ATOSS Software AG
Munich

Prospectus
of 18 March 2000

for

1,090,909 Ordinary Bearer Shares without par value (no par shares),
each such Share representing a portion of € 1.00 of the registered share capital, such Shares being issued pursuant to a cash capital increase approved by the shareholders at an extraordinary meeting held on 16 February 2000
and registered in the Trade Register on 17 March 2000

and for

up to 109,091 Ordinary Bearer Shares without par value (no par shares),
each such Share representing a portion of € 1.00 of the registered share capital,
to the extent the Over-Allotment Option granted to the Syndicate Banks is exercised

Securities Identification Number 510 440
and each Share having full dividend rights beginning in fiscal year 2000

and

Company Report

for

3,916,576 Ordinary Bearer Shares without par value (no par shares)
(total registered share capital)

namely

1,090,909 Shares

(Securities Identification Number 510 440)
to be placed from the capital increase

and

2,825,667 Shares
(Securities Identification Number 510 442)
held by the current shareholders and restricted from resale
including
up to 109,091 Shares
initially made available by a current shareholder in the form of a securities loan
for the Over-Allotment Option and released per identification number

each representing a € 1.00 portion of the registered share capital, with full dividend participation rights in the fiscal year 2000

and for

up to 280,000 Ordinary Bearer Shares without par value (no par shares),
such Shares being issued pursuant to a conditional capital increase approved by the shareholders on 16 February 2000 and registered in the Trade Register on 10 March 2000
with full dividend participation rights for the year such Shares are being issued

Only the German version of this prospectus is binding.
This English translation is for convenience only.

TABLE OF CONTENTS

		Page
VI.	**BUSINESS**	32
1.	Overview	32
2.	Market Overview	33
3.	Strategy	34
4.	Software Products	35
5.	Services	38
6.	Sale of Hardware	38
7.	Marketing and Sales	38
8.	Research and Development	39
9.	Competition	39
10.	Investments	40
11.	Employees	40
12.	Intellectual Property Protection; Licenses, Trademarks and Patents	41
13.	Real Property Holdings	42
14.	Insurance Policies	42
15.	Legal Disputes	42
VII.	**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**	43
1.	Introduction	43
2.	Revenues	43
	2.1 Sales Revenues	43
	2.2 Other Operating Income	44
3.	Expenses	44
	3.1 Cost of Sales	44
	3.2 Development Costs	44
	3.3 Sales and Marketing Costs	45
	3.4 General Administrative Costs	45
4.	Operating Results	45
5.	Annual Group Net Profit/Loss	45
6.	Information regarding the Cashflow Statement	45

I. GENERAL INFORMATION

1. Responsibility for the Contents of the Prospectus

Pursuant to § 13 of the Securities-Prospectus Act and §§ 45 and 77 of the German Stock Exchange Act, ATOSS Software AG, — hereinafter also referred to as "ATOSS" or the "Company" — Paribas — branch office Frankfurt am Main (hereinafter referred to as "Paribas"), and Bayerische Landesbank Girozentrale hereinafter collectively referred to as the "Underwriters" — assume the responsibility for the contents of this offering prospectus (hereinafter referred to as the "Prospectus") and hereby state that, to the best of their knowledge, the information contained herein is correct and that no material facts have been omitted.

2. Inspection of Documents

The documents referred to in this Prospectus relating to the Company, as well as any future financial reports prepared by the Company, may be inspected at the offices of the Company, Am Moosfeld 3, 81829 Munich, at the offices of Paribas — branch office Frankfurt am Main, — Grüneburgweg 14, 60322 Frankfurt am Main, and also at the offices of Bayerische Landesbank Girozentrale, Brienner Strasse 18, 80333 Munich.

3. Subject of Prospectus

The subject matter of this Prospectus is the offering of up to 1,200,000 of the Company's no par ordinary bearer shares, each share representing a portion of € 1.00 in the registered share capital of the Company (hereinafter the "Shares" or "No Par Shares").

1,090,909 Shares, each representing a portion of € 1.00 in the Company's share capital, have been issued as part of a capital increase which was approved by the Extraordinary Shareholders' Meeting on 16 February 2000 and which was entered in the Trade Register of the Local Court of Munich on 17 March 2000. Up to 109,091 Shares, each representing a portion of € 1.00 in the Company's share capital, will be issued as part of a securities loan granted to Paribas by the current shareholder Andreas F. J. Obereder; Paribas may return the securities in the form of shares acquired either as part of a cash capital increase from authorized capital approved by the Management Board with the consent of the Supervisory Board or in the market.

The offered Shares will be entitled to full dividend rights as of the beginning of the current fiscal year, 1 January 2000.

Subject of this Prospectus as a business report within the meaning of § 73 para. 1 no. 2, of the Stock Exchange Act, is the Company's entire share capital, which is divided into 3,916,576 No Par Shares, as well as 280,000 No Par Shares from a conditional capital increase approved by the Shareholders' Meeting on 16 February 2000 and registered in the Trade Register on 10 March 2000; the conditional capital increase will be implemented to the extent that members of management and employees of the Company and enterprises affiliated with the Company exercise their rights as holders of convertible bonds and convert such bonds into shares of the Company. (See "General Information on the Company — Employees' Stock Option Program").

4. Reliability of Opinions and Forward-Looking Statements, Sources of Market Data Contained in this Prospectus

All opinions and statements regarding the future contained in this Prospectus are those of ATOSS Software AG and its management. Opinions and statements regarding the future are representations that use expressions such as "it is expected" "we believe" "in our opinion" "we proceed under the assumption," "in our view" and similar phrases. They reflect the opinions of the Company's management regarding possible future events, which are, however, uncertain and as such involve certain risks. Due to a variety of factors, actual events may substantially differ from the events forecasted in this Prospectus. Neither ATOSS Software AG nor its management or the Underwriters assume any responsibility for the accuracy of the opinions and forecasts contained in this Prospectus.

This Prospectus contains certain data regarding the German market for time management systems and regarding the competition in this market segment. This data is based on studies conducted on behalf of the Company by the Institute for Motivational Research of the Austrian Gallup Institute and the consulting firm Diebold Deutschland GmbH in 1998 and 1999. The chairman of the Company's Supervisory Board is a managing director of the Institute for Motivational Research of the Austrian Gallup Institute. All data regarding the German markets for software and software-related services are based on a study of Diebold Deutschland GmbH.

In the opinion of the Company, the above sources provide a representative overview of the markets in which the Company is active as well as of the competition in these markets. However, the Company assumes no responsibility for the accuracy of the data provided on the basis of these sources.

II. PROSPECTUS SUMMARY

It is recommended that investors base their investment decisions not solely on the following prospectus summary, but carefully read the entire Prospectus including the financial section.

1. Overview of ATOSS Software AG

ATOSS Software AG develops and distributes innovative standard software that enables businesses to plan and manage the cost-efficient deployment of personnel. As such, the products of the Company make a substantial contribution to the optimal use of personnel resources. With the help of the "TARIS" line of products offered by the Company, businesses are able to electronically record the working hours of their employees, automatically evaluate working hours in light of complex working hour models, and process working hours with existing payroll systems (*TARIS Time and Access*). Other software products of the Company allow for efficient and up-to-the-minute planning of the deployment of personnel resources in a manner tailored to the specific needs of each business (*TARIS Deployment of Personnel Resources*), the calculation of working hours, machine operating hours and costs for industrial manufacturing orders (*TARIS Recording of Operating Data*), and the planning, scheduling, cost and capacity controlling related to the execution of projects in the service sector (*TARIS Project and Costs*). ATOSS believes that the exploitation of efficiency-enhancing potentials for the planning and management of personnel deployment made possible by its products and consulting services is a central business management task and is essential to secure the future competitiveness of any business. For this reason, ATOSS Software AG describes its integrated software and service offer as a solution for the "Strategic Management of Work and Time" (SMAZ).

According to estimates of the Company, ATOSS software products are currently used in more than 650 businesses in a variety of different business branches. The Company estimates that, at the present time, ATOSS software is used to plan and manage the working hours of approximately 850,000 employees.

The long-term goal of ATOSS is to become the leading provider of specialized standard software and consulting services for strategic management of work and time in Europe, and to gain a significant share of the European market for integrated software solutions for the planning and deployment of personnel resources. To reach these goals, ATOSS plans to expand into other European high-wage countries, to establish an indirect distribution and service network, to further develop the TARIS product family — in particular, an adapted version which will make use of the software attractive also to businesses with less than 300 employees — and to expand its services into organizational consulting.

2. Financial Data regarding ATOSS Software AG and Earnings/Loss per Share (Consolidated Data according to U.S. GAAP)

The following table provides an overview of selected financial data of ATOSS Software AG for the fiscal years 1997, 1998 and 1999:

	1999	*1998*	*1997*
		DEM '000	
Revenues	35,111	23,025	20,489
Expenses			
Cost of sales	13,320	8,909	8,531
Development costs	2,940	1,778	1,824
Marketing and distribution costs	10,041	6,753	5,237
General administrative costs	5,991	4,539	4,224
Total costs:	32,292	21,979	19,816
Operating results	2,819	1,047	673
Other earnings (costs)			
Interest	–4	–63	31
Shares of minority shareholders	–101	12	–21
Other earnings (costs)	345	119	–34
Total other earnings	240	68	–23
Profits/losses before income taxes	3,059	1,114	650
Income taxes	1,581	703	327
Annual Net Profit	1,477	411	323
Shareholders' equity	6,157	1,395	962
Profits/losses per Share in DEM*	0.38	0.11	0.08

* The profits/losses per Share were calculated on the basis of the number of Shares present following the Offering (3,916,576 No Par Shares); if the Over-Allotment Option is fully exercised, up to 109,091 additional No Par Shares, each representing € 1.00 of the share capital, will be issued as part of a capital increase from authorized capital. These Shares were not taken into consideration for purposes of the calculation of the profits/losses per Share.

3. Summary of Offering

The Shares of ATOSS Software AG were offered for sale during the period from 14 March 2000 to 17 March 2000. The Offering was carried out under the sole management of Paribas in cooperation with Bayerische Landesbank Girozentrale as the underwriting bank and Julius Baer & Co. AG (Deutschland) as selling agent. The Shares were publicly offered in Germany and privately placed outside Germany; the Shares were not offered for sale in the United States, Canada or Japan.

3.1 *Offer Shares*

The Offering includes the following Shares:

- 1,090,909 No Par Shares, each representing a portion of € 1.00 in the Company's share capital, issued as part of a cash capital increase which was approved by the Extraordinary Shareholders' Meeting on 16 February 2000 and recorded in the Trade Register of the Company on 17 March 2000; and
- up to 109,091 No Par Shares, each representing a portion of € 1.00 in the Company's share capital, issued as part of a securities loan granted to Paribas by the current shareholder Andreas F.J. Obereder; Paribas may repay the Loan with shares which it acquires either from a cash capital increase approved by the Management Board and with the consent of the Supervisory Board or in the market.

The Offered Shares are entitled to full dividend rights as of the beginning of the fiscal year 2000, 1 January 2000.

3.2 *Over-Allotment Option*

The Company has granted Paribas — branch office Frankfurt am Main — an option to acquire up to 109,091 No Par Shares, each representing a portion of € 1.00 in the Company's share capital, to cover over-allotments. In the event the Over-Allotment Option is exercised, the Management Board — with the consent of the Supervisory Boards — plans to increase the Company's share capital by up to € 109,091.00 from authorized capital through the issue of up to 109,091 No Par Shares, while excluding the subscription rights of current shareholders. The Over-Allotment Option may be exercised within 30 calendar days following the date on which the Shares are listed for the first time.

3.3 *Price Range, Placement Price and Number of Allotted Shares*

The price range within which interested investors could make offers for the purchase of No Par Shares was set on 10 March 2000 at € 27 to € 30 and was published in the *Handelsblatt* on 14 March 2000. The placement price per share was set by Paribas and the Company at € 30 on 17 March 2000. Investors who have their orders placed via an Underwriter may obtain information regarding the number of allotted Shares from such Underwriter beginning on 20 March 2000. The placement price is expected to be payable on 22 March 2000.

3.4 *Stock Exchange Listing*

An application has been filed for admission of the Company's entire share capital to the regulated market with trading on the *Neuer Markt* segment of the Frankfurt Stock Exchange. Admission was granted on 17 March 2000. The first day on which the Shares offered and placed in accordance with this prospectus will be quoted on the *Neuer Markt* is expected to be 21 March 2000.

3.5 *Voting Rights*

Each No Par Share shall entitle its holder to one vote at the Company's General Shareholders' Meeting.

3.6 *Dividend Rights*

The Shares will be entitled to full dividend rights as of the beginning of the fiscal year 2000, 1 January 2000.

3.7 *Delivery of Shares and Payment*

The delivery of Shares against payment is expected to take place on 22 March 2000. The Shares will be represented by permanent global certificates with global dividend coupons, which will be deposited with Clearstream Banking AG, Frankfurt am Main. Under the Company's articles of association, shareholders are not entitled to demand delivery of physical share certificates.

III. THE OFFERING

1. General

1.1 Offered Shares

The Shares offered in this Prospectus were publicly offered in the Federal Republic of Germany, and were privately placed outside the Federal Republic of Germany (with the exception of the United States, Canada and Japan) in the period from 14 March 2000 to 17 March 2000. The Offering consists of a total of 1,200,000 Shares, each representing a portion of € 1.00 in the Company's share capital.

1,090,909 Shares have been issued as part of a cash capital increase approved by the Extraordinary Shareholders' Meeting on 16 February 2000 and registered in the Trade Register on 17 March 2000. Up to 109,091 Shares will be issued as part of a securities loan granted to Paribas by the current shareholder Andreas F. J. Obereder. The initial securities identification code (WKN) of the Shares will be 510 442; for any Shares allotted under this Offering, however, Clearstream Banking AG will change the securities identification code to 510 440. Paribas will repay the securities loan in the form of shares acquired through exercise of the Over-Allotment Option or shares acquired in the market.

The price range within which investors could make offers for the purchase of Shares, including offers subject to price limits, was set at € 27 to € 30 on 10 March 2000 and was published in the *Handelsblatt* on 14 March 2000. The offer price per share was fixed by the Underwriters and the Company at € 30 on 17 March 2000 on the basis of an order book created in the book-building process. It is expected that investors who have placed orders with an Underwriter may obtain information regarding the number of allotted Shares from such Underwriter beginning on 20 March 2000. Delivery of the Shares against payment of the offer price is expected to take place on 22 March 2000.

The Underwriters shall be under no obligation to accept offers for the purchase of Shares. The Underwriters reserve the right to accept offers in part only.

The Shares from the aforementioned cash capital increase were issued on 15 March 2000 at an issue price of € 1.00 per share, and were acquired by Paribas — branch office Frankfurt am Main — for the account of the underwriters. Such Shares are entitled to full dividend rights as of the beginning of the fiscal year 2000, 1 January 2000. The subscription rights of current shareholders were excluded. Following the record of the capital increase in the Trade Register, which took place on 17 March 2000, the entire share capital of the Company will amount to € 3,916,576.00, divided into 3,916,576 No Par Shares in ordinary form, each Share representing a portion of € 1.00 in the Company's share capital. Following completion of the Offering (including the Over-Allotment Option), the current shareholders hold at least 70.2% of the Company's share capital; if the Over-Allotment Option should not be fully exercised and covered by authorized capital, this percentage may increase to up to 72.1%. Following completion of the Offering, publicly held shareholdings amount to at least 27.9%; if the Over-Allotment Option is fully exercised, this percentage may increase to up to 29.8%.

1.2 Over-Allotment Option

The Company has granted Paribas an option to acquire up to 109,091 No Par Shares, each representing a portion of € 1.00 in the Company's share capital, to cover over-allotments. If the Over-Allotment Option is exercised, Paribas shall furthermore be obligated to pay to the Company for each share a premium equal to the offer price per share discounted by € 1.00. If the Over-Allotment Option is exercised, the Management Board, with the consent of the Supervisory Board, plans to increase the Company's share capital from authorized capital by up to € 109,091. The subscription rights of current shareholders will be excluded for purposes of such capital increase. The Over-Allotment Option may be exercised within 30 days of the date the Shares are first listed on the stock exchange. The Underwriters shall have the right to cover over-allotments first with shares made available to Paribas by the current shareholder Andreas F. J. Obereder in the form of a securities loan.

1.3 Preferential Allotment

The Company granted a preferential allotment of up to 60,000 Shares to its employees and business associates. Preferential allotments will be effected at the placement price determined in the book-building process and will be subject to the general terms and conditions of the Offering.

1.4 *Underwriters*

The Underwriters for this Offering are Paribas — branch office Frankfurt am Main — Grüneburgweg 14, 60322 Frankfurt am Main, and Bayerische Landesbank Girozentrale, Brienner Strasse 18, 80333 Munich. The subscription agent for this Offering will be Julius Baer & Co. AG, Bahnhofstraße 36, CH 8010 Zurich.

2. Ownership Structure of the Company

The following table provides an overview of the ownership structure of the Company both before and after placement of the Shares.

Shareholder	*Shareholdings prior to cash capital increase by € 1,090,909.00 and prior to placement of Shares*		*Shareholdings after placement of Shares (if Over-Allotment Option is not exercised)*		*Shareholdings after placement of Shares (if Over-Allotment Option is fully exercised and covered with shares from authorized capital)*	
	Number of Shares	*Percentage*	*Number of Shares*	*Percentage*	*Number of Shares*	*Percentage*
		Approx.		*Approx.*		*Approx.*
Andreas F. J. Obereder	1,958,244	69.3	1,958,224	50.0	1,958,244	46.7
Ursula Obereder	260,964	9.2	260,964	6.7	260,964	6.5
Dr. Thomas Barth	234,860	8.3	234,860	6.0	234,860	5.8
Eva Barth	26,104	0.9	26,104	0.7	26,104	0.6
Dr. Burkhard Scherf	78,308	2.8	78,308	2.0	78,308	1.9
Maria Scherf..	26,104	0.9	26,104	0.7	26,104	0.6
Dr. Boris Mariacher*	175,676	6.2	175,676	4.5	175,676	4.3
Jürgen Schmaderer	11,083	0.4	11,083	0.3	11,083	0.3
Günter Schmaderer	11,083	0.4	11,083	0.3	11,083	0.3
Volker Gruber	3,501	0.1	3,501	0.06	3,501	0.06
Knorr Capital Partner AG	39,740	1.4	39,740	1.0	39,740	1.0
Publicly held shareholdings	—	—	1,090,909	27.9	1,200,000	29.8
Total	2,825,667	~100%**	3,916,576	~100%**	4,025,667	~100%**

* Dr. Boris Mariacher holds 138,076 Shares as trustee for employees, advisers and Supervisory Board members of the Company. He also holds in trust 37,600 Shares for family members of Mr. Andreas F. J. Obereder.

**Any deviations from 100% are due to the rounding of numbers.

The shareholders Andreas Obereder, Ursula Obereder, Dr. Thomas Barth, Eva Barth, Dr. Burkhard Scherf, Maria Scherf, Jürgen Schmaderer, Günter Schmaderer, Volker Gruber and Knorr Capital Partner AG have formally agreed to coordinate and unanimously exercise their voting rights with regard to certain important resolutions; any shares held in trust for employees and advisers, likewise, are subject to the unanimous exercise of voting rights. Following placement of the Shares, the holdings of the above shareholders will amount to approximately 72.1% of the Company's share capital. If the Over-Allotment Option is fully exercised, this percentage will be reduced to 70.2% (see also "Risk Factors — Control of the Company, Concentration of Shareholdings, Unanimous Exercise of Voting Rights of Major Current Shareholders").

3. Lock-Up Agreements

Pursuant to the rules of the *Neuer Markt*, the Company may not, for a period of 6 months from the date the Shares are admitted to the *Neuer Markt*, directly or indirectly, offer or sell any additional shares, announce the offer or sale of such shares, or take any other action having the same economic effect as a sale of shares. The Company further shall enter into an agreement with each current shareholder pursuant to which each such shareholder agrees to refrain from a sale of shares during the aforementioned period.

To secure due performance of the above obligation and to facilitate verification by Deutsche Börse AG, the Shares of the Company carry two different securities identification codes. The securities identification code for the 1,090,909 Shares issued as part of the capital increase approved by the Extraordinary Shareholders' Meeting on 16 February 2000 is 510 440. The securities identification code for the remaining 2,825,667 Shares is 510 442. These Shares will be held in a frozen collective securities account to ensure that no changes are made to the account balance during the period of the lock-up agreement.

In the event that Paribas, in order to satisfy an excess demand for Shares, should intend to place more Shares than the number of Shares allotted to Paribas as part of the aforementioned capital increase, Mr. Andreas F. J. Obereder has agreed to make up to 109,091 additional shares available to Paribas in the form of a securities loan. Clearstream Banking AG shall immediately change the securities identification code of any additional shares placed by Paribas from 510 442 to 510 440. Paribas will repay the securities loan in the form of shares acquired through exercise of the Over-Allotment Option or shares acquired in the market.

On the expiration date of the lock-up agreement, the securities held under both securities identification codes will be automatically merged under securities identification code 510 440, and securities identification code 510 442 will be terminated.

The Company and the shareholders have agreed that, for a 12-month period following the aforementioned 6-month period, they will not offer or sell any shares, announce the offer or sale of any shares, or take any other action having the same economic effect as a sale of shares.

Apart from the foregoing lock-up agreements, the current shareholders have agreed, amongst themselves and with the Company, upon additional restrictions on the sale of shares. These restrictions, which are described in more detail below, may be modified or eliminated by mutual agreement of the respective parties.

With regard to 43,076 Shares of the Company which were granted to employees and advisers of the Company as part of a pre-listing participation program and are currently held in trust for the employees by Dr. Boris Mariacher, the shareholders have agreed, vis-à-vis the Company, to the following restrictions on the sale of shares for a period of three years from the date the Shares are first listed on the stock exchange: employees may sell no more than 20% of their shares at the end of the first year, an additional 20% at the end of the second year, and the remaining shares at the end of the third year. With regard to 93,776 additional shares which shall be granted to employees and advisers of the Company as part of a pre-listing participation program, the eligible parties have agreed, vis-à-vis the Company, to sell no more than 20% of their respective shareholdings at the end of any given year during the 5-year period following the date the Shares are first listed on the stock exchange. Moreover, shareholders may dispose shares held in trust for them during the aforementioned time periods only with the consent of Mr. Andreas F. J. Obereder.

The current shareholders Ursula Obereder, Dr. Thomas Barth, Eva Barth, Dr. Burkhard Scherf, Maria Scherf, Jürgen Schmaderer and Günter Schmaderer each have agreed, subject to certain exceptions, to sell no shares within the first three years following the date the Shares are first listed on the stock exchange, and, after three years but before five years following the listing date, to sell no more than 15% of the shares held by each of them without the consent of Mr. Andreas F. J. Obereder. The current shareholder Andreas F. J. Obereder has agreed to the same restriction, subject to the provision that consent to a sale of shares may be given by any two of the remaining current shareholders identified above. Pursuant to an agreement executed with Andreas F. J. Obereder, Ursual Obereder, Dr. Thomas Barth and Dr. Burkhard Scherf on 21 May 1999, Knorr Capital Partner AG has agreed to sell no more than 50% of the shares held by it at the time the Shares are first listed on the stock exchange, until 31 May 2002.

4. Voting Rights

Each Share shall entitle its holder to one vote.

5. Dividend Rights

The Shares shall be entitled to full dividend rights as of the beginning of the fiscal year 2000, 1 January 2000.

6. Stock Exchange Listing

In connection with the Offering, application has been made for admission of the Company's entire share capital to the regulated market with trading on the *Neuer Markt* segment of the Frankfurt Stock Exchange. Admission was granted on 17 March 2000. The first day the Shares offered and placed under this Prospectus will be quoted on the *Neuer Markt* is expected to be 21 March 1999. Shares subject to the lock-up agreement (section III. 3.) will be listed only after expiration of the 6-month period following the date the Shares are admitted to trading on the *Neuer Markt*.

In the event the Over-Allotment Option is exercised, an application for admission to the regulated market with trading on the *Neuer Markt* will be filed for the additional Shares resulting therefrom.

7. Use of Issue Proceeds

The Company plans to use the net issue proceeds from this Offering, which are expected to amount to approximately € 29,418,000 (if the Over-Allotment Option is fully exercised, approximately € 32,548,000), to expand its business activities internationally, to increase its marketing and distribution efforts domestically and abroad, to further develop existing products and to develop new products, and to finance possible acquisitions. In particular, the Company has the following plans:

- to establish distribution centers or subsidiaries in France, the Benelux countries, Scandinavia and Great Britain in the short and medium term;
- to expand its direct and indirect distribution networks;
- to increase the capacity of its software for the analysis of working hours and operating data;
- to increase the functionality of its project management software system; and
- to develop a LINUX-compatible version of the TARIS software product family.

All costs incurred in connection with this Offering will be borne by the Company. Such costs will amount to approximately € 3,309,000, and if the Over-Allotment Option is fully exercised to approximately € 3,482,000; the fees payable to the Underwriters will amount to approximately € 1,756,000 and, if the Over-Allotment Option is fully exercised, to approximately € 1,929,000 of this amount.

8. Delivery of Shares and Payment

The delivery of Shares against payment is expected to take place on 22 March 2000. The Shares will be represented by permanent global certificates with global dividend coupons, which will be deposited with Clearstream Banking AG, Frankfurt am Main. Under the Company's articles of association, shareholders are not entitled to demand delivery of physical share certificates.

9. Notices, Payment Agents

The Company will publish any notices regarding the Shares in the Federal Gazette (*Bundesanzeiger*) and in at least one national newspaper approved by the Frankfurt Stock Exchange.

Bayerische Landesbank Girozentrale acts as payment agent.

10. Securities Identification Codes

The German Securities Identification Code (WKN) for the Shares offered hereunder (see section III.1.1) is: 510 440;

the securities identification code (WKN) for Shares subject to the lock-up agreement is: 510 442;

the International Securities Identification Number (ISIN) for the Shares is: DE 0005104400;

the Common Code for the Shares is: 010914434.

The symbol for the Neuer Markt is: AOF.

11. Designated Sponsors for the Neuer Markt

Paribas — branch office Frankfurt am Main — and Bayerische Landesbank Giro Center are the Company's designated sponsors for the *Neuer Markt*.

IV. RISK FACTORS

Prior to making any decision concerning the purchase of shares, future investors should thoroughly read and assess the following risk factors together with other information included in this prospectus.

1. Intensive Competition

The market to which the Company appeals is characterised, particularly in the field of software for controlling time management systems in Germany, by a large number of providers that compete with one another. The Company expects that such competition will also continue in the future and will further intensify. The major sources of this intense competition are:

- Providers of hardware for time management systems, who develop and market self-integrating software for access control systems and automation for administrative procedures in personnel departments of companies, e.g. Interflex Datensysteme GmbH, Isgus Zeittechnik GmbH and Timesys AG;
- Providers specialised in software for time management systems, such as Breitenbach Software Engineering GmbH and tisoware Gesellschaft für Zeitwirtschaft mbH;
- Providers of standard business software from the enterprise resource planning (ERP) and human resources (HR) area, who also offer time management solutions as part of their overall solutions ;
- Efforts of potential customers to carry out internal development.

Some of the Company's current and potential competitors have superior financial, technical, marketing-specific and other resources than the Company. In particular, the Company could be threatened if the range of software systems on offer for the planning and management of personnel allocation within companies was intensified by established ERP providers such as SAP AG. Such providers could couple competing software products with their already introduced and as market standard accepted ERP systems, thus making them appear more attractive to customers than the goods and services offered by the Company.

Should the Company be unable to prevail in the competition against current and potential competitors, it will be threatened by price reductions, lower turnover, and loss of market share. Each of these could have a continuing negative influence upon the business, the operating result, and the financial situation of the Company. For more detailed information concerning the competitive situation, see "Business — Competition".

2. Technological Progress

The market for the Company's software is undergoing continuing change in terms of the relevant technology and customer needs. The introduction of new products, technologies, industry standards or statutory requirements concerning the software can render existing products obsolete and undermine their marketability. The growth and future business results of the Company will depend upon the Company's ability to recognise and promptly assess development trends in the software market, to quickly develop and introduce new products and new versions of existing products, and, where possible, to establish its products as the market standard. Thus both incorrect assessments on the part of the Company and delays in development as well as marketing problems could have a considerably detrimental effect on the Company's business, financial and earnings situation.

3. Need to Expand the ATOSS Software AG's Sales Organisation

The Company must expand its direct sales in order to promote the level of awareness of its products and services in the market and to increase turnover. The Company's products require highly qualified sales personnel who recognise the frequently complex requirements of the customers with respect to personnel allocation planning and management systems, and who can meet such requirements by providing qualified advice in light of the capabilities of the ATOSS software. Due to the lack of personnel in the software specialist employment market, there is tough competition for qualified sales personnel. Should the Company fail to expand sales, it is possible that product sales and hence its turnover will not increase, which would have a detrimental effect on the Company's business, financial situation and operating results.

4. Dependence on Sales Partners

ATOSS's company strategy includes the development of an indirect marketing and sales channel for its products (in this respect, see "Business — Strategy" and "Business — Marketing and Sales") by which the Company intends to open up, in particular, the market of enterprises having 50 to 300 employees. These partners include companies that sell and implement ATOSS software, together with so-called original equipment manufacturers ("OEMs"), which integrate the ATOSS product family, TARIS, into their own software products. Compared to direct sales, indirect sales are distinguished by lower margins. Although the Company believes that its sales strategy is advantageous, no warranty can be given that it will actually be successful and will generate higher turnover and sales revenue. There can be no guarantee that ATOSS will be in a position to acquire attractive partners for the sale of its products, that partners acquired will generate the expected turnover or that the partners will continue to be associated with the Company. The agreements between the Company and such partners do not preclude the parties from also distributing competing products.

5. Need to Develop Additional Consulting Capacity; Risks of Expansion into Organisation Consulting

Customers acquiring a licence for ATOSS software normally avail themselves of the Company's service offer, including consulting, support and training. In the Company's opinion, an increase in turnover both in terms of software licensing and consulting services will depend on its ability to offer its customers such services and to train its partners to deal with its products. In order to meet these requirements, the Company intends to hire additional service personnel. However, competition for attracting new service employees is harsh.

Newly appointed service personnel require settling in and training periods before their engagement with the Company fully pays off. Should the services offered by the Company be unable to keep step with its expansion, there will be a danger that customers will no longer be satisfied with the services offered by the Company. Any resultant loss of customers would have a detrimental effect on the Company's business.

The Company is planning to expand its consulting services by advising organisations consulting on strategic employment and time management. While considerable economies of scale effects are possible in the software licensing area in the event of high numbers of licences, a growth of turnover in the services area generally requires a corresponding investment in personnel. Should the Company not succeed in achieving attractive consulting fees with respect to organisation consulting, the investments made in the consulting personnel could have a negative effect on the Company's earnings situation.

6. Dependence on Key Personnel

To a large extent, ATOSS's success is dependent on Management Board members, qualified managers and employees. A not insignificant number of employees and managers have been with the Company only for a short time. The loss of Management Board members, managers or employees holding key positions, particularly in the area of research and development, could have a substantially detrimental effect on ATOSS's business, financial and earnings situation. As the pressure of competition in the software market increases, the risk of loosing qualified employees which may not be replaced by new, suitable employees grows. Even today, there is a lack of qualified personnel in the employment market as a result of the strong growth of the software industry.

In order to limit the risk of losing know-how as a result of important employees being poached, employees remain subject to a confidentiality covenant even following conclusion of their employment with the Company. Management Board members are subject to a non-competition clause for a two year period following conclusion of their employment. Moreover, the Company is endeavouring to tie employees to it by means of an employee stock option plan. Nevertheless, the Company can not guarantee that Management Board members, managers and employees holding key positions will remain faithful to the Company for the long term. The Company is seeking to expand its personnel basis in such a way that there will always be a sufficiently qualified personnel base for key positions at hand.

7. Dependence on TARIS

The Company's future development largely depends on the acceptance of the TARIS product family. The Company does not offer any software products outside the area of software for the planning and management of personnel allocation in enterprises. Currently, its consulting services involve almost exclusively implementation and operation of TARIS. Should the Company's plan to establish TARIS as a leading software module fail, this could have ongoing negative effects on ATOSS's business, financial and earnings situation.

8. **Y2K Problem**

As part of its development work, the Company has taken into account the requirements of the year 2000 with respect to software products. It warranted to its customers the Y2K compatibility of its software. The Company is unaware of any customers who might have had problems during the changeover from 31 December 1999 to 1 January 2000 or in any other way connected with the changeover to the year 2000 due to characteristics in the ATOSS software. It is, however, possible that the systems and software products of other manufacturers used by customers are not Y2K compatible, and that such defects will reveal themselves only in the longer term, which could then lead to accusations calling the Company's products as the cause of such defects. Any resulting legal disputes could lead to detrimental effects for ATOSS's business, financial and earnings situation.

9. **Expansion of the Company's Business Abroad**

To date, the Company has operated, above all, in the Federal Republic of Germany; in 1999, it expanded its business to Austria and Switzerland. The Company plans to intensify its international business particularly in France, the Benelux countries, Scandinavia and the United Kingdom. Business abroad is associated with a series of risks upon which the Company frequently has no influence. For example, the following factors could have a permanently detrimental effect on the Company's ability to successfully sell its products abroad and to operate profitable also on an international level:

- Expenses associated with the adoption of products and product documentation for abroad, e.g. concerning the language and specific time management software requirements under industrial and privacy laws;
- Dependence on marketing and sales partners in the relevant nations;
- Difficulties associated with collecting debts and longer term loans;
- Difficulties and expenses associated with obtaining personnel and running the business abroad; and
- Insufficient or detrimental provisions for the protection of intellectual property in states outside the European Union.

The occurrence of the above-mentioned problems could devalue the Company's planned high investment in developing its international business, and hence have an ongoing detrimental effect on the Company's earnings and financial situation.

10. **Risk of Product Defects, Warranty Risks, No Product Liability Insurance**

The software developed by the Company may contain unknown errors that may result in deterring the market's acceptance of the Company's products. Given that the Company's software ensures efficient use of an enterprise's personnel and, in this respect, is supposed to realise considerable savings potential, software failure could be associated with considerable additional work and costs for customers. The contractual agreements used by the Company usually contain provisions that are supposed to limit the Company's risk resulting from any warranty or other liability claims asserted against it.

It is, however, possible that the contractual provisions limiting liability will not be valid in all cases and legal systems, or that they may not apply to a specific event giving rise to damage. Due to the fact that the Company has not to date had any significant warranty claims asserted against it, it has not taken out any product liability insurance policy covering such risks. Therefore if proceedings were successfully brought against it in future for product defects or defective advice, it would be fully liable to meet the claims asserted against. Thus the risk of product liability could have a permanent negative effect upon the Company's financial situation.

11. **Directing Growth**

The development of the ATOSS Software AG with its previous and planned growth rates place great demands on the ability to integrate new employees, and requires a growth-oriented organisational structure.

In order to effectively direct the Company's expansion, it must improve its operational systems and procedures as well as its company management instruments (*Steuerungsinstrumente*) in a timely manner. Should it fail to set up operational systems in important company areas and to integrate them into the Company's expansion, there will be a threat of significant losses that could have a detrimental effect on the Company's business, financial situation and operating result.

12. Risk Associated with Planned Acquisitions and Joint Ventures; Dilution

For the next years, the Company plans to expand particularly its marketing, sales and service capacity also by acquiring companies or divisions thereof. The Company will conscientiously prepare and assess such projects. Nevertheless, significant entrepreneurial risks arise as a result of acquisitions. Such risks could have seriously negative effects on the Company's results and continued existence. The Company cannot warrant for the success of its acquisition projects.

In order to expand its business, the Company is also seeking to enter into strategic joint ventures. Should such measures not result in the desired success, this would have detrimental effects on the Company's positioning, and hence on its future business results.

The Company's authorised capital permits it also to pursue potential acquisitions by issuing shares to the shareholders of the target company. Such an acquisition, implemented by means of a capital increase by contributions in kind, always excludes the subscription rights of the current shareholders, and can therefore dilute the holdings of the current shareholders in the Company.

13. Tax Situation

For the 1995 to 1997 fiscal years, an external tax audit of the Company was conducted resulting in additional payments of corporate and turnover tax. The Company has modified the methods addressed by such audit, which involved allocation of trade receivables for goods and services according to period and the creation of reserves, such that, in the Companies opinion, since 1998 such methods have complied with the requirements imposed by the tax authorities as part of the audit. It therefore believes that its tax statements prepared after 1997 were submitted in conformity with the applicable legal provisions and requirements of the tax authorities, and therefore does not expect any changes to the tax assessment notice requiring additional payments in the event of a further external audit. Nevertheless, it cannot be excluded that the Company will be confronted by retroactive demands for tax payments by the tax authorities.

14. Protection of Intellectual Property, Risk of Infringement of Industrial Property Rights

The entrepreneurial success of ATOSS Software AG depends to a large extent on the protection of its intellectual property rights for the software it has developed. The Company is endeavouring to protect its intellectual property by means of confidentiality agreement with Management Board members, employees and third parties, as well as by means of copyright and trademark protection. No warranty may be given, however, that these measures will be sufficient to prevent independent development of similar technology by competitors, or that the relevant statutes sufficiently protect the Company's intellectual property.

ATOSS Software AG is unaware of having infringed any patents or other industrial property rights of third parties by virtue of its business. However, the Company expects that software developers will have more infringement claims asserted against them in future due to the fact that competition in the industry is increasing and the functions of products offered by various providers may overlap. Successful proceedings brought against ATOSS for alleged or actual infringement of industrial property rights could have a significantly negative effect upon ATOSS's business, financial and earnings situation.

15. Fluctuations in Quarterly Results

It cannot be excluded that, in particular, the Company's quarterly results will be subject to major fluctuations which could result in substantial volatility of the shares offered. A large number of factors could precipitate fluctuations in the results, such as introduction of new or improved products by the Company or its competitors, market acceptance of the Company's products, its pricing policies, its order book, changes in operating expenses, the success of co-operation with indirect sales partners, and the introduction or repeal of state regulations.

16. Control of the Company, Concentration of Shareholdings, Uniform Voting by Major Shareholders

Even after the IPO, the shareholders will still hold 72.1% of the Company's registered capital. Should the Over-Allotment Option be fully exercised and covered by the authorised capital, such shareholdings will be reduced to 70.2%. Together with their family members, the Management Board members, Mr Andreas F. J. Obereder, Dr. Thomas Barth and Dr. Burkhard Scherf, will jointly hold approximately 67% of the Company's share capital following the IPO (or 63% in the event of full exercise of the Over-Allotment Option).

The aforementioned shareholders and shareholders Günter and Jürgen Schmaderer and Volker Gruber have entered into a contractual agreement to co-ordinate in advance the votes at general shareholders' meetings to which they are entitled by virtue of their shareholdings with respect to important resolutions, and to exercise such voting rights uniformly. Resolutions requiring uniform exercise of such voting rights include, *inter alia*, modifications to the articles of association, capital measures, the appointment of the auditor, and the allocation of dividends. Employees holding stock by virtue of a pre-listing participation program are also bound by this agreement. (For more details see "General Information concerning the Company — Pooling Agreement" and "Pre-IPO Stock Option Programme"). In relation to co-ordination among the aforementioned shareholders prior to uniform exercise of voting rights, each single share in the Company entitles the holder to one vote. Based on the holding ratios as at the date of this Offering, Mr Andreas F. J. Obereder holds more than 65% of the voting rights with respect to internal issues; he therefore has the possibility of causing the other aforementioned shareholders to vote in a manner that suits him.

Therefore, even after the placement, Mr Andreas F. J. Obereder, in particular, will have a significant influence on all important decisions concerning the Company's business, as well as on the future composition of the Supervisory Board and therefore on the future composition of the Management Board. Due to the concentration of the shareholding and the agreements in place between the current shareholders, Mr Andreas F. J. Obereder is in a position to control the result of important entrepreneurial decisions that require shareholder consent, irrespective of the manner in which other shareholders choose to exercise their votes. On the basis of these contractual agreements, in future he could also be in a position to cause resolutions passed in the general shareholders' meetings and requiring a majority to be adopted in a manner that suits him even if his holding in the Company should fall to less than 50% of the shareholdings.

17. Lack of a Public Market for the Shares, Volatility

Prior to the offering, there was no public market for the Shares. The placement price will be jointly determined by the Underwriters and the Company (see Part III. 1.1). No guarantee can be made that the share price agreed for the offering will correspond to the price at which the Shares will actually be traded following the offering, nor that active trading in the Shares will develop. Moreover, the share price may fluctuate. The causes for such fluctuations could include events surrounding the Company and developments on capital markets. The extreme price fluctuations that have occasionally been seen on the share markets in recent times have been particularly prevalent in the software share segment as well.

Following expiry of the deadline set forth in Part III. 3. "Lock-Up Agreement", the current shareholders may freely dispose over all of the shares they still hold following the offering. Should the current shareholders avail themselves of this option, it could have detrimental effects on the Shares' market value.

18. Use of Proceeds

The Company's Management Board has considerable discretion with respect to use of the net proceeds of the issue. It cannot be excluded that incorrect decisions concerning use of issue proceeds will frustrate realisation of the concept for further Company growth, and thus worsen the conditions for ATOSS's further entrepreneurial success.

V. GENERAL INFORMATION CONCERNING THE COMPANY

1. Formation, Company Name, Entry in the Commercial Register, Registered Office

The Company was formed on 10 April 1987 as "Atoss Software Consulting GmbH" with a registered share capital of DEM 50,000. On 29 April 1987, the Company was entered into the Trade Register maintained at the Local Court (Amtsgericht) of Munich under number HRB 81469. Pursuant to a resolution adopted on 27 August 1990 by the General Shareholders' Meeting, which was recorded in the Trade Register on 24 September 1990, the Company's name was changed to ATOSS Software GmbH.

Based on a unanimous resolution adopted by all shareholders on 22 July 1998 and amended on 21 December 1998, the Company was reorganized from a limited liability company (GmbH) into a stock corporation pursuant to the provisions of §§ 190 *et seq*. of the Mergers and Reorganization Act ("UmwG") and the Company's name was changed to ATOSS Software AG. Pursuant to § 245(1) UmwG, Andreas F.J. Obereder, the former sole shareholder, is the stock company's founder. Up to DEM 12,000 of the costs for the reorganization were borne by the Company. Dr. Wilhelm W. Schwarzmayr, auditor and tax consultant, Munich, was appointed by the court as the company formation/reorganization auditor. The reorganization from a limited liability company into a stock corporation was audited by the auditor in accordance with §§ 245(1), sentence 2, 220(3) UmwG in conjunction with § 33(2) of the Stock Corporation Act ("AktG"), and was adjudged to have been properly implemented. The auditor's certificate on company formation dated 17 November 1998 contains the following confirmation:

> *"As per the effective date of 31 August 1998 an asset statement was drawn up which, according to my dutiful examination, reflects the values in a manner that corresponds to the commercial circumstances. The evaluations were made in accordance with the commercial law provisions set forth in §§ 246 et seq. of the German Commercial Code ("HGB").*
>
> *The fixed assets were stated at book values that are below market value, as outdated capital goods are not available. The registered share capital is covered by the surplus of assets over liabilities."*

The reorganized Company was entered in the Trade Register at the Local Court of Munich on 3 February 1999. There, the Company is registered under number HRB 124084.

The Company's registered office is in Munich. The Company's business address is Am Moosfeld 3, 81829 Munich, Germany.

2. Object of the Company

Pursuant to the Articles of Association the object of the Company is management consulting focusing on the creation of organizational and software concepts, research and development in the area of application and system software, dealing in software products of all kinds, and participating in or acquiring enterprises having the same objectives within Germany and abroad.

The Company is entitled to undertake all those transactions and measures that appear to be necessary or useful in achieving its company objective, particularly the taking of equity stakes in other enterprises of the same or related kind, to assume their management and/or representation, to transfer even those divisions deemed business-essential to enterprises in which the Company holds a participating equity interest, and to establish domestic and foreign branches.

3. Fiscal Year

The Company's fiscal year shall commence on 1 January of a given year and shall end upon expiry 31 December of the same year.

4. Development of the Capital and Ownership Structure

Immediately prior to the reorganization of ATOSS Software GmbH into a stock corporation, the Company's share capital totaled DEM 200,000. Since the formation of the GmbH in 1987, its capital structure has developed as follows:

Upon formation, the Company's nominal share capital totaled DEM 50,000. Mr. Christer Hedberg paid in the sole capital contribution. This shareholding was transferred to Andreas F.J. Obereder by way of an agreement together with declarations dated 10 April 1987 and 20 June 1988. Mr. Andreas F.J. Obereder thus became the sole shareholder.

On 4 October 1989, the General Shareholders' Meeting adopted a resolution to increase the nominal share capital by DEM 50,000 to DEM 100,000 by way of a cash contribution. The new capital contribution was paid in by Mr. Andreas F.J. Obereder. The capital increase was entered in the Trade Register on 18 October 1989.

During the subsequent period, the General Shareholders' Meeting adopted resolutions on two further capital increases of DEM 50,000 each, in return for cash contributions (General Shareholders' Meetings held on 27 August 1990 and 2 April 1992). Both of these new capital contributions were likewise effected by Mr. Andreas F.J. Obereder. These capital increases were entered in the Trade Register on 24 September 1990 and 22 April 1992 respectively. Following the last capital increase prior to the Company's reorganization into a stock corporation, the Company's share capital therefore totaled DEM 200,000.

Pursuant to an unanimous resolution adopted at the General Shareholders' Meeting held on 22 July 1998 and supplement thereto dated 21 December 1998, it was resolved to reorganize the Company into a stock corporation in accordance with §§ 190 *et seq*. UmwG. The existing nominal share capital in the amount of DEM 200,000 was converted into the Company's registered share capital of DEM 200,000 which was divided into 40,000 bearer shares, each share having a nominal value of DEM 5. The reorganization of the Company was entered into the Trade Register on 3 February 1999. As of this date ATOSS Software AG has been recorded in the Trade Register under number HRB 124084.

Subsequent to the adoption of the reorganization resolution, but prior to the entry thereof into the Trade Register, the GmbH's sole shareholder, Mr. Andreas F.J. Obereder, executed various transfers of shareholdings in the GmbH. To this end, on 21 December 1998, Mr. Andreas F.J, Obereder initially divided one of the four shareholdings with a nominal value of DEM 50,000 into four separate shareholdings having nominal values of DEM 19,900, DEM 19,900, DEM 8,000 and DEM 2,200, respectively. Subsequently he transferred the first fractional shareholding thus created with a nominal value of DEM 19,900, to Mrs. Ursula Obereder, the second fractional shareholding having a nominal value of DEM 19,900 to Dr. Thomas Barth, and the fractional shareholding having a nominal value of DEM 8,000 to Dr. Burkhard Scherf. The transferees of the shareholdings consented to the previously adopted resolution regarding the Company's reorganization into a stock corporation. Following the reorganization's entry into the Trade Register, Mr. Andreas F.J. Obereder transferred 19 bearer shares to Mrs. Ursula Obereder and Dr. Thomas Barth, each such share having a nominal value of DEM 5.

On 21 May 1999, the Company entered into a merger agreement with ATOSS Systems Consulting GmbH, having its registered office in Munich, of which the Company was the sole shareholder. Pursuant to this merger agreement, ATOSS Systems Consulting GmbH was dissolved, without its assets being liquidated, and its entire assets together with all rights and duties were transferred to ATOSS Software AG in accordance with § 2 no. 1 UmwG. This company was formed on 21 May 1996 with a registered share capital of DEM 150,000, and was entered into the Trade Register maintained at the Local Court of Limburg on 29 May 1998 under number HRB 1433. On 29 May 1998, the Company's registered office was relocated to Munich. As of 5 August 1998 the Company has been recorded in the Trade Register of Munich under HRB 121483.

On 21 May 1999, the shareholders of the companies participating in the merger consented to the merger. The merger was entered into the Company's Trade Register on 8 September 1999.

On 21 May 1999 the Company's extraordinary General Shareholders' Meeting adopted a resolution to increase the registered share capital by DEM 3,045 from DEM 200,000 to DEM 203,045 against cash contributions. The new shares were issued at a price of DEM 615,76 per share and subscribed by Knorr Capital Partner AG, which has its registered office in Munich. The capital increase was entered into the Trade Register on 8 September 1999 and its implementation on 18 January 2000.

In the Company's Extraordinary Shareholders' Meeting held on 2 August 1999, a resolution was adopted on a series of measures concerning the Company's registered share capital:

- The classification of the registered share capital into 40,609 shares having a par value of DEM 5 per share was converted into 40,609 no par value ordinary shares.
- The Company's registered share capital of DEM 203,045 under the Articles of Association was converted into EURO at the conversion rate set by the Council of the European Union pursuant to Article 109.1 paragraph 4 sentence 1 of the EC Treaty in the European Union Treaty as amended (€ 1.00 = DEM 1.95583), and thereafter amounted to € 103,815.26.
- As part of a capital increase from corporate funds, the Company's registered share capital of € 103,815.26 was increased by € 505,319.74 to € 609,135 from retained income without issuing new shares.

- Finally, the registered share capital of € 609,135 was re-divided into 609,135 no par shares, each no par share representing a portion of € 1 in the registered share capital. Each shareholder received 15 new shares for one old share.

The Articles of Association were modified accordingly. The capital increase was implemented and, together with the other measures described above, recorded in the Trade Register on 8 September 1999.

In a further Extraordinary Shareholders' Meeting, a resolution was adopted on 20 September 1999 to increase the registered share capital by € 34,471 from € 609,135 to € 643,606. The shareholders' subscription rights were excluded. The shares were issued at a price of € 41.97 per share. The capital increase was implemented and recorded in the Trade Register on 21 October 1999. The 34,471 new shares were subscribed and acquired by Andreas F.J. Obereder, subject to the requirement to provide them, in accordance with the Company's stipulations, for the purposes of an employee stock ownership plan. (See "7. Pre-IPO Stock Ownership Plan").

On 24 January 2000 ATOSS Software AG's Ordinary Shareholders' Meeting adopted the following resolutions concerning the Company's registered share capital:

- The registered share capital was increased by € 56,394 from € 643,606 to € 700,000 against cash contributions by issuing 56,394 new ordinary bearer shares, each such share representing a portion of € 1 in the registered share capital. Such shares were issued at an issue price of € 1 per share with the exclusion of the Company's shareholders' statutorily granted subscription rights. The previous shareholders were permitted to subscribe the new shares. The shares entitle the holder to participate in profits from the beginning of the fiscal year commencing 1 January 2000.
- An increase of the registered share capital by € 2,100,000 from € 700,000 to € 2,800,000 from corporate funds by issuing 2,100,000 new ordinary bearer shares, each such share representing a portion of € 1 in the registered share capital and entitling the holder to participate in profits from the beginning of the fiscal year commencing 1 January 2000. The shares were issued to the Company's shareholders in a ratio of 1:3 based on the respective shareholdings following implementation of the aforementioned resolution as adopted, i.e. each shareholder received three new shares for each share held.
- Subject to the Supervisory Board's consent, the Management Board was authorised to increase the Company's registered share capital on one or more occasions until 24 January 2005 (inclusive) by issuing up to 1,400.000 new ordinary bearer shares against cash contributions or contributions in kind, up to a total of € 1,400,000 (Authorised Capital). The Management Board is authorised to exclude fractional amounts from the shareholders' subscription rights.

Moreover, the Management Board was authorised, subject to the Supervisory Board's consent, to exclude the shareholders' subscription rights

a) for a share in the Authorised Capital of up to € 1,400,000, if this is necessary to cover an over-allotment in the case of the admission of the Company's shares to trade on a German stock exchange;

b) for a share in the Authorised Capital of up to a total of € 140,000, provided that the new shares are issued against cash contributions at an issue price that is not significantly below the listed price (Section 186(3) sentence 4 AktG);

c) for a share in the Authorised Capital of up to a total of € 1,400,000, provided that the new shares are issued against cash contributions or contributions in kind, in order to acquire enterprises or holdings therein, and provided that the acquisition of such enterprise or holding is in the Company's interests.

Subject to the Supervisory Board's consent, the Management Board makes decisions concerning respective share rights and the other terms and conditions of the share issue.

The aforementioned capital measures (and, in the event of the cash capital increase, their implementation as well) were recorded in the Company's Trade Register on 1 February 2000.

On the basis of the powers granted to it, the Company's Management Board resolved on 16 February 2000 to increase the Company's registered share capital by € 25,667 from € 2,800,000 to € 2,825,667 by issuing 25,667 new ordinary bearer shares, each such share representing a portion of € 1 per share, against a contribution in kind of all shares with a par value of DEM 150,000 in csd Systemhaus GmbH (hereinafter referred to as "csd"), having its registered office in Cham, recorded in the Trade Register held at the Local Court of Regensburg under the number HRB 5546. The shareholders in csd, Jürgen Schmaderer (11,083 shares), Günter Schmaderer (11,083 shares) and Volker Gruber (3,501 shares) were admitted to subscribe the shares — excluding the shareholders' statutory subscription rights — which fulfilled their contribution obligation pursuant to the transfer agreement dated 16 February 2000. The shares were issued at € 21.90 per ordinary bearer share. The auditor of the contribution in kind, KPMG Deutsche Treuhand AG, Wirtschaftsprüfergesellschaft, Elektrastrasse 6, 81925 Munich, confirmed in its auditors' report dated 16 February 2000 prepared pursuant to §§ 183(3), 33(3) to (5), and § 34(2) AktG that the value of the contribution in kind met the lowest issue price of the shares to be granted. The Supervisory Board consented on 16 February 2000 to the resolution for the capital increase. The capital increase was implemented and recorded in the Trade Register on 10 March 2000.

The Extraordinary Shareholders' Meeting held on 16 February 2000 adopted the following additional resolutions concerning the Company's capital structure:

- A resolution was adopted to increase the Company's registered share capital against cash contributions by € 1,090,909 to € 3,916,576. The capital increase was implemented by issuing 1,090,909 ordinary bearer shares, each such share representing a portion of € 1 per share in the registered share capital. The new shares entitle the holder to participate in profits from the beginning of the fiscal year commencing 1 January 2000. The shareholders' subscription rights were excluded. These shares were underwritten by Paribas — Frankfurt am Main branch — for the account of the underwriting syndicate, subject to the obligation that it would place the shares in the course of the IPO with an offering price consented by the Management Board of the Company on the *Neuer Markt* segment of the Frankfurt Stock Exchange and transfer the placement proceeds to the Company less the underwriting fee per share.

- Modifying the resolution of the Ordinary Shareholders' Meeting held on 24 January 2000, the Management Board is authorised, subject to the Supervisory Board's consent, to increase the Company's registered share capital by up to € 1,958.288 on one or more occasions until 24 January 2005, by issuing on one or more occasions up to 1,958,288 new ordinary bearer shares against cash contributions or contributions in kind (Authorised Capital). Subject to the Supervisory Board's consent, the Management Board is authorised to exclude the shareholders' subscription rights, in whole or in part, in the following cases:

  a) for a share in the Authorised Capital in an amount of up to € 1,958,288, if this is necessary to cover an over-allotment during the placement of the Company's shares in the context of introducing the Company's shares to trade on a German stock exchange;

  b) for a share in the Authorised Capital of up to a total of € 391,657, provided that the new shares are issued against cash contributions at an issue price that is not significantly below the listed price (Section 186(3) sentence 4 AktG);

  c) for a share in the Authorised Capital of up to a total of € 1,958,288, provided that the new shares are issued against cash contributions or contributions in kind, in order to acquire enterprises or holdings therein, and provided that the acquisition of such enterprise or holding is in the Company's best interests.

- Subject to the Management Board's criteria — or, if Management Board members will be the beneficiaries, subject to the Supervisory Board's established criteria — for the purposes of the participation of a specific group of employees and Management Board members of the Company and its affiliates in the Company's success (in this respect, see Part V.9), the Management Board was authorised to issue, until 31 January 2005, up to a total of up to € 280,000 interest bearing registered convertible bonds at 2% p.a (hereinafter "Convertible Bonds"), granting the beneficiaries the right to convert each € 1 nominal portion of the Convertible Bonds into a Company share representing € 1 per share of the Company's registered share capital. In order to cover the conversion rights, a resolution was also adopted to conditionally increase the Company's share capital by up to € 280,000 by issuing up to 280,000 no par shares. The conditional capital increase shall be implemented only to the extent that the beneficiaries under the Convertible Bonds exercise their conversion rights and the Conditional Capital is required for the conversion according to the terms and conditions of the conversion. The new shares shall entitle the holder to participate in profits from the beginning of the fiscal year in which they are issued.

- Finally, the General Shareholders' Meeting held on 16 February 2000 resolved to authorise the Company to acquire its own shares until 30 June 2001 (inclusive) up to a 10% portion of the Company's registered share capital, except for the purposes of trading in its own shares. The price for acquisition of its own shares over the stock market may not deviate from the governing listed price by more than 10%; in this respect, the governing listed price means the average (mathematical mean) closing price (at 17.30) of the Company's shares as established on the Frankfurt Stock Exchange in the electronic Xetra trading system during the preceding five trading sessions.

- At the same time, subject to the Supervisory Board's consent, the Management Board, acting in the interests of the Company, is authorised to sell the shares it has purchased itself also in a manner other than via the Stock Exchange or by offering shares to all shareholders, e.g. in order to transfer them to a third party as consideration for the acquisition of holdings or as consideration for a contribution in kind. The shares may also be sold at a price that does not fall significantly below the listed price of the Company's shares at the date of such sale. The relevant listed price is determined by the method mentioned in the paragraph above.

The capital measures resolved upon by the Extraordinary Shareholders' Meeting held on 16 February 2000 were recorded in the Trade Register on 17 March 2000.

5. Loans

As at 31 December 1999, ATOSS Software AG had two working capital credit lines at two German financial institutions in the amounts of DEM 1,000,000 and DEM 2,000,000. As at the aforementioned date, neither of these credit lines had been used. The bank granting the credit line of DEM 2,000,000 has reserved the right to terminate the credit line, *inter alia*, in the event that the Company does not call on the credit line following the IPO.

6. The Company's Governing Bodies

6.1 General

ATOSS Software AG's governing bodies are the Management Board and the Supervisory Board. Based on the provisions of the Stock Corporation Act, the Management Board is appointed by the Supervisory Board, which, in turn, is elected by the General Shareholders' Meeting. The Management Board and the Supervisory Board work independently of each other. Simultaneous membership by one person on the Management Board and the Supervisory Board is not permitted. The Management Board is responsible for management of the Company and represents the Company *vis-à-vis* third parties. It is incumbent upon the Supervisory Board to appoint and remove Management Board members, and to monitor management.

6.2 Management Board

The Management Board is responsible for managing the Company's daily business in compliance with the relevant statutes and the Company's Articles of Association. Should only one Management Board member be appointed, such member represents the Company alone, and is authorised to represent the Company when engaging in legal transactions in which he acts as representative of third parties without restriction. Should more than one Management Board member be appointed, the Company is represented by either two Management Board members, or by one Management Board member acting together with a commercial attorney-in-fact (*Prokurist*).

The following table shows ATOSS Software AG's Management Board members and their respective areas of responsibility:

Management Board Member	*Role, Responsibility*
Andreas F. J. Obereder	Chairman of the Management Board Distribution, Marketing, Finances, Personnel, Legal Issues, Facility Management
Dr. Thomas Barth	Research and Development
Dr. Burkhard Scherf	Consulting and IT Services

Andreas F.J. Obereder is authorised to represent the Company alone at all times.

Andreas F. J. Obereder (41) worked from 1980 to 1982 as a programmer at Philips Data Österreich in Vienna before becoming Managing Director of Software-Distributionsgesellschaft Data System GesmbH in 1982. In 1988, Mr. Obereder became the sole Managing Director and Shareholder of ATOSS Software GmbH in Munich. Following reorganisation of the Company as a stock corporation, Mr. Obereder was the sole Management Board member of ATOSS Software AG until the appointment of Dr. Scherf and Dr. Barth.

Dr. Thomas Barth (39) studied information science at the Technical University of Vienna and Karlsruhe, and qualified as an engineer in Vienna in 1984. He then worked at VOEST-Alpine (today VA Stahl AG) in Linz/Danube, *inter alia*, on a major project involving new automation of the metal plant, and was finally the Project

Manager for the project component "Methods and Tools". Since 1987, he has been working with the company now named ATOSS Software AG. He is responsible for the area of research and development. In 1988, his doctorate was conferred upon him at the Technical University of Vienna.

Dr. Burkhard Scherf (39) studied information science in Bonn, where he qualified in 1986 as an information scientist. From 1986 onwards, he worked in the computer research division of Siemens AG in Munich, until attaining his doctorate in natural sciences (Dr. rer. nat.) at the Faculty for Mathematics and Computer Studies at the Technical University of Munich in 1990. Since then, he has been working for the Company now named ATOSS Software AG, first as Project Manager for major projects, and subsequently as head of the consulting and project management department. In 1999, he was appointed to the Company's Management Board, where he is responsible for consulting and IT services.

ATOSS Software AG's Management Board members received total compensation amounting to DEM 1,112,000 for their work in the 1999 fiscal year. They received no compensation from other enterprises within the ATOSS Group. For their work as Management Board members of ATOSS Software AG, they will receive compensation in an amount of approximately DEM 1,800,000 million in the 2000 fiscal year, as well as options as part of the Employee Stock Ownership Plan (see Part V.9).

Together with their family members, prior to the cash capital increase totalling € 1,090,909 and the placement, the Management Board members hold a total of 2,623,608 Company Shares. This equals an approximate 91.5% portion of the Company's registered share capital. Following the placement, their holding will be reduced to approximately 67%; in the event of full exercise of the over-allotment option, such holding will be equivalent to approximately 63%.

6.3 *Supervisory Board*

Pursuant to the Company's Articles of Association, the Supervisory Board has three members.

The term of office of the Supervisory Board members ends upon conclusion of the General Shareholders' Meetings that resolves upon discharge of the Supervisory Board for the fourth fiscal year following commencement of such term of office. The fiscal year in which the term of office commences shall not be included in calculating such time period. Re-election of Supervisory Board members is permissible. Replacement members may be elected for Supervisory Board members. They shall replace a member who retires prematurely in a sequence to be determined at the relevant election. A replacement member's term of office shall end upon conclusion of the General Shareholders' Meeting at which a new election for the retired member is held. If the Company has no elected replacement members in place, a replacement election for the prematurely retired Supervisory Board member shall be held as soon as possible. Members elected by such a replacement election as well as the replacement members shall take the seat for the remaining term of office of the retired Supervisory Board member.

Following the General Shareholders' Meeting at which a new election for the Supervisory Board was held, the Supervisory Board shall, at a meeting that does not require special notice, elect from its midst a Chairman and a Deputy Chairman for the entire term of office. Should the Supervisory Board Chairman or his Deputy retire during their term of office, the Supervisory Board shall promptly conduct a new election for the retired member.

The Supervisory Board adopts its resolutions in meetings and, if ordered by the Supervisory Board Chairman or his Deputy, and subject to the express or voted consent of all Supervisory Board members to the relevant procedure, in writing, by telegraph, telex, fax or telephone. The Management Board shall have quorum if half its members or, however, no less than three members, participate in adoption of the relevant resolutions.

Generally speaking, Supervisory Board resolutions shall be adopted by a majority of votes cast, unless relevant statutes or the Articles of Association provide otherwise.

The Supervisory Board may create one or more committees from its midst, and may transfer decision-making powers to such committees as permitted under statute.

The Supervisory Board determines the number of Management Board members, appoints Management Board members and removes them. Moreover, the Supervisory Board monitors management by the Management Board without being involved in management of day-to-day transactions. For this purpose, the Supervisory Board may inspect and assess at any time all books and correspondence, including minutes of Management Board meetings and the Company's assets. Each individual Supervisory Board member may also demand exercise of such right of inspection and assessment by the Supervisory Board. If the Management Board objects to such right, it may be implemented only if the relevant demand is supported by another Supervisory Board member.

The following persons sit on the ATOSS Software AG Supervisory Board:

Name	*Member Since*	*Role*	*Primary Profession*	*Address*
Prof. Dr. Fritz Karmasin ..	Reorganisation	Chairman	Market Researcher	Vienna
Winfried Wolf	1 March 2000	Deputy Chairman	Tax Consultant	Grünwald
Peter Kirn	Reorganisation	Member	Corporate Consultant	Böblingen

Pursuant to the Company's Articles of Association, the Supervisory Board receives compensation. The annual compensation for each member is DEM 10,000.

Prof. Dr. Fritz Karmasin is the Managing Director (Chairman) of the Austrian Gallup-Institute Motivational Research Institute in Vienna. The Institute managed by Prof. Dr. Fritz Karmasin prepared various market studies for ATOSS Software AG in 1998 and 1999, and received total compensation in 1999 of DEM 34,000.

Peter Kirn provides the Company with services for compensation in the area of management consulting. In the 1999 fiscal year, he was paid DEM 232,497 gross for this work. Mr. Kirn is also a member of the Supervisory Board of CPU Softwarehouse AG, Deputy Chairman of the Supervisory Board of SYSTEM DESIGN AG and Chairman of the Supervisory Board of ADS AG.

In its meeting held on 16 February 2000, the Supervisory Board approved the aforementioned contractual relation between the Company and the Supervisory Board member Kirn pursuant to Section 114(1) AktG. The Company has not granted any loans to any Supervisory Board members.

The Supervisory Board members and their immediate family together hold a total of 13,652 shares in the Company.

6.4 General Shareholders' Meeting

The Company's Ordinary General Shareholders' Meeting is held once annually, and adopts resolutions concerning, *inter alia*, allocation of balance sheet profits, discharge of the Management Board and Supervisory Board, and appointment of the auditor. The General Shareholders' Meeting is held at the Company's registered office or a German city with more than 100,000 inhabitants, and is generally called by the Management Board. Resolutions by the General Shareholders' Meeting require a simple majority of votes cast unless otherwise provided by the Articles of Association or statute. Each no par share is entitled to one vote. In the event that a majority of the registered share capital represented at adoption of the relevant resolution is required under statute, a simple majority of the represented registered share capital shall suffice unless a greater majority is absolutely required under statue. In this respect, the portion of the registered share capital represented by each no par share shall be used as a basis.

7. Pooling Agreements

The shareholders Andreas F. J. Obereder, Ursula Obereder, Dr. Thomas Barth, Eva Barth, Dr. Burkhard Scherf, Maria Scherf, Günter and Jürgen Schmaderer, Volker Gruber and Knorr Capital Partner AG have entered into an agreement on the basis of which they coordinate and uniformly exercise their voting rights concerning specific material resolutions adopted by the Company's General Shareholders' Meeting. Material resolutions within the meaning of this agreement mean reorganisation of the Company within the meaning of § 1 UmwG, sale of no less than 75% of the Company's assets, amendments to the Articles of Association, capital increases and reductions, liquidation of the Company, consent to the conclusion of agreements between business enterprises within the meaning of § 291 AktG, integrations within the meaning of § 319 *et seq.* AktG, appointment of the auditor, discharge of members of the Management Board and Supervisory Board, distribution of dividends, creation of several classes of shares and the collection of shares.

Based on the individual contractual rules concerning pre-IPO employee and consultant stock ownership as described below, the employee and consultant shares held by a trustee are also bound by this pooling agreement.

8. Pre-IPO Stock Ownership Plan

During the lead-up to the IPO, Mr. Andreas F. J. Obereder subscribed and underwrote the 34,471 new Shares based on the Company's resolution of 20 September 1999 to increase capital, subject to the obligation to furnish them for purposes of share participation by ATOSS Software AG's employees and consultants. In each case of a participation as agreed between the Company and an entitled party pursuant to an individual agreement, Mr. Obereder transferred the relevant number of Shares to Dr. Boris A. Mariacher in his capacity as employee trustee against payment of € 41.97 per Share. Dr. Boris A. Mariacher exercised the subscription rights of the relevant employee in the capital increase of 24 January 2000. Employees were considered in light of the duration of their employment with the Company and the position they hold therein with respect to the share allotment. Concerning restrictions on disposal of shares held in the context of the pre-IPO stock ownership plan, see "The Offering — Lockup Agreements". Concerning the exercise of voting rights under the shares acquired as part of the pre-IPO stock ownership plan, see "Risk Factors — Control of the Company, Concentration of Shareholdings, Uniform Voting by Major Shareholders" and "General Information about the Company — Pooling Agreement".

The trustee holds the shares based on individual agreements reached with each entitled party on behalf of such party for a period of three years following the initial listing of the Shares, and is obliged to transfer the Shares to the entitled party following the expiry of such period. During the holding period by the trustee, the voting rights associated with such Shares shall be subject to the underwriting agreement entered into by the current shareholders. Within the framework of such agreement, the employees may give the trustee instructions concerning exercise of the voting rights associated with their respective Shares.

9. Employee Stock Ownership Plan

On the occasion of the IPO, the Company has created an option for members of the management bodies and employees of the Company and its affiliates to participate in the success of the enterprise by means of the issue of Convertible Bonds entitling the relevant parties to subscribe shares in the Company. The option of obtaining conversion rights is supposed to reduce the risk of employees holding key positions leaving the Company, and give employees and Management Board members additional incentive to ensure the success of ATOSS Software AG and its subsidiaries in the medium and long-term in order to increase the value of the enterprise in the interests of the Company's shareholders.

In order to implement the employee stock ownership plan, by virtue of a resolution adopted at the Extraordinary Shareholders' Meeting held on 16 February 2000 the Company's Management Board was authorised, until 31 January 2005, to issue interest bearing registered convertible bonds totalling up to € 280,000, transferable only with the Company's consent and having a maximum term through 31 January 2010. The beneficiaries under the Convertible Bonds are entitled to convert each nominal € 1 portion of a registered Convertible Bond into an ordinary Company share representing a € 1 portion of the Company's registered share capital. Only employees of the Company and its affiliates, members of the Company's Management Board and members of the management of the Company's affiliates may be beneficiaries under the registered Convertible Bonds and hence subscribe the new shares.

Should entitled parties exercise their conversion rights under the registered Convertible Bonds, they shall make a cash payment in the amount of the conversion price less € 1 for the purchase of each share. In the case of conversion rights the grant of which is resolved upon prior to the Company's IPO, the conversion price shall be the placement price of the Shares offered, and, in the case of conversion rights the grant of which is resolved upon following the IPO, the conversion price shall be an amount determined based on the average (mathematical mean) closing price (at 5:30 p.m.) of one Company share as established on the Frankfurt Stock Exchange in the electronic Xetra trading system during the five trading sessions preceding the grant of the conversion right, in which respect the conversion price may not be less than the theoretical par value of the shares to be issued.

The Management Board, subject to the Supervisory Board's consent, is authorised to determine the details of the terms and conditions for the issue of the registered Convertible Bonds, including the terms and conditions of the conversion. In this respect, conversion rights may not be exercised by the entitled parties until the expiry of two years following acquisition of the Convertible Bonds. Should registered Convertible Bonds be issued to members of the Management Board, the Supervisory Board shall determine the details of the terms and conditions of such issue, including the terms and conditions of the conversion. The issue of registered Convertible Bonds shall be contingent, in particular, upon whether the respective beneficiaries have met specific internal performance criteria. The Conditional Capital of € 280,000 resolved upon at the General Shareholders' Meeting held on 16 February 2000 shall serve to cover the conversion rights under the Convertible Bonds.

The Management Board, with the consent of the Supervisory Board, has decided on 10 March 2000 to offer for sale a first part of the registered Convertible Bonds, granting a conversion into 19,794 Shares. On 15 May

2000, the Management Board, with the consent of the Supervisory Board resolved to offer additional Convertible Bonds to other beneficiaries, granting conversion into 598 Shares.

10. Allocation of Profits/Dividend Policy

The Company's annual financial statements and audit shall be submitted to the Supervisory Board promptly following receipt of such audit report, together with a proposed resolution for the General Shareholders' Meeting for the allocation of balance sheet profits.

Each year, after having received the report of the Supervisory Board to be issued pursuant to § 171(2) AktG, the General Shareholders' Meeting shall adopt a resolution during the first eight months of the following fiscal year concerning discharge of the Management Board and the Supervisory Board, allocation of balance sheet profits, selection of the auditor and, in the cases provided under statute, approval of the annual financial statements.

In the event of the issuance of new shares, commencement of participation in profits may be determined in deviation from § 60(2) AktG.

In the next years, ATOSS Software AG's Management Board and Supervisory Board intend to propose to the General Shareholders' Meeting that, until further notice, profits be accumulated for the financing of further development and growth of the Company's business activities.

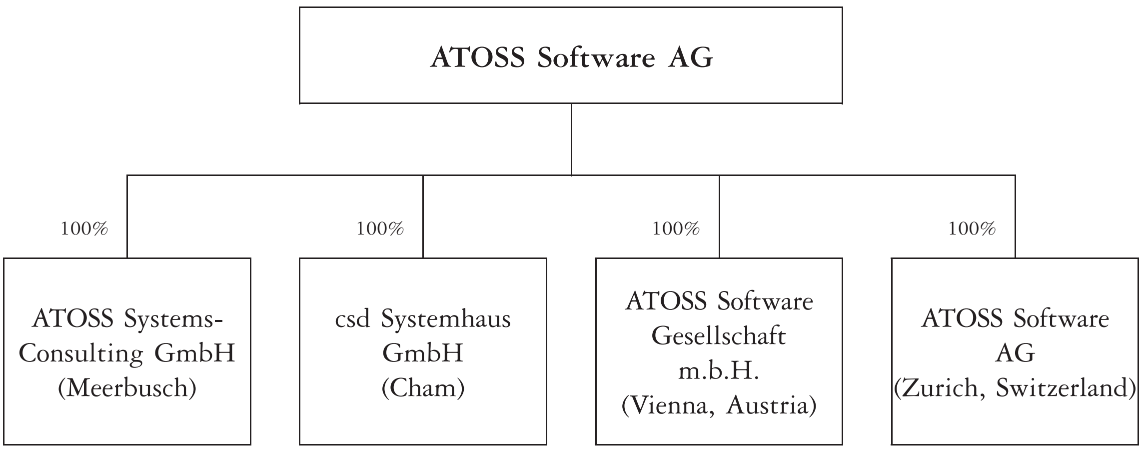
11. Auditor

The Company's auditor for the financial year ending 31 December 2000 is Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Isartorplatz 1, 80331 Munich.

The financial statements for ATOSS Software GmbH respectively ATOSS Software AG through 31 December 1997, 1998 and 1999, which are reproduced in Part IX, were audited by Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, München, and were given an unqualified auditor's certificate. The consolidated financial statements through 31 December 1997, 1998 and 1999, which were prepared under US-GAAP accounting rules and which are also reproduced in Part IX, were likewise audited by Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, München and were given an unqualified auditor's opinion.

12. Group Structure

The chart set forth below provides an overview of the ATOSS Group structure.



13. Company Holdings

Unless stated otherwise, the Company has holdings in the companies set forth below, (all statements applicable per 31 December 1999).

ATOSS Systems Consulting GmbH, Meerbusch

This company is a sales company for the TARIS product family, responsible for the West German region. ATOSS plans to merge ATOSS Systems Consulting GmbH with the Company during the course of the 2000 financial year.

Date of formation	11 April/7 May 1986
Trade Register	AG Neuss, HRB 7437
Subscribed capital	DEM 125,000
Accruals (Capital reserves and profits brought forward)	DEM 38,753.33
Annual surplus	DEM 201,806.25
Distributions to ATOSS AG	DEM 0.00
ATOSS AG's holding	100%
Book value of shares held by ATOSS AG	DEM 350,324.60
Accounts payable to ATOSS AG	DEM 324,090.60
Accounts receivable from ATOSS AG	DEM 554,481.40

ATOSS Software Gesellschaft m. b. H., Wien (Austria)

This company was formed as a research and development unit, having its original registered office in Kitzbühel. At the beginning of the 2000 fiscal year, the Company's registered office was relocated to Vienna. The Company now operates as a distribution company for Austria, but continues to maintain a branch in Kitzbühel, where six employees work on research and development.

Date of formation	4 October 1996
Austrian Company Register	FN 150925 z at the Regional Court of Vienna
Subscribed capital	ATS 500,000
Accruals (capital reserves and profits brought forward)	DEM 100,549.75
Annual surplus	DEM 47,407.59
Distributions to ATOSS AG	DEM 0.00
ATOSS AG's holding	100%
Book value of shares held by ATOSS AG	DEM 72,031.88
Accounts payable to ATOSS AG	DEM 0.00
Accounts receivable from ATOSS AG	DEM 232,881.61

ATOSS Software AG, Zurich (Switzerland)

The Company was formed on 12 January 2000 as a distribution company for Switzerland.

Date of formation	12 January 2000
Trade Register of the Canton of Zurich	CH-020.3.022.701-7
Subscribed capital	CHF 100,000 (CHF 50,000 of which is paid in)
Accruals (capital reserves and profits brought forward)	CHF 0.00
Distribution to ATOSS AG	CHF 0.00
ATOSS AG's holding	100%
Book value of shares held by ATOSS AG	CHF 100,000
Accounts payable to ATOSS AG	CHF 0.00
Accounts receivable from ATOSS AG	CHF 0.00

csd Systemhaus GmbH, Cham

This company was acquired effective 1 January 2000 by way of a contribution in kind against the issue of 25,667 shares. csd Systemhaus GmbH develops and sells the time management software, Time Control, a product for enterprises having 50-100 employees that complements the products offered by the Company.

Date of formation	22 December 1993
Commercial Register	Local Court of Regensburg, HR B 5546
Subscribed capital	DEM 150,000
Accruals (capital reserves and profits brought forward)	DEM 45,000/DEM –321,726
Distributions ATOSS AG	DEM 0.00
ATOSS AG's holding	100%
Book value of shares held by ATOSS AG	€ 25,667
Account payable to ATOSS AG	DM 0.00
Accounts receivable from ATOSS AG	DM 0.00

VI. BUSINESS

1. Overview

The Company develops and distributes standard software that enables companies to plan and manage cost efficient personnel allocation, thus contributing considerably to optimising the use of human resources. The product family "TARIS" constitutes the core of the software offered by the Company. With the assistance of the core product, "TARIS — Time and Access" (*TARIS-Zeit und Zutritt*) companies can manage access to their facilities, electronically record and automatically evaluate the working hours of their employees, calculate time-based variable compensation components, and process the data so generated directly using existing wage and salary systems. Through use and exploitation of the personnel database administered by TARIS, other software products permit efficient and current planning that meets the relevant needs when allocating human resources within companies (*TARIS Human Resources Allocation Planning — TARIS Personaleinsatzplanung*). They also allow the working and machinery operation hours and expenses incurred with respect to manufacturing contracts in industrial production to be determined (*TARIS Operations Data Recording — TARIS Betriebsdatenerfassung*), and, in handling projects for enterprises in the service sector, planning, timing, and cost and capacity control (*TARIS Project and Costs — TARIS Projekt und Kosten*). Together with the statistical functions integrated into the aforementioned products, the TARIS Analysis module provides analytical functions that permit evaluation of the recorded personnel and company data, hence providing useful information for management. Statistical functions are also an integral part of the TARIS product family.

The Company believes that the integration of the various products in the TARIS product family by means of a database that uniformly records personnel and company data, and the processing and analysis of such data using a uniform software system offer considerable advantages as against the partial solutions offered by traditional time management systems, and believes that these can create important competitive advantages for companies using the TARIS system.

The Company develops its software largely based on current standards, and has interfaces to all important standard business software products. This enables its simple and rapid integration into existing customer systems, reduces the need for tailored customer programming and opens up a wide circle of potential customers to the Company. In addition, by virtue of its large degree of standardisation, scalability and modularity, TARIS can be used by companies of all sizes and industries and on all current computer platforms. The software can quickly be set up to accommodate the needs of the relevant customer, and adapted to the changing needs of any company using it.

To date, the Company's marketing activities have concentrated on enterprises in Germany that have more than 300 employees. ATOSS software products are currently used in more than 650 enterprises in various industries. These include, for example, Deutsche Bahn AG, Lufthansa AG, HUK Coburg Versicherungs AG, Jos. L. Meyer Werft GmbH & Co KG, Bayer AG, Coca Cola Deutschland GmbH, Benckiser Produktions GmbH, and various banks and savings banks. The Company estimates that the working hours of approximately 850,000 employees are currently planned and managed by ATOSS software. The Company has identified particular market potential for its software in the service industry, the public health sector and in municipal administration, and, in this respect, is offering industry-specific TARIS software packages. In future, it intends also to make its software accessible to companies with 50-300 employees by means of an indirect sales organisation. To this end, it is developing a software package adapted to the needs of such enterprises named "TARIS Start Up Edition". Moreover, it intends to expand its sales activities to other high income European nations.

Over and above the development and marketing of software, the Company offers consulting services to its customers upon introduction and during operation of TARIS. The Company intends to utilise the experience it has gathered in the context of its work involving planning and management methods for human resources in companies, in order to expand the range of services it offers to include comprehensive corporate consulting in relation to organisating the allocation of companies' personnel.

By means of the diverse functions of the TARIS product family and its consulting services, the Company's objective is to enable its customers to systematically exploit potential to increase human resources efficiency. ATOSS considers the utilisation of such potential to be the central task of any enterprise's management in order to ensure future competitiveness. For this reason, ATOSS Software AG describes its integrated software and service range as a solution to "Strategic Work and Time Managements (*Strategisches Management von Arbeit und Zeit*) ("SMAZ")".

2. Market Overview

The range of goods and services offered by the Company are targeted at the software and software-related consulting services market. In light of its software functions, the time management systems market, ie. the market for systems that serve to record and evaluate working hours, represents an important market segment for the Company. ATOSS believes that integration of the various TARIS products, namely, "Time and Access", "Personnel Allocation Planning", "Company Data Recording" and "Project and Costs" and their link to statistical and analytical functions provides enterprises with a new means for systematically optimisating the use of available human resources. The Company believes that the goods and services offered open up a market for a new type of software over and above the classic management systems market that will enable companies to strategically manage work and time.

In regional terms, to date the Company has primarily restricted itself to the Federal Republic of Germany, but has been expanding its marketing activities to Austria and Switzerland since 1999. ATOSS is currently planning market entry in other high income European nations, in particular, France, the Benelux countries, Scandinavia and the United Kingdom.

The Software and Software-Related Consulting Services Market

In a marketing study from 1998, the consulting company, Diebold Deutschland GmbH (hereinafter referred to as "Diebold"), estimated the 1999 volume in the German software product market (systems software, system tools and standard applications) and the software-related consulting services market (customer-specific software development, systems integration, outsourcing, IT consulting and IT training) to total DEM 53.4 billion. According to Diebold's estimation, in 1999 the software product market segment grew by 9.8% to DEM 25.7 billion, while the standard applications software market segment expanded by 13% to a volume of DEM 12 billion. In Diebold's estimation, market volume in the field of software services increased by 10.7% to DEM 9.3 billion; in this respect, growth in so-called "IT consulting", which includes business procedure consulting, reached a level of some 12.9%.

Diebold considers a trend towards replacing old systems with standard software solutions to be an important factor for the further positive development of the software and consulting market over the next three years. This trend is not only the result of introduction of the Euro and greater preparedness to make investments on the part of enterprises after having dealt with the Y2K problem. Increasing integration of processes in decentralised entrepreneurial structures via the Intranet and improved interaction between enterprises facilitated by the Internet (e.g. suppliers, manufacturers and customers) also requires compatibility of software systems with generally recognised and applied standards.

The Market for Software Systems for Strategic Work and Time Management

Since the advent of computer-supported data processing facilities, companies have been using software products in order to automate administrative and production procedures, to structure them in a more cost efficient manner, and to improve the quality of their goods and services. While the automation of computer operations was the focal point of such endeavours in the 1970s, since the 1980s enterprises have been able to realise considerable increases in efficiency in their internal administrative and planning processes by using standard business software. Since the 1990s, supply chain management systems have been placing companies in a position to more intelligently plan and manage the flow of material in production. Using these systems, enterprises can not only organise more complex production processes, but can also realise considerable savings potential by, for example, reducing stockpiles.

ATOSS believes that methods for planning and managing company human resources have not kept pace with progress in administration and production. The functionality offered by the time management systems that companies have used to date have been largely limited to recording the hours when employees are present, and automating the wage and salary administration processes in the personnel departments. Thus, the demands on the complexity of time management software were therefore reasonable, and did not strongly increase even as flexitime models were introduced. Traditional time management software usually lacks the ability to statistically evaluate recorded data shortly after it has been collected, convert it into personnel management figures and combine it with other company data in order to create for corporate managements an up-to-date and consistent basis for planning-related decisions concerning human resources allocation.

The Company believes that following the improvement of administrative processes and the flow of material by using standard business software and supply chain management systems, respectively, companies will pay increasing attention to systematically exploiting the considerable potential for improved use of human resources, which frequently give rise to significant costs. While this objective in itself makes much greater demands of planning and management systems for personnel allocation, numerous additional factors present other challenges to such systems:

- Companies must make *the organisation of working hours flexible* for their employees. According to a poll conducted by the Österreichisches Gallup-Institut (hereinafter referred to as the "Gallup Institute"), an institute for motivational research, in which 1400 human resources directors in the Federal Republic of Germany were surveyed, companies expect that such flexibility will result in better co-ordination between personnel capacity with the relevant work situation at a given time, and will make the company more accessible to customers.

- Time management systems have to overcome a *growing number of increasingly complex working hour models*. They have to enable recording of models such as flexitime and shift work, as well as annual and lifetime working models, and must be able to show the change by individual employees between such models, and permit evaluation of the working hours within the respective models.

- Companies expect *to gain competitive advantages by acquiring qualified employees*, who receive a greater degree of independence as a result of flexible working hours. Thus systems for personnel allocation must be in a position to plan in a cost efficient manner the employee working hours available to an enterprise, taking into account the applicable working hour models and individual agreements.

- *Statutory and collectively agreed requirements* determine the availability of employee working hours in a manner that cannot be influenced by companies and that is difficult to foresee. Reductions in working hours such as the 35 hour week recently introduced under statute in France make great demands on the efficient organisation of working hours in a given enterprise. In addition, numerous statutory and collectively agreed provisions govern the assessment of working hours, such as tax-free thresholds and additional pay in the event of evening work.

- Companies must be *able to monitor personnel costs as they arise and attribute them to their proper cause*. The ability to attribute personnel costs to their proper cause is, at the same time, a prerequisite for the efficient use of personnel and for contract and project calculations.

In the Company's opinion, together with the factors described above, the desire of enterprises to use their human resources more efficiently creates a need for considerably more complex software systems. These systems must not only offer companies time management functions, but must also enable optimised planning and management of personnel allocation within an enterprise by integrating analytical and projection functions and providing recourse to other company data. The Company believes that this view is confirmed by the aforementioned Gallup Institute study. According to this study, in 1998 some 32% of all enterprises in Germany intended either to introduce a time management system or to replace their existing management solution with a new system. The Company believes that the great readiness on the part of enterprises to make investments is a sign of increasing demands placed on personnel allocation planning and management systems, and of the potential for increasing efficiency that enterprises attribute to such systems. ATOSS therefore believes that a market is currently emerging for this new category of software, which the Company calls software for strategic work and time management. The Company believes that software solutions that meet the increased demands and permit strategic work and time management have market opportunities not only in Germany, but also in other high income European nations, and that these opportunities are greater than those of traditional time management systems.

3. Strategy

The Company's long-term goal is to establish itself as Europe's leading provider of specialised standard software and consulting services for strategic work and time management, and to acquire a significant share of the European market for integrated software solutions for corporate planning and allocation of human resources. In order to achieve these objectives, ATOSS is pursuing strategies for internationalisation, the development of a sales partner and service network, the development of its product portfolio, additions to product functions, and expansion of its service range.

Internationalisation

In 1999, approx. 94% of the Company's sales were to customers in the Federal Republic of Germany. Since 1999, it has also been offering its goods and services in Austria and Switzerland. In light of similar wage cost structures as in its previous markets, the Company sees significant market potential in other European nations. It therefore intends to develop its own sales and service organisations in France and the Benelux nations in the year 2000. In France, the Company is hoping that its goods and services will attract interest, particularly due to the 35 hour working week recently introduced under statute. In the mid-term, the Company will also be seeking to enter the Scandinavian and British markets, and, in the long-term, to expand its business to Spain and Italy. ATOSS also believes that an increase of its regional market by means of internationalisation will permit it to exploit the economies of scale that can often be seen in the case of software development and marketing.

Opening up new Market Segments by developing a Sales Partner and Service Network

To date, the TARIS product family has been tailored to the needs of mid-sized and large companies. Thus far, in marketing its products the Company has concentrated on companies that have at least 300 employees; this way it could avoid the expenses of an internal sales organisation that requires large numbers of staff, which is necessary in order to serve a large number of smaller purchasers. However, in enterprises having 50 to 300 employees the Company has identified further market potential for the goods and services it offers. It therefore intends to market its current products and the "TARIS Start Up Edition", which is adapted to the needs of enterprises having 50 to 300 employees, via an indirect sales organisation. The Company has therefore launched a partnership programme in the context of which it will enter into joint venture agreements concerning the sale and maintenance of its software with appropriate companies, and intends to further systematically pursue the approach of marketing its products via an indirect sales channel.

Expansion of Product Functions and Ensuring Product Compatibility

The Company intends to utilise its strengths in preparing standard software for the planning and management of personnel allocation in order to expand the TARIS product family. In particular, the Company plans to expand the product, *TARIS Project and Costs*, which currently serves to record time for projects in the service sector, by adding functions that permit the projection of previously collected project time data for the purposes of calculating future personnel needs. Moreover, ATOSS intends to expand TARIS's analytical capability in order to further facilitate the management of users' human resources by generating code numbers.

Moreover, in further developing TARIS, the Company is eager to ensure compatibility with important basic technologies. In light of this objective, ATOSS is planning, for example, to introduce a LINUX-compatible TARIS version during the current fiscal year, and also intends to support the IBM DB/2 database on the Windows NT platform with its products in future.

Expansion of Services Offered

ATOSS Software AG's range of services offered aims at promoting long-term loyalty in customers once they are won to the Company and its products. Its service range includes, in particular, the consulting and training of customers and the installation and setting up of TARIS at customers' offices, and a permanent telephone hotline. In future, the Company plans to utilise the wealth of experience it has gained from its business in managing human resources by providing corporate consulting to customers. It believes that corporate consulting in the area of strategic work and time management will emphasise even more the advantages of its product family during the lead up to implementation of TARIS than is the case if TARIS only depicts less than optimal corporate structures. In addition, strategic work and time management is a task for the management level of the Company's customers. Therefore the Company expects that corporate consulting will give it greater access to decision-makers in companies.

4. Software Products

The Company's core product is the flexible and modularly structured software product family, TARIS. TARIS consists of components for working hour management, personnel allocation planning, company data recording, project management, and the analysis of personnel management data. The data recorded by these modules for processing is deposited into a common database. The possibility of accessing all functions on a uniform and up-to-date database which results creates significant benefits for users with respect to analysing and planning personnel allocation in enterprises. The functions of the basic TARIS module may be supplemented by using additional standard software modules.

TARIS Time and Access

TARIS Time and Access is ATOSS Software AG's original product. This product is time management software that, acting as a link between electronic time recording devices and wage and salary systems, records and evaluates the working hours of employees in an enterprise. The software manages the transmission of time and employee data from the recording terminal to the company's computer system. The data is evaluated by TARIS using previously defined working hour models, master personnel data and payment types, and passed on to the wage and salary system for the requisite accounting.

One significant advantage of *TARIS Time and Access* is the flexibility with which users of the software can define the factors necessary for evaluating the working hours (so-called parameter definition). For example, the system permits individual or group-depiction of shift work and flexitime, target working hours, break rules, rules for the handling of overtime, absence and sickness, weekend work and statutory public holidays, and permits regulatory provisions, such as industrial safety and tax provisions, as well as collective bargaining and agreements to be taken into account. Simple user guidance using an intuitive user operating system based on the Windows program permits even employees with no data processing knowledge to quickly define these complex evaluation rules. Once these evaluation rules have been entered, TARIS automates the entire process, from recording working hours to providing pay relevant data to the wage and salary system. Manual work becomes largely unnecessary. In this respect, the system remains open to quick changes by the user.

Other functions of *TARIS Time and Access* include employee information concerning, for example, the status of their working hours account and leave entitlements, in that data flows back from the time management system to the recording devices, where it can be read by employees. The software may also be used for security solutions by means of TARIS supported definition of the relevant employee's access rights. In addition, TARIS permits real time enquiries that provide management with information concerning absence, availability, illness, the status of working hour accounts, violation of working hour regulations, and other important personnel data, such as information concerning payable surcharges and time credits (*Zeitguthaben*). Using a special statistics module, TARIS's information functions can be expanded even further. By virtue of these functions, TARIS makes data held by personnel management accessible for effective management of human resources.

TARIS Personnel Allocation Planning

The product, *TARIS Personnel Allocation Planning*, is a cornerstone of the continued qualitative development of the time management system into an instrument for strategic work and time management within enterprises. This function can check the availability of human resources both in terms of specific future periods and individual employees by accessing the personnel data administered by *TARIS Time and Access*, and thus facilitates personnel allocation planning based both on time periods and on worker capacity. Companies thus have the opportunity of using their personnel as required by the relevant work situation. Employees may be selected by the system according to their individual qualifications, statutory, collective and contractual provisions, taking into account costs precipitated by using the relevant employee and future availability, and not least the relevant employee's individual preferences. The product's scalability permits it to be used in diverse industries, e.g. in manufacturing industries, trade, and the public health system.

TARIS Operations Data Recording

This product is used primarily by industrial companies. It is used for recording the working and machine-related data that accumulates in handling manufacturing processes. Thus, for example, hours worked, the amount of time for which machines are used, and costs incurred by the use of work and production facilities can be attributed to specific production contracts. In addition, the system can record machine-related quality data, such as measurements concerning the manufactured goods, production quantities, and waste figures.

Data thus acquired can be processed by TARIS for a number of further purposes that facilitate an increase in an enterprise's productivity in the manufacturing process: for example, using the production figures collected by *TARIS Operations Data Recording*, the speed and costs of handling contracts can be monitored, and the causes of machine stoppage time analysed. Using production figures and quality criteria, the system provides an information basis for determining incentive pay for employees operating specific machines. Finally, it provides the production planning and management system ("PPS"), which is usually used by larger manufacturing companies, with the data determined, thus delivering current actual production data, and enabling the PPS system to efficiently plan further production.

TARIS Operations Data Recording must be closely integrated with the processes and individual structures of the respective manufacturing systems. As standard software, the product must therefore be particularly flexible; irrespective of this quality, in implementing *TARIS Operations Data Recording*, the Company provides a significant degree of individual consulting and adaptation services.

TARIS Project and Costs

The TARIS family's most recent product transfers the management functions of *TARIS Operations Data Recording* to work in the office. It permits users to efficiently plan allocation of their personnel for defined projects and the timing of projects, and to monitor adherence to project timetables. Project teams can be compiled using available employees who have the requisite qualifications, taking cost considerations into account. In an ongoing project, time-related data collected by *TARIS Time and Access* can be attributed to cost centres, expense types and costs units (projects, contracts, products) according to their proper cause. As a controlling instrument, *TARIS Project and Costs* permits budget and actual balancing for a current project.

In addition to the functions described above, ATOSS is of the opinion that TARIS offers the following benefits to its customers:

- *Flexibility:* The markets in which the Company's customers operate, working hour models, and time-based compensation rules are subject to constant change. The Company's customers must be able to react flexibly to changes in this milieu by adapting organisation of work within the given enterprise. TARIS makes such reorganisation easy by means of changing the parameter definition. Thus companies do not have to adapt their personnel management processes to the possibilities offered by their human resources planning and management systems.

- *Functional variety through modular structure:* Companies have very different needs with respect to the functions of their time management systems. TARIS is structured according to a modular principle that permits users to expand their time management system according to their individual needs by means of additional and more complex components that expand the system into a helpful instrument for company management of human resources. However, the users enjoy the benefits of using standard software, such as simple maintenance.

- *Integration of all applications:* Access by the ATOSS applications, which are critical to corporate planning, to *TARIS Time and Access* data ensures that personnel planning is based on correct and up-to-date data which, for example, can check the availability of employees who have specific qualifications for a given project. This avoids planning errors. The other TARIS products offer similar integration possibilities. Thus, for example, data from *TARIS Operations Data Recording* is used for determining incentive pay under *TARIS Time and Access.* Finally, the data deposited into the TARIS database may also be made useful for applications produced by other software manufacturers for purposes other than time and personnel management.

- *Scalability:* TARIS can be used as standard software in very different industries, in companies of all sizes, and on almost all computer platforms. In particular, the possibility of simultaneous use of the system by a large number of users also permits its use in very large companies. TARIS's licensing model enables ATOSS customers to flexibly adapt the size of their system to their human resources because it is based on the amount of master personnel data to be processed by the system, in other words, on the number of employees included in the user company's time management system. The capacity of the existing system can be quickly expanded by using a licence code sent by ATOSS.

- *Internet compatibility:* The Internet enables simple integration of decentralised corporate structures. The Company has developed a web client for TARIS programmed in JAVA, which enables the creation of a pan-organisational, uniform and consistent time management database on one server — even in the case of decentralised structures — data of which can be added and accessed via the Internet. In addition, this Internet technology permits enterprises to outsource the time management system to specialised service providers (so-called application service providers). In future, this outsourcing capability could also enable small companies to use high quality software products without having to make the investment required to acquire the equipment for themselves.

- *Multi-platform capability:* Users expect that software will also be able to be used if the underlying computer technology is changed. TARIS operates on all current platforms, i.e. on AIX computers, AS/400 and Windows NT servers. It permits a subsequent change from one platform to another without reducing the range of functions or changing the server. Thus investments made in software and application training for employees is protected if the hardware basis has to be changed.

- *User-friendliness:* Due to its intuitive operating system using a Windows format and an easy to understand user guidance system, use of TARIS is simple to learn and error-free operation may be quickly achieved. Despite the complexity of the time management parameters to be depicted by TARIS, no employees who work with TARIS require specific data processing knowledge.

- *Currency:* As a rule, when first entering into a TARIS licensing agreement, ATOSS concludes so-called maintenance agreements with its customers. During the term of these agreements, customers receive at regular intervals new and updated releases of TARIS that, for example, contain modifications to the standard software that have become necessary due to amendments to relevant statutory provisions.

5. Services

The Company is convinced that high quality service is decisive in order to motivate companies to purchase the Company's software and to bind them to ATOSS software in the long term. Therefore the services currently offered by the Company range from project planning prior to introduction of TARIS through to assistance in system operations.

In the context of project planning, ATOSS determines the actual condition of the customer's IT system into which TARIS is to be integrated, and also determines its needs *vis-à-vis* the system to be introduced for the planning and management human resources allocation. Software specifications are then prepared that, for example, reflect the customer's needs in terms of technology, existing and yet to be depicted working hour models, and interfaces to standard business software and recording devices. These software specifications form the basis of the customer-specific offer made by the Company. Prior to, during and following introduction of the system by ATOSS employees, the Company trains the relevant employees of the customer in daily use of TARIS. Following an internal test run and, where appropriate, selective additional training, operation of the system is commenced. ATOSS covers the need for further advice during operation by providing a user handbook, a comprehensive reference handbook, help functions integrated into the software, and a telephone hotline, whose employees are also able to dial into the customer's system for the purposes of making a remote diagnosis. The Company is currently expanding its consulting spectrum to include more comprehensive corporate consulting on strategic time and work management (see "Business — Strategy — Effect on the Range of Services Offered").

6. Sale of Hardware

As a provider of systems for the planning and management of human resources allocation in companies, ATOSS also provides the requisite third party manufacturer hardware products for such systems. For the Company, these products are merchandise. The Company maintains contractual relations with all the important manufacturers of hardware components for time management systems, e.g. Kaba Benzing GmbH, Acola GmbH, and PCS Systemtechnik GmbH. The Company believes it has good business relationships with these suppliers, and is of the opinion that none of these suppliers currently dominates the market for time management hardware.

7. Marketing and Sales

ATOSS Software AG's marketing activities are directed towards establishing ATOSS and the TARIS product family as a brand name for software supported systems for strategic work and time management. Within the companies of potential customers, the Company has identified two target groups for its marketing: first, it seeks to convince company management by explaining the strategic importance of work and time management and the use of its product as a management tool. On the operative level, i.e. in the human resources and IT divisions of potential customers, the Company focuses on presenting the functions of its products. One of the Company's major sales strategies is reference marketing, where ATOSS shows its expertise in problem solutions by highlighting successfully completed projects. Moreover, for marketing purposes it places advertisements in trade magazines, undertakes targeted mailing campaigns, participates at trade fairs, provides lectures by members of its management and other top employees, offers workshops on "strategic work and time management" ("SMAZ"), and gives product presentations to potential customers. Finally, in marketing its products the Company also uses its partnerships with standard business software providers in the area of enterprise resource planning ("ERP") and human resources systems, such as Best! H.R. Management Software GmbH, and with time management hardware manufacturers such as PCS Systemtechnik GmbH, Kaba Benzing GmbH and Acola. In addition, the Company plans in the future to increasingly use its sales partners for the purposes of marketing its products.

To date, in selling its software and software services, the Company has largely relied on its own sales organisation, which had 23 employees throughout the group in the 1999 fiscal year and generated 98% of domestic as well as 97.64% of foreign sales. There are regional sales territories that are managed by the Munich headquarters and the branches in Frankfurt, Hamburg, Stuttgart, Vienna and Zurich. Moreover, the Company has sales subsidiaries, ATOSS Systems Consulting GmbH, having its registered office in Düsseldorf, which is intended to be merged into ATOSS Software AG in the 2000 fiscal year, and ATOSS Software GesmbH, having its registered office in Vienna, for sales in Austria. In addition, in January 2000 it formed ATOSS Software AG, having its registered office in Zurich, as a sales company for the Swiss market.

By using suitable partner companies for indirect marketing and the sale of ATOSS products, the Company is trying to open up the market comprised by companies with 50 to 300 employees and to expand the circle of potential buyers of its products in the market that has been addressed to date. The Company distinguishes between the following categories of sales partners:

- *Business partners* broker customer contacts with the Company, and, upon conclusion of an agreement, receive a broker-type commission from the Company, the quantum of which is based on the contract volume agreed.
- *Authorised dealers* distribute and sell simple technical ATOSS solutions.
- *Solution centres* are highly qualified partner companies that are entitled and in a position to distribute and implement all ATOSS software products.
- *Original equipment manufacturers* (OEMs) are important manufacturers of standard corporate software, who integrate TARIS into their products as a time management solution. They thus appear as TARIS resellers, who sell under their own name (re-branding).

8. Research and Development

In the past, ATOSS has invested substantially in research and development. In this respect, the Company has concentrated primarily on in-house developments, and has purchased third party technology in addition to a far lesser extent. A large part of the work conducted by the research and development division, which is managed by Management Board member Dr. Thomas Barth, is directed towards improving current software products and developing new modules for TARIS. In the 1999 fiscal year, research and development work focused on creating the mid-sized business version "TARIS Start Up Edition", which is intended for companies with 50 to 300 employees, as well as on developing a TARIS web client programmed in JAVA, which permits integration of time management in decentralised organisations via the Internet.

In the 1999 fiscal year, 19 employees — and hence 15% of all the Company's employees — were engaged in the research and development division. In the 1999 fiscal year, investments for research and development amounted to DEM 2,940,509 (1998: DEM 1,778,065; 1997: DEM 1,824,243). The Company plans that in future its average annual investments in research and development will continue to constitute no less than 10% of turnover. During the current fiscal year, the Company's research and development work will concentrate on development of a LINUX-compatible version of TARIS, expansion of the software's ability to analyse working hours and company data, and expansion of the functions of the TARIS project management module. In addition, in future the Company intends to support the IBM DB/2 database using the Windows NT operating system.

9. Competition

As part of a market and competition analysis conducted on behalf of the Company in April 1998, the Diebold consulting company investigated some 400 to 500 providers of systems for corporate time recording in Germany. The product portfolio of these providers ranges from pure hardware suppliers, who, in particular, offer terminals for time recording and access control, providers offering varied goods and services with different focal points, to providers who exclusively offer software according to company type. Using the aforementioned different business focuses, the following individual groups of time management systems providers can be identified on the market:

- Providers of hardware products, in particular, of devices for time recording and access control, such as Kaba Benzing GmbH, Acola GmbH and PCS Systemtechnik GmbH. While it is true that these providers generally develop management software for their devices themselves, they resort to the software of specialised users for the integration of their products into comprehensive time management solutions. Thus as far as the Company's core business is concerned, such providers are co-operative partners rather than competitors.
- Another group of hardware providers has begun to develop self-integrating software for access control systems and the automation of administrative processes in the human resources departments of their clients. These providers, who compete directly with ATOSS, include Isgus Zeittechnik GmbH,

Timesys AG, and Interflex Datensysteme GmbH, which holds a strong market position due to its broad customer base and international presence.

- Similarly to ATOSS Software AG, another group of competitors offers time management software products exclusively, and purchases any necessary hardware products from co-operative partners. This group includes Breitenbach Software Engineering GmbH and tisoware Gesellschaft für Zeitwirtschaft mbH.
- Another group of competitors with great technological and financial potential are enterprise resource planning systems providers. Thus, for example, SAP AG offers its own module from its standard business software R/3 for salary accounts, personnel information and time management. Given that the majority of ERP providers do not currently offer any products of their own whose functions are equivalent to those of ATOSS Software AG's software, the Company's software is frequently included in ERP solutions as a special solution via defined interfaces. Therefore the Company's relationship with ERP providers could presently be described as co-operative, but this could change into serious competition in the event of greater concentration on the part of ERP providers on offering goods and services relating to time management (see "Risk Factors — Intensive Competition").

According to Diebold's findings, there are approximately 160 companies operating in Germany that offer software supported time evaluation systems, and hence overlap with the goods and services offered by the Company. However, of these, approximately 135 are regionally operative software companies with less than 20 employees.

In light of the size of most of the Company's competitors, no reliable statements can be made concerning their respective market share. However, due to the lack of any dominant providers, overall the competitive situation can still be described as fragmented. The Company expects that the need for enterprises to expand their current time management systems into efficient instruments for strategic work and time management or to replace their current systems will place smaller providers under considerable pressure. This could further intensify competition in the market addressed by the Company, and could result in consolidation on the provider side of the market.

10. Investments

The following table provides an overview of the amounts that the Company has invested in tangible asset items and the financial investments it has made in the 1997, 1998 and 1999 fiscal years.

	1999	*1998*	*1997*
		(in KDEM)	
Acquisition of tangible assets	1,314	1,510	1,015
Acquisition of intangible assets	414	217	42
Acquisition of financial assets	250	—	—
Total	1,978	1,727	1,057

These investments were financed primarily from the Company's cashflow from its operative business, and, secondly, by raising equity capital. The Company expects that as a result of the increased internationalisation of its business a greater portion of its future investments will be made outside Germany than previously. Without giving effect to possible acquisitions, the Company currently plans investments (without investments in intangible assets) in the order of DEM 8 million for fiscal 2000. The Company currently has no definitive plans to acquire assets (see "Use of Proceeds from the Offering").

11. Employees

The Company considers its highly qualified and highly motivated employees to be a key factor in its business success. At the end of the 1999 fiscal year, approx. 69% of all employees had university degrees, while this applied to approx. 88% of employees in research and development and in consulting and IT services. The Company's future success will also depend on its ability to acquire and keep highly qualified employees while competing with other software companies.

The number of employees in the ATOSS corporate group has grown in recent years together with the growth in turnover. While the group had only 62 employees in the 1997 fiscal year, this number increased to 81 employees in the 1998 fiscal year, and 124 employees in the 1999 fiscal year. The following table shows the distribution of employees within the group's divisions, as well as their distribution amongst ATOSS Software AG and its subsidiaries:

	1999	*1998*	*1997*
Marketing and Sales	32	13	8
Consulting and IT Services	34	19	15
Research and Development	19	12	10
Accounting and Administration	22	16	13
Assistance	17	21	16
Total	124	81	62
As between:			
ATOSS Software AG	97	62	43
Subsidiaries	27	19	19

The Company currently engages 2 freelance employees.

The level of salaries paid is based on employees' qualifications, responsibility, and their individual achievement of goals. Approx. 80% of employees have variable salary components that comprise between 20% and 50% of their respective salaries. In addition, the Company is convinced that participation by the employees in their Company will positively affect their motivation and thus contribute to an increase in the Company's value in the interests of all the shareholders. Therefore, it gave its employees a chance to acquire holdings in the Company in as early as 1999; approx. 85% of the employees availed themselves of this opportunity. Prior to the Offering described in this Prospectus, the employees hold approx. 4.8% of the Company's registered share capital, and following the Offering (in the event that the Over-Allotment Option is fully exercised) they will hold approx. 3.4% (in this respect, see "General Information concerning the Company — Pre-IPO Stock Option Programme"). A further instrument for motivating employees is the Employee Stock Option Programme created on the occasion of the IPO (in this respect, see "General Information concerning the Company — Employee Stock Option Programme").

At present, the employees are not represented by a staff committee, and to date there have not been any strikes. The Company believes that it has a good relationship with its employees.

12. Intellectual Property Protection; Licences, Trademarks and Patents

ATOSS Software AG is dependent upon protection of its intellectual property rights. The Company is endeavouring to protect its intellectual property by means of confidentiality covenants with management board members, employees and third parties, as well as by means of copyright and trademark protection. The contracts for services entered into with the management board members provide that they transfer to the Company all licensing and exploitation rights for all works created during the term of their engagement capable of patent, copyright or other protection under trademark, utility patent and/or design law. Pursuant to comparable contractual and statutory provisions, copyrights and industrial property rights in works created by employees vest in the Company.

Licences

To a very limited extent, the Company currently integrates third party software into its own products. The Company intends to continue to develop its software products largely itself in future, but could also, to a limited extent, use third party technology where it considers this to be expedient. Should the Company fail to obtain or maintain the required software licences from third party providers, it would have to replace the relevant software by corresponding in-house development or third party software.

Generally speaking, the Company grants no exclusive licences in ATOSS software. Even in the case of adaptation programs tailored to individual customer wishes, the Company ensures that it can also implement comparable adaptation programs for other customers; moreover, it integrates special developments into the standard software where it believes that such developments will be generally useful to its customers.

Trademarks

ATOSS currently holds the trademarks "ATOSS Advanced Transactions Oriented System Solutions" and "TARIS Time and Attendance Retrieval and Information System" in Austria, Switzerland, France, Italy and the Benelux nations, as well as the trademarks "ATOSS Advanced Transaction Orientated System Solutions" and "TARIS" in Germany. Moreover, in Germany the Company has filed for registration of "ATOSS" as a word and device mark, as well as for the word mark " SMAZ" (as an abbreviation of the German for "strategic work and time management"). csd System haus GmbH, which was recently acquired by ATOSS, holds the picture mark "Time Control" in Germany.

In 1999, the Company brought proceedings before the Regional Court of Munich against the French software company, Atos S.A. and its Germany subsidiary, Atos GmbH, to prevent them from using their respective company names in the Federal Republic of Germany. The parties settled the dispute out of court pursuant to a demarcation agreement dated 27 October 1999; ATOSS Software AG then withdrew its action. In the demarcation agreement, each party agreed to permit the other respective party worldwide use of the name "ATOSS" or "Atos" alone, to tolerate corresponding applications for trademark registration, and not to seek injunctions preventing use of the respective trademarks. Moreover, the parties have agreed to mutually support each other in proceeding against third parties that use the names "ATOSS" or "Atos" in Germany, Switzerland, Austria, France or Spain. Further, the Atos companies agreed not to file any applications for admission of its securities to the regulated market and for commencement of trade on the *Neuer Markt* segment of the German Stock Exchange under the company name "Atos".

ATOSS does not currently hold any patents.

13. Real Property Holdings

The Company and its subsidiaries have no real property holdings. The spaces used are rented at rates typical for the respective locations.

14. Insurance Policies

The Company has taken out the usual property, employer's liability, electronic, and loss-of-profit insurance policies for itself and its subsidiaries. The Company has no insurance policy covering damage that it may incur as a result of claims asserted against it for defects in its products (product liability insurance) (in this respect, see "Risk Factors — Risk of Product Defects, Product Liability, no Product Liability Insurance").

15. Legal Disputes

Neither the Company nor its subsidiaries have been involved in legal disputes over the last two years, the results of which have or could in the future substantially adversely affect the Company's business, financial and earnings situation in the future. Nor are the Company or its subsidiaries currently involved in any such dispute.

VII. MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. Introduction

The following discussion about significant financial data of the ATOSS Group relates to fiscal years 1997, 1998 and 1999. The subject matter of the discussion is the consolidated financial statements of ATOSS Group as prepared in accordance with US-GAAP. The discussion should therefore be read in connection with the consolidated financial statements (including the notes related thereto) which have been reprinted in the financial section of this prospectus and which were prepared in accordance with US-GAAP.

2. Revenues

2.1 *Sales Revenues*

	1999	*1998*	*1997*
	TDM	*TDM*	*TDM*
Software	11,755	8,808	5,890
Hardware	8,805	5,044	6,930
Services	7,007	4,639	3,641
Maintenance	5,557	3,929	2,828
Miscellaneous	1,987	605	1,200
	35,111	23,025	20,489

All areas of sales have experienced high growth rates in recent years. By acquiring new customers and maintaining a stable existing customer base, the Company has seen pleasant revenue growth in recent years, particularly in the licence fees sector. This development was made possible by increasing the direct sales personnel. Moreover, the Company was able during the course of fiscal year 1999 to increase prices for its software products by an average of 10%. Thus, a 33% growth rate was achieved from 1998 to 1999, and a 50% growth rate was achieved from 1997 to 1998.

Company sales revenue from maintenance and care were the result of maintenance contracts entered into by the Company for periods of up to five years. Since virtually all customers of the Company enter into such contracts with the Company upon first licensing TARIS, the Company's revenues during the reporting period correspond to a large extent to sales revenue from software licensing.

As a provider of complete systems for work and time management, the Company supplies above all equipment for recording personnel scheduling and operations data. Such hardware components represent tradeware to the Company which is delivered directly from the respective manufacturer to the Company's customers in connection with drop shipment transactions. As a key purchaser of such recording equipment and being independent of any manufacturers, ATOSS has acquired a strong position and is able to achieve margins which are generally atypical for the hardware market. The hardware sales dropped by 27% from fiscal year 1997 to 1998. The cause for this development was that there had been a number of large scale projects in fiscal year 1997 which were extremely high and which did not generate the same kind of hardware revenues again in fiscal year 1998. Hardware revenues in fiscal year 1999 rose by 74% from their low level in 1998.

Sales in the applications consulting sector, which had been generated from the consulting and IT services department, rose by 27% from 1997 to 1998 and by 51% from 1998 to 1999. In the reporting period, the demand for the Company's consulting services regularly exceeded the Company's personnel capacity. The increase in sales was therefore primarily the result of expanded hiring in the consulting and IT services department. By expanding the Company's branch offices, the Company has moved closer to its customers and can therefore advise them more quickly and on a much more cost effective basis. In 1999, the Company was able to improve its consulting services by establishing a call centre.

2.2 *Other Operating Income*

1999	1998	1997
TDM	*TDM*	*TDM*
240	68	–23

The account "other operating income" contains in 1999 a payment in the amount of DEM 300,000 resulting from an out-of-court settlement in a legal dispute with the firm Atos S.A. This settlement related to a dispute concerning naming rights (see Business — Intellectual Property Protection: Licences, Trademarks and Patents). The minority shareholder's share in the annual net profits of ATOSS Systems Consulting GmbH in the amount of DEM 100,903, which had the effect of lowering income in 1999, was the result of the consolidation of the additionally purchased shares. Upon selling his shares, the current shareholder also assigned his dividend right for 1999.

3. Expenses

	1999	1998	1997
	TDM	*TDM*	*TDM*
Cost of sales	13,320	8,908	8,531
Development costs	2,941	1,778	1,824
Distribution and marketing costs	10,041	6,753	5,237
General administrative costs	5,991	4,539	4,224
Total expenses	32,292*	21,979*	19,816*
As % of sales revenues	92%	95%	97%

* Rounding off may lead to deviations in the sums

Hand in hand with the enterprise growth, the investments made to expand all divisions of the Company (consulting, research and development, sales, marketing and administration) also increased during the reporting period.

3.1 *Cost of Sales*

1999	1998	1997
TDM	*TDM*	*TDM*
13,320	8,908	8,531

The cost of sales consist, on the one hand, of deployed goods (commercial goods purchased from suppliers). In 1999, the expenses for such deployed goods were DEM 7,083,000. This figure contains both the goods deployed for the purchased peripherals as well as the expenses for the services purchased from third parties. Additional cost of sales include the cost for procuring the Company's consulting services. In 1999 the internal costs relating to the Company's Consulting and IT Services Division (which included 34 consultants) were DEM 6,237,000. This item includes primarily personnel costs, office space, automobile and travel costs, depreciation/amortisation and other human resource costs for applications consulting. The moderate increase in cost of sales in fiscal years 1997 and 1998 may be attributed to the lower deployed goods purchases which, in turn, was the result of lower hardware sales in 1998. Accordingly, the increase in cost of sales in 1998 and 1999 is based not merely on the higher personnel costs resulting from expanding consulting services, but also on the renewed increase in hardware sales.

3.2 *Development Costs*

1999	1998	1997
TDM	*TDM*	*TDM*
2,941	1,778	1,824

The costs for development consist largely of expenditures for personnel in the research and development department. The average number of employees of this department has risen to 19 employees; in 1997, it was 10 employees, and in 1998, it was 12 employees. Thus, great strides in the development of TARIS WebClient and the *TARIS Project and Cost* product were able to be made, while at the same time pursuing the completion of the TARIS version 2.3.

3.3 *Sales and Marketing Costs*

1999	*1998*	*1997*
TDM	*TDM*	*TDM*
10,041	6,753	5,237

Marketing costs in 1999 were DEM 2,671,000. Among other things, the marketing expenditures made by the Company permitted trade fair appearances and financed media exposure. By means of product presentations, the Company was also able to attract potential direct sales partners. In 1999, these expenditures totalled DEM 2,671,000. The sales costs which in 1999 were DEM 7,370,000, included primarily personnel costs, automobile and travel costs, and thereby covered both direct and indirect sales. The described increases in costs during the reporting period are based on increased marketing efforts by the Company and grew largely in tandem with the Company's increased revenues during this period.

3.4 *General Administrative Costs*

1999	*1998*	*1997*
TDM	*TDM*	*TDM*
5,991	4,539	4,224

The general administrative costs consist primarily of human resource expenditures for the personnel, legal and finance divisions. Consequently, the general administrative costs rose primarily in sync with the increased hiring in this divisions from 13 employees in 1997, to 16 employees in 1998, and to 22 employees in 1999.

4. Operating Results

1999	*1998*	*1997*
TDM	*TDM*	*TDM*
2,819	1,047	673

The earnings from ordinary business operations rose by 55% from fiscal year 1997 to fiscal year 1998, and by 169% from fiscal year 1998 to 1999. This growth is based on the fact that the Company's overall expenses rose less sharply than its revenues during the reporting period. As a result thereof, the Company's pre-tax return on sales of 3% in 1997 rose to over 5% in 1998 and was 7% in the recently completed fiscal year. The principal catalysts for this trend were the productivity increases in the Sales, Consulting and Administrative Divisions.

5. Annual Group Net Profit/Loss

1999	*1998*	*1997*
TDM	*TDM*	*TDM*
1,477	411	323

As a consequence of the increase in earnings from ordinary business operations, the Group's annual net profits also rose. Earnings increased by 27% from 1997 to 1998 and by 259% from 1998 to 1999.

6. Information regarding the Cashflow Statement

	1999	*1998*	*1997*
	TDM	*TDM*	*TDM*
Net Cash inflow from operations	3,344	1,450	1,170
Cash outflow from investment activities	–1,978	–1,590	–1,123
Cash inflow from financing activities	2,957	102	–160
Cash and Cash equivalents at the beginning of the Period	1,104	1,142	1,256
Cash and Cash equivalents at the end of the Period	5,427	1,104	1,142

Cash inflow from operations during the reporting period may be traced back primarily to the Company's positive earnings situation. Cash inflow in the operating sector was also generated from a reduction in accounts receivables. In fiscal year 1997, receivables were reduced by DEM 768,000; in fiscal year 1998, by DEM 2,010,000; and in 1999, by DEM 1,502,000. This is a reflection of the Company's tough debtor management programme.

The cash outflow from investment activities was primarily the result of a build-up and expansion of business operations. During the reporting period, this investment activity involved mostly the procurement of office equipment and furnishings which increased the Company's tangible assets. The procurement of computer software led to an increase in intangible assets. In 1999, the Company also invested DEM 250,000 in the purchase of a 20% minority shareholding in ATOSS Systems Consulting GmbH (Meerbusch). In 1997, securities were purchased which were then sold at a gain in 1998.

In fiscal year 1997, financing activities generated a negative cashflow of DEM 160,000 as a result of a DEM 300,000 dividend payment and in view of an increase in short-term borrowings in the amount of DEM 140,000. In contrast, by virtue of a lower level of borrowing compared to the previous year, the cashflow from financing activities was positive at DEM 102,000 in 1998. Whereas the servicing of loans in the amount of DEM 248,000 led to a cash outflow in fiscal year 1999, the Company had a DEM 3,205,000 cash inflow resulting from the capital increase in connection with the implementation of the pre-IPO participation programme. The result was a net cash inflow from financing activities equal to DEM 2,957,000.

VIII. TAXATION IN THE FEDERAL REPUBLIC OF GERMANY

The following section is a summary of certain important German taxation principles which may be relevant in connection with the ownership of Shares. This summary does not purport to be a comprehensive and complete description of all German tax considerations which may be relevant to shareholders. The summary is based on the tax laws in force in Germany at the time this Prospectus was printed, as well as customary double taxation treaties currently in force between Germany and other countries; the tax provisions in both areas are subject to change on short notice, possibly with retroactive effect. It is therefore recommended that prospective purchasers of Shares consult with their tax adviser regarding the tax ramifications of purchasing, holding, selling or gratuitously transferring Shares, and, if applicable, the procedures to be followed in the event of a possible refund of German withholding tax. Only the tax advisor is in a position to properly consider the individual shareholder's specific tax situation.

Taxation of the Company

As of 1 January 1999, the taxable income of German corporations, *inter alia*, is subject to a corporate income tax rate equal to 40% of retained profits and 30% of distributed profits. A further reduction of the corporate income tax is planned for the year 2001.

Taxation of Dividends

Dividends distributed to shareholders by German corporations are subject to withholding tax (investment income tax) in the amount of 25% and a solidarity surcharge in the amount of 5.5% on the investment income tax. The total tax burden thus is 26.37%.

Withholding taxes levied on dividends distributed to foreign shareholders residing in countries with which Germany has entered into a double taxation treaty, in most cases, are limited to 15%. The reduction of withholding tax generally is effected by refunding the shareholder the difference between the total amount withheld and the maximum withholding tax permissible under the applicable double taxation treaty, upon application to the Federal Office of Finances (*Bundesamt für Finanzen*), Friedhofstrasse 1, D-53225 Bonn, Germany. Refund application forms may be obtained from the Federal Office of Finances or from German embassies or consulates in various foreign countries. Most double taxation treaties provide for additional reductions for dividends distributed to corporations which own at least 10% of the voting shares of the corporation distributing such dividends. Under certain circumstances, dividends distributed to parent companies within the meaning of the Council's Directive No. 90/435/EEC dated 23 July 1990 (the so-called ''Parent-Subsidiary-Directive'') may be exempt from withholding tax altogether. Upon application, and provided that all other conditions have been met, the reduced withholding tax rate or, where applicable, the waiver of withholding tax may already be made effective at the time when dividends are distributed.

Shareholders residing in Germany and subject to unlimited German tax liability, as well as foreign shareholders whose shares form part of the business assets of an enterprise or permanent business establishment maintained by the shareholder in the Federal Republic of Germany, are entitled to credit the investment income tax and solidarity surcharge withheld by the distributing corporation against their German income or corporate income tax liability and, in the event of excess payment, are entitled to a tax refund thereof.

Under the corporate tax credit method, shareholders residing in Germany and subject to unlimited German tax liability, as well as foreign shareholders whose shares form part of the business assets of an enterprise or permanent business establishment maintained by the shareholder in the Federal Republic of Germany, are also entitled to a tax credit or refund in the amount of $^3/_7$ of the gross dividends distributed (distribution before investment income tax). The basis of assessment of the solidarity surcharge is reduced accordingly. Entitlement to such tax credit or refund is conditional upon submission of a tax certificate. To the extent that the dividends distributed by the corporation are tax-exempt, for example on the basis of a double taxation treaty, no tax credit applies.

The purpose of the corporate tax credit method is to avoid double taxation — taxation of both the corporation's income and the individual shareholder's income — and to tax dividends on the basis of the personal circumstances applicable to the shareholder.

Presently, there are plans to replace the corporate tax credit method with a so-called half-income method beginning with the tax assessment period for 2001.

Foreign shareholders whose shares do not form part of the business assets of an enterprise or permanent business establishment maintained by the shareholder in the Federal Republic of Germany are not entitled to the aforementioned tax credit. However, such shareholders should ask their tax advisers to examine whether withholding taxes paid in Germany may be credited against their tax liability in their country of residence.

Taxation of Capital Gains on the Disposal of Shares

Domestic shareholders are subject to taxation on capital gains realized on the disposal of shares held as private assets only if less than 1 year has lapsed between the date of acquisition and the date of disposal, or — if the above speculation period has expired — if the shareholder has, at any time during the immediately preceding 5 years, either directly or indirectly, held an interest of at least 10% in the corporation. Where the shares form part of the business assets of a domestic enterprise, capital gains on the disposal of such shares are generally subject to taxation in Germany. Gains realized on the sale of shares by a foreign shareholder will not be subject to German income tax, unless the shares form part of the business assets of an enterprise or permanent business establishment maintained by the shareholder in the Federal Republic of Germany, or the shareholder has, at any time during the immediately preceding 5 years, either directly or indirectly, held an interest of at least 10% in the stock corporation, and no exemption exists under any applicable double taxation treaty.

Inheritance and Gift Taxes

The transfer of shares by succession or gift will be subject to German inheritance and gift tax only if

a) at the time of transfer, the primary or ordinary residence of the testator, donor, heir, donee or other recipient was located in Germany, or the testator, donor, heir, donee or other recipient was a German citizen and resided no more than 5 years abroad without maintaining a residence in Germany, or

b) at the time of transfer, the shares form part of the business assets of an enterprise or permanent business establishment maintained by the shareholder in the Federal Republic of Germany, unless paragraph a) applies, or

c) the testator or donor, either alone or together with other closely related persons, held directly or indirectly, at least a 10% interest in the nominal share capital of the German corporation.

The small number of German inheritance tax double taxation treaties currently in force (e.g., the one with the United States) ordinarily provide that German inheritance and gift tax may be imposed only in cases described in a) and b).

Other Taxes

The purchase, sale or transfer of shares is not subject to any German capital transfer taxes, turnover taxes, stamp duties or similar taxes.

IX. FINANCIAL INFORMATION

Financial Statements of
ATOSS Software AG, Munich
For the business year 1999
(set up according to German GAAP)

Management Report of ATOSS Software AG

Economic Situation

In 1999, ATOSS Software AG was operating in a positive business climate. According to calculations of the German governmental office for statistics, the gross domestic product increased by 2,0% in the first three quarters of 1999 as compared to the previous year. Over the past years, the market for time management systems experienced above average participation in the positive economic environment. A study by the consulting firm Diebold reveals that in 1999 the market for time management systems rose by approximately 12 percent. ATOSS estimates the software market for strategic management software — in which the products of ATOSS are positioned — will be clearly outperforming the macroeconomic trend.

Given this situation, ATOSS Software AG managed to achieve an above average growth rate and to increase its market share. According to Diebold, ATOSS is one of the leading companies in the time management segment. ATOSS Software AG offers software and consulting services for strategic management of work and time (SMWT).

Strategic management of work and time offers solutions, which integrate through a common database, time-recording and the closely related fields of collection of company data, personnel management, as well as project- and cost center management. With these integrated products, ATOSS meets the requirements of companies which — in order to increase competitiveness and speed up decision-making processes — have to take into consideration time use and its effects on costs in all processes.

With its very flexible, hardware independent range of products for SMWT, ATOSS addresses a broad range of user groups. For different sizes of companies, different versions are offered — adapted to specific needs of the user groups. In addition, ATOSS is profiting from the trend toward the internet. With an internet-capable client version, enabling companies to perform their strategic management of time and work via the world wide web and an outsourcing-service company, the ATOSS Software AG again proves its leadership in technology.

Sales

In the past business year, the ATOSS Software AG could increase its sales by approximately 54 percent to Mio DM 32,1. Among others, big projects for Coca Cola, DBV Winterthur and the private Schmidt clinics contributed to this rise. In addition, the company managed to enforce price increases for license fees of about 10 percent.

Sales were above budget by 5,3 percent.

Exports, which are mainly realized in German speaking countries, tripled and contributed approximately 6 percent to the sales of the company.

The increase in sales was achieved in all business segments:

The biggest share of sales was achieved in the segment software license fees (Mio DM 11,8 or 37 percent). In this business segment, ATOSS sells software programs for time management, management of personnel, time collection for projects, management of corporate data, as well as strategic management of work and time. In this segment, the company increased its sales by 33 percent in 1999. The customers comprise approximately 650 companies.

The hardware business segment, in which ATOSS acts as a trading company, achieved a sales plus of 84 percent (million DM 8,8). In this business segment, ATOSS also profited from the year-2000 problems some companies experienced. By including hardware components in its product range, the company is able to deliver to the customers a complete system. In this context, ATOSS acts as a consultant independent of manufacturers, thereby eliminating dependencies on individual producers. Through the strong market position and the positioning in the niche SMWT, the company can also achieve attractive gross margins in the hardware segment, as compared to other software companies.

The volume of business in the segment of consulting and IT-services, into which ATOSS will be more and more expanding, increased by 53 percent to Mio DM 4,6. Software maintenance accounted for Mio DM 5,6, an increase of 42 percent as compared to the previous year. Generally, the purchase of the software is also linked with a maintenance agreement. Due to the growing customer basis, this segment should provide above average growth rates in the future.

Subsidiaries and branches

In the past year, ATOSS intensified its export activities. In Austria, (in addition to the subsidiary ATOSS Software Ges.m.b.H., Kitzbühel), a sales branch in Vienna was established. In Switzerland, ATOSS opened a branch in Zurich. In the new foreign bases the sales budgets were met. Customers of these countries include Steyr Daimler Puch AG, Haribo, Migros and the "Kantonalbank" in Luzern. These clients enable ATOSS to position itself internationally with well-known customers.

Also, the sales branches in Frankfurt, Hamburg and Stuttgart, as well as the ATOSS Systems-Consulting GmbH, Meerbusch, showed a positive trend. At the end of December 1999, ATOSS increased its share in ATOSS Systems-Consulting GmbH, Meerbusch, to 100 percent.

Employees

The considerable expansion of ATOSS Software AG is mainly based on a constant increase in highly qualified personnel. In 1999, 21 new employees were hired, so that the total number of employees at year-end amounted to 107. Personnel expenses rose by 54 percent to Mio DM 13,6 and amounted to 42 percent of sales as compared to 43 percent in the previous year.

The company views the successful acquisition of qualified personnel a key factor to the company's success. In view of this situation, the company uses professional personnel marketing. After the IPO, new personnel will be facilitated by a stock option plan which is also hoped to strengthen the employees' bond to the company.

Research and Development

In 1999, the company focused its research and development activities on the further development of the project time collection tool. Also, the internet-capability of the products has continually been improved so that starting in the first half of the year 2000, the company can act as internet application service provider in the segment time management. As a basis of an outsourcing offer, additional customer usage can be created and a priceworthy alternative for decentrally organized companies can be offered. Another focus is a Linux-version of the ATOSS tools, which will be introduced in the year 2000.

Given these developments, the techological advantage of ATOSS as compared to its competitors will be expanded and an affordable use of the software by the customers is assured. The range of products of strategic management of projects and time is expected to be completed through further software developments.

The investments in research and development could be increased by about 50 percent to Mio DM 3 as compared to the previous year.

Capital expenditures

As of December 31, 1999, the capital expenditures (without investments in financial assets) of the ATOSS Software AG amounted to Mio DM 1,6 after Mio DM 1,4 at balance sheet date of the previous year. This is due to the considerable increase in personnel and relates mainly to office and technical equipment. Depreciation increased from Mio DM 0,6 in 1998 to Mio DM 0,9 in 1999.

Net Worth, Financial and Profit Situation

The past growth achieved by ATOSS could be financed primarily without bank loans.

The equity to debt ratio improved from 15 percent in 1998 to 38 percent in 1999. Besides the capital increases, this was also achieved by this year's profit.

The profit situation of ATOSS Software AG further improved in 1999: The profit tripled from Mio DM 0,4 to Mio DM 1,2 and thus increased more than sales. As a result, cash flow increased from Mio DM 1,0 to Mio DM 2,3.

Organizational Measures

To prepare for the initial public offering, ATOSS changed its legal form into a stock corporation. The change of the legal form was entered in the trade register on February 3, 1999. To fully collect and evaluate its chances and risks, ATOSS is in the process of introducing a comprehensive risk management system.

To optimize the processes and work-flow of the company, IT-supported integrated tools were introduced in all business segments of the company.

Structure of shareholders

With the change to the new legal form, the basis for an increase in the number of shareholders was laid. In the spring of 1999, the consulting company Knorr Capital Partner AG took a share of 1,4 percent in ATOSS AG. As an experienced stock exchange consultant, Knorr will be accompanying ATOSS during the IPO. In autumn of 1999, the employees of ATOSS got the chance of participating in the company through a pre-listing participation model. The equity share held by the company's employees amounts to approximately 3,5 percent.

Opportunities and risks

ATOSS sees business opportunities for more than average growth in the planned expansion of foreign branches and in the development of new market opportunities for clients with less than 100 employees. To achieve this goal, the company wants to foster sales and product partnerships, especially in the area of personnel management which is closely linked to the area of time management.

As a consequence of the IPO, ATOSS expects to become better known in the market and as a result to achieve a higher acceptancy with strategic well-known clients. Qualified employees and managers might be acquired more easily and can be bound to the company with a stock option plan yet to be established.

For the time being, ATOSS faces the risk of being dependent upon a few key persons that have built up the company. Also, it might prove difficult to hire qualified personnel.

Furthermore, ATOSS, operating in a market niche, experiences competition through smaller companies as well as global players (e.g., large companies that offer ERP or system integration) which could achieve a dominant market position either through partnerships or through the development of in-house solutions.

Outlook on the year 2000

For the business year 2000, as well as for the following years, ATOSS expects the high growth rates of its sales to continue with results also increasing substantially. All business segments will contribute to this expected development. With the planned IPO in the year 2000 — target segment is the 'Neue Markt' — ATOSS will lay the proper foundation.

The cash flow from the public offering will be invested in international business activities. The focus of the next year will be the development of the French market, the Benelux countries, the UK and the US. As strategies for market entry, ATOSS is considering gaining market share through acquisitions as well as through the opening of its own branches.

Also, ATOSS strengthens its market position by expanding its marketing and sales activities. A special focus will be the continued targeted expansion of its indirect sales through business partners. With the strategic management of work and time, ATOSS develops a new market segment. In addition, ATOSS will strive to position the brand ATOSS in the market to be synonymous with software products managing time. By strengthening the business segments consulting and IT-services as well as the focus on the research and development activities, ATOSS can expand its product range for existing clients and gain new groups of clients. For the year 2000, the planned activities of the company include the development of the project management tool, a Linux-version of the products, as well as a product line specifically tailored for small and medium-size companies.

Balance Sheet as of December 31, 1999
of ATOSS Software AG, Munich

		DM	*Previous year* *KDM*
Assets			
A.	**Fixed Assets**		
I.	Intangible Assets		
	Franchises, trademarks, patents, licences, and similar rights ..	448.998,00	186
II.	Property, plant and equipment		
	1. Technical equipment, plant and machinery	39.659,00	72
	2. Other equipment, operational and office equipment ..	2.050.881,00	1.568
		2.090.540,00	1.640
III.	Investments		
	Shares in affiliated companies	422.356,48	172
		2.961.894,48	1.998
B.	**Current Assets**		
I.	Receivables and other assets		
	1. Trade receivables	6.013.291,20	4.608
	2. Receivables from affiliated companies	0,00	0
	3. Other assets	236.723,87	562
		6.250.015,07	5.170
II.	Marketable securities		
	Other marketable securities	70.558,24	52
III.	Cash on hand, cash in banks	5.327.720,60	1.044
		11.648.293,91	6.266
C.	**Prepaid expenses**	125.413,64	1
		14.735.602,03	8.265
A.	**Shareholders' equity**		
I.	Subscribed capital	1.258.783,93	200
II.	Capital reserves..	3.134.126,31	0
III.	Retained earnings beginning of year	45.864,71	671
IV.	Net income for the year	1.223.447,46	363
		5.662.222,41	1.234
B.	**Accruals**		
	1. Provisions for pensions and similar obligations	235.067,00	231
	2. Accrued taxes	1.952.289,00	941
	3. Other accruals	3.036.679,54	2.300
		5.224.035,54	3.472
C.	Liabilities		
	1. Trade payables	2.414.424,05	2.169
	2. Payables to affiliated companies	463.272,41	216
	3. Other liabilities	592.311,53	1.099
		3.470.007,99	3.484
D.	**Deferred revenues**	379.336,09	75
		14.735.602,03	8.265

Profit and Loss Statement for the year ended December 31, 1999 of ATOSS Software AG, Munich

		1999 DM	Previous year KDM
1.	Sales	32.114.779,18	20.808
2.	Other operating income	1.641.981,94	800
		33.756.761,12	21.608
3.	Cost of materials		
	Cost of raw materials, consumables and supplies and of purchased merchandise	6.965.606,22	3.621
4.	Personnel expenses		
	a) Wages and salaries	11.687.629,83	7.597
	b) Social security and pension costs of which for pensions: DM 17.391,48 (prev. year 59.445,04)	1.947.136,97	1.280
		13.634.766,80	8.877
5.	Depreciation on intangible assets and plant and equipment	908.704,57	575
6.	Other operating expenses	9.559.108,54	7.491
		31.068.186,13	20.564
	Profit from operations	2.688.574,99	1.044
7.	Income from other marketable securities	0,00	37
8.	Other interest and similar income	40.080,42	30
9.	Interest and similar expenses	23.261,42	60
	Net financial income	16.819,00	7
10.	Results from ordinary activities	2.705.393,99	1.051
11.	Taxes on income	1.456.024,64	673
12.	Other taxes	25.921,89	15
		1.481.946,53	688
13.	Net income for the year	1.223.447,46	363

Notes to the Financial Statements of ATOSS Software AG
For Fiscal Year 1999

General remarks

The company changed its legal form into that of a stock corporation according to Art. 190 ss. UmwG and established new statutes. The registration in the Commercial Register took place on February 3, 1999. The company"s name is: ATOSS Software AG, München.

The financial statements are prepared in German Marks (DM) according to the German Commercial Code (HGB) and the German Stock Corporation Law (AktG).

1. Accounting and Valuation Methods

Intangible assets are recorded at cost; they are depreciated straight-line over the estimated useful lives of the assets.

Property and equipment are valued at costs, reduced by systematic depreciation. Low value items according to Art. 6 par. 2 German Income Tax Law are fully written off in the year of acquisition. For additions in the first six months of the business year, a full year's depreciation is recorded; for additions in the last six months of the year, half a year's depreciation.

Participations in affiliated companies are valued at cost.

Receivables and other assets are basically stated at nominal values. In addition to individual bad debt allowances, trade receivables are reduced by lump sum bad debt allowances to provide for interest and credit risk.

Short-term investments are stated at nominal values.

Cash on hand and cash in banks are stated at nominal values.

Prepaid expenses and deferred revenues are related to payments that have been effected before balance sheet date but represent expenses/ revenues of the following fiscal year.

The **pension commitments** are valued according to Art. 6a German Income Tax Law.

The **tax accruals** as well as the **other accruals** take into account all recognizable risks and contingencies basing on a conservative prudent estimate.

Liabilities are valued at the repayment amount.

There was no change in the valuation principles as compared with the previous year.

2. Basics of the translation of foreign currencies

The **participations in affiliated companies** are valued at historical cost.

Receivables and liabilities denominated in foreign currency are translated with the exchange rate at balance sheet date. Any adjustments required in connection with the lower of cost or market principle are made.

II. Balance Sheet Items

1. Fixed Assets

The development of fixed assets during the fiscal year is shown in a classification of fixed assets. Low value items are shown as disposals in the year of acquisition. Investments only consist of participations in affiliated companies.

2. Receivables and other assets

The receivables due from affiliated companies relate to trade receivables. The other assets mainly consist of payments of bonuses resulting from the hardware-business.

3. Cash on hand, cash in banks

This position mainly consists of cash in banks.

4. Subscribed capital

At the change of the legal form into a stock corporation effective February 3, 1999, the registered capital amounted to DM 200.000,00. It was divided into 40.000 shares at a nominal value of DM 5,00.

During the fiscal year 1999, the following increases in the subscribed capital took place:

Resolution of the General Meeting of Shareholders on May 21, 1999 with registration in the Commercial Register on September 8, 1999 concerning the increase of subscribed capital by DM 3.045,00 to DM 203.045,00 by cash deposit. The capital reserves were increased by DM 371.952,84.

Resolution of the General Meeting of Shareholders on August 2, 1999 with registration in the Commercial Register on September 8, 1999 concerning the translation of subscribed capital from German Marks to Euro and the increase of subscribed capital from corporate funds by Euro 505.319,74 to Euro 609.135,00.

Resolution of the General Meeting of Shareholders on September 20, 1999 with registration in the Commercial Register on October 21, 1999 concerning the increase of subscribed capital by Euro 34.471,00 to Euro 643.606,00 for cash. The capital reserves were increased by DM 2.762.173,47.

The capital reserves amount to DM 3.134.126,31. Subscribed capital is divided into 643.606 shares. Each share of stock is entitled to one vote.

The other revenue reserves amount to DM 1.015.225,00 resulting from the net income from the fiscal year 1998 and the profit retained from the previous year. This amount has been fully used for the increase of capital from corporate funds.

5. Accruals

a) Pension accruals

The pension accruals have been calculated on the basis of an interest rate of 6 percent according to the new Statistics of Mortality by Dr. K. Heubeck 1998.

b) Tax accruals

The tax accruals include the commitments for taxes on income for the current year as well as for previous years.

c) Other accruals

The other accruals are mainly set up for variable compensation, commitments from warranty, vacation, as well as management bonuses and gratifications.

6. Liabilities

There are no liabilities with a residual term of more than one year as of balance sheet date.

Payables to affiliated companies result from trade and services rendered.

The other liabilities result from value-added taxes and wage and church taxes at the amount of DM 307.648,75 (prev. year DM 670.890,18); the liabilities relating to social security amount to DM 263.958,68 (prev. year DM 168.836,96).

III. Profit and Loss Statement Sheet Items

1. Sales

Sales can be classified by business segment as follows:

	1999 KDM	*Previous Year KDM*
Software	11.751	8.818
Hardware	8.809	4.778
Maintenance	5.557	3.919
Services	4.597	3.007
Other	1.401	286
	32.115	20.808

2. Other operating expenses

The other operating expenses mainly consist of provisions, marketing expenses as well as rental expenses.

IV. Other information

1. Contingencies and other financial obligations

The company guarantees for a liability of its subsidiary ATOSS Systems Consulting GmbH, Meerbusch, via the HypoVereinsbank, Munich, at an amount of DM 300.000.

A rental agreement exists for office space in the building "Am Moosfeld 3" in Munich. The lease will terminate on October 31, 2004. An annual commitment of KDM 1.079 results from this contract. In total the commitment from this rental contract amounts to KDM 5.210. The tenant has the right to renew the lease twice (5 years each time).

The old rental agreement for the office space on Wamslerstraße 4 ends on April 30, 2004 if the company does not exercise its option to renew the contract. From this contract, annual commitments result which amount to KDM 486. The contract can exceptionally be terminated on September 31, 2001. Up to this date, the company tries to sublet the space.

Commitments for full-service leasing contracts for vehicles exist. These contracts have a residual term of 24-36 months and lead to annually expenses that amount to KDM 107. A purchase of these vehicles at the end of the leasing term is not planned.

2. Employees

During fiscal year 1999, on average 97 (prev. year 62) persons were employed at the company.

3. Supervisory Board of Directors

The Members of the Supervisory Board of Directors are:

Prof. Dr. Fritz Karmasin, market researcher, Managing Director of the "Institut für Motivforschung Österreichisches Gallup-Institut" (Chairman)

Dr. Frank Zillich, Attorney (Deputy Chairman)

Peter Kirn, Engineer

4. Board of Directors

Andreas Obereder (Chairman)
Dr. Thomas Barth (since August 2, 1999)
Dr. Burkhard Scherf (since August 2, 1999)

5. Disclosures on the compensation of the Board of Executive Directors and the Supervisory Board of Directors

Total compensation paid in the fiscal year under review to the Members of the Board of Executive Directors amounts to KDM 1.112.

Total compensation paid to the Members of the Supervisory Board of Directors amounts to KDM 30.

6. Disclosures concerning investment holdings

The company holds investments in the companies listed below of at least 20 percent.

Company	*Share of the subscribed capital hold in percent*	*Subscribed capital in DM*	*Net profit in 1999 in DM*
ATOSS Systems Consulting GmbH, Meerbusch	100,0	365.559,58	201.806,25
ATOSS Software GmbH, Kitzbühel	100,0	153.766,71	47.407,59

The ATOSS Systems Consulting GmbH, Limburg, has been merged with ATOSS Software AG effective January 1, 1999 by the resolution of the General Meeting of Shareholders on May 21, 1999, registered in the Commercial Register on September 8, 1999.

Effective December 30, 1999 the shareholdings of the ATOSS Systems-Consulting GmbH, Meerbusch, have been increased from 80 percent to 100 percent.

V. Proposal as to Disposition of Earnings

Management proposes to distribute dividends as follows:

Net income of the year	DM	1.223.447,46
Profit retained from the previous year	DM	45.864,71
	DM	1.269.312,17
thereof increase in revenue reserve	DM	1.209.291,01
profit retained	DM	60.021,16

Munich, January 12, 2000

The Board of Executive Directors

Andreas Obereder Dr. Thomas Barth Dr. Burkhard Scherf

Classification of fixed assets

	Acquisition cost 1.1.1999 DM	*Additions* DM	*Disposals* DM	*31.12.1999* DM	*Depreciation* 1.1.1999 DM	*Additions* DM	*Disposals* DM	*31.12.1999* DM	*Book value* 31.12.1999 DM	*31.12.1998* DM
I Intangible Assets										
Franchises, trademarks, patents, licences, and similar rights ..	318.709,29	414.105,41	6.516,70	726.298,00	133.177,29	146.848,41	2.725,70	277.300,00	448.998,00	185.532,00
	318.709,29	414.105,41	6.516,70	726.298,00	133.177,29	146.848,41	2.725,70	277.300,00	448.998,00	185.532,00
II Property, plant and equipment										
1. Technical equipment, leasehold improvements ..	99.443,51	335,00		99.778,51	27.413,51	32.706,00		60.119,51	39.659,00	72.030,00
2. Other equipment, fixtures, fittings and equipment ..	2.010.798,55	870.920,99	21.425,73	2.860.293,81	1.033.935,55	394.430,99	14.121,73	1.414.244,81	1.446.049,00	976.863,00
Vehicles	1.143.003,00	257.189,17	57.907,41	1.342.284,76	552.028,00	243.336,17	57.905,41	737.458,76	604.826,00	590.975,00
Low value assets	218.362,07	91.383,00		309.745,07	218.356,07	91.383,00		309.739,07	6,00	6,00
	3.471.607,13	1.219.828,16	79.333,14	4.612.102,15	1.831.733,13	761.856,16	72.027,14	2.521.562,15	2.090.540,00	1.639.874,00
III Investments										
Shares in affiliated companies										
ATOSS Systems Consulting GmbH, Limburg	146.000,00	—	146.000,00	—	146.000,00		146.000,00	—	—	—
ATOSS Systems-Consulting GmbH, Meerbusch	100.324,60	250.000,00		350.324,60	—			—	350.324,60	100.324,60
ATOSS Software GmbH, Kitzbühel	72.031,88			72.031,88	—			—	72.031,88	72.031,88
	318.356,48	250.000,00	146.000,00	422.356,48	146.000,00	—	146.000,00	—	422.356,48	172.356,48
	4.108.672,90	1.883.933,57	231.849,84	5.760.756,63	2.110.910,42	908.704,57	220.752,84	2.798.862,15	2.961.894,48	1.997.762,48

Independent Auditors' Report

We have audited the annual financial statements, together with the bookkeeping system, and the management report of ATOSS Software AG for the business year from January 31, 1999 to December 31, 1999. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 German Commercial Code and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Munich, January 21, 2000

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Dr. Plendl)
Wirtschaftsprüfer

(Bögle)
Wirtschaftsprüfer

Statement of Cash Flows

The following cash flow statement shows the Company's changes in net financial assets and their components including a determination of annual cash flows. The sources and uses of cash are presented as cash inflows/outflows from "operations", "investment activities" and "financing activities".

	1999 KDM	*1998 KDM*
Net income for the year	1.223	363
Depreciation on fixed assets	909	575
Increase in medium- and long-term accruals	224	47
Other income without cash flow impact	–19	0
Annual cash flow according to DVFA/SG	2.337	985
Increase in short–term accruals	1.528	1.307
Increase in trade payables	246	845
Decrease in other assets	201	0
Increase in other liabilities	45	591
Gain on the disposal of fixed assets	–3	–6
Increase in trade receivables	–1.405	–2.119
Increase in other assets	0	–270
Decrease in other liabilities	0	0
Cash provided by operations	2.949	1.333
Cash inflow from disposal of fixed assets	14	54
Cash outflow from additions to fixed assets	–1.884	–1.366
Cash used in investment activities	–1.870	–1.312
Proceeds from capital increases and contributions from shareholders	3.205	0
Disbursements to shareholders (dividends, other distributions)	0	0
Cash inflow/outflow (-) from financing activities	3.205	0
Change in cash and cash equivalents	4.284	21
Opening balance of cash and cash equivalents	1.044	1.023
Closing balance of cash and cash equivalents	5.328	1.044

Financial Statements of ATOSS Software AG, Munich For the business years 1998 and 1997 (set up according to German GAAP, without management report)

Balance Sheet as of December 31, 1998
of ATOSS Software GmbH, Munich

		DM	Previous year KDM
Assets			
A.	**Fixed Assets**		
I.	Intangible Assets		
	Franchises, trademarks, patents, licences, and similar rights	185.532,00	37
II.	Property, plant and equipment		
	1. Technical equipment, plant and machinery	16.180,00	0
	2. Other equipment, operational and office equipment	1.623.694,00	1.045
		1.639.874,00	1.045
III.	Investments		
	Shares in affiliated companies	172.356,48	172
		1.997.762,48	1.254
B.	**Current Assets**		
I.	Receivables and other assets		
	1. Trade receivables	4.607.450,64	2.488
	2. Receivables from affiliated companies	250,87	52
	3. Other assets	562.271,45	208
		5.169.972,96	2.748
II.	Marketable securities		
	Other marketable securities	51.499,80	86
III.	Cash on hand, cash in banks	1.044.350,52	1.023
		6.265.823,28	3.857
C.	**Prepaid expenses**	1.064,00	0
		8.264.649,76	5.111
Shareholders' Equity and Liabilities			
A.	**Shareholders' equity**		
I.	Subscribed capital	200.000,00	200
II.	Retained earnings beginning of year	670.835,48	356
III.	Net income for the year	363.348,74	315
		1.234.184,22	871
B.	**Accruals**		
	1. Provisions for pensions and similar obligations	230.675,00	184
	2. Accrued taxes	941.380,00	420
	3. Other accruals	2.300.116,50	1.514
		3.472.171,50	2.118
C.	**Liabilities**		
	1. Trade payables	2.168.718,82	1.324
	2. Payables to affiliated companies	216.164,21	175
	3. Other liabilities thereof for taxes: DM 670.890,18 (prev. year 189.229,02) thereof relating to social security and similar obligations: DM 168.836,96 (prev. year 116.192,18)	1.098.731,39	317
		3.483.614,42	1.816
D.	**Deferred revenues**	74.679,62	306
		8.264.649,76	5.111

Profit and Loss Statement for the year ended December 31, 1998 of ATOSS Software GmbH, Munich

		DM	Previous year KDM
1.	Sales	20.808.147,86	16.368
2.	Other operating income	800.491,11	326
		21.608.638,97	16.694
3.	Cost of materials		
	Cost of raw materials, consumables and supplies and of purchased merchandise	3.620.927,14	3.526
4.	Personnel expenses		
	a) Wages and salaries	7.597.319,27	5.280
	b) Social security and pension costs	1.280.163,11	1.025
	of which for pensions: DM 59.445,04 (Prev. year 37.161,04)	8.877.482,38	
5.	Depreciation on intangible assets and plant and equipment as well as on start-up and business expansion costs capitalized	574.516,90	
6.	Other operating expenses	7.491.303,19	5.654
		20.564.229,61	15.947
		1.044.409,36	747
7.	Income from other marketable securities	36.915,40	5
8.	Other interest and similar income	30.805,60	35
9.	Write-off of financial assets and marketable securities	0,00	170
10.	Interest and similar expenses	60.440,62	1
		7.280,38	–131
11.	Results from ordinary activities	1.051.689,74	616
12.	Taxes on income	673.399,00	288
13.	Other taxes	14.942,00	14
		688.341,00	302
14.	Net income for the year	363.348,74	314

Notes to Financial Statements of ATOSS Software AG for Fiscal Year 1998

I. General remarks

The company changed its legal form into that of a stock corporation according to Art. 190 ss. UmwG and established new statutes. The registration in the Commercial Register took place on February 3, 1999. The company's name is: ATOSS Software AG, München.

1. Accounting and Valuation Methods

Intangible assets are recorded at costs; they are depreciated straight-line over the estimated useful lives of the assets.

Property and equipment are valued at costs, reduced by systematic depreciation. Low value items according to Art. 6 par. 2 German Income Tax Law are fully written off in the year of acquisition. The company uses the option of Art. 44 par. 2 Regulations on Income Tax Laws.

Participations in affiliated companies are valued at cost or at the lower market value.

Receivables and other assets are basically stated at nominal values. In addition to individual bad debt allowances, trade receivables are reduced by lump sum bad debt allowances to provide for interest and credit risk.

Short-term investments are stated at nominal value or at the lower market value.

Cash on hand and cash in banks are stated at nominal values.

Prepaid expenses and deferred revenues are related to payments that have been effected before balance sheet date but represent expenses/revenues of the following fiscal year.

The **pension commitments** are valued according to Art. 6a German Income Tax Law.

The **tax accruals** as well as the **other accruals** take into account all recognizable risks and contingencies basing on a conservative prudent estimate.

Liabilities are valued at the repayment amount.

There was no change in the valuation principles as compared with the previous year.

2. Basics of the translation of foreign currencies

The **participations in affiliated companies** are valued at historical cost.

Receivables and liabilities denominated in foreign currency are translated with the exchange rate at balance sheet date. Any adjustments required in connection with the lower of cost or market principle are made.

II. Balance Sheet Items

1. Fixed Assets

The development of fixed assets during the fiscal year is shown in a classification of fixed assets (see page 6). Low value items are shown as disposals in the year of acquisition. Investments only consist of participations in affiliated companies.

2. Receivables and other assets

The receivables due from affiliated companies relate to trade receivables. The other assets mainly consist of short term loans to employees as well as of other receivables.

3. Cash on hand, cash in banks

This position mainly consists of cash in banks and cash on hand.

4. Subscribed capital

After the change of the legal form into a stock corporation, effective February 3, 1999, the registered capital amounts to DM 200.000,00. It is divided into 40.000 shares at a nominal value of DM 5,00.

5. Accruals

a) Pension accruals

The pension accruals are being calculated on the basis of an interest rate of 6 percent according to the new Statistics of Mortality by Dr. K. Heubeck 1998. The difference to the commitment of the previous year was fully accrued in the fiscal year under review.

b) Tax accruals

The tax accruals include the commitments for taxes on income for the current year as well as for previous years.

c) Other accruals

The other accruals are mainly set up for commitments from warranty and commissions, vacation as well as management bonuses and gratifications.

6. Liabilities

There are no liabilities with a residual term of more than one year as of balance sheet date.

Payables to affiliated companies result from trade and services rendered.

The other liabilities include liabilities from value-added taxes and wage and church taxes.

III. Profit and Loss Statement Sheet Items

1. Sales

Sales can be classified by business segment as follows:

	1998 KDM	*Previous Year KDM*
Software	8.818	5.555
Hardware	4.778	5.096
Maintenance	3.919	2.828
Services	3.007	2.048
Other	286	841
	20.808	16.368

2. Other operating income

The other operating income results from the reversal of accruals at the amount of KDM 422.

3. Other operating expenses

The other operating expenses mainly consist of provisions, service fees as well as marketing expenses.

IV. Other information

1. Contingencies and other financial obligations

The company guarantees for a liability of its subsidiary ATOSS Systems Consulting GmbH, Meerbusch, via the HypoVereinsbank, Munich, at an amount of DM 300.000.

The rental agreement for the office space ends on April 30, 2004 if the option for the renewal of the contract for a term of 2 years isn't accepted. From this contract, annual commitments result which amount to KDM 486; in total they amount to KDM 2.592.

2. Employees

On average during fiscal year 1999, 62 (prev. year 43) persons were employed at the company.

3. Supervisory Board of Directors

The Members of the Board of Directors are:

Prof. Dr. Fritz Karmasin, market researcher, CEO of the "Institut für Motivforschung Österreichisches Gallup-Institut" (Chairman) Dr. Frank Zillich, Attorney (Deputy chairman) Peter Kirn, Engineer

4. Management/Board of Directors

During the fiscal year under review, Andreas Obereder was the Managing Director of the company. Andreas Obereder was appointed Chairman of the Board of Executive Directors of the stock corporation.

5. Disclosures concerning investment holdings

The company holds investments in the companies listed below of at least 20 percent.

Company	*Share of the subscribed capital hold in percent*	*Subscribed capital in DM*	*Net profit in 1998 in DM*
ATOSS Systems Consulting GmbH, Meerbusch	80	163.753,00	-53.423,00
ATOSS Systems Consulting GmbH, Limburg	100	-16.178,00	57.192,00
ATOSS Software GmbH, Kitzbühel	100	171.816,01	54.377,09

V. Proposal as to Disposition of Earnings

Management proposes to distribute dividends as follows:

Net income in 1998	DM	363.348,74
Profit retained from the previous year	DM	670.835,48
	DM	1.034.184,22
thereof increase in revenue reserve	DM	1.015.225,00
profit retained	DM	18.959,22

Munich, July 1999

The Board of Directors

Andreas Obereder

Classification of fixed assets

	Acquisition cost 1.1.1998 DM	Acquisition cost Additions DM	Acquisition cost Disposals DM	Acquisition cost 31.12.1998 DM	Depreciation 1.1.1998 DM	Depreciation Additions DM	Depreciation Disposals DM	Depreciation 31.12.1998 DM	Book value 31.12.1998 DM	Book value 31.12.1997 DM
I Intangible assets										
Franchises, trademarks, patents, licences, and similar rights ..	117.706,41	201.126,18	123,30	318.709,29	80.889,41	52.287,88	0,00	133.177,29	185.532,00	36.817,00
II Property, plant and equipment										
1. Technical equipment	33.262,65	66.180,86	0,00	99.443,51	5.543,65	21.869,86	0,00	27.413,51	72.030,00	27.719,00
2. Other equipment										
Fixtures, fittings and equipment	1.356.854,21	653.944,34	0,00	2.010.798,55	774.719,21	259.216,34	0,00	1.033.935,55	976.863,00	582.135,00
Vehicles	818.482,31	404.124,58	79.603,89	1.143.003,00	383.553,31	200.545,40	32.070,71	552.028,00	590.975,00	434.929,00
Low value items	177.763,65	40.598,42	0,00	218.362,07	177.758,65	40.597,42	0,00	218.356,07	6,00	5,00
	2.386.362,82	1.164.848,20	79.603,89	3.471.607,13	1.341.574,82	500.359,16	32.070,71	1.831.733,13	1.639.874,00	1.044.788,00
III Investments										
Shares in affiliated companies										
ATOSS Systems Consulting GmbH, Limburg	146.000,00	0,00	0,00	146.000,00	146.000,00	0,00	0,00	146.000,00	0,00	0,00
ATOSS Systems-Consulting GmbH, Meerbusch	100.324,60	0,00	0,00	100.324,60	0,00	0,00	0,00	0,00	100.324,60	100.324,60
ATOSS Systems GmbH, Kitzbühel	72.031,88	0,00	0,00	72.031,88	0,00	0,00	0,00	0,00	72.031,88	72.031,88
	318.356,48	0,00	0,00	318.356,48	146.000,00	0,00	0,00	146.000,00	172.356,48	172.356,48
	2.822.425,71	1.365.974,38	79.727,19	4.108.672,90	1.568.464,23	574.516,90	32.070,71	2.110.910,42	1.997.762,48	1.253.961,48

Independent Auditors' Opinion

We have rendered the following unqualified opinion on the financial statements for the year ended December 31, 1998:

The accounting and the annual financial statements, which we have audited in accordance with professional standards, comply with the German legal provisions. With due regard to the generally accepted accounting principles the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of ATOSS Software GmbH. The management report is consistent with the annual financial statements.

Munich, July 26, 1999

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Dr. Plendl)	(Bögle)
Wirtschaftsprüfer	Wirtschaftsprüfer

Statement of Cash Flows

The following cash flow statement shows the Company's changes in net financial assets and their components including a determination of annual cash flows. The sources and uses of cash are presented as cash inflows/outflows from "operations", "investment activities" and "financing activities".

	1998 KDM	*1997 KDM*
Net income for the year	363	314
Depreciation on fixed assets	575	608
Increase in medium- and long-term accruals	47	24
Other income without cash flow impact	0	0
Annual cash flow according to DVFA/SG	985	946
Increase in short-term accruals	1.307	507
Increase in trade payables	845	66
Decrease in other assets	0	0
Increase in other liabilities	591	20
Gain on the disposal of fixed assets	–6	0
Increase in trade receivables	–2.119	–175
Increase in other assets	–270	–232
Decrease in other liabilities	0	–338
Cash provided by operations	1.333	794
Cash inflow from disposal of fixed assets	54	0
Cash outflow from additions to fixed assets	–1.366	–647
Cash used in investment activities	–1.312	–647
Proceeds from capital increases and contributions from shareholders	0	0
Disbursements to shareholders (dividends, other distributions)	0	–300
Cash inflow/outflow (–) from financing activities	0	–300
Change in cash and cash equivalents	21	–153
Opening balance of cash and cash equivalents	1.023	1.176
Closing balance of cash and cash equivalents	1.044	1.023

Financial Statements of
ATOSS Software AG, Munich
For the years ended
December 31, 1997, 1998 and 1999

ATOSS Software Aktiengesellschaft and Subsidiaries
CONSOLIDATED BALANCE SHEETS
for the years ended December 31

	1999	*December 31, 1998*	*1997*
	DM	*DM*	*DM*
ASSETS			
Current assets:			
Cash	5,426,714	1,103,697	1,142,013
Short-term investments	275,572	106,311	96,535
Accounts receivable (less allowances of DM 280.467, DM 137.526 and DM 35.150 in 1999, 1998 and 1997 respectively)	7,010,235	5,508,594	3,498,968
Prepaid expenses and other current assets	378,870	893,170	443,986
Deferred income taxes	0	0	72,631
in 1999	13,091,391	7,611,772	5,254,133
Property and equipment, net	2,525,111	2,169,825	1,524,070
Intangible assets, net	540,855	201,244	47,463
Deferred income taxes	64,763	0	0
Total	16,222,120	9,982,841	6,825,666
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable, trade	2,519,263	2,475,556	2,025,684
Short term borrowings	17,632	265,338	163,381
Accrued compensation and related benefits	3,133,251	2,323,707	1,518,952
Accrued income taxes	2,208,052	1,049,938	503,966
Deferred income taxes	85,963	20,718	0
Deferred income	505,290	202,444	306,335
Other accrued liabilities	1,219,907	1,806,234	645,416
Total current liabilities	9,689,358	8,143,935	5,163,734
Deferred income taxes	0	52,949	63,682
Accrued pensions	375,950	329,086	562,001
Minority interest in subsidiary	0	62,204	73,818
Shareholders' equity:			
Registered capital (643.606 shares authorized at December 31, 1999)	1,258,784	200,000	200,000
Additional paid-in capital	3,134,126	0	0
Retained earnings	1,668,680	1,179,543	768,142
Accumulated other comprehensive income (loss)	95,222	15,124	–5,711
Total shareholders' equity	6,156,812	1,394,667	962,431
Total	16,222,120	9,982,841	6,825,666

See notes to consolidated financial statements.

ATOSS Software Aktiengesellschaft and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
for the years ended December 31

	1999 *DM*	*1998* *DM*	*1997* *DM*
Revenues	35,110,987	23,025,336	20,489,286
Costs and expenses:			
Cost of revenues	13,319,906	8,908,494	8,530,929
Research and development	2,940,509	1,778,065	1,824,243
Sales and marketing	10,040,550	6,752,761	5,236,720
General and administrative	5,991,398	4,539,492	4,223,984
Total costs and expenses	32,292,363	21,978,812	19,815,876
Income from operations	2,818,624	1,046,524	673,410
Other income (expense)			
Net interest income (expense)	–4,229	–62,921	31,106
Minority interest	–100,903	11,885	–20,642
Other income (expense)	345,200	118,843	–33,533
Total other income (expense)	240,068	67,807	–23,069
Income before provision for income taxes	3,058,692	1,114,331	650,341
Provision for income taxes	1,581,236	702,930	327,125
Net income	1,477,456	411,401	323,216

See notes to consolidated financial statements.

ATOSS Software Aktiengesellschaft and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31

	1999 *DM*	*1998* *DM*	*1997* *DM*
Cash flows from operating activities:			
Net income	1,477,456	411,401	323,216
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,107,804	801,282	661,614
Loss on disposal of equipment and intangibles	12,023	60,699	18,171
Gain on sale of short-term investments	0	–31,706	–4,675
Deferred income taxes	–141,630	53,831	–43,815
Minority interest in subsidiary	100,903	–11,614	20,642
Changes in operating assets and liabilities:			
Accounts receivable	–1,501,641	–2,009,626	–767,624
Prepaid and other current assets	514,300	–449,184	–123,456
Accounts payable	43,707	449,872	613,223
Accrued income taxes	1,158,114	545,972	27,702
Accrued compensation	809,543	804,755	617,938
Deferred income	302,846	–103,891	306,335
Other liabilities	–586,327	1,160,818	–568,357
Accrued pensions	46,864	–232,915	88,672
Total adjustments	1,866,506	1,038,293	846,370
Net cash provided by operating activities	3,343,962	1,449,694	1,169,586
Cash flows from investing activities:			
Purchase of property and equipment	–1,313,726	–1,509,701	–1,014,588
Purchase of intangible assets	–414,105	–217,450	–41,776
Purchase of remaining minority interest in subsidiary	–250,000	0	0
Purchases of investments available-for-sale	0	–10,836	–100,077
Proceeds from sale of equipment	0	65,634	20,000
Proceeds from sales of short-term investments	0	82,386	13,100
Net cash used for investing activities	–1,977,831	–1,589,967	–1,123,341
Cash flows from financing activities:			
Net increase in short-term borrowings	–247,706	101,957	140,138
Capital increase	3,204,592	0	0
Dividends paid	0	0	–300,000
Net cash used for financing activities	2,956,886	101,957	–159,862
Net decrease in cash and equivalents	4,323,017	–38,316	–113,617
Cash, beginning of year	1,103,697	1,142,013	1,255,630
Cash, end of year	5,426,714	1,103,697	1,142,013
Supplemental disclosure of cash flow information:			
Income taxes paid	618,157	193,705	230,483
Interest paid	50,500	62,047	12,228

See notes to consolidated financial statements.

ATOSS Software Aktiengesellschaft and Subsidiaries
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Registered capital DM	*Additional paid-in capital DM*	*Retained earnings DM*	*Accumulated other comprehensive income (loss) DM*	*Total shareholders' equity DM*
Balance, January 1, 1997	200,000		744,926	4,028	948,954
Net income			323,216		323,216
Dividends paid			–300,000		–300,000
Other comprehensive loss:					
Unrealized losses on short-term					
Investments, net				–9,739	–9,739
Balance, December 31, 1997	200,000	0	768,142	–5,711	962,431
Net income			411,401		411,401
Other comprehensive income:					
Unrealized gains on short-term					
Investments, net				20,835	20,835
Balance, December 31, 1998	200,000	0	1,179,543	15,124	1,394,667
Net income			1,477,456		1,477,456
Adjustment to par value of shares ..	988,319		–988,319		0
Issuance of common stock	70,465	3,134,126			3,204,591
Other comprehensive income:					
Unrealized gains on short-term					
Investments, net				80,098	80,098
Balance, December 31, 1999	1,258,784	3,134,126	1,668,680	95,222	6,156,812

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY

ATOSS Software Aktiengesellschaft (the Company, formerly ATOSS Software GmbH) develops and markets human resource management software for business and public service enterprises predominately based in Germany. The ATOSS product line is an integrated, component-based data base program for managing a variety of human resource related tasks.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Despite management's best effort to establish good faith estimates and assumptions, actual results could differ from those estimates.

BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

MINORITY INTEREST IN SUBSIDIARY

In prior years minority interest in subsidiary represented a third party's share of the equity in ATOSS Systems-Consulting GmbH, Meerbusch, a limited liability corporation established to market and support the Company's products. At December 31, 1997 and 1998, the Company owned 80% of the registered capital of ATOSS Systems-Consulting GmbH. In December 1999 the Company purchased the remaining 20% of the registered capital of ATOSS Systems-Consulting GmbH.

LICENSE REVENUES

Software license revenue is recognized upon shipment of the product provided that the license fee is fixed and determinable, collection is probable and all significant contractual obligations relating to this license have been satisfied. Certain license agreements allow for cancellation after an agreed upon test period. The Company provides for sales returns based upon estimates.

SERVICE REVENUES

Maintenance contracts generally call for the Company to provide technical support and software updates and upgrades to customers. Maintenance revenue is deferred and recognized ratably over the term of the agreement. Revenue from services, primarily consulting and customer education, is recognized as the related services are performed.

SHORT-TERM INVESTMENTS

Short-term investments, which consist of marketable equity securities are classified as investments available-for-sale and stated at fair value. Unrealized gains and losses are reflected in stockholders' equity.

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash, short-term investments and trade receivables. The Company performs ongoing credit evaluations of its customers and the risk with respect to trade receivables is further mitigated by the diversity, both by geography and by industry, of its customer base.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash, accounts receivable, short-term borrowings and accounts payable approximates fair value due to the short-term nature of these instruments. The short-term investments available for sale are stated at fair market value.

PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives (three to ten years) of the related assets.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred. The cost of developing routine enhancements are expensed as research and development costs as incurred because of the short time between the determination of technological feasibility and the date of general release of related products. Statement of Financial Accounting Standards (SFAS) 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed, does not materially affect the financial statements of the Company.

INTANGIBLE ASSETS

Intangible assets represent internal use software and are recorded at cost and are amortized over periods ranging from three to five years. Amortization was approximately DM 157.596, DM 63.645 and DM 39.432 at December 31, 1999, 1998 and 1997, respectively.

INCOME TAXES

The Company provides for deferred income taxes resulting from temporary differences between financial and taxable income. Such differences are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

EARNINGS PER SHARE

Prior to the conversion in organizational form to an Aktiengesellschaft in February 1999, the Company was organized as a GmbH. Earnings per share was not calculated in 1998 as there were no tradeable shares in existence. For the year 1999 Earnings per share was DM 2,41.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) which establishes standards for derivative instruments and for hedging activities. SFAS 133 is effective for fiscal years beginning after June 15, 2000; however, because the Company currently does not utilize derivative instruments, the adoption of SFAS 133 would not affect the Company's financial position or results of operations.

In December 1998, the AICPA issued "Statement of Position 98-9 (SOP 98-9), Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions". This amendment clarified the specification of what was considered vendor specific objective evidence of fair value for the various elements in a multiple element arrangement. SOP 98-9 is effective for all transactions entered into by the Company in fiscal year 2000. The adoption of this statement is not expected to have a material impact on the Company's operating results, financial position or cash flows.

NOTE 2: SHORT-TERM INVESTMENTS

A summary of the Company's available-for-sale investments, which were all marketable equity securities at December 31, 1999, 1998 and 1997, was as follows:

	1999 *DM*	*1998* *DM*	*1997* *DM*
Cost	70.463	70.463	110.307
Unrealized gains	205.109	35.848	10.401
Unrealized losses	0	0	–24.173
Fair value	275.572	106.311	96.535

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	1999 DM	*1998 DM*	*1997 DM*
Equipment and leasehold improvements	286.877	284.503	136.763
Furniture and fixtures	3.649.079	2.738.564	1.998.118
Vehicles	1.376.785	1.177.503	883.878
Low value items	383.876	273.691	226.673
	5.696.617	4.474.261	3.245.432
Accumulated depreciation	–3.171.506	–2.304.436	–1.721.362
Property and equipment, net	2.525.111	2.169.825	1.524.070

NOTE 4: BANK LINE OF CREDIT

The Company has a DM 3.000.000, unsecured line of credit with a bank. Borrowings under the line of credit are for working capital requirements and other general corporate purposes and bear variable interest rates.

NOTE 5: SHAREHOLDERS' EQUITY AND SUBSEQUENT EVENT

The registered capital of ATOSS Software GmbH amounted to DM 200.000 as of December 31, 1998 and 1997, which has been fully paid in by the Company's shareholders. Effective February 3, 1999, the Company changed its form into that of an Aktiengesellschaft and was renamed ATOSS Software AG. In 1999 ATOSS issued shares to increase the registered capital in total of DM 1.058.784 up to DM 1.258.784 as of December 31, 1999; the registered capital is fully paid in.

NOTE 6: RETIREMENT PLAN

The Company has contractual pension commitments to one managing director, who is also the major shareholder of the Company. A pension commitment to a former managing director of a subsidiary was curtailed in 1998.

The components of net pension cost were as follows:

	1999 DM	*1998 DM*	*1997 DM*
Service cost	29.552	28.521	62.955
Interest	17.312	15.196	25.717
Curtailment gain	0	–276.632	0
Net expense (income)	46.864	–232.915	88.672

The components of the changes in the benefit obligations and a reconciliation of the benefit obligation to the Company's balance sheet were as follows:

	1999 DM	*1998 DM*	*1997 DM*
Benefit obligations at January 1	314.765	552.931	469.033
Service cost	29.552	28.521	62.955
Interest cost	17.312	15.196	25.717
Actuarial gain	–16.448	–5.251	–4.774
Curtailment gain	0	–276.632	0
Benefit obligations at December 31	345.181	314.765	552.931
Unrecognized actuarial gains	30.769	14.321	9.070
Accrued pensions	375.950	329.086	562.001

The assumptions used in the actuarial calculations were as follows: interest 5,5%, salary and pension increase 1,5%.

NOTE 7: INCOME TAXES

The provisions for income taxes were as follows:

	1999 DM	*1998 DM*	*1997 DM*
Current	1.722.866	649.099	370.940
Deferred	–141.630	53.831	–43.815
Total	1.581.236	702.930	327.125

The tax effects of significant items comprising the Company's deferred taxes were as follows:

	1999 DM	*1998 DM*	*1997 DM*
Deferred tax assets:			
Accrued liabilities	117.865	0	0
Loss carryforwards at subsidiaries	0	96.071	130.751
Pensions	75.479	56.894	59.241
Total assets	193.344	152.965	189.992
Deferred tax liabilities:			
Short-term investments	109.887	31.687	6.088
Receivables	93.941	85.102	52.032
Property and equipment	10.716	23.125	35.121
Investments in affiliates	0	86.718	87.802
	214.544	226.632	181.043

NOTE 8: OPERATING LEASES

The Company leases certain facilities and equipment under noncancelable operating lease arrangements. Future minimum rental payments at December 31, 1998 under these leases are as follows:

	DM (In thousands)
2000	1.738
2001	1.752
2002	1.440
2003	1.218
2004	1.038
Thereafter	
Total	7.186

Total rent expense under all operating leases was approximately DM 1.823.950, DM 859.789 and DM 602.443 for fiscal years 1999, 1998 and 1997, respectively.

NOTE 9: RELATED PARTY TRANSACTIONS

The Company's leases certain facilities from an entity that is owned 100% by the major shareholder's spouse. Rental expense for these facilities amounted to DM 254.973, DM 244.648 and DM 162.166 in 1999, 1998 and 1997, respectively.

NOTE 10: LITIGATION

The Company is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's consolidated financial position or results of operations.

NOTE 11: BUSINESS SEGMENT

The Company operates in one industry segment consisting of the development and marketing of human resources management software. The Company's operations are primarily in Germany. The company had no customers comprising more than 10 % of the Company's revenues in 1999, 1998 or 1997.

Revenues relate to the following major groups of products and services:

	1999 *DM*	*1998* *DM*	*1997* *DM*
Software licenses	11.755.327	8.808.263	5.889.605
Hardware	8.804.697	5.044.251	6.930.021
Services	7.007.263	4.639.292	3.641.472
Maintenance	5.556.859	3.928.603	2.827.643
Other	1.986.841	604.927	1.200.545
	35.110.987	23.025.336	20.489.286

INDEPENDENT AUDITORS' REPORT

To the Shareholders of ATOSS Software Aktiengesellschaft:

We have audited the accompanying consolidated balance sheets of ATOSS Software Aktiengesellschaft (formerly ATOSS Software GmbH) and its subsidiaries as of December 31, 1999, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards generally accepted in Germany. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ATOSS Software AG and its subsidiaries as of December 31, 1999, 1998 and 1997, and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Munich, February 4, 2000

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Dr. Plendl)
Wirtschaftsprüfer

(Bögle)
Wirtschaftsprüfer

X. BUSINESS DEVELOPMENT AND OUTLOOK

Since the commencement of the current fiscal year on 1 January 2000, turnover has continued to develop dynamically, largely due to software licensing and hardware trade. The Company assumes that the positive business development will continue in the current quarter.

By virtue of a contribution in kind agreement dated 16 February 2000, the Company acquired all the shares in csd Systemhaus GmbH, having its corporate domicile in Cham, against the issuance of 25,667 shares. csd's sales totalled DEM 1.7 million and operating profit totalled DEM 78,000 in the 1999 fiscal year. csd has attractive technology for time management solutions for smaller enterprises available in the software product "Time Control", which was developed in-house. The Company intends to exploit this technology for the "TARIS Start-Up Edition" to be offered in the future to enterprises having up to 300 employees.

During the course of the 2000 fiscal year, investments will be made in developing a distribution organisation in France, the Benelux countries, Scandinavia and Great Britain. The Company assumes that the number of employees will also increase significantly during the current fiscal year due to the development of the distribution organisation. The focal points of the Company's research and development work are development of the "TARIS Start-Up Edition", expansion of the TARIS product functions, particularly with respect to *TARIS Project and Costs*, and development of a LINUX compatible TARIS version.

Should attractive opportunities arise, ATOSS Software AG will strengthen its own organisation by means of acquisitions.

The Company currently intends to use any annual surpluses to finance further growth and therefore does not plan to distribute dividends in the foreseeable future.

Munich, March 2000

ATOSS Software AG

Pursuant to the above company report, 3,916,576 Ordinary Bearer Shares
without par value (no par shares)
(total registered share capital)

and

up to 280,000 Ordinary Bearer Shares without par value (no par shares),
such Shares being issued pursuant to a conditional capital increase approved by
the shareholders on February 16, 2000
and registered in the Trade Register on 10 March 2000

of

ATOSS Software AG

Munich

have been admitted to the Regulated Market (*Geregelter Markt*) with trading on the *Neuer Markt* of the Frankfurt Stock Exchange

Munich, Frankfurt am Main, March 2000

Paribas

— Frankfurt am Main Branch Office —

Bayerische Landesbank Girozentrale

[THIS PAGE INTENTIONALLY LEFT BLANK]