

No 3 September 1999

Dear investors,

It is time again to update you on the progress of Cycore. So far you have received this letter every quarter and I will continue to inform you with that frequency.

The summer and early fall has been very hectic for Cycore. If the spring could be characterized as the "Get-the-products-out-on-the-market" period, I would rather describe the last quarter as the "Start-building-a-complete-company" period. A lot of effort has obviously been put into pure Sales and Marketing activities for both product lines, but infrastructural efforts such as building the North America offices and raising new capital have also been priorities. More of that below.

All in all, Cycore has made significant progress on all fronts. We have recruited what I consider critical mass of managers and employees. We have new strong investors. We are getting more and more distributors. Etc, etc.

The efforts have, however, not yet resulted in significant sales numbers. Especially not for Cult Effects, mostly due to the so far limited distribution system. But the trend is clear; we are selling more and more. To increase the sales ramp-up speed we need more smart marketing and more distributors. A good example of that is a bundling we do Adobe. To find more solutions of the same character will be the main challenge in the fall.

Cycore hot news

Three institutions participated in the new stock issue of SEK 41 Million that was decided in the General Meeting on September 21. Let me briefly introduce them:

- **Brummer & Partners**, through Zodiak Venture Capital. The fund makes investments in entrepreneurial, growth-oriented companies that are not yet listed on the stock exchange. Together with Brummer & Partners Capital Management a limited number of partners have invested in Zodiak,

which controls just over 400 million SEK worth of funds. For further information see www.brummer.se.

- **Den Danske Bank**, through Danica, one of the largest banks in Scandinavia.

- **GEM** (Global Emerging Markets). GEM is a large UK-based investment group specializing in opportunities offered by selected emerging technologies. GEM has more than 50 investments around the world, many of them in the Internet business.

I wish all three institutions a very warm welcome to "the family". I am very happy to have them on-board, not only for the financial strength they possess, but also for the IT industry competence they bring to us either directly or indirectly through contacts.

The Board of Directors has been expanded from 3 to 5 Directors. The two new members are Stefan Löhr from Brummer & Partners and myself. Welcome Stefan!

Cycore has been awarded the European IST Prize! The prize is probably the most prestigious IT-prize in Europe. The European IST Prize is organized jointly by the European Commission and Euro-CASE, the European Council of Applied Sciences and Engineering. If you want to know more about the prize look at <http://www.it-prize.org/>

Siggraph-99, the largest international conference on Computer Graphics and Interactive Techniques was held in Los Angeles on August 10-12. Cycore was represented by a well placed booth with both US and Swedish staff. We had 3 terrific days. Our theaters were filled (see photo) and we gathered more than 1500 customer leads.



Our distribution system is constantly growing. As of September 20, we have distributors in Denmark, Korea, Switzerland, Israel, Japan, Philippines, France, UK, Belgium, Netherlands, Australia and Singapore. We are currently in discussions with distributors in another 10 countries.

The Cycore organization has expanded according to plans during the summer. As you know, our main focus has been to build up our Sales organizations. Today, the U.S. office in Silicon Valley has 9 employees, including our CEO Jim Madden. In Canada, our CEO Ted Iannuzzi has 3 employees; one in Vancouver, one in Toronto and one in our Halifax office. In addition, the Sales office in Uppsala has now 4 employees.

Near-term priorities

Sales/Distribution system. We need to continue our efforts to find levers to come out on the market with both our products, e.g. through VARs, distributors and web bureaus. When executing direct sales, we will continue to work hard to find the most attractive customer segments for our products.

Marketing. Even though we have done a lot of marketing already, we need to do much more since we are not only introducing new products, we are basically building a new market (Cult3D). You will recognize these efforts during the fall.

The Globe. We have recruited a new Project leader for The Globe, Åke Vinberg. Åke has worked 6 years with Product Development for Brio Technologies in Silicon Valley. We are currently doing a Business Plan while continuing the development work.

Please call or e-mail me if more detailed information is needed.

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