, by which proceedings of any such committee shall be conducted. The provisions of these Bylaws relating to the calling of meetings of the Board, notice of meetings of the Board and waiver of such notice, adjournment of meetings of the board, written consents to Board meetings and approval of minutes, action by the Board by consent in writing without a meeting, the place of holding such meetings, meetings by conference telephone or similar communications equipment, the quorum for such meetings, the vote required at such meetings and the withdrawal of Directors after commencement of a meeting shall apply to committees of the Board and action by such committees. In addition, any member of the committee designated by the Board as the Chairman or as Secretary of the committee or any two members of a committee may call meetings of the committee. Regular meetings of any committee may be held without notice if the time and place of such meetings are fixed by the Board of Directors or the committee.

#### SECTION 16. INDEMNIFICATION OF AGENTS.

(a) For the purpose of this section, "agent" means any person who is or was a director, officer, employee or other agent of this corporation, or is or was serving at the request of this corporation as a director, officer, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or was a director, officer, employee or agent of a foreign or domestic corporation which was a predecessor corporation of this corporation or of another enterprise at the request of such predecessor corporation; "proceeding" means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative; and "expenses" includes, without limitation, attorneys' fees and any expenses of establishing a right to indemnification under subdivision (d) or subdivision (e) (3) of this Section.

(b) This Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any proceeding (other than an action by or in the right of this

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Corporation) by reason of the fact that such person is or was an agent of this Corporation, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding if such person acted in good faith and in a manner such person reasonably believed to be in the best interests of this corporation and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of such person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interests of this corporation or that the person had reasonable cause to believe that the person's conduct was unlawful.

(c) This Corporation shall indemnify any person who was or is a party, or is threatened to be made a party to any threatened, pending or completed action by or in the right of this Corporation to procure a judgment in its favor by reason of the fact that such person is or was an agent of this Corporation, against expenses actually and reasonably incurred by such person in connection

with the defense or settlement of such action if such person acted in good faith, in a manner such person believed to be in the best interests of this Corporation and its stockholders.

No indemnification shall be made under this subdivision for any of the following:

(1) In respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to this Corporation in the performance of such person's duty to this Corporation and its stockholders, unless and only to the extent that the court in which such action was brought shall determine upon application that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine;

(2) Of amounts paid in settling or otherwise disposing of a pending action without court approval; or

(3) Of expenses incurred in defending a pending action which is settled or otherwise disposed of without court approval.

(d) To the extent that an agent of this Corporation has been successful on the merits in defense of any proceeding referred to in subdivision (b) or (c) or in defense of any claim, issue or matter therein, the agent shall be indemnified against expenses actually and reasonably incurred by the agent in connection therewith.

(e) Except as provided in subdivision (d), any indemnification under this Section shall be made by this Corporation only if authorized in the specific case, upon a determination that indemnification of the agent, is proper in the circumstances because the

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agent has met the applicable standard of conduct set forth in subdivision (b) or (c), by any of the following:

(1) A majority vote of a quorum consisting of Directors who are not parties to such proceeding;

(2) If such a quorum of directors is not obtainable, by independent legal counsel in a written opinion;

(3) Approval or ratification by the affirmative vote of a majority of the shares of this Corporation entitled to vote represented at a duly held meeting at which a quorum is present or by the written consent of the holders of a majority of the outstanding shares entitled to vote. For such purpose, the shares owned by the person to be indemnified shall not be considered outstanding or entitled to vote thereon; or

(4) The court in which such proceeding is or was pending, upon application made by this Corporation or the agent or the attorney or other person rendering services in connection with the defense, whether or not such application by the agent, attorney or other person is opposed by this Corporation.

(f) The right of indemnification provided in this Section 16 of these By-laws shall include the right to be paid, in advance of a proceedings final disposition, expenses incurred in defending that proceeding; provided, however, that if required by the California General Corporation Law, as amended, the payment of expenses in advance of the final disposition of the proceeding shall be made only upon delivery to the corporation of an undertaking by or on behalf of the agent to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized under this

Article or otherwise. The agent's obligation to reimburse the corporation for expense advances shall be unsecured and no interest shall be charged thereon.

(g) The indemnification provided by this Section shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office, to the extent such additional rights to indemnification are authorized in the articles of this Corporation. The rights to indemnify hereunder shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of the person. Nothing contained in this Section shall affect any right to indemnification to which persons other than directors and officers may be entitled by contract or otherwise.

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(h) No indemnification or advance shall be made under this Section, except as provided in subdivision (d) or subdivision (e)(3), in any circumstances where it appears:

(1) That it would be inconsistent with a provision of the Articles of Incorporation, bylaws, a resolution of the stockholders of an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

(2) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

(i) Upon and in the event of a determination by the Board of Directors of this Corporation to purchase such insurance, this Corporation shall purchase and maintain insurance on behalf of any agent of the Corporation against any liability asserted against or incurred by the agent in such capacity or arising out of the agent's status as such whether or not this Corporation would have the power to indemnify the agent against such liability under the provisions of this Section. The fact that this Corporation owns all or a portion of the shares of the company issuing a policy of insurance shall not render this subsection inapplicable if either of the following conditions are satisfied: (1) if authorized in the Articles of this Corporation, any policy issued is limited to the extent provided by Subdivision (d) of Corporations Code Section 204; or (2) (A) the company issuing the insurance policy is organized, licensed, and operated in a manner that complies with the insurance laws and regulations applicable to its jurisdiction of organization, (b) the company issuing the policy provides procedures for processing claims that do not permit that company to be subject to the direct control of this Corporation and (C) the policy issued provides for some manner of risk sharing between the issuer and purchaser of the policy, on one hand, and some unaffiliated person or persons, on the other, such as by providing for more than one unaffiliated owner of the company issuing the policy or by providing that a portion of the coverage furnished will be obtained from some unaffiliated insurer or reinsurer.

(j) If a claim under this Section 16 of these By-laws is not paid in full by Corporation within thirty (30) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense (including attorneys' fees) of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending a proceeding in advance of its final disposition where the required undertaking has been tendered to the Corporation) that the claimant has not met the standards of conduct that make it permissible under the California General Corporation Law for the Corporation to indemnify the claimant

for the amount claimed. The burden of proving such a defense shall be on the Corporation. Neither the failure of the

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Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper under the circumstances because he has met the applicable standard of conduct set forth in the California General Corporation Law, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant had not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct.

(k) The rights provided by this Article shall continue as to a person who has ceased to be an agent and shall inure to the benefit of the heirs, executors and administrators of such person.

(l) The Corporation shall not be liable to indemnify any agent under this Article V for any amounts paid in settlement of any action or claim effected without the Corporation's written consent, which consent shall not be unreasonably withheld; or (b) for any judicial award, if the Corporation was not given a reasonable and timely opportunity, at its expense, to participate in the defense of such action.

(m) Any amendment, repeal, or modification of this Article shall not adversely affect any right or protection of any agent existing at the time of such amendment, repeal, or modification of this Article shall not adversely affect any right or protection of any agent existing at the time of such amendment, repeal or modification.

(n) In the event of payment under this Article, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the agent, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Corporation effectively to bring suit to enforce such rights.

(o) The Corporation shall not be liable under this Article to make any payment in connection with any claim made against the agent to the extent the agent has otherwise actually received payment (under any insurance policy, agreement, vote, or otherwise) of the amounts otherwise indemnifiable hereunder.

#### ARTICLE IV OFFICERS

SECTION 1. OFFICERS. The officers of the Corporation shall be a Chairman of the Board or a President, or both, a Secretary and Chief Financial Officer. The Corporation may also have, at the discretion of the Board of Directors, one or more vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers and such

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other officers as may be appointed in accordance with the provisions of Section 3 of this Article IV. Any two or more offices may be held by the same person.

SECTION 2. ELECTIONS. The officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Section 3 or

Section 5 of this Article IV, shall be chosen annually by the Board of Directors, and each such officer shall serve at the pleasure of the Board of Directors until the regular meeting of the Board of Directors following the annual meeting of stockholders and until his successor is elected and qualified or until his earlier resignation or removal.

SECTION 3. OTHER OFFICERS. The Board of Directors may appoint, and may empower the Chairman of the Board or the President or both of them to appoint, such other officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the Bylaws or as the Board of Directors may from time to time determine.

SECTION 4. REMOVAL AND RESIGNATION. Any officer may be removed with or without cause either by the Board of Directors or, except for an officer chosen by the Board, by any officer upon whom the power of removal may be conferred by the Board (subject, in each case, to the rights, if any, of an officer under any contract of employment). Any officer may resign at any time upon written notice to the Corporation (without prejudice however, to the rights, if any, of the Corporation under any contract to which the officer is a party). Any such resignation shall take effect upon receipt of such notice or at any later time specified therein. If the resignation is effective at a future time, a successor may be elected to take the office when the resignation becomes effective. Unless a resignation specifies otherwise, its acceptance by the Corporation shall not be necessary to make it effective.

SECTION 5. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in a manner prescribed in the Bylaws for regular appointments to the office.

SECTION 6. CHAIRMAN OF THE BOARD. The Board of Directors may, in its discretion, elect a Chairman of the Board, who, unless otherwise determined by the Board of Directors, shall preside at all meetings of the Board of Directors at which he is present and shall exercise and perform any other powers and duties assigned to him by the board or prescribed by the Bylaws. If the office of the President is vacant, the Chairman of the Board shall be the General Manager and Chief Executive Officer of the Corporation and shall exercise the duties of the President as set forth in Section 7.

SECTION 7. PRESIDENT. Subject to any supervisory powers, if any, that may be given by the Board of Directors or the Bylaws to the Chairman of the Board, if

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there be such an officer, the President shall be the Corporation's General Manager and Chief Executive Officer and shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business, affairs and officers of the Corporation. Unless otherwise determined by the Board of Directors, he shall preside as Chairman at all meetings of the stockholders, and in the absence of the Chairman of the Board, or if there be none, at all meetings of the Board of Directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation; shall have any other powers and duties that are prescribed by the Board of Directors or the Bylaws; and shall be primarily responsible for carrying out all orders and resolutions of the Board of Directors.

SECTION 8. VICE PRESIDENTS. In the absence or disability of the Chief Executive Officer, the Vice Presidents in order of their rank as fixed by the Board of Directors, or if not ranked, the Vice President designated by the Board of Directors, or if there has been no such designation, the Vice President designated by the Chief Executive Officer, shall perform all the duties of the Chief Executive Officer, and when so acting, shall have all the powers of, and be subject to all the restrictions on, the Chief Executive Officer. Each Vice



President shall have any of the powers and perform any other duties that from time to time may be prescribed for him by the Board of Directors or the Bylaws or the Chief Executive Officer.

SECTION 9. SECRETARY. The Secretary shall keep or cause to be kept a book of minutes of all meetings and actions by written consent of all Directors, stockholders and committees of the Board of Directors. The minutes of each meeting shall state the time and place that it was held and such other information as shall be necessary to determine whether the meeting was held in accordance with law and these Bylaws and the actions taken thereat. The Secretary shall keep or cause to be kept at the Corporation's principal executive office, or at the office of its transfer agent or registrar, a record of the stockholders of the Corporation, giving the names and addresses of all stockholders and the number and class of shares held by each. The Secretary shall give, or cause to be given, notice of all meetings of stockholders, directors and committees required to be given under these Bylaws or by law, shall keep or cause the keeping of the corporate seal in safe custody and shall have any other powers and perform any other duties that are prescribed by the Board of Directors or the Bylaws or the Chief Executive Officer. If the Secretary refuses or fails to give notice of any meeting lawfully called, any other officer of the Corporation may give notice of such meeting. The Assistant Secretary, or if there be more than one, any Assistant Secretary, may perform any or all of the duties and exercise any or all of the powers of the Secretary unless prohibited from doing so by the Board of Directors, the Chief Executive Officer or the Secretary, and shall have such other powers and perform any other duties as are prescribed for him by the Board of Directors or the Chief Executive Officer.

SECTION 10. CHIEF FINANCIAL OFFICER. The Chief Financial Officer shall be the Treasurer unless the Board of Directors shall by resolution designate that the

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Treasurer and the Chief Financial officer shall be separate and set forth their respective duties in said resolution. The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of account. The Chief Financial Officer shall cause all money and other valuables in the name and to the credit of the Corporation to be deposited at the depositories designated by the Board of Directors or any person authorized by the Board of Directors to designate such depositories. He shall render to the Chief Executive Officer and Board of directors, when either of them request it, an account of all his transactions as Chief Financial officer and of the financial condition of the Corporation; and shall have any other powers and perform any other duties that are prescribed by the Board of Directors or the Bylaws or the Chief Executive Officer. The Assistant Treasurer, or if there be more than one, any Assistant Treasurer, may perform any or all of the duties and exercise any or all of the powers of the Chief Financial officer unless prohibited from doing so by the Board of Directors, the Chief Executive Officer or the Chief Financial Officer, and shall have such other powers and perform any other duties as are prescribed for him by the Board of Directors, the Chief Executive officer or the Chief Financial Officer.

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ARTICLE V  
MISCELLANEOUS

SECTION 1. RECORD DATE. The Board of Directors may fix a time in the future as a record date for the determination of the stockholders entitled to

notice of and to vote at any meeting of stockholders or entitled to give consent to corporate action in writing without a meeting, to receive any report, to receive payment of any dividend or other distribution, or allotment of any rights, or to exercise rights in respect to any change, conversion, or exchange of shares or any other lawful action. The record date so fixed shall be not more than sixty days nor less than ten days prior to the date of such meeting, nor more than sixty days prior to any other action for the purposes of which it is fixed. When a record date is so fixed, only stockholders of record on that date are entitled to notice of and to vote at any such meeting, to give consent without a meeting, to receive any report, to receive a dividend, distribution, or allotment of rights, or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date, except as otherwise provided in the Articles of Incorporation or Bylaws.

SECTION 2. INSPECTION OF CORPORATE RECORDS. The books of account, record of stockholders and minutes of proceedings of the stockholders and the Board and committees of the Board of this Corporation shall be open to inspection upon the written demand on the Corporation of any stockholder or holder of a voting trust certificate at any time during usual business hours, for a purpose reasonably related to such holder's interests as a stockholder or as the holder of such voting trust certificate. Such inspection by a stockholder or holder of a voting trust certificate may be made in person or by agent or attorney, and the right of inspection includes the right to copy and make extracts.

A stockholder or stockholders holding at least five percent in the aggregate of the outstanding voting shares of the Corporation or who hold at least one percent of such voting shares and have filed a Schedule 14B with the United States Securities and Exchange Commission relating to the election of Directors of the Corporation shall have (in person or by agent or attorney) the absolute right to inspect and copy the record of stockholders' names and addresses and shareholdings during usual business hours upon five business days' prior written demand upon the Corporation and to obtain from the transfer agent for the Corporation, upon written demand and upon the tender of its usual charges, a list of the stockholder's names and addresses, who are entitled to vote for the election of Directors, and their shareholdings, as of the most recent record date for which it has been compiled or as of a date specified by the stockholder subsequent to the date of demand. The list shall be made available on or before the later or five business days after the demand is received or the date specified therein as the date as of which the list is to be compiled.

Every Director shall have the absolute right at any reasonable time to inspect and copy all books, records and documents of every kind and to inspect the physical properties

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of this Corporation and any subsidiary of this Corporation. Such inspection by a Director may be made in person or by agent or attorney and the right of inspection includes the right to copy and make extracts.

SECTION 3. CHECKS, DRAFTS, ETC. All checks, drafts or other orders for payment of money, notes, or other evidences of indebtedness, issued in the name of or payable to the Corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board of Directors. The Board of Directors may authorize one or more officers of the Corporation to designate the person or persons authorized to sign such documents and the manner in which such documents shall be signed.

SECTION 4. ANNUAL AND OTHER REPORTS. The Board of Directors shall cause an annual report to be sent to the stockholders as required by statute, unless otherwise waived. A stockholder or stockholders holding at least five

percent of the outstanding shares of any class of the corporation may make a written request to the Corporation for an income statement of the corporation for the three-month, six-month or nine-month period of the current fiscal year ended more than thirty days prior to the date of the request and a balance sheet of the Corporation as of the end of such period and, in addition, if no annual report for the last fiscal year has been sent to stockholders, the annual report for the last fiscal year. The statements shall be delivered or mailed to the person making the request within thirty days thereafter. A copy of such statements shall be kept on file in the principal executive office of the corporation for twelve months and they shall be exhibited at all reasonable times to any stockholder demanding an examination of them or a copy shall be mailed to such stockholder.

The Corporation shall, upon the written request of any stockholder, mail to the stockholder a copy of the last annual, semiannual or quarterly income statement which it has prepared and a balance sheet as of the end of the period.

The quarterly income statements and balance sheets referred to in this Section shall be accompanied by the report thereon, if any, of any independent accountants engaged by the Corporation or the certificate of an authorized officer of the Corporation that such financial statements were prepared without audit from the books and records of the Corporation.

Unless otherwise determined by the Board of Directors or the Chief Executive Officer, the Chief Financial Officer and any Assistant Treasurer are each authorized officers of the corporation to execute the certificate that the annual report and quarterly income statements and balance sheets referred to in this Section were prepared without audit from the books and records of the Corporation.

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Any report sent to the stockholders shall be given personally or by mail or other means of written communication, charges prepaid, addressed to such stockholder at the address of such stockholder appearing on the books of the Corporation or given by such stockholder to the Corporation for the purpose of notice or set forth in the written request of the stockholder as provided in this Section. If any report addressed to the stockholder at the address of such stockholder appearing on the books of the corporation is returned to the Corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the report to the stockholder at such address, all future reports shall be deemed to have been duly given without further mailing if the same shall be available to the stockholder upon written demand of the stockholder at the principal executive office of the Corporation for a period of one year from the date of the giving of the report to all other stockholders. If no address appears on the books of the Corporation or is given by the stockholder to the Corporation for the purpose of notice or is sent forth in the written request of the stockholder as provided in this Section, such report shall be deemed to have been given to such stockholder if sent by mail or other means of written communication addressed to the place where the principal executive office of the Corporation is located, or if published at least once in a newspaper of general circulation in the county in which the principal executive office is located. Any such report shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by other means of written communication. An affidavit of mailing of any such report in accordance with the foregoing provisions, executed by the Secretary, Assistant Secretary, or any transfer agent of the Corporation shall be prima facie evidence of the giving of the report.

SECTION 5. CONTRACTS, ETC., HOW EXECUTED. The Board of Directors, except as the Bylaws or Articles of Incorporation otherwise provide, may authorize any officer or officers, agents or agent to enter into any contract or execute any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

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SECTION 6. CERTIFICATE FOR SHARES. Every holder of shares in the Corporation shall be entitled to have a certificate or certificates signed in the name of the Corporation by the Chairman or Vice Chairman of the Board or the President or a Vice President and by the Chief Financial Officer or any Assistant Secretary, certifying the number of shares and the class or series of shares owned by the stockholder. Any or all of the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue. Any such certificate shall contain such legend or other statement as may be required by Section 418 of the General Corporation Law, the Corporate Securities Law of 1968, and any agreement between the Corporation and the issue thereof, and may contain such legend or other statement as may be required by any other applicable law or regulation or agreement.

Certificates for shares may be issued prior to full payment thereof, under such restrictions and for such purposes, as the Board of Directors or the Bylaws may provide; provided, however, that any such certificate so issued prior to full payment shall state the total amount of the consideration to be paid therefor and the amount paid thereon.

No new certificate for shares shall be issued in place of any certificate theretofore issued unless the latter is surrendered and canceled at the same time; provided, however, that a new certificate may be issued without the surrender and cancellation of the old certificate if the certificate theretofore issued is alleged to have been lost, stolen or destroyed. In case of any such allegedly lost, stolen or destroyed certificate, the Corporation may require the owner thereof or the legal representative of such owner to give the Corporation a bond (or other adequate security) sufficient to indemnify it against any claim that may be made against it (including any expense or liability) on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

SECTION 7. REPRESENTATION OF SHARES OF OTHER CORPORATIONS. Unless the Board of Directors shall otherwise determine, the Chairman of the Board of the President, any Vice President, the Secretary and any Assistant Secretary of this Corporation are each authorized to vote, represent and exercise on behalf of this Corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this Corporation. The authority herein granted to such officers to vote or represent on behalf of this Corporation any and all shares held by this Corporation in any other corporation or corporations may be exercised either by such officers in person or by any person authorized to do so by proxy or power of attorney or other document duly executed by any such officer.

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SECTION 8. INSPECTION OF BYLAWS. The Corporation shall keep in its principal executive office in California, or if its principal executive office is not in California, at its principal business office in California, the original or a copy of the Bylaws as amended to date, which shall be open to inspection by the stockholders at all reasonable times during office hours. If the Corporation has no office in California, it shall upon the written request of any stockholder, furnish him a copy of the Bylaws as amended to date.

SECTION 9. SEAL. The Corporation shall have a common seal, and shall have inscribed thereon the name of the Corporation, the date of its incorporation, and the words "INCORPORATED" and "CALIFORNIA."

SECTION 10. CONSTRUCTION AND DEFINITIONS. Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in the General Corporation Law shall govern the construction of these Bylaws. Without limiting the generality of the foregoing, the masculine gender includes the feminine and neuter, the singular number includes the plural and the plural number includes the singular, and the term "Person" includes a corporation as well as a natural person.

ARTICLE VI  
AMENDMENTS

SECTION 1. POWER OF stockholders. New Bylaws may be adopted or these Bylaws may be amended or repealed by the affirmative vote of a majority of the outstanding shares entitled to vote, or by the written assent of stockholders entitled to vote such shares, except as otherwise provided by law or by the Articles of Incorporation.

SECTION 2. POWER OF DIRECTORS. Subject to the right of stockholders as provided in Section 1 of this Article VI to adopt, amend or repeal Bylaws, Bylaws other than a Bylaw or amendment thereof changing the authorized number of Directors may be adopted, amended or repealed by the Board of Directors.

CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify:

(1) That I am the duly elected and acting Secretary of PACIFIC SOFTWORKS, INC., a California Corporation; and

(2) That the foregoing Bylaws, comprising 24 pages, constitute the Bylaws of such Corporation as duly adopted at a meeting of the Directors of the Corporation held on January 7, 1993.

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IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of such corporation this 7th day of January, 1993.

/s/ JOSEPH R. LOLL

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JOSEPH R. LOLL, Secretary

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NUMBER	COMMON STOCK PURCHASE WARRANT CERTIFICATE	WARRANT
-----		-----
-----		-----

PACIFIC SOFTWARES, INC.

THIS CERTIFIES that, for value received

CUSIP

or registered assigns (the "Registered Holder") as the owner of the number of Common Stock Purchase Warrants ("Warrants") specified above. Each Warrant initially entitles the Registered Holder to purchase, subject to the terms and conditions set forth in this Certificate and the Warrant Agreement (as hereinafter defined, one (1) fully paid and nonassessable share of Common Stock, \$0.001 par value ("Common Stock"), of Pacific Software, Inc., a California corporation (the "Company"), at any time for a period of 24 months from date of prospectus, upon the presentation and surrender of this Warrant Certificate, with the Subscription Form on the reverse hereof, duly executed at the corporate office of American Securities Transfer & Trust,

This Warrant Certificate is not valid unless countersigned by the Warrant Agent.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed, manually or in facsimile, by two of its officers thereunto duly authorized and a facsimile of its corporate seal to be imprinted hereon.

PACIFIC SOFTWARES, INC.

Dated:

Inc., as Warrant Agent or its successor (the "Warrant Agent"), accompanied by payment of \$7.50 (the "Purchase Price"), in lawful money of the United States of America in cash or by official bank or certified check made payable to the order of the Company.

By:

[PACIFIC SOFTWARES INC. CORPORATE SEAL CALIFORNIA]	President Secretary
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This Warrant Certificate and each Warrant represented hereby are issued pursuant to and are subject in all respects to the terms and conditions set forth in the Warrant Agreement dated \_\_\_\_\_ (the "Warrant Agreement"), by and between the Company and the Warrant Agent.

COUNTERSIGNED AND REGISTERED:  
AMERICAN SECURITIES TRANSFER & TRUST, INC.  
P.O. Box 1590  
Denver, Colorado 80201

By \_\_\_\_\_  
Warrant Agent Authorized Signature

In the event of certain contingencies provided for in the Warrant Agreement, the Purchase Price, at the number of shares of Common Stock subject to purchase upon the exercise of each Warrant represented hereby, is subject to modification or adjustment.

PACIFIC SOFTWARES, INC.

The following abbreviations when used in the inscription on the face of this instrument, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common	UNIF GIFT MIN ACT -	Custodian
TEN ENT - as tenants by the entireties		-----
JT TEN - as joint tenants with right		(Cust) (Minor)
of survivorship and not as		
tenants in common		under Uniform Gifts to Minors
		Act
		-----
		(State)

Additional abbreviations may also be used though not in the above list.

SUBSCRIPTION FORM  
To Be Executed by the Holder  
in Order to Exercise Warrants

The undersigned hereby elects to exercise \_\_\_\_\_ Warrants represented by this Warrant Certificate, and to purchase the securities issuable upon the exercise of such Warrants, and requests that certificates for such securities be issued in the name of:

PLEASE INSERT SOCIAL SECURITY  
OR OTHER IDENTIFYING NUMBER

-----  
-----  
-----  
-----

Please print or type name and address

and be delivered to

-----

-----  
Please print or type name and address

and if such number of Warrants shall not be all the Warrants evidenced by this Warrant Certificate, that a new Warrant Certificate for the balance of such Warrants be registered in the name of, and delivered to, the Registered Holder at the address stated below.

Dated: \_\_\_\_\_ X \_\_\_\_\_  
X \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Signature Guaranteed:

ASSIGNMENT  
(To be Executed by the Registered Holder  
in Order to Assign Warrants)

PLEASE INSERT SOCIAL SECURITY  
OR OTHER IDENTIFYING NUMBER

FOR VALUE RECEIVED, \_\_\_\_\_ hereby sells,  
assigns and transfers to \_\_\_\_\_

\_\_\_\_\_  
(Please Print Name and Address Including Zip Code)

\_\_\_\_\_  
Warrants represented by this Warrant Certificate and hereby irrevocable  
constitutes and appoint \_\_\_\_\_

\_\_\_\_\_  
Attorney to transfer this Warrant Certificate on the books of the Company, with  
full power of substitution in the premises.

Signature X \_\_\_\_\_  
X \_\_\_\_\_

Signature(s) Guaranteed:  
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The signature(s) must be guaranteed by an eligible guarantor institution  
(Banks, Stockbrokers, Savings and Loan Associations and Credit Unions with



membership in an approved signature guarantee Medallion Program), pursuant to S.E.C. Rule 17Ad-16.

PACIFIC SOFTWARES, INC.

AND

AMERICAN SECURITIES TRANSFER, INCORPORATED  
Warrant Agent

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WARRANT AGREEMENT

Dated March , 1999

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\*This Table of Contents does not constitute a part of this Agreement or have any bearing upon the interpretation of any of its terms and provisions.

THIS WARRANT AGREEMENT, dated as of \_\_\_\_\_, is between PACIFIC SOFTWARES, INC. ("Company"), a California corporation, and AMERICAN SECURITIES TRANSFER, INCORPORATED (called, as well as any successor acting as warrant agent under this Agreement, the "Warrant Agent").

WHEREAS, the Company has one class of common stock, \$0.001 par value (the "Common Stock"), and the Company will issue shares of its Common Stock pursuant to Registration Statement No. \_\_\_-\_\_\_\_\_ that the Company has filed with the United States Securities and Exchange Commission; and

WHEREAS, in connection with the issuance of said shares of Common Stock, the Company will issue Warrants: all shares of Common Stock, \$0.001 par value, and, if appropriate after certain adjustments provided for in this Agreement, of such other classes of securities or property to be purchased upon the exercise of the Warrants being called the "Shares"; and

WHEREAS, the Company will issue the Shares and Warrants in units (the "Units"), each Unit consisting of one Share and one Warrant (evidenced by a "Warrant Certificate"); and

WHEREAS, each Warrant will entitle the Warrant Holder to purchase one Share; and

WHEREAS, the Company desires to enter into this Agreement to establish the terms and conditions of the Warrants, to set forth the rights of the registered holders of the Warrants (collectively the "Warrant Holders"), and to provide for the transfer and exercise of the Warrants and other matters; and

WHEREAS, the Company desires the Warrant Agent to act on behalf of the Company and the Warrant Agent is willing so to act under the terms of this Agreement:

NOW THEREFORE, in consideration of the mutual agreements stated in this Agreement, the Company and the Warrant Agent agree as follows:

SECTION 1 WARRANTS. Subject to the provisions of this Agreement, each Warrant shall entitle the Warrant Holder by exercising the Warrant to purchase from the Company one fully-paid and nonassessable Share at an initial price of \$7.50 per Share. The price at which a Warrant is exercisable at a particular time shall be called the "Exercise Price."

The Warrants will expire at 5:00 p.m. Los Angeles, California time, on \_\_\_\_\_ or such later date as is determined pursuant to the terms of Section 19 hereof (the actual time of expiration of the Warrants being called the "Expiration Date"). At the time of expiration of the Warrants, any unexercised Warrants will become void and all rights of the Warrant Holders under the terms of the Warrant Certificate, this Agreement, and otherwise shall cease.

SECTION 2 DETACHABILITY. The Common Stock and Warrants comprising the Units will be detachable immediately. A Warrant Certificate may be presented for exercise, sold, assigned, or otherwise conveyed on the books of the Warrant Agent either separate from (if the Common Stock and Warrants are then detachable) or together with a certificate representing shares of the Company's Common Stock.

#### SECTION 3 WARRANT CERTIFICATES.

(a) The Warrant Certificates shall be in registered form only. The text of the Warrant Certificates, including the forms of exercise and assignment to be printed on the reverse side of the Warrant Certificates, shall be substantially in the form set forth in Exhibit A

attached to this Agreement. Warrant Certificates shall be signed by, or shall bear the facsimile signatures of the Chairman of the Board, the President or a Vice President of the Company, and the Secretary or an Assistant Secretary of the Company and shall bear a facsimile of the Company's corporate seal. If any person whose facsimile signature has been placed upon any Warrant Certificate as the signature of an officer of the Company shall have ceased to be such officer before such Warrant Certificate is countersigned, issued, and delivered, such Warrant Certificate may be countersigned, issued, and delivered with the same effect as if such person had not ceased to be such officer. Any Warrant Certificate may be signed by, or may bear the facsimile signature of, any person who at the actual date of the preparation of such Warrant Certificate shall be a proper officer of the Company to sign such Warrant Certificate even though such person was not such an officer upon the date of this Agreement.

(b) Warrant Certificates shall be manually countersigned by the Warrant Agent and shall not be valid for any purpose unless so countersigned. The Warrant Agent is hereby authorized to countersign and deliver to, or in accordance with the instructions of, any Warrant Holder any Warrant Certificate which is properly issued under the terms of this Agreement.

#### SECTION 4 REGISTRATION OF TRANSFERS AND EXCHANGES.

(a) The Warrant Agent shall from time to time register the transfer of any outstanding Warrants upon records to be maintained by the Warrant Agent for such purpose upon surrender of a Warrant Certificate to the Warrant Agent for transfer, accompanied by appropriate instruments of transfer in form satisfactory to the Company and the Warrant Agent and duly executed by the Warrant Holder or a duly authorized attorney. Upon any such registration of transfer, new Warrant Certificates shall be issued in the name of and delivered to the transferee, and the surrendered Warrant Certificate shall be cancelled.

(b) Any outstanding Warrant Certificate may be surrendered to the Warrant Agent in exchange for other Warrant Certificates of like tenor, subject to subsection (f) of Section 11, and representing in the aggregate the same number of Warrants, subject to any adjustment under subsection (d) of Section 11. Warrant Certificates so surrendered for exchange shall be cancelled.

#### SECTION 5 EXERCISE OF WARRANTS.

(a) Any whole number or all of the Warrants evidenced by any Warrant Certificate may be exercised upon any single occasion on or before the Expiration Date. A Warrant shall be exercised by the Warrant Holder by surrendering to the Warrant Agent the Warrant Certificate attached to or detached from the Share Certificate, with the exercise form on the reverse of such Warrant Certificate duly completed and executed, together with payment in lawful money of the United States of America in cash

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or by certified or cashier's check or bank draft payable to the order of the Company, for the Exercise Price for the total number of Shares to be purchased.

(b) Subject to Section 5(d) and Section 10, upon receipt of a Warrant Certificate with the exercise form thereon duly executed, together with payment in full of the Exercise Price for the Shares for which Warrants then are being exercised, the Warrant Agent shall requisition from any transfer agent for the Shares (which transfer agent

may be the Warrant Agent pursuant to its appointment therefor separately from this Agreement) and upon receipt shall make delivery of certificates evidencing the total number of whole Shares for which Warrants are then being exercised in such names and denominations as are required for delivery to, or in accordance with the instructions of the Warrant Holder, provided that if fewer than all Shares issuable on exercise of a Warrant Certificate are purchased, the Warrant Agent (if so requested) shall issue a Warrant Certificate for the balance of the Shares. Subject to the payment of the Exercise Price becoming collected funds, such certificates for the Shares shall be deemed to be issued, and the person to whom such Shares are issued of record shall be deemed to have become a holder of record of such Shares, as of the date of the surrender of such Warrant Certificate and payment of the Exercise Price, whichever shall last occur, provided that if the books of the Company with respect to the Shares shall be closed as of such date, the certificates for such Shares shall be deemed to be issued, and the person to whom such Shares are issued of record shall be deemed to have become a record holder of such Shares, as of the date on which such books shall next be open (whether before, on, or after the applicable Expiration Date) but at the Exercise Price and upon the other conditions in effect upon the date of surrender of the Warrant Certificate and payment of the Exercise Price, whichever shall have last occurred, to the Warrant Agent.

(c) All Warrant Certificates surrendered upon exercise of Warrants shall be cancelled.

(d) Upon the exercise, or conversion of any Warrant, the Warrant Agent shall promptly deposit the payment into an account established by mutual agreement of the Company and the Warrant Agent at a federally insured commercial bank. All funds deposited in the account will be disbursed on a weekly basis to the Company, once they have been determined by the Warrant Agent to be collected funds. Once the funds are determined to be collected, the Warrant Agent shall cause the Share certificate(s) representing the exercised Warrants to be issued as provided in Section 5(b) hereof.

#### SECTION 6 REDEMPTION OF WARRANTS.

(a) The Company may redeem the Warrants at \$0.05 per Warrant (the "Redemption Price") upon 30 days' prior written notice any time after a period of 20 consecutive trading days that the closing price of the Common Stock exceeds \$8.00. For these purposes, the closing price of the Common Stock will be determined by the closing bid price, as reported by NASDAQ, or if the Common Stock is listed on a national stock exchange or on the NASDAQ National Market System, the closing price will be determined by the closing sale price on the primary exchange on which the Common Stock is traded or on the NASDAQ National Market System, if such shares are not listed on a national stock exchange. Notwithstanding the foregoing, the Company will not be entitled to call any of the Warrants for redemption or redeem any of the Warrants at a time when the Warrants are not exercisable because the Company has not maintained a

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current registration statement as described in Section 10 hereof. On the redemption date, the Warrant Holders of record of redeemed Warrants shall be entitled to payment of the Redemption Price upon surrender of such redeemed Warrants to the Company at the principal office of the Warrant Agent.

(b) Notice of redemption of any Warrants shall be given by mailing, by registered or certified mail, return receipt requested, a copy of such notice to all of the affected Warrant Holders of record as

of two days prior to the mailing date at their respective addresses appearing on the books or transfer records of the Company or such other address designated in writing by the Warrant Holder of record to the Warrant Agent not less than \_\_\_\_\_ (\_\_) days prior to the redemption date and shall be effective upon receipt.

(c) Notwithstanding any other provision of this Agreement, from and after the redemption date, all rights of the affected Warrant Holders (except the right to receive the Redemption Price) shall terminate, but only if (i) on or prior to the redemption date the Company shall have irrevocably deposited with the Warrant Agent, as paying agent, a sufficient amount to pay on the redemption date the Redemption Price for all Warrants called for redemption and (ii) the notice of redemption shall have stated the name and address of the Warrant Agent and the intention of the Company to deposit such amount with the Warrant Agent on or before the redemption date.

(d) The Warrant Agent shall pay to the Warrant Holders of record of redeemed Warrants all monies received by the Warrant Agent for the redemption of Warrants to which the Warrant Holders of record of such redeemed Warrants are entitled under the provisions of this Agreement.

(e) Any amounts deposited with the Warrant Agent which are not required for redemption of the Warrants may be withdrawn by the Company. Any amounts deposited with the Warrant Agent which shall be unclaimed after six (6) months after the redemption date may be withdrawn by the Company, and thereafter the Warrant Holders of the Warrants called for redemption for which such funds were deposited shall look solely to the Company for payment. The Company shall be entitled to the interest, if any, on funds deposited with the Warrant Agent, and the Warrant Holders of redeemed Warrants shall have no right to any such interest.

(f) If the Company fails to make a sufficient deposit with the Warrant Agent as provided above, the Warrant Holder of any Warrants called for redemption may at the option of the Warrant Holder (i) by notice to the Company declare the notice of redemption a nullity, or (ii) maintain an action against the Company for the Redemption Price. If the Warrant Holder brings such an action, the Company will pay reasonable attorneys' fees of the Warrant Holder. If the Warrant Holder fails to bring an action against the Company for the Redemption Price within ninety (90) days after the redemption date, the Warrant Holder shall be deemed to have elected to declare the notice of redemption to be a nullity and such notice shall be without any force or effect.

SECTION 7 PAYMENT OF TAXES. The Company will pay all taxes attributable to the initial issuance of Shares upon exercise of Warrants. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue of any Warrant Certificates or in the issue of any certificates for Shares in a name other than that of the Warrant Holder upon the exercise of any Warrant.

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SECTION 8 MUTILATED OR MISSING WARRANT CERTIFICATES. If any Warrant Certificate is mutilated, lost, stolen, or destroyed, the Company and the Warrant Agent may, on such terms as to indemnity or otherwise as they may in their discretion impose (which shall, in the case of a mutilated Warrant Certificate, include the surrender thereof), and upon receipt of evidence satisfactory to the Company and the Warrant Agent of such mutilation, loss, theft, or destruction, issue a substitute Warrant Certificate of like denomination and tenor as the Warrant Certificate so mutilated, lost, stolen or destroyed, subject to subsection (f) of Section 11. Applicants for such substitute Warrant Certificate shall also comply with such other reasonable regulations and pay any reasonable charges as the Company or the Warrant Agent

may prescribe. If any Warrant Certificate is mutilated, lost, stolen, or destroyed, and the Warrant Holder desires to exercise any Warrants evidenced thereby, the Company and the Warrant Agent may authorize such exercise upon receipt of such evidence and indemnity in lieu of issuing any substitute Warrant Certificate to evidence the Warrants so exercised.

SECTION 9 RESERVATION OF SHARES.

(a) The Company will at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued shares of the Company's Common Stock, for the purpose of enabling it to satisfy any obligation to issue Shares upon exercise of Warrants, the full number of Shares issuable upon the exercise of all outstanding Warrants.

(b) The Company covenants that all Shares which may be issued upon exercise of Warrants will upon issue be fully paid and nonassessable by the Company and free from all taxes, liens, charges, and security interests with respect to the issue thereof.

SECTION 10 REGISTRATION OF SHARES ISSUABLE UPON EXERCISE OF WARRANTS. If any Shares issuable upon the exercise of Warrants require the maintenance of a current registration statement under the Securities Act of 1933, as amended (the "Act"), with respect to such Shares before such Shares may be validly and lawfully issued, the Company will in good faith endeavor to maintain such current registration statement under the Act, provided that in no event shall such Shares be issued, and the Company shall have the authority to suspend the exercise of any or all Warrants while such registration statement is not current. Similarly, a Warrant Holder residing in a state where a required registration or governmental approval of issuance of the Shares is not in effect as of or has not been obtained within a reasonable time after the surrender date of the Warrant Certificate for exercise shall not be entitled to exercise Warrants, unless in the opinion of counsel to the Company such registration or approval in such state shall not be required or the Company otherwise authorizes the issuance. In such event, the Warrant Holder shall be entitled to transfer the Warrants to others, but only prior to the Expiration Date for the Warrants being transferred.

SECTION 11 ADJUSTMENTS OF EXERCISE PRICE AND EITHER SHARES PURCHASABLE OR NUMBER OF WARRANTS. The Exercise Price and either the number of Shares purchasable upon exercise of the Warrants or the number of Warrants outstanding shall be subject to adjustment from time to time as provided in this Section.

(a) In case the Company shall (i) declare a stock dividend or make a distribution on its outstanding shares of Common Stock in shares of Common Stock, (ii) subdivide or reclassify its outstanding shares of Common Stock into a greater number of shares of Common Stock, or (iii) combine or reclassify its outstanding shares of

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Common Stock into a smaller number of shares of Common Stock, the Exercise Price in effect at the time of the record date for such dividend or distribution or of the effective date of such subdivision, combination, or reclassification shall be adjusted so that it shall equal the price determined by multiplying the Exercise Price by a fraction, the denominator of which shall be the number of shares of Common Stock outstanding after giving effect to such action, and the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such action.

(b) In case the Company shall fix a record date for the issuance of rights or warrants to all holders of its Common Stock entitling them to subscribe for or purchase shares of Common Stock (or securities

convertible into Common Stock) at a price (the "Subscription Price") (or having a conversion price per share of Common Stock) less than the current market price of the Common Stock (as defined in subsection (k) of this Section 11) on the record date mentioned below, the Exercise Price shall be adjusted so that the same shall equal the price determined by multiplying the Exercise Price in effect immediately prior to the date of such issuance by a fraction, the numerator of which shall be the sum of the number of shares of Common Stock outstanding on the record date mentioned below and the number of additional shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so offered (or the aggregate conversion price of the convertible securities so offered) would purchase at such current market price per share of the Common Stock, and the denominator of which shall be the sum of the number of shares of Common Stock outstanding on such record date and the number of additional shares of Common Stock offered for subscription or purchase (or into which the convertible securities so offered are convertible). Such adjustment shall be made successively whenever such rights or tie warrants are issued and shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights or warrants: and to the extent that shares of Common Stock are not delivered (or securities convertible into Common Stock are not delivered) after the expiration of such rights or warrants, the Exercise Price shall be readjusted to the Exercise Price which would then be in effect had the adjustments made upon the issuance of such rights or warrants been made upon the basis of delivery of only the number of shares of Common Stock (or securities convertible into Common Stock) actually delivered.

(c) In case the Company shall hereafter distribute to the holders of its Common Stock evidences of its indebtedness or assets (excluding cash dividends or distributions and dividends or distributions referred to in subsection (a) of this Section) or subscription rights or warrants (excluding those referred to in subsection (b) of this Section), then in each such case the Exercise Price in effect thereafter shall be determined by multiplying the Exercise Price in effect immediately prior thereto by a fraction, the numerator of which shall be the total number of shares of Common Stock outstanding multiplied by the current market price per share of Common Stock (as defined in subsection (k) of this Section), less the fair market value (as determined by the Company's Board of Directors) of said assets or evidences of indebtedness so distributed or of such rights or warrants, and the denominator of which shall be the total number of shares of Common Stock outstanding multiplied by such current market price per share of Common Stock. Such adjustment shall be made successively whenever such a record date is fixed. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date for the determination of stockholders entitled to receive such distribution.

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(d) In case the Company shall issue shares of its Common Stock (excluding shares issued (i) in any of the transactions described in subsections (a), (b), and (c) above, (ii) upon the issuance or exercise of options granted to the Company's directors, employees, and consultants under a plan or plans adopted by the Company's Board of Directors and approved by its stockholders, if such shares would otherwise be included in this subsection (d) of this Section (but only to the extent that the aggregate number of shares excluded hereby and issued after the date hereof shall not exceed 10% of the Company's Common Stock outstanding at the time of any issuance), (iii) upon exercise of rights, options, and warrants outstanding or authorized for grant or contractually bound to be issued at April \_\_\_\_, 1999, upon exercise of the options that were originally a part of the original



option issued to the Underwriter pursuant to the Underwriting Agreement, dated April \_\_\_, 1999, between the Company and Spencer Edwards Securities, Inc., or upon exercise of any Warrants or the overallotment option granted to the Underwriter pursuant to the Underwriting Agreement, (iv) to stockholders of any corporation which merges into the Company or from which the Company acquires assets and some or all of the consideration consists of equity securities of the Company in proportion to their stock holdings of such corporation immediately prior to such merger or acquisition, upon such merger or acquisition, (v) issued in a bona fide public offering pursuant to a firm commitment underwriting, but only if no adjustment is required pursuant to any other specific subsection of this Section 11 (without regard to subsection (i) of this Section) with respect to the transaction giving rise to such rights, and (vi) in connection with any nonregistered offering of Common Stock or securities convertible into or exercisable for Common Stock, unless the issuance or sale price is less than 85% of the current market price of the Common Stock on the date of issuance, in which case the adjustment shall only be for the difference between 85% of the current market price and the issue or sale price) for a consideration per share (the "Offering Price") less than the current market price per share (as defined in Subsection (k) of this Section) on the date the Company fixes the offering price of such additional shares, then the Exercise Price shall be adjusted immediately thereafter so that it shall equal the price determined by multiplying the Exercise Price in effect immediately prior thereto by a fraction, the numerator of which shall be the sum of the number of shares of Common Stock outstanding immediately prior to the issuance of such additional shares and the number of shares of Common Stock which the aggregate consideration received (determined as provided in subsection (j) of this Section) for the issuance of such additional shares would purchase at such current market price per share of Common Stock, and the denominator of which shall be the number of shares of Common Stock outstanding immediately after the issuance of such additional shares. Such adjustment shall be made successively whenever such an issuance is made.

(e) In case the Company shall issue any securities convertible into or exchangeable for its Common Stock (excluding securities issued in transactions described in subsections (a), (b), and (c) of this Section and subject to the limitations in subsection (d) of this Section) for a consideration per share of Common Stock (the "Conversion Price") initially deliverable upon conversion or exchange of such securities (determined as provided in subsection (j) of this Section) less than the current market price per share (as defined in subsection (k) of this Section) in effect immediately prior to the issuance of such securities, then the Exercise Price shall be adjusted immediately thereafter so that it shall equal the price determined by multiplying the Exercise Price in effect immediately prior thereto by a fraction, the numerator of which shall be the sum of the number of shares of Common Stock outstanding immediately prior to the issuance of such securities and the number of shares of Common Stock which the aggregate

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consideration received (determined as provided in subsection (i) of this Section) for such securities would purchase at such current market price per share of Common Stock, and the denominator of which shall be the sum of the number of shares of Common Stock outstanding immediately prior to such issuance and the maximum number of shares of Common Stock of the Company deliverable upon conversion of or in exchange for such securities at the initial conversion or exchange price or rate. Such adjustment shall be made successively whenever such an issuance is made.

(f) Unless the Company shall have exercised its election as provided in subsection (g) of this Section, whenever any adjustment of

the Exercise Price becomes effective pursuant to the terms of this Section the number of Shares purchasable upon the exercise of each affected outstanding Warrant shall be simultaneously adjusted to the number determined by dividing (i) the product of the number of Shares purchasable upon the exercise of each outstanding Warrant prior to such adjustment multiplied by the applicable Exercise Price in effect prior to such adjustment by (ii) the applicable Exercise Price in effect after such adjustment.

(g) On or after the date any adjustment of the number of Shares purchasable upon exercise of a Warrant may be made as provided in subsection (f) of this Section, the Company may elect to adjust the number of Warrants in substitution for any such adjustment in the number of Shares purchasable upon exercise of a Warrant. All Warrants outstanding after such adjustment of the number of Warrants shall be exercisable for one Share. Each Warrant held of record prior to such adjustment of the number of Warrants shall become the number of Warrants (calculated to the nearest hundredth) obtained by (i) multiplying the number of Warrants held of record prior to adjustment of the number of Warrants by the Exercise Price in effect prior to adjustment of the Exercise Price and (ii) dividing the product so obtained by the Exercise Price in effect after adjustment of the Exercise Price. The Company shall give notice to the Warrant Holders and the Warrant Agent of its election to adjust the number of Warrants, indicating the record date for the adjustment and, if known at the time, the amount of the adjustment to be made. Such record date may be the date on which the adjustment to the Exercise Price becomes effective or any date thereafter but shall be at least 10 days later than the date of the notice to Warrant Holders. Upon each adjustment of the number of Warrants pursuant to this subsection (g) the Company shall, as promptly as practicable, either distribute to Warrant Holders on such record date Warrant Certificates evidencing the additional Warrants to which such Warrant Holders shall be entitled as a result of such adjustment or distribute to such Warrant Holders in substitution and replacement for the Warrant Certificates held by them prior to the date of adjustment, and upon surrender thereof if required by the Company, new Warrant Certificates evidencing all the Warrants to which such holders shall be entitled after such adjustment. Warrant Certificates so distributed shall be issued, executed and countersigned in the manner specified in this Agreement (but may bear, at the option of the Company, the adjusted Exercise Price) and shall be registered in the names of the holders of record of Warrant Certificates on the record date specified in the notice to Warrant Holders given pursuant to this subsection (g).

(h) In any case in which this Section shall require that an adjustment shall become effective immediately after a record date for an event, the Company may defer until the actual occurrence of such event (i) issuing to the Warrant Holder of any Warrant exercised after such record date and before the occurrence of such event the additional Shares issuable upon such exercise by reason of the adjustment required by such event

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over and above the Shares Issuable upon such exercise before giving effect to such adjustment and (ii) paying to such Warrant Holder any amount of cash in lieu of a fractional Share, provided the Company shall deliver to such Warrant Holder a due bill or other appropriate instrument evidencing the right of such Warrant Holder to receive such additional Shares or such cash upon the occurrence of the event requiring such adjustment.

(i) Subject to the provisions of subsection (h) of this Section, the form of Warrant Certificate need not be changed because of any

adjustment in the Exercise Price, the number of Shares purchasable upon the exercise of a Warrant, or the number of Warrants outstanding and Warrant Certificates issued after any such adjustment may state the same Exercise Price, the same number of Warrants, and the same number of Shares purchasable upon exercise of a Warrant as are stated in the Warrant Certificates issued before such adjustment as if such adjustment had not occurred. However, the Company may at any time in its sole discretion (which shall be conclusive) make any change in the form of Warrant Certificate that it may deem appropriate and that does not affect the substance thereof, and any Warrant Certificate may be in the form as so changed.

(j) For purposes of any computation respecting consideration received pursuant to subsections (d) and (e) of this Section, the following shall apply:

(A) in the case of the issuance of shares of Common Stock for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions, discounts, or other expenses incurred by the Company for any underwriting of the issue or otherwise in connection therewith;

(B) in the case of the issuance of shares of Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair market value thereof as determined in good faith by the Board of Directors of the Company (irrespective of the accounting treatment thereof), whose determination shall be conclusive;

(C) in the case of the issuance of securities convertible into or exchangeable for shares of Common Stock, the aggregate consideration received therefor shall be deemed to be the consideration received by the Company for the issuance of such securities plus the additional minimum consideration, if any, to be received by the Company upon the conversion or exchange thereof (the consideration in each case to be determined in the same manner as provided in clauses (A) and (B) of this subsection j) of this Section); and

(D) in case the Company shall sell and issue Common Stock, together with one or more other securities as part of a unit at a price per unit, then in determining a consideration per share of Common Stock for purposes of this Section, the Board of Directors of the Company shall determine, in good faith, whose determination shall be described in a duly adopted board resolution certified by the Company's Secretary, or Assistant Secretary, the fair value of the shares of Common Stock then being sold as part of such unit, and such

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determination, in the absence of fraud or bad faith, shall be binding upon the holders of the Warrants.

(k) For the purpose of any computation under subsections (b), (c), (d), and (e) of this Section, the current market price per share of Common Stock at any date shall be deemed to be the average Fair Market Value of a share of Common Stock for 30 consecutive business days before such date.

"Fair Market Value" shall mean an amount that is determined as follows: (i) if the Common Stock is listed on the New York Stock Exchange, the American Stock Exchange, or such other securities exchange

designated by the Board of Directors of the Company, or admitted to unlisted trading privileges on any such exchange, or if the Common Stock is quoted on a National Association of Securities Dealers, Inc. system that reports closing prices, the Fair Market Value shall be the closing price of the Common Stock as reported by the Wall Street Journal on the day the Fair Market Value is to be determined, or if no such price is reported for such day, then the determination of such closing price shall be as of the last immediately preceding day on which the closing price is so reported; or (ii) if the Common Stock is not so listed or admitted to unlisted trading privileges or so quoted, the Fair Market Value shall be the average of the last reported highest bid and the lowest asked prices quoted on the National Association of Securities Dealers, Inc. Automated Quotations System ("NASDAQ") or, if not so quoted, then by the National Quotation Bureau, Inc. on the day the Fair Market Value is determined; or (iii) if the Common Stock is not so listed or admitted to unlisted trading privileges or so quoted, and bid and asked prices are not reported, the Fair Market Value shall be determined in such reasonable manner as may be presented by the Board of Directors of the Company.

(l) No adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least five cents (\$.05) in such price; provided, however, that any adjustments which by reason of this subsection (l) of this Section are not required to be made shall be carried forward and taken into account in any subsequent adjustment required to be made hereunder. All calculations under this Section shall be made to the nearest cent or to the nearest one-hundredth of a Share, as the case may be. Anything in this Section to the contrary notwithstanding, the Company shall be entitled, but shall not be required, to make such changes in the Exercise Price, in addition to those required by this Section, as it shall determine, in its sole discretion, to be advisable in order that any dividend or distribution in shares of Common Stock, or any subdivision, reclassification, or combination of Common Stock, hereafter made by the Company shall not result in any federal income tax liability to the holders of Common Stock or securities convertible into Common Stock.

(m) In the event that at any time, as a result of an adjustment made pursuant to subsection (a) of this Section, the Holder of the Warrants thereafter shall become entitled to receive any securities of the Company, other than Common Stock, thereafter the number of such other securities so receivable upon exercise of the Warrants shall be subject to adjustment from time-to-time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in subsections (a) to (l), inclusive, of this Section.

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#### SECTION 12 FRACTIONAL WARRANTS AND FRACTIONAL SHARES.

(a) Notwithstanding any other provision of this Agreement or any Warrant Certificate, the Company shall not be required to issue fractions of Warrants on any distribution of Warrant Certificates pursuant to subsection (f) of Section 11 or to distribute Warrant Certificates which evidence fractional Warrants. In lieu of issuing any fraction of a Warrant otherwise called for upon any adjustment pursuant to subsection (d) of Section 11, the Company shall pay to the Warrant Holder entitled thereto an amount in cash equal to such fraction multiplied by the current market value of one such Warrant determined as follows:

(1) If the Warrants are listed on the New York Stock Exchange, the American Stock Exchange, or such other national

stock exchange specified by the Board of Directors of the Company, or admitted to unlisted trading privileges on any such exchange, or if the Warrants are quoted on a National Association of Securities Dealers, Inc. system that reports closing prices, the current market value shall be the closing price of the Warrants as reported by the Wall Street Journal for the last trading day prior to the date of such adjustment pursuant to subsection (d) of Section 11, or, if no such price is reported for such day, then the determination of such closing price shall be as of the last immediately preceding day on which the closing price is so reported, or

(2) If the Warrants are not so listed or admitted to unlisted trading privileges or so quoted, the current market value shall be the mean of the last reported bid and asked prices reported by NASDAQ, if the Warrants are quoted on NASDAQ, and if not, the mean of the last reported bid and asked prices reported by the National Quotation Bureau, Inc., in either case on the last business day prior to the date of such adjustment pursuant to subsection (d) of Section 11; or

(3) If neither subparagraph (1) or (2) is applicable, the current market value shall be an amount determined in such reasonable manner as may be prescribed by the Board of Directors of the Company.

(b) Notwithstanding any other provision of this Agreement or any Warrant Certificate, the Company shall not be required to issue fractions of Shares upon exercise of the Warrants or to distribute certificates which evidence fractions of Shares. With respect to any fraction of a Share called for upon exercise of any Warrant, the Company in lieu of issuing such fractional Shares shall pay to, or in accordance with the instructions of, the Warrant Holder exercising such Warrant an amount in cash equal to such fraction multiplied by the Fair Market Value of one share of Common Stock.

#### SECTION 13 NOTICES TO WARRANT HOLDERS.

(a) Upon any adjustment of the Exercise Price, the Company within 20 days thereafter shall (a) cause to be filed with the Warrant Agent a certificate, signed by the Chairman of the Board, the President, or a Vice President of the Company and by its Treasurer or an Assistant Treasurer, setting forth the Exercise Price after such adjustment and setting forth in reasonable detail the method of calculation and the facts upon which any such calculation is based and setting forth either (1) the number of Shares (or portion thereof) purchasable upon exercise of an affected Warrant after such

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adjustment of the Exercise Price, or (2) the number of Warrants into which each outstanding affected Warrant will be changed as a result of such adjustment in the Exercise Price, which certificate shall be conclusive evidence of the correctness of the matters set forth therein, and (b) cause written notice of such adjustments to be given to each affected Warrant Holder as of the record date applicable to such adjustment. Where appropriate, such notice may be given in advance and included as a part of the notice required to be mailed under the other provisions of this Section.

(b) Whenever the Company shall

(i) expect to effect any capital reclassification of the capital stock of the Company (other than a change in par

value or from par value to no par value or from no par value to par value or as a result of a subdivision or combination), any sale, lease, or conveyance of all or substantially all of the assets of the Company or any consolidation or merger of the Company with another corporation (other than a merger with a subsidiary in which merger the Company is the continuing corporation and which does not result in any reclassification or change of the Shares issuable upon exercise of the Warrants), or

(ii) expect to be involved in any voluntary or involuntary dissolution, liquidation, or winding up of the Company, then in any such case the Company shall cause to be mailed to each Warrant Holder, at the earliest practicable time (and in any event not less than 20 days before any record date or other date set for definitive, action) written notice of such event and of the date on which the books of the Company shall close or the date when such reclassification, sale, lease, conveyance, consolidation, merger, dissolution, liquidation, or winding up shall take place, as the case may be. Such notice shall also set forth such facts as shall indicate the effect of such action (to the extent such effect may be known at the date of notice) on each Exercise Price and the kind and amount of the Shares and other securities and property deliverable upon exercise of the Warrants before and after any adjustment for the occurrence of such event. Such notice shall also specify the date as of which the holders of the shares of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reclassification, sale, lease, conveyance, merger, dissolution, liquidation, or winding up, as the case may be.

(c) Without limiting the obligation of the Company hereunder to provide notice to each Warrant Holder, it is agreed that failure of the Company to give notice shall not invalidate any corporate action taken by the Company.

#### SECTION 14 RIGHTS OF WARRANT HOLDERS.

(a) No Warrant Holder, as such, shall have any rights of a stockholder of the Company, either at law or equity, and the rights of the Warrant Holders, as such, are limited to those rights expressly provided in this Agreement or in the Warrant Certificates.

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(b) When any Warrant Certificate shall have been surrendered for exercise accompanied by payment of the Exercise Price, as provided in this Agreement, certificates for the Shares purchased upon such exercise shall be issuable and any person designated to be the record holder of such Shares shall be deemed to have become a holder of record of such Shares as of the date of such surrender and payment, whichever last occurs; provided that if at such date the transfer books for the shares of Common Stock shall be closed, the certificates for the Shares shall be issuable on the date on which such books shall next be open (whether before, on, or after an Expiration Date) and until then the Company shall be under no duty to deliver any certificate for such Shares; and further provided that such books, unless otherwise required by law, shall not be closed at any one time for a period longer than 20 days.

(c) The Company and the Warrant Agent may treat the registered Warrant Holder in respect of any Warrant Certificate as the absolute owner thereof for all purposes notwithstanding any notice to the

contrary.

SECTION 15 WARRANT AGENT.

(a) The Company hereby appoints the Warrant Agent to act as the agent of the Company in accordance with this Agreement, and the Warrant Agent hereby accepts such appointment.

(b) The Warrant Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions by all of which the Company and every Warrant Holder by acceptance of any Warrant Certificate, shall be bound:

(1) The statements contained in this Agreement and in the Warrant Certificates shall be taken as statements of the Company and the Warrant Agent assumes no responsibility for the correctness of any of the same except such as described the Warrant Agent or action taken or to be taken by it.

(2) The Warrant Agent shall not be responsible for any failure of the Company to comply with any of the Company's covenants contained in this Agreement or in the Warrant Certificates.

(3) The Warrant Agent may consult at any time with counsel satisfactory to it (who may be counsel for the Company) and the Warrant Agent shall incur no liability or responsibility to the Company or to any Warrant Holder in respect of any action taken, suffered, or omitted by it hereunder in good faith and in accordance with the opinion or the advice of such counsel, provided the Warrant Agent shall have exercised reasonable care in the selection and continued employment of such counsel.

(4) The Warrant Agent shall incur no liability or responsibility to the Company or to any Warrant Holder for any action taken in reliance on any notice, resolution, waiver, consent, order, certificate, or other paper, document, or instrument believed by it to be genuine and to have been signed, sent, or presented by the proper party or parties.

(5) The Company agrees to pay to the Warrant Agent the Warrant Agent's standard published rates in effect on the date of this Agreement, as the

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same may be changed from time to time upon thirty (30) days prior written notice from the Warrant Agent to the Company, for all services rendered by the Warrant Agent in the execution of this Agreement, to reimburse the Warrant Agent for all expenses, taxes, and governmental charges and other charges of any kind and nature incurred by the Warrant Agent in the execution of this Agreement and to indemnify the Warrant Agent and save it harmless against any and all liabilities, including judgments, costs, and counsel fees, for anything done or omitted by the Warrant Agent in the execution of this Agreement except as a result of the Warrant Agent's, negligence or bad faith.

(6) The Warrant Agent shall be under no obligation to institute any action, suit or legal proceeding or to take any other action likely to involve expense unless the Company or one or more Warrant Holders shall furnish the Warrant Agent with reasonable security and indemnity for any costs and expenses which may be incurred, but this provision shall not affect the

power of the Warrant Agent to take such action as the Warrant Agent may consider proper, whether with or without any such security or indemnity. All rights of action under this Agreement or under any of the Warrants may be enforced by the Warrant Agent without the possession of any of the Warrant Certificates or the production thereof at any trial or other proceeding relative thereto, and any such action, suit, or proceeding instituted by the Warrant Agent shall be brought in its name as Warrant Agent, and any recovery of judgment shall be for the ratable benefit of the Warrant Holders as their respective rights or interests may appear.

(7) The Warrant Agent and any stockholder, director, officer or employee of the Warrant Agent may buy, sell, or deal in any of the Warrants or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as through it were not Warrant Agent under this Agreement. Nothing herein shall preclude the Warrant Agent from acting in any other capacity for the Company or for any other legal entity.

(8) The Warrant Agent shall act hereunder solely as agent for the Company, and its duties shall be determined solely by the provisions hereof and those provisions of the Act, the Securities Exchange Act of 1934, and those Rules and Regulations of the Securities and Exchange Commission applicable to the duties of the Warrant Agent hereunder.

#### SECTION 16 MERGER, CONSOLIDATION OR CHANGE OF NAME OF WARRANT AGENT.

(a) Any corporation into which the Warrant Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion, or consolidation to which the Warrant Agent shall be a party, or any corporation succeeding to the corporate trust business of the Warrant Agent, shall be the successor to the Warrant Agent hereunder without the execution or filing of any paper or any further act on the part of the parties hereto, provided that such corporation would be eligible for appointment as a successor Warrant Agent under the provisions of Section 17 of this Agreement. In case at the time such successor to the Warrant Agent shall succeed to the agency created by this Agreement, and in case at that time any of the

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Warrant Certificates shall have been countersigned but not delivered, any such successor to the Warrant Agent may adopt the countersignature of the original Warrant Agent; and in case at that time any of the Warrant Certificates shall not have been countersigned, any successor to the Warrant Agent may countersign such Warrant Certificates either in the name of the predecessor Warrant Agent or in the name of the successor Warrant Agent: and in all such cases such Warrant Certificates shall have the full force provided in the Warrant Certificates and in this Agreement.

(b) In case at any time the name of the Warrant Agent shall be changed and at such time any of the Warrant Certificates shall have been countersigned but not delivered, the Warrant Agent may adopt the countersignature under its prior name; and in case at that time any of the Warrant Certificates shall not have been countersigned, the Warrant Agent may countersign such Warrant Certificates either in its prior name or in its changed name, and in all such cases such Warrant Certificates shall have the full force provided in the Warrant Certificates and in this Agreement.



SECTION 17 CHANGE OF WARRANT AGENT. The Warrant Agent may resign and be discharged from its duties under this Agreement by giving to the Company notice in writing, and by giving notice in writing to each Warrant Holder at his address appearing in the Warrant register, specifying a date when such resignation shall take effect, which notice shall be sent at least 90 days prior to the date so specified. If the Warrant Agent shall resign or shall otherwise become incapable of acting, the Company shall appoint a successor to the Warrant Agent. If the Company shall fail to make such appointment within a period of 90 days after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Warrant Agent or by any Warrant Holder, then any Warrant Holder may apply to any court of competent jurisdiction for the appointment of a successor to the Warrant Agent. Pending appointment of a successor to the Warrant Agent, either by the Company or by such court, the duties of the Warrant Agent shall be carried out by the Company. Any successor Warrant Agent, whether appointed by the Company or by such a court, shall be a bank or trust company or transfer agent, in good standing, organized under the laws of any state of the United States of America and having at the time of its appointment as Warrant Agent a combined capital and surplus of at least \$2,000,000. After appointment, the successor Warrant Agent shall be vested with the same powers, rights, duties, and responsibilities as if it had been originally named as Warrant Agent without further act or deed, and the former Warrant Agent shall deliver and transfer to the successor Warrant Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act, or deed necessary for the purpose. Failure to give any notice provided for in this Section, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Warrant Agent or the appointment of the successor Warrant Agent, as the case may be.

SECTION 18 NOTICES. Any notice or demand authorized by this Agreement to be given or made by the Warrant Agent or by any Warrant Holder to or on the Company shall be sufficiently given or made if sent by mail, first class or registered, postage prepaid, addressed (until another address is filed in writing by the Company with the Warrant Agent) as follows:

PACIFIC SOFTWARES, INC.  
703 Rancho Conejo Boulevard  
Newbury Park, California 91320  
Attention: Chief Executive Officer

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Any notice or demand authorized by this Agreement to be given or made by any Warrant Holder or by the Company to or on the Warrant Agent shall be sufficiently given or made if sent by mail, first class or registered, postage paid, addressed (until another address is filed in writing by the Warrant Agent with the Company) as follows:

American Securities Transfer, Incorporated  
1825 Lawrence Street, Suite 444  
Denver, Colorado 80202-1817  
Attention: \_\_\_\_\_

Any distribution, notice, or demand required or authorized by this Agreement to be given or made by the Company or the Warrant Agent to or on the Warrant Holders shall be sufficiently given or made if sent by mail, first class or registered, postage prepaid, addressed to the Warrant Holders at their last known addresses as they shall appear on the registration books for the Warrant Certificates maintained by the Warrant Agent.

SECTION 19 SUPPLEMENTS AND AMENDMENTS.

(a) The Company and the Warrant Agent may from time to time supplement or amend this Agreement without the approval of any Warrant

Holders in order to cure any ambiguity or to correct or supplement any provision contained herein which may be defective or inconsistent with any other provision herein, or to make any other provisions in regard to matters or questions arising hereunder which the Company and the Warrant Agent may deem necessary or desirable and which shall not adversely affect the interests of the Warrant Holders, including (but not limited to) any extension of the Expiration Date for such period or periods as the Board of Directors of the Company may determine, and any conditional or unconditional reduction in the Exercise Price.

(b) With the consent of the Warrant Holders of at least two-thirds of all remaining outstanding Warrants, given as set forth in this subsection (b) of this Section, the Warrant Agent and the Company may make any other amendment in this Agreement; provided that no such change may shorten the time of exercise of any Warrant or increase the Exercise Price of any Warrant without the consent of all Warrant Holders. Consent of the Warrant Holders under this subsection (b) shall be evidenced by either (i) a consent in writing to the amendment, which consent need not set forth the specific form of amendment, but shall be sufficient if it agrees to the general substance thereof, and which shall be executed by the Warrant Holders and notarized or acknowledged (any consent so given in respect of a particular Warrant shall be binding upon any subsequent owner thereof), or (ii) by the affirmative vote of the requisite Warrant Holders at a meeting of Warrant Holders called by the Company or the Warrant Agent and held at such time and place as may be specified in a written notice of the meeting to be mailed to each Warrant Holder not less than 10 days nor more than 60 days prior to the date set for the meeting. The Company or the Warrant Agent may establish a record date for the determination of Warrant Holders entitled to vote at any meeting of Warrant Holders, which record date shall be not more than 60 days prior to the date of mailing notice thereof. The Company and the Warrant Agent may make reasonable regulations for the conduct of such meeting and for the appointment of a chairman and a secretary thereof and of inspectors of votes. Proxies may be used at any such meeting in the same manner as is provided in the Company's bylaws with respect to proxies for meetings of its stockholders.

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SECTION 20 SUCCESSORS. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Warrant Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

SECTION 21 TERMINATION. Subject to extensions under Section 19, this Agreement shall terminate at the close of business on the Expiration Date or such earlier date upon which all Warrants have been exercised. The provisions of Section 15 shall survive such termination.

SECTION 22 GOVERNING LAW. This Agreement and each Warrant Certificate issued hereunder shall be deemed to be a contract under the laws of the State of California and for all purposes shall be construed in accordance with the laws of said State.

SECTION 23 BENEFITS OF THIS AGREEMENT. Nothing in this Agreement shall be construed to give to any person or corporation other than the Company, the Warrant Agent, and the Warrant Holders any legal or equitable right, remedy, or claim under this Agreement, but this Agreement shall be for the sole and exclusive benefit of the Company, the Warrant Agent, and the Warrant Holders.

SECTION 24 AGREEMENT AVAILABLE TO WARRANT HOLDERS. A copy of this Agreement shall be available at all reasonable times at the office of the Warrant Agent for inspection by any Warrant Holder. As a condition of such inspection, the Warrant Agent may require any Warrant Holder to submit a Warrant

Certificate held of record for inspection.

SECTION 25 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of such counterparts shall for all purposes be deemed to be an original and all such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, all as of the day and year first above written.

PACIFIC SOFTWARES, INC.

S E A L

By

-----  
Glenn Russell  
Chairman of the Board

Attest:

-----  
: Secretary  
-----

AMERICAN SECURITIES TRANSFER,  
INCORPORATED

S E A L

By

-----  
Gregory D. Tubbs, Senior Vice President

Attest:

-----  
: Secretary  
-----

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The Warrants evidenced by this certificate were issued as part of a Unit consisting of one share of Common Stock and one Warrant. Each Warrant entitles the Warrant Holder to purchase one share of Common Stock. The Warrants may not be exercised if the shares of Common Stock which are issuable upon exercise of the Warrants have not been registered pursuant to a registration statement under the Securities Act of 1933, as amended, that is effective and current and the shares have not been qualified for sale in the state of residence of the Warrant Holder unless exemptions from such registration and qualification are available. The Warrants are subject to redemption and may not be exercised after the redemption date.

VOID AFTER \_\_\_\_\_, 2004

W \_\_\_\_\_ Warrant  
-----  
CUSIP \_\_\_\_\_

WARRANT CERTIFICATE

PACIFIC SOFTWARES, INC.

This Warrant Certificate certifies that

\_\_\_\_\_ or registered assigns (the "Warrant Holder"), is the registered owner of the above-indicated number of Warrants ("Warrants") expiring at 5:00 p.m., Los Angeles, California time, on \_\_\_\_\_ (the "Expiration Date"). Each full Warrant entitles the Warrant Holder to purchase from PACIFIC SOFTWARES, INC., a California corporation (the "Company"), on or before the Expiration Date, one fully paid and nonassessable share of Common Stock (\$0.001 par value per share) of the Company at the initial purchase price of \$7.50 per share (the "Exercise Price") through \_\_\_\_\_, in lawful money of the United States of America for each full Warrant represented hereby upon surrender of this Warrant Certificate with the exercise form hereon duly completed and executed, with payment of the Exercise Price at the office of American Securities Transfer, Incorporated (herein called the "Warrant Agent"), 1825 Lawrence Street, Suite 444, Denver, Colorado 80202-1817, Attention: \_\_\_\_\_, but only subject to the conditions set forth herein and in a Warrant Agreement, dated \_\_\_\_\_ (the "Warrant Agreement"), between the Company and the Warrant Agent. The Company may redeem the Warrants at \$0.05 per Warrant upon 20 days' prior written notice any time after a period of 20 consecutive trading days that the closing price of the Common Stock exceeds \$8.00. For these purposes, the closing price of the Common Stock will be determined by the closing bid price, as reported by NASDAQ, or if the Common Stock is listed on a national stock exchange or on the NASDAQ National Market System, the closing price will be determined by the closing sale price on the primary exchange on which the Common Stock is traded or on the NASDAQ National Market System, if such shares are not listed on a national stock exchange.

The Exercise Price, the number of shares purchasable upon exercise of each Warrant, the number of Warrants outstanding, and the Expiration Date are subject to adjustments upon the occurrence of certain events set forth in the Warrant Agreement. Reference is hereby made to the provisions on the reverse side of this Warrant Certificate and the provisions of the Warrant Agreement, all of which are hereby incorporated by reference in and made a part of this Warrant Certificate and which shall for all purposes have the same effect as though fully set forth at this place.

Upon due presentment for registration of transfer of this Warrant Certificate at the office of the Warrant Agent, a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrants, subject to any adjustments made in accordance with the provisions of the Warrant Agreement, shall be issued to the transferee in exchange for this Warrant Certificate, subject to the limitations provided in the Warrant

Agreement, upon payment of the transfer fee and any tax or other governmental charge imposed in connection with such transfer.

The holder of the Warrants evidenced by this Warrant Certificate may exercise all or any whole number of such Warrants during the exercise period and in the manner stated hereon. The Exercise Price is payable in lawful money of the United States of America by certified or cashier's check payable to the order of the Company. Upon any exercise of any Warrants evidenced by this Warrant Certificate in an amount less than the number of Warrants so evidenced, there shall be issued to the Warrant Holder a new Warrant Certificate evidencing the number of Warrants not so exercised. No adjustment shall be made for any dividends on any shares issued upon exercise of this Warrant.

No warrant may be exercised after 5:00 p.m., Los Angeles, California time, on the Expiration Date and any Warrant not exercised by such time shall become void.

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This Warrant Certificate shall not be valid unless manually countersigned by the Warrant Agent.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be signed by its Chairman of the Board or its President and by its Secretary, each by a facsimile of his signature, and has caused a facsimile of its corporate seal to be imprinted hereon.

Dated: PACIFIC SOFTWARES, INC.  
a California corporation

By: \_\_\_\_\_  
Glenn Russell, Chairman of the Board and  
Chief Executive Officer

By: \_\_\_\_\_  
\_\_\_\_\_, Secretary  
\_\_\_\_\_

Countersigned:

AMERICAN SECURITIES TRANSFER, INCORPORATED  
Warrant Agent

By: \_\_\_\_\_  
Authorized Signatory

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[REVERSE]

FORM OF WARRANT CERTIFICATE

This Warrant Certificate, when surrendered to the Warrant Agent at its principal office by the Warrant Holder, in person or by attorney duly authorized in writing, may be exchanged, in the manner and subject to the limitations provided in the Warrant Agreement, upon the payment of any tax or other governmental charge imposed in connection with such exchange, for another Warrant Certificate or Warrant Certificates of like tenor and evidencing a like number of Warrants, subject to any adjustments made in accordance with the provisions of the Warrant Agreement.

The Company and the Warrant Agent may deem and treat the registered holder hereof as the absolute owner of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone) for all purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary. No Warrant Holder, as such, shall have any rights of a holder of the Common Stock of the Company, either at law or at equity, and the rights of the Warrant Holder, as such, are limited to those rights expressly provided in the Warrant Agreement and in the Warrant Certificate.

Under the Warrant Agreement, the Exercise Price is subject to adjustment if the Company shall effect any stock split or stock combination with respect to the Common Stock. Any such adjustment of the Exercise Price will also result in an adjustment of the number of shares of Common Stock purchasable upon exercise of a Warrant or, if the Company should elect, an adjustment of each outstanding Warrant into a different number of Warrants.

The Company shall not be required to issue fractions of Warrants upon any such adjustment or to issue fractions of shares upon the exercise of any Warrants after any such adjustment, but the Company, in lieu of issuing any such fractional interest, shall pay an amount in cash equal to such fraction times the current market value of one Warrant or one share of Common Stock, as the case may be, determined in accordance with the Warrant Agreement.

The Warrant Agreement is subject to amendment upon the approval of holders of at least two-thirds of the outstanding Warrants as a group, except that no such approval is required for the reduction of the Exercise Price or extension of the Expiration Date. No amendment shall accelerate the Expiration Date or increase the Exercise Price without the approval of all the holders of all outstanding Warrants. A copy of the Warrant Agreement will be available at all reasonable times at the office of the Warrant Agent for inspection by any Warrant Holder. As a condition of such inspection, the Warrant Agent may require any Warrant Holder to submit his Warrant Certificate for inspection.

IMPORTANT: The Warrants represented by this Certificate may not be exercised by a Warrant Holder unless at the time of exercise the underlying shares of Common Stock are qualified for sale, by registration or otherwise, in the state where the Warrant Holder resides or unless the issuance of the shares of Common Stock would be exempt under the applicable state securities laws. Further, a registration statement under the Securities Act of 1933, as amended, covering the issuance of shares of Common Stock upon the exercise of this Warrant must be in effect and current at the time of exercise unless the issuance of shares of Common Stock upon any exercise is exempt from the registration requirements of the Securities Act of 1933. Unless such registration statement is in effect and current at the time of exercise, or unless such an exemption is available, the Company may decline to permit the exercise of this Warrant.

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(Form of Assignment to be Executed if the Warrant Holder Desires to Transfer Warrants Evidenced Hereby)

FOR VALUE RECEIVED, \_\_\_\_\_ hereby sells, assigns, and transfers to \_\_\_\_\_ (Please print name and address including zip code.)

Please insert social security or other identifying number.

\_\_\_\_\_ Warrants represented by this Warrant Certificate and does hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney, to transfer said Warrants on the books of the Warrant Agent with full power of substitution in the premises.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Signature

(Signature must confirm in all respects to name of holder as specified on the face of this Warrant Certificate)

Signature Guaranteed:

\_\_\_\_\_

EXERCISE

(Form of Exercise to be Executed if the Warrant Holder Desires to Exercise Warrants Evidenced Hereby)

WARRANT AGENT:

The undersigned hereby irrevocably elects to exercise \_\_\_\_\_ Warrants represented by this Warrant Certificate and to purchase thereunder the full number of shares of Common Stock issuable upon exercise of such Warrants. Enclosed is \$\_\_\_\_\_ as the purchase price therefor. The undersigned requests that certificates for such shares of Common Stock be issued in the name of, and cash for any fractional Shares be paid to,

\_\_\_\_\_  
(Please print name and address including zip code).

Please insert social security or other identifying number\_\_\_\_\_

and, if said number of Warrants not be all the Warrants evidenced by this Warrant Certificate, that a new Warrant Certificate for the unexercised number of Warrants evidenced by this Warrant Certificate be delivered to the Warrant

Holder except as such unexercised number of Warrants may be assigned under the form of assignment appearing hereon.

Dated: \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_  
Signature

(Signature must confirm in all respects to name of the Warrant Holder as specified on the face of this Warrant Certificate)

Signature Guaranteed:

\_\_\_\_\_

NOTICE: Signature must be guaranteed by a member of the Medallion Signature Guaranty Program.





UNIF GIFT MIN ACT - Custodian  
-----  
(Cust) (Minor)  
under Uniform Gifts to Minors  
Act  
-----  
(State)

Additional abbreviations may also be used though not in the above list.

For Value Received, \_\_\_\_\_ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER  
IDENTIFYING NUMBER OF ASSIGNEE

-----  
-----  
(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)  
-----  
-----

-----  
----- Shares  
-----

of the Common Stock represented by the within Certificate, and do hereby  
irrevocably constitute and appoint \_\_\_\_\_ attorney-in-fact

to transfer the said stock on the books of the within-named Corporation, with  
full power of substitution in the premises.

Dated \_\_\_\_\_

-----  
-----

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS  
WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT  
ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER.

Signature(s) Guaranteed:  
-----

The signature(s) must be guaranteed by an eligible guarantor institution  
(Banks, Stockbrokers, Savings and Loan Associations and Credit Unions with  
membership in an approved signature guarantee Medallion Program), pursuant to  
S.E.C. Rule 17Ad-15.

## LOCK-UP AGREEMENT

March \_\_, 1999

Spencer Edwards, Inc.  
6120 Greenwood Plaza Boulevard  
Englewood, Colorado 80111

Ladies and Gentlemen:

The undersigned understands that Spencer Edwards, Inc. (the "Representative") proposes to enter into an Underwriting Agreement with Pacific Softworks, Inc., a California corporation (the "Company"), providing for the public offering of shares of Common Stock of the Company (the "Securities") pursuant to a Registration Statement on Form SB-2 (the "Registration Statement") filed with the Securities and Exchange Commission.

In consideration of the agreement by the Representative to offer and sell the Securities pursuant to the public offering, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned agrees that he, she or it will not, directly or indirectly, for a period of 13 months following the date of the Prospectus relating to the public offering of the Securities, sell, offer to sell, contract to sell, margin, grant any option for the sale of, grant any security interest in, pledge, hypothecate, or otherwise sell or dispose of any of the Common Stock, or any options or warrants to purchase any Common Stock, or any securities convertible into or exchangeable for Common Stock, or any interest in such securities or rights, owned directly by the undersigned or with respect to which the undersigned has the power of disposition, in any such case whether now owned or hereafter acquired at any time prior to the Effective Date of the Registration Statement, other than (i) as a bona fide gift or gifts, provided that the undersigned provides prior written notice of such gift or gifts to the Representative and the donee or donees thereof agree to be bound by the restrictions set forth herein or (ii) with the prior written consent of Spencer Edwards, Inc. The undersigned also agrees and consents to the entry of stop transfer instructions with the Company's transfer agent and registrar against the transfer of any of the Common Stock held by the undersigned except in compliance with the foregoing restrictions. Spencer Edwards, Inc. may in its sole discretion without notice, release all or any portion of the securities subject to this Lock-Up Agreement or any similar agreement executed by any other security holder, and if Spencer Edwards, Inc. releases any securities of any other security holder, securities of the undersigned shall not be entitled to release from this Lock-Up Agreement.

In the event that the undersigned owns no Common Stock of the Company at the date hereof or prior to the Effective Date, but has the right to acquire Common Stock of the Company pursuant to options or warrants, and if the undersigned exercises such options or warrants prior to the expiration of the 13 month period commencing on the Effective Date, he, she or it agrees that the Common Stock purchased on such exercise of options or warrants will be subject to the terms of this Lock-Up Agreement for the remaining portion of such 13 month period which commenced on the Effective Date. In addition, the undersigned agrees that he, she or it will not sell, pledge, hypothecate or otherwise dispose of such Common Stock pursuant to the exemption afforded by Rule 701 under the Securities Act of 1933, as amended, during such 13 month period without the prior written consent of the Representative.

The undersigned further agrees that he, she or it shall not enter into any swap or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of any Common Stock owned by the undersigned at the date hereof, or that the undersigned obtains ownership of during the 13 month period commencing on the Effective Date (regardless of whether any of the transactions are to be settled by the delivery of Common Stock, other securities, cash or otherwise), for a period of 13 months from the Effective Date without the prior written consent of Spencer Edwards, Inc.

The undersigned further agrees that all of the rights, authority and preemptive provisions granted to the Representative pursuant to this Lock-Up Agreement may be transferred by the Representative to any other NASD member firm that participates in the proposed public offering of the Company's securities.

The undersigned understands that the Company and the Representative will undertake the public offering in reliance upon this Lock-Up Agreement.

Very truly yours,

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

THE REPRESENTATIVE'S OPTIONS REPRESENTED BY THIS CERTIFICATE AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF (THE "SECURITIES") HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, PURSUANT TO A REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AND WITH THE SECURITIES ADMINISTRATORS OF CERTAIN STATES UNDER THE SECURITIES ("BLUE SKY") LAWS OF SUCH STATES. HOWEVER, NEITHER THE REPRESENTATIVE'S OPTIONS NOR SUCH SECURITIES MAY BE SOLD, TRANSFERRED, PLEDGED, OR HYPOTHECATED EXCEPT PURSUANT TO (I) A POST-EFFECTIVE AMENDMENT TO SUCH REGISTRATION STATEMENT, (II) A SEPARATE REGISTRATION STATEMENT UNDER SUCH ACT, OR (III) AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND UNDER THE APPLICABLE BLUE SKY LAWS.

THIS REPRESENTATIVE'S OPTION MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED EXCEPT AS OTHERWISE PROVIDED HEREIN AND THE HOLDER OF THIS REPRESENTATIVE'S OPTION, BY ITS ACCEPTANCE HEREOF, AGREES THAT IT WILL NOT SELL, TRANSFER OR ASSIGN THIS REPRESENTATIVE'S OPTION EXCEPT AS OTHERWISE PROVIDED HEREIN.

PACIFIC SOFTWARES, INC.

Representative's Option for the Purchase of Units

No. UWW-001      80,000 Representative's Options

THIS CERTIFIES that, for receipt in hand of \$10 and other value received, SPENCER EDWARDS, INC. (the "Holder"), is entitled to subscribe for and purchase from PACIFIC SOFTWARES, INC., a California corporation (the "Company"), upon the terms and conditions set forth herein, at any time, or from time to time, after \_\_\_\_\_, 1999 and before 5:00 p.m. Mountain time on \_\_\_\_\_, 2004 (the "Exercise Period"), 80,000 Units (a "Unit" or the "Units") of the Company at an exercise price of \$\_\_\_\_\_ per Representative's Option or 120% of the offering price (the "Purchase Price") of Units sold by the Company in the Public Offering (hereinafter defined). Each Unit shall be identical to the Units sold in the public offering to be underwritten by the Holder (the "Public Offering") and shall consist of one share of Common Stock ("Common Stock") and one warrant ("Warrant"). Each Warrant shall be exercisable to purchase one share of Common Stock (a "Warrant Share") at a price of 7.50 (the "Exercise Price") until \_\_\_\_\_, 2001, which is two years from the date on which the Company's Registration Statement on Form SB-2, Registration No. 333-\_\_\_\_\_ (the "Registration Statement") was declared effective by the Securities and Exchange Commission (the "Effective Date"). The terms and provisions of the Warrants shall be governed by a warrant agreement between the Company and its transfer agent (the "Warrant Agreement").

The term the "Holder" as used herein shall include any transferee to whom this Representative's Option has been transferred in accordance with the above. As used herein the term "this Representative's Option" shall mean and include this Representative's Option and any Representative's Option or Representative's Options hereafter issued as a consequence of the exercise or transfer of this Representative's Option in whole or in part, and the term "Common

Stock" shall mean and include the Company's Common Stock with ordinary voting power, which class at the date hereof is publicly traded.

1. This Representative's Option may not be sold, transferred, assigned, pledged or hypothecated until \_\_\_\_\_, 2000 (12 months from the Effective Date of the Registration Statement) except that it may be transferred, in whole or in part, (i) to one or more officers, employees or partners of the Holder (or the officers, employees or partners of any such partner); (ii) to a member of the underwriting syndicate and/or its officers, employees or partners; or (iii) by operation of law. After \_\_\_\_, 2000, this Representative's Option may be sold, transferred, assigned or hypothecated in accordance with applicable law.

a. This Representative's Option may be exercised during the Exercise Period as to the whole or any lesser number of Units, by the surrender of this Representative's Option (with the election attached hereto duly executed) to the Company at its office at 703 Rancho Conejo Boulevard, Newbury Park, California, or such other place as is designated in writing by the Company, together with a certified or bank cashier's check payable to the order of the Company in an amount equal to the Purchase Price.

b. Upon written request of the Holder, and in lieu of payment for the Units by check in accordance with paragraph 2(a) hereof, the Holder may exercise this Representative's Option (or any portion thereof) for and receive the number of Units equal to a fraction, the numerator of which equals: (i) the amount by which the combined average closing bid price of the Common Stock and the Warrants (or the closing bid price of the Units if quoted as such) for the ten (10) trading days preceding the date of exercise (the "Current Market Price" as further defined below) exceeds the Purchase Price per Unit multiplied by, (ii) the number of Units to be purchased; the denominator of which equals the Current Market Price. Following exercise of this Representative's Option, and at anytime thereafter through and until expiration of the Warrants, the Holder may exercise the Warrants underlying this Representative's Option by tendering a notice of exercise, together with a certified or bank cashier's check payable to the order of the Company, in an amount equal to the Exercise Price multiplied by the number of Warrant Shares as to which such exercise relates.

c. Upon written request of the Holder, and in lieu of payment of the Exercise Price of the Warrants by check in accordance with paragraph 2(b) hereof, the Holder may exercise the Warrants (or any portion thereof) for and receive the number of Warrants equal to a fraction, the numerator of which equals (i) the amount by which the Current Market Price of the Common Stock for the ten (10) trading days preceding the date of exercise exceeds the Exercise Price per Warrant, multiplied by (ii) the number of Warrant Shares to be purchased; the denominator of which equals the Current Market Price.

d. For the purposes of any computation under this Representative's Option, the "Current Market Price" at any date shall be the closing price of the Common Stock and/or Warrants, as the case may be, on the business day next preceding the event requiring an adjustment or calculation hereunder. If the principal trading market for such securities is an exchange, the closing price shall be the reported last sale price on such exchange on such day provided if trading of such Common Stock and/or Warrants, as the case may be, is listed on any consolidated tape, the closing price shall be the reported last sale price set forth on such consolidated tape. If the principal trading

market for such securities is the over-the-counter market, the closing price shall be the last reported sale price on such date as set forth by The Nasdaq Stock Market, Inc., or, if the security is not quoted on such market, the average closing bid and asked prices as set forth in the National Quotation Bureau pink sheets or the Electronic Bulletin Board System for such day. Notwithstanding the foregoing, if there is no reported last sale price or average closing bid and asked prices, as the case may be, on a date prior to the event requiring an adjustment or calculation hereunder, then the Current Market Price shall be determined as of the latest date prior to such day for which such last sale price or average closing bid and asked price is available.

2. Upon each exercise of this Representative's Option, the Holder shall be deemed to be the holder of record of the Common Stock and Warrants comprising the Units issuable upon such exercise, notwithstanding that the transfer books of the Company shall then be closed or certificates representing such Warrants shall not then have been actually delivered to the Holder. As soon as practicable after each such exercise of this Representative's Option, the Company shall issue and deliver to the Holder a certificate or certificates for the Common Stock and Warrants issuable upon such exercise, registered in the name of the Holder or its designee. If this Representative's Option should be exercised in part only, the Company shall, upon surrender of this Representative's Option for cancellation, execute and deliver a new Representative's Option evidencing the right of the Holder to purchase the balance of the Units (or portions thereof) subject to purchase hereunder.

3. Any options issued upon the transfer or exercise in part of this Representative's Option (together with this Representative's Option, the "Representative's Options") shall be numbered and shall be registered in a Representative's Option Register as they are issued. The Company shall be entitled to treat the registered holder of any Representative's Option on the Representative's Option Register as the owner in fact thereof for all purposes and shall not be bound to recognize any equitable or other claim to or interest in such Representative's Option on the part of any other person. The Representative's Options shall be transferable only on the books of the Company upon delivery thereof duly endorsed by the Holder or by his duly authorized attorney or representative, or accompanied by proper evidence of succession, assignment or authority to transfer. In all cases of transfer by an attorney, executor, administrator, guardian or other legal representative, duly

authenticated evidence of his or its authority shall be produced. Upon any registration of transfer, the Company shall deliver a new Representative's Option or Representative's Options to the person entitled thereto. The Representative's Options may be exchanged, at the option of the Holder thereof, for another Representative's Option, or other Representative's Options of different denominations, of like tenor and representing in the aggregate the right to purchase a like number of Units (or portions thereof) upon surrender to the Company or its duly authorized agent. Notwithstanding the foregoing, the Company shall have no obligation to cause Representative's Options to be transferred on its books to any person if, in the opinion of counsel to the Company, such transfer does not comply with the provisions of the Securities Act of 1933, as amended (the "Act"), or applicable state blue sky laws and the rules and regulations thereunder.

4. The Company shall at all times reserve and keep available out of its authorized and unissued Common Stock, solely for the purpose of providing for the exercise of this Representative's Option and the Common Stock and Warrants comprising the Units purchasable upon exercise of this Representative's Option, such number of shares of Common Stock as shall, from time to time, be sufficient therefor. The Company covenants that all shares of Common Stock issuable upon

exercise of this Representative's Option and the Warrants underlying this Representative's Option shall be validly issued, fully paid, nonassessable, and free of preemptive rights.

a. In case the Company shall sell or issue hereafter either its Common Stock or any rights, options, warrants or obligations or securities containing the right to subscribe for or purchase any Common Stock ("Options") or exchangeable for or convertible into Common Stock ("Convertible Securities"), at a price per share, as determined pursuant to paragraph (b) of this section, less than the Purchase Price then in effect on the date of such sale or issuance, then the number of Units thereafter purchasable upon exercise of this Representative's Option shall be determined by multiplying the number of Units theretofore purchasable upon exercise of this Representative's Option by a fraction, (i) the numerator of which shall be the number of shares of Common Stock outstanding on the date of issuance of such Common Stock, Options or Convertible Securities and (ii) the denominator of which shall be the number of shares of Common Stock outstanding on the date prior to the date of issuance of such Common Stock or Convertible Securities plus the number of shares of Common Stock which the aggregate consideration received by the Company upon such issuance would purchase on such date at the Purchase Price then in effect.

b. The following provisions, in addition to other provisions of this section shall be applicable in determining any adjustment under (a) above:

i. In case of the issuance or sale of Common Stock part or all of which shall be for cash, the cash consideration received by the Company therefor shall be deemed to be the amount of cash proceeds of such sale of shares less any compensation

paid or discount allowed in the sale, underwriting or purchase thereof by underwriters or dealers or others performing similar services or any expenses incurred in connection therewith, plus the amounts, if any, determined as provided in (b) (ii) below.

ii. In case of the issuance or sale of Common Stock wholly or partly for a consideration other than cash, the amount of the consideration other than cash received by the Company for such Common Stock shall be deemed to be the fair value of such consideration as determined by a resolution adopted by the Board of Directors of the Company acting in good faith, less any compensation paid or incurred by the Company for any underwriting of, or otherwise in connection with such issuance, provided, however, the amount of such consideration other than cash shall in no event exceed the cost thereof as recorded on the books of the Company. In case of the issuance or sale of Common Stock (otherwise than upon conversion or exchange) together with other stock or securities or other assets of the Company for a consideration which is received for both such Common Stock and other securities or assets, the Board of Directors of the Company acting in good faith shall determine what part of the consideration so received is to be deemed to be the consideration for the issuance of such Common Stock, less any compensation paid or incurred by the Company for any underwriting of, or otherwise in connection with such issuance, provided, however, the amount of such consideration other than cash shall in no event exceed the cost thereof as recorded on



the books of the Company. In case at any time the Company shall declare a dividend or make any other distribution upon any stock of the Company payable in Common Stock then such Common Stock issuable in payment of such dividend or distribution shall be deemed to have been issued or sold without consideration.

iii. The price per share of any Common Stock sold or issued by the Company (other than pursuant to Options or Convertible Securities) shall be equal to a price calculated by dividing (A) the amount of the consideration received by the Company, as determined pursuant to (b) (i) and (b) (ii) above, upon such sale or issuance by (B) the number of shares of Common Stock sold or issued.

iv. In case the Company shall at any time after the date hereof issue any Options or Convertible Securities, the following provisions shall apply in making any adjustment:

(A) The price per share for which Common Stock is issuable upon the exercise of the Options or upon conversion or exchange of the Convertible Securities shall be determined by (1) dividing the total amount,

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if any, received or receivable by the Company as consideration for the issuance of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon exercise of such Options or the conversion or exchange of such Convertible Securities, by (2) the aggregate maximum number of shares of Common Stock issuable upon the exercise of such Options or upon the conversion or exchange of such Convertible Securities.

(B) In determining the price per share for which Common Stock is issuable upon exercise of the Options or conversion or exchange of the Convertible Securities as set forth above and in computing any adjustment pursuant to (a) above: the aggregate maximum number of shares of Common Stock issuable upon the exercise of such Convertible Securities shall be considered to be outstanding at the time such Options or Convertible Securities were issued and to have been issued for such price per share as determined pursuant to (b) (iv) (A), and the consideration for the issuance of such Options or Convertible Securities and the amount of additional consideration payable to the Company upon exercise of such Options or upon the conversion or exchange of such Convertible Securities shall be determined in the same manner as the consideration received upon the issuance or sale of Common Stock as provided in paragraphs (b) (i) and (b) (ii).

(C) On the expiration of such Options or the termination of any right to convert or exchange any Convertible Securities, the number of Units subject to this Representative's Option shall forthwith be readjusted to such number of Units as would have been obtained had the adjustments made upon the issuance of such Options or Convertible Securities been made upon the basis of the delivery of only the number of shares

of Common Stock actually delivered upon the exercise of such Options or upon conversion or exchange of such Convertible Securities.

(D) If the minimum purchase price per share of Common Stock provided for in any Option, or the rate at which any Convertible Securities are convertible into or exchangeable for Common Stock, shall change or a different purchase price or rate shall become effective at any time or from time to time (other than pursuant to any anti-dilution provisions of such Options or Convertible Securities) then upon such change becoming effective, the number of Units subject to this Representative's Option shall

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forthwith be increased or decreased to such number of Units as would have been obtained had the adjustments made upon the granting or issuance of such Options or Convertible Securities been made upon the basis of (1) the issuance of the number of shares of Common Stock theretofore actually delivered upon the exercise of such Options or upon the conversion or exchange of such Convertible Securities, and the total consideration received therefor, and (2) the granting or issuance at the time of such change of any such Options or Convertible Securities then still outstanding for the consideration, if any, received by the Company therefor and to be received on the basis of such changed price or rate of exchange or conversion.

i. Except as otherwise specifically provided herein, the date of issuance or sale of Common Stock shall be deemed to be the date the Company is legally obligated to issue such Common Stock or the date the Company is legally obligated to issue any Option or Convertible Security. If the Company shall take a record date for the purpose of determining holders of Common Stock entitled to (A) receive a dividend or other distribution payable in Common Stock or in Options or Convertible Securities or (B) subscribe for or purchase Common Stock, Options or Convertible Securities, such record date shall be deemed to be the date of issue or sale of the Common Stock, Options or Convertible Securities.

ii. The number of shares of Common Stock outstanding at any given time shall not include treasury shares but the disposition of any such treasury shares shall be considered an issue or sale of Common Stock for the purposes of this section.

iii. Anything hereinabove to the contrary notwithstanding, no adjustment shall be made pursuant to (a) above to the Purchase Price or to the number of Units purchasable upon:

(A) The issuance or sale by the Company of any Units, Common Stock or Warrants pursuant to these Representative's Options, the issuance or sale of Units, Common Stock or Warrants on exercise of a separate Representative's Option to purchase Warrants, any securities offered in a public offering underwritten by Spencer Edwards, Inc., any shares, Options or Convertible Securities issued and outstanding at the

effective date of such public offering, any shares issuable pursuant to the Company's stock option plan currently in effect, provided the total number of shares issuable pursuant to such plan does not exceed 320,000 shares.

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(B) The issuance or sale by the Company of any Common Stock pursuant to any Options or Convertible Securities issued and outstanding prior to the date of Effective Date of the Registration Statement.

(C) The issuance or sale of Common Stock pursuant to the exercise of Options or conversion or exchange of Convertible Securities hereinafter issued for which an adjustment has been made (or was not required to be made) pursuant to the provisions hereof.

(D) The increase in the number of shares of Common Stock subject to any Option or Convertible Security referred to in subsections (A), (B) or (C) hereof pursuant to the provisions of such Option or Convertible Securities designed to protect against dilution.

c. If the Company shall at any time subdivide its outstanding Common Stock by recapitalization, reclassification or split-up thereof, the number of Units subject to this Representative's Option immediately prior to such subdivision shall be proportionately increased, and if the Company shall at any time combine the outstanding Common Stock by recapitalization, reclassification or combination thereof, the number of Units subject to this Representative's Option immediately prior to such combination shall be proportionately decreased. Any corresponding adjustment to the Purchase Price shall become effective at the close of business on the record date for such subdivision or combination.

d. If the Company after the date hereof shall distribute to the holders of its Common Stock any securities or other assets (other than a distribution of Common Stock or a cash distribution made as a dividend payable out of earnings or out of any earned surplus legally available for dividends under the laws of the jurisdiction of incorporation of the Company), the Board of Directors shall be required to make such equitable adjustment in the Purchase Price in effect immediately prior to the record date of such distribution as may be necessary to preserve the rights substantially proportionate to those enjoyed hereunder by the Holder immediately prior to such distribution. Any such adjustment made in good faith by the Board of Directors shall be final and binding upon the Holder and shall become effective as of the record date for such distribution.

e. No adjustment in the number of Units subject to this Representative's Option shall be required unless such adjustment would require an increase or decrease in such number of Units of at least 1% of the then adjusted number of Units issuable upon exercise of this Representative's Option, provided, however, that any adjustments which by reason of the foregoing are not required at the time to be made shall be carried forward and taken into account and included in determining the amount of any subsequent adjustment;

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and provided further, however, that in case the Company shall at any time subdivide or combine the outstanding Common Stock or issue any additional Common Stock as a dividend, said percentage shall forthwith be proportionately increased in the case of a combination or decreased in the case of a subdivision or dividend of Common Stock so as to appropriately reflect the same. If the Company shall make a record of the holders of its Common Stock for the purpose of entitling them to receive any dividend or distribution and legally abandon its plan to pay or deliver such dividend or distribution then no adjustment in the number of Units subject to this Representative's Option shall be required by reason of the making of such record.

f. Whenever the number of Units purchasable upon the exercise of this Representative's Option is adjusted as provided herein, the Purchase Price shall be adjusted (to the nearest one tenth of a cent) by respectively multiplying such Purchase Price immediately prior to such adjustment by a fraction, the numerator of which shall be the number of Units purchasable upon the exercise of this Representative's Option immediately prior to such adjustment, and the denominator of which shall be the number of Units purchasable immediately thereafter.

g. In case of any reclassification of the outstanding Common Stock (other than a change covered by (c) hereof or which solely affects the par value of such Common Stock) or in the case of any merger or consolidation of the Company with or into another corporation (other than a consolidation or merger in which the Company is the continuing corporation and which does not result in any reclassification or capital reorganization of the outstanding Common Stock), or in the case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety in connection with which the Company is dissolved, the Holder of this Representative's Option shall have the right thereafter (until the expiration of the right of exercise of this Representative's Option) to receive upon the exercise hereof, for the same aggregate Purchase Price payable hereunder immediately prior to such event, the kind and amount of shares of stock or other securities or property receivable upon such reclassification, capital reorganization, merger or consolidation, or upon the dissolution following any sale or other transfer, by a holder of the number of Units obtainable upon the exercise of this Representative's Option immediately prior to such event; and if any reclassification also results in a change in Common Stock covered by (c) above, then such adjustment shall be made pursuant to both this paragraph (g) and paragraph (c). The provisions of this paragraph (g) shall similarly apply to successive re-classifications, or capital reorganizations, mergers or consolidations, sales or other transfers.

If the Company after the date hereof shall issue or agree to issue Common Stock, Options or Convertible Securities, other than as described herein, and such issuance or agreement would in the opinion of the Board of Directors of the Company materially affect the rights of the Holders of the Representative's Options, the Purchase Price and the number of Units purchasable upon exercise of the Representative's Options shall be adjusted in such matter, if any, and at such time as the Board of Directors of the Company, in good faith, may determine to be equitable in the circumstances. The minutes or unanimous consent approving such action shall set forth the Board of Director's determination as to whether an adjustment is warranted and the manner of

such adjustment. In the absence of such determination, any Holder may request in writing that the Board of Directors make such determination. Any such determination made in good faith by the Board of Directors shall be final and binding upon the Holders. If the Board fails, however, to make such determination within sixty (60) days after such request, such failure shall be deemed a determination that an adjustment is required.

h. i. Upon occurrence of each event requiring an adjustment of the Purchase Price and of the number of Units purchasable upon exercise of this Representative's Option in accordance with, and as required by, the terms hereof, the Company shall forthwith employ a firm of certified public accountants (who may be the regular accountants for the Company) who shall compute the adjusted Purchase Price and the adjusted number of Units purchasable at such adjusted Purchase Price by reason of such event in accordance herewith. The Company shall give to each Holder of the Representative's Options a copy of such computation which shall be conclusive and shall be binding upon such Holders unless contested by Holders by written notice to the Company within thirty (30) days after receipt thereof.

ii. In case the Company after the date hereof shall propose (A) to pay any dividend payable in stock to the holders of its Common Stock or to make any other distribution (other than cash dividends) to the holders of its Common Stock or to grant rights to subscribe to or purchase any additional shares of any class or any other rights or options, (B) to effect any reclassification involving merely the subdivision or combination of outstanding Common Stock, or (C) any capital reorganization or any consolidation or merger, or any sale, transfer or other disposition of its property, assets and business substantially as an entirety, or the liquidation, dissolution or winding up of the Company, then in each such case, the

Company shall obtain the computation described above and if an adjustment to the Purchase Price is required, the Company shall notify the Holders of the Representative's Options of such proposed action, which shall specify the record date for any such action or if no record date is established with respect thereto, the date on which such action shall occur or commence, or the date of participation therein by the holders of Common Stock if any such date is to be fixed, and shall also set forth such facts with respect thereto as shall be reasonably necessary to indicate the effect of such action on the Purchase Price and the number, or kind, or class of shares or other securities or property obtainable upon exercise of this Representative's Option after giving effect to any adjustment which will be required as a result of such action. Such notice shall be given at least twenty (20) days prior to the record date for determining holders of the Common Stock for purposes of any such action, and in the case of any action for which a record date is not established then such notice shall be mailed at least twenty (20) days prior to the taking of such proposed action.

iii. Failure to file any certificate or notice

or to give any notice, or any defect in any certificate or notice, shall not effect the legality or validity of the adjustment in the Purchase Price or in the number, or kind, or class of shares or other securities or property obtainable upon exercise of the Representative's Options or of any transaction giving rise thereto.

i. The Company shall not be required to issue fractional Units upon any exercise of the Representative's Options. As to any final fraction of a Unit which the Holder of a Representative's Option would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to the same fraction of the combined market price of such share of Common Stock and Warrant on the business day preceding the day of exercise. The Holder of a Representative's Option, by his acceptance of a Representative's Option, expressly waives any right to receive any fractional Units.

j. Regardless of any adjustments pursuant to this section in the Purchase Price or in the number, or kind, or class of shares or other securities or other property obtainable upon exercise of a Representative's Option, a Representative's Option may continue to express the Purchase Price and the number of Units obtainable upon exercise at the same price and number of Units as are stated herein.

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k. The number of Units, the Purchase Price and all other terms and provisions of the Company's agreement with the Holder of this Representative's Option shall be determined exclusively pursuant to the provisions hereof.

l. The above provisions of this section 6 shall similarly apply to successive transactions which require adjustments.

m. Notwithstanding any other language to the contrary herein, (i) the anti-dilution terms of this Representative's Option will not be enforced so as to provide the Holder the right to receive, or for the accrual of, cash dividends prior to the exercise of this Representative's Option, and (ii) the anti-dilution terms of this Representative's Option will not be enforced in such a manner as to provide the Holder with disproportionate rights, privileges and economic benefits not provided to purchasers of the Units in the Public Offering.

7. The rights and privileges of the Warrants issuable on exercise of this Representative's Option shall be as provided in the warrant certificate (the "Warrant Certificate") to be delivered to the Holder on exercise of this Representative's Option. All anti-dilution and other rights shall be as provided for in the Warrant Certificate and as set forth in the warrant agreement by and between the Company and the Warrant Agent for the Company (the "Warrant Agreement"). The provisions of the Warrant Agreement relating to anti-dilution rights and any other rights and privileges granted to holders of publicly traded Warrants are incorporated by reference herein as if more fully set forth herein. Notwithstanding any other language to the contrary herein or in the Warrant Agreement by and between the Company and the Warrant Agent, in the event, prior to the exercise of this Warrant, Holders of publicly-traded Warrants shall be entitled to the benefit of any anti-dilution provisions of the Warrant Agreement or the Warrant Certificate then, in such event, the Warrants issuable upon exercise of this Representative's Option shall be adjusted in accordance with the provisions of the anti-dilution provisions of the Warrant Certificate and the Warrant Agreement in a manner identical to the adjustments made pursuant to

the anti-dilution provisions and other rights and privileges applicable to publicly-traded warrants. Any such adjustment may be made at or immediately prior to the date of exercise hereof. Notwithstanding any other language to the contrary herein, (i) the anti-dilution terms of the Warrants underlying this Representative's Option will not be enforced so as to provide the Holder the right to receive, or for the accrual of, cash dividends prior to the exercise of such Warrants, and (ii) the anti-dilution terms of the Warrants underlying this Representative's Option will not be enforced in such a manner as to provide the Holder with disproportionate rights, privileges and economic benefits not provided to purchasers of Warrants in the Public Offering.

8. The issuance of any Units or other securities upon the exercise of this Representative's Option or any Warrant Shares upon the exercise of the Warrants, and the delivery

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of certificates or other instruments representing such securities, or other securities, shall be made without charge to the Holder for any tax or other charge in respect of such issuance. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of any certificate in a name other than that of the Holder and the Company shall not be required to issue or deliver any such certificate unless and until the person or persons requesting the issue thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

9. a. If, at any time after \_\_\_\_\_, 1999 (the Effective Date of the Registration Statement), and ending \_\_\_\_\_, 2006 (seven years after the Effective Date of the Registration Statement), the Company shall file a registration statement (other than on Form S-4, Form S-8, or any successor form) with the Securities and Exchange Commission (the "Commission") while Units are available for purchase upon exercise of this Representative's Option or while any Common Stock, Warrants or Units (collectively, the "Representative's Securities") are outstanding, the Company shall, on two occasions only, give the Holder and all the then holders of such Representative's Options and Representative's Securities at least 30 days prior written notice of the filing of such registration statement. If requested by the Holder or by any such holder in writing within 20 days after receipt of any such notice, the Company shall, at the Company's sole expense (other than the fees and disbursements of counsel for the Holder or such holder and the underwriting discounts and non-accountable expenses, if any, payable in respect of the securities sold by the Holder or any such holder), register or qualify the Common Stock included in the Representative's Securities and underlying the Warrants that are included in the Representative's Securities of the Holder or any such holders who shall have made such request concurrently with the registration of such other securities, all to the extent requisite to permit the public offering and sale of such securities, and will use its best efforts through its officers, directors, auditors and counsel to cause such registration statement to become effective as promptly as practicable. The Common Stock to be registered is hereinafter referred to as "Registrable Securities." Notwithstanding the foregoing, if the managing underwriter of any such offering shall advise the Company in writing that, in its opinion, the distribution of all or a portion of the Registrable Securities requested to be included in the registration concurrently with the securities being registered by the Company would materially adversely affect the distribution of such securities by the Company for its own account, then the Holder or any such holder who shall have requested registration of his or its Registrable Securities shall delay the offering and sale of such Registrable Securities (or the portions thereof so designated by such managing underwriter) for such period, not

to exceed 90 days, as the managing underwriter shall request, provided that no such delay shall be required as to any

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Registrable Securities if any securities of the Company are included in such registration statement for the account of any person other than the Company and the Holder unless the securities included in such registration statement for such other person shall have been reduced pro rata to the reduction of the Registrable Securities which were requested to be included in such registration.

b. If at any time after \_\_\_\_\_, 1999 (the Effective Date of the Registration Statement), and before \_\_\_\_\_, 2004 (five years after the Effective Date of the Registration Statement), the Company shall receive a written request from holders of Representative's Securities who, in the aggregate, own (or upon exercise of all Representative's Options will own) a majority of the total number of Units issuable upon exercise of the Representative's Options, the Company shall, as promptly as practicable, prepare and file with the Commission a registration statement sufficient to permit the public offering and sale of the Registrable Securities, and will use its best efforts through its officers, directors, auditors and counsel to cause such registration statement to become effective as promptly as practicable; provided, however, that the Company shall only be obligated to file and obtain effectiveness of one such registration statement for which all expenses incurred in connection with such registration (other than the fees and disbursements of counsel for the Holder or such holders and underwriting discounts and non-accountable expenses, if any, payable in respect of the Registrable Securities sold by the Holder or any such holder) shall be borne by the Company. In addition to the one demand registration provided for herein above, the holders of the Registrable Securities who, in the aggregate, own (or upon exercise of all Representative's Options will own) a majority of the total number of Units issued or issuable upon exercise of the Representative's Options may request that the Company prepare and file a registration statement to permit the public offering and sale of the Registrable Securities on two additional occasions only, but the costs of preparation and filing of such additional registration statements shall be at the then holders' cost and expense unless the Company elects to register additional shares of Common Stock, in which case the cost and expense of such registration statements will be prorated between the Company and the holders of the Registrable Securities according to the aggregate sales price of the securities being issued.

c. In the event of a registration pursuant to the provisions of this paragraph 9, the Company shall use its best efforts to cause the Registrable Securities so registered to be registered or qualified for sale under the securities or blue sky laws of such jurisdictions as the Holder or such holders may reasonably request; provided, however, that the Company shall not be required to qualify to do business in any state by reason of this paragraph 9(c) in which it is not otherwise required to qualify to do business and provided further, that the

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Company has no obligation to qualify the Registrable Securities where



such qualification would cause any unreasonable delay or expenditure by the Company.

d. The Company shall keep effective any registration or qualification contemplated by this paragraph 9 and shall from time to time amend or supplement each applicable registration statement, preliminary prospectus, final prospectus, application, document and communication for such period of time as shall be required to permit the Holder or such holders to complete the offer and sale of the Registrable Securities covered thereby. The Company shall in no event be required to keep any such registration or qualification in effect for a period in excess of nine months from the date on which the Holder and such holders are first free to sell such Registrable Securities; provided, however, that if the Company is required to keep any such registration or qualification in effect with respect to securities other than the Registrable Securities beyond such period, the Company shall keep such registration or qualification in effect as it relates to the Registrable Securities for so long as such registration or qualification remains or is required to remain in effect in respect of such other securities.

e. In the event of a registration pursuant to the provisions of this paragraph 9, the Company shall furnish to the Holder and to each such holder such reasonable number of copies of the registration statement and of each amendment and supplement thereto (in each case, including all exhibits), such reasonable number of copies of each prospectus contained in such registration statement and each supplement or amendment thereto (including each preliminary prospectus), all of which shall conform to the requirements of the Act and the rules and regulations thereunder, and such other documents as the Holder or such holders may reasonably request in order to facilitate the disposition of the Registrable Securities included in such registration.

f. In the event of a registration pursuant to the provisions of this paragraph 9, the Company shall furnish the Holder and each holder of any Registrable Securities so registered with an opinion of its counsel to the effect that (i) the registration statement has become effective under the Act and no order suspending the effectiveness of the registration statement, preventing or suspending the use of the registration statement, any preliminary prospectus, any final prospectus, or any amendment or supplement thereto has been issued, nor to such counsel's actual knowledge has the Securities and Exchange Commission or any securities or blue sky authority of any jurisdiction instituted or threatened to institute any proceedings with respect to such an order and (ii) the registration statement and each prospectus forming a part thereof (including each preliminary prospectus), and any amendment or supplement thereto, complies as to form with the Act and the rules and regulations thereunder. Such counsel shall also provide a Blue Sky Memorandum setting

forth the jurisdictions in which the Registrable Securities have been registered or qualified for sale pursuant to the provisions of paragraph 9(c).

g. The Company agrees that until all the Registrable Securities have been sold under a registration statement or pursuant to Rule 144 under the Act, it shall keep current in filing all reports, statements and other materials required to be filed with the Commission to permit holders of the Registrable Securities to sell such securities under Rule 144.

h. The Holder and any holders who propose to register their

Registrable Securities under the Act shall execute and deliver to the Company a selling stockholder questionnaire on a form to be provided by the Company.

i. In addition to the rights above provided, the Company will cooperate with the then holders of the Representative's Options and underlying Registrable Securities in preparing and signing a registration statement, on two occasions only in addition to the registration statements discussed above, required in order to sell or transfer the Registrable Securities and will supply all information required therefor, but such additional registration statements shall be at the then Holders' cost and expense unless the Company elects to register additional shares of the Company's Common Stock in which case the cost and expense of such registration statements will be prorated between the Company and the Holders of the Representative's Options and Registrable Securities according to the aggregate sales prices of the securities being sold.

10. a. Subject to the conditions set forth below, the Company agrees to indemnify and hold harmless the Holder, any holder of any of the Registrable Securities, their officers, directors, partners, employees, agents and counsel, and each person, if any, who controls any such person within the meaning of Section 15 of the Act or Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), from and against any and all loss, liability, charge, claim, damage and expense whatsoever (which shall include, for all purposes of this Section 10, but not be limited to, attorneys' fees and any and all expense whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), as and when incurred, arising out of, based upon, or in connection with (i) any untrue statement or alleged untrue statement of a material fact contained (A) in any registration statement, preliminary prospectus or final prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, or (B) in any application or other document or communication (in this Section 10 collectively called an "application") executed by or on behalf of the Company or based upon written information furnished by or on behalf of the Company filed in any jurisdiction in order to register or qualify any of the Registrable Securities under the securities or blue

sky laws thereof or filed with the Commission or any securities exchange; or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, unless such statement or omission was made in reliance upon and in conformity with written information furnished to the Company with respect to the Holder or any holder of any of the Registrable Securities by or on behalf of such person expressly for inclusion in any registration statement, preliminary prospectus, or final prospectus, or any amendment or supplement thereto, or in any application, as the case may be, or (ii) any breach of any representation, warranty, covenant or agreement of the Company contained in this Representative's Option. The foregoing agreement to indemnify shall be in addition to any liability the Company may otherwise have, including liabilities arising under this Representative's Option.

If any action is brought against the Holder or any holder of any of the Registrable Securities or any of its officers, directors, partners, employees, agents or counsel, or any controlling persons of such person (an "indemnified party") in respect of which indemnity may be sought against the Company pursuant to the foregoing paragraph, such

indemnified party or parties shall promptly notify the Company in writing of the institution of such action (but the failure so to notify shall not relieve the Company from any liability it may otherwise have to Holder or any holder of any of the Registrable Securities) and the Company shall promptly assume the defense of such action, including the employment of counsel (reasonably satisfactory to such indemnified party or parties) and payment of expenses. Such indemnified party or parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action or the Company shall not have promptly employed counsel reasonably satisfactory to such indemnified party or parties to have charge of the defense of such action or such indemnified party or parties shall have reasonably concluded that there may be one or more legal defenses available to it or them or to other indemnified parties which are different from or additional to those available to the Company, in any of which events such fees and expenses shall be borne by the Company and the Company shall not have the right to direct the defense of such action on behalf of the indemnified party or parties. Anything in this paragraph to the contrary notwithstanding, the Company shall not be liable for any settlement of any such claim or action effected without its written consent.

b. The Holder and each holder agrees to indemnify and hold harmless the Company, each director of the Company, each officer of the Company who shall have signed any registration statement covering the Registrable Securities held by the Holder and

each holder and each other person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, to the same extent as the foregoing indemnity from the Company to the Holder and each holder in paragraph 10(a), but only with respect to statements or omissions, if any, made in any registration statement, preliminary prospectus, or final prospectus (as from time to time amended and supplemented), or any amendment or supplement thereto, or in any application, in reliance upon and in conformity with written information furnished to the Company with respect to the Holder and each holder by or on behalf of the Holder and each holder expressly for inclusion in any such registration statement, preliminary prospectus, or final prospectus, or any amendment or supplement thereto, or in any application, as the case may be. If any action shall be brought against the Company or any other person so indemnified based on any such registration statement, preliminary prospectus, or final prospectus, or any amendment or supplement thereto, or in any application, and in respect of which indemnity may be sought against the Holder and each holder pursuant to this paragraph 10(b), the Holder and each holder shall have the rights and duties given to the Company, and the Company and each other person so indemnified shall have the rights and duties given to the indemnified parties, by the provisions of paragraph 10(a).

c. To provide for just and equitable contribution, if (i) an indemnified party makes a claim for indemnification pursuant to paragraph 10(a) or 10(b) (subject to the limitations thereof) but it is found in a final judicial determination, not subject to further appeal, that such indemnification may not be enforced in such case, even though this Agreement expressly provides for indemnification in such case, or (ii) any indemnified or indemnifying party seeks contribution under the Act, the Exchange Act or otherwise because the indemnification provided for in this Section 10 is for any reason held to be unenforceable by the Company and the Holder and any holder, then the Company (including for

this purpose any contribution made by or on behalf of any director of the Company, any officer of the Company who signed any such registration statement and any controlling person of the Company), as one entity, and the Holder and any holder of any of the Registrable Securities included in such registration in the aggregate (including for this purpose any contribution by or on behalf of the Holder or any holder), as a second entity, shall contribute to the losses, liabilities, claims, damages and expenses whatsoever to which any of them may be subject, on the basis of relevant equitable considerations such as the relative fault of the Company and the Holder or any such holder in connection with the facts which resulted in such losses, liabilities, claims, damages and expenses. The relative fault, in the case of an untrue statement, alleged untrue statement, omission or alleged omission, shall be determined by, among other things, whether such statement, alleged

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statement, omission or alleged omission relates to information supplied by the Company, by the Holder or by any holder of Registrable Securities included in such registration, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement, alleged statement, omission or alleged omission. The Company and the Holder agree that it would be unjust and inequitable if the respective obligations of the Company and the Holder for contribution were determined by pro rata or per capita allocation of the aggregate losses, liabilities, claims, damages and expenses (even if the Holder and the other indemnified parties were treated as one entity for such purpose) or by any other method of allocation that does not reflect the equitable considerations referred to in this paragraph 10(c). No person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. For purposes of this paragraph 10(c), each person, if any, who controls the Holder or any holder of any of the Registrable Securities within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act and each officer, director, partner, employee, agent and counsel of each such person, shall have the same rights to contribution as such person and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, each officer of the Company who shall have signed any such registration statement, and each director of the Company shall have the same rights to contribution as the Company, subject in each case to the provisions of this paragraph 10(c). Anything in this paragraph 10(c) to the contrary notwithstanding, no party shall be liable for contribution with respect to the settlement of any claim or action effected without its written consent. This paragraph 10(c) is intended to supersede any right to contribution under the Act, the Exchange Act or otherwise.

11. The securities issued upon exercise of the Representative's Options shall be subject to a stop transfer order and the certificate or certificates evidencing any such securities shall bear the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF (THE "SECURITIES") HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, PURSUANT TO A REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AND WITH THE SECURITIES ADMINISTRATORS OF CERTAIN STATES UNDER THE SECURITIES ("BLUE SKY") LAWS OF SUCH STATES. HOWEVER, NEITHER THE REPRESENTATIVE'S OPTIONS NOR SUCH SECURITIES MAY BE SOLD, TRANSFERRED, PLEDGED, OR HYPOTHECATED EXCEPT PURSUANT TO (I) A POST-EFFECTIVE AMENDMENT TO SUCH REGISTRATION STATEMENT, (II) A SEPARATE REGISTRATION STATEMENT UNDER SUCH ACT, OR (III) AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND UNDER THE APPLICABLE BLUE SKY LAWS.

12. Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of any Representative's Option (and upon surrender of any Representative's Option if mutilated), and upon reimbursement of the Company's reasonable incidental expenses, the Company shall execute and deliver to the Holder thereof a new Representative's Option of like date, tenor and denomination.

13. The Holder of any Representative's Option shall not have, solely on account of such status, any rights of a stockholder of the Company, either at law or in equity, or to any notice of meetings of stockholders or of any other proceedings of the Company, except as provided in this Representative's Option.

14. This Representative's Option shall be construed in accordance with the laws of the State of Colorado, without giving effect to conflict of laws.  
Dated: \_\_\_\_\_, 1999

PACIFIC SOFTWARES, INC.

By: \_\_\_\_\_  
Glenn P. Russell, President

[SEAL]

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the attached Representative's Option.)

FOR VALUE RECEIVED, \_\_\_\_\_ hereby sells, assigns and transfers unto \_\_\_\_\_ Representative's Option to purchase \_\_\_\_\_ Units of Pacific Software, Inc. (the "Company"), together with all right, title and interest therein, and does hereby irrevocably constitute and appoint \_\_\_\_\_ attorney to transfer such Representative's Option on the books of the Company, with full power of substitution.

Dated: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature Guaranteed: \_\_\_\_\_

NOTICE

The signature on the foregoing Assignment must correspond to the name as written upon the face of this Representative's Option in every particular, without alteration or enlargement or any change whatsoever. Signature(s) must be guaranteed by an eligible guarantor institution which is a participant in a Securities Transfer Association recognized program.

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ELECTION TO EXERCISE

(To be executed by the holder if such holder desires to exercise the attached Representative's Option)

The undersigned hereby exercises his or its rights to subscribe for \_\_\_\_\_ Units covered by the within Representative's Option (each as defined in the within Representative's Option) and tenders payment herewith in the amount of \$\_\_\_\_\_ in accordance with the terms thereof, and requests that certificates for such Units be issued in the name of, and delivered to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Print Name, Address and Social Security or Tax Identification Number)

and, if such number of Units (or portions thereof) shall not be all the Units covered by the within Representative's Option, that a new Representative's Option for the balance of the Representative's Option (or portions thereof) covered by the within Representative's Option be registered in the name of, and delivered to, the undersigned at the address stated below.

Name: \_\_\_\_\_  
(Print)

Address: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

Dated: \_\_\_\_\_

Signature Guaranteed:

The signature on the foregoing Assignment must correspond to the name as written upon the face of this Representative's Option in every particular, without alteration or enlargement or any change whatsoever. Signature(s) must be guaranteed by an eligible guarantor institution which is a participant in a Securities Transfer Association recognized program.

## PACIFIC SOFTWAREWORKS, INC.

OFFICER AND DIRECTOR  
INDEMNIFICATION AGREEMENT

## PREAMBLE

This Agreement is made on \_\_\_\_\_ between PACIFIC SOFTWAREWORKS, INC., a California corporation ("the Company"), and \_\_\_\_\_ ("Indemnatee"). The Company believes that it is in its best interest to attract and retain capable people to serve as directors, officers, and agents of the Company, and enters into this Indemnification Agreement with the belief that the Agreement will help achieve that goal. Indemnatee is an director and/or officer of the Company.

The Company and Indemnatee are aware of the heightened risk of litigation and other claims that may be asserted against directors, officers, and agents of the Company. In recognition of Indemnatee's need for protection against personal liability, to enhance the value of Indemnatee's services to the Company, and to induce Indemnatee to provide services to the Company as a director and/or officer, the Company seeks to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnatee to the fullest extent permitted by law and as set forth in this Agreement and, to the extent applicable insurance is maintained, for the coverage of Indemnatee under the Company's policies of directors' and officers' liability insurance.

In consideration of the preceding, and of Indemnatee's agreeing to provide services to the Company, the parties agree as follows:

## AGREEMENT TO INDEMNIFY

1. (a) If Indemnatee was, is, or becomes a participant in, or is threatened to be made a participant in, a proceeding because of, or arising in part out of, an indemnifiable event as defined in Paragraph 1(b); below, the Company will indemnify Indemnatee from and against any and all expenses to the fullest extent permitted by law, as it now exists or as it may be changed in the future. The parties intend that this Agreement will provide for indemnification in excess of that expressly granted by statute, including, but not limited to, any indemnification provided by the Company's articles of incorporation, its bylaws, a vote of its stockholders or disinterested directors, or by applicable law.

(b) The term "indemnifiable event" in Paragraph 1(a), above, refers to any event or occurrence that takes place before or after execution of this Agreement, and that is related to:

(1) The fact that Indemnatee is or was a director or officer of the Company; or

(2) Anything done or not done by Indemnatee in a capacity specified in Paragraph 1(B)(1), above, whether or not the basis of the proceeding is an alleged action in an official capacity as a director, officer, employee, or agent, or in any other capacity while serving as a director, officer, employee, or agent of the Company.

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(c) Notwithstanding anything in this Agreement to the contrary, Indemnatee will not be entitled to indemnification under this Agreement in



connection with any proceeding initiated by Indemnitee against the Company or any director or officer of the Company unless:

(1) The Company has joined in or the Board has consented to the initiation of the proceeding;

(2) The proceeding is one to enforce indemnification rights as set forth in Paragraph 4, below; or

(3) The proceeding is instituted after a change in control, as defined in Paragraph 2(b), below, and independent counsel has approved its initiation.

(d) If requested by Indemnitee, the Company will, within 10 business days of the request, advance all expenses to Indemnitee (an "expense advance"). Notwithstanding the preceding, to the extent that the reviewing party, as defined in Paragraph 2, below, determines that Indemnitee would not be permitted to be indemnified under applicable law, the Company will be entitled to reimbursement from Indemnitee for these amounts, and Indemnitee agrees to reimburse the Company in that event. If Indemnitee has commenced legal proceedings in a court of competent jurisdiction to determine whether Indemnitee should be indemnified as provided in Paragraph 3, below, a determination made by the reviewing party that Indemnitee should not be indemnified will not be binding, and Indemnitee will not be required to reimburse the Company for any expense advanced until a judicial determination is made and all appeal rights have been used or have elapsed. Indemnitee's obligation to reimburse the Company for expense advances will be unsecured, and no interest will be charged on any expense advance.

(e) Notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits in defending a proceeding relating to an indemnifiable event or in defending any issue or matter in such a proceeding, Indemnitee will be indemnified against all expenses in connection with the proceeding.

(f) If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for partial expenses, rather than for all expenses, the Company will indemnify Indemnitee for the portion for which Indemnitee is entitled.

#### REVIEWING PARTY

2. (a) Before any change in control, as defined in Paragraph 2(b), below, occurs, the reviewing party will be an appropriate person or body consisting of a member or members of the board of directors, or any other person or body appointed by the board, who is not a party to the proceeding for which Indemnitee is seeking indemnification. After a change in control, the reviewing party will be independent counsel. On all matters arising after a change in control (other than a change in control approved by a majority of the directors of the board who were directors immediately before the change in control) concerning Indemnitee's right to indemnity payments and expense advances under this Agreement, any other agreement, applicable law, or the Company's articles of incorporation or bylaws, the Company will seek legal advice only from independent counsel selected by Indemnitee and approved by the Company, and who has not otherwise performed services for the Company or the Indemnitee

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(other than indemnification matters) within the last five years. The independent counsel will not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. Among other responsibilities, independent counsel will render a written opinion to the Company and Indemnitee

in whether and to what extent Indemnitee should be indemnified under applicable law. The Company agrees to pay the reasonable fees of the independent counsel and to indemnify counsel against any and all expenses, including attorneys' fees, claims, liabilities, loss, and damages arising out of or relating to this Agreement or the engagement of independent counsel under this Agreement.

(b) The term "change in control" used in Paragraph 2(a), above, refers to a state of affairs that will be deemed to have occurred if:

(1) Any person is or becomes the beneficial owner, directly or indirectly, of securities representing 20 percent or more of the voting power of the Company's then-outstanding voting securities;

(2) During any period of two consecutive years, individuals who, at the beginning of the period, constitute the board, together with any new director whose election by the board or nomination for election by the Company's stockholders was approved by a vote of at least two thirds of the directors then in office who either were directors at the beginning of the two-year period, or whose election or nomination was previously approved, cease for any reason to constitute a majority of the board;

(3) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or a consolidation that would result in the voting securities of the Company outstanding immediately before the merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80 percent of the total voting power represented by the voting securities of the Company or the surviving entity outstanding immediately after the merger or consolidation; or

(4) The stockholders of the Company approve a plan of complete liquidation of the Company, or an agreement for the sale or disposition by the Company (in one or more transactions) of all or substantially all of the assets of the Company.

#### INDEMNIFICATION PROCESS AND APPEAL

3. (a) Indemnitee will receive indemnification of expenses from the Company in accordance with this Agreement as soon as practicable after Indemnitee has made written demand on the Company for indemnification, unless the reviewing party has given a written opinion to the Company that Indemnitee is not entitled to indemnification under this Agreement or applicable law.

(b) Regardless of any action by the reviewing party, if Indemnitee has not received full indemnification within 30 days after making a demand in accordance with Paragraph 3(a), above, Indemnitee will have the right to enforce his or her indemnification rights under this Agreement by commencing litigation in the appropriate California court,

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seeking an initial determination by the court or challenging any determination by the reviewing party. The Company consents to service of process and to appear in any proceeding. Any determination by the reviewing party not challenged by Indemnitee will be binding on the parties. This remedy is in addition to any other remedies Indemnitee may have in law or in equity.

(c) It will be a defense to any action brought by Indemnitee against the Company to enforce this Agreement (other than an action brought to enforce a claim for expenses incurred in defending a proceeding in advance of its final disposition when the required undertaking has been tendered to the Company) that it is not permissible, under this Agreement or applicable law, for the Company to indemnify Indemnitee for the amount claimed. In connection with any action or determination by the reviewing party on whether Indemnitee is

entitled to indemnification under this Agreement, the burden of proving a defense or determination will be on the Company. Neither the failure of the reviewing party or the Company to have made a determination before commencement of action by Indemnitee that indemnification is proper under the circumstances because Indemnitee has met the standard of conduct set forth in actual law, nor an actual determination by the reviewing party or the Company that Indemnitee had not met the applicable standard, will be a defense to the action or create a presumption that Indemnitee has not met the applicable standard. For purposes of this Agreement, the termination of any claim, action, suit, or proceeding by judgment, order, settlement, conviction, or plea of nolo contendere will not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law.

#### INDEMNIFICATION FOR EXPENSES INCURRED IN ENFORCING RIGHTS

4. (a) The Company will indemnify Indemnitee against any and all expenses. If requested by Indemnitee, the Company will, within 10 business days after request, advance Indemnitee expenses that are incurred in connection with any claim asserted against or action brought by Indemnitee for:

(1) Indemnification of expenses or advances of expenses by the Company under this Agreement, any other agreement, applicable law, or the Company's articles of incorporation or bylaws relating to indemnification for indemnifiable events; and

(2) Recovery under directors' and officers' liability insurance policies maintained by the Company, for amounts paid in settlement if the independent counsel has approved the settlement.

(b) The Company will not settle any proceeding in a manner that would impose any penalty or limitation on Indemnitee without Indemnitee's written consent. Neither the Company nor Indemnitee will unreasonably withhold consent to any proposed settlement. The Company will not be liable to indemnify Indemnitee under this Agreement for any judicial award if the Company was not given a reasonable opportunity to participate in the defense of the action. The Company's liability under this Agreement will not be excused if participation in the proceeding by the Company was barred by this Agreement.

#### ESTABLISHMENT OF TRUST

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5. (a) In the event of a change in control or a potential change in control, as defined in Paragraph 5(b), below, the Company will, on Indemnitee's written request, create a trust for Indemnitee's benefit ("the Trust"), and from time to time on Indemnitee's written request will fund the trust in an amount sufficient to satisfy any and all expenses reasonably anticipated at the time of each request to be incurred in connection with investigating, preparing for, participating in, and defending any proceeding relating to an indemnifiable event. The amount to be deposited will be determined by the reviewing party. The terms of the Trust will provide that on a change of control:

(1) The Trust will not be revoked or the principal invaded without the Indemnitee's written consent.

(2) The Trustee will be chosen by Indemnitee subject to the Company's approval. The Trustee will advance, within 10 days after Indemnitee's request, all expenses to the Indemnitee, provided that Indemnitee agrees to reimburse the Trust under the same circumstances for which Indemnitee would be required to reimburse the Company under Paragraph 1(d), above.

(3) The Trust will continue to be funded by the Company in accordance with the funding obligation set forth in this Paragraph 5.

(4) The Trustee will promptly pay Indemnatee all amounts to which Indemnatee is entitled as indemnification under this Agreement or otherwise.

(5) All unexpended funds in the Trust will revert to the Company on a final determination by the reviewing party or a court of competent jurisdiction that Indemnatee has been fully indemnified under the terms of this Agreement.

(b) The term "potential change in control" used in Paragraph 5(a), above, refers to a state of affairs that will be deemed to have occurred if:

(1) The Company enters into an agreement or arrangement, the consummation of which would result in a change of control;

(2) Any person, including the Company, publicly announces an intention to take or to consider taking action that, if consummated, would constitute a change in control;

(3) Any person who is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 10 percent or more of the combined voting power of the Company's then-outstanding voting securities, increases that beneficial ownership of those securities by 5 percent or more over the percentage owned by that person on the date of this Agreement; or

(4) The board of directors adopts a resolution to the effect that, for purposes of this Agreement, a potential change in control has occurred.

(c) Nothing in this Paragraph 5 relieves the Company of any of its obligations under this Agreement. All income earned on the assets held in the Trust will be reported as

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income by the Company for all tax purposes. The Company will pay all costs of establishing and maintaining the Trust and will indemnify the Trustee against any and all expenses, including attorneys' fees, claims, liabilities, loss, and damages arising out of or relating to this Agreement or the establishment and maintenance of the Trust.

#### NONEXCLUSIVE RIGHTS

6. Indemnatee's rights under this Agreement are in addition to any other rights Indemnatee may have under the Company's articles of incorporation or bylaws, or otherwise. To the extent that change in applicable law permits greater indemnification by agreement than would be afforded currently under the Company's articles of incorporation or bylaws, applicable law, or this Agreement, it is the intent of the parties that Indemnatee enjoy by this Agreement the greater benefits afforded by the change.

#### LIABILITY INSURANCE

7. To the extent the Company maintains an insurance policy providing director's and officers' liability insurance, Indemnatee will be covered by the policy, in accordance with its terms, to the maximum extent of the coverage available for a Company director or officer.

#### PERIOD OF LIMITATIONS

8. No legal action will be brought, and no cause of action will be

asserted, by or on behalf of the Company or its affiliates, against Indemnitee, Indemnitee's spouse, heirs, executors, assigns, or representatives after two years from the date of accrual of the cause of action, or longer period as may be required by state law. Any claim or cause of action of the Company or its affiliate will be extinguished and deemed released unless asserted by the timely filing of a legal action within that period. However, if any shorter period of limitations is applicable to any cause of action, that shorter period will govern.

#### SUBROGATION

9. If payment is made under this Agreement, the Company will be subrogated to the extent of the payment to all the Indemnitee's rights of recovery, who will execute all papers required and will do everything else necessary to secure those rights, including executing documents necessary to enable the Company to effectively bring suit to enforce those rights.

#### DUPLICATION OF PAYMENT

10. The Company will not be liable under this Agreement to make any payment in connection with any claim made against Indemnitee to the extent Indemnitee has otherwise received payment (by insurance policy, bylaw, or otherwise) of the amounts otherwise indemnifiable under this Agreement.

#### BINDING EFFECT

11. This Agreement will be binding on and inure to the benefit of, and be enforceable by, the parties and their successors, assigns, spouses, heirs, and personal and legal representatives. The Company will require and cause any successor to all, substantially all,

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or a substantial part of the business or assets of the Company, by written agreement, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform as if no such succession had occurred. The indemnification provided under this Agreement will continue for Indemnitee for any action taken or not taken while serving an indemnified capacity pertaining to an indemnifiable event even though Indemnitee may have ceased to serve in that capacity at the time of any proceeding.

#### AMENDMENT AND WAIVER

12. No supplement, modification, or amendment of this Agreement will be binding unless executed in writing by both of the parties to this Agreement. Waiver of any provision of this Agreement will not operate as a waiver of any other provision of the Agreement. Waiver of a provision of this Agreement will not operate as a continuing waiver. Except as specifically provided in this Agreement, failure to exercise, or delay in exercising, any right or remedy under this Agreement will not constitute a waiver of the right or remedy.

#### ENTIRE AGREEMENT

13. This Agreement constitutes the entire agreement between the parties concerning the Company's indemnification of Indemnitee for services as an officer or director of the Company. Any agreement or representation not expressly set forth in this Agreement is of no effect.

#### SEVERABILITY

14. If any portion of this Agreement is held by a court of competent jurisdiction to be invalid, void, or otherwise unenforceable, the remaining portions will remain enforceable to the full extent permitted by law. In

addition, to the fullest extent possible, the provisions of this Agreement will be construed so as to give effect to the intent manifested by any provision held invalid, void, or unenforceable.

NOTICES

15. Any notices or other communications required or permitted under this Agreement must be in writing, and will be deemed to have been properly given if made by personal delivery, or by mail, registered or certified, postage prepaid, with return receipt requested. Mailed notice must be addressed to the Company at 703 Rancho Conejo Blvd., Newbury Park, CA 91320, and to the Indemnitee at

\_\_\_\_\_.

GOVERNING LAW

16. This Agreement will be governed by and construed in accordance with the laws of the State of California.

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Executed at Newbury Park, California, on the date set forth below.

COMPANY

PACIFIC SOFTWARES, INC., a California corporation

Dated: \_\_\_\_\_

By: \_\_\_\_\_

Indemnitee

Dated: \_\_\_\_\_

\_\_\_\_\_

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## PACIFIC SOFTWARES, INC.

## 1998 EQUITY INCENTIVE PROGRAM

ADOPTED APRIL 17, 1998  
 APPROVED BY STOCKHOLDERS APRIL 30, 1998  
 TERMINATION DATE: DECEMBER 31, 2008

## 1. PURPOSES.

- (A) ELIGIBLE STOCK AWARD RECIPIENTS. The persons eligible to receive Stock Awards are the Employees, Directors and Consultants of the Company and its Affiliates.
- (B) AVAILABLE STOCK AWARDS. The purpose of the Plan is to provide a means by which eligible recipients of Stock Awards may be given an opportunity to benefit from increases in value of the Common Stock through the granting of the following Stock Awards: (i) Incentive Stock Options, (ii) Non-Statutory Stock Options, (iii) Stock Appreciation Rights, (iv) Stock Bonuses, and (v) Rights to Acquire Restricted Stock.
- (C) GENERAL PURPOSE. The Company, by means of the Plan, seeks to retain the services of the group of persons eligible to receive Stock Awards, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

## 2. DEFINITIONS.

- (a) "AFFILIATE" means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Section 424(3) and (f), respectively, of the Code.
- (b) "BOARD" means the Board of Directors of the Company.
- (c) "CODE" means the Internal Revenue Code of 1986, as amended.
- (d) "COMMITTEE" means a Committee appointed by the Board in accordance with subsection 3(c).
- (e) "COMMON STOCK" means the common stock of the Company.
- (f) "COMPANY" means Pacific Softworks, Inc., a California corporation.
- (g) "CONSULTANT" means any person, including an advisor, (1) engaged by the Company, or an Affiliate, to render consulting or advisory services and who is compensated for such services or (2) who is a member of the Board of Directors of an Affiliate. However, the term "Consultant" shall not include either Directors of the Company who are not

Directors of the Company who are merely paid a director's fee by the Company for their services as Directors.

- (h) "CONTINUOUS SERVICE" means that the Participant's service with the Company, or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. The Participant's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's Continuous Service. For example, a change in status from an Employee of the Company to a Consultant of an Affiliate or a Director of the Company will not constitute an interruption of Continuous Service. The Board or the Chief Executive Officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.
- (i) "COVERED EMPLOYEE" means the Chief Executive Officer and the four (4) other highest compensated officers of the Company for whom total compensation is required to be reported to stockholders under the Exchange Act, as determined for purposes of Section 162(m) of the Code.
- (j) "DIRECTOR" means a member of the Board of Directors of the Company.
- (k) "DISABILITY" means the permanent and total disability of a person within the meaning of Section 22(e) (3) of the Code.
- (l) "EMPLOYEE" means any person employed by the Company, or an Affiliate. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate.
- (m) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.
- (n) "FAIR MARKET VALUE" means, as of any date, the value of the Common Stock determined as follows:
  - (i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Common Stock shall be the closing sales price of such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable.
  - (ii) The absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.

- (o) "INCENTIVE STOCK OPTION" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of



the Code and the regulations promulgated thereunder.

- (p) "NON-EMPLOYEE DIRECTOR" means a Director of the Company who either (i) is not a current Employee or Officer of the Company or its parent or a subsidiary, does not receive compensation (directly or indirectly) from the Company or its parent or a subsidiary for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K of the Securities and Exchange Commission ("Regulation S-K")), does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K and is not engaged in a business relationship as to which disclosure would be required under Item 404(b) of Regulation S-K; or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.
- (q) "NON-STATUTORY STOCK OPTION" means an Option not intended to qualify as an Incentive Stock Option.
- (r) "OFFICER" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (s) "OPTION" means an Incentive Stock Option or a Non-Statutory Stock Option granted pursuant to the Plan.
- (t) "OPTION AGREEMENT" means a written agreement between the Company and the Optionee evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.
- (u) "OPTIONEE" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.
- (v) "OUTSIDER DIRECTOR" means a Director of the Company who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an "affiliated corporation" at any time and is not currently receiving direct or indirect remuneration from the Company or an "affiliated corporation" for services in any capacity other than as a Director or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.
- (w) "PARTICIPANT" means a person to whom a Stock Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.
- (x) "PLAN" means this Pacific Softworks, Inc. 1998 Equity Incentive Plan.

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- (y) "RULE 16b-3" means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.
- (z) "SECURITIES ACT" means the Securities Act of 1933, as amended.
- (aa) "STOCK AWARD" means any right granted under the Plan, including

an Option, a stock appreciation right, a stock bonus and a right to acquire restricted stock.

- (bb) "STOCK AWARD AGREEMENT" means a written agreement between the Company and a holder of a Stock Award evidencing the terms and conditions of an individual Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.
- (cc) "TEN PERCENT STOCKHOLDER" means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

## 2. ADMINISTRATION

- (a) ADMINISTRATION OF THE BOARD. The Board will administer the Plan unless and until the Board delegates administration to a Committee, as provided in Subsection 3(c).
- (b) POWERS OF BOARD. The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:
  - (i) To determine from time to time which of the persons eligible under the Plan shall be granted Stock Awards; when and how each Stock Award shall be granted; what type of combination of types of Stock Award shall be granted; the provisions of each Stock Award granted (which need not be identical), including the time or times when a person shall be permitted to receive stock pursuant to a Stock Award; and the number of shares with respect to which a Stock Award shall be granted to each such person.
  - (ii) To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.
  - (iii) To amend the Plan or a Stock Award as provided in Section 12.
  - (iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company which are not in conflict with the provisions of the Plan.

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- (c) DELEGATION TO COMMITTEE.
  - (i) GENERAL. The Board may delegate administration of the Plan to a Committee or Committees of one or more members of the Board, and the term "Committee" shall apply to any person or persons to whom such authority has been delegated. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate

to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and reconstitute in the Board the administration of the Plan.

- (ii) COMMITTEE COMPOSITION. As long as the Common Stock is publicly traded, in the discretion of the Board, a Committee may consist solely of two or more Outside Directors, in accordance with Section 16(m) of the Code, and/or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3. Within the scope of such authority, the Board or the Committee may (i) delegate to a committee of one or more members of the Board who are not Outside Directors, the authority to grant Stock Awards to eligible persons who are either (a) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Stock Award or (b) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code and/or (ii) delegate to a committee of authority to grant Stock Awards to eligible persons who are not then subject to Section 16 of the Exchange Act.

4. SHARES SUBJECT TO THE PLAN.

- (a) SHARE REVERSE. Subject to the provisions of Section 11 relating to adjustments upon changes in stock, the stock that may be issued pursuant to Stock Awards shall not exceed in the aggregate Ten Percent (10%) of the outstanding shares of the Company's Common Stock.

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- (b) REVERSION OF SHARES TO THE SHARE RESERVE. If any Stock Award shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full (or vested in the case of Restricted Stock), the stock not acquired under the Stock Award shall revert to and again become available for issuance under the Plan. Shares subject to stock appreciation rights exercised in accordance with the Plan shall not be available for subsequent issuance under the Plan. If any Common Stock acquired pursuant to the exercise of an Option shall for any reason be repurchased by the Company under an unvested share repurchase option provided under the Plan, the stock repurchased by the Company under such repurchase option shall not revert to and again become available for issuance under the Plan.
- (c) SOURCE OF SHARES. The stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. ELIGIBILITY.

- (a) ELIGIBILITY FOR SPECIFIC STOCK AWARDS. Incentive Stock Options may be granted only to Employees. Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants.
- (b) TEN PERCENT STOCKHOLDERS. No Ten Percent (10%) Stockholder shall be eligible for the grant of an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten

percent (110%) of the Fair Market Value of the Common Stock at the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

- (c) SECTION 162(m) LIMITATION. Subject to the provisions of Section 11 relating to adjustments upon changes in stock, no employee shall be eligible to be granted Options covering more than (\_\_\_\_\_) shares of the Common Stock during any calendar year.

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Non-Statutory Stock Options at the time of grant, and a separate certificate or certification will be issued for shares purchased on exercise of each type of Option. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

- (a) TERM. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, no Incentive Stock Option shall be exercisable after the expiration of ten (10) years from the date it was granted.
- (b) EXERCISE PRICE OF AN INCENTIVE STOCK OPTION. Subject to the provisions

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of subsection 5(b) regarding Ten Percent Stockholders, the exercise price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

- (c) EXERCISE PRICE OF A NON-STATUTORY STOCK OPTION. The exercise price of each Non-statutory Stock Option shall be not less than eighty-five percent (85%) of the Fair Market Value of the stock to the Option on the date the Option was granted. Notwithstanding the foregoing, a Non-statutory Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.
- (d) CONSIDERATION. The purchase price of stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash at the time the Option is exercised or (ii) at the discretion of the Board at the time of the grant of the Option (or subsequently in the case of Non-Statutory Stock Option) by delivery to the Company of other Common Stock, according to a deferred payment or other arrangement (which may include, without limiting the generality of the foregoing, the use of other Common Stock) with the Participant or in any other form of legal consideration that may be acceptable to the Board; provided, however, that at any time the Company is incorporated in California, payment of the Common Stock's "par value", as defined in the California General

Corporation Law, shall not be made by deferred payment.

In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

- (e) TRANSFERABILITY OF AN INCENTIVE STOCK OPTION. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionee only by the Optionee. Notwithstanding the foregoing provisions of this subsection 6(e), the Optionee may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionee, shall thereafter be entitled to exercise the Option.
- (f) TRANSFERABILITY OF A Non-Statutory STOCK OPTION. A Non-Statutory Stock Option shall be transferable to the extent provided in the Option Agreement. If the Non-Statutory Stock Option does not provide for transferability, then the Non-Statutory Stock Option shall not be transferable except by will or by the laws of descent and distribution

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and shall be exercisable during the lifetime of the Optionee only by the Optionee. Notwithstanding the foregoing provisions of this subsection 6(f), the Optionee may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionee, shall thereafter be entitled to exercise the Option.

- (g) VESTING GENERALLY. The total number of shares of Common Stock subject to an Option may, but need not, vest and therefore become exercisable in periodic installments which may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options may vary. The provisions of this subsection 6(g) are subject to any Option provisions governing the minimum number of shares as to which an Option may be exercised.
- (h) TERMINATION OF CONTINUOUS SERVICE. In the event an Optionee's Continuous Service terminates (other than upon the Optionee's death or disability), the Optionee may exercise his or her Option (to the extent that the Optionee was entitled to exercise it as of the date of termination) but only within such period of time ending on the earlier of (i) the date thirty (30) days following the termination of the Optionee's Continuous Service (or such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionee does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.
- (i) EXTENSION OF TERMINATION DATE. An Optionee's Option Agreement may also provide that if the exercise of the Option following the termination of the Optionee's Continuous Service (other than upon the Optionee's death or disability) would be prohibited at any time solely because the issuance of the shares would violate

the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in subsection 6(a) or (ii) the expiration of a period of thirty (30) days after the termination of the Optionee's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

- (j) DISABILITY OF OPTIONEE. In the event an Optionee's Continuous Service terminates as a result of the Optionee's Disability, the Optionee may exercise his or her Option (to the extent that the Optionee was entitled to exercise it as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination (or such longer or shorter period specified in the Option Agreement) or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate.
- (k) DEATH OF OPTIONEE. In the event (i) an Optionee's Continuous Service terminates

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as a result of the Optionee's death or (ii) the Optionee dies within the period (if any) specified in the Option Agreement after the termination of the Optionee's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionee was entitled to exercise the Option as of the date of death) by the Optionee's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Optionee's death pursuant to subsection 6(e) or 6(f), but only within the period ending on the earlier of (1) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Option Agreement) or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

- (l) EARLY EXERCISE. The Option may, but need not, include a provision whereby the Optionee may elect at any time before the Optionee's Continuous Service terminates to exercise the Option as to any part or all of the shares subject to the Option prior to the full vesting of the Option. Any unvested shares so purchased may be subject to an unvested share repurchase option in favor of the Company or to any other restriction the Board determines to be appropriate.

7. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS.

- (a) STOCK BONUS AWARDS. Each stock bonus agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of stock bonus agreements may change from time to time, and the terms and conditions of separate stock bonus agreements need not be identical, but each stock bonus agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:
  - (i) CONSIDERATION. A stock bonus shall be awarded in consideration for past services actually rendered to the Company or for its benefit.

- (ii) VESTING. Shares of Common Stock awarded under the stock bonus agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with the vesting schedule to be determined by the Board of Directors.

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- (iii) TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE. In the event a Participant's Continuous Service terminates, the Company may reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the stock bonus agreement.
  - (iv) TRANSFERABILITY. Rights to acquire shares under the stock bonus agreement shall be transferable by the Participant only upon such terms and conditions as set forth in the stock bonus agreement, as the Board shall determine in its discretion, so long as stock awarded under the stock bonus agreement remains subject to the terms of the stock bonus agreement.
- (b) RESTRICTED STOCK AWARDS. Each restricted stock purchase agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of the restricted stock purchase agreements may change from time to time, and the terms and conditions of separate restricted stock purchase agreements need not be identical, but each restricted stock purchase agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:
- (i) PURCHASE PRICE. The purchase price under each restricted stock purchase agreement shall be such amount as the Board shall determine and designate in such restricted stock purchase agreement. The purchase price shall not be less than eighty-five percent (85%) of the stock's Fair Market Value on the date such award is made or at the time the purchase is consummated.
  - (ii) CONSIDERATION. The purchase price of stock acquired pursuant to the restricted stock purchase agreement shall be paid either: (i) in cash at the time of purchase; (ii) at the discretion of the Board, according to a deferred payment or other arrangement with the Participant; or (iii) in any other form of legal consideration that may be acceptable to the Board in its discretion; provided, however, the at any time that the Company is incorporated in California, payment of the Common Stock's "par value," as defined in the California General Corporation Law, shall not be made by deferred payment.
  - (iii) VESTING. Shares of Common Stock acquired under the restricted stock purchase agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with the vesting schedule to be determined by the Board.
  - (iv) TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE. In the event a Participant's Continuous Service terminates, the

Company may repurchase or otherwise reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the restricted stock purchase agreement.

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(v) TRANSFERABILITY. Rights to acquire shares under the restricted stock purchase agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the restricted stock purchase agreement, as the Board shall determine in its discretion, so long as stock awarded under the restricted stock purchase agreement remains subject to the terms of the restricted stock purchase agreement.

(c) STOCK APPRECIATION RIGHTS.

(i) AUTHORIZED RIGHTS. The following three types of stock appreciation rights shall be authorized for issuance under the Plan:

(1) TANDEM RIGHTS. A "Tandem Right" means a stock appreciation right granted appurtenant to an Option which is subject to the same terms and conditions applicable to the particular Option grant to which it pertains with the following exceptions: The Tandem Right shall require the holder to elect between the exercise of the underlying Option for shares of Common Stock and the surrender, in whole or in part, of such Option for an appreciation distribution. The appreciation distribution payable on the exercised Tandem Right shall be in cash (or, if so provided, in an equivalent number of shares of Common Stock based on the Fair Market Value on the date of the Option surrender) in an amount up to the excess of (A) the Fair Market Value (on the date of the Option surrender) of the number of shares of Common Stock covered by that portion of the surrendered Option in which the Optionee is vested over (B) the aggregate exercise price payable for such vested shares.

(2) CONCURRENT RIGHTS. A "Concurrent Right" means a stock appreciation right granted appurtenant to an Option which applies to all or a portion of the shares of Common Stock subject to the underlying Option and which is subject to the same terms and conditions applicable to the particular Option shall be exercised automatically at the same time the underlying Option is exercised with respect to the particular shares of Common Stock to which the Concurrent Right pertains. The appreciation distribution payable on an exercised Concurrent Right shall be in cash (or, if so provided, in an equivalent number of shares of Common Stock based on Fair Market Value on the date of the exercise of the Concurrent Right) in an amount equal to such portion as determined by the Board at the time of the grant of the excess of (A) the aggregate Fair Market Value (on the date of the exercise of the Concurrent Right) of the vested shares of Common Stock purchased under the underlying Option which have Concurrent Rights appurtenant to them over (B) the aggregate exercise price paid for such shares.



- (3) INDEPENDENT RIGHTS. An "Independent Right" means a stock appreciation right granted independently of any Option but which is subject to the same terms and conditions applicable to a Non-Statutory Stock Option with the following exceptions: An Independent Right shall be denominated in share equivalents. The

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appreciation distribution payable on the exercised Independent Right shall be not greater than an amount equal to the excess of (a) the aggregate Fair Market Value (on the date of the exercise of the Independent Right) of a number of shares of Company stock equal to the number of share equivalents in which the holder is vested under such Independent Right, and with respect to which the holder is exercising the Independent Right on such date, over (b) the aggregate Fair Market Value (on the date of the grant of the Independent Right) of such number of shares of Company stock. The appreciation distribution payable on the exercised Independent Right shall be in cash, or if so provided, in an equivalent number of shares of Common Stock based on Fair Market Value on the date of the exercise of the Independent Right.

- (ii) RELATIONSHIP TO OPTIONS. Stock appreciation rights appurtenant to Incentive Stock Options may be granted only to Employees. The "Section 162(m) Limitation" provided in subsection 5(c) and any authority to reprice Options shall apply as well to the grant of stock appreciation rights.
- (iii) EXERCISE. To exercise any outstanding stock appreciation right, the holder shall provide written notice of exercise to the Company in compliance with the provisions of the Stock Award Agreement evidencing such right. Except as provided in subsection 5(c) regarding the "Section 162(m) Limitation," no limitation shall exist on the aggregate amount of cash payments that the Company may make under the Plan in connection with the exercise of the stock appreciation right.

8. COVENANTS OF THE COMPANY.

- (a) AVAILABILITY OF SHARES. During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Stock Awards.
- (b) SECURITIES LAW COMPLIANCE. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any such Stock Award or any stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell stock upon exercise of such Stock Awards unless and until such authority is obtained.

9. USE OF PROCEEDS FROM STOCK.

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Proceeds from the sale of stock pursuant to Stock Awards shall constitute general funds of the Company.

10. MISCELLANEOUS.

- (a) ACCELERATION OF EXERCISABILITY AND VESTING. The Board shall have the power to accelerate the time at which a Stock Award may first be exercised or the time during which the Stock Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Stock Award stating the time at which a Stock Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Stock Award stating the time at which it may first be exercised or the time during which it will vest.
- (b) STOCKHOLDER RIGHTS. No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to such Stock Award unless and until such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms.
- (c) NO EMPLOYMENT OR OTHER SERVICE RIGHTS. Nothing in the Plan or any instrument executed or Stock Award granted pursuant thereto shall confer upon any Participant or other holder of Stock Awards any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.
- (d) INCENTIVE STOCK OPTION \$100,000 LIMITATION. To the extent that the aggregate Fair Market Value (determined at the time of grant) of stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionee during any calendar year (under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars (\$100,000), the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Non-Statutory Stock Options.
- (e) INVESTMENT ASSURANCES. The Company may require a Participant, as a condition of exercising or acquiring stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring the stock subject to the Stock Award for the Participant's own account and not with any present

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intention of selling or otherwise distributing the stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (iii) the issuance of the shares upon the exercise or acquisition of stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act or (iv) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advise of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the stock.

- (f) WITHHOLDING OBLIGATIONS. To the extent provided by the terms of a Stock Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of stock under a Stock Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares from the shares of the Common Stock otherwise issuable to the participant as a result of the exercise of acquisition of stock under the Stock Award; or (iii) delivering to the Company owned and unencumbered shares of the Common Stock.

11. ADJUSTMENTS UPON CHANGES IN STOCK.

- (a) If any change is made in the stock subject to the Plan, or subject to any Option, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan and the outstanding Options will be appropriately adjusted in the class(es) and number of securities and price per share of stock subject to such outstanding Options. Such adjustments shall be made by the Board, the determination of which shall be final, binding and conclusive. (The conversion of convertible securities, cashless exercise of options and net exercise of warrants shall not be treated as transactions "without receipt of consideration" by the Company.)
- (b) In the event of: (1) a dissolution or liquidation of the Company; (2) a merger or consolidation in which the Company is not the surviving corporation; or (3) a reverse merger in which the Company is the surviving corporation but the shares of the Company's common stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then subject to paragraph (c) of this Section 11, at the sole discretion of the Board and to the extent permitted by applicable law: (i) any surviving corporation shall assume any Options outstanding under the Plan or shall substitute similar Options for those outstanding under the Plan, (ii) such Stock Awards shall continue in full force and effect, or (iii) the time during which such Stock Awards become vested or may be

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exercised shall be accelerated and any outstanding unexercised rights under any Stock Awards terminated if not exercised prior to such event. In the event any surviving corporation or acquiring corporation refuses to assume such Options or to substitute similar Options for those outstanding under the Plan, then with respect to Options held by Optionees whose Continuous Service has not terminated, the vesting shall be accelerated in full, and the Options shall terminate if not exercised at or prior to such event. With respect to any other Options outstanding under the Plan, such Options shall terminate if not exercised prior to such event.

- (c) In the event of either (i) the acquisition by any person, entity or group within the meaning of Section 13(d) or 14(d) of the Exchange Act or any comparable successor provisions (excluding any employee benefit plan, or related trust, sponsored or maintained by the Company or an Affiliate of the Company) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act, or comparable successor rule) of securities of the Company representing at least fifty percent (50%) of the combined voting power entitled to vote in the election of directors, which acquisition has not been approved by resolution of the Company's Board of Directors, or (ii) a change in a majority of the membership of the Company's Board of Directors within a twenty-four (24) month period where the selection of such majority either (A) was not approved by a majority of the members of the Board of Directors at the beginning of such twenty-four (24) month period or (B) occurred as a result of an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board (a "Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, then to the extent not prohibited by any applicable law, the time during which options outstanding under the Plan may be exercised shall be accelerated prior to such event, but only to the extent that such options would have become exercisable within thirty (30) months of the date of such event, and the options terminated if not exercised after such acceleration and at or prior to such event.

12. TIME OF GRANTING OPTIONS.

The date of grant of an Option shall, for all purposes, be the date on which the Board makes the determination granting such Option. Notice of the determination shall be given to each Employee or Consultant to whom an Option is so granted within a reasonable time after the date of such grant.

13. AMENDMENT AND TERMINATION OF THE PLAN.

- (a) AMENDMENT AND TERMINATION. The Board may amend or terminate the Plan from time to time in such respects as the Board may deem advisable.
- (b) EFFECT OF AMENDMENT OR TERMINATION. Options granted before amendment of the Plan shall not be impaired by any amendment unless mutually agreed otherwise

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between the Optionee and the Company, which agreement must be in writing and signed by the Optionee and the Company.

14. SECURITIES LAW COMPLIANCE.

Notwithstanding any provisions relating to vesting contained herein or in an Option, no Option granted hereunder may be exercised unless the shares issuable under exercise of such Option are then registered under the Securities Act of 1933, as amended.

15. RESERVATION OF SHARES.

The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

16. OPTION AGREEMENT.

Options shall be evidenced by written Option Agreements in such form or forms as the Board or the Committee shall approve.

17. AMENDMENT OF THE PLAN AND STOCK AWARDS.

- (a) AMENDMENT OF PLAN. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 11 relating to adjustments upon changes in stock, no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary to satisfy the requirements of Section 422 of the Code, Rule 16b-3 or any Nasdaq or securities exchange listing requirements.
- (b) STOCKHOLDER APPROVAL. The Board may, in its sole discretion, submit any other amendment to the Plan for stockholder approval, including but not limited to, amendments to the Plan intended to satisfy the requirements of section 162(m) of the Code and the regulations thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.
- (c) CONTEMPLATED AMENDMENTS. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to the Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into

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compliance therewith.

- (d) NO IMPAIRMENT OF RIGHTS. Rights under any Stock Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.
- (e) AMENDMENT OF STOCK AWARDS. The Board at any time, and from time to time, may amend the terms of any one or more Stock Awards; provided, however, that the rights under any Stock Award shall not be impaired by any such amendment unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

18. TERMINATION OR SUSPENSION OF THE PLAN.

- (a) PLAN TERM. The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth (10th) anniversary of the date the Plan is adopted by the Board or approved by the stockholders of the Company, whichever is earlier. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.
- (b) NO IMPAIRMENT OF RIGHTS. Rights and obligations under any Stock Award granted while the Plan is in effect shall not be impaired by suspension or termination of the Plan, except with the written consent of the Participant.

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19. EFFECTIVE DATE OF PLAN.

The Plan shall become effective as determined by the Board, but no Stock Award shall be exercised (or, in the case of a stock bonus, shall be granted) unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

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EXHIBIT\_\_

PACIFIC SOFTWARES, INC.  
INCENTIVE STOCK OPTION  
(1998 EQUITY PLAN)

\_\_\_\_\_, Optionee:

PACIFIC SOFTWARES, INC. (The "Company"), pursuant to its 1998 EQUITY INCENTIVE PLAN (the "Plan"), has granted to you, the Optionee named above, an option to purchase shares of the Common Stock of the Company ("Common Stock"). This Option is not intended to qualify as and will not be treated as an "Incentive Stock Option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

The details of the Option are as follows:

- 1. TOTAL NUMBER OF SHARES SUBJECT TO THIS OPTION. The total number

of shares of Common Stock subject to this Option is \_\_\_\_\_ (\_\_\_\_\_).

2. VESTING. Subject to the limitations contained herein, 1/4th of the shares covered by this Option will vest (become exercisable) on \_\_\_\_\_, 19\_\_ (12 months after the date of grant) and 1/48th of the shares will then vest each month thereafter until either (i) you cease to provide services to the Company for any reason, or (ii) this Option becomes fully vested.

3. EXERCISE PRICE AND METHOD OF PAYMENT.

(a) EXERCISE PRICE. The exercise price of this Option is \_\_\_\_\_ (\$\_\_\_\_\_) per share, being not less than 85% of the Fair Market Value of the Common Stock on the date of grant of this Option.

(b) METHOD OF PAYMENT. Payment of the exercise price per share is due in full upon exercise of all or any part of each installment that has accrued to you. You may elect, to the extent permitted by applicable statutes and regulations, to make payment of the exercise price under one of the following alternatives:

(i) Payment of the exercise price per share in cash (including check) at the time of exercise.

(ii) Payment pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board which, prior to the issuance of Common Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds;

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(iii) Provided that at the time of exercise the Company's Common Stock is publicly traded and quoted regularly in the Wall Street Journal, payment by delivery of already-owned shares of Common Stock, held for the period required to avoid a charge to the Company's reported earnings, and owned free and clear of any liens, claims, encumbrances or security interests, which Common Stock shall be valued at its Fair Market Value on the date of exercise; or

(iv) Payment by a combination of the methods of payment permitted by subsection 3(b) (i) through 3(b) (ii) above.

4. WHOLE SHARES. This Option may not be exercised for any number of shares that would require the issuance of anything other than whole shares.

5. SECURITIES LAW COMPLIANCE. Notwithstanding anything to the contrary contained herein, this Option may not be exercised unless the shares issuable upon exercise of this Option are then registered under the Securities Act of 1933, as amended (the "Securities Act"), or if such shares are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities

Act.

6. TERM. The term of this Option commences on \_\_\_\_\_, 19\_\_ , the date of grant, and expires at midnight on the \_\_\_\_\_, 19\_\_ , (the "Expiration Date," which is the day before the tenth (10th) anniversary from the date of grant), unless this Option expires sooner as set forth below or in the Plan. In no event may this Option be exercised on or after the Expiration Date. This Option shall terminate prior to the Expiration Date of its term as follows: three (3) months after the termination of your Continuous Service as an Employee, Director or Consultant (as defined in the Plan) with the Company or an Affiliate of the Company unless one of the following circumstances exists:

- (a) If your termination of Continuous Status as an Employee, Director or Consultant is due to your permanent disability (within the meaning of Section 422(c) (6) of the Code), then this Option will then expire on the earlier of the Expiration Date set forth above or twelve (12) months following such termination.
- (b) If your termination of Continuous Status as an Employee, Director or Consultant is due to your death or your death occurs within thirty (30) days following such termination, then this Option will then expire on the earlier of the Expiration Date set forth above or eighteen (18) months after your death.
- (c) If during any part of such thirty (30) day period you may not exercise your Option solely because of the conditions set forth in Section 5 above, then your Option will not expire until the earlier of the Expiration Date set forth above or until the Option shall have been exercisable for an aggregate period of thirty (30) days after your termination of Continuous Status as an Employee, Director or Consultant.

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However, this Option may be exercised following termination of Continuous Service as an Employee, Director or Consultant only as to that number of shares to which it was exercisable on the date of such termination under the schedule set forth in Section 2 of this Option.

7. EXERCISE.

- (a) This Option may be exercised, to the extent specified above, by delivering a notice of exercise (in a form designated by the Company) together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then require pursuant to subsection 10(e) of the Plan.

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- (b) By exercising this Option you agree that, as a precondition to the completion of any exercise of this Option, the Company may require you to enter an



agreement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of this Option; (2) the lapse of any substantial risk of forfeiture to which the shares are subject at the time of exercise; or (3) the disposition of shares acquired upon such exercise.

8. TRANSFERABILITY. This Option is not transferable, except by will or by the laws of descent and distribution, and is exercisable during your life only by you. Notwithstanding the foregoing, by delivering written notice to the Company, in a form satisfactory to the Company, you may designate a third party who, in the event of your death, shall thereafter be entitled to exercise this Option.
9. OPTION NOT A SERVICE CONTRACT. This Option is not an employment contract and nothing in this Option shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company or an Affiliate, or of the Company or an Affiliate to continue your employment. In addition, nothing in this Option shall obligate the Company or any Affiliate of the Company, or their respective stockholders, Board of Directors, officers or employees to continue any relationship that you might have as a Director or Consultant for the Company or Affiliate.
10. NOTICES. Any Notices provided for in this Option or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the address specified below or at such other address as you hereafter designate by written notice to the Company.
11. CHANGE OF CONTROL.
  - (a) In the event of (1) a dissolution or liquidation of the Company; (2) a merger or consolidation in which the Company is not the surviving corporation; or (3) a reverse merger in which the Company is the surviving corporation but the shares of the Company's Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then, subject to paragraph (c) of this Section 11, at the sole discretion of the Board and to the extent permitted by applicable law: (i) any surviving corporation shall assume any Options outstanding under the Plan or shall substitute similar Options for those outstanding under the Plan, (ii) such Stock Awards shall continue in full force and effect, or (iii) the time during which such Stock Awards become vested or may be exercised shall be accelerated and any outstanding unexercised rights under any Stock Awards terminated if not exercised prior to such event. In the event any surviving corporation or acquiring corporation refuses to assume such Options or to substitute similar Options for those outstanding under the Plan, then with respect to Options held by Optionee

shall be accelerated in full, and the Options shall terminate if not exercised at or prior to such event. With respect to any other Options outstanding under the Plan, such Options shall terminate if not exercised prior to such event.

- (b) In the event of either (i) the acquisition by any person, entity or group within the meaning of Section 13(d) or 14(d) of the Exchange Act or any comparable successor provisions (excluding any employee benefit plan, or related trust, sponsored or maintained by the Company or an Affiliate of the Company) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act, or comparable successor rule) of securities of the Company representing at least fifty percent (50%) of the combined voting power entitled to vote in the election of directors, which acquisition has not been approved by resolution of the Company's Board of Directors, or (ii) a change in the majority of the membership of the Company's Board of Directors within a twenty-four (24) month period where the selection of such majority either (A) was not approved by a majority of the members of the Board of Directors at the beginning of such twenty-four (24) month period or (B) occurred as the result of an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the Exchange Act or other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board (a "Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, then to the extent not prohibited by applicable law, the time during which options outstanding under the Plan may be exercised shall be accelerated prior to such event, but only to the extent that such options would have become exercisable within thirty (30) months of the date of such event, and the options terminate if not exercised after such acceleration and at or prior to such event.

12. GOVERNING PLAN DOCUMENT. This Option is subject to all the provisions of the Plan, a copy of which is attached hereto and its provisions are hereby made a part of this Option, including without limitation the provisions of Section 6 of the Plan relating to option provisions and Section 13 relating to adjustments upon changes in stock, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of this Option and those of the Plan, the provisions of the Plan shall control.

Dated this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_.

Very truly yours,

PACIFIC SOFTWARES, INC.

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By \_\_\_\_\_  
Duly Authorized on Behalf of

ATTACHMENTS:

Pacific Softworks, Inc. 1998 Equity Incentive Plan  
Notice of Exercise

The Undersigned:

- (a) Acknowledges receipt of the foregoing Option and the attachments referenced therein and understands that all rights and liabilities with respect to this Option are set forth in the Option and the Plan; and

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- (b) Acknowledges that as of the date of grant of this Option, it sets forth the entire understanding between the undersigned Optionee and the Company and its Affiliates regarding the acquisition of stock in the Company under this Option and supersedes all prior oral and written agreements on that subject with the exception of (i) the options previously granted and delivered to the undersigned under stock option plans of the Company, and (ii) the following agreements only:

None \_\_\_\_\_  
(Initial)

Other \_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
OPTIONEE

Address: \_\_\_\_\_  
\_\_\_\_\_

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[LOGO]

Pacific Softworks Incorporated  
Invention Assignment and Proprietary Information Agreement.

In consideration of my employment or continued employment by Pacific Softworks Inc. (the "Company"), In any capacity, I hereby represent and agree as follows:

1. I understand that the Company is engaged in a continuous program of research, development, production, and marketing in connection with its business, and that as an essential part of my employment with the Company, I am expected to make new contributions to and create inventions of value for the Company.
2. I will promptly disclose in confidence to the company all inventions, improvements, original works of authorship, formulas, processed, computer programs, databases, and trade secrets ("Inventions"), whether or not patentable or copyrightable or protectable as trade secrets, that are made or conceived or first reduced to practice or created by me, either alone or jointly with others, during the period of my employment, whether or not in the course of my employment.
3. I agree that all Inventions developed during my employment with the Company will be the sole and exclusive property of the Company and are hereby assigned to the Company. I have been notified and understand that the provisions of this paragraph do not apply to any Invention that qualifies fully under the provisions of Section 2870 of the California Labor Code, which states as follows:
  - (A) ANY PROVISION IN AN EMPLOYMENT AGREEMENT WHICH PROVIDES THAT AN EMPLOYEE SHALL ASSIGN, OR OFFER TO ASSIGN, ANY OF HIS OR HER RIGHTS IN AN INVENTION TO HIS OR HER EMPLOYER SHALL NOT APPLY TO AN INVENTION THAT THE EMPLOYEE DEVELOPED ENTIRELY ON HIS OR HER OWN TIME WITHOUT USING THE EMPLOYER'S EQUIPMENT, SUPPLIES, FACILITIES, OR TRADE SECRET INFORMATION EXCEPT FOR THOSE INVENTIONS THAT EITHER: (1) RELATE AT THE TIME OF CONCEPTION OR DEDUCTION OF PRACTICE OF THE INVENTION TO THE EMPLOYER'S BUSINESS, OR ACTUAL OR DEMONSTRABLY ANTICIPATED RESEARCH OR DEVELOPMENT OF THE EMPLOYER; (2) RESULT FROM ANY WORK PERFORMED BY THE EMPLOYEE FOR THE EMPLOYER.
  - (B) TO THE EXTENT A PROVISION IN AN EMPLOYMENT AGREEMENT PURPORTS TO REQUIRE AN EMPLOYEE TO ASSIGN AN INVENTION OTHERWISE EXCLUDED FROM BEING REQUIRED TO BE ASSIGNED UNDER SUBDIVISION (A), THE PROVISION IS AGAINST THE PUBLIC POLICY OF THIS STATE AND IS UNENFORCEABLE.
4. I agree to assist the Company in every proper way to obtain for the Company and enforce patents, copyrights, and other legal protections for the Company's Inventions and products in any and all countries. I will execute any documents that the Company may reasonably request for use in obtaining or enforcing such patents, copyrights and other legal protections. My obligations under this paragraph will continue beyond the termination of my employment with the Company, provided that the

Company will compensate me at a reasonable rate after such termination for time actually spent by me at the Company's request on such assistance.

5. I understand that my employment by the Company creates a relationship of confidence and trust with respect to any information of a confidential or secret nature that may be disclosed to me by the Company that relates to the business of the Company or to the business of any parent, subsidiary, affiliate, customer or supplier, or the Company ("Proprietary Information"). Such Proprietary Information includes, but is not limited to, Inventions, Company products, marketing plans, product plans, business strategies, financial information, forecasts, personnel information, and customer lists.
6. I acknowledge that in the course of my employment, I may obtain confidential and/or proprietary information regarding the Company's customers ("Customers"), or the customer's affiliates or customers. "Confidential Information" includes: information relating to development plans, costs, finances, marketing plans, equipment configurations, data, access or security codes or procedures utilized or acquired, business opportunities, names of customers, research, and development; the terms, conditions and existence of customer Agreements, any information designated as confidential by the customer in writing or identified as confidential at the time of disclosure if such disclosure is verbal or visual/ and any copies of the prior categories or excerpts included in other material created by the Company. I hereby agree that all Confidential Information communicated to me by the Company's customers, its affiliates, or customers, whether before or after the effective date of the Customer agreement, shall be and was received in strict confidence, shall be used only for purposes of the Agreement with customer, and shall not be disclosed by me or the customer without the prior written consent of the customer. This provision shall not apply to Confidential Information which is (I) publicly known or becomes publicly known through no unauthorized act by me; (II) rightfully received from a third party (other than by the customer) without obligation of confidentiality; (III) already known by me without an obligation of confidentiality; (IV) disclosed without similar restrictions by the customer to a third party (other than the customer or the customer's customer); or (V) approved by the customer for disclosure. The provisions of this Section shall survive the term or termination of the customer's agreement with the Company for any reason.
7. At all times, both during my employment and after its termination, I will keep all such Proprietary Information in confidence and trust, and I will not use or disclose any of such Proprietary Information without the written consent of the Company, except as may be necessary to perform my duties as an employee of the Company. Upon termination of my employment with the Company, I will promptly deliver to the Company all documents, equipment, and materials of any nature pertaining to my work with the Company and I will not take with me any documents or materials or copies thereof containing any Proprietary.
8. I represent that my compliance with all the terms of this Agreement and my duties as an employee of the Company will not breach an invention assignment or proprietary information agreement with any former employer or other party. I represent that I will not bring me to the Company, or use in the performance of my duties for the Company, any documents or materials of a former employer that are not generally available to the public.
9. I hereby authorize the Company to notify others, including without limitation, customers of the Company of my future employer, any future employer of the terms of this Agreement and my responsibilities hereunder.
10. In the event of any violation of this Agreement by me, and in addition to any relief or remedies to which the Company is entitled, I agree that the Company shall have the right to an immediate injunction, and shall have the right to recover the Company's reasonable attorney's fees and court costs expended in connection with any litigation instituted to enforce this Agreement.

11. I understand that this Agreement does not constitute a contract of employment or obligate the Company to employ me for any stated period of time. This Agreement shall be effective as of the first day of my employment by the Company, namely: \_\_\_\_\_, 19\_\_\_\_.

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Employee:

Acknowledged and accepted by  
Pacific Softworks. Inc.

\_\_\_\_\_  
Signature

By: \_\_\_\_\_

\_\_\_\_\_  
Name (Please Print)

Title: \_\_\_\_\_

PACIFIC SOFTWARES, INC.

SUBSIDIARY OF THE REGISTRANT

Network Research Corp. Japan, Ltd.

## INDEPENDENT AUDITORS' CONSENT

We hereby consent to the use in this Registration Statement of Pacific Softworks, Inc. on Form SB-2 of our report dated January 29, 1999, appearing in the Prospectus, which is a part of such Registration Statement relating to the consolidated financial statements of Pacific Softworks, Inc. and Subsidiary, and to the reference to our Firm under the caption "Experts" in such Prospectus.

MERDINGER, FRUCHTER, ROSEN & CORSO, P.C.

Los Angeles, California  
March 26, 1999



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