

DALEEN TECHNOLOGIES INC

Form DEF 14A

November 20, 2002

**SCHEDULE 14A  
(RULE 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(a)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

DALEEN TECHNOLOGIES, INC.

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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- Fee paid previously with preliminary materials.

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- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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November 20, 2002

Dear Stockholder:

You are cordially invited to attend a Special Meeting of Stockholders of Daleen Technologies, Inc. to be held on December 20, 2002, at our offices located at 902 Clint Moore Road, Suite 230, Boca Raton, Florida 33487. The meeting will begin promptly at 9:00 a.m., local time.

At the special meeting, you will be asked to consider and approve (i) an asset purchase agreement dated October 7, 2002, between us, Daleen Solutions, Inc., one of our indirect, wholly-owned subsidiaries, and Abiliti Solutions, Inc. and the transactions contemplated thereby, whereby Daleen Solutions will purchase substantially all of the assets and assume certain of the liabilities of Abiliti in exchange for shares of our common stock, series F convertible preferred stock and warrants to purchase additional shares of common stock, and (ii) an investment agreement dated October 7, 2002, between us, Behrman Capital II, L.P., and Strategic Entrepreneur Fund II, L.P., and the transactions contemplated thereby, pursuant to which we will sell to Behrman Capital and Strategic Entrepreneur Fund in a private placement transaction shares of our common stock, series F convertible preferred stock and warrants to purchase additional shares of common stock. Behrman Capital and Strategic Entrepreneur Fund will pay an aggregate purchase price of \$5.015 million in the private placement.

In a related proposal, we are asking you to approve amendments to our Certificate of Incorporation to increase the number of authorized shares of our series F convertible preferred stock and to amend the terms of the series F convertible preferred stock so that the transactions contemplated by the asset purchase agreement and the investment agreement will not cause an adjustment to the conversion price of the series F convertible preferred stock or give rise to any redemption rights in favor of the holders of series F convertible preferred stock.

Our stockholders must approve each of the foregoing proposals as described in Proposals 1, 2 and 3 in the attached proxy statement in order for Daleen to consummate the asset purchase and the private placement.

Our board of directors carefully considered the proposed asset purchase and the private placement and recommends that you vote in favor of these transactions, as well as the other matters to be voted upon at the special meeting. The accompanying proxy statement provides detailed information about the transactions and the other matters to be voted upon at the special meeting.

**Whether or not you plan to attend the special meeting in person, it is important that your shares be represented and voted at the meeting. Please date, sign, and return your appropriate proxy card(s) promptly in the enclosed envelope to assure that your shares will be represented and voted at the special meeting, even if you cannot attend. If you attend the special meeting, you may vote your shares in person even though you have previously signed and returned your proxy card.**

On behalf of your board of directors, thank you for your continued support of and interest in Daleen Technologies, Inc.

Sincerely,

JAMES DALEEN

*Chairman, President and Chief Executive Officer*

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**DALEEN TECHNOLOGIES, INC.**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**To Be Held December 20, 2002**

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders of Daleen Technologies, Inc. will be held at our offices located at 902 Clint Moore Road, Suite 230, Boca Raton, Florida 33487, on December 20, 2002, at 9:00 a.m., local time, for the following purposes:

- (1) To approve an asset purchase agreement between us, Daleen Solutions, Inc., and Abiliti Solutions, Inc. and the transactions contemplated thereby, including the issuance by us to Abiliti of shares of our common stock, series F convertible preferred stock and warrants to purchase additional shares of common stock;
- (2) To approve an investment agreement between us, Behrman Capital II, L.P., and Strategic Entrepreneur Fund II, L.P. and the transactions contemplated thereby, including the issuance and sale by us in a private placement to Behrman Capital and Strategic Entrepreneur Fund of shares of common stock, series F convertible preferred stock and warrants to purchase additional shares of common stock for an aggregate purchase price of approximately \$5.015 million and the adoption of a new Long-Term Incentive Compensation Plan;
- (3) To approve an amendment to our Certificate of Incorporation to (i) increase our authorized shares of series F convertible preferred stock from 356,950 shares to 588,312 shares, and (ii) amend the terms of the series F convertible preferred stock to provide that the transactions contemplated by the asset purchase agreement and investment agreement will not (A) result in an adjustment to the conversion price of the series F convertible preferred stock or (B) give rise to redemption rights in favor of the holders of series F convertible preferred stock; and
- (4) To transact such other business as may properly come before the meeting or any adjournment thereof.

Only the holders of record of our common stock and series F convertible preferred stock at the close of business on November 12, 2002, are entitled to notice of and to vote at the special meeting and any adjournment thereof. A list of stockholders as of the close of business on November 12, 2002, will be available at the special meeting for examination by any stockholder, stockholder's agent, or stockholder's attorney.

Your attention is directed to the proxy statement provided with this Notice.

By Order of the Board of Directors,

JAMES DALEEN

*Chairman, President and Chief Executive Officer*

Boca Raton, Florida  
November 20, 2002

**WHETHER OR NOT YOU EXPECT TO ATTEND THE SPECIAL MEETING, PLEASE COMPLETE, SIGN AND DATE THE APPLICABLE ENCLOSED PROXY CARD(S) AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE, WHICH DOES NOT REQUIRE ANY POSTAGE IF MAILED IN THE UNITED STATES. IF YOU ATTEND THE MEETING, YOU MAY REVOKE THE PROXY AND VOTE YOUR SHARES IN PERSON.**

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Except as otherwise specifically noted, references to Daleen, we, our, us and similar words in this proxy statement refer to Daleen Technologies, Inc. References to Daleen Solutions are to Daleen Solutions, Inc., our indirect, wholly-owned subsidiary. References to the transactions refer to the transactions contemplated by the asset purchase agreement and the investment agreement, including without limitation the issuance of our capital stock and warrants pursuant to each agreement. References to Abiliti refer to Abiliti Solutions, Inc.

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### FORWARD-LOOKING STATEMENTS

The information in this proxy statement contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Statements that are not historical in nature, including statements about beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words may, will, should, estimates, predicts, potential, continue, strategies, believes, anticipates, plans, expects, intends and similar expressions. The forward-looking statements regarding Abiliti and us, including the company following our integration of Abiliti's assets pursuant to the asset purchase agreement, in this proxy statement include information relating to:

financial condition and results of operations of the applicable company, including revenue and revenue visibility;

Abiliti's and our technology;

the market for Abiliti's and our products and services, including selling opportunities to potential and existing customers;

business strategies, operating efficiencies or synergies, competitive positions, growth opportunities for existing services and products and plans and objectives of management including growth and other business plans;

the market for our securities;

Nasdaq SmallCap Market listing status;

use of third-party marketing sources; and

the financial and regulatory environment in which Abiliti and we operate.

You should not place undue reliance on forward-looking statements, which speak only as of the date of this proxy statement. These statements are based upon current expectations. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise. All forward-looking statements are subject to risks and uncertainties that could cause actual events to differ materially from those projected. Important factors that might cause or contribute to such a discrepancy include, but are not limited to:

the risk of whether the transactions close;

the effect of the transactions on the market price of our common stock, including the impact of the issuance of additional shares of our series F convertible preferred stock;

our ability to continue as a going concern, including our ability to continue as a going concern following the transactions;

the fact that neither Abiliti nor we have achieved profitability on a quarterly basis;

the extent of our ability to integrate the assets and operations of Abiliti with ours;

our ability to retain Abiliti's customers, as well as our own customers, after the transactions and our ability to increase revenues after the transactions;

variance of quarterly operating results;

the lengthy sales cycle for our and Abiliti's products and timing of contract awards;

the effects of vigorous competition with larger and better-established companies in the markets in which Abiliti and we operate;

our use of strategic third party relationships to implement and sell our and Abiliti's products;

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the market position and financial condition and resources of our customers and potential customers;

the impact of technological change on our business and that of Abiliti, and new entrants and alternative technologies in our respective markets and businesses;

Abiliti's financial ability after the transactions to indemnify us against any liabilities that Daleen Solutions does not assume;

the low price and volatility of our common stock;

the impact of the change in our management following the closing of the transactions;

the effect of the on-going securities class action against us and the underwriters in our initial public offering;

the effect of the transactions on the status of our listing on The Nasdaq SmallCap Market and our ability to satisfy the applicable listing requirements;

the factors discussed under "Risk Factors," beginning on page 11; and

other risks referenced from time to time in our filings with the Securities and Exchange Commission (the "SEC"), including our annual report on Form 10-K for our fiscal year ended December 31, 2001, and our quarterly report on Form 10-Q for the period ended September 30, 2002, copies of which accompany this proxy statement.

#### **WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information that we file at the SEC's public reference room at 450 Fifth Street, Washington, D.C., 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. You also may obtain copies of this information by mail from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Room 1024, at prescribed rates. Our public filings with the SEC also are available from commercial document retrieval services and at the web site maintained by the SEC at <http://www.sec.gov>.

We have supplied all information in this proxy statement relating to Daleen and Daleen Solutions. Abiliti has supplied all information in this proxy statement relating to Abiliti. Kaufman Bros., L.P., our investment advisor, has supplied the information regarding its fairness opinion.

**DALEEN TECHNOLOGIES, INC.**

**902 Clint Moore Road, Suite 230  
Boca Raton, Florida 33487**

**PROXY STATEMENT**

**FOR SPECIAL MEETING OF STOCKHOLDERS**

**To Be Held December 20, 2002**

A Special Meeting of Stockholders of Daleen Technologies, Inc. will be held on December 20, 2002, at our offices located at 902 Clint Moore Road, Suite 230, Boca Raton, Florida 33487, beginning promptly at 9:00 a.m., local time. The enclosed proxy is solicited by our board of directors. It is anticipated that this proxy statement and the accompanying proxy card(s) will first be mailed to holders of our common stock and series F convertible preferred stock (the "series F preferred stock") on or about November 21, 2002.

**SUMMARY TERM SHEET**

*The following summary, together with the previous question and answer section, provides an overview of the transactions discussed in this proxy statement and presented in the attached annexes. The summary also contains cross-references to the more detailed discussions elsewhere in the proxy statement. You should carefully read this entire proxy statement and the attached annexes in their entirety.*

**The Companies (pages 21 through 26)**

***Daleen***

We are a global provider of high performance billing and customer care software solutions that manage the revenue chain for traditional and next-generation communication service providers, retailers and distributors of digital media, and technology solutions providers.

***Daleen Solutions***

Daleen Solutions, Inc. is an indirect, wholly-owned subsidiary of Daleen. It was formed for the purpose of purchasing the assets and assuming certain liabilities of Abiliti pursuant to the asset purchase agreement.

***Abiliti***

Abiliti is a provider of billing, rating and event management and customer care solutions to network service providers.

**The Transactions (pages 27 through 48)**

Pursuant to the asset purchase agreement, Daleen Solutions will purchase substantially all of the assets and assume certain of the liabilities of Abiliti. As consideration for the asset purchase, we will issue to Abiliti 11,492,136 shares of our common stock, 115,681 shares of our series F preferred stock, and warrants to purchase an additional 5,666,069 shares of our common stock at an exercise price of \$0.906 per share (the "Asset Purchase Warrants").

Pursuant to the investment agreement, we will issue and sell to Behrman Capital II, L.P. and Strategic Entrepreneur Fund II, L.P. (Behrman Capital and Strategic Entrepreneur Fund are referred to collectively as the "Behrman Funds") in a private placement an aggregate of 10,992,136 shares of our common stock, 115,681 shares of our series F preferred stock, warrants to purchase an additional 5,666,069 shares of our common stock at an exercise price of \$0.906 per share, (the "Investment Warrants," and collectively with the Asset Purchase Warrants, the "Initial Warrants") and warrants to purchase an additional 500,000 shares of our common stock at an exercise price of \$0.17 per share (the

Additional Warrants ). The Behrman Funds will pay to us an aggregate purchase price of \$5.015 million in the private placement.

**Recommendation of the Board of Directors (pages 34 through 35; page 69; page 75; and page 78)**

Our board of directors has determined that the terms of the asset purchase agreement and the investment agreement, including the issuance of shares of our capital stock and warrants as described in Proposals 1 and 2 as consideration in the transactions and the adoption of the Daleen Technologies, Inc. Long-Term Incentive Compensation Plan (the LTIP ) as described in Proposal 2, are fair to, and in the best interests of, us and our stockholders, and recommends that our stockholders vote FOR the asset purchase agreement, the investment agreement and the transactions contemplated thereby, including the issuance of shares of our capital stock and warrants and the adoption of the LTIP as described in Proposals 1 and 2, and FOR the related amendments to our Certificate of Incorporation described in Proposal 3.

To review the background and reasons for the transactions in detail, see The Transactions Background of the Transactions beginning on page 27 and The Transactions Our Reasons for the Transactions beginning on page 32.

**Opinion of Our Financial Advisor (pages 35 through 44)**

In connection with the transactions, our board of directors received a written opinion from Kaufman Bros., L.P. as to the fairness, from a financial point of view and as of the date of the opinion, of the transactions taken together and not separately. The full text of the written opinion delivered by Kaufman Bros. is attached to this proxy statement as Annex I. You are encouraged to read this opinion carefully in its entirety for a description of the assumptions made, matters considered and limitations on the review undertaken.

**The Asset Purchase (pages 49 through 63)**

*Terms of the Asset Purchase Agreement*

The asset purchase agreement is attached to this proxy statement as Annex A. You should read the asset purchase agreement carefully. Our board of directors has approved the asset purchase agreement, and it is the binding legal agreement that governs the terms of the asset purchase.

*General*

Pursuant to the asset purchase agreement, our indirect, wholly-owned subsidiary, Daleen Solutions, will purchase substantially all of the assets and assume certain liabilities of Abiliti. In consideration for the assets, we will issue to Abiliti:

11,492,136 shares of common stock;

115,681 shares of our series F preferred stock; and

Asset Purchase Warrants to purchase an additional 5,666,069 shares of our common stock at an exercise price of \$0.906 per share.

The Asset Purchase Warrants are not exercisable until six months after the closing of the asset purchase. The asset purchase agreement provides that ten percent of the shares of common stock, series F preferred stock and Asset Purchase Warrants to be issued to Abiliti will be held in escrow for at least one year from closing in order to provide us protection in the event we have a claim for indemnification against Abiliti. The closing of the asset purchase is scheduled to occur immediately subsequent to, and conditioned upon, the closing of the private placement.



***Agreement Not to Solicit Other Offers***

Pursuant to the asset purchase agreement, we have agreed that we, our subsidiaries and our representatives will not do any of the following:

solicit, initiate or facilitate any alternative business combination proposal; or

participate in any discussions or negotiations regarding, or furnish any person with any non-public information with respect to, or enter into any agreement, arrangement or understanding requiring us to abandon, terminate or fail to consummate the transactions contemplated by the asset purchase agreement.

***Conditions Precedent***

The completion of the asset purchase depends on the satisfaction of a number of conditions, including conditions relating to:

approval by our stockholders of Proposals 1, 2 and 3;

approval of the asset purchase agreement and the transactions contemplated thereby by Abiliti's stockholders;

absence of legal prohibitions to the completion of the asset purchase; and

the accuracy of both parties' representations and warranties as of the date of the asset purchase agreement.

***Termination***

In addition to terminating upon mutual consent or in the event the private placement is not consummated, a party may terminate the asset purchase agreement under the following circumstances:

if a material breach of any provision of the asset purchase agreement has been committed by the other party;

if any of the conditions precedent to a party's obligation to close have not been satisfied as of the closing date or if satisfaction of a condition precedent is or becomes impossible (other than through such party's failure to comply with its obligations under the asset purchase agreement) and the other party has not waived the condition precedent; or

if the closing has not occurred on or before February 28, 2003, or a later date as the parties may agree (unless the failure to close is the result of a breach by the party seeking termination).

***Survival of Representations and Warranties***

The representations and warranties of each party must be accurate in all material respects only as of the date of the asset purchase agreement, and not as of the date the transactions are consummated. The representations and warranties of each party will expire on the date that is one year after the closing date of the asset purchase or upon termination of the asset purchase agreement in accordance with its terms.

***Indemnification***

We have agreed to indemnify Abiliti and its directors, officers, employees, agents and affiliates for any damages (as defined in the asset purchase agreement) incurred by them resulting from or arising out of our breach of any representation or warranty, or covenant or agreement contained in the asset purchase agreement. We will have no liability for indemnification unless the total of all damages exceeds \$250,000. In addition, our indemnification will be limited to an amount equal to the value of 3,013,313 shares of our common stock, based on the value of such number of shares at the time of payment of a claim for indemnification. In the event we are obligated to pay any amount for indemnification claims, we will be permitted to pay such claims, at our discretion, in cash or in shares of our common stock.

Abiliti has agreed to indemnify us and our directors, officers, employees, agents and affiliates for any damages incurred by us or them resulting from or arising out of Abiliti's breach of any representation or warranty, or covenant or agreement contained in the asset purchase agreement. Abiliti will have no liability for indemnification unless the total of all damages exceeds \$250,000. In addition, our recourse against Abiliti for its indemnification obligations will be limited to recovery of the shares of capital stock and Warrants held in the escrow account discussed below.

***Escrow***

The asset purchase agreement provides that Abiliti will indemnify us against any loss, resulting from or arising out of any breach of Abiliti's representations and warranties, subject to certain limitations. Pursuant to the asset purchase agreement, of the total number shares of our series F preferred stock, common stock and Asset Purchase Warrants to be issued pursuant to the asset purchase agreement at closing, we will deposit 1,149,214 shares of common stock, 11,568 shares of series F preferred stock and Asset Purchase Warrants to purchase 566,607 additional shares of common stock into an escrow account, with SunTrust Bank as escrow agent, to secure Abiliti's indemnification obligations. However, Abiliti's indemnification obligation will be limited to claims made within one year after the closing of the asset purchase and our recovery for such claims will be limited, absent a claim of fraud, to the capital stock and Asset Purchase Warrants held in escrow. Additionally, if no claims for indemnity are made within the one year period, the shares of capital stock and Asset Purchase Warrants held in escrow will be distributed to Abiliti. We will enter into an escrow agreement with Abiliti and SunTrust that will govern the terms of the escrow. A copy of the form of escrow agreement is attached as Annex D to this proxy statement. You should read the escrow agreement carefully.

**The Private Placement (pages 70 through 75)**

***Terms of the Investment Agreement***

The investment agreement is attached to this proxy statement as Annex B. You should read the investment agreement carefully. Our board of directors has approved the investment agreement, and it is the binding legal agreement that governs the private placement.

***General***

The investment agreement provides that we will issue and sell to the Behrman Funds an aggregate of 10,992,136 shares of our common stock, 115,681 shares of our series F preferred stock, Investment Warrants to purchase an additional 5,666,069 shares of common stock at an exercise price of \$0.906 per share and Additional Warrants to purchase an additional 500,000 shares of common stock at an exercise price of \$0.17 per share. The Investment Warrants may not be exercised until six months after the closing of the private placement. The Additional Warrants may not be exercised until after the first anniversary of the closing of the private placement. The investors in the private placement are Behrman Capital II, L.P. and Strategic Entrepreneur Fund II, L.P., which are affiliated entities, and collectively are the largest stockholders and creditors of Abiliti. The closing of the private placement is scheduled to occur immediately prior to, and conditioned upon, the closing of the asset purchase.

***Termination***

The investment agreement shall terminate only upon the termination of the asset purchase agreement pursuant to its terms. The asset purchase agreement may only be terminated upon mutual consent, or by a party in certain specific circumstances. See Proposal 1 Termination on page 61 for the termination provisions of the asset purchase agreement.

***Indemnification***

We have agreed to indemnify the Behrman Funds and their respective directors, officers, employees, agents and affiliates for any damages (as defined in the investment agreement) incurred by them

resulting from or arising out of our breach of any representation or warranty, or covenant or agreement contained in the investment agreement. We will have no liability for indemnification unless the total of all damages exceeds \$250,000. In addition, our indemnification will be limited to an aggregate of \$1,000,000.

#### ***Survival of Representations and Warranties***

All of our representations, warranties and indemnities made in the investment agreement will survive until the date that is one year from the closing date of the private placement.

#### ***Long-Term Incentive Compensation Plan***

Pursuant to the terms of, and as required by, the investment agreement, our board of directors has authorized a Long-Term Incentive Compensation Plan, or LTIP, to be effective upon the closing of the transactions. A copy of the LTIP is attached as Annex H to this proxy statement. Your approval of Proposal 2 will be deemed to constitute stockholder approval of the LTIP. Certain of the material terms of the LTIP include:

A bonus pool, equal to 15% of our value in excess of \$20 million, up to \$100 million, plus 10% for the value that exceeds \$100 million, shall be created for distribution to the LTIP participants upon the occurrence of certain payout events (as defined in the LTIP).

The LTIP participants will include Gordon Quick, whose participation shall be no less than 38% of the bonus pool, James Daleen, whose participation shall be 15% of the bonus pool, and certain other management team members and other employees and consultants as may be determined by our board of directors.

The bonus pool interests will be distributed to the participants upon the occurrence of certain payout events, which include: (i) the sale of all or substantially all of our assets to a third party; (ii) our merger or consolidation with another company whereby our stockholders receive cash or other securities for their capital stock and our stockholders immediately prior to the merger or consolidation own less than 50% of the combined voting power of the surviving company; (iii) the sale of 60% or more of the voting power of our company to a single person or group; or (iv) our liquidation, dissolution or winding up.

Payments to LTIP participants may be in cash or, subject to certain limitations, the same consideration received by our stockholders in connection with the payout event.

Payments will be reduced by the value of certain options to purchase our common stock held by the participant. The value will be based on the fair market value of our common stock, less the exercise price of the vested options held by the participant. The options will include all options granted to participants prior to the closing of the transactions and all options granted to a participant in the future that our board of directors designates as plan options at the time of grant.

Our board of directors may elect to replace the LTIP in its entirety with a new equity-based compensation plan, *provided, however*, that any such new plan shall be substantially equivalent to or more favorable than this plan for the participants from a financial and tax standpoint.

#### **Accounting Treatment (page 69)**

The asset purchase will be treated as a purchase for accounting purposes. Upon closing of the asset purchase and the private placement, we will be treated as the continuing reporting entity.

#### **Interests of Certain Persons in the Transactions (pages 46 through 47)**

Some members of our board of directors and certain of our executive officers have interests in the transactions that may differ from your interests as a holder of our common stock and series F preferred

stock, and that may present, or appear to present, a conflict of interest. For example, it is expected that James Daleen, our current chairman of the board, president and chief executive officer will resign upon consummation of the transactions, whereupon he will receive severance payments pursuant to the terms of his employment agreement.

**Voting Agreements (pages 68 and 75)**

Certain of our stockholders have entered into voting agreements with Abiliti pursuant to which they have agreed, subject to the terms and conditions of the voting agreement, to vote all of their shares of common stock and series F preferred stock, as applicable, in favor of the asset purchase, the private placement and the issuance of shares of our common stock, series F preferred stock and Warrants in the asset purchase and private placement and any other matter necessary to effect the asset purchase and the private placement. A form of the voting agreement is attached to this proxy statement as Annex G. The shares subject to the voting agreements represent, in the aggregate, more than 66 2/3% of the outstanding voting power of our common stock and series F preferred stock (with the series F preferred stock voting on the basis of 100 votes per share) entitled to vote at the special meeting and more than a majority of the voting power of our outstanding series F preferred stock.

**Regulatory Approvals (page 44)**

We are not aware of any federal or state regulatory requirements that must be complied with or approvals that must be obtained to consummate the transactions, other than filing of (1) the certificate of amendment to our Certificate of Incorporation with the Secretary of State of the State of Delaware as described in Proposal 3 and (2) this proxy statement with the SEC. If any additional approvals or filings are required, we will use our commercially reasonable efforts to obtain those approvals and make any required filings before completing the transactions.

**Dissenters Rights (page 20)**

None of our stockholders are entitled to exercise dissenters rights in connection with the asset purchase, the private placement or any other proposal to be considered at the special meeting.

**The Supplemental Voting Agreement (pages 74 through 75)**

Abiliti, HarbourVest Partners V Direct Fund, L.P., HarbourVest Partners VI Direct Fund, L.P. (referred to herein collectively as the HarbourVest Funds ) and the Behrman Funds have entered into a supplemental voting agreement, effective upon consummation of the asset purchase agreement. The supplemental voting agreement is attached to this proxy statement as Annex H. You should read the supplemental voting agreement carefully.

The supplemental voting agreement provides that each party will vote their shares of our common stock and series F preferred stock at our 2003 Annual Meeting of Stockholders for the election of two directors designated by the Behrman Funds and one director designated by the HarbourVest Funds. In addition, each party will not transfer any of its shares of our capital stock until the termination of the supplemental voting agreement. Abiliti, the HarbourVest Funds and the Behrman Funds will control a sufficient amount of our voting power to elect directors as contemplated by the supplemental voting agreement.

The supplemental voting agreement will terminate on the earlier of the final adjournment of our 2003 Annual Meeting of Stockholders or the termination of the asset purchase agreement in accordance with its terms.

**Board of Directors and Management (pages 45 and pages 70 through 71)**

Immediately prior to the completion of the transactions, our board of directors will take all corporate action necessary to cause our full board of directors, at and immediately following the completion of the

transactions, to consist of seven directors who will be designated as set forth in the investment agreement. This will involve the resignation of certain members of our board of directors and the designation of replacement directors by the remaining directors. Pursuant to the investment agreement, (1) four directors to be designated by us prior to the consummation of the transactions, (2) our chief executive officer, who will be Gordon Quick following completion of the transactions, and (3) two directors to be designated by the Behrman Funds. It is anticipated that we will designate James Daleen, Daniel J. Foreman, Stephen J. Getsy, and Ofer Nemirovsky to serve as our designated directors. The Behrman Funds have indicated that they will designate Dennis Sisco as one of their designated directors. Pursuant to the investment agreement, the Behrman Funds will designate their second director prior to the completion of the transactions. Messrs. Daleen, Foreman, Getsy and Nemirovsky currently serve on our board of directors. In the event that any of these individuals are not available, for any reason, to serve as directors our board of directors or the Behrman Funds, as the case may be, will designate another person to serve as a director or will leave the vacancy open for designation by the board of directors at a later date.

In addition, upon completion of the transactions, our board of directors will take all corporate action necessary to cause Gordon Quick, currently Abiliti's president and chief executive officer, to be appointed our president and chief executive officer. James Daleen our current chairman of the board, president and chief executive officer will continue to serve as our chairman of the board. Jeanne Prayther, our current chief financial officer, will continue to serve as our chief financial officer. The remainder of the management team will be comprised of senior level executives from us and Abiliti.

**The Registration Rights Agreement (pages 64 through 65 and page 75)**

We have entered into a registration rights agreement with Abiliti, the Behrman Funds and Kaufman Bros. pursuant to which we have agreed to file up to three registration statements at any time after the later of November 8, 2002 and the closing of the transactions upon the demand of a majority of, and covering, the following: (i) the common stock issued in the transactions; (ii) the common stock issuable upon conversion of the series F preferred stock issued in the transactions; and (iii) the common stock issuable upon exercise of the Warrants issued in the transactions. In addition, we have granted to the Behrman Funds piggyback rights generally entitling them to require that we register their shares of common stock, including the shares issuable upon conversion of the series F preferred stock and upon exercise of the Warrants, when we are registering our equity securities. The piggyback rights apply only to shares of our common stock issued in the private placement and shares issuable upon conversion or exercise of series F preferred stock and Warrants issued in the private placement.

**Lock-up Provisions (page 69)**

We have entered into voting agreements with the Behrman Funds and certain other stockholders of Abiliti. Pursuant to the voting agreements, the Behrman Funds and the other parties to the voting agreements have agreed to certain transfer restrictions on the shares of our capital stock they receive pursuant to the asset purchase and the private placement. These restrictions include the following:

for six months from the closing date of the transactions, they will not convert the series F preferred stock into common stock;

for six months from the closing date of the transactions, they will not exercise any of the Initial Warrants;

for one year from the closing date of the transactions, they will not exercise any of the Additional Warrants.

The Behrman Funds and the other parties to the voting agreements have also agreed that from the date of the voting agreement until the date that is six months from the closing date of the transactions, they will not purchase or otherwise acquire any of our capital stock, other than the shares they receive pursuant to the asset purchase and the private placement.

**QUESTIONS ABOUT THE ASSET PURCHASE AND THE PRIVATE PLACEMENT**

***Why am I receiving this proxy statement and proxy card(s)?***

You are receiving a proxy statement and proxy card(s) because you own shares of common stock and/or series F preferred stock of Daleen Technologies, Inc. This proxy statement describes the issues on which we would like you, as a stockholder, to vote. It also gives you information on these issues so that you can make an informed decision.

***What am I voting on?***

You are being asked to vote on the following matters:

*Proposal 1* To approve an asset purchase agreement dated October 7, 2002, between us, Daleen Solutions, and Abiliti and the transactions contemplated thereby, including the issuance to Abiliti of shares of our common stock, series F preferred stock and warrants to purchase additional shares of common stock;

*Proposal 2* To approve an investment agreement dated October 7, 2002, between us and the Behrman Funds and the transactions contemplated thereby, including the issuance and sale to the Behrman Funds of shares of our common stock, series F preferred stock and warrants to purchase additional shares of common stock for an aggregate purchase price of \$5.015 million and the adoption of the LTIP; and

*Proposal 3* To approve amendments to our Certificate of Incorporation to (i) increase our authorized shares of series F preferred stock from 356,950 shares to 588,312 shares and (ii) amend the terms of the series F preferred stock to provide that the transactions contemplated by the asset purchase agreement and investment agreement will not (A) result in an adjustment to the conversion price of the series F preferred stock or (B) give rise to redemption rights in favor of the holders of series F preferred stock.

Each of the asset purchase and the private placement is conditioned upon our receipt of stockholder approval of each of Proposals 1, 2 and 3. If we do not obtain stockholder approval of each of these proposals, we will not be able to consummate the asset purchase or the private placement. Stockholders representing more than 66 2/3% of our outstanding voting rights have entered agreements with Abiliti to vote in favor of the asset purchase; the private placement, the amendment to our Certificate of Incorporation and the transactions contemplated thereby.

***What will happen in the asset purchase?***

Pursuant to the asset purchase agreement, our indirect, wholly-owned subsidiary, Daleen Solutions, will purchase substantially all of the assets and assume certain of the liabilities of Abiliti. As consideration for the asset purchase, we will issue to Abiliti 11,492,136 shares of our common stock, 115,681 shares of our series F preferred stock, and Asset Purchase Warrants to purchase an additional 5,666,069 shares of our common stock at an exercise price of \$0.906 per share.

***What will happen in the private placement?***

Pursuant to the investment agreement, we will issue and sell to the Behrman Funds in a private placement an aggregate of 10,992,136 shares of our common stock, 115,681 shares of our series F preferred stock, Investment Warrants to purchase an additional 5,666,069 shares of our common stock at an exercise price of \$0.906 per share and Additional Warrants to purchase an additional 500,000 shares of our common stock at an exercise price of \$0.17 per share. The Behrman Funds will pay to us an aggregate purchase price of \$5.015 million as consideration in the private placement. In addition, as part of the consideration we will pay to Kaufman Bros. for acting as our financial advisor in the asset purchase and the private placement, we will issue warrants to purchase 250,000 shares of our common stock, at an exercise price per share equal to the closing sale price on the day immediately prior to the closing date of

the transactions (the Advisor Warrants and together with the Initial Warrants and Additional Warrants, the Warrants ).

***What are the terms of the series F preferred stock?***

The shares of series F preferred stock that we will issue in the asset purchase and the private placement will have the same terms, rights and preferences as the currently outstanding shares of our series F preferred stock. The terms of the series F preferred stock are set forth in our Certificate of Incorporation. A summary description of the terms of the series F preferred stock is included under Proposal 1 Terms of the Series F Preferred Stock beginning on page 65 of this proxy statement.

***When do you expect the transactions to be completed?***

We plan to complete the transactions as soon as possible after the special meeting, subject to the approval of our stockholders.

***How will we use the net proceeds of the private placement?***

We will use the net proceeds for working capital purposes, including continued developments and enhancements to our products and technology, marketing and sales, expansion of our strategic alliances and expansion of our international operations.

***What risks should I consider in evaluating the transactions?***

You should consider the risks described under the heading Risk Factors beginning on page 11.

***What are the U.S. federal income tax consequences of the transactions to us and our stockholders?***

For federal income tax purposes, we intend that neither we nor our stockholders will recognize any gain or loss as a result of the transactions. No formal request for a ruling or other determination was or will be obtained. Each stockholder should consult with his or her own tax advisor.

***How many votes are required to approve the transactions and the other proposals to be considered at the special meeting?***

The votes required to approve each proposal are set forth below:

Proposals 1 and 2 require (i) the affirmative vote of a majority of the total votes cast at the meeting with the common stock and the series F preferred stock voting together as a single class (with the series F preferred stock voting on the basis of 100 votes per share), and (ii) the affirmative vote of the holders of a majority of the outstanding shares of series F preferred stock voting as a separate class; and

Proposal 3 requires (i) the affirmative vote of 66 2/3% of our outstanding shares of common stock and series F preferred stock voting together as a single class (with the series F preferred stock voting on the basis of 100 votes per share), and (ii) the affirmative vote of the holders of a majority of the outstanding shares of series F preferred stock voting as a separate class.

Only persons who are stockholders of record on November 12, 2002, the record date for the special meeting, are entitled to vote. Certain of our stockholders who hold sufficient voting power to approve the transactions and the amendments to the terms of the series F preferred stock have signed agreements with Abiliti pursuant to which they have agreed to vote in favor of each of Proposals 1, 2 and 3.

***Who will be our management following completion of the transactions?***

Upon completion of the transactions, our board of directors will consist of seven members who will be designated as follows: (1) four directors to be designated by us prior to the completion of the transactions; (2) our chief executive officer, who will be Gordon Quick following completion of the transactions; and

(3) two directors to be designated by the Behrman Funds prior to the consummation of the transactions. It is anticipated that we will designate James Daleen, Daniel J. Foreman, Stephen J. Getsy, and Ofer Nemirovsky to serve as our designated directors. The Behrman Funds have indicated that they will designate Dennis Sisco to serve as one of their designated directors. Pursuant to the investment agreement, the Behrman Funds will designate their second director prior to the completion of the transactions. Messrs. Daleen, Foreman, Getsy and Nemirovsky currently are members of our board of directors. In the event that any of these individuals are not available, for any reason, to serve as directors, our board of directors or the Behrman Funds, as the case may be, will select another person to serve as a director or will leave the vacancy open. In addition, upon completion of the transactions, our board of directors will take all corporate action necessary to cause Gordon Quick, currently Abiliti's president and chief executive officer, to be appointed our president and chief executive officer. James Daleen our current chairman of the board, president and chief executive officer will continue to serve as our chairman of the board. Jeanne Prayther, our current chief financial officer, will continue to serve as our chief financial officer following the completion of the transactions. The remainder of the management team will be comprised of senior level executives from us and Abiliti.

***Does the board of directors recommend approval of the transactions and the other proposals to be considered at the special meeting?***

Yes. After careful consideration, our board of directors recommends that our stockholders vote FOR each of the matters presented in Proposals 1, 2 and 3.

***Who can help answer my questions about the transactions?***

If you have additional questions about these transactions, you should contact Dawn R. Landry, our Vice President and General Counsel, at (561) 999-8000.



## RISK FACTORS

*In addition to the other information included and incorporated by reference in this proxy statement, our stockholders should carefully consider the matters described below in voting on the proposals to be voted on at the special meeting. Please see the Risk Factors section in each of our annual report on Form 10-K, filed April 1, 2002 and incorporated herein by reference, and our latest quarterly report on Form 10-Q, filed November 14, 2002, for additional risk factors you should be aware of regarding Daleen.*

### **Risk Factors Relating to the Transactions**

***If we are unable to complete the transactions, our business will be adversely affected.***

If the asset purchase and the private placement are not completed, our business and, likely, our stock price, will be adversely affected. We currently anticipate that our cash and cash equivalents may be sufficient to fund our operations through June 30, 2003. If we are unable to complete the transactions, we may be unable to continue to operate our business. Costs related to the transactions, such as legal and accounting, must be paid even if the transactions are not completed. In addition, even if we have sufficient funds to continue to operate our business but the transactions are not completed, the current market price of our common stock may decline.

***The terms of the asset purchase agreement prohibit us from considering alternative transactions.***

Under the terms of the asset purchase agreement, we, our board of directors, and our representatives are prohibited from (1) soliciting, initiating or encouraging any alternative business combination proposal or (2) participating in, encouraging any discussions or negotiating with, or furnishing information with respect to, any inquiries or the making of any alternative business combination proposals. This prohibition may prevent us from considering or entering into an alternative arrangement that may provide more value to our stockholders than the asset purchase.

***The transactions will result in substantial dilution to our current stockholders.***

The issuance of shares of our capital stock in the asset purchase and the private placement will significantly dilute the voting power and ownership percentage of our existing stockholders. We will issue in the transactions a total of 231,362 shares of our series F preferred stock, 22,484,272 shares of our common stock, Initial Warrants to purchase an additional 11,332,138 shares of common stock at an exercise price of \$0.906 per share, Additional Warrants to purchase an additional 500,000 shares of our common stock at an exercise price of \$0.17 per share and Advisor Warrants to purchase 250,000 shares of our common stock at an exercise price per share equal to the closing sale price of our common stock the day immediately prior to the closing date of the transactions. Immediately following completion of the transactions, our existing stockholders are expected to represent more than 50% of our equity, assuming no conversion of any shares of series F preferred stock and no exercise of any Warrants.

***The holders of the series F preferred stock have rights that are senior to those of the holders of our common stock and the liquidation preference of the series F preferred stock is structured in a manner that may prevent the holders of our common stock from realizing any proceeds upon a merger, acquisition, liquidation or dissolution of our company.***

The holders of the series F preferred stock will have a claim against our assets senior to the claim of the holders of our common stock in the event of our merger, acquisition, liquidation, dissolution or winding up. If any of these events occur, the holders of our series F preferred stock will be entitled to receive \$110.94 per share of series F preferred stock. Based on the number of shares of series F preferred stock that will be outstanding after the closing of the transactions, the holders of our common stock will not be entitled to any consideration for their shares in the event of a merger, acquisition, liquidation, dissolution or winding up unless and until the consideration payable to our stockholders (net of amounts payable under the LTIP) exceeds approximately \$51.3 million.

***The holders of series F preferred stock have voting and other rights that are senior to our common stock.***

The holders of the series F preferred stock have voting rights entitling them to vote together with the holders of our common stock as a single class and on the basis of 100 votes per share of series F preferred stock, subject to adjustment for any stock split, stock dividend, reverse stock split, reclassification or consolidation of or on our common stock. Following the conversion of the series F preferred stock, the holders will be entitled to vote the number of shares of common stock issued upon conversion. Additionally, the holders of the series F preferred stock are entitled to vote as a separate class on certain matters, including:

the authorization or issuance of any other class or series of preferred stock ranking senior to or equal with the series F preferred stock as to payment of amounts distributable upon dissolution, liquidation or winding up of our company;

the issuance of any additional shares of series F preferred stock;

the reclassification of any capital stock into shares having preferences or priorities senior to or equal with the series F preferred stock;

the amendment, alteration, or repeal of any rights of the series F preferred stock; and

the payment of dividends on any other class or series of capital stock of our company, including the payment of dividends on the common stock.

The holders of the series F preferred stock have other rights and preferences, including the right to convert the series F preferred stock into an increased number of shares of common stock as a result of anti-dilution adjustments.

***The holders of series F preferred stock have voting power of our capital stock sufficient to control or significantly influence all major corporate decisions.***

Upon the closing of the transactions, we will have outstanding an aggregate of 458,224 shares of series F preferred stock and approximately 46,019,569 shares of common stock (excluding shares issued or issuable upon exercise of outstanding options and warrants to purchase series F preferred stock and common stock). As of the closing of the transactions, the voting rights of the holders of the series F preferred stock, when combined with the common stock owned by such holders and their affiliates, will represent approximately 83.6% of the voting power of our company, and would represent approximately 86.8% if the current holders of series F preferred stock and their affiliates exercise their warrants to purchase series F preferred stock and warrants to purchase common stock and Abiliti and the Behrman Funds exercise their Warrants to purchase common stock.

As a result of the Behrman Funds' ownership and other economic interests in Abiliti, the Behrman Funds will be deemed to beneficially own the common stock, series F preferred stock and Warrants that we issue to Abiliti in the asset purchase. After the closing of the transactions, the Behrman Funds will beneficially own approximately 49.7% of the voting power of our company.

***The series F preferred stock is automatically convertible only in limited circumstances and, as a result could be outstanding indefinitely.***

The series F preferred stock will convert automatically into common stock only if, after March 30, 2002, the closing price of our common stock on The Nasdaq National Market or a national securities exchange is at least \$3.3282 per share for any ten trading days out of any 20 trading day period. Otherwise, the shares of series F preferred stock are convertible only at the option of the holder. The series F preferred stock is not subject to automatic conversion if our common stock is not then listed for trading on The Nasdaq National Market or a national securities exchange. Our common stock is currently listed for trading on The Nasdaq SmallCap Market, and therefore, the series F preferred stock is currently

not subject to automatic conversion. As a result of these provisions, the series F preferred stock may remain outstanding indefinitely.

***The number of shares issued as consideration in the asset purchase and in the private placement will not be adjusted, even if there is an increase or decrease in the price of our common stock.***

The price of our common stock at the time the transactions close may vary from its price at the date of this proxy statement and at the date of the special meeting. Therefore, in the transactions, the shares of capital stock that we issue may have a greater or lesser value than the value of the same number of shares on the date of this proxy statement or the date of the special meeting and could materially increase or decrease the value that we will transfer to the Behrman Funds in the private placement and to Abiliti in the asset purchase. Variations in the price of our common stock before the completion of the transactions may result from a number of factors that are beyond our control, including actual or anticipated changes in our business, operations or prospects, market assessments of the likelihood that the transactions will be consummated and the timing thereof, regulatory considerations, general market and economic conditions and other factors. At the time of the special meeting, you will not know the exact value of the shares that we will issue in the transactions.

#### **Risk Factors Relating to Daleen After the Transactions**

***If Nasdaq determines that the proposed transactions constitute a reverse merger under the Nasdaq Rules, then we may not be able to maintain the listing of our common stock on The Nasdaq SmallCap Market.***

On November 5, 2002 the staff of The Nasdaq Stock Market notified us that it believes the asset purchase and the private placement together constitute a reverse merger as set forth in Nasdaq Marketplace Rule 4330(f) and that the Nasdaq Listing Qualifications Panel will consider the reverse merger issue in considering whether we will be able to retain our listing following the transactions. We have submitted a written response addressing the issues raised by the Nasdaq staff. If Nasdaq determines that the transactions constitute a reverse merger under the Nasdaq Rules, to remain listed we will be required to meet the initial listing requirements for inclusion on The Nasdaq SmallCap Market rather than the continued listing requirements. The initial listing requirements are more stringent than the continued listing requirements and it is likely that we will not satisfy these requirements. If we are not successful in maintaining our listing on The Nasdaq SmallCap Market, our common stock will be quoted on the OTC Bulletin Board Service, which is generally considered a less liquid market. There can be no assurances that our appeal will be successful. Even if our appeal is successful, we are currently not in compliance with the Nasdaq Marketplace Rules for continued listing on The Nasdaq SmallCap Market and our grace period to regain compliance expires February 10, 2003. There can be no assurances that we will regain compliance by that date, or that our common stock will continue to be listed on The Nasdaq SmallCap Market.

***If we are unable to successfully integrate the assets, operations and executive officers and senior management of Abiliti after the asset purchase, we will not realize the anticipated potential benefits from the asset purchase and our business could be adversely affected.***

The asset purchase involves the integration of assets, operations and management teams that have previously operated independently. Successful integration of Abiliti's assets, operations and management teams with ours will depend on our ability to consolidate operations, systems and procedures, eliminate redundancies and reduce costs. If we are unable to do so, we will not realize the anticipated potential benefits of the asset purchase, and our business and results of operations could be adversely affected. Difficulties could include the loss of key employees and customers, the disruption of Abiliti's and our ongoing businesses and possible inconsistencies in standards, controls, procedures and policies. Our integration of Abiliti's assets, operations and management teams will be complex and time-consuming. Additionally, the realization of expected efficiencies and cost savings could be adversely affected by a number of factors beyond our control, and may not materialize after the asset purchase.

James Daleen, our current chairman of the board of directors, president and chief executive officer will resign as president and chief executive officer, but will continue as chairman of the board and as a consultant. The new president and chief executive officer of our company will be Gordon Quick, the current president and chief executive officer of Abiliti. In addition, certain current senior management of Abiliti will become a part of our senior management. Integration of the new senior management with the current executive officers and senior management may result in changes in our business plans, strategies and product development cycles, which may adversely affect our results of operations and financial condition. The loss of any executive officers or senior management may have an adverse effect on our business and results of operations.

***If we continue to experience losses after the transactions are completed, we could experience difficulty meeting our business plan, and our stock price could be negatively affected.***

After the transactions, we expect to continue to experience operating losses and negative cash flow from operations. Any failure to achieve or maintain profitability and positive cash flow could negatively impact the market price of our common stock and our ability to continue as a going concern. Neither Abiliti nor we has been profitable or cash flow positive on a quarterly or annual basis, and we anticipate that after completion of the transactions, we will incur net losses and negative cash flow for the foreseeable future. As a result, we will need to generate significant quarterly revenues if we are to achieve and maintain profitability and positive cash flow. A failure to achieve profitability or positive cash flow in the near term could make it difficult or impossible for us to grow our business. If our business strategy is not successful, we may not generate significant revenues or achieve profitability.

***Future sales of substantial amounts of our common stock could cause the market price for our common stock to significantly decline.***

After the transactions, sales of substantial amounts of our common stock in the public market (or the public perception that such sales might occur) could cause the market price of our common stock to fall, and could make it more difficult for us to raise capital through public offerings or other sales of our capital stock. Additionally, Abiliti and the Behrman Funds will have the right to demand registration of the common stock issued to them in the transactions, including the shares of common stock issuable upon conversion of the series F preferred stock and exercise of the Warrants issued to them in the transactions. In the event Abiliti and the Behrman Funds exercise such right, the number of shares of our common stock available for resale would be significantly increased.

#### **Risks Related to Abiliti's Business**

***Abiliti depends upon two customers for substantially all of its revenues, and the continuation of these customer relationships prior to or subsequent to consummation of the transactions is not assured.***

During the nine months ended September 30, 2002, an aggregate of approximately 91% of Abiliti's revenues were received from two customers. We would be required to consummate the transactions, if all other conditions to the asset purchase and the investment agreement are satisfied, even if Abiliti lost either or both of these customers. There can be no assurance that Abiliti or, after the consummation of the transactions, we will be able to retain any significant portion of the business currently represented by these customers. One of these customers, which represents approximately 66% of Abiliti's revenues during the nine months ended September 30, 2002, stated publicly that it will implement a competitive product for billing of new customer accounts, but Abiliti expects its products will continue to be used to bill such customers' existing customers accounts. Abiliti's contract with this customer permits termination by the customer, and the grant to the customer of a non-exclusive license of Abiliti's source code, in the event of certain material adverse changes in Abiliti's business. The customer has acknowledged that the transactions, on their own, will not be considered a material adverse change.

***Abiliti has not achieved profitability on a quarterly basis, and its business may incur net losses for the next several quarters.***

Abiliti incurred net losses of \$15,501,306, \$14,829,510 and \$7,094,758 for the fiscal years ending December 31, 1999, 2000 and 2001, respectively, and incurred a net loss of approximately \$2,045,000 for the nine months ending September 30, 2002. Abiliti has not realized any profit on a quarterly basis since 1998, and its business may not achieve profitability in the near future. Abiliti has undertaken cost reduction measures, including a reduction in work force effective October 8, 2002, but there can be no guarantee that further cost reductions or reductions in operations will not be required, nor that any such reductions will result in Abiliti's business achieving profitability. If Abiliti's operations achieve profitability, there can be no guarantee that such profitability could be sustained or increased on a quarterly or annual basis in the future.

***Abiliti faces significant competition from companies that have greater resources than Abiliti and we possess either individually or together, and the markets in which Abiliti competes are relatively new, intensely competitive, highly fragmented and rapidly changing.***

The markets in which Abiliti competes are relatively new, intensely competitive, highly fragmented and rapidly changing. Abiliti's principal competitors include other Internet enabled billing and customer care system providers, operation support system providers, systems integrators and service bureaus, and the internal information technology departments of larger communications companies that may elect to develop functionalities similar to those provided by Abiliti's products and services rather than buy them from Abiliti or, after consummation of the transactions, us. Several of Abiliti's competitors have recently gone through business combinations with other competitors that may result in an advantage for them due to combinations in technology, experience, financial resources and other economic synergies. Many of Abiliti's current and future competitors may have advantages over Abiliti and us, including:

longer operating histories;

larger customer bases;

substantially greater financial, technical, research and development and sales and marketing resources;

a lead in expanding their business internationally;

greater name recognition; and

the ability to more easily provide a comprehensive hardware and software solution.

The current and potential competitors of Abiliti have established, and may continue to establish in the future, cooperative relationships among themselves or with third parties, including telecommunications hardware vendors, and system implementers, that would increase their ability to compete with Abiliti. In addition, competitors may be able to adapt more quickly than Abiliti or we can to new or emerging technologies and changes in customer needs, or to devote more resources to promoting and selling their products. If Abiliti or we fail to adapt to market demands and to compete successfully with both our and Abiliti's existing and new competitors, our business and financial performance would suffer.

***Many of the current and potential customers for Abiliti's products and services lack financial resources, and if they cannot secure adequate financing, we may not maintain their business, which would negatively impact our revenue and results of operations after the transactions.***

Many of the current and potential customers of Abiliti's products and services lack significant financial resources. These companies rely to a large degree, on access to the capital markets for growth, which has been significantly cut back over the past year. Their failure to raise capital has hurt their financial viability and caused many to reduce their information technology spending, which has adversely affected their ability to purchase the products and services offered by Abiliti and us.

The revenue growth and profitability of Abiliti's business depends significantly on the overall demand for billing software products and services, particularly in the product and service segments in which Abiliti and we compete. Softening demand for these products and services caused by worsening economic conditions, may result in decreased revenues or growth rates. The weakening in the U.S. economy has resulted in companies delaying or reducing expenditures, including expenditures for information technology. Highly publicized bankruptcies such as those at Global Crossing, Kmart, Enron and WorldCom have caused further tightening of the credit and equity markets overall. Telecommunication providers are among the most affected by these changes. The credit and equity situation has caused many of the telecommunication providers to significantly cut back capital spending on information technology.

In addition, the ability of Abiliti's current customers to generate revenues or otherwise obtain capital could adversely impact their ability to purchase additional products and services or renew maintenance and support agreements. If they go out of business there will be no future licenses or services to support continuous revenue. The lack of funding available in these customers' markets, the recent economic downturn in the technology market and customers shutting down operations, combining or declaring bankruptcy may cause the accounts receivable associated with Abiliti's operations to continue to increase. There is no assurance Abiliti or we will be able to collect all outstanding receivables associated with Abiliti's operations.

***Abiliti's lengthy sales cycle makes it difficult to predict the timing of sales and the resulting revenue, and revenue may vary from period to period, which may adversely affect our common stock price.***

The sales cycle associated with the purchase of Abiliti's products and services is lengthy, and the time between the initial proposal to a prospective customer and the signing of a license agreement can be as long as one year. Abiliti's products and services involve a commitment of capital that may be significant to the customer, with attendant delays frequently associated with large capital expenditures and implementation procedures within an organization. These delays may reduce the revenues in a particular period associated with operations that we have agreed to acquire from Abiliti, without a corresponding reduction in costs, which could hurt our results of operations for that period.

***The success of the products and services acquired from Abiliti will depend in part upon our ability to continually enhance those offerings to meet the changing needs of service providers, and if we are not able to do so we will lose future business to its competitors.***

We believe that the future success of the products and services that we have agreed to acquire from Abiliti will depend to a significant extent upon our ability to enhance these offerings and to introduce new products, features and services to meet the requirements of our customers in a rapidly developing and evolving market. The requirements of the current and prospective customers for Abiliti's products and services may change and these or our future products or services may not satisfy the evolving needs of our target markets. We have significantly reduced the amount of cash we will utilize for research and development. This reduction may make it more difficult to enhance our future offerings. If we are unable to anticipate or respond adequately to customer needs, we may lose business and our financial performance may suffer.

***If we cannot continue to obtain or implement the third-party software that is incorporated into Abiliti's offerings of products and services, we may have to delay our development or redesign efforts, which could have an adverse effect on our revenue and results of operations.***

The products and services that we have agreed to purchase from Abiliti involve integration with products and systems developed by third parties. If any of these third-party products should become unavailable for any reason, fail under operation with our offerings of products and services, or fail to be supported by their vendors, it would be necessary for us to redesign our offerings of products and services. We might encounter difficulties in accomplishing any necessary redesign in a cost-effective or timely manner. We also could experience difficulties integrating our offerings of products and services with other hardware and software. Furthermore, if new releases of third-party products and systems occur before we

develop products and services compatible with these new releases, we could experience a decline in demand for our offerings, which could cause our business and financial performance to suffer.

***We may be unable to protect the proprietary technology acquired from Abiliti, and our competitors may infringe on this technology, or develop competitive technology, any one of which could harm the value of this proprietary technology.***

Any misappropriation of the technology that we acquire from Abiliti or the development of competitive technology could seriously harm our business. Abiliti has relied, and we will rely, on a combination of patent, copyright, trademark and trade secret laws, customer license agreements and employee and third-party agreements to protect our respective proprietary rights. These steps may not be adequate, and we do not know if they will prevent misappropriation of this intellectual property, particularly in foreign countries where the laws may not protect proprietary rights as fully as do the laws of the United States. Other companies could independently develop similar or superior technology without violating our proprietary rights. If we have to resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive and could involve a high degree of risk.

***Claims by others that Abiliti's products or services infringe their proprietary technology could be costly and harm our business.***

Third parties could claim that the products, technology or services that we have agreed to purchase from Abiliti infringe their proprietary rights. An infringement claim against us or Abiliti could be costly even if the claim is invalid, and could distract our management from the operation of our business. Furthermore, a judgment against us could require us to pay substantial damages and could also include an injunction or other court order that could prevent us from selling these or other offerings. If we faced a claim relating to proprietary technology or information, we might seek to license technology or information, or modify our own, but we might not be able to do so. Our failure to obtain the necessary licenses or other rights or to develop non-infringing technology could prevent us from selling these or other products or services and could seriously harm our business.

***Product defects or software errors in the products acquired from Abiliti could adversely affect our business due to costly redesigns, production delays and customer dissatisfaction.***

Design defects or software errors in the products that we have agreed to purchase from Abiliti may cause delays in product introductions or damage customer satisfaction, either of which could seriously harm our business. Software products of these types are highly complex and may, from time to time, contain design defects or software errors that may be difficult to detect and correct. Although the license agreements with Abiliti's customers contain provisions designed to limit Abiliti's, and upon consummation of the transactions our, exposure to potential claims and liabilities arising from customer problems, these provisions may not effectively protect us against all claims. In addition, claims and liabilities arising from customer complaints could significantly damage our reputation and hurt our business.

## THE SPECIAL MEETING

### General

This proxy statement is furnished in connection with the solicitation of proxies from the holders of our common stock and series F preferred stock by the board of directors for use at a special meeting of our stockholders to be held on the date and time set forth below and any adjournment or postponement of that meeting.

This proxy statement is first being mailed to our stockholders on or about November 21, 2002.

### Date, Time and Place

Our special meeting will be held at our offices at 902 Clint Moore Road, Suite 230, Boca Raton, Florida 33487, on December 20, 2002 at 9:00 a.m., local time.

### Matters to be Considered at the Special Meeting

At the special meeting, our stockholders will be asked:

- (1) To approve an asset purchase agreement between us, Daleen Solutions and Abiliti and the transactions contemplated thereby, including the issuance by us to Abiliti of shares of our common stock, shares of series F preferred stock and Asset Purchase Warrants;
- (2) To approve an investment agreement between us and the Behrman Funds and the transactions contemplated thereby, including the issuance and sale by us in a private placement to the Behrman Funds of shares of common stock, shares of series F preferred stock and Investment Warrants for an aggregate purchase price of \$5.015 million and the adoption of the LTIP;
- (3) To approve an amendment to our Certificate of Incorporation to (i) increase our authorized shares of series F preferred stock from 356,950 shares to 588,312 shares and (ii) amend the terms of the series F preferred stock to provide that the transactions contemplated by the asset purchase agreement and investment agreement will not (A) result in an adjustment to the conversion price of the series F preferred stock or (B) give rise to redemption rights in favor of the holders of series F preferred stock; and
- (4) To transact such other business as may properly come before the meeting or any adjournment thereof.

### Record Date and Voting Rights

Our board of directors has fixed the close of business on November 12, 2002, as the record date for the special meeting. Only persons who are holders of record of our outstanding common stock and series F preferred stock as of the record date are entitled to vote. As of the record date, 23,535,297 shares of common stock and 226,862 shares of series F preferred stock were issued, outstanding, and entitled to vote at the special meeting. Each holder of record of common stock on the record date will be entitled to one vote for each share held on all matters to be voted upon at the special meeting. Each holder of record of series F preferred stock on the record date will be entitled to 100 votes for each share held on all matters to be voted upon at the special meeting and will vote with the holders of common stock as a single class as well as a separate class on Proposals 1, 2 and 3. As a result, an aggregate of 46,221,497 votes are eligible to be cast on each of the proposals at the special meeting.

### Quorum, Abstentions and Broker Non-Votes

To hold the special meeting, we need a quorum, which means a majority of our outstanding shares of common stock and series F preferred stock (voting on a 100 for 1 basis) counted as a single class as of the record date, and a majority of the outstanding shares of our series F preferred stock counted as a



separate class as of the record date must be present at the meeting either in person or by proxy in order to hold the meeting and conduct business. Abstentions and broker non-votes (meaning proxies submitted by brokers as holders of record on behalf of their customers that do not indicate how to vote on the proposal) are also considered part of the quorum.

Abstentions and broker non-votes will have the following effects on the outcome of each of the proposals to be considered at the special meeting:

With respect to Proposals 1 and 2, abstentions and broker non-votes will have no impact on the outcome of the vote, except that abstentions and broker non-votes with respect to series F preferred stock will have the effect of a vote AGAINST Proposals 1 and 2 in connection with the approval of such proposals by the series F preferred stock voting as a separate class.

With respect to Proposal 3, abstentions and broker non-votes will have the same effect as a vote AGAINST the proposal.

### **Votes Required for Approval**

The following votes are required for the approval of each proposal:

Proposal 1 (to consider and vote on the asset purchase, the related asset purchase agreement and the transactions contemplated thereby, including the issuance of shares of our common stock, series F preferred stock and Asset Purchase Warrants in the asset purchase) and Proposal 2 (to approve the investment agreement and the transactions contemplated thereby, including the issuance of shares of common stock, shares of series F preferred stock and Investment Warrants in the private placement and the adoption of the LTIP) require (i) the affirmative vote of a majority of the total votes cast at the special meeting with the holders of our common stock and series F preferred stock (voting on a 100 for 1 basis), voting together as a single class, and (ii) the affirmative vote of the holders of a majority of our outstanding series F preferred stock voting as a separate class.

Proposal 3 (to approve amendments to our Certificate of Incorporation) requires (i) the affirmative vote of 66 2/3% of our outstanding shares of common stock and series F preferred stock (voting on a 100 for 1 basis), voting together as a single class, and (ii) the affirmative vote of the holders of a majority of our outstanding series F preferred stock voting as a separate class.

Certain of the holders of our common stock and series F preferred stock have entered into voting agreements with Abiliti pursuant to which they have agreed, subject to the terms and conditions of the voting agreement, to vote all of their shares of common stock and series F preferred stock in favor of the asset purchase agreement, the investment agreement and the transactions contemplated thereby, including the issuance of shares of our common stock, series F preferred stock and Warrants in the transactions, the amendments to our Certificate of Incorporation described in Proposal 3, and any other matter necessary to effect the transactions. The shares subject to the voting agreements represent in the aggregate more than 66 2/3% of the outstanding voting power of our common stock and series F preferred stock entitled to vote at the special meeting and more than a majority of our outstanding shares of series F preferred stock.

### **Proxies**

We request that our stockholders complete, date and sign the accompanying proxy cards and promptly return it in the accompanying envelope. If you receive more than one proxy card, it means that you either have common stock and series F preferred stock, or multiple accounts at the transfer agent and/or with brokers. Please sign and return all proxy cards to ensure that all your shares are voted.

If your shares are held in street name, your brokerage firm may vote your shares under certain circumstances. These circumstances include certain routine matters, such as the election of directors, but do not include other matters, including approval of the asset purchase, the private placement and the

proposed amendments to our Certificate of Incorporation. Brokers will provide instructions to beneficial owners on how to direct the broker to vote the shares. Broker non-votes (meaning proxies submitted by brokers as holders of record on behalf of their customers that do not indicate how to vote on the proposal) are counted only for purposes of establishing a quorum.

All properly executed proxies that we receive prior to the vote at the special meeting, and that are not revoked, will be voted in accordance with the instructions indicated on the proxies. If no direction is indicated (other than broker non-votes), your proxy will be voted FOR each of the proposals described in this proxy statement. Our board of directors does not currently intend to bring any other business before the special meeting and our board of directors is not aware of any other matters to be brought before the special meeting. If other business properly comes before the special meeting, the proxies will be voted in accordance with the judgment of the proxy holders.

You may revoke your proxy and change your vote at any time before the polls close at the special meeting. You may do this by:

sending written notice to our corporate secretary at 902 Clint Moore Road, Suite 230, Boca Raton, Florida 33487;

signing another proxy with a later date and delivering the proxy to our corporate secretary; or

voting again at the special meeting.

#### **How to Vote**

You may vote your proxy by mail, or by attending the special meeting in person.

***You may vote by mail.*** There is a proxy card for common stock and a proxy card for series F preferred stock. We have enclosed proxy card(s) that represent your shares. You may vote by mail by signing your proxy card(s) and mailing it in the enclosed, prepaid and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct. You may vote FOR, AGAINST or ABSTAIN for Proposals 1, 2 and 3.

A properly executed proxy card marked ABSTAIN as to any proposal will not be voted with respect to that proposal, although it will be counted for purposes of determining whether there is a quorum. If you just sign your proxy card with no further instructions, your shares will be counted as a vote FOR all of the proposals.

***You may vote in person at the meeting.*** Written ballots will be passed out to stockholders who wish to vote at the meeting. If you hold your shares in street name (through a broker or other nominee), you must request a legal proxy from your broker in order to vote at the meeting.

#### **Dissenters Rights**

None of our stockholders are entitled to exercise dissenters rights in connection with any of the proposals to be considered at the special meeting.

## THE COMPANIES

### Daleen

We are a global provider of billing and customer care software solutions that manage the revenue chain for traditional and next generation communication service providers, retailers and distributors of digital media, and technology solutions providers. Offering integration with leading customer relationship management (CRM) and other legacy enterprise systems, our *RevChain* software and Internet Integration Architecture (*IIA*) leverage the latest open Internet technologies to enable providers to achieve enhanced operational efficiency while driving revenue from their product and service offerings. *RevChain* applications deliver proven interoperability and scalability, making the software highly adaptable and ready for the future. As a result, service providers are able to accelerate their time-to-revenue, adapt to new technologies, and extend the value of their technology investment.

Our *RevChain* product family is composed of individual applications that are built on our *IIA*, an Internet computing architecture. The *RevChain* product line includes the following:

*RevChain* Commerce a convergent billing and customer care solution;

*RevChain* Interact an Internet interface for customer service representatives;

*RevChain* Care web-based customer account management and self-care with electronic bill presentment and payment (EBPP);

*RevChain* mCommerce customer account management and billing on the mobile device;

*RevChain* Express flat-rate billing and customer care; and

*RevChain* Select original equipment manufacturer (OEM) versions of *RevChain* applications.

We can configure our products to address service and feature requirements for specific industry segments. We offer these pre-configured applications as packaged industry suites.

We also offer professional services, product support and customer training related to the *RevChain* product family and other products we previously licensed to customers.

We originally were incorporated in Illinois in 1989 and later changed our domicile and became incorporated in Florida. In 1999, we changed our domicile and became incorporated in Delaware.

### Daleen Solutions

Daleen Solutions, Inc. is our indirect, wholly-owned subsidiary. It was formed for the purpose of purchasing the assets and assuming certain liabilities of Abiliti pursuant to the asset purchase agreement.

### Abiliti

#### *Overview*

Abiliti is a provider of billing, rating and event management and customer care, or BREM&CC, solutions to network service providers. Since its inception, Abiliti has provided billing services to a diverse group of carriers—wholesale providers, inter-exchange carriers, or IXC, competitive local exchange carriers, or CLECs, and integrated communications providers, or ICPs—including SBC Long Distance, Allegiance Telecom, Inc., Onvoy Inc. and Williams Global Voice Services. Abiliti was incorporated in Missouri in 1987 as Intertech Management Group operating as an engineering consulting firm focused on telecommunications. In the early 1990s, Abiliti began to do extensive work in the billing and customer care area, which has become its sole focus. In addition to custom development of billing solutions, Abiliti provided outsourced services to some of its customers.



While Abiliti also provides site licenses to those customers who wish to maintain an in-house billing operation, its core competency and most significant competitive differentiation is in providing solutions through its *BillingCentral* outsourcing model. Abiliti's approach is differentiated from its competitors in that (a) where its competitors rely on the more traditional service bureau model, Abiliti operates as a billing application service provider, or ASP, providing a tailored billing solution for each customer based on its core *NetworkStrategies* billing product, and (b) while competing software vendors can have their software hosted by third parties, Abiliti's customers deal with Abiliti as a single source for application software, hosting, billing operations, customization, and support.

Abiliti also offers *Rate IT* a stand-alone rating capability that adds functionality to existing billing systems, allowing service providers to meet recent competitive challenges, avoiding the cost, time and complexity involved in fully replacing a legacy billing system.

In addition to its billing offerings, Abiliti recently introduced its new event management product called *Simpliciti.net*. Based on the strength and flexibility of the product, new market opportunities are being pursued in network event management. The initial implementation occurred with SBC Long Distance.

### ***Abiliti's Strategy***

Abiliti's strategy has two primary growth areas—organic growth and growth through aggregation. The first two elements described below are part of the organic growth strategy, while the last is the aggregation strategy.

*Expand the Core Outsourcing Business.* Abiliti has a core product suite that can meet the needs of a cross section of network service providers. While also providing site licenses, Abiliti has chosen to focus on providing outsourced services. Abiliti is using a somewhat unique approach in operating as a billing ASP—hosting its own applications, in its own data center, and providing all the necessary support services to provide a one source, one call solution. Abiliti has focused on differentiating this product further by providing an Internet based front end for its customers to use in having visibility into, and effectively having oversight of, the billing process—but without doing the work. The recurring revenue model of the outsourced services business results in somewhat slower revenue growth, but provides sustainability over a longer period of time.

*Broaden the Revenue Base.* The introduction of *Rate IT* and *Simpliciti.net* enabled Abiliti to expand its product suite while increasing its target market. The rating and event management applications offer increased revenue opportunities from existing customers while creating sales opportunities with customers not looking to replace their legacy billing systems. In addition, these products were created with the scalability and flexibility to support the largest Tier 1 service providers, anywhere in the world, thereby creating a larger target market for Abiliti's sales effort.

*Implement the Aggregation Strategy.* The aggregation strategy involves combining the resources of Abiliti with other billing and operational support systems (OSS) vendors serving the telecom marketplace. This strategy is responsive to the current economic conditions in the telecom industry, where a large number of vendor firms were created to support a level of carrier growth and spending that was occurring in the late 1990's, but which no longer exists, and is highly unlikely to return in the foreseeable future. As such, Abiliti believes many firms are likely to fail or be at best marginally viable over the next 18 months or more. The unprecedented investments made in the 1990's in products and technology, acquisition of customers, and development of distribution channels to address the then rapidly growing market cannot be replicated in the current economic climate. Abiliti believes these assets can be developed much more cost effectively through targeted aggregations of other billing and/or OSS companies. These aggregations could be accomplished through mergers or acquisitions.

## *Products and Services*

*Design and Technology.* Today's network service providers must have the flexibility to react quickly to changing market conditions. Abiliti has moved away from reliance on the hard coding dynamic factors as is frequently found in other systems, including factors such as product and service definitions, market bundles, and rules for computing charges and discounts. This flexible design of the products allows customers to customize the solution according to their needs without changing the underlying code of the product. Instead, they use a graphical user interface, or GUI, to define decision processes and actions through user interfaces. To simplify and accelerate the initial setup, the products include extensive libraries of standard rules and service templates that can often be applied with few or no changes.

Abiliti's products are built on Microsoft's Windows 2000® and SQL Server 2000® platforms. Unlike its principal competitors, Abiliti is exclusively focused on the Microsoft Windows technology base. In taking this approach, Abiliti believes that it gains a competitive advantage by creating a highly optimized, and more easily supported code base built around a specific operating system, and by taking advantage of the functionality built into the Microsoft platforms.

*The Product Suite.* Abiliti offers a product suite comprised of *Rate IT*, *NetworkStrategies*, *BillingCentral*, and *Simpliciti.net*.

*Rate IT* In the billing process, this application computes charges on individual network service events. *Rate IT* combines extensive flexibility with exceptional performance and scalability. *Rate IT* can compute charges on individual network service events delivered in virtually any voice and data format, using any unit of measure, rating various types of events, including content, quality of service, and other non-traditional metrics. Using a GUI, business rules are user definable without code changes. *Rate IT* was designed for scalability, both up and out, by supporting multi-processor and multi-server configurations. Using a low cost three server configuration, it has been benchmarked at a processing rate of 62 million events per hour. Additionally, the architecture of the application allows it to scale out to significantly higher volumes.

*NetworkStrategies* This application accepts rated events from *Rate IT*, aggregates them, and applies account-level charges, discounts, taxes, and other adjustments. *NetworkStrategies* emphasizes customer control and the ability to quickly respond to changing market needs, giving the customer the ability to quickly configure account hierarchies, define new products, create product bundles, and implement complex pricing and discount structures, without having to wait for costly and time consuming software development. With its open architecture, *NetworkStrategies* can interface with other OSS vendors. *NetworkStrategies* has the scalability to support up to 500 concurrent workstations.

*BillingCentral* *BillingCentral* is Abiliti's implementation of billing services as an outsourced solution that integrates both *Rate IT* and *NetworkStrategies* into a unified outsourced billing solution. Other billing solution providers offer a more traditional service bureau solution where customers must fit into a standard offering. Abiliti hosts its own applications in its data center where each customer is serviced by dedicated equipment, thereby allowing a tailored billing solution for each customer, including interfaces to third-party applications, special access arrangements, and other customized services.

*BillingCentral* services are scalable across a large number of customers through the use of Abiliti's proprietary automation tools and a secure Internet site. The tool set provides benefits to both Abiliti and its customers. Abiliti's staff utilizes the tool set to efficiently manage an extensive array of billing tasks across all customers. It is comprised of two primary user modules that enable the *BillingCentral* group to develop and execute customized billing sequences for each customer. The staff moves seamlessly between customer servers as they execute, manage, monitor, and approve billing tasks. The tools further enable *BillingCentral* to incorporate standard, as well as customer specific, revenue assurance and metric reporting routines. And, much of the billing stream data from the system is eligible for reporting to the customer via the *BillingCentral.net* web site.

For customers, *BillingCentral* services provide Internet based visibility into the entire billing process. Through a standard Internet browser, Abiliti's products allow customers to have complete visibility and full

control of the billing process, without having to do the work. Customers gain access through a secure Internet portal that allows them to view customer information and approve various phases of the billing cycle. Because the billing process is automated, with verifications and revenue assurance checks tailored to each customer, users receive automatic alerts when there are problems or when their approval is required to begin the next phase in the billing cycle. Once approved by a customer, the next phase begins automatically.

By using *BillingCentral* rather than purchasing a site license, customers not only minimize the work on their part, but they can also realize significant savings. When a site license is purchased the customer must pay not only for the license, but also the hardware needed to run the product, labor costs associated with staff to oversee the billing process, third party software used for taxes, tariffs and invoice creation and maintenance expenses. Abiliti and the customer share in the benefits of better utilization of resources, both facilities and people, as well as a much higher level of expertise in both Abiliti's application and the overall billing process itself.

*Simpliciti.net* Abiliti's highly configurable *Simpliciti.net* event management software offers service providers an immediate return on their investment by simplifying the business and operational complexity caused by today's heterogeneous networks, multiple downstream OSSs and continually emerging services. Powered by Abiliti's proven rules-driven architecture, *Simpliciti.net*'s dynamic nature allows service providers to quickly and efficiently support new services and event data formats, without complex programming. By giving service providers a comprehensive, enterprise-wide view of the data flowing through their network, *Simpliciti.net* is designed to improve revenue assurance and allow service providers to make strategic business decisions that enable them to rapidly respond to changing market conditions.

## Customers

Abiliti's customer base includes wholesale providers (e.g., Williams Global Voice Services, Inc.), inter-exchange carriers (e.g., SBC Long Distance, Global Crossing Telecom, Inc.), CLECs (e.g., Allegiance Telecom, Inc.) and ICPs (e.g., Onvoy, Inc., U.S. Signal Company, Inc., Clear Rate Communications, Inc., Data Integration Systems). The current users of Abiliti's products and services report a high degree of satisfaction from their respective customers.

## Competition

The markets in which Abiliti competes are intensely competitive, highly fragmented, and rapidly changing. Abiliti's products compete on the basis of product functionality, performance, scalability, extensibility, ease of integration and cost of ownership. Abiliti also is evaluated on its responsiveness to the needs of customers, specific product features and functionalities, the timeliness of implementations, quality and reliability of products, pricing strategies, project management capability, financial condition and technical expertise.

Abiliti's main event management competitors include:

Intec Telecom Systems PLC;  
Narus, Inc.; and  
Openet.Telecom

Abiliti's main billing competitors include:

Daleen;  
Billing Concepts, Inc.;  
ADC Telecommunications, Inc;  
EUR Systems, Inc.; and  
Convergys, Inc.

Abiliti's main stand alone rating competitors include:

RateIntegration, Inc.

Abiliti also competes with the internal information technology departments of large communications companies, that may elect to develop functionality such as those provided by Abiliti's products in-house rather than buying from outside suppliers.

Abiliti believes that its ability to compete depends in part on the performance of its competition, including the development by others of software that is competitive with Abiliti's products and services, the price at which others offer competitive software and services, the extent of competitors' responsiveness to customer needs and the ability of its competitors to hire, retain and motivate key personnel.

### **Professional Consulting Services, Maintenance, Technical Support and Training**

Abiliti's customer services are designed to provide customers with superior services and support while giving them the tools and knowledge they need to independently run their day-to-day operations. The following services are provided:

*Professional Consulting Services.* Abiliti provides a variety of professional consulting services to assist customers in the implementation, modification and customization of products and market-based packages. Abiliti provides these services under services agreements with its customers. Abiliti works with customers to establish business models and processes that utilize Abiliti's products to increase their customer's market power and lower their operating costs.

*Maintenance.* Abiliti has maintenance and support programs that provide customers with timely maintenance and support services for Abiliti's products. Abiliti provides these services under maintenance agreements with its customers. The maintenance agreement entitles customers to multiple levels of telephone and email technical support for prompt and professional response to maintenance issues during and after normal business hours.

*Third-party Software Fulfillment.* When customers require it, Abiliti provides a complete solution by offering third-party software products related to its *NetworkStrategies*, *Rate IT*, and *Simpliciti.net* applications. Abiliti provides platform products, such as the Windows NT® operating system running an SQL® database. Abiliti also provides complementary products that integrate with its applications, such as Doc1 from Group 1 Software for invoice rendering; and tools that support development and reporting, such as Crystal Decisions, Inc.'s Crystal Reports.

*Training.* Abiliti offers training programs using a variety of media to provide customers with the skills needed to use its software. For customers who are more comfortable with traditional instructor-led sessions, Abiliti offers a full suite of technical and end-user training programs. A training consultant is assigned to each customer to tailor the training of a customer's staff during the life cycle of the project.

### **Sales and Marketing**

*Sales.* Nearly all of Abiliti's sales are through a direct sales force. The sales force works closely with targeted customers to define and determine how their needs can be fulfilled with Abiliti's products and services. As of October 8, 2002, Abiliti's sales force consisted of four individuals, all of whom are based in North America.

Due to the sophisticated nature of Abiliti's products and services and the current economic environment, the duration of a sales cycle can typically range anywhere from several months to one year or longer.

*Marketing.* Abiliti's marketing function provides target market publicity for the company, as well as sales lead generation and any other activity needed to support corporate goals. Publicity is provided through interaction with industry analysts, press, and the media to ensure prospects are aware of Abiliti and its capabilities prior to sales calls. Lead generation activities, including trade shows and advertising, are conducted to provide the sales force with leads in support of revenue goals for the year.

The marketing function also provides and administers direct mail campaigns, telemarketing, tradeshow participation, public relations advertising, web-site maintenance, product collateral, case studies and white papers and presentations, in support of sales and marketing programs.



## Research and Development

Abiliti's product development capabilities are essential to enhancing its core technology, developing additional applications, incorporating that technology and maintaining the competitiveness of its products. Abiliti recognizes that its ability to create and extend its products with each release comes from investing in exceptionally talented software engineers, quality assurance testers and billing and telecommunications specialists. In addition, Abiliti has used, and may use in the future outside programming resources to perform contract labor on research and development. Abiliti also has created a structured process for both platform and market package releases that serves as a framework for minimizing its product development cycle times and ensuring quality software releases that meet or exceed customers' requirements.

Abiliti's research and development expenses totaled approximately \$2.6 million for the first nine months of 2002, \$3.1 million for 2001, and \$7.5 million in 2000. In connection with a reduction in workforce that took place on October 8, 2002 (the October 2002 Restructuring), approximately 10 positions related to research and development were eliminated, resulting in 38 employees engaged in research and development activities, all located at Abiliti's corporate headquarters in St. Louis, Missouri.

## Intellectual Property

Abiliti's success and ability to compete are dependent upon continuous improvements of its existing product portfolio and the continued development of new solutions. To protect its technology, Abiliti relies primarily on copyright, trade secret and trademark laws. In the ordinary course of business, Abiliti enters into confidentiality or license agreements with its employees, consultants and corporate partners. These agreements control access to and distribution of its software, documentation and other proprietary information. In addition, Abiliti licenses its products to end users in object code, machine-readable format and its license agreements generally allow the use of its products solely by the customer for internal purposes without the right to sublicense or transfer the products.

## Employees

As of November 19, 2002, Abiliti had 69 full-time employees, of whom 38 were engaged in research and development, nine in sales and marketing, 17 in services and support and five in executive, finance, human resources and administration. None of Abiliti's employees are represented by a labor union. Abiliti believes that its employee relations are good.

## THE TRANSACTIONS

### Background of the Transactions

Over the last two years, we have considered strategic business alternatives extensively, and have held discussions with various parties regarding the same. Most of our discussions resulted from efforts initiated by our investment bankers, although we directly communicated with certain parties as well. From time to time various parties expressed an interest in pursuing an opportunity with us, but by early 2001, no serious discussions regarding a strategic business combination materialized.

In early January 2001, we reported preliminary results of operations indicating that we missed our fourth quarter revenue and earnings estimates. Additionally, the faltering of the telecommunications sector and the downturn in general economic conditions was having an adverse impact on our revenue and use of cash. It became clear that we needed to respond quickly to complete a financing transaction, or alternatively to enter into a business combination that addressed our needs.

In April 2001, we reached an agreement for a \$27.5 million private placement of our series F preferred stock. This transaction closed in June 2001. Subsequent to the closing of this private placement we continued our efforts to explore various strategic alternatives.

In May 2001, we engaged Salomon Smith Barney, Inc. as our financial advisor to explore strategic opportunities for us. The process targeted approximately 20 prospects, including potential business combination partners and financial investors, that were determined to be the most likely candidates for a transaction. Although a few prospects showed interest, no serious discussions ensued.

In late July 2001, our management, working with Salomon Smith Barney, Inc., renewed discussions with a party that previously expressed an interest in forming a business combination with us. While we made progress toward consummating a transaction, in the end the party decided not to continue with the process, citing its concerns over our financial condition and operating results.

On November 9, 2001, Salomon Smith Barney, Inc. held a meeting at our corporate headquarters in Boca Raton, Florida, with a potential merger candidate from the billing and customer care industry, referred to here as Party A. James Daleen, our chairman and chief executive officer, Salomon Smith Barney, Inc. and the president and chief executive officer of Party A attended the meeting. During the meeting, the parties discussed their respective businesses, products, strategies, and target markets. At the conclusion of the meeting, the parties agreed to continue to evaluate the merits of a business combination.

During January 2002, faced with continued weak sales, an increasingly difficult telecommunications market and reduced cash reserves, our management team began a process to more aggressively seek strategic alternatives. We created a list of more than ten additional prospects and Salomon Smith Barney and our management began to contact these prospects to determine their level of interest.

In late January 2002, Salomon Smith Barney, Inc. notified us that our primary contact at Salomon Smith Barney, Inc. had been transferred and would no longer be able to provide services to us. On January 23, 2002, we terminated our relationship with Salomon Smith Barney, Inc. and commenced a search for a new investment banking firm.

In February 2002, our board of directors elected to engage Kaufman Bros. to assist, expand, and expedite our process for pursuing strategic alternatives. During the second week of February 2002, we executed an engagement letter with Kaufman Bros., which shortly thereafter began to contact prospects identified by Kaufman Bros. and us.

Kaufman Bros. contacted approximately 50 parties that we viewed as potential business combination partners or financial investors or buyers. Thirty-three parties had software operations in communications software, Internet infrastructure software, network infrastructure or software development and integration. Seventeen of the parties were financial institutions with investments in communications software. Ten parties visited us, met with our management or had conference calls to discuss our operations and a potential transaction. Four parties conducted due diligence investigations beyond a general presentation,

which included technical reviews, meetings with product management personnel and reviews of financial information.

During the second half of February 2002 and early March 2002, two opportunities developed that appeared promising. The first opportunity was the renewed discussions with Party A. Our management and Party A's management conducted several teleconferences and held meetings to discuss the rationale for the proposed business combination, as well as the merits of continuing discussions. The second opportunity was with a large company, which we refer to here as Party B, that has a division that performs billing and customer care services. Party B was exploring ways to leverage its billing and customer care division's performance. Initial discussions with Party B focused on a new service offering Party B planned to launch, and the parties initially considered a business combination in the form of a partnering transaction. After further discussions, the parties determined to look at a possible combination as being strategic in nature, in the form of a merger of us with Party B's billing and customer care division or an acquisition of us. Both parties engaged management, finance, and investment banking team members, and conducted significant work and due diligence to study the business combination. However, upon review of the work completed by both parties, both parties decided to curtail further strategic discussions.

During the first week of March 2002, the Abiliti opportunity emerged. Kaufman Bros. held a teleconference with Mr. Daleen and a representative of Behrman Capital, L.P. regarding a possible transaction with Abiliti. During the call, Mr. Daleen described our strategy and the opportunities we perceived to be in the market, and the parties discussed our and Abiliti's industry, trends in the market, and the benefits to exploring discussions between Abiliti and us. The parties determined that we should meet directly with Abiliti to discuss possible opportunities.

On March 20, 2002, Mr. Daleen and Jeanne Prayther, our chief financial officer, met with Gordon Quick, Abiliti's president and chief executive officer, and Mark Wright, Abiliti's vice president of finance, at Abiliti's headquarters in Chesterfield, Missouri. Both parties concluded that significant synergies between the companies appeared to exist, and that the parties should continue to evaluate the merits of a strategic combination. The companies and Kaufman Bros. began work evaluating the business strategy and preparing and reviewing financial information for a combined entity.

On April 4, 2002, we held a teleconference with Party A during which the parties discussed the need for Party A to become more engaged in the process of determining the structure of a business combination between Party A and us, including management composition, facilities, headcount, and financial information for the combined company. Party A's president and chief executive officer requested a meeting with our board of directors to present Party A's business combination proposal.

On April 9, 2002, the president and chief executive of Party A met via teleconference with our board of directors to discuss a possible business combination. Prior to this meeting, Ofer Nemirovsky, a managing director of HarbourVest Partners, LLC and one of our directors, had discussed Party A's level of interest in a possible business combination with a Party A investor and board member. Additionally, the president and chief executive officer of Party A and Mr. Nemirovsky spoke directly. During these discussions, Party A's president and chief executive officer discussed possible terms of a business combination between Party A and us. Party A's presentation to our board of directors provided little detailed information regarding potential synergies, revenue growth potential, marketing position, potential product offerings and the management structure of the combined company.

On April 9, 2002, Mr. Quick, the president and chief executive officer of Abiliti, made a separate presentation to our board of directors. Abiliti's presentation contained a comprehensive overview of the rationale for the proposed business combination, strategic plans for the combined company, various strengths with respect to the business combination, potential synergies, revenue growth potential, marketing position, potential product offerings, management structure of the combined company, pro forma financials, and a proposed post-combination capital structure. Mr. Quick described the basic terms of the proposed transaction. The basic terms included a merger between Abiliti and us, with an additional investment of approximately \$5 million in Abiliti by an existing Abiliti stockholder to be conducted immediately prior to the merger. Upon consummation of the merger, Abiliti's stockholders and our existing stockholders would

each own approximately 50% of the surviving entity's issued and outstanding capital stock, including 50% of our outstanding common stock and series F preferred stock.

Following the presentations Kaufman Bros. presented to our board of directors a synopsis of each company's strengths and weaknesses and helped answer questions from our board of directors regarding each company. After all discussions, our board of directors elected to pursue discussions with both Party A and Abiliti, and directed our management to continue to conduct discussions with both companies.

On April 11, 2002, Party A sent a letter to us outlining the terms of a proposed acquisition of us. The letter contained little detail and left several issues open. The consideration offered by Party A was considerably less than we anticipated. After conferring with Kaufman Bros., we requested further information from Party A and expressed our concerns that Party A was undervaluing our company. The parties exchanged correspondence over the following week to try to clarify the details of Party A's proposal.

On April 18 and 19, 2002, Abiliti visited our Boca Raton, Florida headquarters, and the parties held meetings and conducted due diligence on each other's products. The meetings were attended by Messrs. Quick and Daleen, as well as technical leaders from each company, and covered topics included in each company's products, product architecture, and customers as well as internal processes for development, implementation, and product management. Due to the apparent product synergies and findings upon the product due diligence, between April 20, 2002 and April 26, 2002, we worked with Abiliti to determine the proposed structure of a merger between the companies. The executive, finance, and operational teams of both parties held numerous meetings to prepare financial information, to discuss strategic rationales and product rationalizations, and to continue conducting due diligence.

Between April 24 and April 26, 2002, we continued discussions with Party A. While we worked extensively with Kaufman Bros. to demonstrate to and convince Party A that it should improve the economic terms of its proposal, Party A's final proposal was not materially different than its initial proposal, so that Abiliti's proposal remained the superior offer. Additionally, several issues with Party A's structure and terms of the proposal remained open, making it difficult for our advisors and us to evaluate accurately the value of Party A's proposal.

On April 29, 2002, our board of directors held a meeting at our headquarters in Boca Raton, Florida. The board of directors reviewed the status of strategic discussions and proposals presented by Abiliti and Party A. Present at the board meeting was the entire board of directors, Ms. Prayther, our outside legal counsel, Kaufman Bros. and VM Advisors, a mergers and acquisitions consulting firm. Kaufman Bros. presented a comparative analysis of three alternatives available to us: a business combination with Party A; a business combination with Abiliti; and prospects for our business should we engage in neither business combination. Additionally, Kaufman Bros. discussed with the board of directors pro forma financial information and valuation considerations of each proposal. The board of directors again expressed its view that the Abiliti proposal was superior to the other two alternatives. Our board of directors discussed the alternatives with our advisers and with our management and instructed each to continue to pursue the Party A and the Abiliti proposals, in an effort to improve both proposals as much as possible.

Beginning in early May 2002, Abiliti and we, as well as our respective advisors, maintained frequent contact to discuss and negotiate the terms of the Abiliti transaction. On May 6, 2002, our board of directors met telephonically. During this meeting, the board of directors reviewed the status of the contact process initiated by Kaufman Bros., discussed each of the contacts made to approximately 50 potential combination targets, and discussed extensively the status of the Party A and Abiliti proposals. Mr. Nemirovsky reported that he met with a representative of Behrman Capital, reviewed the terms of Abiliti's proposal with him and confirmed that Abiliti's proposal was contingent on Behrman Capital's making an approximate \$5.0 million investment in Abiliti immediately prior to the business combination. Party A made no changes to its proposal, so it continued to appear that Abiliti presented the superior proposal. Our board of directors directed that our management and our advisors continue to work toward the negotiation and completion of the Abiliti proposal, but also directed our management and our advisors to continue discussions with Party A to determine whether Party A's proposal could be improved.

In early May 2002, during informal meetings with our directors, the directors agreed that it was appropriate to create a special committee of directors for the purpose of reviewing and considering our strategic alternatives. On May 10, 2002, the special committee of our board of directors, consisting of Paul Cataford, Stephen J. Getsy and Ofer Nemirovsky, conducted a meeting. The special committee noted that Party A did not appear willing to improve the terms of its proposal; therefore, we should continue focusing on completing the Abiliti transaction, although we should remain open to an enhanced proposal by Party A in the event such a proposal was offered.

On May 13, 2002, our board of directors formally approved the creation of the special committee consisting of Messrs. Cataford, Getsy and Nemirovsky and ratified the committee's actions to date. The board of directors created the special committee to allow its independent directors to provide guidance with respect to the transactions to management in an efficient manner and on a frequent basis, in order to respond promptly to transaction issues that may arise and strategic alternatives that may present themselves from time to time. Also at the May 13, 2002 meeting, Kaufman Bros. reviewed with the board the consideration proposed to be issued in connection with the Abiliti proposal, including shares of our common stock, series F preferred stock and warrants to purchase additional capital stock.

On May 17, 2002, we delivered a term sheet to Abiliti, together with a memorandum discussing the open issues. On May 20, 2002, the special committee conducted a meeting, in which Mr. Nemirovsky reported on additional discussions with a representative from Behrman Capital regarding the Abiliti proposal. The special committee noted that no progress had been made with Party A, despite our continued efforts to obtain an improved proposal from Party A.

On May 24, 2002, our board of directors held a meeting, at which certain advisors and members of our management were present. Kaufman Bros. reviewed in detail pro forma combined financial information in connection with an analysis of the Abiliti proposal and discussed the synergies between the two companies and other aspects of the proposal. Mr. Daleen and Ms. Prayther updated the board on their conversations with Mr. Quick and reviewed information on the cost and revenue sides of the pro forma combined financial information. Mr. Nemirovsky reviewed with the board of directors additional conversations that he had with the president and chief executive officer of Party A relating to the restructuring of Party A's proposal, and noted that Party A was not inclined to modify its proposal.

On June 3, 2002, our counsel delivered to Abiliti and its counsel a draft of a merger agreement for the Abiliti transaction, which included a requirement that the Behrman funds make an investment in Abiliti prior to the merger. The parties promptly began reviewing, discussing and negotiating the draft merger agreement.

The board of directors conducted a meeting telephonically on June 11, 2002. The board discussed the status of our listing on The Nasdaq National Market and the proposed move to The Nasdaq SmallCap Market, including the impact that such a move would likely have on the proposed transaction with Abiliti. The board reviewed an update on the status of negotiations with Abiliti and the pro forma financial information of the combined company after the consummation of the Abiliti transaction. The board noted that Party A had made no change to its proposal.

On June 18, 2002, Mr. Nemirovsky met with Party A's president and chief executive officer, and discussed the need for Party A to provide an enhanced proposal. Party A declined to provide such proposal. On the same day, Mr. Daleen met with Mr. Quick and discussed the status of the transaction with Abiliti.

On July 10, 2002, Messrs. Foreman and Daleen met with Mr. Quick at a significant customer of Abiliti. The purpose of the meeting was to conduct due diligence on the nature and stability of Abiliti's relationship with the customer, and to determine whether a business combination between Abiliti and us would adversely affect the combined company's relationship with the customer. Based on the discussion with the customer, Messrs. Foreman and Daleen concluded that Abiliti's relationship with its customer was unlikely to be materially adversely affected by the proposed transaction.

On July 18, 2002, the special committee of our board conducted a meeting, to discuss the terms of the Abiliti proposal, in particular Abiliti's requirements relating to provisions prohibiting us or our board of directors from considering alternative transactions once the parties executed the definitive transaction agreement for the Abiliti transaction. Also discussed was the fact that the parties' respective representations and warranties would be effective only at the time of the signing of the definitive transaction documents and would not be brought down or otherwise be deemed effective as of the closing date of the Abiliti transaction, certain economic terms of the Abiliti transaction, including those related to the parties' respective indemnification obligations and the narrow scope of conditions precedent to the closing of the Abiliti transaction. For various business reasons, and in light of our current financial circumstances, the special committee determined that it remained in our best interests to continue to pursue the Abiliti transaction on the terms and conditions negotiated to date, including the requirements of Abiliti discussed above. The special committee then adjourned, and a meeting of the full board of directors convened. The special committee reported to the board on its progress, and made its recommendation regarding the Abiliti transaction. The board determined that it was in our best interests to accept the special committee's recommendation and proceed with the negotiation of the Abiliti transaction.

On August 1, 2002, Messrs. Quick, Sisco, Daleen and Nemirovsky held a teleconference to discuss long-term incentive compensation strategies for the combined company and to discuss future board composition and compensation issues for the combined company. Subsequent to that meeting and during the following weeks, we negotiated the terms of the LTIP and Mr. Quick's employment agreement. Also on that date, the special committee of the board conducted a meeting to discuss certain issues relating to the Abiliti transaction, including issues related to Abiliti's outstanding indebtedness and certain threatened litigation matters relating to Abiliti. The special committee discussed the status of the transaction and possible alternative structures for the transaction.

On August 6, 2002, Messrs. Getsy and Daleen joined Mr. Quick at the offices of another significant customer of Abiliti to discuss Abiliti's relationship with the customer, and to conduct due diligence on the nature and stability of the relationship. Based on their discussion with the customer, Messrs. Daleen and Getsy determined that it was unlikely that the combined company's relationship with the customer would be materially adversely affected by the proposed transaction.

On August 7, 2002, the special committee of the board held a meeting at which it discussed the terms and conditions of the latest version of the draft transaction documents, as well as outstanding issues regarding the transaction. Based on the terms and conditions of the agreements to date, the special committee recommended to the board of directors that we to continue to proceed with the negotiation of the Abiliti transaction.

Our board of directors met on August 15, 2002, and discussed the status of the proposed transaction and reviewed the terms of the transaction documents. At that meeting, our board discussed business reasons for changing the structure of the transaction so that it would be a purchase of Abiliti's assets with a separate investment in us by the Behrman Funds.

Subsequent to that meeting, Abiliti's and our management teams discussed our proposal to restructure the transaction from a merger to an asset acquisition. The parties agreed in principle to the current structure of the transactions, and on August 23, 2002, Abiliti's counsel delivered to us a draft asset purchase agreement. Pursuant to the asset structure, Daleen Solutions would acquire substantially all of Abiliti's assets and assume certain of its liabilities in consideration for shares of our common stock, series F preferred stock and Asset Purchase Warrants to purchase our common stock. Additionally, the Behrman Funds would purchase approximately \$5 million of our equity securities in the private placement. The parties promptly began reviewing, discussing and negotiating the terms of the asset purchase agreement and the investment agreement.

Our board of directors held a meeting telephonically on September 5, 2002. The board further discussed the status of the transaction, including the status of Abiliti's indebtedness. Based on various business reasons, our board of directors determined that it would be in our best interest to restructure the

Abiliti transaction from a merger to an acquisition of Abiliti's assets and a separate investment in us by the Behrman Funds.

On September 10, 2002, management presented forms of the agreements to our board of directors and our outside legal counsel reviewed the material terms of the transactions.

On September 20, 2002, our board of directors conducted a meeting telephonically. Also present were our legal counsel and Kaufman Bros. The board discussed the transactions and reviewed the drafts of the transaction documents pursuant to which the transactions were to be consummated. Kaufman Bros. then discussed with the board of directors its process and analysis used in preparing a fairness opinion for us, drafts of which were delivered to the board members. Based on the information provided in connection with the transactions and its review and analysis of the information, Kaufman Bros. delivered its oral opinion that, as of September 20, 2002, the consideration to be paid by us in the asset purchase and to be received by us in the private placement transactions, viewed together and not separately, are fair to our stockholders, from a financial point of view.

During the week of September 30, 2002, Abiliti began the process of soliciting certain of our stockholders for voting agreements in support of the transactions.

On October 3, 2002, our special committee conducted a meeting telephonically to review and discuss the transactions and the material provisions of each of the transaction agreements prior to making a formal determination to approve or disapprove the transactions. Immediately following the special committee meeting, our full board of directors met to consider the transactions. Also present at the meetings were certain of our advisors, including Kaufman Bros. and our legal counsel. Kaufman Bros. and our legal counsel noted the changes in the transaction agreements since the board last discussed the agreements and fairness opinion with the board on September 20, 2002, and Kaufman Bros. confirmed its opinion that, as of October 3, 2002, the transactions remained fair to our stockholders, from a financial point of view. A motion to approve the transactions and all of the transaction documents pursuant to which the transactions are to be consummated, was moved, seconded, and ratified unanimously by the special committee which recommended the transactions for approval by the full board of directors. Likewise, a motion to approve the transactions and all of the transaction documents pursuant to which the transactions are to be consummated, was moved, seconded, and ratified unanimously by the board of directors.

By October 7, 2002, Abiliti received executed voting agreements from stockholders representing approximately 65% of our outstanding voting stock entitled to vote in connection with the transactions and by October 9, 2002 it had received voting agreements representing more than 66 2/3% of our outstanding voting stock. During the same period and prior to October 7, 2002, we received executed voting agreements in support of the transactions from Abiliti's stockholders holding in excess of 66 2/3% of the Abiliti shares entitled to vote in connection with the transactions.

On October 7, 2002, Abiliti, the Behrman Funds and we executed the transaction documents and exchanged signature pages. That evening we released a joint press release with Abiliti announcing the parties' execution of the transaction documents and the transactions.

### **Our Reasons for the Transactions**

In reaching its decision to approve the asset purchase and the private placement and to recommend approval of the transactions, including the issuance of shares of our capital stock and Warrants in connection with the asset purchase and the private placement by our stockholders, our board of directors consulted with our president and chief executive officer and advisors, and considered information provided by the other members of our management team and independently considered the proposed asset purchase agreement, the investment agreement and the transactions contemplated by such agreements.

Our board of directors considered the following factors as reasons that the asset purchase and the private placement will be beneficial to us and our stockholders.

***The Asset Purchase***

1. We believe that the combination of our RevChain product with Abiliti's *Simpliciti.net* and *Billing Central* products and services, together with our combined service and delivery capabilities in professional services, application hosting and outsourcing solutions, will meet a significant customer need we currently do not address.
2. We believe that integrating our RevChain product with Abiliti's *Simpliciti.net* and *Billing Central* products and services will increase the functionality of, and demand for, such products and services.
3. Abiliti's mediation technology event processor provides a greater end-to-end solution that will assist us with faster implementations and lower integration costs for customers, which we believe will result in a solution preferable to certain current and potential customers.
4. Because Abiliti and we have no customer overlap, we believe the asset purchase will serve to expand our customer base, as well as reduce customer concentration.
5. Because Abiliti has certain preferred vendor relationships, we anticipate that we will have certain benefits, including lower costs.
6. We believe that after the closing of the asset purchase the combined North American customer base, as well as our international customer base, will help solidify our position as a leading provider of billing and customer care solutions to the telecommunications industry.
7. We believe our capitalization and increased revenue following the transactions will likely reduce concerns of our customers and potential customers regarding our financial viability.

As market conditions for our products and services have worsened, customers have increasingly made vendor viability a requirement in purchasing decisions.

We believe that Abiliti's outsourced billing services will continue to provide recurring revenue that will provide us with greater revenue, cash receipts visibility and an increased flow of cash receipts on a continuing basis.

8. Our declining liquidity position would cause us to become unable to fund continuing obligations as anticipated, past June 30, 2003, without achieving profitable operations, improving cash flows or receiving new funding.
9. After an extensive search by us and our investment bankers for financing investors and business combination partners, Abiliti and the Behrman Funds provided us with what we believe was the most favorable proposal with respect to a business combination and financing.

***The Private Placement***

Prior to approving the private placement, our board of directors considered various alternatives to the private placement, including public equity offerings, high yield debt issuances and other private placements of equity securities as well as the possible sale of Daleen and other strategic alternatives. In approving the private placement, our board of directors concluded that the sale of a combination of our common stock, series F preferred stock, Investment Warrants and Additional Warrants to the Behrman Funds, in connection with the issuance of shares of common stock, series F preferred stock and Asset Purchase Warrants to Abiliti in the asset purchase, presented the best course of action for us at this time.

The material factors considered by our board of directors in making its determination to pursue the private placement include the following:

1. the price to be paid for the capital stock and Warrants by the Behrman Funds in the private placement; and
2. our need, following the completion of the asset purchase, for additional capital.



### Factors Relevant to the Transactions

In the course of its deliberations, our board of directors reviewed with our management and our advisors a number of other factors relevant to the transactions. In particular, our board of directors considered, among other things:

1. information relating to the business, assets, management, financial condition, customers, competitive position and operating performance of us and Abiliti, including the prospects of us and Abiliti if either of us were to continue business as independent companies;
2. the terms of the transactions; and
3. the financial presentation of Kaufman Bros., including its opinion described under *Opinion of Our Financial Advisor* beginning on page 35, to the effect that, as of the date of the opinion, the consideration to be paid by us in connection with the asset purchase and to be received by us in connection with the private placement, considered together and not separately are fair to our stockholders, from a financial point of view.

### Recommendation of Our Board of Directors

At its meeting held on October 3, 2002, our board of directors, (1) determined that the asset purchase agreement, the investment agreement and the transactions contemplated thereby are fair to and in the best interests of us and our stockholders and (2) determined to recommend that our stockholders approve the proposals related to the transactions. Accordingly, our board of directors recommends that our stockholders vote FOR the asset purchase agreement, the investment agreement, the issuance of shares of our capital stock and Warrants to Abiliti in connection with the asset purchase agreement and to the Behrman Funds in connection with the investment agreement and the other transactions contemplated thereby, including the adoption of the LTIP.

In connection with the foregoing actions, our board of directors discussed the terms of the transactions and information relating to the transactions with members of our management team, including our president and chief executive officer, as well as our financial advisor and legal counsel. The board of directors considered the following material factors:

1. all the reasons described above under *Our Reasons for the Transactions* ;
2. the judgment, advice and analyses of our president and chief executive officer, including the favorable recommendation of the transactions and his analysis of conditions in the billing and OSS industry;
3. alternatives to the transactions;
4. the lack of other suitable strategic business combination partners for us;
5. the lack of alternative financing sources;
6. the impact on our stockholders of the issuance of additional shares of capital stock, including the issuance of additional shares of series F preferred stock and the adoption of the LTIP;
7. the presentations by and discussions with our management team, including our president and chief executive officer, and representatives of our counsel and Kaufman Bros. regarding the terms and conditions of the asset purchase and the private placement;
8. that while the transactions are likely to be completed, there are risks associated with completing the transactions and, as a result of limited closing conditions, it is possible that the transactions may not be completed even if approved by our stockholders and Abiliti's stockholders;
9. that although our relationships with customers, partners and employees may be affected negatively because of uncertainty surrounding our future status and direction, the belief of our board of directors that any negative effect would be reduced once the transactions are completed;

10. that Gordon Quick would become our new president and chief executive officer;
11. that we would not be cash flow or EBITDA (as defined below) positive immediately after the transactions;
12. the risk that the synergies and benefits sought in the transactions might not be fully achieved; and
13. the interests that our executive officers and directors may have with respect to the transactions in addition to their interests as our stockholders generally. See *Interests of Our Directors and Executive Officers in the Transactions*.

Our board of directors did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. Our board of directors considered, among other things, the analysis, experience, expertise and recommendation of our president and chief executive officer, information from certain members of our management team members, and the analysis of Kaufman Bros., our financial advisor, of the fairness to our shareholders from a financial point of view, of the consideration to be paid by us in connection with the asset purchase and to be received by us in connection with the private placement, considered together and not separately. See *Opinion of Our Financial Advisor*.

In addition, our board of directors did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to its ultimate determination, but rather our board of directors conducted an overall analysis of the factors described above, including discussions with our management team and legal, financial and accounting advisors. In considering the factors described above, individual members of our board of directors may have given different weight to different factors.

Our board of directors considered all these factors as a whole, and overall considered the factors to be favorable and to support its determination. However, the general view of our board of directors was that factors 6, 8, 11 and 12 described above were uncertainties, risks or drawbacks relating to the transactions, but that the other reasons and factors described above were generally considered favorable.

#### **Opinion of Our Financial Advisor**

In connection with its consideration of the transactions, our board of directors requested Kaufman Bros. opinion, as investment bankers, as to the fairness, from a financial point of view, to our stockholders of the consideration to be paid by us in connection with the asset purchase and to be received by us in connection with the private placement, taken as a whole.

We selected Kaufman Bros. for a number of reasons, including its familiarity with us and its experience and reputation in the areas of valuation and financial advice, particularly in relation to transactions of the size and nature of the transactions. Kaufman Bros. is an investment banking firm that is regularly engaged in the valuation of businesses and their securities in connection with transactions and acquisitions, leveraged buyouts, negotiated underwritings, private placements and valuations for corporate and other purposes. In the normal course of its business, Kaufman Bros. trades our common stock for its own account or for the account of its customers and, accordingly, may, from time to time, hold long or short positions in our common stock.

On September 20, 2002, Kaufman Bros. reviewed with our board of directors the financial analyses performed by Kaufman Bros. On October 3, 2002, Kaufman Bros. reviewed with our board of directors certain updated information (none of which had a material effect on its opinion) and delivered to the board of directors an oral opinion, which opinion was subsequently confirmed by delivery of a written opinion, dated October 4, 2002, to the effect that, based upon and subject to the considerations and limitations set forth in such opinion, as of October 3, 2002, the consideration to be paid by us in connection with the asset purchase and to be received by us in connection with the private placement, taken as a whole, was fair, from a financial point of view, to our stockholders.

The following summary of Kaufman Bros. opinion may not include all of the information important to you. The full text of the opinion letter, dated October 4, 2002, delivered by Kaufman Bros. to our board

of directors, which sets forth in full the assumptions made, general procedures followed, matters considered and limits on the scope of review undertaken, is included as Annex I to this proxy statement and is incorporated herein by reference. Kaufman Bros. has consented to the inclusion of the full text of its opinion as Annex I to this proxy statement. The summary of Kaufman Bros. opinion set forth below is qualified in its entirety by reference to the full text of such opinion. Holders of our common stock and series F preferred stock are urged to read Kaufman Bros. opinion carefully and in its entirety.

We did not place any limitation upon Kaufman Bros. with respect to the procedures to be followed or factors to be considered in rendering its opinion. In conducting its investigation and analysis and in arriving at its opinion, Kaufman Bros. reviewed information and took into account the financial and economic factors it deemed relevant and material under the circumstances. In connection with its analysis, Kaufman Bros., among other things:

reviewed a draft of the Asset Purchase Agreement, dated October 3, 2002, and the schedules and exhibits attached thereto;

reviewed a draft of the Investment Agreement, dated October 3, 2002, and the schedules and exhibits attached thereto;

reviewed the terms of the series F preferred stock in our Certificate of Incorporation;

reviewed the proposed forms of warrant agreements representing the Warrants to be issued to Abiliti and the Behrman Funds;

reviewed our annual report on Form 10-K for the fiscal year ended December 31, 2001 and our quarterly reports on Form 10-Q for the quarters ended March 31, 2002 and June 30, 2002, as filed with the SEC;

reviewed certain internal information relating to us provided to Kaufman Bros. by our management, including historical financial information and financial forecasts;

reviewed certain internal information relating to Abiliti provided to Kaufman Bros. by Abiliti's management, including historical financial information and financial forecasts;

held discussions with Abiliti's and our respective managements regarding the respective businesses, operations and prospects of Abiliti and us;

prepared and analyzed pro forma financial information for us, giving effect to the transactions, based upon discussions with, and information provided by the managements of, both companies;

visited Abiliti's facilities in Chesterfield, Missouri;

reviewed the historical trading prices and volumes of our common stock;

reviewed certain publicly available information concerning certain other companies engaged in businesses which Kaufman Bros. believed to be reasonably comparable to Abiliti;

reviewed information concerning certain other business transactions which Kaufman Bros. believed to be reasonably comparable to the asset purchase;

performed various valuation analyses as Kaufman Bros. deemed appropriate using generally accepted analytical methodologies; and

performed such other financial studies, analyses, inquiries and investigations as Kaufman Bros. deemed appropriate.

In addition, as noted above, Kaufman Bros. contacted approximately 50 parties on our behalf that we viewed as potential business combination partners or financial investors or buyers and participated in in-depth discussions with several of them, including Party A.

In arriving at its opinion, Kaufman Bros. assumed and relied upon the accuracy and completeness of all of the financial and other information provided to it by or on behalf of Abiliti or us, or obtained by



Kaufman Bros. from publicly available sources, and upon the assurance of Abiliti's and our management that they were not aware of any information or facts that would make any such information incomplete or misleading. Kaufman Bros. did not attempt to independently verify such information. In conducting its review, Kaufman Bros. did not conduct or obtain an independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise) of Abiliti or us, nor was it furnished with any such evaluation or appraisal. Kaufman Bros. assumed, with our consent, that:

the transactions will be consummated in accordance with the terms set forth in the drafts of the asset purchase agreement and the investment agreement, respectively, reviewed by it without any amendment thereto and without waiver by the parties thereto of any of the conditions to their respective obligations thereunder; and

all regulatory and other approvals and third-party consents required for consummation of the transactions will be obtained without material cost to us or Abiliti.

Kaufman Bros. assumed that the financial forecasts examined by it were reasonably prepared and were based upon the best available estimates and good faith judgments of Abiliti's and our respective senior managements as to the future performance of Abiliti and us. Where Kaufman Bros. prepared forecasts based upon information provided by Abiliti or us, Kaufman Bros. obtained the assurance of the management of Abiliti or us, as the case may be, that such forecasts were reasonable.

Kaufman Bros. noted that its opinion was necessarily based upon the financial, economic, market and other conditions as they existed and could be evaluated by Kaufman Bros. on, and the information made available to it as of, the date of its opinion. Kaufman Bros. has disclaimed any undertaking or obligation to advise any person of any change in any fact or matter affecting its opinion that is brought to its attention after the date of its opinion. Although Kaufman Bros. evaluated the consideration to be paid by us in the asset purchase and received by us in the private placement from a financial point of view, Kaufman Bros. did not recommend the specific consideration payable or receivable in the transactions, which was determined through negotiations between Abiliti and us and the Behrman Funds.

Kaufman Bros. opinion is for the information of our board of directors for its use in evaluating the fairness, from a financial point of view, to our stockholders of the consideration to be paid by us in the asset purchase and to be received by us in connection with the private placement, taken as a whole. Such opinion does not constitute a recommendation as to any action our board of directors or any stockholder should take in connection with the transactions or any aspect thereof. Kaufman Bros. opinion is not an opinion as to the structure, terms or effect of any other aspect of the transactions or as to the merits of our underlying decision of to enter into the transactions, or any other transaction or business strategies discussed by our board of directors as alternatives to the transactions.

In preparing its opinion, Kaufman Bros. performed a variety of financial and comparative analyses, including those described below. The summary of such analyses does not purport to be a complete description of the analyses underlying Kaufman Bros. opinion or of the presentation by Kaufman Bros. to our board of directors. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances and, therefore, such opinion is not readily susceptible to summary description. Furthermore, in arriving at its opinion, Kaufman Bros. did not attribute particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Kaufman Bros. believes that its analysis must be considered as a whole and that selecting portions of its analyses and factors, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying the preparation of its opinion. In its analysis, Kaufman Bros. made numerous assumptions with respect to Abiliti and us, industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond Abiliti's and our control. The estimates contained in such analyses and the valuation ranges resulting from any particular analysis are not necessarily indicative of the actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by such analyses. In addition, analyses relating to the value of businesses or securities do

not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, such analyses and estimates are inherently subject to substantial uncertainty. Kaufman Bros. opinion and analyses were only one of many factors considered by our board of directors in its evaluation of the transactions and should not be viewed as determinative of the view of our board of directors or management with respect to either transaction or the consideration to be paid and received by us in connection therewith.

The following is a summary of the material financial analyses performed by Kaufman Bros. in connection with rendering its opinion.

***Calculation of Consideration to Abiliti***

Kaufman Bros. analyzed the value of the consideration paid to Abiliti in connection with the asset purchase using a price of our common stock of \$0.14 per share, which represented the 10-day trailing average closing stock price as of September 16, 2002. Kaufman Bros. valued the series F preferred stock to be issued in the asset purchase on both an as converted into common stock basis and on an as converted basis plus a premium for the liquidation preference. Kaufman Bros. calculated the liquidation premium of the series F preferred stock as the difference between (a) the price to be paid by the Behrman Funds for the securities in the private placement and (b) the market price multiplied by the number of common stock equivalents of the equity securities on an as converted basis plus the value of the Warrants to be issued in the private placement. Kaufman Bros. determined the value the Warrants to be issued in the transactions using the Black-Scholes option valuation model. Kaufman Bros. used the following inputs to the Black-Scholes option valuation model.

**Inputs to Black-Scholes Option Valuation Model**

Daleen Common Stock Price	\$ 0.140
Option Strike Price	\$ 0.906
Days to Expiration	1461
Volatility	167.26%
Risk Free Interest Rate	2.42%
Annual Dividend	\$ 0.0

This analysis resulted in a range of the value for the consideration paid to Abiliti in the asset purchase of between \$4.2 million to \$5.1 million.

***Analysis of Selected Comparable Acquisition Transactions***

Using publicly available information, Kaufman Bros. analyzed certain financial and operating information relating to the following eight selected merger and acquisition transactions in the telecommunications software sector ( Comparable Transactions ), each of which was announced in calendar year 2001 or 2002. The Comparable Transactions were chosen as they involved acquired companies that Kaufman Bros. believed possessed general business, operating and financial characteristics representative of companies in the industry in which Abiliti operates. Kaufman Bros. noted that none of the Comparable Transactions reviewed was exactly comparable to the transactions and that the range of information available for each Comparable Transaction varied from detailed information relating to publicly registered companies, to limited and summary information contained in public press releases relating to private companies. The Comparable Transactions reviewed by Kaufman Bros. were (the

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purchaser is listed first, followed by the acquired company and the nature of the transaction (i.e. cash for stock, stock for stock or a combination of the two)):

Purchaser	Acquired Company	Nature of Transaction
<b>Calendar Year 2002</b>		
<i>CSG Systems</i>	<i>IBM (Telecom billing assets)</i>	<i>Cash</i>
<i>Convergys Corp.</i>	<i>iBasis (Price Interactive div)</i>	<i>Cash</i>
<i>Convergys Corp.</i>	<i>TelesensKSCL</i>	<i>Cash</i>
<i>MetaSolv, Inc.</i>	<i>Nortel (Architel division)</i>	<i>Cash</i>
<b>Calendar Year 2001</b>		
<i>CSG Systems</i>	<i>Lucent (Kenan division)</i>	<i>Cash</i>
<i>Amdocs Ltd.</i>	<i>Nortel (Clarify division)</i>	<i>Cash</i>
<i>The Management Network Group</i>	<i>Tri-Com Computer Services</i>	<i>Cash</i>
<i>Illuminet</i>	<i>BellSouth Int'l Wireless Svcs</i>	<i>Cash</i>

For each Comparable Transaction, Kaufman Bros. calculated multiples of the market value plus total debt minus total cash ( Enterprise Value ) of the acquired company compared to its last twelve months ( LTM ) revenue, operating income before interest, taxes, depreciation and amortization ( EBITDA ) and net income which were based upon the most recent publicly available information prior to the closing of the respective Comparable Transaction. Kaufman Bros. then applied these multiples of revenues to the projected financial results of Abiliti for the period ending December 31, 2002 using both the projected financial information provided by Abiliti's management and the projected annualized revenues based upon Abiliti's actual revenues for the six month period ended June 30, 2002 ( 2002 Annualized ). Kaufman Bros. applied multiples to the EBITDA and net income of Abiliti for the same periods above, but as these results were less than zero, they did not yield a meaningful result. The following table reflects the material results of these analyses.

### *Comparable Transaction Analysis*

	Median	Mean	Low-High	
			(\$ in Millions)	
Enterprise Value to LTM revenue	1.0x	1.1x	0.4x	2.1x
Implied Enterprise Value of Abiliti based on:				
Enterprise Value to FY2002 projected revenue	\$ 12.5	\$ 14.0	\$ 4.6	\$ 26.0
Enterprise Value to 2002 Annualized revenue	\$ 11.7	\$ 13.1	\$ 4.4	\$ 24.4

The analysis of Comparable Transactions showed that the value of the consideration to be paid by us to Abiliti in the asset purchase was, in each case, within the range or lower than the implied Enterprise Value of Abiliti and lower than the median and mean values implied by such analysis.

### *Analysis of Selected Publicly Traded Companies*

Kaufman Bros. reviewed publicly available financial information, as of the most recently reported period, and stock market information as of September 16, 2002, for the following sixteen publicly traded companies that Kaufman Bros. deemed reasonably comparable to Abiliti as these companies derive a significant portion, if not all, of their revenues from the sale of telecommunications software (the All OSS Companies or Total Sample ):

1. *Ace\*COMM Corp.*
2. *Boston Communications*
3. *CSG Systems International*
4. *Cellular Tech Services*

5. *Convergys Corp.*



6. Daleen

7. Amdocs Ltd.

8. DSET Corp.

9. DST Systems

10. INTASYS Corp

11. Lightbridge Systems Corp.

12. Mobile Data Solutions

13. Mind CTI Ltd.

14. Metasolv Inc.

15. Portal Software

16. Veramark Technologies

Kaufman Bros. noted that several of the above companies have businesses that operate nearly exclusively in the billing software industry, a subset of the larger telecommunications software industry, and offer products and solutions that are more closely comparable to Abiliti from a product perspective. Accordingly, Kaufman Bros. conducted a parallel analysis of the following billing software companies independent of the other OSS companies (the Billing Companies Sample ). The eleven companies included in the Billing Companies Sample are:

1. Boston Communications

2. CSG Systems International

3. Convergys Corp.

4. Daleen

5. Amdocs Ltd.

6. DST Systems

7. INTASYS Corp

8. Lightbridge Systems Corp.

9. Mind CTI Ltd.

10. Portal Software

11. Veramark Technologies

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For each company in the Total Sample, Kaufman Bros. calculated multiples of Enterprise Value to LTM revenue, fiscal year 2002 ( FY2002 ) revenue estimates and fiscal year 2003 ( FY2003 ) revenue estimates. Kaufman Bros. then applied these multiples to Abiliti s LTM revenues for the period ended June 30, 2002, and to the projected financial results of Abiliti for the periods ending December 31, 2002 and December 31, 2003. Kaufman Bros. then applied a 45% discount to the multiples derived from the analysis in recognition of Abiliti s status as a private company, the general lack of liquidity for securities of public companies with revenues comparable to those of Abiliti and the lower multiples of the smaller

companies in the All Billing Companies Sample. The chart below summarizes the results of these analyses:

### Comparable Company Analysis

	<u>Median</u>	<u>Mean</u>	<u>Low-High</u>	
	(\$ in Millions)			
All OSS Companies Sample				
Enterprise Value/LTM revenue	0.49x	0.56x	0.05x	1.49x
Enterprise Value/FY2002 revenue	0.62x	0.67x	0.05x	1.76x
Enterprise Value/FY2003 revenue	0.53x	0.56x	0.04x	0.97x
All Billing Companies Sample				
Enterprise Value/LTM revenue	0.64x	0.68x	0.14x	1.49x
Enterprise Value/FY2002 revenue	0.70x	0.79x	0.03x	1.76x
Enterprise Value/FY2003 revenue	0.63x	0.72x	0.15x	0.97x
Implied Enterprise Value of Abiliti based on:				
All OSS Companies Sample				
Enterprise Value/LTM revenue	\$ 6.0	\$ 6.9	\$0.60	\$18.5
Enterprise Value/FY2002 revenue	\$ 7.7	\$ 8.4	\$0.06	\$21.9
Enterprise Value/FY2003 revenue	\$ 6.7	\$ 7.0	\$0.06	\$12.1
All Billing Companies Sample				
Enterprise Value/LTM revenue	\$ 7.9	\$ 8.4	\$1.7	\$18.5
Enterprise Value/FY2002 revenue	\$ 8.7	\$ 9.5	\$1.6	\$21.9
Enterprise Value/FY2003 revenue	\$ 7.9	\$ 8.9	\$1.9	\$12.1

The analysis of comparable public companies showed that the value of the consideration to be paid by us to Abiliti in the asset purchase was, in each case, within the range of the implied Enterprise Value of Abiliti and slightly lower than the median and mean values implied by such analyses.

### Discounted Cash Flow Analysis

Kaufman Bros. performed a discounted cash flow analysis of Abiliti, on a stand-alone-basis. A discounted cash flow analysis is a traditional valuation methodology used to derive a valuation of a corporate entity by calculating the estimated future cash flows of such entity and discounting such cash flow results back to the present. Kaufman Bros. performed this analysis to estimate the net present value of Abiliti's enterprise value and to compare it to the value of the consideration to be paid by us to Abiliti in the asset purchase. The analysis was based upon financial projections for the five year period ending 2007. Kaufman Bros. calculated EBITDA and free cash flow for Abiliti. EBITDA is earnings before interest, taxes, depreciation and amortization and other items. Free cash flow as used by Kaufman Bros. is net income plus depreciation and amortization, after tax, net of interest expense, less changes in working capital (excluding cash) and capital expenditures. Kaufman Bros. calculated the terminal value of Abiliti at the end of the forecast period by applying a range of estimated EBITDA multiples selected by Kaufman Bros. The terminal value estimates are a hypothetical approximation of the value of an enterprise's cash flows beyond the end of the five year period covered by management's projections.

In its discounted cash flow analyses, Kaufman Bros. estimated a terminal value of Abiliti using a terminal value multiple range of 4.0x to 6.0x projected 2007 estimated EBITDA and discounted the stream of free cash flows during the forecast period together with the estimated terminal value at discount rates ranging from 25.0% to 35.0%. Selection of an appropriate discount rate is an inherently subjective process and is affected by numerous factors. The discount rates used by Kaufman Bros. were selected based upon Abiliti's historical financial results, current financial condition and the risk associated with Abiliti achieving its financial projections. This range of discount rates also reflects an estimate of the cost of capital for Abiliti and the current valuation parameters for comparable public companies. Such analysis produced Enterprise Values

for Abiliti that ranged from \$4.5 million to \$9.4 million. The chart below summarizes the results of this analysis:

#### Abiliti Discounted Cash Flow Analysis

		25.0%		35.0%	
		4.0x		6.0x	
		Mean	Median	Low-High	
Discount Rate Range					
2007 EBITDA Range					
Implied Total Enterprise Value of Abiliti		\$5.5	\$7.7	\$4.5	\$9.4

The discounted cash flow analysis of Abiliti showed that the value of the consideration to be paid by us to Abiliti in the asset purchase was within the range of the implied Enterprise Value of Abiliti.

Kaufman Bros. also performed discounted cash flow analyses of both us, on a stand alone basis, without giving effect to the transactions, and based upon financial projections for the five year period ending 2007. Kaufman Bros. performed these analyses to estimate the net present value of the Enterprise Value for us both before and after giving effect to the transactions in order to compare the Enterprise Value of us as a stand alone entity to the pro rata ownership of our pre-transaction stockholders in the Enterprise Value of us after the transactions, giving effect to the issuance of securities in the asset purchase and the private placement. In performing these analyses, Kaufman Bros. used discount rates ranging from 20% to 30% and projected 2007 estimated EBITDA multiples ranging from 4.0x to 6.0x. Projections for us giving effect to the transactions included estimated synergies from combination and the effects of pro forma accounting for the transactions. The chart below summarizes the results of these analyses and displays the mean and median implied Total Enterprise Value:

#### Discounted Cash Flow Analysis

		Daleen After the Transactions		Daleen Pro Rata Ownership in Combined Company		Daleen Stand-Alone	
Discount Rate Range		20%	30%	20%	30%	20%	30%
2007 EBITDA Range		4.0x	6.0x	4.0x	6.0x	4.0x	6.0x
Implied Total Enterprise Value		\$17.7	\$23.9	\$8.9	12.0	\$3.6	\$6.0

#### *Analysis of Value to Our Security Holders After the Transactions*

Kaufman Bros. analyzed the value of us giving effect to the transactions using an average of the results derived from all of the methods described in above, in each case using the same sample sets and multiples as those applied in the analysis of us. This analysis produced a range of total enterprise values for us giving effect to the transactions from \$19.3 million to \$21.6 million and a pro rata Enterprise Value attributable to the pre-transaction Daleen stockholders of \$9.7 million to \$10.8 million. Kaufman Bros. also analyzed the value of us as a stand-alone company using an average of the results derived using these same methods, again in each case using the same sample sets and multiples as those applied in the analysis of us. This analysis produced a range of Enterprise Values for us prior to the transactions giving effect to the transactions of from \$7.4 million to \$8.3 million.

Kaufman Bros. compared the pro rata enterprise value for us giving effect to the transactions to the pre-transaction enterprise value attributable to the series F preferred stock and to the common stock under two different scenarios: (i) assuming the series F preferred stock exercised its liquidation preference; and

(ii) treating the series F preferred stock on an as converted into common stock basis. The results of that analysis is summarized in the following table using mean and median values:

**Value to Daleen Security Holders of Company**

(\$ in Millions)

	Daleen After the Transactions		Daleen Pro Rata Ownership After the Transactions		Daleen Pre-transaction Stand-Alone	
Enterprise Value	\$19.3	\$21.6	\$9.7	\$10.8	\$7.4	\$8.3

**Value to Daleen Security Holders After the Transactions**

	Scenario 1 Exercise of Liquidation Preference				Scenario 2 As Converted			
	(\$ in Millions)				(\$ Per Share)			
	Pre-Transactions		Post-Transactions		Pre-Transactions		Post-Transactions	
Series F Preferred Stock	\$7.4	\$8.3	\$9.7	\$10.8	\$0.13	\$0.14	\$0.19	\$0.21
Common Stock	\$0.0	\$0.0	\$0.0	\$0.0	\$0.13	\$0.14	\$0.19	\$0.21

The analysis of the value of us after giving effect to the transactions to our security holders shows that, under either scenario, the implied post-transactions value of the series F preferred stock would be greater than the pre-transaction value. The implied value of the common stock under the first scenario would be zero, both pre- and post-transactions; and under the second scenario, the implied value would be greater post-transactions than pre-transactions.

**Contribution Analysis**

Kaufman Bros. analyzed the relative contributions of Abiliti and us to the estimated pro forma income statement and balance sheet of us after giving effect to the transactions. This analysis was based on actual results for the six month period ended June 30, 2002 and projected results for the fiscal year ending December 31, 2002. The analysis for both the six month period ended June 30, 2002 and the projected fiscal year ending December 31, 2002 excluded the effects of the additional cash from the private placement, non-recurring expenses relating to the transactions, and the effects of any synergies that may be realized as a result of the transactions. The chart below summarizes selected financial results from the pro forma analyses:

	Six Months Ended June 30, 2002		Estimated FY2002	
	Daleen	Abiliti	Daleen	Abiliti
Total Revenues	40%	60%	33%	68%
Gross Profit	31%	69%	23%	76%
Operating Loss	95%	5%	101%	(1)%
Accounts Receivable, Net	52%	48%	40%	60%
Other Current Assets	91%	9%	44%	56%
Fixed Assets, Net	55%	45%	38%	62%

These contribution percentages were then compared with the ownership percentage following the transactions of Abiliti's and our pre-transactions stockholders of 50.3% and 49.7%, respectively.

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The contribution analysis shows that, in general, the ownership percentage of our pre-transactions stockholders in our past transactions compares favorably to our contribution to the post transactions company's selected financial results.

**Accretion or Dilution Analysis**

Kaufman Bros. computed the basic earnings per share ( EPS ) and EPS as if the series F preferred stock was converted to common ( As converted EPS ) for us on a stand-alone pre-transaction basis and for us on a post transactions pro forma basis. The comparison of the two illustrates the accretive or dilutive impact of the transactions to us as a stand-alone company. Based upon the analysis below, the transactions are expected to be immediately accretive to our EPS. (Numbers may not add due to rounding.)

	<b>Six Months Ended June 30, 2002</b>	<b>Estimated FY2002</b>	<b>Estimated FY2003</b>
Daleen Stand Alone			
Basic EPS	\$(0.22)	\$(0.38)	\$(0.13)
As converted EPS	\$(0.09)	\$(0.17)	\$(0.06)
Pro Forma Combination			
Basic EPS	\$(0.14)	\$(0.27)	\$(0.07)
As converted EPS	\$(0.06)	\$(0.12)	\$(0.03)
Accretion/ Dilution			
Basic EPS	\$ 0.09	\$ 0.11	\$ 0.06
As converted EPS	\$ 0.04	\$ 0.05	\$ 0.03

The accretion/dilution analysis shows that the transactions would be accretive to us on an EPS basis. However, the source of the accretion is from a higher number of shares outstanding in both the basic and as converted calculation and not from an increase in the amount of net income to which the share amounts were applied. Consequently, Kaufman Bros. did not place much weight upon this analysis in arriving at its opinion.

**Compensation**

Pursuant to the terms of Kaufman Bros. engagement, we have paid to Kaufman Bros. \$20,000 and have agreed to pay Kaufman Bros., upon the closing of the transactions, a cash fee of \$500,000 less any amounts previously paid and to issue to Kaufman Bros. warrants to purchase 250,000 shares of common stock at an exercise price equal to the closing price of our common stock on the day prior to the closing date of the transactions. We also have agreed to reimburse Kaufman Bros. for its reasonable out-of-pocket expenses incurred in performing its services, including the reasonable fees and expenses of its legal counsel, and to indemnify Kaufman Bros. and related persons against certain liabilities relating to or arising out of its engagement, including certain liabilities under the federal securities laws.

**Other Relationships**

Kaufman Bros has performed investment banking services for us in the past for which it has received customary fees. In particular, in 2001 Kaufman Bros. acted as a placement agent for us in connection with a private placement of series F preferred stock.

**Regulatory Approvals Relating to the Transactions**

We are not aware of any federal or state regulatory requirements that must be complied with or approvals that must be obtained to consummate the transactions, other than (1) filing of the certificate of amendment to our Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware increasing our authorized series F preferred stock and waiving the adjustment of the series F preferred stock conversion price pursuant to the issuance of series F preferred stock in the asset purchase and the private placement and (2) filing of this proxy statement with the SEC. If any additional approvals or filings are required, we will use our commercially reasonable efforts to obtain those approvals and make any required filings before completing the transactions.

## **Management of Daleen after the Transactions**

### ***Board of Directors***

Upon completion of the transactions, our board of directors will consist of seven members who will be designated as follows: (1) four directors will be designated by us prior to the completion of the transactions, (2) our chief executive officer, who will be Gordon Quick following completion of the transactions, and (3) two directors to be designated by the Behrman Funds prior to the consummation of the transactions. It is anticipated that we will designate James Daleen, Daniel J. Foreman, Stephen J. Getsy, and Ofer Nemirovsky to serve as our designated directors. The Behrman Funds have indicated that they will designate Dennis Sisco to serve as one of their designated directors. Pursuant to the investment agreement, the Behrman Funds will designate their second director prior to the completion of the transactions. Messrs. Daleen, Foreman, Getsy, and Nemirovsky currently are members of our board of directors. In the event that any of these individuals are not available, for any reason, to serve as directors, our board of directors or the Behrman Funds, as the case may be, will select another person to serve as a director or will leave the vacancy open. In addition, Abiliti, the Behrman Funds and the HarbourVest Funds have entered into a supplemental voting agreement regarding the election of directors at our 2003 Annual Meeting of Stockholders. At such meeting, each of Abiliti, the Behrman Funds and the HarbourVest Funds have agreed to vote their shares of series F preferred stock and common stock in favor of two individuals nominated by the Behrman Funds and in favor of one individual nominated by the HarbourVest Funds, each to serve for a term expiring at our 2006 Annual Meeting of Stockholders.

### ***Management***

Upon completion of the transactions, our board of directors will take all corporate action necessary to cause Gordon Quick, currently Abiliti's president and chief executive officer, to be appointed our president and chief executive officer. James Daleen our current chairman of the board, president and chief executive officer will continue to serve as our chairman of the board.

Pursuant to his employment agreement, Mr. Daleen will be entitled to severance upon his termination as our president and chief executive officer. We have also entered into a six-month consulting agreement with Mr. Daleen, which will be effective upon the termination of his employment. The terms of Mr. Daleen's severance payments as well as the consulting agreement and his participation in the LTIP are described under *Interests of Certain Persons in the Transactions - James Daleen* beginning on page 46.

Pursuant to the terms of the investment agreement, we have entered into an employment agreement with Mr. Quick, effective upon completion of the transactions. The terms of Mr. Quick's employment agreement are described under *Proposal 2-Other Terms of the Investment Agreement - Employment Agreements* beginning on page 71.

Jeanne Prayther, our current chief financial officer, will continue as our chief financial officer after the completion of the transactions. Effective upon completion of the transactions, her current employment agreement will be amended. The principal terms of the amendment to her employment agreement are described under *Interests of Certain Persons in the Transactions - Jeanne Prayther* beginning on page 46.

David McTarnaghan, our senior vice president of global sales, will continue in such role after the completion of the transactions. Effective upon completion of the transactions, his current employment agreement will be amended. The principal terms of the amendment to his employment agreement are described under *Interests of Certain Persons in the Transactions - David J. McTarnaghan* beginning on page 46.

The remaining members of our senior management team will include an equal number of current team members from each of Abiliti and us. Pursuant to the terms of the investment agreement, we have entered in employment agreements with two current members of Abiliti's senior management team, effective upon completion of the transactions.



In addition, our board of directors has authorized the LTIP as required by the investment agreement. Members of our management team, including Mr. Quick, Mr. Daleen, Ms. Prayther, and Mr. McTarnaghan will be eligible to participate in the LTIP. The LTIP is described under Proposal 2 Long-Term Incentive Compensation Plan beginning on page 72. A copy of the LTIP is attached as Annex J to this proxy statement.

### Interests of Certain Persons in the Transactions

In considering the recommendations of our board of directors with respect to the transactions, our stockholders should be aware that certain members of our board of directors and executive officers may have interests in the transactions that are in addition to the interests of our stockholders generally. These interests include the following:

*James Daleen.* Mr. Daleen is our founder and current chairman, president and chief executive officer. Upon completion of the transactions, it is anticipated that Mr. Daleen will resign as our president and chief executive officer. He will remain as chairman of the board. Pursuant to the terms of his employment agreement, Mr. Daleen will be entitled to severance upon the termination of his employment as president and chief executive officer. Mr. Daleen's severance benefits will include (i) a lump sum payment of \$328,900, which is equal to 12 months of his current base salary, to be paid within five days after the date of his termination as our president and chief executive officer, (ii) an additional payment of \$328,900 to be paid in equal installments on a monthly basis over a period of 24 months, with the first payment on the first day of the thirteenth month following the date of his termination as president and chief executive officer and the last payment on the first day of the thirty-sixth month following the date of termination, and (iii) a pro rata portion of the performance bonus, if any, for the year in which his employment terminates based upon his performance and our performance of the objectives previously determined by the compensation committee of our board of directors and the number of days Mr. Daleen worked in the year in which his employment was terminated, such pro rata portion to be paid at the same time we pay annual bonuses, if any, to our other executive employees. We do not anticipate that Mr. Daleen will be entitled to any performance bonus payment. We also will reimburse Mr. Daleen and his eligible dependents COBRA premiums payable under our major medical group health plan on a monthly basis for a period of 18 months after the date of termination. We have entered into a consulting agreement with Mr. Daleen, effective upon termination of his employment. Pursuant to the consulting agreement, for a period of six months, Mr. Daleen will assist us in the transition, strategic initiatives and other services as directed by the new chief executive officer and our board of directors. As consideration, we will pay him \$13,500 per month and reimburse him for certain expenses, and he will be eligible to receive a participation percentage in our LTIP. Mr. Daleen will receive 15% of the bonus pool upon a payout event, subject to vesting requirements.

*Jeanne Prayther.* Ms. Prayther is, and upon completion of the transactions will continue to be, our chief financial officer. We have entered into an amendment to her employment agreement, to be effective upon completion of the transactions. The terms of the amendment provide that Ms. Prayther will be entitled to four weeks vacation per year, her severance benefits were increased to 12 months and may include a pro rata bonus, her target bonus eligibility was increased to 35% per year, she will be eligible to receive certain severance benefits in the event of disability including six months base salary and in some circumstances a pro rata bonus, there is a 30-day termination notice period, and she may be entitled to receive severance benefits in the event of a material breach of the agreement by us. In addition, as a member of our senior management team, Ms. Prayther will be eligible to participate in the LTIP, subject to the discretion of the compensation committee of our board of directors.

*David J. McTarnaghan.* Mr. McTarnaghan is, and upon completion of the transactions will continue to be, our senior vice president of global sales. We have entered into an amendment to his employment agreement, to be effective upon completion of the transactions. The terms of the amendment provide that Mr. McTarnaghan will be entitled to four weeks vacation per year, his severance benefits were increased to 12 months and may include a pro rata bonus, he will be eligible to receive certain severance benefits in the event of disability including six months base salary and in some circumstances a pro rata bonus, there is a

30-day termination notice period, and he may be entitled to receive severance benefits in the event of a material breach of the agreement by us. In addition, as a member of our senior management team, Mr. McTarnaghan will be eligible to participate in the LTIP, subject to the discretion of the compensation committee of our board of directors.

*The HarbourVest Funds.* Ofer Nemirovsky, a member of our board of directors, is an affiliate of the HarbourVest Funds. The HarbourVest Funds have entered into a supplemental voting agreement with Abiliti and the Behrman Funds. The supplemental voting agreement provides that each party will vote all of their respective shares of our capital stock at our 2003 Annual Meeting of Stockholders in favor of two individuals nominated as director by the Behrman Funds and one individual nominated as director by the HarbourVest Funds.

#### **Interests of Abiliti's Management and Directors in the Transactions**

Certain members of Abiliti's board of directors and management may have interests in the transactions that are different from or in addition to the interests of our and Abiliti's stockholders generally. These interests include the following:

*Interests as Creditors.* Under the terms of the asset purchase agreement, Abiliti will retain all liabilities in respect of its promissory notes dated March 16, 2000 and January 17, 2001. The promissory notes dated January 17, 2001 (the January 2001 Notes) are held by the Behrman Funds. The January 2001 Notes rank senior by their terms to the other outstanding debt and equity of Abiliti. It is anticipated that, after making provision for the costs of winddown and for liabilities other than the aforementioned promissory notes, Abiliti's remaining assets will be insufficient to pay the full principal and accrued and unpaid interest on the January 2001 Notes. As a result, the holders of the January 2001 Notes will be entitled by their terms to the whole of Abiliti's distributable assets, and no assets are expected to be distributed to any stockholder of Abiliti in their capacity as such.

The Behrman Funds are under common control. Dennis Sisco and William Matthes, who are directors of Abiliti, are affiliated with the Behrman Funds. Both Mr. Sisco and Mr. Matthes are limited partners of Behrman Capital II, L.P. Mr. Matthes is also a managing director of Behrman Brothers LLC, a general partner of Behrman Capital II, L.P.

Less than half of the outstanding principal amount of the promissory notes dated March 16, 2000 (the March 2000 Notes) is held by the Behrman Funds. The remaining outstanding principal amount is held by seven investors who also hold shares of Abiliti stock. In order to induce those persons to support the proposed transactions, the Behrman Funds have agreed in writing that, contingent upon the execution and delivery by any holder of a March 2000 Note of satisfactory instruments of assignment and release, the Behrman Funds will purchase such holder's March 2000 Note for consideration equal to (a) ten percent of the aggregate consideration (i) delivered directly to the Behrman Funds by us in respect of the Behrman Funds' \$5.015 million investment in us and (ii) distributed to the Behrman Funds by Abiliti from the proceeds of the asset sale in partial satisfaction of the January 2001 Notes, times (b) a fraction, the numerator of which is the outstanding principal amount of such holder's March 2000 Note and the denominator of which is \$7,500,000 (which is the aggregate principal amount of the outstanding March 2000 Notes).

Holders of March 2000 Notes, other than the Behrman Funds, include Nichols Research Corporation, a subsidiary of Computer Sciences Corporation, Gateway Partners, L.P. and John S. McCarthy. Paul Tucker, a director of Abiliti, is a vice president of Computer Sciences Corporation. Mr. McCarthy, a director of Abiliti, is a general partner of the general partner of Gateway Partners.

*Employment Agreement.* Upon consummation of the transactions, Gordon D. Quick, currently the president and chief executive officer of Abiliti, will assume the position of president and chief executive officer of Daleen. We have entered into an employment agreement with Mr. Quick which is described under Proposal 2 Other Terms of the Investment Agreement Employment Agreements beginning on page 71.

*Long-Term Incentive Compensation Plan.* Mr. Quick will also participate in our new LTIP, to become effective at the time of the closing of the transactions, that provides for consideration to be allocated to the new management team and to other individuals in the event of certain significant transactions or events. See Proposal 2 Other Terms of the Investment Agreement Employment Agreements beginning on page 71 and Proposal 2 Long-Term Incentive Compensation Plan beginning on page 72.

*Finder's Fee.* The Behrman Funds are under common control. As noted above, Dennis Sisco and William Matthes, who are directors of Abiliti, are affiliates of the Behrman Funds. Behrman Brothers L.P., a party under common control with the Behrman Funds will receive a \$650,000 fee from us in connection with the consummation of the transactions, as well as reimbursement of up to \$25,000 in out of pocket expenses incurred in connection with the transactions.

**PROPOSAL 1 APPROVAL OF THE ASSET PURCHASE AGREEMENT AND THE  
TRANSACTIONS CONTEMPLATED THEREBY, INCLUDING THE ISSUANCE OF SHARES OF OUR CAPITAL STOCK AND  
WARRANTS IN THE ASSET PURCHASE**

We have entered into an asset purchase agreement, dated as of October 7, 2002, with Daleen Solutions, our indirect, wholly-owned subsidiary, and Abiliti. The asset purchase agreement is the agreement that governs the terms of the asset purchase. A copy of the asset purchase agreement is attached as Annex A to this proxy statement. You should read the asset purchase agreement carefully.

**General**

The asset purchase agreement provides that Daleen Solutions will acquire substantially all of Abiliti's assets and will assume certain of its liabilities. Abiliti will continue to exist as a corporation under the laws of the State of Missouri for a period of no less than one year after the closing of the asset purchase. As consideration for the asset purchase, we will issue to Abiliti 11,492,136 shares of our common stock, 115,681 shares of our series F preferred stock and Asset Purchase Warrants to purchase an additional 5,666,069 shares of our common stock at \$0.906 per share, and assume certain of Abiliti's liabilities. Of the shares to be issued, we will (a) issue to Abiliti directly 10,342,922 shares of our common stock, 104,113 shares of our series F preferred stock and Asset Purchase Warrants to purchase 5,099,462 shares of our common stock at an exercise price of \$0.906 per share, (b) deliver to SunTrust Bank as escrow agent, 1,149,214 shares of our common stock, 11,568 shares of our series F preferred stock and Asset Purchase Warrants to purchase 566,607 shares of our common stock at an exercise price of \$0.906 per share, all of which are issued in Abiliti's name and will be held in the manner described in the escrow agreement between us, Abiliti and SunTrust Bank.

**Acquired Assets**

Pursuant to the asset purchase agreement, Daleen Solutions will acquire substantially all of the assets used by Abiliti in its business of providing operations and business support software systems to ensure revenue optimization, including event management, billing and rating software (we refer to the description of Abiliti's business as the "Abiliti business"). These assets include, but are not limited to, the following:

all of Abiliti's tangible assets, wherever located and whether or not obsolete or carried on Abiliti's books of accounts;

all of Abiliti's cash in banks (other than certain cash reserved for liabilities retained by Abiliti as described in "Retained Assets" below), cash equivalents, bank and mutual fund accounts, trade and other notes and accounts receivable, deposits, investments, securities, advanced payments, rental deposits, security deposits, lock boxes, prepaid items and expenses, claims, deferred charges, rights of offset and credits and claims for refunds;

all of Abiliti's books and records (other than books and records relating to the retained liabilities);

all of Abiliti's rights under leases for real and personal property, and all of Abiliti's rights under all other leases, contracts, agreements and purchase and sale orders, except those that relate to employees of Abiliti;

all of Abiliti's claims, causes of action and judgments, except for those that relate to liabilities retained by Abiliti;

all of Abiliti's intangible rights and property, including goodwill, rights in and to tradenames, trademarks, fictitious names, logos, copyrights or service marks, or variations of any of them (other than the name "Abiliti"), and in any other trade secrets, software, inventions and any applications therefore or registrations thereof, going concern value, domain names and email addresses, and any other forms of intellectual property, and all goodwill related thereto;

all insurance benefits, including rights and proceeds arising from and related to the assets purchased by us and the liabilities of Abiliti expressly assumed by us; and

all of Abiliti's rights to the Abiliti business.

Notwithstanding the foregoing, the transfer of the assets purchased by Daleen Solutions pursuant to the asset purchase agreement does not include the assumption of any liability related to the assets we purchase other than liabilities expressly assumed by us.

#### **Retained Assets**

Certain of Abiliti's assets are not part of the asset purchase, and will remain the property of Abiliti after the closing. These assets include:

the consideration to be delivered to Abiliti pursuant to the asset purchase agreement;

Abiliti's other rights under the asset purchase agreement and the related transaction documents;

Abiliti's original minute books, stock book, seal and records having exclusively to do with the corporate organization and capitalization of Abiliti and documents related to the assets and liabilities to be retained by Abiliti;

all right, claims, causes of action and judgments with respect to any liability to be retained by Abiliti;

Abiliti's rights under certain stock purchase, management retention and voting agreements, and options on and warrants to purchase Abiliti's capital stock;

all contracts with Abiliti's employees and certain of Abiliti's employee benefit plans (other than specific assumed liabilities);

all rights and obligations under contracts regarding indebtedness of Abiliti including without limitation, (a) Abiliti's March 2000 Notes, in the aggregate amount of \$7.5 million dollars plus all accrued and unpaid interest, penalties or other amounts owed thereon or (b) Abiliti's January 2001 Notes, in the aggregate amount of \$4.5 million dollars plus all accrued and unpaid interest, penalties or other amounts owed thereon;

\$625,000 in cash (subject to adjustment) as a reserve for the payment by Abiliti of certain of its retained liabilities (such cash, as adjusted, is referred to as the "Reserved Cash"); and

all stock or other securities that Abiliti owns or has the right to acquire in or with respect to any other person.

#### **Assumed Liabilities**

Pursuant to the asset purchase agreement, Daleen Solutions is assuming the following liabilities of Abiliti:

all liabilities of Abiliti under or arising out of any contract assumed by Daleen Solutions in the asset purchase (including liabilities in respect of warranties of Abiliti, but excluding liabilities for those contracts for which a third party fails to provide consent for the assignment of the contract from Abiliti to Daleen Solutions, except to the extent that we have received the benefit of such contract);

all liabilities of Abiliti for taxes relating to periods prior to the closing of the asset purchase (excluding income and similar taxes, if any, of Abiliti arising out of the transactions contemplated by the asset purchase agreement);

all liabilities of Abiliti relating to fees and costs arising prior to the closing date in connection with the transactions contemplated by the asset purchase agreement (including fees and costs of Abiliti's accountants, brokers and legal counsel), and certain fees and costs of its accountants after the closing date;

all liabilities of Abiliti with respect to certain specified legal proceedings;

all liabilities of Abiliti with respect to its leased real properties (excluding liabilities in respect of leased real properties for which the lessor fails to provide consents for the assignment of the lease from Abiliti to Daleen Solutions);

certain liabilities of Abiliti with respect to its employees;

all liabilities of Abiliti with respect to its accounts payable;

encumbrances, if any, specifically identified by Abiliti as being associated with the contracts assumed by Daleen Solutions;

all liabilities of Abiliti incurred by Abiliti, or of which Abiliti did not have knowledge at or prior to the date of the asset purchase agreement and of which notice is first given to Abiliti between the date of the asset purchase agreement and the closing date that (a) arise out of the conduct by Abiliti of its affairs and the Abiliti business in the ordinary course of business or that, if known or existing as of the date of the asset purchase agreement, would have been of the type described in the asset purchase agreement as being assumed by Daleen Solutions, and (b) are set forth in reasonable detail in a certificate to be delivered to us not later than the second business date prior to the closing of the asset purchase, provided that we have the right to consent to the addition by Abiliti of liabilities to the assumed liability list under certain circumstances.

Daleen Solutions is not assuming any liability that is identified as a liability to be retained by Abiliti, nor is Daleen Solutions assuming any liability to the extent that the failure to disclose the liability on any schedule to the asset purchase agreement, or a misrepresentation in respect of the liability in the asset purchase agreement, resulted in a breach of any of Abiliti's representations and warranties in the asset purchase agreement for which we or certain of our affiliates and other related parties would be entitled to indemnification pursuant to the asset purchase agreement.

#### **Retained Liabilities**

Daleen Solutions will not assume, and Abiliti has the sole responsibility for and shall retain, pay and discharge in due course, any liability of Abiliti that Daleen Solutions has not expressly assumed pursuant to the asset purchase agreement, including, without limitation:

Abiliti's liabilities arising out of the asset purchase agreement and the related transaction documents;

liabilities under, arising out of, or in any way in respect of, (a) Abiliti's March 2000 Notes, in the aggregate amount of \$7.5 million dollars plus all accrued and unpaid interest, penalties or other amounts owed thereon or (b) Abiliti's January 2001 Notes, in the aggregate amount of \$4.5 million dollars plus all accrued and unpaid interest, penalties or other amounts owed thereon;

liabilities in respect of certain litigation threatened and claims asserted against Abiliti;

liabilities in respect of any asset retained by Abiliti;

liabilities related to the distribution by Abiliti to any of its creditors or stockholders of the consideration to be received by Abiliti pursuant to the asset purchase agreement;

liabilities related to the income, capital gains or other similar taxes, if any, of Abiliti arising out of the transactions contemplated by the asset purchase agreement;

liabilities related to Abiliti's ownership and operation of its California subsidiary;

liabilities related to Abiliti's acts or omission occurring after the closing date; or

liabilities related to certain investor rights, stock purchase, management retention and voting agreements.

### **Effective Time of the Asset Purchase**

The asset purchase agreement provides that the closing of the asset purchase will take place at such time as the parties specify, which is to be no later than three business days after the satisfaction or waiver of the conditions precedent set forth in the asset purchase agreement, provided that the asset purchase agreement may be terminated if the asset purchase has not closed on or before February 28, 2003. The closing of the asset purchase is conditioned upon the closing of the private placement, and the closing of the private placement is conditioned upon the closing of the asset purchase. The parties to each of the asset purchase and the private placement anticipate that the two transactions will close at approximately the same time. The asset purchase will become effective at 12:01 a.m. on the closing date.

Completion of the asset purchase could be delayed if there is a delay in satisfying other conditions to the asset purchase. There can be no assurances as to whether, and on what date, the conditions will be satisfied or that the parties will complete the asset purchase. A party may not terminate the asset purchase agreement if that party's failure to fulfill any of its obligations under the asset purchase agreement has been the cause of the asset purchase not being completed by that date.

### **Delivery of Share Certificates**

At the closing, we will deliver to Abiliti and the escrow agent certificates evidencing our common stock and our series F preferred stock, and Asset Purchase Warrants to purchase additional shares of our common stock in consideration for substantially all of Abiliti's assets. If we change the number of shares of our common stock or series F preferred stock issued and outstanding as a result of a stock split, stock dividend, reverse stock split or similar recapitalization, subdivision, reclassification, combination, exchange of shares or similar transaction and the record date or the effective date for such an event is prior to the effective time of the closing of the asset purchase, the number of shares of our common stock or series F preferred stock, as applicable, and the number of shares of our common stock issuable upon exercise of the Asset Purchase Warrants and the exercise price of such Asset Purchase Warrants, to be delivered in connection with the asset purchase will be adjusted appropriately to reflect such an event.

### **Limitations to Dissolution of Abiliti**

Pursuant to the asset purchase agreement, Abiliti will not file articles of dissolution or otherwise dissolve pursuant to applicable Missouri corporate law prior to the date that is one year after the closing date. In the event Abiliti elects to dissolve, the dissolution must be in accordance with Missouri law, and Abiliti will discharge, or make provision for the discharge of all liabilities that are not assumed by Daleen Solutions prior to the distribution of any remaining assets to the holders of Abiliti's capital stock. Abiliti will not distribute any of its assets to its stockholders prior to satisfying or making provisions to satisfy its creditors in accordance with applicable law.

### **Abiliti Name**

Simultaneous with the closing of the asset purchase, Abiliti will change its name to a name that does not contain the word "Abiliti" or derivatives thereof. From and after the closing date, we will have the right to use the name "Abiliti" in connection with the use and operation of the assets purchased from Abiliti, whether by itself or in combination with other words, for a period of one year from and after the closing date, during which time Abiliti will not use the business name.

### **Pre-Closing Casualty to Assets**

In the event of any loss, damage or destruction of or to the assets to be purchased due to theft, expropriation, seizure, destruction, damage, fire, earthquake, flood, lightning, storm, hurricane or other cause or casualty, at the closing Abiliti will assign any insurance proceeds and other compensation and any other rights thereto to us and will reasonably cooperate with us in collecting all insurance proceeds and other compensation related thereto.

## Representations and Warranties

Abiliti made customary representations and warranties in the asset purchase agreement, and we made substantially similar representations and warranties, relating to various aspects of our respective businesses and financial statements and other matters, including, among other things:

each party and their respective subsidiaries organization, qualification and good standing;

authority to enter into, and carry out the obligations under, the asset purchase agreement and the enforceability of the asset purchase agreement;

the absence of conflicts, violations or defaults under our organizational documents, applicable laws and agreements;

capital structure;

the accuracy of financial statements;

the accuracy of the information supplied for inclusion in any document to be filed, or incorporated by reference, by us with the SEC;

title, condition, operation and insurance status of properties and assets;

collectibility of accounts receivable;

compliance with tax laws and other tax matters;

pension, benefit plans and other matters relating to the Employee Retirement Income Security Act of 1974;

compliance with applicable laws and agreements;

compliance with all applicable labor laws;

rights and obligations under certain contracts;

a listing of major vendors and customers;

rights and obligations under insurance policies;

ownership and licensing of intellectual property and software;

ownership and preservation of rights in proprietary information;

absence of certain agreements and/or other relationships with officers, directors and other related parties;

accuracy of disclosure of information relating to the asset purchase;

compliance with environmental laws and other environmental, health and safety matters;

approval and recommendation of the asset purchase by the respective board of directors of Abiliti and us in accordance with applicable law;



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execution of voting agreements with specific stockholders of Abiliti and us concerning the approval of the asset purchase agreement and the transactions contemplated thereby;

adoption of a resolution by the directors of Abiliti and us to elect not to be subject, to the extent permitted by applicable law, to any state takeover law that may purport to be applicable to the asset purchase; and

receipt of fairness opinions to the effect that the asset purchase is fair to Abiliti and us and our respective stockholders, from a financial point of view.

The representations and warranties of each party must be accurate in all material respects only as of the date of the asset purchase agreement, and not as of the closing date. The representations and

warranties of each party will expire on the date that is one year after the closing date of the asset purchase or upon termination of the asset purchase agreement in accordance with its terms.

#### **Access to Information and Confidentiality**

The asset purchase agreement provides that we and Abiliti will, and will cause our respective officers, directors, employees, representatives and advisors to:

afford the other party reasonable access to personnel, properties, customers, contracts, books and records, and other documents and data;

furnish the other party with copies of all contracts, books and records, and other existing documents and data as it may reasonably request; and

furnish the other party with such additional financial, operating, and other data and information as it may reasonably request.

All information delivered by the parties is subject to a non-disclosure agreement entered into by the parties on March 15, 2002.

#### **Notification**

The asset purchase agreement provides that we and Abiliti shall promptly advise each other of:

any fact or condition that causes or constitutes a breach of the representations and warranties of the notifying party as of the date of the asset purchase agreement, or the notifying party becomes aware of the occurrence after the date of the asset purchase agreement of any fact or condition that would cause or constitute a breach of any representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of the fact or condition; and

the occurrence of any breach of any covenant of the notifying party or the occurrence of any event that may make the satisfaction of the conditions to the non-notifying party's obligation to close impossible or unlikely.

#### **Required Approvals**

As promptly as practical after the date of the asset purchase agreement, Abiliti and we will use our commercially reasonable efforts to make all filings required by applicable law to be made to consummate the transactions contemplated by the asset purchase (which include, with respect to us, amendments to our Certificate of Incorporation to increase the number of authorized shares of our series F preferred stock and such other amendments as may be necessary to consummate the asset purchase). Between the date of the asset purchase agreement and the closing date, each party will reasonably cooperate with the other with respect to all filings that the other party is required to make in connection with the transactions contemplated by the asset purchase agreement, and will use its commercially reasonable efforts to obtain and keep in full force and effect all consents required to be obtained by such party in connection with the asset purchase.

#### **Conduct of Business Prior to the Asset Purchase**

Both we and Abiliti have agreed during the period from the date of the asset purchase agreement through the effective time of the asset purchase:

to carry on our respective businesses in the ordinary course of business consistent with prior practice;

to use all commercially reasonable efforts to preserve intact current business organizations, to keep available the services of current officers and employees and to preserve the current relationships with customers, suppliers, licensors and licensees and other persons with whom we have business dealings;

to confer with each other concerning operational matters of a materials nature; and

to otherwise periodically report and confer with each other concerning the status of its business, operations and finances; and

In addition, we and Abiliti have agreed to operate pursuant to the terms of an alliance agreement, dated October 7, 2002. The alliance agreement provides a framework for us to engage in joint marketing efforts with Abiliti for our respective products and services. The agreement is based on our standard contract form with terms substantially similar to other agreements we have executed. The terms provide for lead registration, information sharing and cooperation for preparation of joint proposals, and demonstration licenses for our respective products. The agreement also contains terms for referral compensation to be paid in the event of sales of products or services.

In addition, the asset purchase agreement places specific restrictions on each of Abiliti's and our ability to, among other things and with some exceptions, take any action that would result in the following:

payment of a dividend to the holders of capital stock or the issuance of additional shares of capital stock (except as may be required under the terms of options granted pursuant to existing stock option plans or pursuant to warrants and other convertible securities that have been granted on or before the date of the asset purchase agreement);

other than in connection with a reverse stock split in respect of which Daleen is obligated to pay an aggregate of \$50,000 or less in respect of fractional shares, a change in authorized or issued capital stock; the grant of any stock option or right to purchase shares of capital stock; the issuance of any security convertible into capital stock; the grant of any registration rights; the purchase, redemption, retirement, or other acquisition of any shares of any capital stock; or the declaration or payment of any dividend or other distribution of shares of capital stock;

an amendment to any organizational documents;

a payment or increase of any bonuses, salaries or other compensation to any stockholder, director, officer or employee (except in the ordinary course of business) or entry or amendment of the employment, severance, or similar contract with any director, officer or employee;

the adoption of, or increase in the payments to or benefits under, any profit-sharing, bonus, deferred compensation, savings, insurance, pension, retirement or other employee benefit plan for or with any employee;

damage to or destruction or loss of any assets, whether or not covered by insurance, materially or adversely affecting the properties, assets, business, financial conditions or prospects;

the entry into, termination of, or receipt of notice of termination of any material contract, license, distributorship, dealer, sales representative, joint venture, credit or similar agreement, other than in the ordinary course of business;

the sale, lease, assignment, transfer or other disposition of any material asset or property or the mortgage, pledge, or imposition of any lien or other encumbrance on any material asset property, other than in the ordinary course of business;

the cancellation or waiver of any material claim or rights other than in the ordinary course of business;

a change in the accounting methods used, other than as may be required by generally accepted accounting principles or applicable laws;

a change in billing and collection practices and procedures;

an action to accelerate, amend or change the period of vesting or exercisability of stock options or other rights pursuant to benefits plans, except such changes that result from the transactions contemplated by the asset purchase agreement;

an agreement entered into pursuant to which any other party was granted exclusive marketing, servicing, manufacturing or other exclusive rights of any type or scope;

a payment, discharge, satisfaction, settlement or compromise of any case, claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise) arising other than in the ordinary course of business, other than the payment, common discharge or satisfaction of liabilities specifically reflected or reserved against in financial statements or reports to the SEC;

A reevaluation of any assets, except as required by generally accepted accounting principles;

the execution of an agreement with any third party that limits in any manner the territory or scope of activities in which it may engage; or

the execution of any agreement, whether oral or written, to do any of the foregoing.

#### **Nasdaq Listing**

We are to use commercially reasonable efforts to continue to cause our common stock to be listed on The Nasdaq SmallCap Market, and if our common stock is delisted from The Nasdaq SmallCap Market prior to the closing date of the asset purchase agreement, we are to use commercially reasonable efforts to cause our stock to be listed on a national securities exchange. If our common stock is not eligible for listing on any such market or exchange, we are required to use commercially reasonable efforts to cause our stock to be listed on the OTC Bulletin Board, which requires us to be covered by at least one market maker or specialist.

#### **Agreement Not to Solicit Other Offers**

Except for the private placement, both parties have agreed not to solicit, initiate or facilitate any inquiries or proposals with respect to any recapitalization, merger, consolidation, or other business combination. Furthermore, both parties have agreed not to engage in the acquisition or sale of any capital stock or any material portion of assets (except as contemplated by the asset purchase agreement).

#### **Financial Statements; Financial Reporting Obligations**

Between the date of the asset purchase agreement and the closing date, each party is to furnish to the other as soon as practicable at the end of each fiscal month, but in no event later than 15 days after the end of each fiscal month, unaudited consolidated balance sheets as of the end of each month, and unaudited consolidated statements of income and cashflow for each such month.

#### **Commercially Reasonable Efforts/ Further Assurances**

We and Abiliti agree to use commercially reasonable efforts to take, or cause to be taken, all actions to consummate and make effective the asset purchase agreement and the transactions contemplated by the asset purchase agreement, including using commercially reasonable efforts to accomplish the following:

taking all reasonable acts necessary to cause the conditions to closing to be satisfied (including commercially reasonable efforts to satisfy all conditions to closing);

obtaining all necessary consents and approvals from governmental authorities, the making of all necessary registrations and filings, filings (including amendments to our certificate of incorporation to increase the number of authorized shares of series F preferred stock and such other amendments as may be necessary to consummate the asset purchase) and the taking of all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by any governmental authority;

obtaining all necessary consents, approvals or waivers from third parties; and

execution and delivery of any additional instruments necessary to consummate the transactions contemplated by the asset purchase agreement.

## Conditions Precedent

### *Conditions to the Obligations of Each Party*

Our obligation and the obligation of Abiliti to effect the transactions contemplated by the asset purchase agreement are subject to the satisfaction or waiver of the following conditions:

there shall not be in effect any injunction or other order by a court of competent jurisdiction restraining or prohibiting the transactions contemplated by the asset purchase agreement; and

there shall have been no change in applicable law between the date of the asset purchase agreement and the closing date that would cause either the consummation or the performance of any of the transactions contemplated by the asset purchase agreement to contravene or conflict with or result in a violation of any applicable legal requirement or order.

### *Additional Conditions to Our Obligations*

Our obligation to effect the transactions contemplated by the asset purchase agreement also is subject to the following conditions:

Abiliti's representations and warranties in the asset purchase agreement must have been accurate in all material respects as of the date of the asset purchase agreement, with such exceptions as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Abiliti, provided that should the failure of Abiliti's representations and warranties in the asset purchase agreement to be accurate in all material respects as of the date of the asset purchase agreement be a result of any intentional or willful breach thereof by Abiliti, the material adverse effect exception would be deemed of no force and effect;

the covenants and obligations that Abiliti is required to perform or to comply with pursuant to the asset purchase agreement at or prior to the closing of the asset purchase must have been duly performed and complied with, with such exceptions as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Abiliti or its ability to consummate the transactions contemplated by the asset purchase agreement, provided that should the failure to perform or comply with such covenants and obligations be as a result of any intentional or willful breach thereof by Abiliti, the foregoing material adverse effect exception shall be deemed to be of no force and effect;

the asset purchase agreement and the transactions contemplated thereby, including certain amendments to our certificate of incorporation to increase the number of authorized shares of our series F preferred stock and such other amendments as may be necessary to consummate the asset purchase, shall have been approved by our stockholders in accordance with all applicable law and our organizational documents;

our receipt, immediately prior to the closing of the asset purchase and conditioned upon the closing of the asset purchase, in exchange for certain of our equity securities, of an investment pursuant to the terms and conditions set forth in the investment agreement, and the obligations of the parties set forth in the investment agreement to be performed on or before the closing date shall have been performed;

each of the following documents shall have been received by us: (1) a bill of sale duly executed by an officer of Abiliti; (2) the registration rights agreement duly executed by an officer of Abiliti; (3) the escrow agreement duly executed by an officer of Abiliti; (4) a certificate executed by an executive officer of Abiliti to the effect that certain conditions preceding to our obligations to close have been satisfied in all respects; (5) a legal opinion of Abiliti's (Missouri) legal counsel; (6) each of the consents to assignment and assumption required to transfer the assets purchased under the asset purchase agreement; (7) an assignment and assumption agreement duly executed by an officer of Abiliti; (8) with respect to each registered trademark, patent or application therefor included in the assets purchased pursuant to the asset purchase agreement, an assignment suitable

for filing at the United States Patent and Trademark Office, or with foreign jurisdictions; and (9) such other documents as we may reasonably request;

Abiliti will not have (1) applied for or consented to the appointment of a receiver, trustee, custodian or liquidator of it or any of its assets, (2) made a general assignment for the benefit of its creditors, (3) filed a voluntary petition in bankruptcy, or a petition or an answer seeking reorganization, an arrangement with creditors or taking advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation law or statute, or any answer admitting the material allegations of a petition filed against it in any proceeding under any such law, (4) had commenced against it any proceeding seeking Abiliti's reorganization or the appointment of a receiver, trustee, custodian or liquidator of Abiliti or of all or any substantial part of Abiliti's assets, for which an order for relief shall have been entered with respect of such proceeding or such proceeding shall not have been dismissed or discharged within 60 days of the commencement thereof, (5) been adjudicated bankrupt or insolvent or be the subject of an order for relief under Title XI of the United States Code, or (6) taken or permitted to be taken any action and furtherance of for the purpose of effecting any of the foregoing; and

Abiliti will comply with all applicable notification and other requirements under the Workers Adjustment and Retraining Notification Act with respect to its employees.

***Additional Conditions to Abiliti's Obligations***

Abiliti's obligation to effect the transactions contemplated by the asset purchase agreement also is subject to the following conditions:

our representations and warranties in the asset purchase agreement must have been accurate in all material respects as of the date of the asset purchase agreement with such exceptions as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on us, provided that should the failure of our representations and warranties in the asset purchase agreement to be accurate in all material respects as of the date of the asset purchase agreement be as a result of any intentional or willful breach thereof by us, the material adverse effect exception shall be deemed to be of no force and effect;

the covenants and obligations that we are required to perform or to comply with pursuant to the asset purchase agreement as or prior to the closing of the asset purchase must have been duly performed and complied with, with such exceptions as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on us, provided that should the failure to perform or comply with such covenants and obligations be a result of any intentional or willful breach thereof by us, the material adverse effect exception shall be of no force and effect;

the asset purchase agreement and the transactions contemplated thereby will have been approved by Abiliti's stockholders in accordance with all applicable law and Abiliti's organizational documents;

we must have caused the following documents to be delivered to Abiliti: (1) the assignment and assumption agreement duly executed by us; (2) the registration rights agreement duly executed by us; (3) the escrow agreement duly executed by the escrow agent and us; (4) a certificate executed by us to the effect that certain conditions have been satisfied in all respects; (5) legal opinions of our outside general counsel and our local (Missouri) counsel; (6) such other documents as Abiliti may reasonably request;

we will not have (1) applied for or consented to the appointment of a receiver, trustee, custodian or liquidator of us or any of our assets, (2) made a general assignment for the benefit of our creditors, (3) filed a voluntary petition in bankruptcy, or a petition or an answer seeking reorganization, an arrangement with creditors or taking advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation law or statute, or an answer admitting the material allegations of a petition filed against us in any proceeding in any such law, (4) had commenced against us in any proceedings seeking our reorganization or appointment of a receiver, trustee,

custodian or liquidator of us or all or any substantial part of our assets, for which an order for relief shall have been entered in respect of such proceeding or such proceeding shall not have been dismissed or discharged within 60 days of the commencement thereof, (5) be adjudicated, bankrupt or insolvent or be the subject of an order of relief under Title XI of the United State Code, or (6) taken or permitted to be taken any action and furtherance of or for the purpose of effecting any of the foregoing;

we shall have received the private placement immediately prior to and conditioned upon the closing of the asset purchase, pursuant to the terms of the investment agreement, and the obligations of the parties set forth in the investment agreement to be performed on or before the closing of the asset purchase shall have been performed and the investment agreement shall not have been amended prior to the closing of the asset purchase other than with Abiliti's prior written consent, which consent may not be unreasonably withheld (provided that the refusal of consent to any amendment, waiver or other modification of the investment agreement that would either (a) reduce the aggregate amount to be invested in us thereunder or (b) alter the agreements of the parties therein with respect to the post-closing management of us shall be conclusively deemed reasonable); and

we shall have delivered (a) to Abiliti (i) duly issued share certificates representing the shares of our common stock and series F preferred stock to be delivered to Abiliti and (ii) the Initial Warrants to be delivered to Abiliti, and (b) to the escrow agent, certificates representing shares of our common stock and our series F preferred stock to be delivered to the escrow agent and the Initial Warrants to be delivered to the escrow agent.

#### **Employee Benefits**

All warrants and options to purchase Abiliti capital stock outstanding as of the effective time of the asset purchase will remain as retained liabilities of Abiliti, and will not be assumed by us. All warrants and options to purchase our capital stock outstanding as of the effective time of the asset purchase will continue in accordance with their terms. To the extent we hire employees of Abiliti, we will offer to such employees participation in our programs, including our stock option plans, upon terms and conditions that, when taken as a whole, are substantially similar to those afforded to similarly-situated employees of Daleen.

We are not obligated to hire any employee of Abiliti presently employed by Abiliti (we refer to such employees as active employees), but will provide to Abiliti a list of active employees to whom we will make an offer of employment to be effective on the closing date of the asset purchase. Effective immediately before the closing, Abiliti will terminate the employment of all of the active employees to whom we have made an offer and such offer has been accepted. Our intention to extend offers of employment to active employees does not constitute any commitment, contract or understanding (expressed or implied) by us of any obligation on our part to an employment relationship after the closing of the asset purchase of any fixed term or duration or upon any terms or conditions other than those that we may establish pursuant to individual offers of employment and, unless an active employee hired by us enters into an employment agreement with us that provides otherwise, such employment offer by us is at-will and may be terminated by us or by an active employee hired by us at any time for any reason.

Except to the extent expressly assumed by us, Abiliti will be responsible for the payment of wages and other remuneration due to its active employees with respect to their services as employees of Abiliti through the close of business on the closing date, including pro rata bonus payments and all vacation pay earned prior to the closing date, as well as the payment of any termination or severance payments and the provision of health plan continuation coverage in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA) and Section 4980B of the Internal Revenue Code, Section K, Chapter 100 of the Internal Revenue Code and ERISA Sections 601 through 608 (COBRA). The amount of the Reserved Cash will be increased by the amount of any of the foregoing payments that have not been paid by Abiliti prior to closing to the extent we do not assume such liabilities.

Except to the extent expressly assumed by us, Abiliti will be liable for any claims made or incurred by its active employees and their beneficiaries through the closing date under Abiliti's employee benefit plans. The amount of the Reserved Cash will be increased by an amount sufficient to satisfy Abiliti's estimated obligations in respect of the foregoing liabilities as of the closing, to the extent that such liabilities are not, in Abiliti's reasonable judgment, covered by a valid insurance policy or similar coverage.

All active employees hired by us who are participants in Abiliti's employee benefit plans will retain their accrued benefits under such plans as of the closing date, and, except to the extent expressly assumed by us, Abiliti (or such plans) will retain sole liability for the payment of the benefits as and when the active employees hired by us become eligible therefor under such plans. All active employees hired by us will become fully vested in their accrued benefits under Abiliti's employee benefit plans as of the closing date and Abiliti will amend such plans if necessary to make such employees fully vested. Abiliti will cause its 401(k) plan to be amended in order to provide that the active employees hired by us will be fully vested in their accounts under the plan as of the closing date, and all payments thereafter will be made from the plan as provided by the plan.

Except to the extent expressly assumed by us, we will not have any responsibility, liability or obligation, whether to the active employees, former employees, their beneficiaries or any other person, with respect to any employee benefit plans, practices, programs or arrangements maintained by Abiliti.

Effective as of the closing of the asset purchase, we will assume Abiliti's responsibility to provide COBRA continuation coverage insurance for those individuals whose qualifying event (as defined in Section 4980B(f)(3) of the Internal Revenue Code) occurs prior to or as of the closing of the asset purchase and who are, and would be entitled to such coverage under a group health plan of Abiliti and who are paying the applicable premium for such insurance. Except as expressly assumed by us, we will not be required to reimburse any COBRA qualified beneficiary of Abiliti for premiums payable for the COBRA continuation coverage.

Effective as of the closing of the asset purchase, with respect to each active employee hired by us, we will honor any vacation time of such employee accrued with Abiliti as of the closing date, provided that the accrued vacation time is used in accordance with our standard vacation policy for employees. Effective as of the closing of the asset purchase, with respect to the active employees hired by us, we will cause such employees to receive credit for their service with Abiliti as if the service had been for us, for purposes of determining their participation in vesting under any pension, profit-sharing or stock bonus plans sponsored or maintained by us which is qualified under Section 401(a) of the Internal Revenue Code in accordance with the terms and conditions of the plan, provided that such credit for service with Abiliti will only be provided to the extent that it will not effect the tax qualified status of any of our plans and to the extent that it does not violate any applicable law.

#### **Noncompetition, Non-solicitation**

For a period of five years after the closing date, Abiliti will not, anywhere within the St. Louis, Missouri metropolitan area, directly or indirectly, invest in, own, manage, operate, finance, control, advise, render services to or guaranty the obligations of any person engaged in or planning to become engaged in a business the same as or substantially similar to the Abiliti business, provided that Abiliti may purchase or otherwise acquire up to (but not more than) five percent (5%) of any class of securities of any such person (but may not otherwise participate in any activities of such person) if such securities are listed on a national or regional securities exchange or have been registered under as Section 12(g) of the Exchange Act, and provided that the foregoing covenant is not intended to prohibit the holding of the purchase price by Abiliti.

For a period of five years after the closing date, Abiliti will not, directly or indirectly, (a) solicit the business of any person who is our customer, (b) cause, induce or attempt to cause or induce any of our customers, suppliers, licensees, licensors, franchisees, employees, consultants or other business relations to cease doing business with us, to deal with any of our competitors or interfere with its relationship with us, (c) cause, induce or attempt to cause or induce any customer, supplier, licensee, licensor, franchisee,



employee, consultant or other business relation of Abiliti on the closing date or within the year preceding the closing to cease doing business with us, to deal with any of our competitors or interfere with its relationship with us, or (d) hire, retain or attempt to hire or retain any of our employees or independent contractors or in any way interfere with the relationship between us and any of our employees or independent contractors.

#### **Restrictions in Conversion and Exercise of Purchase Price**

After the closing date, Abiliti will not convert the shares of our series F preferred stock it holds as a result of the asset purchase into shares of our common stock for a six month period. This restriction will not apply if we experience a change in control event. For purposes of the asset purchase agreement, a change in control event means our dissolution or liquidation, the consummation of the sale of all or substantially all of our assets, or the acquisition of a majority of our voting securities by another person by means of a stock sale, stock exchange or a merger (other than a merger which solely affects a change of domicile) or consolidation or other transaction, unless, after such stock sale, stock exchange, merger, consolidation or other transaction, our stockholders immediately before the stock sale, stock exchange, merger, consolidation or other transaction continue to hold at least 50% of the economic and voting power of the surviving entity.

#### **Termination**

The asset purchase agreement may be terminated and the asset purchase may be abandoned at any time prior to the completion of the asset purchase:

by Abiliti or us if a material breach of any provision of the asset purchase agreement has been committed by the other party;

(1) by us if any of the conditions precedent to our obligation to close has not been satisfied as of the closing date or if satisfaction of a condition precedent is or becomes impossible (other than through our failure to comply with our obligations under the asset purchase agreement) and we have not waived the condition precedent; or (2) by Abiliti, if any of the conditions precedent to Abiliti's obligation to close have not been satisfied as of the closing date or if satisfaction of a condition precedent is or becomes impossible (other than through the failure of Abiliti to comply with its obligations under the asset purchase agreement) and Abiliti has not waived the condition precedent;

by mutual consent of Abiliti and us; or

by either Abiliti or us if the closing has not occurred on or before February 28, 2003, or a later date as the parties may agree (unless the failure to close is the result of the party seeking termination).

In the event either party becomes aware of any event that would give such party the right to terminate the asset purchase agreement, including: (a) any of the representations or warranties of the other party contained in the asset purchase agreement being or becoming untrue or incorrect; (b) the failure of the other party to perform any of its covenants or agreements contained in the asset purchase agreement; or (c) any of the conditions delegated to the other party being or becoming impossible to satisfy, then the party that became aware of such events shall deliver a written notice to the party in breach. The party in breach will then have the right to cure any such matter within ten days following the date of delivery of such notice, unless it is manifest that such matter is not curable.

#### **Abiliti's Indemnification Obligations; Escrow**

The asset purchase agreement provides that Abiliti will indemnify us against any loss resulting from or arising out of any breach of Abiliti's representations, warranties, covenants and agreements set forth in the asset purchase agreement and any liability not expressly assumed by us, referred to as a retained liability.

Of the shares of our common stock to be issued to Abiliti at closing, we will deposit 1,149,214 shares of our common stock, 11,568 shares of our series F preferred stock, and Asset Purchase Warrants to purchase 566,607 shares of our common stock with an escrow agent to secure Abiliti's indemnification obligations. Abiliti's indemnification obligations will be limited to claims made within one year after the closing of the asset purchase. Additionally, Abiliti will have no liability for indemnification (except with respect to its obligation for retained liabilities) until the total of all damages incurred by us exceeds \$250,000, at which time Abiliti will be obligated for indemnification of all damages in excess of \$250,000, up to Abiliti's maximum indemnification liability. Abiliti's maximum indemnification liability is limited to and will not exceed the aggregate value of the shares of our common stock, series F preferred stock and the Asset Purchase Warrants held in escrow. If no claims for indemnity are made within the one-year period, the shares of common stock, series F preferred stock and the Asset Purchase Warrants held in escrow will be distributed to Abiliti. At the end of one year, the escrow agent will release any portion of the escrow shares that exceeds the value of outstanding indemnification claims.

### **Our Indemnification Obligations**

The asset purchase agreement provides that we will indemnify Abiliti against any loss resulting from or arising out of any breach of our representations, warranties, covenants and agreements set forth in the asset purchase agreement, any liability expressly assumed by us, and any failure of Abiliti to comply with applicable bulk sales or comparable laws.

Our indemnification obligations will be limited to claims made within one year after the closing of the asset purchase. Additionally, we will have no liability for indemnification (except with respect to our representation and warranty related to capitalization, with respect to our obligation to pay brokers' or finders' fees and for liabilities expressly assumed by us) until the total of all damages incurred by Abiliti exceeds \$250,000, at which time we will be obligated for indemnification of all damages in excess of \$250,000, up to our maximum indemnification liability. Our maximum indemnification liability is limited to and will not exceed 3,013,313 shares of our common stock (which we refer to herein as our "indemnification cap").

Subject to our indemnification cap, we will satisfy Abiliti's indemnification claims by delivering to Abiliti, in our sole discretion, (a) cash, (b) shares of our common stock in an amount equal to the amount of damages to be paid by us with respect to a claim divided by our common stock's current market price per share (as described below) or (c) a combination of cash and shares of our common stock with an aggregate value equal to the amount of damages to be paid by us with respect to the claim. Our common stock's current market price per share for any date means the average of the closing prices of a share of our common stock during a period of 20 consecutive trading days ending five trading days before such date on the principal national securities exchange or The Nasdaq Stock Market (including The Nasdaq National Market and the Nasdaq SmallCap Market) on which our common stock is then listed or admitted to trading. If our common stock is not then listed on a national securities exchange or in a market system, our common stock's current market price per share will be the average of the closing bid and asked prices of our common stock in the over-the-counter market as reported by The Nasdaq Stock Market, Inc. or other operator of the applicable over-the-counter market. If our common stock is not then listed on the national securities exchange market system or quoted on an over-the-counter market, its current market price per share will be the fair market value as determined in good faith by our board of directors.

If we determine to pay all or part of a claim by delivering shares of our common stock to Abiliti, our indemnification cap will be reduced by an amount equal to the number of shares of our common stock so delivered. If we determine to pay all or part of a claim by delivering cash to Abiliti, we will be deemed to have delivered to Abiliti, and our indemnification cap will be reduced by, the number of shares of our common stock equal to the amount of the cash payment divided by the current market price per share of our common stock at the time of payment. The maximum amount of cash to be paid by us to Abiliti will not exceed, in the aggregate, the amount of cash determined by multiplying the then-current number of shares of our common stock in the indemnification cap by the current market price per share.

## Public Announcements

Any press release with respect to the asset purchase agreement or the transactions contemplated by the asset purchase agreement will be issued at such time and in such manner as we determine, after consultation with Abiliti.

## Fees and Expenses

We will pay the expenses incurred by us, as well as any unpaid expenses incurred by Abiliti, in connection with the preparation, execution and performance of the asset purchase, including all fees and expenses of agents, representatives, counsel and accountants. Although not required pursuant to the asset purchase agreement, Abiliti generally pays its expenses as they are incurred. However, in the event of termination of the asset purchase agreement, the obligation of each party to pay its own expenses will be subject to any rights of such party arising from a breach of the asset purchase agreement by another party.

## Extension/ Waivers

At any time prior to the effective time of the asset purchase, a party may:

extend the time for the performance of any of the obligations or other acts of the other party;

waive any inaccuracies in the representations and warranties of the other party contained in the asset purchase agreement or in any document delivered pursuant to the asset purchase agreement; or

subject to certain limited exceptions, waive compliance by the other party with any of the agreements or conditions contained in the asset purchase agreement.

To be effective, any waiver must be in writing and signed by each of the parties.

## Amendments

The asset purchase agreement may not be amended except by a written agreement executed by the party to be charged with the amendment.

## Escrow Agreement

We will enter into an escrow agreement with Abiliti and SunTrust that will govern the terms of the escrow. A copy of the form of escrow agreement is attached as Annex D to this proxy statement. You should read the escrow agreement carefully. The asset purchase agreement provides that Abiliti will indemnify us against any loss, resulting from or arising out of any breach of Abiliti's representations and warranties subject to certain limitations.

Pursuant to the terms of the asset purchase agreement, of the shares of our common stock, series F preferred stock, and Asset Purchase Warrants to be issued pursuant to the asset purchase agreement at closing, we will deposit 1,149,214 shares of common stock, 11,568 shares of series F preferred stock and Asset Purchase Warrants to purchase 566,607 additional shares of common stock into an escrow account with SunTrust Bank as agent to secure Abiliti's indemnification obligations. Abiliti's indemnification obligation will be limited to claims made within one year after the closing of the asset purchase and our recourse for such claims will be limited, absent fraud, to the capital stock and Asset Purchase Warrants held in escrow. Additionally, if no claims for indemnity are made within the one year period, the shares of series F preferred stock, common stock and Asset Purchase Warrants held in escrow will be distributed to Abiliti. At the end of one year, the escrow agent will release any portion of the escrow shares that exceeds the value of any outstanding indemnification claims.

## The Registration Rights Agreement

We have entered into a registration rights agreement, dated as of October 7, 2002, with Abiliti, the Behrman Funds and Kaufman Bros., L.P., our financial advisor in the transactions. We refer to this group as the registration rights holders. The registration rights agreement is the agreement that governs the terms under which we have agreed to register under the Securities Act, (i) the common stock to be issued in the transactions, (ii) the common stock issuable upon conversion of the series F preferred stock to be issued in the transactions, and (iii) the common stock issuable upon exercise of the Warrants to be issued in the transactions (such securities are referred to collectively as the registrable securities). A copy of the registration rights agreement is attached as Annex C to this proxy statement. You should read the registration rights agreement carefully.

### *General*

We have agreed to file up to three registration statements at any time after the later of November 8, 2002 and the closing of the transactions upon the demand of a majority of, and covering, the registrable securities.

Upon receipt of a demand notice from the holders of a majority of the shares eligible to be registered pursuant to the registration rights agreement, and in the event we are eligible to file a registration statement on Form S-3, we will file a registration statement as a continuous offering, or shelf registration statement. Once effective, the shelf registration statement will permit the registration rights holders who have elected to include their shares of registrable securities in the registration statement to sell their registered shares in the open market from time to time using the methods to be described in the shelf registration statement. We have agreed to use our best efforts to file a shelf registration statement within 45 days after receipt of the demand notice. If, other than as a result of a delay which is the result of a registration rights holder, we do not file a registration statement covering each of the registrable securities included in the first demand notice under the registration rights agreement within 90 days after receipt of the demand notice, then we will be required to pay to the Behrman Funds liquidated damages in an amount equal to one percent of the aggregate purchase price paid by the Behrman Funds pursuant to the investment agreement. We will not be required to pay liquidated damages in respect of shares issued to Abiliti pursuant to the asset purchase agreement.

The shares of stock will be eligible for resale pursuant to the registration statement from the date it is declared effective by the SEC until the earliest of (i) the date as of which each holder of shares included in the registration statement may sell all of its registrable securities during a single three month period pursuant to Rule 144 (or successor thereto) promulgated under the Securities Act ( Rule 144 ), (ii) the date as of which each holder of shares included in the registration statement may sell all of its registrable securities pursuant to paragraph (k) of Rule 144, (iii) the date on which (A) the holders of shares included in the registration statement have sold or otherwise disposed of all shares included in the registration statement and (B) there are no other shares of series F preferred stock, common stock or Warrants issued in the transactions that are held by a registration rights holder or any permitted transferee of the registration rights, or (iv) the date on which we are no longer required to file reports under the Exchange Act.

In the event we receive a demand notice, but are not eligible, pursuant to SEC rules and regulations, to use a registration statement on a Form S-3, a majority in interest of the holders of the registrable securities proposed to be included in such registration statement may require us to register the stock on a form other than Form S-3. In such event, we will be required to file a registration statement within 90 days of receipt of the notice. However, we will not be required to file a registration statement on a form other than a Form S-3 as a shelf registration.

In the event the registration statement is an underwritten offering, and if the managing underwriter determines that marketing factors require a reduction in the number of shares included in such registration statement, the following shares shall be excluded from the registration statement:

first, all securities that are not contractually entitled to be included in the registration statement;

second, all securities that are entitled to be included in the registration statement pursuant to contractual rights, but by their terms are junior to the rights granted under the registration rights agreement; and

third, all securities entitled to be included in the registration statement that rank equal to the rights granted under the registration rights agreement.

If the registration rights holders have 25% or more of the shares for which they have demanded registration excluded from the registration statement, other than due to market conditions, and if they provide notice to us, they may withdraw their demand notice. In that event, we will be required to pay all costs of the registration statement and the registration rights holders will not be deemed to have used one of their three demand rights.

We have the right to delay the filing of any registration statement under the registration rights agreement, from time to time for up to an aggregate of 90 days in any 12-month period, if, in the good faith judgment of our board of directors, it would be seriously detrimental to us to file the registration statement on or before the filing deadline.

Pursuant to the registration rights agreement, we have granted to the Behrman Funds piggyback rights generally entitling them to register their shares of common stock issued, and issuable upon conversion of the series F preferred stock, and upon exercise of the Warrants, issued pursuant to the investment agreement (collectively, the investment shares), held by them when we are registering our equity securities, either for our own account or the account of others. If the Behrman Funds indicate that they wish to have some or all of the investment shares included in the registration, we have agreed to include the shares of common stock, subject to certain restrictions. The exercise of these piggyback registration rights will be subject to notice requirements, timing restrictions and volume limitations that may be imposed by the underwriters of the applicable offering. We did not grant piggyback rights with respect to the shares to be issued to Abiliti in the asset purchase.

The registration rights agreement contains customary obligations and indemnity provisions on the part of us and the registration rights holders relating to the registration process, and provides that we will pay the expenses incurred by us in any registration pursuant to the agreement. In addition, we will be required to pay the reasonable legal fees, up to \$25,000, of one counsel selected by the demanding holders.

#### **Terms of the Series F Preferred Stock**

The following is a summary of the principal terms of the powers, preferences and relative, participating, optional and other special rights of the series F preferred stock and the qualifications, limitations and restrictions thereof.

*Conversion and Conversion Price.* Each share of series F preferred stock is convertible at any time at the option of the holder into shares of our common stock. The number of shares of common stock issuable upon conversion of a single share of series F preferred stock is determined by dividing the original price per share of the series F preferred stock, which is \$110.94 (the Original Price), by the conversion price in effect on the date of conversion. The current conversion price is \$0.906 after giving effect to a one-time reset following our earnings release for the quarter ended June 30, 2001.

Based on the current conversion price, each share of series F preferred stock is currently convertible into 122.4503 shares of common stock, or an aggregate, including shares of series F preferred stock currently outstanding and shares of series F preferred stock to be issued in the asset purchase and the private placement, of approximately 56,660,692 shares of common stock.

In the event we issue common stock or securities convertible into common stock at a price per share less than the conversion price of the series F preferred stock, the conversion price will be reduced to be equal to the price per share of the securities sold by us. This adjustment provision is subject to a number of exceptions, including the issuance of stock or options to employees and the issuance of stock or options in connection with acquisitions. It is a condition to the closing of the asset purchase and the private placement that our stockholders approve an amendment to our Certificate of Incorporation to provide that the issuance of our capital stock and Warrants in the transactions will not result in a change to the conversion price of the series F preferred stock. The conversion price also will be subject to adjustment as a result of stock splits, stock dividends and the like on the common stock.

The series F preferred stock will automatically convert into common stock at any time, if our common stock trades on The Nasdaq National Market or a national securities exchange at a price per share of at least \$3.3282 (three times the initial conversion price) for ten trading days within any twenty trading day period. The series F preferred stock is not subject to automatic conversion if our common stock is not then listed for trading on The Nasdaq National Market or a national securities exchange.

*Voting Rights.* The holders of the series F preferred stock have voting rights entitling them to vote together with the holders of our common stock as a single class on all matters presented for a vote to the common stockholders. Each holder of series F preferred stock is entitled to cast 100 votes for each share of series F preferred stock held by such holder, subject to adjustment for any stock split, stock dividend, reverse stock split, reclassification or consolidation of or on our common stock. Additionally, so long as 50% of the series F preferred stock is still outstanding, holders of the series F preferred stock are entitled to have a class vote on certain matters, including the following:

the authorization or issuance of any other class or series of preferred stock ranking senior to or equal with the series F preferred stock as to payment of amounts distributable upon dissolution, liquidation or winding up of Daleen;

the issuance of any additional shares of series F preferred stock;

the reclassification of any capital stock into shares having preferences or priorities senior to or equal with the series F preferred stock;

the amendment, alteration or repeal of any rights of the series F preferred stock; and

the payment of dividends on any other class or series of our capital stock, including the payment of dividends on our common stock.

*Dividends.* Holders of series F preferred stock will have rights to the payment of dividends only when and if dividends are declared on our common stock. In the event we pay dividends on our common stock, the holders of series F preferred stock would be entitled to dividends on an as-if-converted basis.

*Liquidation Preference.* In the event of a dissolution, liquidation or winding up of us, after payment or provision for payment of debts, but before any distribution to the holders of our common stock or any other class or series of our then outstanding capital stock ranking junior to the series F preferred stock, the holders of the series F preferred stock then outstanding will be entitled to receive a preferential amount of \$110.94 per share (the Preferential Amount), which is equal to the original price per share; provided however, that (i) if the assets to be distributed to the holders of our series F preferred stock are insufficient to permit the payment to such holders of the full Preferential Amount, then all of our assets to be distributed will be distributed ratably to the holders of the series F preferred stock, and (ii) if the amount distributable on each share of our common stock upon liquidation, dissolution or winding up (after taking into account all distributions that would be necessary to satisfy the Preferential Amounts due to holders of the series F preferred stock) is greater than the Preferential Amount payable on the series F preferred stock, we, in lieu of distributing the Preferential Amount to the holders of series F preferred stock, will make a distribution in an amount per share to the holders of series F preferred stock (on an as-converted basis) equal to the amount per share distributed to the holders of our common stock.

*Redemption Rights.* Unless otherwise agreed by the holders of at least a majority of the outstanding shares of series F preferred stock, voting or consenting as a separate class, in the event of a Sale of the Company, we will be required to redeem all of the issued and outstanding shares of series F preferred stock for a redemption price equal to the Preferential Amount. A Sale of the Company means: (i) the acquisition of us by another entity by means of merger or consolidation resulting in the exchange of at least 50% of the outstanding shares of our capital stock for securities issued or other consideration paid by the acquiring entity or any parent or subsidiary thereof (except for a merger or consolidation after the consummation of which our stockholders immediately prior to such merger or consolidation own in excess of 50% of the voting securities of the surviving corporation or its parent corporation); or (ii) the sale or other disposition by us of substantially all of our assets (other than a sale or transfer of assets to one or more of our wholly-owned subsidiaries).

#### **Restrictions on Transfer of the Common Stock and Series F Preferred Stock**

Except as provided in the registration rights agreement as to the registration of the shares of common stock issued in the transactions or issuable upon conversion of the series F preferred stock and exercise of Warrants, the common stock and series F preferred stock to be issued in the transactions has not been and is not being registered under the Securities Act or any state securities laws, and the common stock and series F preferred stock may not be offered for sale, sold, assigned or transferred unless:

the common stock and the series F preferred stock is subsequently registered under the Securities Act and applicable state securities laws;

Abiliti, the Behrman Funds, or such other holder of the common stock and series F preferred stock delivers to us an opinion of legal counsel, in a generally acceptable form, to the effect that such series F preferred stock to be sold, assigned or transferred may be sold, assigned or transferred pursuant to an exemption from registration under the Securities Act; or

Abiliti, the Behrman Funds or such other holder of the common stock and series F preferred stock provides us with reasonable assurance that the common stock and series F preferred stock can be sold, assigned or transferred in accordance with Rule 144 or Rule 144A under the Securities Act.

Each of the certificates and other instruments representing the series F preferred stock, and, until such time that the common stock issuable upon conversion of the series F preferred stock has been registered under the Securities Act as contemplated by the registration rights agreement, the stock certificates representing our common stock, will bear a restrictive legend with respect to the above-discussed limitation on transfer of the common stock and series F preferred stock.

#### **Terms of the Warrants**

The following is a summary of the principal terms of the Initial Warrants that we will issue to Abiliti in the asset purchase and the Behrman Funds in the private placement. The following summary is qualified in its entirety by reference to the form of Initial Warrant, which is attached as Annex E to this proxy statement and is considered a part of this document.

Pursuant to the asset purchase, we will issue to Abiliti Initial Warrants to purchase 5,666,069 shares of our common stock. Pursuant to the private placement, we will issue to the Behrman Funds Initial Warrants to purchase an aggregate of 5,666,069 shares of our common stock, along with Additional Warrants to purchase an aggregate of 500,000 shares of our common stock.

The Initial Warrants will be exercisable for common stock at any time and from time to time commencing six months from the closing of the transactions and ending on June 7, 2006. The exercise period will be accelerated in the event of a change of control of Daleen. Pursuant to the terms of the Initial Warrant, a change of control means our dissolution or liquidation, the consummation of the sale of all or substantially all of our assets, or the acquisition of a majority of our voting securities by another person or entity by means of a stock sale, stock exchange or a merger (other than a merger which solely effects a change of domicile) or consolidation or other transaction (other than pursuant to a resale of

securities either under Rule 144 promulgated under the Securities Act or a registered offering), unless, after such stock sale, stock exchange, merger, consolidation or other transaction, the persons and entities who were our stockholders immediately before the stock sale, stock exchange, merger, consolidation or other transaction continue to hold at least fifty percent (50%) of the economic and voting power of the surviving entity. The Initial Warrants will have an exercise price of \$0.906 per share. The exercise price is equal to current conversion price of the series F preferred stock. The exercise price is subject to adjustment in the event of any dividend, reverse stock split, reclassification or consolidation of or on our common stock. Additionally, in the event of any adjustment of the conversion price of the series F preferred stock, (a) the number of shares issuable upon exercise of the Initial Warrants (the Warrant Share Number ) will be adjusted to equal the number obtained by multiplying the Warrant Share Number, as in effect immediately prior to the adjustment to the conversion price of the series F preferred stock, by a fraction, the numerator of which will be the conversion price as in effect immediately prior to adjustment to the conversion price and the denominator of which is the conversion price after giving effect to the adjustment to the conversion price; and (b) the exercise price per share of the Initial Warrants will be adjusted to equal the conversion price as in effect immediately after the adjustment to the conversion price of the series F preferred stock.

The Initial Warrants may be exercised by surrendering to us the warrant agreement evidencing such Initial Warrants with an accompanying notice of exercise, properly completed and executed, together with payment of the exercise price. Payment of the exercise price by a holder may be made in the form of cash or a certified or official bank check, by wire transfer, or, to effect a cashless exercise, by the surrender of unexercised Initial Warrants, together with a written notice of election to effect such a cashless exercise. Upon surrender of the warrant certificate and payment of the exercise price, we will deliver or cause to be delivered, to or upon the written order of such holder, stock certificates representing the number of shares of common stock or other securities to which such holder is entitled pursuant to such exercise. If less than all of the Initial Warrants evidenced by a warrant agreement are to be exercised, a new Initial Warrant will be issued for the remaining number of Initial Warrants.

In addition to the Initial Warrants, we will issue to Kaufman Bros. Advisor Warrants to purchase an aggregate of 250,000 shares of our common stock. The Advisor Warrants will have the same terms as the Initial Warrants except that the exercise price of the warrants will be fixed at the fair market value per share of our common stock as of the day immediately prior to the closing date of the transactions. Further, the number of shares of common stock issuable upon exercise, and the exercise price per share, of the warrants to be issued to Kaufman Bros. will not be subject to adjustment except in the event of any dividend, reverse stock split, reclassification or consolidation of or on our common stock.

### **Voting Agreement**

Certain of our stockholders have entered into voting agreements with Abiliti, pursuant to which they have agreed, subject to the terms and conditions of the voting agreement, to vote all of their shares of series F preferred stock, as applicable, and common stock in favor of the asset purchase, the private placement, and the transactions contemplated thereby, including, the issuance of shares of our common stock, series F preferred stock and Warrants to purchase additional shares of common stock in the asset purchase and the private placement and the amendments to our Certificate of Incorporation described in Proposal 3 and any other matter necessary to effect the asset purchase and the private placement. The form of the voting agreement is included in this proxy statement as Annex G. The shares subject to the voting agreements represent in the aggregate more than 66 2/3% of the outstanding voting power of the common stock and series F preferred stock (voting on a 100 for 1 basis, with the common stock as single class) and a majority of the outstanding shares of series F preferred stock.



### **Lock-up Provisions**

We have entered into voting agreements with the Behrman Funds and certain other stockholders of Abiliti. Pursuant to the voting agreements, the Behrman Funds and the other parties to the voting agreements have agreed to certain transfer restrictions on the shares of our capital stock they receive pursuant to the asset purchase and the private placement. These restrictions include the following:

for six months from the closing date of the transactions, they will not convert the series F preferred stock into common stock;

for six months from the closing date of the transactions, they will not exercise any of the Initial Warrants; and

for one year from the closing date of the transactions, they will not exercise any of the Additional Warrants.

The Behrman Funds and the other parties to the voting agreements have also agreed that from the date of the voting agreement until the date that is six months from the closing date of the transactions, they will not purchase or otherwise acquire any of our capital stock, other than the shares they receive pursuant to the asset purchase and the private placement.

### **Past Contacts, Transactions or Negotiations**

Other than as described in the Background of the Asset Purchase and the Private Placement we have not had any past contacts, transactions or negotiations with Abiliti.

### **Material Federal Income Tax Consequences of the Asset Purchase**

Our issuance to Abiliti of shares of our common stock, shares of our series F preferred stock and Warrants to purchase shares of our common stock pursuant to the asset purchase agreement is intended to result in the recognition of no gain or loss by us for federal income tax purposes. Daleen Solutions is intended to recognize no gain or loss for federal income tax purposes upon its acquisition of substantially all of Abiliti's net assets. No formal request for a ruling or other determination was or will be obtained. Each stockholder should consult with his or her own tax advisor.

### **Accounting Treatment of the Asset Purchase**

The asset purchase will be treated as a purchase for accounting purposes in accordance with generally accepted accounting principles. Transaction costs to be incurred by us are included in the total estimated purchase consideration as described above. Total estimated transaction costs to be incurred by us of \$2.2 million have been reflected as accrued liabilities in the unaudited pro forma condensed consolidated balance sheet as of September 30, 2002 on page 105 of this proxy statement. Transaction costs to be incurred by Abiliti are expensed as incurred. These costs are estimated to be approximately \$800,000.

In addition, we are developing a plan to integrate our operations with the assets and operations of Abiliti after the transactions. In connection with that plan, we anticipate that certain non-recurring charges will be incurred in connection with such integration. We cannot now identify the timing, nature and amount of these charges. These charges will be recorded as incurred and are not part of the purchase price. However, any charge could affect our results of operations in the period in which the charge is recorded.

### **Recommendation of our Board of Directors**

Our board of directors recommends that our stockholders vote FOR the asset purchase, the asset purchase agreement and the issuance of shares of our common stock, series F preferred stock and Asset Purchase Warrants to Abiliti in the asset purchase.

**PROPOSAL 2 APPROVAL OF THE INVESTMENT AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY, INCLUDING THE ISSUANCE OF SHARES OF CAPITAL STOCK AND WARRANTS IN THE PRIVATE PLACEMENT AND THE ADOPTION OF THE LTIP**

**The Investment Agreement**

We have entered into an investment agreement, dated as of October 7, 2002, with the Behrman Funds. The investment agreement is attached to this proxy statement as Annex B. You should read the investment agreement carefully. It is the agreement that governs the terms of the private placement. The following summarizes the terms of the investment agreement.

**General**

The investment agreement provides that, at the closing, we will issue and sell to the Behrman Funds in a private placement an aggregate of 10,992,136 shares of common stock, 115,681 shares of series F preferred stock, Investment Warrants to purchase 5,666,069 shares of common stock at an exercise price of \$0.906 per share, and Additional Warrants to purchase 500,000 additional shares of common stock at an exercise price of \$0.17 per share. In consideration, the Behrman Funds will invest \$5.015 million in us. The closing of the private placement is scheduled to occur immediately prior to, and conditioned upon, the closing of the asset purchase.

**Termination**

The investment agreement may only be terminated if the asset purchase agreement is terminated pursuant to its terms. See Proposal 1 Termination for description of the termination provisions of the asset purchase agreement.

**Indemnification**

We have agreed to indemnify each of the Behrman Funds and its affiliates to the fullest extent permitted by law from and against all damages (as defined in the investment agreement) incurred by them resulting from or arising out of our breach of any representation or warranty, covenant or agreement contained in the investment agreement. We will have no liability for indemnification unless the total of all damages exceeds \$250,000. In addition, our indemnification will be limited to an aggregate of \$1,000,000 and to claims made within one year of the closing date of the investment agreement.

**Fees**

Pursuant to the terms of the investment agreement, we will pay a finders fee of \$650,000 to Behrman Brothers, L.P., an affiliate of the Behrman Funds. This fee will be paid subsequent to the closing of the transactions. The fee will be paid in connection with the transactions contemplated by the asset purchase and the private placement. In addition, we have agreed to reimburse the Behrman Funds a total of \$25,000 for costs and expenses relating to the asset purchase and the private placement.

**Use of the Proceeds**

We will use the net proceeds to fund capital expenditures and for working capital purposes, including continued development and enhancements to our products and technology, marketing and sales, expansion of our strategic alliances and expansion of our international operations.

**Other Terms of the Investment Agreement**

*Board of Directors and Management.* Upon completion of the transactions, the investment agreement provides that our board of directors will consist of seven members, as described under The Transactions Management of Daleen after the Transactions Board of Directors beginning on page 45. In addition, upon completion of the transactions, our board of directors will take all corporate

action necessary to cause Gordon Quick, currently Ability's president and chief executive officer, to be appointed our president and chief executive officer. James Daleen, our current chairman of the board, president and chief executive officer, will continue to serve as our chairman of the board. Jeanne Prayther, our current chief financial officer, will continue to serve as our chief financial officer. The remainder of our management team will be comprised of senior level executives from us and Ability.

*Employment Agreements.* As required by the investment agreement, we have entered into employment agreements, to be effective immediately after the closing of the private placement, with certain officers of Ability including Gordon Quick, Ability's president and chief executive officer. The terms of Mr. Quick's employment agreement include the following:

He will be our chief executive officer.

He will perform his duties from St. Louis, Missouri, *provided, however*, that after nine months, our board of directors may require him to relocate to Boca Raton, Florida. In such event, we will reimburse Mr. Quick for his relocation expenses.

The initial term of his employment will be for a period of three years, with automatic one year extensions, unless at least 90 days prior to the end of any term, either party shall give written notice of the termination of the agreement.

He will receive a base salary of \$350,000 for his services, which may be increased at the discretion of our board of directors or compensation committee.

He will be eligible to receive a bonus for meeting certain goals to be determined by our board of directors or compensation committee. The bonus will have an annual target of not less than 50% of Mr. Quick's then-current base salary.

He will be eligible to receive compensation under the LTIP. His interest in the LTIP will vest 25% at grant and the balance will vest ratably on the last day of each of the first 36 months ending after the effective date of his employment agreement.

Subject to the vesting provisions, Mr. Quick will receive at least 38% of the total bonus pool allocated under our LTIP.

He will receive four weeks of vacation per year.

We will provide him with long-term disability and life insurance.

We will indemnify him to the full extent permitted by law.

Upon his termination without cause or if he terminates for good reason, he will be entitled to (i) payment of his base salary for 24 months, (ii) payment of his pro rata bonus, if earned and payable when bonuses paid to other officers of ours, and (iii) his interest in the LTIP will continue to vest for one year following termination. We may elect to either payout his LTIP interest or allow it to remain in place until a payout event. If his termination is related to a change of control he will be entitled to (i) payment of two times his base salary plus his pro rata average bonus in a lump sum, (ii) his interest in the LTIP will fully vest and we may elect to either pay out the LTIP interest or allow the interest to remain in place until a payout event, and (iii) we will gross-up all payments as necessary to cover excise taxes related to benefits that are determined to be subject to excise taxes. In either case, (i) we will pay all welfare benefits for 18 months, and (ii) his stock options will remain exercisable for one year after termination.

### Long-Term Incentive Compensation Plan

Our board of directors has authorized a Long-Term Incentive Compensation Plan, or LTIP, as required by the investment agreement. A copy of the LTIP is attached to this proxy statement as Annex J. Some of the material terms of the LTIP include:

A bonus pool, equal to 15% of our value in excess of \$20 million, up to \$100 million, plus 10% for the value that exceeds \$100 million, shall be created for distribution to participants in the LTIP upon a payout event.

The bonus pool participants will include Gordon Quick, whose participation interest will be 38% of the bonus pool, James Daleen, whose participation interest will be 15% of the bonus pool, and certain management team members and other employees and consultants as may be determined by our board of directors or the compensation committee of our board.

The bonus pool interests will be distributed to the participants upon the occurrence of certain payout events, which shall include: (i) the sale of all or substantially all of our assets to a third party; (ii) our merger or consolidation with another company, whereby our stockholders receive cash or other securities for our capital stock and our stockholders immediately prior to the merger or consolidation own less than 50% of the combined voting power of the surviving company; (iii) the sale of 60% or more of our company to a single person or group; or (iv) our liquidation, dissolution or winding up.

Payments may be in cash or the same consideration received by our stockholders in the payout event, provided, however, if all or part of the payout is other than in cash or immediately tradeable securities, we must use reasonable efforts to make appropriate arrangements to ensure that the participants have sufficient cash as part of the payout under the LTIP or, if sufficient cash is not available for distribution as part of the payout, we must use reasonable efforts to distribute as part of the payout publicly traded stock that has been registered under the Securities Act sufficient to pay such taxes.

Payments will be reduced by the value of certain options to purchase our common stock held by the participant, provided, however, that options granted after the effective date of the LTIP will be considered for this valuation only if our board of directors designates them for such treatment at the time they are granted. The value will be based on the fair market value of our common stock, less the exercise price of the vested options held by the participant.

Our board of directors may, in its sole and complete discretion, amend or terminate the LTIP at any time and for any reason that it deems necessary or appropriate. However, the termination or amendment of the LTIP will not adversely affect any participant's rights previously granted under the LTIP unless approved by participants holding in the aggregate more than one-half of the total participation percentages then outstanding.

Our board of directors may elect to replace the LTIP in its entirety with a new equity-based compensation plan, *provided, however*, that any such new plan shall be substantially equivalent to or more favorable than this plan for the participants from a financial and tax standpoint.

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The following table sets forth the benefits or amounts that have been allocated to each of the named executive officers under the LTIP. Other benefits or amounts may be received by such individuals or others, but such amounts are not determinable.

Name and Position	Percentage of Bonus Pool Granted
James Daleen Chairman of the Board, President and Chief Executive Officer	15%
Jeanne Prayther Chief Financial Officer and Secretary	*
Steve Kim Former Executive Vice President of Products and Technologies	0
David B. Corey Former President and Chief Operating Officer	0
Stephen M. Wagman Former Chief Financial Officer, Treasurer and Secretary	0
David J. McTarnaghan Senior Vice President of Global Sales	*
All current executive officers (as a group)	15%
All current directors who are not executive officers (as a group)	*
All employees, including all current officers who are not executive officers (as a group)	*

\* The named executive officer (and any other person in the group) is eligible to participate in the LTIP; however, his or her participation percentage has not been determined.

As former executive officers, Messrs. Kim, Corey and Wagman are not eligible to participate in the LTIP. Gordon Quick, who will be our president and chief executive officer after the closing of the transactions, will receive 38% of the payout pool.

### Survival of Representations and Warranties

All of our representations, warranties and indemnities made in the investment agreement will survive until the date that is one year from the closing of the private placement.

*Covenants.* Until the closing date of the transactions, we will not, without the prior written agreement of the Behrman Funds, take any of the following actions, or take any action that would result in:

a dividend to the holders of our series F preferred stock or common stock or issue any additional shares of stock, other than upon exercise of previously issued options and warrants;

a change in our capital structure, other than as described above, as set forth in the asset purchase agreement, or in connection with a reverse stock split in which we would be obligated to pay an aggregate of \$50,000 or less in respect of fractional shares;

a grant of any stock option or right to purchase, or issue any security convertible into our capital stock;

a grant of any registration rights; or

a purchase, redemption, retirement or other acquisition by us of any of our shares of capital stock other than in connection with certain outstanding loans.

### **Terms of the Series F Preferred Stock**

A summary of the principal terms of our series F preferred stock and the qualifications, limitations and restrictions thereof can be found in Proposal 1 Terms of the Series F Preferred Stock beginning on page 65.

### **Terms of the Warrants**

We will issue to the Behrman Funds Initial Warrants to purchase an aggregate of 5,666,069 shares of our common stock. We also will issue to the Behrman Funds Additional Warrants for the purchase of 500,000 shares of common stock.

A summary of the terms of the Initial Warrants is set forth under Proposal 1 Terms of the Warrants beginning on page 67. The following is a summary of the principal terms of the Additional Warrants that we will issue to the Behrman Funds in the private placement. The following summary is qualified in its entirety by reference to the form of Additional Warrant, which is attached as Annex F to this proxy statement and is considered a part of this document. You should read the form of Additional Warrant carefully.

The Additional Warrants will be exercisable for common stock at any time and from time to time commencing one year from the closing of the transactions and ending on June 7, 2006. The exercise period will be accelerated in the event of a change of control of Daleen. Pursuant to the terms of the Additional Warrant, a change of control means our dissolution or liquidation, the consummation of the sale of all or substantially all of our assets, or the acquisition of a majority of our voting securities by another person or entity by means of a stock sale, stock exchange or a merger (other than a merger which solely effects a change of domicile) or consolidation or other transaction (other than pursuant to a resale of securities either under Rule 144 promulgated under the Securities Act or a registered offering), unless, after such stock sale, stock exchange, merger, consolidation or other transaction, the persons and entities who were our stockholders immediately before the stock sale, stock exchange, merger, consolidation or other transaction continue to hold at least fifty percent (50%) of the economic and voting power of the surviving entity. The Additional Warrants will have an exercise price of \$0.17 per share. The exercise price is subject to adjustment in the event of any dividend, reverse stock split, reclassification or consolidation of or on our common stock.

The Additional Warrants may be exercised by surrendering to us the warrant agreement evidencing such Additional Warrants with an accompanying notice of exercise, properly completed and executed, together with payment of the exercise price. Payment of the exercise price by a holder may be made in the form of cash or a certified or official bank check, by wire transfer, or, to effect a cashless exercise, by the surrender of unexercised Additional Warrants, together with a written notice of election to effect such a cashless exercise. Upon surrender of the warrant certificate and payment of the exercise price, we will deliver or cause to be delivered, to or upon the written order of such holder, stock certificates representing the number of shares of common stock or other securities to which such holder is entitled pursuant to such exercise. If less than all of the Additional Warrants evidenced by a warrant agreement are to be exercised, a new Additional Warrant will be issued for the remaining number of Additional Warrants.

### **The Supplemental Voting Agreement**

Abiliti, the HarbourVest Funds and the Behrman Funds have entered into a supplemental voting agreement, dated as of October 7, 2002. These parties as a group will own, based on the shares outstanding on the date the transaction agreements were entered into, an aggregate of approximately 63.7% of our voting stock immediately after the transactions. The following is a summary of the terms of the supplemental voting agreement. The supplemental agreement is attached to this proxy statement as Annex H. You should read the supplemental voting agreement carefully.

The supplemental voting agreement provides that at our 2003 Annual Meeting of Stockholders, the parties to the supplemental voting agreement will vote the securities owned by them in favor of:

two nominees to our board of directors as designated by the Behrman Funds;

one nominee to our board of directors as designated by the HarbourVest Funds; and

Each nominee will be nominated as a Class I director, with a term expiring at our 2006 Annual Meeting of Stockholders.

Each of the parties to the supplemental voting agreement has agreed to not transfer its shares of voting stock, other than to their affiliates and to others who agree to be bound by the terms of the supplemental voting agreement.

The supplemental voting agreement will terminate on the earlier of the final adjournment of our 2003 Annual Meeting of Stockholders or the termination of the asset purchase agreement in accordance with its terms.

### **The Registration Rights Agreement**

We have entered into a registration rights agreement, dated as of October 7, 2002, with Abiliti, the Behrman Funds and Kaufman Bros., L.P., our financial advisor in the transactions. The principal terms of the registration rights agreement are described in Proposal 1 The Registration Rights Agreement on pages 64 through 65. The registration rights agreement is attached as Annex C to this proxy statement. You should read the registration rights agreement carefully.

### **Voting Agreement**

Certain of our stockholders have entered into voting agreements with Abiliti. Pursuant to the terms of the voting agreements, the stockholders have agreed, subject to certain terms and conditions, to vote all of their shares of series F preferred stock, and common stock, as applicable, in favor of the asset purchase, the private placement and the issuance of shares of our series F preferred stock, common stock and Warrants in the asset purchase and private placement and any other matter necessary to effect the asset purchase and private placement. A form of the voting agreement is included in this proxy statement as Annex G. You should carefully read the voting agreement. The shares subject to the voting agreements represent in the aggregate more than 66 2/3% of the outstanding voting power of our common stock and series F preferred stock (voting on a 100-1 basis, with the common stock as single class) entitled to vote at the special meeting and more than a majority of the outstanding series F preferred stock.

### **Past Contacts, Transactions or Negotiations**

Other than as described in the Background of the Transactions, we have not had any past contacts, transactions or negotiations with the Behrman Funds.

### **Recommendation of our Board of Directors**

Our board of directors recommends that our stockholders vote FOR the investment agreement and the transactions contemplated thereby, including the issuance of 10,992,136 shares of common stock, 115,681 shares of series F preferred stock, Investment Warrants to purchase an additional 5,666,069 shares of common stock at an exercise price of \$0.906 per share and Additional Warrants to purchase 500,000 shares of common stock at an exercise price of \$0.17 per share to the Behrman Funds in the private placement and the adoption of the LTIP.

**PROPOSAL 3 AMENDMENTS**

**TO OUR CERTIFICATE OF INCORPORATION**

Our board of directors has approved, subject to stockholder approval, amendments to our Certificate of Incorporation to (i) increase our authorized shares of series F preferred stock from 356,950 shares to 588,312 shares and (ii) amend the terms of the series F preferred stock to provide that the transactions contemplated by the asset purchase agreement and investment agreement will not (A) result in an adjustment to the conversion price of the series F preferred stock and (B) give rise to redemption rights in favor of the holders of series F preferred stock.

Approval of this proposal, in addition to the approval of Proposals 1 and 2 (the asset purchase agreement, the investment agreement and the transactions contemplated thereby, including the issuance of shares of our common stock, series F preferred stock and Warrants in the asset purchase and the private placement and the LTIP) is required to consummate the transactions. Although we are asking for stockholder approval of this proposal, if for any reason the transactions are not consummated, this proposal will not be implemented.

The text of the proposed amendments to our Certificate of Incorporation is set forth in the form of Certificate of Amendment to the Certificate of Incorporation included in Annex K hereto. You should read the proposed amendments to the Certificate of Incorporation carefully.

**Description of Amendment**

***Increase in Number of Authorized Shares of Series F Convertible Preferred Stock***

Pursuant to our Certificate of Incorporation, we currently are authorized to issue up to 221,877,236 shares of capital stock, including up to 200,000,000 shares of common stock and 21,877,236 shares of preferred stock. The preferred stock consists of 3,000,000 shares designated as series A convertible preferred stock, 1,250,000 shares designated as series B convertible preferred stock, 1,222,222 shares designated as series C convertible preferred stock, 4,221,846 shares designated as series D convertible preferred stock, 686,553 shares designated as series D-1 convertible preferred stock, 1,496,615 shares designated as series E convertible preferred stock, and 356,950 shares designated as series F convertible preferred stock, with the remaining 9,643,050 shares consisting of blank check preferred stock that have not yet been designated.

As of October 8, 2002, an aggregate of 22,984,272 shares of our common stock were issued and outstanding, 13,146,091 shares were reserved for issuance upon exercise of outstanding options and warrants to purchase common stock, and 41,685,754 shares were reserved for issuance upon conversion of our series F preferred stock, including shares of series F preferred stock issuable upon exercise of outstanding warrants to purchase series F preferred stock. As of that date, an aggregate of 231,362 shares of series F preferred stock were issued and outstanding and an aggregate of 109,068 shares of series F preferred stock were reserved for issuance upon the exercise of outstanding warrants to purchase series F preferred stock. No other shares of preferred stock are issued and outstanding.

The asset purchase agreement and the investment agreement provide that we will issue an aggregate of 22,484,272 shares of common stock, 231,362 shares of series F preferred stock, and Warrants to purchase up to 12,082,138 additional shares of common stock, including warrants to be issued to Kaufman Bros., our financial advisor.

The proposed amendment to the Certificate of Incorporation will authorize us to issue up to an additional 231,362 shares of series F convertible preferred stock. This will provide a sufficient number of authorized shares of series F preferred stock for issuance in the transactions.

***Amendment to the Terms of the Series F Preferred Stock***

*Conversion Price Adjustment.* Each share of our series F preferred stock is convertible at any time at the option of the holder into shares of our common stock. The number of shares of common stock issuable



upon conversion of a single share of series F preferred stock is determined by dividing (i) \$110.94, the original price per share of the series F preferred stock issued in June 2001, by (ii) the conversion price in effect on the date of conversion. The conversion price currently is \$0.906. As a result, each share of series F preferred stock is convertible into 122.4503 shares of our common stock. Based on the conversion formula, a reduction in the conversion price would result in an increase in the number of shares of common stock issuable upon conversion of each share of series F preferred stock. Pursuant to the terms of the series F preferred stock, in the event we issue common stock or securities convertible into common stock at a price per share less than the conversion price of the series F preferred stock (i.e., at a price per share less than \$0.906), the conversion price will be reduced to be equal to the price per share of the securities sold. This adjustment provision is subject to a number of exceptions, including the issuance of stock or options to employees and the issuance of stock or options in connection with certain acquisitions. It is a condition to the transactions that we amend our Certificate of Incorporation to specifically provide that the transactions, including the issuance of our common stock, series F preferred stock and Warrants to purchase common stock in the transactions, will not result in a reduction of the conversion price of the series F preferred stock.

*Redemption Provisions.* Pursuant to the terms of series F preferred stock, unless otherwise agreed by the holders of at least a majority of the outstanding shares of series F preferred stock, voting or consenting as a separate class, in the event of a Sale of the Company we are required to redeem all of the issued and outstanding shares of series F preferred stock for a redemption price equal to the preferential amount, which currently is \$110.94 per share. A Sale of the Company means: (i) the acquisition by another entity by means of merger or consolidation resulting in the exchange of at least 50% of the outstanding shares of our capital stock for securities issued or other consideration paid by the acquiring entity or any parent or subsidiary thereof (except for a merger or consolidation after the consummation of which our stockholders immediately prior to such merger or consolidation own in excess of 50% of the voting securities of the surviving corporation or its parent corporation); or (ii) the sale or other disposition by us of substantially all of our assets (other than a sale or transfer of assets to one or more of our wholly-owned subsidiaries). Although we do not believe that the transactions will give rise to the redemption rights, it is a condition to the transactions that we amend our Certificate of Incorporation to specifically provide that the holders of our series F preferred stock will not have any redemption rights as a result of the transactions.

#### **Reasons for the Amendments; Effect of the Amendment**

The amendments to our Certificate of Incorporation described in this proposal are required to consummate the transactions. In the opinion of our board of directors, the amendments are advisable and in the best interests of our stockholders. If the amendments are not approved, we will not be able to complete the transactions, which will materially adversely effect our business and ability to operate going forward.

In addition, after consummation of the private placement, 9,411,688 shares of undesignated preferred stock which may be designated and issued in the future without additional stockholder approval, except as may be required by the rules of the Nasdaq SmallCap Market, if applicable, or our Certificate of Incorporation. This will provide us flexibility and enable us to respond promptly and appropriately to future acquisitions, additional future financing needs, possible stock dividends or stock splits or other business opportunities. Other than as authorized under the asset purchase agreement and investment agreement, as of the date of this proxy statement, no plans are pending to issue any additional shares of preferred stock.

The issuance of additional shares of preferred stock, including shares of series F preferred stock, could have the effect of diluting earnings per share and book value per share, which may adversely affect our existing stockholders. Issuing additional shares of preferred stock may also have the effect of delaying or preventing a change of control of us. Shares of authorized but unissued preferred stock could be issued in one or more transactions that would make a takeover of our company more difficult or costly, and less likely. The proposed amendment is not being recommended in response to any specific effort to obtain

control of our company, and our board of directors has no present intention to use any undesignated shares of our preferred stock in order to impede a takeover attempt.

### Recommendation of our Board of Directors

Our board of directors recommends a vote FOR the approval of the amendment of the Certificate of Incorporation to (i) increase the number of authorized shares of series F preferred stock and (ii) amend the terms of the series F preferred stock to provide that the transactions contemplated by the asset purchase agreement and investment agreement will not (A) result in an adjustment to the conversion price of the series F preferred stock and (B) give rise to redemption rights in favor of the holders of series F preferred stock.

### STOCK OWNERSHIP BY MANAGEMENT AND PRINCIPAL STOCKHOLDERS

The following table sets forth the amount and percent of shares of common stock and series F preferred stock as a class that, as of October 7, 2002, are deemed under the rules of the SEC to be beneficially owned by any person or group (as that term is used in the Exchange Act) known to us as of that date to be a beneficial owner of more than 5% of the outstanding shares of our common stock, by each of our executive officers, by each member of our board of directors, by each nominee to become a member of our board of directors, and by all of our directors and executive officers as a group. The following information is based upon information provided to us or filed with the SEC by the stockholders.

Name of Beneficial Owner(1)	Common Stock Beneficially Owned		Series F Convertible Preferred Stock Beneficially Owned	
	Number of Shares	Percentage of Class(2)	Number of Shares	Percentage of Class(3)
<b>5% Stockholders</b>				
HarbourVest Partners V Direct Fund L.P.(4)	5,068,063(5)	20.91%		
HarbourVest Partners VI Direct Fund L.P.(4)	15,452,616(6)	40.20%	126,195(7)	47.19%
SAIC Venture Capital Corporation(8)	13,836,046(9)	40.02%	94,646(10)	36.63%
St. Paul Venture Capital IV, L.L.C.(11)	795,566	3.46%		
St. Paul Venture Capital Affiliates Fund I, L.L.C.(11)	22,497	*		
St. Paul Venture Capital VI, LLC(11)	3,090,523(12)	11.85%	25,239(13)	10.58%
ABS Ventures IV, L.P.(14)	3,180,967(15)	12.47%	20,633(16)	8.70%
ABX Fund, L.P.(14)	564,006(17)	2.40%	4,606(18)	1.98%
Halifax Fund, L.P.	2,317,862(19)	9.16%	18,929(20)	7.99%
Baystar Capital, L.P.(21)	2,317,862(22)	9.26%	16,679(23)	7.04%
Baystar International Ltd.(21)	772,662(24)	3.26%	5,560(25)	2.38%
Royal Wulff Ventures, LLC	1,545,323(26)	6.30%	12,620(27)	5.37%
Mohammad Aamir	1,383,660(28)	5.93%		
<b>Directors and Executive Officers</b>				
James Daleen	438,424(29)	1.88%		
Jeanne Prayther	94,655(30)	*		
David J. McTarnaghan	241,687(31)	1.04%		
Ofer Nemirovsky(4)	20,520,679(32)	51.71%	126,195(33)	47.19%
Daniel J. Foreman	886,677(34)	3.86%		
Paul G. Cataford	22,487(35)	*		
Stephen J. Getsy	104,623(36)	*		
All current directors and executive officers as a group (7 persons)	22,309,232(37)	55.10%	126,195(38)	47.19%

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\* Less than 1% of the outstanding common stock.

- (1) Except as set forth herein, the street address of the named beneficial owner is c/o Daleen Technologies, Inc., 902 Clint Moore Road, Suite 230, Boca Raton, Florida 33487.
- (2) For purposes of calculating the percentage beneficially owned, the number of shares of common stock deemed outstanding includes (i) 22,984,272 shares of common stock outstanding as of October 7, 2002, (ii) shares of common stock issuable by us pursuant to options or warrants held by the respective person or group which may be exercised within 60 days following October 7, 2002 ( Presently Exercisable Options ), and (iii) shares of common stock issuable by us upon conversion of shares of series F preferred stock held by the respective person or group, including shares of series F preferred stock issuable upon exercise of warrants ( series F warrants ) held by such person or group. The common stock warrants, shares of series F preferred stock, series F warrants and the Presently Exercisable Options are considered to be outstanding and to be beneficially owned by the person or group holding such warrant and options for the purpose of computing the percentage ownership of such person or group but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or group.
- (3) For purposes of calculating the percentage beneficially owned, the number of shares of series F preferred stock deemed outstanding includes (i) 231,362 shares of series F preferred stock outstanding on October 7, 2002, and (ii) shares of series F preferred stock issuable by us upon exercise of series F warrants held by the respective person or group. The shares of series F preferred stock issuable upon exercise of series F warrants are considered to be outstanding and to be beneficially owned by the person or group holding such warrant for the purpose of computing the percentage ownership of such person or group but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or group.
- (4) HarbourVest Partners, LLC is the managing member of the general partner of HarbourVest Partners V Direct Fund L.P. and HarbourVest Partners VI Direct Fund L.P. D. Brooks Zug and Edward W. Kane share the investment and voting power of HarbourVest Partners, LLC. Ofer Nemirovsky, a director of Daleen, is a managing director of HarbourVest Partners, LLC and a member of the general partner of HarbourVest Partners V Direct Fund L.P. and HarbourVest Partners VI Direct Fund L.P. and therefore may be considered to share beneficial ownership of the shares held by HarbourVest Partners V Direct Fund L.P. and HarbourVest Partners VI Direct Fund L.P. Mr. Nemirovsky disclaims ownership of these shares. The street address of the named beneficial owner is One Financial Center, 44th Floor, Boston, MA 02111.
- (5) The shares include 1,250,000 shares of our common stock issuable upon exercise of a warrant held by HarbourVest Partners V Direct Fund L.P.
- (6) The shares include (i) 11,037,548 shares of our common stock issuable upon the conversion of 90,139 shares of series F preferred stock and (ii) 4,415,068 shares of our common stock issuable upon conversion of 36,056 shares of series F preferred stock that may be acquired by HarbourVest Partners VI Direct Fund, L.P. upon exercise of series F warrants.
- (7) The shares include 36,056 shares of series F preferred stock issuable upon exercise of series F warrants held by HarbourVest Partners VI Direct Fund, L.P.
- (8) SAIC Venture Capital Corporation is a wholly-owned subsidiary of Science Applications International Corporation, which controls the investment and voting power of SAIC Venture Capital Corporation. The street address of the named beneficial owner is 3753 Howard Hughes Parkway, Suite 200, Las Vegas, NV 89109.
- (9) The shares include (i) 8,278,130 shares of our common stock issuable upon conversion of 67,604 shares of series F preferred stock and (ii) 3,311,301 shares of our common stock issuable upon conversion 27,042 shares of series F preferred stock that may be acquired by SAIC Venture Capital Corporation upon exercise of series F warrants.
- (10) The shares include 27,042 shares of series F preferred stock issuable upon exercise of series F warrants held by SAIC Venture Capital Corporation.

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- (11) St. Paul Fire and Marine Insurance Company ( SPFM ) owns 99% of St. Paul Venture Capital IV, LLC ( SPVC IV ) and St. Paul Venture Capital VI, LLC ( SPVC VI ). SPFM is a wholly-owned subsidiary of The St. Paul Companies, Inc. ( The St. Paul ). The St. Paul owns 79% of St. Paul Venture Capital, Inc., the manager of St. Paul Venture Capital Affiliates Fund I, LLC ( Affiliates ). Therefore, The St. Paul may be deemed to beneficially own the shares held by SPVC IV, SPVC VI and Affiliates and SPFM may be deemed to beneficially own the shares held by SPVC IV and SPVC VI. The street address of the named beneficial owners is 10400 Viking Dr. Suite 550 Eden Prairie, MN 55344.
- (12) The shares include (i) 2,207,534 shares of our common stock issuable upon the conversion of 18,028 shares of series F preferred stock and (ii) 882,989 shares of our common stock issuable upon conversion of 7,211 shares of series F preferred stock that may be acquired by SPVC VI upon exercise of series F warrants.
- (13) The shares include 7,211 shares of series F preferred stock issuable upon exercise of series F warrants held by SPVC VI.
- (14) ABS Ventures IV, L.P. ( ABS ) and ABX Fund, L.P. ( ABX ) may be deemed to be under common control. Bruns Greyson and Philip Bleche are the managing members of the respective general partner to each ABS and ABX and control the investment and voting power of each of ABS and ABX. The street address of the named beneficial owners is 1 South Street Suite 2150 Baltimore, MD 21202-3220.
- (15) The shares include (i) 1,804,763 shares of our common stock issuable upon conversion of 14,738 shares of series F preferred stock and (ii) 721,845 shares of our common stock issuable upon conversion 5,895 shares of series F preferred stock that may be acquired by ABS upon exercise of series F warrants.
- (16) The shares include 5,895 shares of series F preferred stock issuable upon exercise of series F warrants held by ABS.
- (17) The shares include (i) 402,861 shares of our common stock issuable upon the conversion of 3,290 shares of series F preferred stock and (ii) 161,145 shares of our common stock issuable upon conversion of 1,316 shares of series F preferred stock that may be acquired by ABX upon exercise of series F warrants.
- (18) The shares include 1,316 shares of series F preferred stock issuable upon exercise of series F warrants held by ABX.
- (19) The shares include (i) 1,655,651 shares of our common stock issuable upon the conversion of 13,521 shares of series F preferred stock and (ii) 662,211 shares of our common stock issuable upon conversion of 5,408 shares of series F preferred stock that may be acquired by Halifax Fund, L.P. upon exercise of series F warrants. Jeffrey Devers, the managing member of the investment advisor and the managing member of the general partner of Halifax Fund, L.P., controls the investment and voting power of Halifax Fund, L.P. The street address of the named beneficial owner is 195 Maplewood Avenue Maplewood, NJ 07040.
- (20) The shares include 5,408 shares of series F preferred stock issuable upon exercise of series F warrants held by Halifax Fund, L.P.
- (21) The sole general partner of BayStar Capital, L.P., a Delaware limited partnership, is BayStar Management, LLC. The Investment Manager of BayStar International, Ltd., a British Virgin Islands corporation, is BayStar International Management, LLC. Both BayStar Management, LLC and Baystar International Management, LLC are owned equally by NorthBay Partners, LLC a Wisconsin limited liability company and MarinView Capital, LLC, a Delaware limited liability company. Michael Roth and Brian Stark share the investment and voting power of BayStar Capital, L.P. and BayStar International Ltd. The street address of the named beneficial owner is 1500 W. Market Street, Suite 200, Mequon, WI 53092.
- (22) The shares include (i) 1,380,138 shares of our common stock issuable upon the conversion of 11,271 shares of series F preferred stock and (ii) 662,211 shares of our common stock issuable upon

conversion of 5,408 shares of series F preferred stock that may be acquired by BayStar Capital, L.P. upon exercise of series F warrants.

- (23) The shares include 5,408 shares of series F preferred stock issuable upon exercise of series F warrants held by Baystar Capital, L.P.
- (24) The shares include (i) 460,047 shares of our common stock issuable upon the conversion of 3,757 shares of series F preferred stock and (ii) 220,778 shares of our common stock issuable upon conversion of 1,803 shares of series F preferred stock that may be acquired by BayStar International Ltd. upon exercise of series F warrants.
- (25) The shares include 1,803 shares of series F preferred stock issuable upon exercise of series F warrants held by Baystar International Ltd.
- (26) The shares include (i) 1,103,767 shares of our common stock issuable upon the conversion of 9,014 shares of series F preferred stock and (ii) 441,556 shares of our common stock issuable upon conversion of 3,606 shares of series F preferred stock that may be acquired by Royal Wulff Ventures, LLC upon exercise of series F warrants. Robert E. Cook and Paula J. Brooks share the investment and voting power of Royal Wulff Ventures, LLC. The street address of the named beneficial owner is 572 Park Avenue, Park City, Utah 84060.
- (27) The shares include 3,606 shares of series F preferred stock issuable upon exercise of series F warrants held by Royal Wulff Ventures, LLC.
- (28) The shares include 358,950 shares of our common stock issuable upon exercise of a warrant. The street address of the named beneficial owner is 1480342 Ontario Inc., 55 York Street, Suite 1500, Toronto, Ontario M5J 1R7.
- (29) The shares include 388,400 shares issuable upon exercise of Presently Exercisable Options, 48,220 shares held by the James Daleen Irrevocable Trust and 1,804 shares held by Mr. Daleen's wife. Mr. Daleen disclaims beneficial ownership of the shares held by the trust and his wife.
- (30) The shares include 93,955 shares issuable upon exercise of Presently Exercisable Options.
- (31) The shares include 241,687 shares issuable upon exercise of Presently Exercisable Options.
- (32) The shares include (i) 3,818,063 shares of our common stock owned by HarbourVest Partners V Direct Fund L.P., (ii) 1,250,000 shares of our common stock issuable upon exercise of a warrant held by HarbourVest Partners V Direct Fund L.P., (iii) 11,037,548 shares of our common stock issuable upon the conversion of 90,139 shares of series F preferred stock held by HarbourVest Partners VI Direct Fund L.P., and (iv) 4,415,068 shares of our common stock issuable upon conversion of 36,056 shares of series F preferred stock that may be acquired upon exercise of series F warrants held by HarbourVest Partners VI Direct Fund L.P. Mr. Nemirovsky disclaims beneficial ownership of these shares.
- (33) The shares include 36,056 shares of series F preferred stock issuable upon exercise of series F warrants held by HarbourVest Partners VI Direct Fund L.P. Mr. Nemirovsky disclaims beneficial ownership of these shares.
- (34) The shares include 620,669 shares of our common stock held by ABN AMRO Inc., 224,614 shares of our common stock held by I Eagle Trust and 41,394 shares of our common stock held by Burnham Capital, LLC. I Eagle Trust and Burnham Capital, LLC are affiliates of ABN AMRO Inc. Mr. Foreman is a managing director of ABN AMRO Inc. and therefore may be considered to share beneficial ownership of these shares.
- (35) The shares include 22,187 shares of our common stock issuable upon exercise of Presently Exercisable Options.
- (36) The shares include 50,973 shares of our common stock held by the Stephen Getsy Living Trust. Also includes 53,650 shares of our common stock issuable upon exercise of Presently Exercisable Options.
- (37) The shares include (i) 1,250,000 shares of our common stock issuable upon exercise of a warrant (ii) 11,037,548 shares of our common stock issuable upon the conversion of 90,139 shares of series F

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preferred stock, (iii) 4,415,068 shares of our common stock issuable upon conversion of 36,056 shares of series F preferred stock that may be acquired upon exercise of series F warrants and (iv) 799,879 shares issuable upon exercise of Presently Exercisable Options. See the preceding footnotes for an explanation of the beneficial ownership of such shares of common stock, series F preferred stock, series F warrants and Presently Exercisable Options.

- (38) The shares include 36,056 shares of series F preferred stock that may be acquired upon exercise of series F warrants. See footnote (32) above.

**Executive Compensation**

*Summary Compensation Table.* The following table presents the total compensation for the three years ended December 31, 2001, for our chairman, president and chief executive officer and our four other most highly compensated executive officers who were serving as executive officers at the end of the fiscal year and two additional persons, one of whom was an executive officer during 2001, and the other who is currently an executive officer, but neither of whom was serving as an executive officer at the end of the last fiscal year (collectively, the named executive officers ).

Name and Principal Position	Year	Annual Compensation			Long Term Compensation	All Other Compensation(2)
		Salary	Bonus	Other Annual Compensation(1)	Number of Securities Underlying Options	
James Daleen	2001	\$ 328,900	\$		410,000	\$ 3,786(3)
Chairman of the Board	2000	328,900	180,895		72,500	3,611(3)
President and Chief Executive Officer	1999	286,000	214,500		125,000	2,587(3)
Steven Kim(4)	2001	\$ 199,712	\$		245,000(5)	\$ 3,665(6)
Former Executive Vice President of Products and Technologies	2000	124,500	86,371		106,472(5)	38,906(6)
	1999				(5)	
Jeanne Prayther(7)	2001	\$ 151,625	\$		174,017	\$ 3,063(8)
Chief Financial Officer and Secretary (formerly Vice President of Accounting and Finance)	2000	45,438	27,376		55,009	5,627(8)
	1999					
David B. Corey(9)	2001	\$ 253,000	\$		240,000(10)	\$ 175,266(11)
Former President and Chief Operating Officer	2000	253,000	123,338		48,500(10)	3,611(11)
	1999	220,000	165,000		79,000(10)	2,587(11)
Stephen M. Wagman(12)	2001	\$ 152,308	\$ 20,769		180,000(13)	\$ 20,263(14)
Former Chief Financial Officer, Treasurer and Secretary	2000	220,000	113,226		88,750(13)	2,200(14)
	1999	93,500	57,288		137,500(13)	49,058(14)
David McTarnaghan(15)	2001	\$ 175,000	\$ 38,822		215,063	\$ 3,786(16)
Senior Vice President of Sales	2000	\$ 175,000	80,836		88,750	3,495(16)
	1999	\$ 150,000	66,500		22,250	3,587(16)

- (1) In accordance with the rules of the SEC, other compensation received in the form of perquisites and personal benefits has been omitted because such perquisites and other personal benefits constituted less than the lesser of \$50,000 or 10% of the total annual salary and bonus for the named executive officers for such year.
- (2) All other compensation for each of the named executive officers includes, among other things, the dollar value of insurance premiums paid by Daleen with respect to term life insurance. There is no arrangement or understanding that any named executive officer or other officer has or will receive or be allocated an interest in any cash surrender value under any such policies.

- (3) All other compensation for Mr. Daleen in 1999 includes payment of \$2,500 in 401(k) Plan matching contributions and \$87 related to term life insurance premiums; in 2000 includes payment of \$3,500 in 401(k) Plan matching contributions and \$111 related to term life insurance premiums; and in 2001 includes payment of \$3,675 in 401(k) Plan matching contributions and \$111 related to term life insurance premiums.
- (4) Mr. Kim commenced employment with Daleen on April 24, 2000. Mr. Kim's employment with Daleen terminated effective May 31, 2002.
- (5) Mr. Kim's options expired 90 days after his termination on May 31, 2002.
- (6) All other compensation for Mr. Kim in 2000 includes payment of \$38,850 in relocation costs and \$56 related to term life insurance premiums; and in 2001 includes payments of \$3,554 in 401(k) Plan matching contributions and \$111 related to term life insurance premiums.
- (7) Ms. Prayther commenced employment with Daleen on June 20, 2000.
- (8) All other compensation for Ms. Prayther in 2000 includes payment of \$5,000 in relocation costs, \$581 in 401(k) Plan matching contributions and \$46 related to term life insurance premiums; and in 2001 includes payment of \$2,952 in 401(k) Plan matching contributions and \$111 related to term life insurance premiums.
- (9) Mr. Corey resigned as president and chief operating officer and as a director of Daleen effective on December 31, 2001.
- (10) Mr. Corey's options expired 90 days after his resignation on December 31, 2001.
- (11) All other compensation for Mr. Corey in 1999 includes payment of \$2,500 in 401(k) Plan matching contributions and \$87 related to term life insurance premiums; in 2000 includes payment of \$3,500 in 401(k) Plan matching contributions and \$111 related to term life insurance premiums; and in 2001 includes payment of \$171,480 in relocation costs, \$3,675 in 401(k) Plan matching contributions and \$111 related to term life insurance premiums.
- (12) Mr. Wagman resigned as chief financial officer of Daleen effective on August 31, 2001.
- (13) Mr. Wagman's options expired 90 days after his resignation on August 31, 2001.
- (14) All other compensation for Mr. Wagman in 1999 includes payment of \$48,611 in relocation costs, \$401 in 401(k) Plan matching contributions and \$46 in term life insurance premiums; in 2000 includes payment of \$2,089 in 401(k) Plan matching contributions and \$111 related to term life insurance premiums; and in 2001 includes payment of \$16,772 in unused vacation, \$3,417 in 401(k) Plan matching contributions and \$74 related to term life insurance premiums.
- (15) Mr. McTarnaghan became a named executive officer in June 2002.
- (16) All other compensation for Mr. McTarnaghan in 1999 includes \$2,500 in 401(k) Plan matching contributions and \$87 related to term life insurance premiums; in 2000, includes \$3,384 in 401(k) matching contributions and \$111 related to term life insurance premiums; in 2001, includes \$3,675 in 401(k) matching contributions and \$111 related to term life insurance premiums.

**Option Grants in Last Fiscal Year**

The following table sets forth all individual grants of stock options during the year ended December 31, 2001, to each of the named executive officers:

Name	Number of Securities Underlying Option Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
					5%	10%
James Daleen	60,000	1.46%	\$ 1.88	1/10/11	\$ 70,939	\$ 179,774
	250,000	6.09	0.88	7/18/11	138,357	350,623
	50,000	1.22	0.35	12/31/11	11,006	27,890
	50,000	1.22	0.35	12/31/11	11,006	27,890
Steven Kim	30,000	0.73%	\$ 1.88	8/29/02(2)		
	22,625	0.55	0.85	8/29/02(2)		
	127,375	3.10	0.88	8/29/02(2)		
	16,250	0.40	0.35	8/29/02(2)		
	48,750	1.19	0.35	8/29/02(2)		
Jeanne Prayther	10,017	0.24%	\$ 1.88	1/10/11	\$ 11,843	\$ 30,013
	21,625	0.53	0.85	4/27/11	11,560	29,295
	77,375	1.89	0.88	7/18/11	42,821	108,518
	16,250	0.40	0.35	12/31/11	3,577	9,064
	48,750	1.19	0.35	12/31/11	10,731	27,193
David B. Corey	40,000	0.98%	\$ 1.88	3/31/02(3)		
	7,542	0.18	0.85	3/31/02(3)		
	15,083	0.37	0.85	3/31/02(3)		
	177,375	4.32	0.88	3/31/02(3)		
Stephen M. Wagman	30,000	0.73%	\$ 1.88	11/29/01(4)		
	7,542	0.18	0.85	11/29/01(4)		
	15,083	0.37	0.85	11/29/01(4)		
	127,375	3.11	0.88	11/29/01(4)		
David J. McTarnaghan	25,063	1.33%	\$ 1.88	1/10/11	\$ 29,633	\$ 75,095
	22,625	1.20	0.85	4/27/11	12,094	30,650
	102,375	5.45	0.88	7/28/11	56,657	143,580
	16,250	0.86	0.35	12/31/11	3,577	9,064
	48,750	2.59	0.35	12/31/11	10,731	27,193

- (1) Amounts represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These gains are based on the fair market value per share on the date of grant and assumed rates of stock price appreciation of 5% and 10% compounded annually from the date the respective options were granted to their expiration date. These assumptions are mandated by the rules of the SEC and are not intended to forecast future appreciation of our stock price. The potential realizable value computation is net of the applicable exercise price, but does not take into account federal or state income tax consequences and other expenses of option exercises or sales of appreciated stock. Actual gains, if any, are dependent upon the timing of such exercise and the future performance of our common stock. There can be no assurance that the rates of appreciation in this table can be achieved. This table does not take into account any appreciation in the price of our common stock to date.
- (2) Mr. Kim's employment was terminated effective on May 31, 2002. His options expired 90 days after such termination.
- (3) Mr. Corey resigned from Daleen effective on December 31, 2001. His options expired 90 days after such resignation.
- (4) Mr. Wagman resigned from Daleen effective on August 31, 2001. His options expired 90 days after such resignation.



**Aggregated Option Exercises in Last Fiscal Year and Year-End Option Values**

The following table summarizes the number of shares and value realized by each of the Named Executive Officers upon the exercise of options and the value of the outstanding options held by the Named Executive Officers at December 31, 2001:

Name	Shares Acquired on Exercise	Value Realized(1)	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
James Daleen			204,431	558,010		
Steven Kim(3)			26,618	324,854		
Jeanne Prayther			13,752	215,274		
David B. Corey(4)			262,376	339,501		
Stephen M. Wagman(5)						
David J. McTarnaghan			112,060	309,003		

- (1) Amounts disclosed in this column do not reflect amounts actually received by the Named Executive Officers but are calculated based on the difference between the fair market value on the date of exercise of the options and the exercise price of the options. The Named Executive Officers will receive cash only if and when they sell the common stock issued upon exercise of the options, and the amount of cash received by such individuals is dependent on the price of our common stock at the time of such sale.
- (2) Based on the fair market value of our common stock as of December 31, 2001 of \$0.35 per share as reported on the Nasdaq Stock Market, less the exercise price payable upon exercise of such options.
- (3) Mr. Kim's options expired 90 days after his termination on May 31, 2002.
- (4) Mr. Corey's options expired 90 days after his resignation on December 31, 2001.
- (5) Mr. Wagman's options expired 90 days after his resignation on August 31, 2001.

**Employment Agreements**

We entered into an amended and restated employment agreement with James Daleen, our chairman, president and chief executive officer, on September 20, 2002. The agreement will terminate when either party notifies the other of its intent to terminate the employment agreement. The employment agreement provides for a base salary to be determined by our compensation committee which may be increased annually, but not decreased. Mr. Daleen's base salary was \$328,900 in 2001 and is \$328,900 in 2002, pursuant to a previous employment agreement and his current employment agreement. Mr. Daleen may also receive an annual bonus to be determined by our compensation committee, with the annual bonus targeted at 50% of Mr. Daleen's base salary. See *Interests of Certain Persons in the Transactions - James Daleen* on page 46 of this proxy statement for description of Mr. Daleen's severance payment in the event of his termination without cause.

We entered into an employment agreement with Jeanne Prayther on June 9, 2000, which was amended on August 22, 2001 when Ms. Prayther became our chief financial officer and secretary, and further amended on October 7, 2002. Ms. Prayther's base salary for 2001 was \$149,500, was increased to \$174,500 on November 19, 2001 and is \$174,500 in 2002. See *Interests of Certain Persons in the Transactions - Jeanne Prayther* on page 46 of this proxy statement for description of the terms of Ms. Prayther's amendment of October 7, 2002.

Effective May 14, 2002, Steven R. Kim was terminated as an employee and as our executive vice president of products and technologies and we entered into a severance and release agreement effective on such date. Under the terms of such agreement, we paid Mr. Kim \$50,000 in severance.

In June 1998 we entered into an employment agreement, as amended on October 7, 2002, with David J. McTarnaghan, our senior vice president of sales and an executive officer of our subsidiary, Daleen Australia Pty Limited. The agreement can be terminated by either party at any time. Mr. McTarnaghan's base salary was \$175,000 in 2001 and is \$175,000 in 2002. See Interests of Certain Persons in the Transactions David J. McTarnaghan on page 46 of this proxy statement for a description of Mr. McTarnaghan's amendment of October 7, 2002.

Our executive officers and some of our other employees have signed invention assignment and confidentiality agreements as well as non-compete agreements. Under the invention assignment and confidentiality agreement, these individuals have assigned to us all of their copyrights, trade secrets and patent rights that relate to our business. Under the terms of the non-compete agreement, each of these individuals has agreed not to compete, directly or indirectly, with us in the billing and customer care industry during the term of their employment and for six months after termination of employment. Each also has agreed not to solicit our customers or employees, directly or indirectly, during the period of employment and for one year following termination of employment.

Effective December 31, 2001, David B. Corey resigned as an employee and as a director of Daleen and we entered into a severance and release agreement with Mr. Corey effective on such date. Under the terms of the severance and release agreement, Mr. Corey is entitled to severance in the amount of twelve months base salary. During the severance period, Mr. Corey may not directly or indirectly engage in any conduct in direct competition with the business of Daleen.

Effective August 31, 2001, Stephen Wagman resigned as an employee and as chief financial officer, treasurer and secretary of Daleen. The non-compete clause of Mr. Wagman's employment agreement was waived and no severance arrangements were part of his resignation.

#### **Stock Option and Other Compensation Plans**

*Long-Term Incentive Compensation Plan.* Our board of directors has approved, and submitted for approval of our stockholders in this proxy statement, the Long-Term Incentive Compensation Plan. For a description of the terms of the Long-Term Incentive Compensation Plan, see Proposal 2 Other Terms of the Investment Agreement Long-Term Incentive Compensation Plan beginning on page 72 of this proxy statement.

*2001 Broad-Based Stock Incentive Plan.* We established the 2001 Broad-Based Stock Incentive Plan ( 2001 Broad-Based Plan ) to promote our interests by providing employees and key persons the opportunity to purchase shares of common stock and to receive compensation based upon appreciation in the value of those shares. Pursuant to rules of The Nasdaq Stock Market, the 2001 Broad-Based Plan, as approved by the board of directors, must issue more than a majority of the eligible options under the 2001 Broad-Based Plan to non-management employees. We have reserved 2,000,000 shares of common stock for issuance under the 2001 Broad-Based Plan. As of December 31, 2001, options to purchase an aggregate of 1,802,750 shares of common stock were outstanding under the 2001 Broad-Based Plan and no shares of common stock have been issued upon exercise of options under the 2001 Broad-Based Plan. If we sell 80% or more of our capital stock or assets, or if we agree to convert 80% or more of the outstanding shares of capital stock into another security, and a participant is terminated for any reason other than for cause or if a participant is terminated as a result of constructive discharge, then the vesting schedule of each option grant for such participant will accelerate by two years. The vesting period for the options granted under the 2001 Broad-Based Plan is at the discretion of the board of directors. The vesting period for the options issued in 2001 under the 2001 Broad-Based Plan range from two to four years.

*Amended & Restated 1999 Stock Incentive Plan.* We established the Amended & Restated 1999 Stock Incentive Plan ( 1999 Plan ) to promote our interests by providing employees and key persons the opportunity to purchase shares of common stock and to receive compensation based upon appreciation in the value of those shares. We have reserved 8,790,145 shares of common stock for issuance under the 1999 Plan. As of December 31, 2001, options to purchase an aggregate of 2,818,542 shares of common stock were outstanding under the 1999 Plan and 181,937 shares of common stock have been issued upon

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exercise of options granted under the 1999 Plan. If we sell 80% or more of our capital stock or assets, or if we agree to convert 80% or more of the outstanding shares of capital stock into another security, then the vesting schedule of each option grant will accelerate by two years.

*Prior Stock Option Plans.* We adopted six other stock option plans between 1994 and 1998. Some of these plans provided for incentive stock options within the meaning of Subsection 422 of the Internal Revenue Code while others provided for non-qualified stock options.

	<b>Shares Authorized for Issuance Under Plan</b>	<b>Vesting Period</b>	<b>Contractual Life of Options</b>
1994 Plan	125,000	100% upon grant	5 years from grant
1995 Plan	200,000	100% upon grant	5 years from grant
1996 Plan	400,000	100% upon grant	5 years from grant
1997 Plan	200,000	33.3% each year for first three years from grant	5 years from grant
1998 Plan	500,000	23% to 50% per year beginning one year from grant	5 years from grant
1998 ISO Plan	1,600,000	25% each year for first four years from grant	5 years from grant
1999 Plan	8,790,145	25% each year for first four years from grant	10 years from grant
2001 Broad-Based Plan	2,000,000	Discretion of the Board of Directors	10 years from grant

(1) The board of directors is permitted to establish alternative vesting schedules under the 1999 Plan and the 2001 Broad-Based Plan.

(2) The options issued in 2001 under the 2001 Broad-Based Plan have a vesting period of two years from grant.

As of December 31, 2001, options to purchase an aggregate of 5,740,532 shares of common stock were outstanding under all the plans at a weighted average exercise price of \$5.33 per share and 1,148,116 shares of common stock have been issued upon exercise of options granted under these plans. We are not authorized to issue any more options or other awards under any of these plans except the 2001 Broad-Based Plan and the 1999 Plan.

### Securities Authorized for Issuance Under Equity Compensation Plans

The following table outlines our securities authorized for issuance under equity compensation plans as of December 31, 2001.

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans, Warrants and Rights</b>
Equity compensation plans approved by security holders	4,550,622	\$5.80	6,116,322
Equity compensation plans not approved by security holders	1,118,177	3.22	965,027
Total	5,668,799	\$5.29	7,081,349

### Limitation of Liability and Indemnification of Officers and Directors

Our Certificate of Incorporation, as amended, provides that the liability of our directors for monetary damages shall be eliminated to the fullest extent permissible under Delaware law and that we shall indemnify our directors, officers, employees and agents to the fullest extent permitted under Delaware law.



Our Certificate of Incorporation, as amended, provides that our directors will not be personally liable to Daleen or any stockholder for monetary damages for breach of fiduciary duty as a director, except if the director:

is liable under Section 174 of the Delaware General Corporation Law;

has breached the director's duty of loyalty to us or our stockholders;

has acted in a manner involving intentional misconduct or a knowing violation of law or, in failing to act, has acted in a manner involving intentional misconduct or a knowing violation of law; or

has derived an improper personal benefit.

If Delaware law is amended to provide for further limitations on the personal liability of directors of corporations for breach of duty of care or other duty as a director, then the personal liability of the directors will be so further limited to the greatest extent permitted by Delaware law.

We maintain a directors' and officers' liability insurance policy.

### **Compensation Committee Interlocks and Insider Participation**

The following non-employee directors were the members of our compensation committee of the board of directors during 2001: Messrs. Getsy, the chairman, Ms. Hilbert and Mr. Nemirovsky. Ms. Hilbert replaced Neil E. Cox as a member of the compensation committee after Mr. Cox's retirement from the board of directors in February 2001. Ms. Hilbert resigned from the board of directors in October 2002. None of the members of the compensation committee is an executive officer of Daleen.

## **COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION**

### **General**

The compensation committee of our board of directors has furnished the following report on executive compensation in accordance with the rules and regulations of the SEC. This report outlines the duties of the compensation committee with respect to executive compensation, the various components of our compensation program for executive officers and other key employees, and the basis on which the 2001 compensation was determined for our executive officers.

The compensation committee of the board of directors is responsible for establishing compensation levels for our executive officers, including the annual bonus plan for executive officers and for administering our stock option plans. The compensation committee's overall objective is to establish a compensation policy that will (i) attract, retain and reward executives who contribute to achieving our business objectives; (ii) motivate executives to obtain these objectives; and (iii) align the interests of executives with those of our long-term investors. We compensate executive officers with a combination of salary and incentives designed to focus their efforts on maximizing both our near-term and long-term financial performance. In addition, our compensation program rewards individual performance that furthers our goals. The executive compensation program includes the following: (i) base salary; (ii) incentive bonuses; (iii) long-term equity incentive awards in the form of stock option grants; and (iv) other benefits. Each executive officer's compensation package is designed to provide an appropriately-weighted mix of these elements which cumulatively provide a level of compensation roughly equivalent to that paid by companies of similar size and complexity.

### ***Compensation of Executive Officers Generally***

*Base Salary.* Base salary levels for each of our executive officers, including the chief executive officer, are generally set within a range of base salaries that the compensation committee believes are paid to similar executive officers at companies deemed comparable based on the similarity in revenue level, industry segment and competitive employment market to Daleen. In addition, the compensation committee

generally takes into account our past financial performance and future expectations, as well as the performance of the executives and changes in the executives' responsibilities.

In 2002, the compensation committee determined that no annual salary increases would be provided to the executive officers.

*Incentive Bonuses.* The compensation committee recommends the payment of bonuses to provide an incentive to executive officers to be productive over the course of each fiscal year. These bonuses are awarded only if we and the executives achieve or exceed certain pre-established performance objectives. In 2001, there were no bonuses paid to executives. In 2002, incentive bonuses, if paid, will be based on our achievement of pre-established performance objectives.

*Retention Bonuses.* Retention bonus agreements are used to provide additional financial incentive to retain key executives whose contributions are critical to us. The agreements generally provide for a bonus to be paid on each of two retention dates six months and one year from the date of the agreement. In the event of termination resulting in severance benefits, the executive is entitled to a prorated portion of the retention bonus. In 2001, two agreements were executed.

*Equity Incentives.* We use stock options for payment of long-term compensation to provide a stock-based incentive to improve our financial performance and to assist in the recruitment, retention and motivation of professional, managerial and other personnel. Generally, stock options are granted to executive officers from time to time based primarily upon the individual's actual and/or potential contributions to us and our financial performance. Stock options are designed to align the interests of our executive officers with those of its stockholders by encouraging executive officers to enhance our value, the price of the common stock, and hence, the stockholders' return. In addition, the vesting of stock options over a period of time is designed to create an incentive for the individual to remain with us. Generally, ongoing option grants occur at year-end and in connection with promotions or an executive's acceptance of significant new and additional responsibilities. During the fiscal year ended December 31, 2001, we granted options to purchase an aggregate of 799,080 shares of common stock to our current executive officers.

*Other Benefits.* Benefits offered to our executive officers are provided to serve as a safety net of protection against the financial catastrophes that can result from illness, disability, or death. Benefits offered to our executive officers are substantially the same, other than participation in the LTIP, as those offered to all of our regular employees. While the LTIP allows for grants to be made to any employee, at the discretion of our board of directors, it is currently contemplated that only management, including executive officers, will participate. In January 1994, we established a tax-qualified deferred compensation 401(k) Savings Plan (the "401(k) Plan") covering all of our eligible full-time employees. Under the 401(k) Plan, participants may elect to contribute, through salary reductions, up to 25% of their annual compensation subject to a statutory maximum. In 2000, our matching contribution was changed to 35% up to the first 8% contributed under the 401(k) Plan. In 2001, we continued to provide additional matching contributions in the amount of 35% up to the first 8% contributed under the 401(k) Plan. The matching contributions were discontinued effective July 1, 2002. The 401(k) Plan is designed to qualify under Section 401 of the Internal Revenue Code so that the contributions by employees or by us to the 401(k) Plan, and income earned on plan contributions, are not taxable to employees until withdrawn from the 401(k) Plan, and so that contributions by us will be deductible by us when made.

#### **Compensation of the Chief Executive Officer**

The compensation committee annually reviews the performance and compensation of the chief executive officer based on the assessment of his past performance and its expectation of his future contributions to our performance. James Daleen has served as our chief executive officer since our founding in 1989. In 2001, Mr. Daleen's base salary was set at \$328,900. The compensation committee believes the compensation paid to Mr. Daleen was reasonable.

**Policy with Respect to Qualifying Compensation for Deductibility**

Section 162(m) of the Internal Revenue Code imposes a limit on tax deductions for annual compensation (other than performance-based compensation) in excess of one million dollars paid by a corporation to its chief executive officer and the other four most highly compensated executive officers of a corporation. We have not established a policy with regard to Section 162(m) of the Code, since Daleen has not and does not currently anticipate paying cash compensation in excess of one million dollars per annum to any employee. None of the compensation paid by us in 2001 was subject to the limitations on deductibility. The Board of Directors will continue to assess the impact of Section 162(m) on its compensation practices and determine what further action, if any, is appropriate.

Compensation Committee

Stephen J. Getsy, Chairman

Ofer Nemirovsky

**Compensation of Directors**

Prior to October 25, 2002, we did not provide any cash compensation to our directors although we have reimbursed our directors for reasonable expenses incurred in connection with attendance at board and committee meetings. Additionally, we have granted to our directors options to purchase shares of our common stock as described below. On October 25, 2002, our board of directors adopted a new policy with respect to the compensation of each of our directors who is not an officer, employee or consultant (a qualified director). Our director compensation policy is described below.

***Option Awards***

Prior to October 25, 2002, it was our policy that non-employee directors who are not employed by venture capital firms with investments in us are eligible to receive options to purchase our common stock under our 1999 Plan and our 2001 Broad-Based Plan. We previously issued to these non-employee directors options to purchase 50,000 shares of common stock upon initial election to our board of directors or their becoming otherwise eligible for the option grant and 15,000 options per year thereafter. The disinterested members of our board of directors determined the vesting schedule for options granted to non-employee directors. During 2001, we granted the following options to certain members of the board of directors:

Name of Director	Number of Shares Granted
Paul G. Cataford	57,500(1)
Paula J. Hilbert	80,000(2)
Stephen J. Getsy	80,000(3)

- (1) Mr. Cataford was issued 50,000 options to purchase common stock due to him becoming an independent director. In addition, he was granted 7,500 options as a portion of his yearly grant due to him becoming eligible for options in mid-year.
- (2) Ms. Hilbert was issued 15,000 options in January 2001 for the 2000 yearly grant, 50,000 options in July 2001 as a special grant issued to all employees and eligible directors and 15,000 options in December 2001 for the 2001 yearly grant. Ms. Hilbert resigned as a director in October 2002. These options will expire 90 days from her date of resignation.

- (3) Mr. Getsy was issued 15,000 options in January 2001 for the 2000 yearly grant, 50,000 options in July 2001 as a special grant issued to all employees and eligible directors and 15,000 options in December 2001 for the 2001 yearly grant.

Under the new policy, as soon as possible after the closing of the transactions, we will grant to each qualified director, including qualified directors elected after the closing of the transactions, options for the purchase of 250,000 shares of our common stock at an exercise price equal to the fair market value of the common stock on the date of grant. Additionally, on an annual basis thereafter we will grant to the qualified directors options to purchase an additional 25,000 shares of our common stock. The options will be granted under our existing stock incentive plans and will vest in accordance with our previous grants of options to directors. We will not grant options to Mr. Daleen during the period that he is serving as a consultant to us. However, it is anticipated that Mr. Daleen will become a qualified director and be eligible for the initial grant of options as well as the annual grants and the cash compensation described below upon the termination of his consulting agreement with us.

#### ***Annual Retainer***

Effective on October 25, 2002, each qualified director receives an annual retainer of \$25,000, plus \$1,500 for each committee that he serves as chairman, for his services as a director. We pay the annual retainer on a quarterly basis. Mr. Daleen is not entitled to cash compensation as a director until the expiration of his consulting agreement, at which time he will become a qualified director. Once he becomes a qualified director, he will be entitled to a pro rata portion of the annual retainer and an additional \$1,500 annual retainer for serving as chairman of the board of directors.

#### ***Meeting Fees***

Effective beginning on October 25, 2002, each qualified director receives \$1,200 for attendance at each regular meeting of the board of directors and \$1,000 for attendance at each special meeting of the board of directors (if the special meeting lasts one hour or more). Additionally, each qualified director receives \$500 for each committee meeting attended, or \$750 for the chairman of the committee; provided, however that we do not pay fees for attendance at committee meetings that occur on the same day as a meeting of the board of directors.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules and regulations of the SEC thereunder requires our directors, executive officers and persons who own beneficially more than 10% of our common stock and persons who own beneficially more than 10% of our series F preferred stock to file reports of ownership and changes in ownership of such stock with the SEC. Based solely upon a review of such reports, we believe that all our directors, executive officers and 10% stockholders complied with all applicable Section 16(a) filing requirements during the last fiscal year, with the exception of one late filing of a Form 3 by Jeanne Prayther, our chief financial officer and secretary.



**STOCK PERFORMANCE GRAPH**

The following graph presents our total stockholder return of an investment of \$100 in cash on October 1, 1999(1) for (i) our common stock, (ii) the Nasdaq Stock Market U.S. Index (the Nasdaq Index )(2), and (iii) the Nasdaq Computer & Data Processing Services Stocks represented by companies in SIC code 737 (the Computer & Data Processing Index )(2). All values and returns assume reinvestment of the full amount of all dividends.

**Comparison of Cumulative Total Return**

**For the Period From 10/1/99 Through 12/31/01  
Among Daleen Technologies, Inc., the Nasdaq Index and  
the Computer & Data Processing Index**

- (1) We completed the initial public offering of our common stock on October 1, 1999. Our 2001 fiscal year ended December 31, 2001. This Performance Graph assumes that \$100 was invested on October 1, 1999 in our common stock at our initial public offering price of \$12.00 per share and at the closing sales price for each index on that date. No cash dividends have been declared on our common stock. Stockholder returns over the indicated periods should not be considered indicative of future stockholder returns.
- (2) The Nasdaq Index and the Computer & Data Processing Index are calculated by the Center for Research in Securities Prices. The information presented in the graph above was obtained by us from outside sources we consider to be reliable, but has not been independently verified by us.

The graph shown above plotted using the following data:

	10/1/99	12/31/99	3/31/00	6/30/00	9/29/00	12/29/00	3/31/01	6/30/01	9/30/01	12/31/01
Daleen Technologies, Inc.	\$ 100.00	\$ 182.29	\$ 171.35	\$ 128.65	\$ 123.44	\$ 31.25	\$ 9.08	\$ 6.83	\$ 3.50	\$ 2.92
Nasdaq Index	100.00	148.28	166.41	144.68	133.13	89.22	66.46	78.05	54.13	70.44
Computer and Data Processing Index	100.00	169.38	167.49	136.84	126.63	78.34	53.72	65.60	40.86	59.31

The Stock Performance Graph shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act, or the

Exchange Act, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such Acts.

### SELECTED FINANCIAL DATA OF ABILITI

You should read the following selected financial data in conjunction with Abiliti's financial statements, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations of Abiliti included elsewhere in this proxy statement. The following selected financial data concerning Abiliti for and as of the end of each of the years in the five-year period ended December 31, 2001, are derived from the audited financial statements of Abiliti. The selected financial data as of September 30, 2001 and 2002 and for the nine months ended September 30, 2001 and 2002 are derived from Abiliti's unaudited financial statements. The selected financial data is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, included elsewhere in this proxy statement. The audited financial statements of Abiliti as of December 31, 2001 and 2000 and for each of the years in the three year period ended December 31, 2001 are included elsewhere in this proxy statement.

#### ABILITI SOLUTIONS, INC.

#### SELECTED FINANCIAL DATA

	Years Ended December 31,					Nine Months Ended September 30,	
	1997	1998	1999	2000	2001	2001	2002
(In thousands except per share data)							
Revenue:							
License fees	\$ 800	\$ 3,138	\$ 1,530	\$ 1,305	\$ 1,200	\$ 1,095	\$ 293
Professional services and other	1,051	5,408	5,449	5,091	4,010	3,342	1,778
Billing ASP	2,097	3,228	4,931	7,532	9,859	7,539	6,989
Total revenue	3,948	11,774	11,910	13,928	15,069	11,976	9,060
Cost of revenue:							
License fees			145				50
Professional services and other	599	3,614	4,897	2,735	3,383	2,915	1,077
Billing ASP	1,485	1,280	1,036	4,045	1,414	1,123	325
Total cost of revenue	2,084	4,894	6,078	6,780	4,797	4,038	1,452
Gross margin	1,864	6,880	5,832	7,148	10,272	7,938	7,608
Operating expenses:							
Sales and marketing	211	994	2,340	2,272	1,595	1,330	758
Research and development	1,373	1,103	11,517	7,529	3,142	2,428	2,631
General and administrative	2,675	3,947	7,948	8,544	7,497	6,423	5,058
Restructuring charges					362	362	
Total operating expenses	4,259	6,044	21,805	18,345	12,596	10,543	8,447
Operating (loss) income	(2,395)	836	(15,973)	(11,197)	(2,324)	(2,605)	(839)
Interest income	10	96	560	204	76	66	8
Interest expense			(88)	(3,837)	(4,847)	(3,718)	(1,214)
Income (loss) before taxes	(2,385)	932	(15,501)	(14,830)	(7,095)	(6,257)	(2,045)
Income tax expense (benefit)	(331)						
Net Income (loss)	\$(2,054)	\$ 932	\$(15,501)	\$(14,830)	\$(7,095)	\$(6,257)	\$(2,045)



	As of December 31,					As of September 30,	
	1997	1998	1999	2000	2001	2001	2002
(In thousands)							
CONSOLIDATED BALANCE SHEET DATA:							
Cash and cash equivalents	\$ 1,227	\$ 18,047	\$ 2,764	\$ 523	\$ 1,645	\$ 2,773	\$ 976
Total assets	4,096	22,344	10,510	6,342	5,959	7,775	3,715
Notes payable	320			6,722	12,000	11,384	12,000
Current portion of long-term debt and obligations under capital leases			450	629	557	650	12,224
Long-term debt and obligations under capital leases, less current portion			945	7,344	12,190	11,655	52
Stockholders (deficit) equity	\$ 2,633	\$ 17,574	\$ 4,762	\$ (6,306)	\$ (11,250)	\$ (10,412)	\$ (13,295)

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS OF ABILITI**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations of Abiliti should be read in conjunction with Abiliti's financial statements for the years ended December 31, 2000 and 2001 and the related notes included elsewhere in this proxy statement.

**Overview of Business Operations**

*General.* Abiliti develops BREM&CC software that allows communication providers to rate events, bill and invoice. Abiliti's billing solution addresses all three of these steps and consists of three major subsystems: *Simpliciti.net*, *Rate IT*, and *NetworkStrategies*. Abiliti's billing products are available separately or as an integrated suite, through either the purchase of a software license for use at the customer's location, or as a hosted integrated solution through Abiliti's billing ASP model, *Billing Central*.

Abiliti was founded in 1987 as an engineering consulting firm focused on telecommunications. In the early 1990's, Abiliti began to do extensive work in the billing and customer care area, and that quickly became Abiliti's sole focus. In addition to custom development of BREM&CC solutions, Abiliti provided outsourced services to its customers.

*Certain Recent Developments.* In connection with the October 2002 Restructuring, Abiliti reduced its workforce by 13 employees. The employee terminations included employees in substantially all of Abiliti's employee groups. Abiliti anticipates that its expenses in connection with the 2002 Restructuring will total approximately \$138,000.

*Revenue.* Abiliti generates revenue by licensing its software systems, providing support and professional services for those systems and by providing outsourced billing services. Generally, license agreements are entered into for a perpetual term by charging a one-time license fee that grants the customer the right to use the software system that is currently available at the time the agreement is reached. Abiliti recognizes license revenue when there is persuasive evidence of an agreement, the software has been shipped, collectibility is probable, payment terms are normal and customary and Abiliti has no further significant obligations. When license payment terms are not normal and customary, the related revenue is recognized as the payments become due. When uncertainties exist relating to any of these criteria, the revenue is recognized upon resolution of the uncertainty or when payment is received.

Abiliti's software license fees have principally resulted from direct sales to customers and it expects that direct sales will continue to represent its principal selling method in the future. In addition to internally generated leads, Abiliti relies on third parties such as business process improvement consultants and complementary software application providers to provide leads for potential new customers.

The sales cycle for Abiliti's products is typically six to 12 months. Software license revenues for a particular period are substantially dependent on orders received in that period. Abiliti has experienced, and expects to continue to experience, significant variation in the size of individual licensing transactions. Generally, Abiliti ships its software products within a few days after receipt of an agreement therefore it typically does not have a material backlog of unfilled software orders and license revenue in any quarter is substantially dependent on orders received and shipped in that quarter. Consequently, substantially all of its license revenue in each quarter results from contracts entered into in that quarter. Accordingly, Abiliti does not maintain a significant backlog, except for professional services and maintenance and support.

Abiliti provides outsourced billing services (billing ASP) that integrate both *Rate IT* and *NetworkStrategies* into a unified billing ASP solution. Abiliti hosts its own applications, in its own data center, where each customer is serviced by dedicated equipment. Billing ASP revenue consists of monthly processing fees generated from Abiliti's billing ASP operation. The recurring revenue from bill processing is recognized as the related services are rendered and are billed monthly based on transaction volume processed or percentage of revenue billed on behalf of customers. In addition, billing ASP customers generate set-up and implementation fees, which are recorded as professional service revenue.

Abiliti provides professional services, including systems implementation and integration assistance, consulting and training, which are available under services agreements and contracted for separately from license agreements or monthly billing ASP services. These services are not essential to the functionality of the software. These services are generally performed on a time and materials basis. Professional services revenue is recognized as the services are performed and the customer has a contractual obligation to pay, provided the fee is nonrefundable. Additionally, Abiliti provides telephone support and maintenance for its software systems under support agreements. These agreements provide unspecified software upgrades and technical support over a specified term, which is typically 12 months, and renewable on an annual basis. Support contracts typically are paid in advance, and revenues from these contracts are deferred and recognized ratably over the term of the agreement.

Abiliti's revenue stream, particularly its license revenue stream, has been and continues to be strongly impacted by the current weak economic environment. In the current economic environment, many companies have severely reduced or postponed their capital spending activities. In addition, when companies are able to pursue the licensing of Abiliti's products, it is experiencing lengthened sales cycles due to companies taking additional time to assess and prioritize purchases, as well as requiring additional approvals for such purchases. Abiliti believes that these companies still consider its solutions to be important, however, the reduced spending and delays have had the effect of slowing the market acceptance of Abiliti's relatively new products. Abiliti believes that future software license fees, and the ability to predict future software license revenues, will be negatively impacted as long as companies continue to constrain their software licensing activities.

*Cost of License Revenue.* Cost of license revenue consists of sales commissions paid to Abiliti's direct sales force personnel.

*Cost of Professional Services Revenue.* Cost of professional services revenue consists of salaries and related costs for support and services personnel, payments to third-party consultants and other direct costs incurred in providing customer support, implementation, consulting and training.

*Cost of Billing ASP Revenue.* Cost of billing ASP revenue consists of salaries and related costs for support and services personnel and other direct costs incurred in connection with the operation of Abiliti's data center.

*Sales and Marketing.* Sales and marketing expenses consist primarily of salaries, benefits, and bonuses for sales, marketing and partner management personnel, travel and entertainment, trade show and marketing program costs, promotional and related corporate overhead costs.

*Research and Development.* Research and development expenses consist primarily of salaries, benefits and bonuses for software developers, product testing and benchmarking, management and quality assurance personnel, subcontractor costs and related corporate overhead costs. Research and development expenses include costs associated with the development of new products, enhancements to existing products and quality assurance activities. In accordance with Statement of Financial Accounting Standards No. 86, Abiliti expenses software development expenses as incurred until technological feasibility of the software is determined and the recovery of the cost can reasonably be expected, after which any additional costs are capitalized. To date, Abiliti has expensed all software development costs as incurred because development costs incurred subsequent to the establishment of technological feasibility have been minimal.

*General and Administrative.* General and administrative expenses consist of salaries, stock-based compensation and related costs for administrative, finance, human resources and information technology personnel, information systems costs, outside professional service fees and other general costs and expenses.

*Depreciation and Amortization.* Depreciation and amortization includes the depreciation of property and equipment and the amortization of capitalized lease equipment.

*Restructuring Charges.* In January and July 2001, Abiliti implemented restructuring plans (the 2001 Restructurings) that included reductions in employee headcount. In conjunction with these plans,

Abiliti recorded charges in the first and third quarters of 2001 in the amounts of \$159,000 and \$203,000, respectively, related to the termination of 67 employees.

### Recent Developments

On November 14, 2002, Abiliti received written notice that a complaint was filed in St. Louis County Circuit Court on behalf of the holders of \$1.2 million aggregate principal amount of the March 2000 Notes (the "Complaining Noteholders") alleging that their March 2000 Notes became due and payable on March 16, 2001 and seeking payment in full of the principal amount and accrued interest thereon, including interest at penalty rates for the period following March 16, 2001. Abiliti believes that the maturity dates of the March 2000 Notes have been validly extended and that it has meritorious defenses to the claims made by the Complaining Noteholders. Abiliti intends to contest this action vigorously.

### Critical Accounting Policies and Use of Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations of Abiliti included in this proxy statement is based upon Abiliti's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires Abiliti's management to make estimates and assumptions. Abiliti bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Changes in the facts or circumstances underlying these estimates could result in material changes and actual results could differ from these estimates. Abiliti believes the following critical accounting policies affect the most significant areas involving management's judgments and estimates. In addition, please refer to Note 2 in Abiliti's Notes to Financial Statements included elsewhere in this proxy statement for further discussion of Abiliti's accounting policies.

*Revenue Recognition.* Abiliti generates revenue by licensing its software systems and providing support and professional services for those systems. Revenue is accounted for in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition", issued by the American Institute of Certified Public Accountants, as amended by SOP 98-4 and SOP 98-9, and SEC Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements". SOP 97-2 and SAB 101 provide guidance on applying generally accepted accounting principles in recognizing revenue.

Abiliti generally licenses its software for a perpetual term by charging a license fee that grants the customer the right to use the software system that is currently available at the time the agreement is reached. The license revenue is recognized when there is persuasive evidence of an agreement, the software has been shipped, collectibility is reasonably assured, payment terms are normal and customary and Abiliti has no further significant obligations. When license payment terms are not considered normal and customary, the related revenue is recognized as the payments become due. When uncertainties exist relating to any of these criteria, the revenue is recognized upon resolution of the uncertainty or when payment is received.

Abiliti also provides support and maintenance for its software systems under support agreements. These agreements provide unspecified software upgrades and technical support over a specified term, which is typically 12 months and renewable on an annual basis. Support contracts typically are paid in advance, and revenues from these contracts are deferred and recognized ratably over the term of the agreement. Abiliti provides professional services, including systems implementation and integration assistance, consulting and training, which are available under services agreements and contracted for separately from license agreements. These services are not essential to the functionality of the software. These services are generally performed on a time and materials basis. Professional services revenue is recognized as the

services are performed. Revenue from time and materials arrangements is recognized as the services are performed and the customer has a contractual obligation to pay, provided the fee is nonrefundable.

When a customer purchases multiple software products, post-contract support and/or services in a single agreement, Abiliti allocates the total fee among each element of the agreement. The fee is recognized by deferring the fair value of all undelivered elements, as determined based on the vendor-specific objective evidence of fair value of the elements, and recognizing as revenue the balance of the arrangement fee as attributable to the delivered elements.

Billing ASP revenue is recognized as the related services are rendered and are billed monthly based on transaction volume processed or percentage of revenue billed on behalf of customers.

*Allowance for Doubtful Accounts.* Abiliti continuously monitors collections and payments from its customers and maintains allowances for doubtful accounts based upon its historical experience of write-offs of uncollectible accounts and any specific customer collection issues that have been identified. While such credit losses have historically been within management's estimates, there can be no assurance that Abiliti will continue to experience the same level of credit losses that it has in the past. If the financial condition of any of Abiliti's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Changes in Abiliti's assumptions and estimates could result in significantly different results than those recorded in its financial statements and would have the effect of reducing or increasing future profits in the period in which the estimate is revised.

*Software Development Costs.* Abiliti accounts for software development costs under Statement of Financial Accounting Standards (SFAS) No. 86, Accounting for Costs of Computer Software to Be Sold, Leased or Otherwise Marketed. Under SFAS No. 86, the costs associated with software development are required to be capitalized after technological feasibility has been established. Based on Abiliti's product development process, technological feasibility is generally established upon completion of the working model. Costs incurred by Abiliti between completion of the working model and the point at which the product is ready for general release are insignificant and, as a result, Abiliti has not capitalized any software development costs.

*Other Estimates.* Abiliti's financial statements include accruals and reserves for other liabilities incurred as a result of its normal ongoing operations. These accruals may require the use of estimates and judgment in regards to the ultimate liability. These estimates are based upon historical experience and on various other assumptions that Abiliti believes to be reasonable under the circumstances. Changes in Abiliti's assumptions and estimates could result in significantly different results than those recorded in the financial statements and would have the effect of reducing or increasing future profits in the period in which the estimate is revised.

*Income Taxes.* Abiliti recognizes deferred tax assets and liabilities for the estimated future tax consequences of temporary differences and income tax credits. Temporary differences are primarily the result of differences between the tax bases of assets and liabilities and their financial reporting amounts. Deferred tax assets and liabilities are measured by applying enacted statutory tax rates applicable to future years in which deferred tax assets or liabilities are expected to be settled or realized. Abiliti regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance based upon historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. As a result of this review, Abiliti has established a full valuation allowance against its deferred tax assets.



**Results of Operations**

The following table sets forth selected statements of operations data expressed as a percentage of Abiliti's total revenue for the respective periods. Abiliti's historical operating results and the period-to-period comparisons are not necessarily indicative of the results for any future period.

	Nine Months Ended September 30,		Year Ended December 31,	
	2002	2001	2001	2000
Revenue:				
License fees	3.2%	9.1%	8.0%	9.4%
Professional services and other	19.7	27.9	26.6	36.6
Billing ASP	77.1	63.0	65.4	54.0
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	100.0	100.0	100.0	100.0
	<hr/>	<hr/>	<hr/>	<hr/>
Cost of revenue:				
License fees	0.5			
Professional services and other	11.9	24.3	22.5	19.6
Billing ASP	3.6	9.4	9.4	29.0
	<hr/>	<hr/>	<hr/>	<hr/>
Total cost of revenue	16.0	33.7	31.9	48.6
	<hr/>	<hr/>	<hr/>	<hr/>
Gross margin	84.0	66.3	68.1	51.4
Operating expenses:				
Sales and marketing	8.4	11.1	10.6	16.3
Research and development	29.0	20.3	20.9	54.1
General and administrative	55.8	53.6	49.8	61.3
Restructuring charges		3.0	2.4	
	<hr/>	<hr/>	<hr/>	<hr/>
Total operating expenses	93.2	88.0	83.7	131.7
	<hr/>	<hr/>	<hr/>	<hr/>
Operating loss	(9.2)	(21.7)	(15.6)	(80.3)
Interest income	0.1	0.6	0.5	1.5
Interest expense	(13.4)	(31.0)	(32.2)	(27.5)
	<hr/>	<hr/>	<hr/>	<hr/>
Net loss	(22.5)%	(52.1)%	(47.3)%	(106.3)%
	<hr/>	<hr/>	<hr/>	<hr/>

**Nine Months Ended September 30, 2002, Compared to Nine Months Ended September 30, 2001**

**Total Revenue.** Total revenue, which includes license revenue, billing ASP and professional services, decreased \$2.9 million, or 24.4%, to \$9.1 million in the nine months ended September 30, 2002, from \$12.0 million for the same period in 2001. The reduction in revenue in 2002 is attributable to the decrease in the professional services and license fees revenues associated with the sale and implementation of a *Simpliciti.net* license in 2001. In addition, there was a decrease in billing ASP revenue as a result of customer attrition and a decrease in processing rates associated with a single customer's billing ASP contract renewal.

**License Fees.** Abiliti's license fees are derived from licensing its software products. License fees decreased \$803,000, or 73.3%, in the nine months ended September 30, 2002, to \$293,000, compared to \$1.1 million for the same period in 2001. This decrease was primarily due to the recognition of license revenue for a *Simpliciti.net* license implementation in the first nine months of 2001. License revenue in 2002 represents

license fees recognized over the contractual payment terms resulting from the signing of a significant contract with a single customer in the last half of 2001. License fees constituted 3.2% of total revenue in the nine months ended September 30, 2002, compared to 9.1% in the same period in 2001.

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*Billing ASP.* Billing ASP revenue decreased \$550,000, or 7.3%, in the nine months ended September 30, 2002, to \$7.0 million compared to \$7.5 million for the same period in 2001. This decrease was due to the completion of the contracts with three billing ASP customers in 2002 and a decrease in processing rates negotiated in connection with a significant customer's contract renewal. Billing ASP revenue constituted 77.1% of total revenue in the nine months ended September 30, 2002, compared to 63.0% in the same period in 2001.

*Professional Services.* Abiliti's professional services revenue consist of revenue from professional consulting services, training, maintenance and support, all related to the software products Abiliti develops and licenses. Professional services are billed on a time and materials basis. Professional services decreased \$1.6 million, or 46.8%, in the nine months ended September 30, 2002, to \$1.8 million, compared to \$3.3 million in the same period in 2001. The decrease was due to a decrease in product implementations and customer requested enhancements. Professional services constituted 19.7% of total revenue in the nine months ended September 30, 2002, compared to 27.9% for the same period in 2001.

*Total Cost of Revenue.* Total cost of revenue decreased \$2.6 million, or 64.1%, to \$1.5 million in the nine months ended September 30, 2002 from \$4.0 million in the same period in 2001. Total cost of revenue includes cost of license fees, billing ASP and professional services. These components include the cost of direct labor, benefits, overhead and materials associated with the fulfillment of the license products, processing of billing ASP activities, and customer enhancement requests. These costs decreased due to Abiliti's cost reduction measures taken in the July 2001 restructuring and the reduction in labor associated with the professional services revenue. The cost reductions included a decrease in personnel and other overhead costs. Overall, total cost of revenue as a percentage of total revenue decreased to 16.0% in the nine months ended September 30, 2002, compared to 33.7% in the same period in 2001.

*Sales and Marketing.* Sales and marketing expenses decreased \$573,000, or 43.0%, to \$758,000 in the nine months ended September 30, 2002, from \$1.3 million for the same period in 2001. These costs decreased as a result of a decrease in our trade show presence, as well as the cost reduction measures taken with the July 2001 restructuring. As a percentage of revenue, sales and marketing expenses decreased to 8.4% in the nine months ended September 30, 2002, from 11.1% in the same period in 2001.

*Research and Development.* Abiliti's research and development expenses increased \$203,000, or 8.4%, to \$2.6 million in the nine months ended September 30, 2002, from \$2.4 million for the same period in 2001. The overall increase was primarily the due to the development effort of the June 2002 release of *Simpliciti.net*. As a percentage of revenue, research and development expenses increased to 29.0% in the nine months ended September 30, 2002 compared to 20.3% in the same period in 2001.

*General and Administrative.* Abiliti's general and administrative expenses decreased \$1.4 million, or 21.2%, to \$5.1 million in the nine months ended September 30, 2002, from \$6.4 million in the same period in 2001. The decrease was attributed to the decrease in administrative personnel and operating costs associated with the July 2001 restructuring. In addition, an office lease for approximately 10,000 square feet was not renewed and there was a reduction in capital expenditures related depreciation and amortization expense. As a percentage of revenue, general and administrative expenses increased to 55.8% in the nine months ended September 30, 2002, from 53.6% in the same period in 2001.

*Restructuring Charges.* There were no restructuring charges in the nine months ended September 30, 2002. Restructuring charges incurred by us in the nine months ended September 30, 2001 related to the January 2001 and July 2001 restructurings which amounted to \$362,000. These charges were entirely related to employee termination benefits. Employees were terminated from substantially all departments in the organization.

### **Year Ended December 31, 2001, Compared to Year Ended December 31, 2000**

*Total Revenue.* Total revenue, which includes license revenue, billing ASP and professional services, increased \$1.1 million, or 8.2%, to \$15.1 million in the year ended December 31, 2001, from \$13.9 million for the same period in 2000. The increase in 2001 revenues is primarily attributable to an increase in

billing ASP revenue associated with one customer. The increase in billing ASP revenue of 30.9% offset a 21.2% decrease in professional services during 2001.

*License Fees.* Abiliti's license fees are derived from licensing its software products. License fees decreased \$105,000, or 8.0%, in the year ended December 31, 2001, to \$1.2 million, compared to \$1.3 million in 2000. License fees constituted 8.0% of total revenue in the year ended December 31, 2001, compared to 9.4% in the same period in 2000.

*Billing ASP.* Billing ASP revenue increased \$2.3 million, or 30.9%, in the year ended December 31, 2001, to \$9.9 million compared to \$7.5 million for the same period in 2000. This increase was due to the higher revenue from a significant customer. Billing ASP revenue constituted 65.4% of total revenue in the year ended December 31, 2001, compared to 54.1% in the same period in 2000.

*Professional Services.* Professional services decreased \$1.1 million, or 21.2%, in the year ended December 31, 2001, to \$4.0 million, compared to \$5.1 million in the same period in 2001. The decrease was due to less ongoing product implementations and customer requested enhancements. Professional services constituted 26.6% of total revenue in the year ended December 31, 2001, compared to 36.5% for the same period in 2000.

*Total Cost of Revenue.* Total cost of revenue decreased \$2.0 million, or 29.2%, to \$4.8 million in the year ended December 31, 2001, from \$6.8 million in the same period in 2000. Total cost of revenue includes cost of license fees, billing ASP and professional services. These components include the cost of direct labor, benefits, overhead and materials associated with the fulfillment of the license products, processing of billing ASP activities, and customer enhancement requests. These costs decreased due to Abiliti's cost reduction measures taken in the 2001 Restructurings. The cost reductions included a decrease in personnel and other associated costs. Overall, total cost of revenue as a percentage of total revenue decreased to 31.8% in the year ended December 31, 2001, compared to 48.7% in the same period in 2000.

*Sales and Marketing.* Sales and marketing expenses decreased \$677,000 or 29.8%, to \$1.6 million in the year ended December 31, 2001, from \$2.3 million for the same period in 2000. These costs decreased as a result of a decrease in Abiliti's trade show presence as well as the cost reduction measures taken with the 2001 Restructurings. As a percentage of revenue, sales and marketing expenses decreased to 10.6% in the year ended December 31, 2001, from 16.3% in 2000.

*Research and Development.* Abiliti's research and development expenses decreased \$4.4 million, or 58.3%, to \$3.1 million in the year ended December 31, 2001, from \$7.5 million for the same period in 2000. The overall decrease was primarily due to the termination of subcontractor agreements and the cost reductions associated with the 2001 Restructurings. The cost reductions included a decrease in research and development personnel and other associated costs. As a percentage of revenue, research and development expenses decreased to 20.8% in the year ended December 31, 2001 compared to 54.1% in 2000.

*General and Administrative.* Abiliti's general and administrative expenses decreased \$1.0 million, or 12.3%, to \$7.5 million in the year ended December 31, 2001, from \$8.5 million in the same period in 2000. The decrease was attributed to the reduction in administrative personnel and administrative costs associated with the 2001 Restructurings. In addition, an office lease for approximately 10,000 square feet was not renewed and there was a reduction in capital expenditures related depreciation and amortization expense. As a percentage of revenue, general and administrative expenses decreased to 49.7% in the year ended December 31, 2002, from 61.3% in 2000.

*Restructuring Charges.* Restructuring charges were \$362,000 in the year ended December 31, 2001. There were no restructuring charges during the same period in 2000. Restructuring charges incurred in the year ended December 31, 2001 related to the 2001 Restructurings. These charges were entirely related to employee termination benefits. The employee terminations included employees from substantially all of Abiliti's employee groups. All restructuring obligations related to the 2001 Restructurings were settled in 2001.

## Liquidity and Capital Resources

Net cash used in Ability's operating activities was \$150,000 for the nine months ended September 30, 2002, compared to \$1.3 million for the nine months ended September 30, 2001. Net cash used in operating activities was \$2.2 million for the year ended December 31, 2001, compared to \$8.8 million for the year ended December 31, 2000. The principal use of cash for all periods was to fund our losses from operations.

Net cash used in financing activities was \$471,000 for the nine months ended September 30, 2002, compared to the net cash provided by financing activities of \$3.8 million for the nine months ended September 30, 2001. Cash provided by financing activities during the nine month period ended September 30, 2001 reflects the net proceeds received from the January 2001 private placement of \$4.5 million. In 2002, cash was used for capital lease payments related to leased computer equipment. Net cash provided by financing activities was \$3.7 million for the year ended December 31, 2001, compared to \$7.0 million for the year ended December 31, 2000. In 2001, the cash provided was primarily related to the net proceeds received from the January 2001 private placement of \$4.5 million. Cash provided by financing activities in 2000 primarily represents the net proceeds received from the March 2002 private placement of \$7.5 million.

Net cash used in investing activities was \$49,000 for the nine months ended September 30, 2002, compared to \$335,000 for the nine months ended September 30, 2001. Net cash used in investing activities was \$330,000 for the year ended December 31, 2001, compared to \$393,000 for the year ended December 31, 2000. The cash used in all periods was related to capital expenditures.

Ability continued to experience operating losses during the nine months ended September 30, 2002, and had an accumulated operating deficit of \$40.1 million at September 30, 2002. Cash and cash equivalents at September 30, 2002 was \$976,000.

During the years ended December 31, 2001, 2000 and 1999, the Company incurred net losses of approximately \$7.1 million, \$14.8 million and \$15.5 million, and negative cash flows from operations of approximately \$2.2 million, \$8.8 million and \$15.4 million, respectively. In addition, during the nine month period ended September 30, 2002 the Company incurred a net loss of approximately \$2.0 million and negative cash flow of \$669,000. Such losses were generated from the development of the Company's software products, related marketing and distribution activities and building of the Company's administrative infrastructure. The Company's capital needs during this period were funded through the sale of equity totaling approximately \$29 million and the incurrence of debt from its principal shareholders of \$12 million.

While the Company has continued to reduce its negative cash flow from operations, its debt matures in January 2003. Management intends to pursue opportunities to grow revenues through further enhancement to its software products and greater market penetration, continue to reduce operating and administrative costs and to sell substantially all of the Company's assets per the terms of an asset purchase agreement entered into on October 7, 2002 with Daleen. There can be no assurance that such efforts will be successful or that the asset sale will be completed. These factors raise substantial doubt as to the Company's ability to continue as a going concern. The Company's financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligations be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted to its present value each period while the cost is depreciated over its useful life. SFAS

No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. Abiliti has not yet determined the effects that SFAS No. 143 will have on its financial position, results of operations or cash flows but it does not anticipate any material adverse impact. Based on a preliminary review of the provisions of SFAS No. 143, Abiliti believes that it will not have a significant impact on its financial statements.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which replaces SFAS No. 121, Accounting for the Impairment of Long Lived Assets and Long-Lived Assets to be Disposed Of. SFAS No. 144 provides updated guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets, expands the scope of a discontinued operation to include a component of an entity and eliminates the current exemption to consolidation when control over a subsidiary is likely to be temporary. Based on a preliminary review of the provisions of SFAS No. 144, Abiliti believes it will not have a significant impact on its financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS 146 requires that a liability for a cost that is associated with an exit or disposal activity be recognized when the liability is incurred. It nullifies the guidance of the Emerging Issues Task Force ( EITF ) in EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). Under EITF Issue No. 94-3, an entity recognized a liability for an exit cost on the date that the entity committed itself to an exit plan. In SFAS 146, the FASB acknowledges that an entity's commitment to a plan does not, by itself, create a present obligation to other parties that meets the definition of a liability. SFAS No. 146 will be effective for exit or disposal activities that are initiated after December 31, 2002. SFAS No. 146 provides updated guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets, expands the scope of a discontinued operation to include a component of an entity and eliminates the current exemption to consolidation when control over a subsidiary is likely to be temporary. Based on a preliminary review of the provisions of SFAS No. 146, Abiliti believes it will not have a significant impact on its financial statements.

In October 2002, the Emerging Issues Task Force, or EITF, issued tentative conclusions regarding EITF Issue 0-21. Accounting for Revenue Arrangements with Multiple Deliverables ( EITF 00-21 ). EITF 00-21 relates to accounting for multiple-deliverable arrangements and specifies circumstances under which a revenue arrangement should be separated into different revenue-generating deliverables or units of accounting and how the revenue arrangement should be allocated to the different deliverables or units of accounting. EITF 00-21 is tentatively scheduled to be effective for revenue arrangements entered into in fiscal years beginning after December 15, 2002. Abiliti is closely monitoring developments in this issue and will complete its assessment of any potential impact on its results of operations upon the issuance of its December 31, 2002 financial statements.

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
OF DALEEN TECHNOLOGIES, INC.**

The following unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2001 and for the nine months ended September 30, 2002 give effect to (1) the asset purchase of the assets of Abiliti and (2) the issuance of shares of our common stock, series F preferred stock and Warrants in a private placement for aggregate cash proceeds of \$5.015 million, as if these transactions had all occurred on January 1, 2001 and January 1, 2002, respectively. The following unaudited pro forma condensed consolidated balance sheet as of September 30, 2002, gives effect to these transactions as if they had occurred on September 30, 2002.

The pro forma adjustments are based upon available information and certain assumptions that our management believes are reasonable under the circumstances. The pro forma financial information is not necessarily indicative of operating results or financial position that would have been achieved had the transactions been consummated on the dates indicated and should not be construed as representative of future operating results or financial position. The pro forma financial information should be read in conjunction with our annual report on Form 10-K for the fiscal year ended December 31, 2001 and our quarterly report on Form 10-Q for the quarter ended September 30, 2002, copies of which accompany this proxy statement, as well as, Abiliti's audited financial statement for the three years ended December 31, 2001, management's discussion and analysis of financial condition and results of operations and selected financial data of Abiliti included elsewhere in this proxy statement.

The pro forma adjustments were applied to the respective historical financial statements to reflect and account for the asset purchase using the purchase method of accounting. Accordingly, the total purchase cost will be allocated to the tangible and intangible assets acquired and liabilities assumed of Abiliti based on their estimated fair values. The estimated fair values included herein are as of October 7, 2002, the signing date of the asset purchase agreement and investment agreement, and are not indicative of the final allocation of the purchase consideration. Such estimated fair values of the assets and liabilities have been combined with the recorded assets and liabilities of Daleen in the unaudited pro forma condensed consolidated balance sheet. The allocation of the aggregate purchase price is preliminary. The actual purchase accounting to reflect the fair values of the assets to be acquired and liabilities to be assumed of Abiliti will be based upon the fair value of net assets assumed at the closing date of the transactions. Accordingly, the pro forma financial information presented herein is subject to change pending the final purchase price determination and allocations. Management does not expect that differences between the preliminary and final purchase price allocations will have a material impact on the pro forma financial position or results of operations. However, there can be no assurances until the transactions are consummated.

## DALEEN TECHNOLOGIES, INC. AND SUBSIDIARIES

## UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

As of September 30, 2002

	Daleen	Abiliti	Pro Forma Adjustments to reflect Asset Purchase	Pro Forma Adjustments to reflect Private Placement	Adjusted Pro Forma
			(In thousands)		
			<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,984	\$ 976	\$ (976)C	\$3,928 A	\$ 9,912
Restricted cash	30				30
Accounts receivable, net	1,259	1,409	44 C,D		2,712
Unbilled revenue	37		C,D		37
Other current assets	690	333	552 C,D		1,575
	<u>8,000</u>	<u>2,718</u>	<u>(380)</u>	<u>3,928</u>	<u>14,266</u>
Total current assets	8,000	2,718	(380)	3,928	14,266
Notes receivable, net	212				212
Property and equipment, net	1,534	997	C,D		2,531
Goodwill			4,202 D		4,202
Other assets	1,355				1,355
	<u>\$ 11,101</u>	<u>\$ 3,715</u>	<u>\$ 3,822</u>	<u>\$3,928</u>	<u>\$ 22,566</u>
			<b>LIABILITIES AND STOCKHOLDERS EQUITY(DEFICIT)</b>		
Accounts payable	\$ 440	\$ 147	\$ 37 C,D	\$	\$ 624
Accrued payroll and other accrued expenses	1,650	4,534	(1,195)C,D,H		4,989
Notes payable		12,000	(12,000)C		
Billings in excess of costs	542				542
Deferred revenue	917	53	42 C,D		1,012
Other current liabilities	16	224	C,D		240
	<u>3,565</u>	<u>16,958</u>	<u>(13,116)</u>	<u></u>	<u>7,407</u>
Total current liabilities	3,565	16,958	(13,116)		7,407
Other long term liability		52	C,D		52
	<u>3,565</u>	<u>17,010</u>	<u>(13,116)</u>	<u></u>	<u>7,459</u>
Total liabilities	3,565	17,010	(13,116)		7,459
Stockholders' equity:					
Series F Convertible Preferred Stock	23,704		2,642 B	2,069 A	28,415
Common Stock	239		115 B	110 A	464
Additional paid-in capital (Daleen)	191,857		2,266 B	1,749 A	195,872
Additional paid-in capital (Abiliti)		25,355	(25,355)C		
Stockholders' notes receivable	(73)				(73)
Deferred stock compensation		1,451	(1,451)C		
Accumulated deficit (Daleen)	(208,054)		(1,380)D,H		(209,434)
Accumulated deficit (Abiliti)		(40,101)	40,101 C		
Treasury stock	(137)				(137)
	<u>7,536</u>	<u>(13,295)</u>	<u>16,938</u>	<u>3,928</u>	<u>15,107</u>
Total stockholders' equity	7,536	(13,295)	16,938	3,928	15,107



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Total liabilities and stockholders equity	<u>          </u> \$ 11,101 <u>          </u>	<u>          </u> \$ 3,715 <u>          </u>	<u>          </u> \$ 3,822 <u>          </u>	<u>          </u> \$3,928 <u>          </u>	<u>          </u> \$ 22,566 <u>          </u>
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## DALEEN TECHNOLOGIES, INC. AND SUBSIDIARIES

## UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the Nine Months Ended September 30, 2002

	Daleen	Abiliti	Pro forma adjustments	Adjusted Pro forma
(In thousands, except per share data)				
Revenue:				
License fees	\$ 1,361	\$ 293	\$	\$ 1,654
Professional services and other	3,831	8,767		12,598
Total revenue	<u>5,192</u>	<u>9,060</u>		<u>14,252</u>
Cost of revenue:				
License fees	171	50		221
Professional services and other	1,980	1,402		3,382
Total cost of revenue	<u>2,151</u>	<u>1,452</u>		<u>3,603</u>
Gross margin	<u>3,041</u>	<u>7,608</u>		<u>10,649</u>
Operating expenses:				
Sales and marketing	3,028	758		3,786
Research and development	3,098	2,631		5,729
General and administrative	3,681	5,058		8,739
Amortization of goodwill and other intangibles				
Impairment of long lived assets				
Restructuring charges	745			745
Total operating expenses	<u>10,552</u>	<u>8,447</u>		<u>18,999</u>
Operating loss	(7,511)	(839)		(8,350)
Non-operating income (expense):				
Interest income (expense) and nonoperating income, net	321	(1,206)	1,189 E	304
Gain on sale of subsidiary	391			391
Total other income, net	<u>712</u>	<u>(1,206)</u>	<u>1,189</u>	<u>695</u>
Net loss	<u>\$ (6,799)</u>	<u>\$ (2,045)</u>	<u>\$ 1,189</u>	<u>\$ (7,655)</u>
Net loss per share basic and diluted				<u>\$ (0.17)</u>
Weighted average shares outstanding basic and diluted			F	<u>45,533</u>

## DALEEN TECHNOLOGIES, INC.

## UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2001

	Daleen	Abiliti	Pro forma adjustments	Adjusted Pro forma
	(In thousands, except per share data)			
Revenue:				
License fees	\$ 3,565	\$ 1,200	\$	\$ 4,765
Professional services and other	8,867	13,869		22,736
Total revenue	<u>12,432</u>	<u>15,069</u>		<u>27,501</u>
Cost of revenue:				
License fees	1,646			1,646
Professional services and other	7,302	4,798		12,100
Total cost of revenue	<u>8,948</u>	<u>4,798</u>		<u>13,746</u>
Gross Margin	3,484	10,271		13,755
Operating expenses:				
Sales and marketing	10,895	1,595		12,490
Research and development	12,502	3,142		15,644
General and administrative	13,820	7,497		21,317
Amortization of goodwill and other intangibles	12,014			12,014
Impairment of long-lived assets	34,604			34,604
Restructuring charges	11,763	361		12,124
Total operating expenses	<u>95,598</u>	<u>12,595</u>		<u>108,193</u>
Operating loss	<u>(92,114)</u>	<u>(2,324)</u>		<u>(94,438)</u>
Non-operating income (expense):				
Interest income (expense), net	875	(4,771)	4,686 E	790
Other income	250			250
Total nonoperating income	<u>1,125</u>	<u>(4,771)</u>	<u>4,686</u>	<u>1,040</u>
Net loss	(90,989)	(7,095)	4,686	(93,398)
Preferred stock dividends arising from beneficial conversion features	(28,512)			(28,512)
Net loss applicable to common stockholders	<u>\$ (119,501)</u>	<u>\$ (7,095)</u>	<u>\$ 4,686</u>	<u>\$ (121,910)</u>
Net loss applicable to common stockholders per share basic and diluted				<u>\$ (2.75)</u>
Weighted average shares basic and diluted			F	<u>44,320</u>



## DALEEN TECHNOLOGIES, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED

## FINANCIAL STATEMENTS

As of September 30, 2002, for the Nine Month Period then Ended,

And for the Year Ended December 31, 2001

(All dollar amounts in thousands unless otherwise indicated)

- A. In connection with the asset purchase, the companies have received commitments for additional equity funding from the Behrman Funds, referred to as the private placement. These commitments total \$5.015 million for the issuance of capital stock and Warrants to purchase our common stock, and it is contingent upon closing the asset purchase transaction. The asset purchase is also contingent upon the closing of the private placement. The private placement transaction is presented as follows in the accompanying unaudited pro forma condensed consolidated balance sheet at September 30, 2002.

Proceeds from the private placement	\$ 5,015
Less: estimated offering expenses	(1,087)
	<hr/>
Net Proceeds	\$ 3,928
	<hr/>

- B. Represents increase in stockholders' equity related to the asset purchase as follows:

Paid in capital from issuance of Daleen common stock and common stock warrants	\$2,266
Issuance of series F preferred stock	2,642
Par value adjustment (11,492 shares at \$0.01 per share)	115
	<hr/>
Total	\$5,023
	<hr/>

The value of the common stock was determined by the closing price on The Nasdaq SmallCap Market on October 7, 2002 which was \$.15 per share. The value of the Asset Purchase Warrants was determined using the Black-Scholes model with the following assumptions:

Risk free interest rate	2.07%
Volatility percentage	169.13%
Exercise price	\$ .906
Term	3.66years

The value of the series F preferred stock was determined using the same value paid in the private placement, which constitutes an arms-length transaction and a good indication of fair value of the consideration.

The value of the consideration is preliminary and is not indicative of the final values. The final value of the consideration will be determined at the closing date of the transaction.

- C. Represents the elimination of historical equity of Abiliti and the elimination of net assets as of September 30, 2002. The historical financial statements of the company after the transactions will be those of Daleen. The September 30, 2002 balance sheet is eliminated as follows:

Cash	\$ (976)
Accounts receivable	(1,409)
Other current assets	(333)

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Property and equipment, net	(997)
Accounts payable	147
Accrued payroll and other accrued expenses	4,534
Note payable	12,000
Deferred revenue	53
Other current liabilities	224
Other long term liability	52
Additional paid-in capital	25,355
Deferred stock compensation	1,451
Accumulated deficit	\$(40,101)

## DALEEN TECHNOLOGIES, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED

## FINANCIAL STATEMENTS (Continued)

- D. The net assets of Abiliti assumed by us are recorded as of October 7, 2002. The final purchase price will be at the closing date of the transaction. The net assets of Abiliti assumed by us will be recorded at the closing date. This pro forma adjustment represents the preliminary purchase price allocation in our asset purchase of Abiliti as follows:

Fair value of consideration (See Note B)	\$5,023
Estimated Daleen transaction costs	1,087
	<u>          </u>
	\$6,110
	<u>          </u>
Purchase Price Allocation	
Fair value of net assets of Abiliti (see below for detail)	\$1,804
In process research and development	104
Goodwill	4,202
	<u>          </u>
	\$6,110
	<u>          </u>

Fair value of net assets of Abiliti are as of October 7, 2002, and only include those assets and liabilities that are being assumed by us. The following are the fair values of the net assets of Abiliti as of October 7, 2002 that are being assumed by us:

Accounts receivable	\$1,453
Other current assets	333
Property and equipment, net	997
Accounts payable	(184)
Accrued payroll and other accrued expenses	(425)
Deferred revenue	(95)
Other current liabilities	(224)
Other long term liability	(51)
	<u>          </u>
	\$1,804
	<u>          </u>

In process research and development costs were immediately expensed upon purchase as is reflected in the unaudited pro forma condensed consolidated statement of operations since they are considered to be a one-time non recurring charge. The goodwill component of the asset purchase will be evaluated for impairment at least annually in accordance with the provisions of Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets .

In addition to the fair value of the net assets transaction costs to be incurred by us are included in the total estimated purchase consideration as described above. Transaction costs to be incurred by Abiliti are being expensed as incurred. These costs, estimated to be \$800, have not been reflected as recurring costs in the accompanying unaudited pro forma condensed consolidated statements of operations. Total estimated transaction costs of \$2,174 have been reflected in accrued payroll and other accrued expenses and other current assets in the pro forma balance sheet as of September 30, 2002. \$1,087 is related to the asset purchase transaction and \$1,087 is related to the private placement. \$1,638 is included in the pro forma adjustment since there is already \$537 included in the September 30, 2002 balance sheet of Daleen.

The allocation of the aggregate purchase price is preliminary. The actual purchase accounting to reflect the fair values of the assets to be acquired and liabilities to be assumed will be based upon the closing date of the asset purchase transaction and the closing price of our

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common stock upon closing the transactions. Accordingly, the pro forma financial information presented herein is subject to change pending the final purchase price allocations. Management does not expect that differences between the preliminary and final purchase price allocations will have a material unfavorable impact on the pro forma financial position or results of operations.



**DALEEN TECHNOLOGIES, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS (Continued)**

- E. Represents decrease in interest expense from beginning of period since we will not assume Abiliti's outstanding notes payable.
- F. Represents the weighted average actual shares of our common stock outstanding during the period, in addition to the 11,492,136 shares of our common stock to be issued to Abiliti's stockholders in connection with the asset purchase and 10,992,136 shares of our common stock to be issued to the Behrman Funds in the private placement, assuming all such shares were outstanding during the periods presented. All other potential common stock equivalents are anti-dilutive and have thus been excluded from the calculation of diluted earnings per share for the periods presented.
- G. Certain historical operating and other expense items of both companies have been reclassified for conformity purposes in these unaudited pro forma condensed consolidated statements of operations.
- H. Upon closing of the transactions, certain employees of us and Abiliti will receive severance in connection with their employment agreements. Accordingly, this adjustment reflects recording this severance accrual as if the transactions occurred at the beginning of the period. The severance amount includes base salary plus benefits. The severance amount was immediately expensed upon purchase, as is reflected in the unaudited pro forma condensed consolidated statement of operations, since it is considered to be a one-time non-recurring charge. The severance charge is \$1,276 and is included in accumulated deficit and accrued payroll and other accrued expenses in the condensed consolidated balance sheet as of September 30, 2002.

**COMPARATIVE PER SHARE DATA AND DIVIDEND INFORMATION**

The following table sets forth the historical per share information of us and Abiliti and combined per share data on an unaudited, pro forma basis after giving effect to the asset purchase and private placement transactions between us, Daleen Solutions, Abiliti and the Behrman Funds. You should read this information in conjunction with the selected historical financial data, audited financial statements for the years ended December 31, 2000, and 2001 and the unaudited interim financial statements of Abiliti, which are included in this proxy statement with respect to Abiliti. Our audited financial statements for the years ended December 31, 2000 and 2001, and our unaudited interim financial statements for the nine months ended September 30, 2002 are included in our Annual Report on Form 10-K for the year ended December 31, 2001 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 which accompany this proxy statement. You should also read this information in conjunction with the unaudited pro forma condensed consolidated financial statements, including the notes thereto, which are included elsewhere in this proxy statement. The pro forma information is presented for illustrative purposes only. You should not rely on the pro forma financial information as an indication of the combined financial position or results of operations of future periods or the results that actually would have been realized had the entities been a single entity during the periods presented.

The unaudited pro forma per share information combines the financial information of us with the financial information of Abiliti for the nine month period ended September 30, 2002 and the year ended December 31, 2001, assuming the asset purchase and the private placement had occurred on the first day of the respective periods.

Historical book value per common share for both companies is computed by dividing stockholders' equity (deficit) attributable to common stockholders by the number of shares of common stock outstanding at September 30, 2002. Historical book value per preferred share for both companies is computed by dividing the recorded balance attributable to preferred stock by the number of shares of preferred stock outstanding at the end of the period. Our unaudited pro forma combined per share data is derived from the unaudited pro forma condensed consolidated financial statements that are included elsewhere in this proxy statement.

	<b>Nine Month Period Ended September 30, 2002</b>	<b>Year Ended December 31, 2001</b>
	<b>(Unaudited)</b>	
Daleen Historical Per Share Data:		
Basic and diluted net loss per common share	\$ (0.29)	\$(5.47)
Book value (deficiency) per common share	0.62	n/a
Book value (deficiency) per preferred share	761.74	n/a
Abiliti Historical Per Share Data:		
Basic and diluted net loss per common share	(0.33)	(1.13)
Book value (deficiency) per common share	(6.64)	n/a
Book value (deficiency) per preferred share	(2.85)	n/a
Daleen Pro Forma Combined:		
Basic and diluted net loss per common share	(0.13)	(2.75)
Book value per share	(0.33)	n/a

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Our common stock is listed on The Nasdaq SmallCap Market, under the symbol DALN. For the periods indicated, the following table sets forth the high and low per share closing prices for our common stock as reported by The Nasdaq Stock Market through the close of business on November 15, 2002.

### High and Low Stock Prices

	<u>High</u>	<u>Low</u>
<b>Fiscal 2001</b>		
First Quarter (ended March 31, 2001)	\$4.19	\$0.97
Second Quarter (ended June 30, 2001)	1.50	0.74
Third Quarter (ended September 30, 2001)	1.03	0.38
Fourth Quarter (ended December 31, 2001)	0.57	0.30
<b>Fiscal 2002</b>		
First Quarter (ended March 31, 2002)	\$0.45	\$0.17
Second Quarter (ended June 30, 2002)	0.24	0.13
Third Quarter (ended September 30, 2002)	0.17	0.11
Fourth Quarter (through November 15, 2002)	0.19	0.08

The closing sale price for our common stock on The Nasdaq SmallCap Market on October 7, 2002, the last trading day prior to the public announcement of the asset purchase and private placement, was \$0.15 per share, and on November 15, 2002, was \$0.14. We have never declared or paid any cash dividends on our capital stock. We intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate declaring or paying any cash dividends in the foreseeable future.

No active trading or public market exists for Abiliti common stock. The shares of Abiliti common stock are not listed on any exchange and are not traded in the over-the-counter market. As of November 12, 2002, the record date, there were 14 stockholders of record who held shares of Abiliti common stock. Abiliti has never paid any cash dividends on its common stock, and anticipates that for the foreseeable future it will continue to retain any earnings for use in the operation of its business.

### OTHER MATTERS

#### Annual Report on Form 10-K and Quarterly Report on Form 10-Q

Our annual report on Form 10-K for the fiscal year ended December 31, 2001, and our quarterly report on Form 10-Q for the quarter ended September 30, 2002, as filed with the SEC, except exhibits thereto, accompanies this proxy statement. Our annual and quarterly reports, and the information contained therein, are incorporated herein by reference. These documents contain important business and financial information about Daleen, including the audited financial statements contained in our annual report. We will provide copies of the exhibits, should they be requested by eligible stockholders, and we

may impose a reasonable fee for providing such exhibits. Request for additional copies of our annual report on Form 10-K or our quarterly report on Form 10-Q should be mailed to:

Daleen Technologies, Inc.  
902 Clint Moore Road, Suite 230  
Boca Raton, Florida 33487  
Attention: Investor Relations Department

**Proposals Intended to be Presented at the Next Annual Meeting**

Rules of the SEC and our bylaws require that any proposal by a stockholder for consideration at the 2003 Annual Meeting of Stockholders must be received by us no later than December 30, 2002, if any such proposal is to be eligible for inclusion in our proxy materials for, and to be presented for consideration at, our 2003 Annual Meeting. Under such rules, we are not required to include stockholder proposals in our proxy materials unless certain other conditions specified in such rules are met.

**Other Matters**

Our board of directors knows of no other matters to be brought before the special meeting. However, if any other matters arise, your signed proxy card gives authority to James Daleen, Jeanne Prayther and Dawn Landry to vote on those matters at their discretion. If you decide to attend the special meeting, you may revoke your proxy at any time before it is voted.

**Expenses of Solicitation**

We will bear the cost of solicitation of proxies. In an effort to have as large a representation at the meeting as possible, special solicitation of proxies may, in certain instances, be made personally or by telephone, telegraph or mail by one or more of our employees. We also will reimburse brokers, banks, nominees and other fiduciaries for postage and reasonable clerical expenses of forwarding the proxy material to their principals who are beneficial owners of our series F preferred stock and our common stock.

**INCORPORATION OF INFORMATION BY REFERENCE**

This proxy statement is accompanied by our annual report on Form 10-K for the year ended December 31, 2001 and quarterly report on Form 10-Q for the period ended September 30, 2002. The annual report on Form 10-K and quarterly report on Form 10-Q are incorporated by reference into this proxy statement and considered a part of this document.

By Order of the Board of Directors,

James Daleen  
*Chairman, President and Chief Executive Officer*

Boca Raton, Florida  
November 20, 2002

**ABILITI SOLUTIONS, INC. AND SUBSIDIARIES**

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**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors and Shareholders of

Abiliti Solutions, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, shareholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Abiliti Solutions, Inc. (the Company) at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has experienced significant operating losses, negative cash flow from operations and has \$12 million in debt scheduled to mature in January 2003 which raises substantial doubt about the Company's ability to continue as a going concern. While the Company intends to renegotiate the terms of its debt facilities and/or seek additional capital, there can be no assurance that such negotiations will be successful or that additional capital will be available on terms acceptable to the Company. Management's plans in regard to this matter are further described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

May 30, 2002, except for

Note 13 as to which the  
date is June 7, 2002

FIN-2

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## ABILITI SOLUTIONS, INC.

## BALANCE SHEETS

December 31, 2001 and 2000

	2001	2000
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,644,984	\$ 522,730
Accounts receivable (net of allowance for doubtful accounts of \$146,618 and \$561,234)	1,997,522	2,550,478
Prepaid expenses and other current assets	331,194	364,140
	<hr/>	<hr/>
Total current assets	3,973,700	3,437,348
Property and equipment, net	1,984,952	2,904,511
	<hr/>	<hr/>
	\$ 5,958,652	\$ 6,341,859
	<hr/>	<hr/>
<b>LIABILITIES AND SHAREHOLDERS DEFICIT</b>		
Current liabilities:		
Current portion of obligations under capital lease	\$ 556,775	\$ 628,973
Accounts payable	385,568	815,996
Accrued expenses	819,282	1,433,536
Accrued interest	2,309,654	731,771
Accrued payroll and benefits	638,679	1,510,116
Deferred revenue	309,179	183,733
	<hr/>	<hr/>
Total current liabilities	5,019,137	5,304,125
Notes payable	12,000,000	6,722,435
Obligations under capital lease	189,625	621,114
	<hr/>	<hr/>
Total liabilities	17,208,762	12,647,674
	<hr/>	<hr/>
Commitments and contingencies (Notes 1, 4, 7 and 13)		
Shareholders' Deficit:		
Series B preferred stock, aggregate liquidation value of \$4,500,000, non-redeemable	66	
Series A preferred stock, aggregate liquidation value of \$29,400,006, non-redeemable	140	140
Common stock, par value \$0.00005 per share		
Authorized: 590,000,000 shares, issued and outstanding 6,275,256 shares	314	314
Additional paid-in capital	26,682,685	24,532,288
Contributed capital-warrants outstanding	122,496	122,496
Accumulated deficit	(38,055,811)	(30,961,053)
	<hr/>	<hr/>
Total shareholders' deficit	(11,250,110)	(6,305,815)
	<hr/>	<hr/>
	\$ 5,958,652	\$ 6,341,859
	<hr/>	<hr/>

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





## ABILITI SOLUTIONS, INC.

## STATEMENTS OF OPERATIONS

Years Ended December 31, 2001, 2000 and 1999

	2001	2000	1999
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Revenue:			
Service revenue	\$ 4,009,901	\$ 5,091,599	\$ 5,449,356
License fees	1,200,000	1,305,000	1,530,000
Billing ASP	9,859,546	7,531,702	4,930,873
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total revenue	15,069,447	13,928,301	11,910,229
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Expenses:			
Cost of services	4,797,683	6,780,207	6,078,097
Sales and marketing	1,595,029	2,271,866	2,340,338
Research and development	3,141,814	7,529,289	11,517,397
Restructuring costs	361,561		
General and administrative	7,496,951	8,544,006	7,947,444
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total expenses	17,393,038	25,125,368	27,883,276
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Loss from operations	(2,323,591)	(11,197,067)	(15,973,047)
Interest income	76,347	204,197	560,457
Interest expense	(4,847,514)	(3,836,640)	(88,716)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Loss before income taxes	(7,094,758)	(14,829,510)	(15,501,306)
Income taxes			
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net loss	\$ (7,094,758)	\$ (14,829,510)	\$ (15,501,306)
	<u>                    </u>	<u>                    </u>	<u>                    </u>

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

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## ABILITI SOLUTIONS, INC.

## STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT)

Years Ended December 31, 2001, 2000 and 1999

	Series A Preferred Stock Par Value \$.00005 Authorized 2,792,819 Shares		Series B Preferred Stock Par Value \$.00005 Authorized 3,500,000 Shares		Common Stock Par Value \$.00005 Authorized 590,000,000 Shares		Additional Paid-in Capital	Contributed Capital-Warrants Outstanding	Accumulated Deficit	Deferred Compensation	Total Shareholders Equity (Deficit)
	Number of Issued and Outstanding Shares	Amount	Number of Issued and Outstanding Shares	Amount	Number of Issued and Outstanding Shares	Amount					
Balance, December 31, 1998	2,555,334	\$ 128		\$	4,443,082	\$ 222	\$ 18,540,499	\$	\$ (630,237)	\$ (336,319)	\$ 17,574,293
Issuance of common stock					17,512	1	14,811				14,812
Issuance of preferred stock	237,485	12					2,346,492				2,346,504
Deferred compensation expense										327,335	327,335
Net loss									(15,501,306)		(15,501,306)
Balance, December 31, 1999	2,792,819	140			4,460,594	223	20,901,802		(16,131,543)	(8,984)	4,761,638
Issuance of warrants								3,732,310			3,732,310
Exercise of warrants, stock options					1,814,662	91	3,630,486	(3,609,814)			20,763
Deferred compensation expense										8,984	8,984
Net loss									(14,829,510)		(14,829,510)
Balance, December 31, 2000	2,792,819	140			6,275,256	314	24,532,288	122,496	(30,961,053)		(6,305,815)
Issuance of preferred stock			1,328,383	66			2,150,397				2,150,463
Net loss									(7,094,758)		(7,094,758)
Balance, December 31, 2001	2,792,819	\$ 140	1,328,383	\$ 66	6,275,256	\$ 314	\$ 26,682,685	\$ 122,496	\$ (38,055,811)	\$	\$ (11,250,110)

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

## ABILITI SOLUTIONS, INC.

## STATEMENTS OF CASH FLOWS

Years Ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Cash flows used in operating activities:			
Net loss	\$(7,094,758)	\$(14,829,510)	\$(15,501,306)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,351,950	1,353,571	967,858
Accretion of debt discount	3,108,028	2,954,745	
Deferred compensation expense for issuance of stock options		8,984	327,335
Deferred income taxes			201,404
Loss on write-off of fixed assets	50,834	69,386	
Bad debt expense	100,000	62,543	1,574,274
Changes in assets and liabilities:			
Accounts receivable	452,956	493,327	(1,702,983)
Prepaid expenses and other assets	32,946	206,246	(350,506)
Accounts payable	(430,428)	(580,887)	700,354
Income taxes payable/refundable		521,847	(521,847)
Accrued expenses and interest	963,629	137,854	660,891
Accrued payroll and benefits	(871,437)	786,447	272,951
Deferred revenue	125,446	(21,267)	(2,032,500)
Net cash used in operating activities	(2,210,834)	(8,836,714)	(15,404,075)
Cash flows used in investing activities:			
Purchase of property and equipment	(330,152)	(393,272)	(1,768,240)
Other			(8,247)
Net cash used in investing activities	(330,152)	(393,272)	(1,776,487)
Cash flows provided by financing activities:			
Issuance of common stock		20,763	14,812
Issuance of preferred stock	2,240,066		2,500,004
Issuance of common stock warrants		3,737,003	
Preferred stock issuance costs	(89,603)		(153,500)
Loan to employee			(250,000)
Payments under capital lease obligations	(656,760)	(531,974)	(213,339)
Proceeds from shareholder notes	2,259,934	3,762,997	
Issuance costs associated with financing	(90,397)		
Net cash provided by financing activities	3,663,240	6,988,789	1,897,977
Net increase (decrease) in cash and cash equivalents	1,122,254	(2,241,197)	(15,282,585)
Cash and cash equivalents, beginning of year	522,730	2,763,927	18,046,512
Cash and cash equivalents, end of year	\$ 1,644,984	\$ 522,730	\$ 2,763,927
Supplemental disclosure of cash flow information:			
Equipment acquired under capital leases	\$ 153,073	\$ 387,809	\$

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Cash paid for income taxes	\$	\$	\$ 468,000
	<u>          </u>	<u>          </u>	<u>          </u>

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

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**ABILITI SOLUTIONS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2001 and 2000**

**1. Organization and Liquidity**

*General*

Abiliti Solutions, Inc. (formerly Intertech Management Group, Inc.) ( Abiliti or the Company ) is a leading provider of Windows NT-based billing and customer care software solutions for the communications industry. The Company's software, Network Strategies®, supports retail and wholesale local, long distance and data services. The Company assists a customer in analyzing requirements and then designs, develops and implements a customer care and billing solution. The Company licenses the use of its software to customers and operates its software for certain customers under a service bureau arrangement.

*Liquidity and Capital Resources*

During the years ended December 31, 2001, 2000 and 1999, the Company incurred net losses of approximately \$7.1 million, \$14.8 million and \$15.5 million, and negative cash flows from operations of approximately \$2.2 million, \$8.8 million and \$15.4 million, respectively. Such losses were generated from the development of the Company's software products, related marketing and distribution activities and building of the Company's administrative infrastructure.

The Company's capital needs during this period were funded through the sale of equity totaling approximately \$29 million and the incurrence of debt from its principal shareholders of \$12 million.

While the Company has continued to reduce its negative cash flow from operations, its debt, described above and in Note 5, matures in January 2003. Management intends to commence renegotiation discussions relative to the maturity schedule of the debt facility later in 2002, pursue opportunities to grow revenues through further enhancement to its software products and greater market penetration, continue to reduce operating and administrative costs and seek additional equity and/or debt financing. There can be no assurance that such negotiations or its various other efforts will be successful or that additional capital will be available on terms acceptable to the Company. These factors raise substantial doubt as to the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**2. Summary of Significant Accounting Policies**

Significant accounting policies utilized by the Company, are summarized below:

*Estimates*

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

*Revenue Recognition*

The Company enters into arrangements to deliver software licenses which typically also provide for services, usually billed on a time and material basis. License revenue is generally recognized using the percentage of completion method of accounting. The percentage of completion for each contract is determined based on the ratio of direct labor hours incurred under the service contract to total estimated

**ABILITI SOLUTIONS, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

direct labor hours. In situations where it is not reasonable to estimate total direct labor hours, completed contract accounting is followed.

Services revenue consists of fees for system requirements definition, system design and analysis, customization and installation services, system enhancements and maintenance. Services revenue is recognized as the services are performed, primarily on a time and materials basis. Revenue from maintenance contracts is recognized ratably over the maintenance period.

Billing Application Service Provider (ASP) revenue consists of monthly processing fees generated from the Company's service bureau operation. Billing ASP revenue is recognized as the related services are rendered and are billed monthly based on transaction volume processed or percentage of revenue billed on behalf of customers.

Deferred revenue relates primarily to license fee revenue, which has been paid by the customers prior to the recognition of revenue.

Cost of services is comprised primarily of salaries and related benefits for software development, technical and billing ASP personnel and billing ASP operating costs.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of all amounts on deposit with financial institutions and highly liquid investments purchased with maturities of three months or less. Cash equivalents for the years ended December 31, 2001, 2000 and 1999 were approximately \$4,000, \$199,000 and \$200,000, respectively.

***Accounts Receivable***

The Company provides an allowance for doubtful accounts equal to the estimated collection loss that will be incurred in collection of all receivables. The estimated loss is based on historical collection experience, coupled with a review of the current status of existing receivables. The Company generally grants credit to customers and does not require any collateral to secure its accounts receivable.

***Property and Equipment***

Property and equipment are stated at cost. Furniture and fixtures, office equipment and computer hardware are depreciated using an accelerated method over useful lives of 7, 5 and 5 years, respectively. Computer software is depreciated over 3 years using the straight line method. Leasehold improvements are amortized using the straight line method over the shorter of the term of the respective lease or the life of the respective improvement.

Expenditures for repairs, maintenance and minor renewals are charged to income as incurred. Expenditures which improve an asset or extend its estimated useful life are capitalized. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income. The carrying value of property, plant and equipment is assessed for recoverability by management based on analysis of future expected cash flows from underlying operations of the Company. Management believes there has been no impairment at December 31, 2001.

***Income Taxes***

Income taxes are accounted for in accordance with the liability method of Statement of Financial Accounting Standards No. 109 (SFAS No. 109), *Accounting for Income Taxes*. Under this method, the Company provides deferred taxes for temporary differences in the recognition of assets and liabilities for

**ABILITI SOLUTIONS, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

financial reporting and tax accounting purposes. A valuation allowance is established to the extent the expected realization of the deferred tax assets is not more likely than not.

***Software Development Costs***

Software development costs, principally the design and development of customer care and billing software, are expensed as incurred unless they qualify for capitalization, as defined by Statement of Financial Accounting Standards No. 86 (SFAS No. 86), *Accounting for the Cost of Computer Software to be Sold, Leased or Otherwise Marketed*. To date, no software development costs have been capitalized by the Company as the development costs incurred subsequent to establishing technological feasibility of the related software have not been material.

***Stock-Based Compensation Plans***

The Company has elected to follow Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*, in accounting for its employee stock options. Accordingly, the Company recognizes compensation expense for stock options issued at an exercise price less than the underlying market value of the related common stock on the date of grant. Given that the Company's common stock is not publicly traded, management considers various factors in assessing the underlying fair value of such shares, such as recent stock sales, valuations and events occurring subsequent to such sales and valuations that provide more recent indications of fair value. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123), *Accounting for Stock-Based Compensation* (see Note 9).

***Fair Value of Financial Instruments***

The carrying amounts of cash, accounts receivable and accounts payable approximate their fair values due to the short term maturity of these instruments.

***Recently Issued Accounting Standards***

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (SFAS 141), *Business Combinations*. SFAS 141 provides standards on accounting for business combinations, eliminates the pooling of interests method of accounting for business combinations and establishes specific criteria for recognition of intangible assets separately from goodwill. The Company has adopted SFAS 141 for all business combinations initiated after June 30, 2001. The adoption of SFAS 141 did not have an impact on the financial statements.

Also in July 2001, the FASB issued Statement on Financial Accounting Standards No. 142 (SFAS 142), *Goodwill and Other Intangible Assets*. SFAS 142 eliminates the amortization of goodwill and other intangible assets with indefinite useful lives and provides guidance on impairment testing for goodwill and other intangible assets. The Company expects to adopt SFAS 142 in the first quarter of fiscal 2002. Based on a preliminary review of the provisions of SFAS 142, the Company believes that it will not have a significant impact on its financial statements.

In October 2001, the FASB issued Statement on Financial Accounting Standards No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 provides guidance on the financial accounting and reporting for the impairment or disposal of long-lived assets, excluding goodwill and other intangible assets not being amortized. Adoption of this standard is required for the Company beginning in the first quarter of fiscal 2002. Based on a preliminary review of the provisions of SFAS 144, the Company believes that it will not have a significant impact on its financial statements.

## ABILITI SOLUTIONS, INC.

## NOTES TO FINANCIAL STATEMENTS (Continued)

**Reclassifications**

Certain amounts in prior year financial statements have been reclassified to conform with the current year's presentation.

**3. Restructuring Costs**

In January and July 2001, the Company implemented restructuring plans that included reductions in employee headcount. In conjunction with these plans, the Company recorded charges in the first and third quarters of 2001 in the amounts of \$159,022 and \$202,539, respectively, related to termination benefits for 67 employees. All restructuring obligations were settled in 2001.

**4. Property and Equipment**

Property and equipment consists of the following at December 31, 2001 and 2000:

	<b>2001</b>	<b>2002</b>
Furniture and fixtures	\$ 396,318	\$ 400,983
Office equipment	295,051	291,755
Computer equipment	3,976,020	3,906,645
Computer software	1,232,242	953,330
Leasehold improvements	480,831	511,183
	<hr/>	<hr/>
	6,380,462	6,063,896
Accumulated depreciation and amortization	(4,395,510)	(3,159,385)
	<hr/>	<hr/>
	\$ 1,984,952	\$ 2,904,511
	<hr/>	<hr/>

Property and equipment includes the following amounts for leases that have been capitalized:

	<b>2001</b>	<b>2000</b>
Furniture and fixtures	\$ 217,614	\$ 217,614
Office equipment	82,850	82,850
Computer equipment	1,784,099	1,631,026
	<hr/>	<hr/>
	2,084,563	1,931,490
Accumulated amortization	(1,431,933)	(801,242)
	<hr/>	<hr/>
	\$ 652,630	\$ 1,130,248
	<hr/>	<hr/>

Future minimum lease payments under capital leases at December 31, 2001 were as follows:

2002	\$ 613,550
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2003	177,783
2004	26,797
	<hr/>
Total minimum lease payments	818,130
Interest	(71,730)
	<hr/>
Present value of minimum lease payments	746,400
Current portion	(556,775)
	<hr/>
Long-term obligation	\$ 189,625
	<hr/>

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## ABILITI SOLUTIONS, INC.

## NOTES TO FINANCIAL STATEMENTS (Continued)

**5. Debt**

In January 2001, the Company completed a \$4.5 million note and preferred stock offering. In connection with the offering each investor received a convertible promissory note and shares of Series B Preferred Stock equal in value to such note. The notes, with a face value of \$4.5 million accrue interest at 14.5%, payable at maturity and mature in January of 2003. The Company incurred issuance costs of \$180,000, which have been netted against the proceeds from the offering. At the date of issuance, the Series B preferred stock (Note 8) had an estimated fair value of approximately \$2.2 million, which was recorded as additional paid-in capital, net of issuance costs. The remaining proceeds of approximately \$2.3 million were allocated to the note. Accordingly, this resulted in a discount on the note payable of approximately \$2.3 million, which was fully amortized to interest expense in 2001. At the election of the holder, the principal and accrued interest due on the notes may be converted into Series B Preferred Stock or into other equity of the Company, on the same terms and conditions as the equity offered in the Company's next round of qualified financing.

In March 2000, the Company issued \$7.5 million of notes payable. The notes accrue interest at 12.5%, payable at maturity, and mature in January of 2003. In connection with the issuance of these notes, the Company issued 1,875,000 warrants to purchase common stock at \$0.01 per share. The fair value of the warrants were estimated using the Black-Scholes option pricing model with the following assumptions: an expected life of one year, risk-free interest rate of 6.49% and dividend yield of zero. At the date of issuance, the warrants had an estimated fair value of \$3.7 million, which was recorded as additional paid-in capital and as a discount to the note. Amortization of this discount, which was charged to interest expense was approximately \$0.8 million and \$2.9 million for the years ended December 31, 2001 and 2000, respectively. The warrants are exercisable immediately upon issuance, at \$.01 per share and expire in March 2003. In 2000, 1,813,462 warrants were exercised. No warrants were exercised in 2001.

**6. Income Taxes**

The provision for income taxes consists of the following:

	2001	2000	1999
Current	\$	\$	\$(201,404)
Deferred			201,404
	—	—	—
Total provision	\$	\$	\$

In 2001, 2000 and 1999, the difference between the provision (benefit) for income taxes and the provision computed at the federal statutory rate of 34% primarily relates to the following:

	2001	2000	1999
Federal statutory provision	\$(2,412,218)	\$(5,042,033)	\$(5,270,444)
State income taxes	(379,032)	(713,600)	(791,398)
Permanent differences	11,790	38,600	36,663
Increase in valuation allowance	2,779,460	5,717,033	6,025,179
	—	—	—
Tax provision	\$	\$	\$

## ABILITI SOLUTIONS, INC.

## NOTES TO FINANCIAL STATEMENTS (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax assets (liabilities) are as follows:

	2001	2000
	<u>                    </u>	<u>                    </u>
Deferred tax assets (liabilities):		
Allowance for doubtful accounts	\$ 58,647	\$ 224,494
Deferred compensation	243,539	243,539
Net operating loss carryforward	13,416,796	10,568,771
Other accrued liabilities	(123,667)	(127,934)
Property and equipment	446,512	353,497
Valuation allowance	(14,041,827)	(11,262,367)
	<u>                    </u>	<u>                    </u>
Net deferred tax assets (liabilities)	\$ <u>                    </u>	\$ <u>                    </u>

At December 31, 2001 and 2000, the Company had net operating loss carryforwards for federal income tax purposes of approximately \$30.4 million and \$23.9 million, respectively, which expire beginning in 2019.

The Company has provided a valuation allowance for the full amount of its net deferred tax assets since realization of any future benefit from deductible temporary differences and net operating loss and tax credit carryforwards cannot meet the threshold outlined in SFAS 109 as being considered more likely than not at December 31, 2001 and 2000.

## 7. Commitments and Contingencies

The Company leases its facilities and certain property and equipment under noncancelable operating leases. Total rental expense under operating leases was approximately \$1.1 million, \$1.3 million, and \$1.1 million for the years ended December 31, 2001, 2000 and 1999, respectively. Future minimum lease payments under operating leases were as follows at December 31, 2001:

2002	\$ 879,320
2003	853,284
2004	576,481
	<u>                    </u>
	\$2,309,085
	<u>                    </u>

## 8. Shareholders Equity

The Company is authorized to issue up to 10 million shares of preferred stock, of which 3,500,000 shares have been designated as Series B Preferred Stock. The Series B Preferred Stock is non-cumulative and has a par value of \$0.00005 per share. The Series B Preferred shares have a liquidation preference equal to \$3.39 per share plus declared but unpaid dividends and a liquidation priority over all other equity and debt instruments except for the January 2001 notes.

Each share of preferred stock is convertible into common stock at a conversion ratio as defined in the Series B Preferred Stock Rights Agreement and is entitled to one vote per equivalent common stock share as determined by the aforementioned conversion ratio. The Series B Preferred shares are subject to conversion into other securities issued by the Company in connection with a subsequent qualified financing.

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The Company has designated 2,792,819 shares as Series A Preferred Stock. The Series A Preferred Stock is non-cumulative and has a par value of \$0.00005 per share. The Series A Preferred shares have a

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**ABILITI SOLUTIONS, INC.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

liquidation preference equal to \$10.527 per share plus declared but unpaid dividends, subsequent to the liquidation of the Series B Preferred Shares. Each share of the Series A Preferred Stock is convertible into common stock at a conversion ratio as defined in the Series A Preferred Stock Purchase Agreement dated March 4, 1999 and is entitled to one vote per equivalent common stock share as determined by the aforementioned conversion ratio. The Series A Preferred shares are subject to automatic conversion in the event of an initial public offering. The common stock has voting rights and is entitled to share equally in dividends.

**9. Retirement Benefits and Stock Option Plans**

In 1997, the Company adopted an employee deferred savings plan under code section 401(k) of the Internal Revenue Service regulations. All employees are eligible to participate in the plan following 30 days of employment. The Company matches 50% of employee contributions up to 6% of the employee's salary. Employees vest in the Company matching contributions ratably over a four year period. The Company paid approximately \$146,000, \$227,000 and \$171,000 in matching contributions during 2001, 2000 and 1999, respectively. Effectively January 1, 2002, the Company has discontinued matching contributions.

During 1997, the Company granted certain employees options to acquire shares of the Company's common stock under the 1997 Option Plan. The options were granted with an exercise price of \$.05 per share, vest over a three-year period and expire six years from the date of grant. Except for certain of the options granted to the Company's Chief Executive Officer described below, all options granted during 2001 and 2000 were granted with exercise prices at or greater than estimated fair value. As of December 31, 2001 and 2000, the Company had 36,000 and 90,000 options outstanding, respectively, under the 1997 Option Plan. As discussed below, the Company recorded deferred compensation related to the 1997 Option Plan.

On September 22, 1998, the Company adopted the 1998 Option Plan. Options granted under the 1998 plan vest over a four-year period and expire 10 years from the date of grant. In July 1999, the Company's Board of Directors authorized a grant under the 1998 Option Plan whereby a total of 1,098,500 options were granted to management, employees and the Company's Chief Executive Officer. The majority of such options were issued at an exercise price of \$4 per share representing the Company's estimate of the fair value of the underlying shares on the date of grant. As there had been no recent sales of the Company's common stock to assess the related fair value, the Company developed its estimate based on recent sale transactions involving the Company's preferred stock and a recent valuation of the Company's common stock. The Company also considered in its estimate of the fair value of the underlying shares at July 1999, recent events impacting the Company's operating environment and industry, including the significant losses incurred subsequent to the Series A preferred stock offering caused by the inability to complete certain license agreements and achieve certain technological milestones.

Except for certain of the options granted to the Company's Chief Executive Officer described below, all options granted during 2001 and 2000 were granted with exercise prices at or greater than estimated fair value. Based upon the continued net losses generated during 1999, 2000 and 2001, together with the significant decline experienced in information technology spending and the telecommunications industry, the Company concluded that the estimated fair value of the underlying shares of its common stock at the time of the 2001 stock option grant to be \$2.00. As of December 31, 2001 and 2000, the Company had 1,150,051 and 1,265,261 options outstanding, respectively under the 1998 Option Plan which were granted with an exercise price range of \$2.00 to \$4.00 per share.

Additionally, as of December 31, 2001 and 2000, the Company had 453,060 options outstanding at \$3.18, 62,925 options at \$5.96 and 62,925 options at \$7.95 granted to the Company's Chief Executive Officer. The options vest over a three-year period and expire ten years from the date of grant. In

## ABILITI SOLUTIONS, INC.

## NOTES TO FINANCIAL STATEMENTS (Continued)

accordance with the anti-dilution provisions of the Chief Executive Officer's employment agreement these options were granted in 2000 as a replacement for options previously granted and as such require the Company to use variable accounting. The Stock compensation expense related to this event is immaterial and the Company recorded no additional compensation expense in 2001 or 2000.

The Company recorded deferred compensation for options issued in 1997 and 1998 that had exercise prices lower than the fair value of the stock on the grant date. In accordance with the provisions of APB 25, compensation expense is incurred over the vesting period of the options. Compensation expense associated with these option grants was \$0, \$8,984, and \$327,335 in 2001, 2000 and 1999, respectively.

As of December 31, 2001, the Company has reserved a total of 2,479,824 shares of common stock for issuance upon the exercise of options.

Changes in the status of the options are summarized below:

	Weighted Average Exercise Price Per Share	Options Outstanding
December 31, 1998:	\$ 1.76	597,000
Granted	4.40	1,098,500
Exercised	0.92	(17,512)
Forfeitures	3.00	(496,938)
	<hr/>	<hr/>
December 31, 1999:	3.70	1,181,050
Granted	4.00	1,043,461
Exercised	2.19	(1,200)
Forfeitures	3.00	(289,140)
	<hr/>	<hr/>
December 31, 2000:	3.97	1,934,171
Granted	2.00	441,350
Exercised		
Forfeitures	3.19	(610,560)
	<hr/>	<hr/>
December 31, 2001	\$ 3.75	1,764,961
	<hr/>	<hr/>

The weighted average remaining contractual life of options outstanding was 7.96 and 8.52 years at December 31, 2001 and 2000, respectively.

The Company applies APB 25 and related interpretations in accounting for stock option plans. Accordingly, no compensation cost is recognized for stock options granted with an exercise price at least equal to the fair market value of the shares at the grant date. Had compensation cost been determined based on the fair value at the grant dates consistent with the method prescribed in FAS 123, the Company's net losses would have been increased to the pro forma amounts indicated below:

	Net Loss		
	2001	2000	1999
As reported	\$(7,094,758)	\$(14,829,510)	\$(15,501,306)
Pro forma	\$(7,427,394)	\$(15,332,555)	\$(15,566,685)



## ABILITI SOLUTIONS, INC.

## NOTES TO FINANCIAL STATEMENTS (Continued)

The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2001	2000	1999
Expected stock price volatility	n/a	n/a	n/a
Risk-free interest rate	5.14%	6.65%	5.80%
Expected option life	10 years	10 year	10 years
Expected dividend yield	None	None	None
Fair value of options granted (per share)	\$	\$	\$ 1.73
Options exercisable at year-end	946,767	701,022	274,061

**10. Management Retention Plan**

In March 2000 the Company adopted the Abiliti Solutions, Inc. Management Retention Plan. The purpose of this plan is to provide an incentive for the retention of key management by awarding participation in a pool to be distributed in the event of a merger, consolidation or sale of all or substantially all of the capital stock or assets of the Company ( triggering event ). The maximum distribution available under the plan is \$8.23 million and is subject to reduction as the consideration received in connection with a triggering event exceeds \$75.0 million. Distributions pursuant to this plan are to be made pari passu with the Company s obligations under the March 2000 notes.

**11. Related Party**

During 1999, the Company paid approximately \$2.6 million for services to an entity controlled by one of the Company s shareholders and having two common board of director members.

**12. Significant Customers**

Revenues from the top three customers for the years ended December 31, 2001, 2000 and 1999 approximated 87%, 79% and 48% of total revenue, respectively. Accounts receivable from these customers amounted to approximately \$1.9 million and \$2.4 million at December 31, 2001 and 2000.

**13. Litigation**

In December 1999, a former employee filed suit against the Company alleging various causes of action including breach of employment agreement, breach of stock option agreement and requesting the court to declare a promissory note and pledge agreement executed by the former employee in favor of the Company, null and void. On June 7, 2002, the Company entered into a settlement agreement which required it to pay \$500,000 to the former employee in 2002. During 2000, the Company recorded a charge of approximately \$1.1 million to provide for the value of the estimated settlement and legal costs. In addition, during 1999 the Company recorded a charge of \$250,000 to fully reserve for a loan made in 1999 to the former employee.



## ABILITI SOLUTIONS, INC.

## CONDENSED UNAUDITED BALANCE SHEETS

	September 30, 2002	December 31, 2001
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 975,894	\$ 1,644,984
Accounts receivable (net of allowance for doubtful accounts of \$141,461 and \$146,618)	1,409,067	1,997,522
Prepaid expenses and other current assets	333,235	331,194
	<hr/>	<hr/>
Total current assets	2,718,196	3,973,700
Property and equipment, net	997,148	1,984,952
	<hr/>	<hr/>
	\$ 3,715,344	\$ 5,958,652
	<hr/>	<hr/>
<b>LIABILITIES AND SHAREHOLDERS DEFICIT</b>		
Current liabilities:		
Current portion of obligations under capital lease	\$ 223,510	\$ 556,775
Accounts payable	146,942	385,568
Accrued expenses	433,652	819,282
Accrued interest	3,498,887	2,309,654
Accrued payroll and benefits	602,818	638,679
Deferred revenue	52,863	309,179
	<hr/>	<hr/>
Total current liabilities	4,958,672	5,019,137
Notes payable	12,000,000	12,000,000
Obligations under capital lease	51,899	189,625
	<hr/>	<hr/>
Total liabilities	17,010,571	17,208,762
	<hr/>	<hr/>
Contingencies (Note 8)		
Shareholders' equity:		
Series B preferred stock, aggregate liquidation value of \$4,500,000, non-redeemable	66	66
Series A preferred stock, aggregate liquidation value of \$29,400,006, non-redeemable	140	140
Common stock, par value \$0.00005 per share		
Authorized: 590,000,000 shares, issued and outstanding 6,275,256 shares	314	314
Additional paid-in capital	26,682,685	26,682,685
Contributed capital-warrants outstanding	122,496	122,496
Accumulated deficit	(40,100,928)	(38,055,811)
	<hr/>	<hr/>
Total shareholders' equity	(13,295,227)	(11,250,110)
	<hr/>	<hr/>
	\$ 3,715,344	\$ 5,958,652
	<hr/>	<hr/>

The accompanying notes are an integral part of these condensed unaudited financial statements



## ABILITI SOLUTIONS, INC.

## CONDENSED UNAUDITED STATEMENTS OF OPERATIONS

	Nine months ended September 30,	
	2002	2001
Revenue:		
Service revenue	\$ 1,778,048	\$ 3,341,921
License fees	292,500	1,095,000
Billing ASP	6,988,841	7,539,278
	<hr/>	<hr/>
Total revenue	9,059,389	11,976,199
	<hr/>	<hr/>
Expenses:		
Cost of services	1,451,697	4,038,024
Sales and marketing	757,882	1,330,529
Research and development	2,630,367	2,427,578
Restructuring costs		361,561
General and administrative	5,058,336	6,422,769
	<hr/>	<hr/>
Total expenses	9,898,282	14,580,461
	<hr/>	<hr/>
Loss from operations	(838,893)	(2,604,262)
Interest income	8,196	66,227
Interest expense	(1,214,421)	(3,718,512)
	<hr/>	<hr/>
Loss before income taxes	(2,045,118)	(6,256,547)
Income taxes		
	<hr/>	<hr/>
Net loss	\$(2,045,118)	\$(6,256,547)
	<hr/>	<hr/>

The accompanying notes are an integral part of these condensed unaudited financial statements

## ABILITI SOLUTIONS, INC.

## CONDENSED UNAUDITED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2002	2001
Cash flows provided by (used in) operating activities:		
Net loss	\$(2,045,118)	\$(6,256,547)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,001,147	1,013,869
Accretion of debt discount		2,491,946
Loss on write-off of fixed assets	35,227	
Bad debt expense	(5,157)	205,995
Change in assets and liabilities:		
Accounts receivable	593,612	102,124
Prepaid expenses and other assets	(2,041)	(17,064)
Accounts payable	(238,626)	(269,050)
Accrued expenses and interest	803,603	624,529
Accrued payroll and benefits	(35,861)	(450,034)
Deferred revenue	(256,316)	1,301,599
Net cash used in operating activities	(149,530)	(1,252,633)
Cash flows used in investing activities:		
Purchase of property and equipment	(48,569)	(334,518)
Net cash used in investing activities	(48,569)	(334,518)
Cash flows provided by financing activities:		
Issuance of preferred stock		2,240,066
Preferred stock issuance costs		(89,603)
Payments under capital lease obligations	(470,991)	(482,795)
Proceeds from shareholder notes		2,259,934
Issuance costs associated with financing		(90,397)
Net cash provided by (used in) financing activities	(470,991)	3,837,205
Net increase (decrease) in cash and cash equivalents	(669,090)	2,250,054
Cash and cash equivalents, beginning of year	1,644,984	522,730
Cash and cash equivalents, end of year	\$ 975,894	\$ 2,772,784
Supplemental disclosure of cash flow information:		
Equipment acquired under capital leases	\$	\$ 153,073

The accompanying notes are an integral part of these condensed unaudited financial statements.

**ABILITI SOLUTIONS, INC.**

**NOTES TO CONDENSED UNAUDITED FINANCIAL STATEMENTS**

**September 30, 2002**

**1. Basis of Presentation**

The accompanying condensed unaudited financial statements for Abiliti Solutions, Inc. ( "Abiliti" or the "Company" ) have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, these financial statements do not include all of the information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the periods presented have been included. These condensed unaudited financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2001, included elsewhere in this proxy statement.

The results of operations for the nine months ended September 30, 2002 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year.

**2. Liquidity and Capital Resources**

During the nine-month periods ended September 30, 2002 and 2001, the Company incurred net losses of approximately \$2.0 million and \$6.3 million, and negative cash flows from operations of approximately \$0.1 million and \$1.3 million, respectively. Such losses were generated from the development of the Company's software products, related marketing and distribution activities and building of the Company's administrative infrastructure.

On October 7, 2002, the Company and Daleen Solutions, Inc. ( "Acquisition Sub" ), an indirect wholly-owned subsidiary of Daleen Technologies, Inc. ( "Daleen" ) entered a definitive agreement whereby Acquisition Sub will purchase substantially all of the assets and assume certain liabilities of Abiliti in exchange for capital stock and warrants (the "Asset Purchase" ). In addition to the Asset Purchase, Behrman Capital II, L.P., Abiliti's largest shareholder, and an affiliated fund (collectively, the "Behrman Funds" ) have agreed to purchase from Daleen capital stock and warrants for an aggregate purchase price of \$5.015 million (the "2002 Private Placement" ).

The Asset Purchase is subject to approval by the stockholders of Abiliti and Daleen and the 2002 Private Placement is subject to approval by the stockholders of Daleen and each is subject to a limited number of other closing conditions that must be satisfied prior to the completion of the transactions. Abiliti stockholders and Daleen stockholders holding sufficient voting power to approve the Asset Purchase and 2002 Private Placement have signed agreements to vote in favor of the transactions. The Company intends to complete the Asset Purchase as soon as possible following a special meeting of stockholders which is expected to be held in December 2002.

Although unlikely, there is a possibility that the Asset Purchase will not be consummated. If the transactions are not consummated the Company will be required to further reduce operations and/or seek additional private equity financing or financing from other sources. Although the Company is precluded from considering other strategic alternatives pending completion or termination of the Asset Purchase, if the transactions are not completed, the Company will also consider other strategic alternatives. There can be no assurance that additional financing will be available, or that, if available, the financing will be obtainable on terms acceptable to the Company or that any additional financing would not be substantially dilutive to the Company's existing stockholders. There can be no assurance that any other strategic alternatives will be available, or if available, will be on terms acceptable to the Company, or all of its stockholders. Failure to consummate the Asset Purchase will have a material adverse effect on the Company's ability to operate as a going concern which may result in filing for bankruptcy protection, winding down operations and/or liquidation of assets. The condensed unaudited financial statements have

**ABILITI SOLUTIONS, INC.**

**NOTES TO CONDENSED UNAUDITED FINANCIAL STATEMENTS (Continued)**

been prepared assuming that the Company will continue as a going concern, and do not include any adjustments that might result from the outcome of this uncertainty.

**3. Revenue Recognition**

The Company enters into arrangements to deliver software licenses which typically also provide for services, usually billed on a time and materials basis. License revenue is generally recognized using the percentage of completion method of accounting. The percentage of completion for each contract is determined based on the ratio of direct labor hours incurred under the service contract to total estimated direct labor hours. In situations where it is not reasonable to estimate total direct labor hours, completed contract accounting is followed.

Services revenue consists of fees for system requirements definition, system design and analysis, customization and installation services, system enhancements and maintenance. Services revenue is recognized as the services are performed, primarily on a time and materials basis. Revenue from maintenance contracts is recognized ratably over the maintenance period.

Billing Application Service Provider (ASP) revenue consists of monthly processing fees generated from the Company's service bureau operation. Billing ASP revenue is recognized as the related services are rendered and are billed monthly based on transaction volume processed or percentage of revenue billed on behalf of customers.

Deferred revenue relates primarily to license fee revenue, which has been paid by the customers prior to the recognition of revenue.

**4. Restructuring Costs**

In January and July 2001, the Company implemented restructuring plans that included reductions in employee headcount. In conjunction with these plans, the Company recorded charges in the first and third quarters of 2001 in the amounts of \$159,022 and \$202,539, respectively, related to termination benefits for 67 employees. All restructuring obligations were settled in 2001.

**5. Management Retention Plan**

In March 2000 the Company adopted the Abiliti Solutions, Inc. Management Retention Plan. The purpose of this plan was to provide an incentive for the retention of key management by awarding participation in a pool to be distributed in the event of a merger, consolidation or sale of all or substantially all of the capital stock or assets of the Company. In connection with the Asset Purchase Agreement, the Company has secured release agreements from all Management Retention Plan participants that waive the participant's claim to any payout as a result of the contemplated transaction and provides for the termination of the plan upon consummation of the contemplated transaction.

**6. Related Party**

Behrman Capital II, L.P., Abiliti's largest shareholder, and an affiliated fund have agreed to purchase from Daleen, conditioned upon and concurrent with the closing of the transactions contemplated by the Asset Purchase, capital stock and warrants for an aggregate purchase price of \$5.015 million via a private placement.

**ABILITI SOLUTIONS, INC.**

**NOTES TO CONDENSED UNAUDITED FINANCIAL STATEMENTS (Continued)**

**7. Significant Customers**

Revenues from two customers for the nine month periods ended September 30, 2002 and 2001 approximated 91% and 80% of total revenue, respectively. Accounts receivable from these customers amounted to approximately \$1.3 million and \$1.9 million at September 30, 2002 and 2001, respectively.

**8. Contingencies**

On November 14, 2002, Abiliti received written notice that a complaint was filed in St. Louis County Circuit Court on behalf of the holders of \$1.2 million aggregate principal amount of the March 2000 Notes (the Complaining Noteholders ) alleging that their March 2000 Notes became due and payable on March 16, 2001 and seeking payment in full of the principal amount and accrued interest thereon, including interest at penalty rates for the period following March 16, 2001. Abiliti believes that the maturity dates of the March 2000 Notes have been validly extended and that it has meritorious defenses to the claims made by the Complaining Noteholders. Abiliti intends to contest this action vigorously.

FIN-21

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**ASSET PURCHASE AGREEMENT**

**DATED OCTOBER 7, 2002**

**AMONG**

**DALEEN TECHNOLOGIES ( DALEEN ),**

**DALEEN SOLUTIONS, INC. ( ACQUISITION SUB )**

**AND**

**ABILITI SOLUTIONS, INC. ( ABILITI )**

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