

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM S-8  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

PACIFIC SOFTWARES, INC.  
(Exact Name of Registrant as Specified in its Charter)

California 77-0390628  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

703 Rancho Conejo Boulevard 91320  
Newbury Park, California (Address of Principal Executive Offices) (Zip Code)

Pacific Softworks, Inc.  
1998 Equity Incentive Program

Pacific Softworks, Inc.  
Restructuring Incentive Program  
(Full Title of the Plans)

William E. Sliney  
Pacific Softworks, Inc.  
President and Chief Financial Officer  
703 Rancho Conejo Boulevard  
Newbury Park, California 91320  
(Name and Address of Agent for Service)

(805) 499-7722  
(Telephone Number, Including Area Code, of Agent for Service)

Copies to:  
AARON A. GRUNFELD, ESQ.  
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CALCULATION OF REGISTRATION FEE

Amount of Title of Securities to be Registered Fee	Amount to be Registered	Proposed Maximum Offering Price Per Share (1)	Proposed Maximum Aggregate Offering Price (1)	Registration
Common Stock (2) \$432.96	328,000	\$5.00	\$1,640,000	
Common Stock (3)	112,500	\$13.188	1,480,353	390.81
Common Stock (4) 2,258.29	1,487,674	\$5.75	8,554,126	
Total....	1,927,924		\$10,991,875	\$3,082.06

(1) Estimated solely for the purpose of calculating the registration fee.

(2) These shares are offered under our 1998 Equity Incentive Program. Pursuant to Rule 457(h)(1), the filing fee for the 328,000 shares subject to options that have been granted is calculated based upon the weighted average of the various strike prices of such shares, which is \$5.00.

(3) Pursuant to Rule 457(h)(1), the filing fee for the 112,500 shares subject to options that have not yet been granted is calculated based upon the average of the bid and ask prices of our common stock reported on February 29, 2000, which is \$13.188 per share.

(4) These shares are offered under compensation agreements with Randall Gates, David Goldberg, Kaz Hashimoto, Howard Levy, Gary Saenger and

William Sliney, which are collectively referred to herein as the "Restructuring Incentive Program." Pursuant to the compensation agreements, Mr. Gates has the right to receive 250,000 shares through November 30, 2004; Mr. Goldberg has the right to receive 250,000 shares through November 30, 2004; Mr. Hashimoto has the right to receive 600,000 shares through November 30, 2004; Mr. Levy has the right to receive 80,000 shares through November 30, 2004; Mr. Saenger has the right to receive 7,674 shares through November 30, 2004; and Mr. Sliney has the right to receive 300,000 shares through November 30, 2004. Pursuant to Rule 457(h)(1) the filing fee for the 1,487,674 shares subject to options that have been granted is calculated based upon the weighted average of the various strike prices of such shares, which is \$5.75.

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#### INTRODUCTORY STATEMENT

Pacific Softworks, Inc., a California corporation (the "Company"), hereby files this registration statement on Form S-8 relating to 1,927,924 shares of our common stock, \$0.001 par value, issuable in connection with our:

- \* 1998 Equity Incentive Program and
- \* Restructuring Incentive Program (together, the "Plans").

This registration statement is intended to register the following for issuance by us:

1. 1,815,674 shares of common stock that we may issue pursuant to outstanding options previously awarded or awards previously granted under the Plans; and
2. 112,500 shares of common stock that we may issue pursuant to options or awards that may be subsequently awarded under the Plans.

Also, this registration statement, and the reoffer prospectus included herein, is intended to register shares of common stock that may be acquired in the future under the Plans by persons who may be considered our affiliates as defined by Rule 405 under the Securities Act.

The materials constituting the reoffer prospectus have been prepared pursuant to Part I of Form S-3, in accordance with General Instruction C to Form S-8.

REOFFER PROSPECTUS

PACIFIC SOFTWARES, INC.

Common Stock  
(\$0.001 par value)  
Up to 1,927,924 Shares

This Prospectus relates to up to 1,927,924 shares of common stock, \$0.001 par value, of Pacific Softworks, Inc. (the "Company") that were acquired or will be acquired pursuant to our compensatory arrangements and stock option plans (the "Plans") and which may be offered for resale from time to time by certain of our employees named in Annex 1 hereto (the "Selling Shareholders").

We will not receive any of the proceeds from the sale of the common stock (hereinafter, the "Securities"). We will pay all of the expenses associated with the registration of the Securities and this Prospectus. The Selling Shareholders will pay the other costs, if any, associated with any sale of the Securities.

Our common stock is quoted on the NASDAQ SmallCap Market under the symbol "PASW." On February 29, 2000, the average of the bid and ask prices reported per share of our common stock, as quoted on the NASDAQ SmallCap Market, was \$13.188.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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The date of this Prospectus is March 3, 2000.

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#### AVAILABLE INFORMATION

We have filed a registration statement on Form S-8 with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Securities Act"). This Prospectus omits some information and exhibits included in the registration statement, copies of which may be obtained upon payment of a fee prescribed by the Commission or may be examined free of charge at the principal office of the Commission in Washington, D.C.

We are subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act"), and in accordance therewith file reports, proxy statements and other information with the Commission. The reports, proxy statements and other information filed by us with the Commission can be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the Commission located at 500 West Madison Street, Room 1400, Chicago, Illinois 60606 and at the Jacob K. Javits Federal Building, 75 Park Place, New York, New York 10278. Copies of filings can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. In addition, the Commission maintains a website that contains reports, proxy and informational statements and other information filed electronically with the Commission at <http://www.sec.gov>.

#### INCORPORATION BY REFERENCE

The following documents previously filed by us with the Commission are incorporated in this registration statement by reference:

- (1) Our Prospectus filed on July 29, 1999 pursuant to Rule 424(b) of the Securities Act;
- (2) Our Quarterly Reports on Form 10-QSB for the quarters ended June 30, 1999 and September 30, 1999;
- (3) Our Current Report on Form 8-K filed on December 15, 1999;  
and
- (4) The description of our common stock contained in our registration statement on Form SB2 (Registration No. 333-75137) under the caption "Description of Capital Stock".

All reports and other documents that we file pursuant to Sections 13(a) and 13(c), 14 and 15(d) of the Exchange Act prior to the filing of a post-effective amendment which indicates that all securities offered hereunder have been sold or which deregisters all such securities then remaining unsold are incorporated by reference in this registration statement and to be a part hereof from the date of filing of such reports and documents.

## RISK FACTORS

We have reported losses for our last two years and if we do not become profitable our business could be adversely affected and the value of your investment could decline.

We reported losses of \$473,760 for the year ending December 31, 1998. We also incurred losses of \$1,336,390 for the nine months ending September 30, 1999 and expect to continue to incur operating losses for at least the next several quarters. These losses include about \$314,000 and \$248,000 paid to a former officer for consulting and administrative expenses. We also have an accumulated deficit of \$1,336,390 as of September 30, 1999. We can provide no assurance that we will be profitable in the future and if we do not become profitable our business could be adversely affected.

We may need additional funds to maintain our operations at existing levels. There can be no assurance that such financing will be available and the inability to obtain such financing could adversely affect our business.

If we continue to experience operating losses, we may require additional funds to maintain our operations at existing levels. The Company currently has 1,082,500 public warrants outstanding that were issued as a component of the unit in our July 1999 initial public offering. The warrants have an exercise price of \$7.50 and are callable under certain circumstances. In the event these warrants are exercised, additional working capital of \$8,118,750 would be available. There is no assurance that any of these warrants will be exercised or that any alternative source of funding will be available to us on acceptable terms. The inability to obtain sufficient funds from operations and external sources could adversely affect our business.

WE require additional funds in order to fully develop the business of an operating subsidiary. The lack of such funding could result in our inability to fully develop the subsidiary's business plan and could result in a loss of our investment in the subsidiary, adversely affecting our business.

We established iApplianceNet, Inc., a wholly-owned, development stage company, during 1999. iApplianceNet, Inc. was established to provide Internet-active merchandise and service store displays and the infrastructure that supports them. Significant research and development expenditures have been necessary for the subsidiary to reach the present stage of development. It has been determined that the best way to fund the next stage of development is to seek direct equity investment in the subsidiary. The final amount of capital and the dilution to our investment are not known at this time. The lack of such funding could result in the inability of iApplianceNet.com to fully develop its business plan and could result in a loss of our investment in the subsidiary.

Recent strategic investments in other operating companies may not be profitable and may result in a complete loss of our investment, adversely affecting our business.

We have commenced a program of identifying strategic investment opportunities in operating companies that are compatible and complementary to our plan of operations. In accordance with this program, we made an investment in Financial Services Provider Network, Inc. ("FSPN") in December 1999 and announced letters of intent to invest in RedFlag, Inc. in early 2000. If these companies do not achieve their business objectives, we may lose our entire investment which would adversely affect our business.

Because we expect that our operating results will continue to fluctuate, the results of any period should not be relied upon as an indication of future performance.

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 affect our operating subsidiaries, including:

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

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.

Because our operating subsidiaries depend on a small number of large orders, the loss or deferral of orders may have a negative impact on revenue which could lower the value of our shares.

Although none of our operating subsidiaries' customers has accounted for 10% or more of total revenue in any fiscal year, a significant portion of software license revenue in each quarter is derived 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 and adversely affected if our operating subsidiaries were unable to complete one or more substantial license sales in any future period.

Any decrease in the market acceptance of our operating subsidiaries Internet and web products or lack of acceptance of new products would decrease our revenue and lower the value of your investment.

Our future results depend heavily on continued market acceptance of our operating subsidiaries products in existing and new markets. Revenue from licenses of the suite of Internet and Web products and sales of services accounted for all revenue in the years ended December 31, 1998 and 1999. Although research and development expenditures for 1998 and 1999 have resulted in several new products, we cannot give any assurance that these products will be accepted in the marketplace.

The pricing strategy for new web products is based on flexible up-front fees with ongoing royalties and may not result in increased revenue which could reduce the value of your investment.

Historically our operating subsidiaries 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 customers' products. The strategy for new products is to seek flexible up-front fees with ongoing royalties measured against customers' units of production or run times. Our operating subsidiaries may be unsuccessful in implementing this change to product pricing. 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 customers of their underlying products.

Because our operating subsidiaries lack the name recognition, customer base and resources of other companies in the Internet software market, they may be unable to compete successfully which would reduce our revenue and the value of your investment.

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

- pricing pressures, resulting in reduced margins,
- decreased volume, resulting in reduced revenue, or
- the failure of 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 operating

subsidiaries' products faces intense competition from multiple competing vendors. Principal competitors include Wind River Systems, Inc., Integrated Systems, Inc., Mentor Graphics, Inc., Microware Systems Corporation and Microsoft Corporation. Many current and potential competitors have one or more of the following characteristics:

- longer operating histories,
- greater name recognition,
- access to larger customer bases, and
- substantially greater resources.

As a result, principal competitors may respond more quickly to new or changing opportunities and technologies. For all of the reasons stated above, our operating subsidiaries may be unable to compete successfully against our current and future competitors.

If Pacific Softworks is unable to raise market awareness of the Fusion brand, we may experience declining operating results which would diminish the value of your investment.

If Pacific Softworks fail to promote its brand successfully or if it incurs significant expenses promoting and maintaining the 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 competitors, Pacific Softworks 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 Pacific Softworks' products. We believe that brand recognition will become increasingly important as competition increases. Successfully promoting and positioning Pacific Softworks' brand will depend largely on the effectiveness of marketing efforts and the ability to develop reliable and useful products at competitive prices. As a result, Pacific Softworks may need to expand its financial commitment to creating and maintaining brand awareness among potential customers.

We may incur substantial costs in connection with intellectual property infringement claims that others may bring against us which could adversely affect our profitability and reduce the value of your investment.

In addition to technology developed internally, we and our operating subsidiaries use code libraries developed and maintained by third parties and have acquired or licensed technologies from other companies. Internally developed technology, code libraries, or the technology acquired or licensed may infringe on the intellectual property rights of others. These persons may bring claims against us or our operating subsidiaries 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.

We may be a party to litigation in the future to protect our intellectual property or as a result of our 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 or our operating subsidiaries to do one or more of the following:

- cease selling, incorporating, or using products or services that incorporate the challenged intellectual property,
- seek to 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
- redesign those products or services that incorporate the infringed intellectual property.

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

Because our ownership is concentrated, our officers and directors will be able to control all matters requiring stockholder approval including delaying or preventing a change in our corporate control or taking other actions of which individual shareholders may disapprove.

Our officers and directors beneficially own approximately 73% of the outstanding common stock. Our officers and directors will be able to exercise control over all matters requiring stockholder approval, and other investors will consequently have minimal influence over the election of directors or other stockholder actions.

As a result, our officers and directors could approve or cause the Company to take actions of which you disapprove or that are contrary to your interests. This ability to exercise control over all matters requiring stockholder approval could prevent or significantly delay another company from acquiring or merging with us at prices and terms that you might find to be attractive.

Issuance of our authorized preferred stock could discourage a change in control, could reduce the market price of our common stock and could result in the holders of preferred stock being granted voting rights that are superior to those of the holders of common stock.

The Company is authorized to issue preferred stock without obtaining the consent or approval of stockholders. The issuance of preferred stock could have the effect of delaying, deferring, or preventing a change in control. Management also has the right to grant superior voting rights to the holders of preferred stock. Any issuance of preferred stock could 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.

You may experience dilution if we are compelled to litigate or arbitrate claims that have been asserted by Golenberg & Co. for the right to purchase 10% of the Company.

In April 1999, we were notified that a merchant banker, Golenberg & Co., had asserted rights under a June 1998 letter agreement to purchase 10% of our then outstanding common stock for \$400,000. In June 1999, counsel for Golenberg reiterated this demand and advised us that Golenberg's claims were being evaluated for possible legal action. The Company intends to vigorously defend any such lawsuit. Investors could be significantly diluted if Golenberg successfully brings a lawsuit against us.

Trading in our common stock and warrants may be limited and could negatively affect the ability to sell your securities.

A public market for our common stock and our warrants has only existed since July 29, 1999, the date of our initial public offering. We do not know how liquid the market for our stock and warrants will remain and if the market becomes illiquid, it may negatively affect your ability to resell your securities.

#### SELLING SHAREHOLDERS

The table attached as Annex I hereto sets forth, as of the date of this Prospectus or a subsequent date if amended or supplemented, (a) the name of each Selling Shareholder and his or her relationship to us; (b) the number of shares of common stock each Selling Shareholder beneficially owns (assuming that all options to acquire shares are exercisable within 60 days, although options actually vest over three years); and (c) the number of Securities offered pursuant to this Prospectus by each Selling Shareholder. The information contained in Annex I may be amended or supplemented from time to time.

#### USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the Securities offered hereby.

#### PLAN OF DISTRIBUTION

We are registering the Securities on behalf of the Selling Shareholders. All costs, expenses and fees in connection with the registration of the Securities offered hereby will be borne by us. Brokerage commissions and similar selling expenses, if any, attributable to the sale of Securities will be borne by the Selling Shareholders (or their donees or pledgees).

The decision to sell any Securities is within the discretion of the holders thereof, subject generally to our policies affecting the timing and manner of sale of common stock by our affiliates. There can be no assurance that any shares will be sold by the Selling Shareholders.

Each Selling Shareholder is free to offer and sell his or her Securities at times, in a manner and at prices as he or she determines, subject to any restrictions that may be imposed by us upon transactions involving our senior executives. The Selling Shareholders have advised us that sales of Securities may be effected from time to time in one or more types of transactions (which may include block transactions) on the NASDAQ SmallCap Market, in the over-the-counter market, in negotiated transactions, through put or call options on the Securities, through settlement of short sales of Securities, or a combination of such methods of sale, at market prices prevailing at the time of sale, or at negotiated prices. These transactions may or may not involve brokers or dealers. The Selling Shareholders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their securities, nor is there an underwriter or coordinating broker acting in connection with the proposed sale of the Securities by the Selling Shareholders.

The Selling Shareholders may effect transactions by selling Securities directly to purchasers or to or through broker-dealers, which may act as agents or principals. These broker-dealers may receive compensation in the form of discounts, concessions, or commissions from the Selling Shareholders and/or the purchasers of Securities for whom the broker-dealers may act as agents or to whom they sell as principal, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions).

The Selling Shareholders and any broker-dealers that act in connection with the sale of Securities might be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act, and any commissions received by the broker-dealers and any profit on the resale of the Securities sold by them while acting as principals might be deemed to be underwriting discounts or commissions under the Securities Act. The Selling Shareholders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the Securities against certain liabilities including liabilities arising under the Securities Act.

Because Selling Shareholders may be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act, the Selling Shareholders will be subject to the prospectus delivery requirements of the Securities Act.

We have informed the Selling Shareholders that the anti-manipulative provisions of Regulation M promulgated under the Exchange Act may apply to their sales in the market.

Selling Shareholders also may resell all or a portion of the Securities in open market transactions in reliance upon Rule 144 under the Securities Act, provided they meet the criteria and conform to the requirements of Rule 144.

Upon being notified by the Selling Shareholder(s) of any substantive change(s) in the plan of distribution (which may include information regarding any material arrangement that has been entered into with a broker-dealer for the sale of Securities through a cross or block trade, the name of the participating broker-dealer(s), the number of Securities involved, the price at which the Securities were sold by the Selling Shareholders, the commissions paid or discounts or concessions allowed by the Selling Shareholders to their broker-dealer(s), and, where applicable, that the broker-dealer(s) did not conduct any investigation to verify the information set out in the prospectus), we will file a supplemental prospectus under Rule 424(c) of the Securities Act, setting forth the updated information.

#### LEGAL MATTERS

Certain legal matters will be passed upon for the Company by Resch Polster Alpert & Berger LLP, Los Angeles, California. As of February 29, 2000 members of Resch Polster Alpert & Berger LLP own 400 shares each of common stock and common stock warrants, and warrants to acquire a total of 40,000 units for \$5.25 each, with each unit comprised of one share of common stock and one warrant to acquire a share of common stock at \$7.50 per share.

## EXPERTS

The consolidated financial statements of Pacific Softworks, Inc. incorporated in this Registration Statement by reference to the Prospectus filed on July 29, 1999, have been so incorporated in reliance on the report of Merdinger, Fruchter, Rosen & Corso, P.C., independent accountants, given on the authority of said firm as experts in accounting and auditing.

No dealer, sales representative or any other person has been authorized to give any information or to make any representation not contained in this Prospectus in connection with this offering other than those contained in this Prospectus, and if given or made, such information or representation must not be relied upon as having been authorized by us or the Selling Shareholders. This Prospectus does not constitute an offer to sell, or a solicitation of any offer to buy, common stock by anyone in any jurisdiction in which an offer or solicitation is not authorized, or in which the person making an offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such an offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create an implication that the information contained in this Prospectus is correct as of any time after the date of this Prospectus.

ANNEX I

Selling Shareholder	Shares of Common Stock Owned Prior to Offering	Shares of Common Stock Offered for the Account of Selling Shareholder	Shares of Common Stock Owned After Offering	Percentage Owned After Offering
Glenn P. Russell	3,007,200	7,200	3,000,000	68%
William E. Sliney	2,880	2,880	0	n/a
Wayne T. Grau	15,000	15,000	0	n/a
Reuben Sandler, Ph.D	15,000	15,000	0	n/a
Mark Sewell	72,880	2,880	0	n/a
Sandra J. Garcia	72,880	2,880	0	n/a
Joseph Lechman	2,880	2,880	0	n/a

The number of shares of common stock owned by each person includes shares of common stock issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days of February 29, 2000.

The number of shares of common stock owned by each person after the offering assumes that such person exercises all of their options and sells all of their shares.

Mr. Russell has been our Chairman and Chief Executive Officer since 1992. He also served as president from 1992 to December 1999. Shares owned by Mr. Russell include 3,000,000 owned by the Russell Trust of which Glenn Russell and Laura Russell, husband and wife, are principal beneficiaries and 7,200 shares issuable upon exercise of options owned by Mr. Russell.

Mr. Sliney has been our President since December 1999 and Chief Financial Officer since April 1999. Shares owned by Mr. Sliney include 2,880 shares issuable upon exercise of options owned by Mr. Sliney.

Mr. Grau has been a director of Pacific Softworks since January 1999. Shares owned by Mr. Grau include 5,000 shares of common stock, 5,000 warrants and 15,000 shares issuable upon exercise of options owned by Mr. Grau.

Dr. Sandler has been a director of Pacific Softworks since January 1999. Shares owned by Dr. Sandler include 4,500 shares of common stock, 4,500 warrants and 15,000 shares issuable upon exercise of options owned by Dr. Sandler.

Mr. Sewell, previously a resident of the United Kingdom, was the general manager for our European operations from 1996 to 1999 and our Vice President, Business Development commencing in 1999. Shares owned by Mr. Sewell include 2,880 shares issuable upon exercise of options owned by Mr. Sewell.

Ms. Garcia joined us in 1993 as our regional sales manager and became Vice President, North American Sales in 1996. Shares owned by Ms. Garcia include 2,880 shares issuable upon exercise of options owned by Ms. Garcia.

Mr. Lechman has been our Secretary since March 1999. Shares owned by Mr. Lechman include 2,880 shares issuable upon exercise of options owned by Mr. Lechman

PART II

INFORMATION REQUIRED IN THE REGISTRATION

STATEMENT

Item 3. Incorporation of Documents by Reference.

The following documents previously filed by us with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, or as otherwise indicated, are incorporated herein by reference:

1. Our Prospectus filed on July 29, 1999 pursuant to Rule 424(b) of the Securities Act;
2. Our Quarterly Reports on Form 10-QSB for the quarters ended June 30, 1999 and September 30, 1999;
3. Our Current Report on Form 8-K filed on December 15, 1999; and
4. The description of our common stock contained in our registration statement on Form SB2 (Registration No. 333-75137) under the caption "Description of Capital Stock".

All reports and other documents that we file pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act are incorporated by reference in this registration statement and are a part of this registration statement from the dates of filing of the reports and documents, if the reports and other documents are filed prior to the filing of a post-effective amendment which indicates that all securities offered by this registration statement have been sold, or the securities which have not yet been sold are deregistered. Any statement contained in a document incorporated or deemed to be incorporated by reference in this registration statement shall be deemed to be modified or superseded for purposes of this registration statement to the extent that the statement is modified or superseded by a new statement. Any statement that is modified or superseded shall not be, except as modified or superseded, a part of this registration statement.

Item 4. Description of Securities.

Not applicable.

Item 5. Interests of Named Experts and Counsel.

As of February 29, 2000 the partners of Resch Polster Alpert & Berger LLP own 400 shares each of common stock and common stock warrants, and warrants to acquire a total of 40,000 units for \$5.25 each, with each unit comprised of one share of common stock and one warrant to acquire a share of common stock at \$7.50 per share.

Item 6. 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. 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 provide 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 nonmonetary 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. The Indemnification Agreements provide the registrant's officers and directors with further indemnification to the maximum extent permitted by the California General Corporation Law.

Item 7. Exemptions from Registration Claimed.

Not Applicable.

Item 8. Exhibits.

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this registration statement.

Item 9. Undertakings.

(1) We undertake:

(a) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represents a fundamental change in the information set forth in this registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this registration statement or any material change to such information in this registration statement; provided, however, that paragraphs (1)(a)(i) and (1)(a)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports that are filed by us pursuant to Section 13 or Section 15(d) of the Exchange Act and that are incorporated by reference in this registration statement.

(b) That, for the purpose of determining any liability under the Securities Act, each post-effective amendment shall be deemed to be a new registration statement relating to the securities offered in the amendment, and the offering of those securities at that time shall be deemed to be the initial bona fide offering of those securities.

(c) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(2) We also undertake that, for purposes of determining any liability under the Securities Act, each filing of the Company's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission this indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against liabilities (other than payment by us of expenses incurred or paid by a director, officer or controlling person 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, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether indemnification by us is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.



SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 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 March 1, 2000.

PACIFIC SOFTWARES, INC.

By: William E. Sliney  
President

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

Signature	Title	Date
William E. Sliney	President and Chief Financial Officer	03/01/00
Glenn P. Russell	Chairman of the Board	03/01/00
Wayne T. Grau	Director	03/01/00
Ruben Sandler, Ph.D	Director	03/01/00

EXHIBIT INDEX

Exhibit Number	Description
4.1	Amended and Restated Articles of Incorporation of Pacific Softworks, Inc., incorporated herein by reference to Exhibit 3.1 of the Company's Registration Statement on Form SB2 (Reg. No.3 3-75137)
4.2	Bylaws of Pacific Softworks, Inc., incorporated herein by reference to Exhibit 3.2 of the Company's Registration Statement on Form SB2 (Reg. No. 333-75137)
5.1	Opinion of Resch Polster Alpert & Berger LLP
23.1	Consent of Resch Polster Alpert & Berger LLP (included in Exhibit 5.1).
23.2	Consent of Merdinger, Fruchter, Rosen & Corso, P.C
99.1	1998 Equity Incentive Program

EXHIBIT 5.1

RESCH POLSTER ALPERT & BERGER LLP  
10390 SANTA MONICA BOULEVARD, FOURTH FLOOR  
LOS ANGELES, CALIFORNIA 90025  
(310) 277-8300

February 29, 2000

Pacific Softworks, Inc.  
703 Rancho Conejo Boulevard  
Newbury Park, CA 91320

Re: Registration Statement on Form S-8

Ladies and Gentlemen:

We refer to an aggregate of 1,920,250 shares of Common Stock, \$0.001 par value, of Pacific Softworks, Inc., a California corporation (the "Company"), which are the subject of a registration statement on Form S-8 (the "Registration Statement") to be filed with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"), which shares (the "Shares") may be offered and sold by certain officers and directors of Pacific Softworks, Inc. under its 1998 Equity Incentive Program and the Pacific Softworks, Inc. Restructuring Incentive Program (together, the "Plans").

We have examined originals, or a photostatic or certified copies, of such records of the Company, certificates of officers of the Company and of public officials and such other documents as we have determined relevant and necessary as the basis for the opinion set forth below. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such copies.

Based upon our examination mentioned above, we are of the opinion that the Shares have been validly authorized for issuance and, when (a) the Registration Statement has become effective under the Act, (b) the Shares have been issued and sold in accordance with the terms set forth in the Registration Statement and in the Plans, including, in the case of Shares issued pursuant to the exercise of options issued under the Plans, payment has been made for the underlying Shares, and (c) the pertinent provisions of any applicable state securities laws have been complied with, the Shares so issued will be legally issued and will be fully paid and nonassessable.

We consent to the filing of this opinion as an Exhibit to the Registration Statement and to the reference to our firm appearing on the cover of the Registration Statement. In giving this consent, we do not admit that we are within the category of persons whose consent is required under Section 7 of the Act or the General Rules and Regulations of the Commission.

Very truly yours,

Resch Polster Alpert & Berger LLP

EXHIBIT 23.2

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

We consent to the incorporation by reference in this Registration Statement of Pacific Softworks, Inc. on Form S-8 of our report dated January 29, 1999, except for notes 10, 13(d) and 14, as to which the date is July 15, 1999, relating to the consolidated financial statements of Pacific Softworks, Inc., and to the reference to our Firm under the caption "Experts".

MERDINGER, FRUCHTER, ROSEN & CORSO, P.C.

Los Angeles, California  
February 29, 2000

EXHIBIT 99.1

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

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compensated by the Company for their services as Directors or 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.



(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 re-vest 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.

- (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

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

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

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.

- (1) 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.

- (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, that 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.

- (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

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.



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

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

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

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

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.

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.

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;

- (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.



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

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.

- (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.

By

-----  
Duly Authorized on Behalf of  
the Board of Directors

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

(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: \_\_\_\_\_

\_\_\_\_\_