

23 March, 2003

Mr. Azriel Modan, Ex Libris, Chairman
Mr. Moshe Vidman, The Hebrew University
Mr. Roni Hefetz, Walden Israel, General Partner
Mr. Zohar Gilon, Tamar Technology Ventures, Managing Director

Re: Ex Libris – Thoughts concerning Strategies and Concepts

Dear Executive Committee Members,

Ex Libris' Executive Committee is in a process of introducing a new CEO aiming at enhancing shareholders value and allowing for an "exit" within a reasonable timeframe. The Executive Committee is currently evaluating various candidates.

During the last six weeks, I have held various meetings with the Executive Committee members. The information I have collected during these sessions, along with other available information such as the company website, have given me some first-sight background on the company status and business model.

The objective of the attached document is to outline to the selection committee, my understanding of Ex Libris and to demonstrate in summarized format, how I can successfully achieve Ex Libris shareholders' objectives. This document summarizes my observations and proposes initial directives for running and growing Ex Libris. It should be noted that I have spent a limited time with the Executive Committee, thus some of my observations may be partial or inaccurate and may need to be revised after further study.

The document outlines my vision of business directions to an extent that can be driven at the current stage. While it is based on my initial impression of Ex Libris strengths and weaknesses, the document reflects my own experience in managing a multinational business enterprise, as well as my own concepts of business management in general.

I'm looking forward to discussing the company strategy with you.

Cordially,

Matti Shem Tov

Ex Libris – Strategies and Concepts

Discussion Paper

1. Ex Libris

Ex Libris is an international software developer, which excels in developing software solutions for Libraries and Digital Collections. Ex Libris is the world leader in the realm of Libraries automation. The company has established an international clientele, which includes many of the world's most prestigious libraries. With headquarters in Israel and a network of worldwide subsidiaries and local offices, Ex Libris successfully supports over 700 installations in over 50 countries.

During my meetings and further study, I have initially identified the following company strengths and weaknesses:

Among the company strengths identified are:

- Impressive Global install base
- Competitive software products
- Global presence throughout subsidiaries, overseas offices and distributors
- Highly professional development base
- Excellent key personnel

Weaknesses identified as:

- Low profit margin
- Unstable senior management due to the various issues with the last two CEO's
- Weak Project Management methodology
- Lack of Global Marketing & Product Management team
- A Sales organization that is highly dependent on few key sales people.

2. Business Directives

The business strategies and concepts suggested are based on my experience in running and growing a similar organization. I can condense my proposed strategy as follows:

- Become the leading global vendor in Libraries and Digital Collections automation
- Expand Ex Libris customer base and business volume by offering consistently superior products and services throughout the world
- Leverage the extensive customer base by cross selling other Ex Libris products
- Leverage both the customer base and the existing software engines to introduce and promote new software products
- Streamline Ex Libris operation to increase profitability without hurting sales and operational capabilities
- Develop an environment that allows for significant increase in profitability
- Develop the capability to track and evaluate the profitability of customers, product-lines and subsidiaries
- Implement performance measurement capabilities to establish, monitor and constantly revise customer service standards
- Introduce an organizational model that focuses on high priority customers but still provides a high level service to other customers
- Increase alliances and partnerships with market players to strengthen company's ability to compete successfully in its markets.

3. Management Policy

To move in the business directions outlined in Section 2, I envision the following management steps:

3.1 Work plan for 2003 and Onward

I will spend the first 8 weeks studying the company from various aspects. During this period, I will spend considerable time with the company existing management and visit most of Ex Libris subsidiaries and local offices. I also intend to visit some key customers and distributors. In addition, it is important to attend at least one exhibition where Ex Libris plans to participate.

By the end of this initial period, I will review and revise the 2003 work plan and commit myself to the financial results of 2003. This work plan will be more of an in-depth tactical plan, but it will also include strategic long and medium-term targets.

By October 2003, after spending 4-5 months with the company, I will draw up and submit a comprehensive strategic plan for years 2004 and 2005.

3.2 Management Team

An aggressive and professional management team is a key success factor. I will spend time with the existing management team in order to assess their capabilities. If needed, I will make the necessary adjustments within the management team.

I believe that the right balance, and the right balance only, between a CEO's strong leadership, combined with his personal involvement in the day-to-day practices and a delegation of responsibilities to company senior and second-tier managers, can build up a capable management team whereby management can effectively conduct its policy and at the same time, the company directions are clearly shared by the company staff.

The reporting structure of the various subsidiaries and development center will be reviewed and revised if needed.

3.3 Sales

A major success factor is attributed to the company ability to gain more and more business. I will ensure that Ex Libris will have an excellent Sales personnel that will be highly motivated by an aggressive open-ended bonus scheme. I will implement monthly/quarterly sales reports by all sales personnel. An annual global sales meeting and quarterly regional sales and training sessions will be introduced and practiced.

Ex Libris pricing model should also be reviewed. It may be necessary to introduce region-sensitive pricing model. I will also re-visit consulting rates and maintenance rates.

While I am impressed by the growing number of organizations utilizing Ex Libris products, I truly believe sales in Asia Pacific region and China should be dramatically boosted.

Lastly, I will put pressure on the sales team to ensure cross sales of the new generation of company products into the existing customer base.

3.4 Marketing and Product Management

A small Global Marketing and Product Management team will be introduced. This team will support and coordinate sales and marketing activities of the various subsidiaries and offices (The marketing capabilities of the various subsidiaries will be maintained).

The marketing material should be reviewed and revised, including product brochures, product presentations, standard proposals (boiler-plates), company website and other marketing collaterals.

The marketing team should also provide a competition analysis reports, “white papers” and ongoing updates to all regions about success stories and other useful information.

The company should continue to participate in relevant exhibitions and to hold regional User Groups meetings.

The marketing team should be responsible for identifying business partners and additional distributors. Such potential partners may be major consulting firms, local software companies, hardware vendors and others.

A critical task of this team will be to manage the various Ex Libris products and to identify and promote opportunities to re-cycle or extend the Ex Libris technology into new generation of products. Ex Libris existing customer base should be used as beta sites for such new products.

3.5 Subsidiaries, Overseas Offices and Distributors

As I did not spend any time with the various Subsidiaries managers, I am not yet in a position to comment on the status of this area. I am planning to visit and review the operation of the various subsidiaries and then draw my conclusions. Generally – the company’s field operations need to be given all available resources and HQ support to perform their duties successfully. My initial idea is to ensure that subsidiaries managers will work according to a predefined and agreed work plan. A transfer pricing mechanism should be in place in order to ensure the ability to evaluate the performance of each subsidiary.

As the Chicago office is a major contributor to the company revenue, a special attention should be given to this office, including the recruitment of a new manager and his/her fast introduction into full productivity.

I am also planning to review the various distributors of Ex Libris. Each distributor should submit a sales plan, assign and train at least one full time employee in selling Ex Libris products and submit a quarterly report. Control and daily management should tighten and non-performing distributors should be replaced.

3.6 Development Projects and Center

I will aim for the formalization of Development and Support Procedures. The VP Development along with respective Project Managers will be required to submit a monthly project report including the project performance against the project plan. As the Development Center is a major resource consumer, budget utilization against the agreed project budget should be closely monitored through project reports to ensure better control of this main cost center.

A special emphasis will be put on profitability and meeting project targets. A worldwide unified project monitoring and management system will be installed and implemented across the company global structure to ensure profitability.

I may need to spend more time with the Development Center managers before elaborating further on this subject.

3.7 Project Profitability and Cost Effectiveness

From the information available to me, I understand that the implementation projects are not always very profitable. We will have to investigate the source of this problem and resolve this issue.

From my experience, the current problem may arise due to various reasons including:

- Lack of project management experience and methodology
- Wrong project initial pricing
- Underestimating the project resource requirements
- Various services that should be charged for but are currently provided to the customers free of charge
- Weak monitoring and management of projects.

Solving this issue is a key factor to the company's success.

3.8 Finance

The company CFO should play a major role in running a profitable organization. In addition to ongoing financial responsibilities, I would emphasize the following:

- Annual budget preparation and monthly reporting on budget utilization
- Preparation of Monthly, Quarterly and Annual Financial Reports
- A monthly P&L statement for each subsidiary including a pricing transfer mechanism
- A quarterly profitability analysis of each product line
- Project profitability analysis
- A quarterly audit of subsidiaries
- Timely customer billing and invoice collections
- A cost reduction campaign in Head Office and in the major subsidiaries, mainly in overheads, without hurting operational capabilities.

3.9 Human Resources (“HR”)

A major success factor in any software company is the right staffing of the various positions. I will promote and coach existing managers and staff whenever possible, but in case of need I will replace or reassign the existing staff.

I am aware that Ex Libris is providing its staff with adequate compensation packages (salaries, stock options, car, etc). My plan is to review the general employment terms in the various locations and to make upward and downward adjustments if needed. Salary levels should take into consideration both the personal contribution of each member of staff and the existing external labor market conditions.

I will strive to pay the managers and especially the sales personnel a bigger portion of their personal income based on performance rather than a guaranteed base salary.

4. Summary

Ex Libris is an impressive company and the world leader in its market niche. Despite some recent management changes, Ex Libris is showing a consistent increase in revenues and growing global customer base.

Having spent the last 6-7 years in managing and growing a company of very similar characteristics to Ex Libris that demonstrated profitability along with a steady growth, I am confident that with my leadership, within three years Ex Libris will achieve an annual revenue of \$50-\$55 million, while showing the targeted profit margin.

In recent years I have managed and grown an organization with a Global Customer Base of 200 Customers in over 40 countries, Overseas Subsidiaries, Local Offices, Distributors, Application Software and an Israeli Development Center. All these characteristics are very relevant to Ex Libris.

I will bring to Ex Libris this major relevant experience along with my personal qualities and communication skills, expertise in strategic planning, global expansion, sales and marketing, product development and operations and above all – my integrity, hard work and enthusiasm. These and the existing Ex Libris infrastructure, products and personnel will ensure a timely fulfillment of shareholders objectives.