

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1998.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission File Number 0-24277

Clarus Corporation

-----  
(Exact name of registrant as specified in its charter)

Delaware

58-1972600

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification Number)

3950 Johns Creek Court, Suite 100  
Suwanee, Georgia 30024

-----  
(Address of principal executive offices)  
(Zip code)

(770) 291-3900

-----  
(Registrant's telephone number, including area code)

SQL Financials International, Inc.

-----  
(Former name, former address and former  
fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO \_

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock, (\$.0001 Par Value)

-----  
10,605,870 shares outstanding as of November 6, 1998

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CLARUS CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CLARUS CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except share and per share amounts)

	September 30, 1998	December 31, 1997	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 23,984	\$ 7,213	
Trade accounts receivable, less allowance for doubtful accounts of \$484 and \$338 in 1998 and 1997, respectively	10,918	4,050	
Prepaid and other current assets	407	494	
Total current assets	35,309	11,757	
PROPERTY AND EQUIPMENT - net		2,227	1,507
OTHER ASSETS:			
Intangible assets, net of accumulated amortization of \$1,758 and \$1,127 in 1998 and 1997, respectively	5,843	1,267	
Deposits and other long-term assets	215	150	
Total other assets	6,058	1,417	

TOTAL ASSETS \$ 43,594 \$ 14,681

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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Item 1. Financial Statements (continued)

CLARUS CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited) (continued)

(in thousands, except share and per share amount)

<TABLE>  
<CAPTION>

	September 30, 1998	December 31, 1997		
	-----	-----		
	<C>	<C>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>				
<b>CURRENT LIABILITIES:</b>				
Note payable, net of discount of \$110 in 1998	\$ 990	\$ -0-		
Accounts payable and accrued liabilities	6,778	4,598		
Accounts payable-related party	-0-	54		
Deferred revenue	6,415	5,717		
Current maturities of long-term debt	244	1,841		
	-----	-----		
Total current liabilities	14,427	12,210		
<b>NONCURRENT LIABILITIES:</b>				
Deferred revenue	3,600	4,480		
Long-term debt, net of current maturities		310	497	
Other non-current liabilities	70	49		
	-----	-----		
Total liabilities	18,407	17,236		
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY			-0-	243
	-----	-----		
REDEEMABLE CONVERTIBLE PREFERRED STOCK:			-0-	25,112
<b>STOCKHOLDERS' EQUITY (DEFICIT) (Note 3):</b>				
Common Stock, \$.0001 par value; 25,000,000 and 9,000,000 shares authorized in 1998 and 1997, respectively; 9,197,312 and 1,467,160 shares outstanding in 1998 and 1997, respectively			1	0
Additional paid in capital	51,306	489		
Accumulated deficit	(26,918)	(28,019)		
Warrants	1,440	652		
Treasury stock, at cost	(2)	(2)		
Note from stockholder	0	(612)		
Deferred compensation	(640)	(418)		
	-----	-----		
Total stockholders' equity (deficit)		25,187	(27,910)	
	-----	-----		

&lt;/TABLE&gt;

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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## Item 1. Financial Statements (continued)

CLARUS CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)  
(in thousands, except per share amounts)

<TABLE>  
<CAPTION>

	Three months ended September 30		Nine months ended September 30	
	1998	1997	1998	1997
	<C>	<C>	<C>	<C>
<b>REVENUES:</b>				
License fees	\$ 5,623	\$ 4,299	\$ 14,066	\$ 9,026
Services fees	4,387	2,064	11,277	5,340
Maintenance fees	1,937	1,250	5,351	3,168
	-----	-----	-----	-----
Total revenues	11,947	7,613	30,694	17,534
<b>COST OF REVENUES:</b>				
License fees	960	478	1,525	856
Services fees	2,717	1,366	7,223	3,688
Maintenance fees	925	510	2,442	1,360
	-----	-----	-----	-----
Total cost of revenues	4,602	2,354	11,190	5,904
<b>OPERATING EXPENSES:</b>				
Research and development	1,630	1,481	4,157	5,305
Sales and marketing	3,029	2,354	8,419	6,958
General and administrative	1,175	754	3,723	2,103
Depreciation and amortization	526	352	1,456	1,049
Non-cash compensation	38	13	842	36
	-----	-----	-----	-----
Total operating expenses	6,398	4,954	18,597	15,451
<b>OPERATING INCOME (LOSS)</b>		947	305	907 (3,821)
<b>INTEREST INCOME</b>	243	1	402	28
<b>INTEREST EXPENSE</b>	51	133	172	251
<b>MINORITY INTEREST</b>	-0-	133	36	322
	-----	-----	-----	-----
<b>NET INCOME (LOSS)</b>	\$ 1,139	\$ 40	\$ 1,101	\$ (4,366)
	=====	=====	=====	=====

## Income (loss) per common share:

Basic	\$ 0.12	\$ 0.03	\$ 0.22	\$ (3.15)
Diluted	0.11	\$ 0.01	\$ 0.13	\$ (3.15)

Weighted average shares  
outstanding

Basic	9,123	1,390	5,080	1,384
Diluted	10,039	6,595	8,767	1,384

&lt;/TABLE&gt;

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

## Item 1. Financial Statements (continued)

CLARUS CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)  
 (in thousands)

<TABLE>  
 <CAPTION>

	Nine months ended September 30			
	1998	1997		
	<C>	<C>		
<b>OPERATING ACTIVITIES</b>				
Net income (loss)	\$ 1,101	\$ (4,366)		
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	1,456	1,049		
Minority interest in subsidiary	36	322		
Amortization of debt discount	55	18		
Deferred compensation	842	46		
Changes in operating assets and liabilities:				
Accounts receivable	(6,867)	(3,073)		
Prepaid and other current assets	87	(110)		
Deposits and other long-term assets	(63)	28		
Accounts payable and accrued liabilities	2,051	1,721		
Deferred revenue	(181)	1,091		
Other noncurrent liabilities	21	(22)		
	-----	-----		
NET CASH USED IN OPERATING ACTIVITIES	(1,462)	(3,296)		
<b>INVESTING ACTIVITIES</b>				
Increase of intangible assets	(709)	(90)		
Purchase of minority interest in subsidiary	(326)	-0-		
Additions to property and equipment	(1,551)	(557)		
	-----	-----		
NET CASH USED IN INVESTING ACTIVITIES	(2,586)	(647)		
<b>FINANCING ACTIVITIES:</b>				
Dividends paid to holder of minority interest	(241)	(190)		
Repayment of note receivable from holder of minority interest	-0-	38		
Proceeds from notes payable and short term borrowings	1,645	29,802		
Repayments of notes payable and short term borrowings	(3,428)	(30,225)		
Proceeds from the exercise of warrants	612	10		
Proceeds from issuance of common stock, net	22,081	-0-		
Proceeds from issuance of preferred stock	150	5,987		
	-----	-----		
NET CASH PROVIDED BY FINANCING ACTIVITIES	20,819	5,422		
	-----	-----		
INCREASE IN CASH AND CASH EQUIVALENTS	16,771	1,479		
CASH AND CASH EQUIVALENTS, beginning of period	7,213	3,278		
	-----	-----		
CASH AND CASH EQUIVALENTS, end of period	23,984	\$ 4,757		
	=====	=====		
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE:</b>				
Cash paid for interest	\$ 123	\$ 259		
	=====	=====		

</TABLE>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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CLARUS CORPORATION  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Clarus Corporation (the "Company") have been prepared in accordance with Generally Accepted Accounting Principles for interim financial information and instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information in notes required by Generally Accepted Accounting Principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the unaudited financial statements for this interim period have been included. The results of the interim periods are not necessarily indicative of the results to be obtained for the year ended December 31, 1998. These interim financial statements should be read in conjunction with the Company's audited consolidated financial statements and footnotes thereto included in i) the Company's Prospectus dated May 26, 1998, filed under Form S-1 (Registration No. 333 - 46685) with the Securities and Exchange Commission, and ii) the Company's Prospectus dated October 28, 1998, filed under form S-4 (Registration No. 333 - 63535) with the Securities and Exchange Commission.

NOTE 2. EARNINGS PER SHARE

Basic and diluted net income (loss) per share was computed in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share," using the weighted average number of common shares outstanding. The diluted net loss per share for the nine months ended September 30, 1997, does not include the effect of common stock equivalents, including redeemable convertible preferred stock, as their effect would be antidilutive. Diluted net income per share for the quarters ended September 30, 1998 and 1997, and the nine months ended September 30, 1998, includes the effect of common stock equivalents.

NOTE 3. STOCKHOLDERS' EQUITY

On May 26, 1998, the Company completed its initial public offering of 2.5 million shares of its common stock at an offering price of \$10.00 per share (the "Offering"). The proceeds, net of expenses, from this public offering of approximately \$22.0 million were placed in investment grade cash equivalents. Immediately prior to the effective date of the Company's Registration Statement the redeemable convertible preferred stock was converted to common stock.

NOTE 4. ACQUISITION OF MINORITY INTEREST IN THE SERVICES SUBSIDIARY

On February 5, 1998, the Company purchased the 20% interest in SQL Financial Services, LLC (the "Services Subsidiary") from Technology Ventures, LLC ("Technology Ventures") a related party controlled by Joseph S. McCall, a director of the Company. In exchange for the 20% interest in the Services Subsidiary, the Company issued 225,000 shares of common stock to Technology Ventures and granted Technology Ventures a warrant to purchase an additional 300,000 shares of common stock at a purchase price of \$3.67 per share. The warrant expires on February 5, 2000. In addition, the Company agreed to pay Technology Ventures the sum of \$1.1 million due February 5, 2000, pursuant to a non-negotiable, non-interest-bearing subordinated promissory note. Technology Ventures has agreed not to sell any of its shares for a period of 180 days after the effective date of the Offering. The Company also agreed to pay Technology Ventures a monthly sum equal to 20% of the net profits of the Services Subsidiary until the completion of the Company's Initial Public Offering. The Company as additional purchase price recorded payments made to Technology Ventures for this 20% of net profits of the Services Subsidiary at the time of payment.

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CLARUS CORPORATION  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5. MERGER OF ELEKOM CORPORATION

On November 6, 1998, the Company completed its acquisition of Elekom Corporation ("Elekom") for approximately \$15.7 million, consisting of \$8.0 million in cash and approximately 1.39 million shares of the Company's common stock. Elekom was merged with and into Clarus CSA, Inc., a wholly owned subsidiary of the Company and the separate existence of Elekom ceased. Immediately following consummation of the merger, the former holders of Elekom common and preferred stock (the "Elekom Shareholders") owned approximately 13% of the outstanding common stock of the Company. The former Elekom Shareholders have agreed not to sell any of their shares of the Company's common stock for a period ending on August 6, 1999. The Company, as additional purchase price, recorded i) payments of \$500,000 made to fund the operations of Elekom from October 1, 1998, through the closing date, and ii) expenses of approximately \$750,000 to complete the merger. Approximately \$14.0 million of the purchase price was recorded as purchased in-process research and development. These interim financial statements should be read in conjunction with the Company's Prospectus dated October 28, 1998, filed under form S-4 (Registration No. 333-63535) with the Securities and Exchange Commission.

NOTE 6. LEGAL PROCEEDINGS

The Company is subject to claims and litigation in the ordinary course of business, including, but not limited to, a lawsuit recently filed against the Company alleging patent infringement, but does not believe based on its current assessment of such claims and litigation that any such claim or litigation will have a material adverse effect on its consolidated financial position.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Clarus Corporation (the "Company") was formed in November 1991 to develop, market, license and support financial applications. During 1998 and 1997 the Company introduced a series of additional modules and product enhancements. Specifically, in the third quarter of 1998 the Company introduced its Corporate Service Applications, which include E-procurement, a business-to-business buy side web based solution designed for the acquisition of non-industrial goods and services; and budgeting. In the first quarter of 1997, the Company introduced its human resource applications, which included the Personnel, Benefits and Payroll modules. In 1997, the Company introduced its Financial Statement Accelerator module, a distributed management reporting solution, and a 32-bit version of its financial applications (the "Denver Release"), which included two new modules, Purchasing Control and Solution/Graphical Architect. The Company intends to release a 32-bit version of its human resources applications by the end of 1998. The Company currently markets its products in the United States and Canada through its direct sales force and has licensed its client/server applications to more than 250 customers in a variety of industry segments, including insurance, financial services, communications, retail, printing and publishing, transportation and manufacturing. The Company also offers fee-based implementation, training and upgrade services and ongoing maintenance and support of its products for a 12-month renewable term.

On November 6, 1998, the Company completed its acquisition of Elekom Corporation ("Elekom") for approximately \$15.7 million, consisting of \$8.0 million in cash and approximately 1.39 million shares of the Company's common stock. Elekom was merged with and into Clarus CSA, Inc., a wholly owned subsidiary of the Company and the separate existence of Elekom ceased. Immediately following consummation of the merger, the former holders of Elekom common and preferred stock (the "Elekom Shareholders") owned approximately 13% of the outstanding common stock of the Company. The former Elekom Shareholders have agreed not to sell any of

their shares of the Company's common stock for a period ending on August 6, 1999. The Company, as additional purchase price, recorded i) payments of \$500,000 made to fund the operations of Elekom from October 1, 1998, through the closing date, and ii) expenses of approximately \$750,000 to complete the merger. Approximately \$14.0 million of the purchase price was recorded as purchased in-process research and development.

On May 26, 1998, the Company completed an initial public offering of its common stock in which it sold 2.5 million shares for approximately \$22.0 million after deducting offering expenses and underwriting discounts.

Through 1997 the Company recognized revenue in compliance with Statement of Position ("SOP") 91-1 "Software Revenue Recognition." Effective January 1, 1998, the Company adopted SOP 97-2 "Software Revenue Recognition." The adoption of this SOP has not had a significant impact on the Company's consolidated financial statements. Revenues from software licenses have been recognized upon delivery of the product if there are no significant obligations on the part of the Company following delivery and collection of the related receivable, if any, is deemed probable by management. Revenues from service fees relate to implementation, training and upgrade services performed by the Company and have been recognized as the services are performed. Maintenance fees relate to customer maintenance and support and have been recognized ratably over the term of the software support agreement, which is typically 12 months. A majority of the Company's customers renew the maintenance and support agreements after the initial term. Revenues that have been prepaid or invoiced, but that do not yet qualify for recognition under the Company's policies are reflected as deferred revenue.

Cost of license fees includes royalties and software duplication and distribution costs. The Company recognizes these costs as the applications are shipped. Cost of services fees include personnel and related costs incurred to provide implementation, training and upgrade services to customers. These costs are recognized as the services are performed. Cost of maintenance fees includes personnel and related costs incurred to provide the ongoing support and maintenance of the Company's products. These costs are recognized as incurred.

Research and development expenses consist primarily of personnel costs. The Company accounts for software development costs under Statement of Financial Accounting Standards ("SFAS") No. 86 "Accounting For the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Research and development expenses are

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

### Overview (continued)

charged to expense as incurred until technological feasibility is established, after which remaining costs are capitalized. The Company defines technological feasibility as the point in time at which the Company has a working model of the related product. Historically, the costs incurred during the period between the achievement of technological feasibility and the point at which the product is available for general release to customers have not been material. Accordingly, the Company charges all internal software development costs to expense as incurred.

Sales and marketing expenses consist primarily of salaries, commissions and benefits to sales and marketing personnel, travel, trade-show participation, public relations and other promotional expenses. General and administrative expenses consist primarily of salaries for financial, administrative and management personnel and related travel expenses, as well as occupancy, equipment and other administrative costs.

The Company had net operating loss carryforwards ("NOLs") of approximately \$24.5 million at September 30, 1998, which begin expiring in 2007. The Company established a valuation allowance equal to the NOLs and all other deferred tax assets. The benefits from these deferred tax assets will be recorded when realized which will reduce the Company's effective tax rate for future taxable income, if any. Due to changes in the Company's ownership structure, the Company's use of its NOLs as of May 26, 1998 of approximately \$26.0 million will

be limited to approximately \$3.8 million in any given year to offset future taxes. If the Company does not realize taxable income in excess of the limitation in future years, certain NOLs will be unrealizable.

#### Affiliate Relationships

In March 1995 the Company and Technology Ventures, which is controlled by Joseph S. McCall, formed the Services Subsidiary to provide implementation, training, and upgrade services exclusively for the Company's customers. On February 5, 1998, Technology Ventures sold its 20% interest in the Services Subsidiary to the Company. The consideration for the 20% interest was 225,000 shares of the Company's Common Stock, a warrant to purchase an additional 300,000 shares of Common Stock at a price of \$3.67 per share, and a non-interest bearing promissory note in the principal amount of \$1.1 million. The purchase of the remaining 20% of the Services Subsidiary was accounted for using the purchase method of accounting and will result in goodwill in the amount of \$4.2 million, which is being amortized over 15 years. The Company assigned a 15-year amortization period to the goodwill acquired in the purchase of the 20% interest in the Services Subsidiary.

In the second quarter of 1998, the Company accelerated the vesting of certain employee stock options issued in the first quarter of 1998, for approximately 283,000 shares of Common Stock, at an exercise price of between \$3.67 per share and \$8.00 per share. As a result of this accelerated vesting, the Company recognized a non-cash, non-recurring charge of approximately \$705,000 during the quarter ended June 30, 1998, representing the previously remaining unamortized deferred compensation recorded on these options.

#### Summary of the Effects of the Merger

The Company anticipates the integration and consolidation of ELEKOM will require substantial management, financial and other resources. The acquisition of ELEKOM involves a number of significant risks including potential difficulties in assimilating the technologies, services and products of ELEKOM or in achieving the expected synergies and cost reductions, as well as other unanticipated risks and uncertainties. As a result, there can be no assurance as to the extent to which the anticipated benefit with respect to the Merger will be realized, or the timing of any such realization. See the Company Registration Statement dated October 28, 1998, filed under form S-4 with the Securities and Exchange Commission.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

### Overview (continued)

#### Summary of the Effects of the Merger (continued)

The Merger is expected to lower the net earnings of the Company through 1998 as a result of a substantial increase in amortization of intangible and other long-lived assets and various other adjustments resulting from purchase accounting. The 1997 unaudited pro forma condensed combined net loss before non-recurring charges would have been approximately \$10.2 million, a net loss which is approximately 149% greater than the Company's actual historical results for 1997. The Company believes that earnings beyond 1998 should improve as a result of the web-based, electronic procurement market presence and recognition afforded the Company as a result of the completion of the Merger. No assurances can be given as to the amount or timing of such benefit that may actually be realized or that any such growth may occur.

The Merger will be accounted for as a purchase. Under purchase accounting, the total purchase cost and fair value of liabilities assumed were allocated to the tangible and intangible assets of ELEKOM based upon their respective fair values on November 6, 1998.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Results of Operations

The following table sets forth certain statement of operations data as a percentage of total revenues for the periods indicated:

<TABLE>

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	Three months ended September 30		Nine months ended September 30	
	1998 <C>	1997 <C>	1998 <C>	1997 <C>
<b>Revenues:</b>				
License fees	47.1%	56.5%	45.8%	51.4%
Services fees	36.7	27.1	36.8	30.5
Maintenance fees	16.2	16.4	17.4	18.1
<b>Total revenues</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Cost of revenues:</b>				
License fees	8.1	6.3	5.0	4.9
Services fees	22.7	17.9	23.5	21.0
Maintenance fees	7.7	6.7	7.9	7.8
<b>Total cost of revenues</b>	<b>38.5</b>	<b>30.9</b>	<b>36.4</b>	<b>33.7</b>
<b>Operating expenses:</b>				
Research and development	13.7	19.5	13.5	30.3
Sales and marketing	25.4	30.9	27.4	39.6
General and administrative	9.8	9.9	12.1	12.0
Depreciation and amortization	4.4	4.6	4.8	6.0
Non-cash compensation	0.3	0.2	2.8	0.2
<b>Total expenses</b>	<b>53.6</b>	<b>65.1</b>	<b>60.6</b>	<b>88.1</b>
<b>Operating income (loss)</b>	<b>7.9</b>	<b>4.0</b>	<b>3.0</b>	<b>(21.8)</b>
Interest income	2.0	0.1	1.3	0.2
Interest expense	0.4	1.8	0.6	1.4
Minority interest	0.0	1.8	0.1	1.7
<b>Net income (loss)</b>	<b>9.5</b>	<b>0.5</b>	<b>3.6</b>	<b>(24.9)</b>
Gross margin on license fees	82.9	88.9	89.2	90.5
Gross margin on services fees	38.1	33.8	36.0	30.9
Gross margin on maintenance fees	52.3	59.2	54.4	57.1

</TABLE>

Quarter and Nine Months Ended September 30, 1998, Compared to Quarter and Nine Months Ended September 30, 1997.

Revenues

**Total Revenues.** For the quarter ended September 30, 1998, total revenues increased 56.9% to \$11.9 million from \$7.6 million in the comparable period in 1997. For the nine months ended September 30, 1998, total revenues increased 75.1% to \$30.7 million from \$17.5 million in the comparable period in 1997. These increases are attributable to substantial increases in license fees, services fees and maintenance fees.

**License Fees.** License fees increased 30.8% to \$5.6 million, or 47.1% of total revenues, in the quarter ended September 30, 1998, from \$4.3 million, or 56.5% of total revenues, in the comparable period in 1997. License fees increased

55.8% to \$14.1 million, or 45.8% of total revenues, in the nine months ended September 30, 1998, from \$9.0 million, or 51.4%, in the comparable period in 1997. These increases in license fees resulted primarily from

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Results of Operations (continued)

Quarter and Nine Months Ended September 30, 1998, Compared to Quarter and Nine Months Ended September 30, 1997 (continued).

Revenues (continued)

License Fees (continued)

increases in the number of licenses sold, reflecting a continuing increase in the demand for the Company's existing and new applications, and to a lesser extent, to an increase in the average customer transaction size.

**Services Fees.** Services fees increased 112.5% to \$4.4 million, or 36.7% of total revenues, in the quarter ended September 30, 1998, from \$2.1 million, or 27.1% of total revenues, in the comparable period in 1997. Services fees increased 111.2% to \$11.3 million, or 36.8% of total revenues, in the nine months ended September 30, 1998, from \$5.3 million, or 30.5% of total revenues, in the comparable period in 1997. These increases in services fees are primarily due to increased demand for professional services associated with the increase in number of licenses sold.

**Maintenance Fees.** Maintenance fees increased 55.0% to \$1.9 million, or 16.2% of total revenues, in the quarter ended September 30, 1998, from \$1.3 million, or 16.4% of total revenues, in the comparable period in 1997. Maintenance fees increased 68.9% to \$5.4 million, or 17.4% of total revenues, in the nine months ended September 30, 1998, from \$3.2 million, or 18.1% of total revenues, in the comparable period in 1997. These increases in maintenance fees were primarily due to the signing of license agreements with new customers and the renewal of maintenance with existing customers during the respective periods.

Cost of Revenues

**Total Cost of Revenues.** Cost of revenues increased 95.5% to \$4.6 million, or 38.5% of total revenues, in the quarter ended September 30, 1998, from \$2.4 million, or 30.9% of total revenues, in the comparable period in 1997. Cost of revenues increased 89.5% to \$11.2 million, or 36.4% of total revenues, in the nine months ended September 30, 1998, from \$5.9 million, or 33.7% of total revenues, in the comparable period in 1997. The increases in cost of revenues were primarily due to an increase in personnel and related expenses and increased royalty expenses for the respective periods.

**Cost of License Fees.** Cost of license fees increased 100.8% to \$960,000, or 17.1% of total license fees, in the quarter ended September 30, 1998, compared to \$478,000, or 11.1% of total license fees, in the comparable period in 1997. Cost of license fees increased 78.2% to \$1.5 million, or 10.8% of total license fees, in the nine months ended September 30, 1998, compared to \$856,000, or 9.5% of total license fees, in the comparable period in 1997. The increases in the cost of license fees, and the increase as a percentage of total license fees, were primarily attributable to increases in the sale of third-party software products distributed by the Company.

**Cost of Services Fees.** Cost of services fees increased 98.9% to \$2.7 million, or 61.9% of total services fees, in the quarter ended September 30, 1998, compared to \$1.4 million, or 66.2% of total services fees, in the comparable period in 1997. Cost of services fees increased 95.9% to \$7.2 million, or 64.0% of total services fees, in the nine months ended September 30, 1998, compared to \$3.7 million, or 69.1% of total services fees, in the comparable period in 1997. These increases in the cost of service fees are primarily attributable to an increase in the personnel and related costs to provide implementation, training and upgrade services.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

### Results of Operations (continued)

#### Quarter and Nine Months Ended September 30, 1998, Compared to Quarter and Nine Months Ended September 30, 1997 (continued).

#### Cost of Revenues (continued)

#### Cost of Services Fees (continued)

The decreases in cost of service fees as a percentage of revenue for the quarter and nine months ended September 30, 1998, are primarily due to increased hourly rates charged combined with increased utilization of services personnel.

**Cost of Maintenance Fees.** Cost of maintenance fees increased 81.4% to \$925,000, or 47.7% of total maintenance fees, in the quarter ended September 30, 1998, compared to \$510,000, or 40.8% of total maintenance fees, in the comparable period in 1997. Cost of maintenance fees increased 79.6% to \$2.4 million, or 45.6% of total maintenance fees, in the nine months ended September 30, 1998, compared to \$1.4 million, or 42.9% of total maintenance fees, in the comparable period in 1997. These increases in the cost of maintenance fees were primarily attributable to an increase in the personnel and related costs required to provide support and maintenance. Cost of maintenance fees as a percentage of total maintenance fees increased during the respective periods primarily due to increased investment in personnel to support the maintenance customer base.

#### Research and Development

Research and development expenses increased 10.1% to \$1.6 million, or 13.7% of total revenues, in the quarter ended September 30, 1998, from \$1.5 million, or 19.5% of total revenues, in the comparable period in 1997. Research and development expenses decreased 21.6% to \$4.2 million, or 13.5% of total revenues, in the nine months ended September 30, 1998, from \$5.3 million, or 30.3% of total revenues, in the comparable period in 1997. Research and development expenses increased during the quarter ended September 30, 1998, primarily due to increased personnel costs related to continued development of the Company's products. Research and development expenses decreased during the nine months ended September 30, 1998, primarily due to decreased personnel and contractor fees related to the effort required in 1997 to develop the Denver Release, which was substantially completed by September 1997. The decreases in research and development as a percentage of revenue for the periods ended September 30, 1998, compared to the periods ended September 30, 1997, are primarily due to the completion of the Denver Release, coupled with the economies of scale realized through the growth in the Company's revenue. The Company intends to continue to devote substantial resources toward research and development efforts.

#### Sales and Marketing

Sales and marketing expenses increased 28.7% to \$3.0 million, or 25.4% of total revenues, in the quarter ended September 30, 1998, from \$2.4 million, or 30.9% of total revenues, in the comparable period in 1997. Sales and marketing expenses increased 21.0% to \$8.4 million, or 27.4% of total revenues, in the nine months ended September 30, 1998, from \$7.0 million, or 39.6% of total revenues, in the comparable period in 1997. The increases in sales and marketing expenses were primarily attributable to the costs associated with additional sales and marketing personnel and promotional activities. The decreases in sales and marketing expense, as a percentage of revenues for the respective periods, reflects the higher productivity derived from the Company's sales force and marketing efforts.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

### Results of Operations (continued)

Quarter and Nine Months Ended September 30, 1998, Compared to Quarter and Nine Months Ended September 30, 1997 (continued).

#### General and Administrative

General and administrative expenses increased 55.8% to \$1.2 million, or 9.8% of total revenues, in the quarter ended September 30, 1998, from \$754,000, or 9.9% of total revenues, in the comparable period in 1997. General and administrative expenses increased 77.0% to \$3.7 million, or 12.1% of total revenues, in the nine months ended September 30, 1998, from \$2.1 million, or 12.0% of total revenues, in the comparable period in 1997. The increases in general and administrative expenses were primarily attributable to increases in personnel and related costs. The Company believes that its general and administrative expenses will continue to increase in future periods to accommodate anticipated growth and expenses associated with its responsibilities as a public company.

#### Depreciation and Amortization

Depreciation of tangible equipment and amortization of intangible assets increased 49.4% to \$526,000, or 4.4% of total revenues, in the quarter ended September 30, 1998, from \$352,000, or 4.6% of total revenues, in the comparable period in 1997. Depreciation of tangible equipment and amortization of intangible assets increased 38.8% to \$1.5 million, or 4.8% of total revenues, in the nine months ended September 30, 1998, from \$1.0 million, or 6.0% of total revenues, in the comparable period in 1997. The increases in depreciation and amortization expense are due to increases in capital expenditures resulting from the significant growth of the Company combined with increased goodwill resulting from the acquisition of the minority interest in the Services Subsidiary.

#### Non-Cash Compensation

Non-cash compensation expense increased to \$38,000, or 0.3% of total revenues, in the quarter ended September 30, 1998, from \$13,000, or 0.2% of total revenues, in the comparable period in 1997. Non-cash compensation expense increased to \$842,000, or 2.8% of total revenues, in the nine months ended September 30, 1998, from \$36,000, or 0.2% of total revenues in the comparable period in 1997. Increased levels of unamortized deferred non-cash compensation, relative to certain stock options awarded in the first quarter of 1998, provided for the increased non-cash compensation expense in the quarter ended September 30, 1998. Additionally, in the second quarter of 1998, the Company accelerated the vesting of certain employee stock options issued in the first quarter of 1998, for approximately 283,000 shares of Common Stock, at an exercise price of between \$3.67 per share and \$8.00 per share. As a result of this accelerated vesting, the Company recognized a non-cash, non-recurring charge of approximately \$705,000 during the quarter ended June 30, 1998, representing the previously remaining unamortized deferred compensation recorded on these options. The recognition of the non-cash, non-recurring charge provided for the increases in the non-cash compensation expense in the nine months ended September 30, 1998, when compared to the same period of the prior year.

#### Other Income

Interest income increased to \$243,000 in the quarter ended September 30, 1998, from \$1,000, in the comparable period in 1997. Interest income increased to \$402,000 in the nine months ended September 30, 1998, from \$28,000, in the comparable period in 1997. On May 26, 1998, the Company completed an initial public offering of its common stock in which it sold 2.5 million shares, which resulted in net proceeds of approximately \$22.0 million. The increases in interest income were primarily due to the results of the investment of the funds from the initial public offering.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Results of Operations (continued)

Quarter and Nine Months Ended September 30, 1998, Compared to Quarter and Nine Months Ended September 30, 1997 (continued).

Interest Expense

Interest expense decreased 61.7% to \$51,000 in the quarter ended September 30, 1998, from \$133,000 in the comparable period in 1997. Interest expense also decreased 31.5% to \$172,000 in the nine months ended September 30, 1998, from \$251,000 in the comparable period in 1997. These decreases are primarily due to lower average levels of debt in the periods ended September 30, 1998, as compared to the periods ended September 30, 1997.

Minority Interest

Minority interest decreased 100.0% in the quarter ended September 30, 1998, from \$133,000 in the comparable period in 1997. Minority interest decreased 88.8% to \$36,000 in the nine months ended September 30, 1998, from \$322,000 in the comparable period in 1997. These decreases in minority interest are related to the purchase of the remaining 20% of the Services Subsidiary on February 5, 1998, which eliminated the minority interest related to the Services Subsidiary.

Income Taxes

As a result of the operating losses incurred since the Company's inception, the Company has not recorded any provision or benefit for income taxes in the quarter and nine month periods ended September 30, 1998 and 1997, respectively.

Liquidity and Capital Resources

On May 26, 1998, the Company completed its initial public offering of 2.5 million shares of its Common Stock at an offering price of \$10.00 per share. The proceeds, net of expenses, from this public offering of approximately \$22.0 million were placed in investment grade cash equivalents. The Company's working capital position (deficit) was \$20.9 million and \$(453,000) at September 30, 1998 and December 31, 1997, respectively. Management believes that current cash balances and cash flows from operations will be adequate to provide for the Company's capital expenditures and working capital requirements for the foreseeable future. Although operating activities may provide cash in certain periods, to the extent the Company experiences growth in the future its operating and investing activities may use significant cash.

On November 6, 1998, the Company completed the acquisition of Elekom Corporation ("Elekom") for approximately \$15.7 million, consisting of \$8.0 million in cash and approximately 1.39 million shares of the Company's common stock. Elekom was merged with and into Clarus CSA, Inc., a wholly owned subsidiary of the Company and the separate existence of Elekom ceased. Immediately following consummation of the merger, the former holders of Elekom common and preferred stock (the "Elekom Shareholders") owned approximately 13% of the outstanding common stock of the Company. The former Elekom Shareholders have agreed not to sell any of their shares of the Company's common stock for a period ending on August 6, 1999. The Company as additional purchase price recorded i) payments of \$500,000 made to fund the operations of Elekom from October 1, 1998, through the closing date, and ii) expenses of approximately \$750,000 to complete the merger. Approximately \$14.0 million of the purchase price was recorded as purchased in-process research and development.

Cash used in operating activities was approximately \$1.5 million and \$3.3 million during the nine months ended September 30, 1998 and 1997, respectively. Cash used by operations during the nine months ended September 30,

## Liquidity and Capital Resources (continued)

1998, was primarily attributable to an increase in accounts receivable, partially offset by an increase in accounts payable and accrued liabilities. Cash used by operations during the nine months ended September 30, 1997, was primarily attributable to an increase in accounts receivable, partially offset by increases in deferred revenues and accounts payable and accrued liabilities.

Cash used in investing activities was approximately \$2.6 million and \$647,000 during the nine months ended September 30, 1998 and 1997, respectively. The cash used in investing activities during the nine months ended September 30, 1998, was primarily attributable to purchases of computer equipment and software and an increase in intangible assets and costs related to the acquisition of Elekom. The cash used in investing activities during the nine months ended September 30, 1997, was primarily attributable to purchases of computer equipment and software.

Cash provided by financing activities was approximately \$20.8 million and \$5.4 million during the nine months ended September 30, 1998 and 1997, respectively. The cash provided by financing activities during the nine months ended September 30, 1998, was primarily attributable to the Company's initial public offering effective May 26, 1998, for net proceeds of approximately \$22.0 million. The cash provided by financing activities during the nine months ended September 30, 1997, was primarily attributable to proceeds from the issuance of preferred stock of approximately \$6.0 million, and notes payable and short term borrowings of approximately \$29.8 million; offset by payments on notes payable and short term borrowings of approximately \$30.2 million.

In March 1997, the Company entered into a loan agreement and a master leasing agreement for an equipment line of credit in the amount of \$1.0 million (the "Equipment Line") with a leasing company. The Equipment Line bears interest at rates negotiated with each loan or lease schedule (generally 22.0% to 22.5%) and is collateralized by all of the equipment purchased with the proceeds thereof. As of September 30, 1998, the principal balance on the Equipment Line payable was \$515,000.

The Company has a revolving working capital line of credit and equipment facility with Silicon Valley Bank. Borrowings outstanding under the line are limited to the lesser of \$3.0 million or 80% of accounts receivable. Interest on the revolving credit facility is at prime rate and on the equipment facility at prime plus 0.5% and is collateralized by all of the assets of the Company. The line of credit and equipment term facility with Silicon Valley Bank will expire on April 29, 1999. As of September 30, 1998, the Company had no outstanding balance and had \$3.5 million available for future borrowings under this agreement.

The Company had available NOL's of approximately \$24.5 million as of September 30, 1998, to reduce future income tax liabilities. These NOL's expire from 2007 through 2012 and are subject to review and possible adjustment by the appropriate taxing authorities. Pursuant to the Tax Reform Act of 1986, the utilization of NOL's for tax purposes may be subject to an annual limitation if a cumulative change of ownership of more than 50% occurs over a three-year period. As a result of this limitation, the Company will be limited to the use of its NOL's in any given year. The Company had net deferred tax assets of approximately \$9.4 million at September 30, 1998, comprised primarily of net operating loss carryforwards. The Company has fully reserved for these deferred tax assets.

### Cautionary Statements for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this report, the words "believes," "expects," "anticipates," "estimates" and similar words and expressions are generally intended to identify forward-looking statements. Statements that describe the Company's future strategic plans, goals, or objectives are also forward-looking statements. Readers of this report are cautioned that any forward-looking statements, including those regarding the

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Cautionary Statements for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act (continued)

intent, belief or current expectations of the Company or management, are not guarantees of future performance, results or events and involve risks and uncertainties, and that actual results and events may differ materially from those in the forward-looking statements as a result of various factors including, but not limited to, (i) general economic conditions in the markets in which the Company operates, (ii) competitive pressures in the markets in which the Company operates, (iii) the effect of future legislation or regulatory changes on the Company's operations and (iv) other factors described from time to time in the Company's filings with the Securities and Exchange Commission. The forward-looking statements included in this report are made only as of the date hereof. The Company undertakes no obligation to update such forward-looking statements to reflect subsequent events or circumstances.

Impact of Year 2000

The Company has designed and tested the most current versions of its products to be Year 2000 compliant. There can be no assurances that the Company's current products do not contain undetected errors or defects associated with Year 2000 date functions that may result in material costs to the Company. Some commentators have stated that a significant amount of litigation will arise out of Year 2000 compliance issues, and the Company is aware of a growing number of lawsuits against other software vendors. Because of the unprecedented nature of such litigation, it is uncertain whether or to what extent the Company may be affected by it.

The Company is in the process of determining the extent to which third-party licensed software distributed by the Company is Year 2000 compliant, as well as the impact of any non-compliance on the Company and its customers.

Additionally, in the event relational database management systems used with the Company's software are not Year 2000 compliant, there can be no assurance that Company's customers will be able to continue to use the Company's products. The Company does not currently believe that the effects of any Year 2000 non-compliance in the Company's installed base of software will result in a material adverse impact on the Company's business or financial condition. However, the Company's investigation with respect to third-party software is in its preliminary stages, and no assurance can be given that the Company will not be exposed to potential claims resulting from system problems associated with the century change or that such claims would not have a material adverse effect on the Company's business, financial condition or results of operations.

With respect to its internal systems, the Company is taking steps to prepare its systems for the Year 2000 date change. The Company expects to substantially complete inventory efforts during the first quarter of calendar year 1999, with remediation and testing to continue through the third quarter of 1999. Although the Company does not believe that it will incur any material costs or experience material disruptions in its business associated with preparing its internal systems for the Year 2000, there can be no assurances that the Company will not experience unanticipated negative consequences and/or material costs caused by undetected errors or defects in the technology used in its internal systems. The Company is currently unable to estimate the most reasonably likely worst case effects of the year 2000 and does not currently have a contingency plan in place for any such unanticipated negative effects.

The Company is currently unable to estimate whether it is exposed to significant risk of being adversely affected by Year 2000 noncompliance by third parties. The Company is contacting third parties with which it has material relationships, including its material customers, to attempt to determine their preparedness with respect to Year 2000 issues and to analyze the risks to the Company in the event any such third parties experience significant business interruptions as result of Year 2000 noncompliance. The Company expects to complete this review and analysis and to determine the need for contingency planning in this regard by June 30, 1999.

## PART II. OTHER INFORMATION

### Item 2. Changes in Securities and Use of Proceeds

The Company filed a Form S-1 Registration Statement (Registration No. 333-63535) in connection with its initial public offering that was effective on May 26, 1998. On November 6, 1998, the Company used approximately \$8.0 million of the proceeds from its initial public offering as a portion of the purchase price of Elekom Corporation.

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

- 2.1 Agreement and Plan of Reorganization dated August 31, 1998, by and among Clarus Corporation, Clarus CSA, Inc. and Elekom Corporation (Incorporated by reference from Exhibit 2.1 and Appendix A of the Company's Registration Statement on Form S-4 (Registration No. 333-63535)).
  - 2.2 Escrow and Minority Investment Agreement by and between the Registrant and Elekom Corporation and US Bank Trust National Association (Incorporated by reference from Exhibit 2.2 to the Company's Registration Statement on Form S-4 (Registration No. 333-63535)).
  - 4.1 Specimen Stock Certificate (Incorporated by reference from Exhibit 4.2 to the Company's Registration Statement on Form S-4 (Registration No. 333-63535)).
  - 4.2 Voting Agreement by and among the Registrant and certain shareholders of Elekom Corporation (Incorporated by reference from Exhibit 4.3 to the Company's Registration Statement on Form S-4 (Registration No. 333-63535)).
  - 4.3 Registration Rights Agreement by and between the Registrant and certain shareholders of Elekom Corporation.
  - 4.4 Escrow and Indemnity Agreement by and among the Registrant, Elekom Corporation and certain shareholders of Elekom Corporation.
- 27 Financial Data Schedule

#### (b) Reports on Form 8-K

The Company filed a current report on Form 8-K on September 4, 1998, to report that it had entered into an Agreement and Plan of Reorganization with Elekom Corporation.

## SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CLARUS CORPORATION  
(Registrant)

Date: November 16, 1998

By: /s/William A. Fielder, III

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William A. Fielder, III  
Chief Financial Officer and Treasurer

## ESCROW AND INDEMNITY AGREEMENT

THIS ESCROW AND INDEMNITY AGREEMENT (the "Agreement") is made this 6th day of November, 1998, by and among Clarus Corporation, formerly known as SQL Financials International, Inc., a Delaware corporation ("SFI"), Elekom Corporation ("Elekom"), the undersigned former holders of preferred stock of Elekom as shown on Schedule 1 hereto (collectively the "Preferred Shareholders" and individually a "Preferred Shareholder"), and NationsBank, N.A. (the "Escrow Agent").

### WITNESSETH:

WHEREAS, SFI has entered into an Agreement and Plan of Reorganization dated as of August 31, 1998 (the "Merger Agreement") with Elekom Corporation, a Washington corporation ("Elekom") pursuant to which SFI has acquired all of the stock and going business of Elekom pursuant to a forward triangular merger (the "Merger"); and

WHEREAS, pursuant to the Merger Agreement, Elekom has agreed to place \$2.5 million of the cash proceeds of the Merger to its shareholders (the "Shareholders") in an escrow account to secure its obligations under Article IX of the Merger Agreement; and

WHEREAS, the Preferred Shareholders owned shares of preferred stock of Elekom and the Preferred Shareholders acknowledge and agree that the Merger and the payment of the merger consideration to the Preferred Shareholders by SFI is a direct and substantial benefit to the Preferred Shareholders; and

WHEREAS, as a material inducement to SFI to enter into the Merger Agreement and consummate the Merger, Elekom has agreed to cause each of the Preferred Shareholders to enter into this Agreement providing for indemnification of SFI for the obligations of Elekom under the Merger Agreement to the extent such obligations exceed the amount of the Escrow Funds (as defined below); and

NOW, THEREFORE, for and in consideration of the mutual agreements contained herein and other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged by each party, the parties hereto agree as follows:

1. Definitions. For purposes of this Agreement, the following terms have the meanings indicated below:

"Contesting Direction" means a written direction from the representative of the Shareholders appointed pursuant to Section 9 of this Agreement (the "Shareholder Representative"), which direction contests an SFI Direction in whole or in part and specifies the amount contested and the amount, if any, not contested. Each Contesting Direction must be delivered to the Escrow Agent in the manner set forth in Section 16 hereof, and copies of such direction must be delivered in like manner to SFI.

"Escrow Funds" has the meaning ascribed to such term in Section 2 hereof.

"Escrow Termination Date" means April 30, 2000.

"Estimated Indemnified Amount" means a good-faith estimate by SFI of an Indemnified Amount.

"SFI Direction" means a written direction from SFI specifying that a claim referred to in Article IX of the Merger Agreement and covered by a particular Notice of Claim has been made, and further specifying the aggregate Indemnified Amount. Each SFI Direction must be delivered to the Escrow Agent in the manner set forth in Section 16 hereof, and copies of such direction must be delivered in like manner to the Shareholder Representative.

"Indemnification Holdback" has the meaning ascribed to such term in Section 4.1 hereof.

"Indemnified Amount," with respect to any Notice of Claim, means the aggregate amount of indemnification determined to be due to SFI pursuant to

Article IX of the Merger Agreement.

"Joint Direction" means a written direction relating to (i) a Notice of Claim, (ii) the investment of the Escrow Funds, or (iii) removal of the Escrow Agent in accordance with Section 15 hereof, in each case executed by SFI and the Shareholder Representative, and delivered to the Escrow Agent in the manner set forth in Section 16 hereof.

"Notice of Claim" means a written notice from SFI delivered to the Escrow Agent and the Shareholder Representative in the manner set forth in Section 16 hereof on or before the Escrow Termination Date, specifying that facts exist which may give rise to an indemnifiable claim under Article IX of the Merger Agreement, also specifying the Estimated Indemnified Amount and describing in reasonable detail the nature of the matter or matters covered by the Notice of Claim and the Estimated Indemnified Amount.

2. Establishment of Escrow. On the date hereof, concurrently with the closing of the Merger, SFI has deposited with Escrow Agent the sum of US Two Million Five Hundred Thousand Dollars (\$2,500,000.00) in immediately available funds (the "Escrow Funds"), which sum Escrow Agent hereby accepts and agrees to hold for Shareholders in escrow subject to the terms of this Escrow Agreement (the "Escrow"). Escrow Agent hereby confirms to SFI, Shareholders and the Preferred Shareholders receipt by Escrow Agent of the Escrow Funds. The Escrow Funds represent a portion of the merger consideration paid to the Shareholders in the Merger and has been withheld from the cash consideration received by such Shareholders pursuant to the terms of Section 1.5 of the Merger Agreement in order to secure the obligations of Elekom pursuant to Article IX of the Merger Agreement.

3. Investment of the Funds. During the period specified in this Agreement, the Escrow Agent shall hold the Escrow Funds (i) in an interest-bearing account or other investment vehicle specified by Elekom, with a maturity no greater than thirty (30) days and which is backed by the United States Government or such financial institutions insured by the Federal Deposit Insurance Corporation, having a net worth of not less than US One Hundred Million Dollars (\$100,000,000) or (ii) in such other account or investment as may be specified in a Joint Direction. The payments of interest on such account and other distributions thereon shall be

added to and become a part of the Escrow Funds. Any and all interest which may be earned and received on the Escrow Funds shall be for the account of the Shareholders and shall not constitute part of the Escrow Funds.

4. Administration of Escrow Funds

4.1 Claims Against Escrow Funds

If, on or before the Escrow Termination Date, the Escrow Agent receives a Notice of Claim from SFI, then, in each instance in which such a Notice of Claim is received, the Escrow Agent shall, from and after its receipt of that Notice of Claim, hold the portion of the Escrow Funds equal to the Estimated Indemnified Amount or the remainder of the Escrow Funds should it be less than the Estimated Indemnified Amount (the "Indemnification Holdback") until such time (whether before or after the Escrow Termination Date) as the conditions of Section 4.2 hereof have been complied with as to such Notice of Claim.

4.2 Distributions

4.2.1 Distributions on Joint Direction

If at any time, or from time to time, prior to, or on the Escrow Termination Date, the Escrow Agent receives a Joint Direction regarding a Notice of Claim, the Escrow Agent shall comply with such Joint Direction.

4.2.2 Distribution on SFI Direction

(a) If at any time, or from time to time, prior to, or on the Escrow Termination Date, the Escrow Agent receives an SFI Direction, and if the Escrow Agent does not within 30 days after the date of its receipt of that SFI Direction receive a related Contesting Direction, then the Escrow Agent shall, within 3 business days after such 30th day and after confirmation with SFI of

the amount, pay to SFI the Indemnified Amount, as specified in the SFI Direction, or the remainder of the Escrow Funds should it be less than the Indemnified Amount.

(b) If the Escrow Agent does receive a Contesting Direction within such 30-day period, then it shall (i) within 10 days of the receipt of such Contesting Notice, distribute to SFI such portion of the Indemnified Amount which is not disputed in the Contesting Direction (or the remainder of the Escrow Funds should it be less than such undisputed portion of the Indemnified Amount) and (ii) continue to hold any Indemnification Holdback amount necessary to cover any disputed portion of the Indemnified Amount until such time as the Escrow Agent receives either a Joint Direction, or a notice from SFI or the Shareholder Representative directing the Escrow Agent with respect to the disbursement, release or any other disposition of the amount of the Indemnification Holdback accompanied by a copy of the final order, judgment or decree from a court of competent jurisdiction with respect to such claim, and the Escrow Agent has received an opinion of legal counsel (the reasonable fees and cost for which shall be an additional Loss hereunder) acceptable to the Escrow Agent that as to such order, judgment or decree all rights of appeal have expired or been waived. Within 5 days of the receipt by the Escrow Agent of such

Joint Direction or such notice and legal opinion contemplated by the immediately preceding sentence, the Escrow Agent shall distribute to SFI or the Shareholder Representative (as specified in such Joint Direction or such notice) the Indemnified Amount specified in such Joint Direction or the amount contemplated by such notice, as the case may be, or the remainder of the Escrow Funds should it be less.

#### 4.2.3 Distributions on Escrow Termination Date

On the Escrow Termination Date, without further notice or request, the Escrow Agent shall distribute to the Shareholder Representative on behalf of the Shareholders of Elekom in the manner set forth in Section 4.3 hereof any amounts remaining in the Escrow Funds which are not subject to Indemnification Holdback. Amounts remaining in the Escrow Funds which are subject to Indemnification Holdback will be distributed when the conditions of Section 4.2.2 hereof are satisfied.

#### 4.4 Distributions to the Shareholder Representative and SFI

In the event that the Escrow Agent is required to distribute any part of the Escrow Funds to the Shareholder Representative or SFI, the Escrow Agent will make payment, by issuance of its check, delivered by first class or overnight mail address set forth in Section 16 hereof, representing an amount equal to the total amount then to be distributed from the Escrow Funds.

#### 5. Indemnification.

Indemnification. Subject to the requirements, limitations, and exclusions and further provisions in Article IX of the Merger Agreement and this Agreement, Elekom shall to the extent of the Escrow Funds, and the Preferred Shareholders listed on Schedule 9.1 to the Merger Agreement (the Company, together with the Preferred Shareholders are the "Indemnitors") shall severally in proportion to the percentages set forth on Schedule 9.1 to the Merger Agreement, indemnify, defend and hold harmless SFI and its officers, directors and affiliates (the "SFI Indemnitees") from, against, and with respect to any and all action or cause of action, loss, damage, claim, obligation, liability, penalty, fine, cost and expense (including without limitation reasonable attorneys' and consultants' fees and costs and expenses incurred in investigating, preparing, defending against or prosecuting any litigation, claim, proceeding, demand or request for action by any governmental or administrative entity), of any kind or character (a "Loss") arising out of or in connection with any of the following:

(a) any breach of any of the representations or warranties of Elekom contained in or made pursuant to the Merger Agreement or any of the representations and warranties of the respective Preferred Shareholder in any other Elekom Agreement (defined in the Merger Agreement);

(b) any failure by Elekom or the respective Preferred Shareholder to perform or observe, or to have performed or observed, in full, any covenant, agreement or condition to be performed or observed by it pursuant to the Merger Agreement or any Elekom Agreement;

(c) any breach by Elekom of any representation set forth in Section 2.14 in the Merger Agreement (an "IP Claim");

(d) any claim by a Shareholder relating to the allocation by Elekom of the cash and stock consideration to be received by each Shareholder in connection with the Merger;

(e) any amount that shall have been paid by SFI to Shareholders in respect of shares of Elekom with respect to which dissenters' rights have been perfected that shall be in excess of the amount of the value, as of the closing date of the Merger, of the consideration such Shareholders would have received for such shares in the Merger if they had not exercised dissenters' rights plus any fees and expenses incurred by SFI Indemnitees in connection with defense of such dissenters' rights claim.

Notwithstanding anything herein to the contrary, the liability of the Preferred Shareholders hereunder will not be greater than the liability of Elekom under Article IX of the Merger Agreement.

6. Notice of Claim. Any SFI Indemnitee seeking to be indemnified pursuant to Section 5 hereof shall, within fifteen (15) days following discovery of a Loss (or 5 days if the SFI Indemnitee has been served with a lawsuit or other proceeding), notify the Shareholder Representative with a Notice of Claim. Each SFI Indemnitee will serve such Notice of Claim prior to initiating any court action seeking to enforce any such right to indemnification. The SFI Indemnitee shall provide to the Shareholder Representative as promptly as practicable thereafter all information and documentation reasonably requested by the Shareholder Representative to verify the claim for indemnification asserted. Following receipt of such notice (i) the Preferred Shareholders will then have the opportunity to discuss with the SFI Indemnitees the steps the Preferred Shareholders plan to take to mitigate any alleged Loss (defined in Section 5) SFI may have suffered and (ii) prior to SFI initiating such court action, the Preferred Shareholders will be given a reasonable period of time (not to exceed 30 days following receipt of such notice without the written agreement of SFI to cure completely the events giving rise to such alleged Losses (if such events are capable of being cured completely); provided, however, that Elekom and the Preferred Shareholders shall remain liable, to the extent set forth in the Merger Agreement, for Losses actually incurred. The procedures set forth in Section 7 shall govern Third-Party Claims.

7. Defense. If a claim by a third party (a "Third Party Claim") is made against an SFI Indemnitee arising out of a matter for which the SFI Indemnitee is entitled to be indemnified pursuant to Section 5 hereof, the Preferred Shareholders may elect to assume the defense or the prosecution thereof. The Preferred Shareholders shall have 30 days (which shall be shortened to 15 days in the case of a commenced lawsuit or proceeding) after receipt of a Notice of Claim to undertake to conduct and control, through counsel of their own choosing as designated by the Shareholder Representative and at their sole risk and expense, the good faith settlement or defense of such claim, and the SFI Indemnitee(s) shall cooperate fully with the Preferred Shareholders in connection therewith; provided that the SFI Indemnitee(s) shall be entitled to participate in such settlement or defense through counsel chosen by it, provided that the fees and expenses of such counsel shall be borne by the SFI Indemnitee(s); and provided further that the

Preferred Shareholders can only assume the defense if (a) the amount of the Third Party Claim does not exceed the amount of the Escrow Funds held hereunder or (b) the Preferred Shareholders provide commercially reasonable evidence that the Preferred Shareholders will have sufficient financial resources to defend the claim and satisfy their indemnification obligations. During the interim the SFI Indemnitee shall use its best efforts to take all action (not including settlement) reasonably necessary to protect against further damage or loss with respect to the alleged Loss. The Preferred Shareholders shall obtain the written consent of the SFI Indemnitee prior to ceasing to defend, settling or otherwise disposing of such claim if as a result thereof the SFI Indemnitee would become subject to injunctive, declaratory or other equitable relief or the business of the SFI Indemnitee would be materially adversely affected in any manner. Whether or not the Preferred Shareholders choose so to defend or prosecute such claim,

all the parties hereto shall cooperate in the defense or prosecution thereof and shall furnish such records, information and testimony and shall attend such conferences, discovery proceedings and trials as may be reasonably requested in connection therewith. Such cooperation shall include the retention and the provision of records and information which are reasonably relevant to such Third Party Claim, and making employees available on a mutually convenient basis to provide additional information. The Preferred Shareholders shall not be liable for any settlement of any such claim effected without their prior written consent, which shall not be unreasonably withheld. However, if the Preferred Shareholders, fail to defend such claim within the time period necessary to preserve the rights and defense of the SFI Indemnitee, the SFI Indemnitee will have the right to undertake the defense, compromise or settlement of such claim on behalf of and for the account and risk of the Preferred Shareholders, subject to the right of the Preferred Shareholders to assume the defense of such claim at any time within the 30-day time period after receiving Notice of Claim .

If a claim is based on any suit or proceeding by a third party for infringement which gives rise to an IP Claim (defined in Section 5) resulting in SFI's use of the Software (defined in Section 2.14 of the Merger Agreement) being enjoined or otherwise restricted, the Preferred Shareholders, if the Preferred Shareholders elect through the Shareholder Representative to assume defense of such proceeding after receiving notice hereunder, shall be entitled at their sole expense to do any of the following: (i) procure for SFI, Clarus CSA, Inc. and their licensees the unrestricted right to continue using the Software, (ii) modify the Software so that it becomes noninfringing, (iii) settle the third party's infringement claim in a manner that gives SFI, Clarus CSA, Inc. and their licensees the unrestricted rights to the software being enjoined or otherwise restricted, or (iv) pay the indemnified party's claim as provided in this Agreement, provided that any settlement under this sentence shall require SFI's prior written approval which shall not be unreasonably withheld. SFI shall comply with any settlement or court order made in connection with such proceeding in the foregoing sentence provided that such compliance by SFI shall not limit the Preferred Shareholder's indemnification obligations hereunder. No Preferred Shareholder shall be liable for any settlement of any such claim effected without its prior written consent, which shall not be unreasonably withheld. Before any claim may be brought against any of the Preferred Shareholders hereunder, or under the Merger Agreement, all the Escrow Funds shall be used first to pay any claims made under Article IX of the Merger Agreement or this Agreement, and SFI hereby authorizes the Preferred Shareholders to settle such claims without consent of SFI to the extent the Escrow Funds will fully satisfy such claim. Preferred

Shareholders may also settle any claim for which they are liable hereunder without consent of SFI so long as the payment or performance does not either (y) exhaust the Escrow Funds or (y) exceed the maximum liability amounts set forth below. Settlements requiring performance or payment in excess of the maximum liability amounts shall require SFI's prior written consent.

#### 8. Limitations.

The obligations of Elekom or any Preferred Shareholder to indemnify any SFI Indemnitees pursuant to Article IX of the Merger Agreement shall accrue only after and to the extent the aggregate dollar amount of Losses incurred by an Indemnified Party for all matters indemnifiable thereunder exceeds One Hundred Thousand Dollars (US \$100,000) (the "Basket"), and then Indemnitors shall be only liable for such Losses in excess of \$100,000. In addition, no single Loss in an amount of less than \$10,000 may be applied to the Basket until such threshold amount is reached, and thereafter, single claims of less than \$10,000 must be aggregated so that no claim is made for an amount of less than \$10,000 singly or in the aggregate. The obligations of the Indemnitors to indemnify the SFI Indemnitees under this Agreement shall not exceed the \$2,500,000 placed in escrow hereunder for claims for indemnification other than (a) IP Claims, which are addressed below, or (b) claims for indemnification related to a breach of the representations contained in Section 2.1 of the Merger Agreement. Notwithstanding anything in this Agreement to the contrary, the aggregate maximum liability of the Indemnitors, for IP Claims shall not exceed (i) Twelve Million Five Hundred Thousand Dollars (\$12,500,000) for any IP Claims plus the remaining amount of the Escrow Funds and no IP Claims may be made after the expiration of the one (1) year period following the Closing Date of the Merger.

This Agreement and Article IX of the Merger Agreement set forth the sole

and exclusive remedy of an SFI Indemnitee for breaches of any representation, warranty, or covenant under the Merger Agreement absent fraud or securities law violations.

The maximum liability for claims for breach of the representation and warranty in Section 2.1 in the Merger Agreement is the purchase price (cash paid by SFI to Elekom's Shareholders at closing of the Merger plus the market value of the shares transferred by SFI at closing of the Merger to the Elekom's Shareholders), minus the amount of the cash transferred to SFI from the Escrow Funds pursuant to this Agreement, further reduced by the aggregate amount paid by Elekom and the Preferred Shareholders in connection with all claims for breach of the representations and warranties made under Sections 2.14, 2.19, and 2.23(b) of the Merger Agreement. The maximum liability for claims for breach of the representations or warranties in Sections 2.19, and 2.23(b) of the Merger Agreement is equal to the purchase price (cash paid by SFI to Elekom's shareholders at closing plus the market value of the shares transferred by SFI at Closing to the Elekom's shareholders), minus the amount of the cash transferred to SFI from the Escrow Funds, further reduced by the aggregate amount paid by Elekom and Preferred Shareholders in connection with all claims for breach of the representations and warranties made under Sections 2.1 or 2.14.

Notwithstanding anything in this Agreement to the contrary, no Preferred Shareholders will have any liability for any claim that the Software infringes the rights of a third party to the extent the claims arise from modification of the Software by SFI after the Closing of the Merger

or to the extent the infringement claim arises out of a combination of the Software with a program, product or material not transferred to SFI's subsidiary as of the Closing of the Merger. In no event (except as specifically provided below) will any Preferred Shareholder have any liability for indirect, incidental, exemplary, or consequential damages whatsoever (including, without limitation, damages for loss of profits, loss of data or other business information) or cover arising under the Merger Agreement, even if the Preferred Shareholder has been advised of the possibility of such damages; provided, however, that although this sentence excludes claims for the lost profits, it does not limit the liability of any Preferred Shareholder hereunder to an SFI Indemnitee for indirect, incidental, exemplary or consequential damages to the extent such damages, including lost profits, are included in a claim by a third party against the SFI Indemnitee or arise as a result of such third party claim that the Software is infringing, or claim of ownership rights in the Software (excluding Third Party Software), and to the extent indemnification under the Merger Agreement covers such third party claims. Notwithstanding the foregoing, an SFI Indemnitee shall have the right to recover for direct out-of-pocket expenses, including its direct, demonstrable internal costs (without overhead) and/or external costs paid by such SFI Indemnitee to remediate any Loss, whether or not such Loss arises in connection with a Third Party Claim.

9. Casahl Litigation. Elekom will endeavor to seek an indemnification of the SFI and the Shareholders from Egghead.com, Inc. ("Egghead.com") covering the claims in the litigation commenced by Elekom and Egghead Software, Inc. (now known as Egghead.com) under Case No. 987331 pending in the Superior Court of California for the County of San Francisco (the "Casahl Litigation"). Before taking any action against the Preferred Shareholders (other than Egghead.com) with respect to any Loss arising from the Casahl Litigation, SFI and Clarus CSA, Inc. each agree to use their reasonable best efforts to enforce the following with respect to the Casahl Litigation:

(a) The Separation Agreement, dated November 10, 1997, between Egghead Software, Inc., now know as Egghead.com, Inc. and Elekom;

(b) Any reaffirmation by Egghead.com of the obligation in the last sentence of Section 4.02(a) of the Separation Agreement (in favor of Elekom, Clarus CSA, Inc. or SFI);

(c) Any other agreement with Egghead.com in which it agrees to defend, indemnify, and hold harmless Elekom, its past, present and future, successor and assigns, officers and directors, common shareholders (specifically excluding past Shareholder Egghead.com and specifically including future common shareholder Parent), the Preferred Shareholders (other than Egghead.com), agents, and employees, to the extent Elekom,

Clarus CSA, Inc., or SFI is made a beneficiary of such agreement, from and against any cost, expense, loss, liability whatsoever arising in connection with the Casahl Litigation.

If, after notice to Egghead.com by SFI and Clarus CSA, Inc., Egghead.com fails or refuses to honor its indemnity, or other obligations to Elekom, its past, present and future, successors and assigns, officers and directors, agents, employees, and, after the Effective Time, SFI, then to the

extent Elekom or an SFI Indemnitee suffers a Loss as a result of the Casahl Litigation notwithstanding any of the above, then in such event each of the Preferred Shareholders identified on Schedule 9.6 to the Merger Agreement (other than Egghead.com), severally in proportion which they bear to each other excluding Egghead.com based on the percentage set forth in Schedule 9.6 to the Merger Agreement, agree to defend, indemnify, and hold harmless an SFI Indemnitee from and against any cost, expense, loss or liability resulting from the Casahl Litigation. The indemnity obligations set forth in this Section 9 are in addition to Section 5 and are not subject to the limitations set forth in Section 8. Except as set forth in Section 10(a), payments made hereunder this Section 9 by a Preferred Shareholder shall not be reimbursed from Escrow Funds nor count toward the maximum liability of Elekom or a Preferred Shareholder. In the event that a Preferred Shareholder fails to pay any amount due hereunder, such amount may be withdrawn from the Escrow Funds by an SFI Indemnitee to the extent of that Preferred Shareholder's proportionate share in the Escrow Funds after giving effect to Section 10(b) of this Agreement.

#### 10. Disbursements at Escrow Termination Date.

(a) Fees or Expenses of Preferred Shareholder. After April 30, 2000, all fees, expenses and costs of any kind (including, without limitation, attorneys' fees and costs) incurred by any Preferred Shareholder in defense of any claim indemnified hereunder shall be reimbursed from the remaining Escrow Funds before any such funds are distributed to Shareholders.

(b) Distributions on Account of Common Shareholdings of Elekom. After making the distributions described in Section 10(a), holders of Elekom's Common Shares as of the date of the Closing of the Merger Agreement will receive a distribution of the proportionate share of the Escrow Funds, which they would have received from the Escrow Funds in the event no Notice of Claim had been asserted by any SFI Indemnitee hereunder asserting a claim to the Escrow Funds.

(c) Distributions on Account of Preferred Shareholdings of Elekom. After making the distributions described in section 10(b), holders of Elekom's Preferred Shares as of the date of the Closing of the Merger Agreement will receive a distribution of the remaining funds in the Escrow Funds in the proportions set forth on Schedule 9.1 to the Merger Agreement.

11. Appointment of Shareholder Representative. Elekom and the Shareholders hereby appoint John Hummer, or his designated successor agreeable to Preferred Shareholders holding more than fifty percent (50%) of the potential liability set forth on Exhibit A, to serve as Shareholder Representative for all purposes pertaining to this Agreement, who shall be authorized to make all decisions and elections of the Shareholders hereunder and agree that the SFI Indemnitees shall be entitled to rely on all actions, decisions, and notice of the Shareholder Representative. The Shareholder Representative has been appointed by Elekom and the Shareholders as their attorney-in-fact, for the giving and receipt on their behalf of all notices, instructions and deliveries and for the taking on their behalf of all other actions under this Agreement and the Merger Agreement, to serve in such capacity until such time as SFI and the Escrow Agent have received joint written notice from all Shareholders that they have appointed a

new Shareholders Representative. Accordingly, except as otherwise set forth herein and the Merger Agreement, the Shareholder Representative has unlimited authority and power to act on behalf of the Shareholders with respect to this Agreement and the disposition, settlement or other handling of all claims, rights or obligations arising hereunder, provided such actions by the Shareholder Representative are taken in good faith in the exercise of reasonable judgment. Except as otherwise set forth herein, the Shareholder shall be bound by all actions taken by the Shareholder Representative in connection with this

Agreement, and the Escrow Agent, Elekom and SFI shall be entitled to rely on any action or decision of the Shareholder Representative in accordance herewith. The Shareholder Representative shall be entitled to reimbursement out of the remaining amount of Escrow Funds on the Escrow Termination Date, prior to distribution of such funds, for any reasonable out-of-pocket expenses incurred by the Shareholder Representative in connection with the performance of the representation duties under this Agreement or the Merger Agreement, including, without limitation, legal fees and expenses. No bond shall be required of the Shareholders Representative, and the Shareholders Representative shall not receive compensation for his or her services. The Shareholder Representative shall not be liable for any act done or omitted hereunder as Shareholder Representative while acting in good faith and in the exercise of reasonable judgment. The Shareholders on whose behalf the Escrow Funds were contributed to the Escrow shall severally indemnify the Shareholders Representative and hold the Shareholders Representative harmless against any loss, liability or expense incurred without gross negligence or bad faith on the part of the Shareholders Representative and arising out of or in connection with the acceptance or administration of the Shareholders Representative's duties hereunder, including the reasonable fees and expenses of any legal counsel retained by the Shareholders Representative in connection with his representation of Shareholders.

12. Remedies. The SFI Indemnitees need not exhaust any other remedies that may be available to them but may proceed directly in accordance with the provisions of this Agreement; provided, that SFI Indemnitees must first pursue recourse to the Escrow Funds before asserting any claim against any Preferred Shareholder based on Article IX of the Merger Agreement. The SFI Indemnitees may institute claims against the Escrow Funds and in satisfaction thereof may recover Escrow Funds, in accordance with the terms of the Merger Agreement and this Agreement, without making any other claims directly against the Shareholders and without rescinding or attempting to rescind the transactions consummated pursuant to the Merger Agreement. The assertion of any single claim for indemnification hereunder will not bar the SFI Indemnitees from asserting other claims hereunder. All rights and remedies provided to the SFI Indemnitees hereunder shall be cumulative and shall be in addition to any other rights or remedies available to such party at law, in equity, by contract or otherwise.

13. Fees and Expenses. Escrow Agent shall be entitled to its customary fees for its services hereunder, and to reimbursement of all out-of-pocket expenses incurred, including reasonable attorney's fees, which fees and expenses shall be borne by SFI.

14. Limited Duties; Indemnification. Escrow Agent shall have no responsibilities to SFI or the Shareholders except those specifically set forth herein, and, in performing any of its duties under this Agreement, or upon the claimed failure to perform its duties hereunder, the

Escrow Agent shall not be liable for any acts taken or omitted to be taken by it except for its own gross negligence or willful misconduct. Accordingly, the Escrow Agent shall be entitled to rely conclusively on any notice, authorization or other document delivered to it hereunder and believed by it to be genuine, and may, at its discretion, obtain the advice of counsel with respect to any matter relating hereto and shall not incur any liability with respect to (i) any action taken or omitted to be taken in good faith upon advice of its counsel, or (ii) any action taken or omitted to be taken in reliance upon any such notice, authorization or other document believed to be genuine. Escrow Agent shall not be under any obligation to institute legal proceedings of any kind with respect hereto, and SFI and the Preferred Shareholders hereby jointly and severally agree to hold Escrow Agent harmless in respect of any claim, suit or proceeding based upon this Agreement or any act taken or not taken by Escrow Agent hereunder, other than with respect to Escrow Agent's gross negligence or willful misconduct. Provided, however, in the event of any dispute regarding the proper distribution of the Escrow Funds, Escrow Agent shall be entitled to file an interpleader action to tender the Escrow Funds into the registry or custody of any court of competent jurisdiction, whereupon the Escrow Agent shall be discharged from any further duty hereunder. The provisions of this Section shall survive any resignation of the Escrow Agent or the termination of this Agreement.

15. Removal and Resignation. Escrow Agent agrees that SFI and the Shareholders may, by their agreement, at any time remove Escrow Agent as escrow

agent hereunder, and substitute another person or entity as escrow agent, in which event Escrow Agent shall, upon receipt of a Joint Direction requesting such removal, account for and deliver to such substituted escrow agent all amounts held in the Escrow, and Escrow Agent shall thereafter be discharged from its duties hereunder. Escrow Agent may resign from serving as escrow agent hereunder by written notice to such effect given to SFI and the Shareholder Representative, whereupon SFI and the Shareholder Representative shall agree upon a successor escrow agent and shall so notify Escrow Agent, which shall then account for and deliver to such successor all amounts held in the Escrow, and such resignation shall thereupon be effective. If no successor escrow agent is agreed upon within a reasonable time after such notice is given, the Escrow Agent shall be entitled to tender into the registry or custody of any court of competent jurisdiction the Escrow Funds, together with such legal proceedings as the Escrow Agent deems appropriate, and thereupon the Escrow Agent shall be discharged from all further duties hereunder.

16. Notices. All notices, demands and other communications required or permitted hereunder shall be in writing and may be telexed or telecopied, which shall be followed forthwith by letter, and such notice, request, demand or other communication shall be deemed to have been received on the next business day following dispatch and acknowledgment of receipt by the recipient's telex or telecopy machine. In addition, notices hereunder may be delivered by hand, in which event the notice shall be deemed effective when delivered, or by overnight courier, in which event the notice shall be deemed to have been received on the next business day following delivery to such courier. Notices, requests, demands and other communications may not be given by regular or certified mail. All notices and other communications under this Agreement shall be given to the parties hereto at the following addresses:(or such other address for a party as shall be specified by like notice):

If to Company:

Elekom Corporation  
Pacific First Plaza, Eighth Floor  
155 - 108th Avenue  
Bellevue, Washington 98004  
Attention: Norman Behar, President and CEO  
Facsimile: (425) 990-3075

With a copy (which shall not constitute notice) to:

Perkins Coie LLP  
411 - 108th Avenue N.E.  
Suite 1800  
Bellevue, Washington 98004-5584  
Attention: Kurt Becker  
Facsimile: (425) 453-7350

If to SFI:

Clarus Corporation, formerly known as SQL Financials  
International, Inc.  
3950 Johns Creek Court  
Suite 100  
Swan, Georgia 30024  
Attention: Stephen P. Jeffery, President and CEO  
Facsimile: (770) 291-8573

With a copy (which shall not constitute notice) to:

Womble Carlyle Sandridge & Rice, PLLC  
1275 Peachtree Street, N.E.  
Suite 700  
Atlanta, Georgia 30309  
Attention: G. Donald Johnson, Esq.  
Facsimile: (404) 888-7490

(b) If to the Shareholder Representative:

John Hummer

Hummer Winblad Venture Partners  
2 South Park, 2nd Floor  
San Francisco, CA 94107  
Attention: John Hummer  
Facsimile No.: (415) 979-9601

with a copy to:  
Kurt Becker  
Perkins Coie LLP  
Suite 1800, 411 - 108th Ave. N.E  
Bellevue, WA 98004-5584  
Attention: Kurt Becker  
Facsimile No.: (425) 453-6980

(c) If to Escrow Agent:  
Nations Bank, N.A.  
Peachtree Street, N.E.  
19th Floor  
Atlanta, Georgia 30308  
Attention: Sherry Siegwarth  
Facsimile No.: (404) 607-6343

Any party hereto may change its address specified for notices herein by designating a new address by notice in accordance with this Section 16.

17. Interpretation. This Agreement and Article IX of the Merger Agreement are to be read together. To the extent of any inconsistency between this Agreement and Article IX of the Merger Agreement, the terms and provisions of Article IX of the Merger Agreement shall control.

18. Tax Reporting. For purposes of tax reporting, all income earned on the funds in the Escrow shall be deemed to have been earned for the account of the party to whom the funds are disbursed, and Escrow Agent is authorized to act accordingly.

19. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

20. Governing Law and Jurisdiction. This Agreement shall be governed by and construed according to the laws of the State of Washington, without regard to any rules regarding choice of law. The exclusive jurisdiction for any action by any SFI Indemnitee against Shareholders, Preferred Shareholders, or with respect to the Escrow Funds shall be the state and federal courts situated in Hennepin County, Minnesota.

21. Defined Terms. Capitalized terms not otherwise defined herein shall have the meaning ascribed to such term in the Merger Agreement.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

ELEKOM CORPORATION            CLARUS CORPORATION, formerly  
known SQL Financials International, Inc.

By: /s/ Norman H. Behar

By: /s/ Arthur G. Walsh, Jr.

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Name: Norman Behar  
Title: President and CEO

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Name: Arthur G. Walsh, Jr.  
Title: Secretary

ESCROW AGENT:

NATIONSBANK, N.A.

By: /s/ Melinda M. Bergbom

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Name: Melinda M. Bergbom  
Title: Senior Vice President

PREFERRED SHAREHOLDERS:

/s/ Norman H. Behar

-----  
NORMAN BEHAR

EGGHEAD.COM, INC.

By: /s/ G. Orban

-----  
Name: George P. Orban  
Title: CEO

HUMMER WINBLAD VENTURE PARTNERS

By: /s/ John Hummer

-----  
Name: John Hummer  
Title: Partner

HUMMER WINBLAD TECHNOLOGIES FUND

By: /s/ John Hummer

-----  
Name: John Hummer  
Title: Partner

OLYMPIC VENTURE PARTNERS IV L.P.

By: OVMC IV, L.L.C., Its GP

-----  
By: /s/ Gerard H. Langelier

-----  
Name: Gerard H. Langelier  
Title: Its Managing Member

OVP IV ENTREPRENEURS FUND

By: OVMC IV, LLC, Its GP

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By: /s/ Gerard H. Langelier

-----  
Name: Gerard H. Langelier  
Title: Its Managing Member

LAZARUS FAMILY INVESTMENTS, LLC

By: /s/ Jonathon D. Lazarus

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Name: Jonathon D. Lazarus  
Title: Manager

## ESCROW AND INDEMNITY AGREEMENT

THIS ESCROW AND INDEMNITY AGREEMENT (the "Agreement") is made this 6th day of November, 1998, by and among Clarus Corporation, formerly known as SQL Financials International, Inc., a Delaware corporation ("SFI"), Elekom Corporation ("Elekom"), the undersigned former holders of preferred stock of Elekom as shown on Schedule 1 hereto (collectively the "Preferred Shareholders" and individually a "Preferred Shareholder"), and NationsBank, N.A. (the "Escrow Agent").

### WITNESSETH:

WHEREAS, SFI has entered into an Agreement and Plan of Reorganization dated as of August 31, 1998 (the "Merger Agreement") with Elekom Corporation, a Washington corporation ("Elekom") pursuant to which SFI has acquired all of the stock and going business of Elekom pursuant to a forward triangular merger (the "Merger"); and

WHEREAS, pursuant to the Merger Agreement, Elekom has agreed to place \$2.5 million of the cash proceeds of the Merger to its shareholders (the "Shareholders") in an escrow account to secure its obligations under Article IX of the Merger Agreement; and

WHEREAS, the Preferred Shareholders owned shares of preferred stock of Elekom and the Preferred Shareholders acknowledge and agree that the Merger and the payment of the merger consideration to the Preferred Shareholders by SFI is a direct and substantial benefit to the Preferred Shareholders; and

WHEREAS, as a material inducement to SFI to enter into the Merger Agreement and consummate the Merger, Elekom has agreed to cause each of the Preferred Shareholders to enter into this Agreement providing for indemnification of SFI for the obligations of Elekom under the Merger Agreement to the extent such obligations exceed the amount of the Escrow Funds (as defined below); and

NOW, THEREFORE, for and in consideration of the mutual agreements contained herein and other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged by each party, the parties hereto agree as follows:

1. Definitions. For purposes of this Agreement, the following terms have the meanings indicated below:

"Contesting Direction" means a written direction from the representative of the Shareholders appointed pursuant to Section 9 of this Agreement (the "Shareholder Representative"), which direction contests an SFI Direction in whole or in part and specifies the amount contested and the amount, if any, not contested. Each Contesting Direction must be delivered to the Escrow Agent in the manner set forth in Section 16 hereof, and copies of such direction must be delivered in like manner to SFI.

"Escrow Funds" has the meaning ascribed to such term in Section 2 hereof.

"Escrow Termination Date" means April 30, 2000.

"Estimated Indemnified Amount" means a good-faith estimate by SFI of an Indemnified Amount.

"SFI Direction" means a written direction from SFI specifying that a claim referred to in Article IX of the Merger Agreement and covered by a particular Notice of Claim has been made, and further specifying the aggregate Indemnified Amount. Each SFI Direction must be delivered to the Escrow Agent in the manner set forth in Section 16 hereof, and copies of such direction must be delivered in like manner to the Shareholder Representative.

"Indemnification Holdback" has the meaning ascribed to such term in Section 4.1 hereof.

"Indemnified Amount," with respect to any Notice of Claim, means the aggregate amount of indemnification determined to be due to SFI pursuant to

Article IX of the Merger Agreement.

"Joint Direction" means a written direction relating to (i) a Notice of Claim, (ii) the investment of the Escrow Funds, or (iii) removal of the Escrow Agent in accordance with Section 15 hereof, in each case executed by SFI and the Shareholder Representative, and delivered to the Escrow Agent in the manner set forth in Section 16 hereof.

"Notice of Claim" means a written notice from SFI delivered to the Escrow Agent and the Shareholder Representative in the manner set forth in Section 16 hereof on or before the Escrow Termination Date, specifying that facts exist which may give rise to an indemnifiable claim under Article IX of the Merger Agreement, also specifying the Estimated Indemnified Amount and describing in reasonable detail the nature of the matter or matters covered by the Notice of Claim and the Estimated Indemnified Amount.

2. Establishment of Escrow. On the date hereof, concurrently with the closing of the Merger, SFI has deposited with Escrow Agent the sum of US Two Million Five Hundred Thousand Dollars (\$2,500,000.00) in immediately available funds (the "Escrow Funds"), which sum Escrow Agent hereby accepts and agrees to hold for Shareholders in escrow subject to the terms of this Escrow Agreement (the "Escrow"). Escrow Agent hereby confirms to SFI, Shareholders and the Preferred Shareholders receipt by Escrow Agent of the Escrow Funds. The Escrow Funds represent a portion of the merger consideration paid to the Shareholders in the Merger and has been withheld from the cash consideration received by such Shareholders pursuant to the terms of Section 1.5 of the Merger Agreement in order to secure the obligations of Elekom pursuant to Article IX of the Merger Agreement.

3. Investment of the Funds. During the period specified in this Agreement, the Escrow Agent shall hold the Escrow Funds (i) in an interest-bearing account or other investment vehicle specified by Elekom, with a maturity no greater than thirty (30) days and which is backed by the United States Government or such financial institutions insured by the Federal Deposit Insurance Corporation, having a net worth of not less than US One Hundred Million Dollars (\$100,000,000) or (ii) in such other account or investment as may be specified in a Joint Direction. The payments of interest on such account and other distributions thereon shall be

added to and become a part of the Escrow Funds. Any and all interest which may be earned and received on the Escrow Funds shall be for the account of the Shareholders and shall not constitute part of the Escrow Funds.

4. Administration of Escrow Funds

4.1 Claims Against Escrow Funds

If, on or before the Escrow Termination Date, the Escrow Agent receives a Notice of Claim from SFI, then, in each instance in which such a Notice of Claim is received, the Escrow Agent shall, from and after its receipt of that Notice of Claim, hold the portion of the Escrow Funds equal to the Estimated Indemnified Amount or the remainder of the Escrow Funds should it be less than the Estimated Indemnified Amount (the "Indemnification Holdback") until such time (whether before or after the Escrow Termination Date) as the conditions of Section 4.2 hereof have been complied with as to such Notice of Claim.

4.2 Distributions

4.2.1 Distributions on Joint Direction

If at any time, or from time to time, prior to, or on the Escrow Termination Date, the Escrow Agent receives a Joint Direction regarding a Notice of Claim, the Escrow Agent shall comply with such Joint Direction.

4.2.2 Distribution on SFI Direction

(a) If at any time, or from time to time, prior to, or on the Escrow Termination Date, the Escrow Agent receives an SFI Direction, and if the Escrow Agent does not within 30 days after the date of its receipt of that SFI Direction receive a related Contesting Direction, then the Escrow Agent shall, within 3 business days after such 30th day and after confirmation with SFI of

the amount, pay to SFI the Indemnified Amount, as specified in the SFI Direction, or the remainder of the Escrow Funds should it be less than the Indemnified Amount.

(b) If the Escrow Agent does receive a Contesting Direction within such 30-day period, then it shall (i) within 10 days of the receipt of such Contesting Notice, distribute to SFI such portion of the Indemnified Amount which is not disputed in the Contesting Direction (or the remainder of the Escrow Funds should it be less than such undisputed portion of the Indemnified Amount) and (ii) continue to hold any Indemnification Holdback amount necessary to cover any disputed portion of the Indemnified Amount until such time as the Escrow Agent receives either a Joint Direction, or a notice from SFI or the Shareholder Representative directing the Escrow Agent with respect to the disbursement, release or any other disposition of the amount of the Indemnification Holdback accompanied by a copy of the final order, judgment or decree from a court of competent jurisdiction with respect to such claim, and the Escrow Agent has received an opinion of legal counsel (the reasonable fees and cost for which shall be an additional Loss hereunder) acceptable to the Escrow Agent that as to such order, judgment or decree all rights of appeal have expired or been waived. Within 5 days of the receipt by the Escrow Agent of such

Joint Direction or such notice and legal opinion contemplated by the immediately preceding sentence, the Escrow Agent shall distribute to SFI or the Shareholder Representative (as specified in such Joint Direction or such notice) the Indemnified Amount specified in such Joint Direction or the amount contemplated by such notice, as the case may be, or the remainder of the Escrow Funds should it be less.

#### 4.2.3 Distributions on Escrow Termination Date

On the Escrow Termination Date, without further notice or request, the Escrow Agent shall distribute to the Shareholder Representative on behalf of the Shareholders of Elekom in the manner set forth in Section 4.3 hereof any amounts remaining in the Escrow Funds which are not subject to Indemnification Holdback. Amounts remaining in the Escrow Funds which are subject to Indemnification Holdback will be distributed when the conditions of Section 4.2.2 hereof are satisfied.

#### 4.4 Distributions to the Shareholder Representative and SFI

In the event that the Escrow Agent is required to distribute any part of the Escrow Funds to the Shareholder Representative or SFI, the Escrow Agent will make payment, by issuance of its check, delivered by first class or overnight mail address set forth in Section 16 hereof, representing an amount equal to the total amount then to be distributed from the Escrow Funds.

#### 5. Indemnification.

Indemnification. Subject to the requirements, limitations, and exclusions and further provisions in Article IX of the Merger Agreement and this Agreement, Elekom shall to the extent of the Escrow Funds, and the Preferred Shareholders listed on Schedule 9.1 to the Merger Agreement (the Company, together with the Preferred Shareholders are the "Indemnitors") shall severally in proportion to the percentages set forth on Schedule 9.1 to the Merger Agreement, indemnify, defend and hold harmless SFI and its officers, directors and affiliates (the "SFI Indemnitees") from, against, and with respect to any and all action or cause of action, loss, damage, claim, obligation, liability, penalty, fine, cost and expense (including without limitation reasonable attorneys' and consultants' fees and costs and expenses incurred in investigating, preparing, defending against or prosecuting any litigation, claim, proceeding, demand or request for action by any governmental or administrative entity), of any kind or character (a "Loss") arising out of or in connection with any of the following:

(a) any breach of any of the representations or warranties of Elekom contained in or made pursuant to the Merger Agreement or any of the representations and warranties of the respective Preferred Shareholder in any other Elekom Agreement (defined in the Merger Agreement);

(b) any failure by Elekom or the respective Preferred Shareholder to perform or observe, or to have performed or observed, in full, any covenant, agreement or condition to be performed or observed by it pursuant to the Merger Agreement or any Elekom Agreement;

(c) any breach by Elekom of any representation set forth in Section 2.14 in the Merger Agreement (an "IP Claim");

(d) any claim by a Shareholder relating to the allocation by Elekom of the cash and stock consideration to be received by each Shareholder in connection with the Merger;

(e) any amount that shall have been paid by SFI to Shareholders in respect of shares of Elekom with respect to which dissenters' rights have been perfected that shall be in excess of the amount of the value, as of the closing date of the Merger, of the consideration such Shareholders would have received for such shares in the Merger if they had not exercised dissenters' rights plus any fees and expenses incurred by SFI Indemnitees in connection with defense of such dissenters' rights claim.

Notwithstanding anything herein to the contrary, the liability of the Preferred Shareholders hereunder will not be greater than the liability of Elekom under Article IX of the Merger Agreement.

6. Notice of Claim. Any SFI Indemnitee seeking to be indemnified pursuant to Section 5 hereof shall, within fifteen (15) days following discovery of a Loss (or 5 days if the SFI Indemnitee has been served with a lawsuit or other proceeding), notify the Shareholder Representative with a Notice of Claim. Each SFI Indemnitee will serve such Notice of Claim prior to initiating any court action seeking to enforce any such right to indemnification. The SFI Indemnitee shall provide to the Shareholder Representative as promptly as practicable thereafter all information and documentation reasonably requested by the Shareholder Representative to verify the claim for indemnification asserted. Following receipt of such notice (i) the Preferred Shareholders will then have the opportunity to discuss with the SFI Indemnitees the steps the Preferred Shareholders plan to take to mitigate any alleged Loss (defined in Section 5) SFI may have suffered and (ii) prior to SFI initiating such court action, the Preferred Shareholders will be given a reasonable period of time (not to exceed 30 days following receipt of such notice without the written agreement of SFI to cure completely the events giving rise to such alleged Losses (if such events are capable of being cured completely); provided, however, that Elekom and the Preferred Shareholders shall remain liable, to the extent set forth in the Merger Agreement, for Losses actually incurred. The procedures set forth in Section 7 shall govern Third-Party Claims.

7. Defense. If a claim by a third party (a "Third Party Claim") is made against an SFI Indemnitee arising out of a matter for which the SFI Indemnitee is entitled to be indemnified pursuant to Section 5 hereof, the Preferred Shareholders may elect to assume the defense or the prosecution thereof. The Preferred Shareholders shall have 30 days (which shall be shortened to 15 days in the case of a commenced lawsuit or proceeding) after receipt of a Notice of Claim to undertake to conduct and control, through counsel of their own choosing as designated by the Shareholder Representative and at their sole risk and expense, the good faith settlement or defense of such claim, and the SFI Indemnitee(s) shall cooperate fully with the Preferred Shareholders in connection therewith; provided that the SFI Indemnitee(s) shall be entitled to participate in such settlement or defense through counsel chosen by it, provided that the fees and expenses of such counsel shall be borne by the SFI Indemnitee(s); and provided further that the

Preferred Shareholders can only assume the defense if (a) the amount of the Third Party Claim does not exceed the amount of the Escrow Funds held hereunder or (b) the Preferred Shareholders provide commercially reasonable evidence that the Preferred Shareholders will have sufficient financial resources to defend the claim and satisfy their indemnification obligations. During the interim the SFI Indemnitee shall use its best efforts to take all action (not including settlement) reasonably necessary to protect against further damage or loss with respect to the alleged Loss. The Preferred Shareholders shall obtain the written consent of the SFI Indemnitee prior to ceasing to defend, settling or otherwise disposing of such claim if as a result thereof the SFI Indemnitee would become subject to injunctive, declaratory or other equitable relief or the business of the SFI Indemnitee would be materially adversely affected in any manner. Whether or not the Preferred Shareholders choose so to defend or prosecute such claim,

all the parties hereto shall cooperate in the defense or prosecution thereof and shall furnish such records, information and testimony and shall attend such conferences, discovery proceedings and trials as may be reasonably requested in connection therewith. Such cooperation shall include the retention and the provision of records and information which are reasonably relevant to such Third Party Claim, and making employees available on a mutually convenient basis to provide additional information. The Preferred Shareholders shall not be liable for any settlement of any such claim effected without their prior written consent, which shall not be unreasonably withheld. However, if the Preferred Shareholders, fail to defend such claim within the time period necessary to preserve the rights and defense of the SFI Indemnitee, the SFI Indemnitee will have the right to undertake the defense, compromise or settlement of such claim on behalf of and for the account and risk of the Preferred Shareholders, subject to the right of the Preferred Shareholders to assume the defense of such claim at any time within the 30-day time period after receiving Notice of Claim .

If a claim is based on any suit or proceeding by a third party for infringement which gives rise to an IP Claim (defined in Section 5) resulting in SFI's use of the Software (defined in Section 2.14 of the Merger Agreement) being enjoined or otherwise restricted, the Preferred Shareholders, if the Preferred Shareholders elect through the Shareholder Representative to assume defense of such proceeding after receiving notice hereunder, shall be entitled at their sole expense to do any of the following: (i) procure for SFI, Clarus CSA, Inc. and their licensees the unrestricted right to continue using the Software, (ii) modify the Software so that it becomes noninfringing, (iii) settle the third party's infringement claim in a manner that gives SFI, Clarus CSA, Inc. and their licensees the unrestricted rights to the software being enjoined or otherwise restricted, or (iv) pay the indemnified party's claim as provided in this Agreement, provided that any settlement under this sentence shall require SFI's prior written approval which shall not be unreasonably withheld. SFI shall comply with any settlement or court order made in connection with such proceeding in the foregoing sentence provided that such compliance by SFI shall not limit the Preferred Shareholder's indemnification obligations hereunder. No Preferred Shareholder shall be liable for any settlement of any such claim effected without its prior written consent, which shall not be unreasonably withheld. Before any claim may be brought against any of the Preferred Shareholders hereunder, or under the Merger Agreement, all the Escrow Funds shall be used first to pay any claims made under Article IX of the Merger Agreement or this Agreement, and SFI hereby authorizes the Preferred Shareholders to settle such claims without consent of SFI to the extent the Escrow Funds will fully satisfy such claim. Preferred

Shareholders may also settle any claim for which they are liable hereunder without consent of SFI so long as the payment or performance does not either (y) exhaust the Escrow Funds or (y) exceed the maximum liability amounts set forth below. Settlements requiring performance or payment in excess of the maximum liability amounts shall require SFI's prior written consent.

#### 8. Limitations.

The obligations of Elekom or any Preferred Shareholder to indemnify any SFI Indemnitees pursuant to Article IX of the Merger Agreement shall accrue only after and to the extent the aggregate dollar amount of Losses incurred by an Indemnified Party for all matters indemnifiable thereunder exceeds One Hundred Thousand Dollars (US \$100,000) (the "Basket"), and then Indemnitors shall be only liable for such Losses in excess of \$100,000. In addition, no single Loss in an amount of less than \$10,000 may be applied to the Basket until such threshold amount is reached, and thereafter, single claims of less than \$10,000 must be aggregated so that no claim is made for an amount of less than \$10,000 singly or in the aggregate. The obligations of the Indemnitors to indemnify the SFI Indemnitees under this Agreement shall not exceed the \$2,500,000 placed in escrow hereunder for claims for indemnification other than (a) IP Claims, which are addressed below, or (b) claims for indemnification related to a breach of the representations contained in Section 2.1 of the Merger Agreement. Notwithstanding anything in this Agreement to the contrary, the aggregate maximum liability of the Indemnitors, for IP Claims shall not exceed (i) Twelve Million Five Hundred Thousand Dollars (\$12,500,000) for any IP Claims plus the remaining amount of the Escrow Funds and no IP Claims may be made after the expiration of the one (1) year period following the Closing Date of the Merger.

This Agreement and Article IX of the Merger Agreement set forth the sole

and exclusive remedy of an SFI Indemnitee for breaches of any representation, warranty, or covenant under the Merger Agreement absent fraud or securities law violations.

The maximum liability for claims for breach of the representation and warranty in Section 2.1 in the Merger Agreement is the purchase price (cash paid by SFI to Elekom's Shareholders at closing of the Merger plus the market value of the shares transferred by SFI at closing of the Merger to the Elekom's Shareholders), minus the amount of the cash transferred to SFI from the Escrow Funds pursuant to this Agreement, further reduced by the aggregate amount paid by Elekom and the Preferred Shareholders in connection with all claims for breach of the representations and warranties made under Sections 2.14, 2.19, and 2.23(b) of the Merger Agreement. The maximum liability for claims for breach of the representations or warranties in Sections 2.19, and 2.23(b) of the Merger Agreement is equal to the purchase price (cash paid by SFI to Elekom's shareholders at closing plus the market value of the shares transferred by SFI at Closing to the Elekom's shareholders), minus the amount of the cash transferred to SFI from the Escrow Funds, further reduced by the aggregate amount paid by Elekom and Preferred Shareholders in connection with all claims for breach of the representations and warranties made under Sections 2.1 or 2.14.

Notwithstanding anything in this Agreement to the contrary, no Preferred Shareholders will have any liability for any claim that the Software infringes the rights of a third party to the extent the claims arise from modification of the Software by SFI after the Closing of the Merger

or to the extent the infringement claim arises out of a combination of the Software with a program, product or material not transferred to SFI's subsidiary as of the Closing of the Merger. In no event (except as specifically provided below) will any Preferred Shareholder have any liability for indirect, incidental, exemplary, or consequential damages whatsoever (including, without limitation, damages for loss of profits, loss of data or other business information) or cover arising under the Merger Agreement, even if the Preferred Shareholder has been advised of the possibility of such damages; provided, however, that although this sentence excludes claims for the lost profits, it does not limit the liability of any Preferred Shareholder hereunder to an SFI Indemnitee for indirect, incidental, exemplary or consequential damages to the extent such damages, including lost profits, are included in a claim by a third party against the SFI Indemnitee or arise as a result of such third party claim that the Software is infringing, or claim of ownership rights in the Software (excluding Third Party Software), and to the extent indemnification under the Merger Agreement covers such third party claims. Notwithstanding the foregoing, an SFI Indemnitee shall have the right to recover for direct out-of-pocket expenses, including its direct, demonstrable internal costs (without overhead) and/or external costs paid by such SFI Indemnitee to remediate any Loss, whether or not such Loss arises in connection with a Third Party Claim.

9. Casahl Litigation. Elekom will endeavor to seek an indemnification of the SFI and the Shareholders from Egghead.com, Inc. ("Egghead.com") covering the claims in the litigation commenced by Elekom and Egghead Software, Inc. (now known as Egghead.com) under Case No. 987331 pending in the Superior Court of California for the County of San Francisco (the "Casahl Litigation"). Before taking any action against the Preferred Shareholders (other than Egghead.com) with respect to any Loss arising from the Casahl Litigation, SFI and Clarus CSA, Inc. each agree to use their reasonable best efforts to enforce the following with respect to the Casahl Litigation:

(a) The Separation Agreement, dated November 10, 1997, between Egghead Software, Inc., now know as Egghead.com, Inc. and Elekom;

(b) Any reaffirmation by Egghead.com of the obligation in the last sentence of Section 4.02(a) of the Separation Agreement (in favor of Elekom, Clarus CSA, Inc. or SFI);

(c) Any other agreement with Egghead.com in which it agrees to defend, indemnify, and hold harmless Elekom, its past, present and future, successor and assigns, officers and directors, common shareholders (specifically excluding past Shareholder Egghead.com and specifically including future common shareholder Parent), the Preferred Shareholders (other than Egghead.com), agents, and employees, to the extent Elekom,

Clarus CSA, Inc., or SFI is made a beneficiary of such agreement, from and against any cost, expense, loss, liability whatsoever arising in connection with the Casahl Litigation.

If, after notice to Egghead.com by SFI and Clarus CSA, Inc., Egghead.com fails or refuses to honor its indemnity, or other obligations to Elekom, its past, present and future, successors and assigns, officers and directors, agents, employees, and, after the Effective Time, SFI, then to the

extent Elekom or an SFI Indemnitee suffers a Loss as a result of the Casahl Litigation notwithstanding any of the above, then in such event each of the Preferred Shareholders identified on Schedule 9.6 to the Merger Agreement (other than Egghead.com), severally in proportion which they bear to each other excluding Egghead.com based on the percentage set forth in Schedule 9.6 to the Merger Agreement, agree to defend, indemnify, and hold harmless an SFI Indemnitee from and against any cost, expense, loss or liability resulting from the Casahl Litigation. The indemnity obligations set forth in this Section 9 are in addition to Section 5 and are not subject to the limitations set forth in Section 8. Except as set forth in Section 10(a), payments made hereunder this Section 9 by a Preferred Shareholder shall not be reimbursed from Escrow Funds nor count toward the maximum liability of Elekom or a Preferred Shareholder. In the event that a Preferred Shareholder fails to pay any amount due hereunder, such amount may be withdrawn from the Escrow Funds by an SFI Indemnitee to the extent of that Preferred Shareholder's proportionate share in the Escrow Funds after giving effect to Section 10(b) of this Agreement.

#### 10. Disbursements at Escrow Termination Date.

(a) Fees or Expenses of Preferred Shareholder. After April 30, 2000, all fees, expenses and costs of any kind (including, without limitation, attorneys' fees and costs) incurred by any Preferred Shareholder in defense of any claim indemnified hereunder shall be reimbursed from the remaining Escrow Funds before any such funds are distributed to Shareholders.

(b) Distributions on Account of Common Shareholdings of Elekom. After making the distributions described in Section 10(a), holders of Elekom's Common Shares as of the date of the Closing of the Merger Agreement will receive a distribution of the proportionate share of the Escrow Funds, which they would have received from the Escrow Funds in the event no Notice of Claim had been asserted by any SFI Indemnitee hereunder asserting a claim to the Escrow Funds.

(c) Distributions on Account of Preferred Shareholdings of Elekom. After making the distributions described in section 10(b), holders of Elekom's Preferred Shares as of the date of the Closing of the Merger Agreement will receive a distribution of the remaining funds in the Escrow Funds in the proportions set forth on Schedule 9.1 to the Merger Agreement.

11. Appointment of Shareholder Representative. Elekom and the Shareholders hereby appoint John Hummer, or his designated successor agreeable to Preferred Shareholders holding more than fifty percent (50%) of the potential liability set forth on Exhibit A, to serve as Shareholder Representative for all purposes pertaining to this Agreement, who shall be authorized to make all decisions and elections of the Shareholders hereunder and agree that the SFI Indemnitees shall be entitled to rely on all actions, decisions, and notice of the Shareholder Representative. The Shareholder Representative has been appointed by Elekom and the Shareholders as their attorney-in-fact, for the giving and receipt on their behalf of all notices, instructions and deliveries and for the taking on their behalf of all other actions under this Agreement and the Merger Agreement, to serve in such capacity until such time as SFI and the Escrow Agent have received joint written notice from all Shareholders that they have appointed a

new Shareholders Representative. Accordingly, except as otherwise set forth herein and the Merger Agreement, the Shareholder Representative has unlimited authority and power to act on behalf of the Shareholders with respect to this Agreement and the disposition, settlement or other handling of all claims, rights or obligations arising hereunder, provided such actions by the Shareholder Representative are taken in good faith in the exercise of reasonable judgment. Except as otherwise set forth herein, the Shareholder shall be bound by all actions taken by the Shareholder Representative in connection with this

Agreement, and the Escrow Agent, Elekom and SFI shall be entitled to rely on any action or decision of the Shareholder Representative in accordance herewith. The Shareholder Representative shall be entitled to reimbursement out of the remaining amount of Escrow Funds on the Escrow Termination Date, prior to distribution of such funds, for any reasonable out-of-pocket expenses incurred by the Shareholder Representative in connection with the performance of the representation duties under this Agreement or the Merger Agreement, including, without limitation, legal fees and expenses. No bond shall be required of the Shareholders Representative, and the Shareholders Representative shall not receive compensation for his or her services. The Shareholder Representative shall not be liable for any act done or omitted hereunder as Shareholder Representative while acting in good faith and in the exercise of reasonable judgment. The Shareholders on whose behalf the Escrow Funds were contributed to the Escrow shall severally indemnify the Shareholders Representative and hold the Shareholders Representative harmless against any loss, liability or expense incurred without gross negligence or bad faith on the part of the Shareholders Representative and arising out of or in connection with the acceptance or administration of the Shareholders Representative's duties hereunder, including the reasonable fees and expenses of any legal counsel retained by the Shareholders Representative in connection with his representation of Shareholders.

12. Remedies. The SFI Indemnitees need not exhaust any other remedies that may be available to them but may proceed directly in accordance with the provisions of this Agreement; provided, that SFI Indemnitees must first pursue recourse to the Escrow Funds before asserting any claim against any Preferred Shareholder based on Article IX of the Merger Agreement. The SFI Indemnitees may institute claims against the Escrow Funds and in satisfaction thereof may recover Escrow Funds, in accordance with the terms of the Merger Agreement and this Agreement, without making any other claims directly against the Shareholders and without rescinding or attempting to rescind the transactions consummated pursuant to the Merger Agreement. The assertion of any single claim for indemnification hereunder will not bar the SFI Indemnitees from asserting other claims hereunder. All rights and remedies provided to the SFI Indemnitees hereunder shall be cumulative and shall be in addition to any other rights or remedies available to such party at law, in equity, by contract or otherwise.

13. Fees and Expenses. Escrow Agent shall be entitled to its customary fees for its services hereunder, and to reimbursement of all out-of-pocket expenses incurred, including reasonable attorney's fees, which fees and expenses shall be borne by SFI.

14. Limited Duties; Indemnification. Escrow Agent shall have no responsibilities to SFI or the Shareholders except those specifically set forth herein, and, in performing any of its duties under this Agreement, or upon the claimed failure to perform its duties hereunder, the

Escrow Agent shall not be liable for any acts taken or omitted to be taken by it except for its own gross negligence or willful misconduct. Accordingly, the Escrow Agent shall be entitled to rely conclusively on any notice, authorization or other document delivered to it hereunder and believed by it to be genuine, and may, at its discretion, obtain the advice of counsel with respect to any matter relating hereto and shall not incur any liability with respect to (i) any action taken or omitted to be taken in good faith upon advice of its counsel, or (ii) any action taken or omitted to be taken in reliance upon any such notice, authorization or other document believed to be genuine. Escrow Agent shall not be under any obligation to institute legal proceedings of any kind with respect hereto, and SFI and the Preferred Shareholders hereby jointly and severally agree to hold Escrow Agent harmless in respect of any claim, suit or proceeding based upon this Agreement or any act taken or not taken by Escrow Agent hereunder, other than with respect to Escrow Agent's gross negligence or willful misconduct. Provided, however, in the event of any dispute regarding the proper distribution of the Escrow Funds, Escrow Agent shall be entitled to file an interpleader action to tender the Escrow Funds into the registry or custody of any court of competent jurisdiction, whereupon the Escrow Agent shall be discharged from any further duty hereunder. The provisions of this Section shall survive any resignation of the Escrow Agent or the termination of this Agreement.

15. Removal and Resignation. Escrow Agent agrees that SFI and the Shareholders may, by their agreement, at any time remove Escrow Agent as escrow

agent hereunder, and substitute another person or entity as escrow agent, in which event Escrow Agent shall, upon receipt of a Joint Direction requesting such removal, account for and deliver to such substituted escrow agent all amounts held in the Escrow, and Escrow Agent shall thereafter be discharged from its duties hereunder. Escrow Agent may resign from serving as escrow agent hereunder by written notice to such effect given to SFI and the Shareholder Representative, whereupon SFI and the Shareholder Representative shall agree upon a successor escrow agent and shall so notify Escrow Agent, which shall then account for and deliver to such successor all amounts held in the Escrow, and such resignation shall thereupon be effective. If no successor escrow agent is agreed upon within a reasonable time after such notice is given, the Escrow Agent shall be entitled to tender into the registry or custody of any court of competent jurisdiction the Escrow Funds, together with such legal proceedings as the Escrow Agent deems appropriate, and thereupon the Escrow Agent shall be discharged from all further duties hereunder.

16. Notices. All notices, demands and other communications required or permitted hereunder shall be in writing and may be telexed or telecopied, which shall be followed forthwith by letter, and such notice, request, demand or other communication shall be deemed to have been received on the next business day following dispatch and acknowledgment of receipt by the recipient's telex or telecopy machine. In addition, notices hereunder may be delivered by hand, in which event the notice shall be deemed effective when delivered, or by overnight courier, in which event the notice shall be deemed to have been received on the next business day following delivery to such courier. Notices, requests, demands and other communications may not be given by regular or certified mail. All notices and other communications under this Agreement shall be given to the parties hereto at the following addresses:(or such other address for a party as shall be specified by like notice):

If to Company:

Elekom Corporation  
Pacific First Plaza, Eighth Floor  
155 - 108th Avenue  
Bellevue, Washington 98004  
Attention: Norman Behar, President and CEO  
Facsimile: (425) 990-3075

With a copy (which shall not constitute notice) to:

Perkins Coie LLP  
411 - 108th Avenue N.E.  
Suite 1800  
Bellevue, Washington 98004-5584  
Attention: Kurt Becker  
Facsimile: (425) 453-7350

If to SFI:

Clarus Corporation, formerly known as SQL Financials  
International, Inc.  
3950 Johns Creek Court  
Suite 100  
Swan, Georgia 30024  
Attention: Stephen P. Jeffery, President and CEO  
Facsimile: (770) 291-8573

With a copy (which shall not constitute notice) to:

Womble Carlyle Sandridge & Rice, PLLC  
1275 Peachtree Street, N.E.  
Suite 700  
Atlanta, Georgia 30309  
Attention: G. Donald Johnson, Esq.  
Facsimile: (404) 888-7490

(b) If to the Shareholder Representative:

John Hummer

Hummer Winblad Venture Partners  
2 South Park, 2nd Floor  
San Francisco, CA 94107  
Attention: John Hummer  
Facsimile No.: (415) 979-9601

with a copy to:  
Kurt Becker  
Perkins Coie LLP  
Suite 1800, 411 - 108th Ave. N.E  
Bellevue, WA 98004-5584  
Attention: Kurt Becker  
Facsimile No.: (425) 453-6980

(c) If to Escrow Agent:  
Nations Bank, N.A.  
Peachtree Street, N.E.  
19th Floor  
Atlanta, Georgia 30308  
Attention: Sherry Siegwarth  
Facsimile No.: (404) 607-6343

Any party hereto may change its address specified for notices herein by designating a new address by notice in accordance with this Section 16.

17. Interpretation. This Agreement and Article IX of the Merger Agreement are to be read together. To the extent of any inconsistency between this Agreement and Article IX of the Merger Agreement, the terms and provisions of Article IX of the Merger Agreement shall control.

18. Tax Reporting. For purposes of tax reporting, all income earned on the funds in the Escrow shall be deemed to have been earned for the account of the party to whom the funds are disbursed, and Escrow Agent is authorized to act accordingly.

19. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

20. Governing Law and Jurisdiction. This Agreement shall be governed by and construed according to the laws of the State of Washington, without regard to any rules regarding choice of law. The exclusive jurisdiction for any action by any SFI Indemnitee against Shareholders, Preferred Shareholders, or with respect to the Escrow Funds shall be the state and federal courts situated in Hennepin County, Minnesota.

21. Defined Terms. Capitalized terms not otherwise defined herein shall have the meaning ascribed to such term in the Merger Agreement.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

ELEKOM CORPORATION            CLARUS CORPORATION, formerly  
known SQL Financials International, Inc.

By: /s/ Norman H. Behar

By: /s/ Arthur G. Walsh, Jr.

-----  
Name: Norman Behar  
Title: President and CEO

-----  
Name: Arthur G. Walsh, Jr.  
Title: Secretary

ESCROW AGENT:

NATIONSBANK, N.A.

By: /s/ Melinda M. Bergbom

-----  
Name: Melinda M. Bergbom  
Title: Senior Vice President

PREFERRED SHAREHOLDERS:

/s/ Norman H. Behar

-----  
NORMAN BEHAR

EGGHEAD.COM, INC.

By: /s/ G. Orban

-----  
Name: George P. Orban  
Title: CEO

HUMMER WINBLAD VENTURE PARTNERS

By: /s/ John Hummer

-----  
Name: John Hummer  
Title: Partner

HUMMER WINBLAD TECHNOLOGIES FUND

By: /s/ John Hummer

-----  
Name: John Hummer  
Title: Partner

OLYMPIC VENTURE PARTNERS IV L.P.

By: OVMC IV, L.L.C., Its GP

-----  
By: /s/ Gerard H. Langelier

-----  
Name: Gerard H. Langelier  
Title: Its Managing Member

OVP IV ENTREPRENEURS FUND

By: OVMC IV, LLC, Its GP

-----  
By: /s/ Gerard H. Langelier

-----  
Name: Gerard H. Langelier  
Title: Its Managing Member

LAZARUS FAMILY INVESTMENTS, LLC

By: /s/ Jonathon D. Lazarus

-----  
Name: Jonathon D. Lazarus  
Title: Manager

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